



Bank Polski



Condensed interim
financial statements
of PKO Bank Polski SA
for the six-month period ended
30 June 2019

SELECTED STAND-ALONE FINANCIAL DATA	PLN million		EUR million	
	period from 01.01.2019 to 30.06.2019	period from 01.01.2018 to 30.06.2018	period from 01.01.2019 to 30.06.2019	period from 01.01.2018 to 30.06.2018
Net interest income	4 533	4 129	1 057	974
Net fee and commission income	1 219	1 230	284	290
Operating profit/(loss)	2 843	2 045	663	482
Profit before tax	2 843	2 045	663	482
Net profit	2 075	1 510	484	356
Earnings per share for the period - basic (in PLN/EUR)	1,66	1,21	0,39	0,28
Earnings per share for the period - diluted (in PLN/EUR)	1,66	1,21	0,39	0,28
Total net comprehensive income	2 157	1 655	503	390
Net cash from/used in operating activities	(5 154)	(4 297)	(1 202)	(1 014)
Net cash from/used in investing activities	(5 344)	(1 819)	(1 246)	(429)
Net cash from/used in financing activities	(3 908)	(1 866)	(911)	(440)
Total net cash flows	(14 406)	(7 982)	(3 360)	(1 883)

SELECTED STAND-ALONE FINANCIAL DATA	PLN million		EUR million	
	as at 30.06.2019	as at 31.12.2018	as at 30.06.2019	as at 31.12.2018
Total assets	301 339	300 413	70 870	69 863
Total equity	38 744	38 360	9 112	8 921
Share capital	1 250	1 250	294	291
Number of shares (in million)	1 250	1 250	1 250	1 250
Book value per share (in PLN/EUR)	31.00	30.69	7.29	7.14
Diluted number of shares (in million)	1 250	1 250	1 250	1 250
Diluted book value per share (in PLN/EUR)	31.00	30.69	7.29	7.14
Total capital adequacy ratio	20.82%	21.33%	20.82%	21.33%
Tier 1	34 995	35 070	8 230	8 156
Tier 2	2 700	2 700	635	628

SELECTED CONSOLIDATED FINANCIAL STATEMENT ITEMS HAVE BEEN TRANSLATED INTO EUR AT THE FOLLOWING RATES	30.06.2019	31.12.2018	30.06.2018
average of NBP exchange rates at the end of a month period (income statement, statement of comprehensive income and statement of cash flow items)	4.2880	4.2669	4.2395
mid NBP exchange rates at the date (statement of financial position items)	4.2520	4.3000	4.3616

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INCOME STATEMENT

INCOME STATEMENT	Note	second quarter period from 01.04.2019 to 30.06.2019	2 quarters cumulative period from 01.01.2019 to 30.06.2019	second quarter period from 01.04.2018 to 30.06.2018	2 quarters cumulative period from 01.01.2018 to 30.06.2018
Interest income	7	2 807	5 555	2 573	5 084
Interest income calculated under the effective interest rate method		2 645	5 232	2 424	4 788
interest income on financial instruments measured at amortized cost		2 278	4 485	2 109	4 136
interest income on instruments measured at fair value through OCI		367	747	315	652
Income similar to interest income on instruments at fair value through profit or loss		162	323	149	296
Interest expenses	7	(505)	(1 022)	(483)	(955)
Net interest income		2 302	4 533	2 090	4 129
Fee and commission income	8	890	1 725	879	1 719
Fee and commission expense	8	(267)	(506)	(259)	(489)
Net fee and commission income		623	1 219	620	1 230
Dividend income	9	361	382	141	151
Net gain/(loss) in financial instruments measured at fair value through profit or loss		35	60	4	24
Net foreign exchange gains/(losses)		129	257	140	238
Gains/(losses) on derecognition of financial instruments not measured at fair value through profit or loss		32	84	56	93
measured at fair value through OCI		35	84	56	85
measured at amortized cost		(3)	-	-	8
Net allowances for credit losses	10	(286)	(572)	(331)	(633)
Net impairment allowances on non-financial assets		(2)	(5)	(25)	(29)
Other operating income	11	83	112	40	91
Other operating expenses	11	(22)	(53)	(104)	(142)
Net other operating income and expense		61	59	(64)	(51)
Administrative expenses	12	(1 182)	(2 330)	(1 173)	(2 310)
Net regulatory charges	13	(55)	(384)	(90)	(366)
Tax on certain financial institutions		(232)	(460)	(216)	(431)
Operating profit/(loss)		1 786	2 843	1 152	2 045
Profit before tax		1 786	2 843	1 152	2 045
Income tax expense	14	(448)	(768)	(256)	(535)
Net profit		1 338	2 075	896	1 510
Earnings per share					
- basic earnings per share for the period (PLN)		1,07	1,66	0,72	1,21
- diluted earnings per share for the period (PLN)		1,07	1,66	0,72	1,21
Weighted average number of ordinary shares during the period (in million)		1 250	1 250	1 250	1 250
Weighted average diluted number of ordinary shares during the period (in million)		1 250	1 250	1 250	1 250

In the six-month period ended 30 June 2019 and 30 June 2018 respectively, PKO Bank Polski SA did not conduct any discontinued operations.

STATEMENT OF COMPREHENSIVE INCOME

STATEMENT OF COMPREHENSIVE INCOME	second quarter period from 01.04.2019 to 30.06.2019	2 quarters cumulative period from 01.01.2019 to 30.06.2019	second quarter period from 01.04.2018 to 30.06.2018	2 quarters cumulative period from 01.01.2018 to 30.06.2018
Net profit	1 338	2 075	896	1 510
Other comprehensive income	222	82	(54)	145
Items which may be reclassified to profit or loss	222	82	(54)	145
Cash flow hedges, gross	41	196	32	(27)
Deferred income tax	(8)	(37)	(6)	6
Net cash flow hedge	33	159	26	(21)
Revaluation of fair value of financial assets measured at fair value through other comprehensive income, gross	265	(14)	(43)	290
Gains /losses transferred to profit or loss (on disposal)	(35)	(84)	(56)	(85)
Deferred income tax	(41)	21	19	(39)
Fair value of financial assets measured at fair value through other comprehensive income, net	189	(77)	(80)	166
Total net comprehensive income	1 560	2 157	842	1 655

STATEMENT OF FINANCIAL POSITION

	Note	30.06.2019	31.12.2018
ASSETS			
Cash and balances with Central Bank		12 808	22 862
Amounts due from banks		6 745	11 213
Hedging derivatives		681	592
Other derivative instruments		2 503	1 909
Securities	15	67 436	60 439
- held for trading		851	282
- not held for trading, measured at fair value through profit or loss		744	1 280
- measured at fair value through OCI		55 117	50 562
- measured at amortized cost		10 724	8 315
Loans and advances to customers	16	198 773	191 575
- not held for trading, measured at fair value through profit or loss		1 028	1 106
- measured at fair value through OCI		7 152	8 496
- measured at amortized cost		190 593	181 973
Investments in subsidiaries, associates and joint ventures	21	3 859	3 588
Non-current assets held for sale		4	8
Intangible assets		2 523	2 595
Property, plant and equipment		2 738	2 082
Deferred income tax assets		1 136	1 232
Other assets		2 133	2 318
TOTAL ASSETS		301 339	300 413

	Note	30.06.2019	31.12.2018
LIABILITIES AND EQUITY			
Liabilities			
Amounts due to the Central Bank		9	7
Amounts due to banks	18	2 663	1 591
- measured at fair value through profit or loss		20	-
- at amortized cost		2 643	1 591
Hedging derivatives		567	560
Other derivative instruments		3 228	2 657
Amounts due to customers	19	240 429	245 213
- measured at fair value through profit or loss		15	-
- measured at amortized cost		240 414	245 213
Debt securities in issue		5 337	5 367
Subordinated liabilities		2 730	2 731
Other liabilities		6 856	3 189
Current income tax liabilities		382	297
- of the Bank		360	297
- of the subsidiaries belonging to the Tax Group		22	-
Provisions		394	441
TOTAL LIABILITIES		262 595	262 053
Equity			
Share capital		1 250	1 250
Other capital		33 863	34 310
Retained earnings		1 556	(535)
Net profit or loss for the year		2 075	3 335
TOTAL EQUITY		38 744	38 360
TOTAL LIABILITIES AND EQUITY		301 339	300 413
Total capital adequacy ratio	35	20.82%	21.33%
Book value (in PLN million)		38 744	38 360
Number of shares (in million)		1 250	1 250
Book value per share (in PLN)		31.00	30.69
Diluted number of shares (in million)		1 250	1 250
Diluted book value per share (in PLN)		31.00	30.69

STATEMENT OF CHANGES IN EQUITY

FOR THE 6 MONTHS ENDED 30 JUNE 2019	Share capital	Other capital Reserves			Accumulated other comprehensive income	Total other capital	Retained earnings	Net profit or loss for the period	Total equity
		Supplementary capital	General banking risk fund	Other reserves					
31 December 2018	1 250	29 168	1 070	3 629	443	34 310	(535)	3 335	38 360
Changes due to IFRS 16 implementation	-	-	-	-	-	-	(111)	-	(111)
1 January 2019 (restated)	1 250	29 168	1 070	3 629	443	34 310	(646)	3 335	38 249
Transfer from retained earnings	-	-	-	-	-	-	3 335	(3 335)	-
Dividend declared	-	-	-	-	-	-	(1 662)	-	(1 662)
Total comprehensive income, of which:	-	-	-	-	82	82	-	2 075	2 157
Net profit for the period	-	-	-	-	-	-	-	2 075	2 075
Other comprehensive income	-	-	-	-	82	82	-	-	82
Covering of prior year loss ¹	-	-	-	(535)	-	(535)	535	-	-
Transfer of profit designated to equity	-	-	-	6	-	6	(6)	-	-
30 June 2019	1 250	29 168	1 070	3 100	525	33 863	1 556	2 075	38 744

¹ The item contains covering accumulated losses of PLN 535 million by other capital reserves, which arose as a result of changes to accounting policies due to the first-time application of IFRS 9.

FOR THE 6 MONTHS ENDED 30 JUNE 2019	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
01 January 2019	471	(18)	(10)	443
Total comprehensive income, of which:	(77)	159	-	82
Other comprehensive income	(77)	159	-	82
30 June 2019	394	141	(10)	525

FOR 6 MONTHS ENDED 30 JUNE 2018	Share capital	Other capital			Accumulated other comprehensive income	Total other capital	Retained earnings	Net profit or loss for the period	Total equity
		Reserves	Supplementary capital	General banking risk fund					
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 declared	-	-	-	-	-	-	(688)	-	(688)
Total comprehensive income, of which:	-	-	-	-	145	145	-	1 510	1 655
Net profit for the year	-	-	-	-	-	-	-	1 510	1 510
Other comprehensive income	-	-	-	-	145	145	-	-	145
Transfer of profit designated to equity	-	2 050	-	36	-	2 086	(2 086)	-	-
30 June 2018	1 250	29 168	1 070	3 629	163	34 030	(535)	1 510	36 255

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

STATEMENT OF CASH FLOWS

	01.01- 30.06.2019	01.01- 30.06.2018
Cash flows from operating activities		
Profit before tax	2 843	2 045
Total adjustments:	(7 997)	(6 342)
Amortization and depreciation	403	342
(Gains)/losses on investing activities	(7)	(6)
Interest and dividends	(835)	(393)
Change in:		
amounts due from banks	119	351
- measured at amortized cost	119	351
hedging derivatives	(82)	815
other derivatives	(23)	(677)
securities	(1 006)	(210)
- held for trading	(569)	(700)
- measured at fair value through OCI	(844)	(597)
- measured at amortized cost	(127)	(99)
- not held for trading, mandatorily measured at fair value through profit or loss	534	1 186
loans and advances to customers	(7 202)	(2 418)
- not held for trading, mandatorily measured at fair value through profit or loss	78	82
- measured at fair value through OCI	1 344	532
- measured at amortized cost	(8 624)	(3 032)
non-current assets held for sale	4	276
other assets	79	(711)
accumulated allowances for credit losses	(5)	(1 824)
accumulated allowances for non-financial assets and other provisions	(42)	(169)
amounts due to the Central Bank	2	(1)
amounts due to banks	1 072	311
- measured at fair value through profit or loss	20	-
- measured at amortized cost	1 052	311
amounts due to customers	(1 193)	(869)
- measured at fair value through profit or loss	15	-
- measured at amortized cost	(1 208)	(869)
debt securities in issue	(11)	243
subordinated liabilities	(1)	10
other liabilities	1 221	(418)
Income tax paid	(625)	(986)
Other adjustments	135	(8)
Net cash from/used in operating activities	(5 154)	(4 297)

	01.01- 30.06.2019	01.01- 30.06.2018
Cash flows from investing activities		
Inflows from investing activities	132 534	157 025
Proceeds from sale of a subsidiary classified as held for sale	-	10
Proceeds from sale of and interest on securities measured at fair value through other comprehensive income	126 401	156 686
Proceeds from sale of and interest on securities measured at amortized cost	5 748	214
Proceeds from sale of intangible assets, property, plant and equipment and assets held for sale	26	25
Other inflows from investing activities (dividends)	359	90
Outflows from investing activities	(137 878)	(158 844)
Purchase of shares in subsidiaries, net of cash acquired	-	(2)
Capital increases in subsidiaries, associates and joint ventures	(171)	(4)
Purchase of securities measured at fair value through other comprehensive income	(129 643)	(158 260)
Purchase of securities measured at amortized cost	(7 896)	(439)
Purchase of intangible assets and property, plant and equipment	(168)	(139)
Net cash from/used in investing activities	(5 344)	(1 819)

	01.01- 30.06.2019	01.01- 30.06.2018
Cash flows from financing activities		
Proceeds from debt securities in issue	596	645
Redemption of debt securities	(615)	(650)
Proceeds from issue of subordinated bonds	-	1 000
Repayment of loans and advances	(3 591)	(2 656)
Payment of lease liabilities	(101)	-
Repayment of interest on long-term borrowings	(197)	(205)
Net cash from/used in financing activities	(3 908)	(1 866)
Total net cash flows	(14 406)	(7 982)
of which foreign exchange differences on cash and cash equivalents	(30)	258
Cash equivalents at the beginning of the period	30 024	22 541
Cash equivalents at the end of the period	15 618	14 559

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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

1. GENERAL INFORMATION ABOUT THE BANK

ACTIVITIES OF THE BANK

Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna ("PKO Bank Polski SA" or "the Bank") was established by virtue of a decree signed on 7 February 1919 by the Head of State Józef Piłsudski, Prime Minister Ignacy Paderewski and Hubert Linde, first founder and first president of Poczтовая Kasa Oszczędnościowa. In 1950, the Bank began operating as Powszechna Kasa Oszczędności Bank Państwowy (state-owned bank). Pursuant to the Decree of the Council of Ministers dated 18 January 2000, Powszechną Kasa Oszczędności (a state owned bank) was transformed into a state owned joint-stock company, Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna with its head office in Warsaw, ul. Puławska 15, 02-515 Warsaw, Poland.

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

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

PKO Bank Polski SA, as the parent company, is a universal deposit and credit bank which services both Polish and foreign individuals, legal and other entities. 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.

2. APPROVAL OF THE CONDENSED INTERIM FINANCIAL STATEMENTS

These condensed interim financial statements, subject to review by the Supervisory Board Audit Committee and by the Supervisory Board on 12 August 2019, were approved for publication by the Bank's Management Board on 12 August 2019.

3. BASIS OF PREPARATION OF THE CONDENSED INTERIM FINANCIAL STATEMENTS

The condensed interim financial statements of PKO Bank Polski SA cover the period of six months ended 30 June 2019 and contain comparative data for the six months ended 30 June 2018 (comprising the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows) as well as comparative data as at 31 December 2018 (comprising the statement of financial position). The financial data is presented in Polish zloty (PLN) in millions, unless otherwise indicated. Therefore, differences resulting from rounding to full millions of zlotys may occur.

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

The accounting policies and calculation methods applied in the preparation of these condensed interim financial statements are consistent with the principles applied in the financial year ended 31 December 2018, except for changes resulting from the implementation of IFRS 16 "Leases" as of 1 January 2019, appropriately described in note 4. The principles that did not change are described in the annual financial statements of PKO Bank Polski SA for 2018.

The condensed interim financial statements for the six months of 2019 do not contain all the information and disclosures that are required in the annual financial statements and they should be read together with the annual financial statements of PKO Bank Polski SA for the year ended 31 December 2018 prepared in accordance with the International Financial Reporting Standards as endorsed by the European Union.

These condensed interim financial statements of the Bank should also be read together with the condensed interim financial statements of the Group. The information and financial data that are identical for the Bank and for the Group are presented in the condensed consolidated interim financial statements of the PKO BP SA Group. These financial statements include in particular information characteristic for the Bank.

MANAGEMENT REPRESENTATION

The Management Board hereby represents that, to the best of its knowledge, the condensed interim financial statements and the comparative data have been prepared in accordance with the applicable rules of accounting practice and give a true, fair and clear view of the Bank's financial position and results of operations.

4. MSSF 16 LEASES

LEASE LIABILITIES

The implementation of the standard resulted in the Bank recognizing lease liabilities of PLN 885 million at the present value of future lease payments which are to be paid up to the start of the application of IFRS 16, which consist of fixed lease payments and variable lease payments, which depend on market indicators.

The value of the liability was adjusted for costs paid in advance as at 1 January 2019 of PLN 4 million (presented in "Other assets").

RIGHT-OF-USE-ASSETS

The Bank recognized right-of-use assets as at 1 January 2019 of PLN 889 million, which include the amount of the initial valuation of the lease liability of PLN 885 million and lease payments of PLN 4 million paid in advance.

Furthermore, in connection with the implementation, the Bank classified the right of perpetual usufruct of land as a lease contract. Consequently, the Bank wrote down the right of perpetual usufruct of land disclosed in the accounting ledgers as at 31 December 2018, charging PLN 111 million to the retained earnings.

ESTIMATES USED

The implementation of IFRS 16 required the Bank to adopt the following significant estimates affecting the measurement of lease liabilities and right-of-use assets:

- Establishing the term of the lease for contracts concluded indefinitely

In the case of contracts concluded indefinitely regarding the Bank's branches, the Bank accepted a term of the lease which is consistent with the period of depreciation of non-depreciated investments made in these properties as at the date of implementing the standard and, in the absence of such investments, a 4-year term, taking into account any significant costs related to a change of location of the branches during their operation. The total impact of the extension of the term of the lease on the value of the liability in excess of the irrevocable term of the lease (contractual notice period) is PLN 227 million.

- Determining the interest rate used to discount future cash flows

At initial recognition the discount rates used by the Bank to discount future lease payments (incremental lending rates) were within a range of 2.06% to 8.68% for PLN, from 0.6% to 4.0% for EUR and from 3.8% to 4.0% for USD and were calculated on the basis of curves reflecting the cost of financing in the given currency, encompassing the tenor of the longest lease contract which is to be valued. The tenors of lease contracts lie within a range of 1 to 99 years for maturities reflecting half of the period to maturity of the lease.

The total impact of the discount factor from the application of the above rates to the present value of lease liabilities was PLN 299 million.

CAPITAL ADEQUACY

The increase in assets arising from recognizing right-of-use assets under lease contracts will result in an increase of PLN 75 million in capital requirements as at 1 January 2019. In addition, in view of the write-off of the right of perpetual usufruct of land of PLN 111 million, the Bank's own funds will decline by this same amount. As at 1 January 2019 this contributed to a reduction in the Tier 1 capital ratio of approx. 17 b.p. and the total capital ratio of approx. 18 b.p.

THE TOTAL IMPACT OF THE IMPLEMENTATION OF IFRS 16 ON THE BANK'S ASSETS AND LIABILITIES

Reconciliation of the difference between the amounts of future lease charges from irrevocable operating leases disclosed in accordance with IAS 17 as at 31 December 2018 and the lease liabilities recognized as at 1 January 2019 in accordance with IFRS 16 is presented in the table below:

Operating lease liabilities as at 31.12.2018 (without discount)	592
Future payments in respect of rights of perpetual usufruct	370
Operating lease liabilities, including future payments in respect of rights of perpetual usufruct, as at 31.12.2018 (without discount)	962
Short-term lease agreements	(5)
Effect of discount using the incremental interest rate of 2.56%	(299)
Adjustment for the difference in recognition of lease agreement extension/termination option	227
Financial liabilities in respect of leases As at 01.01.2019	885

The presented impact of adjustments in respect of implementation of IFRS 16 on financial liabilities in respect of leases represents, to the best of our knowledge, the best estimate as at the publication moment of these condensed financial statements.

The impact of the implementation of IFRS 16 on the recognition of additional financial liabilities and the corresponding right-of-use assets is presented in the table below.

Impact on the statement of financial position	31.12.2018 under IAS 17	Right of perpetual usufruct of land written off	Effect of recognizing lease agreements (with discount)		Total effect of recognizing lease agreements (with discount)	01.01.2019 under IFRS 16
			in respect of rights of perpetual usufruct	in respect of operating leases		
ASSETS						
Property, plant and equipment, of which:	2 082	(111)	124	765	889	2 860
right-of-use assets	X	-	124	765	889	889
land and buildings	1 383	(111)	-	-	-	1 272
Other assets, including:	2 318	-	-	(4)	(4)	2 314
prepayments and deferred costs	57	-	-	(4)	(4)	53
LIABILITIES AND EQUITY						
Other liabilities, including:	3 189	-	124	761	885	4 074
liabilities in respect of leases	X	-	124	761	885	885
EQUITY	38 360	(111)	-	-	-	38 249

As a result of the implementation of IFRS 16, in the six-month period of 2019, administrative expenses were not charged with net lease instalments of PLN 101 million. The cost of lease instalments was allocated to depreciation in the amount of PLN 96 million and to interest expenses of PLN 10 million.

5. OTHER CHANGES IN THE ACCOUNTING POLICIES

NEW STANDARDS AND INTERPRETATIONS, AS WELL AS THEIR AMENDMENTS, WHICH WERE PUBLISHED AND HAVE NOT YET BEEN APPROVED BY THE EUROPEAN UNION

IFRS 17 "Insurance Contracts" replaces IFRS 4 "Insurance Contracts", which was introduced in 2004. IFRS 4 enabled entities to continue to recognize insurance contracts according to the accounting principles in force in the national standards, which, as a result, meant the use of many different solutions. IFRS 17 introduces the requirement to recognize all insurance agreements in a consistent manner. Liabilities arising from contracts will be recognized at current prices, instead of historical cost. The new standard will be applicable for periods beginning from 1 January 2021.

The amendments to the Conceptual Framework for Financial Reporting published in March 2018 govern the following areas: recognition and elimination of assets and liabilities from the balance sheet, the basis of measurement, presentation and disclosures, as well as updating selected definitions.

The amendments to IFRS 3 narrow down and clarify the definition of a venture. They also allow for a simplified assessment of whether a set of assets and activities is a group of assets and not a venture.

The amendments to IAS 1 and IAS 8 standardize and clarify the definition of "material" and contain guidelines to increase the consistency of application of this concept in the International Financial Reporting Standards.

The Bank does not expect the impact of amendments to IFRS 3, IFRS 17, IAS 1, IAS 8 and the Conceptual Framework to be material in respect of the Bank's financial statements.

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

The Bank made the following changes to its financial statements to better reflect the data and presentation of economic events:

INCOME STATEMENT

INCOME STATEMENT	2 quarters period from 01.01.2018 to 30.06.2018 before restatement	separate disclosure of "result on regulatory charges"	2 quarters period from 01.01.2018 to 30.06.2018 after restatement
Interest expenses	(980)	25	(955)
Administrative expenses	(2 651)	341	(2 310)
Net regulatory charges	-	(366)	(366)
Total	(3 631)	-	(3 631)

INCOME STATEMENT	second quarter period from 01.04.2018 to 30.06.2018 before restatement	separate disclosure of "result on regulatory charges"	second quarter period from 01.04.2018 to 30.06.2018 after restatement
Interest expenses	(493)	10	(483)
Administrative expenses	(1 253)	80	(1 173)
Net regulatory charges	-	(90)	(90)
Total	(1 746)	-	(1 746)

STATEMENT OF CASH FLOWS

STATEMENT OF CASH FLOWS	2 quarters period from 01.01.2018 to 30.06.2018 before restatement	identification and reclassification to new items	2 quarters period from 01.01.2018 to 30.06.2018 after restatement
Cash flows from operating activities			
change in the balance of securities	(193)	(17)	(210)
change in the balance of loans and advances to customers	(2 410)	(8)	(2 418)
change in the balance of provisions and allowances for credit losses	(2 018)	2 018	-
change in accumulated allowances for credit losses	-	(1 824)	(1 824)
change in accumulated allowances for non-financial assets and other provisions	-	(169)	(169)
Total	(4 621)	-	(4 621)

NOTES TO THE INCOME STATEMENT

7. INTEREST INCOME AND EXPENSES

INTEREST INCOME:

INTEREST INCOME ON:	second quarter period from 01.04.2019 to 30.06.2019				2 quarters cumulative period from 01.01.2019 to 30.06.2019			
	financial instruments measured at amortised cost	instruments measured at fair value through OCI	instruments measured at fair value through profit or loss	Total	financial instruments measured at amortised cost	instruments measured at fair value through OCI	instruments measured at fair value through profit or loss	Total
loans to and other receivables from banks	37	-	-	37	77	-	-	77
hedging derivatives	-	-	135	135	-	-	271	271
debt securities	75	312	18	405	140	625	32	797
loans and advances to customers	2 166	55	9	2 230	4 268	122	20	4 410
Total	2 278	367	162	2 807	4 485	747	323	5 555
of which: interest income on impaired financial instruments	64	3	-	67	119	6	-	125

INTEREST INCOME ON:	second quarter period from 01.04.2018 to 30.06.2018				2 quarters cumulative period from 01.01.2018 to 30.06.2018			
	financial instruments measured at amortised cost	instruments measured at fair value through OCI	instruments measured at fair value through profit or loss	Total	financial instruments measured at amortised cost	instruments measured at fair value through OCI	instruments measured at fair value through profit or loss	Total
loans to and other receivables from banks	37	-	-	37	77	-	-	77
hedging derivatives	-	-	125	125	-	-	247	247
debt securities	46	257	19	322	90	518	38	646
loans and advances to customers	2 026	58	5	2 089	3 969	134	11	4 114
Total	2 109	315	149	2 573	4 136	652	296	5 084
of which: interest income on impaired financial instruments	66	4	-	70	128	7	-	135

INTEREST EXPENSES:

INTEREST EXPENSE ON:	second quarter period from 01.04.2019 to 30.06.2019				2 quarters cumulative period from 01.01.2019 to 30.06.2019			
	financial instruments measured at amortised cost	instruments measured at fair value through OCI	instruments measured at fair value through profit or loss	Total	financial instruments measured at amortised cost	instruments measured at fair value through OCI	instruments measured at fair value through profit or loss	Total
amounts due to banks (excluding loans and advances received)	(3)	-	-	(3)	(6)	-	-	(6)
placements	(5)	-	-	(5)	(8)	-	-	(8)
loans and advances received	(50)	-	-	(50)	(104)	-	-	(104)
leases	(5)	-	-	(5)	(10)	-	-	(10)
amounts due to customers (excluding loans and advances received)	(383)	-	-	(383)	(775)	-	-	(775)
debt securities	(2)	(20)	(4)	(26)	(3)	(42)	(8)	(53)
debt securities in issue	(10)	-	-	(10)	(21)	-	-	(21)
subordinated liabilities	(23)	-	-	(23)	(45)	-	-	(45)
Total	(481)	(20)	(4)	(505)	(972)	(42)	(8)	(1 022)

INTEREST EXPENSE ON:	second quarter period from 01.04.2018 to 30.06.2018				2 quarters cumulative period from 01.01.2018 to 30.06.2018			
	financial instruments measured at amortised cost	instruments measured at fair value through OCI	instruments measured at fair value through profit or loss	Total	financial instruments measured at amortised cost	instruments measured at fair value through OCI	instruments measured at fair value through profit or loss	Total
amounts due to banks (excluding loans and advances received)	(4)	-	-	(4)	(8)	-	-	(8)
placements	(4)	-	-	(4)	(8)	-	-	(8)
loans and advances received	(65)	-	-	(65)	(121)	-	-	(121)
amounts due to customers (excluding loans and advances received)	(364)	-	-	(364)	(728)	-	-	(728)
debt securities	-	(13)	(5)	(18)	-	(23)	(10)	(33)
debt securities in issue	(6)	-	-	(6)	(18)	-	-	(18)
subordinated liabilities	(22)	-	-	(22)	(39)	-	-	(39)
Total	(465)	(13)	(5)	(483)	(922)	(23)	(10)	(955)

INTEREST INCOME BY SEGMENT:

INTEREST INCOME BY SEGMENT ON:	second quarter period from 01.04.2019 to 30.06.2019				2 quarters cumulative period from 01.01.2019 to 30.06.2019			
	Retail segment	Corporate and investment segment	Transfer centre and other	Total	Retail segment	Corporate and investment segment	Transfer centre and other	Total
loans to and other receivables from banks	-	31	6	37	-	61	16	77
hedging derivatives	-	-	135	135	-	-	271	271
debt securities	-	405	-	405	-	797	-	797
loans and advances to customers	1 761	469	-	2 230	3 486	924	-	4 410
Total	1 761	905	141	2 807	3 486	1 782	287	5 555

INTEREST INCOME BY SEGMENT ON:	second quarter period from 01.04.2018 to 30.06.2018				2 quarters cumulative period from 01.01.2018 to 30.06.2018			
	Retail segment	Corporate and investment segment	Transfer centre and other	Total	Retail segment	Corporate and investment segment	Transfer centre and other	Total
loans to and other receivables from banks	-	28	9	37	-	59	18	77
hedging derivatives	-	-	125	125	-	-	247	247
debt securities	-	322	-	322	-	646	-	646
loans and advances to customers	1 652	437	-	2 089	3 271	843	-	4 114
Total	1 652	787	134	2 573	3 271	1 548	265	5 084

8. FEE AND COMMISSION INCOME AND EXPENSES

NET FEE AND COMMISSION INCOME:

NET FEE AND COMMISSION INCOME	second quarter period from 01.04.2019 to 30.06.2019	2 quarters cumulative period from 01.01.2019 to 30.06.2019	second quarter period from 01.04.2018 to 30.06.2018	2 quarters cumulative period from 01.01.2018 to 30.06.2018
Loans and insurance	228	436	202	382
Investment funds and brokerage activity	46	104	85	186
Cards	143	267	128	250
Bank accounts and other	206	412	205	412
Total	623	1 219	620	1 230

FEE AND COMMISSION INCOME:

FEE AND COMMISSION INCOME	second quarter period from 01.04.2019 to 30.06.2019	2 quarters cumulative period from 01.01.2019 to 30.06.2019	second quarter period from 01.04.2018 to 30.06.2018	2 quarters cumulative period from 01.01.2018 to 30.06.2018
Loans and insurance	228	436	202	382
granting of loans and advances	177	342	161	309
offering insurance products	51	94	41	73
Investment funds and brokerage activity	50	113	90	196
maintenance of investment funds and OFE (including management fees)	8	24	50	102
handling and sale of investment and insurance products	3	6	3	7
conducting brokerage activities	39	83	37	87
Cards	329	620	307	579
Bank accounts and other	283	556	280	562
maintenance of bank accounts	206	410	201	404
cash operations	16	32	20	42
servicing foreign mass transactions	25	48	25	50
sale and distribution of court fee stamps	-	-	1	1
customer orders	12	23	11	22
fiduciary services	2	3	1	3
other	22	40	21	40
Total	890	1 725	879	1 719

FEE AND COMMISSION EXPENSE:

FEE AND COMMISSION EXPENSE	second quarter period from 01.04.2019 to 30.06.2019	2 quarters cumulative period from 01.01.2019 to 30.06.2019	second quarter period from 01.04.2018 to 30.06.2018	2 quarters cumulative period from 01.01.2018 to 30.06.2018
Investment funds and brokerage activity	(4)	(9)	(5)	(10)
Cards	(186)	(353)	(179)	(329)
Bank accounts and other	(77)	(144)	(75)	(150)
commission paid to external entities for product sales	(19)	(35)	(22)	(40)
cost of construction investment supervision and property valuation	(14)	(24)	(11)	(22)
clearing services	(9)	(18)	(5)	(15)
commissions for operating services provided by banks	(2)	(4)	(3)	(6)
sending short text messages (SMS)	(8)	(16)	(7)	(13)
other	(25)	(47)	(27)	(54)
Total	(267)	(506)	(259)	(489)

FEE AND COMMISSION INCOME BY SEGMENT:

FEE AND COMMISSION INCOME BY SEGMENT	second quarter period from 01.04.2019 to 30.06.2019			2 quarters cumulative period from 01.01.2019 to 30.06.2019		
	Retail segment	Corporate and investment segment	Total	Retail segment	Corporate and investment segment	Total
Loans and insurance	160	68	228	303	133	436
granting of loans and advances	109	68	177	209	133	342
offering insurance products	51	-	51	94	-	94
Investment funds and brokerage activity	21	29	50	49	64	113
maintenance of investment funds and OFE (including management fees)	6	2	8	20	4	24
handling and sale of investment and insurance products	3	-	3	6	-	6
conducting brokerage activities	12	27	39	23	60	83
Cards	320	9	329	606	14	620
Bank accounts and other	241	42	283	471	85	556
maintenance of bank accounts	186	20	206	373	37	410
cash operations	11	5	16	23	9	32
servicing foreign mass transactions	20	5	25	32	16	48
customer orders	7	5	12	13	10	23
fiduciary services	-	2	2	-	3	3
other	17	5	22	30	10	40
Total	742	148	890	1 429	296	1 725

FEE AND COMMISSION INCOME BY SEGMENT	second quarter period from 01.04.2018 to 30.06.2018			2 quarters cumulative period from 01.01.2018 to 30.06.2018		
	Retail segment	Corporate and investment segment	Total	Retail segment	Corporate and investment segment	Total
Loans and insurance	135	67	202	271	111	382
granting of loans and advances	94	67	161	198	111	309
offering insurance products	41	-	41	73	-	73
Investment funds and brokerage activity	60	30	90	126	70	196
maintenance of investment funds and OFE (including management fees)	48	2	50	97	5	102
handling and sale of investment and insurance products	3	-	3	7	-	7
conducting brokerage activities	9	28	37	22	65	87
Cards	271	36	307	542	37	579
Bank accounts and other	226	54	280	465	97	562
maintenance of bank accounts	188	13	201	377	27	404
cash operations	15	5	20	33	9	42
servicing foreign mass transactions	13	12	25	28	22	50
sale and distribution of court fee stamps	-	1	1	-	1	1
customer orders	6	5	11	13	9	22
fiduciary services	-	1	1	-	3	3
other	4	17	21	14	26	40
Total	692	187	879	1 404	315	1 719

9. DIVIDEND INCOME

DIVIDEND INCOME	second quarter period from 01.04.2019 to 30.06.2019	2 quarters cumulative period from 01.01.2019 to 30.06.2019	second quarter period from 01.04.2018 to 30.06.2018	2 quarters cumulative period from 01.01.2018 to 30.06.2018
from issuers not related to the Bank, with respect to:				
financial instruments not held for trading, measured at fair value through profit or loss	12	12	11	11
from subsidiaries, joint ventures and associates, of which:				
PKO Towarzystwa Funduszy Inwestycyjnych SA	168	168	64	64
CEUP eService Sp. z o.o.	3	24	3	13
PKO BP BANKOWY PTE SA	13	13	8	8
PKO BP Finat Sp. z o.o.	23	23	44	44
PKO Życie Towarzystwo Ubezpieczeń SA	24	24	-	-
PKO Leasing SA	118	118	11	11
Total	361	382	141	151

10. NET ALLOWANCES FOR CREDIT LOSSES

NET ALLOWANCES FOR CREDIT LOSSES	second quarter period from 01.04.2019 to 30.06.2019	2 quarters cumulative period from 01.01.2019 to 30.06.2019	second quarter period from 01.04.2018 to 30.06.2018	2 quarters cumulative period from 01.01.2018 to 30.06.2018
Amounts due from banks	-	1	(1)	(1)
measured at amortized cost	-	1	(1)	(1)
Debt securities	(5)	(6)	3	7
measured at fair value through OCI	(8)	(10)	1	4
measured at amortized cost	3	4	2	3
Loans and advances to customers	(292)	(570)	(323)	(635)
measured at fair value through OCI	(2)	(2)	(1)	(5)
housing	(2)	(2)	(1)	(5)
measured at amortized cost	(290)	(568)	(322)	(630)
housing	(48)	(57)	9	(45)
corporate	(96)	(215)	(188)	(343)
consumer	(146)	(296)	(143)	(242)
Provisions for financial liabilities and guarantees granted	11	3	(10)	(4)
Total	(286)	(572)	(331)	(633)

CUMULATIVE ALLOWANCES FOR CREDIT LOSSES (BALANCE)	30.06.2019	31.12.2018
Amounts due from banks	3	4
measured at amortized cost	3	4
Debt securities	25	30
measured at fair value through OCI	10	10
measured at amortized cost	15	20
Loans and advances to customers	7 513	7 511
measured at amortized cost	7 513	7 511
Provisions for financial liabilities and guarantees granted	224	227
Other financial assets	97	95
Total	7 862	7 867

11. OTHER OPERATING INCOME AND EXPENSES

OTHER OPERATING INCOME	second quarter period from 01.04.2019 to 30.06.2019	2 quarters cumulative period from 01.01.2019 to 30.06.2019	second quarter period from 01.04.2018 to 30.06.2018	2 quarters cumulative period from 01.01.2018 to 30.06.2018
Gains on sale or scrapping of property, plant and equipment, intangible assets and assets held for sale	7	9	6	12
Ancillary income	7	13	7	13
Recovery of receivables expired, forgiven or written off	1	2	1	4
Release for provision relating to a potential return of fees and commission to customers	58	58	-	-
Release of provision for legal claims	1	5	-	-
Other	9	25	26	62
Total	83	112	40	91

OTHER OPERATING EXPENSES	second quarter period from 01.04.2019 to 30.06.2019	2 quarters cumulative period from 01.01.2019 to 30.06.2019	second quarter period from 01.04.2018 to 30.06.2018	2 quarters cumulative period from 01.01.2018 to 30.06.2018
Losses on sale or scrapping of property, plant and equipment, intangible assets and assets held for sale	(1)	(2)	(3)	(6)
Costs of donations made	(5)	(10)	-	(19)
Sundry expenses	(5)	(8)	(4)	(8)
Provision relating to a potential return of fees and commission to customers	-	-	(62)	(62)
Provision for future payments	(1)	(1)	(5)	(5)
Provisions for legal claims	(3)	(7)	(22)	(25)
Other	(7)	(25)	(8)	(17)
Total	(22)	(53)	(104)	(142)

12. ADMINISTRATIVE EXPENSES

ADMINISTRATIVE EXPENSES	second quarter period from 01.04.2019 to 30.06.2019	2 quarters cumulative period from 01.01.2019 to 30.06.2019	second quarter period from 01.04.2018 to 30.06.2018	2 quarters cumulative period from 01.01.2018 to 30.06.2018
Employee benefits ¹	(695)	(1 373)	(680)	(1 345)
Overheads, including:	(284)	(554)	(326)	(623)
rent	(20)	(39)	(66)	(132)
IT	(66)	(130)	(63)	(126)
Depreciation and amortization	(203)	(403)	(167)	(342)
property, plant and equipment, of which:	(115)	(230)	(66)	(132)
IT	(27)	(54)	(25)	(51)
right-of-us assets	(49)	(96)	-	-
intangible assets, of which:	(88)	(173)	(101)	(210)
IT	(86)	(169)	(99)	(205)
Total	(1 182)	(2 330)	(1 173)	(2 310)

¹ The item "Employee benefits" in the six-month period ended 30 June 2019 includes costs relating to the restructuring of PLN 23 million (PLN 36 million in the six-month period ended 30 June 2018).

13. NET REGULATORY CHARGES

NET REGULATORY CHARGES	second quarter period from 01.04.2019 to 30.06.2019	2 quarters cumulative period from 01.01.2019 to 30.06.2019	second quarter period from 01.04.2018 to 30.06.2018	2 quarters cumulative period from 01.01.2018 to 30.06.2018
Contributions and fees to the Bank Guarantee Fund (BGF), of which:	(40)	(406)	(65)	(293)
to the Resolution Fund	-	(326)	-	(162)
to the Banks' Guarantee Fund	(40)	(80)	(65)	(131)
Fees to the PFSA	-	(37)	-	(21)
Flat-rate income tax, of which:	(1)	85	(10)	(25)
withheld tax (20%)	-	138	(10)	(25)
flat-rate income tax (3%)	(1)	(53)	-	-
Other taxes and fees	(14)	(26)	(15)	(27)
Total	(55)	(384)	(90)	(366)

FLAT-RATE INCOME TAX

The Act of 23 October 2018 on amendments to, among other things, Acts on income taxes, introduced a possibility of an alternative to taxation with WHT, namely a 3% tax on certain interest paid to non-residents. Therefore, on 29 March 2019, the Bank filed with the tax office a notification on the election of the 3% taxation option in respect of:

- (i) interest on loans which are paid by the Bank to PKO Finance AB with its registered office in Sweden (the election of the taxation, compliant with the act, relates to the years 2014–2022) and
- (ii) interest on Eurobonds issued by the Bank before 1 January 2019.

Due to the fact that the Bank collected 20% withholding tax on interest paid to PKO Finance AB for 2017–2018, on 12 February 2019, it filed a request to determine overpayment of tax together with corrected tax returns.

The correction of the 20% withholding tax by PLN 138 million in plus and recognizing the 3% tax on interest assessed for 2014–2018 (PLN 50 million) are one-off events, and the amount of tax (3%) on interest assessed in the six-month period ended 30 June 2019 is PLN 3 million.

The Bank paid the tax in the statutory period, i.e. by 31 July 2019.

14. INCOME TAX

	second quarter period from 01.04.2019 to 30.06.2019	2 quarters cumulative period from 01.01.2019 to 30.06.2019	second quarter period from 01.04.2018 to 30.06.2018	2 quarters cumulative period from 01.01.2018 to 30.06.2018
Current income tax expense	(377)	(688)	(325)	(593)
Deferred income tax on temporary differences	(71)	(80)	69	58
Income tax expense recognized in the income statement	(448)	(768)	(256)	(535)
Income tax expense on temporary differences recognized in other comprehensive income	(49)	(16)	13	(33)
Total	(497)	(784)	(243)	(568)

	second quarter period from 01.04.2019 to 30.06.2019	2 quarters cumulative period from 01.01.2019 to 30.06.2019	second quarter period from 01.04.2018 to 30.06.2018	2 quarters cumulative period from 01.01.2018 to 30.06.2018
Profit before tax	1 786	2 843	1 152	2 045
Tax calculated using the enacted rate in force in Poland of 19%	(339)	(540)	(219)	(389)
Effect of permanent timing differences, of which:	(109)	(228)	(37)	(146)
contribution and payments to BGF	(8)	(77)	(11)	(55)
tax on financial institutions	(44)	(87)	(41)	(82)
3% income tax on interest to non-residents	(12)	(12)	-	-
other permanent differences	(45)	(52)	15	(9)
Income tax expense recognized in the income statement	(448)	(768)	(256)	(535)
Effective tax rate	25,1%	27,0%	22,2%	26,2%

NOTES TO THE STATEMENT OF FINANCIAL POSITION

15. SECURITIES

SECURITIES	30.06.2019	31.12.2018
Securities (excluding adjustments relating to fair value hedge accounting)	67 434	60 439
Adjustment relating to fair value hedge accounting	2	-
Total	67 436	60 439

As at 30 June 2019, the credit loss allowance which did not reduce the fair value of securities measured at fair value through other comprehensive income amounted to PLN 30 million (PLN 18 million as at 31 December 2018).

SECURITIES (excluding adjustments relating to fair value hedge accounting) 30.06.2019	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	820	394	55 117	10 722	67 053
NBP money market bills	-	-	2 500	-	2 500
Treasury bonds (in PLN)	612	214	43 173	4 675	48 674
Treasury bonds (in foreign currencies)	2	-	232	-	234
municipal bonds (in PLN)	16	-	5 370	4 634	10 020
corporate bonds (in PLN)	146	180	3 842	1 069	5 237
corporate bonds (in foreign currencies)	1	-	-	344	345
covered bonds	43	-	-	-	43
Equity securities	31	350	-	-	381
shares in other entities - not listed ¹	-	314	-	-	314
shares in other entities - listed	27	36	-	-	63
investment certificates, rights to shares, pre-emptive rights	4	-	-	-	4
Total	851	744	55 117	10 722	67 434

¹ The item comprises, among other things, the interest in: Polski Standard Płatności sp. z o.o. of PLN 24 million and Visa Inc. of PLN 191 million.

SECURITIES (excluding adjustments relating to fair value hedge accounting) 31.12.2018	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	264	972	50 562	8 315	60 113
NBP money market bills	-	-	2 900	-	2 900
Treasury bonds (in PLN)	94	820	38 276	2 200	41 390
Treasury bonds (in foreign currencies)	4	-	-	-	4
municipal bonds (in PLN)	16	-	5 301	4 007	9 324
corporate bonds (in foreign currencies)	-	37	-	-	37
corporate bonds (in PLN)	103	115	4 033	1 764	6 015
corporate bonds (in foreign currencies)	1	-	52	344	397
covered bonds	46	-	-	-	46
Equity securities	18	308	-	-	326
shares in other entities - not listed ¹	-	266	-	-	266
shares in other entities - listed	13	42	-	-	55
investment certificates, rights to shares, pre-emptive rights	5	-	-	-	5
Total	282	1 280	50 562	8 315	60 439

¹ The item comprises, among other things, the interest in: Polski Standard Płatności sp. z o.o. of PLN 22 million and Visa Inc. of PLN 142 million.

The item "T-bonds in PLN and in foreign currencies" comprises Polish T-bonds.

16. LOANS AND ADVANCES TO CUSTOMERS

LOANS AND ADVANCES TO CUSTOMERS	30.06.2019	31.12.2018
	Net amount	Net amount
Loans and advances to customers (excluding adjustments relating to fair value hedge accounting)	198 767	191 574
Adjustment relating to fair value hedge accounting	6	1
Total loans and advances to customers	198 773	191 575

LOANS AND ADVANCES TO CUSTOMERS (excluding adjustments relating to fair value hedge accounting) 30.06.2019	not held for trading, measured at fair value through profit or loss	measured at fair value through OCI	measured at amortized cost		Total	
	Net amount	Net amount	Gross amount	Allowances for credit losses	Net amount	Net amount
Loans	1 028	7 152	196 216	(7 513)	188 703	196 883
mortgage banking	22	7 152	79 343	(1 791)	77 552	84 726
housing	22	7 152	79 343	(1 791)	77 552	84 726
corporate banking	107	-	68 257	(1 692)	66 565	66 672
housing	-	-	359	(27)	332	332
corporate	107	-	67 898	(1 665)	66 233	66 340
retail and private banking	874	-	28 436	(1 740)	26 696	27 570
consumer	874	-	28 436	(1 740)	26 696	27 570
firms and enterprises	25	-	20 180	(2 290)	17 890	17 915
housing	-	-	5 852	(137)	5 715	5 715
corporate	25	-	14 328	(2 153)	12 175	12 200
Reverse repo transactions	-	-	1 884	-	1 884	1 884
Total	1 028	7 152	198 100	(7 513)	190 587	198 767

LOANS AND ADVANCES TO CUSTOMERS (excluding adjustments relating to fair value hedge accounting) 31.12.2018	not held for trading, measured at fair value through profit or loss	measured at fair value through OCI	measured at amortized cost		Total	
	Net amount	Net amount	Gross amount	Allowances for credit losses	Net amount	Net amount
Loans	1 106	8 496	189 432	(7 511)	181 921	191 523
mortgage banking	27	8 496	78 911	(1 757)	77 154	85 677
housing	27	8 496	78 911	(1 757)	77 154	85 677
corporate banking	121	-	64 066	(1 870)	62 196	62 317
housing	-	-	319	(54)	265	265
corporate	121	-	63 747	(1 816)	61 931	62 052
retail and private banking	931	-	26 822	(1 674)	25 148	26 079
consumer	931	-	26 822	(1 674)	25 148	26 079
firms and enterprises	27	-	19 633	(2 210)	17 423	17 450
housing	-	-	5 981	(129)	5 852	5 852
corporate	27	-	13 652	(2 081)	11 571	11 598
Reverse repo transactions	-	-	51	-	51	51
Total	1 106	8 496	189 483	(7 511)	181 972	191 574

As at 30 June 2019, the allowances in respect of loans and advances to Customers measured at fair value through other comprehensive income was PLN 24 million (PLN 22 million as at 31 December 2018).

17. FINANCIAL ASSETS BY STAGE OF IMPAIRMENT AND ALLOWANCES FOR CREDIT LOSSES

FINANCIAL ASSETS BROKEN DOWN BY STAGE OF IMPAIRMENT

ACCUMULATED INFORMATION ON FINANCIAL ASSETS BY STAGES OF IMPAIRMENT	30.06.2019			31.12.2018		
	Gross amount	Allowances for credit losses	Net amount	Gross amount	Allowances for credit losses	Net amount
Measured at fair value through OCI						
securities	55 127	(10)	55 117	50 572	(10)	50 562
stage 1	54 581	-	54 581	49 713	-	49 713
stage 2	55	-	55	388	-	388
stage 3	491	(10)	481	471	(10)	461
loans and advances to customers	7 152	-	7 152	8 496	-	8 496
stage 1	6 984	-	6 984	8 330	-	8 330
stage 2	161	-	161	163	-	163
stage 3	7	-	7	3	-	3
Total measured at fair value through OCI	62 279	(10)	62 269	59 068	(10)	59 058
Measured at amortized cost:						
amounts due from banks	6 748	(3)	6 745	11 217	(4)	11 213
stage 1	6 748	(3)	6 745	11 217	(4)	11 213
securities	10 737	(15)	10 722	8 335	(20)	8 315
stage 1	10 734	(15)	10 719	8 276	(12)	8 264
stage 2	3	-	3	59	(8)	51
stage 3	-	-	-	-	-	-
loans and advances to customers	198 100	(7 513)	190 587	189 483	(7 511)	181 972
stage 1	175 294	(537)	174 757	166 412	(521)	165 891
stage 2	13 051	(1 150)	11 901	12 476	(1 124)	11 352
stage 3	9 755	(5 826)	3 929	10 595	(5 866)	4 729
other financial assets	1 871	(97)	1 774	2 244	(95)	2 149
stage 1	1 774	-	1 774	2 149	-	2 149
stage 3	97	(97)	-	95	(95)	-
Total measured at amortised cost	217 456	(7 628)	209 828	211 279	(7 630)	203 649
Financial assets by stages of impairment						
stage 1	256 115	(555)	255 560	246 097	(537)	245 560
stage 2	13 270	(1 150)	12 120	13 086	(1 132)	11 954
stage 3	10 350	(5 933)	4 417	11 164	(5 971)	5 193
Total financial assets by stages of impairment	279 735	(7 638)	272 097	270 347	(7 640)	262 707

LOAN QUALITY RATIOS (excluding adjustments relating to fair value hedge accounting)	30.06.2019	31.12.2018
Share of exposures with recognized impairment ¹	4,6%	5,0%
Coverage ratio of impaired loans ²	77,1%	74,0%
Share of loans overdue for more than 90 days in gross loans and advances to customers	3,1%	3,3%

¹ The share of impaired exposures was determined for loans and securities, excluding NBP bills and T-bonds, measured at amortized cost and loans measured at fair value through other comprehensive income, as the ratio of the gross amount of impaired exposures to the total gross amount of loans and securities, excluding NBP bills and T-bonds measured at amortized cost and loans measured at fair value through other comprehensive income.

² The coverage ratio for impaired loans was determined as the ratio of total allowances for expected credit losses for loans and securities, excluding NBP bills and T-bonds measured at amortized cost and loans measured at fair value through other comprehensive income to the gross amount of impaired exposures from these portfolios.

CONDENSED INTERIM FINANCIAL STATEMENTS
 OF PKO BANK POLSKI SA
 FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2019
 (in PLN MILLION)

BY TYPE OF FINANCIAL ASSET (excluding adjustments relating to fair value hedge accounting) 30.06.2019	Gross amount – assets with no significant increase in credit risk since initial recognition (stage 1)	Allowances for 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 credit losses (stage 2)	Gross amount – assets at risk of impairment due to credit risk (stage 3)	Allowances for credit losses (stage 3)	Total gross amount	Total allowances for credit losses	Total net amount
amounts due from banks	6 748	(3)	-	-	-	-	6 748	(3)	6 745
securities	65 315	(15)	58	-	491	(10)	65 864	(25)	65 839
NBP money market bills	2 500	-	-	-	-	-	2 500	-	2 500
Treasury bonds (in PLN)	47 848	-	-	-	-	-	47 848	-	47 848
Treasury bonds (in foreign currencies)	232	-	-	-	-	-	232	-	232
other	14 735	(15)	58	-	491	(10)	15 284	(25)	15 259
loans and advances to customers	182 278	(537)	13 212	(1 150)	9 762	(5 826)	205 252	(7 513)	197 739
housing	84 881	(42)	5 659	(488)	2 166	(1 425)	92 706	(1 955)	90 751
corporate	71 268	(337)	5 209	(348)	5 749	(3 133)	82 226	(3 818)	78 408
consumer	24 245	(158)	2 344	(314)	1 847	(1 268)	28 436	(1 740)	26 696
reverse repo transactions	1 884	-	-	-	-	-	1 884	-	1 884
other financial assets	1 774	-	-	-	97	(97)	1 871	(97)	1 774
Total	256 115	(555)	13 270	(1 150)	10 350	(5 933)	279 735	(7 638)	272 097
of which: financial assets impaired upon initial recognition – POCI	-	-	-	-	631	(87)	631	(87)	544

BY TYPE OF FINANCIAL ASSET (excluding adjustments relating to fair value hedge accounting) 31.12.2018	Gross amount - assets with no significant increase in credit risk since initial recognition (stage 1)	Allowances for 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 credit losses (stage 2)	Gross amount - assets at risk of impairment due to credit risk (stage 3)	of which: impaired assets, gross	Allowances for credit losses (stage 3)	Total gross amount	Total allowances for credit losses	Total net amount
amounts due from banks	11 217	(4)	-	-	-	-	-	11 217	(4)	11 213
securities	57 989	(12)	447	(8)	471	471	(10)	58 907	(30)	58 877
NBP money market bills	2 900	-	-	-	-	-	-	2 900	-	2 900
Treasury bonds (in PLN)	40 476	-	-	-	-	-	-	40 476	-	40 476
other	14 613	(12)	447	(8)	471	471	(10)	15 531	(30)	15 501
loans and advances to customers	174 742	(521)	12 639	(1 124)	10 598	10 172	(5 866)	197 979	(7 511)	190 468
housing	85 789	(42)	5 692	(502)	2 226	2 167	(1 396)	93 707	(1 940)	91 767
corporate	65 666	(332)	5 166	(314)	6 567	6 203	(3 251)	77 399	(3 897)	73 502
consumer	23 236	(147)	1 781	(308)	1 805	1 802	(1 219)	26 822	(1 674)	25 148
reverse repo transactions	51	-	-	-	-	-	-	51	-	51
other financial assets	2 149	-	-	-	95	95	(95)	2 244	(95)	2 149
Total	246 097	(537)	13 086	(1 132)	11 164	10 738	(5 971)	270 347	(7 640)	262 707
of which: financial assets impaired upon initial recognition - POCI	-	-	-	-	1 037	1 037	(134)	1 037	(134)	903

The total write-offs and sale of loan receivables in the first half of 2019 had an impact on the decrease in the share of impaired exposures of 0.2 p.p. (a decrease of 0.5 p.p. in the share of impaired exposures in 2018).

18. AMOUNTS DUE TO BANKS

AMOUNTS DUE TO BANKS	30.06.2019	31.12.2018
Measured at fair value through profit or loss	20	-
short position in securities	20	-
Measured at amortized cost	2 643	1 591
Bank deposits	831	728
Current accounts	1 652	713
Other monetary market deposits	160	150
Total	2 663	1 591

19. AMOUNTS DUE TO CUSTOMERS

AMOUNTS DUE TO CUSTOMERS	30.06.2019	31.12.2018
Measured at fair value through profit or loss	15	-
short position in securities	15	-
Measured at amortized cost	240 414	245 213
Amounts due to retail customers	172 700	164 385
Current accounts and overnight deposits	111 706	102 859
savings accounts	35 202	32 192
Term deposits	60 627	61 138
Other liabilities	367	388
Amounts due to corporate entities	49 019	55 530
Current accounts and overnight deposits	37 648	38 835
Term deposits	10 646	15 740
Other liabilities	680	910
Repo transactions	45	45
Amounts due to public entities	13 565	16 459
Current accounts and overnight deposits	10 981	11 242
Term deposits	2 527	5 115
Other liabilities	57	102
Loans and advances received ¹	5 130	8 839
Total	240 429	245 213

¹ The item "Loans and advances received" is presented in detail in Note 20 "Loans and advances received"

AMOUNTS DUE TO CUSTOMERS BY SEGMENT	30.06.2019	31.12.2018
retail and private banking	163 103	154 259
corporate	46 347	55 868
firms and enterprises	25 804	26 202
repo transactions	45	45
loans and advances received	5 130	8 839
Total	240 429	245 213

20. LOANS AND ADVANCES RECEIVED

LOANS AND ADVANCES RECEIVED	30.06.2019	31.12.2018
From international financial institutions	1 138	2 601
European Investment Bank	649	2 049
Council of Europe Development Bank	489	552
From other entities	3 992	6 238
PKO Finance AB	3 992	6 238
Total	5 130	8 839

LOANS AND ADVANCES FROM INTERNATIONAL FINANCIAL INSTITUTIONS

In the six-month period ended 30 June 2019 the Bank prepaid its credit facility of CHF 182 million (PLN 688 million) and the third tranche of the loan of CHF 185 million (PLN 703 million) granted by the European Investment Bank. Furthermore the Bank paid the first tranche of the loan of CHF 15 million (PLN 57 million) granted by the Bank of the Council of Europe on time.

In 2018 the Bank made full and final early repayment of a credit line granted by Nordea Bank AB (publ) based on an agreement dated 1 April 2014. Initially, the credit line was granted for a period of 7 years, which means that the Bank repaid it 3 years before the original maturity, including: CHF 309 million (PLN 1 112 million) and EUR 359 million (PLN 1 499 million). In connection with the repayment of the credit line, based on a separate agreement, the security established on receivables in the mortgage portfolio was released.

LOANS AND ADVANCES RECEIVED FROM OTHER ENTITIES

In the six-month period ended 30 June 2019, the Bank repaid the loan of EUR 500 million (PLN 2 143 million) received from PKO Finance AB on time. In 2018, the Bank obtained a loan of PLN 646 million from international financial institutions.

21. INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

AS AT 30 JUNE 2019	Gross amount	Impairment allowance	Carrying amount
SUBSIDIARIES			
PKO Bank Hipoteczny SA ¹	1 550	-	1 550
KREDOBANK SA	1 072	(793)	279
PKO Życie Towarzystwo Ubezpieczeń SA	240	-	240
PKO Towarzystwo Funduszy Inwestycyjnych SA	225	-	225
PKO VC - fizan ²	200	-	200
PKO Leasing SA	496	-	496
PKO BP BANKOWY PTE SA	151	-	151
NEPTUN - fizan ²	132	-	132
Merkury - fiz an ²	120	-	120
PKO Towarzystwo Ubezpieczeń SA	110	-	110
PKO Finance AB	24	-	24
ZenCard sp. z o.o.	25	(23)	2
PKO BP Finat sp. z o.o.	21	-	21
Operator Chmury Krajowej sp. z o.o.	25	-	25
JOINT VENTURES			
Centrum Elektronicznych Usług Płatniczych eService sp. z o.o.	197	-	197
ASSOCIATES			
Bank Pocztowy SA	184	(97)	87
„Poznański Fundusz Poręczeń Kredytowych” sp. z o.o.	2	(2)	-
Total	4 774	(915)	3 859

¹ Additionally, as at 30 June 2019 an off-balance sheet liability of PLN 100 million was recorded by the Bank in respect of the planned acquisition of the new issue of the company's shares.

² PKO Bank Polski SA holds investment certificates of the Fund which allow to control the Fund in accordance with IFRS.

AS AT 31 December 2018	Gross amount	Impairment allowance	Carrying amount
SUBSIDIARIES			
PKO Bank Hipoteczny SA	1 300	-	1 300
KREDOBANK SA	1 072	(793)	279
Qualia Development sp. z o. o.	318	-	318
PKO Życie Towarzystwo Ubezpieczeń SA	240	-	240
PKO Towarzystwo Funduszy Inwestycyjnych SA	225	-	225
PKO VC - fizan ¹	200	-	200
PKO Leasing SA	178	-	178
PKO BP BANKOWY PTE SA	151	-	151
NEPTUN - fizan ¹	132	-	132
Merkury - fiz an ¹	120	-	120
PKO Towarzystwo Ubezpieczeń SA	110	-	110
PKO Finance AB	24	-	24
ZenCard sp. z o.o.	25	(23)	2
PKO BP Finat sp. z o.o.	21	-	21
Operator Chmury Krajowej sp. z o.o.	4	-	4
JOINT VENTURES			
Centrum Elektronicznych Usług Płatniczych eService sp. z o.o.	197	-	197
ASSOCIATES			
Bank Pocztowy SA	184	(97)	87
„Poznański Fundusz Poręczeń Kredytowych" sp. z o.o.	2	(2)	-
Total	4 503	(915)	3 588

¹ PKO Bank Polski holds investment certificates of the Fund which allow to control the Fund in accordance with IFRS.

OTHER NOTES

22. DIVIDENDS PER SHARE AND PROFIT DISTRIBUTION

On 25 February 2019, the Bank received an individual recommendation from the Polish Financial Supervision Authority to increase its own funds by retaining at least 50% of the profit earned in 2018. At the same time, the PFSA confirmed that the Bank had met the requirements for the distribution of dividend at 50% of the 2018 net profit. The PFSA also expected the Bank's Management Board and Supervisory Board to present their position in respect of the recommendation received by the Bank.

Both the Bank's Management and Supervisory Boards passed resolutions stating that each of the authorities would implement the recommendation within the scopes of their respective responsibilities.

On 28 March 2019, the Bank's Management Board passed a resolution on submitting the recommendation for the appropriation of profit earned in 2018 of PLN 3 335 302 049 to the General Meeting of the Bank as follows:

- for the payment of dividend to the shareholders PLN 1 662 500 000
- for other reserves PLN 5 151 025

Moreover, the Bank's Management Board proposed retaining PLN 1 667 651 024 as unappropriated profit. The retention of a portion of the profit is justified by the potential option to use it for the distribution of dividend in the following years.

The above decision is consistent with the decision declared by the Bank to comply with the recommendation of the PFSA.

On 4 April 2019, the Bank's Supervisory Board issued a positive opinion about the recommendation of the Bank's Management Board.

On 6 May 2019 the Bank's Ordinary General Shareholders' Meeting passed a resolution on the appropriation of the Bank's profit for 2018 (resolution no. 6/2019), pursuant to the above recommendation put forward by the Management Board of the Bank.

Dividend amounted to 49.8% of the profit for 2018, which constitutes PLN 1.33 gross per share. The General Shareholders' Meeting of PKO Bank Polski SA set the dividend date (date of vesting rights to dividend) as at 31 July 2019, and the dividend payment date at 14 August 2019.

23. INFORMATION ABOUT LEASES

LEASE RELATED AMOUNTS RECOGNIZED IN THE INCOME STATEMENT - LESSOR	01.01- 30.06.2019
Amortization and depreciation assets in respect of right-of-use assets	(96)
Land and buildings	(91)
Vehicles	(5)
Interest expense	(10)
Costs related to short-term lease agreements	(6)
Costs related to lease agreements in respect of low-value assets, which are not short-term agreements, non-deductible VAT expenses and costs of service charges	(33)
Total costs	(145)

RIGHT-OF-USE ASSETS	30.06.2019
Property, plant and equipment	
Land and buildings	821
Other, including: vehicles	24
Total	869

OTHER LIABILITIES	30.06.2019
Liabilities in respect of leases	842
Total	842

24. CONTINGENT LIABILITIES AND OFF-BALANCE SHEET COMMITMENTS GRANTED

FINANCIAL LIABILITIES AND GUARANTEE COMMITMENTS GRANTED AS AT 30.06.2019	Nominal amount of liabilities with no significant increase in credit risk since initial recognition (stage 1)	Allowance for credit losses (stage 1)	Nominal amount of liabilities with a significant increase in credit risk since initial recognition, which are not credit-impaired (stage 2)	Allowance for credit losses (stage 2)	Nominal amount of liabilities at risk of impairment (stage 3)	Allowance for credit losses (stage 3)	Total nominal amount	Total allowances	Total, net
Financial liabilities granted:									
Credit lines and limits	51 394	(79)	2 797	(82)	134	(11)	54 325	(172)	54 153
housing	4 919	(9)	464	(19)	6	(2)	5 389	(30)	5 359
corporate	38 427	(60)	1 066	(35)	120	(7)	39 613	(102)	39 511
consumer	8 048	(10)	1 267	(28)	8	(2)	9 323	(40)	9 283
Other	3 985	(12)	18	(1)	-	-	4 003	(13)	3 990
Total	55 379	(91)	2 815	(83)	134	(11)	58 328	(185)	58 143
of which irrevocable loan commitments	23 160	(26)	1 773	(40)	90	(4)	25 023	(70)	24 953
of which: purchased or originated credit-impaired off-balance sheet liabilities – POCI	-	-	-	-	80	-	80	-	80
Guarantees and pledges granted									
Guarantees granted in domestic and foreign trading	8 501	(8)	545	(11)	93	(15)	9 139	(34)	9 105
to financial entities	2 623	-	-	-	-	-	2 623	-	2 623
to non-financial entities	5 608	(8)	545	(11)	93	(15)	6 246	(34)	6 212
to public entities	270	-	-	-	-	-	270	-	270
Guarantees and pledges granted – domestic corporate bonds	1 732	(2)	-	-	-	-	1 732	(2)	1 730
to financial entities	1 634	(1)	-	-	-	-	1 634	(1)	1 633
to non-financial entities	98	(1)	-	-	-	-	98	(1)	97
Letters of credit issued	1 257	(1)	4	-	17	(2)	1 278	(3)	1 275
to financial entities	2	-	-	-	-	-	2	-	2
to non-financial entities	1 254	(1)	4	-	17	(2)	1 275	(3)	1 272
to public entities	1	-	-	-	-	-	1	-	1
Guarantees and pledges granted – payment guarantee to financial entities	165	-	-	-	-	-	165	-	165
Guarantees and pledges granted – domestic municipal bonds	112	-	-	-	-	-	112	-	112
Total	11 767	(11)	549	(11)	110	(17)	12 426	(39)	12 387
of which performance guarantees granted	2 040	(3)	419	(8)	66	(14)	2 525	(25)	2 500
of which irrevocable loan commitments	8 659	(9)	545	(11)	93	(14)	9 297	(34)	9 263

An increase in granted financial liabilities occurred mainly in respect of credit lines and limits – corporate and was induced by, among others, granting new credit lines in the amount PLN 5 680 million and an increase in current credit lines in the amount of PLN 2 215 million.

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PKO BANK POLSKI SA
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(IN PLN MILLION)

FINANCIAL LIABILITIES AND GUARANTEE COMMITMENTS GRANTED AS AT 31.12.2018	Nominal amount of liabilities with no significant increase in credit risk since initial recognition (stage 1)	Allowance for credit losses (stage 1)	Nominal amount of liabilities with a significant increase in credit risk since initial recognition, which are not credit-impaired (stage 2)	Allowance for credit losses (stage 2)	Nominal amount of liabilities at risk of impairment (stage 3)	Allowance for credit losses (stage 3)	Total nominal amount	Total allowances	Total, net
Financial liabilities granted:									
Credit lines and limits	42 871	(73)	3 024	(77)	193	(14)	46 088	(164)	45 924
housing	4 266	(14)	453	(18)	8	(3)	4 727	(35)	4 692
corporate	30 842	(48)	1 422	(38)	177	(8)	32 441	(94)	32 347
consumer	7 763	(11)	1 149	(21)	8	(3)	8 920	(35)	8 885
Other	4 010	(11)	-	-	-	-	4 010	(11)	3 999
Total	46 881	(84)	3 024	(77)	193	(14)	50 098	(175)	49 923
of which irrevocable loan commitments	23 998	(28)	1 729	(35)	95	(4)	25 822	(67)	25 755
of which: purchased or originated credit-impaired off-balance sheet liabilities – POCI	-	-	-	-	80	-	80	-	80
Guarantees and pledges granted									
Guarantees granted in domestic and foreign trading	8 538	(10)	235	(9)	146	(27)	8 919	(46)	8 873
to financial entities	2 850	(1)	-	-	-	-	2 850	(1)	2 849
to non-financial entities	5 675	(8)	235	(9)	146	(27)	6 056	(44)	6 012
to public entities	13	(1)	-	-	-	-	13	(1)	12
Guarantees and pledges granted – domestic corporate bonds	3 967	(4)	-	-	-	-	3 967	(4)	3 963
to financial entities	1 946	(2)	-	-	-	-	1 946	(2)	1 944
to non-financial entities	2 021	(2)	-	-	-	-	2 021	(2)	2 019
Letters of credit issued	1 216	(1)	-	-	1	(1)	1 217	(2)	1 215
to financial entities	10	-	-	-	-	-	10	-	10
to non-financial entities	1 204	(1)	-	-	1	(1)	1 205	(2)	1 203
to public entities	2	-	-	-	-	-	2	-	2
Guarantees and pledges granted – payment guarantee to financial entities	368	-	-	-	-	-	368	-	368
Guarantees and pledges granted – domestic municipal bonds	188	-	-	-	-	-	188	-	188
Total	14 277	(15)	235	(9)	147	(28)	14 659	(52)	14 607
of which performance guarantees granted	2 216	(5)	130	(5)	72	(9)	2 418	(19)	2 399
of which irrevocable loan commitments	8 905	(10)	235	(9)	146	(27)	9 286	(46)	9 240

25. OFF-BALANCE SHEET LIABILITIES RECEIVED

OFF-BALANCE SHEET LIABILITIES RECEIVED BY NOMINAL VALUE	30.06.2019	31.12.2018
Financial	111	90
Guarantee-related	2 417	1 663
Total	2 528	1 753

The increase in off-balance sheet liabilities received as guarantees compared to 31 December 2018 was caused mainly by an increase in the limit for guarantees under the de minimis guarantee line portfolio agreement of PLN 668 million

26. 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.

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

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 in respect of the interest forgiven on housing loans.

INCOME DUE TO TEMPORARY REDEMPTION BY THE STATE TREASURY OF INTEREST ON HOUSING LOANS IN THE "OLD" PORTFOLIO	01.01-30.06.2019	01.01-30.06.2018
Income recognized on the accruals basis	81	82
Income received in cash	24	60
Difference - "Loans and advances to customers"	57	22

As of 1 January 2018 based on the provisions of 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, the borrowers acquired the right to be forgiven the remaining debt by the State Treasury, which will result in gradual (until 2026) full settlement of the housing loan indebtedness from the so-called "old" portfolio. The Bank conducts settlements related to the purchase of interest on housing loans by the State Treasury and in the six-month period ended 30 June 2019 it received commission of less than PLN 1 million. In the corresponding period of 2018 it received PLN 1 million in this respect.

As of 1 January 1996, the Bank is the general distributor of revenue stamps, and in this respect it receives commission from the State Budget- in the six-month period of 2019 the Bank did not receive any commissions in this respect. In the corresponding period of 2018 it received PLN 1 million in this respect.

Dom Maklerski PKO Banku Polskiego SA brokerage house plays the role of an agent for the issue of retail T-bonds under the agreement signed with the Ministry of Finance on 11 February 2003. Under this agreement, the Dom Maklerski PKO Banku Polskiego SA brokerage house receives a fee for providing the services of an issuing agent, which in the first half of 2019 amounted to PLN 42 million and PLN 35 million in the corresponding period of 2018.

SIGNIFICANT TRANSACTIONS WITH ENTITIES RELATED TO THE STATE TREASURY

The transactions were concluded on arm's length terms.

	Balance sheet exposure, including exposure to loans and debt instruments		Off-balance sheet exposure		Liabilities in respect of deposits	
	30.06.2019	31.12.2018	30.06.2019	31.12.2018	30.06.2019	31.12.2018
counterparty 1	-	-	2 450	2 450	-	-
counterparty 2	2 783	2 774	393	-	-	153
counterparty 3	1 113	1 188	2 279	1 671	55	32
counterparty 4	430	439	2 253	1 730	-	32
counterparty 5	2 015	2 047	668	663	186	491
counterparty 6	665	895	1 666	1 378	569	317
counterparty 7	34	347	2 270	1 552	-	1 397
counterparty 8	246	263	2 321	1 635	4 093	2 633
counterparty 9	497	617	1 047	922	423	284
counterparty 10	117	117	700	-	-	826

In the first half of 2019, interest and commission income on the transactions with the 10 counterparties referred to above amounted to PLN 86 million (PLN 73 million in the first six months of 2018), and the respective interest expense amounted to PLN 19 million (PLN 16 million in the first six months of 2018). As at 30 June 2019, allowances for expected credit losses on these exposures amounted to PLN 7 million (PLN 5 million as at 31 December 2018).

The remaining transactions with parties related to the State Treasury covered loans and advances, credit lines and guarantees granted, and deposits made.

RELATED-PARTY TRANSACTIONS – CAPITAL LINKS

PKO Bank Polski SA provided arm's length services to its related (subordinated) entities within the scope of maintaining bank accounts, accepting deposits, granting loans and advances, taking up issues of debt securities, granting guarantees and spot exchange transactions, and offering units and certificates of investment funds, lease, factoring and insurance products of the PKO Bank Polski SA Group, as well as services offered by Dom Maklerski PKO Banku Polskiego SA (Brokerage House).

PKO Bank Polski SA provided services to PKO Bank Hipoteczny SA consisting of intermediation in sales of housing loans for individuals, performing aftersales services in respect of these loans and support tasks under an outsourcing agreement. The Bank offered its infrastructure and IT services, and rented office space to selected companies of PKO Bank Polski SA's Group. Together with Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o. it provided payment transaction clearing services.

AS AT 30 JUNE 2019 / ENTITY	Receivables	of which loans	Liabilities	Off-balance sheet commitments granted
KREDOBANK SA and its subsidiary	124	-	4	123
Merkury - fiz an and its subsidiaries	-	-	26	-
NEPTUN - fizan and its subsidiaries	152	152	66	-
PKO Bank Hipoteczny SA ¹	4 345	1 601	173	3 899
PKO BP BANKOWY PTE SA	-	-	29	-
PKO BP Finat sp. z o.o.	23	-	56	1
PKO Finance AB	-	-	3 992	-
PKO Leasing SA and its subsidiaries ²	18 637	18 611	175	4 463
PKO Towarzystwo Funduszy Inwestycyjnych SA	1	-	176	-
PKO Towarzystwo Ubezpieczeń SA	-	-	25	-
PKO Życie Towarzystwo Ubezpieczeń SA	-	-	460	1
ZenCard sp. z o.o.	-	-	-	2
Operator Chmury Krajowej sp. z o.o.	2	-	2	-
Total subsidiaries	23 284	20 364	5 184	8 489

¹ Receivables from PKO Bank Hipoteczny SA in respect of sales of mortgage-secured housing loans by the Bank amounted to PLN 2 278 million.
² In this item there are included two loans granted in June 2019 to the company PCM in the amount of PLN 1 890 million for the purpose of changing the financing structure.

AS AT 30 JUNE 2019 / ENTITY	Receivables	of which loans	Liabilities	Off-balance sheet liabilities granted
Centrum Elektronicznych Usług Płatniczych eService sp. z o.o.	27	25	51	32
„Centrum Obsługi Biznesu” sp. z o.o.	19	19	6	-
Bank Pocztowy SA	-	-	-	1
Total joint ventures and associates	46	44	57	33

AS AT 31 DECEMBER 2018 / ENTITY	Receivables	of which loans	Liabilities	Off-balance sheet liabilities granted
KREDOBANK SA and its subsidiary	123	-	1	113
Merkury - fiz an and its subsidiaries	-	-	22	-
NEPTUN - fizan and its subsidiaries	159	159	52	-
PKO Bank Hipoteczny SA ¹	4 296	1 729	168	3 117
PKO BP BANKOWY PTE SA	-	-	14	-
PKO BP Finat sp. z o.o.	1	-	39	1
PKO Finance AB	-	-	6 238	-
PKO Leasing SA and its subsidiaries	15 121	15 120	36	4 304
PKO Towarzystwo Funduszy Inwestycyjnych SA	33	-	224	-
PKO Towarzystwo Ubezpieczeń SA	-	-	26	-
PKO Życie Towarzystwo Ubezpieczeń SA	-	-	472	1
Qualia Development sp. z o.o. and its subsidiaries	-	-	384	-
ZenCard sp. z o.o.	-	-	1	-
Operator Chmury Krajowej sp. z o.o.	-	-	4	-
Total subsidiaries	19 733	17 008	7 681	7 536

¹ Receivables from PKO Bank Hipoteczny SA in respect of sales of mortgage-secured housing loans by the Bank amounted to PLN 2 300 million.

AS AT 31 December 2018 / ENTITY	Receivables	of which loans	Liabilities	Off-balance sheet liabilities granted
Centrum Elektronicznych Usług Płatniczych eService sp. z o.o.	40	13	43	23
„Centrum Obsługi Biznesu” sp. z o.o.	18	18	8	-
Bank Pocztowy SA	-	-	-	1
„Poznański Fundusz Poręczeń Kredytowych” sp. z o.o.	-	-	5	-
Total joint ventures and associates	58	31	56	24

FOR THE PERIOD ENDED 30 JUNE 2019 / ENTITY	Total income	of which interest and commission income	Total expense	of which interest and commission income
KREDOBANK SA and its subsidiary	1	1	-	-
NEPTUN - fizan and its subsidiaries	1	1	-	-
PKO Bank Hipoteczny SA	156	144	1	1
PKO BP BANKOWY PTE SA	13	-	-	-
PKO BP Finat sp. z o.o.	2	-	3	-
PKO Finance AB	-	-	96	96
PKO Leasing SA and its subsidiaries	292	172	1	1
PKO Towarzystwo Funduszy Inwestycyjnych SA	172	5	1	1
PKO Towarzystwo Ubezpieczeń SA	24	-	-	-
PKO Życie Towarzystwo Ubezpieczeń SA	-	-	5	5
Total subsidiaries	661	323	107	104

FOR THE PERIOD ENDED 30 JUNE 2019 / 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.	225	199	50	50
„Centrum Obsługi Biznesu” sp z o.o.	1	1	-	-
Total joint ventures and associates	226	200	50	50

FOR THE PERIOD ENDED 30 JUNE 2018 / ENTITY	Total income	of which interest and commission income	Total expense	of which interest and commission income
KREDOBANK SA and its subsidiary	1	1	-	-
NEPTUN - fizan and its subsidiaries	1	1	-	-
PKO Bank Hipoteczny SA	129	118	1	1
PKO BP Finat sp. z o.o.	2	-	3	-
PKO Finance AB	-	-	139	139
PKO Leasing SA and its subsidiaries	153	139	8	-
PKO Towarzystwo Funduszy Inwestycyjnych SA	128	62	1	1
PKO Towarzystwo Ubezpieczeń SA	-	-	5	5
Qualia Development Sp. z o.o.	-	-	1	1
Total subsidiaries	414	321	158	147

FOR THE PERIOD ENDED 30 JUNE 2018 / ENTITY	Total income	of which interest and commission income	Total expense	of which interest and commission income
Centrum Elektronicznych Usług Płatniczych eService sp. z o.o.	196	168	54	54
„Centrum Obsługi Biznesu” Sp z o.o.	2	2	-	-
Total joint ventures and associates	198	170	54	54

RELATED-PARTY TRANSACTIONS – PERSONAL LINKS

As at 30 June 2019 and 31 December 2018, seven entities were related to the Bank through the key management personnel of PKO Bank Polski SA or close family members of the key management personnel. In the first half of 2019 and the first half of 2018, no mutual transactions were conducted between the Bank and those entities.

BENEFITS FOR THE PKO BANK POLSKI SA KEY MANAGEMENT (IN PLN THOUSAND)

Remuneration costs of the Management and Supervisory Boards of the Bank:

	od 01.01.2019 do 30.06.2019	od 01.01.2018 do 30.06.2018
Management Board of the Bank		
Short-term employee benefits ¹	3 368	177
Post-employment benefits ²	172	305
Long-term benefits ³	1 675	1 774
Share-based payments settled in monetary means ⁴	1 675	1 774
Total	6 890	4 030
Supervisory Board of the Bank		
Short-term employee benefits ¹	633	680
Total	633	680

¹ Short-term employee benefits consist of: remuneration and social insurance contributions and other benefits settled or to be settled within 12 months after the end of the reporting period.

² Post-employment benefits relate to those members of the Management Board, who ceased to perform their function in previous years.

³ In item “Long-term benefits” there are included provisions for deferred remuneration components granted in monetary means.

⁴ In item share-based payments settled in monetary means there are included provisions for deferred remuneration components granted in form of a financial instrument, i.e. phantom shares. The conversion to cash is performed after the reference period.

In period of six months ended 30 June 2019, members of the Management Board received remuneration from the Bank's related entities of PLN 84 thousand.

27. FAIR VALUE HIERARCHY

Classification of financial instruments and methods used to determine their fair values have been described in the Bank's financial statements for 2018.

ASSETS MEASURED AT FAIR VALUE 30.06.2019	Level 1	Level 2	Level 3	
	Carrying amount	Prices quoted on active markets	Valuation techniques based on observable market data	Other valuation techniques
Hedging derivatives	681	-	681	-
Other derivative instruments	2 503	1	2 502	-
Securities	56 712	45 748	7 871	3 093
held for trading	851	825	-	26
debt securities	820	794	-	26
shares in other entities - listed	27	27	-	-
investment certificates, rights to shares, pre-emptive rights	4	4	-	-
not held for trading, measured at fair value through profit or loss	744	250	1	493
debt securities	394	214	-	180
shares in other entities - listed	36	36	-	-
shares in other entities - not listed	314	-	1	313
measured at fair value through OCI	55 117	44 673	7 870	2 574
debt securities	55 117	44 673	7 870	2 574
Loans and advances to customers	8 180	-	-	8 180
not held for trading, measured at fair value through profit or loss	1 028	-	-	1 028
housing loans	22	-	-	22
corporate loans	132	-	-	132
consumer loans	874	-	-	874
measured at fair value through OCI	7 152	-	-	7 152
housing loans	7 152	-	-	7 152
Total financial assets measured at fair value	68 076	45 749	11 054	11 273

LIABILITIES MEASURED AT FAIR VALUE 30.06.2019	Level 1	Level 2	Level 3	
	Carrying amount	Prices quoted on active markets	Valuation techniques based on observable market data	Other valuation techniques
Hedging derivatives	567	-	567	-
Other derivative instruments	3 228	-	3 228	-
Short position in securities	35	35	-	-
Total financial liabilities measured at fair value	3 830	35	3 795	-

ASSETS MEASURED AT FAIR VALUE 31.12.2018	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	592	-	-	592
Other derivative instruments	1 909	-	3	1 906
Securities	52 124	40 373	9 744	2 007
held for trading	282	282	-	-
debt securities	264	264	-	-
shares in other entities - listed	13	13	-	-
investment certificates, rights to shares, pre-emptive rights	5	5	-	-
not held for trading, measured at fair value through profit or loss	1 280	862	38	380
debt securities	972	820	37	115
shares in other entities - listed	42	42	-	-
shares in other entities - not listed	266	-	1	265
measured at fair value through OCI	50 562	39 229	9 706	1 627
debt securities	50 562	39 229	9 706	1 627
Loans and advances to customers	9 602	-	-	9 602
not held for trading, measured at fair value through profit or loss	1 106	-	-	1 106
housing loans	27	-	-	27
corporate loans	148	-	-	148
consumer loans	931	-	-	931
measured at fair value through OCI	8 496	-	-	8 496
housing loans	8 496	-	-	8 496
Total financial assets measured at fair value	64 227	40 376	12 242	11 609

LIABILITIES MEASURED AT FAIR VALUE 31.12.2018	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	560	-	-	560
Other derivative instruments	2 657	-	-	2 657
Total financial liabilities measured at fair value	3 217	-	-	3 217

In the six-month period ended 30 June 2019 there were no changes to the measurement techniques and input data for particular levels of the fair value hierarchy. A detailed description of the measurement techniques may be found in the financial statements for 2018.

In the six-month period ended 30 June 2019, corporate bonds of one of the entities in the amount of PLN 1 466 were transferred from level 2 to level 3 as a result of a change in the manner of calculating the risk margin. In the corresponding period of 2018 there were no transfers between the different levels of fair value hierarchy.

The changes to fair value of the financial instruments at Level 3 are presented in the table below.

RECONCILIATION OF CHANGES DURING FAIR VALUE PERIODS ON FAIR VALUE HIERARCHY LEVEL 3	01.01-30.06.2019	01.01-30.06.2018
Opening balance at the beginning of the period	11 609	2 166
First-time application of IFRS 9	-	9 420
Opening balance at the beginning of the period – restated	-	11 586
Foreign exchange differences	(2)	17
Issues and redemptions of corporate paper	(292)	(324)
Transfers of corporate bonds from level 2 to level 3	1 466	-
Reduction of equity exposure to a collective investment undertaking	-	(47)
Sale of participation units in a collective investment undertaking	-	(217)
Loans granted to customers during the period	1 016	1 049
Writing off / repayment of loans during the period and sale (pooling)	(2 532)	(1 715)
Net gain/(loss) on financial instruments measured at fair value through profit or loss	39	17
Change in the valuation recognized in OCI	(31)	29
As at the end of the period	11 273	10 395

IMPACT OF ESTIMATES ON FAIR VALUE MEASUREMENT OF LEVEL 3 FINANCIAL INSTRUMENTS	30.06.2019		31.12.2018	
	Fair value acc. to positive scenario	Fair value acc. to negative scenario	Fair value acc. to positive scenario	Fair value acc. to negative scenario
Not held for trading, measured at fair value through profit or loss				
Loans and advances to customers	1 058	999	1 138	1 075
Shares in Visa Inc.	197	172	148	124
Corporate bonds	180	180	115	115
Equity investments	128	115	129	116
Measured at fair value through OCI				
Corporate bonds	2 581	2 567	1 630	1 624
Housing loans	7 359	6 952	8 742	8 258

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

	level of fair value hierarchy	valuation method	30.06.2019	
			carrying amount	fair value
Cash and balances with Central Bank	n/a	wartość wymaganej zapłaty	12 808	12 808
Amounts due from banks			6 745	6 745
measured at amortized cost	2	discounted cash flows	6 745	6 745
Securities (excluding adjustments relating to fair value hedge accounting)			10 722	10 731
measured at amortized cost	3	discounted cash flows	10 722	10 731
debt securities (Treasury bonds)	1	market quotations	4 675	4 675
debt securities (corporate)	3	discounted cash flows	1 413	1 422
debt securities (municipal)	3	discounted cash flows	4 634	4 634
Loans and advances to customers (excluding adjustments relating to fair value hedge accounting)			190 587	190 210
measured at amortized cost	3	discounted cash flows	190 587	190 210
housing loans	3	discounted cash flows	83 599	82 220
corporate loans	3	discounted cash flows	78 408	79 114
consumer loans	3	discounted cash flows	26 696	26 992
receivables in respect of repurchase agreements	2	discounted cash flows	1 884	1 884
Other financial assets	3	at amount due less impairment allowance	1 774	1 774
Amounts due to the Central Bank	2	at amount due	9	9
Amounts due to banks			2 643	2 643
measured at amortized cost	2	discounted cash flows	2 643	2 643
Amounts due to customers			240 414	240 562
measured at amortized cost	3	discounted cash flows	240 414	240 562
amounts due to retail customers	3	discounted cash flows	172 700	172 642
amounts due to business entities	3	discounted cash flows	49 019	49 019
amounts due to public entities	3	discounted cash flows	13 565	13 565
loans and advances received	3	discounted cash flows	5 130	5 336
Debt securities in issue			5 337	5 337
measured at amortized cost	1, 2	market quotations/discounted cash flows	5 337	5 337
Subordinated liabilities			2 730	2 730
measured at amortized cost	2	discounted cash flows	2 730	2 730
Total financial liabilities	3	at amount due	3 575	3 575

	level of fair value hierarchy	valuation method	31.12.2018	
			carrying amount	fair value
Cash and balances with Central Bank	n/a	at amount due	22 862	22 862
Amounts due from banks			11 213	11 213
measured at amortized cost	2	discounted cash flows	11 213	11 213
Securities (excluding adjustments relating to fair value hedge accounting)			8 315	8 315
measured at amortized cost	3	discounted cash flows	8 315	8 315
debt securities (Treasury bonds)	1	market quotations	2 200	2 200
debt securities (corporate)	3	discounted cash flows	2 108	2 108
debt securities (municipal)	3	discounted cash flows	4 007	4 007
Loans and advances to customers (excluding adjustments relating to fair value hedge accounting)			181 973	181 606
measured at amortized cost	3	discounted cash flows	181 973	181 606
housing loans	3	discounted cash flows	83 272	82 306
corporate loans	3	discounted cash flows	73 502	73 870
consumer loans	3	discounted cash flows	25 148	25 379
receivables in respect of repurchase agreements	2	discounted cash flows	51	51
Other financial assets	3	at amount due less impairment allowance	2 149	2 149
Amounts due to the Central Bank	2	at amount due	7	7
Amounts due to banks			1 591	1 591
measured at amortized cost	2	discounted cash flows	1 591	1 591
Amounts due to customers			245 213	245 235
measured at amortized cost	3	discounted cash flows	245 213	245 235
amounts due to retail customers	3	discounted cash flows	164 385	164 324
amounts due to business entities	3	discounted cash flows	55 530	55 530
amounts due to public entities	3	discounted cash flows	16 459	16 459
loans and advances received	3	discounted cash flows	8 839	8 922
Debt securities in issue			5 367	5 367
measured at amortized cost	1, 2	market quotations/discounted cash flows	5 367	5 367
Subordinated liabilities			2 731	2 731
measured at amortized cost	2	discounted cash flows	2 731	2 731
Total financial liabilities	3	at amount due	2 096	2 096

OBJECTIVES AND PRINCIPLES OF RISK MANAGEMENT

PKO Bank Polski S.A. identifies risks in its operations and analyses the impact of each type of risk on its business. All the risks are managed; some of them have a material effect on the profitability and capital needed to cover them. The following risks are considered material for the Bank: credit risk, foreign exchange risk, interest rate risk, liquidity risk (including financing risk), operating risk, business risk, risk of macroeconomic changes and model risk. The Bank assesses the materiality of all the identified risks on a regular basis, at least annually. When assessing the materiality of the risks, the Bank applies the criteria for recognizing a given type of risk as material.

In the separate financial statements of PKO Bank Polski SA for 2018 and in the Report on Capital Adequacy and other information subject to publication in the Group as at 31 December 2018, the following elements of the risk management system are described in detail in respect of material types of risks: risk definition, objectives of managing the specific risk, identification of the risk, measurement and evaluation, control, forecasting and monitoring, reporting and management activities relating to the material risks identified by the Bank.

In the first half of 2019 the Bank's main objectives, principles and organization of the risk management process have not changed compared with the principles described in the separate financial statements of PKO Bank Polski SA for 2018.

SPECIFIC ACTIVITIES IN THE AREA OF RISK MANAGEMENT UNDERTAKEN BY THE BANK IN THE SIX-MONTH PERIOD ENDED 30 JUNE 2019

In the first half of 2019 the Bank conducted monitoring of risks subject to monitoring. As a result of the process, the risk of mortgage loans granted to households denominated in foreign currencies was considered to be material.

As part of the quarterly monitoring of the credit losses measurement model, the Bank updated the assumptions for using LGD and PD parameters. Recoveries in the LGD parameter were adjusted at the long end of the curve and the series of historical data was shortened to better reflect the present economic and macroeconomic position. Also, the manner of calculating PD for retail portfolios and for the portfolio of Firms and Companies changed, putting more emphasis on the amount of exposures contributing to the amount of default.

In the first half of 2019 the Bank revolved its matured short-term bonds issued and prepaid the borrowings received from the European Investment Bank.

29. CREDIT RISK MANAGEMENT

FINANCIAL ASSETS WRITTEN OFF DURING THE DEBT RECOVERY PERIODS

The table below presents the outstanding amounts to be repaid from financial assets, which were written off during the reporting period and which are still the subject of debt recovery activities.

FINANCIAL ASSETS WRITTEN OFF	01.01-30.06.2019	
	Partly written off	Fully written off
Securities		
measured at fair value through OCI	3	-
Loans and advances to customers		
measured at amortized cost	52	367
housing	28	26
corporate	15	222
consumer	9	119
Total	55	367

FINANCIAL ASSETS WRITTEN OFF	01.01-30.06.2018	
	Partly written off	Fully written off
Securities		
measured at fair value through OCI	2	-
Loans and advances to customers		
measured at amortized cost	2 354	101
housing	714	36
corporate	1 252	6
consumer	388	59
Total	2 356	101

CRITERIA FOR WRITING OFF FINANCIAL ASSETS

The criteria for writing off financial assets did not change in relation to the principles described in the separate financial statements of PKO Bank Polski SA for 2018.

INTERNAL RATING CLASSES

The internal rating classes system did not change in relation to the principles described in the separate financial statements of PKO Bank Polski SA for 2018.

30. CONCENTRATION OF CREDIT RISK AT THE BANK

CONCENTRATION VIS A VIS THE LARGEST ENTITIES

The risk of concentration of exposures¹ to individual customers and groups of related customers is monitored in accordance with Article 395 clause 1 of Regulation of the European Parliament and the Council (EU) No. 575/2013 on prudential requirements for credit institutions and investment firms (CRR), according to which the Bank shall not assume an exposure to a customer or a group of related customers whose value exceeds 25% of the value of its recognized capital.

As at 30 June 2019 and 31 December 2018, concentration limits were not exceeded.

As at 30 June 2019, the Bank's concentration risk relating to the largest exposure to a single customer amounted to 53.2%² of the Bank's recognized capital (47.7% as at 31 December 2018)².

CONCENTRATION BY THE LARGEST GROUPS

As at 30 June 2019 and 31 December 2018 the largest concentration of PKO Bank Polski SA's exposures to a group of related borrowers amounted to 62.7%² and 52.0%² of the Bank's recognized capital respectively.

The share of the Bank's largest exposure to a group of related borrowers as at 30 June 2019 amounted to 8.01%² (as at 31 December 2018: 7.03%²).

CONCENTRATION BY INDUSTRY

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

As at 30 June 2019, the total exposure to the three largest industry groups, i.e. "Financial and insurance activities", "Public administration and national defence" and "Manufacturing", amounted to 51% (61% as at 31 December 2018).

CONCENTRATION OF CREDIT RISK BY CURRENCY

As at 30 June 2019 the share of exposures in convertible currencies other than PLN in the whole of the Bank's portfolio amounted to 20% (21% as at 31 December 2018). Exposures in CHF relating to the Bank's housing loan portfolio represent the largest part of the Bank's currency exposure.

¹ The Bank's exposure covers loans, borrowings, acquired receivables, discount on bills of exchange, realized guarantees, interest receivable and off-balance sheet and equity exposures.

² Exposure excluded from the limit of concentration of exposures in the CRR

OTHER TYPES OF CONCENTRATION

Based on Recommendations S, T and C of the Polish Financial Supervision Authority, the Bank applies internal limits related to credit exposures of the Bank's customers, determining its appetite for credit risk and concentration. As at 30 June 2019 and 31 December 2018 these limits were not exceeded.

The Bank does not have any exposures for which, due to the value of the collateral, it has not recognized an allowance for expected credit loss.

31. RISK MANAGEMENT OF FOREIGN CURRENCY LOANS AND ADVANCES TO CUSTOMERS, BY CURRENCY

LOANS AND ADVANCES TO CUSTOMERS BY CURRENCY (excluding adjustments relating to fair value hedge accounting) 30.06.2019	PLN	CHF	EUR	USD	OTHER	Total
Not held for trading, measured at fair value through profit or loss						
Loans and advances to customers	1 028	-	-	-	-	1 028
housing	22	-	-	-	-	22
corporate	132	-	-	-	-	132
consumer	874	-	-	-	-	874
Not held for trading, measured at fair value through profit or loss - total	1 028	-	-	-	-	1 028
Measured at fair value through OCI						
Loans	7 152	-	-	-	-	7 152
housing	7 152	-	-	-	-	7 152
Measured at fair value through OCI - total	7 152	-	-	-	-	7 152
Measured at amortized cost						
Gross loans	154 756	23 044	16 544	1 708	164	196 216
housing	60 171	22 355	2 973	46	9	85 554
corporate	66 396	465	13 550	1 660	155	82 226
consumer	28 189	224	21	2	-	28 436
Reverse repo transactions	1 884	-	-	-	-	1 884
Measured at amortised cost, gross	156 640	23 044	16 544	1 708	164	198 100
Allowances for credit losses	(6 299)	(868)	(295)	(49)	(2)	(7 513)
Measured at amortized cost, net	150 341	22 176	16 249	1 659	162	190 587
Total	158 521	22 176	16 249	1 659	162	198 767

LOANS AND ADVANCES TO CUSTOMERS BY CURRENCY (excluding adjustments relating to fair value hedge accounting)	PLN	CHF	EUR	USD	OTHER	Total	
31.12.2018							
Not held for trading, measured at fair value through profit or loss							
Loans and advances to customers		1 106	-	-	-	1 106	
housing		27	-	-	-	27	
corporate		148	-	-	-	148	
consumer		931	-	-	-	931	
Not held for trading, measured at fair value through profit or loss		1 106	-	-	-	1 106	
Measured at fair value through OCI							
Loans		8 496	-	-	-	8 496	
housing		8 496	-	-	-	8 496	
Measured at fair value through OCI		8 496	-	-	-	8 496	
Measured at amortized cost							
Gross loans		147 975	24 015	15 103	2 145	194	189 432
housing		58 732	23 265	3 154	50	10	85 211
corporate		62 691	505	11 926	2 093	184	77 399
consumer		26 552	245	23	2	-	26 822
Reverse repo transactions		51	-	-	-	-	51
Measured at amortised cost, gross		148 026	24 015	15 103	2 145	194	189 483
Allowances for credit losses		(6 256)	(815)	(292)	(147)	(1)	(7 511)
Measured at amortized cost, net		141 770	23 200	14 811	1 998	193	181 972
Total		151 372	23 200	14 811	1 998	193	191 574

LOANS AND ADVANCES TO CUSTOMERS IN CHF BY IMPAIRMENT STAGES (TRANSLATED INTO PLN at the exchange rate of 1 CHF = 3.8322)	30.06.2019			Total
	Financial institutions	Corporates	Households	
Measured at amortized cost:				
Gross amount	1	284	22 759	23 044
stage 1	-	103	19 899	20 002
stage 2	1	103	1 927	2 031
stage 3	-	78	933	1 011
Allowances for credit losses	-	(49)	(819)	(868)
stage 1	-	(1)	(12)	(13)
stage 2	-	(13)	(159)	(172)
stage 3	-	(35)	(648)	(683)
Measured at amortized cost, net	1	235	21 940	22 176
of which: purchased or granted credit-impaired financial assets (POCI)	-	-	51	51
Total	1	235	21 940	22 176

LOANS AND ADVANCES TO CUSTOMERS IN CHF BY IMPAIRMENT STAGES (TRANSLATED INTO PLN at the exchange rate of 1 CHF = 3.8166)	31.12.2018			Total
	Financial institutions	Corporates	Households	
Measured at amortized cost:				
Gross amount	1	302	23 712	24 015
stage 1	-	118	20 892	21 010
stage 2	1	101	1 872	1 974
stage 3	-	83	948	1 031
Allowances for credit losses	-	(48)	(767)	(815)
stage 1	-	(1)	(12)	(13)
stage 2	-	(12)	(130)	(142)
stage 3	-	(35)	(625)	(660)
Measured at amortized cost, net	1	254	22 945	23 200
of which: purchased or granted credit-impaired financial assets (POCI)	-	-	55	55
Total	1	254	22 945	23 200

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

HOUSING LOANS TO HOUSEHOLDS BY CURRENCY	30.06.2019			31.12.2018		
	gross	impairment allowance	net	gross	impairment allowance	net
CHF	22 353	(735)	21 618	23 263	(683)	22 580
EUR	2 973	(58)	2 915	3 154	(53)	3 101
USD	46	(4)	42	50	(3)	47
PLN	65 119	(1 009)	64 110	64 925	(1 032)	63 893
OTHER	9	-	9	10	-	10
TOTAL	90 500	(1 806)	88 694	91 402	(1 771)	89 631

As at 30 June 2019, the average LTV for the portfolio of CHF-denominated housing loans amounted to 61.3% (64.4% as at 31 December 2018) compared with the average LTV for the entire loan portfolio of 57.3% (59.5% as at 31 December 2018).

HOUSING LOANS AND ADVANCES IN FOREIGN CURRENCIES BY GRANTING DATE		INDEXED	DENOMINATED	Total
30.06.2019				
up to 2002	Gross amount	-	112	112
	Allowances for credit losses	-	(2)	(2)
	Net amount	-	110	110
from 2003 to 2009	Gross amount	-	18 603	18 603
	Allowances for credit losses	-	(693)	(693)
	Net amount	-	17 910	17 910
from 2010 to 2012	Gross amount	3 432	3 215	6 647
	Allowances for credit losses	(40)	(58)	(98)
	Net amount	3 392	3 157	6 549
from 2013 to 2016	Gross amount	5	16	21
	Allowances for credit losses	-	(4)	(4)
	Net amount	5	12	17
Total	Gross amount	3 437	21 946	25 383
	Allowances for credit losses	(40)	(757)	(797)
	Net amount	3 397	21 189	24 586

HOUSING LOANS AND ADVANCES IN FOREIGN CURRENCIES BY GRANTING DATE		INDEXED	DENOMINATED	Total
31.12.2018				
up to 2002	Gross amount	-	130	130
	Allowances for credit losses	-	(3)	(3)
	Net amount	-	127	127
from 2003 to 2009	Gross amount	-	19 392	19 392
	Allowances for credit losses	-	(648)	(648)
	Net amount	-	18 744	18 744
from 2010 to 2012	Gross amount	3 562	3 373	6 935
	Allowances for credit losses	(33)	(52)	(85)
	Net amount	3 529	3 321	6 850
from 2013 to 2016	Gross amount	5	17	22
	Allowances for credit losses	-	(4)	(4)
	Net amount	5	13	18
Total	Gross amount	3 567	22 912	26 479
	Allowances for credit losses	(33)	(707)	(740)
	Net amount	3 534	22 205	25 739

32. INTEREST RATE RISK MANAGEMENT

SENSITIVITY OF INTEREST INCOME

Sensitivity of the Bank' interest income in the banking portfolio to the jumps in the income curve of 100 b.p. in a one-year horizon in all currencies is shown in the table below:

NAME OF SENSITIVITY MEASURE	30.06.2019	31.12.2018
Sensitivity of interest income (PLN million)	1 002	991

SENSITIVITY OF ECONOMIC VALUE

The table below shows the Bank's measure of price sensitivity (BPV) in all currencies as at 30 June 2019 and as at 31 December 2018:

NAME OF SENSITIVITY MEASURE	30.06.2019	31.12.2018
Sensitivity of economic value (PLN million)	5	8

VALUE AT RISK

NAME OF SENSITIVITY MEASURE	30.06.2019	31.12.2018
IR VaR for a 10-day time horizon at the confidence level of 99% (in PLN million):		
Average value	6	6
Maximum value	10	11
Value at the end of the period	4	5

33. FOREIGN EXCHANGE RISK MANAGEMENT

SENSITIVITY MEASURES

NAME OF SENSITIVITY MEASURE	30.06.2019	31.12.2018
FX VaR for a 10-day time horizon at the confidence level of 99% (in PLN million):	5	4
Change in CUR/PLN exchange rates by 20% (in PLN million) (stress-test) ¹	339	229

¹ The table presents the value of the most adverse stress-test scenario: PLN appreciation of 20% and PLN depreciation of 20%.

FOREIGN CURRENCY POSITION

FOREIGN CURRENCY POSITION	30.06.2019	31.12.2018
EUR	69	24
USD	64	(19)
CHF	(31)	(34)
GBP	2	57
Other (Global, Net)	9	(3)

The Bank's exposure to foreign exchange risk is low.

34. LIQUIDITY RISK MANAGEMENT

LIQUIDITY GAP

The adjusted liquidity gap comprises a set of particular categories of items of the statement of financial position adjusted in respect of their adjusted maturities. The liquidity gaps presented below include, among other things, the Bank's adjusted statement of financial position items in respect of core deposits from non-financial entities and their maturities, core overdrafts of non-financial entities and their maturities, and liquid securities and their maturities.

	on demand	0-1 month	1-3 months	3-6 months	6-12 months	12-24 months	24-60 months	over 60 months
30.06.2019								
adjusted periodic gap	12 248	27 266	(2 446)	3 143	14 855	14 708	26 270	(96 044)
adjusted cumulative periodic gap	12 248	39 514	37 068	40 211	55 066	69 774	96 044	-
31.12.2018								
adjusted periodic gap	22 921	25 839	(1 358)	1 498	11 224	17 387	21 296	(98 807)
adjusted cumulative periodic gap	22 921	48 760	47 402	48 900	60 124	77 511	98 807	-

In all time horizons, the adjusted cumulative liquidity gap of the Bank, was positive as at 30 June 2019 and also as at 31 December 2018.

SUPERVISORY LIQUIDITY MEASURES

SUPERVISORY LIQUIDITY MEASURES	30.06.2019	31.12.2018
M3 - coverage ratio of non-liquid assets to own funds	13,25	17,44
M4 - coverage ratio of non-liquid assets and liquidity-restricted assets with own funds and stable external funds	1,19	1,22
NSFR - net stable funding ratio	120,1%	120,2%
LCR - liquidity coverage ratio	125,5%	127,3%

In the periods ended 30 June 2019 and 31 December 2018, liquidity measures remained above their respective supervisory limits.

35. CAPITAL ADEQUACY

In accordance with Article 92 of the CRR, the minimum levels of the capital ratios to be maintained by the Bank are as follows:

- total capital ratio (TCR) – 8.0%;
- Tier 1 capital ratio (T1) – 6.0%;
- Tier 1 core capital ratio (CET1) – 4.5%

In accordance with the Act on macroprudential supervision, the Bank is obliged to maintain a combined buffer representing the sum of the applicable buffers, namely:

- a security buffer which is mandatory for all banks and amounts to 2.5% (ultimate buffer level) as of 1 January 2019;

- a countercyclical buffer imposed to mitigate the systemic risk arising from the credit cycle. The countercyclical buffer is calculated in the weighted average of the countercyclical buffer ratios set by respective authorities of the states in which the Bank has exposures. The countercyclical buffer is equal to 0% for credit exposures in the Republic of Poland.
- a systemic risk buffer – intended to prevent and mitigate long-term non-cyclical risk or macroprudential risk which may result in strong negative consequences for the financial system and the economy of a given country. The systemic risk buffer is equal to 3% for credit exposures in the Republic of Poland.
- a buffer due to identifying the Bank as an “other systemically important institution” (“O-SII”) in the amount of 1%.

Furthermore, the Bank is obliged to maintain own funds to cover an additional capital requirement in order to hedge the risk resulting from mortgage-secured loans and advances to households denominated in foreign currencies (“a discretionary capital requirement”, Pol: *domiar kapitałowy*). 0.47 p.p.; Tier 1 capital ratio: 0.35 p.p.; and Tier 1 core capital ratio: 0.26 p.p.

Irrespective of the above buffers, to meet the requirements for distributing 100% of the profit, the Polish Financial Supervision Authority determined an add-on in respect of the Bank's sensitivity to an adverse macroeconomic scenario, of 0.66 p.p.

OWN FUNDS USED IN THE CALCULATION OF CAPITAL RATIOS

In the first six months ended 30 June 2019 and in 2018, the Bank's capital adequacy measures remained at a safe level, well above the supervisory limits.

	30.06.2019	31.12.2018
Total own funds	37 695	37 770
Tier 1 capital	34 995	35 070
Tier 1 capital before regulatory adjustments and reductions, of which:	37 003	37 061
Share capital	1 250	1 250
Supplementary capital and other reserves	32 268	32 797
General banking risk fund	1 070	1 070
Retained earnings, of which:	2 415	1 944
retained earnings / loss brought forward	1 556	(535)
current profit included on approval of the PFSA	-	1 635
adjustment resulting from transitional solutions to mitigate the impact of IFRS 9 adoption on equity	859	844
(-) Goodwill	(871)	(871)
(-) Other intangible assets	(1 445)	(1 503)
Accumulated other comprehensive income	525	443
Adjustments in Tier 1 capital due to prudential filters	(217)	(60)
Tier 2 capital	2 700	2 700
Equity instruments and subordinated loans eligible as Tier 2 capital	2 700	2 700
Requirements for own funds	14 481	14 169
Credit risk	13 505	13 216
Operational risk	482	437
Market risk	469	491
Credit valuation adjustment risk	25	25
Total capital adequacy ratio	20.82%	21.33%
Tier 1 capital ratio	19.33%	19.80%

36. LEVERAGE RATIO

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

For the purpose of measuring the risk of excessive leverage, the Bank calculates the leverage ratio as the Tier 1 measure divided by the total exposure measure and expressed as a percentage. The leverage ratio as at 30 June 2019 and 31 December 2018 was above internal and external limits, as well as above the minimum levels as recommended by the PFSA.

To maintain the leverage ratio at an acceptable level, the Bank set up a strategic tolerance limit and a threshold for the ratio and they are regularly monitored and verified periodically.

The exposure for the calculation of the leverage ratio within the meaning assigned by the CRR.

	Leverage ratio exposures specified in CRR	
	30.06.2019	31.12.2018
Total capital and exposure measure		
Tier 1 capital	34 995	35 070
Total exposure measure for the purpose of the leverage ratio	300 546	300 383
Leverage ratio		
Leverage ratio	11,64%	11,68%

EVENTS AFTER THE END OF THE REPORTING PERIOD

37. EVENTS THAT TOOK PLACE AFTER THE BALANCE SHEET DATE

On 10 July 2019, PKO Bank Hipoteczny SA concluded with PKO Bank Polski SA a current account revolving credit agreement with a limit of PLN 1 billion for a period of 3 years. The facility is earmarked for servicing the redemption of bonds issued by the company under the Non-public Bond Issue Programme due to the necessity to register settlements of non-public securities with the National Depository for Securities as of 1 July 2019 and the inability to redeem them and receive funds from a new issue on the same day.

PKO Bank Hipoteczny SA issued its first bonds under the Public Bonds Issue Programme established on 11 April 2019, including an issue of bonds of PLN 162 million on 10 July 2019, underwritten by Dom Maklerski PKO Banku Polskiego SA, which are to be redeemed in 6 months, and on 11 July 2019, an issue addressed primarily to individual investors, with a value of PLN 50 million, which matures after 2 years.

SIGNATURES OF ALL MEMBERS OF THE BANK'S MANAGEMENT BOARD

12.08.2019	RAFAŁ ANT CZAK	VICE-PRESIDENT OF THE MANAGEMENT BOARD (SIGNATURE)
12.08.2019	RAFAŁ KOZŁOWSKI	VICE-PRESIDENT OF THE MANAGEMENT BOARD (SIGNATURE)
12.08.2019	MAKS KRACZKOWSKI	VICE-PRESIDENT OF THE MANAGEMENT BOARD (SIGNATURE)
12.08.2019	MIECZYŚŁAW KRÓL	VICE-PRESIDENT OF THE MANAGEMENT BOARD (SIGNATURE)
12.08.2019	ADAM MARCINI AK	VICE-PRESIDENT OF THE MANAGEMENT BOARD (SIGNATURE)
12.08.2019	PIOTR MAZUR	VICE-PRESIDENT OF THE MANAGEMENT BOARD (SIGNATURE)
12.08.2019	JAKUB PAPIERSKI	VICE-PRESIDENT OF THE MANAGEMENT BOARD (SIGNATURE)
12.08.2019	JAN EMERYK ROŚCISZEWSKI	VICE-PRESIDENT OF THE MANAGEMENT BOARD (SIGNATURE)

SIGNATURE OF THE PERSON RESPONSIBLE
FOR MAINTAINING THE BOOKS OF ACCOUNT

DANUTA SZYMAŃSKA
DIRECTOR OF ACCOUNTING
.....
(SIGNATURE)

Zbigniew Jagiełło, the President of the Management Board of the Bank, did not sign the condensed interim financial statements of PKO Bank Polski SA for the six-month period ended 30 June 2019 because of an excused absence on the day of approval of the financial statements.