



Bank Polski

Report of the PKO Bank Polski SA Group for the first quarter of 2017

SELECTED CONSOLIDATED FINANCIAL DATA	PLN million		EUR million	
	period from 01.01.2017 to 31.03.2017	period from 01.01.2016 to 31.03.2016	period from 01.01.2017 to 31.03.2017	period from 01.01.2016 to 31.03.2016
Net interest income	2 046	1 853	477	425
Net fee and commission income	710	635	166	146
Operating profit	785	795	183	183
Profit before income tax	790	798	184	183
Net profit (including non-controlling shareholders)	528	638	123	146
Net profit attributable to equity holders of the parent company	525	639	122	147
Earnings per share for the period – basic (in PLN/EUR)	0.42	0.51	0.10	0.12
Earnings per share for the period – diluted (in PLN/EUR)	0.42	0.51	0.10	0.12
Total net comprehensive income	767	770	179	177
Net cash flows generated from operating activities	1 821	5 323	425	1 222
Net cash flows used in investing activities	(2 621)	(3 650)	(611)	(838)
Net cash flows generated from/used in financing activities	2 219	(199)	517	(46)
Net cash flows	1 419	1 474	331	338

SELECTED CONSOLIDATED FINANCIAL DATA	PLN million		EUR million	
	as at 31.03.2017	as at 31.12.2016	as at 31.03.2017	as at 31.12.2016
Total assets	288 516	285 573	68 372	64 551
Total equity	33 336	32 569	7 900	7 362
Capital and reserves attributable to equity holders of the parent company	33 349	32 585	7 903	7 366
Share capital	1 250	1 250	296	283
Number of shares (in million)	1 250	1 250	1 250	1 250
Book value per share (in PLN/EUR)	26.67	26.05	6.32	5.89
Diluted number of shares (in million)	1 250	1 250	1 250	1 250
Diluted book value per share (in PLN/EUR)	26.67	26.05	6.32	5.89
Capital adequacy ratio	15.60%	15.81%	15.60%	15.81%
Tier 1	28 671	28 350	6 794	6 408
Tier 2	1 601	2 523	379	570

SELECTED STAND-ALONE FINANCIAL DATA	PLN million		EUR million	
	period from 01.01.2017 to 31.03.2017	period from 01.01.2016 to 31.03.2016	period from 01.01.2017 to 31.03.2017	period from 01.01.2016 to 31.03.2016
Net interest income	1 894	1 789	442	411
Net fee and commission income	642	579	150	133
Operating profit	639	806	149	185
Profit before income tax	639	806	149	185
Net profit	410	660	96	152
Earnings per share for the period – basic (in PLN/EUR)	0.33	0.53	0.08	0.12
Earnings per share for the period – diluted (in PLN/EUR)	0.33	0.53	0.08	0.12
Total net comprehensive income	625	803	146	184
Net cash flows generated from operating activities	4 446	5 201	1 037	1 194
Net cash flows used in investing activities	(2 379)	(3 490)	(555)	(801)
Net cash flows used in financing activities	(303)	(256)	(71)	(59)
Net cash flows	1 764	1 455	411	334

SELECTED STAND-ALONE FINANCIAL DATA	PLN million		EUR million	
	as at 31.03.2017	as at 31.12.2016	as at 31.03.2017	as at 31.12.2016
Total assets	273 742	272 957	64 871	61 699
Total equity	33 214	32 589	7 871	7 366
Share capital	1 250	1 250	296	283
Number of shares (in million)	1 250	1 250	1 250	1 250
Book value per share (in PLN/EUR)	26.57	26.07	6.30	5.89
Diluted number of shares (in million)	1 250	1 250	1 250	1 250
Diluted book value per share (in PLN/EUR)	26.57	26.07	6.30	5.89
Capital adequacy ratio	16.94%	17.19%	16.94%	17.19%
Tier 1	28 965	28 673	6 864	6 481
Tier 2	1 530	2 456	363	555

Selected financial statements items translated into EUR using the following rates	31.03.2017	31.12.2016	31.03.2016
average NBP rates as at the last day of each month of the period	4.2891	4.3757	4.3559
mid NBP rate as at the last day of the period	4.2198	4.4240	4.2684



Bank Polski

**Directors' Commentary
to the financial results
of the PKO Bank Polski SA Group
for the first quarter of 2017**



DIRECTORS' COMMENTARY TO THE FINANCIAL RESULTS OF THE PKO BANK POLSKI SA GROUP FOR THE FIRST QUARTER OF 2017

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DIRECTORS' COMMENTARY TO THE FINANCIAL RESULTS OF THE PKO BANK POLSKI SA GROUP FOR THE FIRST QUARTER OF 2017

1. SUMMARY OF THE FIRST QUARTER OF 2017

In the first quarter of 2017 as in the whole year 2016, the banking sector operated in conditions of historically low levels of interest rates and high regulatory burdens, while the macroeconomic situation was favourable. The turn of the years 2016 and 2017 saw a clear strengthening of economic activity both globally and in Poland, mainly due to the recovery in investments and the continued growth in private consumption. The situation on the loan-deposit market was shaped by the advantageous situation on the labor market.

Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna Group (the PKO Bank Polski SA Group, the Bank's Group or the Group) continued sustainable development, focused on improving the quality of service and increasing the innovativeness of products and distribution channels, in particular in the field of electronic banking and mobile payments.

The PKO Bank Polski SA Group has progressed to the second year of 'Wspieramy rozwój Polski i Polaków' ('We support the development of Poland and the Poles') strategy realization. The new strategy is an answer to the changing market environment and the need to adjust to new challenges facing the banking sector and the Polish economy. The direction of the transformation of the Bank's business model will remain closely connected with the growing digitization of social life and the strategy for economic development of Poland.

The Group systematically develops a package of electronic banking and mobile services. Starting from March 2017, PKO Bank Polski SA's clients have the possibility of placing an application to the Tax Office for preparing a preliminary PIT-37 tax return for 2016 and for submitting it on behalf of the taxpayer through the iPKO e-banking platform. The new functionality 'Płacę z iPKO' enables faster, more comfortable and more secure online purchases and identifying a credit card as a source of money.

A new payment method to be used in public administration agencies – by bank transfer initiated with a BLIK code from the IKO application is an important innovation introduced by PKO Bank Polski SA in cooperation with Krajowa Izba Rozliczeniowa SA (KIR) and Polski Standard Płatności Sp. z o.o. (PSP). The method allows the acceptance of payments at any counter of the office, directly in the PC station of a clerk, using a dedicated application provided by KIR.

The Bank's Group is the leading partner of the Polish entrepreneurship due to its extensive offer and professional client service. The Group offers comprehensive solutions which respond to the individual needs of the businesses taking into account their size, industry and stage of development. The Group provides its business clients with professional tools, which facilitate conducting business activities. The Group adjusts its current product offer based on analyses of client expectations in order to be able to match the increasing competition and to satisfy its clients demand for loans and other banking products.

In the first quarter of 2017, an automatic link to the register of the Central Registration and Information on Businesses (CEIDG) maintained by the Ministry of Development was created for use when opening a business account. Due to collecting data directly from the CEIDG, opening a business account has become simpler and faster.

In the first quarter of 2017, PKO Bank Polski SA and Polskie Górnictwo Naftowe i Gazownictwo SA (PGNiG) signed an agreement on strategic cooperation with regard to transactional banking. The agreement enables PGNiG's retail customers to settle their gas bills free of charge in nearly 1.2 thousand branches and more than 800 agencies of PKO Bank Polski SA across the country.

In the first quarter of the current year, an investment project of a modern waste incineration plant in Poznań, co-financed by PKO Bank Polski SA, was completed. This is the largest investment project executed under public private partnership in Poland. The project is executed by a company which is 50% owned by the 2020 European Fund for Energy, Climate Change and Infrastructure (the Marguerite Fund). PKO Bank Polski SA is one of the Fund's six major investors. The incineration plant in Poznań has received many awards from the European Commission.

In the period analysed, the work on a legal merger of PKO Leasing SA with Raiffeisen-Leasing Polska SA continued. The acquisition of Raiffeisen-Leasing Polska SA increased the scale of corporate financing, particularly in the small- and medium-sized enterprises (SME) sector. The full operational merger of the two companies is expected to take place at the turn of 2017 and 2018.

On 30 March 2017, PKO Bank Hipoteczny SA conducted another issue of EUR-denominated covered bonds which contributes to building the position of PKO Bank Hipoteczny SA as an active issuer on the European market. In 2016, PKO Bank Hipoteczny was the most active issuer of covered bonds in Poland. In addition to the international issue of EUR-denominated covered bonds, it conducted two benchmark issues of PLN-denominated covered bonds with a total nominal value of PLN 1 billion. The introduction by PKO Bank Hipoteczny SA of a European program of covered bond

DIRECTORS' COMMENTARY TO THE FINANCIAL RESULTS OF THE PKO BANK POLSKI SA GROUP FOR THE FIRST QUARTER OF 2017

issuance was recognized as 'The Transaction of the Year 2016'. As at the end of March 2017, total liabilities from the covered bonds issued exceeded PLN 5.3 billion. Therefore, PKO Bank Hipoteczny SA became the leader of covered bonds in Poland and their most active issuer.

Actions taken by the PKO Bank Polski SA Group in the first quarter of 2017, made it possible to achieve high financial results and strengthen its position among the largest financial institutions in Poland.

	1 quarter 2017	1 quarter 2016	Change y/y
Net profit	525 PLN mn	639 PLN mn	-17.8% (y/y)
Net interest income	2 046 PLN mn	1 853 PLN mn	10.4% (y/y)
Net fee and commission income	710 PLN mn	635 PLN mn	11.8% (y/y)
Result on business activities*	2 972 PLN mn	2 685 PLN mn	10.7% (y/y)
Administrative expenses	-1 563 PLN mn	-1 360 PLN mn	14.9% (y/y)
Tax on certain financial institutions	-233 PLN mn	-148 PLN mn	57.4% (y/y)
Net impairment allowance	-391 PLN mn	-382 PLN mn	2.4% (y/y)
Total assets	289 PLN bn	267 PLN bn	8.0% (y/y)
Equity	33 PLN bn	31 PLN bn	7.4% (y/y)
ROA net	1.0%	1.0%	0 p.p.
ROE net	8.6%	8.8%	-0.2 p.p.
C/I (cost to income ratio)**	48.0%	55.6%	-7.6 p.p.
Net interest margin	3.2%	3.1%	0.1 p.p.
Share of impaired loans	5.9%	6.6%	-0.7 p.p.
Costs of risk	-0.76%	-0.72%	-0.04 p.p.
Total capital ratio	15.6%	15.4%	0.2 p.p.

* Result on business activities defined as operating profit before administrative expenses, tax on certain financial institutions and net impairment allowance and write-downs.

**The ratio of administrative expenses to result on business activities

The net profit of the PKO Bank Polski SA Group generated in the first quarter of 2017 amounted to PLN 525 million, which represents a decrease of PLN 114 million in comparison to the result of the previous year. The achieved net profit was determined by:

- 1) the result on business activity of the PKO Bank Polski SA Group, which reached the level of PLN 2 972 million (+10.7% y/y), mainly due to:
 - the improvement of the net interest income of PLN 193 million y/y, realized mainly thanks to increased level of income generated on assets,
 - an increase in net commission income of PLN 75 million y/y,
- 2) an increase in administrative expenses of PLN 203 million y/y, driven by the recognition of the entire annual contribution to the bank's mandatory restructuring fund in the first quarter of 2017,
- 3) increase in tax charge on certain financial institutions ('bank tax') of PLN 85 million.

As a result of actions taken in the first quarter of 2017 the PKO Bank Polski SA Group:

- increased the value of assets by PLN 3 billion up to PLN 288.5 billion,
- maintained a high market share in loans and deposits market at 17.7% and 17.3% respectively,

DIRECTORS' COMMENTARY TO THE FINANCIAL RESULTS OF THE PKO BANK POLSKI SA GROUP FOR THE FIRST QUARTER OF 2017

- maintained the first position in the housing loans to individuals¹ market with 30.5% share,
- was the largest lender to small and medium-sized enterprises of loan with de minimis guarantees with 21.7% market share²,
- increased the number of accounts of individual customers by over 60 thousand, strengthening its leading position in this field,
- became the leader of covered bonds in Poland and their most active issuer.

2. EXTERNAL BUSINESS ENVIRONMENT

Macroeconomic environment
Situation on the financial market
Situation of the Polish banking sector
Situation of the Polish non-banking sector
The Ukrainian market
Regulatory environment

MACROECONOMIC ENVIRONMENT

Macroeconomic factors influencing national economy in the first quarter of 2017:

• ACCELERATION OF ECONOMIC GROWTH

The turn of the 2016 and 2017 saw a clear strengthening of economic activity both globally and in Poland. A favourable assessment of the economic activity is reflected in the data which shows the strengthening of industrial production and retail sales and deceleration of the downward trend in construction output. Based on the monthly indicators of economic activity for January-February, the annual GDP growth in the first quarter of 2017 may be estimated at approximately 3.9% y/y (compared with 2.5% y/y in the fourth quarter of 2016). The acceleration of economic growth is expected to result from a recovery in investments combined with a continuation of the robust growth in private consumption.

• IMPROVED LABOUR MARKET CONDITIONS

The registered unemployment rate was 8.1% at the end of March compared with 8.3% at the end of 2016 and 9.9% in March last year. Therefore, the downward trend in unemployment strengthened to 1.8 pp, reflecting the continuously strong demand for labour. Taking into account the growing limitations of supply on the labour market, as evidenced by e.g. growing difficulties in filling vacancies reported by companies, the strength of the downward employment trend may gradually decrease. At the same time, pressure on salaries may be expected to increase. While it is not yet visible in the salary data (the average increase in the enterprise sector of 4.5% y/y in January-March compared with 3.7% y/y in the comparable period of 2016), the growing percentage of companies planning salary increases and reporting escalated salary expectations from employees suggests that salary growth may strengthen later in the year. In the first quarter of the current year, the acceleration of the salary growth was slower than inflation, so the real growth of salaries and household income decelerated.

• INFLATION WITHIN THE RANGE OF VARIATIONS FROM THE NBP'S TARGET

In March 2017, inflation was 2.0% y/y compared with 0.8% y/y as at the end of 2016 and -0.9% y/y a year before. The increase in inflation recorded in the first quarter of 2017 was driven mainly by higher prices of food and fuel. However, the pro-inflationary impact of these exogenous factors in subsequent months should weaken due to, among other things, the expiration of the base effect. Core inflation (CPI excluding food and energy) amounted to 0.6% y/y in March compared with 0.0% y/y at the end of 2016. Salary growth, leading to higher prices of services, will contribute to the further acceleration of core inflation.

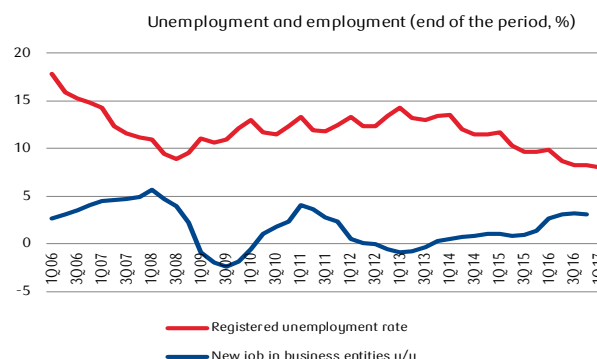
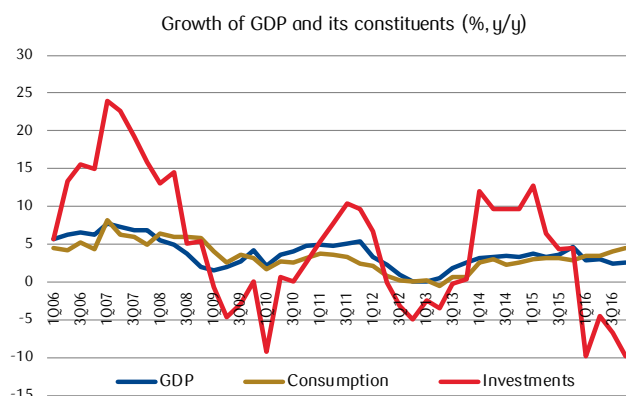
¹ The date of the Polish Bank Association

² According to the data from The Centre of Security Pledges and Guarantess of Bank Gospodarstwa Krajowego.

DIRECTORS' COMMENTARY TO THE FINANCIAL RESULTS OF THE PKO BANK POLSKI SA GROUP FOR THE FIRST QUARTER OF 2017

• NO CHANGE IN MONETARY POLICY

In the first quarter of 2017, the Monetary Policy Council (MPC) did not change the NBP's key interest rates. Combined with the marked increase in inflation, this led to real interest rates falling below zero. The MPC representatives indicated that the current policy of stable interest rates could be maintained at least until the end of 2017, driven by, among other things, the exogenous nature of the inflation growth (higher prices of food and fuels), no impact from negative real interest rates on the economy and a still relatively low investment demand and sluggish lending.



THE SITUATION ON THE FINANCIAL MARKET

STOCK MARKET

The first quarter of 2017 proved to be very profitable for most on the global stock markets, including for the Warsaw Stock Exchange (WSE, exchange). WIG index increased by 13% q/q, continuing the positive trend started in mid-November 2016. Particularly successful was the first half of the quarter, while in the second part of the quarter side trend was observed. On the economic boom contributed the combination of global factors (good situation on international financial market) and local (positive data from domestic economy). The world stock exchanges grew on the back of the acceleration in economic growth combined with the restrained position of major central banks which signalled no rush in the tightening of the monetary policy. Similarly in Poland, the MPC toned down speculations regarding interest rate increases, despite the inflation recovery and optimistic economic forecasts. The combination of these factors created favourable conditions for investing in shares.

INTEREST RATE MARKET

In the first quarter of 2017 NBP did not change its monetary policy, but the growing inflation in Poland fuelled a systematic increase in expectations for interest rate increases. As a result, the FRA market temporarily factored in the valuation a tightening of monetary policy towards the end of the current year. Globally, on the other hand, the Fed's increase in interest rates in March of 25 b.p. to 0.50%-0.75% for the federal fund rate was the the main event. On the Polish interest rate market, Treasury bond yields were under upward pressure for a large part of the quarter. The following factors adversely affected the market:

- concerns of interest rates increases in USA,
- signals suggesting a possible change in the monetary policy in the euro area,
- an increase in inflation globally,
- an expected acceleration of economic growth of the Polish economy in the second half of the year.

The short end of the yield curve was also under the burden of growing speculations of a possible increase in the interest rate by the Central Bank before the end of 2016. The upward pressure of Treasury bond yields continued until mid-February. Towards the end of the quarter, the pressure on the market was clearly released, supported by the improved sentiment on the base markets (especially following the Fed meeting) and the markedly more accommodative rhetoric of MPC representatives. Moreover, the very high demand for Polish bonds reported mainly by the Polish banking sector eased concerns surrounding the possible impact of this year's borrowing needs of the budget on the market. In addition, at the turn of 2016 and 2017, Poland's assessment by the rating agencies improved, which attracted foreign capital to the Polish debt market. At the end of the quarter, the yields on 2-year bonds decreased by 26 b.p. to 1.99%, while yields on 10-year bonds decreased by 23 b.p. to 3.47%.

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FOREIGN EXCHANGE MARKET

The first quarter of 2017 was characterized by high volatility on both the EUR/USD and EUR/PLN market.

EUR/USD fluctuated between 1.03 and 1.09 and EUR/PLN fluctuated between 4.20 and 4.42. EUR/USD started 2017 on the level of 1.05 and after a few days reached about 1.03 – on a wave of growing expectations of interest rate increases in the USA in connection with the expansionary economic program of the US President, Donald Trump. Only a verbal intervention by the president saved it from already breaking the parity in the first quarter. After he stated that 'the dollar is too strong', the EUR/USD exchange rates started to gradually increase reaching a level of 1.08 at the end of January. The Fed's dovish tone when increasing US interest rates in March and the growing expectation of the European Central Bank (ECB) increasing the deposit rate already in 2017 caused the EUR/USD rate to grow for almost the whole of March reaching a level close to 1.09 at the end of the month. Only when the ECB's President, Mario Draghi, clearly rejected the likelihood of such a move already this year, the EUR/USD rate finally ended the first quarter at a level of 1.065.

EUR/PLN started the year on the level of 4.40 and since the beginning of the year maintained its downward trend, due to the fact that Moody's and Fitch maintained Poland's credit rating and the economic situation in China stabilized. Comments by Donald Trump's administration on the excessive strength of the dollar and the more optimistic forecasts of economic growth in the euro area further contributed to the strengthening of the Polish zloty both against the euro and the US dollar. The relatively accommodative rhetoric of the Fed in March and the falling valuation of political risk in the euro area after the parliamentary elections in the Netherlands contributed to the EUR/PLN exchange rate finally ending the first quarter at a level of 4.23.

SITUATION OF THE POLISH BANKING SECTOR

FINANCIAL RESULT

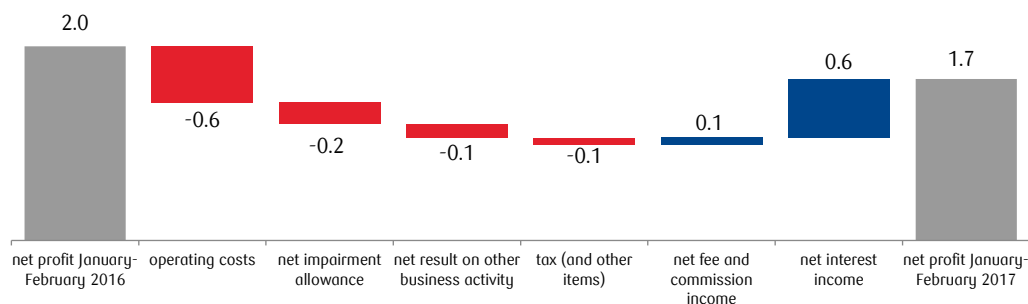
Against the background of continued economic growth, the banking sector generated a net profit of PLN 1.7 billion in the period January-February 2017, which represents a decrease of 16.8% y/y. The main reason behind the decrease in the net profit y/y was an increase in the cost of the banking tax (introduced in February 2016), an increase in operating expenses and a deterioration in the net impairment allowance.

The significant increase in operating expenses was due to a one-off recognition by some of the banks of the cost of an annual contribution to the mandatory restructuring fund, and an increase in costs of external services resulting from an increase in minimum wages.

The net profit of the banking sector was positively affected by the continuing growth of net interest income (+9.9% y/y) and improved fee and commission income (+4.0% y/y).

The decrease y/y on the banking sector's net profit generated in an environment of growing capital requirements translated to a relatively low level of return on equity. As at the end of February 2017, ROE of the banking sector increased by 1.3 pp y/y, but was still relatively low at 7.5% (for the last 12 months).

Chart 1. Change in net profit of banking sector (PLN billion)



Source: the PFSA, the calculation of PKO Bank Polski SA

DIRECTORS' COMMENTARY TO THE FINANCIAL RESULTS OF THE PKO BANK POLSKI SA GROUP FOR THE FIRST QUARTER OF 2017

At the end of February 2017 the situation of the banking sector remained stable. However, there is a number of sources of risk, including the regulatory risk of FX housing loans that remains in banking environment.

BUSINESS VOLUMES

As at the end of the first quarter of 2017, the value of loans of the entire banking sectors increased to PLN 1 142 billion. The situation on the lending market was shaped by the favourable economic environment accompanied by an acceleration of the growth of total loans to 5.7% y/y compared with 4.9% y/y as at the end of 2016. In particular:

- loans to non-monetary financial institutions accelerated to 24.0% y/y (0.7% y/y at the end of 2016); these loans are characterized by a relatively higher volatility compared with other loan categories;
- loans to businesses accelerated slightly to 5.7% y/y compared with 5.4% y/y at the end of 2016 (acceleration was stronger after excluding the impact of the exchange rate effect);
- housing loans to individuals decelerated y/y (3.5% compared with 4.9% at the end of 2016, or a relative stabilization after taking into account the changes in the exchange rates);
- consumer loans decelerated slightly y/y (to 7.1% from 7.3% as at the end of 2016), but their growth has continued at a level above 7% since the second quarter of 2016, favoured by an environment of low interest rates and the banks focusing on products which are more profitable and, at the same time, generate relatively low capital requirements.

Chart 2. The rate of change of loans in the banking sector (y/y)

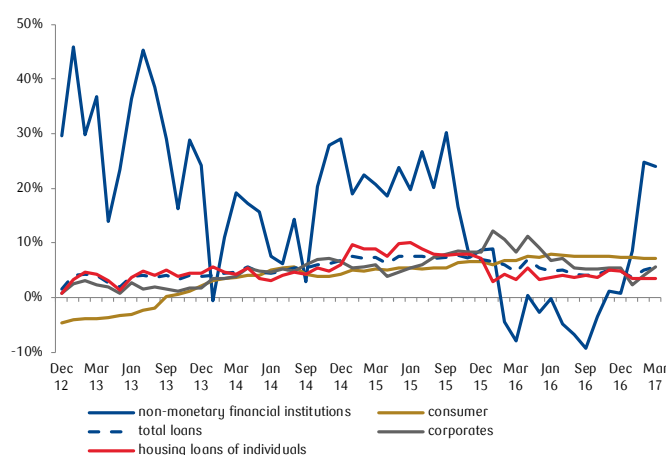
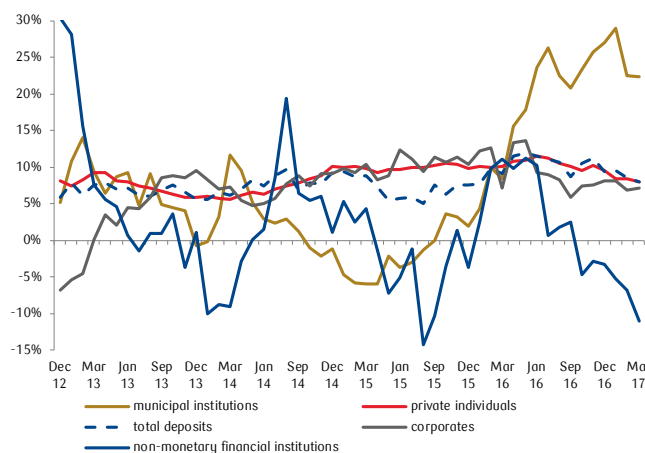


Chart 3. The rate of change of deposits in the banking sector (y/y)



At the end of the first quarter of 2017 the volume of deposits increased to PLN 1 165 billion, and its rate decelerated to 8.0% y/y compared to 9.5% at the end of 2016, as a result of a stronger growth or a weaker decline in all major categories of deposits, in particular:

- deposits of non-monetary financial institutions fell to -11.0% y/y (-3.3% at the end of 2016);
- deposits of local governments decelerated to 22.3% y/y (from 27.1% y/y at the end of 2016, which was due to an inflow of EU funds in connection with the settlement of the projects from the 2007-2013 financial perspective);
- deposits of businesses decelerated to 7.2% y/y (8.2% y/y at the end of 2016);
- deposits of individual customers decelerated to 8.0% y/y (9.5% y/y at the end of 2016) as a result of the continued growth y/y of current deposits combined with a drop in term deposits.

In conditions of continued stronger growth of deposits than loans in the banking sector, at the end of the first quarter of 2017 loans/deposits ratio decreased to 98.0% (98.7% at the end of 2016).

DIRECTORS' COMMENTARY TO THE FINANCIAL RESULTS OF THE PKO BANK POLSKI SA GROUP FOR THE FIRST QUARTER OF 2017

SITUATION OF THE POLISH NON-BANKING SECTOR

INVESTMENT FUNDS MARKET

In the first quarter of 2017 the trend of growth in assets of the domestic investment funds strengthened. Assets under management of the fund management companies (TFI) increased by PLN 14.1 billion to PLN 273 billion, and the quarterly growth rate (5.4%) was the strongest since the fourth quarter of 2015.

The growth in the investment fund market in the first quarter of 2017 was due to a strong net inflow of new funds (PLN +6.3 billion, i.e. the strongest since the fourth quarter of 2015), supported by a positive management result (PLN +5.8 billion). Individual investors dominated in the structure of the balance of payments and redemptions. In the first quarter of 2017, they paid PLN 3.8 billion net to investment funds, which is the highest amount in two years. In the same period, institutional investors paid PLN 2.4 billion net to investment funds.

The stronger inflow of funds from individuals increased the share of this category of investors in the structure of investment funds' total assets to 50.7%.

The growth on the investment fund market in the first quarter of 2017 occurred in an environment of continued recovery on the Warsaw Stock Exchange. This translated into a further improvement in the realized 12M rates of return of funds with a large exposure to Polish shares. The 12M rates of return of the Polish shares funds and the Polish mixed funds at the end of the first quarter of 2017 were significantly higher than interest on new term deposits placed by households. This contributed to an increased demand on investment fund units.

OPEN PENSION FUNDS MARKET

In the first quarter of 2017 assets of the Open Pension Funds ('OFE') increased by 9.3% (PLN 14.2 billion) to PLN 167.6 billion, vs. significantly lower growth in the first quarter of 2016 (+2.1%). OFE market was influenced by the improvement in labour market conditions, regulatory changes (change in the structure of the OFE investment portfolio) and improved conditions on the Warsaw Stock Exchange. In the structure of assets of the Open Pension Funds Polish shares were still dominant (78.6%; growth by 2.1 p.p. y/y). In the first quarter of 2017 the number of participants of Open Pension Funds continued to decline (by -130 thousand y/y to 16.4 million members).

LEASING MARKET

In the first quarter of 2017, in conditions of improving economic situation, leasing market maintained double-digit growth rate. According to data of the Polish Leasing Association, leasing sector financed assets for the total amount of PLN 15.0 billion, at the rate of growth on the level of 12.7% y/y (against a growth of 16.6% y/y at the end of 2016).

The largest positive impact on the growth of the leasing market had leasing of passenger, commercial and heavy-duty vehicles to 3.5 tonnes (light vehicles). The value of financed assets in this segment amounted to PLN 6.7 billion (+19.7% y/y), which accounted for ca. 45% of total funding granted by leasing companies.

After a decline in 2016, in the first quarter of 2017 segment of machinery and equipment reached high, double growth (23.1% y/y) with a total value of new contracts on the level of PLN 3.7 billion. A strong growth of this segment benefited from, among others, a low reference base for the prior year connected with limited investments of the companies in conditions of completion of financing from the EU funds from financial perspective of 2007-2013 and poor absorption of EU funds from the perspective of 2014-2020.

In the first quarter of 2017 leasing market recorded a setback in the field of financing means of heavy transport (-4.2% y/y), while the value of leased assets amounted to PLN 4.2 billion. In this segment strongest contraction was noted in financing of buses (-41.6% y/y).

In the analysed period increased the financing of properties also increased (+76.6% y/y), but this segment continued to play a marginal role in the financing of investments by the leasing sector (1% of the total financing granted by lease companies).

INSURANCE MARKET

In the fourth quarter of 2016, the key trends of changes in the sector continued to be fuelled by the situation on the motor insurance and related Insurance Capital Funds.

Insurance companies assets increased by 0.1% to PLN 185.4 billion. This was due to a slight decrease in assets of life insurance (-0.2% q/q) and an increase in non-life insurance assets (+0.5%). In the case of life insurance assets, this was due to insurance companies withdrawing from offering or restructuring their

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offer of policies with the insurance capital fund, and in the case of non-life insurance – due to increases in contributions and the resulting increase in reserves in the categories relating to motor insurance.

Consequently, the net profit of the insurance sector of PLN 4.2 billion generated in 2016 was 25.5% lower compared with 2015. This is a better result than after the three quarters of 2016 when the decrease was 31.3%. The reversal of the declining trend as a result of the steps taken by insurance companies, mainly in the area of cost reduction (-6.2% y/y) has become visible. In 2016, the gross written premium of the insurance sector was 1.7% higher than in the prior year. This was due to an increase in property insurance of 16.7% (mainly in Classes 3 and 10 of Branch II insurance) combined with a decrease in life insurance of 13.3% (mainly in Class 3 of Branch I insurance). At the same time, the value of claims paid increased slightly (+2.3% y/y), mainly due to higher values of claims paid on property insurance (13.1% y/y) in connection with the situation in the motor insurance segment. On the other hand, life insurers recorded a decline in benefits paid of 4.6% which is evidence of a falling wave of claims associated with agreements concluded with the Polish Office of Competition and Consumer Protection (POCCP).

FACTORING MARKET

In the first quarter of 2017 the factoring market was continuing its dynamic growth. This is confirmed by data of 22 factoring companies reporting to the Polish Factors Association. Their turnover reached PLN 41.4 billion, which represents an increase of 20.7% y/y (20.6% y/y at the end of 2016). The growing awareness of the benefits of factoring and the better adjustment of the factoring offer to the needs of businesses translated into the continuation of the growing trend in terms of the number of customers serviced (an increase of 15.3% y/y to 7.9 thousand customers) and the increase in the number of invoices financed (an increase of 18.3% y/y to approximately 2 million invoices).

In the first quarter of 2017, the factoring market recorded a strong growth, both the domestic recourse factoring (an increase in transaction volumes of 26% y/y to PLN 15.3 billion) and the domestic non-recourse factoring (an increase in transaction volumes of 21% y/y to PLN 17.5 billion). The offering of export factoring enjoyed lesser popularity among enterprises, with the transaction volume of PLN 8.2 billion (+12.2% y/y).

The share of import factoring was still marginal in the structure of market (1.1%).

THE UKRAINIAN MARKET

ECONOMIC SITUATION

The data from the real economy for the first quarter of 2017 (industrial production and retail sales) suggest a likely weakening of economic growth in the first quarter of 2017 to below 2% y/y compared with 4.8% y/y in the fourth quarter of 2016. During 2016, the real salary growth accelerated as a result of declining inflation. At the beginning of 2017, there was a marked increase in nominal salary growth (in connection with an increase in minimum wages) which additionally strengthened real salaries and will continue to support consumption in the upcoming quarters. The recovery in global trade should support Ukrainian exports, translating to a decrease in the trade deficit in foreign trade commodity turnover.

In 2016, the public sector deficit was nearly twice as high (in nominal terms) compared with 2015 (UAH 52.8 billion vs. UAH 27.8 billion, -2.2% vs. -1.4% of the GDP). This was largely due to a significant increase in expenditure (in the whole sector) in December 2016. Regardless of a visible increase in budgetary income (stimulated by VAT inflows), the simultaneous increase in expenditure contributed to the public finance deficit in the first quarter of 2017. At the end of March, public debt amounted to 70.3% GDP and to 81.9% GDP including government guarantees.

Following the last decrease in October 2016, interest rates remained stable in the first quarter of 2017 (discounting rate: 14%, and 13.0% since 14 April 2017). In the past year, a downward trend in inflation was observed, but it reversed at the turn of the year due to the stronger growth of food and fuel prices. Consequently, at the end of the first quarter of 2017, inflation was 15.1% y/y compared with 12.4% in December 2016. In the first quarter of 2017, the decrease in the share of the National Bank of Ukraine (NBU) in the structure of treasury bonds holders (to 55.0% compared with 57.2% at the end of December) continued, with a parallel increase in the share of other banks.

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BANKING SECTOR

According to the NBU data, the number of banks operating in Ukraine fell to 93 in February (compared with 96 in December 2016). The value of total assets in the Ukrainian banking system fell in February to UAH 1.24 trillion from UAH 1.26 trillion in December. The relation of equity to assets increased to 11.4% from 9.9% in the same period.

The exchange rate of hryvnia remains relatively stable (27.06 UAH/USD as at the end of March compared with 27.10 UAH/USD at the end of December), but may weaken during the year given the impact of interest rate increases in the USA (an outflow of portfolio capital from emerging economies) and potential problems associated with the dispute with Russia concerning the debt incurred in the last months of Victor Yanukovich's presidency. In the period from December 2016 to March 2017, the volume of loans fell by UAH 19.0 billion to UAH 1007.1 billion as a result for the decrease in the volume of foreign currency loans (loans in hryvnia increased by UAH 15.2 billion). Loans to private enterprises decreased by UAH 29.1 billion to UAH 793.0 billion. Loans to households remained relatively stable (UAH 161.1 billion as at the end of March). At the same time, the volume of deposits increased (while foreign currency deposits decreased). Consequently, the loans to deposit ratio decreased to 116.3% from 120.3% as at the end of December and 122.5% as at the end of June 2016.

In the first two months of the year, Ukrainian banks reported positive ROA (1.82%) and ROE (17.71%). The capital adequacy ratio of the sector amounted to 12.85% as at the end of February (10% is the required level) compared with 12.69% as at the end of December 2016.

REGULATORY ENVIRONMENT

In the first quarter of 2017 financial and organizational situation of the PKO Bank Polski SA Group was influenced by legal and regulatory solutions, including:

DEPOSIT GUARANTEE SYSTEM FEES

Resolution No. 64/2016, 67/2016 and 15/2017 of the Bank Guarantee Fund ('BGF') Council setting out bank's fees for the deposit guarantee system for 2017, including:

- the amount of the fund of protection of the guaranteed funds rate,
- the principles of setting contributions to fund of compulsory banks restructuring,
- the principles and payment dates of contributions to guarantee fund of banks.

Impact on increase of costs of banks activity, including through the settlement in the first quarter of 2017 annual contribution to fund of compulsory banks restructuring

PRUDENTIAL REQUIREMENTS

Regulation of the European Parliament and the European Council No. 575/2013 on prudential requirements for credit institutions and investment companies changing the UE ordinance No. 648/2012, EBA technical standards and recommendations of the Polish Financial Supervision Authority (PFSA), in particular to increase the short-term liquidity rate LCR on 2017 to 80% from 70% in 2016.

Impact on the capital base of banks, supervisory prudential standards, business activity of banks

LIQUIDITY RISK MANAGEMENT

Recommendation C of the PFSA (PFSA Official Journal of 2016, item 15) changing the principles of changing the principles of managing the risk of loan concentration in universal and mortgage bank from 1 January 2017.

Impact on measurement and management of liquidity risk in banks

DE MINIMIS PROGRAMME

Amendment to the regulation of the Minister of Finance concerning the provision of de minimis assistance in the form of loan repayment guarantees by Bank Gospodarstwa Krajowego (Journal of Laws of 2016, item 1471) which extended the operation of the De Minimis Programme to 2017.

Impact on capital requirements for banks at the stand-alone and consolidated level.

DIRECTORS' COMMENTARY TO THE FINANCIAL RESULTS OF THE PKO BANK POLSKI SA GROUP FOR THE FIRST QUARTER OF 2017

REQUIREMENTS FOR GRANTING HOUSING LOANS

- Recommendation 'S' of the PFSA on credit exposures secured with a mortgage (Official Journal of PFSA 2013, item 23), which increased the requirement for own contribution from 15% to 20% since 1 January 2017.	Impact on the level of lending, interest income and fee and commission income of the banks.
- the Act on state aid in acquiring a first apartment by young people (Journal of Laws 2015, item 1865) setting out the maximum limit of support measures relating to co-financing under the 'Mieszkanie dla Młodych' programme in 2017.	

WIND FARMS

The Act changing principles for supporting renewable energy generators (Journal of Laws of 2016, item 925) and the Act changing principles for property tax assessment for wind power plants (Journal of Laws of 2016, item 961), affecting the financial condition of wind farms.	Impact on the quality of the loan portfolio and the level of impairment allowances
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PAYMENTS THROUGH A BANK ACCOUNT

The Act on Freedom of Economic Activity (Journal of Laws of 2015, item 584 as amended) decreasing, as of 1 January 2017, the limit of the value of transactions between entrepreneurs that must be settled through a bank account from EUR 15 thousand to PLN 15 thousand.	Impact on deposits of corporate clients.
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TAXATION OF INVESTMENT FUNDS

Amendment to the CIT Act (Journal of Laws 2016, item 1926) which resulted in covering some close-ended investment fund with corporate income tax starting from 1 January 2017.	Impact on the level of investment fund assets and the financial results of TFIs.
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RESTRICTIONS FOR OPEN PENSION FUNDS (OFE)

Amendment to Acts (Journal of Laws 2013, item 1717, as amended), restricting the exposure of the open pension funds (OFE) to shares of domestic companies (from 35% in 2016 to 15%).	Impact on the level of assets, business models and the financial results of OFEs.
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The activity of the PKO Bank Polski SA Group influenced new legislation introduced in the Ukraine (where operates, among others, a subsidiary KREDOBANK SA), including:

CASH SETTLEMENTS

Decision of the Central Bank of Ukraine (NBU) No. 407/2016 reducing the maximum amount of cash settlements performed between private individuals and enterprises from UAH 150 thousand to UAH 50 thousand starting from 3 January 2017.	Impact on the level of client deposits and banks' income.
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FOREIGN CURRENCY MANAGEMENT

- Decision of the NBU No. 7/2016 increasing the limits for purchases of foreign currencies on the interbank market since 9 February 2017.	Impact on foreign currency position management, the level of risk and the business activities of the banks.
- Decision of the NBU No. 13/2017, 14/2017, 15/2017 i 19/2017 introducing changes in the foreign currency activities of the banks.	

CAPITAL REQUIREMENTS

Resolution No. 313/2015 of the Management Board of the NBU increasing the minimum capital adequacy ratio to 7% starting from 2017.	Impact on the capital base, supervisory prudential standards, business activity of the banks
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DIRECTORS' COMMENTARY TO THE FINANCIAL RESULTS OF THE PKO BANK POLSKI SA GROUP FOR THE FIRST QUARTER OF 2017

3. FINANCIAL RESULTS FOR THE FIRST QUARTER OF 2017

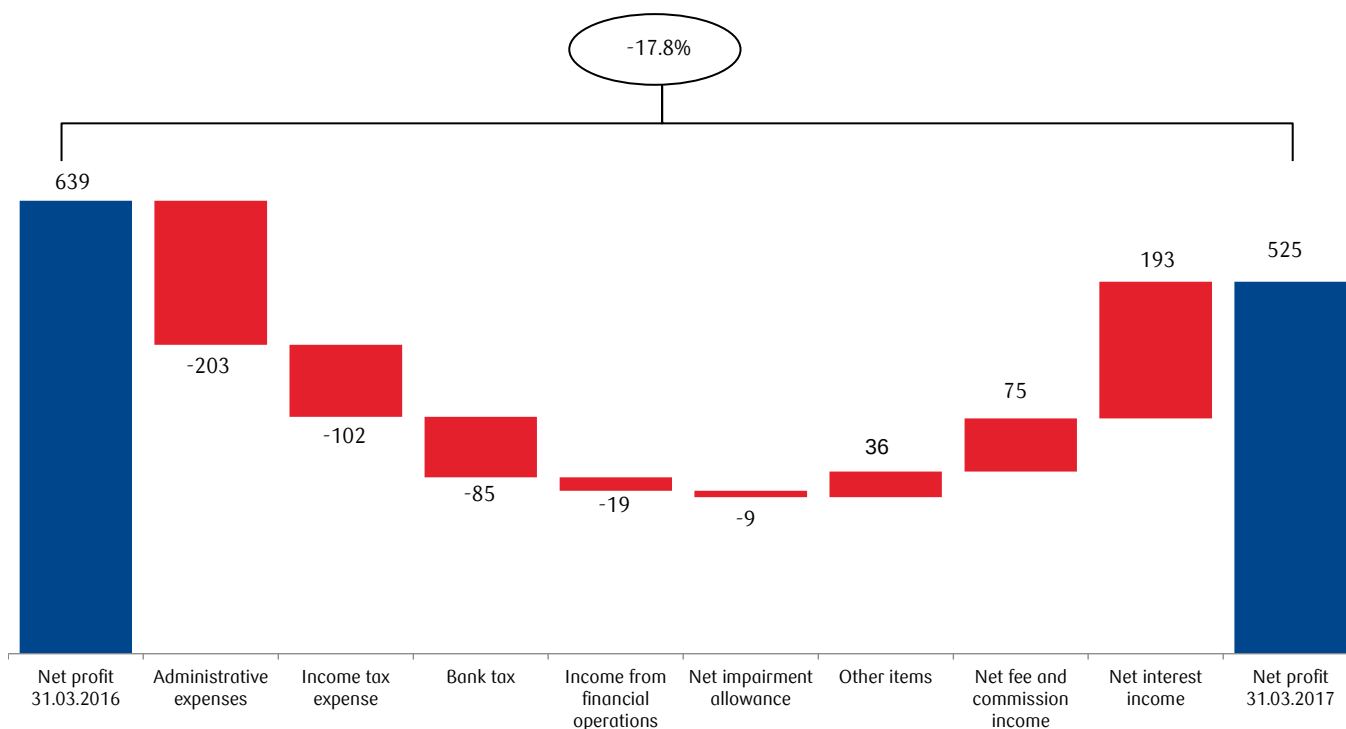
3.1. COMMENTARY TO THE FINANCIAL RESULTS OF THE PKO BANK POLSKI SA GROUP

Financial results
Net interest income
Net fee and commission income
Net result from financial operations
Administrative expenses
Tax on certain financial institutions
Net impairment allowance and write-downs
Income tax expense
Statement of financial position
Loans and advances to customers
Securities
Amounts due to customers
External financing
Equity and capital adequacy measures
Key Financial Indicators

FINANCIAL RESULTS

In the first quarter of 2017, the net profit of the PKO Bank Polski SA Group amounted to PLN 525 million and was PLN 114 million lower than in the comparable period of 2016 (-17.8% y/y). This was mainly due to the following factors: an increase in administrative expenses, particularly contributions to the Bank Guarantee Fund (BGF), and charges resulting from income tax and the tax on certain financial institutions. The result on business activities (mainly net interest income and net commission income) improved.

Chart 4. Changes in the income statement of the PKO Bank Polski SA Group (in PLN million)



DIRECTORS' COMMENTARY TO THE FINANCIAL RESULTS OF THE PKO BANK POLSKI SA GROUP FOR THE FIRST QUARTER OF 2017

The consolidated items of the income statement were as follows:

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

	First quarter period 01.01- 31.03.2017	First quarter period 01.01- 31.03.2016	Change 1 Q 2017/ 1 Q 2016 (in PLN million)	Change 1 Q 2017/ 1 Q 2016 (in %)
Interest and similar income	2 620	2 391	229	9.6%
Interest expense and similar charges	-574	-538	-36	6.7%
Net interest income	2 046	1 853	193	10.4%
Fee and commission income	929	843	86	10.2%
Fee and commission expense	-219	-208	-11	5.3%
Net fee and commission income	710	635	75	11.8%
Dividend income	0	0	0	x
Net income from financial instruments measured at fair value	19	-8	27	x
Gains less losses from investment securities	5	51	-46	-90.2%
Net foreign exchange gains (losses)	116	94	22	23.4%
Net other operating income and expense	76	60	16	26.7%
Net impairment allowance and write-downs	-391	-382	-9	2.4%
Administrative expenses	-1 563	-1 360	-203	14.9%
Tax on certain financial institutions	-233	-148	-85	57.4%
Operating profit	785	795	-10	-1.3%
Share in profit (loss) of associates and joint ventures	5	3	2	66.7%
Profit before income tax	790	798	-8	-1.0%
Income tax expense	-262	-160	-102	63.8%
Net profit (including non-controlling shareholders)	528	638	-110	-17.2%
Profit (loss) attributable to non-controlling shareholders	3	-1	4	x
Net profit	525	639	-114	-17.8%

In the first quarter of 2017, the sum of income-generating items in the income statement of the PKO Bank Polski SA Group amounted to PLN 2 972 million and was PLN 287 million (i.e. 10.7%) higher than in the first quarter of 2016.

NET INTEREST INCOME

Net interest income generated in the first quarter of 2017 amounted to PLN 2 046 million and was PLN 193 million higher than in the prior year. The main reason for the increase in net interest income in the first quarter of 2017 was an increase in the portfolio of loans and securities combined with a decrease in the average cost of financing.

After the first quarter of 2017, interest income amounted to PLN 2 620 million and was PLN 229 million higher than in the comparable period of 2016, mainly due to:

- an increase in income on loans and advances to customers (PLN +201 million y/y), mainly due to an increase in the loan portfolio, combined with a small increase in average interest rates connected with the share of the most profitable consumer loans; and
- an increase in income on securities of PLN 50 million y/y as a result of an increase in the average volume of the portfolio.

The increase in interest expense of PLN 36 million (i.e. 6.7%) y/y was mainly due to:

- an increase in amounts due to customers of PLN 16 million y/y resulting mainly from an increase in the deposit base, combined with a decrease in the average interest rate due to changes in the maturity structure (an increase in the share of current deposits in total deposits);

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- combined with an increase in expenses relating to own issue of debt securities and subordinated liabilities of PLN 20 million y/y connected with an increased level of issuance.

The interest margin increased by 0.1 pp to 3.2% at the end of the first quarter of 2017.

NET FEE AND COMMISSION INCOME

Net fee and commission income generated in the first quarter of 2017 amounted to PLN 710 million and was PLN 75 million higher than in the comparable period of the prior year. This was due to an increase in commission income of PLN 86 million combined with an increase of PLN 11 million in commission expense. The level of the net commission income was driven mainly by the increase in:

- income on brokerage activity and arrangement of issues of PLN 15 million, mainly an increase in commission on stock exchange trading;
- income for servicing investment funds and OFEs (including management fees) of PLN 21 million, including, among other things, an increase in handling fees relating to purchases of units, combined with an increase in the value of investment fund assets of nearly 10% y/y;
- net income on payment cards of PLN 18 million y/y, generated mainly due to a higher number of cards and the higher value of cashless transactions;
- income on loans and advances of PLN 8 million y/y, mainly in respect of housing loans and corporate loans;
- income in respect of offering insurance products (PLN 18 million y/y), including, among other things, motor insurance, arising in connection with the acquisition of a lease company.

NET RESULT FROM FINANCIAL OPERATIONS

Net result from financial operations generated in the first quarter of 2017 amounted to PLN 24 million and was PLN 19 million lower than in the comparable period of the prior year. The result was driven by the developments on the Treasury securities market and the resulting lower results realized on investment securities.

ADMINISTRATIVE EXPENSES

Administrative expenses amounted to PLN 1 563 million for the first quarter of 2017 and increased by PLN 203 million compared with the same period of the prior year. The level of administrative expenses was shaped by an increase in contributions to BGF of PLN 146 million i.e. 133% (resulting from the recognition of the annual contribution to the bank compulsory restructuring fund of PLN 209 million in the first quarter of 2017), and an increase in employee benefits of PLN 46 million, i.e. 6.7%, as well as an increase in amortization and depreciation of PLN 18 million y/y (i.e. 9.4%) due to changes in the structure of the Group.

As at 31 March 2017, the number of employees of the PKO Bank Polski SA Group was 29 169 FTEs, which means an increase of 150 FTEs y/y.

The effectiveness of the PKO Bank Polski SA Group's operation measured by the annual C/I ratio was 48.0% compared with 55.6% as at the end of March 2016. The quarterly C/I ratio amounted to 52.6% compared with 50.7% in the first quarter of 2016.

TAX ON CERTAIN FINANCIAL INSTITUTIONS

Since the first quarter of 2016, banks and other financial institutions are obliged to pay a tax on certain financial institutions (a banking tax, a tax on assets). The related charge on the Bank's Group amounted to PLN 233 million in the first quarter of 2017, of which the largest part was attributable to PKO Bank Polski SA (PLN 227 million). An increase in the charge compared with the same period of the prior year was due to the fact that the banking tax was introduced in February 2016.

NET IMPAIRMENT ALLOWANCE AND WRITE-DOWNS

Net impairment allowance and write-downs reflect the Bank Group's conservative approach to the recognition and measurement of credit risk. Deterioration of the net impairment allowance and write-downs (PLN 9 million y/y) resulted from higher allowances and write-downs on consumer loan portfolio.

The share of impaired loans and coverage of impaired loans as at the end of the first quarter of 2017 amounted to, respectively, 5.9% (a decrease of 0.7 p.p. compared with the end of the first quarter of 2016) and 66.5% (an increase of 1.9 p.p. compared with the end of the first quarter of 2016). This was due to an improvement in the quality of business loans and the consistent policy of selling bad debt portfolio.

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The cost of risk³ as at the end of the first quarter of 2017 was at a stable level of 0.76% which means an increase of 0.04 p.p. y/y.

INCOME TAX EXPENSE

Income tax expenses increased by PLN 103 million to PLN 262 million y/y, as a result of a change in the qualification of contributions to BGF for tax purposes (starting from 2017, payments to BGF are not tax-deductible) and a quarterly increase in the said contributions.

STATEMENT OF FINANCIAL POSITION

The statement of financial position of the parent entity has the strongest impact on the statement of the financial position of the PKO Bank Polski SA Group. It determines both the size of total assets and the structure of assets and liabilities.

Table 2. Movements in the statement of financial position items of the PKO Bank Polski SA Group (in PLN million)

	31.03.2017	31.12.2016	Change (in PLN million)	Change (in %)
Cash and balances with the Central Bank	14 087	13 325	762	5.7%
Amounts due from banks	5 659	5 345	314	5.9%
Loans and advances to customers	200 579	200 606	-27	0.0%
Securities	53 414	51 405	2 009	3.9%
Other assets	14 777	14 892	-115	-0.8%
Total assets	288 516	285 573	2 943	1.0%
Amounts due to banks	18 166	19 212	-1 046	-5.4%
Amount due to costumers	207 116	205 066	2 050	1.0%
Debt securities in issue and subordinated liabilities	19 034	17 032	2 002	11.8%
Liabilities due to insurance operations	3 005	2 944	61	2.1%
Other liabilities	7 859	8 750	-891	-10.2%
Total liabilities	255 180	253 004	2 176	0.9%
Total equity	33 336	32 569	767	2.4%
Total liabilities and equity	288 516	285 573	2 943	1.0%
Loans/Amounts due to customers	96.8%	97.8%		-1 p.p.
Loans/Stable sources of financing*	82.6%	83.7%		-1.1 p.p.
Interest bearing assets/Assets	90.0%	90.1%		-0.1 p.p.
Interest paying liabilities/Liabilities	84.7%	84.5%		0.2 p.p.
Total capital ratio	15.6%	15.8%		-0.2 p.p.

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

As at the end of the first quarter of 2017, total assets of the PKO Bank Polski SA Group amounted to PLN 288.5 billion, which represents an increase of PLN 2.9 billion compared with the end of 2016. Therefore, the PKO Bank Polski SA Group strengthened its position of the largest institution in the Polish banking sector.

The structure of assets as at the end of the first quarter of 2017 was shaped by an increase in the securities portfolio and in other liquid assets. In the structure of liabilities in the period analysed, there was an increase in the most stable liabilities, i.e. amounts due to customers and covered bonds issued.

³ Calculated by dividing net impairment allowance of loans and advances to customers for the 12 months period ended 31 March 2016 and 2017 by the average, gross balance of loans and advances to customers at the beginning and at the end of reporting period and the intervening quarterly periods.



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The ratio of loans to deposits (amounts due to customers) amounted to 96.8% as at the end of the first quarter of 2017, and the ratio of loans to stable sources of funding⁴ was 82.6%, which is evidence of the good liquidity position of the PKO Bank Polski SA Group.

A significant strengthening of the capital base (an increase in the average equity of 8.8% y/y) combined with the growth rate of annualized profit or loss at the level of 6.1% y/y translated to a decrease in return on equity (ROE) of 0.2 p.p per annum to 8.6%. The deterioration of the ROE ratio reflects a market trend: lower results were recorded by the entire banking sector, mainly due to the introduction of tax on certain financial institutions in the first quarter of 2016 and an increased burden of contributions to BGF. Return on assets (ROA) remained at an unchanged level compared with the first quarter of 2016, i.e. at 1.0%.

LOANS AND ADVANCES TO CUSTOMERS

Loans and advances to customers are the largest portion of the assets of the PKO Bank Polski SA Group. Compared with the end of 2016, the portfolio of net loans and advances to customers did not change and amounted to PLN 200.6 billion. In the first quarter of 2017, there was an increase in corporate and consumer loans and a decrease in the portfolio of housing loans, driven by the foreign exchange effect.

In the structure of the gross loans portfolio, the main items include housing loans with a volume of PLN 107.6 billion (PLN -0.7 billion compared with the end of 2016) and corporate loans with a volume of PLN 75.2 billion (PLN +0.9 billion compared with the end of 2016). In the period analysed, there was an increase in the portfolio of consumer loans of PLN 0.2 billion.

Detailed information on loans and advances to customers is provided in Note 23 to the Group's condensed interim consolidated financial statements.

SECURITIES

In the first quarter of 2017, the carrying value of the securities portfolio increased by approx. PLN 2.0 billion compared with the end of 2016 and amounted to PLN 53.4 billion, representing 18.5% of the Group's assets. An increase in the securities portfolio is related to the process of on-going liquidity management in the PKO Bank Polski SA Group. The structure of the portfolio was dominated by debt securities issued by the State Treasury.

Detailed information on securities held in the Group's portfolio is provided in notes 19, 22, 24 and 25 to the Group's condensed interim consolidated financial statements.

AMOUNTS DUE TO CUSTOMERS

Amounts due to customers have remained the main source of funding the PKO Bank Polski SA Group's operations and amounted to PLN 207.1 billion as at the end of March 2017, representing 71.8% of total equity and liabilities. The main items in the structure of amounts due to customers include amounts due to retail customers which increased by PLN 2.4 billion in the first quarter of 2017 and amounted to PLN 150.4 billion. At the same time, compared with the end of 2016, there was a decrease in amounts due to business customers of PLN 1.6 billion, partly offset by an increase in amounts due to state budget entities of PLN 1.2 billion.

The structure of amounts due to customers is dominated by current accounts and term deposits which accounted for 55.1% and 42.2%, respectively, of total amounts due to customers as at the end of March of 2017. Since the beginning of 2017, funds placed in the customers' current accounts increased by nearly PLN 2.5 billion, while term deposits remained stable.

Detailed information on amounts due to customers is provided in Note 31 to the Group's condensed interim consolidated financial statements.

EXTERNAL FINANCING

The PKO Bank Polski SA Group is an active participant of the debt securities issuance market, both domestic and international. This activity is aimed at diversifying the sources of financing and to adapt them to regulatory requirements. As at the end of the first quarter of 2017, issues of securities and subordinated liabilities accounted for

⁴ Stable sources of funding include amounts due to customers (including funds obtained from issuing Eurobonds) and external financing in the form of: subordinated liabilities, own debt securities issued and amounts due to financial institutions.

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6.6% of total liabilities and increased by PLN 2.0 billion from the beginning of the year. The change in the level of liabilities resulting from debt securities issued compared with the end of 2016 was due to the issuance by PKO Bank Hipoteczny SA of EUR-denominated covered bonds and own bonds in PLN. This was accompanied by a decrease in liabilities resulting from issuing bonds under the EMTN programme due to exchange rate volatility.

Detailed information on issues of securities conducted by the PKO Bank Polski SA Group and on subordinated liabilities is provided in notes 30 and 31 to the Group's condensed interim consolidated financial statements.

EQUITY AND CAPITAL ADEQUACY MEASURES

As at the end of the first quarter of 2017, equity amounted to PLN 33.3 billion and was PLN 0.8 billion higher than at the end of December 2016. Equity accounted for 11.6% of the PKO Bank Polski SA Group's total equity and liabilities (an increase in the share of 0.2 p.p. compared with the end of 2016).

As at the end of the first quarter of 2017, the Tier 1 capital adequacy ratio of the PKO Bank Polski SA Group amounted to 14.8% and increased by 0.3 p.p. compared with the end of 2016 as a result of an increase in Tier 1 capital of PLN 0.3 billion. This increase was mainly due to a higher valuation of the portfolio of available-for-sale securities.

As at the end of the first quarter of 2017, the total capital ratio of the PKO Bank Polski SA Group was 15.6% which means a decrease of 0.2 p.p. compared with the end of 2016. This was mainly due to the reduction in supplementary funds of PLN 0.9 billion in connection with permission from the Polish Financial Supervision Authority received on 24 March 2017 to repay a subordinated loan in CHF in accordance with a call option.

In the first quarter of 2017, the PKO Bank Polski SA Group maintained a safe capital base, and capital adequacy measures remained at a safe level above regulatory limits.

KEY FINANCIAL INDICATORS

The results achieved by the PKO Bank Polski SA Group led to the key financial performance indicators presented in the table below.

Table 3. Key financial indicators of the PKO Bank Polski SA Group

	31.03.2017	31.03.2016	Change
ROA net* (net profit/average total assets)	1.0%	1.0%	0 p.p.
ROE net* (net profit/average total equity)	8.6%	8.8%	-0.2 p.p.
C/I (cost to income ratio)*	48.0%	55.6%	-7.6 p.p.
Net interest margin* (net interest income/average interest-bearing assets)	3.2%	3.1%	0.1 p.p.
Share of impaired loans**	5.9%	6.6%	-0.7 p.p.
Costs of risk***	-0.76%	-0.72%	-0.04 p.p.
Capital adequacy ratio (own funds/total capital requirement*12.5)	15.6%	15.4%	0.2 p.p.

* Income statement items used in calculating indicators capture the period of the last four quarters (annual recognition), while the statement of financial position items capture the average of the last five quarterly values of the respective assets and liabilities.

** Calculated by dividing the gross carrying amount of impaired loans and advances by the gross carrying amount of loans and advances to customers.

*** Calculated by dividing the net impairment allowance on loans and advances to customers over period of 12 months by average gross balance of loans and advances granted to customers at the beginning and end of reporting period and quarterly periods in between.

DIRECTORS' COMMENTARY TO THE FINANCIAL RESULTS OF THE PKO BANK POLSKI SA GROUP FOR THE FIRST QUARTER OF 2017

3.2. COMMENTARY TO THE FINANCIAL RESULTS OF PKO BANK POLSKI SA

Financial results
Key Financial Indicators

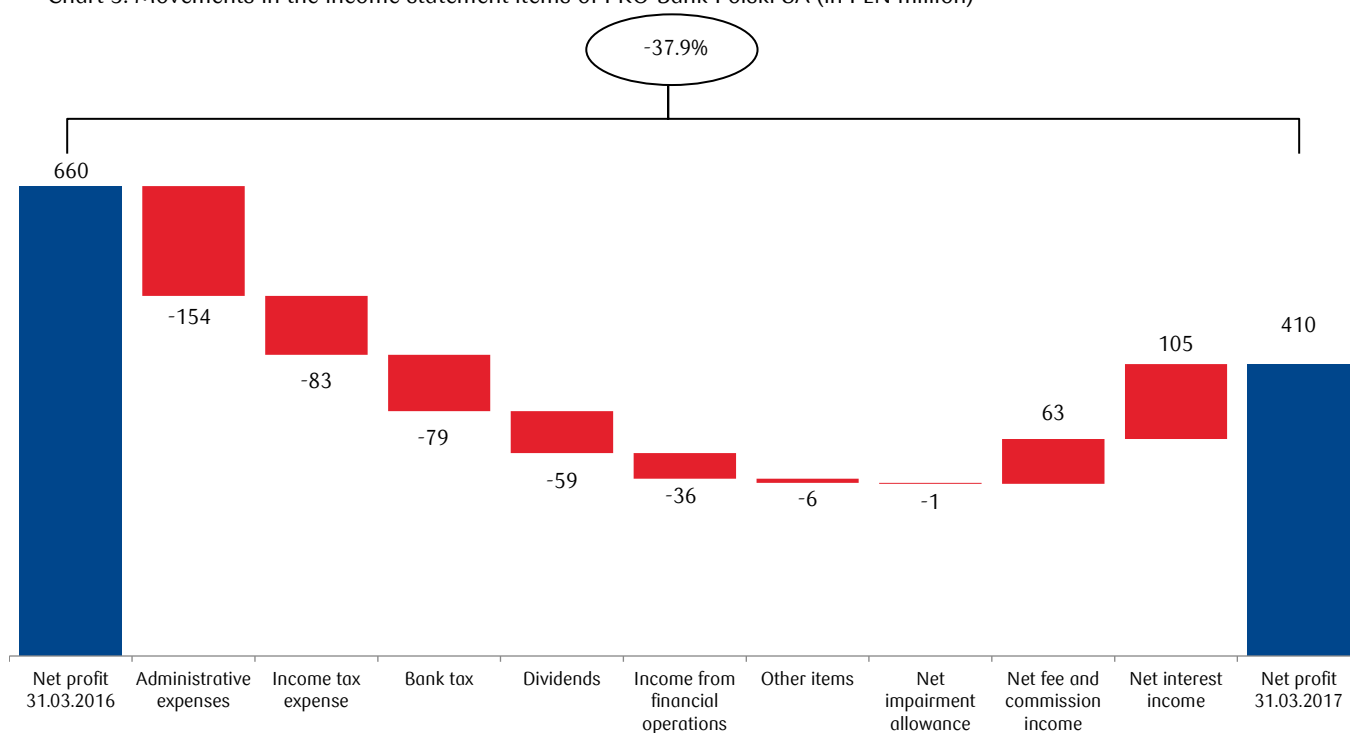
FINANCIAL RESULTS

The net profit of PKO Bank Polski SA earned in the first quarter of 2017 amounted to PLN 410 million and was PLN 250 million lower than in the corresponding period of 2016 (-37.9% y/y), which was mainly due to:

- an increase in administrative expenses of PLN 154 million y/y;
- an increase in the bank tax charge of PLN 79 million y/y;
- an increase in the corporate income tax charge of PLN 83 million y/y;
- a decrease in dividend income of PLN 59 million y/y.

At the same time, the result on business activity was PLN 67 million higher y/y, which was mainly a result of an increase in the net interest income and net fee and commission income.

Chart 5. Movements in the income statement items of PKO Bank Polski SA (in PLN million)



DIRECTORS' COMMENTARY TO THE FINANCIAL RESULTS OF THE PKO BANK POLSKI SA GROUP FOR THE FIRST QUARTER OF 2017

The income statement items of the Bank were as follows:

Table 4. Movements in the income statement items of PKO Bank Polski SA (in PLN million)

	First quarter period 01.01- 31.03.2017	First quarter period 01.01- 31.03.2016	Change 1 Q 2017/ 1 Q 2016 (in PLN million)	Change 1 Q 2017/ 1 Q 2016 (in %)
Interest and similar income	2 414	2 311	103	4.5%
Interest expense and similar charges	-520	-522	2	-0.4%
Net interest income	1 894	1 789	105	5.9%
Fee and commission income	852	776	76	9.8%
Fee and commission expense	-210	-197	-13	6.6%
Net fee and commission income	642	579	63	10.9%
Dividend income	0	59	-59	x
Net income from financial instruments measured at fair value	1	-15	16	x
Gains less losses from investment securities	-2	50	-52	x
Net foreign exchange gains (losses)	100	101	-1	-1.0%
Net other operating income and expense	-6	-1	-5	6x
Net impairment allowance	-372	-371	-1	0.3%
Administrative expenses	-1 391	-1 237	-154	12.4%
Tax on certain financial institutions	-227	-148	-79	53.4%
Operating profit	639	806	-167	-20.7%
Profit before income tax	639	806	-167	-20.7%
Income tax expense	-229	-146	-83	56.8%
Net profit	410	660	-250	-37.9%

Due to the Bank's dominant position in the Group, the main trends of changes in the profit and loss items are the same as discussed in chapter 3.1 of this Directors' Commentary.

KEY FINANCIAL INDICATORS

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

Table 5. Key financial indicators of PKO Bank Polski SA

	31.03.2017	31.03.2016	Change
ROA net* (net profit/average total assets)	1.0%	1.0%	0 p.p.
ROE net* (net profit/average total equity)	8.2%	8.7%	-0.5 p.p.
C/I (cost to income ratio)*	46.9%	53.7%	-6.8 p.p.
Net interest margin* (net interest income/average interest-bearing assets)	3.1%	3.0%	0.1 p.p.
Share of impaired loans**	5.8%	6.5%	-0.7 p.p.
Costs of risk***	-0.76%	-0.71%	-0.06 p.p.
Capital adequacy ratio (own funds/total capital requirement*12.5)	16.9%	16.3%	0.6 p.p.

* Income statement items used in calculating indicators capture the period of the last four quarters (annual recognition), while the statement of financial position items capture the average of the last five quarterly values of the respective assets and liabilities.

** Calculated by dividing the gross carrying amount of impaired loans and advances by the gross carrying amount of loans and advances to customers.

*** Calculated by dividing the net impairment allowance on loans and advances to customers over period of 12 months by average gross balance of loans and advances granted to customers at the beginning and end of reporting period and quarterly periods in between.

DIRECTORS' COMMENTARY TO THE FINANCIAL RESULTS OF THE PKO BANK POLSKI SA GROUP FOR THE FIRST QUARTER OF 2017

4. ACTIVITIES OF THE PKO BANK POLSKI SA GROUP⁵

4.1. BUSINESS ACTIVITIES OF PKO BANK POLSKI SA

Retail segment
Corporate and investment segment

The PKO Bank Polski SA Group conducts business activities within segments offering specific products and services targeted at specific groups of customers. The manner in which the business areas are divided ensures consistency with the sales management model and offers customers a comprehensive product offer comprising both traditional banking products and more complex investment products. Currently, the Group conducts its business activities within the retail segment and the corporate and investment segment.

RETAIL SEGMENT

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



NUMBER OF CUSTOMERS: 9.3 MN
CREDIT VOLUME: PLN 147 BN
DEPOSIT VOLUME: PLN 165 BN

CORPORATE AND INVESTMENT SEGMENT

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



NUMBER OF CUSTOMERS: 15 K
CREDIT VOLUME: PLN 42 BN
DEPOSIT VOLUME: PLN 38 BN

⁵ In this sub-chapter any differences in total balances, shares and growth rates result from rounding of balances to PLN million and percentage shares to one decimal place.

DIRECTORS' COMMENTARY TO THE FINANCIAL RESULTS OF THE PKO BANK POLSKI SA GROUP FOR THE FIRST QUARTER OF 2017

4.1.1. PKO BANK POLSKI SA RETAIL SEGMENT

The loan offer in the retail segment
Deposit and investment offer
Other products and services in the retail segment
Distribution network and access channels

In the first quarter of 2017 PKO Bank Polski SA in the area of retail segment continued sustainable development, focused on identifying and satisfying consumers' needs, with whom the Bank builds strong, long-term relationship. Efforts has been made to improve the quality of service by i.a., increasing innovation in the new financial solutions, not only in the products but also the distribution channels, in particular in the field of electronic banking and mobile payments.

In described period PKO Bank Polski SA and Polskie Górnictwo Naftowe i Gazownictwo SA (PGNiG) signed an agreement on strategic cooperation in transaction banking. Having won a tender, PKO Bank Polski SA will provide comprehensive services with respect to the bank accounts of PGNiG Obrót Detaliczny (OD), which will comprise handling retail payments for gas and the new service offered by the company, i.e. bundled sales of electricity.

In accordance with the agreement, PKO Bank Polski SA will handle all payments addressed to PGNiG OD, including those from retail customers. This means, among other things, that retail customers will be able to pay their bills on a commission-free basis at nearly 1.2 thousand branches and more than 800 agencies of PKO Bank Polski SA in all parts of Poland.

THE LOAN OFFER IN THE RETAIL SEGMENT

The PKO Bank Polski SA Group offer covers a wide range of credit products. Individuals can benefit from the financing offered under consumer loans available in the form of cash loans, mortgage-backed loans, revolving loans and credit cards as well as the funding available in the form of housing loans. Offer for small and medium-sized enterprises is available in the form of investment and investor, working capital loans, as well as leasing.

As of the end of March 2017 total financing provided to retail segment clients exceeded PLN 154 billion.

Table 6. Financing of the retail segment clients of PKO Bank Polski SA Group (in PLN million)

	31.03.2017	31.12.2016	31.03.2016	Change since:	
				31.12.2016	31.03.2016
Gross loans and leasing receivables:					
retail and private banking	24 780	24 581	23 597	0.8%	5.0%
mortgage banking	100 955	101 389	96 238	-0.4%	4.9%
PLN	68 908	67 301	61 997	2.4%	11.1%
foreign currency	32 047	34 088	34 241	-6.0%	-6.4%
small and medium enterprises, of which:	28 348	28 117	23 623	0.8%	20.0%
loans	20 803	20 779	21 529	0.1%	-3.4%
leasing	7 545	7 338	2 094	2.8%	260.3%
Total financing	154 083	154 087	143 458	0.0%	7.4%

RETAIL AND PRIVATE BANKING LOANS

Retail customers can use both the standard cash loan, as well as the current financing available under the revolving loans and credit cards.

In the first quarter of 2017, PKO Bank Polski SA continued its activity to support sales of consumer loans as part of a marketing campaign under the slogan 'Wybierz swoją drogę do Mini ratki', promoting the multi-channel nature of the offer. The offer was targeted at customers looking for short-term financing, rapid credit decision and a minimum of formalities.

PKO Bank Polski SA systematically takes measures to increase effective access to credit offer for retail and private banking customers, regardless of distribution channel. Regular customers of the Bank may obtain the expected amount of the loan to an account even within 30 minutes through access to personalized credit offer.

DIRECTORS' COMMENTARY TO THE FINANCIAL RESULTS OF THE PKO BANK POLSKI SA GROUP FOR THE FIRST QUARTER OF 2017

MORTGAGE BANKING LOANS

For many years PKO Bank Polski SA has been the leader in financing the housing needs of Poles. According to the data presented by the Polish Bank Association it shows that at the end of the first quarter of 2017 PKO Bank Polski SA was the first on the market with 30.5% share in sales of mortgage loans for individuals. Since the beginning of the year a total amount of granted loans equaled to approx. PLN 3.3 billion.

Retail banking customers can use flagship mortgage product known as 'WŁASNY KĄT' available in 'Mieszkanie dla Młodych' programme as well.

In described period PKO Bank Polski SA granted under the 'Mieszkanie dla Młodych' program nearly 3.5 thousand loans for a total amount close to PLN 0.6 billion. The program consists of subsidies from the state budget to own contribution and additional financial support in the form of repayment of part of the loan.

Until 31 August 2020 a special offer available for holders of Large family card is valid, which states that provision for granting the mortgage, 'Własny Kąt Hipoteczny' is reduced to 50% of standard provision for granting the loan.

LOANS FOR SMALL AND MEDIUM ENTERPRISES

PKO Bank Polski SA consistently supports Polish entrepreneurship. Companies from the sector of small and medium enterprises are provided with funding for current and investment needs through a wide and flexible range of loans. Thanks to the cooperation between the PKO Bank Polski SA and Bank Gospodarstwa Krajowego agreement 'Portfelowa Linia Gwarancyjna de minimis' and 'Portfelowa Linia Gwarancyjna COSME' under the government and EU aid program for small and medium-sized businesses, entrepreneurs receive support in the form of BGK guarantees - de minimis and guarantees of counter guarantees granted by the European Investment Fund under the program COSME. The aim is to increase the availability of credit and the mobilization of additional resources for current operations of the company.

In 2017 PKO Bank Polski SA still is the largest lender of the twenty-one banks providing loans with de minimis guarantees and held 21.7% market share (according to the data provided by the Center of Sureties and Guarantees of Bank Gospodarstwa Krajowego, as at 31 March 2017). Guarantee limit to granted to PKO Bank Polski SA in the first quarter of 2017 once again was increased and currently amounts PLN 7.8 billion. As of 31 March 2017, the exposure measured by the value of active signed contracts amounted to approx. PLN 2.2 billion.

The value of loans granted under the 'Portfelowa Linia Gwarancyjna COSME' as of 31 March 2017 equals to nearly PLN 179 million, and the amount of granted guarantees over to PLN 143 million. The value of the guarantee limits under the PLG COSME programme valid to 28 September 2017, after the increase taking place in the fourth quarter of 2016, currently amounts to PLN 250 million.

LEASING FOR SMALL AND MEDIUM ENTERPRISES

Under the PKO Bank Polski SA Group offer, customers from the small and medium enterprise sector may use lease products and services. Practically any fixed asset may be financed in the form of a lease, depending on the customer needs, including:

- vehicles, and plant and machinery,
- investment projects (e.g. technological lines),
- office equipment and furniture,
- computer hardware,
- medical equipment,
- agricultural plant and machinery,
- real estate.

Apart from the standard products, the offer includes fleet leasing services and cooperation with suppliers. As at the end of March 2017, lease receivables in the retail segment exceeded PLN 7.5 billion.

DIRECTORS' COMMENTARY TO THE FINANCIAL RESULTS OF THE PKO BANK POLSKI SA GROUP FOR THE FIRST QUARTER OF 2017

DEPOSIT AND INVESTMENT OFFER

In the first quarter of 2017 PKO Bank Polski SA continued activities aimed at offering more attractive deposits for retail segment customers, taking into account current market conditions and competitive position. At the same time, activities aimed at diversifying sources of financing were carried out.

As of 31 March 2017 the deposits of the retail segment amounted to PLN 165 billion and from the beginning of the year increased by PLN 2 billion (i.e. by 1.2%). The increase in deposits of retail and private banking contributed to this, due to growth of current deposits volume.

Table 7. Deposits of retail segment customers of PKO Bank Polski SA Group (in PLN million)

	31.03.2017	31.12.2016	31.03.2016	Change since:	
				31.12.2016	31.03.2016
Customer deposits, of which:					
retail and private banking	142 889	140 021	131 828	2.0%	8.4%
small and medium enterprises	21 861	22 734	19 563	-3.8%	11.7%
Total deposits	164 750	162 755	151 391	1.2%	8.8%

CURRENT AND SAVING ACCOUNTS

PKO Bank Polski SA remains the market leader in terms of the number of current accounts, which as of 31 March 2017 amounted to 6.9 million. The number of accounts stems from the varied offer in terms of customer preferences. The offer consists of, among others, products such as: PKO Konto bez Granic, PKO Konto za Zero, PKO Konto dla Młodych and PKO Junior. PKO Bank Polski SA adjusted its offer to beneficiaries of 'Rodzina 500+' programme introducing dedicated 'Konto za Zero Rodzina 500+'. Since the beginning of 2016 sold nearly 20 thousand this type of accounts, including over to 2 thousand accounts in the first quarter of 2017.

Small and medium enterprises interested in complex, modern and price attractive PKO Bank Polski SA services are offered with two packages:

- PKO Konto Firmowe for individuals running one-man business, freelancers and professional farmer who appreciate support of their finances with modern banking services, as well as with individual advisor in the Bank branch,
- PKO Rachunek dla Biznesu created for enterprises with higher requirements, who anticipate an offer to be perfectly suited to their needs and appreciate the cooperation with individual bank advisor. The Bank offers to PKO Rachunek dla Biznesu owners access to advanced online banking iPKO business, all *cash-management* services, low costs of Internet transactions and many more modern banking products and services including the cheapest on the market SEPA online transfers or even access to simple currency exchange thanks to free iPKO dealer platform.

As of the first quarter of 2017, the process of opening a business account uses an automatic link to the Central Register and Information on Economic Activity (CEIDG) maintained by the Ministry of Development. Direct input of data from CEIDG makes the process of opening a business account simpler and faster.

TERM DEPOSITS AND REGULAR SAVING PRODUCTS

The dominant share of deposits in the retail market are deposits of retail and private banking. More than half of the funds are term deposits. The Bank offers to individual customers, among others, deposits with progressive interest and standard rate and structured deposits.

The most popular term deposits among clients in the Bank's retail and private banking offer were:

- the products added to the offer in 2017: a 12M online deposit, a 12M deposit for new funds and a 12M deposit with threshold-based interest rate;
- 6M internet deposit available in the electronic banking system.

Structured instruments are part of the standard offer of the Bank dedicated to individual clients. In the first quarter of 2017 the Bank has conducted 8 subscriptions of structured deposits, including:

- deposits based on the USD/PLN exchange rate (18-month with 1% guaranteed interest and 36-month with 2.0% guaranteed interest throughout the product's life) and

DIRECTORS' COMMENTARY TO THE FINANCIAL RESULTS OF THE PKO BANK POLSKI SA GROUP FOR THE FIRST QUARTER OF 2017

- deposits based on the EUR/PLN exchange rate (18-month with 0.9% guaranteed interest, 18-month with 1% guaranteed interest, 36-month with 1.8% guaranteed interest and 36-month with 2.0% guaranteed interest throughout the product's life).

Customers from the small and medium-sized enterprises segment were offered a new product sold by iPKO, through the Contact Center and through the Remote Banking Office – the 'Term deposit for enterprising people' ('Lokata terminowa dla przedsiębiorczych'), which bears fixed interest of 1.30% p.a., provided that the customer makes non-cash payments with his debit card issued for his current account in the total amount of PLN 6 thousand during the term of the deposit.

INVESTMENT FUNDS

As a result of cooperation with PKO Towarzystwo Funduszy Inwestycyjnych SA customers of retail and private banking are offered 40 non-dedicated funds, with total assets of PLN 20.3 billion⁶.

PKO Bank Polski SA constantly extends its offer in the area of investment funds. Since the beginning of 2017 conducted issuance of investment certificates of closed-end non-public investment funds among customers, as PKO Globalnej Strategii Series I, PKO Absolutnej Stopy Zwrotu Europa Wschód – Zachód Series D, PKO Strategii Obligacyjnych Series H.

SALES OF STATE TREASURY BONDS

PKO Bank Polski SA is the only bank to sell and service retail bonds issued by the State Treasury, under an agreement concluded with the Minister of Finance. Treasury bonds are sold through the expansive sales network of PKO Bank Polski SA, which is a great convenience for all persons who wish to invest in those instruments. In the first quarter of 2017, ca. 14 million of bonds were sold.

OTHER PRODUCTS AND SERVICES IN THE RETAIL SEGMENT

INSURANCE PRODUCTS FOR RETAIL SEGMENT

PKO Bank Polski SA continuously develops an offer of insurance products increasing attractiveness of banking products combined with them and giving customers opportunity to secure their debts, assets and to receive help in case of an accident. PKO Bank Polski SA offers insurance products to retail and private banking as well as to the small and medium enterprises segment connected with banking products such as:

- consumer and mortgage loans (life and unemployment insurance, real property insurance, movables insurance, third-party liability (OC) insurance, assistance insurance, low contribution insurance and bridge insurance, as well as SME advance repayment insurance),
- current accounts (ROR) (i.a. life and accident insurance, property insurance, civil liability insurance, assistance insurance),
- bank cards (i.a. security package to credit cards, Travel insurance, Loan repayment insurance).

PKO Bank Polski SA concentrates on cooperation with PKO Życie Towarzystwo Ubezpieczeń SA and PKO Towarzystwo Ubezpieczeń SA, thus maximizing the value for the customer and other stakeholders.

The Bank's offer has been enriched with new insurance products:

- loss of income source or hospital treatment due to accident insurance for credit card holders,
- individual insurance:
 - loss of income source insurance and life insurance for 'Pożyczka Gotówkowa', addressed to customers of the Primary Client and Private Banking segment,
 - property insurance for loans or mortgages loans,
 - loss of income source insurance for loans or mortgage loans
 - insurance of repayment of SME advances in the event of the temporary inability to repay or downtime in business activities.

In the first quarter of 2017, works have been carried out to launch new product for online banking customers, unrelated to banking products and sold through the remote channel (iPKO). It is a life insurance product called 'Moje Życie 24' provided by PKO Życie Towarzystwo Ubezpieczeń SA, where the customer chooses the risks to be insured (death, permanent and complete inability to work or serious illness).

⁶ Source: report of the Chamber of Fund and Asset Managers.



DIRECTORS' COMMENTARY TO THE FINANCIAL RESULTS OF THE PKO BANK POLSKI SA GROUP FOR THE FIRST QUARTER OF 2017

PRIVATE BANKING

PKO Bank Polski SA is consistently developing Private Banking segment, focusing on close cooperation within the Group, allowing customers access to a wide range of products and financial instruments.

The team that provides services to the most affluent customers consists of 60 counselors and 38 business analysts. Private Banking offices are located in 9 major cities in Poland: Warsaw, Gdansk, Krakow, Katowice, Poznan, Wroclaw, Lodz, Szczecin and Bydgoszcz (an institution was opened as part of Private Banking Office in Gdańsk).

Private Banking Center of PKO Bank Polski SA manages assets portfolio worth PLN 17.1 billion, the balance since the beginning of the year increased by PLN 1.3 billion.

DISTRIBUTION NETWORK AND ACCESS CHANNELS

As at 31 March 2017, the retail branch network of PKO Bank Polski SA consisted of 1 171 branches and 8 private banking offices. Compared with the end of 2016 the total number of retail branches decreased by 8.

Development of multi-channel distribution model extensively influences the optimization of the on-site sales network. Optimization of the branch network takes place in a continuous manner, however the final decision not to close the certain branch located a certain micro-market is taken on a basis of economic assessment with regard to the potential development of the micro-market. The improvements are a multidimensional process, which covers activities such as changing of the nature of branches and reducing their number. The process of reducing large branches is carried out with the simultaneous universalization of smaller branches and transformation small branches into agencies in explanatory situations.

Table 8. PKO Bank Polski SA branches and ATMs

	31.03.2017	31.12.2016	31.03.2016	Change since:	
				31.12.2016	31.03.2016
Number of branches in the retail segment	1 190	1 198	1 235	-8	-45
regional retail branches	11	11	11	0	0
retail branches	1 171	1 179	1 216	-8	-45
private banking branches	8	8	8	0	0
Number of ATMs	3 196	3 206	3 191	-10	5
Number of agencies	819	837	870	-18	-51

BRANCH NETWORK AND AGENCIES

The Bank is constantly improving conditions for customers in the branch network. These activities focus on the modernization of the branches and moving them to the new attractive locations. As part of the projects of the Bank and as a result of gained experience, universally applicable branch format is constantly evolving in the direction of optimal operating conditions, tailored to the changing technology. Essential complement to the network of branches and ATMs is a network of agencies.

ELECTRONIC BANKING

Customers of the iPKO retail service can benefit from a package of electronic banking services. Moreover, for small and medium enterprises there is a possibility of using electronic banking services under the name iPKO Biznes. These services provide customers with access to information about accounts and products, as well as allow them to make transactions through: Internet, self-service terminals and telephone. Bank systematically promotes the remote use of the Internet account, separate account management and banking products in the transaction service, which allows customers faster and easier access to their products, as well as lowering the cost of using banking services.

New features implemented during the first quarter of 2017:

- adding a new iPKO functionality of complete remote process of opening and managing the First Savings Account, which is dedicated to children and adolescents (aged 0-18) and their parents;
- the possibility of ordering from iPKO a new debit card with a city function (for Warsaw and Wrocław), replacing the existing traditional card with a new card with a city function, or opening a new account on the Bank's webpage for which a debit card with a city function can be ordered at the same time;



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- the launch of a new function which allows indicating a credit card as the source of money in the 'Płacę z iPKO' or 'Płacę z Inteligo' service, to make online shopping faster, more convenient and safer;
- adding a new insurance product, 'Moje Życie24', to the Bank's offer; the insurance is available on iPKO only and it is addressed to holders of current accounts (ROR).

Since 15 March 2017, the Bank's customers can use iPKO and Inteligo online banking services to send to the Tax Office PIT-WZ application forms for preparing a preliminary tax return for 2016 on the PIT-37 form and filing it on behalf of the taxpayer.

MOBILE BANKING IKO

PKO Bank Polski SA provides customers with modern technological solutions giving them full, simple, functional access to banking services by using the mobile that is safe and accessible everywhere at the same time. IKO is the most popular and the most developed system of mobile payments in Poland. It combines the functions of mobile banking with the ability to make mobile payments. The total number of application IKO activations has already exceeded one million two hundred thousand units.

On the basis of IKO, Polish standard of mobile payments, BLIK, was created. BLIK is a universal form of payments and cash withdrawals from ATMs without using cash or credit card, created together with partner banks and the NCH. As at 31 March 2017, the network of acceptance of mobile payments (IKO, BLIK) included more than 180 thousand devices (eService, First Data and PayTel terminals) throughout the country. In connection with the implementation of the BLIK system, IKO application now enables cash withdrawal from more than 15.5 thousand of PKO Bank Polski SA ATMs and Bank Millennium SA, Bank Zachodni WBK SA, ING Bank Śląski SA, Euronet ATMs (about 6 thousand) and IT Card (about 1.8 thousand). PKO Bank Polski SA introduce option available for customers: 'Płacę z iPKO' payment method – transaction authorization through entering BLIK code generated in IKO application, thanks to which payments can be performed in most of online shops in Poland as well in the biggest Polish e-commerce bidding platform.

Moreover, the Bank allowed its youngest customers under 13, who use PKO Konto Dziecka and PKO Junior transaction service, access the bank account through PKO Junior mobile application. Application is not only handy but safe as well, additionally is enriched with financial education and development of entrepreneurial attitudes functions. Modern and intuitive is a mobile equivalent of PKO Junior service.

The promotion consisting of not charging commission on interbank BLIK mobile transfers has been extended for the year 2017.

As a result of the changes and improvements implemented, in the first quarter of 2017, more than 2 million customers logged in to their accounts from mobile devices. Customers who log in through IKO represent 40% of all mobile customers.

THE PKO BANK POLSKI SA CONTACT CENTER

Contact Center plays an important role in the retail segment client's service. The aim of this unit is to conduct the sale of products offered by the Bank during incoming and outgoing calls and to provide efficient and effective customer service, using remote communication.

The tasks of the Contact Center are in particular:

- sale of banking products via incoming and outgoing calls,
- supporting remote sale processes initiated on the web,
- handling of incoming calls from customers of the retail segment,
- outgoing calls initiated by the Bank (information tasks),
- handling security issues (incoming and outgoing),
- support for e-mail correspondence,
- answering questions asked by customers via infosite and iPKO service,
- internal customer service (professional helpdesk for branch employees),
- early monitoring of receivables.

DIRECTORS' COMMENTARY TO THE FINANCIAL RESULTS OF THE PKO BANK POLSKI SA GROUP FOR THE FIRST QUARTER OF 2017

4.1.2. CORPORATE AND INVESTMENT SEGMENT OF PKO BANK POLSKI SA

Lending activity and structured financing
Deposit activity and transaction banking
Financial institutions
International banking
Brokerage activities
Treasury products
Interbank market
Fiduciary services
Sales network

PKO Bank Polski SA consequently bases the development of corporate business on building stable relationships with customers through high quality services, specialized competence of the sales network and cooperation based on partnership. Current business financing (through working capital loans and tools of trade financing) as well as openness to participation in the implementation of development plans (through investment loans), and support in the implementation of local government projects, invariably constitute the main priorities of the Bank's corporate and investment segment.

The Bank having analysed market expectations, systematically adjusts its extensive offer of products and services in order to meet customer expectations. As a result based on new solutions, a broad range of transaction products and products mitigating financial risks (liquidity, settlement, interest rate, currency and commodity price risks) were being developed consistently, and financing structure needs were addressed in a flexible manner.

An international trade financing offer has been parallelly developed. The Bank became a strategic partner of Grupa Polskiego Funduszu Rozwoju in respect of providing export support. The value of support offered by PFR under the International Expansion of Polish Enterprises Programme which is supported by PKO Bank Polski SA, totals approx. PLN 60 billion.

Corporate and Investment Segment in the first quarter of 2017 were servicing 14.5 thousand customers, including over 1 thousand of strategic customers, nearly 1 thousand of foreign customers and more than 4 thousand units of local government and central government institutions together with budget-related and related entities.

The Bank held its position as an undisputed leader in providing services for local governments, by participating in local projects with custom character and by winning a tender for providing services to the Podkarpackie Voivodship. In total, the Bank provides services for 6 from 16 voivodships in Poland.

LENDING ACTIVITY AND STRUCTURED FINANCING

As at the end of March 2017 total financing provided to corporate customers, including bonds issued and lease receivables, amounted to PLN 62 billion.

Table 9. Financing of the corporate segment clients of PKO Bank Polski SA Group (in PLN million)

	31.03.2017	31.12.2016	31.03.2016	Change since:	
				31.12.2016	31.03.2016
Gross corporate loans	41 985	41 630	42 559	0.9%	-1.3%
Leasing receivables	6 534	6 591	4 368	-0.9%	49.6%
Debt securities*	13 428	13 331	12 840	0.7%	4.6%
municipal	7 142	7 148	7 317	-0.1%	-2.4%
corporate	6 286	6 183	5 523	1.7%	13.8%
Total financing	61 947	61 552	59 767	0.6%	3.6%

*Data presented including securities classified to the category loans and advances to customers

PKO Bank Polski SA supports their customers' strategic investment projects realization through advisory regarding financing form choice as well as flexible terms of financing and repayment. The Bank is working closely with local government units and finances investment projects contributing to the local community.



DIRECTORS' COMMENTARY TO THE FINANCIAL RESULTS OF THE PKO BANK POLSKI SA GROUP FOR THE FIRST QUARTER OF 2017

PKO Bank Polski SA offers its customers wide access to funds for financing even the most complex investment projects, as well as the services of advisors focused on selecting the optimum form of financing and terms of repayment. In the first quarter of 2017, the Bank signed:

- 5 loan agreements in a banking consortium totalling PLN 8.7 billion, with the Bank's share of nearly PLN 1.7 billion;
- a working capital loan agreement amounting to PLN 70 million and two annexes extending the period of financing totalling PLN 180 million;
- an annex to a corporate bond issue scheme executed by a consortium of banks, increasing the scheme amounts to PLN 2.4 billion (the Bank's share was increased by PLN 0.6 billion);
- 6 municipal bond issue schemes with a value of PLN 37 million and 9 annexes extending the period of financing for the amount of PLN 26 million.

As part of the Group's product offer, its corporate customers can use products and services under leases. Virtually all fixed assets are financed with leases, depending on customer needs. Apart from standard products, the offer also includes the services of renting a car fleet and cooperation with suppliers.

As at the end of March 2017, lease receivables in the corporate and investment segments amounted to PLN 6.3 billion.

DEPOSIT ACTIVITIES AND TRANSACTION BANKING

The volume of corporate customers' deposits at the end of first quarter of 2017 amounted to PLN 38 billion and was PLN 1.3 billion lower than in the same period of the previous year. This is the result of liquidity management policy applied by the Bank and acquiring long-term financing from the wholesale market.

Table 10. Deposits of corporate segment customers of the PKO Bank Polski SA Group (in PLN million)

	31.03.2017	31.12.2016	31.03.2016	Change since:	
				31.12.2016	31.03.2016
Corporate deposits	37 997	37 639	39 326	1.0%	-3.4%

PKO Bank Polski SA is constantly enhancing the quality of its transaction banking services. Services are dedicated to entities characterized by extensive organizational structure (e.g. capital groups) continuously developed, allowing customers to use various kinds of products and services to facilitate settlement of transactions with domestic and foreign partners. In case of providing electronic services, the leading product for corporate banking is the iPKO biznes banking system. The iPKO biznes application has been expanded with new functionalities to improve the comfort of use, including among others simplified and redesigned possibilities of key operations on the site, so they were even more user-friendly and intuitive. Currently iPKO biznes application allows customers to monitor and manage accounts, payment cards and loans and to submit orders for all kinds of transfers. New functionalities are also being implemented with the aim of making it easier for customers to manage funds in complex organizational structures.

At the same time, the Bank is extending its offer by developing dedicated products based on cash pooling solutions. In particular, due to the fact that the Bank has branches in Germany and a newly opened branch in the Czech Republic, the cross-border and multi-currency versions of this cash management tool have been made available.

FINANCIAL INSTITUTIONS

PKO Bank Polski SA has extensive network of nostro accounts in foreign banks, over 1 400 SWIFT established relationships with banks in different countries and markets, provides more than 200 loro accounts for foreign banks, which are utilized to settle transactions of banks, both in Poland and in other markets.

In addition to settlement services, PKO Bank Polski SA also provides services to foreign banks, their Polish branches, and domestic banks, offering them modern corporate solutions supporting their own operations and liquidity management. The Bank actively supports the operations of its corporate and retail customers on foreign markets and regularly extends the range of currencies that are available to the Bank's customers.

In the first quarter of 2017, the Bank commenced negotiations with banks in Singapore and South Africa to provide settlement infrastructure for some new currencies, including the Singapore dollar (SGD) and South African rand (ZAR). Settlements in these currencies are planned to be launched in the second quarter of 2017.

DIRECTORS' COMMENTARY TO THE FINANCIAL RESULTS OF THE PKO BANK POLSKI SA GROUP FOR THE FIRST QUARTER OF 2017

Apart from banks, PKO Bank Polski SA works with more than 650 domestic and foreign non-banking financial institutions, including investment funds, pension funds, insurance companies, payment companies, currency brokers and brokerage houses. For such entities the Bank mainly maintains current accounts and deposit accounts and offers them a wide range of treasury products.

INTERNATIONAL BANKING

PKO Bank Polski SA actively participates in the development of the international expansion of its clients, offering them support in foreign markets. Initiatives are taken to facilitate financial support for Polish companies operating on the international markets, with respect to support in the identification of opportunities and winning contracts and directly in the area of international settlements. To facilitate such activities, the Bank follows in the steps of its customers: it has already opened branches in Germany and in the Czech Republic. Other directions of expansion are being considered. In the offer of foreign entities is a full range of services and products for corporate customers comprising i.a.:

- transaction banking (including international cash pooling),
- electronic banking,
- treasury products,
- trade finance,
- corporate loans.

On the basis of strong relations with the majority of leading Polish groups, the Bank supports their activities and investments abroad on particularly favourable terms compared with local competitors, and therefore effectively participates in the development of the international expansion of its customers.

For the entities operating in the territory of Ukraine banking services are being provided by KREDOBANK SA which is a part of the PKO Bank Polski SA Group.

Moreover the Bank provides specialized support to foreign companies operating in Poland, e.g. from the Scandinavian countries, South Korea and Ukraine. For this purpose teams of experts dedicated to serve companies from these countries have been operating, which favours tightening economic relations. The wide range of products offered and the team of high quality advisors make PKO Bank Polski SA increasingly appreciated by foreign customers.

BROKERAGE ACTIVITIES

Brokerage House of PKO Bank Polski SA ('BH', 'the Office') is the unquestionable leader in terms of turnover on the secondary stock market and the market of bonds. In the first quarter of this year, turnover on the stock market amounted to nearly PLN 14 billion, which represented approx. 10% of the total turnover on this market, and 77% of the turnover on the bond market. These results give the Brokerage House first place on the market.

BH is also an active participant in the NewConnect market. With turnover of approx. PLN 76 million, the Office takes fifth place on the market; it takes second place in terms of the number of agreements signed (53 companies).

The activities of the Brokerage House on the primary market was associated with the following transactions:

- the functions of the Global Coordinator, Joint Bookrunner and Offeror in the DINO POLSKA SA's IPO (transaction value: PLN 1.6 billion);
- participation in the public issue of consecutive series of BEST SA bonds (sales amounting to PLN 90 million);
- a member of the distribution consortium in the public offering of E series bonds of Giełda Papierów Wartościowych w Warszawie SA (the Warsaw Stock Exchange) (transaction value: PLN 60 million);
- intermediary in the call to subscribe for the shares of the company VANTAGE DEVELOPMENT SA announced by Fedha Sp. z o.o. (transaction value: PLN 56 million);
- the underwriter in respect of municipal bonds of the Piła Commune, the City of Siedlce, and Opolskie Voivodship (total value of bonds placed on the market: PLN 70 million).

At the end of first quarter of 2017 BH provided 155.1 thousands security accounts and cash accounts and had 173.8 thousand of registry accounts. BH, in terms of securities accounts, ranks in the fourth position among 39 participants in the market.

DIRECTORS' COMMENTARY TO THE FINANCIAL RESULTS OF THE PKO BANK POLSKI SA GROUP FOR THE FIRST QUARTER OF 2017

TREASURY PRODUCTS

The Bank undertakes various efforts aimed at improving the product offer and focuses on the development of cutting edge distribution channels.

Foreign exchange transactions have the largest share in sales of treasury products. The value of spot transactions concluded in the first quarter of 2017 increased by 30%, and the value of term transactions more than doubled.

INTERBANK MARKET

The Bank is the Treasury Securities Dealer and Money Market Dealer, which acts as a market maker on the domestic interest rate and foreign exchange market. In the competition for the selection of Treasury Securities Dealer 2017 the Bank took third place and second place in the contest for the Money Market Dealer.

Funds not allocated to the lending activities are invested by the Bank on the Treasury securities market. The function of portfolio is related to the current liquidity management of the Bank and the function of the investment portfolio.

FIDUCIARY SERVICES

The Bank maintains security accounts and facilitates domestic and foreign market transactions, provides fiduciary services and acts as a depositary for pension and investment funds. As at the end of the first quarter of 2017 assets held by the customers on fiduciary accounts maintained by the Bank amounted to PLN 74 billion and were higher by circa 15% as compared to the value noted in the corresponding period of the previous year.

SALES NETWORK

The sales network of the corporate segment includes 32 Regional Corporate Centres covering seven Corporate Macro-regions and the Branch in the Federal Republic of Germany, which serves corporate clients of PKO Bank Polski SA in Germany.

In April 2017, PKO Bank Polski SA opened its corporate branch in Prague. The Czech branch is the second foreign corporate branch of PKO Bank Polski SA. The Czech branch offers: maintaining settlement accounts, handling non-cash settlements, investing surpluses of funds in the form of deposits, short-, medium- and long-term financing, and providing liquidity management and trade finance services.

Table 11. PKO Bank Polski SA branches

	31.03.2017	31.12.2016	31.03.2016	Change since:	
				31.12.2016	31.03.2016
Number of branches in the corporate and investment segment:	40	40	40	0	0
regional corporate branches	7	7	7	0	0
regional corporate centres	32	32	32	0	0
branch of PKO Bank Polski SA in Germany	1	1	1	0	0

4.2. MARKET POSITION OF THE PKO BANK POLSKI SA GROUP

The Bank is the leader of the loan market and the deposit market (in terms of market share). The Group companies also occupy leading positions in various sectors of the financial services market.

At the end of the first quarter of 2017, the market share of PKO Bank Polski SA (including PKO Bank Hipoteczny SA) loans decreased by 0.1 p.p. compared to the end of 2016 to the level of 17.7%, which was determined by the decrease in share of institutional loans.

The deposits market share amounted to 17.3% and remained unchanged in comparison to the 2016.

DIRECTORS' COMMENTARY TO THE FINANCIAL RESULTS OF THE PKO BANK POLSKI SA GROUP FOR THE FIRST QUARTER OF 2017

Table 12. Market share in loans and deposits market (in %)*

	31.03.2017	31.12.2016	31.03.2016	Change 31.03.2017/ 31.12.2016	Change 31.03.2017/ 31.03.2016
Loans for:*	17.7%	17.8%	17.6%	-0.1 p.p.	0.1 p.p.
private individuals, of which:	22.9%	22.8%	22.8%	0.1 p.p.	0.1 p.p.
housing	25.8%	25.7%	25.5%	0.1 p.p.	0.3 p.p.
PLN	28.6%	28.6%	28.5%	0 p.p.	0.1 p.p.
foreign currency	21.4%	21.4%	21.5%	0 p.p.	-0.1 p.p.
consumer and other	15.8%	15.8%	16.0%	0 p.p.	-0.2 p.p.
institutional entities	12.7%	12.9%	12.6%	-0.2 p.p.	0.1 p.p.
Deposits for:	17.3%	17.3%	17.3%	0 p.p.	0 p.p.
private individuals	20.8%	20.7%	20.7%	0.1 p.p.	0.1 p.p.
institutional entities	12.4%	12.4%	12.7%	0 p.p.	-0.3 p.p.
Leasing	12.8%	7.5%	7.5%	5.3 p.p.	5.3 p.p.
TFI assets	7.6%	7.6%	7.3%	0 p.p.	0.3 p.p.
Non-Treasury debt securities (indebtedness)	29.3%	29.1%	27.9%	0.2 p.p.	1.4 p.p.
Brokerage activities					
trading in the secondary market	9.9%	9.4%	9.4%	0.5 p.p.	0.5 p.p.

Source: NBP, GPW, Polish Leasing Association

* Data according to Webis, the National Bank of Poland's reporting system. Market shares were updated in Q3 2016 as a result of a change in the presentation of market data for the period from September 2014 to September 2016. After the change, receivables from mortgage banks, which had previously been presented under "Other receivables" classified as consumer loans, are now presented under "Housing loans to households".

4.3. ACTIVITIES OF OTHER ENTITIES OF THE PKO BANK POLSKI SA GROUP

PKO TOWARZYSTWO FUNDUSZY INWESTYCYJNYCH SA

1. The value of fund assets under management of the Company as at the end of March 2017 amounted to PLN 20.6 billion, which represents an 4.8% increase in comparison to the end of 2016. The increase in the value of assets was mainly associated with the significant net profit from sales and the result from assets management.
2. PKO Towarzystwo Funduszy Inwestycyjnych SA is ranked third in terms of the net value of assets, with a 7.6% share in the market of investment funds, and first in terms of the value of non-dedicated fund assets managed with a 14.2% market share.
3. As at 31 March 2017, the Company managed 42 investment funds and sub-funds.
4. In the first quarter of 2017, the Company carried out 8 issues of closed-ended investment certificates, in which it raised assets with a total gross value of PLN 279.5 million.

* Source: The Chamber of Fund and Asset Managers

PKO BP BANKOWY PTE SA

1. As at the end of March 2017 net assets value of PKO BP Bankowy OFE managed by PKO BP Bankowy PTE SA amounted to PLN 7.6 billion, which represents an 8.6% increase in comparison to the end of 2016. The increase of net assets value resulted mostly from the rate of return on Fund's assets.
2. As at the end of March 2017 PKO BP Bankowy OFE had over 935 thousand members.
3. PKO BP Bankowy OFE ranks 8th on the pension fund market in terms of OFE net asset value and 9th in terms of the number of OFE members.
4. According to the Polish Financial Supervision Authority ranking, PKO BP Bankowy OFE achieved a rate of return of 16.318% for the period from 31 March 2014 to 31 March 2017, compared with the weighted average rate of return for all funds of 12.921% (second place in the OFE ranking for the said period).

* Source: www.knf.gov.pl

DIRECTORS' COMMENTARY TO THE FINANCIAL RESULTS OF THE PKO BANK POLSKI SA GROUP FOR THE FIRST QUARTER OF 2017

PKO LEASING SA GROUP

1. In the first quarter of 2017, the lease companies of the PKO Leasing SA Group financed fixed assets with a total value of PLN 1.9 billion, which represents an 8.9% increase compared with the same period of 2016.
2. As at the end of March 2017 the combined carrying value of amounts due from customers for financing of fixed assets and the carrying value of fixed assets leased by the PKO Leasing SA Group under operating lease agreements was PLN 13.0 billion.
3. In terms of the value of funds provided in the first quarter of 2017 for the financing of fixed assets, as at the end of March 2017 the PKO Leasing SA Group occupied first position on the lease services market with a market share of 12.8%*.
4. In the first quarter of 2017, PKO Faktoring SA provided domestic and export factoring services without recourse and with recourse, reverse factoring and factoring schemes for suppliers.
5. In the first quarter of 2017 the value of factoring turnover amounted to PLN 2.8 billion (for comparable period of the previous year the Company's turnover was PLN 2 billion); at the end of March 2017 the number of customers amounted to 394.
6. As at the end of the first quarter of 2017, PKO Faktoring SA was ranked ninth among factoring firms belonging to the Polish Factors Association, with a market share of 6.7%.

* Source: Polish Leasing Association

PKO ŻYCIE TOWARZYSTWO UBEZPIECZEŃ SA GROUP

1. PKO Życie Towarzystwo Ubezpieczeń SA offer wide range of insurance products starting from protective products to investment products. Company focuses its operations on offering to their customers life insurance and health protecting products, the Company has in offer individual products, as well as products complementing offer provided by PKO Bank Polski SA.
2. Gross written premiums under the insurance contracts concluded by the Company as at 31 March 2017 amounted to PLN 115.5 million.
3. As at the end of March 2017, the Company insured more than 674 thousand people.

PKO TOWARZYSTWO UBEZPIECZEŃ SA

1. The Company business activities comprise other non-life insurance and property insurance. The Company's activities are based on strategic cooperation with PKO Bank Polski SA. The Company mainly offers insurance for the clients of bank, whom are holders of credit cards or concluded agreements for cash loan and insurance for the Bank clients and clients of PKO Hipoteczny SA, who concluded mortgage loan agreements.
2. Gross written premiums under the insurance contracts concluded by the Company as at 31 March 2017 amounted to PLN 107.5 million.
3. As at the end of March 2017, the Company insured 414 thousand people.

PKO BANK HIPOTECZNY SA

1. PKO Bank Hipoteczny SA started its operational activity in April 2015. The principal purpose of the Bank is to issue covered bonds, which serve as the main source of long-term financing of mortgage loans. The Company specializes in granting housing mortgage loans for individuals. It also purchases receivables under such loans from PKO Bank Polski SA. It acquires loans for its portfolio on the basis of strategic cooperation with PKO Bank Polski SA.
2. In the first quarter of 2017, under the Framework Agreement for the Sale of Receivables signed in 2015 with PKO Bank Polski SA, PKO Bank Hipoteczny SA acquired housing loans portfolios secured with mortgages totalling PLN 0.5 billion.
3. The total value of the gross loan portfolio of PKO Bank Hipoteczny SA as at 31 March 2017 amounted to PLN 9.2 billion, including housing loans secured with mortgages acquired under the agreement with PKO Bank Polski SA amounting to PLN 6.3 billion.

DIRECTORS' COMMENTARY TO THE FINANCIAL RESULTS OF THE PKO BANK POLSKI SA GROUP FOR THE FIRST QUARTER OF 2017

4. In the first quarter of 2017, the Company carried out the following issues of covered bonds:

a) one foreign issue in the form of private placement, carried out on 2 February, denominated in EUR, addressed to institutional investors, with a total nominal value of EUR 25 million and redemption period of 7 years; the interest is fixed and yield in the issue period amounts to 0.82%; covered bonds were purchased by investors at a price equal to their nominal value and are quoted on the Luxembourg Stock Exchange.

b) one foreign issue, carried out on 30 March, denominated in EUR, addressed to institutional investors, with a total nominal value of EUR 500 million and redemption period of 5 years and 10 months; fixed interest in the issue period amounts to 0.625% and yield as at the date of fixing the price is 0.63%; the covered bonds were purchased by investors at a price amounting to 99.972% of their nominal value and are quoted on the Luxembourg Stock Exchange (they are also planned to be quoted on the Warsaw Stock Exchange).

5. Total value of covered bonds issued (at the nominal value) as at the end of March 2017 amounted to PLN 5.36 billion. Therefore, PKO Bank Hipoteczny SA became the covered bond leader in Poland and their most active issuer.

KREDOBANK SA GROUP (DATE ACCORDING TO IFRS BINDING FOR THE PKO BANK POLSKI SA GROUP)

1. Loan portfolio of the KREDOBANK SA Group (gross) in the first quarter of 2017 increased by UAH 389 million, ie. by 5.9% and amounted to UAH 6 941 million as of the day 31 March 2017 (loan portfolio gross expressed in PLN at the end of March 2017 was equal to PLN 1 013 million). Increase of the loan portfolio value in UAH was mainly a result of the increase of new loans sales.

2. In the first quarter of 2017, term deposits of KREDOBANK SA the Group customers increased by UAH 2.5 million, i.e. by 0.06%, and amounted to UAH 4 022 million as at 31 March 2017 (term deposits expressed in PLN as at the end of March 2017 amounted to PLN 587 million).

3. As at 31 March 2017, the network of KREDOBANK SA branches comprised the Head Office in Lviv and 108 branches in 22 out of 24 Ukrainian districts. In the first quarter of 2017, one branch was opened and 4 branches were closed.

4.4. PRIZES AND AWARDS

In the first quarter of 2017, the PKO Bank Polski SA Group received many prizes and awards, which the most important are:

TRANSPARENT COMPANY 2016

PKO Bank Polski SA was awarded the title of 'Transparent Company 2016'. The title is given in the ranking of WIG20 companies in the category of communication of public companies with the market, prepared by the Accountancy and Taxes (IRiP) and *Parkiet* Stock Exchange Journal. The Bank received a high rating for financial reporting, investor relations and corporate governance principles. This title is further proof of the high quality of the Bank's communication with stakeholders.

The 'Transparent Company of the Year' ranking is a new initiative of IRiP and the *Parkiet* Stock Exchange Gazette, which is addressed to WIG20, WIG40 and WIG80 public companies. Its aim is to assess the companies' transparency in terms of the expectations of the market as represented by various groups of stakeholders. The ranking was based on a survey covering the most important aspects of market communication.

THE STRONGEST FINANCIAL BRAND

PKO Bank Polski SA remains the strongest financial brand in Poland. This is confirmed by the results of the 13th edition of the prestigious ranking of 'The Most Valuable and Strongest Polish Brands 2016' by the *Rzeczpospolita* daily, which evaluates recognition on the market, popularity of products, and above all the brand value

. PKO Bank Polski SA is the third most valuable brand in Poland.

MOBILE TRENDS AWARDS 2016

PKO Bank Polski SA received the Mobile Trends Awards 2016 trophy in the 'mobile banking' category for the IKO application (a proprietary mobile application of PKO Bank Polski SA, on the basis of which the interbank mobile payment standard BLIK was built).



DIRECTORS' COMMENTARY TO THE FINANCIAL RESULTS OF THE PKO BANK POLSKI SA GROUP FOR THE FIRST QUARTER OF 2017

	It was the sixth time that the Mobile Trends Awards were granted for the best mobile solutions. The winners were selected by a Jury composed of IT and mobile experts, but Internet users could also vote.
INVESTOR RELATIONS SURVEY LEADER	PKO Bank Polski SA was ranked first in the investor relations survey of WIG30 companies conducted among individual investors by the <i>Parkiet</i> journal and the Chamber of Brokerage Houses. The Bank was leader in the ranking of individual investors' opinions and the opinions of <i>Parkiet</i> readers, as well as in the ranking of the opinions of analysts and institutional investors.
ACTIVE CAPITAL MARKETS PARTICIPANTS	In their summary of the year 2016 on the stock exchange, the Warsaw Stock Exchange (WSE) and the Central Securities Depository of Poland (KDPW) granted awards to PKO Bank Polski SA and the Brokerage House of PKO Bank Polski SA. The Brokerage House was recognized for the highest turnover generated by a market maker on non-treasury bonds traded in sessions on the Catalyst market and the biggest share in the volume of index options trading among market makers. PKO Bank Polski SA took first place for the highest value of OTC transactions settled with KDPW_CCP in 2016.
BEST CONTACT CENTER	The Contact Center of PKO Bank Polski SA received an award for the 'Best Call Centre' in the Institution of the Year 2016 service quality survey conducted by the <i>MojeBankowanie.pl</i> web portal. Experts appreciated the consultants' skills, their attitude and the ease of obtaining information by customers.
CURRENCY FORECASTS LEADER	The team of the Market Strategy Office of PKO Bank Polski SA led by Director Mariusz Adamiak was ranked first in the ranking of Bloomberg's quarterly currency forecasts. The team won in the categories of 13 main currency pairs and G10 currency forecasts. The ranking assessed the differences between forecasts and the actual market values and consistency with the trend, taking into account the date of sending the forecasts.
MACROECONOMIC FORECASTS LEADER	After three quarters of 2016, the Macroeconomic Analyses Team of PKO Bank Polski took first place in the macroeconomic analysts competition conducted by the <i>Rzeczpospolita daily</i>. The team led by Piotr Bujak, the Chief Economist of PKO Bank Polski SA, was definitely the best among the 41 participating teams in the most difficult forecasting category of the previous year, i.e. investments.
PKO BANK POLSKI SA AS THE STATE BUDGET PILLAR	The Bank received the State Budget Pillar award granted by the <i>Rzeczpospolita daily</i> for last year's CIT payments to the state budget. We are the biggest payer among financial institutions and the second of all entities participating in the ranking. This year's award is our third one in this ranking. Since the first edition of the State Budget Pillars, we have been among the top five payers to the State Treasury.
'GOLDEN WALLET' FOR THE MANAGER OF THE PKO SUROWCÓW GLOBALNY FUND	The 'Golden Wallet' is an award granted by the <i>Parkiet</i> Stock exchange journal to the most efficient managers of investment fund companies (TFI). The PKO Surowców Globalny Fund achieved a rate of return exceeding 76% in 2016 – it is the best result among investment funds operating on the capital market for the past year.



Bank Polski

Condensed interim
consolidated financial statements of
the PKO Bank Polski SA Group
for the three-month period ended
31 March 2017

**CONDENSED INTERIM CONSOLIDATED FINANCIAL
STATEMENTS OF THE PKO BANK POLSKI SA GROUP
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2017
(IN PLN MILLION)**



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CONSOLIDATED INCOME STATEMENT

	Note	01.01- 31.03.2017	01.01- 31.03.2016
Interest and similar income	6	2 620	2 391
Interest expense and similar charges	6	(574)	(538)
Net interest income		2 046	1 853
Fee and commission income	7	929	843
Fee and commission expense	7	(219)	(208)
Net fee and commission income		710	635
Net income from financial instruments measured at fair value	8	19	(8)
Gains less losses from investment securities	9	5	51
Net foreign exchange gains (losses)	10	116	94
Other operating income	11	114	124
Other operating expense	11	(38)	(64)
Net other operating income and expense		76	60
Net impairment allowance and write-downs	12	(391)	(382)
Administrative expenses	13	(1 563)	(1 360)
Tax on certain financial institutions	14	(233)	(148)
Operating profit		785	795
Share in profit (loss) of associates and joint ventures		5	3
Profit before income tax		790	798
Income tax expense	15	(262)	(160)
Net profit (including non-controlling shareholders)		528	638
Profit (loss) attributable to non-controlling shareholders		3	(1)
Net profit attributable to equity holders of the parent company		525	639
Earnings per share	16		
– basic earnings per share for the period (in PLN)		0.42	0.51
– diluted earnings per share for the period (in PLN)		0.42	0.51
Weighted average number of ordinary shares during the period (in million)		1 250	1 250
Weighted average diluted number of ordinary shares during the period (in million)		1 250	1 250

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	01.01- 31.03.2017	01.01- 31.03.2016
Net profit (including non-controlling shareholders)		528	638
Other comprehensive income		239	132
Items that may be reclassified to the income statement		239	132
Cash flow hedges (gross)	21	21	137
Deferred tax on cash flow hedges	15;21	(5)	(26)
Cash flow hedges (net)	21	16	111
Unrealized net gains on financial assets available for sale (gross)		285	33
Deferred tax on unrealized net gains on financial assets available for sale	15	(51)	(6)
Unrealized net gains on financial assets available for sale (net)		234	27
Currency translation differences from foreign operations		(9)	(9)
Share in other comprehensive income of associates and joint ventures		(2)	3
Total net comprehensive income		767	770
Total net comprehensive income, of which attributable to:		767	770
equity holders of PKO Bank Polski SA		764	771
non-controlling shareholders		3	(1)

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	31.03.2017	31.12.2016
ASSETS			
Cash and balances with the Central Bank	17	14 087	13 325
Amounts due from banks	18	5 659	5 345
Trading assets excluding derivative financial instruments	19	1 381	326
Derivative financial instruments	20	2 748	2 901
Financial assets designated upon initial recognition at fair value through profit and loss	22	11 775	13 937
Loans and advances to customers	23	200 579	200 606
Investment securities available for sale	24	39 058	36 676
Investment securities held to maturity	25	1 200	466
Investments in associates and joint ventures	38	377	386
Non-current assets held for sale		9	14
Inventories	26	301	260
Intangible assets	27	3 354	3 422
Tangible fixed assets	27	3 027	3 086
Current income tax receivables		18	10
Deferred income tax assets		1 728	1 779
Other assets	28	3 215	3 034
TOTAL ASSETS		288 516	285 573
LIABILITIES AND EQUITY			
Liabilities			
Amounts due to the Central Bank		4	4
Amounts due to banks	29	18 162	19 208
Derivative financial instruments	20	3 805	4 198
Amounts due to customers	30	207 116	205 066
Liabilities due to insurance operations	31	3 005	2 944
Debt securities in issue	32	16 547	14 493
Subordinated liabilities	33	2 487	2 539
Other liabilities	34	3 716	3 987
Current income tax liabilities		83	305
Deferred income tax liabilities		42	31
Provisions	35	213	229
TOTAL LIABILITIES		255 180	253 004
Equity			
Share capital	36	1 250	1 250
Other capital	36	28 949	28 701
Currency translation differences from foreign operations	36	(230)	(221)
Undistributed profits	36	2 855	(19)
Net profit for the year	36	525	2 874
Capital and reserves attributable to equity holders of the parent company	36	33 349	32 585
Non-controlling interest	36	(13)	(16)
TOTAL EQUITY		33 336	32 569
TOTAL LIABILITIES AND EQUITY		288 516	285 573
Capital adequacy ratio	60	15.60%	15.81%
Book value (in PLN million)		33 336	32 569
Number of shares (in million)	36	1 250	1 250
Book value per share (in PLN)		26.67	26.05
Diluted number of shares (in million)		1 250	1 250
Diluted book value per share (in PLN)		26.67	26.05

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended 31 March 2017	Share capital	Other capital			Other comprehensive income					Currency translation differences from foreign operations	Undistributed profits	Net profit for the period	Total capital and reserves attributable to equity holders of the parent company	Non- controlling interest	Total equity
		Reserves			Share in other comprehensive income of an associate and joint venture	Financial assets available for sale	Cash flow hedges	Actuarial gains and losses	Total other capital						
		Reserve capital	General banking risk fund	Other reserves											
As at 1 January 2017	1 250	24 491	1 070	3 608	(1)	(347)	(109)	(11)	28 701	(221)	(19)	2 874	32 585	(16)	32 569
Transfer of net profit from previous years	-	-	-	-	-	-	-	-	-	-	2 874	(2 874)	-	-	-
Total comprehensive income, of which:	-	-	-	-	(2)	234	16	-	248	(9)	-	525	764	3	767
Net profit	-	-	-	-	-	-	-	-	-	-	-	525	525	3	528
Other comprehensive income	-	-	-	-	(2)	234	16	-	248	(9)	-	-	239	-	239
As at 31 March 2017	1 250	24 491	1 070	3 608	(3)	(113)	(93)	(11)	28 949	(230)	2 855	525	33 349	(13)	33 336

For the period ended 31 March 2016	Share capital	Other capital			Other comprehensive income					Currency translation differences from foreign operations	Undistributed profits	Net profit for the period	Total capital and reserves attributable to equity holders of the parent company	Non- controlling interest	Total equity	
		Reserves														
		Reserve capital	General banking risk fund	Other reserves	Share in other comprehensive income of an associate and joint venture	Financial assets available for sale	Cash flow hedges	Actuarial gains and losses	Total other capital							
As at 1 January 2016	1 250	20 711	1 070	3 536	-	171	(58)	(12)	25 418	(217)	1 222	2 610	30 283	(18)	30 265	
Transfer of net profit from previous years	-	-	-	-	-	-	-	-	-	-	2 610	(2 610)	-	-	-	
Total comprehensive income, of which:	-	-	-	-	3	27	111	-	141	(9)	-	639	771	(1)	770	
Net profit	-	-	-	-	-	-	-	-	-	-	-	639	639	(1)	638	
Other comprehensive income	-	-	-	-	3	27	111	-	141	(9)	-	-	132	-	132	
As at 31 March 2016	1 250	20 711	1 070	3 536	3	198	53	(12)	25 559	(226)	3 832	639	31 054	(19)	31 035	

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CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	01.01- 31.03.2017	01.01- 31.03.2016
Net cash flows from operating activities			
Profit before income tax		790	798
Adjustments:		1 031	4 525
Amortisation and depreciation		209	191
(Gains) losses from investing activities		2	(1)
Interest and dividends		30	(9)
Change in:			
amounts due from banks		343	1 390
financial assets designated upon initial recognition at fair value through profit and loss		1 107	528
derivative financial instruments		(240)	23
loans and advances to customers		(113)	2 464
other assets, inventories and non-current assets held for sale		(214)	(890)
amounts due to banks		(814)	1 957
amounts due to customers		2 189	(898)
debt securities in issue		(743)	(217)
provisions and impairment allowances		132	67
other liabilities, liabilities due to insurance operations and subordinated liabilities		(262)	(100)
Income tax paid		(484)	(177)
Other adjustments		(111)	197
Net cash generated from operating activities		1 821	5 323
Net cash flows from investing activities			
Inflows from investing activities		2 332	33 130
Proceeds from sale and interest of investment securities		2 317	33 127
Proceeds from sale of intangible assets, tangible fixed assets and assets held for sale		15	3
Outflows from investing activities		(4 953)	(36 780)
Purchase of a subsidiary, net of cash acquired		(14)	-
Increase in equity of a subsidiary		-	(1)
Purchase of investment securities		(4 865)	(36 488)
Purchase of intangible assets and tangible fixed assets		(74)	(291)
Net cash used in investing activities		(2 621)	(3 650)
Net cash flows from financing activities			
Proceeds from debt securities in issue		3 719	62
Redemption of debt securities		(921)	(59)
Repayment of interest from debt securities issued and subordinated loans		(169)	(174)
Long-term borrowings		88	43
Repayment of long-term borrowings		(498)	(71)
Net cash generated from/used in financing activities		2 219	(199)
Net cash flows		1 419	1 474
of which currency translation differences on cash and cash equivalents		(206)	(36)
Cash and cash equivalents at the beginning of the period		17 966	17 265
Cash and cash equivalents at the end of the period	44	19 385	18 739
of which restricted		13	12

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION ON THE GROUP AND THE BANK

BUSINESS ACTIVITIES OF THE GROUP AND THE BANK

Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna ('PKO Bank Polski' SA or 'The Bank') was established in 1919 as Poczta Kasa Oszczędnościowa. In 1950 it started operations as the Powszechna Kasa Oszczędności State-owned bank. Pursuant to the Decree of the Council of Ministers dated 18 January 2000 (Journal of Laws No. 5, item 55 with subsequent amendments) Powszechna Kasa Oszczędności (a State-owned bank) was transformed into a State-owned joint-stock company, Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna with its Head Office in Warsaw, Puławska 15 Street, 02-515 Warsaw, Poland.

On 12 April 2000 Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna was registered and entered into the Register of Companies by the District Court for the capital city of Warsaw, Commercial Court XVI Registration Department. At present, the appropriate court is the District Court for the capital city of Warsaw, XIII Economic Department of the National Court Register. The Bank was registered under entry No. KRS 0000026438 and was granted a statistical REGON No. 016298263. The paid share capital amounts to PLN 1 250 000 000.

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

The Powszechna Kasa Oszczędnościowa Bank Polski Spółka Akcyjna Group (the 'PKO Bank Polski SA Group', 'the Bank's Group', 'the Group') conducts its operations within the territory of the Republic of Poland and through subsidiaries: in the territory of Ukraine, Sweden and Ireland, and as a Branch in the Federal Republic of Germany ('the Branch in Germany').

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

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

Composition of the Group and the scope of operations of its entities are presented in the note 'Structure of the PKO Bank Polski SA Group and the scope of activities of the Group entities'.

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

As at 31 March 2017, the Bank's Supervisory Board consisted of:

Piotr Sadownik Chairman of the Supervisory Board	Appointed to the Supervisory Board on 25 February 2016 for the term of the Supervisory Board, which commenced on the day of the Ordinary General Shareholder's Meeting convened on 26 June 2014.
Grażyna Ciurzyńska Vice-Chairman of the Supervisory Board	Appointed to the Supervisory Board on 30 June 2016 for the term of the Supervisory Board, which commenced on the day of the Ordinary General Shareholder's Meeting convened on 26 June 2014.
Zbigniew Hajłasz Secretary of the Supervisory Board	Appointed to the Supervisory Board on 30 June 2016 for the term of the Supervisory Board, which commenced on the day of the Ordinary General Shareholder's Meeting convened on 26 June 2014. On 14 July 2016 he was elected as the Secretary of the Supervisory Board.
Mirosław Barszcz Member of the Supervisory Board	Appointed to the Supervisory Board on 25 February 2016 for the term of the Supervisory Board, which commenced on the day of the Ordinary General Shareholder's Meeting convened on 26 June 2014.
Adam Budnikowski Member of the Supervisory Board	Appointed to the Supervisory Board on 25 February 2016 for the term of the Supervisory Board, which commenced on the day of the Ordinary General Shareholder's Meeting convened on 26 June 2014.
Wojciech Jasiński Member of the Supervisory Board	Appointed to the Supervisory Board on 25 February 2016 for the term of the Supervisory Board, which commenced on the day of the Ordinary General Shareholder's Meeting convened on 26 June 2014.
Andrzej Kisielewicz Member of the Supervisory Board	Appointed to the Supervisory Board on 25 February 2016 for the term of the Supervisory Board, which commenced on the day of the Ordinary General Shareholder's Meeting convened on 26 June 2014.
Elżbieta Mączyńska-Ziemacka Member of the Supervisory Board	Appointed to the Supervisory Board on 26 June 2014 for the term of the Supervisory Board, which commenced on the day of the Ordinary General Shareholder's Meeting convened on 26 June 2014.
Janusz Ostaszewski Member of the Supervisory Board	Appointed to the Supervisory Board on 25 February 2016 for the term of the Supervisory Board, which commenced on the day of the Ordinary General Shareholder's Meeting convened on 26 June 2014.

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As at 31 March 2017, the Bank's Management Board consisted of:

Zbigniew Jagiełło

President of the Management Board

Appointed on 8 January 2014 again to the position of President of the Management Board of PKO Bank Polski SA for the current term of the Management Board.

Janusz Derda

Vice-President of the Bank's Management Board in charge of IT and Services

Appointed on 3 November 2016 to the position of Vice-President of the Management Board of PKO Bank Polski SA for the current term of the Management Board on 1 December 2016.

Bartosz Drabikowski

Vice-President of the Bank's Management Board in charge of Finance and Accounting

Appointed on 8 January 2014 again to the position of Vice-President of the Management Board of PKO Bank Polski SA for the current term of the Management Board.

Maks Kraczkowski

Vice-President of the Bank's Management Board in charge of International and Transaction Banking and Cooperation with Local Government and Government Agencies

Appointed on 30 June 2016 to the position of Vice-President of the Management Board of PKO Bank Polski SA for the current term of the Management Board on 4 July 2016.

Mieczysław Król

Vice-President of the Bank's Management Board in charge of Insurance Banking, Legal Area and Compliance

Appointed on 2 June 2016 to the position of Vice-President of the Management Board of PKO Bank Polski SA for the current term of the Management Board on 6 June 2016.

Piotr Mazur

Vice-President of the Bank's Management Board in charge of Risk Management

Appointed on 8 January 2014 again to the position of Vice-President of the Management Board of PKO Bank Polski SA for the current term of the Management Board.

Jakub Papierski

Vice-President of the Bank's Management Board in charge of Corporate and Investment Banking

Appointed on 8 January 2014 again to the position of Vice-President of the Management Board of PKO Bank Polski SA for the current term of the Management Board.

Jan Emeryk Rościszewski

Vice-President of the Bank's Management Board, in charge of Retail Market

Appointed on 14 July 2016 to the position of Vice-President of the Management Board of PKO Bank Polski SA for the current term of the Management Board on 18 July 2016.

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CHANGES IN THE NUMBER AND RIGHTS TO PKO BANK POLSKI SA'S SHARES HELD BY MANAGEMENT AND SUPERVISORY BOARD MEMBERS

PKO Bank Polski SA's shares held by the Management and Supervisory Board Members

No.	Name and surname	Number of shares as at the publication date of the report for I quarter 2017	Acquisition	Disposal	Number of shares as at 31.12.2016
Management Board of the Bank					
1.	Zbigniew Jagiełło, President of the Management Board	11 000	0	0	11 000
2.	Janusz Derda, Vice-President of the Management Board	0	0	0	0
3.	Bartosz Drabikowski, Vice-President of the Management Board	0	0	0	0
4.	Maks Krackowski, Vice-President of the Management Board	0	0	0	0
5.	Mieczysław Król, Vice-President of the Management Board	5 000	0	0	5 000
6.	Piotr Mazur, Vice-President of the Management Board	4 500	0	0	4 500
7.	Jakub Papiński, Vice-President of the Management Board	3 000	0	0	3 000
8.	Jan Emeryk Rościszewski, Vice-President of the Management Board	0	0	0	0
II. Supervisory Board of the Bank					
1.	Piotr Sadownik, Chairman of the Bank's Supervisory Board	0	0	0	0
2.	Grażyna Ciurzyńska, Vice-Chairman of the Bank's Supervisory Board	0	0	0	0
3.	Zbigniew Hajłasz, Secretary of the Bank's Supervisory Board	0	0	0	0
4.	Mirosław Barszcz, Member of the Bank's Supervisory Board	0	0	0	0
5.	Adam Budnikowski, Member of the Bank's Supervisory Board	0	0	0	0
6.	Wojciech Jasiński, Member of the Bank's Supervisory Board	0	0	0	0
7.	Andrzej Kisielewicz, Member of the Bank's Supervisory Board	0	0	0	0
8.	Elżbieta Mączyńska-Ziemacka, Member of the Bank's Supervisory Board	0	0	0	0
9.	Janusz Ostaszewski, Member of the Bank's Supervisory Board	0	0	0	0

2. APPROVAL OF THE FINANCIAL STATEMENTS

These condensed interim consolidated financial statements, reviewed by the Audit Committee of the Supervisory Board on 18 May 2017, were approved for publication by the Bank's Management Board on 10 May 2017.

3. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The condensed interim consolidated financial statements of the Group have been prepared for the three-month period ended 31 March 2017 and include comparative data for the three-month period ended 31 March 2016 (as regards consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows), and comparative data as at 31 December 2016 (as regards consolidated statement of financial position). Financial data has been presented in Polish zloty (PLN), rounded to million zloty, unless indicated otherwise.

These condensed interim consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) no. 34 'Interim financial reporting' adopted by the European Union (EU).

The accounting policies and the calculation methods used in the preparation of these condensed interim consolidated financial statements are consistent with the policies in force in the financial year ended 31 December 2016. Those policies have been described in the annual financial statements of PKO Bank Polski SA for 2016.

The presented condensed interim consolidated financial statements for the three months do not include all information and disclosures required to be presented in annual consolidated financial statements and they should be read jointly with the annual financial statements of PKO Bank Polski SA for the year ended 31 December 2016, prepared in accordance with the International Financial Reporting Standards as adopted by the European Union.

4. CHANGES IN ACCOUNTING POLICIES

4.1. AMENDMENTS TO PUBLISHED STANDARDS AND INTERPRETATIONS THAT ARE EFFECTIVE FROM 1 JANUARY 2017

These financial statements include the requirements of all the International Accounting Standards and International Financial Reporting Standards adopted by the European Union, and the related interpretations which have been issued and are binding for annual periods beginning on or after 1 January 2017.

These financial statements do not include the standards and interpretations listed below which are waiting to be adopted by the European Union or have been adopted by the European Union but have or will become binding after the balance sheet date.

4.2. NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS TO PUBLISHED STANDARDS, THAT WERE PUBLISHED AND ADOPTED BY THE EU, BUT DID NOT COME INTO FORCE YET AND WERE NOT INTRODUCED BY THE GROUP

The Management Board does not expect the adoption of the new standards, their changes and interpretations to have a significant impact on the accounting policies applied by the Group with the exception of IFRS 9. The Group intends to apply them in the periods indicated in the relevant standards and interpretations (without early adoption), provided adoption by the EU.

IFRS 9 FINANCIAL INSTRUMENTS

IFRS 9 Financial Instruments was published in July 2014 and endorsed for application in the EU Member States on 22 November 2016 by Commission Regulation (EU) 2016/2067. It is mandatory for financial statements prepared for the financial years starting on or after 1 January 2018 (with the exception of insurance companies, which may apply the standard from 1 January 2021). The standard replaces IAS 39 Financial Instruments: Recognition and Measurement. The amendments cover the classification and measurement of financial instruments, recognition and calculation of impairment and hedge accounting.

Classification and measurement

IFRS 9 defines 3 measurement categories of financial instruments:

- amortized cost calculated using the effective interest rate method (hereinafter 'amortized cost');
- fair value through other comprehensive income (hereinafter 'FVOCI'); and
- fair value through profit or loss (hereinafter 'FVP&L').

The above corresponds to the measurement methods known from IAS 39, but the principles of classifying items to the individual categories are completely different.

In the case of debt instruments, classification of financial assets is based on the entity's business model and the characteristics of cash flows generated by those assets.

The business model test determines whether a given instrument is maintained to obtain contractual cash flows or to realize fair value changes before the maturity date. There are three groups distinguished within the business model: 'hold to collect', 'hold to collect and sell' and 'sell'.

The test of the cash flow characteristics establishes whether contractual cash flows are solely payments of principal and interest defined as consideration for the time value of money and risks related to the value of the exposure in a given period (hereinafter 'SPPI').

If both these tests are satisfied, debt assets are classified as measured at amortized cost, with the exception of the possibility of classifying to FVP&L the instruments in case of which such measurement eliminates the accounting mismatch in the measurement method.

The category of fair value through other comprehensive income (FVOCI) which include debt instruments used under a business model assuming both obtaining contractual cash flows and selling financial assets. The condition is that the SPPI test must be satisfied.



If debt financial assets do not satisfy any of the above-mentioned criteria, they are classified and measured as FVP&L.

Classification of financial instruments is performed as at the moment of first-time adoption of IFRS 9, i.e. as at 1 January 2018 and at the moment of initial recognition of an instrument. Changes in the classification are only possible in case of a significant change of the business model and should occur very rarely.

In the case of equity instruments, instruments as held for trading are classified as FVP&L, and in the case of the remaining instruments, the Bank is able to elect to either classify and measure them as FVP&L or as FVOCI. In the case of FVOCI, the entity recognizes fair value changes in other comprehensive income, with the exception of dividends – which are recognized in profit or loss. Fair value changes thus recognized in other comprehensive income would never be transferred to profit or loss which makes a difference compared to similar measurement of available-for-sale financial assets (AFS) under current IAS 39. Although the valuation changes may be transferred between the categories of equity.

Financial liabilities are measured according to the former provisions of IAS 39, with the exception of the obligation to recognize in other comprehensive income a part of the fair value measurement arising from changes in own credit risk – in the case of financial liabilities to which the fair value option was applied.

In 2016, the Group in cooperation with an external advisor executed the first stage of the preparation for implementing the standard. Work performed in the area of classification and measurement comprised identifying changes in accounting policies introduced by IFRS 9, initial assessment of business models for the individual asset categories and initial assessment of the products in terms of cash flow characteristics.

The analysis performed with regard to classification and measurement comprised aspects such as verifying the lending products in terms of the cash flow characteristic test (SPPI test), verifying the adopted business models and performing a simulation of the effect of implementing IFRS 9 in the form of a transposition matrix presenting the change in classification of financial instruments taking into account the effect on the Group's financial statements.

The analyses performed led to the following conclusions:

- The most significant potential change in the classification may concern the portfolio of cash loans with maximum interest rate formula, i.e. loans with clauses empowering the Bank to interest rate change in the case of a change in the reference rate which, failing the SPPI test, may be classified for measurement at fair value. The question of measurement of such instruments in the context of the provisions of IFRS 9 is being discussed on the market, and as of today no unified position has been reached on the market;
- The potential change in the classification may also concern the measurement at FVOCI of the portfolio of housing loans which will be subject to sale to PKO Bank Hipoteczny as part of the so-called pooling. Such classification will be maintained for the purpose of preparing the Bank's standalone financial statements. From the perspective of the consolidated financial statements, the adjustment will not apply because the loans subject to pooling will meet the business model criterion of 'hold to collect' within the Group;
- Other adjustments (the fair value measurement of reverse-repo/buy-sell-back transactions, split of the liquidity portfolio) will not have a material impact on the Group's financial statements;
- IFRS 9 will change the method of disclosure of modification of cash flows from the Bank's financial assets, which will be disclosed in the income statement on a one-off basis upon making the modification, and the change in the carrying amount will be calculated using the original effective interest rate. To-date the impact of the modifications was deferred or accrued using the effective interest rate over the remaining period to maturity of the product.

Impairment

A fundamental change in the area of impairment is that IAS 39 is based on the concept of incurred losses, whereas IFRS 9 is based on the concept of expected losses.

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In line with the general principle, impairment will be measured as 12-month expected credit losses or lifetime expected credit losses. The measurement basis will depend on whether credit risk increased significantly from the moment of initial recognition. Loans will be allocated to 3 categories (stages):

Not impaired portfolio (IBNR according to IAS 39)	Stage 1 (assets with low credit risk)	12-month expected credit losses
	Stage 2 (increase in credit risk)	lifetime expected credit losses
Impaired portfolio	Impaired loans (the portfolio includes purchased or originated credit-impaired assets – POCI)	lifetime expected credit losses

The Group identifies the evidence of a significant increase in risk based on the comparison of the probability curves over the life of an exposure as at the date of initial recognition and as at the reporting date. For each reporting date, only the parts of the original and current insolvency probability curves which correspond to the period starting from the reporting date to the maturity of the exposure are compared. The comparison is based on the value of the average probability of default in the analysed period, adjusted for the current and forecasted macroeconomic ratios.

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

- restructuring measures involving granting concessions to the debtor due to its financial difficulties – forbearance;
- a delay in repayments of more than 30 days;
- early warning signals identified as part of the monitoring process, indicating an increase in credit risk;
- a dispute in progress with a customer;
- an assessment by an analyst as part of the individualized analysis process;
- no credit risk assessment available for an exposure as at the date of initial recognition, preventing the Group from assessing whether credit risk has increased.

The loss expected both during the life of an exposure and in a 12-month period is the total of the losses expected in the individual periods, discounted using the effective interest rate. The Group assumes one month to be the base period. In order to properly recognize an asset as at the default date in a given period, the Group adjusts the parameter which determines the amount of the exposure as at the default date for future repayments.

As regards the portfolio analysis, the impact of macroeconomic scenarios is included in the levels of the individual parameters. In determining the methodology of calculation of the individual risk parameters, the Group examines the dependence of the levels of these parameters on macroeconomic conditions based on historical data. For calculating an expected loss, similarly to the case of identification of the evidence of a significant increase in risk, macroeconomic scenarios are used. The ultimate expected loss is the average of losses expected in the individual scenarios, weighted with the probability of the scenarios occurring. The Group ensures the consistency of the macroeconomic scenarios used for calculating risk parameters with the macroeconomic scenarios used in credit risk budgeting processes.

At the time of initial recognition, all loans are recognized in stage 1, excluding the POCI portfolio.



In 2016, in cooperation with an external advisor, the Group completed the first stage of the preparations for the implementation of the standard, i.e. the gap analysis. The work performed with regard to impairment comprised: the identification of the evidence of a significant increase in credit risk, methodology of building models estimating an expected loss over a 12-month period as well as over the lifetime of an exposure, methodology of building models which make an expected loss dependent on the current and forecasted macroeconomic conditions, and the concepts of recognition of interest income in the gross carrying value of an exposure.

Hedge accounting

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

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

In 2016, the Group in cooperation with an external advisor conducted a gap analysis of the requirements.

Currently, the Group has not yet decided whether it will apply the new standard, or continue to apply the provisions of IAS 39.

Disclosures and comparative data

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

Implementation schedule

As described above, in 2016 the 'IFRS 9 Gap analysis' project was conducted, which comprised a business analysis of gaps in the preparation of the Group for the implementation of IFRS 9. The project was split into two areas: 1) classification and measurement, including hedge accounting and reporting and tax issues, and 2) impairment. The first area was managed by the Accounting Division, and the second by the Risk Division. Additionally, the Bank established a Steering Committee whose task was to take key decisions and control the conduct of the project. The Steering Committee comprised the Directors of the Accounting Division, Risk Division and the following Departments: Credit Risk, Accounting and Reporting, Management Information and Development of Transactional Applications. The Steering Committee was supported by the Project Sponsors: the Vice-President of the Management Board responsible for Risk Management and the Vice-President of the Management Board responsible for Finance and Accounting. Apart from the accounting and reporting area, tax and risk area employees, the business, settlements and IT department employees were also involved in the project. Additionally, representatives of PKO Bank Hipoteczny (accounting and risk area) participated in the project.

In 2017, the second stage of the project carried out, aimed at implementing the changes resulting from IFRS 9. Similarly as in the first stage, which covers gap analysis, it is divided into two cooperating areas: 1) classification and measurement, including hedge accounting and reporting and tax issues, and 2) impairment. The second stage of the project covers, i.a.:

- developing the optimum solutions in IT systems, and their implementation;
- determining business models and developing new business processes, including in the areas of: SPPI tests, benchmark tests and modifications of cash flows;



- amendments to the Bank's internal regulations;
- calculating opening balance adjustments (as at 1 January 2018) resulting from implementing IFRS 9, including those which will be recognized in the Bank's equity as at 1 January 2018.

The completion of implementing changes in respect of IFRS 9 is planned for fourth quarter 2017.

Quantification of the impact of IFRS 9 on the financial position and equity

Due to the methodological work in progress, mainly in respect of the area of impairment and the lack of information on the directions of change in tax regulations (including mainly the recognition of deferred tax due to impairment allowances on loan exposures) in the Group's opinion, presentation of preliminary quantitative data would not increase the informational value of the financial statements for the readers. Taking the above into consideration, the Group presented qualitative information which enables assessing the impact of IFRS 9 on the Group's financial position and equity management.

The Group assumes that the introduction of a new impairment model based on the concept of expected loss and, as a result, the early recognition of a loss will have an impact, in particular, on the amount of impairment allowances on the exposures classified into stage 2. As regards the impact of IFRS 9 on capital requirements, according to the draft CRR II / CRD V published on 23 November 2016, the Group will have the right to temporarily include an additional component of own funds in Tier 1, relating to the implementation of IFRS 9. The aim of the additional component of own funds is to take into account gradually (i.e. over 5 years, on a straight line basis at 20% p.a.) the impact of a significant increase in allowances on the equity level. The additional component of own funds would be calculated as the difference in the amount of allowances in respect of an expected credit loss over the life of an exposure and an expected 12-month credit loss for loans with a significant increase in credit risk. According to the draft CRR II, the Group will have the right to recognize 100% of this difference as a component of own funds in 2018, in 2019 it will be possible to recognize 80% of this value; in the following years, it will be 60%, 40% and 20% respectively. The entire drop in own funds resulting from the horizon for calculating allowances being changed from the loss identification period (the LIP parameter) to 12 months will already be included in the calculation of capital ratios as at the moment of implementation of IFRS 9. A quantitative assessment of the impact of changes in impairment on financial statements is not yet available mainly due to the work currently in progress, related to the implementation of the assumptions made on the project on 'Gap Analysis' in credit risk models.

In addition, in the case of classification of the portfolio of cash loans with an embedded financial leverage mechanism into the portfolio measured at fair value through profit or loss, as at 1 January 2018 the Group will recognize an adjustment in respect of fair value measurement, which will be recognized in the income statement in future periods. Similarly, in the case of the portfolio of mortgage loans subject to pooling the Bank will measure this portfolio at fair value at the level of the separate financial statements, considering the result of this adjustment will be recognized in other comprehensive income.

IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

IFRS 15 replaces IAS 11 Construction contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the construction of real estate, IFRIC 18 Transfers of Assets from Customers, SIC 31 Revenue – barter transactions involving advertising services.

Main principle is to recognize revenue in such way as to reflect the transaction transfer of goods or services in the amount that reflects the value of remuneration, which the company expects in exchange for those goods or services. For the purpose of recognizing revenue at the appropriate moment and amount, the standard presents five-level analysis model, consisting of: the identification of an agreement with a customer and binding commitment, the determination of transaction price, its appropriate allocation and the recognition of revenue when the obligation is met.

Taking into consideration the structure of the Group and the share of non-financial entities in the Group, it is assessed that the impact on the Group financial statements should not be material.



4.3. NEW STANDARDS AND INTERPRETATIONS AND AMENDMENTS, WHICH HAVE BEEN PUBLISHED BUT NOT YET APPROVED BY THE EUROPEAN UNION

IFRS 16 LEASES

Published by the International Accounting Standards Board on 13 January 2016 and is binding for annual periods starting on or after 1 January 2019. The new standard will replace the currently binding IAS 17 Leases.

IFRS 16 introduces new principles for recognizing leases. The main change is eliminating the classification of leases into operating and finance leases, and introducing one model for recognizing leases instead. Applying that one model the lessee is obliged to recognize the leased assets in the statement of financial position and the corresponding liabilities, save for short-term lease contracts (up to 12 months) and lease contracts for low-value assets. The lessee is also obliged to recognize depreciation on the leased asset separately from the interest expense in respect of the lease in the income statement.

The current accounting treatment of leases by the lessor will remain to a large extent unchanged according to IFRS 16. This means that the lessor will continue to classify leases into operating and finance, and treat them as two different types of leases for accounting purposes.

The Group believes that the new standard will have an impact on the recognition, presentation, measurement and disclosure of assets subject to operating leases and the respective liabilities in the Group's financial statements where the Group is the lessee. The Bank believes that the application of the new standard will not have a significant impact on the recognition of finance leases in the Bank's financial statements.

OTHER CHANGES:

- Amendments to IAS 12 clarify the recognition of deferred tax assets in connection with debt instruments measured at fair value. Amendments to IFRS 10 and IAS 28 concern the sale or contribution of assets between an investor and its joint venture or associate. The Group does not expect the impact of the amendments to IAS 12, IAS 28 and IFRS 10 to be material. The impact of the amendments to IFRS 4 (connected with IFRS 9) on the insurance activities within the Group has not yet been estimated.
- Amendments to IAS 40 and improvements to IFRS 2014-2016 (IFRS 1, IAS 28) will have no impact on the financial statements of the Group.
- Amendments to IFRS 2, Classification and Measurement of Share-based Payment Transactions, were published by the International Financial Standards Board on 20 June 2016 and are binding for the reporting periods starting on or after 1 January 2018. The Group believes that the amended standard will not have a material impact on the financial statements in the initial period of its application.
- Amendments to IFRS 15, Clarifications to IFRS 15 Revenue from contracts with customers, were published by the International Financial Standards Board on 12 April 2016 and are binding for the reporting periods starting on or after 1 January 2018. The amendments to IFRS 15 give precise guidelines relating to the identification of the performance duties, accounting for licencing intellectual property and assessing whether an amount refers to a 'principal or agent' in the context of presenting revenue in gross or net amounts. Practical solutions which facilitate implementing the new standard were also added. The Group believes that the amended standard will not have a material impact on the financial statements in the initial period of its application.
- IFRIC 22, Foreign Currency Transactions and Advance Consideration, was published by the International Accounting Standards Board on 8 December 2016 and is binding for reporting periods starting on or after 1 January 2018. The Group believes that the interpretation will not have a material impact on the financial statements in the initial period of its application.

5. INFORMATION ON THE SEGMENTS OF ACTIVITIES AND ON GEOGRAPHICAL AREAS

INFORMATION ON THE SEGMENTS OF ACTIVITIES

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

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

1. **THE RETAIL SEGMENT** offers a full range of services for individuals as part of retail and private banking as well as mortgage banking. Moreover, it comprises transactions conducted with legal persons, i.e. small and medium enterprises. The products and services offered to customers in this segment include, amongst others: current accounts, savings accounts, term deposits, private banking services, investment and insurance products, credit and debit cards, electronic banking services. With regard to financing, it covers consumer loans, mortgage loans, including those offered by PKO Bank Hipoteczny SA, as well as business loans to small and medium-sized enterprises, developers, cooperatives and property managers, and leases and factoring offered by the PKO Leasing SA Group. In addition, the results of the retail segment comprise the results of the following companies: PKO TFI SA, PKO BP BANKOWY PTE SA, PKO Życie Towarzystwo Ubezpieczeń SA, PKO Towarzystwo Ubezpieczeń SA, PKO BP Finat Sp. z o.o. and ZenCard Sp. z o.o.
2. **THE CORPORATE AND INVESTMENT SEGMENT** includes transactions concluded with large corporate clients and financial institutions. This segment comprises, i.a., the following products and services: current accounts, term deposits, depositary services, currency and derivative products, corporate loans, leases and factoring offered by the PKO Leasing Group. Within this segment, PKO Bank Polski SA also enters, individually or in a syndicate with other banks, into loan agreements financing large investment projects and issuance of non-Treasury securities. This segment also comprises the Bank's portfolio activity on its own account i.e. investing and brokerage activities, interbank transactions, derivative instruments and debt securities. The results of the corporate and investment segments also comprise the results of the companies operating in Ukraine, mainly KREDOBANK SA and the companies which conduct real estate development and real estate management activities.
3. **THE TRANSFER CENTRE** comprises the result on internal settlements related to funds transfer pricing, the result on long-term sources of financing and the result on positions classified for hedge accounting. Internal funds transfer is based on transfer pricing dependent on market rates. The transactions between business segments are conducted at arms' length. Long-term external financing includes the issuance of securities, including the issuance of covered bonds, subordinated liabilities and loans received from financial institutions. As part of this segment, the results of PKO Finance AB are presented.

The PKO Bank Polski SA Group typically settles inter-segment transactions as if they were concluded between unrelated parties, using internal settlement rates. The transactions between business segments are conducted at arms' length.

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

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

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

The following tables present data on revenues and results of individual operating segments of the PKO Bank Polski SA Group for the 3 month period ended 31 March 2017 and 31 March 2016, as well as assets and liabilities as at 31 March 2017, and as at 31 December 2016.

For the year ended 31 March 2017	Continuing operations			
	Retail segment	Corporate and investment segment	Transfer centre and other	Total activity of the PKO Bank Polski SA Group
Net interest income	1 681	322	43	2 046
Net fee and commission income	550	161	(1)	710
Other net income	100	116	-	216
Net result from financial operations	1	29	(6)	24
Net foreign exchange gains (losses)	47	56	13	116
Net other operating income and expense	45	38	(7)	76
Income/expenses relating to internal customers	7	(7)	-	-
Net impairment allowance and write-downs	(317)	(74)	-	(391)
Administrative expenses, of which:	(1 217)	(291)	(55)	(1 563)
amortization and depreciation	(180)	(29)	-	(209)
Tax on certain financial institutions	(173)	(66)	6	(233)
Share of profit (loss) of associates and joint ventures	-	-	-	5
Segment gross profit	624	168	(7)	790
Income tax expense (tax burden)	-	-	-	(262)
Profit (loss) attributable to non-controlling shareholders	-	-	-	3
Net profit attributable to equity holders of the parent company	624	168	(7)	525

As at 31 March 2017	Continuing operations			
	Retail segment	Corporate and investment segment	Transfer centre and other	Total activity of the PKO Bank Polski SA Group
Assets	158 442	123 969	4 359	286 770
Unallocated assets	-	-	-	1 746
Total assets	158 442	123 969	4 359	288 516
Liabilities	169 417	49 552	36 086	255 055
Unallocated liabilities	-	-	-	125
Total liabilities	169 417	49 552	36 086	255 180

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For the year ended 31 March 2016	Continuing operations*			
	Retail segment	Corporate and investment segment	Transfer centre and other	Total activity of the PKO Bank Polski SA Group
Net interest income	1 598	304	(49)	1 853
Net fee and commission income	522	114	(1)	635
Other net income	71	118	8	197
Net result from financial operations	-	48	(5)	43
Net foreign exchange gains (losses)	27	54	13	94
Net other operating income and expense	37	23	-	60
Income/expenses relating to internal customers	7	(7)	-	-
Net impairment allowance and write-downs	(257)	(125)	-	(382)
Administrative expenses, of which:	(1 137)	(223)	-	(1 360)
amortisation and depreciation	(164)	(27)	-	(191)
Tax on certain financial institutions	(104)	(41)	(3)	(148)
Share of profit (loss) of associates and joint ventures	-	-	-	3
Segment gross profit	693	147	(45)	798
Income tax expense (tax burden)	-	-	-	(160)
Profit (loss) attributable to non-controlling shareholders	-	-	-	(1)
Net profit attributable to equity holders of the parent company	693	147	(45)	639

* The data for the first quarter of 2016 was restated to ensure comparability due to a presentation change resulting from the allocation of subsidiaries to individual segments.

As at 31 December 2016	Continuing operations			
	Retail segment	Corporate and investment segment	Transfer centre and other	Total activity of the PKO Bank Polski SA Group
Assets	157 417	122 296	4 071	283 784
Unallocated assets	-	-	-	1 789
Total assets	157 417	122 296	4 071	285 573
Liabilities	168 476	48 899	35 293	252 668
Unallocated liabilities	-	-	-	336
Total liabilities	168 476	48 899	35 293	253 004

INFORMATION ON GEOGRAPHICAL AREAS

Complementary, the PKO Bank Polski SA Group applies geographical areas distribution. The Group conducts activities in the Republic of Poland and in Ukraine through the KREDOBANK SA Group, 'Inter-Risk Ukraina' Sp. z o.o. and Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o., in Sweden through subsidiaries: PKO Finance AB, PKO Leasing Sverige AB, in Ireland: Roof Poland Leasing 2014 DAC and the branch in Germany. For presentation purposes, the results of companies operating in Sweden and in Ireland and results of the Branch operating in the Germany, which from the point of view of the scale of operations of the PKO Group are not significant, are included in the segment of Poland.

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For the year ended 31 March 2017	Poland	Ukraine	Total
Net interest income	2 009	37	2 046
Net fee and commission income	698	12	710
Other net income	211	5	216
Administrative expenses	(1 534)	(29)	(1 563)
Net impairment allowance and write-downs	(386)	(5)	(391)
Tax on certain financial institutions	(233)	-	(233)
Share of profit (loss) of associates and joint ventures	-	-	5
Profit (loss) before income tax	765	20	790
Income tax expense (tax burden)	-	-	(262)
Profit (loss) attributable to non-controlling shareholders	-	-	3
Net profit (loss) attributable to equity holders of the parent company	765	20	525

As at 31 March 2017	Poland	Ukraine	Total
Assets of which:	286 878	1 638	288 516
non-financial fixed assets	6 591	91	6 682
deferred tax assets and current income tax receivable	1 739	7	1 746
Liabilities	253 927	1 253	255 180

For the year ended 31 March 2016	Poland	Ukraine	Total
Net interest income	1 820	33	1 853
Net fee and commission income	626	9	635
Other net income	205	(8)	197
Administrative expenses	(1 339)	(21)	(1 360)
Net impairment allowance and write-downs	(376)	(6)	(382)
Tax on certain financial institutions	(148)	-	(148)
Share of profit (loss) of associates and joint ventures	-	-	3
Profit (loss) before income tax	788	7	798
Income tax expense (tax burden)	-	-	(160)
Profit (loss) attributable to non-controlling shareholders	-	-	(1)
Net profit (loss) attributable to equity holders of the parent company	788	7	639

As at 31 December 2016	Poland	Ukraine	Total
Assets of which:	283 861	1 712	285 573
non-financial fixed assets	6 685	83	6 768
deferred tax assets and current income tax receivable	1 780	9	1 789
Liabilities*	251 681	1 323	253 004

* The data for 2016 was restated to ensure comparability. In the liabilities of the Ukraine segment elimination of financing by PKO Bank Polski SA was taken into consideration.

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NOTES TO THE INCOME STATEMENT

6. INTEREST INCOME AND EXPENSE

INTEREST AND SIMILAR INCOME ON:	01.01- 31.03.2017	01.01- 31.03.2016
loans and other advances to banks	30	28
loans and advances to customers, of which:	2 198	1 997
on impaired loans	65	74
investment securities	245	195
derivative hedging instruments	69	95
financial instruments designated upon initial recognition at fair value through profit and loss	61	53
trading financial assets	11	19
other	6	4
Total	2 620	2 391

INTEREST EXPENSE AND SIMILAR CHARGES ON:	01.01- 31.03.2017	01.01- 31.03.2016
amounts due to banks	(21)	(16)
amounts due to customers	(418)	(402)
debt securities in issue and subordinated liabilities	(110)	(90)
debt securities available for sale	(20)	(14)
trading financial assets	(2)	(9)
financial instruments designated upon initial recognition at fair value through profit and loss	(3)	(7)
Total	(574)	(538)

7. FEE AND COMMISSION INCOME AND EXPENSE

FEE AND COMMISSION INCOME ON:	01.01- 31.03.2017	01.01- 31.03.2016
payment and credit cards	249	231
maintenance of bank accounts	217	218
loans and advances granted	151	143
maintenance of investment and open pension funds (including management fees)	131	110
cash transactions	25	24
servicing foreign mass transactions	25	19
brokerage activities and issue arrangement	48	33
offering insurance products	21	3
sale and distribution of court fee stamps	1	3
investment and insurance products	22	24
other	39	35
Total	929	843

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FEE AND COMMISSION EXPENSE ON:	01.01- 31.03.2017	01.01- 31.03.2016
card activities	(132)	(129)
commission paid to external entities for sales of products	(16)	(16)
cost of construction investment supervision and property valuation	(11)	(9)
settlement services	(10)	(9)
commission for operating services provided by banks	(5)	(4)
sending text messages (SMS)	(5)	(3)
asset management	(4)	(5)
fees incurred by the Brokerage House	(6)	(4)
other	(30)	(29)
Total	(219)	(208)

8. NET INCOME FROM FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

NET INCOME FROM FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE	01.01- 31.03.2017	01.01- 31.03.2016
Debt securities	1	2
Equity instruments	-	2
Derivative instruments (including an ineffective portion related to cash flow hedges)	18	(17)
Other	-	5
Total	19	(8)

9. GAINS LESS LOSSES FROM INVESTMENT SECURITIES AVAILABLE FOR SALES

GAINS LESS LOSSES FROM INVESTMENT SECURITIES	01.01- 31.03.2017	01.01- 31.03.2016
Equity securities	6	-
Debt securities	(1)	51
Total	5	51

10. FOREIGN EXCHANGE GAINS (LOSSES)

Foreign exchange gains (losses) comprise foreign exchange gains and losses, both realized and unrealized, resulting from daily revaluation of assets and liabilities denominated in foreign currency using the National Bank of Poland average exchange rates at the balance sheet date, and from the fair value valuation of outstanding derivatives (FX forward, FX swap, CIRS and currency options).

The Group recognizes in net foreign exchange gains (losses) both realized and unrealized foreign exchange gains and losses on fair value measurement of unrealized currency options. From an economic point of view, the method of presentation of net gains (losses) on currency options applied allows the symmetrical recognition of net gains (losses) on currency options and on spot and forward transactions concluded to hedge such options (transactions hedging the currency position generated as a result of changes in the market parameters affecting the currency option position). This item also includes the ineffective part of the cash flow hedge, where CIRS contracts are the hedging instruments.

The effects of changes in fair value and the result realized on the Gold Index option are also included in the net foreign exchange gains (losses) due to the fact that the Group treats gold as one of the currencies, in line with the provisions of the Regulation (EU) No. 575/2013 of the European Parliament and Council dated 26 June 2013 on prudential requirements for credit institutions and investment firms (CRR Regulation).

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The Group presented monetary assets and liabilities, constituting on and off-balance sheet items denominated in foreign currency, translated into Polish zloty using the average National Bank of Poland rate prevailing as at the balance sheet date.

Impairment allowances on loan exposures and other receivables denominated in foreign currencies, which are recognized in Polish zloty, are adjusted in line with a change in the valuation of the foreign currency assets for which these impairment allowances are recognized. The effect of this adjustment is recognized in net foreign exchange gains (losses).

11. OTHER OPERATING INCOME AND EXPENSE

OTHER OPERATING INCOME	01.01- 31.03.2017	01.01- 31.03.2016
gain on sale of products and services	27	34
gain on sale and disposal of tangible fixed assets, intangible assets and assets held for sale	8	22
damages, penalties and fines received	17	12
sundry income	6	6
recovery of expired and written-off receivables	1	1
other	55	49
Total	114	124

OTHER OPERATING EXPENSE	01.01- 31.03.2017	01.01- 31.03.2016
costs of sale of products and services	(10)	(13)
loss on sale and disposal of tangible fixed assets, intangible assets and assets held for sale	(10)	(21)
donations	(9)	(1)
sundry expenses	(5)	(4)
other	(4)	(25)
Total	(38)	(64)

12. NET IMPAIRMENT ALLOWANCE AND WRITE-DOWNS

NET IMPAIRMENT ALLOWANCE AND WRITE DOWNS	Note	01.01- 31.03.2017	01.01- 31.03.2016
Investment securities available for sale	24	11	(32)
Amounts due from banks	18	-	(1)
Loans and advances to customers	23	(377)	(345)
Tangible fixed assets	27	-	2
Investments in associates and joint ventures	38	(12)	(3)
Inventories	26	-	(2)
Other receivables (other assets)	28	(14)	(5)
Provision for legal claims, loan commitments and guarantees granted	35	1	4
Total		(391)	(382)

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13. ADMINISTRATIVE EXPENSES

ADMINISTRATIVE EXPENSES	01.01- 31.03.2017	01.01- 31.03.2016
Employee benefits	(735)	(689)
Overheads	(344)	(354)
Amortization and depreciation	(209)	(191)
Contribution to the Bank Guarantee Fund (BGF)	(256)	(110)
Taxes and other charges	(19)	(16)
Total	(1 563)	(1 360)

According to IFRIC 21 'Levies', fees paid by the Group to the Bank Guarantee Fund are recognised in profit or loss on occurrence of the obligating event.

In 2016 the Group was obliged to make contributions in respect of the annual fee and the prudential fee on a quarterly basis, therefore the respective costs were recognised in profit or loss on a quarterly basis. As of 2017 the Group makes contributions to the Bank Guarantee Fund (on a quarterly basis) and to the mandatory bank restructuring fund (annually). With reference to the mandatory bank restructuring fund the obligation to make the respective contribution arises as of 1 January of a given year, therefore its amount was recognised in the costs for the first quarter of the year.

The annual contribution to the mandatory bank restructuring fund for 2017 of PLN 209 million and the contribution to the bank guarantee fund payable for the first quarter of 2017 of PLN 47 million were charged to costs of the first quarter of 2017.

EMPLOYEE BENEFITS	01.01- 31.03.2017	01.01- 31.03.2016
Wages and salaries, of which:	(607)	(567)
expenses on employee pension programme	(13)	(12)
Social insurance, of which:	(110)	(103)
contributions to retirement benefits and pensions	(96)	(90)
Other employee benefits	(18)	(19)
Total	(735)	(689)

14. TAX ON CERTAIN FINANCIAL INSTITUTIONS

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

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	01.01- 31.03.2017	01.01- 31.03.2016
Tax on certain financial institutions, of which:		
PKO Bank Polski SA	(227)	(148)
PKO Życie Towarzystwo Ubezpieczeń SA	(1)	-
PKO Bank Hipoteczny SA	(5)	-
Total	(233)	(148)

15. INCOME TAX

	01.01- 31.03.2017	01.01- 31.03.2016
Current income tax expense	(254)	(232)
Deferred income tax related to temporary differences	(8)	72
Income tax expense recognized in the income statement	(262)	(160)
Income tax expense recognized in other comprehensive income related to temporary differences	(56)	(32)
Total	(318)	(192)

As a result of the unfavourable ruling of the Supreme Administrative Court (SAC) of August 2016 and reversing, on its basis, all the complaints of PKO Leasing SA (legal successor of PKO Bankowy Leasing Sp. z o.o.) by the Regional Administrative Court in Łódź (RAC), in its rulings dated 10 January, 13 January and 8 February 2017, in respect of the recognition of excessive tax payments and tax refunds on account of the arrears in payment of VAT, as at 31 March 2017 the PKO Leasing SA Group recognises a full impairment allowance in respect of the interest receivables on VAT arrears totalling PLN 21.1 million.

The interest receivables on VAT arrears, claimed before administrative courts, result from the decision of the Tax Office in Łódź relating to the method of settlement of excessive tax payments and tax refunds on account of tax arrears for the periods from January 2011 to June 2013, where the excessive VAT payments and refunds were settled against the VAT arrears on the date of filing the corrected returns (in December 2014), and not on the date of payment of the tax in an amount higher than was due, as the Company argued.

In 2017 PKO Leasing SA is planning to continue appealing against the decision of the tax authorities. On 7 April 2017 the Company filed a cassation complaint against the RAC ruling on the settlement of VAT refunds of PLN 20.8 million resulting from the return for February 2011 against the VAT arrears for January 2011. The Company is also undertaking other appeal actions within the limits stipulated in the law, such as the adjustment of the return for January and February 2011.

16. EARNINGS PER SHARE

Earnings per share	01.01- 31.03.2017	01.01- 31.03.2016
Earnings per ordinary shareholders	525	639
Weighted average number of ordinary shares during the period (in million)	1 250	1 250
Earnings per share (in PLN per share)	0.42	0.51

In the first quarter of 2017 as well as in the first quarter of 2016 there were no dilutive instruments. Therefore the amount of diluted earnings per share is equal to basic earnings per share.



NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

17. CASH AND BALANCES WITH THE CENTRAL BANK

CASH AND BALANCES WITH THE CENTRAL BANK	31.03.2017	31.12.2016
Current account in the Central Bank	10 237	7 460
Cash	3 850	4 185
Deposits with the Central Bank	-	1 680
Total	14 087	13 325

18. AMOUNTS DUE FROM BANKS

AMOUNTS DUE FROM BANKS	31.03.2017	31.12.2016
Deposits with banks	4 476	3 846
Current accounts	1 059	784
Loans and advances granted	21	50
Receivables due from repurchase agreements	97	661
Cash in transit	6	4
Gross total	5 659	5 345
Net total	5 659	5 345

Amounts due from banks - the Group's exposure to credit risk	Exposure	
	31.03.2017	31.12.2016
Amounts due from banks not impaired, not past due	5 659	5 345
Gross total	5 659	5 345
Net total by carrying amount	5 659	5 345

19. TRADING ASSETS EXCLUDING DERIVATIVE FINANCIAL INSTRUMENTS

TRADING ASSETS	31.03.2017	31.12.2016
Debt securities	1 356	312
Treasury bonds PLN	1 230	186
foreign currency Treasury bonds	6	6
municipal bonds PLN	42	42
corporate bonds PLN	78	76
foreign currency corporate bonds	-	2
Shares in other entities - listed on stock exchange	20	11
Investment certificates, rights to shares, pre-emptive rights	5	3
Total	1 381	326

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20. DERIVATIVE FINANCIAL INSTRUMENTS

DERIVATIVE FINANCIAL INSTRUMENTS	31.03.2017		31.12.2016	
	Assets	Liabilities	Assets	Liabilities
Hedging instruments	377	703	382	1 135
Other derivative instruments	2 371	3 102	2 519	3 063
Total	2 748	3 805	2 901	4 198

TYPE OF CONTRACT	31.03.2017		31.12.2016	
	Assets	Liabilities	Assets	Liabilities
IRS	1 341	1 904	1 387	2 098
CIRS	545	940	570	1 391
FX Swap	235	213	205	164
Options	493	445	547	437
FRA	2	2	2	2
Forward	132	300	177	106
Other	-	1	13	-
Total	2 748	3 805	2 901	4 198

21. DERIVATIVE HEDGING INSTRUMENTS

STRATEGY 1 HEDGES AGAINST FLUCTUATIONS IN CASH FLOWS FROM MORTGAGE LOANS IN CHF AND NEGOTIATED TERM DEPOSITS IN PLN, RESULTING FROM THE RISK OF FLUCTUATIONS IN INTEREST RATES AND IN FOREIGN EXCHANGE RATES, USING CIRS TRANSACTIONS

DESCRIPTION OF HEDGE RELATIONSHIP	elimination of the risk of cash flow fluctuations generated by floating interest rate loans denominated in CHF and negotiated term deposits in PLN, resulting from fluctuations in reference interest rates in CHF and PLN, and changes in foreign exchange rates CHF/PLN using CIRS transactions during the hedged period.
HEDGED RISK	currency risk and interest rate risk
HEDGING INSTRUMENT	CIRS transactions where the Group pays coupons based on 3M CHF LIBOR, and receives coupons based on 3M WIBOR on the nominal value defined in CHF and PLN respectively.
HEDGED POSITION	the portfolio of floating interest rate mortgage loans denominated in CHF and the portfolio of short-term negotiated term deposits, including renewals in the future (high probability of occurrence). The Group designated the hedged position according to the regulations of IAS 39 AG 99C as adopted by the European Union
	Periods in which cash flows are expected and in which they should have an impact on the financial result: April 2017 – October 2026

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STRATEGY 2	HEDGES AGAINST FLUCTUATIONS IN CASH FLOWS FROM FLOATING INTEREST RATE LOANS IN PLN, RESULTING FROM THE RISK OF FLUCTUATIONS IN INTEREST RATES, USING IRS TRANSACTIONS
DESCRIPTION OF HEDGE RELATIONSHIP	elimination of the risk of cash flow fluctuations generated by floating interest rate PLN loan portfolio resulting from the interest rate risk using IRS transactions in the period covered by the hedge
HEDGED RISK	interest rate risk
HEDGING INSTRUMENT	IRS transactions where the Group pays coupons based on floating 3M WIBOR rate, and receives coupons based on a fixed rate on the nominal value for which they were concluded
HEDGED POSITION	the portfolio of loans in PLN indexed to the floating 3M WIBOR rate
	Period in which cash flows are expected and in which they should have an impact on the financial result: April 2017 – December 2021
STRATEGY 3	HEDGES AGAINST FLUCTUATIONS IN CASH FLOWS FROM FLOATING INTEREST RATE LOANS IN EUR, RESULTING FROM THE RISK OF FLUCTUATIONS IN INTEREST RATES, USING IRS TRANSACTIONS
DESCRIPTION OF HEDGE RELATIONSHIP	elimination of the risk of cash flow fluctuations generated by floating interest rate EUR loan portfolio resulting from the interest rate risk using IRS transactions in the period covered by the hedge
HEDGED RISK	interest rate risk
HEDGING INSTRUMENT	IRS transactions, where the Group pays coupons based on floating 3M EURIBOR rate, and receives coupons based on a fixed rate on the nominal value for which they were concluded
HEDGED POSITION	the portfolio of loans in EUR indexed to the floating 3M EURIBOR rate
	Periods in which cash flows are expected and in which they should have an impact on the financial result: April 2017 - February 2024
STRATEGY 4	HEDGES AGAINST FLUCTUATIONS IN CASH FLOWS FROM FLOATING INTEREST RATE LOANS IN CHF, RESULTING FROM THE RISK OF FLUCTUATIONS IN INTEREST RATES, USING IRS TRANSACTIONS
DESCRIPTION OF HEDGE RELATIONSHIP	elimination of the risk of cash flow fluctuations generated by floating interest rate CHF loan portfolio resulting from the interest rate risk using IRS transactions in the period covered by the hedge
HEDGED RISK	interest rate risk
HEDGING INSTRUMENT	IRS transactions where the Group pays coupons based on floating 3M CHF LIBOR rate, and receives coupons based on a fixed rate on the nominal value for which they were concluded
HEDGED POSITION	the portfolio of loans in CHF indexed to the floating 3M CHF LIBOR rate
	As at 31 March 2017 and 31 December 2016, the Group had no active hedging relationships based on this strategy.

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STRATEGY 5	HEDGES AGAINST FLUCTUATIONS IN CASH FLOWS FROM FLOATING INTEREST RATE LOANS IN FOREIGN CURRENCIES, RESULTING FROM THE RISK OF FLUCTUATIONS IN INTEREST RATES AND FROM FOREIGN EXCHANGE RATE RISK AND HEDGES AGAINST FLUCTUATIONS IN CASH FLOWS FROM FIXED INTEREST RATE FINANCIAL LIABILITY IN FOREIGN CURRENCY, RESULTING FROM FOREIGN EXCHANGE RATE RISK, USING CIRS TRANSACTIONS
DESCRIPTION OF HEDGE RELATIONSHIP	elimination of the risk of cash flow fluctuations of floating interest rate loans in foreign currencies, resulting from the risk of fluctuations in interest rates and from foreign exchange rate risk and elimination of the risk of cash flow fluctuations of fixed interest rate financial liability in foreign currency, resulting from foreign exchange rate risk, using CIRS transactions in the period covered by the hedge
HEDGED RISK	currency risk and interest rate risk
HEDGING INSTRUMENT	CIRS transactions, where the Group pays coupons based on floating 3M CHF LIBOR rate, and receives coupons based on a fixed USD or EUR rate on the nominal value, for which they were concluded
HEDGED POSITION	the portfolio of floating interest rate mortgage loans denominated in CHF and fixed interest rate financial liability denominated in USD or EUR
	Period in which cash flows are expected and in which they should have an impact on the financial result: April 2017 - January 2023

STRATEGY 6	HEDGES AGAINST FLUCTUATIONS IN CASH FLOWS FROM MORTGAGE LOANS IN FOREIGN CURRENCIES OTHER THAN CHF AND NEGOTIATED TERM DEPOSITS IN PLN, RESULTING FROM THE RISK OF FLUCTUATIONS IN INTEREST RATES AND IN FOREIGN EXCHANGE RATES, USING CIRS TRANSACTIONS
DESCRIPTION OF HEDGE RELATIONSHIP	elimination of the risk of cash flow fluctuations generated by floating interest rate loans denominated in convertible currencies other than CHF and negotiated term deposits in PLN, resulting from fluctuations in reference interest rates, and changes in foreign exchange rates using CIRS transactions in the period covered by the hedge
HEDGED RISK	currency risk and interest rate risk
HEDGING INSTRUMENT	CIRS transactions where the Group pays coupons based on 3M EURIBOR rate, and receives coupons based on 3M WIBOR rate on the nominal value for which the transaction was concluded
HEDGED POSITION	the portfolio of floating interest rate mortgage loans denominated in EUR and the portfolio of short-term negotiated term deposits, including renewals in the future (high probability of occurrence). The Group designated the hedged position according to the regulations of IAS 39 AG 99C as adopted by the European Union.
	Period in which cash flows are expected and in which they should have an impact on the financial result: April 2017 - March 2021

Carrying amount/fair value of derivative instruments hedging cash flows associated with the interest rate and/or foreign exchange rate	31.03.2017		31.12.2016	
	Assets	Liabilities	Assets	Liabilities
IRS	125	28	90	32
CIRS	252	675	292	1 103
Total	377	703	382	1 135

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Change in other comprehensive income related to cash flow hedges and an ineffective portion of cash flow hedges	01.01-31.03.2017	01.01-31.03.2016
Other comprehensive income at the beginning of the period, gross	(134)	(71)
Gains/losses transferred to other comprehensive income in the period	611	208
Amount transferred from other comprehensive income to income statement, of which:	(590)	(71)
- interest income	(69)	(95)
- net foreign exchange gains	(521)	24
Accumulated other comprehensive income at the end of the period, gross	(113)	66
Tax effect	20	(12)
Accumulated other comprehensive income at the end of the period, net	(93)	54
Impact on other comprehensive income in the period, gross	21	137
Tax effect	(5)	(26)
Impact on other comprehensive income in the period, net	16	111
An ineffective portion related to cash flow hedges recognized in the income statement, of which the amount related to:	1	-
Net foreign exchange gains (losses)	1	-

22. FINANCIAL INSTRUMENTS DESIGNATED UPON INITIAL RECOGNITION AT FAIR VALUE THROUGH PROFIT AND LOSS

Financial instruments designated upon initial recognition at fair value through profit and loss	31.03.2017	31.12.2016
Debt securities	10 060	12 204
NBP money market bills	6 998	9 079
Treasury bonds PLN	1 804	1 812
foreign currency Treasury bonds	1 032	1 075
municipal bonds PLN	104	111
foreign currency municipal bonds	122	127
Participation units in ICF (insurance capital funds) related to insurance products belonging to the group of investment products where the risk is borne by the policyholder	1 715	1 733
Total	11 775	13 937

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23. LOANS AND ADVANCES TO CUSTOMERS

Loans and advances to customers	31.03.2017			31.12.2016		
	Gross	Impairment allowances	Net	Gross	Impairment allowances	Net
Loans	190 020	(7 605)	182 415	189 736	(7 478)	182 258
housing	107 641	(2 179)	105 462	108 321	(2 200)	106 121
corporate	57 483	(3 851)	53 632	56 722	(3 807)	52 915
consumer	24 896	(1 575)	23 321	24 693	(1 471)	23 222
Debt securities	5 084	(76)	5 008	4 948	(77)	4 871
debt securities (corporate)	2 503	(70)	2 433	2 352	(69)	2 283
debt securities (municipal)	2 581	(6)	2 575	2 596	(8)	2 588
Receivables due from repurchase agreements	1 022	-	1 022	1 339	-	1 339
Finance lease receivables	12 596	(462)	12 134	12 586	(448)	12 138
Total	208 722	(8 143)	200 579	208 609	(8 003)	200 606

Loans and advances to customers by method of calculating impairment allowances	31.03.2017			31.12.2016		
	Gross	Impairment allowances	Net	Gross	Impairment allowances	Net
individual basis, of which:	6 295	(2 530)	3 765	6 551	(2 608)	3 943
impaired	4 848	(2 519)	2 329	5 049	(2 594)	2 455
not impaired	1 447	(11)	1 436	1 502	(14)	1 488
portfolio basis	7 411	(4 980)	2 431	7 183	(4 766)	2 417
impaired	7 400	(4 979)	2 421	7 171	(4 766)	2 405
not impaired	11	(1)	10	12	-	12
group basis (IBNR)	195 016	(633)	194 383	194 875	(629)	194 246
Total	208 722	(8 143)	200 579	208 609	(8 003)	200 606

Loans and advances to customers - the Group's exposure to credit risk	31.03.2017			31.12.2016		
	Gross	Impairment allowances	Net	Gross	Impairment allowances	Net
impaired, of which	12 248	(7 498)	4 750	12 220	(7 360)	4 860
assessed on an individual basis	4 848	(2 519)	2 329	5 049	(2 594)	2 455
not impaired, of which	196 474	(645)	195 829	196 389	(643)	195 746
with recognized individual impairment trigger	1 401	(12)	1 389	1 452	(14)	1 438
not past due	1 157	(10)	1 147	1 199	(13)	1 186
past due	244	(2)	242	253	(1)	252
without recognized individual impairment trigger/IBNR	195 073	(633)	194 440	194 937	(629)	194 308
not past due	191 304	(441)	190 863	190 628	(436)	190 192
past due	3 769	(192)	3 577	4 309	(193)	4 116
Total	208 722	(8 143)	200 579	208 609	(8 003)	200 606

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Loans and advances to customers by client segment	31.03.2017	31.12.2016
Loans and advances to customers, gross, of which:	208 722	208 609
mortgage banking	100 955	101 389
corporate	53 603	53 170
retail and private banking	24 905	24 701
small and medium enterprises	28 224	27 997
receivables due from repurchase agreements	1 022	1 339
other receivables	13	13
Impairment allowances on loans and advances	(8 143)	(8 003)
Loans and advances to customers, net	200 579	200 606

Loan quality ratios (in %)	31.03.2017	31.12.2016
Share of impaired loans	5.9%	5.9%
Coverage ratio of impaired loans*	66.5%	65.5%
Share of loans overdue more than 90 days in relation to the gross amount of loans and advances	4.5%	4.4%

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

Impairment allowances on loans and advances to customers – reconciliation of movements in the first quarter of 2017	Value at the beginning of the period	Recognized during the period	Reversed during the period	Derecognition of assets and settlement	Other	Value at the end of the period	Net - impact on the income statement
housing loans	2 200	199	(124)	(51)	(45)	2 179	(75)
corporate loans	3 807	469	(308)	(87)	(30)	3 851	(161)
consumer loans	1 471	307	(186)	(10)	(7)	1 575	(121)
debt securities (corporate)	69	1	-	-	-	70	(1)
debt securities (municipal)	8	-	(2)	-	-	6	2
finance lease receivables	448	71	(50)	(4)	(3)	462	(21)
Total	8 003	1 047	(670)	(152)	(85)	8 143	(377)

Impairment allowances on loans and advances to customers – reconciliation of movements in the first quarter of 2016	Value at the beginning of the period	Recognized during the period	Reversed during the period	Derecognition of assets and settlement	Other	Value at the end of the period	Net - impact on the income statement
housing loans	2 337	261	(164)	(93)	(11)	2 330	(97)
corporate loans	4 107	461	(299)	(117)	(22)	4 130	(162)
consumer loans	1 569	282	(202)	(12)	(4)	1 633	(80)
debt securities (corporate)	69	-	(2)	-	-	67	2
debt securities (municipal)	3	5	-	-	-	8	(5)
finance lease receivables	202	26	(23)	(5)	-	200	(3)
Total	8 287	1 035	(690)	(227)	(37)	8 368	(345)

RECLASSIFICATION OF SECURITIES

In 2012 due to the change of intention as regards holding of the selected portfolio of non-treasury securities classified upon initial recognition as available for sale, the Group reclassified them to loans and advances to customers category. As a result of the reclassification of the portfolio, the valuation methods for the portfolio have changed, i.e. from measured at fair value to measured at amortized cost.

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Portfolio reclassified in 2012 as at	31.03.2017		31.12.2016	
	fair value	carrying amount	fair value	carrying amount
Municipal bonds		621	626	623
Corporate bonds		8	8	8
Total		629	634	631

Portfolio reclassified in 2012 as at the reclassification date	nominal value	fair value	carrying amount
Municipal bonds		1 219	1 237
Corporate bonds		1 289	1 294
Total		2 508	2 531

Estimated change in impairment allowances on loans and advances resulting from:	31.03.2017		31.12.2016	
	+10% scenario	-10% scenario	+10% scenario	-10% scenario
change in the present value of estimated cash flows for the Bank's loans and advances portfolio assessed on an individual basis (individually determined to be impaired)	(186)	310	(196)	320
change in probability of default	51	(51)	49	(49)
change in recovery rates	(340)	340	(353)	353

24. INVESTMENT SECURITIES AVAILABLE FOR SALE

Investment securities available for sale	31.03.2017	31.12.2016
Debt securities, gross	38 810	36 419
Treasury Bonds PLN	28 625	25 744
foreign currency Treasury bonds	209	678
municipal bonds PLN	4 561	4 552
corporate bonds PLN	4 800	4 800
foreign currency corporate bonds	615	645
Impairment allowances	(279)	(277)
corporate bonds PLN	(213)	(210)
foreign currency corporate bonds	(66)	(67)
Total net debt securities	38 531	36 142
Equity securities available for sale, gross	303	285
not admitted to public trading	140	129
admitted to public trading	163	156
Impairment allowances	(49)	(67)
Total net equity securities	254	218
Participation units in investment funds and shares in joint investment institutions	273	316
Total net investment securities available for sale	39 058	36 676

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Investment debt securities available for sale - the Group's exposure to credit risk	Exposure	
	31.03.2017	31.12.2016
impaired, assessed on an individual basis	1 288	1 297
not impaired, not past due	37 522	35 122
with external rating	32 426	30 034
with internal rating	5 096	5 088
Gross total	38 810	36 419
Impairment allowances	(279)	(277)
Net total	38 531	36 142

Impairment allowances – reconciliation of movements in the first quarter of 2017	Value at the beginning of the period	Recognized during the period	Reversed during the period	Other	Value at the end of the period	Net- impact on the income statement
Debt securities	277	7	-	(5)	279	(7)
Equity securities	67	-	(18)	-	49	18
Total	344	7	(18)	(5)	328	11

Impairment allowances – reconciliation of movements in the first quarter of 2016	Value at the beginning of the period	Recognized during the period	Other	Value at the end of the period	Net- impact on the income statement
Debt securities	57	32	(2)	87	(32)
Equity securities	76	-	-	76	-
Total	133	32	(2)	163	(32)

25. INVESTMENTS SECURITIES HELD TO MATURITY

Investment securities held to maturity	31.03.2017	31.12.2016
Debt securities		
Treasury Bonds PLN	957	199
foreign currency Treasury bonds	243	267
Total	1 200	466

26. INVENTORIES

Inventories	31.03.2017	31.12.2016
Goods	230	190
Finished goods	23	29
Building investments for sale	63	55
Materials	10	11
Impairment allowances on inventories	(25)	(25)
Total	301	260

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27. INTANGIBLE ASSETS AND TANGIBLE FIXED ASSETS

INTANGIBLE ASSETS

Intangible assets	31.03.2017	31.12.2016
Software	1 567	1 612
Goodwill	1 264	1 252
Future profits on concluded insurance contracts	77	81
Customer relationships	95	98
Other, including capital expenditure	351	379
Total	3 354	3 422

GOODWILL

Net goodwill	31.03.2017	31.12.2016
Nordea Polska entities	985	985
Raiffeisen Leasing Polska SA and its subsidiaries	57	57
PKO Towarzystwo Funduszy Inwestycyjnych SA	150	150
PKO BP BANKOWY PTE SA	51	51
Qualia 2 spółka z. o. o. - Nowy Wilanów Sp. k.	1	1
Assets taken over from CFP Sp. z o.o.	8	8
ZenCard Sp. z o.o.	12	-
Total	1 264	1 252

TANGIBLE FIXED ASSETS

Tangible fixed assets	31.03.2017	31.12.2016
Land and buildings	1 842	1 864
Machinery and equipment	486	488
Assets under construction	60	103
Other	639	631
Total	3 027	3 086

OPERATING LEASE – LESSOR

Total value of future lease payments under irrevocable operating lease	31.03.2017	31.12.2016
For the period:		
up to 1 year	52	50
from 1 year to 5 years	108	106
over 5 years	14	10
Total	174	166

The average agreement period for operating lease agreements where the Group is a lessor is usually 36 months. The lessee bears service and insurance costs.

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Assets under operating lease	31.03.2017	31.12.2016
Means of transport	221	208
Properties	69	70
Machinery and equipment	6	6
Total	296	284

28. OTHER ASSETS

Other assets	31.03.2017	31.12.2016
Settlements of payment cards transactions	1 312	1 236
Settlements of financial instruments	424	382
Cash settlement receivables	81	125
Receivables and settlements of securities turnover	85	80
Assets for sale	177	178
Prepayments	353	291
Trade receivables	198	173
VAT receivables	128	102
Reinsurance receivables	386	377
Other	71	90
Total	3 215	3 034
of which financial assets	2 405	2 247

29. AMOUNTS DUE TO BANKS

	31.03.2017	31.12.2016
Loans and advances received*	16 612	17 567
Bank deposits	743	800
Amounts due from repurchase agreements	-	206
Current accounts	627	593
Other money market deposits	180	42
Total	18 162	19 208

* Financing of the loan portfolio acquired in merger transaction with Nordea Bank Polska

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30. AMOUNTS DUE TO CUSTOMERS

AMOUNTS DUE TO CUSTOMERS	31.03.2017	31.12.2016
Amounts due to retail clients	150 407	148 000
Current accounts and overnight deposits	76 402	72 365
Term deposits	73 652	75 304
Other liabilities	353	331
Amounts due to corporate entities	47 071	48 657
Current accounts and overnight deposits	29 509	30 987
Term deposits	12 227	11 947
Loans and advances received	4 340	4 662
Amounts due from repurchase agreements	20	-
Other liabilities	975	1 061
Amounts due to budget entities	9 638	8 409
Current accounts and overnight deposits	8 115	8 163
Term deposits	1 505	187
Other liabilities	18	59
Total	207 116	205 066

AMOUNTS DUE TO CUSTOMERS BY CLIENT SEGMENT	31.03.2017	31.12.2016
Amounts due to customers, of which:		
retail and private banking	142 889	140 021
corporate	37 997	37 639
small and medium enterprises	21 861	22 734
loans and advances received	4 340	4 662
amounts due from repurchase agreements	20	-
other liabilities	9	10
Total	207 116	205 066

31. LIABILITIES DUE TO INSURANCE OPERATIONS

Liabilities due to insurance operations	31.03.2017	31.12.2016
Technical provisions	643	543
Liabilities due to insurer's investment contracts divided into:	2 362	2 401
Unit-Linked insurance financial products	2 079	2 130
safe capital product	267	268
other	16	3
Total	3 005	2 944

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32. DEBT SECURITIES IN ISSUE

DEBT SECURITIES IN ISSUE	31.03.2017	31.12.2016
Financial instruments measured at amortized cost	16 547	14 493
bonds issued by PKO Finance AB	6 274	6 705
bonds issued by PKO Bank Polski SA	1 657	1 693
bonds issued by the PKO Leasing SA Group*	1 540	1 742
bonds issued by PKO Bank Hipoteczny SA	1 766	1 151
covered bonds issued by PKO Bank Hipoteczny SA	5 310	3 202
Total	16 547	14 493

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

INFORMATION ON ISSUES, REPURCHASES AND REDEMPTIONS OF NON-EQUITY SECURITIES

In the first quarter of 2017 the following issues, repurchases and redemptions of securities took place:

REGARDING COVERED BONDS

PKO Bank Hipoteczny SA conducted two issues of covered bonds, including:

- a foreign issue in the form of a private placement, denominated in EUR, addressed to institutional investors, totalling EUR 25 million and period to redemption of 7 years; the bonds bore a fixed interest rate and a yield of 0.82% in the period of issuance; the covered bonds were purchased by the investors at a price equal to their nominal value and are quoted on the Luxembourg stock exchange;
- a foreign issue denominated in EUR, addressed to institutional investors, totalling EUR 500 million and period to redemption of 5 years and 10 months; the bonds bore a fixed interest rate of 0.625% and a yield of 0.63% as at the date of setting the price; the covered bonds were purchased by the investors at a price equal to 99.972% of their nominal value and are quoted on the Luxembourg stock exchange (ultimately they are also to be quoted on the WSE).

REGARDING BONDS

PKO Bank Hipoteczny SA issued 15 419 bonds with a total nominal value of PLN 1 542 million and redeemed 9 210 bonds with a total nominal value of PLN 921 million. Bond issues are regulated by the Bond Issue Programme Agreement concluded with PKO Bank Polski SA. At the same time, pursuant to the Underwriting Agreement PKO Bank Polski SA underwrites the issues of bonds up to a total amount of PLN 2 billion. As at 31 March 2017, the Company's liabilities in respect of the bonds issued amounted to PLN 1 777 million at the nominal value – all the bonds were purchased by investors other than PKO Bank Polski SA.

PKO Leasing SA issued 268 905 bonds with a total nominal value of PLN 269 million and redeemed 243 710 bonds with a total nominal value of PLN 244 million. The Company's bond issues are regulated by the Bond Issue Agreement concluded with PKO Bank Polski SA. Bond issues are not underwritten by PKO Bank Polski SA. As at 31 March 2017 the Company's debt in respect of the bonds issued at their nominal value amounted to PLN 207 million.

Raiffeisen-Leasing Polska SA repurchased 2 270 bonds before they matured at the request of Raiffeisen Bank Polska SA, with a total nominal value of PLN 227 million. The repurchase was financed with the funds received from PKO Bank Polski SA as a loan, based on the agreement signed in December 2016. As at 31 March 2017 the Company's debt in respect of the bonds issued at their nominal value amounted to PLN 73 million.

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33. SUBORDINATED LIABILITIES

	Nominal value in currency	Currency	Period	Special terms	Balance in PLN	
					31.03.2017	31.12.2016
Subordinated bonds	1 601	PLN	14.09.2012- 14.09.2022	right of early redemption within 5 years from the issue date	1 603	1 617
Subordinated loan from Nordea Bank AB (publ)	224	CHF	24.04.2012 - 24.04.2022		884	922
Total					2 487	2 539

34. OTHER LIABILITIES

	31.03.2017	31.12.2016
Accounts payable	533	573
Deferred income	570	589
Liability due to tax on certain financial institutions	77	77
Other liabilities	2 536	2 748
Total	3 716	3 987
of which financial liabilities	2 699	3 059

As at 31 March 2017 and as at 31 December 2016, the Group had no overdue contractual liabilities.

35. PROVISIONS

For the period ended 31 March 2017	Provision for legal claims	Provisions for retirement benefits	Provisions for loan commitments and guarantees granted	Other provisions*	Total
As at 1 January 2017, of which:	24	46	67	92	229
Short term provision	24	7	51	92	174
Long term provision	-	39	16	-	55
Increase/reassessment of provision	6	-	44	-	50
Release of provision	(10)	-	(41)	(1)	(52)
Use of provision	-	-	-	(13)	(13)
Other changes and reclassifications	-	-	(1)	-	(1)
As at 31 March 2017, of which:	20	46	69	78	213
Short term provision	20	7	53	78	158
Long term provision	-	39	16	-	55

* The item 'Other provisions' comprises, i.a. a restructuring provision of PLN 46 million and a provision for potential claims related to sale of receivables in the amount of PLN 3 million, provisions for disputes, including litigation related to remuneration of PLN 0.4 million.

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For the period ended 31 March 2016	Provision for legal claims	Provisions for retirement benefits	Provisions for loan commitments and guarantees granted	Other provisions*	Total
As at 1 January 2016, of which:	22	46	83	101	252
Short term provision	22	4	64	101	191
Long term provision	-	42	19	-	61
Increase/reassessment of provision	10	-	65	1	76
Release of provision	(3)	-	(76)	(2)	(81)
Use of provision	(5)	-	-	(8)	(13)
As at 31 March 2016, of which:	24	46	72	92	234
Short term provision	24	4	52	92	172
Long term provision	-	42	20	-	62

* The item 'Other provisions' comprises, i.a. restructuring provision of PLN 59 million and a provision for potential claims related to the sale of receivables in the amount of PLN 3 million, provisions for disputes, including litigation related to remuneration of PLN 0.3 million.

Provisions for legal claims were recognized in the amount of expected outflow of economic benefits.

36. EQUITY AND SHAREHOLDING STRUCTURE OF THE BANK

Equity	31.03.2017	31.12.2016
Share capital	1 250	1 250
Reserve capital	24 491	24 491
General banking risk fund	1 070	1 070
Other reserves	3 608	3 608
Other comprehensive income, of which:	(220)	(468)
Share in other comprehensive income of associates and joint ventures	(3)	(1)
Financial assets available for sale	(113)	(347)
Cash flow hedges	(93)	(109)
Actuarial gains and losses	(11)	(11)
Currency translation differences from foreign operations	(230)	(221)
Undistributed profits	2 855	(19)
Net profit for the period	525	2 874
Non-controlling interests	(13)	(16)
Total	33 336	32 569

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To the best knowledge of PKO Bank Polski SA, as at the date of submission of the report, the shareholders holding, directly or indirectly, considerable block of shares (at least 5%) are three entities: the State Treasury, Aviva Otwarty Fundusz Emerytalny, Nationale-Nederlanden Otwarty Fundusz Emerytalny.

Name of entity	Number of shares	Number of votes %	Nominal value of 1 share	Share in share capital %
As at 31 March 2017				
The State Treasury	367 918 980	29.43	PLN 1	29.43
Aviva Otwarty Fundusz Emerytalny ¹	83 952 447	6.72	PLN 1	6.72
Nationale Nederlanden Otwarty Fundusz Emerytalny ²	64 594 448	5.17	PLN 1	5.17
Other shareholders	733 534 125	58.68	PLN 1	58.68
Total	1 250 000 000	100.00	---	100.00
As at 31 December 2016				
The State Treasury	367 918 980	29.43	PLN 1	29.43
Aviva Otwarty Fundusz Emerytalny ¹	83 952 447	6.72	PLN 1	6.72
Nationale Nederlanden Otwarty Fundusz Emerytalny ²	64 594 448	5.17	PLN 1	5.17
Other shareholders	733 534 125	58.68	PLN 1	58.68
Total	1 250 000 000	100.00	---	100.00

- 1) Number of shares held as at 29 January 2013, reported by Aviva OFE after exceeding the threshold of 5% share in PKO Bank Polski SA's shareholding structure after settlement the transaction of sale of 153.1 million of PKO Bank Polski SA's shares by BGK and the State Treasury.
- 2) Number of shares held as at 24 July 2012, reported by ING OFE (currently Nationale-Nederlanden OFE) after exceeding the threshold of 5% share in PKO Bank Polski SA's shareholding structure after settlement the transaction of sale of 95 million shares of PKO Bank Polski SA by the State Treasury.

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

- 1) those shareholders who on the date of passing the resolution of the General Shareholders' Meeting introducing the limitation of the voting rights had rights from the shares representing more than 10% of the total number of votes at the Bank (i.e. the State Treasury and BGK),
- 2) shareholders who have the rights from A-series registered shares (the State Treasury), and
- 3) shareholders acting jointly with the shareholders referred to in point (2) based on an agreement concerning the joint execution of voting rights from shares. Moreover, limitation of the voting rights shall expire when the share of the State Treasury in the Bank's share capital drops below 5%.

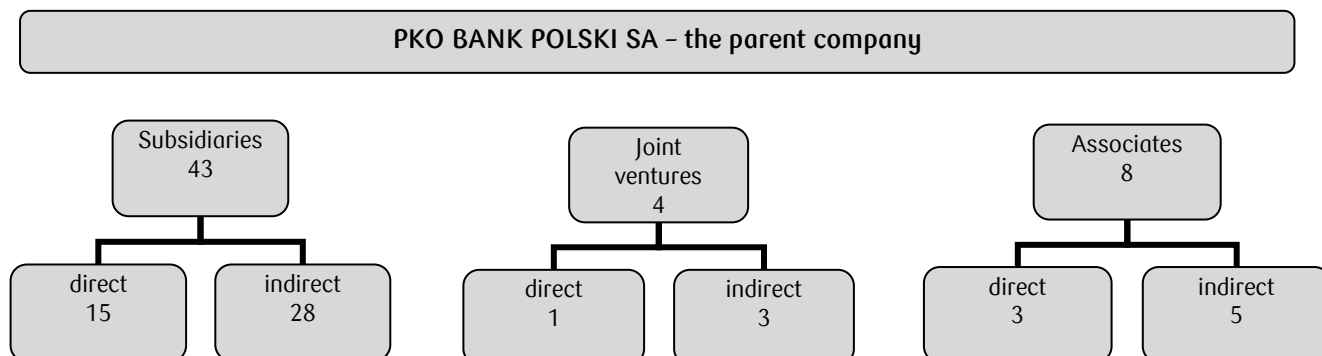
In accordance with § 6 clause 2 of the PKO Bank Polski SA's Memorandum of Association, the conversion of A-series registered shares into bearer shares and the transfer of these shares requires an approval of the Council of Ministers in the form of a resolution. Conversion into bearer shares or transfer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

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

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

In the first quarter of 2017, there were no changes in the amount of the share capital of the Bank. Issued shares of the Bank are not preferred shares and are fully paid.

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



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

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

No.	NAME OF ENTITY	HEADQUARTERS	% SHARE IN SHARE CAPITAL	
			DIRECT SUBSIDIARIES	
			31.03.2017	31.12.2016
1	PKO Towarzystwo Funduszy Inwestycyjnych SA	Warsaw	100	100
2	PKO BP BANKOWY PTE SA	Warsaw	100	100
3	PKO Leasing SA	Łódź	100	100
4	PKO BP Finat Sp. z o.o.	Warsaw	100	100
5	PKO Życie Towarzystwo Ubezpieczeń SA	Warsaw	100	100
6	PKO Towarzystwo Ubezpieczeń SA	Warsaw	100	100
7	PKO Bank Hipoteczny SA	Gdynia	100	100
8	PKO Finance AB	Stockholm, Sweden	100	100
9	KREDOBANK SA	Lviv, Ukraine	99.6293	99.6293
10	'Inter-Risk Ukraina' Additional Liability Company	Kiev, Ukraine	100	100
11	Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o. ¹	Kiev, Ukraine	95.4676	95.4676
12	Qualia Development Sp. z o.o.	Warsaw	100	100
13	ZenCard Sp. z o.o. ²	Warsaw	100	-
14	Merkury - fiz an ³	Warsaw	100	100
15	NEPTUN - fizan ³	Warsaw	100	100

1) The second shareholder of the entity is 'Inter-Risk Ukraina' Additional Liability Company;

2) The Company was acquired on 26 January 2017.

3) PKO Bank Polski SA has investment certificates of the Fund; the share of possessed investment certificates of the Fund is presented in the position 'Share in share capital'.

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No.	NAME OF ENTITY	HEADQUARTERS	% SHARE IN EQUITY *	
			31.03.2017	31.12.2016
	INDIRECT SUBSIDIARIES			
	The PKO Leasing SA GROUP			
1	PKO Leasing Sverige AB	Stockholm, Sweden	100	100
2	PKO Faktoring SA	Warsaw	100	100
3	Raiffeisen-Leasing Polska SA	Warsaw	100	100
	Raiffeisen-Leasing Real Estate Sp. z o.o.	Warsaw	100	100
	'Raiffeisen Insurance Agency' Sp. z o.o.	Warsaw	100	100
	Raiffeisen-Leasing Service Sp. z o.o.	Warsaw	100	100
	ROOF Poland Leasing 2014 DAC ¹	Dublin, Ireland	-	-
	The PKO Życie Towarzystwo Ubezpieczeń SA GROUP			
4	Ubezpieczeniowe Usługi Finansowe Sp. z o.o.	Warsaw	100	100
	The KREDOBANK SA GROUP			
5	Finansowa Kompania 'Idea Kapitał' Sp. z o.o.	Lviv, Ukraine	100	100
	The Qualia Development Sp. z o.o. GROUP ²			
6	Qualia 3 Sp. z o.o.	Warsaw	100	100
7	Qualia 2 Sp. z o.o.	Warsaw	100	100
8	Qualia Sp. z o.o.	Warsaw	100	100
9	Qualia 3 spółka z ograniczoną odpowiedzialnością – Neptun Park Sp. k.	Warsaw	99.9975	99.9975
10	Qualia sp. z o.o. – Sopot Sp. k.	Warsaw	99.9787	99.9787
11	Qualia 2 spółka z ograniczoną odpowiedzialnością – Nowy Wilanów Sp. k.	Warsaw	99.9750	99.9750
12	Qualia spółka z ograniczoną odpowiedzialnością – Zakopane Sp. k.	Warsaw	99.9123	99.9123
13	Qualia Hotel Management Sp. z o.o.	Warsaw	100	100
14	Qualia - Residence Sp. z o.o.	Warsaw	100	100
15	Sarnia Dolina Sp. z o.o.	Warsaw	100	100
16	Giełda Nieruchomości Wartościowych Sp. z o.o.	Warsaw	100	100
17	FORT MOKOTÓW Sp. z o.o. in liquidation	Warsaw	51	51
18	Qualia spółka z ograniczoną odpowiedzialnością – Projekt 1 Sp. k.	Warsaw	50	50
	Merkury - fiz an			
19	'Zarząd Majątkiem Górczewska' Sp. z o.o.	Warsaw	100	100
20	Molina Sp. z o.o.	Warsaw	100	100
21	Molina spółka z ograniczoną odpowiedzialnością 1 S.K.A.	Warsaw	100	100
22	Molina spółka z ograniczoną odpowiedzialnością 2 S.K.A.	Warsaw	100	100
23	Molina spółka z ograniczoną odpowiedzialnością 3 S.K.A.	Warsaw	100	100
24	Molina spółka z ograniczoną odpowiedzialnością 4 S.K.A.	Warsaw	100	100
25	Molina spółka z ograniczoną odpowiedzialnością 5 S.K.A.	Warsaw	100	100
26	Molina spółka z ograniczoną odpowiedzialnością 6 S.K.A.	Warsaw	100	100
	NEPTUN - fiz an			
27	Bankowe Towarzystwo Kapitałowe SA	Warsaw	100	100
28	'CENTRUM HAFNERA' Sp. z o.o.	Sopot	72.9766	72.9766
	'Sopot Zdrój' Sp. z o.o.	Sopot	100	100
	'Promenada Sopotka' Sp. z o.o.	Sopot	100	100

* share in share capital of direct parent entity

- 1) Pursuant to IFRS 10, Raiffeisen-Leasing Polska SA exercises control over the Company, even though it does not have an equity interest in the Company.
- 2) In the limited partnerships belonging to the Qualia Development Sp. z o.o. Group, the item 'share in share capital' presents the share of the limited partner Qualia Development Sp. z o.o. in the amount of the contributions made.

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NAME OF THE SUBSIDIARY	THE CORE BUSINESS
PKO TOWARZYSTWO FUNDUSZY INWESTYCYJNYCH SA	The core business of the company is the creation, representation towards third parties and the management of open and closed investment funds and management of clients portfolio, which include one or more financial instruments. The company also offers specialized investment programmes and conducts employee pension programmes (PPE).
PKO BP BANKOWY PTE SA	The Company operates in the area of pension funds. It manages PKO BP Bankowy Otwarty Fundusz Emerytalny (OFE) and PKO Dobrowolny Fundusz Emerytalny (DFE), within which Individual Retirement Account (Indywidualne Konto Emerytalne - IKE) and Individual Retirement Security Account (Indywidualne Konto Zabezpieczenia Emerytalnego - IKZE) is offered.
PKO BANK HIPOTECZNY SA	The company specializes in granting mortgage housing loans to individual clients and it also purchases receivables relating to such loans from PKO Bank Polski SA. The issuance of covered bonds shall constitute the main source of long-term financing of loans secured with mortgage.
PKO LEASING SA	The company together with its subsidiaries, including Raiffeisen-Leasing Polska SA acquired in December 2016 – provides lease services. Companies offers financial and operating leasing: cars, trucks, machinery and equipment, technological lines, medical equipment, real estate, IT hardware and software, ships, aircraft and railway equipment. The offer includes a fleet management service. Moreover, the companies belonging to the Raiffeisen-Leasing Polska SA Group deal with keeping, preparation and active selling of 'post-leasing' post-debt-collection, post-contract objects; they provide specialist services within the scope of creating insurance products and programmes for clients of financial institutions, and conduct lending activities. The Group also includes a special purpose company with its registered office in Ireland, formed for the purpose of securitization of lease receivables carried out within the Raiffeisen-Leasing Polska SA Group; the company issues bonds in order to obtain funds for purchasing receivables from Raiffeisen-Leasing Polska SA. The PKO Leasing SA Group also includes PKO Faktoring SA, which provides services of domestic and export factoring with assuming the risk and without assuming the risk, reverse factoring and service of factoring programme for the suppliers as also PKO Leasing Sverige AB.
PKO BP FINAT SP. Z O.O.	The Company provides comprehensive services to companies in the financial sector – including transfer agent, fund and companies accounting. It also specializes in competency outsourcing of IT specialists, project teams and IT processes. On the basis of the authorization of the Polish Financial Supervision Authority, the Company also provides services as a national payment institution. Its clients are both companies of the Group, as well as companies outside the Group. In 2016, the Company began to handle group insurance dedicated to the products offered by the Bank.
PKO ŻYCIE TOWARZYSTWO UBEZPIECZEŃ SA	The scope of the Company's operations comprises insurance activities in the area of section I of insurance - life insurance. The factual scope of the Company's operations comprises policies in all categories of insurance covered by the PFSA licence (groups 1, 2, 3, 4, 5 of life insurance). The Company offers a wide range of insurance products, from protection to investment products. It focuses on life and health insurance for its clients. It has both separate products and products supplementing the banking products offered by the Bank.

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PKO TOWARZYSTWO UBEZPIECZEŃ SA	The business of the Company is an insurance activity within the scope of section II of insurance – other personal insurance and property insurance. The factual scope of the Company's operations comprises policies in all categories of insurance covered by the PFSA licence (groups 1, 2, 7, 8, 9, 13, 14, 15, 16, 17, 18 of non-life insurance). At present, the Company's offer includes individual insurance against loss of income for borrowers of cash loans in the Bank and a comprehensive offer of insurance against permanent disablement resulting from an accident, hospitalisation, property insurance, immovable property insurance, private third party liability insurance and Assistance, and insurance against loss of income for clients of PKO Bank Polski SA and PKO Bank Hipoteczny SA who draw mortgage loans.
PKO FINANCE AB	The business of the Company is the acquisition of the Bank's financial resources from international markets through bond issues.
QUALIA DEVELOPMENT SP. Z O.O.	The core business of the companies from the Qualia Development Sp. z o.o. Group is to carry out developer activity and in particular the implementation of construction projects, building installations and finishing construction works. Moreover, the Group is engaged in the hotel business, and intermediary activity in real estate turnover. In the first quarter of 2017, the Group continued activities related to the execution of current projects and selling selected property and companies.
KREDOBANK SA	KREDOBANK SA is a universal bank, focused on customer service of retail clients and small and medium-sized enterprises running the business mainly in the western part of Ukraine and in Kiev. At the same time Company strives to attract corporate customers with high creditworthiness. The company offers services including maintaining bank accounts of individuals and businesses, collecting deposits, lending, issuing warranties and guarantees, lease, checks and bills trading, operations on the currency market, as well as operations on the securities market. The core business of Finansowa Kompania 'Idea Kapital' Sp. z o.o. – a subsidiary of KREDOBANK SA – is providing various financial services, including factoring services consisting in acquisition of rights to the assignment of monetary claims under the loan agreements according to Ukrainian law.
'INTER-RISK UKRAINA' ADDITIONAL LIABILITY COMPANY	The company operates in the area of debt collection in Ukraine, i.e. is carrying out activities to recover the debts of other entities without acquiring them on their own account (negotiations with debtors, restructuring activities, litigation and enforcement proceedings and participation in the process of foreclosure of collateral). Its customers are Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o. and companies from KREDOBANK SA Group. The company also manages commercial real estate in Lviv.
FINANSOWA KOMPANIA 'PRYWATNE INWESTYCJE' SP. Z O.O.	The Company's business is to provide various financial services, including factoring services which according to Ukrainian law consist of the acquisition of rights to the assignment of monetary claims under the loan agreements.
ZENCARD SP. Z O.O.	The Company is engaged in services in the area of IT and computer technologies. It specialises in developing discount and loyalty programme solutions using payment cards. The Company built a platform for establishing discount and loyalty programmes by sellers, at the same time enabling virtualisation of the loyalty cards. The platform is integrated with a POS terminal and makes it possible to resign from many separate loyalty cards or separate applications installed on a phone and replace them with a single payment card which is also a virtual loyalty card for each of the sellers. CEUP eService Sp. z o.o., one of the largest clearing agents in Poland, is the Company's strategic partner.

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MERKURY - FIZ AN	The business of the Fund is to invest in the funds collected by non-public offering of investment certificates. The Fund is managed by PKO TFI SA. Fund conducts investment activities through subsidiaries whose business is buying and selling real estate for its own account and property management.
NEPTUN - FIZAN	The core business of the Fund is to invest in the funds collected by non-public offering of investment certificates. The Fund is managed by PKO TFI SA. PKO Bank Polski SA sells to the Fund shares of companies whose business is not complementary to the offer of financial services offered by the Bank.

38. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

The Group holds the following associates and joint ventures:

No.	NAME OF ENTITY	HEADQUARTERS	% SHARE IN SHARE CAPITAL *	
			31.03.2017	31.12.2016
Joint Ventures of PKO Bank Polski SA				
1	Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	Warsaw	34	34
	1 EVO Payments International Sp. z o.o.	Warsaw	100	100
	2 EVO Payments International s.r.o.	Prague, Czech Republic	100	100
Joint Ventures of NEPTUN - fizan				
3	'Centrum Obsługi Biznesu' Sp. z o.o.	Poznań	41.44	41.44
Associates of PKO Bank Polski SA				
1	Bank Pocztowy SA	Bydgoszcz	25.0001	25.0001
	1 Centrum Operacyjne Sp. z o.o.	Bydgoszcz	100	100
	2 Spółka Dystrybucyjna Banku Poczowego Sp. z o.o.	Warsaw	100	100
2	'Poznański Fundusz Poręczeń Kredytowych' Sp. z o.o	Poznań	33.33	33.33
3	FERRUM SA	Katowice	22.14	22.14
	3 FERRUM MARKETING Sp. z o.o.	Katowice	100	100
	4 Zakład Konstrukcji Spawanych FERRUM SA	Katowice	100	100
	5 Walcownia Rur FERRUM Sp. z o.o. ¹	Katowice	100	

* share in share capital of direct parent entity

1) Until 7 February 2017 the Company's business name was Walcownia Blach Grubych Batory Sp. z o.o. and it was the subsidiary of Zakład Konstrukcji Spawanych FERRUM SA.

NAME OF JOINT VENTURES AND ASSOCIATES	THE CORE BUSINESS
CENTRUM ELEKTRONICZNYCH USŁUG PŁATNICZYCH ESERVICE SP. Z O.O.	The Company offers services which consist of processing transactions involving payment instruments conducted both through POS terminals in Poland and abroad and online, lease of POS terminals, top-ups of mobile phone cards and servicing of gift cards. PKO Bank Polski SA, together with the Company, offer comprehensive services which involve attracting and servicing entities which use POS terminals and settling transactions conducted with payment instruments using such terminals. Both entities participate jointly in tenders and the cooperation is governed by agreements on, i.a.: - servicing cashless transaction concluded using payment instruments for bilateral agreements with merchants, - marketing cooperation as regards services of fundamental importance to the functioning of the products and services offered both by the Bank and the Company,

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	- the provision of services relating to withdrawals of cash in the Bank's agent and branch offices and in post offices using Visa and MasterCard payment cards using POS terminals, - cooperation in providing services associated with attracting retail outlets which accept payment instruments. The Company has two direct subsidiaries and exerts full control over these subsidiaries.
'CENTRUM OBSŁUGI BIZNESU' SP. Z O.O.	'Centrum Obsługi Biznesu' Sp. z o.o. is the joint project of PKO Bank Polski SA, Buildco Poznań SA and the City of Poznań which consists of building a hotel in Poznań. PKO Bank Polski SA is a member of a syndicate of banks which granted the Company an investment loan for the execution of the said project. The hotel was completed and started operating in 2007. The operating results generated by the Company are insufficient to ensure the current, full servicing of the liabilities arising from the loan agreement. At the Company's request, as part of the restructuring of the loans, the syndicate temporarily modified the repayment schedule of principal and interest instalments which is valid until 30 June 2017. Since June 2015, the Company's shares are included in the portfolio of a Bank's subsidiary, NEPTUN – fizan.
BANK POCZTOWY SA	Bank Poczty SA specializes in standard banking products offered to retail clients and a supplementary offer for micro-businesses and institutional clients. The Bank also operates in the segment of settlements and treasury. As part of the strategic partnership with Poczta Polska SA (shareholder with 75% minus 10 shares of the Company) uses a potential of a shareholder and develops a range of products in collaboration with stakeholders across the Poczta Polska Group. Bank Poczty SA is also a client of the Bank and uses the selected services provided by PKO Bank Polski SA. The Company has two direct subsidiaries and exerts full control over these subsidiaries.
'POZNAŃSKI FUNDUSZ PORĘCZEŃ KREDYTOWYCH' SP. Z O.O.	'Poznański Fundusz Poręczeń Kredytowych' Sp. z o.o. is a specialized entity supporting the development of small and medium-sized enterprises by providing guarantees and provision of a range of business services. The company guarantees loans and advances granted by banks, including PKO Bank Polski SA, as well as bank guarantees, leasing and factoring transaction and security payment. The entity cooperates with PKO Leasing SA. The Company's offer also includes guarantees for small and medium-sized enterprises granted under the JEREMIE (Join European Resources for Micro to Medium Enterprises), which are re-underwritten mutually at 70% or 80% from the Wielkopolski Regionalny Program Operacyjny, managed by Bank Gospodarstwa Krajowego. As part of its B2B services the Company engages among other things in preparing business plans, feasibility studies, recovery and restructuring programmes, preparing financial documentation and looking for appropriate forms of corporate finance.
FERRUM SA	The Company's operations comprise manufacturing welded steel tubes, hollow profiles and insulating tubes. The Company has three direct subsidiaries and exerts full control over these subsidiaries. The Company's shares were taken up under the debt recovery actions (foreclosure of collateral). The Company is a public company whose shares are listed on the Warsaw Stock Exchange.

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Joint ventures	31.03.2017	31.12.2016
'Centrum Obsługi Biznesu' Sp. z o.o.	-	-
Purchase price	17	17
Change in share of net assets	(14)	(16)
Impairment allowance	(3)	(1)
The Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o. Group	233	227
Value of shares as at the date of obtaining joint control	197	197
Change in share of net assets	36	30
Total	233	227

Associates	31.03.2017	31.12.2016
The Bank Poczty SA Group	118	133
Purchase price	161	162
Change in share of net assets	80	84
Impairment allowance	(123)	(113)
'Poznański Fundusz Poręczeń Kredytowych' Sp. z o.o.	-	-
Purchase price	2	2
Change in share of net assets	4	4
Impairment allowance	(6)	(6)
The FERRUM SA Group	26	26
Purchase price	25	25
Change in share of net assets	1	1
Total	144	159

Change in investments in joint ventures	01.01- 31.03.2017	01.01- 31.03.2016
Investments in joint ventures as at the beginning of the period	227	206
Share in profits and losses	7	3
Net impairment allowance	(1)	1
Other	-	(1)
Investments in joint ventures as at the end of the period	233	209

Change in investments in associates	01.01- 31.03.2017	01.01- 31.03.2016
Investments in associates as at the beginning of the period	159	186
Net impairment allowance	(11)	(4)
Share in profits and losses	(2)	-
Share in other comprehensive income of an associate	(2)	3
Increase in equity interest in an associate	-	1
Investments in associates as at the end of the period	144	186

Impairment allowances – reconciliation of movements	01.01- 31.03.2017	01.01- 31.03.2016
Value at the beginning of the period	120	90
Recognized during the period	12	4
Reversed during the period	-	(1)
Value at the end of the period	132	93
Net impact in the income statement	(12)	(3)



39. ACQUISITION OF RAIFFEISEN-LEASING POLSKA SA BY PKO LEASING SA

DESCRIPTION OF THE TRANSACTION

On 2 November 2016, PKO Bank Polski SA (as the guarantor), Raiffeisen Bank International AG (as the seller) and PKO Leasing SA (as the acquirer) signed an agreement on the sale of 100% of shares in Raiffeisen-Leasing Polska SA (RLPL) by Raiffeisen Bank International AG (RBI AG) to PKO Leasing SA. The transaction was closed on 1 December 2016 after the conditions precedent had been met, including, i.a., gaining the required anti-monopoly consents in Poland and Ukraine.

As a result of the aforementioned transaction, PKO Leasing SA purchased 1 500 038 ordinary shares in Raiffeisen-Leasing Polska SA with a nominal value of PLN 100 each, representing 100% of the Company's share capital and entitling to 100% of the voting rights at the General Shareholder's Meeting of the Company. The purchase price amounted to PLN 850 million. The purchase of the shares was financed entirely with a loan granted by PKO Bank Polski SA. The business operations of the acquired company consist of conducting leasing activities and granting loans.

Due to the purchase of RLPL, its subsidiaries in accordance with IFRS joined the PKO Leasing SA Group: Raiffeisen-Leasing Real Estate Sp. z o.o. (financing the real estate), 'Raiffeisen Insurance Agency' Sp. z o.o. (insurance brokerage), Raiffeisen-Leasing Service Sp. z o.o. (storing and sale of post-leasing items and granting loans) and ROOF Poland Leasing 2014 DAC, with its registered office in Ireland (a special purpose vehicle established to service the securitization of lease receivables).

On 28 April 2017 the merger between PKO Leasing SA (the acquirer) and RLPL (the acquiree) was registered with the National Court Register (KRS) authorised to register the acquirer. The merger was executed by way of transferring all the assets of RLPL to PKO Leasing SA (merger by acquisition), without increasing the share capital of PKO Leasing SA or exchanging shares. Therefore, PKO Leasing SA assumed all the rights and obligations of RLPL. The integration process of the two companies will end with an operational merger which is planned to be completed at the turn of 2017 and 2018.

SETTLEMENT OF THE ACQUISITION TRANSACTION

The transaction was settled under the acquisition method in accordance with IFRS 3.

The acquisition price of RLPL has been determined provisionally at the amount of the cash paid (PLN 850 million), due to the fact that PKO Leasing SA had the right to bring, within 3 months of the acquisition date, claims against RBI AG with regard to financial and other transactions stipulated in the agreement for the purchase of shares in RLPL SA which may result in an outflow of cash and conducted within the RLPL Group between 1 July 2016 and the acquisition date. As at the date of these financial statements, the identification of these transactions has been completed and the amount of claims affecting the final acquisition price is currently negotiated with RBI AG.

As at the date of preparing consolidated financial statements for 2016, an initial, provisional valuation and purchase price allocation was performed, especially with respect to the portfolio of lease receivables and loans granted, and the identification and valuation of contingent liabilities. As at 31 March 2017 these values have not changed. The final settlement may differ from the initial settlement described in these financial statements. In accordance with IFRS 3.45, the Group has to determine the final amounts within 12 months, i.e. by 30 November 2017.

Statement of the financial position - ASSETS	Data of the RLPL Group as at the acquisition date 01.12.2016 (amounts derived from the financial statements)	Adjustments due to fair value measurement and customer relationships	Fair value of assets acquired
Amounts due from banks	279		279
Loans and advances to customers	6 059	25	6 084
Inventories	78	-	78
Intangible assets	14	64	78
Tangible fixed assets	159	-	159
Current income tax receivables	17		17
Deferred income tax assets	433	(17)	416
Other assets	59	-	59
TOTAL ASSETS	7 098	72	7 170

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Statement of the financial position - LIABILITIES AND NET ASSETS	Data of the RLPL Group as at the acquisition date 01.12.2016 (amounts derived from the financial statements)	Adjustments due to fair value measurement and customer relationships	Fair value of liabilities assumed
Amounts due to other banks	4 006	-	4 006
Amounts due to customers	696	-	696
Debt securities in issue	1 557	-	1 557
Other liabilities	113	-	113
Current income tax liabilities	4	-	4
Provisions	1	-	1
LIABILITIES TOTAL	6 377	-	6 377
NET ASSETS	721	72	793

Information on assumptions and valuation methods adopted for identified assets acquired and liabilities assumed as at 1 December 2016 were disclosed in the Group's consolidated financial statements for 2016.

Goodwill	Total RLPL Group companies
Consideration paid	850
Net amount of identifiable acquired assets and liabilities assumed	793
Goodwill	57
of which attributable to the following segments:	
corporate segment	16
retail segment	41

40. OTHER CHANGES TO THE ENTITIES OF THE GROUP

In the first quarter of 2017 the following events affecting the structure of the Group took place:

REGARDING THE PURCHASE AND INCREASING THE CAPITAL OF ZENCARD SP. Z O.O.

On 26 January 2017 the Bank purchased 1 374 shares in ZenCard with a nominal value of PLN 50 each, constituting 100% of the Company's share capital and entitling to 100% of votes at the General Shareholder's Meeting of the Company. Simultaneously, on 26 January 2017 the Extraordinary General Shareholder's Meeting of ZenCard (represented by the Bank as the Company's sole shareholder) passed a resolution regarding an increase in the Company's share capital of PLN 22 050 by issuing 441 new shares with a nominal value of PLN 50 each. All the newly issued shares were taken up by the Bank at a price of PLN 4 493 349 – the difference between the purchase value and the nominal value of the shares was disclosed in supplementary capital. The above-mentioned changes were registered with the National Court Register on 14 March 2017.

As at 31 March 2017 the share capital of ZenCard amounted to PLN 90 750 and is made up of 1 815 shares with a nominal value of PLN 50 each.

REGARDING THE QUALIA DEVELOPMENT SP. Z O.O. GROUP

- **Qualia sp. z o.o. - Sopot Sp. k.**

On 18 January 2017 an amendment to the Articles of Association of Qualia sp. z o.o. – Sopot Sp. k. relating to a reduction in the contribution of the limited partner – Qualia Development Sp. z o.o. – from PLN 10 200 000 to PLN 4 700 000 was registered with the National Court Register. Funds from the reduction described above of PLN 5 500 000 were refunded to Qualia Development Sp. z o.o. in December 2016. The change was disclosed in the financial statements of the above companies and the Bank for 2016 (including the amount of contribution of Qualia Development Sp. z o.o. contributed to Qualia sp. z o.o. – Sopot Sp. k.).

- **Qualia Hotel Management Sp. z o.o.**

On 6 February 2017 an increase in the share capital of Qualia Hotel Management Sp. z o.o. of PLN 1 149 700 was registered with the National Court Register. All the shares were taken up by the then shareholder, Qualia Development Sp. z o.o., at a price of PLN 111 000 000 – the difference between the purchase value and the nominal value of the shares was disclosed in supplementary capital. The funds were transferred to the Company in October 2016.

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As at 31 March 2017 the share capital of Qualia Hotel Management Sp. z o.o. amounted to PLN 1 411 500 divided to 28 230 shares with a nominal value of PLN 50 each. All the shares referred to above are held by Qualia Development Sp. z o.o.

REGARDING THE EVENTS WHICH WILL LEAD TO CHANGES IN THE BANK'S GROUP IN THE FOLLOWING QUARTERS

• **Sarnia Dolina Sp. z o.o.**

On 10 March 2017 the Extraordinary General Shareholder's Meeting of Sarnia Dolina Sp. z o.o. passed a resolution on increasing the Company's share capital by PLN 5 000, i.e. to PLN 6 979 000 by issuing 10 new shares with a value of PLN 500 each. All the newly issued shares were taken up by the then shareholder, Qualia Development Sp. z o.o., at a price of PLN 21 800 000 – the difference between the purchase value and the nominal value of the shares was disclosed in supplementary capital. The respective funds were transferred to Sarnia Dolina Sp. z o.o. on 16 March 2017. The change was registered with the National Court Register on 6 April 2017.

• **Qualia sp. z o.o. – Sopot Sp. k.**

On 10 March 2017 partners of the limited partnership Qualia sp. z o.o. – Sopot Sp. k. passed a resolution on reimbursing the limited partner – Qualia Development Sp. z o.o. – with part of its cash contribution of PLN 2 500 000, as a result of which the limited partner's contribution and the limited partnership's funds were reduced from PLN 4 700 000 to PLN 2 200 000. The funds were transferred on 16 March 2017. The change was registered with the National Court Register on 10 April 2017.

• **Qualia spółka z ograniczoną odpowiedzialności – Projekt 1**

On 10 March 2017 partners in Qualia spółka z ograniczoną odpowiedzialnością – Projekt 1 Sp. k. passed a resolution to dissolve the partnership without liquidation proceedings. On 18 April 2017 the Partnership was struck from the Register of Businesses.

• **PKO Bank Hipoteczny SA**

On 21 March 2017 the Ordinary General Shareholder's Meeting of PKO Bank Hipoteczny SA passed a resolution regarding an increase in the Company's share capital of PLN 150 000 000, i.e. to PLN 950 000 000 by issuing new shares with an issue price equal to their nominal value. The new issue of shares was earmarked to be taken up by the then sole shareholder, i.e. PKO Bank Polski SA. On 4 April 2017, PKO Bank Polski SA subscribed to the said shares and transferred the respective funds to the Company. The change was registered with the National Court Register on 12 April 2017.

In the first quarter of 2017 the following events took place which had an impact on the structure of other subordinated entities and which related to the FERRUM SA Group. On 8 February 2017 changes regarding Walcownia Blach Grubych Batory Sp. z o.o. were registered with the National Court Register, including the following:

- a change in the Company's name: the current name is Walcownia Rur FERRUM Sp. z o.o.;
- a change in the Company's shareholders: currently, 100% of the Company's shares are held by FERRUM SA (before the changes Zakład Konstrukcji Spawanych FERRUM SA – a subsidiary of FERRUM SA was the Company's sole shareholder),
- a change in the Company's core operations: currently it manufactures pipes, cables, closed steel sections and steel connectors.

OTHER NOTES

41. DIVIDENDS PER SHARE

On 9 March 2017 PKO Bank Polski SA received an individual recommendation from the Polish Financial Supervision Authority to retain the whole profit earned in the period from 1 January 2016 to 31 December 2016.

Therefore, on 13 April 2017 the Management Board of PKO Bank Polski SA passed a resolution to recommend to the Ordinary General Shareholder's Meeting of the Bank to retain the whole profit earned in the period from 1 January 2016 to 31 December 2016 of PLN 2 888 300 thousand and earmark it to increase the Bank's capital.

The Management Board recommendation as to the appropriation of the Bank's profit for 2016 was approved by the Bank's Supervisory Board.

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42. CONTINGENT LIABILITIES AND OFF-BALANCE SHEET LIABILITIES RECEIVED

SECURITIES COVERED WITH UNDERWRITING AGREEMENTS (MAXIMUM LIABILITY OF THE GROUP TO ACQUIRE SECURITIES)

Issuer of underwritten securities	Type of underwritten securities	Off-balance sheet liabilities resulting from underwriting agreement	Contract period
As at 31 March 2017			
Company A	corporate bonds	1 055	31.07.2020
Company B	corporate bonds	970	31.12.2020
Company C	corporate bonds	512	15.06.2022
Company D	corporate bonds	67	31.12.2022
Company E	corporate bonds	6	31.12.2026
Total		2 610	

Issuer of underwritten securities	Type of underwritten securities	Off-balance sheet liabilities resulting from underwriting agreement	Contract period
As at 31 December 2016			
Company A	corporate bonds	1 126	31.12.2020
Company B	corporate bonds	1 055	31.07.2020
Company C	corporate bonds	512	15.06.2022
Company D	corporate bonds	69	31.12.2022
Company E	corporate bonds	9	31.12.2026
Total		2 771	

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

LOAN COMMITMENTS GRANTED

Nominal value of loan commitments granted	31.03.2017	31.12.2016
Credit lines and limits		
to financial entities	3 569	2 764
to non-financial entities	39 013	39 525
to public entities	4 339	3 856
Total	46 921	46 145
of which: irrevocable loan commitments	29 216	31 078

GUARANTEE LIABILITIES GRANTED

Guarantees and pledges	31.03.2017	31.12.2016
Guarantees in domestic and foreign trading	5 665	6 060
Guarantees and pledges granted - domestic corporate bonds	3 608	3 769
Letters of credit granted	1 613	1 600
Guarantees and pledges granted - payment guarantee to financial entities	123	151
Guarantees and pledges granted - domestic municipal bonds	412	351
Total	11 421	11 931
of which performance guarantees granted	2 480	2 447

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LIABILITIES GRANTED BY MATURITY

Off-balance sheet liabilities granted by maturity - 31.03.2017	up to 1 month	from 1 month to 3 months	from 3 months to 1 year	from 1 year to 5 years	over 5 years	Total
Loan commitments granted	16 192	2 977	11 208	10 758	5 786	46 921
Guarantee liabilities granted	695	536	3 462	6 156	572	11 421
Total	16 887	3 513	14 670	16 914	6 358	58 342

Off-balance sheet liabilities granted by maturity - 31.12.2016	up to 1 month	from 1 month to 3 months	from 3 months to 1 year	from 1 year to 5 years	over 5 years	Total
Loan commitments granted	13 810	2 543	12 354	10 993	6 445	46 145
Guarantee liabilities granted	266	576	3 722	6 668	699	11 931
Total	14 076	3 119	16 076	17 661	7 144	58 076

OFF-BALANCE SHEET LIABILITIES RECEIVED

Off-balance sheet liabilities received by nominal value	31.03.2017	31.12.2016
Financial	722	304
Guarantees	9 158	7 972
Total liabilities received	9 880	8 276

Due to the provisions of the Agreement which require the Nordea Bank AB Group (publ) to participate in the default risk of the Mortgage Portfolio, on 1 April 2014, PKO Bank Polski SA and Nordea Bank AB (publ) concluded a special indemnity agreement (the 'Special Indemnity Agreement'), according to which Nordea Bank AB (publ) covers, for a period of 4 years following the Closing Date, 50% of the excess of the Mortgage Portfolio cost of risk over the annual cost of risk set at 40 basis points for each year of the above-mentioned four-year contract period of the Special Indemnity Agreement.

CONTRACTUAL COMMITMENTS

Value of contractual commitments concerning:	31.03.2017	31.12.2016
intangible assets	30	36
tangible fixed assets	69	24
Total	99	60

43. LEGAL CLAIMS

As at 31 March 2017, the total amount in litigation where the Bank and other Group companies are defendants (suits) was PLN 380 million, including PLN 20 million in respect of litigation in Ukraine (as at 31 December 2016 the total amount of the said litigations was PLN 449 million), and the total amount of litigations (suits) as at 31 March 2017 where the Bank and other Group companies are plaintiffs was PLN 1 194 million, including PLN 32 million in respect of litigations in Ukraine (as at 31 December 2016 the total amount under the said litigations was PLN 1 232 million).

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The Bank and other Group companies have not conducted any proceedings pending before court, arbitration tribunal or a public administration authority concerning liabilities or receivables, the value of which constitutes at least 10% of the equity of PKO Bank Polski SA.

The most significant legal claims of the PKO Bank Polski SA and the PKO Bank Polski SA Group entities are described below:

a) UNFAIR COMPETITION PROCEEDING

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

The Bank is a party to proceeding initiated by President of the Competition and Consumer Protection Office (Urząd Ochrony Konkurencji i Konsumentów - UOKiK) on the basis of a decision dated 23 April 2001 upon the request of the Polish Trade and Distribution Organization - Employers Association (Polska Organizacja Handlu i Dystrybucji - Związek Pracodawców) against the operators of the Visa and Europay payment systems and the banks issuing Visa and Europay/Eurocard/Mastercard banking cards. The claims under these proceedings relate to the use of practices limiting competition on the market of banking card payments in Poland, consisting of applying pre-agreed 'interchange' fees for transactions made using mentioned above cards as well as limiting access to this market by external entities. On 29 December 2006, UOKiK decided that the practices, consisting of joint establishment of 'interchange' fee, did limit market competition and ordered that any such practices should be discontinued, and imposed a fine on, i.a., PKO Bank Polski SA, in the amount of PLN 16.6 million.

The Bank appealed against the decision of the President of UOKiK to CCCP (Court for the Competition and Consumer Protection / Sąd Ochrony Konkurencji i Konsumentów - SOKiK) and on 20 December 2011 a hearing was held during which no factual resolution of the appeals was reached. The SOKiK obligated MasterCard to submit explanations concerning the issue and scheduled the date of the next meeting for 9 February 2012. The date was postponed for 24 April 2012, and next SOKiK postponed announcing the court's decision on request for suspension until 8 May 2012. On 8 May 2012, SOKiK suspended proceedings until the final conclusion of proceedings before the European Union Court in the case MasterCard against the European Commission. On 24 May 2012, the European Union Court upheld the decision of the European Commission banning multilaterally agreed 'interchange' fees applied by MasterCard. On 28 May 2012 the participant to the proceedings, Visa Europe Ltd, and on 29 May 2012 the plaintiffs' attorney, including PKO Bank Polski SA, filed a complaint against the decision of SOKiK dated 8 May 2012. In August 2012, the European Court of Justice received the appeal of MasterCard against the verdict of the EU Court of 24 May 2012 rejecting the appeal of mentioned above. On 25 October 2012, the Court of Appeal in Warsaw changed the decision of 8 May 2012 and dismissed the motion of MasterCard for suspending the proceedings. By judgment of 21 November 2013 SOKiK reduced the penalty imposed on the Bank to the amount of PLN 10.4 million. On 7 February 2014 the judgment was appealed on behalf of the Bank and eight plaintiffs represented by the Bank's attorney. The judgment was also appealed by other participants of the proceedings, i.e. by the President of the Competition and Consumer Protection Office (UOKiK) and of the Polish Trade and Distribution Organization (POHiD) (appeals aimed to impose on the participants of the agreements stricter financial penalties), and: Visa Europe Ltd., Bank Poczty S.A., Bank Gospodarki Żywnościowej S.A., mBank S.A. (formerly: BRE Bank S.A.), Deutsche Bank PBC S.A., HSBC Bank Polska S.A. (appeals aimed at imposing more strict fines on participants to the agreement). The Court of Appeal in Warsaw in its verdict of 6 October 2015, dismissed the appeal of banks and Visa, while the appeal of the UOKiK. The Court restored the original amount of the imposed penalties stipulated in the decision of the UOKiK, i.e. the penalty in the amount of PLN 16.6 million – penalty imposed on PKO Bank Polski and the penalty in the amount of PLN 4.8 million (penalty imposed on Nordea Bank Polska SA). The penalties were paid by the Bank in October 2015. On 28 April 2016, the Bank filed a cassation complaint along with the other participants in the proceedings. On 28 November 2016, the Bank's plenipotentiary filed an application for filing a pleading with a respective statement of grounds and a pleading. By decision dated 5 December 2016, the Supreme Court allowed the Bank to file the pleading. The Supreme Court scheduled the date on 4 April 2017 for the hearing in camera with reference to accepting the Banks' cassation complaints for investigation (the so-called preliminary acceptance). On 4 April 2017 the Supreme Court decided to investigate the cassation complaint of, among other things, the Bank, at the hearing, but refused to accept the complaints filed by DNB Bank Polska, Bank Ochrony Środowiska, Getin Noble Bank, and HSBC Bank Polska for investigation. The hearing before the Supreme Court has not been scheduled.

As at 31 March 2017 the Bank is also a party to i.a. following proceedings:

- **BEFORE THE COURT OF APPEL – AS A RESULT OF AN APPEAL FROM THE VERDICT OF SOKiK ISSUED IN RESULT OF THE COMPLAINT FROM THE PRESIDENT OF UOKiK DUE TO SUSPICION OF USING OF UNFAIR CONTRACTUAL PROVISIONS IN FORMS OF CONSUMER LOAN AGREEMENTS, WITH THE EXCLUSION OF CREDIT CARD AGREEMENTS.**

By decision of 31 December 2013, the Bank's activities were considered as practices violating collective interests of consumers and a fine in the amount of PLN 29 million was imposed on the Bank. The Bank appealed against this decision. By judgment of 9 July 2015 SOKiK fully annulled the decision of the President of the UOKiK. On 21 August 2015 the President of UOKiK appealed against that judgment. On 11 September 2015 the Bank



responded to the appeal rejecting the allegations of the President of the UOKiK. No trial date has been set. By a decision of 22 November 2016, the Court of Appeal suspended the proceedings. By decision of 16 February 2017 the Court of Appeal resumed the proceedings which had been suspended previously and scheduled the date of the trial for 25 May 2017. As at 31 March 2017 the Bank had not set up a provision in this respect.

- **INITIATED BY BANK - AT THE CONCLUSION OF THE APPEAL PROCEEDING BROUGHT BY THE BANK TO SOKiK AGAINST THE DECISION OF THE PRESIDENT OF UOKiK IN CONNECTION WITH THE USE OF UNFAIR CONTRACTUAL TERMS IN TEMPLATES OF INDIVIDUAL CONTRACTS (IKE)**

On 19 December 2012, the President of UOKiK imposed a fine on the Bank in a total amount of PLN 14.7 million, of which:

- 1) PLN 7.1 million for not indicating in the IKE agreements responsibilities of the Bank for timely and proper carrying out the monetary settlements and compensation for the delay in execution of a holder instruction;
- 2) PLN 4.7 million for application in the form of IKE agreements, an open list of termination conditions;
- 3) PLN 2.9 million for application a clause, entered in the register, defining for disputes with customers a court with jurisdiction over the seat of PKO Bank Polski SA's branch, carrying the IKE deposit account.

The Bank appealed against the decision of the President of UOKiK on 2 January 2013. SOKiK reduced the penalty imposed on the Bank to the amount of PLN 4 million by the court judgement of 25 November 2014, as regards to:

- the practice described in the point 1 above, it reduced the penalty to the amount of PLN 2.5 million,
- the practice described in the point 2 above, it reduced the penalty to the amount of PLN 1.5 million,
- the practice described in the point 3 above, the penalty was repealed, as the Court considered that the practice of the Bank did not violate collective interests of consumers.

In January 2015 both the Bank and the President of the UOKiK appealed against the judgment. The Court of Appeal in its judgment of 10 February 2016 dismissed the appeal of the Bank and the appeal of the President of UOKiK. Since the judgment is final, the Bank paid a fine in the amount of PLN 4 million on 23 February 2016. On 26 September 2016 bank appealed a cassation complaint to the Supreme Court. On 20 April 2017 the Supreme Court decided to accept the Bank's cassation complaint for investigation. The case is pending.

- **BEFORE SOKiK (COURT OF COMPETITION AND CONSUMER PROTECTION) FIVE PROCEEDINGS INSTITUTED BY INDIVIDUALS:**

- 1) on the recognition as abusive and prohibiting the respondent from using in trading with customers the provisions in forms of agreements for loans denominated in CHF, indicating that the currency conversion rules used by the Bank for the purpose of loan payment and for the purpose of conversion of instalments as well as decisions concerning the amount of interest rate were against good practice and highly violated consumer interest (proceeding suspended),
- 2) to establish invalidity of the clauses contained in the mortgage loan agreement by regarding them as illegal (non-existent) and prohibiting the Bank from using in trading with customers the provisions in forms of agreements used by the defendant in the exercising economic activity,
- 3) for recognition as illegal of the provisions in forms of mortgage loan agreement Nordea - Habitat and the surety agreement,
- 4) for recognition as illegal of the provisions of a standard loan agreement. Plaintiff (appraiser) accuses the Bank that it only accepts real estate valuations prepared by designated appraisers which seriously violates the interests of consumers by imposing on consumers, as the weaker party to the contract, onerous conditions by eliminating the right to obtain the valuation services from the chosen company,
- 5) for recognition as illegal of the provisions in forms of mortgage loan agreement product Własny Kąt hipoteczny;

As at 31 March 2017 the Group had no provisions for above-mentioned proceeding due to the fact, that the justify probability of unfavourable result of these proceedings is assessed as remote.

- **BEFORE THE PRESIDENT OF UOKiK**

Two proceedings are in progress before the President of the Office of Competition and Consumer Protection (UOKiK) on PKO Bank Polski SA's practices which allegedly violated the consumers' collective interests:

- 1) proceedings instigated ex officio by the President of the Office of Competition and Consumer Protection (UOKiK) on applying practices which violate collective consumers' interests by PKO Bank Polski SA. The practices consisted of informing in marketing communications and conditioning the exemption of consumers from paying monthly fees for servicing debit cards on settling cashless transactions using the card (a quota or number limit) in the period for which the monthly fee for the card is collected, when the settlement of the cashless transactions



in the said period does not depend on the consumer, but on receiving the settlement of the transactions by the Bank from the settlement agent. The decision to instigate proceedings against the Bank was delivered to the Bank on 4 January 2017. In the letter dated 3 March 2017 addressed to the President of UOKiK the Bank's plenipotentiary signalled that the Bank will apply for the consent decree referred to in Article 28 of the Act on protection of competition and consumers. By a letter dated 13 March 2017 the Bank's plenipotentiary filed a request for issuing a consent decree, together with proposed actions aimed at ending the violation and removing its effects;

- 2) the proceedings instigated *ex officio* by the President of UOKiK in respect of the alleged practices applied by PKO Bank Polski SA which violate the collective interests of consumers who are party to an agreement for payment services and have access to the electronic banking system, by informing of the proposed changes to the conditions of the agreement for the payment services during its performance exclusively using electronic communications sent through electronic banking channels, which do not constitute a permanent information carrier, and not including in the information appendices in the form of electronic documents (regulations and banking fee and commission tariffs for individuals) sent to consumers on changes introduced to PKO Bank Polski SA and Inteligo products, i.e.: bank accounts and debit cards, credit cards, payment cards, and thus making the verification of admissibility of changing the conditions of an agreement by consumers impossible. The decision to instigate proceedings against the Bank was delivered to the Bank on 17 October 2016. By a letter dated 13 October 2016 the President of UOKiK called PKO BP SA to take a stance on the charges included in the decision to instigate proceedings, which PKO BP SA did in its letter of 22 February 2017. By a letter of 14 March 2017 the President of UOKiK informed the Bank of extending the period for settling the case until 12 August 2017.

Moreover, there are thirteen investigation procedures pending before the President of UOKiK, relating to the Bank's activities and three contact by the President of UOKiK without instituting proceedings (in accordance with Article 49a of the Act on Competition and Consumer Protection).

As at 31 March 2017 PKO Życie Towarzystwo Ubezpieczeń SA – a subsidiary of the Bank – is a party to:

- 1) six proceedings before SOKiK initiated by individuals to determine some of provisions in the forms of life insurance agreements to be illegal.

In all cases the Company responded to the lawsuit and applied for its dismissal due to bringing legal action after 6 months since the day of giving up their application; in these cases there is no risk of imposing financial penalty on the Company,

- 2) proceeding connected to the cassation complaint brought by PKO Życie Towarzystwo Ubezpieczeń SA against the judgment of the Court of Appeal in relation to the fine imposed on the Company in 2010 by the President of UOKiK for the violation of the collective interests of consumers by the Company (fine was paid in 2013).

The Supreme Court issued in 2015 the verdict repealing the appealed judgment concerning the amount of the fine and referred the case for reconsideration to the court of second instance. The second instance upheld its previous position not taking into account the guidelines of the Supreme Court. The Company made another cassation complaint to the Supreme Court.

At the same time, in the first quarter of 2017 PKO TUŻ SA conducted actions related to implementing the following:

- a) the consent decree issued in October 2015 by the President of UOKiK regarding changes in respect of payments for early surrender of insurance policies linked to capital funds;
- b) the arrangement reached on 19 December 2016 with the President of UOKiK, under which the terms and conditions for the decision indicated above were extended to the whole active (as at 1 December 2016) portfolio of products with insurance capital fund held by the Company's customers and analogous solutions were applied to customers who had underwritten policies with insurance capital fund after 1 January 2008 and were at least 61 years old, and whose contracts were terminated after they turned 65.

As at 31 March 2017, PKO TUŻ SA does not have a provision for administrative penalties in respect of proceedings relating to insurance products with an insurance capital fund (a provision of PLN 8 million in connection with the consent decree of the President of the UOKiK becoming final and binding was released in 2015). At the same time, the Company maintains an adequate (in respect of the consent decree and the agreement) level of claims provisions.

In the first quarter of 2017 PKO Bank Hipoteczny SA participated in explanatory proceedings conducted before the President of UOKiK regarding research on the mortgage market.

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b) RE-PRIVATIZATIONS CLAIMS RELATING TO PROPERTIES HELD BY THE GROUP

As at the date of these financial statements there are:

- 1) twelve administrative proceedings, of which three are suspended, in relation to properties owned by the Bank, regarding: the invalidation of administrative decisions refusing to grant the right to temporary ownership, giving the property under management and on acquisition in accordance with law the perpetual usufruct of land and ownership title to the building, the return of the property, remuneration for property usage without contractual basis as well as regulation of legal status of the properties.
- 2) fourteen proceedings, of which one is suspended, in relation to properties of other Group entities, regarding the invalidation of administrative decisions or return of the property.

In the opinion of the Management Board of PKO Bank Polski SA the probability of significant claims against the Bank in relation to the above mentioned proceedings is remote.

44. SUPPLEMENTARY INFORMATION TO THE STATEMENT OF CASH FLOWS

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

Cash and cash equivalents	31.03.2017	31.12.2016	31.03.2016
Cash and balances with the Central Bank	14 087	11 645	15 858
Deposits with the Central Bank	-	1 680	-
Current amounts due from banks	5 285	4 628	2 869
Cash and cash equivalents with restricted availability for use	13	13	12
Total	19 385	17 966	18 739

45. TRANSACTIONS WITH THE STATE TREASURY AND RELATED PARTIES

TRANSACTIONS WITH THE STATE TREASURY

The State Treasury has control over the Group as it holds a 29.43% interest in the Bank's share capital. The Bank's shareholding structure is described in detail in the note 'Equity and shareholding structure of the Bank' to these financial statements. Receivables, securities and liabilities arising from transactions conducted with the State Treasury, budgetary units and entities in which the State Treasury is the shareholder are disclosed in the Group's statement of financial position.

In accordance with the 30 November 1995 Act in relation to State support in the repayment of certain housing loans, reimbursement of guarantee premium paid and amendments of several acts, PKO Bank Polski SA receives payments from the State Treasury in respect of redemption interest receivable on housing loans.

Income due to temporary redemption by the State Treasury of interest on housing loans from the 'old' portfolio	01.01-31.03.2017	01.01-31.03.2016
Income recognized for this period	47	56
Income received in cash	4	6
Difference – 'Loans and advances to customers'	43	50

The Act on the coverage of repayment of certain housing loans by State Treasury guarantees was passed on 29 November 2000 and came into force on 1 January 2001. In execution of the provisions of the Act, on 3 August 2001 PKO Bank Polski SA signed an agreement with the Minister of Finance acting on behalf of the State Treasury under which the Bank was granted a pledge of repayment of debt arising from housing loans in the so-called 'old' portfolio. On 29 December 2011, the validity period of the agreement (originally until 31 December 2011) was extended until 31 December 2017. The coverage of the so-called 'old' portfolio housing loan receivables by the guarantees of the State Treasury results in the neutralization of the default risk on these loans.

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The State Treasury guarantees are executed when a borrower fails to repay the loan on the dates specified in the loan agreement. The responsibility of the State Treasury is of an auxiliary nature and is effective if the recovery of the unpaid part of principal and interest which the Bank is obliged to commence, before the Group lays claims to the State Treasury, becomes ineffective. The above-mentioned law covers 90% of unpaid loans taken out by housing cooperatives. As a consequence of the realization of the State Treasury's responsibilities as guarantor, the State Treasury itself enters into the rights of the satisfied creditor (the Group) and thus becomes a creditor towards the borrower, in line with the concept of guarantee.

The Bank did not receive commission for settlements relating to redemption of interest by the State Treasury on housing loans – in the first quarter of 2017 and in the first quarter of 2016 the commission amounted to PLN 1 million.

As of 1 January 1996 the Bank became the general distributor of court fee stamps. The Bank receives commissions in this respect from the State Treasury – PLN 1 million in the first quarter of 2017 and PLN 3 million in the first quarter of 2016.

The Brokerage House of PKO Bank Polski SA performs the role of an agent for the issue of retail treasury bonds under the agreement signed with the Ministry of Finance on 11 February 2003. Under this agreement, the Brokerage House of PKO Bank Polski SA receives a fee for providing the services of an agent for the issue of bonds – PLN 11.5 million in the first quarter 2017 and PLN 9 million in the first quarter of 2016.

EQUITY RELATED PARTY TRANSACTIONS

Transactions of the parent company with associates and joint ventures accounted for under the equity method. All transactions with subsidiaries, joint ventures and associates presented below were arm's length transactions. Repayment terms are within a range from one month to fifteen years.

In the first quarter of 2017 PKO Bank Polski SA and its subsidiaries did not conclude material contracts regarding warranting loans or advances, or granting guarantees.

As at 31 March 2017 / Entity	Receivables	of which loans	Liabilities	Off-balance sheet liabilities granted
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	54	7	30	32
'Centrum Obsługi Biznesu' Sp. z o.o.	26	26	10	-
Bank Pocztowy SA	-	-	1	1
'Poznański Fundusz Poręczeń Kredytowych' Sp. z o.o.	-	-	23	-
Total joint ventures and associates	80	33	64	33

For the period ended 31 March 2017 / Entity	Total income	of which interest and commission	Total expenses	of which interest and commission
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	54	54	18	18
Total joint ventures and associates	54	54	18	18

As at 31 December 2016 / Entity	Receivables	of which loans	Liabilities	Off-balance sheet liabilities granted
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	10	10	18	21
'Centrum Obsługi Biznesu' Sp. z o.o.	28	28	10	-
Bank Pocztowy SA	-	-	1	1
'Poznański Fundusz Poręczeń Kredytowych' Sp. z o.o.	-	-	8	-
Walcownia Blach Grubych Batory Sp. z o.o.	-	-	2	-
Total joint ventures and associates	38	38	39	22

For the period ended 31 March 2016 / Entity	Total income	of which interest and commission	Total expenses	of which interest and commission
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	43	43	15	15
Total joint ventures and associates	43	43	15	15

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46. FAIR VALUE HIERARCHY

Assets and liabilities measured at fair value as at 31.03.2017	Note	Level 1		Level 2	Level 3
		Carrying amount	Prices quoted on the active markets	Valuation techniques based on observable market data	Other valuation techniques
Trading assets	19	1 381	1 381	-	-
Debt securities		1 356	1 356	-	-
Shares in other entities		20	20	-	-
Investment certificates, shares rights and pre-emptive rights		5	5	-	-
Derivative financial instruments	20	2 748	3	2 745	-
Hedging instruments		377	-	377	-
Trading instruments		2 371	3	2 368	-
Financial instruments designated upon initial recognition at fair value through profit and loss	22	11 775	4 673	7 102	-
Debt securities		10 060	2 958	7 102	-
Participation units		1 715	1 715	-	-
Investment securities available for sale	24	39 058	29 338	6 417	3 303
Debt securities		38 531	29 204	6 417	2 910
Equity securities		254	116	-	138
Participation units in investment funds and shares in joint investment institutions		273	18	-	255
Financial assets measured at fair value - total		54 962	35 395	16 264	3 303
Derivative financial instruments	20	3 805	1	3 804	-
Hedging instruments		703	-	703	-
Trading instruments		3 102	1	3 101	-
Financial liabilities measured at fair value - total		3 805	1	3 804	-

Assets and liabilities measured at fair value as at 31.12.2016	Note	Level 1		Level 2	Level 3
		Carrying amount	Prices quoted on the active markets	Valuation techniques based on observable market data	Other valuation techniques
Trading assets	19	326	326	-	-
Debt securities		312	312	-	-
Shares in other entities		11	11	-	-
Investment certificates, shares rights and pre-emptive rights		3	3	-	-
Derivative financial instruments	20	2 901	3	2 898	-
Hedging instruments		382	-	382	-
Trading instruments		2 519	3	2 516	-
Financial instruments designated upon initial recognition at fair value through profit and loss	22	13 937	4 620	9 317	-
Debt securities		12 204	2 887	9 317	-
Participation units		1 733	1 733	-	-
Investment securities available for sale	24	36 676	27 345	5 922	3 409
Debt securities		36 142	27 236	5 922	2 984
Equity securities		218	92	-	126
Participation units in investment funds and shares in joint investment institutions		316	18	-	298
Financial assets measured at fair value - total		53 840	32 294	18 137	3 409
Derivative financial instruments	20	4 198	1	4 197	-
Hedging instruments		1 135	-	1 135	-
Trading instruments		3 063	1	3 062	-
Financial liabilities measured at fair value - total		4 198	1	4 197	-

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	31.03.2017		31.12.2016	
Impact of estimated parameters on fair value measurement of financial instruments at Level 3	Fair value in		Fair value in	
	positive scenario	negative scenario	positive scenario	negative scenario
Investment securities available for sale				
Shares in joint investment institutions	268	242	313	283
Shares of Visa Europe Limited	111	81	100	70
Corporate bonds	2 913	907	2 992	2 977

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

	level of fair value hierarchy	valuation method	31.03.2017	
			carrying amount	fair value
Cash and balances with the Central Bank	n/a	value at cost to pay	14 087	14 087
Amounts due from banks	2	discounted cash flows	5 659	5 659
Loans and advances to customers			200 579	196 819
housing loans	3	discounted cash flows	105 462	100 473
corporate loans	3	discounted cash flows	53 632	53 227
consumer loans	3	discounted cash flows	23 321	24 946
debt securities (corporate)	3	discounted cash flows	2 433	2 359
debt securities (municipal)	3	discounted cash flows	2 575	2 575
receivables due from repurchase agreements	3	discounted cash flows	1 022	1 022
finance lease receivables	3	discounted cash flows	12 134	12 216
Investment securities held to maturity	3	discounted cash flows	1 200	1 206
Other financial assets	3	value at cost to pay less impairment allowance	2 405	2 405
Amounts due to the Central Bank	2	value at cost to pay	4	4
Amounts due to banks	2	discounted cash flows	18 162	18 162
Amounts due to customers			207 116	207 051
due to corporate entities	3	discounted cash flows	47 071	47 069
due to public entities	3	discounted cash flows	9 638	9 638
due to retail clients	3	discounted cash flows	150 407	150 343
Debt securities in issue	1, 2	market quotations / discounted cash flows	16 547	16 869
Subordinated debt	2	discounted cash flows	2 487	2 487
Other financial liabilities	3	value at cost to pay	2 699	2 699

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	level of fair value hierarchy	valuation method	31.12.2016	
			carrying amount	fair value
Cash and balances with the Central Bank	n/a	value at cost to pay	13 325	13 325
Amounts due from banks	2	discounted cash flows	5 345	5 344
Loans and advances to customers			200 606	199 126
housing loans	3	discounted cash flows	106 121	102 351
corporate loans	3	discounted cash flows	52 915	53 731
consumer loans	3	discounted cash flows	23 222	24 701
debt securities (corporate)	3	discounted cash flows	2 283	2 210
debt securities (municipal)	3	discounted cash flows	2 588	2 588
receivables due from repurchase agreements	3	discounted cash flows	1 339	1 339
finance lease receivables	3	discounted cash flows	12 138	12 206
Investment securities held to maturity	3	discounted cash flows	466	466
Other financial assets	3	value at cost to pay less impairment allowance	2 247	2 247
Amounts due to the Central Bank	2	value at cost to pay	4	4
Amounts due to banks	2	discounted cash flows	19 208	19 211
Amounts due to customers			205 066	205 005
due to corporate entities	3	discounted cash flows	48 657	48 650
due to public entities	3	discounted cash flows	8 409	8 409
due to retail clients	3	discounted cash flows	148 000	147 946
Debt securities in issue	1, 2	market quotations / discounted cash flows	14 493	14 752
Subordinated debt	2	discounted cash flows	2 539	2 526
Other financial liabilities	3	value at cost to pay	3 059	3 059

48. OFFSETTING FINANCIAL ASSETS AND LIABILITIES

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

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

Additional collateral for exposures resulting from derivative instruments are collateral deposits escrowed by counterparties as a part of CSA agreements (Credit Support Annex).

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

RECEIVABLES COVERED BY LEASE RECEIVABLES SECURITIZATION

As at 31 March 2017, receivables covered by lease receivables securitization amounted to PLN 1 376 million. They are pledged as collateral for the liabilities in respect of debt securities issued by the special vehicle ROOF Poland Leasing 2014 DAC. Securitized lease receivables are presented as the Group's assets because they do not meet the criteria for derecognition from the statement of financial position specified in IAS 39. 19. In particular, the Group is not obliged to pay any amounts to final recipients until it has received the corresponding amounts from lessees.

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In addition, the criterion of an immediate transfer of cash flows from the securitized assets is not met.

LIABILITIES DUE TO SELL-BUY-BACK TRANSACTIONS

Financial assets which the Group does not derecognize from the financial statements include assets pledged as collateral for liabilities due to sell-buy-back transactions (treasury bonds).

Carrying amount	31.03.2017	31.12.2016
Debt securities	20	182
Amounts due from repurchase agreements	20	206
Net balance	-	(24)

LIABILITIES FROM NEGATIVE VALUATION OF DERIVATIVE INSTRUMENTS

Cash deposits with banks include assets held as collateral for own liabilities, including settlements due to negative valuation of derivative instruments. The amount of these assets as at 31 March 2017 amounted to PLN 1 121 million (as at 31 December 2016 PLN 1 289 million).

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

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

Carrying amount/fair value	31.03.2017	31.12.2016
Value of the deposit	8	8
Nominal value of the collateral	8	8
Type of the collateral	Treasury bonds	Treasury bonds
Carrying amount of the collateral	8	8

BANK DEPOSIT GUARANTEE FUND

	31.03.2017	31.12.2016
Value of the fund	1 081	1 005
Nominal value of the collateral	1 150	1 060
Type of the collateral	Treasury bonds	Treasury bonds
Maturity of the collateral	25.01.2024	25.01.2024
Carrying amount of the collateral	1 110	1 021

FUNDS SECURING CONTRIBUTIONS MADE IN THE FORM OF PAYABLES TO THE BANK GUARANTEE FUND

	31.03.2017
Value of the contribution made in the form of payables	14
Nominal value of the assets in which the funds corresponding to the payables were invested	25
Type of the collateral	Treasury bonds
Maturity of the collateral	25.01.2024
Value of the assets in which the funds corresponding to the payables were invested	24

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The value of the contributions made in the form of payables constitutes 30% of the contributions on behalf of the Bank Guarantee Fund ('BGF') to the deposit guarantee fund or the mandatory bank restructuring fund. The liabilities are secured with assets – Treasury bonds – which are frozen on behalf of BGF, in an amount ensuring maintaining the proportion of property rights securing the payables to the amount of the payables at a level no lower than 110%.

The value of the property rights securing the payables for the purpose of determining the minimum proportion of the value of the assets to the payables is determined according to the value determined based on the last fixing rate on the given date on the electronic Treasury securities market organised by the Minister responsible for budget issues, and the value is increased by the interest due as at the valuation date, unless the value of the interest was included in the said rate.

These funds are treated as assets securing originated liabilities and cannot be pledged, encumbered in any way, subject to court or administrative enforcement and cannot be part of the bankruptcy estate.

The value of funds securing the BGF contribution payables will be increased in periods when the contributions to the deposit guarantee fund are made (on a quarterly basis) and to the mandatory bank restructuring fund (in the third quarter of a given year) in an amount no higher than 30% of the value of the contribution determined by BGF. The value of the funds may be reduced in the event of the Bank receiving a call from BGF to submit the payable contributions in cash.

LEGAL LIMITATIONS RELATING TO THE GROUP LEGAL TITLE

In the years ended 31 March 2017 and 31 March 2016, there were no intangible assets and tangible fixed assets which ownership by the Group were subject to restrictions and pledged as collateral for liabilities.

TRANSFERRED FINANCIAL ASSETS

As at 31 March 2017 and as at 31 December 2016 the Group did not have transferred financial assets, which are derecognized from the financial statements in their entirety, for which the Group continues involvement in those assets.

50. FIDUCIARY ACTIVITIES

Parent Company is a direct participant in the Central Securities Depository of Poland (Krajowy Depozyt Papierów Wartościowych) and the Securities Register (at the National Bank of Poland). The parent entity maintains securities accounts, services transactions on the domestic and foreign markets, and provides fiduciary services and performs depository role for pension and investment funds. Assets held in the parent entity within fiduciary services are not included in these financial statements as they do not meet the criteria of an asset.

51. OTHER INFORMATION

AUTHORITY TO SELL OR PLEDGE SECURITY SET UP ON BEHALF OF THE GROUP

As at 31 March 2017 and as at 31 December 2016 no security was set up on behalf of the Bank's Group which the Bank's Group would be entitled to sell or further pledge, in the course of exercising its duties of security holder.

SEASONALITY OR CYCLIC NATURE OF OPERATIONS IN THE REPORTING PERIOD

PKO Bank Polski SA is a universal bank operating throughout the country and its operations are subject to the same seasonal changes as the whole Polish economy. The operations of the other PKO Bank Polski SA Group companies also do not show any material traits of seasonality or cyclicity.

FACTORS WHICH WILL HAVE AN IMPACT ON THE FUTURE FINANCIAL RESULTS IN THE PERSPECTIVE OF AT LEAST THE FOLLOWING QUARTER

In the next few quarters business processes in Poland and in the world economy, and reactions of the financial markets, will have an impact on the results of the Bank and the PKO Bank Polski SA Group. The interest rate policy pursued by the Monetary Policy Council and by the largest central banks will also be important for future results.

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The prevailing regulatory risk will be a continued challenge for the Polish banking sector. This is especially true of resolving the issue of housing loans denominated in foreign currencies (currently three draft acts are waiting to be passed by the Polish Parliament), including the implementation of the recommendation of the Financial Stability Committee dated 13 January 2017 regarding the restructuring of the portfolio of those loans.

The tax on certain financial institutions which is in force since February 2016 will have a negative impact on the banks' results and returns. This levy will determine the level of costs incurred by banks. In the medium term it will lead to a decrease in the banks' potential to engage in lending, and will constitute a particular challenge for banks which have low returns on assets and at the same time high leverage.

Inclusion in the new reporting system of the National Clearing House in connection with the Central Appraisal Mechanism which is being prepared, and using the database will be a challenge for the banks.

During the next quarter, the following new regulatory solutions will also have an impact on the financial results:

- implementation of the Regulation of the Minister of Development and Finance on risk management and the internal control system, remuneration policy and assessing internal capital as of 1 May 2017;
- implementation of the Act of 23 March 2017 on mortgage loans in the second quarter of 2017, the aim of which is to increase borrower protection and to level out the information imbalance between the customer and the bank;
- exhausting the tranche of the funds for the Apartment for the Young (Mieszkanie dla Młodych) stipulated for this year in the first quarter of 2017.

The political and economic situation in Ukraine also has an impact on the PKO Bank Polski SA Group results as some of the Group companies operate on that market: KREDOBANK SA and companies which provide financial and debt collection services. On-going analysis is being performed in the context of the impact of the political and economic situation in Ukraine, including changes in the regulatory environment, on the financial results and risks of deterioration of the Group assets in that country. PKO Bank Polski SA continues actions to ensure the safe operations of its companies in Ukraine, among other things, by reinforcing supervision and monitoring changes in the regulatory requirements specified by the National Bank of Ukraine. Information on the economic situation and the banking sector in Ukraine is presented in the Management Comments to the results of the PKO Bank Polski SA Group for the first quarter of 2017 in the paragraph: External operating conditions – the Ukrainian market.

LOANS DRAWN AND BORROWINGS, GUARANTEES AND WARRANTIES NOT RELATED TO OPERATING ACTIVITIES

In the first quarter of 2017 PKO Bank Polski SA and its subsidiaries did not draw loans or advances and did not receive any warranties or guarantees relating to their operating activities.

SIGNIFICANT AGREEMENTS AND MATERIAL CONTRACTS WITH THE CENTRAL BANK OR THE REGULATORS.

In the first quarter of 2017 the Bank did not conclude significant agreements or material contracts with the Central Bank or with the regulators.

POSITION OF THE MANAGEMENT BOARD CONCERNING THE REALISATION OF PREVIOUSLY PUBLISHED FORECASTS CONCERNING THE RESULTS FOR THE YEAR

PKO Bank Polski SA did not publish its results forecasts for 2017.

OTHER INFORMATION WHICH IS MATERIAL FOR ASSESSING THE HUMAN RESOURCES, ASSET, FINANCIAL POSITION OF THE ISSUER, ITS RESULTS AND RESPECTIVE CHANGES

CHANGE IN THE REMUNERATION PRINCIPLES IN RESPECT OF MEMBERS OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

On 13 March 2017 the Extraordinary General Shareholder's Meeting passed Resolution No. 2/2017 regarding remunerating the Management Board members and Resolution No. 3/2017 regarding remunerating Supervisory Board members. The State Treasury represented by the Minister of Development and Finance notified of drafting both resolutions with the purpose of adapting the current principles of remunerating PKO Bank Polski SA Management and Supervisory Board members to the Act on the principles of determining the amount of remuneration for persons managing certain companies. The full content of the remuneration principles is available on the Bank's website www.pkobp.pl/investors.



OBJECTIVES AND PRINCIPLES OF RISK MANAGEMENT

52. RISK MANAGEMENT IN THE PKO BANK POLSKI SA GROUP

Risk management is one the most important internal processes in PKO Bank Polski SA including other entities of the PKO Bank Polska SA Group. It aims at ensuring profitability of business activity, with ensuring control of risk level and maintaining it within the risk tolerance and limits system applied by the Bank and the Group, in the changing macroeconomic and legal environment. The level of the risks plays an important role in the planning process.

At the Group, the following types of risk have been identified, which are subject to management and some of them are considered significant¹:

TYPE OF RISK	CONSIDERED TO BE SIGNIFICANT
CREDIT	YES
CREDIT CONCENTRATION	YES
RISK OF FOREIGN CURRENCY MORTGAGE LOANS	YES
INTEREST RATE	YES
CURRENCY	YES
LIQUIDITY, INCLUDING FINANCING RISK	YES
COMMODITY PRICE	
PRICE OF EQUITY SECURITIES	
OTHER PRICE RISK	
DERIVATIVE	YES
OPERATIONAL	YES
COMPLIANCE AND CONDUCT	YES
BUSINESS (INCLUDING STRATEGIC RISK)	YES
LOSS OF REPUTATION	YES
MODELS	YES
MACROECONOMIC CHANGES	YES
CAPITAL	YES
EXCESSIVE LEVERAGE	YES
INSURANCE	

The following elements were described in detail in the consolidated financial statements of PKO Bank Polski SA for 2016 for particular risks identified by the Bank: risk definition, purpose of specific risks management, risk identification, measurement and assessment, risk controlling, forecasting and monitoring, management reporting and actions.

¹ The significance of the individual types of risk is established at the Group's level. When determining criteria of classifying a given type of risk as significant, an influence of the significance of the risk on the Group's activities is taken into account, whereas the following risk types are distinguished: risk considered as significant a priori – being managed actively, potentially significant – for which significance monitoring is performed periodically, other non-defined or non-occurring in the Group types of risk (insignificant and non-monitored). Based on quantitative and qualitative information, an assessment of significance of given types of risk is performed in the Group periodically. As a result of assessment, a given type of risk is being classified as significant/insignificant. In particular, monitoring is conducted if significant change in activities took place or the profile of the Group changed.

PURPOSE OF RISK MANAGEMENT

The purpose of risk management by striving to maintain the risk level within the adopted risk tolerance is to:

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

Risk management goals are achieved in particular by providing appropriate information on risk so as to ensure that the decisions are taken in full awareness of the particular risks involved.

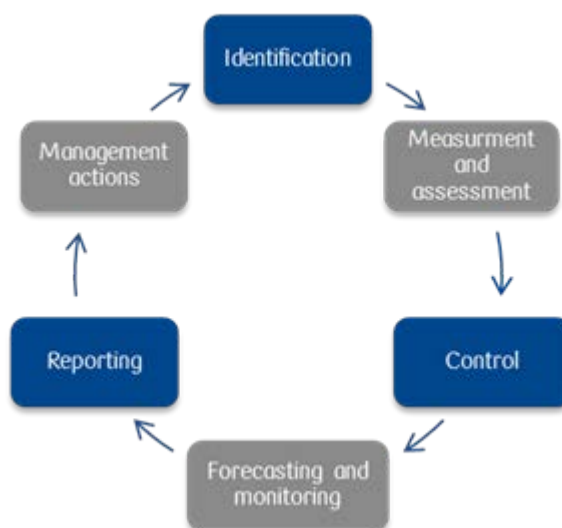
MAIN PRINCIPLES OF RISK MANAGEMENT

Risk management in PKO Bank Polski SA Group is based especially on the following principles:

- 1) the Group manages all of the identified types of risk,
- 2) the risk management system is appropriate to the scale of the operations and to the materiality, scale and complexity of a given risk and tailored to new risk factors and sources on a current basis,
- 3) the risk management methods (in particular the models and their assumptions) and the risk measurement systems are tailored to the scale and complexity of the risk, current and envisaged Group's activity and environment in which the Group operates, and are also verified and validated on a periodical basis,
- 4) the area of risk management and debt collection remains organizationally independent from business activities,
- 5) risk management is integrated with the planning and controlling systems,
- 6) the risk level is monitored on a current basis,
- 7) the risk management system supports the implementation of the Group's strategy in compliance with the risk management strategy, in particular with regard to the level of tolerance of the risk.

THE RISK MANAGEMENT PROCESS

Risk management in the Group consists of the following stages:



• RISK IDENTIFICATION:

Identification of risk is to recognize actual and potential sources of risk and estimation of the significance of the potential influence on the financial situation of the Group. Within the risk identification process, types of risk perceived as material in the Bank's, particular Group companies or the entire Group activity are identified.



- **RISK MEASUREMENT AND ASSESSMENT:**

Risk measurement covering determination of risk assessment measures adequate to the type and significance of the risk, data availability and quantitative risk assessment by means of determined measures, as well as risk assessment aimed at identifying the scale or scope of risk, taking into account the achievement of goals of risk management. Within risk measurement, valuation of the risks for the purpose of pricing policy and stress-test are being conducted on the basis of assumptions providing a fair risk assessment. Stress-test scenarios cover, i.a. the requirements following from the recommendations of the Polish Financial Supervision Authority. Additionally, complex stress-tests are performed in the Group (CST), which constitute an integral element of risk management and supplementary stress-tests specific for particular risks. CST also cover an analysis of the impact of changes in the environment (in particular the macroeconomic conditions) and the Bank's operations on the Group's financial position.

- **RISK CONTROL:**

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

- **RISK FORECASTING AND MONITORING:**

Forecasting and monitoring risk consists of preparing risk level forecasts and monitoring deviations from forecasts or adopted reference points (e.g. limits, thresholds, plans, measurements from the previous period, recommendations and suggestions issued by the supervisory and control authority) and also carrying out stress-test (specific and complex). Forecasts of the level of risk shall be reviewed. Risk monitoring is performed with the frequency adequate to the significance and volatility of a specific risk type.

- **RISK REPORTING:**

Risk reporting consists of periodic informing the authorities of the Bank about the results of risk measurement or risk assessment, taken actions and actions recommendations. Scope, frequency and the form of reporting are adjusted to the managing level of the recipients.

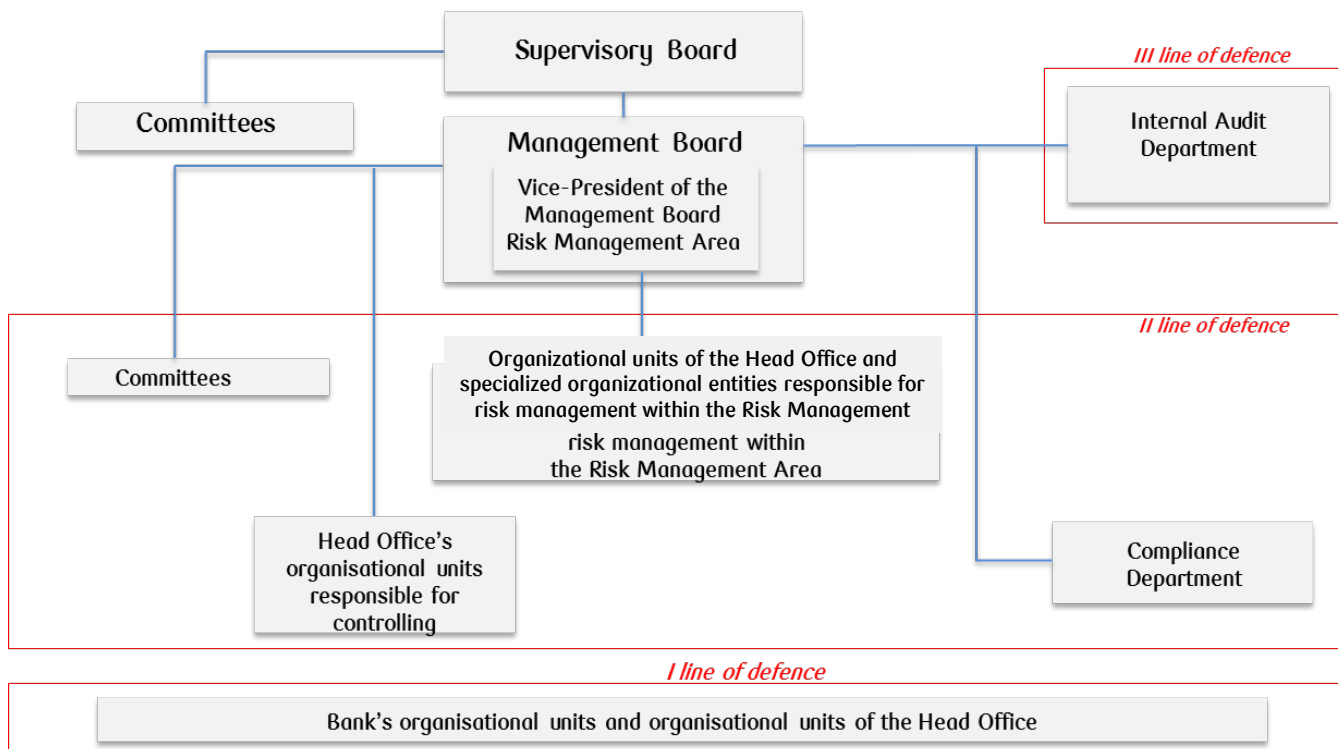
- **MANAGEMENT ACTIONS:**

Management actions consist particularly issuing internal regulations affecting the management process of different types of risk, establishing the level of risk tolerance, establishing limits and thresholds, issuing recommendations, making decisions about the use of tools supporting risk management. The objective of taking management actions is to form the risk management and the risk level.

THE ORGANIZATION OF RISK MANAGEMENT IN THE GROUP

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

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



The risk management system is supervised by the Supervisory Board which controls and assesses its adequacy and effectiveness. The Supervisory Board assesses whether particular components of the risk management system ensure the correctness of the process of designating and pursuing the Bank's detailed objectives. In particular it verifies whether the system uses formalised principles of determining the risk appetite and risk management principles, as well as formalised procedures to identify, measure or assess and monitor the risks inherent to a bank's operations, also taking into consideration the expected future level of risk. It verifies whether formalised limits are applied in the risk management system and whether actions are defined in the event of exceeding those limits and whether the adopted management reporting system enables monitoring the risk level. It assesses whether the risk management system is adapted to new risk factors and sources on an on-going basis. The Bank's Supervisory Board is supported, among other things, by the following committees: the Remuneration Committee of Supervisory Board, the Supervisory Board Risk Committee and the Supervisory Board Audit Committee.

In respect of risk management, the Management Board of PKO Bank Polski SA is responsible for strategic risk management, including supervising, controlling and monitoring actions taken by the Bank in respect of risk management. The Board takes the most important decisions affecting the risk profile of the Bank and adopts internal regulations concerning risk management. The Management Board is supported by the following committees operating at the Group:

- 1) the Risk Committee (the 'RC'),
- 2) the Assets & Liabilities Management Committee (the 'ALCO'),
- 3) the Bank's Credit Committee (the 'BCC')
- 4) the Operating Risk Committee (the 'ORC').

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

- 1) the first line of defence comprises the organisational structures which sell products and service customers, and other structures which perform operational tasks which generate risk and operate based on internal regulations;

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- 2) the second line of defence comprises operations of the compliance unit and identification, measurement or assessment, controlling, monitoring and reporting risks material to the Bank and threats and irregularities identified – those tasks are performed by specialised organisational structures operating based on the binding regulations, methodologies and procedures; their purpose is to ensure that the actions performed on the first line of defence are properly designed and effectively mitigate risks, support risk measurement and analysis, and effectiveness of operations;
- 3) the third line of defence is internal audit which performs independent audits of components of the Bank's management system, including risk management, and the internal control system; internal audit operates in isolation from the first and second line of defence and may support the actions performed at those two levels through consultations, but without having any influence on the decisions taken.

On all three lines of defence employees apply appropriate controls adapted to the nature of the Bank's operations, or independently monitor compliance.

Information on actions taken within the risk management and internal control systems and on the results of those actions is periodically reported to the Management and Supervisory Boards.

The Bank's internal structure is adapted to the size and profile of the risk incurred and ensures effectiveness of managing those risks and avoiding conflicts of interests, in particular through: isolating organisational structures which manage particular risks; independence of organisational structures responsible for identification, measurement or assessment, controlling, monitoring and reporting risk from the structures whose operations generate risks, and full independence of internal audit structures and the compliance unit in this respect; independence of organisational structures which monitor security of the Bank's IT system and protect information from the structures which perform operating activities in the Bank. Materiality and the level of the Bank's inherent risks have an impact on the scope of responsibility and level of independence of the organisational structures, with the exception of the internal audit and compliance units.

RISK MANAGEMENT OF THE PKO BANK POLSKI SA GROUP

The Bank supervises activities of the individual subsidiaries of the PKO Bank Polski SA Group. As part of this supervision, the Bank supervises the entities' risk management systems and provides support in the development of these systems. Additionally, it reflects business risk level of the particular entities in the risk reporting and monitoring system of the entire Group.

The internal regulations concerning management of certain types of risk in the entities of the Group are defined by internal regulations implemented by those entities, after consulting the Bank's opinion and having taken into account the recommendations issued to the entities by the Bank. The internal regulations of the entities concerning risk management allow for consistent and comparable assessment of particular types of risk within the Bank and entities of the Group, as well as reflect the extent and nature of the relationship of entities included in the Group, the nature and scale of the entity's activity and the market on which it operates.

Supervision over risk management in Group companies is effected mainly by involving the organisational units of the Head Office and specialist organisational units from the Risk Management Area, Compliance Department or relevant committees operating within the Bank in giving their opinions on Group transactions in accordance with the Bank's separate internal regulations. At least once a year a list of companies which have a material impact on the Group's risk profile is prepared. For those companies, the organisational units of the Head Office and specialist organisational units from the Risk Management Area, as well as the Compliance Department determine an approach specifying the minimum quantitative strategic risk tolerance limits specific for the given company and the manner of reporting it, in accordance with the Bank's separate internal regulations.

SPECIFIC ACTIVITIES IN THE AREA OF RISK MANAGEMENT IN THE GROUP UNDERTAKEN IN THE FIRST QUARTER OF 2017

The PKO Bank Polski SA Group's top priority is to maintain its strong capital position and to further increase in its stable sources of financing underlying the stable development of business activity, while maintaining the priorities of efficiency and effective cost control, appropriate risk assessment and effective management of capital adequacy, and counteracting cyber threats.

For this purpose, in the first quarter of 2017 the Group took the following action:

- 1) A Group company – PKO Bank Hipoteczny S.A. – issued covered bonds of EUR 25 million in January and EUR 500 million in March 2017;

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- 2) The Management Board and Supervisory Board of PKO Bank Polski SA decided to apply the individual recommendation of the Polish Financial Supervision Authority relating to retaining the whole profit earned by the Bank in the period from 1 January 2016 to 31 December 2016 in the Bank;
- 3) in the area of operational risk management, the Bank conducted preparatory work for starting operating from the new branch in the Czech Republic. As part of that work in February 2017 the Bank obtained the consent of the Polish Financial Supervision Authority for the joint application of the advanced measurement approach (AMA) and the base indicator approach (BIA) to calculate the own funds requirement in respect of operational risk using BIA in respect of the operations of the Bank's branch in the Federal Republic of Germany and the Bank's branch in the Czech Republic, and using AMA for the Bank's other operations.

53. CREDIT RISK MANAGEMENT

Exposure to credit risk - Items of the statement of financial position	31.03.2017	31.12.2016
Current account in the Central Bank	10 237	7 460
Amounts due from banks	5 659	5 345
Trading assets - debt securities	1 356	312
Derivative financial instruments	2 748	2 901
Financial instruments designated upon initial recognition at fair value through profit and loss - debt securities	10 060	12 204
Loans and advances to customers	200 579	200 606
corporate	53 632	52 915
housing	105 462	106 121
consumer	23 321	23 222
debt securities (corporate)	2 433	2 283
debt securities (municipal)	2 575	2 588
receivables due from repurchase agreements	1 022	1 339
finance lease receivables	12 134	12 138
Investment securities - debt securities	38 531	36 142
Investment securities held to maturity	1 200	466
Other assets - other financial assets	2 405	2 247
Total	272 775	267 683

Exposure to credit risk - Off-balance sheet items	31.03.2017	31.12.2016
Irrevocable liabilities granted	29 216	31 078
Guarantees issued	5 788	6 630
Underwriting of securities	4 020	3 701
Letters of credit issued	1 613	1 600
Total	40 637	43 009

Gross financial assets, which are past due, but not impaired	31.03.2017			
	up to 1 month	1 - 3 months	over 3 months	Total
Loans and advances to customers	2 969	888	156	4 013
Total	2 969	888	156	4 013

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Gross financial assets, which are past due, but not impaired	31.12.2016			
	up to 1 month	1 - 3 months	over 3 months	Total
Loans and advances to customers	3 535	849	178	4 562
Total	3 535	849	178	4 562

Collaterals for the above receivables include: mortgages, registered pledges, transfers of property rights, account lock-ups, loan exposure insurances, warranties and guarantees. The conducted assessment proved that for the above-mentioned financial assets the expected cash flows fully cover the carrying amount of these exposures.

Financial assets assessed on an individual basis for which individual impairment has been recognized by carrying amount gross	31.03.2017	31.12.2016
Loans and advances to customers	4 848	5 049
corporate loans	3 855	3 963
housing loans	695	789
consumer loans	224	224
debt securities	74	73
Investment securities available for sale	1 288	1 297
Total	6 136	6 346

Loans and advances to customers were secured by the following collaterals established for the PKO Bank Polski SA Group: mortgage, registered pledge, the debtor's promissory note and transfer of receivables.

INTERNAL RATING CLASSES

Taking the type of the Group's business activity and the amount of credit and leasing debts into consideration, the most important portfolios are managed by the Bank and PKO Leasing SA.

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

The following portfolios are covered by the rating system:

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

Loans and advances which are not individually impaired and are not rated, are characterized with a satisfactory level of the credit risk. It concerns, in particular, retail loans (including housing loans) which do not have individually significant exposures and thus do not create significant credit risk.

EXTERNAL RATING CLASSES

The Group has portfolios of debt securities and amounts due from banks which are not overdue, not impaired, broken down by external rating classes from AAA to Caa3.

54. CONCENTRATION OF CREDIT RISK AT THE GROUP

The Group defines credit concentration risk as one of arising from a considerable exposure to single entities or to group of entities whose repayment capacity depends on a common risk factor. The Group analyses concentration risk in respect of:

- 1) the largest entities
- 2) the largest capital groups
- 3) industries
- 4) geographical regions
- 5) currency

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6) mortgage secured exposures.

As of the beginning of 2017 the Group implemented changes to the risk exposure concentration management process, in accordance with the requirements of Resolution No. 351/2016 of the Polish Financial Supervision Authority dated 24 May 2016 with regard to issuing Recommendation C relating to concentration risk management. The said changes covered, among other things, the objective and process of concentration risk management, implementing new concentration risk tolerance measures, including internal limits of excess concentration risk, methods of conducting stress-tests in respect of concentration risk.

55. FORBEARANCE PRACTICES

LOANS AND ADVANCES TO CUSTOMERS

Exposures subject to forbearance in the loan portfolio	31.03.2017	31.12.2016
Loans and advances to customers gross, of which:	208 722	208 609
subject to forbearance	4 246	4 132
Impairment allowances on loans and advances to customers, of which:	(8 143)	(8 003)
subject to forbearance	(978)	(988)
Loans and advances to customers net, of which:	200 579	200 606
subject to forbearance	3 268	3 144

Loans and advances to customers subject to forbearance by product type	Carrying value 31.03.2017	31.12.2016
Loans and advances to customers gross subject to forbearance	4 246	4 132
corporate loans	2 531	2 262
housing loans	1 438	1 563
consumer loans	277	307
Impairment allowances on loans and advances to customers subject to forbearance	(978)	(988)
Loans and advances to customers net subject to forbearance	3 268	3 144

INVESTMENT SECURITIES AVAILABLE FOR SALE SUBJECT TO FORBEARANCE

Exposures subject to forbearance in the portfolio of investment securities available for sale	31.03.2017	31.12.2016
Debt securities available for sale gross, of which:	38 810	36 419
subject to forbearance	1 285	1 303
Impairment allowances on investment securities available for sale, of which:	(279)	(277)
subject to forbearance	(276)	(274)
Investment securities available for sale net, of which:	38 531	36 142
subject to forbearance	1 009	1 029

56. RISK MANAGEMENT OF FOREIGN CURRENCY MORTGAGE LOANS FOR INDIVIDUALS

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

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The following tables present qualitative analysis of the loans denominated in CHF

	31.03.2017			
Loans and advances to customers in CHF by impairment calculation method (translated into PLN)	Financial institutions	Corporates	Households	Total
Assessed on an individual basis, of which:				
impaired	-	171	148	319
Assessed on a portfolio basis, impaired	-	139	121	260
Assessed on a group basis (IBNR)	-	26	1 181	1 207
Assessed on a group basis (IBNR)	5	326	27 554	27 885
Loans and advances to customers gross	5	523	28 883	29 411
Impairment allowances on exposures assessed on an individual basis, of which:				
impaired	-	(69)	(53)	(122)
Impairment allowances on exposures assessed on a portfolio basis	-	(68)	(53)	(121)
Impairment allowances on exposures assessed on a portfolio basis	-	(20)	(805)	(825)
Impairment allowances on exposures assessed on a group basis (IBNR)	-	(3)	(65)	(68)
Impairment allowances - total	-	(92)	(923)	(1 015)
Loans and advances to customers net	5	431	27 960	28 396

CHF exchange rate as at 31 March 2017 was equal to PLN 3.9461.

	31.12.2016			
Loans and advances to customers in CHF by impairment calculation method (translated into PLN)	Financial institutions	Corporates	Households	Total
Assessed on an individual basis, of which:				
impaired	-	247	166	413
Assessed on a portfolio basis, impaired	-	220	137	357
Assessed on a portfolio basis, impaired	-	26	1 184	1 210
Assessed on a group basis (IBNR)	5	361	29 361	29 727
Loans and advances to customers gross	5	634	30 711	31 350
Impairment allowances on exposures assessed on an individual basis, of which:				
impaired	-	(90)	(64)	(154)
Impairment allowances on exposures assessed on a portfolio basis	-	(63)	(64)	(127)
Impairment allowances on exposures assessed on a portfolio basis	-	(19)	(793)	(812)
Impairment allowances on exposures assessed in a group basis (IBNR)	-	(2)	(70)	(72)
Impairment allowances - total	-	(111)	(927)	(1 038)
Loans and advances to customers net	5	523	29 784	30 312

CHF exchange rate as at 31 December 2016 was equal to PLN 4.1173.

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Loans and advances to customers assessed on a group basis (IBNR)	31.03.2017		
	PLN	CHF	Other currencies
Loans and advances to customers gross	150 627	27 885	16 504
past due	3 227	544	668
not past due	147 400	27 341	15 836
Impairment allowances on exposures assessed on a group basis (IBNR)	(474)	(68)	(91)
past due	(150)	(32)	(12)
not past due	(324)	(36)	(79)
Loans and advances to customers net	150 153	27 817	16 413

Loans and advances to customers assessed on a group basis (IBNR)	31.12.2016		
	PLN	CHF	Other currencies
Loans and advances to customers gross	147 632	29 727	17 516
past due	3 149	658	510
not past due	144 483	29 069	17 006
Impairment allowances on exposures assessed on a group basis (IBNR)	(457)	(72)	(100)
past due	(147)	(35)	(11)
not past due	(310)	(37)	(89)
Loans and advances to customers net	147 175	29 655	17 416

Loans and advances to customers assessed on a group basis (IBNR) subject to forbearance by currencies	31.03.2017		
	PLN	CHF	Other currencies
Gross loans and advances to customers subject to forbearance	972	484	212
Impairment allowances on exposures assessed on a group basis (IBNR) subject to forbearance	(37)	(16)	(7)
Net loans and advances to customers subject to forbearance	935	468	205

Loans and advances to customers assessed on a group basis (IBNR) subject to forbearance by currencies	31.12.2016		
	PLN	CHF	Other currencies
Gross loans and advances to customers subject to forbearance	941	557	162
Impairment allowances on exposures assessed on a group basis (IBNR) subject to forbearance	(33)	(21)	(7)
Net loans and advances to customers subject to forbearance	908	536	155

As at 31 March 2017, the average LTV for loan portfolio in CHF amounted to 79.1% - compared to the average LTV for the whole portfolio amounting to 67.5%.

On 13 January 2017 the Financial Stability Committee adopted Resolution No. 14/2017 on the recommendation relating to restructuring of the housing loan portfolio in foreign currencies and recommended:

- 1) The Minister responsible for financial institutions:
 - an increase in risk weight to 150% for foreign currency exposures fully secured with mortgage on residential property,

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- an increase of the minimum LGD parameter by banks which apply IRB for foreign exposures secured with mortgage on residential property,
 - a change in the principles of operation of the Borrowers' Support Fund,
 - neutralization of tax effects for borrowers and banks which decide to convert housing loans into another currency,
 - imposing a systemic risk buffer of 3%.
- 2) Polish Financial Supervision Authority:
- updating the supervisory review and evaluation process (SREP) methodology and expanding it by principles which enable attributing an appropriate level of capital charge,
 - supplementing the additional capital requirements currently used under Pillar 2, related to operations, market and credit risk,
 - issuing a supervisory recommendation on best practices in restructuring the portfolios of foreign currency housing loans.
- 3) The Bank Guarantee Fund: accounting for the risks related to foreign currency housing loans in the method for determining contribution to the bank guarantee fund.

57. INTEREST RATE RISK MANAGEMENT

THE REPRICING GAP

The repricing gap shows the difference between the present value of assets and liabilities exposed to interest rate risk, subject to revaluation in a given time range, and these balances are recognized on the transaction date.

At the end of the first quarter of 2017 and 2016, the PKO Bank Polski SA Group had a positive cumulative gap in PLN in all the time horizons.

SENSITIVITY MEASURES

Exposure of the PKO Bank Polski SA Group to interest rate risk was within accepted limits as at 31 March 2017 and 31 December 2016. The Group was mainly exposed to PLN interest rate risk. Among all applied stress-tests by the Group involving a parallel shift of interest rate curves, the most unfavourable for the Bank was the scenario of a parallel shift of interest rate curves in PLN.

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

Name of sensitivity measure	31.03.2017	31.12.2016
VaR for a 10-day time horizon at the confidence level of 99% (in PLN million)*	380	269
Parallel movement of interest rate curves by 200 b.p. (in PLN million) (stress-test)**	1 926	2 059

* Due to the nature of the activities carried out by the other Group entities generating significant interest rate risk as well as a the specific nature of the market on which they operate, the Group does not calculate consolidated VaR. These companies apply their own risk measures in the interest rate risk management. KREDOBANK SA uses the 10-day interest rate VaR for the main currencies, which amounted to approx. PLN 9.2 million as at 31 March 2017 and PLN 8.9 million as at 31 December 2016.

** The table presents the value of the most adverse stress-test of the scenarios: movement of interest rate curves in particular currencies by 200 b.p. up and by 200 b.p. down.

As at 31 March 2017, the Bank's interest rate VaR for the 10-day time horizon (10-day VaR) amounted to PLN 379.8 million, which accounted for approximately 1.2% of the Bank's own funds. As at 31 December 2016, VaR for the Bank amounted to PLN 268.8 million, which accounted for approximately 0.9% of the Bank's own funds.

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58. CURRENCY RISK MANAGEMENT

SENSITIVITY MEASURES

VaR of the Bank and stress-tests analysis of the Bank's exposure to currency risk are stated cumulatively for all currencies in the table below:

Name of sensitivity measure	31.03.2017	31.12.2016
VaR for a 10-day time horizon at the confidence level of 99% (in PLN million)*	4	10
Change in CUR/PLN by 20% (in PLN million) (stress-test)**	86	25

* Due to the nature of the activities carried out by the other Group entities generating significant interest rate risk as well as a the specific nature of the market on which they operate, the Parent company does not calculate consolidated VaR. These companies apply their own risk measures in the interest rate risk management. KREDOBANK SA uses the 10-day interest rate VaR for the main currencies, which amounted to approx. PLN 0.16 million as at 31 March 2017 and PLN 0.35 million as at 31 December 2016.

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

CURRENCY POSITION

The Group's currency positions is a key factor determining the level of currency risk on which the Group is exposed (except for volatility of foreign exchange rates). The level of currency positions is determined by all foreign currency transactions, which are concluded by the Group, both in the statement of financial position and off-balance sheet transactions. The Bank's exposure to currency risk is low (with reference to own funds, VaR for a 10-day time horizon for the Bank's currency position as at 31 March 2017 amounted to ca. 0.01% and as at 31 December 2016 to 0.03% respectively).

59. LIQUIDITY RISK MANAGEMENT

LIQUIDITY GAPS

Liquidity gaps presented below include the sum of Bank's adjusted liquidity gap (adjusted in terms of the following: permanent balances on deposits of non-financial sector and their maturity, permanent balances on loans in current accounts for non-financial entities and their maturity and liquid securities and their maturity) and contractual liquidity gap of the other Group entities.

	a'vista	0 - 1 month	1 - 3 months	3 - 6 months	6 - 12 months	12 - 24 months	24 - 60 months	over 60 months
31.03.2017								
The Group - adjusted periodic gap in real terms	15 669	20 006	(2 574)	1 064	7 882	8 823	25 359	(76 229)
The Group - adjusted cumulative periodic gap in real terms	15 669	35 675	33 101	34 165	42 047	50 870	76 229	-
31.12.2016								
The Group - adjusted periodic gap in real terms	11 983	28 501	493	579	6 582	11 193	24 592	(83 923)
The Group - adjusted cumulative periodic gap in real terms	11 983	40 484	40 977	41 556	48 138	59 331	83 923	-

In all time horizons, the Group's cumulative adjusted liquidity gap in real terms, which has been determined as a sum of adjusted liquidity gap in real terms of the Bank and contractual liquidity gaps of the remaining Group entities, as at 31 March 2017 and as at 31 December 2016 was positive. This means a surplus of assets receivable over liabilities payable.

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LIQUIDITY RESERVE AND LIQUIDITY SURPLUS

Name of sensitivity measure	31.03.2017	31.12.2016
Liquidity reserve up to 1 month* (in PLN billion)	34	31
Liquidity surplus in a horizon of up to 30 days** (in PLN billion)	16	13

* Liquidity reserve – gap between the most liquid assets and expected and potential liabilities which mature in a given period of time.

** Excess liquidity – excess liquidity determines the Bank's ability to maintain liquidity on each day during the period called the 'horizon of survival' if predefined stress-test scenarios occur.

SUPERVISORY LIQUIDITY MEASURES

Supervisory liquidity measures	31.03.2017	31.12.2016
M1	23 140	24 464
M2	1.73	1.89
M3	11.63	11.63
M4	1.19	1.19
LCR	134.0%	136.3%

In the period from 31 December 2016 to 31 March 2017 supervisory measures ratios remained above the supervisory limits. LCR indicator shows the value for the Group in the table above.

PERMANENT BALANCES ON DEPOSITS

As at 31 March 2017 the level of permanent balances on deposits constituted approx. 93.9% of all deposits in the Bank (excluding interbank market), has not changed significantly as compared to the end of 2016.

STRUCTURE OF THE FINANCING SOURCES

	31.03.2017	31.12.2016
Total deposits (excluding interbank market)	76.40%	76.50%
Interbank market deposits	1.30%	0.30%
Equity	11.50%	12.40%
Market financing	10.80%	10.80%
Total	100.00%	100.00%

60. CAPITAL ADEQUACY

The management of capital adequacy is a process whose objective is to ensure that the level of risk which the Bank and the Group take in relation to the development of its business activities may be covered with its capital, taking into account a specific risk tolerance level and time horizon. The process of managing capital adequacy comprises, in particular, compliance with the applicable regulations of the supervisory and control authorities, as well as the risk tolerance level determined within the Bank and the Group and the capital planning process, including the policy concerning the sources of acquisition of capital.

The objective of capital adequacy management is to maintain own funds at a level that is adequate to the scale and profile of the risk relating to the Group's activities continuously.

The process of managing the Group's capital adequacy comprises:

- specifying and pursuing the Group's capital objectives,
- identifying and monitoring significant types of risk,
- assessing internal capital to cover the individual risk types and total internal capital,
- establishing internal capital adequacy limits,
- forecasting, monitoring and reporting the level and structure of equity and capital adequacy,
- managing the structure of the statement of financial position paying attention to optimizing the quality of the Group's own funds,
- capital emergency action,

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- allocating own funds and internal capital requirements to business areas and customer segments in the Bank as well as the individual Group companies,
- assessing the profitability of the individual business areas and customer segments.

The capital adequacy measures are:

- capital adequacy ratio,
- the relation of own funds to internal capital,
- Tier 1 core capital ratio,
- Tier 1 capital ratio,
- leverage ratio.

Pursuant to Article 92 of CRR, the minimum level of the capital ratios maintained by the Bank and the Group amounts to:

- 1) capital adequacy ratio (TCR) – 8.0%,
- 2) Tier 1 capital ratio (T1) – 6.0%,
- 3) Tier 1 core capital ratio (CET1) – 4.5%.

At the same time, the Group and the Bank are obliged to abide by additional requirements imposed by the PFSA and requirements following from the Act on macroprudential supervision. The Group maintained capital adequacy at a safe level, above the supervisory and regulatory limits. As at 31 March 2017 the Group's capital adequacy ratio (TCR) was 15.60%, and the Tier 1 core capital ratio (CET1) was 14.77%. The capital adequacy ratio (TCR) of PKO Bank Polski was 16.94%, and the Tier 1 core capital ratio (CET1) was 16.09%. Both the Group and the Bank maintained a safe capital base, above the supervisory and regulatory limits. Pursuant to CRR, for consolidation purposes the Group comprises: PKO Bank Polski SA, the PKO Leasing SA Group, PKO BP BANKOWY PTE SA, PKO Towarzystwo Funduszy Inwestycyjnych SA, the KREDOBANK SA, PKO Finance AB Group, Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o., PKO BP Finat Sp. z o.o., PKO Bank Hipoteczny SA and Bankowe Towarzystwo Kapitałowe SA.

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

OWN FUNDS FOR CAPITAL ADEQUACY PURPOSES

In the first quarter of 2017, the Group's capital adequacy level remained at a secure level, well above the supervisory limits.

As at 31 March 2017 the Group's own funds calculated for capital adequacy purposes dropped in consequence of the Bank obtaining consent for early repayment of a subordinated loan of CHF 224 million (the equivalent of PLN 884 million) on 24 March 2017. This loan was included in Tier 2 capital as at 31 December 2016. Since respective consent was obtained, the loan was not recognised in the Group's own funds.

REQUIREMENTS AS REGARD OWN FUNDS (PILLAR I)

The Group's total own funds requirement comprises the total of the capital requirements in respect of various risks listed below:

CREDIT RISK

under the standard approach, using the following formulas with regard to:

STATEMENT OF FINANCIAL POSITION ITEMS – a product of a carrying amount (considering value of adjustments for specific credit risk), a risk weight of the exposure calculated according to the standardized method of credit risk requirement as regards own funds and 8% (considering recognized collaterals),

OFF-BALANCE SHEET LIABILITIES GRANTED – a product of value of liability (considering value of adjustments for specific credit risk), a risk weight of the product, a risk weight of off-balance sheet exposure calculated according to the standardized method of credit risk requirement for own funds and 8% (considering recognized collaterals),

OFF-BALANCE SHEET TRANSACTIONS (DERIVATIVE INSTRUMENTS) – a product of risk weight of the off-balance sheet transaction calculated according to the standardized method of credit risk requirement for own funds, equivalent in the statement of financial position of off-balance sheet transaction and 8% (the value of the equivalent in the statement of financial position is calculated in accordance with the mark-to-market method).

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OPERATIONAL RISK	• in accordance with the AMA approach – with respect to the Bank’s activities, excluding the Bank’s branch in Federal Republic of Germany, • in accordance with the BIA approach – with respect to the activities of the Bank’s branch in Federal Republic of Germany and activities of the Group’s entities included in prudential consolidation
MARKET RISK	• currency risk – calculated under the core approach, • commodity risk – calculated under the simplified approach, • equity instruments risk – calculated under the simplified approach, • specific risk of debt instruments – calculated under the core approach, • general risk of debt instruments – calculated under the duration-based approach, • other types of risk, other than delta risk (non-delta risk) calculated under the scenario approach in the case of options for which the Bank uses its own valuation models and under the delta plus approach for other options,
OTHER RISK	• settlement risk and delivery risk – calculated under the approach specified in Title V, ‘Own funds requirements for settlement risk’ of the CRR Regulation, • counterparty credit risk – calculated under the approach set out in Chapter 6, ‘Counterparty credit risk’ of Title II, ‘Capital requirements for credit risk’ of the CRR Regulation, in calculating the capital requirement in respect of counterparty credit risk the Bank uses contractual offset in accordance with CRR (Article 295-298). • credit valuation adjustment risk (CVA) – calculated under the approach set out in Title VI, ‘Own funds requirements for credit valuation adjustment risk’ in of the CRR Regulation, • exceeding a large exposure limit – calculated under the approach set out in Articles 395-401 of the CRR Regulation, • for exposures to a central counterparty, a requirement for transactions and contributions made to the default fund of a qualifying central counterparty is calculated (calculated in accordance with the method specified in Part III, Title II, Chapter 6, Section 9 of CRR).

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	31.03.2017	31.12.2016
Total own funds	30 272	30 873
Tier 1 capital	28 671	28 350
Tier 1 capital before regulatory adjustments and reductions, of which:	32 059	32 060
Share capital	1 250	1 250
Other reserves	27 969	27 970
General banking risk fund for unidentified banking risk	1 070	1 070
Retained earnings	1 770	1 770
(-) Goodwill	(1 160)	(1 160)
(-) Other intangible assets	(1 747)	(1 821)
Accumulated other comprehensive income	(442)	(709)
Deferred income tax assets, dependent on future profitability, not derived from temporary differences	(1)	(1)
Adjustments in Tier 1 basic capital due to prudential filters	12	30
Other adjustments in transitional period in Tier 1 basic capital	(50)	(49)
Tier 2 capital	1 601	2 523
Capital instruments and subordinated loans eligible as Tier 2 capital	1 601	2 523
Requirements as regard own funds	15 527	15 626
Credit risk	14 173	14 271
Operational risk	678	657
Market risk	648	651
Credit valuation adjustment risk	28	47
Total capital adequacy ratio	15.60%	15.81%
Tier 1 capital ratio	14.77%	14.51%

The internal capital for covering the individual risk types is determined using the methods specified in the internal regulations. In the event of performing internal capital estimates based on statistical models, the annual forecast horizon is adopted and a 99.9% confidence level. The total internal capital of each entity of the Group is the sum of internal capital amount necessary to cover all of the significant risks for the entity. The total internal capital of the Group is the sum of internal capital amount of the Bank and all Group entities. The correlation coefficient for different types of risk and different Group entities used in the internal capital calculation is equal to 1.



STANDALONE FINANCIAL DATA

INCOME STATEMENT

	Note	01.01- 31.03.2017	01.01- 31.03.2016
Interest and similar income	1	2 414	2 311
Interest expense and similar charges	1	(520)	(522)
Net interest income		1 894	1 789
Fee and commission income	2	852	776
Fee and commission expense	2	(210)	(197)
Net fee and commission income		642	579
Dividend income	3	-	59
Net income from financial instruments measured at fair value	4	1	(15)
Gains less losses from investment securities	5	(2)	50
Net foreign exchange gains (losses)		100	101
Other operating income	6	21	22
Other operating expense	6	(27)	(23)
Net other operating income and expense		(6)	(1)
Net impairment allowance and write-downs	7	(372)	(371)
Administrative expenses	8	(1 391)	(1 237)
Tax on certain financial institutions	9	(227)	(148)
Operating profit		639	806
Profit before income tax		639	806
Income tax expense	10	(229)	(146)
Net profit		410	660
Earnings per share	11		
- basic earnings per share for the period (in PLN)		0.33	0.53
- diluted earnings per share for the period (in PLN)		0.33	0.53
Weighted average number of ordinary shares during the period (in million)		1 250	1 250
Weighted average diluted number of ordinary shares during the period (in million)		1 250	1 250

STATEMENT OF COMPREHENSIVE INCOME

	Note	01.01- 31.03.2017	01.01- 31.03.2016
Net profit		410	660
Other comprehensive income		215	143
Items that may be reclassified to the income statement		215	143
Cash flow hedges (gross)	16	23	137
Deferred tax	10;16	(4)	(26)
Cash flow hedges (net)		19	111
Unrealized net gains on financial assets available for sale (gross)		241	40
Deferred tax	10	(45)	(8)
Unrealized net gains on financial assets available for sale (net)		196	32
Currency translation differences from foreign operations		-	(6)
Total net comprehensive income		625	803

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STATEMENT OF FINANCIAL POSITION

	Note	31.03.2017	31.12.2016
ASSETS			
Cash and balances with the Central Bank	12	14 025	13 277
Amounts due from banks	13	7 230	8 471
Trading assets excluding derivative financial instruments	14	1 415	358
Derivative financial instruments	15	2 822	2 895
Financial assets designated upon initial recognition at fair value through profit and loss	17	9 718	11 744
Loans and advances to customers	18	188 630	189 067
Investment securities available for sale	19	37 882	35 773
Investment securities held to maturity	20	912	157
Investments in subsidiaries, joint ventures and associates	31	2 538	2 535
Non-current assets held for sale	21	358	361
Intangible assets	22	2 732	2 817
Tangible fixed assets	22	2 249	2 325
Deferred income tax assets		968	1 034
Other assets	23	2 263	2 143
TOTAL ASSETS		273 742	272 957
LIABILITIES AND EQUITY			
Liabilities			
Amounts due to the Central Bank		4	4
Amounts due to banks	24	17 920	18 717
Derivative financial instruments	15	3 805	4 230
Amounts due to customers	25	211 285	209 371
Debt securities in issue	26	1 657	1 693
Subordinated liabilities	27	2 487	2 539
Other liabilities	28	3 109	3 340
Current income tax liabilities		53	251
Provisions	29	208	223
TOTAL LIABILITIES		240 528	240 368
Equity			
Share capital	30	1 250	1 250
Other capital	30	28 666	28 451
Undistributed profits	30	2 888	-
Net profit for the year	30	410	2 888
TOTAL EQUITY		33 214	32 589
TOTAL LIABILITIES AND EQUITY		273 742	272 957
Capital adequacy ratio	43	16.94%	17.19%
Book value (in PLN million)		33 214	32 589
Number of shares (in million)		1 250	1 250
Book value per share (in PLN)		26.57	26.07
Diluted number of shares (in million)		1 250	1 250
Diluted book value per share (in PLN)		26.57	26.07

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STATEMENT OF CHANGES IN EQUITY

For the period ended 31 March 2017	Share capital	Other capital Reserves			Other comprehensive income				Undistributed profits	Net profit for the period	Total equity
		Reserve capital	General banking risk fund	Other reserves	Financial assets available for sale	Cash flow hedges	Actuarial gains and losses	Total other capital			
As at 1 January 2017	1 250	24 268	1 070	3 555	(343)	(89)	(10)	28 451	-	2 888	32 589
Transfer of net profit from previous years	-	-	-	-	-	-	-	-	2 888	(2 888)	-
Total comprehensive income, of which:	-	-	-	-	196	19	-	215	-	410	625
Net profit	-	-	-	-	-	-	-	-	-	410	410
Other comprehensive income	-	-	-	-	196	19	-	215	-	-	215
As at 31 March 2017	1 250	24 268	1 070	3 555	(147)	(70)	(10)	28 666	2 888	410	33 214

For the period ended 31 March 2016	Share capital	Other capital Reserves			Other comprehensive income				Undistributed profits	Net profit for the period	Total equity
		Reserve capital	General banking risk fund	Other reserves	Financial assets available for sale	Cash flow hedges	Actuarial gains and losses	Total other capital			
As at 1 January 2016	1 250	20 518	1 070	3 484	145	(57)	(13)	25 147	1 250	2 571	30 218
Transfer of net profit from previous years	-	-	-	-	-	-	-	-	2 571	(2 571)	-
Total comprehensive income, of which:	-	-	-	-	32	111	-	143	-	660	803
Net profit	-	-	-	-	-	-	-	-	-	660	660
Other comprehensive income	-	-	-	-	32	111	-	143	-	-	143
As at 31 March 2016	1 250	20 518	1 070	3 484	177	54	(13)	25 290	3 821	660	31 021

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STATEMENT OF CASH FLOWS

	Note	01.01- 31.03.2017	01.01- 31.03.2016
Net cash flow from operating activities			
Profit before income tax		639	806
Adjustments:		3 807	4 395
Amortization and depreciation		182	173
(Gains) losses from investing activities		6	-
Interest and dividends		34	(69)
Change in:			
amounts due from banks		2 257	1 045
financial instruments designated upon initial recognition of fair value through profit and loss		544	533
derivative financial instruments		73	29
loans and advances to customers		383	3 550
other assets and non-current assets held for sale		(114)	(1 604)
amounts due to banks		(797)	1 984
amounts due to customers		2 014	(1 234)
provisions and impairment allowances		36	86
other liabilities and subordinated liabilities		(283)	(206)
Income tax paid		(411)	(163)
Other adjustments		(117)	271
Net cash generated from operating activities		4 446	5 201
Net cash flows from investing activities			
Inflows from investing activities		2 463	33 780
Redemption of a subsidiary's capital		-	50
Proceeds from sale and interest of investment securities		2 454	33 671
Proceeds from sale of intangible assets and tangible fixed assets		9	-
Other investing inflows (dividends)		-	59
Outflows from investing activities		(4 842)	(37 270)
Acquisition of equity of subsidiaries and associates		(14)	-
Increase in equity of a subsidiary		(4)	(22)
Increase in equity of an associate		-	(1)
Purchase of investment securities		(4 793)	(36 995)
Purchase of intangible assets and tangible fixed assets		(31)	(252)
Net cash used in investing activities		(2 379)	(3 490)
Net cash flows from financing activities			
Redemption of debt securities in issue		-	(60)
Repayment of interest from debt securities issued and subordinated loans		(27)	(34)
Repayment of interest and long-term borrowings		(276)	(162)
Net cash used in financing activities		(303)	(256)
Net cash flows		1 764	1 455
of which currency translation differences on cash and cash equivalents		(197)	(23)
Cash and cash equivalents at the beginning of the period		17 568	17 190
Cash and cash equivalents at the end of the period	33	19 332	18 645
of which restricted		13	12

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NOTES TO THE FINANCIAL STATEMENTS

1. INTEREST INCOME AND EXPENSE

INTEREST AND SIMILAR INCOME ON:	01.01- 31.03.2017	01.01- 31.03.2016
loans and other advances to banks	45	29
loans and advances to customers, of which:	1 979	1 931
on impaired loans	57	69
investment securities	232	183
derivative hedging instruments	81	95
financial assets designated upon initial recognition at fair value through profit and loss	61	53
Trading financial assets	11	19
other	5	1
Total	2 414	2 311

INTEREST EXPENSE AND SIMILAR CHARGES ON:	01.01- 31.03.2017	01.01- 31.03.2016
amounts due to banks	(28)	(16)
amounts due to customers	(449)	(458)
debt securities in issue and subordinated liabilities	(18)	(18)
debt securities available for sale	(20)	(14)
Trading financial assets	(2)	(9)
financial assets designated upon initial recognition at fair value through profit and loss	(3)	(7)
Total	(520)	(522)

2. FEE AND COMMISSION INCOME AND EXPENSE

FEE AND COMMISSION INCOME ON:	01.01- 31.03.2017	01.01- 31.03.2016
payment and credit cards	246	229
maintenance of bank accounts	213	215
loans and advances granted	157	145
offering of insurance products	19	13
maintenance of investment funds and OFE (including management fees)	85	65
cash transactions	22	22
servicing foreign mass transactions	25	19
brokerage activities and issue arrangement	48	33
insurance and investment products	4	4
sale and distribution of court fee stamps	1	3
other	32	28
Total	852	776

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FEE AND COMMISSION EXPENSE ON:	01.01- 31.03.2017	01.01- 31.03.2016
card activities	(130)	(128)
commission paid to external entities for product sales	(22)	(19)
cost of construction investment supervision and property valuation	(11)	(9)
settlement services	(10)	(9)
commissions on operating services provided by banks	(4)	(4)
Sending text messages (SMS)	(5)	(3)
fees incurred by the Brokerage House	(6)	(4)
other	(22)	(21)
Total	(210)	(197)

3. DIVIDEND INCOME

DIVIDEND INCOME FROM:	01.01- 31.03.2017	01.01- 31.03.2016
from subsidiaries, joint ventures and associates, of which:	-	59
PKO BP Finat Sp. z o.o.	-	59
Total	-	59

4. NET INCOME FROM FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

NET INCOME FROM FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE:	01.01- 31.03.2017	01.01- 31.03.2016
Debt securities	1	2
Equity instruments	-	1
Derivative instruments (of which an ineffective portion related to cash flow hedges)	-	(23)
Other	-	5
Total	1	(15)

5. GAINS LESS LOSSES FROM INVESTMENT SECURITIES AVAILABLE FOR SALE

GAINS LESS LOSSES FROM INVESTMENT SECURITIES	01.01- 31.03.2017	01.01- 31.03.2016
Debt securities	(2)	50
Total	(2)	50

6. OTHER OPERATING INCOME AND EXPENSE

OTHER OPERATING INCOME	01.01- 31.03.2017	01.01- 31.03.2016
gain on sale and disposal of tangible fixed assets, intangible assets and assets held for sale	4	4
sundry income	6	6
recovery of expired and written-off receivables	1	1
other	10	11
Total	21	22

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OTHER OPERATING EXPENSE	01.01- 31.03.2017	01.01- 31.03.2016
loss on sale and disposal of tangible fixed assets, intangible assets and assets held for sale	(10)	(4)
donations	(9)	(1)
sundry expense	(5)	(4)
other	(3)	(14)
Total	(27)	(23)

7. NET IMPAIRMENT ALLOWANCE AND WRITE-DOWNS

NET IMPAIRMENT ALLOWANCE AND WRITE-DOWNS	Note	01.01- 31.03.2017	01.01- 31.03.2016
Investment securities available for sale	19	(7)	(32)
Amounts due from banks	13	-	(1)
Loans and advances to customers	18	(343)	(335)
Non-current assets held for sale	21	(2)	(6)
Investments in subsidiaries, joint ventures and associates	31	(15)	-
Other receivables (other assets)	23	(5)	(1)
Provision for legal claims, loan commitments and guarantees granted	29	-	4
Total		(372)	(371)

8. ADMINISTRATIVE EXPENSES

ADMINISTRATIVE EXPENSES	01.01- 31.03.2017	01.01- 31.03.2016
Employee benefits	(652)	(631)
Overheads	(289)	(311)
Amortization and depreciation	(182)	(173)
Contributions to the Bank Guarantee Fund	(256)	(110)
Taxes and other charges	(12)	(12)
Total	(1 391)	(1 237)

The annual contribution to the mandatory bank restructuring fund for 2017 of PLN 209 million and the contribution to the bank guarantee fund payable for the first quarter of 2017 of PLN 47 million were charged to costs of the first quarter of 2017.

EMPLOYEE BENEFITS	01.01- 31.03.2017	01.01- 31.03.2016
Wages and salaries, of which:	(539)	(520)
expenses on employee pension scheme	(13)	(12)
Social insurance, of which:	(98)	(94)
contributions for retirement benefits and pensions	(86)	(83)
Other employee benefits	(15)	(17)
Total	(652)	(631)

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9. TAX ON CERTAIN FINANCIAL INSTITUTIONS

The tax on certain financial institutions was paid for the first time for February 2016.

	01.01- 31.03.2017	01.01- 31.03.2016
Tax on certain financial institutions	(227)	(148)

10. INCOME TAX

INCOME TAX EXPENSE

	01.01- 31.03.2017	01.01- 31.03.2016
Current income tax expense	(213)	(210)
Deferred income tax related to temporary differences	(16)	64
Income tax expense recognized in the income statement	(229)	(146)
Income tax expense recognized in other comprehensive income related to temporary differences	(49)	(34)
Total	(278)	(180)

11. EARNINGS PER SHARE

	01.01- 31.03.2017	01.01- 31.03.2016
Earnings per share		
Earnings per ordinary shareholders	410	660
Weighted average number of ordinary shares during the period (in million)	1 250	1 250
Earnings per share (in PLN per share)	0.33	0.53

Both in the first quarter of 2017 and in the first quarter of 2016, there were no instruments diluting earnings per share and there were no material costs of and revenue from discontinued operations.

NOTES TO THE STATEMENT OF FINANCIAL POSITION

12. CASH AND BALANCES WITH THE CENTRAL BANK

	31.03.2017	31.12.2016
CASH AND BALANCES WITH THE CENTRAL BANK		
Current account in the Central Bank	10 228	7 444
Cash on hand	3 797	4 153
Deposits with the Central Bank	-	1 680
Total	14 025	13 277

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13. AMOUNTS DUE FROM BANKS

AMOUNTS DUE FROM BANKS	31.03.2017	31.12.2016
Deposits with banks	4 539	3 851
Amount due from PKO Bank Hipoteczny for the sale of mortgage secured housing loans by the Bank	522	3 038
Current accounts	756	429
Loans and advances granted	1 316	492
Receivables due from repurchase agreements	97	661
Gross total	7 230	8 471
Net total	7 230	8 471

Amounts due from banks - the Group's exposure to credit risk	Exposure	
	31.03.2017	31.12.2016
Amounts due from banks not impaired, not past due	7 230	8 471
Gross total	7 230	8 471
Net total by carrying amount	7 230	8 471

14. TRADING ASSETS EXCLUDING DERIVATIVE FINANCIAL INSTRUMENTS

TRADING ASSETS	31.03.2017	31.12.2016
Debt securities	1 390	344
Treasury bonds PLN	1 230	186
foreign currency Treasury bonds	6	6
municipal bonds PLN	42	42
corporate bonds PLN	78	76
foreign currency corporate bonds	-	2
mortgage-backed securities	34	32
Shares in other entities - listed on stock exchange	20	11
Investment certificates, rights to shares, pre-emptive rights	5	3
Total	1 415	358

15. DERIVATIVE FINANCIAL INSTRUMENTS

DERIVATIVE FINANCIAL INSTRUMENTS	31.03.2017		31.12.2016	
	Assets	Liabilities	Assets	Liabilities
Hedging instruments	478	703	382	1 163
Other derivative instruments	2 344	3 102	2 513	3 067
Total	2 822	3 805	2 895	4 230

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TYPES OF CONTRACTS	31.03.2017		31.12.2016	
	Assets	Liabilities	Assets	Liabilities
IRS	1 342	1 904	1 388	2 098
CIRS	645	940	570	1 423
FX Swap	235	213	205	164
Options	466	445	540	437
FRA	2	2	2	2
Forward	132	300	177	106
Other	-	1	13	-
Total	2 822	3 805	2 895	4 230

16. DERIVATIVE HEDGING INSTRUMENTS

Carrying amount/fair value of derivative instruments hedging cash flows associated with interest rate and/or foreign exchange rate	31.03.2017		31.12.2016	
	Assets	Liabilities	Assets	Liabilities
IRS	125	28	90	32
CIRS	353	675	292	1 131
Total	478	703	382	1 163

Change in other comprehensive income related to cash flow hedges and ineffective part of cash flow hedge	01.01- 31.03.2017	01.01- 31.03.2016
Other comprehensive income at the beginning of the period, gross	(109)	(71)
Gains/losses transferred to other comprehensive income in the period	765	208
Amount transferred from other comprehensive income to the income statement, of which:	(742)	(71)
- interest income	(81)	(95)
- net foreign exchange gains	(661)	24
Accumulated other comprehensive income at the end of the period, gross	(86)	66
Tax effect	16	(12)
Accumulated other comprehensive income at the end of the period, net	(70)	54
Impact on other comprehensive income in the period, gross	23	137
Tax effect	(4)	(26)
Impact on other comprehensive income in the period, net	19	111
Ineffective part of cash flow hedge recognized in the income statement, of which the amount related to:	2	-
Net foreign exchange gains	1	-
Net income from financial instruments measured at fair value	1	-

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17. FINANCIAL INSTRUMENTS DESIGNATED UPON INITIAL RECOGNITION AT FAIR VALUE THROUGH PROFIT AND LOSS

Financial instruments designated upon initial recognition at fair value through profit and loss	31.03.2017	31.12.2016
NBP money market bills	6 998	8 999
Treasury bonds PLN	1 462	1 432
foreign currency Treasury bonds	1 032	1 075
municipal bonds PLN	104	111
foreign currency municipal bonds	122	127
Total	9 718	11 744

18. LOANS AND ADVANCES TO CUSTOMERS

Loans and advances to customers by product type	31.03.2017			31.12.2016		
	Gross	Impairment allowances	Net	Gross	Impairment allowances	Net
Loans	189 974	(7 374)	182 600	190 100	(7 243)	182 857
housing	98 341	(2 125)	96 216	100 010	(2 144)	97 866
corporate	67 161	(3 714)	63 447	65 810	(3 667)	62 143
consumer	24 472	(1 535)	22 937	24 280	(1 432)	22 848
Debt securities	5 084	(76)	5 008	4 948	(77)	4 871
Debt securities (corporate)	2 503	(70)	2 433	2 352	(69)	2 283
Debt securities (municipal)	2 581	(6)	2 575	2 596	(8)	2 588
Receivables due from repurchase agreements	1 022	-	1 022	1 339	-	1 339
Total	196 080	(7 450)	188 630	196 387	(7 320)	189 067

Loans and advances to customers by method of calculating impairment allowances	31.03.2017			31.12.2016		
	Gross	Impairment allowances	Net	Gross	Impairment allowances	Net
individual basis, of which:	5 527	(2 062)	3 465	5 714	(2 159)	3 555
impaired	4 173	(2 054)	2 119	4 420	(2 150)	2 270
not impaired	1 354	(8)	1 346	1 294	(9)	1 285
portfolio basis	7 253	(4 869)	2 384	7 022	(4 656)	2 366
group basis (IBNR)	183 300	(519)	182 781	183 651	(505)	183 146
Total	196 080	(7 450)	188 630	196 387	(7 320)	189 067

Loans and advances to customers - the Bank's exposure to credit risk	31.03.2017			31.12.2016		
	Gross	Impairment allowances	Net	Gross	Impairment allowances	Net
impaired, of which	11 426	(6 923)	4 503	11 442	(6 806)	4 636
assessed on an individual basis	4 173	(2 054)	2 119	4 420	(2 150)	2 270
not impaired, of which	184 654	(527)	184 127	184 945	(514)	184 431
with recognized individual impairment trigger	1 298	(9)	1 289	1 234	(9)	1 225
not past due	1 074	(8)	1 066	1 022	(8)	1 014
past due	224	(1)	223	212	(1)	211
without recognized individual impairment trigger/IBNR	183 356	(518)	182 838	183 711	(505)	183 206
not past due	181 088	(363)	180 725	180 830	(348)	180 482
past due	2 268	(155)	2 113	2 881	(157)	2 724
Total	196 080	(7 450)	188 630	196 387	(7 320)	189 067

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Loans and advances to customers by client segment	31.03.2017	31.12.2016
Loans and advances to customers, gross, of which:	196 080	196 387
mortgage banking	91 655	93 078
corporate	58 342	57 106
retail and private banking	24 472	24 280
small and medium enterprises	20 576	20 571
receivables due from repurchase agreements	1 022	1 339
other receivables	13	13
Impairment allowances on loans and advances	(7 450)	(7 320)
Loans and advances to customers, net	188 630	189 067

Loan quality ratios (in %)	31.03.2017	31.12.2016
Share of impaired loans	5.8%	5.8%
Coverage ratio of impaired loans*	65.2%	64.0%
Share of loans overdue more than 90 days in relation to the gross amount of loans and advances	4.5%	4.4%

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

Impairment allowances on loans and advances to customers – reconciliation of movements in the first quarter of 2017	Value at the beginning of the period	Recognized during the period	Reversed during the period	Derecognition of assets and settlement	Other	Value at the end of the period	Net- impact on the income statement
housing loans	2 144	195	(122)	(51)	(41)	2 125	(73)
corporate loans	3 667	451	(298)	(84)	(22)	3 714	(153)
consumer loans	1 432	301	(183)	(10)	(5)	1 535	(118)
debt securities (corporate)	69	1	-	-	-	70	(1)
debt securities (municipal)	8	-	(2)	-	-	6	2
Total	7 320	948	(605)	(145)	(68)	7 450	(343)

Impairment allowances on loans and advances to customers – reconciliation of movements in the first quarter of 2016	Value at the beginning of the period	Recognized during the period	Reversed during the period	Derecognition of assets and settlement	Other	Value at the end of the period	Net impact on the income statement
housing loans	2 291	257	(163)	(93)	(6)	2 286	(94)
corporate loans	3 987	455	(297)	(115)	(5)	4 025	(158)
consumer loans	1 540	280	(200)	(12)	(1)	1 607	(80)
debt securities (corporate)	69	-	(2)	-	-	67	2
debt securities (municipal)	3	5	-	-	-	8	(5)
Total	7 890	997	(662)	(220)	(12)	7 993	(335)

RECLASSIFICATION OF SECURITIES

Portfolio reclassified in 2012 as at	31.03.2017		31.12.2016	
	fair value	carrying amount	fair value	carrying amount
Municipal bonds		621	623	628
Corporate bonds		8	8	8
Total		629	631	636

Portfolio reclassified in 2012 as at the reclassification date	nominal value	fair value	carrying amount
Municipal bonds	1 219	1 237	1 237
Corporate bonds	1 289	1 294	1 294
Total	2 508	2 531	2 531

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19. INVESTMENT SECURITIES AVAILABLE FOR SALE

Investment securities available for sale	31.03.2017	31.12.2016
Debt securities, gross	37 731	35 588
Treasury Bonds PLN	27 758	25 147
foreign currency Treasury bonds	10	457
municipal bonds PLN	4 561	4 552
corporate bonds PLN	4 790	4 791
foreign currency corporate bonds	612	641
Impairment allowances	(276)	(274)
corporate bonds PLN	(213)	(210)
foreign currency corporate bonds	(63)	(64)
Total net debt securities	37 455	35 314
Equity securities, gross	173	162
not admitted to public trading	139	128
admitted to public trading	34	34
Impairment allowances	(1)	(1)
Total net equity securities	172	161
Participation units in investment funds	255	298
Total net investment securities available for sale	37 882	35 773

Investment debt securities available for sale - the Bank's exposure to credit risk	Exposure	
	31.03.2017	31.12.2016
impaired, assessed on an individual basis	1 285	1 293
not impaired, not past due	36 446	34 295
with external rating	31 350	29 207
with internal rating	5 096	5 088
Gross total	37 731	35 588
Impairment allowances	(276)	(274)
Net total by carrying amount	37 455	35 314

Impairment allowances – reconciliation of movements in the first quarter of 2017	Value at the beginning of the period	Recognized during the period	Other	Value at the end of the period	Net impact on the income statement
Debt securities	274	7	(5)	276	(7)
Equity securities	1	-	-	1	-
Total	275	7	(5)	277	(7)

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Impairment allowances – reconciliation of movements in the first quarter of 2016	Value at the beginning of the period	Recognized during the period	Other	Value at the end of the period	Net impact on the income statement
Debt securities	53	32	(2)	83	(32)
Total	53	32	(2)	83	(32)

20. INVESTMENT SECURITIES HELD TO MATURITY

Investments securities held to maturity	31.03.2017	31.12.2016
Debt securities gross, of which:	912	157
Treasury Bonds PLN	912	157
Total	912	157

21. NON-CURRENT ASSETS HELD FOR SALE

Non-current assets held for sale	31.03.2017	31.12.2016
Investments in subsidiaries	349	351
Finansowa Kompania 'Prywatne Inwestycje' Sp. z o. o.	27	29
'Inter-Risk Ukraina' Additional Liability Company	4	4
Qualia Development Sp. z o. o.	318	318
Land and buildings	9	10
Total	358	361

22. INTANGIBLE ASSETS AND TANGIBLE FIXED ASSETS

Intangible assets	31.03.2017	31.12.2016
Software	1 534	1 583
Goodwill	871	871
Customers relationships	32	34
Other, including capital expenditure	295	329
Total	2 732	2 817

Net goodwill	31.03.2017	31.12.2016
Nordea Bank Polska SA	863	863
Centrum Finansowe Puławska Sp. z o.o.	8	8
Total	871	871

Tangible fixed assets	31.03.2017	31.12.2016
Land and buildings	1 577	1 602
Machinery and equipment	427	428
Assets under construction	60	104
Other	185	191
Total	2 249	2 325

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23. OTHER ASSETS

Other assets	31.03.2017	31.12.2016
Settlements of payment cards transactions	1 312	1 235
Settlements of financial instruments	424	382
Cash settlements receivables	81	125
Receivables and settlements of securities turnover	85	80
Assets for sale	79	78
Prepayments	91	54
Trade receivables	93	77
Other	98	112
Total	2 263	2 143
of which financial assets	1 928	1 791

24. AMOUNTS DUE TO BANKS

	31.03.2017	31.12.2016
Loans and advances received*	16 387	17 109
Bank deposits	736	793
Amounts due from repurchase agreements	-	206
Current accounts	617	567
Other money market deposits	180	42
Total	17 920	18 717

* Financing of the loan portfolio acquired in merger transaction with Nordea Bank Polska

25. AMOUNTS DUE TO CUSTOMERS

AMOUNTS DUE TO CUSTOMERS	31.03.2017	31.12.2016
Amounts due to retail clients	149 798	147 392
Current accounts and overnight deposits	76 221	72 196
Term deposits	73 235	74 876
Other liabilities	342	320
Amounts due to corporate entities	51 849	53 570
Current accounts and overnight deposits	29 212	30 661
Term deposits	12 622	12 168
Loans and advances received	9 037	9 680
Other liabilities	958	1 061
Amounts due from repurchase agreements	20	-
Amounts due to state budget entities	9 638	8 409
Current accounts and overnight deposits	8 115	8 163
Term deposits	1 505	187
Other liabilities	18	59
Total	211 285	209 371

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AMOUNTS DUE TO CUSTOMERS BY CLIENT SEGMENT	31.03.2017	31.12.2016
retail and private banking	142 291	139 423
corporate	38 558	38 025
loans and advances received	9 037	9 680
small and medium enterprises	21 379	22 243
amounts due from repurchase agreements	20	-
Total	211 285	209 371

26. DEBT SECURITIES IN ISSUE

Debt securities in issue	31.03.2017	31.12.2016
banking bonds	1 657	1 693
Total	1 657	1 693

27. SUBORDINATED LIABILITIES

	Nominal value in currency	Currency	Period	Special terms	Balance in PLN	
					31.03.2017	31.12.2016
Subordinated bonds	1 601	PLN	14.09.2012- 14.09.2022	right of early redemption within 5 years from the issue date	1 603	1 617
Subordinated loan from Nordea Bank AB (publ)	224	CHF	24.04.2012 - 24.04.2022		884	922
Total					2 487	2 539

28. OTHER LIABILITIES

	31.03.2017	31.12.2016
Accounts payable	416	463
Deferred income	434	406
Liability due to tax on certain financial institutions	76	76
Other liabilities	2 183	2 395
Total	3 109	3 340
of which financial liabilities	2 367	2 693

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29. PROVISIONS

For the period ended 31 March 2017	Provision for legal claims	Provision for retirement benefits	Provision for loan commitments and guarantees granted	Other provisions*	Total
As at 1 January 2017, of which:	20	45	67	91	223
Short-term provision	20	7	51	91	169
Long-term provision	-	38	16	-	54
Increase/reassessment of provision	1	-	44	-	45
Use of provision	-	-	-	(13)	(13)
Release of provision	(4)	-	(41)	(1)	(46)
Other changes and reclassifications	-	-	(1)	-	(1)
As at 31 March 2017, of which:	17	45	69	77	208
Short-term provision	17	7	53	77	154
Long-term provision	-	38	16	-	54

* The item 'Other provisions' comprises i.a. restructuring provision of PLN 46 million and a provision for potential claims related to sale of receivables in the amount of PLN 3 million, provisions for disputes, including litigation related to remuneration of PLN 0.4 million.

For the period ended 31 March 2016	Provision for legal claims	Provision for retirement benefits	Provision for loan commitments and guarantees granted	Other provisions*	Total
As at 1 January 2016, of which:	19	46	83	98	246
Short-term provision	19	4	64	98	185
Long-term provision	-	42	19	-	61
Increase/reassessment of provision	7	-	65	1	73
Use of provision	(5)	-	-	(8)	(13)
Release of provision	-	-	(76)	(3)	(79)
As at 31 March 2016, of which:	21	46	72	88	227
Short-term provision	21	4	52	88	165
Long-term provision	-	42	20	-	62

* The item 'Other provisions' comprises i.a. restructuring provision of PLN 59 million and a provision for potential claims related to sale of receivables in the amount of PLN 3 million, provisions for disputes, including litigation related to remuneration of PLN 0.3 million.

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30. EQUITY AND SHAREHOLDING STRUCTURE OF THE BANK

Equity	31.03.2017	31.12.2016
Share capital	1 250	1 250
Reserve capital	24 268	24 268
General banking risk fund	1 070	1 070
Other reserves	3 555	3 555
Other comprehensive income, of which:	(227)	(442)
Financial assets available for sale	(147)	(343)
Cash flow hedges	(70)	(89)
Actuarial gains and losses	(10)	(10)
Undistributed profits	2 888	-
Net profit for the period	410	2 888
Total	33 214	32 589

31. INVESTMENTS IN SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES

No.	As at 31 March 2017	Gross amount	Impairment allowance	Carrying amount
SUBSIDIARIES				
1	KREDOBANK SA	1 070	(793)	277
2	PKO Bank Hipoteczny SA	800	-	800
3	PKO Życie Towarzystwo Ubezpieczeń SA	241	-	241
4	PKO Towarzystwo Funduszy Inwestycyjnych SA	187	-	187
5	PKO Leasing SA	178	-	178
6	PKO BP BANKOWY PTE SA	151	-	151
7	Merkury – fiz an ¹	120	-	120
8	NEPTUN – fizan ¹	95	-	95
9	PKO Towarzystwo Ubezpieczeń SA	110	-	110
10	PKO BP Finat Sp. z o.o.	22	-	22
11	PKO Finance AB	-	-	-
12	ZenCard Sp. z o.o.	18	-	18
JOINT VENTURES				
1	Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	197	-	197
ASSOCIATES				
1	Bank Pocztowy SA	161	(44)	117
2	FERRUM SA	25	-	25
3	'Poznański Fundusz Poręczeń Kredytowych' Sp. z o.o.	2	(2)	-
Total		3 377	(839)	2 538

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No.	As at 31 December 2016	Gross amount	Impairment allowance	Carrying amount
SUBSIDIARIES				
1	KREDOBANK SA	1 070	(793)	277
2	PKO Bank Hipoteczny SA	800	-	800
3	PKO Życie Towarzystwo Ubezpieczeń SA	241	-	241
4	PKO Towarzystwo Funduszy Inwestycyjnych SA	187	-	187
5	PKO Leasing SA	178	-	178
6	PKO BP BANKOWY PTE SA	151	-	151
7	Merkury - fiz an ¹	120	-	120
8	NEPTUN - fizan ¹	95	-	95
9	PKO Towarzystwo Ubezpieczeń SA	110	-	110
10	PKO BP Finat Sp. z o.o.	22	-	22
11	PKO Finance AB	-	-	-
JOINT VENTURES				
1	Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	197	-	197
ASSOCIATES				
1	Bank Poczty SA	161	(29)	132
2	FERRUM SA	25	-	25
3	'Poznański Fundusz Poręczeń Kredytowych' Sp. z o.o.	2	(2)	-
Total				
		3 359	(824)	2 535

Impairment allowances - reconciliation of movements	01.01.2017- 31.03.2017	01.01.2016- 31.03.2016
Value at the beginning of the period	824	795
Recognized during the period	15	-
Value at the end of the period	839	795
Net increase - impact on the income statement	(15)	-

OTHER NOTES

32. CONTINGENT LIABILITIES AND OFF-BALANCE SHEET LIABILITIES RECEIVED

SECURITIES COVERED WITH UNDERWRITING AGREEMENTS (MAXIMUM LIABILITY OF THE BANK TO ACQUIRE SECURITIES):

Issuer of underwritten securities	Type of underwritten securities	Off-balance sheet liabilities resulting from underwriting agreement	Contract period
As at 31 March 2017			
Company A	corporate bonds	1 055	31.07.2020
Company B	corporate bonds	970	31.12.2020
Company C	corporate bonds	512	15.06.2022
Company D	corporate bonds	67	31.12.2022
Company E	corporate bonds	6	31.12.2026
Total		2 610	

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Issuer of underwritten securities	Type of underwritten securities	Off-balance sheet liabilities resulting from underwriting agreement	Contract period
As at 31 December 2016			
Company A	corporate bonds	1 126	31.12.2020
Company B	corporate bonds	1 055	31.07.2020
Company C	corporate bonds	512	15.06.2022
Company D	corporate bonds	69	31.12.2022
Company E	corporate bonds	9	31.12.2026
Total		2 771	

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

CONTRACTUAL COMMITMENTS

Contractual obligations relating to:	31.03.2017	31.12.2016
intangible assets	27	34
tangible fixed assets	59	9
Total	86	43

LOAN COMMITMENTS GRANTED

Nominal value of loan commitments granted	31.03.2017	31.12.2016
Credit lines and limits		
to financial entities	7 256	7 607
to non-financial entities	37 266	37 899
to public entities	4 339	3 856
Total	48 861	49 362
of which: irrevocable loan commitments	29 216	31 078

GUARANTEE LIABILITIES GRANTED

Guarantees and pledges granted	31.03.2017	31.12.2016
Guarantees in domestic and foreign trading	7 311	7 780
Guarantees and pledges granted - domestic corporate bonds	5 608	4 769
Letters of credit granted	1 613	1 600
Guarantees and pledges granted - payment guarantee to financial entities	123	151
Guarantees and pledges granted - domestic municipal bonds	412	351
Total	15 067	14 651
of which: performance guarantees granted	2 480	2 447

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LIABILITIES GRANTED BY MATURITY

Off-balance sheet liabilities granted by maturity - 31.03.2017	up to 1 month	from 1 month to 3 months	from 3 months to 1 year	from 1 year to 5 years	over 5 years	Total
Loan commitments granted	14 969	5 518	11 102	11 493	5 779	48 861
Guarantee liabilities granted	693	536	3 430	8 819	1 589	15 067
Total	15 662	6 054	14 532	20 312	7 368	63 928

Off-balance sheet liabilities granted by maturity - 31.12.2016	up to 1 month	from 1 month to 3 months	from 3 months to 1 year	from 1 year to 5 years	over 5 years	Total
Loan commitments granted	12 669	5 749	13 408	11 104	6 432	49 362
Guarantee liabilities granted	263	569	3 700	8 583	1 536	14 651
Total	12 932	6 318	17 108	19 687	7 968	64 013

OFF-BALANCE SHEET LIABILITIES RECEIVED

Nominal value of off-balance sheet liabilities received	31.03.2017	31.12.2016
financial	594	81
guarantees	8 602	7 385
Total	9 196	7 466

33. SUPPLEMENTARY INFORMATION TO THE STATEMENT OF CASH FLOWS

Cash and cash equivalents	31.03.2017	31.12.2016	31.03.2016
Cash and balances with the Central Bank	14 025	11 597	15 807
Deposits with the Central Bank	-	1 680	-
Current amounts due from banks	5 294	4 278	2 826
Cash and cash equivalents with restricted availability for use	13	13	12
Total	19 332	17 568	18 645

34. EQUITY RELATED PARTY TRANSACTIONS

In the first quarter of 2017 and in 2016 the Bank did not conclude significant transactions with related parties not on arm's length. Repayment terms are within a range from one month to fifteen years.

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As at 31 March 2017 / Entity	Receivables	of which loans	Liabilities	Off-balance sheet liabilities granted
KREDOBANK SA and its subsidiaries	176	81	9	131
Merkury - fiz an and its subsidiaries	-	-	13	-
NEPTUN - fizan and its subsidiaries	232	232	46	-
PKO Bank Hipoteczny SA	1 882	1 220	5	2 680
PKO BP BANKOWY PTE SA	-	-	5	-
PKO BP Finat Sp. z o.o.	-	-	81	1
PKO Finance AB	-	-	6 274	-
PKO Leasing SA i and its subsidiaries	11 440	11 440	50	4 697
PKO Towarzystwo Funduszy Inwestycyjnych SA	21	-	72	-
PKO Towarzystwo Ubezpieczeń SA	-	-	28	-
PKO Życie Towarzystwo Ubezpieczeń SA	-	-	395	-
Qualia Development Sp. z o.o. and its subsidiaries	-	-	209	-
ZenCard Sp. z o.o.	-	-	3	-
Total subsidiaries	13 751	12 973	7 190	7 509

As at 31 March 2017 / Entity	Receivables	of which loans	Liabilities	Off-balance sheet liabilities granted
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	54	7	30	32
'Centrum Obsługi Biznesu' Sp z o.o.	26	26	10	-
Bank Pocztowy SA	-	-	1	1
'Poznański Fundusz Poręczeń Kredytowych' Sp. z o.o.	-	-	23	-
Total joint ventures and associates	80	33	64	33

As at 31 December 2016 / Entity	Receivables	of which loans	Liabilities	Off-balance sheet liabilities granted
KREDOBANK SA and its subsidiaries	194	98	6	134
Merkury - fiz an and its subsidiaries	-	-	13	-
NEPTUN - fizan and its subsidiaries	243	243	44	-
PKO Bank Hipoteczny SA	3 468	394	13	1 506
PKO BP BANKOWY PTE SA	-	-	1	-
PKO BP Finat Sp. z o.o.	-	-	71	1
PKO Finance AB	-	-	6 704	-
PKO Leasing SA and its subsidiaries	10 710	10 709	67	6 112
PKO Towarzystwo Funduszy Inwestycyjnych SA	19	-	57	-
PKO Towarzystwo Ubezpieczeń SA	-	-	14	-
PKO Życie Towarzystwo Ubezpieczeń SA	-	-	352	1
Qualia Development Sp. z o.o. and its subsidiaries	-	-	130	-
Total subsidiaries	14 634	11 444	7 472	7 754

As at 31 December 2016 / Entity	Receivables	of which loans	Liabilities	Off-balance sheet liabilities granted
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	10	10	18	21
'Centrum Obsługi Biznesu' Sp z o.o.	28	28	10	-
Bank Pocztowy SA	-	-	1	1
'Poznański Fundusz Poręczeń Kredytowych' Sp. z o.o.	-	-	8	-
Walcownia Blach Grubych Batory Sp. z o.o.	-	-	2	-
Total joint ventures and associates	38	38	39	22

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3 months ended 31 March 2017 / Entity	Total income	of which interest and fee and commission	Total expenses	of which interest and fee and commission
KREDOBANK SA and its subsidiaries	1	1	-	-
NEPTUN - fizan and its subsidiaries	1	1	-	-
PKO Bank Hipoteczny SA	26	23	-	-
PKO BP Finat Sp. z o.o.	-	-	4	-
PKO Finance AB	-	-	57	57
PKO Leasing SA and its subsidiaries	62	60	5	-
PKO Towarzystwo Funduszy Inwestycyjnych SA	61	60	-	-
PKO Życie Towarzystwo Ubezpieczeń SA	-	-	2	2
Qualia Development Sp. z o.o. and its subsidiaries	1	1	1	1
Total subsidiaries	152	146	69	60

3 months ended 31 March 2017 / Entity	Total income	of which interest and fee and commission	Total expenses	of which interest and fee and commission
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	54	54	18	18
Total joint ventures and associates	54	54	18	18

3 months ended 31 March 2016 / Entity	Total income	of which interest and fee and commission	Total expenses	of which interest and fee and commission
PKO Bank Hipoteczny SA	10	6	-	-
KREDOBANK SA	2	2	1	1
PKO BP BANKOWY PTE SA	1	-	-	-
PKO BP Finat Sp. z o.o.	-	-	1	1
PKO Finance AB	-	-	69	69
PKO Leasing SA	32	30	5	-
PKO Towarzystwo Funduszy Inwestycyjnych SA	55	54	-	-
PKO Towarzystwo Ubezpieczeń SA	2	2	-	-
PKO Życie Towarzystwo Ubezpieczeń SA	95	95	71	71
Qualia Development Sp. z o.o. and its subsidiaries	1	2	-	-
Total subsidiaries	198	191	147	142

3 months ended 31 March 2016 / Entity	Total income	of which interest and fee and commission	Total expenses	of which interest and fee and commission
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	43	43	15	15
Total joint ventures and associates	43	43	15	15

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35. FAIR VALUE HIERARCHY

Assets and liabilities measured at fair value as at 31.03.2017	Note	Carrying amount	Level 1	Level 2	Level 3
			Prices quoted on active markets	Valuation techniques based on observable market data	Other valuation techniques
Trading assets	14	1 415	1 415	-	-
Debt securities		1 390	1 390	-	-
Shares in other entities		20	20	-	-
Investment certificates, shares rights and pre-emptive rights		5	5	-	-
Derivative financial instruments	15	2 822	3	2 819	-
Hedging instruments		478	-	478	-
Trading instruments		2 344	3	2 341	-
Financial instruments designated upon initial recognition at fair value through profit and loss	17	9 718	2 616	7 102	-
Investment securities available for sale	19	37 882	28 372	6 208	3 302
Debt securities		37 455	28 337	6 208	2 910
Equity securities		172	35	-	137
Shares in joint investment institutions		255	-	-	255
Financial assets measured at fair value – total		51 837	32 406	16 129	3 302
Derivative financial instruments	15	3 805	1	3 804	-
Hedging instruments		703	-	703	-
Trading instruments		3 102	-	3 102	-
Financial liabilities measured at fair value – total		3 805	1	3 804	-

Assets and liabilities measured at fair value as at 31.12.2016	Note	Carrying amount	Level 1	Level 2	Level 3
			Prices quoted on active markets	Valuation techniques based on observable market data	Other valuation techniques
Trading assets	14	358	358	-	-
Debt securities		344	344	-	-
Shares in other entities		11	11	-	-
Investment certificates, shares rights, pre-emptive rights		3	3	-	-
Derivative financial instruments	15	2 895	3	2 892	-
Hedging instruments		382	-	382	-
Trading instruments		2 513	3	2 510	-
Financial instruments designated upon initial recognition at fair value through profit and loss	17	11 744	2 507	9 237	-
Investment securities available for sale	19	35 773	26 674	5 691	3 408
Debt securities		35 314	26 639	5 691	2 984
Equity securities		161	35	-	126
Shares in joint investment institutions		298	-	-	298
Financial assets measured at fair value – total		50 770	29 542	17 820	3 408
Derivative financial instruments	15	4 230	1	4 229	-
Hedging instruments		1 163	-	1 163	-
Trading instruments		3 067	1	3 066	-
Financial liabilities measured at fair value – total		4 230	1	4 229	-

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Impact of estimated parameters on fair value measurement of financial instruments at Level 3	31.03.2017		31.12.2016	
	Fair value in		Fair value in	
	positive scenario	negative scenario	positive scenario	negative scenario
Investment securities available for sale				
Shares in joint investment institutions	268	242	313	283
Shares of Visa Inc.	111	81	100	70
Corporate bonds	2 913	2 907	2 992	2 977

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

	level of fair value hierarchy	valuation method	31.03.2017	
			carrying amount	fair value
Cash and balances with the Central Bank	n/a	value at cost to pay	14 025	14 025
Amounts due from banks	2	discounted cash flows	7 230	7 230
Loans and advances to customers			188 630	184 699
housing	3	discounted cash flows	96 216	91 218
corporate	3	discounted cash flows	63 447	63 017
consumer	3	discounted cash flows	22 937	24 508
debt securities (corporate)	3	discounted cash flows	2 433	2 359
debt securities (municipal)	3	discounted cash flows	2 575	2 575
receivables due from repurchase agreements	3	discounted cash flows	1 022	1 022
Investment securities held to maturity	3	discounted cash flows	912	912
Other financial assets	3	value at cost to pay less impairment allowance	1 928	1 928
Amounts due to the Central Bank	2	value at cost to pay	4	4
Amounts due to banks	2	discounted cash flows	17 920	17 920
Amounts due to customers			211 285	211 526
due to corporate entities	3	discounted cash flows	51 849	52 154
due to public entities	3	discounted cash flows	9 638	9 638
due to retail customers	3	discounted cash flows	149 798	149 734
Debt securities in issue	2	discounted cash flows	1 657	1 658
Subordinated debt	2	discounted cash flows	2 487	2 487
Other financial liabilities	3	value at cost to pay	2 367	2 367

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	level of fair value hierarchy	valuation method	31.12.2016	
			carrying amount	fair value
Cash and balances with the Central Bank	n/a	value at cost to pay	13 277	13 277
Amounts due from banks	2	discounted cash flows	8 471	8 470
Loans and advances to customers			189 067	187 433
housing	3	discounted cash flows	97 866	94 091
corporate	3	discounted cash flows	62 143	62 941
consumer	3	discounted cash flows	22 848	24 265
debt securities (corporate)	3	discounted cash flows	2 283	2 209
debt securities (municipal)	3	discounted cash flows	2 588	2 588
receivables due from repurchase agreements	3	discounted cash flows	1 339	1 339
Investment securities held to maturity	3	discounted cash flows	157	157
Other financial assets	3	value at cost to pay less impairment allowance	1 791	1 791
Amounts due to the Central Bank	2	value at cost to pay	4	4
Amounts due to banks	2	discounted cash flows	18 717	18 717
Amounts due to customers			209 371	209 559
due to corporate entities	3	discounted cash flows	53 570	53 813
due to public entities	3	discounted cash flows	8 409	8 409
due to retail clients	3	discounted cash flows	147 392	147 337
Debt securities in issue	2	discounted cash flows	1 693	1 695
Subordinated debt	2	discounted cash flows	2 539	2 526
Other financial liabilities	3	value at cost to pay	2 693	2 693

OBJECTIVES AND PRINCIPLES OF RISK MANAGEMENT

37. RISK MANAGEMENT IN PKO BANK POLSKI SA

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

38. CREDIT RISK – FINANCIAL INFORMATION

Level of exposure to credit risk - Items of the statement of financial position	31.03.2017	31.12.2016
Current account in the Central Bank	10 228	7 444
Amounts due from banks	7 230	8 471
Trading assets – debt securities	1 390	344
Derivative financial instruments	2 822	2 895
Financial instruments designated upon initial recognition at fair value through profit and loss - debt securities	9 718	11 744
Loans and advances to customers	188 630	189 067
housing	96 216	97 866
corporate	63 447	62 143
consumer	22 937	22 848
debt securities (corporate)	2 433	2 283
debt securities (municipal)	2 575	2 588
receivables due from repurchase agreements	1 022	1 339
Investment securities available for sale - debt securities	37 455	35 314
Investment securities held to maturity	912	157
Other assets - other financial assets	1 928	1 791
Total	260 313	257 227

Level of exposure to credit risk - Off-balance sheet items	31.03.2017	31.12.2016
Irrevocable liabilities granted	29 216	31 078
Guarantees issued	7 434	7 931
Letters of credit issued	1 613	1 600
Underwriting of securities	6 020	5 120
Total	44 283	45 729

Gross financial assets, which are past due, but not impaired	31.03.2017			
	up to 1 month	1 - 3 months	over 3 months	Total
Loans and advances to customers	1 735	612	145	2 492
Total	1 735	612	145	2 492

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Gross financial assets, which are past due, but not impaired	31.12.2016			
	up to 1 month	1 - 3 months	over 3 months	Total
Loans and advances to customers	2 317	609	167	3 093
Total	2 317	609	167	3 093

Collaterals for the above receivables include: mortgages, registered pledges, transfers of property rights, account lock-ups, loan exposure insurances, warranties and guarantees.

The conducted assessment proved that for the above-mentioned financial assets the expected cash flows fully cover the carrying amount of these exposures.

Financial assets assessed on an individual basis for which individual impairment has been recognized at gross carrying amounts	31.03.2017	31.12.2016
Loans and advances to customers	4 173	4 420
housing loans	648	739
consumer loans	219	218
corporate loans	3 232	3 389
debt securities	74	74
Investment debt securities available for sale	1 285	1 293
Total	5 458	5 713

Loans and advances to customers were secured by the following collaterals established for PKO Bank Polski SA: mortgage, registered pledges, debtor's promissory notes and transfer of receivables.

39. FORBEARANCE PRACTICES

Exposures subject to forbearance in the loan portfolio	31.03.2017	31.12.2016
Loans and advances to customers gross, of which:	196 080	196 387
subject to forbearance	3 908	3 852
Impairment allowances on loans and advances to customers, of which:	(7 450)	(7 320)
subject to forbearance	(864)	(899)
Loans and advances to customers net, of which:	188 630	189 067
subject to forbearance	3 044	2 953

Loans and advances to customers subject to forbearance by product type (gross)	31.03.2017	31.12.2016
Loans and advances to customers gross subject to forbearance	3 908	3 852
housing loans	1 421	1 546
corporate loans	2 211	1 999
consumer loans	276	307
Impairment allowances on loans and advances to customers subject to forbearance	(864)	(899)
Loans and advances to customers net subject to forbearance	3 044	2 953

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INVESTMENT SECURITIES AVAILABLE FOR SALE SUBJECT TO FORBEARANCE

Exposures subject to forbearance in the portfolio of investment securities available for sale	31.03.2017	31.12.2016
Debt securities available for sale gross, of which:	37 731	35 588
subject to forbearance	1 285	1 293
Impairment allowances on investment securities available for sale, of which:	(276)	(274)
subject to forbearance	(276)	(274)
Investment securities available for sale net, of which:	37 455	35 314
subject to forbearance	1 009	1 019

40. INTEREST RATE RISK MANAGEMENT

Name of sensitivity measure	31.03.2017	31.12.2016
VaR for a 10-day time horizon at the confidence level of 99% (in PLN million)	380	269
Parallel movement of interest rate curves by 200 b.p. (in PLN million) (stress-test)*	1 861	2 131

* The table presents the value of the most adverse stress-test of the scenarios: interest rate curves in particular currencies by 200 b.p. up and by 200 b.p. down.

41. CURRENCY RISK MANAGEMENT

VaR of the Bank and stress-tests analysis of the Bank's exposure to currency risk are stated in the table below:

Name of sensitivity measure	31.03.2017	31.12.2016
VaR for a 10-day time horizon at the confidence level of 99% (in PLN million)	4	9
Change in CUR/PLN by 20% (in PLN million) (stress-test)*	32	78

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

The level of currency risk was low both as at 31 March 2017 and as at 31 December 2016.

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42. LIQUIDITY RISK MANAGEMENT

LIQUIDITY GAPS

Liquidity gaps presented below include among others the Bank's items of the statement of financial position in real terms concerning the following: permanent balances on deposits of non-financial institutions and their maturity, permanent balances on loans in current accounts for non-financial entities and their maturity and liquid securities and their maturity.

	a'vista	0 - 1 month	1 - 3 months	3 - 6 months	6 - 12 months	12 - 24 months	24 - 60 months	over 60 months
31.03.2017								
Adjusted periodic gap in real terms	16 262	19 907	(850)	1 329	7 676	7 284	26 082	(77 690)
Cumulative adjusted periodic gap in real terms	16 262	36 169	35 319	36 648	44 324	51 608	77 690	-
31.12.2016								
Adjusted periodic gap in real terms	12 018	20 185	641	(223)	8 593	9 101	23 850	(74 165)
Cumulative adjusted periodic gap in real terms	12 018	32 203	32 844	32 621	41 214	50 315	74 165	-

LIQUIDITY RESERVE AND LIQUIDITY SURPLUS

The liquidity reserve of the Bank as at 31 March 2017 and as at 31 December 2016 is stated in the table below:

Liquidity risk measure	31.03.2017	31.12.2016
Liquidity reserve up to 1 month* (in PLN billion)	34	31
Liquidity surplus in a horizon of up to 30 days** (in PLN billion)	16	13

* Liquidity reserve is the gap between the most liquid assets and expected and potential liabilities which mature in a given period of time.

** Liquidity surplus – liquidity surplus determines the Bank's ability to maintain liquidity on each day during the period called the 'horizon of survival' if predefined stress-test scenarios occur.

SUPERVISORY LIQUIDITY MEASURES

Supervisory liquidity measures	31.03.2017	31.12.2016
M1	23 140	24 464
M2	1.73	1.89
M3	11.63	11.63
M4	1.19	1.19
LCR	130.3%	134.2%

In the period ended 31 March 2017 and as at 31 December 2016 supervisory measures ratios remained above the supervisory limits.

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43. CAPITAL ADEQUACY

	31.03.2017	31.12.2016
Total own funds	30 495	31 129
Tier 1 capital	28 965	28 673
Tier 1 capital before regulatory adjustments and reductions, including:	31 732	31 733
Share capital	1 250	1 250
Other reserves	27 823	27 824
General banking risk fund for unidentified banking risk	1 070	1 070
Retained earnings	1 589	1 589
(-) Goodwill	(871)	(871)
(-) Other intangible assets	(1 612)	(1 694)
Cumulative other comprehensive income	(228)	(442)
Adjustments to Tier 1 basic capital due to prudential filters	(9)	11
Other adjustments in the transitional period in Tier 1 basic capital	(47)	(64)
Tier 2 capital	1 530	2 456
Capital instruments and subordinated loans qualifying as Tier 2 capital	1 601	2 523
(-) Equity exposures deducted from own funds	(71)	(67)
Requirements as regard own funds	14 400	14 489
Credit risk	13 224	13 299
Operational risk	480	482
Market risk	668	661
Credit valuation adjustment risk	28	47
Capital adequacy ratio	16.94%	17.19%
Tier 1 capital ratio	16.09%	15.83%

PKO Bank Polski maintained a secure capital base in excess of the supervisory and regulatory limits. As at 31 March 2017, the Bank's equity calculated for capital adequacy purposes decreased due to the fact that on 24 March 2017, the Bank obtained permission for the early repayment of a subordinated loan amounting to CHF 224 million (the equivalent of PLN 884 million). The loan was classified as Tier 2 capital as at 31 December 2016. The loan was not included in the Bank's equity after said permission had been obtained.

44. SUBSEQUENT EVENTS WHICH MAY AFFECT FUTURE FINANCIAL RESULTS

- On 3 April 2017 the corporate branch of PKO Bank Polski SA began its operations in Prague. The branch in the Czech Republic is the second foreign branch of the Bank. The Czech branch offers: maintenance of clearing accounts, handling of non-cash settlements, depositing excess cash, short-, medium- and long-term financing, and providing liquidity management services and trade finance products services.
- On 11 April 2017, the expiry date of a loan commitment issued on 7 December 2016 to one of the Bank's Customers was postponed to 30 June 2017. Based on the loan commitment, the Bank committed to granting a loan of up to PLN 3.2 billion for the financing of the Customer's investing activities.
- On 28 April 2017, the following changes to the names of the PKO Leasing SA Group companies were entered in the National Court Register: Raiffeisen-Leasing Real Estate Sp. z o.o. to PKO Leasing Nieruchomości sp. z o.o., 'Raiffeisen Insurance Agency' Sp. z o.o. to PKO Agencja Ubezpieczeniowa sp. z o.o., Raiffeisen-Leasing Service Sp. z o.o. to PKO Leasing Finance sp. z o.o.
- In the period from 1 April to 5 May 2017 PKO Bank Hipoteczny SA acquired another portfolios of receivables of mortgage-secured housing loans of PLN 1 068 million under the Framework Receivables Sale Agreement concluded on 17 November 2015 with PKO Bank Polski SA.

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5. On 28 April 2017, PKO Bank Hipoteczny SA issued covered bonds addressed to institutional investors with a nominal value of PLN 500 million and redemption period of 5 years and 20 days from the date of issue. The interest rate is based on a variable interest rate and amounts to WIBOR 3M + margin of 0.69 pp. The issuance of covered bonds was conducted based on a Base Prospectus approved by the PFSA in November 2015. The covered bonds issued will be quoted on the parallel market of the WSE and on a regulated OTC market operated by BondSpot SA.

SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD OF THE BANK

10.05.2017	ZBIGNIEW JAGIEŁŁO	PRESIDENT OF THE MANAGEMENT BOARD	 (SIGNATURE)
10.05.2017	JANUSZ DERDA	VICE-PRESIDENT OF THE MANAGEMENT BOARD	 (SIGNATURE)
10.05.2017	BARTOSZ DRABIKOWSKI	VICE-PRESIDENT OF THE MANAGEMENT BOARD	 (SIGNATURE)
10.05.2017	MAKS KRACZKOWSKI	VICE-PRESIDENT OF THE MANAGEMENT BOARD	 (SIGNATURE)
10.05.2017	MIECZYŚŁAW KRÓL	VICE-PRESIDENT OF THE MANAGEMENT BOARD	 (SIGNATURE)
10.05.2017	PIOTR MAZUR	VICE-PRESIDENT OF THE MANAGEMENT BOARD	 (SIGNATURE)
10.05.2017	JAKUB PAPIERSKI	VICE-PRESIDENT OF THE MANAGEMENT BOARD	 (SIGNATURE)
10.05.2017	JAN EMERYK ROŚCISZEWSKI	VICE-PRESIDENT OF THE MANAGEMENT BOARD	 (SIGNATURE)

SIGNATURE OF PERSON RESPONSIBLE FOR
MAINTAINING THE BOOKS OF ACCOUNT

10.05.2017

DANUTA SZYMAŃSKA
DIRECTOR OF THE ACCOUNTING DIVISION

.....
(SIGNATURE)