



Bank Polski

# Financial Statements of PKO Bank Polski SA for the year ended 31 December 2016



## SELECTED FINANCIAL DATA DERIVED FROM THE FINANCIAL STATEMENTS

SELECTED STAND-ALONE FINANCIAL DATA	PLN million		EUR million	
	period from 01.01.2016 to 31.12.2016	period from 01.01.2015 to 31.12.2015	period from 01.01.2016 to 31.12.2016	period from 01.01.2015 to 31.12.2015
Net interest income	7 367,9	6 820,1	1 683,8	1 629,7
Net fee and commission income	2 447,3	2 604,6	559,3	622,4
Operating profit	3 720,8	3 137,0	850,3	749,6
<b>Profit before income tax</b>	<b>3 720,8</b>	<b>3 137,0</b>	<b>850,3</b>	<b>749,6</b>
<b>Net profit</b>	<b>2 888,3</b>	<b>2 571,1</b>	<b>660,1</b>	<b>614,4</b>
Earnings per share for the period – basic (in PLN/EUR)	2,31	2,06	0,53	0,49
Earnings per share for the period – diluted (in PLN/EUR)	2,31	2,06	0,53	0,49
Total net comprehensive income	2 371,8	2 615,7	542,0	625,0
Net cash flows used in operating activities	10 500,5	14 730,0	2 399,7	3 519,9
Net cash flows used in investing activities	(8 309,8)	(4 624,7)	(1 899,1)	(1 105,1)
Net cash flows (generated) from/used in financing activities	(1 812,0)	(6 968,4)	(414,1)	(1 665,2)
Net cash flows	378,7	3 136,9	86,5	749,6

SELECTED STAND-ALONE FINANCIAL DATA	PLN million		EUR million	
	as at 31.12.2016	as at 31.12.2015	as at 31.12.2016	as at 31.12.2015
Total assets	272 957,3	262 380,0	61 699,2	61 569,9
Total equity	32 589,7	30 217,9	7 366,6	7 090,9
Share capital	1 250,0	1 250,0	282,5	293,3
Number of shares (in million)	1 250,0	1 250,0	1 250,0	1 250,0
Book value per share (in PLN/EUR)	26,07	24,17	5,89	5,67
Diluted number of shares (in million)	1 250,0	1 250,0	1 250,0	1 250,0
Diluted book value per share (in PLN/EUR)	26,07	24,17	5,89	5,67
Capital adequacy ratio	17,19%	15,28%	17,19%	15,28%
Tier 1	28 673,2	24 821,0	6 481,3	5 824,5
Tier 2	2 456,1	2 428,5	555,2	569,9

Selected separate financial statements items translated into EUR using the following rates	31.12.2016	31.12.2015
average NBP rates as at the last day of each month of the year	4,3757	4,1848
mid NBP rate as at 31 December of a given year	4,4240	4,2615



## TABLE OF CONTENTS

INCOME STATEMENT.....	4
STATEMENT OF COMPREHENSIVE INCOME.....	5
STATEMENT OF FINANCIAL POSITION.....	6
STATEMENT OF CHANGES IN EQUITY .....	7
STATEMENT OF CASH FLOWS.....	8
NOTES TO THE FINANCIAL STATEMENTS .....	11



## INCOME STATEMENT

	Note	2016	2015
Interest and similar income	6	9 483.3	9 382.9
Interest expense and similar charges	6	(2 115.4)	(2 562.8)
<b>Net interest income</b>		<b>7 367.9</b>	<b>6 820.1</b>
Fee and commission income	7	3 297.8	3 323.7
Fee and commission expense	7	(850.5)	(719.1)
<b>Net fee and commission income</b>		<b>2 447.3</b>	<b>2 604.6</b>
Dividend income	8	161.8	137.3
Net income from financial instruments measured at fair value	9	(0.4)	25.1
Gains less losses from investment securities	10	504.8	103.4
Net foreign exchange gains (losses)	11	501.4	417.9
Other operating income	12	115.4	162.0
Other operating expense	12	(114.9)	(96.2)
<b>Net other operating income and expense</b>		<b>0.5</b>	<b>65.8</b>
Net impairment allowance and write-downs	13	(1 408.4)	(1 474.7)
Administrative expenses	14	(5 033.9)	(5 562.5)
Tax on certain financial institutions	15	(820.2)	-
<b>Operating profit</b>		<b>3 720.8</b>	<b>3 137.0</b>
<b>Profit before income tax</b>		<b>3 720.8</b>	<b>3 137.0</b>
Income tax expense	16	(832.5)	(565.9)
<b>Net profit</b>		<b>2 888.3</b>	<b>2 571.1</b>
Earnings per share	17		
- basic earnings per share for the period in PLN		2.31	2.06
- diluted earnings per share for the period in PLN		2.31	2.06
Weighted average number of ordinary shares during the period (in million)		1 250.0	1 250.0
Weighted average diluted number of ordinary shares during the period (in million)		1 250.0	1 250.0



## STATEMENT OF COMPREHENSIVE INCOME

	Note	2016	2015
<b>Net profit</b>		<b>2 888.3</b>	<b>2 571.1</b>
<b>Other comprehensive income</b>		<b>(516.5)</b>	<b>44.6</b>
<b>Items that may be reclassified to the income statement</b>		<b>(518.5)</b>	<b>48.2</b>
Cash flow hedges (gross)	22	(38.3)	(77.6)
Deferred tax	16, 22	7.3	14.7
Cash flow hedges (net)	22	(31.0)	(62.9)
Unrealised net gains on financial assets available for sale (gross)	35	(601.7)	137.1
Deferred tax	16	114.3	(26.0)
Unrealised net gains on financial assets available for sale (net)		(487.4)	111.1
Currency translation differences from foreign operations		(0.1)	-
<b>Items that may not be reclassified to the income statement</b>		<b>2.0</b>	<b>(3.6)</b>
Actuarial gains and losses (gross)		2.4	(4.5)
Deferred tax	16	(0.4)	0.9
Actuarial gains and losses (net)		2.0	(3.6)
<b>Total net comprehensive income</b>		<b>2 371.8</b>	<b>2 615.7</b>



## STATEMENT OF FINANCIAL POSITION

	Note	31.12.2016	31.12.2015
<b>ASSETS</b>			
Cash and balances with the central bank	18	13 276.7	13 707.7
Amounts due from banks	19	8 470.9	5 021.9
Derivative financial instruments	21	2 895.1	4 348.0
Trading assets excluding derivative financial instruments	20	358.2	793.2
Financial assets designated upon initial recognition at fair value through profit and loss	23	11 743.9	12 796.0
Loans and advances to customers	24	189 067.3	188 552.4
Investment securities available for sale	25	35 773.3	27 859.7
Investment securities held to maturity	26	157.0	-
Investments in subsidiaries, joint ventures and associates	38	2 534.5	2 038.0
Non-current assets held for sale	27	360.6	422.7
Intangible assets	28	2 816.9	2 797.8
Tangible fixed assets	28	2 325.3	2 276.3
Current income tax receivables		-	40.8
Deferred income tax assets	16	1 034.5	644.6
Other assets	29	2 143.1	1 080.9
<b>TOTAL ASSETS</b>		<b>272 957.3</b>	<b>262 380.0</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
Amounts due to the central bank		4.1	4.2
Amounts due to banks	30	18 716.9	18 249.9
Derivative financial instruments	21	4 229.5	4 627.2
Amounts due to customers	31	209 371.4	201 809.2
Debt securities in issue	32	1 693.0	1 717.6
Subordinated liabilities	33	2 539.0	2 499.2
Other liabilities	34	3 339.8	3 009.0
Current income tax liabilities		251.0	-
Provisions	35	222.9	245.8
<b>TOTAL LIABILITIES</b>		<b>240 367.6</b>	<b>232 162.1</b>
<b>Equity</b>			
Share capital	36	1 250.0	1 250.0
Other capital	36	28 451.5	25 146.8
Undistributed profits	36	-	1 250.0
Currency translation differences from foreign operations	36	(0.1)	-
Net profit for the year	36	2 888.3	2 571.1
<b>TOTAL EQUITY</b>		<b>32 589.7</b>	<b>30 217.9</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>272 957.3</b>	<b>262 380.0</b>
Capital adequacy ratio	67	17.19%	15.28%
Book value (in PLN million)		32 589.7	30 217.9
Number of shares (in million)	-	1 250.0	1 250.0
Book value per share (in PLN)		26.07	24.17
Diluted number of shares (in million)		1 250.0	1 250.0
Diluted book value per share (in PLN)		26.07	24.17



## STATEMENT OF CHANGES IN EQUITY

2016	Share capital	Other capital			Other comprehensive income			Total other capital	Currency translation differences from foreign operations	Undistributed profits	Net profit for the period	Total equity
		Reserves			Financial assets available for sale	Cash flow hedges	Actuarial gains and losses					
		Reserve capital	General banking risk fund	Other reserves								
<b>Note 36</b>												
<b>As at 1 January 2016</b>	1 250.0	20 518.1	1 070.0	3 484.2	144.7	(57.7)	(12.5)	25 146.8	-	1 250.0	2 571.1	30 217.9
Transfer of net profit from previous years	-	-	-	-	-	-	-	-	-	2 571.1	(2 571.1)	-
<b>Total comprehensive income, of which:</b>	-	-	-	-	(487.4)	(31.0)	2.0	(516.4)	(0.1)	-	2 888.3	2 371.8
Net profit	-	-	-	-	-	-	-	-	-	-	2 888.3	2 888.3
Other comprehensive income	-	-	-	-	(487.4)	(31.0)	2.0	(516.4)	(0.1)	-	-	(516.5)
Transfer from undistributed profits	-	3 750.0	-	71.1	-	-	-	3 821.1	-	(3 821.1)	-	-
<b>As at 31 December 2016</b>	1 250.0	24 268.1	1 070.0	3 555.3	(342.7)	(88.7)	(10.5)	28 451.5	(0.1)	-	2 888.3	32 589.7

2015	Share capital	Other capital			Other comprehensive income			Total other capital	Undistributed profits	Net profit for the period	Total equity	
		Reserves			Financial assets available for sale	Cash flow hedges	Actuarial gains and losses					
		Reserve capital	General banking risk fund	Other reserves								
<b>Note 36</b>												
<b>As at 1 January 2015</b>	1 250.0	18 618.1	1 070.0	3 421.9	33.6	5.2	(8.9)	23 139.9	132.8	3 079.5	3 079.5	27 602.2
Transfer of net profit from previous years	-	-	-	-	-	-	-	-	-	3 079.5	(3 079.5)	-
<b>Total comprehensive income, of which:</b>	-	-	-	-	111.1	(62.9)	(3.6)	44.6	-	-	2 571.1	2 615.7
Net profit	-	-	-	-	-	-	-	-	-	-	2 571.1	2 571.1
Other comprehensive income	-	-	-	-	111.1	(62.9)	(3.6)	44.6	-	-	-	44.6
Transfer from undistributed profits	-	1 900.0	-	62.3	-	-	-	1 962.3	(1 962.3)	-	-	-
<b>As at 31 December 2015</b>	1 250.0	20 518.1	1 070.0	3 484.2	144.7	(57.7)	(12.5)	25 146.8	1 250.0	2 571.1	2 571.1	30 217.9



## STATEMENT OF CASH FLOWS

	Note	2016	2015
<b>Net cash flow from operating activities</b>			
Profit before income tax		3 720.8	3 137.0
<b>Adjustments:</b>		<b>6 779.7</b>	<b>11 593.0</b>
Amortisation and depreciation		721.7	755.6
(Gains) losses from investing activities	43	(3.7)	(14.0)
Interest and dividends	43	(381.6)	(187.3)
Change in:			
amounts due from banks	43	(2 642.3)	(811.9)
financial instruments designated upon initial recognition of fair value through profit and loss		1 487.1	1 757.1
derivative financial instruments		1 055.3	217.2
loans and advances to customers	43	58.7	(10 786.5)
other assets and non-current assets held for sale	43	(1 157.4)	(647.3)
amounts due to banks		466.9	1 499.4
amounts due to customers	43	8 829.3	20 748.8
provisions and impairment allowances	43	(590.3)	18.8
other liabilities and subordinated liabilities	43	370.7	423.4
Income tax paid		(808.9)	(512.2)
Other adjustments	43	(625.8)	(868.1)
<b>Net cash used in operating activities</b>		<b>10 500.5</b>	<b>14 730.0</b>
<b>Net cash flows from investing activities</b>			
<b>Inflows from investing activities</b>		<b>51 079.3</b>	<b>47 685.0</b>
Redemption of a subsidiary's capital		49.8	-
Proceeds from sale and interest on investment securities		50 809.0	47 268.9
Proceeds from sale of intangible assets and tangible fixed assets		58.7	14.0
Subsidies on acquisition of an entity		-	279.3
Other investing inflows (dividends)		161.8	122.8
<b>Outflows from investing activities</b>		<b>(59 389.1)</b>	<b>(52 309.7)</b>
Acquisition of equity of subsidiaries and associates		(1.1)	(181.0)
Increase in equity of a subsidiary		(522.0)	(56.0)
Purchase of investment securities available for sale		(58 200.1)	(51 397.9)
Purchase of intangible assets and tangible fixed assets		(665.9)	(674.8)
<b>Net cash used in investing activities</b>		<b>(8 309.8)</b>	<b>(4 624.7)</b>
<b>Net cash flows from financing activities</b>			
Proceeds from debt securities in issue		2 661.6	3 631.2
Redemption of debt securities in issue		(2 741.2)	(2 800.6)
Repayment of interest from issued debt securities and subordinated loans		(78.8)	(101.2)
Repayment of long-term borrowings		(1 653.6)	(7 697.8)
<b>Net cash generated from/used in financing activities</b>		<b>(1 812.0)</b>	<b>(6 968.4)</b>
<b>Net cash flows</b>		<b>378.7</b>	<b>3 136.9</b>
of which currency translation differences on cash and cash equivalents		136.6	73.8
Cash and cash equivalents at the beginning of the period		17 189.7	14 052.8
Cash and cash equivalents at the end of the period	43	17 568.4	17 189.7
of which restricted	43	13.3	10.1



<b>NOTES TO THE FINANCIAL STATEMENTS</b> .....	11
1. GENERAL INFORMATION .....	11
2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS .....	12
3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES .....	13
4. CHANGES IN ACCOUNTING POLICIES .....	15
5. EXPLANATION OF DIFFERENCES BETWEEN PREVIOUSLY PUBLISHED FINANCIAL STATEMENTS AND CURRENT FINANCIAL STATEMENTS .....	21
<b>NOTES TO THE INCOME STATEMENT</b> .....	22
6. INTEREST INCOME AND EXPENSE .....	22
7. FEE AND COMMISSION INCOME AND EXPENSE .....	23
8. DIVIDEND INCOME .....	24
9. NET INCOME FROM FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE .....	25
10. GAINS LESS LOSSES FROM INVESTMENT SECURITIES AVAILABLE FOR SALE .....	25
11. FOREIGN EXCHANGE GAINS (LOSSES) .....	25
12. OTHER OPERATING INCOME AND EXPENSE .....	26
13. NET IMPAIRMENT ALLOWANCE AND WRITE-DOWNS .....	27
14. ADMINISTRATIVE EXPENSES .....	27
15. TAX ON CERTAIN FINANCIAL INSTITUTIONS .....	29
16. INCOME TAX .....	29
17. EARNINGS PER SHARE .....	32
<b>NOTES TO THE STATEMENT OF FINANCIAL POSITION</b> .....	33
18. CASH AND BALANCES WITH THE CENTRAL BANK .....	33
19. AMOUNTS DUE FROM BANKS .....	33
20. TRADING ASSETS EXCLUDING DERIVATIVE FINANCIAL INSTRUMENTS .....	34
21. DERIVATIVE FINANCIAL INSTRUMENTS .....	35
22. DERIVATIVE HEDGING INSTRUMENTS .....	39
23. FINANCIAL INSTRUMENTS DESIGNATED UPON INITIAL RECOGNITION AT FAIR VALUE THROUGH PROFIT AND LOSS .....	45
24. LOANS AND ADVANCES TO CUSTOMERS .....	46
25. INVESTMENT SECURITIES AVAILABLE FOR SALE .....	51
26. INVESTMENTS SECURITIES HELD TO MATURITY .....	54
27. NON-CURRENT ASSETS HELD FOR SALE .....	54
28. INTANGIBLE ASSETS AND TANGIBLE FIXED ASSETS .....	55
29. OTHER ASSETS .....	60
30. AMOUNTS DUE TO BANKS .....	61
31. AMOUNTS DUE TO CUSTOMERS .....	62
32. DEBT SECURITIES IN ISSUE .....	63
33. SUBORDINATED LIABILITIES .....	64
34. OTHER LIABILITIES .....	64
35. PROVISIONS .....	65
36. EQUITY AND SHAREHOLDING STRUCTURE OF THE BANK .....	67
<b>INFORMATION ABOUT THE ENTITIES OF THE PKO BANK POLSKI SA GROUP, JOINT VENTURES AND ASSOCIATES</b> .....	70
37. STRUCTURE OF THE PKO BANK POLSKI SA GROUP AND THE SCOPE OF ACTIVITIES OF THE GROUP ENTITIES .....	70
38. INVESTMENTS IN SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES .....	74
39. OTHER CHANGES TO THE ENTITIES OF THE GROUP .....	78
<b>OTHER NOTES</b> .....	82
40. DIVIDENDS PER SHARE .....	82



41.	CONTINGENT LIABILITIES AND OFF-BALANCE SHEET LIABILITIES RECEIVED AND GRANTED .....	82
42.	LEGAL CLAIMS .....	85
43.	SUPPLEMENTARY INFORMATION TO THE STATEMENT OF CASH FLOWS .....	88
44.	TRANSACTIONS WITH THE STATE TREASURY AND RELATED PARTIES .....	91
45.	REMUNERATION OF THE PKO BANK POLSKI SA KEY MANAGEMENT .....	95
46.	FAIR VALUE HIERARCHY .....	98
47.	FINANCIAL ASSETS AND LIABILITIES NOT PRESENTED AT FAIR VALUE IN THE STATEMENT OF FINANCIAL POSITION .....	103
48.	OFFSETTING FINANCIAL ASSETS AND LIABILITIES .....	105
49.	ASSETS PLEDGED AS COLLATERAL FOR LIABILITIES .....	106
50.	FIDUCIARY ACTIVITIES.....	107
51.	INFORMATION ON THE ENTITY AUTHORIZED TO AUDIT THE FINANCIAL STATEMENTS .....	107
	<b>OBJECTIVES AND PRINCIPLES OF RISK MANAGEMENT.....</b>	<b>109</b>
52.	RISK MANAGEMENT IN PKO BANK POLSKI SA.....	109
53.	CREDIT RISK MANAGEMENT.....	114
54.	CREDIT RISK – FINANCIAL INFORMATION .....	117
55.	CONCENTRATION OF CREDIT RISK AT THE BANK .....	120
56.	FORBEARANCE PRACTICES .....	124
57.	EXPOSURE TO THE COUNTERPARTY CREDIT RISK .....	127
58.	RISK MANAGEMENT OF FOREIGN CURRENCY MORTGAGE LOANS FOR INDIVIDUALS.....	129
59.	INTEREST RATE RISK MANAGEMENT .....	132
60.	CURRENCY RISK MANAGEMENT .....	134
61.	LIQUIDITY RISK MANAGEMENT .....	137
62.	OTHER MARKET RISKS .....	143
63.	DERIVATIVE INSTRUMENTS RISK MANAGEMENT .....	144
64.	OPERATIONAL RISK MANAGEMENT .....	145
65.	OTHER RISKS .....	146
66.	COMPLEX STRESS-TESTS.....	152
67.	CAPITAL ADEQUACY.....	153
68.	INFORMATION ON PORTFOLIO SALE OF RECEIVABLES.....	157
	<b>SUBSEQUENT EVENTS.....</b>	<b>157</b>



## NOTES TO THE FINANCIAL STATEMENTS

### 1. GENERAL INFORMATION

#### BUSINESS ACITIVITIES OF 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 operating as the Powszechna Kasa Oszczędności State-owned bank. Pursuant to the Decree of the Council of Ministers dated 18 January 2000 (Journal of Laws of 2000, 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, 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. According to the Warsaw Stock Exchange Bulletin, the Bank is classified under the macro-sector 'Finance', sector 'Banks'.

PKO Bank Polski SA is a universal deposit-loan commercial bank offering services to retail, corporate and other clients being both Polish and foreign residents. PKO Bank Polski SA is licensed to hold foreign exchange and currencies and sell/buy them, as well as to perform a full range of foreign exchange services, to open and hold bank accounts abroad and to deposit foreign exchange in these accounts.

PKO Bank Polski SA is a parent entity in the PKO Bank Polski SA Group and significant investor for associates and joint ventures within the Bank. Accordingly, PKO Bank Polski SA prepares consolidated financial statements of the Group, which include the financial data of these entities. The structure of the PKO Bank Polski SA Group and scope of its activities was presented in the note 'Structure of the PKO Bank Polski SA Group and the scope of activities of the Group'.

Organizational entities operating in the Bank structure

The Bank's financial statements covering the financial data for the year ended 31 December 2016 and comparative financial data were prepared based on the financial data of all organizational entities comprising the Bank, through which the Bank conducts its operations. As 31 December 2016, they comprised: the Bank's head Office in Warsaw, Dom Maklerski PKO BP SA (the Brokerage House), 14 specialist organizational entities, 11 regional retail branches, 7 regional corporate branches, 32 corporate centres and 1187 branches. Since December 2015 the Bank has conducted operating activities in the Federal Republic of Germany in the form of a branch (Branch in Germany).

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

As at 31 December 2016, the Bank's Supervisory Board consisted of:

• Piotr Sadownik	Chairman of the Supervisory Board
• Grażyna Ciurzyńska	Deputy-Chairman of the Supervisory Board
• Zbigniew Hajłasz	Secretary of the Supervisory Board
• Mirosław Barszcz	Member of the Supervisory Board
• Adam Budnikowski	Member of the Supervisory Board
• Wojciech Jasiński	Member of the Supervisory Board
• Andrzej Kisielewicz	Member of the Supervisory Board
• Elżbieta Mączyńska – Ziemacka	Member of the Supervisory Board
• Janusz Ostaszewski	Member of the Supervisory Board

On 25 February 2016 Extraordinary General Shareholders' Meeting of the Bank dismissed members of the Supervisory Board of the Bank: Jerzy Góra, Mirosław Czekał, Piotr Marczak, Marek Mroczkowski, Krzysztof Kilian and Zofia Dzik and appointed: Mirosław Barszcz, Adam Budnikowski, Wojciech Jasiński, Andrzej Kisielewicz, Janusz Ostaszewski, Piotr Sadownik and Agnieszka Winnik – Kalemba as members of the Supervisory Board of the Bank.



On 30 June 2016 the Ordinary General Shareholders' Meeting of the Bank dismissed members of the Supervisory Board of the Bank Agnieszka Winnik-Kalemba and Małgorzata Dec-Kruczkowska and appointed Grażyna Ciurzyńska and Zbigniew Hajłasz as members of the Supervisory Board of the Bank.

As at 31 December 2016, the Bank's Management Board consisted of:

- Zbigniew Jagiełło President of the Management Board
- Janusz Derda Vice-President of the Management Board, from 1 December 2016
- Bartosz Drabikowski Vice-President of the Management Board
- Maks Kraczkowski Vice-President of the Management Board, from 4 July 2016
- Mieczysław Król Vice-President of the Management Board, from 2 June 2016
- Piotr Mazur Vice-President of the Management Board
- Jakub Papierski Vice-President of the Management Board
- Jan Emeryk Rościszewski Vice-President of the Management Board, from 18 July 2016

In 2016, the following persons resigned from the Management Board: Jacek Obłękowski, Jarosław Mójak and Piotr Alicki.

## 2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements of the Bank have been prepared for the year ended 31 December 2016 and include comparative data for the year ended 31 December 2015. Financial data have been presented in Polish zloty (PLN) in millions, including one decimal place, unless indicated otherwise.

### 2.1 COMPLIANCE WITH ACCOUNTING STANDARDS

These financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) as at 31 December 2016, and in the areas not regulated by these standards, in accordance with the requirements of the Accounting Act of 29 September 1994 and the respective secondary legislation issued on its basis, as well as the requirements relating to issuers of securities registered or applying for registration on an official quotations market.

### 2.2 GOING CONCERN

Financial statements of the Bank have been prepared on the basis that the Bank will continue as a going concern for at least the period of 12 months from the publication date, i.e. since 6 March 2017. As at the date of signing these financial statements, the Management Board is not aware of any facts or circumstances that would indicate a threat to continuing activity of the Bank for 12 months following the publication date as a result of any intended or compulsory withdrawal or significant limitation in the activities of the Bank.

In 2016 and 2015, the Bank had no discontinued operations.

### 2.3 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

These financial statements have been prepared on a fair value basis in respect of financial assets and liabilities measured at fair value through profit and loss, including derivatives and financial assets available for sale, except of those for which the fair value cannot be reliably estimated. Other financial assets (including loans and advances) are measured at amortized cost less impairment or at purchase price less impairment. Other financial liabilities are measured at amortized cost. Non-current assets are measured at acquisition cost less accumulated depreciation and impairment allowances. Non-current assets (or groups of the above-mentioned assets) classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.



The Bank recognizes all significant expenses and income in accordance with the following policies: accrual basis, matching principle, policies for recognition and valuation of assets and liabilities, policies for recognition of impairment losses. The accounting policies relating to the individual items are presented in the individual notes to the income statement.

While preparing financial statements, the Bank makes certain estimates and assumptions, which have a direct influence on both the financial statements and enclosed supplementary information. The estimates and assumptions that are used by the Bank in determining the value of assets and liabilities as well as revenues and costs, are made based on historical data and other factors which are available and are considered to be proper in the given circumstances. Assumptions regarding the future and the available data are used for assessing carrying amounts of assets and liabilities which cannot be determined unequivocally using other sources. In making estimates the Bank takes into consideration the reasons and sources of the uncertainties that are anticipated at the end of the reporting period. Actual results may differ from estimates. Estimates and assumptions made by the Bank are subject to periodic reviews.

## 2.4 APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements subject to review of the Audit Committee and adoption by the Supervisory Board of the Bank on 2 March 2017, were approved for publication by the Management Board on 21 February 2017.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Major accounting policies and estimates and judgements applied in the preparation of these financial statements are presented in the Notes and below. These policies were applied consistently in all the years presented. Presented below is a summary of accounting policies and major estimates and judgements for the individual items of the income statement and statement of financial position.

INCOME STATEMENT	Note	The accounting policies*
Interest income and expense	6	Y
Fee and commission income and expense	7	Y
Dividend income	8	Y
Net income from financial instruments measured at fair value	9	Y
Gains less losses from investment securities available for sale	10	Y
Net foreign exchange gains (losses)	11	Y
Other operating income and expenses	12	Y
Net impairment allowance and write-downs	13	Y
Administrative expenses	14	Y
Income tax expense	16	Y

\*The letter Y indicates the presence of a particular accounting policy or estimates and judgements.



STATEMENT OF FINANCIAL POSITION	Note	The accounting policies*	Critical estimates and judgements*
Cash and balances with the central bank	18	Y	
Amounts due from banks	19	Y	
Trading assets excluding derivative financial instruments	20	Y	
Derivative financial instruments	21	Y	Y
Derivative hedging instruments	22	Y	
Financial assets designated upon initial recognition at fair value through profit and loss	23	Y	
Loans and advances to customers	24	Y	Y
Investment securities available for sale	25	Y	Y
Investment securities held to maturity	26	Y	
Non-current assets held for sale	27	Y	
Intangible assets	28	Y	Y
Tangible fixed assets	28	Y	Y
Other assets	29	Y	
Amounts due to banks	30	Y	
Amounts due to customers	31	Y	
Debt securities in issue	32	Y	
Subordinated liabilities	33	Y	Y
Other liabilities	34	Y	
Provisions	35	Y	
Equity and shareholding structure of the Bank	36	Y	Y

\*The letter Y indicates the presence of a particular accounting policy or estimates and judgements.

### 3.1 FOREIGN CURRENCIES

#### FUNCTIONAL AND PRESENTATION CURRENCY

Financial statements are presented in the Polish zloty, which is the functional and presentation currency of the Bank. Items of the statement of financial position of the Branch in Germany are translated into the presentation currency from the functional currency (EUR) using the average exchange rate at the end of the reporting period. Items in the Branch's profit and loss are translated into the presentation currency using the average exchange rate from the end of each month of the reporting period. The resulting exchange differences are recognised in other comprehensive income.

#### TRANSACTIONS AND BALANCES DENOMINATED IN FOREIGN CURRENCIES

Foreign currency transactions are translated into the functional currency, i.e. into the currency of the basic economic environment, in which the entity functions, using exchange rate prevailing at the dates of the transactions. At each balance sheet date items are translated using the following principles:

- monetary assets denominated in foreign currency, using a closing rate, i.e. the average rate announced by the National Bank of Poland prevailing as at the balance sheet date,
- non-monetary assets measured at historical acquisition cost in foreign currency, using exchange rate as of the date of the transaction,
- non-monetary assets designated at fair value in foreign currency are translated, using exchange rates prevailing as at the date of the determination of fair value.

Gains and losses on settlements of these transactions and the carrying amount of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

### 3.2 ACCOUNTING FOR TRANSACTIONS

Financial assets and financial liabilities, including forward transactions and standardized transactions giving rise to an obligation or a right to acquire or sell in the future a given number of specified financial instruments at a given price, are recognised in the books of account under trade date, irrespective of the settlement date provided in the contract.



### 3.3 DERECOGNITION OF FINANCIAL INSTRUMENTS FROM THE STATEMENT OF FINANCIAL POSITION

Financial assets are derecognised from the statement of financial position when contractual rights to cash flows from the financial asset expire or when the Bank transfers the financial asset to another entity. The financial asset is transferred when the Bank:

- transfers the contractual rights to receive the cash flows from the financial asset, or
- retains the contractual rights to receive cash flows from the financial asset, but assumes a contractual obligation to pay cash flows to an entity outside the Bank.

When the Bank transfers a financial asset, it evaluates the extent to which it retains the risks and rewards of ownership of the financial asset. In such a case:

- if all the risks and rewards of the financial asset are substantially transferred, then the Bank derecognizes the financial asset from the statement of financial position,
- if all the risks and rewards of the financial asset are substantially retained, then the financial asset continues to be recognised in the statement of financial position,
- if substantially all the risks and rewards of the financial asset are neither transferred nor retained, then the Bank determines whether control of the financial asset has been retained. If the Bank has retained control, it continues to recognize the financial asset in the statement of financial position to the extent of its continuing involvement in the financial asset, if control has not been retained, then the financial asset is derecognised from the statement of financial position.

The Bank derecognises a financial liability (or a portion of a financial liability) from its statement of financial position when the obligation specified in the contract is met or cancelled or expires.

Most often the Bank derecognizes loans when they have been extinguished, are expired, or are not recoverable. Loans, advances and other amounts due are written off against impairment allowances that were recognised for these accounts. In the case where no allowances were recognised against the account or the amount of the allowance is less than the amount of the loan, advance or other receivable, the loan, advance or receivable is written-off after, the amount of the impairment allowance is increased by the difference between the value of the receivable and the amount of the allowances that have been recognised to date.

## 4. CHANGES IN ACCOUNTING POLICIES

### 4.1 AMENDMENTS TO PUBLISHED STANDARDS AND INTERPRETATIONS AS ADOPTED BY THE EU THAT ARE EFFECTIVE FROM 1 JANUARY 2016

#### CHANGES IN IAS 1 PRESENTATION OF THE FINANCIAL STATEMENTS

The amendments to IAS 1 clarify that materiality applies to both the primary financial statements and the explanatory notes and show that only material information needs to be presented. A similar position was presented in ESMA documents with regard to disclosures for financial statements. The Bank reviewed the financial statements paying attention to materiality and the reasonableness of the disclosure of information, and immaterial disclosures were not presented even if they constituted part of the requirement of a given standard. Selected items of the income statement or the statement of financial position were also aggregated to make the financial statements more useful. Simultaneously, the presentation of financial data in millions of Polish zlotys (PLN) with one place after the decimal point was introduced in place of the presentation in thousands of Polish zlotys used so far. In addition, to ensure a better understanding of the financial statements for the user, the accounting policies as well as major estimates and assessments were presented in the notes to the individual items of the income statement and the statement of financial position.



## CHANGES IN IAS 27 SEPARATE FINANCIAL STATEMENTS

The amendments allow reporting entity the application of the equity method for accounting for its investments in subsidiaries, associates and joint ventures in the separate financial statements. They did not apply to the Bank as the Bank continues its former approach to account for investments in subsidiaries, associates and joint ventures in its separate financial statements.

## OTHER AMENDMENTS TO STANDARDS AND ANNUAL IMPROVEMENTS

The remaining amendments to published standards and interpretations, i.e. to IAS 16, 19, 28, 38 and IFRS 10, 11 and 12 and IFRS Improvements 2010-2012 and 2012-2014, which came into force on 1 January 2016 did not affect the financial statements in the Bank.

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

The Management Board does not expect the adoption of the new standards, their changes and interpretations to have a significant influence on the accounting policies applied by the Bank with the exception of IFRS 9. The Bank intends to apply them in the periods indicated in the relevant standards and interpretations (without early adoption), provided their 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 within the business model: 'hold to collect', 'hold to collect and sell' and 'sell'.

The test of the cash flow characteristics determines 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 standard introduced a new measurement category of fair value through other comprehensive income (FVOCI) which will 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. In the case of FVOCI measurement, all fair value changes are recognized in other comprehensive income. Whereas, changes related to impairment, interest income and foreign exchange differences are recognised in profit or loss.

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 possible only in case of a significant change of the business model and should occur very rarely.

In case of equity instruments, instruments 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 or 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, impairment losses, accrued interest or foreign exchange differences – which are recognised 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 with similar measurement of available-for-sale financial assets under current IAS 39. Although the valuation changes can 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 Bank in cooperation with an external advisor executed the first stage of the preparation for implementing the standard. Works 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 Bank'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 an embedded financial leverage mechanism, i.e. loans with clauses of an automatic interest rate change by the multiple of a change in the reference rate which, failing the SPPI test, may be classified for measurement at fair value. The issue 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 distinguishes a new asset category – POCI (purchased or originated credit impaired), i.e. impaired assets acquired or originated, which will be measured using the effective interest rate taking into account credit risk throughout the lifetime of the instrument. The triggers for classification as POCI include: acquisition of an impaired portfolio, granting a loan to an entity with impairment recognised and a significant change in the lending terms for impaired loans.



## 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.

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 of originated credit-impaired assets – POCI)	lifetime expected credit losses

The Bank identifies the evidence of a significant increase in risk based on the comparison of the probability of default 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 Bank makes use of the full quantitative and qualitative information available, including:

- restructuring measures involving granting concessions to the debtor resulting from financial difficulties of the borrower – forbearance;
- a delay in payments of more than 30 days;
- early warning signals identified as part of the monitoring process, indicating an increase in credit risk;
- a dispute with a customer in progress;
- 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 Bank 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 Bank 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 Bank 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 rate of the individual parameters. In determining the methodology of calculation of the individual risk parameters, the Bank examines the dependence of the rates 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 Bank ensures the consistency of the macroeconomic scenarios used for calculating risk parameters with the macroeconomic scenarios used in credit risk budgeting processes.

At initial recognition, all loans are recognised in stage 1, excluding the POCI portfolio.

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

To date, the Bank has not decided whether it will apply the new standard, or continue to apply the provisions of IAS 39.

### Disclosure and comparative data

In the Bank's opinion, the application of IFRS 9 requires making considerable changes to the manner of presentation and 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 Bank 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 recognised 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 Bank 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.

In 2017, the second stage of the project will be carried out, aimed at implementing the changes resulting from IFRS 9. Similarly as in the first stage, which covers gap analysis, it will be 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 will cover 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 Q4 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, the lack of a developed position in the banking environment on cash loans with embedded financial leverage, 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 Bank's opinion, presentation of preliminary quantitative data did not increase informational value of the financial statements for the readers. Taking the above into consideration, the Bank presented qualitative information which enables assessing the impact of IFRS 9 on the Bank's financial position and equity management.

The Bank 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 to the impact of IFRS 9 on capital requirements, according to the draft CRR II / CRD V published on 23 November 2016, the Bank 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 Bank 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 adequacy 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, relating 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 Bank will recognize an adjustment in respect of fair value measurement, which will be recognised 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, considering the result of this adjustment will be recognised 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 at the moment of an obligation.

Financial instruments (IAS 39), insurance contracts (IFRS 4) and lease transactions (IAS 17) are excluded from the scope of the standard. Therefore, the Bank estimates that the effect on its 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

Application date of IFRS 16 is 1 January 2019. The new standard will replace the current IAS 17, Leases. Under the new standard lessee are obliged to recognize the right to use the asset and liabilities (the obligation to pay for that right, that is, financing) in the balance sheet for all lease contracts (and not, as so far). The exception are short-term lease agreement with a term of 12 months and lease contracts for assets of minor value.

The Bank is a party to operating lease agreements, which are currently not recognised in the balance sheet, but their value is not significant. Thus, it is estimated that implementing the standard will not result in a significant increase in the total assets.

##### IAS 7 STATEMENT OF CASH FLOWS

Application date of amendments to IAS 17 is 1 January 2017. The amendments have been introduced to improve the quality of disclosures in the financial statements and are related to the requirement of making disclosures enabling the users of the financial statements to assess changes in liabilities arising from financial activity, including both changes arising from cash and non-cash flows. The amendments will be of presentation nature.

##### 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 Bank 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 Bank 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 Bank.

#### 5. EXPLANATION OF DIFFERENCES BETWEEN PREVIOUSLY PUBLISHED FINANCIAL STATEMENTS AND CURRENT FINANCIAL STATEMENTS

The differences concern loans of receivables from PKO Bank Hipoteczny due to the sale by the PKO Bank Polski SA mortgage loans portfolio, within the Framework Agreement of Debt Sale signed in 2015 (pooling). In order to maintain the comparability of financial data with presentation in current period, the Bank implemented the presentation change of financial data as at 31 December 2015 in relation to previously published data in the Financial Statements for the year ended 31 December 2015 described below.

The table below presents the impact of changes to presentation of comparative data.

	31.12.2015 data before restatement	Change	31.12.2015 restated
Amounts due from banks	4 592.4	429.5	5 021.9
Other assets	1 510.4	(429.5)	1 080.9
<b>TOTAL ASSETS</b>	<b>262 380.0</b>	<b>-</b>	<b>262 380.0</b>



## NOTES TO THE INCOME STATEMENT

### 6. INTEREST INCOME AND EXPENSE

#### ACCOUNTING POLICIES

Interest income and expense comprise interest, including premiums and discounts in respect of financial instruments measured at amortized cost and instruments at fair value. Interest income include i.a. interest income from hedging derivatives. Interest income also includes deferred fee and commission received and paid accounted for using the effective interest rate, which are part of the financial instrument.

Interest income and interest expense are recognised on an accrual basis using the effective interest rate method, that discounts estimated future cash inflows and payments made through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the asset or financial liability. Calculation of the effective interest rate includes all commissions paid and received by parties to an agreement, transaction costs and all other premiums and discounts constituting an integral part of the effective interest rate.

Interest income in the case of financial assets or a group of similar financial assets for which an impairment allowance was recognised, is calculated on the basis of the current values of receivables (i.e. net of the impairment allowance) by using the current interest rate used for discounting future cash flows for the purposes of estimating impairment losses.

The effect of the fair value measurement of financial assets acquired within acquisition of the subsidiary is also recognised in interest income.

#### INCOME AND EXPENSES ON SALE OF INSURANCE PRODUCTS RELATED TO LOANS AND ADVANCES

Due to the fact that the Bank offers insurance products along with loans and advances and there is no possibility of purchasing from the Bank the identical insurance product as to the legal form, conditions and economic content without purchasing a loan or an advance, fees received by the Bank from sale of insurance products are treated as an integral part of the remuneration from the offered financial instruments.

Remuneration received and due to the Bank from offering insurance products for the products directly associated with the financial instruments is settled using the effective interest rate method and recognised in interest income.

Remuneration received and due to the Bank for performing intermediary services is recognised in commission income upon the sale of an insurance product or its renewal.

Distribution of remuneration for a commission and an interest part is made in the proportion of the fair value of a financial instrument and the fair value of intermediary service in relation to the sum of these two values.

Costs directly related to the sale of insurance products are settled in a similar manner to the settlement of revenues, according to the principle of matching revenues and expenses, i.e. as part of the amortized cost of a financial instrument or on a one-off basis.

The Bank makes a periodical estimation of the compensation amount that will be recoverable in the future due to the early termination of the insurance agreement and accordingly reduces the recognised interest or commission income.



## FINANCIAL INFORMATION

INTEREST INCOME ON:	2016	2015
loans and advances to banks	154.8	105.1
loans and advances to customers, of which:	7 894.0	7 881.0
on impaired loans	265.7	318.6
investment securities available for sale	788.5	668.4
derivative hedging instruments	348.4	450.9
financial assets designated upon initial recognition at fair value through profit and loss	224.6	219.6
trading assets	68.6	55.2
other	4.4	2.7
<b>Total</b>	<b>9 483.3</b>	<b>9 382.9</b>
including reduction in interest income due to negative LIBOR	0.3	0.4

INTEREST EXPENSE ON:	2016	2015
amounts due to banks	(101.3)	(66.7)
amounts due to customers	(1 805.1)	(2 330.8)
debt securities in issue and subordinated liabilities	(73.5)	(74.3)
debt securities available for sale	(78.7)	(57.2)
trading assets	(32.7)	(18.6)
financial assets designated upon initial recognition at fair value through profit and loss	(24.1)	(15.2)
<b>Total</b>	<b>(2 115.4)</b>	<b>(2 562.8)</b>

## 7. FEE AND COMMISSION INCOME AND EXPENSE

### ACCOUNTING POLICIES

Fee and commission income is generally recognised on an accrual basis at the time when the related service is performed.

Fee and commission income includes one-off amounts charged by the Bank for services not related directly to granting loans, advances and other receivables, as well as amounts charged by the Bank for services performed over a period exceeding 3 months, which are recognised on a straight-line basis. Fee and commission income includes also deferred fee and commissions recognised on a straight-line basis, received on loans and advances granted with no specified schedule of future cash flows for which the effective interest rate cannot be determined.

The accounting policies for recognizing commission income on sales of insurance products related to loans and advances is described in the note 'Interest income and expense'.



## FINANCIAL INFORMATION

FEE AND COMMISSION INCOME ON:	2016	2015
debit and credit cards	1 012.6	937.7
maintenance of bank accounts	862.9	875.0
loans and advances granted	616.8	632.8
offering of insurance products	58.1	95.3
maintenance of investment funds (including management fees)	275.2	291.3
cash transactions	92.1	91.8
servicing foreign mass transactions	88.7	74.4
brokerage activities	149.9	161.6
offering insurance and investment products	14.4	17.7
sale and distribution of court fee stamps	12.4	12.3
other	114.7	133.8
<b>Total</b>	<b>3 297.8</b>	<b>3 323.7</b>

FEE AND COMMISSION EXPENSE ON:	2016	2015
card activities	(543.7)	(468.1)
commission paid to external entities for product sales	(88.4)	(67.7)
inspections of construction projects and property valuation	(39.8)	(33.8)
settlement services	(33.4)	(29.9)
fee and commissions for operating services provided by banks	(16.5)	(18.1)
text messages (SMS)	(15.8)	(17.9)
fees incurred by the Brokerage House	(17.2)	(17.6)
other	(95.7)	(66.0)
<b>Total</b>	<b>(850.5)</b>	<b>(719.1)</b>

## 8. DIVIDEND INCOME

## ACCOUNTING POLICIES

Dividend income is recognised in the income statement of the Bank at the date on which shareholders' rights to receive the dividend have been established.

## FINANCIAL INFORMATION

DIVIDEND INCOME FROM:	2016	2015
from the issuers not related to the Bank	10.3	10.7
investment securities available for sale	9.2	8.3
trading financial assets	1.1	2.4
from subsidiaries, joint ventures and associates, of which:	151.5	126.6
PKO Towarzystwo Funduszy Inwestycyjnych SA	56.4	51.1
CEUP eService Sp. z o.o.	11.0	25.6
PKO BP Bankowy PTE SA	7.2	30.6
PKO BP Finat Sp. z o.o.	75.7	18.3
PKO Finance AB	1.2	1.0
<b>Total</b>	<b>161.8</b>	<b>137.3</b>



## 9. NET INCOME FROM FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

### ACCOUNTING POLICIES AND CLASSIFICATION

Net income from financial instruments measured at fair value through profit and loss includes gains and losses arising from the disposal of financial instruments designated as financial assets / liabilities at fair value through profit and loss (both held for trading and designated at fair value through profit or loss at initial recognition) and the effect of their measurement to fair value. This item also includes the ineffective portion related to cash flow hedges.

### FINANCIAL INFORMATION

NET INCOME FROM FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE:	2016	2015
Debt securities	(16,5)	(5,9)
Equity instruments	1,2	(5,9)
Derivative instruments	20,7	38,1
An ineffective portion related to cash flow hedges	(11,3)	(2,7)
Other	5,5	1,5
<b>Total</b>	<b>(0,4)</b>	<b>25,1</b>

## 10. GAINS LESS LOSSES FROM INVESTMENT SECURITIES AVAILABLE FOR SALE

### ACCOUNTING POLICIES

Gains less losses from investment securities available for sale include gains and losses arising from disposal of financial instruments classified as available for sale.

### FINANCIAL INFORMATION

RESULT ON INVESTMENT SECURITIES	2016	2015
Equity securities*	418.4	16.0
Debt securities	86.4	87.4
<b>Total</b>	<b>504.8</b>	<b>103.4</b>

\* In 2016 the Bank recognised a gain on settlement of Visa transaction in the amount of PLN 417.6 million (details of the transaction are presented in the note 'Investment securities available for sale').

## 11. FOREIGN EXCHANGE GAINS (LOSSES)

### ACCOUNTING POLICIES AND CLASSIFICATION

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 Bank 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).

The effects of changes in fair value and the result realized on the Gold Index option are also included in net foreign exchange gains (losses) due to the fact that the Bank 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).



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

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

## 12. OTHER OPERATING INCOME AND EXPENSE

### ACCOUNTING POLICIES

Other operating income and expense include income and expense not related directly to banking activity. Other operating income mainly includes gains on sale or liquidation of non-current assets, intangible assets and foreclosed collateral, sale of shares in subsidiaries, recovered bad debts, legal damages, fines and penalties and income from lease/rental of properties. Other operating expense mainly includes losses on sale or liquidation of non-current assets, intangible assets, including foreclosed collateral, costs of debt collection and donations.

### FINANCIAL INFORMATION

OTHER OPERATING INCOME	2016	2015
gains on sale, disposal of tangible fixed assets, intangible assets and assets held for sale	34.4	44.8
sundry income	26.2	23.2
recovery of expired and written-off receivables	6.3	42.3
other	48.5	51.7
<b>Total</b>	<b>115.4</b>	<b>162.0</b>

OTHER OPERATING EXPENSE	2016	2015
losses on sale, disposal of tangible fixed assets, intangible assets and assets held for sale	(30.7)	(30.8)
donations	(31.0)	(11.3)
sundry expense	(17.8)	(7.5)
other	(35.4)	(46.6)
<b>Total</b>	<b>(114.9)</b>	<b>(96.2)</b>



### 13. NET IMPAIRMENT ALLOWANCE AND WRITE-DOWNS

#### ACCOUNTING POLICIES

The accounting policies relating to the recognition of net impairment allowance and write-downs are discussed for the individual items in the notes indicated in the table below. Net impairment allowance and write-downs comprise impairment allowances and write-downs recorded and released.

#### FINANCIAL INFORMATION

NET IMPAIRMENT ALLOWANCE AND WRITE-DOWNS	Note	2016	2015
Investment securities available for sale	25	(52.0)	(55.3)
Amounts due from banks	19	-	11.7
Loans and advances to customers	24	(1 466.1)	(1 427.8)
Non-current assets held for sale	27	147.6	(11.0)
Tangible fixed assets	28	(7.9)	4.9
Investments in subsidiaries, joint ventures and associates	39	(29.0)	(3.0)
Other receivables	29	(10.4)	(16.3)
Provision for legal claims, loan commitments and guarantees granted	35	10.2	22.5
Provisions for future liabilities (other provisions)	35	(0.8)	(0.4)
<b>Total</b>		<b>(1 408.4)</b>	<b>(1 474.7)</b>

### 14. ADMINISTRATIVE EXPENSES

Accounting policies and classification

Financial information:

Administrative expenses

Employee benefits

Operating lease

Comments to the selected items of Administrative expenses

#### ACCOUNTING POLICIES AND CLASSIFICATION

##### EMPLOYEE BENEFITS

Employee benefits comprise salaries and wages and social insurance (including contributions for retirement benefits, which are discussed in detail in the note 'Provisions'), as well as costs of the employee pension scheme constituting a defined contribution scheme and the programme of variable remuneration components for persons occupying managerial positions, a part of which is recorded as a liability in respect of share-based payments settled in cash, in accordance with IFRS 2 'Share-based payments' (the programme of variable remuneration components has been discussed in detail in the note entitled 'Remuneration of the PKO Bank Polski SA key management').

The Employee Pension Programme (EPP) has operated at the Bank since 2013. As part of the EPP (for employees who joined the Programme), the Bank accrues the basic contribution of 3% of the salary components on which social insurance contributions are accrued. Employees are entitled to declare additional contributions which are paid to the EPP by the Employer and deducted from the Employee's salary. PKO Towarzystwo Funduszy Inwestycyjnych SA manages the EPP.

Moreover, as part of wages and salaries the Bank recognises a provision for future liabilities in respect of compensation and severance bonuses paid out to employees with whom the employment relationship is terminated for reasons not related to the employees; and accruals related to costs attributable to the current period which will be incurred in the next period, including bonuses and holiday pay, taking account of all unused holiday.



<b>OVERHEADS</b>	The balance includes the following items: maintenance and lease of fixed assets, IT and telecommunications services, costs of administration, promotion and advertising, property protection and training. Lease payments under the operating lease and subsequent instalments are recognised as an expense in the income statement and are recognised on a straight-line basis over the lease term.
<b>DEPRECIATION/ AMORTIZATION</b>	Depreciation/amortization principles have been described in detail in the note 'Intangible assets and tangible fixed assets'
<b>CONTRIBUTION AND PAYMENTS TO THE BANK GUARANTEE FUND</b>	According to IFRIC 21 'Levies', fees paid by the Bank to the Bank Guarantee Fund, i.e. the annual fee and the prudential fee, are recognised in profit or loss on occurrence of the obligating event. The Bank is obliged to make contributions on a quarterly basis. Therefore, in 2016 the respective costs were recognised in profit or loss on a quarterly basis.
<b>TAXES AND FEES</b>	The following items are presented in this position: property tax, payments made to the State Fund for Rehabilitation of Disabled Persons, municipal and administration fees, fees for perpetual usufruct of land.

## FINANCIAL INFORMATION

ADMINISTRATIVE EXPENSES	2016	2015
Employee benefits	(2 576.1)	(2 544.7)
Overheads	(1 228.2)	(1 288.4)
Amortisation and depreciation	(721.7)	(755.6)
Contribution and payments to the Bank Guarantee Fund	(433.9)	(445.3)
Taxes and other charges	(49.6)	(48.6)
Additional contribution to the Bank Guarantee Fund	(24.4)	(337.9)
Contribution to the Borrowers Support Fund	-	(142.0)
<b>Total</b>	<b>(5 033.9)</b>	<b>(5 562.5)</b>

EMPLOYEE BENEFITS	2016	2015
Wages and salaries, of which:	(2 154.5)	(2 125.2)
expenses on employee pension programme	(45.9)	(44.7)
Social insurance, of which:	(348.4)	(345.5)
contributions for retirement pay and pensions	(285.4)	(283.1)
Other employee benefits	(73.2)	(74.0)
<b>Total</b>	<b>(2 576.1)</b>	<b>(2 544.7)</b>

## OPERATING LEASE

Total value of future lease payments under irrevocable operating lease	31.12.2016	31.12.2015
For the period:		
up to 1 year	225.6	223.6
from 1 year to 5 years	429.4	453.9
over 5 years	137.4	150.2
<b>Total</b>	<b>792.4</b>	<b>827.7</b>

Rental and tenancy agreements concluded by the Bank in the course of its normal operating activities also meet the criteria of operating leases. All of the above are arm's length agreements. Lease and sub-lease payments recognised as an expense of a given period, in 2016 amounted to PLN 241.6 million (in 2015 PLN 229.7 million).



## COMMENTS TO SELECTED ITEMS OF ADMINISTRATIVE EXPENSES

### *'Contribution to the Borrowers Support Fund':*

According to Article 25 of the Act from 9 October 2015 on support for borrowers in a difficult financial situation who took out mortgage loans, Guarantee Fund Council, based on information from the Polish Financial Supervision Authority (PFSA), set out for the Bank the amount of payment to PLN 142 million and the day of payment until 18 February 2016. As at 31 December 2015 the Bank recognised provision in the liabilities charged as costs of 2015.

### *'Additional payment to the Bank Guarantee Fund':*

On 23 November 2015 the Bank received information from the Bank Guarantee Fund (BGF), pursuant to which the Bank was obliged to make a mandatory contribution earmarked for disbursement of guaranteed funds on deposits accumulated the Co-operative Crafts and Agriculture Bank in Wołomin (Spółdzielczy Bank Rzemiosła i Rolnictwa w Wołominie). On 26 November 2015 the Board of Directors of BGF published its resolution No. 87/DGD/2015 concerning the payment of the guaranteed deposits held by the depositors of Co-operative Crafts and Agriculture Bank in Wołomin, and informed Bank that it is obliged to make a payment in the amount of PLN 337.9 million until 30 November 2015 which will be allocated to the payment of funds guaranteed for the deposits in the Co-operative Crafts and Agriculture Bank in Wołomin. The Bank made the payment on 30 November 2015.

On 28 October 2016 the Bank received information from BGF pursuant to which the Bank was obliged to make a mandatory contribution earmarked for disbursement of guaranteed funds on deposits accumulated in Cooperative Bank in Nadarzyn (Bank Spółdzielczy w Nadarzynie). On 28 October 2016 the BGF published Resolution No. 308/DGD/2016 of the Management Board of the BGF on paying out guaranteed funds to depositors of Cooperative Bank in Nadarzyn and notified the Bank of the need to pay PLN 24.4 million to the BGF by 2 November 2016. The Bank made the payment on 2 November 2016.

## 15. TAX ON CERTAIN FINANCIAL INSTITUTIONS

As of 1 February 2016, the Act of 15 January 2016 on tax from selected 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, among other things, by the value of equity and the value of Treasury securities. Additionally, banks reduce the tax basis by the value of assets acquired from the NBP, constituting security 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. The expense incurred on this account in 2016 was PLN 820.2 million.

## 16. INCOME TAX

Accounting policies
Financial information:
Income tax expense
Reconciliation of the effective interest rate
Net deferred tax assets

### ACCOUNTING POLICIES

The income tax expense is classified into current and deferred income tax. The current income tax is recognised in the income statement. Deferred income tax, depending on the source of the temporary differences, is recorded in the income statement or in other comprehensive income.

### CURRENT INCOME TAX

Current income tax is calculated on the basis of gross accounting profit adjusted by non-taxable income, taxable income that does not constitute accounting income, non-tax deductible expenses and tax costs which are not accounting costs, in accordance with tax regulations. These items mainly include income and expenses relating to accrued interest receivable and payable, impairment allowances on receivables and provisions for off-balance sheet liabilities.



## DEFERRED INCOME TAX

Deferred tax is recognised in the amount of the difference between the tax value of the assets and liabilities and their carrying amounts for the purpose of financial reporting. The Bank records a deferred tax liabilities and assets which are recognised in the statement of financial position on the assets and liabilities side respectively. Changes in the balance of the deferred tax liabilities and assets are recognised in mandatory charges to profit and loss account, with the exception of the effects of the measurement of financial assets available for sale, cash flow hedges and actuarial gains and losses which are recognised in other comprehensive income, where changes in the balance of the deferred tax liabilities and assets are recognised in other comprehensive income. In determining deferred income tax, the deferred tax asset and liabilities as at the beginning and as at the end of the reporting period are taken into account.

The carrying amount of deferred tax assets is verified at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or a part of the deferred income tax assets to be utilized.

Deferred income tax assets and liabilities are measured using tax rates that are expected to apply in the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date or that will be enacted in future according to the balance sheet date.

Deferred tax assets are offset by the Bank with deferred tax liabilities only when the enforceable legal entitlement to offset current tax receivables with current tax liabilities exists and deferred income tax is related to the same tax payer and the same tax authority.

## FINANCIAL INFORMATION

### INCOME TAX EXPENSE

	2016	2015
Current income tax expense	(1 101.2)	(568.2)
Deferred income tax related to creating and reversal of temporary differences	268.7	2.3
<b>Income tax expense in the income statement</b>	<b>(832.5)</b>	<b>(565.9)</b>
Income tax expense recognized in other comprehensive income in respect of temporary differences	121.2	(10.4)
<b>Total</b>	<b>(711.3)</b>	<b>(576.3)</b>



## RECONCILIATION OF THE EFFECTIVE TAX RATE

	2016	2015
Profit before income tax	3 720.8	3 137.0
Corporate income tax calculated using the enacted tax rate (19%) in force in Poland	(707.0)	(596.0)
Permanent differences between profit before income tax and taxable income, of which:	(180.2)	(12.1)
Recognising a non-tax-deductible impairment allowance on investments in subsidiaries, associates and joint ventures	(5.5)	(6.3)
Tax on certain financial institutions	(155.8)	-
Prudential payment to the BGF	(26.5)	(17.7)
Non-tax-deductible impairment allowances on loan exposures	(15.6)	(15.1)
Dividend income	30.7	26.1
Other permanent differences	(7.5)	0.9
Other differences between profit before income tax and taxable income, including new technologies tax relief and donations	54.7	42.2
<b>Income tax expense in the income statement</b>	<b>(832.5)</b>	<b>(565.9)</b>
<b>Effective tax rate</b>	<b>22.37%</b>	<b>18.04%</b>
Temporary differences due to the deferred tax presented in the income statement	268.7	2.3
<b>Total current income tax expense in the income statement</b>	<b>(1 101.2)</b>	<b>(568.2)</b>

According to the regulations on considering tax liabilities as past due, tax authorities can verify the correctness of income tax settlements within 5 years from the end of the accounting year in which the tax declaration was submitted.

Current income tax liability of the Bank for the year 2016 will be settled within regulatory due dates.



## NET DEFERRED TAX ASSETS

	31.12.2015	Income statement	Other comprehensive income	31.12.2016
<b>DEFERRED TAX LIABILITIES</b>				
Interest accrued on receivables (loans)	260.7	(24.2)		236.5
Capitalised interest on performing housing loans	129.0	(10.6)		118.4
Interest on securities	27.6	15.3		42.9
Difference between carrying amount and tax value of tangible fixed assets and intangible fixed assets	342.8	(13.5)		329.3
<b>Gross deferred tax liability</b>	<b>760.1</b>	<b>(33.0)</b>	<b>-</b>	<b>727.1</b>
<b>DEFERRED TAX ASSET</b>				
Interest accrued on liabilities	161.4	(56.0)		105.4
Valuation of derivative financial instruments	0.2	178.8	7.3	186.3
Valuation of securities	(26.7)	46.0	114.3	133.6
Provision for employee benefits	84.8		(0.4)	84.4
Impairment allowances on loan exposures	579.1	16.7		595.8
Adjustment of straight-line valuation method and EIR (effective interest rate)	474.4	97.8		572.2
Other temporary negative differences	131.5	(47.6)		83.9
<b>Gross deferred income tax asset</b>	<b>1 404.7</b>	<b>235.7</b>	<b>121.2</b>	<b>1 761.6</b>
<b>DEFERRED TAX ASSETS (presented in the statement of financial position)</b>	<b>644.6</b>	<b>268.7</b>	<b>121.2</b>	<b>1 034.5</b>

## 17. EARNINGS PER SHARE

Earnings per share	2016	2015
Earnings per ordinary shareholders	2 888.3	2 571.1
Weighted average number of ordinary shares during the period (in million)	1 250.0	1 250.0
Earnings per share (in PLN per share)	2.31	2.06

In 2016 as well as in 2015 there were no dilutive instruments in the Bank. Therefore the amount of diluted earnings per share is equal to basic earnings per share.



## NOTES TO THE STATEMENT OF FINANCIAL POSITION

### 18. CASH AND BALANCES WITH THE CENTRAL BANK

#### ACCOUNTING POLICIES

The item 'Cash and balances with the Central Bank' presents cash recognised at nominal value, and funds in the current account and deposits with the Central Bank measured at amounts due, which includes the potential interest on those funds.

#### FINANCIAL INFORMATION

CASH AND BALANCES WITH THE CENTRAL BANK	31.12.2016	31.12.2015
Current account in the Central Bank	7 443.7	9 854.1
Cash on hand	4 153.0	3 853.6
Deposits with the Central Bank	1 680.0	-
<b>Total</b>	<b>13 276.7</b>	<b>13 707.7</b>

During the course of the working day, the Bank may use funds from the obligatory reserve accounts for ongoing payments, on the basis of an instruction submitted to the National Bank of Poland (NBP). However, the Bank must ensure that the average monthly balance on this account complies with the requirements set in the obligatory reserve declaration.

Funds on the obligatory reserve account bear interest of 0.9 of the reference rate. As at 31 December 2016 and as at 31 December 2015 this interest rate was 1.35%.

### 19. AMOUNTS DUE FROM BANKS

#### ACCOUNTING POLICIES

Amounts due from banks comprise financial assets measured at amortized cost using the effective interest rate method, less potential impairment allowances, with the exception of cash in transit which is measured at nominal value. If no future cash flow schedule can be determined for a financial receivable measured at amortized cost, and thus the effective interest rate cannot be determined, the receivable is measured at the amount due.

Buy-sell-back securities are recognised as amounts due from banks, if the counterparty is a bank entity. Receivables due from repurchase agreements are measured at amortized cost. The difference between the buy and repurchase (sell) price is treated as interest income and settled over the period of the contract using the effective interest rate.



## FINANCIAL INFORMATION

AMOUNTS DUE FROM BANKS	31.12.2016	31.12.2015
Deposits with banks	3 851.2	2 484.6
Amount due from PKO Bank Hipoteczny for the sale of mortgage secured housing loans by the Bank	3 038.0	429.5
Current accounts	428.2	858.4
Loans and advances granted	492.2	269.0
Receivables due from repurchase agreements	661.2	980.6
Cash in transit	0.1	-
<b>Gross total</b>	<b>8 470.9</b>	<b>5 022.1</b>
Impairment allowances on receivables	-	(0.2)
<b>Net total</b>	<b>8 470.9</b>	<b>5 021.9</b>

Amounts due from banks - the Bank's exposure to credit risk	31.12.2016	31.12.2015
Amounts due from banks impaired, past due	-	0.4
Amounts due from banks not impaired, not past due	8 470.9	5 021.7
<b>Gross total</b>	<b>8 470.9</b>	<b>5 022.1</b>
Impairment allowances	-	(0.2)
<b>Net total by carrying amount</b>	<b>8 470.9</b>	<b>5 021.9</b>

## 20. TRADING ASSETS EXCLUDING DERIVATIVE FINANCIAL INSTRUMENTS

### ACCOUNTING POLICIES

The Bank classifies to this category financial instruments acquired or drawn mainly for the purpose of sale or redemption in the short term, the Bank's so-called trading portfolio and instruments in the portfolio of the Brokerage House. They are measured at fair value, both on initial recognition and on subsequent valuation, and the effects of the valuation are recognised in profit or loss. The Bank also recognizes derivative financial instruments as trading assets (presented in a separate note), excluding derivatives classified as cash flow hedges.

### FINANCIAL INFORMATION

TRADING ASSETS	31.12.2016	31.12.2015
Debt securities	343.4	776.7
Treasury bonds PLN	186.2	640.0
foreign currency Treasury bonds	5.9	8.7
municipal bonds PLN	41.5	48.6
corporate bonds PLN	75.7	69.4
foreign currency corporate bonds	2.3	-
mortgage-backed securities	31.8	10.0
Shares in other entities – listed on stock exchange	11.3	9.9
Investment certificates, rights to shares, pre-emptive rights	3.5	6.6
<b>Total</b>	<b>358.2</b>	<b>793.2</b>



DEBT SECURITIES BY MATURITY (THE CARRYING AMOUNT)	31.12.2016	31.12.2015
up to 1 month	20.1	188.9
3 months – 1 year	65.2	276.9
1 - 5 years	146.1	161.3
over 5 years	112.0	149.6
<b>Total</b>	<b>343.4</b>	<b>776.7</b>

## 21. DERIVATIVE FINANCIAL INSTRUMENTS

Accounting policies  
Estimates and judgements  
Financial information  
Derivative financial instruments  
Types of contracts  
Nominal amounts of underlying instruments as at 31 December 2016  
Nominal amounts of underlying instruments as at 31 December 2015  
Calculation of estimates

### ACCOUNTING POLICIES

The Bank uses various types of derivatives in order to manage risk involved in its business activities. The most frequently used derivatives are: IRS, CIRS, FX Swap, FRA, Options and FX Forward.

Derivative financial instruments are recognised at fair value from the trade date. A derivative instrument is presented under 'Derivative financial instruments' as an asset if its fair value is positive, and as a liability if its fair value is negative.

The Bank recognizes changes in the fair values of derivative instruments not classified as cash flow hedges and the result on the settlement of those instruments in the result on financial instruments measured at fair value through profit or loss, or in net foreign exchange gains (losses), depending on the type of derivative.

The notional amounts of the underlying derivative instruments are presented as off-balance sheet items from the trade date until maturity.

### EMBEDDED DERIVATIVE INSTRUMENTS

With respect to embedded derivatives, the Bank assesses whether a given contract contains an embedded derivative instrument as at the moment of concluding the contract. A reassessment can only be made when there is a change in the terms of the contract that significantly modifies the cash flows required under the contract. Derivative instruments separated from host contracts and recognised separately in the books of account are designated at fair value. Valuation is presented in the statement of financial position under 'Derivative financial instruments'. Changes in fair valuation of derivative instruments are recognized in the income statement under the item 'Net income from financial instruments measured at fair value or 'Net foreign exchange gains (losses)'.

### ESTIMATES AND JUDGEMENTS

The fair value of non-option derivatives is determined using valuation models based on discounted cash flows expected to be received from the given financial instrument. Options are valued using option pricing models. The variables and assumptions used in a valuation include, where available, data derived from observable markets.



The fair value of derivatives includes the Bank's own credit risk as well as counterparty credit risk. In case of derivative instruments adjustment of the valuation of derivatives reflecting counterparty credit risk CVA (credit value adjustment) and adjustment of the valuation of derivatives reflecting the Bank's own credit risk DVA (debit value adjustment) is calculated. The process of calculation of CVA and DVA adjustments includes the selection of method determining the spread of the counterparty's or the Bank's credit risk (e.g. a market price method based on the continuous price quotations of debt instruments issued by the counterparty, a method of spread implied from Credit Default Swap contracts), an estimation of the probability of default of the counterparty or the Bank and the recovery rate, and calculation of the amount of CVA and DVA adjustments.

The valuation techniques used by the Bank for non-option derivative instruments are based on yield curves based on available market data (deposit margins on interbank market, IRS quotations).

## FINANCIAL INFORMATION

DERIVATIVE FINANCIAL INSTRUMENTS	31.12.2016		31.12.2015	
	Assets	Liabilities	Assets	Liabilities
Hedging instruments	382.1	1 162.9	508.7	998.5
Other derivative instruments	2 513.0	3 066.6	3 839.3	3 628.7
<b>Total</b>	<b>2 895.1</b>	<b>4 229.5</b>	<b>4 348.0</b>	<b>4 627.2</b>

TYPES OF INSTRUMENTS	31.12.2016		31.12.2015	
	Assets	Liabilities	Assets	Liabilities
IRS	1 387.6	2 097.6	3 208.2	3 053.1
CIRS	570.0	1 422.5	472.4	1 212.6
FX Swap	205.2	164.0	309.9	86.0
Options	539.6	436.8	236.8	177.5
FRA	2.5	2.2	16.2	22.2
Forward	176.8	106.4	104.5	72.6
Other	13.4	-	-	3.2
<b>Total</b>	<b>2 895.1</b>	<b>4 229.5</b>	<b>4 348.0</b>	<b>4 627.2</b>

**FINANCIAL STATEMENTS OF PKO BANK POLSKI SA  
FOR THE YEAR ENDED 31 DECEMBER 2016  
(IN PLN MILLION)**



Bank Polski

**Nominal amounts of underlying instruments (both sale and purchase) as at 31.12.2016**

	up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	over 5 years	Total
<b>Currency transactions</b>						
<b>FX Swap</b>	<b>23 514.4</b>	<b>5 908.4</b>	<b>8 403.7</b>	<b>1 562.6</b>	-	<b>39 389.1</b>
Purchase of currency	11 771.1	2 962.2	4 213.4	795.2	-	19 741.9
Sale of currency	11 743.3	2 946.2	4 190.3	767.4	-	19 647.2
<b>FX forward</b>	<b>5 920.5</b>	<b>3 678.5</b>	<b>9 114.6</b>	<b>4 655.5</b>	<b>11.4</b>	<b>23 380.5</b>
Purchase of currency	2 971.8	1 832.4	4 554.4	2 301.1	6.0	11 665.7
Sale of currency	2 948.7	1 846.1	4 560.2	2 354.4	5.4	11 714.8
<b>Options</b>	<b>1 987.4</b>	<b>2 784.1</b>	<b>22 339.8</b>	<b>6 622.4</b>	<b>148.6</b>	<b>33 882.3</b>
Purchase	1 112.2	1 372.3	11 402.7	3 528.6	74.3	17 490.1
Sale	875.2	1 411.8	10 937.1	3 093.8	74.3	16 392.2
<b>Cross Currency (CIRS)</b>	<b>3 605.6</b>	<b>2 550.4</b>	<b>1 721.6</b>	<b>22 389.5</b>	<b>12 731.7</b>	<b>42 998.8</b>
Purchase	1 734.5	1 275.2	860.8	10 706.1	6 507.6	21 084.2
Sale	1 871.1	1 275.2	860.8	11 683.4	6 224.1	21 914.6
<b>Interest rate transactions</b>						-
<b>Interest Rate Swap (IRS)</b>	<b>5 967.2</b>	<b>18 128.2</b>	<b>121 250.8</b>	<b>164 722.4</b>	<b>37 828.8</b>	<b>347 897.4</b>
Purchase	2 983.6	9 064.1	60 625.4	82 361.2	18 914.4	173 948.7
Sale	2 983.6	9 064.1	60 625.4	82 361.2	18 914.4	173 948.7
<b>Forward Rate Agreement (FRA)</b>	-	-	<b>18 477.0</b>	<b>1 250.0</b>	-	<b>19 727.0</b>
Purchase	-	-	7 087.0	500.0	-	7 587.0
Sale	-	-	11 390.0	750.0	-	12 140.0
<b>Other transactions:</b>						-
<b>Other (options on stock indices)</b>	<b>2 093.8</b>	<b>1.2</b>	<b>400.0</b>	-	-	<b>2 495.0</b>
Purchase	7.9	0.3	400.0	-	-	408.2
Sale	2 085.9	0.9	-	-	-	2 086.8
<b>Total derivative instruments</b>	<b>43 088.9</b>	<b>33 050.8</b>	<b>181 707.5</b>	<b>201 202.4</b>	<b>50 720.5</b>	<b>509 770.1</b>



Nominal amounts of underlying instruments (both sale and purchase) as at 31.12.2015						
	up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	over 5 years	Total
<b>Currency transactions</b>						
<b>FX Swap</b>	31 367.8	10 782.6	7 271.4	2 218.2	-	51 640.0
Purchase of currency	15 720.1	5 432.2	3 668.3	1 137.4	-	25 958.0
Sale of currency	15 647.7	5 350.4	3 603.1	1 080.8	-	25 682.0
<b>FX forward</b>	4 674.7	2 128.6	5 855.3	3 353.3	-	16 011.9
Purchase of currency	2 337.6	1 075.5	2 926.8	1 657.7	-	7 997.6
Sale of currency	2 337.1	1 053.1	2 928.5	1 695.6	-	8 014.3
<b>Options</b>	2 026.6	3 215.5	10 167.3	8 121.4	154.0	23 684.8
Purchase	1 088.0	1 787.2	5 413.2	4 123.4	77.0	12 488.8
Sale	938.6	1 428.3	4 754.1	3 998.0	77.0	11 196.0
<b>Cross Currency (CIRS)</b>	1 719.7	169.0	1 899.5	25 332.4	12 779.3	41 899.9
Purchase	797.3	84.5	914.6	12 373.8	6 436.3	20 606.5
Sale	922.4	84.5	984.9	12 958.6	6 343.0	21 293.4
<b>Interest rate transactions</b>						
<b>Interest Rate Swap (IRS)</b>	17 391.8	44 323.8	82 568.6	225 685.2	41 366.2	411 335.6
Purchase	8 695.9	22 161.9	41 284.3	112 842.6	20 683.1	205 667.8
Sale	8 695.9	22 161.9	41 284.3	112 842.6	20 683.1	205 667.8
<b>Forward Rate Agreement (FRA)</b>	16 313.0	17 500.0	18 215.0	750.0	-	52 778.0
Purchase	8 824.0	8 625.0	7 155.0	750.0	-	25 354.0
Sale	7 489.0	8 875.0	11 060.0	-	-	27 424.0
<b>Other transactions:</b>						
<b>Other (options on stock indices)</b>	2 309.5	8.3	17.1	1.0	-	2 335.9
Purchase	834.3	-	15.8	-	-	850.1
Sale	1 475.2	8.3	1.3	1.0	-	1 485.8
<b>Total derivative instruments</b>	75 803.1	78 127.8	125 994.2	265 461.5	54 299.5	599 686.1

## CALCULATION OF ESTIMATES

The Bank conducted a simulation to assess the potential influence of changes of the yield curves on the transaction valuation.

Estimated change in valuation of the portfolio of non-option derivatives with a parallel shift in the yield curves:	31.12.2016		31.12.2015		
	+50bp scenario	-50bp scenario	+50bp scenario	-50bp scenario	
IRS		(120)	122	(35)	35
CIRS		(31)	32	(95)	99
other instruments		(4)	4	(1)	1
<b>Total</b>		<b>(155)</b>	<b>158</b>	<b>(131)</b>	<b>135</b>

As at 31 December 2016 the amount of CVA and DVA adjustments amounted to PLN 7.4 million (as at 31 December 2015: PLN 2 million).



## 22. DERIVATIVE HEDGING INSTRUMENTS

Accounting policies
Types of hedging strategies applied by the Bank
Financial instruments
The carrying amount/fair value of derivative instruments designated under cash flow hedges
The nominal value of the hedging instruments by maturity as at 31 December 2016
The nominal value of the hedging instruments by maturity as at 31 December 2015
The change in other comprehensive income in respect of cash flow hedges
Calculation of estimates

### ACCOUNTING POLICIES

#### USE OF HEDGE ACCOUNTING

The Bank applies hedge accounting when all the terms and conditions below have been met:

- 1) upon setting up the hedge, a hedge relationship, the purpose of risk management by the entity and the hedging strategy were officially established,
- 2) a hedge is expected to be highly effective,
- 3) the planned hedged transaction must be highly probable and must be exposed to variability of cash flows which may, as a result, have an impact on the income statement,
- 4) the effectiveness of a hedge may be reliably assessed,
- 5) the hedge is assessed on a current basis and its high effectiveness in all reporting periods for which the hedge had been established is confirmed.

As at 31 December 2016 and as at 31 December 2015, the Bank did not use fair value hedges.

#### DISCONTINUING HEDGE ACCOUNTING

- **A HEDGE INSTRUMENT EXPIRES, IS SOLD, RELEASED OR EXERCISED** - accumulated gains or losses related to the hedging instrument which were recognised directly in other comprehensive income over the period in which the hedge was effective are recognised in a separate item in other comprehensive income until the planned transaction occurs,
- **THE HEDGE CEASES TO MEET THE HEDGE ACCOUNTING CRITERIA** - accumulated gains or losses related to the hedging instrument which were recognised directly in other comprehensive income over the period in which the hedge was effective are recognised in a separate item in other comprehensive income until the planned transaction occurs,
- **THE PLANNED TRANSACTION IS NO LONGER CONSIDERED PROBABLE** - accumulated gains or losses related to the hedging instrument which were recognised directly in other comprehensive income over the period in which the hedge was effective, are recognised in the income statement,
- **CANCELLATION OF HEDGING RELATIONSHIP** - accumulated gains or losses related to the hedging instrument which were recognised directly in other comprehensive income over the period in which the hedge was effective are recognised in a separate item in other comprehensive income until the planned transaction occurs.

#### CASH FLOW HEDGES

Changes in the fair value of a derivative financial instrument designated as a cash flow hedge are recognised directly in other comprehensive income in respect of the portion constituting the effective portion of the hedge. The ineffective portion of a hedge is recognised in the income statement in the item 'Net income from financial instruments designated at fair value'.

Amounts transferred directly to other comprehensive income are transferred to the income statement in the same period or periods in which the hedged planned transaction affects the income statement. Interest and foreign exchange differences are shown in the income statement, in 'Net interest income' and 'Net foreign exchange result', respectively.



All types of hedging relationships applied by the Bank are cash flow hedges (macro cash flow hedge).

The effectiveness tests comprise the valuation of hedging transactions, net of interest accrued and currency translation differences on the nominal value of the hedging transactions (in case of CIRS transactions).

Hedge effectiveness is verified through the use of prospective and retrospective effectiveness tests. Tests are performed on a monthly basis.

#### TYPES OF HEDGING STRATEGIES APPLIED BY THE BANK

STRATEGY 1	HEDGES AGAINST FLUCTUATIONS IN CASH FLOWS FROM MORTGAGE LOANS IN CHF AND NEGOTIATED TERM DEPOSITS IN PLN, RESULTING FROM THE RISK OF FLUCTUATIONS IN INTEREST RATES AND IN FOREIGN EXCHANGE RATES, USING CIRS TRANSACTIONS
DESCRIPTION OF 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 Bank pays coupons based on 3M CHF LIBOR, and receives coupons based on 3M WIBOR on the nominal value defined in CHF and PLN respectively
HEDGED 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 Bank 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: January 2017 – October 2026
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 Bank 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: January 2017 – December 2021



<b>STRATEGY 3</b>	<b>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</b>
<b>DESCRIPTION OF HEDGE RELATIONSHIP</b>	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
<b>HEDGED RISK</b>	interest rate risk
<b>HEDGING INSTRUMENT</b>	IRS transactions, where the Bank 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
<b>HEDGED POSITION</b>	the portfolio of loans in EUR indexed to the floating 3M EURIBOR rate
	As at 31 December 2016, the Bank had no active hedging relationships based on this strategy. As at 31 December 2015 the nominal value of hedging instruments amounted to EUR 461 million.

<b>STRATEGY 4</b>	<b>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</b>
<b>DESCRIPTION OF HEDGE RELATIONSHIP</b>	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
<b>HEDGED RISK</b>	interest rate risk
<b>HEDGING INSTRUMENT</b>	IRS transactions where the Bank 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
<b>HEDGED POSITION</b>	the portfolio of loans in CHF indexed to the floating 3M CHF LIBOR rate
	As at 31 December 2016, the Bank had no active hedging relationships based on this strategy. As at 31 December 2015 the nominal value of hedging instruments amounted to CHF 250 million.



<b>STRATEGY 5</b>	<b>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</b>
<b>DESCRIPTION OF HEDGE RELATIONSHIP</b>	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
<b>HEDGED RISK</b>	currency risk and interest rate risk
<b>HEDGING INSTRUMENT</b>	CIRS transactions, where the Bank pays coupons based on floating 3M CHF LIBOR rate, and receives coupons based on a fixed USD rate on the nominal value, for which they were concluded
<b>HEDGED POSITION</b>	the portfolio of floating interest rate mortgage loans denominated in CHF and fixed interest rate financial liability denominated in USD
	Period in which cash flows are expected and in which they should have an impact on the financial result: January 2017 - September 2022

<b>STRATEGY 6</b>	<b>HEDGES AGAINST FLUCTUATIONS IN CASH FLOWS FROM MORTGAGE LOANS IN OTHER FOREIGN CURRENCIES 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</b>
<b>DESCRIPTION OF HEDGE RELATIONSHIP</b>	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
<b>HEDGED RISK</b>	currency risk and interest rate risk
<b>HEDGING INSTRUMENT</b>	CIRS transactions where the Bank pays coupons based on 3M EURIBOR rate, and receives coupons based on 3M WIBOR rate on the nominal value for which they were concluded
<b>HEDGED POSITION</b>	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 Bank 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: January 2017 - March 2021



<b>STRATEGY 7</b>	<b>HEDGING AGAINST FLUCTUATIONS IN CASH FLOWS FROM MORTGAGE LOANS IN FOREIGN CURRENCIES AND NEGOTIATED TERM DEPOSITS IN PLN, RESULTING FROM THE RISK OF FLUCTUATIONS IN INTEREST RATES AND FROM FOREIGN EXCHANGE RATE RISK, USING TWO HEDGING INSTRUMENTS: IRS AND CIRS-EP</b>
<b>DESCRIPTION OF HEDGE RELATIONSHIP</b>	elimination of the risk of cash flows fluctuations generated by mortgage loans denominated in convertible currencies and negotiated term deposits in PLN, resulting from fluctuations in reference interest rates and changes in foreign exchange rates, using two hedging instruments: IRS and CIRS-EP, in the period covered by the hedge.
<b>HEDGED RISK</b>	foreign exchange risk and interest rate risk
<b>HEDGING INSTRUMENT</b>	CIRS-EP (Cross-Currency Interest Rate Swap - Extension Period) transactions with extended maturities, where the Bank pays coupons based on a fixed rate in EUR and receives coupons based on a floating 3M WIBOR rate on the nominal amount, and IRS transactions, where the Bank pays coupons based on a floating 3M EURIBOR rate and receives coupons based on a fixed EUR rate on the nominal amount, for which they were concluded. In case of bankruptcy of the underlying entity (the entity whose bankruptcy is monitored as part of the transaction), the CIRS-EP transaction is extended automatically on the terms and conditions defined on the date of concluding the transaction.
<b>HEDGED POSITION</b>	the portfolio of floating interest rate mortgage loans denominated in EUR and the portfolio of short-term negotiated deposits, including their future renewals (high probability of occurrence). The Bank designated the hedged position according to the regulations of IAS 39 AG 99C as adopted by the European Union.
	The period in which cash flows are expected and in which they should have an impact on the financial results: January 2017 - June 2022

The Bank introduced a new hedging strategy in 2016 - strategy 7 (described above).

#### FINANCIAL INFORMATION

Carrying amount/fair value of derivative instruments hedging cash flows associated with interest rate and/or foreign exchange rate	31.12.2016		31.12.2015	
	Assets	Liabilities	Assets	Liabilities
IRS	90.4	32.3	269.1	-
CIRS	291.7	1 130.6	239.6	998.5
<b>Total</b>	<b>382.1</b>	<b>1 162.9</b>	<b>508.7</b>	<b>998.5</b>

**FINANCIAL STATEMENTS OF PKO BANK POLSKI SA  
FOR THE YEAR ENDED 31 DECEMBER 2016  
(IN PLN MILLION)**



Bank Polski

Nominal value of hedging instruments by maturity as at 31 December 2016	up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	over 5 years	Total
IRS PLN fixed - float	-	250.0	9 030.0	6 845.6	-	16 125.6
IRS EUR fixed - float (original currency)	-	-	-	-	498.5	498.5
CIRS float CHF/float PLN						
float CHF	300.0	-	-	1 720.0	25.0	2 045.0
float PLN	1 098.6	-	-	6 170.7	88.1	7 357.5
CIRS fixed USD/float CHF						
fixed USD	-	-	-	-	875.0	875.0
float CHF	-	-	-	-	814.5	814.5
CIRS float EUR/float PLN						
float EUR	-	-	-	125.0	-	125.0
float PLN	-	-	-	545.2	-	545.2
CIRS fixed EUR/float PLN						
fixed EUR	-	-	-	-	498.5	498.5
float PLN	-	-	-	-	2 154.8	2 154.8

Nominal value of hedging instruments by maturity as at 31 December 2015	up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	over 5 years	Total
IRS PLN fixed - float	1 680.0	2 910.0	984.0	4 670.0	-	10 244.0
IRS EUR fixed - float (original currency)	35.0	368.0	58.0	-	-	461.0
IRS CHF fixed - float (original currency)	-	-	250.0	-	-	250.0
CIRS float CHF/float PLN						
float CHF	150.0	-	250.0	1 520.0	300.0	2 220.0
float PLN	465.8	-	914.6	5 421.6	1 039.0	7 841.0
CIRS fixed USD/float CHF						
fixed USD	-	-	-	-	875.0	875.0
float CHF	-	-	-	-	814.5	814.5
CIRS float EUR/float PLN						
float EUR	-	-	-	200.0	-	200.0
float PLN	-	-	-	851.7	-	851.7

Change in other comprehensive income related to cash flow hedges	31.12.2016	31.12.2015
Other comprehensive income at the beginning of the period, gross	(71.2)	6.4
Gains/losses transferred to other comprehensive income in the period	(64.6)	(689.1)
Amount transferred from other comprehensive income to the income statement, of which:	26.3	611.5
- interest income	(348.4)	(450.9)
- net foreign exchange gains	374.7	1 062.4
Accumulated other comprehensive income at the end of the period, gross	(109.5)	(71.2)
Tax effect	20.8	13.5
Accumulated other comprehensive income at the end of the period, net	(88.7)	(57.7)
Impact on other comprehensive income in the period, gross	(38.3)	(77.6)
Tax effect	7.3	14.7
Impact on other comprehensive income in the period, net	(31.0)	(62.9)

**CALCULATION OF ESTIMATES**

Estimated change in valuation of instruments covered by hedge accounting with a parallel shift in the yield curves (in PLN million)	31.12.2016		31.12.2015	
	+50bp scenario	-50bp scenario	+50bp scenario	-50bp scenario
IRS	(143)	147	(61)	63
CIRS	(31)	32	(95)	99
<b>Total</b>	<b>(174)</b>	<b>179</b>	<b>(156)</b>	<b>162</b>



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

### ACCOUNTING POLICIES

The Bank classifies financial instrument in this category when:

- 1) it is a hybrid instrument which includes one or more embedded derivatives qualifying for separate recognition, and the embedded derivative financial instrument cannot significantly change the cash flows resulting from the host contract or its separation from the hybrid instrument is forbidden;
- 2) such classification of an instrument eliminates or significantly reduces the inconsistency in measurement or recognition (the so-called accounting mismatch resulting from different measurement methods of assets and liabilities and different recognition of the related gains or losses), e.g. financial instruments economically hedged without applying hedge accounting;
- 3) the results on a category of financial instruments are assessed on a fair value basis, pursuant to the Bank's risk management principles or investment strategy.

The Bank has a policy of financial assets and liabilities management according to which financial assets and liabilities classified as held for trading portfolio and financial assets and liabilities designated upon initial recognition at fair value through profit and loss portfolio are managed separately.

Financial instruments classified in this category are designated at fair value with changes in fair value recognised in profit and loss in net income from financial instruments at fair value through profit and loss.

### FINANCIAL INFORMATION

Financial instruments designated upon initial recognition at fair value through profit and loss	31.12.2016	31.12.2015
NBP money market bills	8 998.8	9 996.9
Treasury bonds PLN	1 431.7	1 466.6
foreign currency Treasury bonds	1 074.8	1 085.3
municipal bonds PLN	110.9	115.9
foreign currency municipal bonds	127.7	131.3
<b>Total</b>	<b>11 743.9</b>	<b>12 796.0</b>

Debt securities by maturity (in carrying amount)	31.12.2016	31.12.2015
up to 1 month	8 998.8	10 000.3
3 months - 1 year	-	86.7
1 year - 5 years	2 701.4	2 378.7
over 5 years	43.7	330.3
<b>Total</b>	<b>11 743.9</b>	<b>12 796.0</b>



## 24. LOANS AND ADVANCES TO CUSTOMERS

Accounting policies
Estimates and judgements – impairment allowances
Financial information:
Loans and advances to customers by product
Loans and advances to customers by method of impairment allowance calculation
Loans and advances to customers - the Bank's exposure to credit risk
Loans and advances to customers by client segments
Loan quality ratios
Impairment allowances on loans and advances to customers – reconciliation of movements in 2016 and in 2015
Reclassification of securities
Calculation of estimates – impairment allowances

### ACCOUNTING POLICIES

Loans and advances to customers include financial assets which are not derivatives, with determined or possible to be determined payments, which are not quoted on an active market. The group includes loans and advances granted, corporate and municipal debt securities which based on the entity's decision are classified to this category and receivables due from repurchase agreements, where the bank is not a counterparty to the transaction.

At initial recognition they are measured at fair value plus transaction costs, which can be directly attributed to purchase or issuance of a financial asset.

After initial recognition, these assets are measured at amortized cost using the effective interest rate method, less impairment allowances. In case of loans and advances for which it is not possible to reliably estimate the schedule of future cash flows and the effective interest rate, they are measured at amount due.

Buy-sell-back securities are recognised under amounts due from banks or loans and advances to customers, depending on the counterparty of the transaction. Receivables due from repurchase agreements are measured at amortized cost. The difference between the sale price and the repurchase price is recognised as interest expense/income respectively and it is settled over the term of the contract using the effective interest rate.

### ESTIMATES AND JUDGEMENTS – IMPAIRMENT ALLOWANCES

An impairment loss is incurred when there is an objective evidence of impairment due to one or more events that occurred after the initial recognition of the asset ('a loss event'), and the event has a reliably measurable impact on the expected future cash flows from the financial asset or a group of financial assets. Future cash flows are assessed by the Bank on the basis of estimates based on historical parameters.

The Bank performs a monthly review of loan exposures in order to identify loan exposures exposed to potential impairment, measure the impairment of loan exposures and recognise impairment allowances on loans and advances or provisions for off-balance sheet exposures.

The process of determining impairment allowances on loans and advances and provisions includes the following stages:

- identifying impairment triggers and events significant from the perspective of identifying those triggers,
- registering in the Bank's IT systems the events that are significant from the perspective of identifying impairment triggers on loan exposures,
- determining the method of measuring impairment,
- measuring impairment and determining an impairment allowance or provision,
- verifying and aggregating the results of the impairment measurement,
- recording the results of impairment measurement.



The method of determining the amount of impairment allowances depends on the type of impairment triggers identified and the individual significance of a given loan exposure. The loss events considered as impairment triggers are, in particular, as follows:

- breach of the contract by the debtor, i.e. for example, delay in the payment of principal or interest longer than 90 days (when determining the loan overdue period, the Bank takes into account the amounts of overdue interest or principal instalments exceeding the fixed threshold values),
- a decline in debtor's rating to a level indicating a significant threat to the repayment of debt (with respect to non-financial clients 'H1' rating, with respect to financial institutions – G, H rating) resulting from significant financial difficulties of the debtor,
- entering into restructuring agreement or granting a concession concerning debt repayment (the impairment trigger is recognised, if the concessions are granted to the client for economic or legal reasons resulting from financial difficulties),
- high probability of bankruptcy or reorganization of the debtor,
- the debt being declared as due and payable,
- enforcement proceedings against the debtor,
- declaration of the debtor's bankruptcy or filing a motion to declare bankruptcy,
- the amount of the debt being challenged by the debtor,
- commencement of corporate recovery proceedings against the debtor,
- establishing imposed administration over the debtor or suspending the debtor's activities,
- additional impairment triggers identified for exposures to housing cooperatives arising from housing loans of the so-called 'old portfolio', covered by State Treasury guarantees.

The Bank categorizes its loans and advances based on the exposure amounts. PKO Bank Polski SA applies three methods of estimating impairment:

- **an individual basis** applied in respect of individually significant loans, for which the objective evidence of impairment was identified or requiring individual assessment due to the transactions specifics and resulting from events determining the repayment of exposure. In the portfolio of individually significant loan exposures, each individual loan exposure is subject to individual assessment on impairment triggers and the level of recognised loss.
- **a portfolio basis** applied in respect of individually insignificant loans, for which the objective evidence of individual impairment was identified. For individually insignificant exposures recognition and measurement of loss are made using portfolio risk parameters estimated with statistical methods. If loss is recognised for an individual loan exposure, the adequate impairment allowance is recognised.
- **a group basis (IBNR)** applied in respect of the loans, for which the objective evidence of impairment was not identified, but there is a possibility of losses incurred but not recognised. If for individual loan exposure loss is not recognised, the exposure is classified to a portfolio of assets with similar characteristics which is assessed on a group basis and is a subject to impairment allowance set up for the given group due to incurred but not reported losses (IBNR allowance).

Loan exposures, in respect of which no objective evidence of individual impairment was identified, or in spite of their occurrence no impairment loss was recognised, are assessed for impairment on a basis of exposures with the same characteristics.

Impairment allowance in respect of a loan exposure corresponds to the difference between the carrying amount of the exposure and the present value of the expected future cash flows from a given exposure:

- while assessing **impairment allowances on an individual basis**, the expected future cash flows are estimated for each loan exposure individually, taking into account the possible scenarios relating to contract execution, weighted by the probability of their realization,



- an impairment allowance in respect of loan exposures **assessed on a portfolio basis or a group basis** corresponds to the difference between the carrying amount of the exposures and the present value of the expected future cash flows (excluding future credit losses that have not been incurred).

Future cash flows of a group of financial assets assessed for impairment on a collective basis are estimated on the basis of cash flows generated from loan agreements and historical recovery parameters generated from assets with similar risk characteristics.

Historical recovery parameters are adjusted on the basis of data from current observations, so as to take into account the impact of current conditions and exclude factors that were relevant in the past but which currently do not occur. In subsequent period, if the amount of impairment loss is reduced because of an event subsequent to the impairment loss being recognised (e.g. improvement in debtor's credit rating), the impairment loss that was previously recognised is reversed by making an appropriate adjustment to impairment allowances balance. The amount of the reversal is recognised in the income statement.

IBNR allowance is estimated using the portfolio parameters. These parameters are estimated for the group of exposures with the same risk characteristics.

The calculation of the present value of estimated cash flows relating to financial assets for which collateral is held takes into account cash flows arising from the foreclosure of the collateral, less costs to foreclose and sell.

The Bank plans that the adopted methodology used for estimating impairment allowances will be developed in line with the further possibilities of gathering information on impairment from the existing and implemented applications and information systems. As a consequence, new data obtained could influence the level of impairment allowances in the future.

The methodology and assumptions used in the estimates are reviewed on a regular basis to minimise the differences between the estimated and actual loss amount.

## FINANCIAL INFORMATION

Loans and advances to customers by product type	31.12.2016			31.12.2015		
	Gross	Impairment allowances	Net	Gross	Impairment allowances	Net
<b>Loans</b>	<b>190 100.0</b>	<b>(7 242.4)</b>	<b>182 857.6</b>	<b>186 654.1</b>	<b>(7 818.5)</b>	<b>178 835.6</b>
housing	100 010.4	(2 143.9)	97 866.5	102 162.4	(2 291.4)	99 871.0
corporate	65 809.8	(3 666.4)	62 143.4	61 151.9	(3 986.6)	57 165.3
consumer	24 279.8	(1 432.1)	22 847.7	23 339.8	(1 540.5)	21 799.3
<b>Debt securities</b>	<b>4 948.2</b>	<b>(77.5)</b>	<b>4 870.7</b>	<b>5 356.3</b>	<b>(71.7)</b>	<b>5 284.6</b>
Debt securities (corporate)	2 352.1	(69.3)	2 282.8	2 660.9	(69.0)	2 591.9
Debt securities (municipal)	2 596.1	(8.2)	2 587.9	2 695.4	(2.7)	2 692.7
<b>Receivables due from repurchase agreements</b>	<b>1 339.0</b>	<b>-</b>	<b>1 339.0</b>	<b>4 432.2</b>	<b>-</b>	<b>4 432.2</b>
<b>Total</b>	<b>196 387.2</b>	<b>(7 319.9)</b>	<b>189 067.3</b>	<b>196 442.6</b>	<b>(7 890.2)</b>	<b>188 552.4</b>

**FINANCIAL STATEMENTS OF PKO BANK POLSKI SA  
FOR THE YEAR ENDED 31 DECEMBER 2016  
(IN PLN MILLION)**



Bank Polski

Loans and advances to customers by method of calculating impairment allowances	31.12.2016			31.12.2015		
	Gross	Impairment allowances	Net	Gross	Impairment allowances	Net
individual basis, of which:	5 714.4	(2 158.3)	3 556.1	6 799.1	(2 630.5)	4 168.6
impaired	4 420.3	(2 149.9)	2 270.4	4 972.2	(2 617.8)	2 354.4
not impaired	1 294.1	(8.4)	1 285.7	1 826.9	(12.7)	1 814.2
portfolio basis	7 022.0	(4 656.3)	2 365.7	7 552.2	(4 713.0)	2 839.2
group basis (IBNR)	183 650.8	(505.3)	183 145.5	182 091.3	(546.7)	181 544.6
<b>Total</b>	<b>196 387.2</b>	<b>(7 319.9)</b>	<b>189 067.3</b>	<b>196 442.6</b>	<b>(7 890.2)</b>	<b>188 552.4</b>

Loans and advances to customers - the Bank's exposure to credit risk	31.12.2016			31.12.2015		
	Gross	Impairment allowances	Net	Gross	Impairment allowances	Net
impaired, of which	11 442.3	(6 806.2)	4 636.1	12 524.4	(7 330.8)	5 193.6
assessed on an individual basis	4 420.3	(2 149.9)	2 270.4	4 972.2	(2 617.8)	2 354.4
not impaired, of which	184 944.9	(513.7)	184 431.2	183 918.2	(559.4)	183 358.8
with recognised individual impairment trigger	1 233.5	(8.4)	1 225.1	1 746.7	(12.6)	1 734.1
not past due	1 022.0	(7.5)	1 014.5	1 423.1	(11.6)	1 411.5
past due	211.5	(0.9)	210.6	323.6	(1.0)	322.6
without recognised individual impairment trigger/IBNR	183 711.4	(505.3)	183 206.1	182 171.5	(546.8)	181 624.7
not past due	180 830.0	(348.4)	180 481.6	179 521.2	(345.3)	179 175.9
past due	2 881.4	(156.9)	2 724.5	2 650.3	(201.5)	2 448.8
<b>Total</b>	<b>196 387.2</b>	<b>(7 319.9)</b>	<b>189 067.3</b>	<b>196 442.6</b>	<b>(7 890.2)</b>	<b>188 552.4</b>

Loans and advances to customers by client segment	31.12.2016	31.12.2015
Loans and advances to customers, gross, of which:	196 387.2	196 442.6
mortgage banking	93 078.0	95 217.2
corporate	57 106.1	52 130.2
retail and private banking	24 279.8	23 339.9
small and medium enterprises	20 571.0	21 312.9
receivables due from repurchase agreements	1 339.0	4 432.2
other receivables	13.3	10.2
Impairment allowances on loans and advances	(7 319.9)	(7 890.2)
<b>Loans and advances to customers, net</b>	<b>189 067.3</b>	<b>188 552.4</b>

Loan quality ratios (in %)	31.12.2016	31.12.2015
share of impaired loans	5.8%	6.4%
coverage ratio of impaired loans*	64.0%	63.0%
share of loans overdue more than 90 days in relation to the gross amount of loans and advances	4.4%	4.8%

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

**FINANCIAL STATEMENTS OF PKO BANK POLSKI SA  
FOR THE YEAR ENDED 31 DECEMBER 2016  
(IN PLN MILLION)**


Bank Polski

Impairment allowances on loans and advances to customers – reconciliation of movements in 2016	Value at the beginning of the period	Recognised 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	2 291.3	1 222.0	(888.7)	(486.3)	5.6	2 143.9	(333.3)
corporate loans	3 986.5	2 258.6	(1 467.0)	(951.3)	(160.4)	3 666.4	(791.6)
consumer loans	1 540.8	1 128.8	(793.3)	(397.0)	(47.2)	1 432.1	(335.5)
debt securities (corporate)	68.9	0.2	-	-	0.2	69.3	(0.2)
debt securities (municipal)	2.7	5.5	-	-	-	8.2	(5.5)
<b>Total</b>	<b>7 890.2</b>	<b>4 615.1</b>	<b>(3 149.0)</b>	<b>(1 834.6)</b>	<b>(201.8)</b>	<b>7 319.9</b>	<b>(1 466.1)</b>

Impairment allowances on loans and advances to customers – reconciliation of movements in 2015	Value at the beginning of the period	Recognised 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	2 247.4	1 123.8	(836.8)	(367.3)	124.2	2 291.3	(287.0)
corporate loans	3 889.2	2 641.8	(1 806.0)	(768.1)	29.6	3 986.5	(835.8)
consumer loans	1 295.9	1 032.7	(704.8)	(396.0)	313.0	1 540.8	(327.9)
debt securities (corporate)	91.8	2.7	(25.7)	-	0.1	68.9	23.0
debt securities (municipal)	2.8	-	(0.1)	-	-	2.7	0.1
<b>Total</b>	<b>7 527.1</b>	<b>4 801.0</b>	<b>(3 373.4)</b>	<b>(1 531.4)</b>	<b>466.9</b>	<b>7 890.2</b>	<b>(1 427.6)</b>

**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 Bank 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.

Portfolio reclassified in 2012 as at	31.12.2016		31.12.2015	
	fair value	carrying amount	fair value	carrying amount
Municipal bonds	622.7	628.0	741.7	747.7
Corporate bonds	8.2	8.2	591.4	537.7
<b>Total</b>	<b>630.9</b>	<b>636.2</b>	<b>1 333.1</b>	<b>1 285.4</b>

Portfolio reclassified in 2012 as at the reclassification date	nominal value	fair value	carrying amount
Municipal bonds	1 219.2	1 237.4	1 237.4
Corporate bonds	1 288.8	1 293.5	1 293.5
<b>Total</b>	<b>2 508.0</b>	<b>2 530.9</b>	<b>2 530.9</b>

Change in fair value which would have been recognised in the income statement and/or in other comprehensive income if there was no reclassification, would amount to PLN (39) million for the period from the date of reclassification until 31 December 2016 (31 December 2015 PLN (4.7) million). As at 31 December 2016, the average effective interest rate for the debt securities portfolio was 3.30% (as at 31 December 2015 was 3.26%).



## CALCULATION OF ESTIMATES – IMPAIRMENT ALLOWANCES

The impact of an increase/decrease in cash flows for the Bank's loans and advances portfolio assessed for impairment on the basis of individual analysis of future cash flows arising both from own payments and foreclosure of collaterals, i.e. the exposures for which an individual method is applied and the impact of an increase/decrease in the portfolio parameters for the Bank's loans and advances portfolio assessed on a portfolio and group basis is presented in the table below:

Estimated change in impairment allowances on loans and advances resulting from:	31.12.2016		31.12.2015	
	+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)	(196)	320	(204)	364
change in probability of default	49	(49)	60	60
change in recovery rates	(352)	353	(435)	435

## 25. INVESTMENT SECURITIES AVAILABLE FOR SALE

Accounting policies

Estimates and judgements

Financial information:

Investment securities available for sale

Investment debt securities available for sale - the Bank's exposure to credit risk

Debt securities available for sale by maturity (by carrying amount)

Impairment allowances – reconciliation of movements in 2016 and in 2015

Significant transaction

### ACCOUNTING POLICIES

Investment securities available for sale are debt and equity securities which have been designated as available for sale.

At initial recognition they are measured at fair value plus direct transaction costs and then remeasured to fair value and the effects of fair value changes (with the exception of impairment losses) are recognised in other comprehensive income until a given asset is derecognised from the statement of financial position when the accumulated gain/loss is recognised in profit or loss as the result on investment securities. Interest accrued using the effective interest rate on available-for-sale assets is recognised in net interest income.

Impairment allowances on these assets are recognised in the income statement under net impairment allowance and write-downs, which results in derecognition from other comprehensive income accumulated losses on valuation which were previously recorded there and to recognize them in the income statement.

In subsequent periods, if the fair value of debt securities increases, and the increase may be objectively related to an event subsequent to the impairment loss being recognised in the income statement, the impairment loss is reversed and the amount of the reversal is recognised in the income statement.

Impairment losses recognised on equity instruments are not reversed through profit and loss.

### ESTIMATES AND JUDGEMENTS

#### IMPAIRMENT ALLOWANCES

At each balance sheet date, the Bank makes an assessment, whether there is objective evidence that a given financial asset classified to financial assets available for sale is impaired. If such evidence exists, the Bank determines the amounts of impairment allowances.



Objective evidence that a financial asset or group of assets available for sale is impaired includes the following events:

- 1) significant financial difficulties of the issuer,
- 2) breach of a contract by the issuer, such as lack of contracted payments of interest or principal or late payments,
- 3) granting a concession by the lender to the issuer, for economic or legal reasons relating to the borrower's financial difficulty, that the lender would not otherwise consider ('forbearance practices'),
- 4) deterioration of the issuer's financial condition in the period of maintaining the exposure,
- 5) high probability of bankruptcy or other financial reorganization of the issuer,
- 6) an increase in risk of a certain industry in the period of maintaining a significant exposure, in which the issuer operates, reflected by the industry being qualified by the Bank as elevated risk industry.

The Bank firstly assesses if impairment on an individual basis for individually significant receivables exists.

If there is objective evidence of impairment on financial assets classified as debt securities available for sale not issued by the State Treasury, an impairment allowance is calculated as the difference between the asset's carrying amount and the present fair value estimated as value of future cash flows discounted using the original effective interest rate.

### CVA AND DVA ADJUSTMENTS

The fair value of non-quoted debt securities available for sale is determined using valuation models based on discounted cash flows expected to be received from the given financial instrument. In the valuation of non-quoted debt securities available for sale, assumptions are also made about the counterparty's credit risk, which may have an impact on the valuation of the instruments. The credit risk of the securities, for which there is no reliable market price available, is included in the margin, for which the valuation methodology is consistent with the calculation of credit spreads to determine CVA and DVA adjustments.

### FINANCIAL INFORMATION

Investment securities available for sale	31.12.2016	31.12.2015
Debt securities, gross	35 588.2	27 312.6
Treasury Bonds PLN	25 146.9	17 710.7
foreign currency Treasury bonds	457.1	310.6
municipal bonds PLN	4 551.8	4 613.7
corporate bonds PLN	4 790.6	4 088.7
foreign currency corporate bonds	641.8	588.9
Impairment allowances	(273.6)	(53.1)
corporate bonds PLN	(209.4)	(22.9)
foreign currency corporate bonds	(64.2)	(30.2)
<b>Total net debt securities</b>	<b>35 314.6</b>	<b>27 259.5</b>
Equity securities, gross	162.1	403.7
not admitted to public trading	127.9	346.9
admitted to public trading	34.2	56.8
Impairment allowances	(1.2)	(0.1)
<b>Total net equity securities</b>	<b>160.9</b>	<b>403.6</b>
Participation units in investment funds	297.8	196.6
<b>Total net investment securities available for sale</b>	<b>35 773.3</b>	<b>27 859.7</b>



Investment securities available for sale - the Bank's exposure to credit risk	31.12.2016	31.12.2015
impaired, assessed on an individual basis	1 293.2	393.7
not impaired, not past due	34 295.0	26 918.9
with external rating	29 206.9	21 380.2
with internal rating	5 088.1	5 538.7
<b>Gross total</b>	<b>35 588.2</b>	<b>27 312.6</b>
Impairment allowances	(273.6)	(53.1)
<b>Net total by carrying amount</b>	<b>35 314.6</b>	<b>27 259.5</b>

Debt securities available for sale by maturity (by carrying amount)	31.12.2016	31.12.2015
up to 1 month	15.9	0.4
1 - 3 months	34.7	85.8
3 months - 1 year	1 716.6	484.7
1 - 5 years	19 582.3	12 164.3
over 5 years	13 965.1	14 524.3
<b>Total</b>	<b>35 314.6</b>	<b>27 259.5</b>

Impairment allowances - reconciliation of movements in 2016	Value at the beginning of the period	Recognised 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
Debt securities	53.1	52.0	-	-	168.5	273.6	(52.0)
Equity instruments	0.1	-	-	-	1.1	1.2	-
<b>Total</b>	<b>53.2</b>	<b>52.0</b>	<b>-</b>	<b>-</b>	<b>169.6</b>	<b>274.8</b>	<b>(52.0)</b>

Impairment allowances - reconciliation of movements in 2015	Value at the beginning of the period	Recognised 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
Debt securities	-	52.6	-	-	0.5	53.1	(52.6)
Equity instruments	127.7	3.1	(0.4)	(130.3)	-	0.1	(2.7)
<b>Total</b>	<b>127.7</b>	<b>55.7</b>	<b>(0.4)</b>	<b>(130.3)</b>	<b>0.5</b>	<b>53.2</b>	<b>(55.3)</b>

## SIGNIFICANT TRANSACTION

On 29 January 2016, the Management Board of PKO Bank Polski SA accepted the conditions of the Bank's participation in acquisition of Visa Europe Limited by Visa Inc. presented to the Bank by Visa Europe Limited. On 16 June 2016, the final amounts due to the Bank were confirmed. On 21 June 2016, the Bank obtained from Visa Europe Limited information on completing the acquisition of Visa Europe Limited by Visa Inc.

The final PKO Bank Polski SA participation in above-mentioned transaction includes:

- the amount of EUR 70.5 million in cash, paid on the Bank's account on 21 June 2016 (equivalent to PLN 309.9 million according to NBP average exchange rate of 21 June 2016),
- the number of 25 612 preference C-series shares of Visa Inc., the value of which as at the transaction date was estimated at the amount of USD 20.9 million (equivalent to PLN 81 million according to NBP average exchange rate of 21 June 2016),



- the receivable due to deferred payment in cash equivalent to 0.5435987989% from the amount of EUR 1.12 billion, i.e. the amount attributable to all transaction participants, paid on the 3rd anniversary of the transactions, unless potential adjustments, in case of occurrence of situation described in the transaction terms; the value of above-mentioned receivable as at 21 June 2016 amounted to EUR 6.1 million (equivalent to PLN 26.7 million according to NBP average exchange rate of 21 June 2016).

The Bank recognised in the income statement due to settlement of the transaction the total amount of PLN 417.6 million (the profit before taxation). Within this amount, the amount settled in the other comprehensive income due to valuation of Visa Europe Limited shares amounted to PLN 336.7 million.

Received preference C-series shares will be converted to ordinary Visa Inc. shares, and terms of transaction provide progressive shares conversion. The conversion of all preference shares shall occur not later than in 2028. Current conversion ratio equals to 13.952 and may be reduced in the period until 2028, which is depended on potential liabilities due to legal claims in that period relating to acquired company, i.e. Visa Europe Limited.

Preference shares of Visa Inc. have been classified to the portfolio of securities available for sale and they are measured at its fair value based on the market price of quoted ordinary shares, taking into consideration discount due to the limited liquidity of the preference shares and the conditions of shares conversions (adjustments resulting from court proceedings).

The fair value of the mentioned above shares as at 31 December 2016 was estimated at USD 22.1 million (equivalent to PLN 92.4 million according to NBP average exchange rate of 30 December 2016 applicable as of the end of 2016).

## 26. INVESTMENTS SECURITIES HELD TO MATURITY

### ACCOUNTING POLICIES

Financial assets held to maturity are financial assets which are not derivatives, with determined or determinable payments and maturities, which were acquired with the intention of holding and the Bank is able to hold them to maturity, other than those designated by the Bank upon initial recognition as measured at fair value through profit or loss, designated by the Bank as available for sale, meeting the definition of loans and advances.

These assets are measured at amortized cost using the effective interest rate, net of impairment losses.

### FINANCIAL INFORMATION

Investments securities held to maturity by the carrying amount, gross	31.12.2016	31.12.2015
Debt securities gross, of which:	157.0	-
Treasury Bonds PLN	157.0	-
<b>Total</b>	<b>157.0</b>	<b>-</b>

Debt securities held to maturity as at 31 December 2016 are Treasury bonds which are not overdue and not impaired, with maturities within a range from 1 to 5 years.

## 27. NON-CURRENT ASSETS HELD FOR SALE

### ACCOUNTING POLICIES

As non-current assets held for sale the Bank classifies only assets available for immediate sale in the current condition, when such sale is highly probable, i.e. the entity has determined to sell the asset, started to seek actively for a buyer and finish the sale process. In addition, such assets are offered for sale at a price which is reasonable with respect to their current fair value and it is expected that the sale will be recognised as completed within one year from the date of classification of the asset into this category.



These assets are recognised at the lower of their carrying amount and fair value less costs to sell. Impairment allowances on non-current assets held for sale are recognised in the income statement for the period in which the allowances were made. Amortization is not charged on assets classified to this category.

When the respective classification criteria to this category are no longer met, the Bank reclassifies them from non-current assets held for sale to appropriate other asset categories. Non-current assets withdrawn from assets held for sale are measured at the lower of: 1) the carrying amount from before the moment of their classification to non-current assets held for sale, less amortization/depreciation that would have been recorded had the asset (or disposal group) not been classified as held for sale, 2) the recoverable amount as at the date of the decision to discontinue the sale.

## FINANCIAL INFORMATION

Non-current assets held for sale	31.12.2016	31.12.2015
Investments in subsidiaries	350.8	203.2
Finansowa Kampania 'Prywatne Inwestycje' Sp. z o. o.	28.7	34.0
'Inter-Risk Ukraina' Spółka z dodatkową odpowiedzialnością	4.3	4.2
Qualia Development Sp. z o. o.	317.8	165.0
Land and buildings	9.7	217.4
Other	0.1	2.1
<b>Total</b>	<b>360.6</b>	<b>422.7</b>

Due to change in strategy concerning the method of recovering the funds invested in investment projects executed by the Qualia Development Sp. z o.o. Group companies and the results of activities conducted in 2016 related to selling this Group's assets, based on the valuation performed by an external expert surveyor, the Bank increased the value of shares in Qualia Development Sp. z o.o. in the Bank's statement of financial position as at 31 December 2016 to their carrying amount from the date of recognizing the said company in non-current assets held for sale, i.e. from PLN 165 million to PLN 317.8 million.

## 28. INTANGIBLE ASSETS AND TANGIBLE FIXED ASSETS

Accounting policies  
Estimates and judgements  
Financial information:  
    Intangible assets  
    Goodwill  
    Tangible fixed assets  
    Calculation of estimates

### ACCOUNTING POLICIES

#### INTANGIBLE ASSETS

**SOFTWARE** - Acquired computer software licenses are recognised in the amount of costs incurred on the purchase and preparation of the software for use, taking into consideration accumulated amortization and impairment allowances. Further expenditure related to the maintenance of the computer software is recognised as expense when incurred.

**GOODWILL** - The Bank recognizes (since the legal merger with a subsidiary) goodwill related to the acquisition of this entity as intangible assets. Goodwill was recognised in the amount of excess of consideration paid over the value of the identifiable assets acquired and liabilities assumed, measured at fair value as at the acquisition date. Subsequent to the initial recognition goodwill is measured at the amount initially recognised less any cumulative impairment allowances.

**CUSTOMER RELATIONSHIPS** - As a result of the settlement of transactions in accordance with IFRS 3, customer relationships depreciable by declining balance method based on the rate of economic benefits consumption arising from their use were identified.



**OTHER INTANGIBLE ASSETS** - Other intangible assets acquired by the Bank are recognised at acquisition cost or production cost, less accumulated amortization and impairment allowances.

**DEVELOPMENT COSTS** - Research and development costs are included in intangible assets in connection with future economic benefits and meeting specific terms and conditions, i.e. if there is a possibility and intention to complete and use the internally generated intangible asset, there are appropriate technical and financial resources to finish the development and to use the asset and it is possible to measure reliably the expenditure attributable to the intangible asset during its development which can be directly associated to the creation of the intangible asset.

#### **TANGIBLE FIXED ASSETS**

**TANGIBLE FIXED ASSETS** - are valued according to the purchase price or cost of production, less accumulated depreciation and impairment allowances.

**INVESTMENT PROPERTY** - are valued according to accounting principles applied to tangible fixed assets.

**CAPITAL EXPENDITURE ACCRUED** - Carrying amount of tangible fixed assets and intangible assets is increased by additional expenditures incurred during their maintenance.

#### **DEPRECIATION/AMORTIZATION**

Depreciation begins on the first day of the month following the month in which the asset has been brought into use, and ends no later than at the time when:

- 1) the amount of depreciation or amortization charges becomes equal to the initial cost of the asset, or
- 2) the asset is designated for liquidation, or
- 3) the asset is sold, or
- 4) the asset is found to be missing, or
- 5) it is found - as a result of verification - that the expected residual value of the asset exceeds its (net) carrying amount, taking into account the expected residual value of the asset upon scrapping, i.e. the net amount that the Bank expects to obtain at the end of the useful life of the asset, net of its expected costs to sell should the expected present value on scrapping be not lower than 15% of the purchase price or cost of manufacture of the asset, and on condition that the residual value is not higher than PLN 10 000.

For non-financial fixed assets it is assumed that the residual value is nil, unless there is an obligation of a third party to buy back the asset, or if there is an active market which will continue to exist at the end of the asset's period of use and when it is possible to determine the value of the asset on this market.

Costs relating to acquisition or construction of buildings are allocated to significant parts of the building (components), when such components have different useful lives or when each of the components generates benefits for the Bank in a different manner. Each component of the building is depreciated separately. Intangible assets with indefinite useful lives, which are subject to an annual impairment test are not amortized.

#### **IMPAIRMENT ALLOWANCES ON NON-FINANCIAL NON-CURRENT ASSETS**

Impairment allowance is recognised in the income statement under net impairment allowance if the carrying amount of an asset or a cash generating unit (CGU) exceeds the recoverable amount.

Impairment allowances in the case of CGU firstly reduce goodwill attributable to them, and then proportionately reduce the carrying amount of other assets in the CGU.

In respect of other assets, the impairment allowance may be reversed if there was a change in the estimates used to determine the recoverable amount.

If there are impairment triggers for a group of assets, which do not generate cash flows irrespective of other assets or asset groups, and the recoverable amount of a single asset included in common assets cannot be determined, the Bank determines the recoverable amount at the level of the cash-generating unit to which the asset belongs.



## ESTIMATES AND JUDGEMENTS

### USEFUL ECONOMIC LIVES OF TANGIBLE FIXED ASSETS, INTANGIBLE ASSETS AND INVESTMENT PROPERTIES

In estimating useful economic lives the following factors are considered:

- 1) expected physical wear and tear, estimated based on the average period of use recorded to date, reflecting the normal physical wear and tear rate, intensity of use etc.,
- 2) technical or market obsolescence,
- 3) legal and other limitations on the use of the asset,
- 4) expected use of the asset assessed based on the expected production capacity or volume,
- 5) other factors affecting useful lives of such assets.

When the period of use of a given asset results from a contract term, the useful economic life of such an asset corresponds to the period defined in the contract. If the estimated useful life is shorter than the period defined in the contract, the estimated useful economic life is applied.

The adopted depreciation/amortization method and useful life for tangible fixed assets, investment properties and intangible assets are reviewed on an annual basis.

Depreciation/amortization periods for basic groups applied by PKO Bank Polski SA:

Tangible fixed assets	Periods
Buildings, premises, cooperative rights to premises (including investment properties)	from 40 to 60 years
Leaseholds improvements (buildings, premises)	10 years (or the period of the lease, if shorter)
Machinery and equipment	from 3 to 15 years
Computer hardware	from 4 to 10 years
Means of transport	5 years
Intangible assets	Periods
Software	from 2 to 17 years
Other intangible assets	5 years

### IMPAIRMENT ALLOWANCES

At each balance sheet date, the Bank makes an assessment of whether there is objective evidence of impairment of any non-financial non-current assets (or cash-generating units). If any such evidence exists and annually in case of intangible assets which are not amortized the Bank estimates the recoverable amount being the higher of the fair value less costs to sell or the value in use of a non-current asset (or a cash-generating unit), if the carrying amount of an asset exceeds its recoverable amount, the Bank recognizes an impairment loss in the income statement. The estimation for the above-mentioned values requires making assumptions, i.a. about future expected cash flows that the Bank may receive from the continued use or disposal of the non-current asset (or a cash-generating unit). The adoption of different assumptions with reference to the valuation of future cash flows could affect the carrying amount of certain non-current assets.


**FINANCIAL INFORMATION**
**INTANGIBLE ASSETS**

For the year ended 31 December 2016	Software	Goodwill	Customers relationships	Other, including capital expenditure	Total
Gross carrying amount at the beginning of the period	4 036.1	871.0	86.5	240.7	5 234.3
Purchase	-	-	-	456.9	456.9
Transfers from capital expenditure	324.4	-	-	(324.4)	-
Liquidation and sale	(8.1)	-	-	(1.3)	(9.4)
Other	15.0	-	-	(4.6)	10.4
<b>Gross carrying amount at the end of the period</b>	<b>4 367.4</b>	<b>871.0</b>	<b>86.5</b>	<b>367.3</b>	<b>5 692.2</b>
Accumulated amortisation at the beginning of the period	(2 348.2)	-	(38.4)	(34.5)	(2 421.1)
Amortisation for the period	(426.0)	-	(13.9)	(4.4)	(444.3)
Other	5.5	-	-	-	5.5
<b>Accumulated amortisation at the end of the period</b>	<b>(2 768.7)</b>	<b>-</b>	<b>(52.3)</b>	<b>(38.9)</b>	<b>(2 859.9)</b>
Impairment allowances at the beginning of the period	(15.4)	-	-	-	(15.4)
<b>Impairment allowances at the end of the period</b>	<b>(15.4)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(15.4)</b>
Net carrying amount at the beginning of the period	1 672.5	871.0	48.1	206.2	2 797.8
<b>Net carrying amount at the end of the period</b>	<b>1 583.3</b>	<b>871.0</b>	<b>34.2</b>	<b>328.4</b>	<b>2 816.9</b>

For the year ended 31 December 2015	Software	Goodwill	Customers relationships	Other, including capital expenditure	Total
Gross carrying amount at the beginning of the period	3 664.3	871.0	86.5	274.0	4 895.8
Purchase	17.7	-	-	345.5	363.2
Transfers from capital expenditure on software	368.7	-	-	(368.7)	-
Liquidation and sale	(14.6)	-	-	(2.7)	(17.3)
Other	-	-	-	(7.4)	(7.4)
<b>Gross carrying amount at the end of the period</b>	<b>4 036.1</b>	<b>871.0</b>	<b>86.5</b>	<b>240.7</b>	<b>5 234.3</b>
Accumulated amortisation at the beginning of the period	(1 931.9)	-	(19.3)	(30.6)	(1 981.8)
Amortisation for the period	(417.7)	-	(19.1)	(4.1)	(440.9)
Other	1.4	-	-	0.2	1.6
<b>Accumulated amortisation at the end of the period</b>	<b>(2 348.2)</b>	<b>-</b>	<b>(38.4)</b>	<b>(34.5)</b>	<b>(2 421.1)</b>
Impairment allowances at the beginning of the period	(15.4)	-	-	-	(15.4)
<b>Impairment allowances at the end of the period</b>	<b>(15.4)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(15.4)</b>
Net carrying amount at the beginning of the period	1 717.0	871.0	67.2	243.4	2 898.6
<b>Net carrying amount at the end of the period</b>	<b>1 672.5</b>	<b>871.0</b>	<b>48.1</b>	<b>206.2</b>	<b>2 797.8</b>

To the Bank, a significant item of intangible assets relates to expenditures on the Integrated Information System (IIS). The total capital expenditures incurred for the IIS system during the years 2006–2016 amounted to PLN 1 079 million. Net carrying amount of the Integrated Information System (IIS) amounted to PLN 679.1 million as at 31 December 2016 (PLN 717.4 million as at 31 December 2015). The expected useful life of the IIS system is 17 years. As at 31 December 2016, the remaining useful life is 7 years.



## GOODWILL

Net goodwill	31.12.2016	31.12.2015
Nordea Bank Polska SA	863.2	863.2
Centrum Finansowe Puławska Sp. z o.o.	7.8	7.8
<b>Total</b>	<b>871.0</b>	<b>871.0</b>

As at 31 December 2016, the Bank performed mandatory impairment tests in respect of goodwill on the acquisition of Nordea Bank Polska SA, in accordance with the model developed based on the guidance of IAS 36. The impairment test is conducted by comparing the carrying amounts of Cash Generating Units ('CGUs') with their recoverable amount. Two CGUs were identified to which goodwill on acquisition of Nordea Bank Polska SA was allocated – the retail and corporate CGU. The recoverable amount is estimated based on the value in use of the CGUs. The value in use is the present estimated value of future cash flows in 10 years, taking into consideration the residual value of the CGUs. The residual value of a CGU has been calculated by extrapolating the cash flow projections beyond the period of the forecast, using the growth rate adopted at a level of 1.5%. Cash flow projections are based on the assumptions included in the financial plan of the Bank for 2017. For the discounting of the future cash flows the discount rate of 8.4% was used, taking into account the risk-free rate and risk premium. The impairment test performed as at 31 December 2016 showed a surplus of the recoverable amount over the carrying amount of each CGU and therefore no CGU impairment was recognised.

In 2015, as a result of acquisition of the credit union 'Wesoła' (SKOK 'Wesoła') the Bank recognised goodwill and an impairment loss of PLN 451 thousand.

## TANGIBLE FIXED ASSETS

For the year ended 31 December 2016	Land and buildings	Machinery and equipment	Assets under construction	Other	Total
<b>Gross value of tangible fixed assets at the beginning of the period</b>	2 458.7	1 760.6	265.1	596.7	5 081.1
Purchase	-	-	209.1	-	209.1
Transfers from capital expenditure	122.4	193.0	(367.8)	52.4	-
Liquidation and sale	(93.3)	(467.9)	-	(43.3)	(604.5)
Other, including reclassification from assets held for sale	151.2	0.4	(1.9)	4.6	154.3
<b>Gross carrying amount at the end of the period</b>	<b>2 639.0</b>	<b>1 486.1</b>	<b>104.5</b>	<b>610.4</b>	<b>4 840.0</b>
<b>Accumulated depreciation at the beginning of the period</b>	<b>(991.4)</b>	<b>(1 374.2)</b>	-	<b>(418.9)</b>	<b>(2 784.5)</b>
Depreciation for the period	(94.0)	(146.0)	-	(37.4)	(277.4)
Other	70.4	462.0	-	43.0	575.4
<b>Accumulated depreciation at the end of the period</b>	<b>(1 015.0)</b>	<b>(1 058.2)</b>	-	<b>(413.3)</b>	<b>(2 486.5)</b>
<b>Impairment allowances at the beginning of the period</b>	<b>(13.9)</b>	-	-	<b>(6.4)</b>	<b>(20.3)</b>
Recognised during the period	(9.3)	-	-	-	(9.3)
Reversed during the period	-	-	-	1.4	1.4
Other	0.8	-	-	(0.8)	-
<b>Impairment allowances at the end of the period</b>	<b>(22.4)</b>	-	-	<b>(5.8)</b>	<b>(28.2)</b>
<b>Net carrying amount at the beginning of the period</b>	<b>1 453.4</b>	<b>386.4</b>	<b>265.1</b>	<b>171.4</b>	<b>2 276.3</b>
<b>Net carrying amount at the end of the period</b>	<b>1 601.6</b>	<b>427.9</b>	<b>104.5</b>	<b>191.3</b>	<b>2 325.3</b>



For the year ended 31 December 2015	Land and buildings	Machinery and equipment	Assets under construction	Other	Total
<b>Gross value of tangible fixed assets at the beginning of the period</b>	2 429.3	1 882.7	182.8	548.8	5 043.6
Purchase	28.6	5.7	334.2	23.3	391.8
Transfers from capital expenditure	77.8	116.1	(246.3)	52.4	-
Liquidation and sale	(87.6)	(235.2)	(0.5)	(26.9)	(350.2)
Other	10.6	(8.7)	(5.1)	(0.9)	(4.1)
<b>Gross carrying amount at the end of the period</b>	<b>2 458.7</b>	<b>1 760.6</b>	<b>265.1</b>	<b>596.7</b>	<b>5 081.1</b>
<b>Accumulated depreciation at the beginning of the period</b>	<b>(961.7)</b>	<b>(1 443.0)</b>	-	<b>(387.6)</b>	<b>(2 792.3)</b>
Depreciation for the period	(95.7)	(166.7)	-	(52.4)	(314.8)
Other	66.0	235.5	-	21.1	322.6
<b>Accumulated depreciation at the end of the period</b>	<b>(991.4)</b>	<b>(1 374.2)</b>	-	<b>(418.9)</b>	<b>(2 784.5)</b>
<b>Impairment allowances at the beginning of the period</b>	-	-	-	-	-
Recognised during the period	(2.1)	-	-	-	(2.1)
Reversed during the period	7.0	-	-	-	7.0
Other	(18.8)	-	-	(6.4)	(25.2)
<b>Impairment allowances at the end of the period</b>	<b>(13.9)</b>	-	-	<b>(6.4)</b>	<b>(20.3)</b>
<b>Net carrying amount at the beginning of the period</b>	<b>1 467.6</b>	<b>439.7</b>	<b>182.8</b>	<b>161.2</b>	<b>2 251.3</b>
<b>Net carrying amount at the end of the period</b>	<b>1 453.4</b>	<b>386.4</b>	<b>265.1</b>	<b>171.4</b>	<b>2 276.3</b>

	31.12.2016	31.12.2015
Compensation received from third parties for impairment or loss of tangible fixed assets	-	0.1
Off-balance sheet value of plant and machinery used based on operating lease agreements and lease agreements with a purchase option	77.1	74.9
Capital expenditure related to purchases of tangible fixed assets and intangible assets	665.6	674.8

## CALCULATION OF ESTIMATES

The impact of change in economic useful life of assets being subject to depreciation and classified as land and buildings, resulting in change in the financial result is presented in the table below (in PLN million):

Change in useful economic lives of assets being subject to depreciation and classified as land and buildings	31.12.2016		31.12.2015	
	+10 years scenario	-10 years scenario	+10 years scenario	-10 years scenario
Depreciation costs	(42)	308	(37)	232

## 29. OTHER ASSETS

### ACCOUNTING POLICIES

Assets recognised in this item are measured at the amount due which also includes potential interest on those assets, less impairment allowances. Non-financial assets are measured in accordance with the measurement policies binding for particular asset categories recognised in this item.



## FINANCIAL INFORMATION

Other assets	31.12.2016	31.12.2015
Settlements of payment cards transactions	1 235.4	384.2
Settlements of financial instruments	382.2	178.7
Receivables in respect of cash settlements	125.1	120.3
Receivables and settlements of securities turnover	79.5	140.4
Assets for sale	78.2	69.5
Prepayments	53.6	59.2
Trade receivables	77.3	65.0
Other	111.8	63.6
<b>Total</b>	<b>2 143.1</b>	<b>1 080.9</b>
of which financial assets	1 791.3	787.3

Other financial assets - the Bank's exposure to credit risk	31.12.2016	31.12.2015
impaired	105.3	106.7
not impaired, of which:	1 791.0	786.1
not past due	1 779.5	779.7
past due	11.5	6.4
<b>Gross total</b>	<b>1 896.3</b>	<b>892.8</b>
Impairment allowances	(105.0)	(105.5)
<b>Total</b>	<b>1 791.3</b>	<b>787.3</b>

### MANAGEMENT OF FORECLOSED COLLATERAL- ITEM 'ASSETS FOR SALE'

Foreclosed collaterals as a result of restructuring or debt collection activities are either designated for sale or used by PKO Bank Polski SA for internal purposes. Details of the foreclosed assets are analysed in order to determine whether they can be used by the Bank for internal purposes. All of the assets foreclosed as a result of restructuring and debt collection activities in the years ended 31 December 2016 and 31 December 2015, respectively, were designated for sale. Activities undertaken by the Bank are aimed at selling assets as soon as possible. Primary procedure for sale of assets is open tender. In justified cases, the sale follows different procedure dependent on the specifics of the sold property.

## 30. AMOUNTS DUE TO BANKS

### ACCOUNTING POLICIES

Amounts due to banks are financial liabilities measured at amortized cost using effective interest rate method. In case of financial liabilities for which it is not possible to estimate the schedule of future cash flows and the effective interest rate, they are measured at amount due.

This item also includes securities sell-buy-back transactions with a repurchase or resale clause specifying a contractual date and price. Securities subject to sell-buy-back transactions are not derecognised from the statement of financial position and are measured at the terms and conditions specified for particular securities portfolios. The difference between the sale price and the repurchase price is recognised as interest expense, as appropriate, and it is settled over the term of the contract using the effective interest rate.



## FINANCIAL INFORMATION

	31.12.2016	31.12.2015
Loans and advances received*	17 108.9	16 371.7
Bank deposits	793.1	1 177.4
Amounts due from repurchase agreements	205.9	197.0
Current accounts	566.6	472.2
Other money market deposits	42.4	31.6
<b>Total</b>	<b>18 716.9</b>	<b>18 249.9</b>

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

## 31. AMOUNTS DUE TO CUSTOMERS

## ACCOUNTING POLICIES

Amounts due to customers are measured at amortized cost using the effective interest rate method. If the time schedule of cash flows from a financial liability cannot be determined, and thus the effective interest rate cannot be determined fairly, this liability is measured at amount due.

## FINANCIAL INFORMATION

AMOUNTS DUE TO CUSTOMERS	31.12.2016	31.12.2015
Amounts due to retail clients	147 391.6	134 967.4
Current accounts and overnight deposits	72 195.6	63 926.6
Term deposits	74 876.1	70 756.7
Other liabilities	319.9	284.1
Amounts due to corporate entities	53 570.9	57 707.4
Current accounts and overnight deposits	30 661.5	22 276.9
Term deposits	12 167.8	23 185.2
Loans and advances received	9 680.2	10 435.6
Other liabilities	1 061.4	980.6
Amounts due from repurchase agreements	-	829.1
Amounts due to state budget entities	8 408.9	9 134.4
Current accounts and overnight deposits	8 163.2	5 679.4
Term deposits	187.0	3 435.5
Other liabilities	58.7	19.5
<b>Total</b>	<b>209 371.4</b>	<b>201 809.2</b>

AMOUNTS DUE TO CUSTOMERS BY CLIENT SEGMENT	31.12.2016	31.12.2015
retail and private banking	139 423.4	127 833.1
corporate	38 025.3	42 908.4
loans and advances received	9 680.2	10 435.6
small and medium enterprises	22 242.5	19 803.0
amounts due from repurchase agreements	-	829.1
<b>Total</b>	<b>209 371.4</b>	<b>201 809.2</b>



## LOANS RECEIVED FROM PKO FINANCE AB

Date of receiving loan by the Bank	Nominal amount	Currency	Maturity date	Carrying amount as at 31.12.2016	Carrying amount as at 31.12.2015
07.07.2011	250	CHF	07.07.2016	-	1 003.1
25.07.2012	50	EUR	25.07.2022	222.0	214.6
26.09.2012	1 000	USD	26.09.2022	4 223.5	3 938.5
23.01.2014	500	EUR	23.01.2019	2 259.1	2 176.1
<b>Total</b>				<b>6 704.6</b>	<b>7 332.3</b>

## 32. DEBT SECURITIES IN ISSUE

## ACCOUNTING POLICIES

Debt securities in issue are measured at amortized cost using the effective interest rate, or in respect of banking securities at fair value through profit or loss.

If no future cash flow schedule can be determined for a financial liability measured at amortized cost, and thus the effective interest rate cannot be determined, this liability is measured at amount due.

## FINANCIAL INFORMATION

Debt securities in issue	31.12.2016	31.12.2015
banking securities	-	71.7
banking bonds	1 693.0	1 645.9
<b>Total</b>	<b>1 693.0</b>	<b>1 717.6</b>

Debt securities in issue by maturity	31.12.2016	31.12.2015
from 1 month to 3 months	-	71.7
from 3 months to 1 year	1 693.0	1 645.9
<b>Total</b>	<b>1 693.0</b>	<b>1 717.6</b>

ADDITIONAL INFORMATION	2016	2015
issuance of debt securities in the period (nominal value)		
in PLN	1 814.6	2 800.0
in original currency (EUR)	200.0	200.0
redemption of debt securities in the period (nominal value)		
in PLN	1 859.6	2 800.6
in original currency (EUR)	200.0	-



### 33. SUBORDINATED LIABILITIES

#### ACCOUNTING POLICIES

Subordinated liabilities are measured at amortized cost using the effective interest rate method.

#### FINANCIAL INFORMATION

	Nominal value in currency	Currency	Period	Special terms	Balance in PLN	
					31.12.2016	31.12.2015
Subordinated bonds	1 600.7	PLN	14.09.2012-14.09.2022	right of early redemption within 5 years from the issue date	1 616.6	1 616.7
Subordinated loan from Nordea Bank AB (publ)	224.0	CHF	24.04.2012 - 24.04.2022		922.4	882.5
<b>Total</b>					<b>2 539.0</b>	<b>2 499.2</b>

Both the subordinated bonds and the subordinated loan were designated on approval of the Polish Financial Supervision Authority for increasing the Bank's supplementary funds.

### 34. OTHER LIABILITIES

#### ACCOUNTING POLICIES

Liabilities included in this item are measured at amounts due which cover potential interest on the liabilities, and the accrual for future payments in reliably estimated, justified amounts necessary to meet the present obligation as at the end of the reporting period. Non-financial liabilities are measured in accordance with the measurement policies binding for particular liability categories recognised in this item.

#### FINANCIAL INFORMATION

	31.12.2016	31.12.2015
Accounts payable	463.1	587.3
Deferred income	406.3	384.4
Liability due to tax on certain financial institutions	76.2	-
Other liabilities:	2 394.2	2 037.3
interbank settlements	813.1	245.4
liabilities relating to investment activities and internal operations	255.5	141.8
liabilities and settlements due to securities turnover	208.9	484.2
financial instruments settlements	355.4	135.5
liabilities due to suppliers	61.3	130.2
social and legal settlements	82.7	93.4
liabilities arising from foreign currency activities	217.3	198.6
settlement of acquisition of machines, equipments, materials, works and services regarding construction of tangible fixed assets and their usage	94.4	141.9
liabilities related to payment cards	111.2	11.3
liabilities of the Brokerage House due to share subscription	-	306.5
Other	194.4	148.5
<b>Total</b>	<b>3 339.8</b>	<b>3 009.0</b>
of which financial liabilities	2 693.0	2 098.1

As at 31 December 2016 and as at 31 December 2015, PKO Bank Polski SA had no overdue contractual liabilities.



## 35. PROVISIONS

Accounting policies  
Estimates and judgements  
Financial information  
Calculation of estimates

### ACCOUNTING POLICIES

#### PROVISION FOR LEGAL CLAIMS

It is a provision for disputes with employees, business partners, clients and external institutions (e.g. UOKiK), which is created on obtaining information from the competent person in the Legal Department or another person representing the Bank before courts and other adjudicating bodies as part of providing legal assistance with a high probability of a court case being lost (litigation pending has been discussed in detail in note 'Legal claims').

Provisions for legal claims are created in the amount of expected outflow of economic benefits.

#### PROVISION FOR RETIREMENT BENEFITS

The provision for retirement and pension benefits resulting from the Labour Code is created individually for each employee on the basis of an actuarial valuation. The basis for calculation of these provisions are internal regulations, and especially the Collective Labour Agreement being in force at the Bank.

#### PROVISION FOR LOANS COMMITMENTS AND GUARANTEES GRANTED

A provision for off-balance sheet loan exposures is recognised in the amount equal to the resulting from them expected (possible to estimate) loss of economic benefits. When determining a provision for off-balance sheet loan exposures the Bank:

- assesses on an individual basis in respect to the individually significant credit exposures on unconditional liabilities with the evidence of individual impairment or those relating to debtors whose other exposures fulfil such evidence, and the individually significant exposures which do not fulfil the evidence of individual impairment, for which determining provisions using the portfolio parameters would not be reasonable,
- assesses on a portfolio basis (if an exposure fulfil evidence of individual impairment) or a group basis (if an exposure does not fulfil evidence of impairment) - in respect to the remaining off-balance sheet loan exposures.

The provision is determined as the difference between the expected amount of exposure in the statement of financial position, which will arise as a result of an off-balance sheet liabilities granted (from the date at which the assessment is performed till the date of overdue amounts treated as individual impairment trigger) and the present value of the expected future cash flows obtained from the exposure in the statement of financial position arising out of the liability.

When assessing a provision on an individual basis, the expected future cash flows are estimated for each loan exposure separately.

When assessing a provision on a portfolio basis or a group basis, the portfolio parameters are used, estimated using statistical methods, based on historical observation of exposures with the same characteristics.

#### OTHER PROVISIONS

Other provisions mainly include restructuring provision and provisions for potential claims on sale of impaired loans portfolios, details on which has been presented in the note 'Sale of impaired loan portfolios'.

Provisions for future payments are measured at reliably estimated, justified amounts necessary to meet the present obligation as at the end of the reporting period. All provisions are recognised in to the profit and loss account, excluding actuarial gain and losses recognised in other comprehensive income.



If the effect of the time value of money is material, the amount of the provision is determined by discounting the estimated future cash flows to their present value, using the discount rate before tax which reflects the current market assessments of the time value of money and the potential risk related to a given obligation.

### ESTIMATES AND JUDGEMENTS

Valuation of the employee benefit provisions is performed using actuarial techniques and assumptions. The calculation of the provision includes all retirement and pension benefits expected to be paid in the future. The provision was created on the basis of a list of persons including all the necessary details of employees, in particular the length of their service, age and gender. The provisions calculated equate to discounted future payments, taking into account staff turnover, and relate to the period ending on the balance sheet date.

### FINANCIAL INFORMATION

For the year ended 31 December 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:	19.5	45.5	82.7	98.1	245.8
Short-term provision	19.5	3.6	64.0	98.1	185.2
Long-term provision	-	41.9	18.7	-	60.6
Increase/reassessment of provision	13.3	3.6	237.9	23.1	277.9
Use of provision	(6.4)	(1.5)	-	(17.7)	(25.6)
Release of provision	(6.2)	-	(255.2)	(12.5)	(273.9)
Other changes and reclassifications	-	(2.4)	1.1	-	(1.3)
<b>As at 31 December 2016, of which:</b>	<b>20.2</b>	<b>45.2</b>	<b>66.5</b>	<b>91.0</b>	<b>222.9</b>
Short-term provision	20.2	7.0	50.4	91.0	168.6
Long-term provision	-	38.2	16.1	-	54.3

\* The item 'Other provisions' comprises i.a. restructuring provision of PLN 59.3 million and a provision for potential claims related to sale of receivables in the amount of PLN 2.9 million, provisions for disputes, including litigation related to remuneration of PLN 0.3 million.

For the year ended 31 December 2015	Provision for legal claims	Provision for retirement benefits	Provision for loan commitments and guarantees granted	Other provisions*	Total
As at 1 January 2015, of which:	29.5	39.3	103.6	130.7	303.1
Short-term provision	29.5	3.1	73.5	130.7	236.8
Long-term provision	-	36.2	30.1	-	66.3
Arising from business combinations	2.3	0.1	-	-	2.4
Increase/reassessment of provision	11.6	3.4	286.2	2.2	303.4
Use of provision	(21.4)	-	-	(27.4)	(48.8)
Release of provision	(16.2)	(1.7)	(304.1)	(7.4)	(329.4)
Other changes and reclassifications	13.7	4.4	(3.0)	-	15.1
<b>As at 31 December 2015, of which:</b>	<b>19.5</b>	<b>45.5</b>	<b>82.7</b>	<b>98.1</b>	<b>245.8</b>
Short-term provision	19.5	3.6	64.0	98.1	185.2
Long-term provision	-	41.9	18.7	-	60.6

\* The item 'Other provisions' comprises i.a. restructuring provision of PLN 67.4 million and a provision for potential claims related to the sale of receivables in the amount of PLN 2.1 million, provisions for disputes, including litigation related to remuneration of PLN 0.4 million.

### CALCULATION OF ESTIMATES

The Bank performed a reassessment of its estimates as at 31 December 2016, on the basis of calculation conducted by an independent external actuary. The provisions calculated equate to discounted future payments, taking into account staff turnover, and relate to the period ending on the balance sheet date. An important factor affecting the amount of the provision is the adopted financial discount rate which was adopted by the Bank at the level of 3.50%. In 2015 the adopted financial discount rate amounted to 2.75%.



The impact of an increase/decrease in the financial discount rate and basic actuarial assumptions by 1 pp. on decrease/increase in the amount of the provision for retirement and pension benefits as at 31 December 2016 and as at 31 December 2015 is presented in the table below:

Estimated change in provision as at 31.12.2016	Financial discount rate		Planned increase in base salaries	
	+1 pp. scenario	-1 pp. scenario	+1 pp. scenario	-1 pp. scenario
Provision for retirement and pension benefits	(4)	4	5	(3)

Estimated change in provision as at 31.12.2015	Financial discount rate		Planned increase in base salaries	
	+1 pp. scenario	-1 pp. scenario	+1 pp. scenario	-1 pp. scenario
Provision for retirement and pension benefits	(5)	6	6	(5)

### 36. EQUITY AND SHAREHOLDING STRUCTURE OF THE BANK

Accounting policies  
Financial information:  
Equity  
Shareholding structure of the Bank  
The structure of PKO Bank Polski SA's share capital

#### ACCOUNTING POLICIES

Equity components, with the exception of own shares, are measured at their nominal amounts. Own shares are measured at cost.

Equity constitutes capital and reserves created in accordance with the legal regulations. The classification to particular components, discussed below, results from the Polish Commercial Companies Code, the Banking Law and the requirements of IAS 1.7, IAS 1.78.e, IAS 1.54.q-r and IAS 1.79.b.

Equity components:

- Share capital is stated at nominal value in accordance with the Memorandum of Association and the Register of Entrepreneurs.
- Reserve capital is created according to the Memorandum of Association of the Bank, from the appropriation of profits and from share premium less issue costs and it is to cover the potential losses which might result from the Bank's activities.
- General banking risk fund in PKO Bank Polski SA is created from profit after tax in accordance with the Banking Law, and it is to cover unidentified risks of the Bank's operations.
- Other reserves are created from the appropriation of net profit. Other reserves are to cover the potential losses in the statement of financial position.
- Other comprehensive income comprises the effects of valuation of financial assets available for sale, the effective part of cash flow hedges resulting from hedge accounting as well as actuarial gains and losses. Deferred tax on those items is recognised in other comprehensive income. Moreover, the item includes currency translation differences on translation to Polish currency of the net result of the foreign operations (branch in Germany) at the rate constituting the arithmetical average of foreign exchange rates for the currency as at the day ending each of the months in the financial year published by the National Bank of Poland.



## FINANCIAL INFORMATION

Equity	31.12.2016	31.12.2015
Share capital	1 250.0	1 250.0
Reserve capital	24 268.1	20 518.1
General banking risk fund	1 070.0	1 070.0
Other reserves	3 555.3	3 484.2
Other comprehensive income, of which:	(441.9)	74.5
Financial assets available for sale	(342.7)	144.7
Cash flow hedges	(88.7)	(57.7)
Actuarial gains and losses	(10.5)	(12.5)
Currency translation differences from foreign operations	(0.1)	-
Undistributed profits	-	1 250.0
Net profit for the period	2 888.3	2 571.1
<b>Total</b>	<b>32 589.7</b>	<b>30 217.9</b>

The decrease in other comprehensive income in respect of revaluation of financial assets available for sale in 2016 of PLN 601.7 million (before tax) related mainly to settling the Visa Ltd. transaction (described in detail in the note 'Investment securities available for sale').

## SHAREHOLDING STRUCTURE OF THE BANK

According to the information available as at 31 December 2016 the Bank's shareholding structure is as follows:

Name of entity	Number of shares	Number of votes %	Nominal value of 1 share	Share in equity %
As at 31 December 2016				
The State Treasury	367 918 980	29.43	PLN 1	29.43
Aviva Otwarty Fundusz Emerytalny <sup>1</sup>	83 952 447	6.72	PLN 1	6.72
Nationale Nederlanden Otwarty Fundusz Emerytalny <sup>2</sup>	64 594 448	5.17	PLN 1	5.17
Other shareholders	733 534 125	58.68	PLN 1	58.68
<b>Total</b>	<b>1 250 000 000</b>	<b>100.00</b>	<b>---</b>	<b>100.00</b>
As at 31 December 2015				
The State Treasury	367 918 980	29.43	PLN 1	29.43
Aviva Otwarty Fundusz Emerytalny <sup>1</sup>	83 952 447	6.72	PLN 1	6.72
Nationale Nederlanden Otwarty Fundusz Emerytalny <sup>2</sup>	64 594 448	5.17	PLN 1	5.17
Other shareholders	733 534 125	58.68	PLN 1	58.68
<b>Total</b>	<b>1 250 000 000</b>	<b>100.00</b>	<b>---</b>	<b>100.00</b>

- 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 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 item 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.

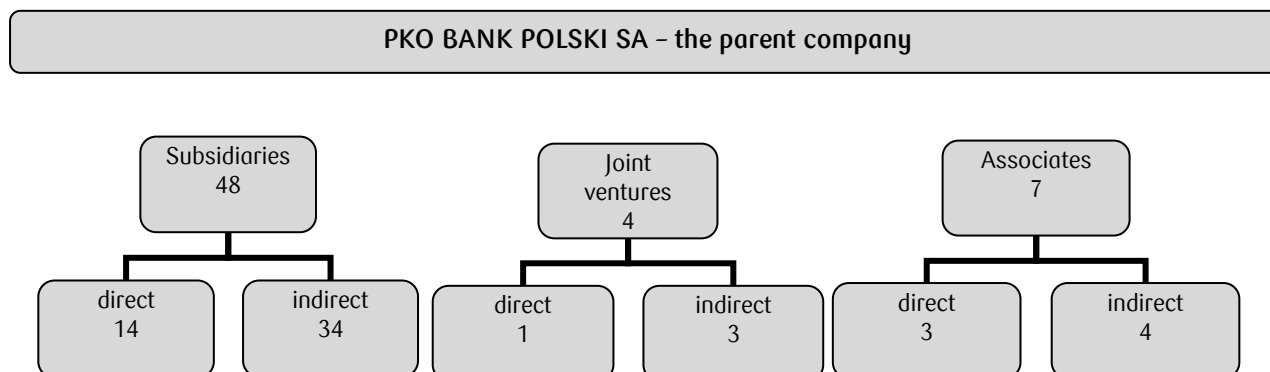
The Bank's shares are listed on the Warsaw Stock Exchange.

#### THE STRUCTURE OF PKO BANK POLSKI SA'S SHARE CAPITAL:

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
<b>Total</b>	---	<b>1 250 000 000</b>	---	<b>PLN 1 250 000 000</b>

In 2016 and in 2015, there were no changes in the amount of the share capital of PKO Bank Polski SA. Issued shares of PKO Bank Polski SA 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:

Lp.	NAME OF ENTITY DIRECT SUBSIDIARIES	HEADQUARTERS	% SHARE IN EQUITY *	
			31.12.2016	31.12.2015
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	99.5655
10	„Inter-Risk Ukraine” Spółka z dodatkową odpowiedzialnością <sup>1</sup>	Kiev, Ukraine	100	100
11	Finansowa Kompania „Prywatne Inwestycje” Sp. z o.o. <sup>2</sup>	Kiev, Ukraine	95.4676	95.4676
12	Qualia Development Sp. z o.o. <sup>1</sup>	Warsaw	100	100
13	Merkury - fiz an <sup>3</sup>	Warsaw	100	100
14	NEPTUN - fiz an <sup>3</sup>	Warsaw	100	100

\* Share in equity of direct parent entity

- 1) The Entity is recognised as non-current assets held for sale.
- 2) The second shareholder of the entity is 'Inter-Risk Ukraina' Additional Liability Company; the entity is recognised as non-current assets held for sale.
- 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 equity'.

**FINANCIAL STATEMENTS OF PKO BANK POLSKI SA  
FOR THE YEAR ENDED 31 DECEMBER 2016  
(IN PLN MILLION)**


Bank Polski

Lp.	NAME OF ENTITY	HEADQUARTERS	% SHARE IN EQUITY *	
			31.12.2016	31.12.2015
	INDIRECT SUBSIDIARIES			
	The PKO Leasing SA GROUP			
1	PKO Bankowy Leasing Sp. z o.o. <sup>1</sup>	Łódź	-	100
2	PKO Leasing Sverige AB	Stockholm, Sweden	100	100
3	PKO Faktoring SA <sup>2</sup>	Warsaw	100	100
4	Raiffeisen-Leasing Polska SA <sup>3</sup>	Warsaw	100	-
	Raiffeisen-Leasing Real Estate Sp. z o.o.	Warsaw	100	-
	„Raiffeisen Insurance Agency” Sp. z o.o.	Warsaw	100	-
	Raiffeisen-Leasing Service Sp. z o.o.	Warsaw	100	-
	ROOF Poland Leasing 2014 DAC <sup>4</sup>	Dublin, Ireland	-	-
	The PKO Życie Towarzystwo Ubezpieczeń SA GROUP			
5	Ubezpieczeniowe Usługi Finansowe Sp. z o.o.	Warsaw	100	100
	The KREDOBANK SA GROUP			
6	Finansowa Kompania „Idea Kapitał” Sp. z o.o.	Lviv, Ukraine	100	100
	The Qualia Development Sp. z o.o. GROUP <sup>5</sup>			
7	Qualia 3 Sp. z o.o.	Warsaw	100	100
8	Qualia 2 Sp. z o.o.	Warsaw	100	100
9	Qualia Sp. z o.o.	Warsaw	100	100
10	Qualia 3 spółka z ograniczoną odpowiedzialnością – Neptun Park Sp. k.	Warsaw	99.9975	99.9975
11	Qualia sp. z o.o. – Sopot Sp. k.	Warsaw	99.9787	99.9902
12	Qualia 2 spółka z ograniczoną odpowiedzialnością – Nowy Wilanów Sp. k.	Warsaw	99.9750	99.9750
13	Qualia spółka z ograniczoną odpowiedzialnością – Zakopane Sp. k.	Warsaw	99.9123	99.9123
14	Qualia Hotel Management Sp. z o.o.	Warsaw	100	100
15	Sarmia - Residence Sp. z o.o.	Warsaw	100	100
16	Sarmia Dolina Sp. z o.o.	Warsaw	100	100
17	Giełda Nieruchomości Wartościowych Sp. z o.o.	Warsaw	100	100
18	FORT MOKOTÓW Sp. z o.o. in liquidation	Warsaw	51	51
19	Qualia spółka z ograniczoną odpowiedzialnością – Projekt 1 Sp. k.	Warsaw	50	50
20	Qualia spółka z ograniczoną odpowiedzialnością – Pomeranka Sp. k. <sup>6</sup>	Warsaw	-	99.8951
21	Qualia – Rezydencja Flotylla Sp. z o.o. <sup>6</sup>	Warsaw	-	100
22	„Fort Mokotów Inwestycje” Sp. z o.o. <sup>7</sup>	Warsaw	-	100
23	Qualia spółka z ograniczoną odpowiedzialnością – Jurata Sp. k. <sup>7</sup>	Warsaw	-	99.9770
24	Qualia spółka z ograniczoną odpowiedzialnością – Władysławowo Sp. k. <sup>8</sup>	Warsaw	-	50
	Merkury - fiz an			
25	„Zarząd Majątkiem Górczewska” Sp. z o.o.	Warsaw	100	100
26	Molina Sp. z o.o.	Warsaw	100	100
27	Molina spółka z ograniczoną odpowiedzialnością 1 S.K.A.	Warsaw	100	100
28	Molina spółka z ograniczoną odpowiedzialnością 2 S.K.A.	Warsaw	100	100
29	Molina spółka z ograniczoną odpowiedzialnością 3 S.K.A.	Warsaw	100	100
30	Molina spółka z ograniczoną odpowiedzialnością 4 S.K.A.	Warsaw	100	100
31	Molina spółka z ograniczoną odpowiedzialnością 5 S.K.A.	Warsaw	100	100
32	Molina spółka z ograniczoną odpowiedzialnością 6 S.K.A.	Warsaw	100	100
	NEPTUN - fiz an			
33	Bankowe Towarzystwo Kapitałowe SA	Warsaw	100	100
34	„CENTRUM HAFFNERA” Sp. z o.o.	Sopot	72.9766	72.9766
	„Sopot Zdrój” Sp. z o.o.	Sopot	100	100
	„Promenada Sopocka” Sp. z o.o.	Sopot	100	100

\* share in equity of direct parent entity

- 1) In 2016, there was a merger between PKO Bankowy Leasing Sp. z o.o. (as the acquiree) and PKO Leasing SA (as the acquirer).
- 2) Previous name PKO BP Faktoring SA.
- 3) The company was acquired on 1 December 2016.
- 4) 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.
- 5) In the limited partnerships belonging to the Qualia Development Sp. z o.o. Group, the item 'equity interest' presents the share of the limited partner Qualia Development Sp. z o.o. in the amount of the contributions made.
- 6) In 2016, there was a business combination between Qualia spółka z ograniczoną odpowiedzialnością – Pomeranka Sp.k. and Qualia - Rezydencja Flotylla Sp. z o.o. (as the acquirees) with Qualia Hotel Management Sp. z o.o. (as the acquirer).
- 7) In 2016, the company was sold.
- 8) In 2016, the company was dissolved without conducting a liquidation procedure.



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 programs and conducts employee pension programs (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 (IKE) and Individual Retirement Security Account (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 the Bank. Issuance of mortgage bonds shall constitute the main source of long-term financing of loans secured with mortgage.
PKO LEASING SA	<p>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.</p> <p>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.</p> <p>The PKO Leasing SA Group also includes PKO BP 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 program for the suppliers.</p>
PKO BP FINAT SP. Z O.O.	The Company provides comprehensive services of 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	<p>The basic scope of the Company’s operations comprises insurance activities in the area of life insurance.</p> <p>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.</p>



<p><b>PKO TOWARZYSTWO UBEZPIECZEŃ SA</b></p>	<p>The core business of the Company is an insurance activity within the scope of section II of insurance – other personal insurance and property insurance.</p> <p>The Company commenced operating activities in January 2016 by launching the first offer of life insurance for individual customers of the Bank, who are holders of credit cards. At present, the Company’s offer also includes individual insurance against loss of income for borrowers of cash loans in the Bank and a comprehensive offer of property insurance, immovable property insurance, private third party liability insurance and Assistance, and insurance against loss of income for clients of the Bank and PKO Bank Hipoteczny SA who draw mortgage loans.</p>
<p><b>PKO FINANCE AB</b></p>	<p>The business of the Company is the acquisition of the Bank’s financial resources from international markets through bond issues.</p>
<p><b>QUALIA DEVELOPMENT SP. Z O.O.</b></p>	<p>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, construction of building installations and finishing construction works. Moreover, the Group is engaged in the hotel business, and intermediary activity in real estate turnover.</p> <p>In 2016, the Group continued activities related to the execution of current projects and selling selected property and companies.</p>
<p><b>KREDOBANK SA</b></p>	<p>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.</p> <p>The company offers services including maintaining bank accounts of individuals and businesses, collecting deposits, lending, issuing warrants and guarantees, checks and bills trading, operations on the currency market, as well as operations on the securities market.</p> <p>The core business of Finansowa Kompania ‘Idea Kapital’ Sp z .o. – 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.</p>
<p><b>‘INTER-RISK UKRAINA’ SPÓŁKA Z DODATKOWĄ ODPOWIEDZIALNOŚCIĄ</b></p>	<p>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.</p>
<p><b>FINANSOWA KOMPANIA ‘PRYWATNE INWESTYCJE’ SP. Z O.O.</b></p>	<p>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.</p>
<p><b>MERKURY - FIZ AN</b></p>	<p>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. Fund conducts investment activities through subsidiaries whose business is buying and selling real estate for its own account and property management.</p>
<p><b>NEPTUN - FIZAN</b></p>	<p>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.</p>



### 38. INVESTMENTS IN SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES

Accounting policies  
Financial information:  
Investments in subsidiaries, joint ventures and associates  
Impairment allowances  
Selected information on associates and joint ventures

#### ACCOUNTING POLICIES

Investments in subsidiaries, joint ventures and associates are measured at cost less impairment losses. In case of sale of investments in subsidiaries, which results in a loss of control, the Bank performs a valuation to fair value of the remaining investment and accepts this value as a new cost for the purpose of subsequent valuation. The excess of the fair value of the investment over the carrying amount is recognised by the Bank in other operating income.

At each balance sheet date, the Bank makes an assessment of whether there is any objective evidence of impairment of investments in subsidiaries, joint ventures and associates. If any such evidence exists, the Bank estimates the value in use of the investment or the fair value of the investment less costs to sell, depending on which of these values is higher, and in case when carrying amount of an asset exceeds its value in use, the Bank recognizes an impairment loss in the income statement. The above projection for the value in use requires making assumptions, i.a. about future cash flows that the Bank may receive from dividends or the cash inflows from a potential disposal of the investment, less costs to sell.

#### FINANCIAL INFORMATION

##### INVESTMENTS IN SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES

No.	As at 31 December 2016	Gross amount	Impairment allowance	Carrying amount
<b>SUBSIDIARIES</b>				
1	KREDOBANK SA	1 070.3	(793.6)	276.7
2	PKO Bank Hipoteczny SA	800.0	-	800.0
3	PKO Życie Towarzystwo Ubezpieczeń SA	240.6	-	240.6
4	PKO Towarzystwo Funduszy Inwestycyjnych SA	187.0	-	187.0
5	PKO Leasing SA	178.0	-	178.0
6	PKO BP BANKOWY PTE SA	150.8	-	150.8
7	Merkury - fiz an <sup>1</sup>	120.0	-	120.0
8	NEPTUN - fizan <sup>1</sup>	94.7	-	94.7
9	PKO Towarzystwo Ubezpieczeń SA	110.0	-	110.0
10	PKO BP Finat Sp. z o.o.	21.5	-	21.5
11	PKO Finance AB	0.1	-	0.1
<b>JOINT VENTURES</b>				
1	Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	197.3	-	197.3
<b>ASSOCIATES</b>				
1	Bank Pocztowy SA	161.5	(29.0)	132.5
2	FERRUM SA	25.3	-	25.3
3	„Poznański Fundusz Poręczeń Kredytowych" Sp. z o.o.	1.5	(1.5)	-
<b>Total</b>		<b>3 358.6</b>	<b>(824.1)</b>	<b>2 534.5</b>

<sup>1)</sup> PKO Bank Polski SA holds investment certificates in the fund allowing in accordance with IFRS to control the Fund.

**FINANCIAL STATEMENTS OF PKO BANK POLSKI SA  
FOR THE YEAR ENDED 31 DECEMBER 2016  
(IN PLN MILLION)**


Bank Polski

No.	As at 31 December 2015	Gross amount	Impairment allowance	Carrying amount
<b>SUBSIDIARIES</b>				
1	KREDOBANK SA <sup>1</sup>	1 018.0	(793.6)	224.4
2	PKO Bank Hipoteczny SA	300.0	-	300.0
3	PKO Życie Towarzystwo Ubezpieczeń SA	240.6	-	240.6
4	PKO Towarzystwo Funduszy Inwestycyjnych SA	187.0	-	187.0
5	PKO Leasing SA	178.0	-	178.0
6	PKO BP BANKOWY PTE SA	150.9	-	150.9
7	Merkury - fiz an <sup>2</sup>	120.0	-	120.0
8	NEPTUN - fizan <sup>2</sup>	94.7	-	94.7
9	PKO Towarzystwo Ubezpieczeń SA	88.0	-	88.0
10	PKO BP Finat Sp. z o.o.	71.3	-	71.3
11	PKO Finance AB	0.2	-	0.2
<b>JOINT VENTURES</b>				
1	Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	197.3	-	197.3
<b>ASSOCIATES</b>				
1	Bank Pocztowy SA	161.5	-	161.5
2	FERRUM SA	24.1	-	24.1
3	„Poznański Fundusz Poręczeń Kredytowych" Sp. z o.o.	1.5	(1.5)	-
<b>Total</b>		<b>2 833.1</b>	<b>(795.1)</b>	<b>2 038.0</b>

- 1) The above listed value does not include the contributions paid by PKO Bank Polski SA for new shares issue of UAH 330 000 thousand; the increase in the share capital was not registered as at 31 December 2015.
- 2) PKO Bank Polski SA holds investment certificates in the fund allowing in accordance with IFRS to control the Fund.

**IMPAIRMENT ALLOWANCES**

According to IAS 36 'Impairment of assets' the recoverable amount of investments in subsidiaries, joint ventures and associates has been assessed.

In 2016 the Bank, on the basis of valuation, recognised an impairment loss on investment in Bank Pocztowy SA in the amount of PLN 29 million. The impairment test was based on discounted dividend model.

Impairment allowances - reconciliation of movements	2016	2015
Value at the beginning of the period	795.1	1 120.1
Recognised during the period	29.0	35.4
Derecognition of assets and settlement	-	62.1
Reversed during the period	-	(32.4)
Other	-	265.9
Value at the end of the period	824.1	795.1
<b>Net increase - impact on the income statement</b>	<b>(29.0)</b>	<b>(3.0)</b>



## SELECTED INFORMATION ON ASSOCIATES AND JOINT VENTURES

The Bank holds the following associates and joint ventures

Lp.	NAME OF ENTITY	HEADQUARTERS	% SHARE IN EQUITY *	
			31.12.2016	31.12.2015
<b>Joint Ventures of PKO Bank Polski SA</b>				
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
<b>Joint Ventures of NEPTUN - fizan</b>				
3	'Centrum Obsługi Biznesu' Sp. z o.o.	Poznań	41.44	41.44
<b>Associates of PKO Bank Polski SA</b>				
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	20.97
	3 FERRUM MARKETING Sp. z o.o.	Katowice	100	100
	4 Zakład Konstrukcji Spawanych FERRUM SA	Katowice	100	100
	Walcownia Blach Grubych Batory Sp. z o.o. <sup>1</sup>	Katowice	100	-

\* share in equity of direct parent entity / entity exercising significant influence

NAME OF JOINT VENTURES AND ASSOCIATES	THE CORE BUSINESS
<b>CENTRUM ELEKTRONICZNYCH USŁUG PŁATNICZYCH ESERVICE SP. Z O.O.</b>	<p>Centrum Elektronicznych Usług Płatniczych Eservice Sp. z o.o. 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.</p> <p>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.</p> <p>The cooperation is governed by agreements on i.a.:</p> <ul style="list-style-type: none"> <li>• servicing cashless transaction concluded using payment instruments for bilateral agreements with merchants,</li> <li>• marketing cooperation as regards services of fundamental importance to the functioning of the products and services offered both by the Bank and the Company,</li> <li>• 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,</li> <li>• cooperation in providing services associated with attracting retail outlets which accept payment instruments.</li> </ul> <p>The Company has two direct subsidiaries and exercises full control over these subsidiaries.</p>
<b>BANK POCZTOWY SA</b>	<p>Bank Pocztowy 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 Pocztowy SA is also a client of the Bank and uses the selected services provided by PKO Bank Polski SA.</p> <p>The Company has two direct subsidiaries and exercises full control over these subsidiaries.</p>



<b>'POZNAŃSKI FUNDUSZ PORĘCZEŃ KREDYTOWYCH' SP. Z O.O.</b>	'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 services. The company guarantees loans, advances and the guarantees granted by banks, including PKO Bank Polski SA, as well as leasing and factoring transaction. The entity cooperates with PKO Leasing SA. The Company's offer includes also guarantees for small and medium-sized enterprises, under the JEREMIE ( <i>Join European Resources for Micro to Medium Enterprises</i> ), which are re-underwritten mutually at 70% or 80% from the Wielkopolski Regionalny Program Operacyjny, managed by Bank Gospodarstwa Krajowego. Bid bond guarantees are a novelty in the guarantee market and in the Company's offer.
<b>FERRUM SA</b>	<p>The Company's operations comprise manufacturing welded tubes, hollow profiles and insulating tubes. The Company has two direct subsidiaries and exerts full control over these subsidiaries.</p> <p>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.</p>

A summary of the financial data, separately for each joint venture and each associate of the Group was presented below. The amounts presented are derived from the financial statements of the specific entities, prepared in accordance with either IFRS or with Polish Accounting Standards (PAS). Data as at 31 December 2015 are derived from the audited financial statements.

<b>Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o. (in accordance with IFRS)</b>	<b>31.12.2016</b>	<b>31.12.2015</b>
Current assets	124.4	103.4
Non-current assets	212.1	132.7
Short-term liabilities	103.9	70.5
Long-term liabilities	33.8	37.2
	<b>01.01-31.12.2016</b>	<b>01.01-31.12.2015</b>
Revenues	473.7	456.5
Profit (loss) for the year	102.8	88.4
Total comprehensive income	102.8	88.4
Dividends received from an entity classified as a joint venture	11.0	25.6
<b>Bank Pocztowy SA (in accordance with IFRS, data published by the Company)</b>	<b>30.06.2016</b>	<b>31.12.2015</b>
Total assets	7 238.2	7 213.0
Total liabilities	6 698.2	6 670.5
	<b>01.01-30.06.2016</b>	<b>01.01-31.12.2015</b>
Revenues	248.3	474.2
Profit (loss) for the year	9.6	33.9
Other comprehensive income	(11.8)	9.0
Total comprehensive income	(2.2)	42.9
<b>„Poznański Fundusz Poręczeń Kredytowych" Sp. z o.o. (in accordance with PAS)</b>	<b>31.12.2016</b>	<b>31.12.2015</b>
Current assets	23.5	23.2
Non-current assets	0.1	0.0
Short-term liabilities	3.0	4.0
Long-term liabilities	2.5	1.6
	<b>01.01-31.12.2016</b>	<b>01.01-31.12.2015</b>
Revenues	2.7	2.4
Profit (loss) for the year	0.4	0.6



<b>FERRUM SA (in accordance with IFRS, data published by the Company)</b>	<b>30.09.2016</b>	<b>31.12.2015</b>
Current assets	105.2	90.9
Non-current assets	171.2	171.8
Short-term liabilities	129.1	115.4
Long-term liabilities	94.2	99.3
	<b>01.01- 30.09.2016</b>	<b>01.01- 31.12.2015</b>
Revenues	242.3	314.0
Profit (loss) for the year	5.1	(49.7)
Other comprehensive income	0.0	0.0
Total comprehensive income	5.1	(49.7)

### 39. OTHER CHANGES TO THE ENTITIES OF THE GROUP

In 2016 the following events affecting the structure of the Group took place:

#### ACQUISITION OF RAIFFEISEN-LEASING POLSKA SA BY PKO LEASING SA

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 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 RLPL 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 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 joined the PKO Leasing SA Group:

- Raiffeisen-Leasing Real Estate Sp. z o.o. – the Company's business activities consist of financing real estate in the form of leases; as at 31 December 2016, the Company's share capital amounted to PLN 50 000 and consisted of 100 shares with a nominal value of PLN 500 each,
- 'Raiffeisen Insurance Agency' Sp. z o.o. – an insurance agency whose activities consist of creating insurance products and programmes for the customers of financial institutions; as at 31 December 2016, the Company's share capital amounted to PLN 200 000 and consisted of 4 000 shares with a nominal value of PLN 50 each,
- Raiffeisen-Leasing Service Sp. z o.o. – the Company's business activities consist of storing, preparing and active sales of post-debt-collection or post-contractual objects purchased from Raiffeisen-Leasing Polska SA as well as granting consumer loans; as at 31 December 2016, the Company's share capital amounted to PLN 200 000 and consisted of 4 000 shares with a nominal value of PLN 50 each; the Company's sole shareholder is 'Raiffeisen Insurance Agency' Sp. z o.o.,
- ROOF Poland Leasing 2014 DAC, with its registered office in Ireland – a special purpose vehicle established to service the securitization of lease receivables conducted within the Raiffeisen-Leasing Polska SA Group; the Company issues bonds to raise funds for the purchase of receivables from Raiffeisen-Leasing Polska SA; as at 31 December 2016, the Company's share capital amounted to EUR 1 and equals 1 share taken up by BADB Charitable Trust Limited; Raiffeisen-Leasing Polska SA controls the aforementioned Company in accordance with IFRS 10, despite the fact that it does not hold any shares in it.

As part of the transaction, PKO Bank Polski SA replaced the financing granted to Raiffeisen-Leasing Polska SA and its subsidiaries by Raiffeisen Bank International AG or its group companies (i.e. granted loans to companies from the Raiffeisen-Leasing Polska SA Group which were used to repay the loans granted to those companies by the Raiffeisen Bank International AG Group companies) in the total amount of PLN 2 412 million and EUR 255.6 million. The transaction has been financed with PKO Bank Polski SA's own funds.



At the same time, PKO Bank Polski SA issued to the Council of Europe Development Bank (CEB) a guarantee of up to EUR 52 million concerning repayment of a loan granted to Raiffeisen-Leasing Polska SA and signed a loan agreement with Raiffeisen-Leasing Polska SA for an amount of PLN 300 million which will be used for redemption of the Company's bonds from Raiffeisen Bank Polska SA and from other bond holders.

In 2017, both companies, i.e. PKO Leasing and RLPL, are planned to be merged, including the performance of a legal merger in April 2017.

#### OTHER CHANGES IN THE PKO LEASING SA GROUP

On 31 October 2016, the merger of PKO Leasing SA (as the acquiring company) and PKO Bankowy Leasing Sp. z o.o. (as the acquired company) was registered with the National Court Register. The merger was accomplished through the transfer of all the assets of PKO Bankowy Leasing Sp. z o.o. to PKO Leasing SA (a merger by acquisition), without increasing the share capital of PKO Leasing SA and without a share exchange. Therefore, PKO Leasing SA assumed all the rights and obligations of PKO Bankowy Leasing Sp. z o.o.

On 8 December 2016, a change of name of PKO BP Faktoring SA was registered with the National Court Register – the current name: PKO Faktoring SA.

#### PKO BANK HIPOTECZNY SA

In 2016 (on 22 April, 28 July and 1 December respectively), an increase in the share capital of PKO Bank Hipoteczny SA totalling PLN 500 million was registered with the National Court Register. All the shares in the increased capital were taken up by PKO Bank Polski SA. As at 31 December 2016 the share capital of the Company is PLN 800 million and is divided into 800 million shares with nominal value of PLN 1 each.

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

- **QUALIA HOTEL MANAGEMENT SP. Z O.O., INCLUDING THE ACQUISITION OF QUALIA - REZYDENCJA FLOTYLLA SP. Z O.O. AND QUALIA SPÓŁKA Z OGRANICZONĄ ODPOWIEDZIALNOŚCIĄ - POMERANKA SP. K**

On 29 February 2016, the merger of Qualia Hotel Management Sp. z o.o. (as the acquiring company) with Qualia - Rezydencja Flotylla Sp. z o.o. and Qualia spółka z ograniczoną odpowiedzialnością - Pomeranka Sp. k. (as the acquired companies) was registered with the National Court Register with jurisdiction over the acquiring company. The merger was accomplished through the transfer of all of the assets of the acquired companies to the acquiring company. Therefore, the acquirer assumed all the rights and obligations of the acquired companies.

On 13 April 2016, Qualia Sp. z o.o. sold 3 shares of the Qualia Hotel Management Sp. z o.o. to Qualia Development Sp. z o.o.

As at 31 December 2016 the share capital of Qualia Hotel Management Sp. z o.o. amounts to PLN 261 800 and is divided into 5 236 shares with a nominal value of PLN 50 each.

- **QUALIA SPÓŁKA Z OGRANICZONĄ ODPOWIEDZIALNOŚCIĄ – WŁADYSŁAWOWO SP. K.**

On 13 July 2016 the shareholders of Qualia spółka z ograniczoną odpowiedzialnością – Władysławowo Sp. k. adopted the resolution on dissolution of the Company without liquidation procedure. On 5 September 2016 the Company was deleted from the entrepreneurs register.

- **'FORT MOKOTÓW INWESTYCJE' SP. Z O.O.**

On 28 July 2016 Qualia Development Sp. z o.o. and Dom Development SA signed an agreement on sale 100% of shares of Fort Mokotów Inwestycje Sp. z o.o., which is the usufructuary of land located in the area of Żwirki i Wigury Street and Raclawicka Street in Warsaw. The amount of the transaction including price of shares and loan repayment, which was provided to Fort Mokotów Inwestycje Sp. z o.o. by Qualia Development Sp. z o.o., equals to PLN 133.5 million. Since 28 July 2016 Fort Mokotów Inwestycje Sp. z o.o. has been no longer subsidiary of Qualia Development Sp. z o.o.



- **QUALIA SPÓŁKA Z OGRANICZONĄ ODPOWIEDZIALNOŚCIĄ – JURATA SP. K. (COMPANY JURATA)**

On 24 August 2016, the Company Qualia Development Sp. z o.o. sold all rights and obligations of the limited partner in the company Jurata and the company Qualia Sp. z o.o. sold all the rights and obligations of the general partner of the company Jurata and no longer is a subsidiary of the Qualia Development Sp. z o.o.

- **QUALIA – RESIDENCE SP. Z O.O.**

On 24 August 2016, Qualia - Residence Sp. z o.o. sold two plots of land located in Jurata at Mestwina 32 Street and Mestwina 34 and 38 Street. On 15 November 2016, the Extraordinary Shareholders' Meeting of Qualia - Residence Sp. z o.o. passed a resolution to repay PLN 34.7 million representing a part of the repayable contribution made by the sole shareholder - Qualia Development Sp. z o.o. The funds were transferred on 23 December 2016.

- **OTHER EVENTS CONTRIBUTING TO CHANGES IN THE EQUITY OF THE GROUP ENTITIES**

On 27 October 2016, the Extraordinary Shareholders' Meeting of Qualia Hotel Management Sp. z o.o. passed a resolution to increase the Company's share capital by PLN 1 149 700, i.e. to PLN 1 411 500, by establishing 22 994 new shares with a nominal value of PLN 50 each. All the newly established shares were taken up by the existing shareholder - Qualia Development Sp. z o.o. for PLN 111 million - the difference between the acquisition cost and the nominal value was recognised in the supplementary capital. The funds were transferred to the Company on 28 October 2016. The aforementioned increase in the capital was registered with the National Court Register on 6 February 2017.

On 1 December 2016, the partners in a limited partnership, Qualia sp. z o.o. - Sopot Sp. k., passed a resolution concerning the repayment to the limited partner - Qualia Development Sp. z o.o. - a part of the cash contribution made, in the amount of PLN 5.5 million, as a result of which the limited partner's contribution decreased from PLN 10.2 million to PLN 4.7 million. The funds were transferred on 1 December 2016. The part of the contribution was repaid without lowering the limited partnership sum. The change was registered with the National Court Register on 18 January 2017.

#### **PKO BP FINAT SP. Z O.O.**

On 29 January 2016 the National Court Register recorded a decrease of the share capital of PKO BP Finat Sp. z o.o. from the amount of PLN 107 302 500 to PLN 32 302 500 through the redemption of 750 000 shares with a nominal value of PLN 100 each. As at 31 December 2016 the share capital of the company is PLN 32 302 500 and is divided into 323 025 shares with a nominal value of PLN 100 each.

#### **PKO TOWARZYSTWO UBEZPIECZEŃ SA**

On 19 April 2016 the National Court Register recorded an increase of the share capital of the Company by PLN 5 million. Within the above-mentioned increase the Bank acquired 5 000 shares (i.e. all newly issued shares) with a nominal value of PLN 1 000 each and an issue price amounting to PLN 4 400 each, i.e. for a total amount equal to PLN 22 million, remaining sole shareholder of the Company. As at 31 December 2016 the share capital of the Company is PLN 25 million and is divided into 25 000 shares with nominal value of PLN 1 000 each.

#### **KREDOBANK SA**

On 24 May 2016 in the Uniform National Register of Legal Entities, Individual Entrepreneurs and Public Organizations of Ukraine was recorded a change of the Statute of KREDOBANK SA taking into account i.a. an increase of the share capital by UAH 330 million. All shares in the increased capital were acquired and paid in November 2015 by PKO Bank Polski SA.

As at 31 December 2016 the share capital of the Company is UAH 2 248 969 469.16 and is divided into 224 896 946 916 shares with nominal value of UAH 0.01 each.



### THE FERRUM SA GROUP

On 18 January 2016, Bank took over within debt collection activities (foreclosure of the collateral) another block of 286 918 shares of FERRUM SA, increasing its stake in the share capital and votes at the General Meeting of the company from 20.97% to 22.14%. The company is an associate of the Bank.

In 2016, PKO Bank Polski SA showed, within the structure of the FERRUM SA Group, a new company, Walcownia Blach Grubych Batory Sp. z o.o., with its registered office in Katowice, with share capital amounting to PLN 5 000. According to the consolidated report for the third quarter of 2016 of the aforementioned Group, the Company did not commence operating activities.

### THE CENTRUM ELEKTRONICZNYCH USŁUG PŁATNICZYCH eSERVICE SP. Z O.O. GROUP

In 2016 Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.:

- took up shares as part of three increases in the share capital of its subsidiary, EVO Payments International Sp. z o.o., with a total nominal value of PLN 414 400 and with a total issue value of PLN 20 720 000; on 19 August 2016, an increase in the share capital with a nominal value of PLN 50 000 was registered with the National Court Register; the other increases in the capital as at 31 December 2016 were not registered,
- made a payment towards the supplementary capital of its subsidiary, EVO Payments International s.r.o., with a registered office in the Czech Republic in the amount of CZK 209.8 million; the aforementioned funds were used for financing, i.a. the acquisition of an organized part of the enterprise comprising Merchant Acquiring Business.



## OTHER NOTES

### 40. DIVIDENDS PER SHARE

On 30 June 2016, the Ordinary General Shareholders' Meeting of the Bank adopted resolution (No. 7/2016) on distribution of the net profit for the year 2015 in the amount of PLN 2 571.1 million and retained earnings from previous years in the amount of PLN 1 250 million, in the total amount of PLN 3 821.1 million, as follows:

- 1) dividend for shareholders PLN 1 250 million (which represents PLN 1.00 gross per share),
- 2) reserve capital in the amount of PLN 2 500 million,
- 3) other reserves in the amount of PLN 71.1 million.

The appropriation of the profit described above was dependent on meeting, by 8 December 2016 inclusive, the following conditions ('Meeting the Conditions for the Dividend Payment'):

- Bank shall not take over control of a bank or other entity of the financial sector by a direct or indirect acquisition of a block of shares and shall not acquire a right or incur an obligation to take over control in the manner specified above, and
- there shall not occur any regulatory changes or changes of the supervisory recommendations affecting the requirements for the Bank's own funds that - according to the level of capital adequacy ratios recognised in the financial statements of the Bank for Q3 2016 - would cause a lack of possibility to pay dividend in accordance with the regulatory requirements and supervisory recommendations.

The Management Board was put under an obligation to pass, no later than by 9 December 2016, a resolution on Meeting the Conditions for the Dividend Payment or failure to meet them.

On 1 December 2016, a transaction comprising the acquisition of 100% of shares in Raiffeisen Leasing Polska SA by PKO Leasing was closed. Furthermore, the Management Board passed a resolution stating a failure in Meeting the Conditions for the Dividend Payment. In consequence, the Bank's profit earned in 2015 and undistributed profits from previous years were appropriated in the manner specified in § 2 of the Resolution on the Appropriation of Profit, which assumes that the entire profit be earmarked for transfer to the reserve capital and the other reserves, without providing for the payment of a dividend.

### 41. CONTINGENT LIABILITIES AND OFF-BALANCE SHEET LIABILITIES RECEIVED AND GRANTED

Accounting policies

Financial information:

- Securities covered with underwriting agreements
- Contractual commitments
- Loan commitments granted
- Guarantee liabilities granted
- Liabilities granted by maturity
- Off-balance sheet liabilities received
- Right to sell or pledge collateral established for the Bank

#### ACCOUNTING POLICIES

As part of its operating activities the Bank concludes transactions which, at the time of conclusion, are not recognised as assets or liabilities in the statement of financial position, but which give rise to contingent liabilities. Pursuant to IAS 37 a contingent liability is:

- 1) a potential obligation resulting from past events whose existence will be confirmed at the moment of occurrence or non-occurrence of one or more uncertain future events which are not fully under the Bank's control,
- 2) a current obligation which arises as a result of past events but is not recognised in the statement of financial position because it is not probable that cash or other assets would have to be expended to meet the obligation or the amount of the liability could not be assessed reliably.

In accordance with IAS 37 upon initial recognition a financial guarantee agreement is measured at fair value.

## FINANCIAL INFORMATION

### SECURITIES COVERED WITH UNDERWRITING AGREEMENTS (MAXIMUM LIABILITY OF THE BANK TO ACQUIRE SECURITIES):

Issuer of securities underwritten	Type of underwritten securities	Off-balance sheet liabilities resulting from underwriting agreement	Contract period
<b>As at 31 December 2016</b>			
Company A	corporate bonds	1 125.7	31.12.2020
Company B	corporate bonds	1 055.0	31.07.2020
Company C	corporate bonds	512.0	15.06.2022
Company D	corporate bonds	69.4	31.12.2022
Company E	corporate bonds	9.0	31.12.2026
<b>Total</b>		<b>2 771.1</b>	

Issuer of securities underwritten	Type of underwritten securities	Off-balance sheet liabilities resulting from underwriting agreement	Contract period
<b>As at 31 December 2015</b>			
Company A	corporate bonds	1 950.0	31.12.2020
Company B	corporate bonds	1 055.0	31.07.2020
Company C	corporate bonds	342.7	15.06.2022
Company D	corporate bonds	80.6	31.12.2022
Company F	corporate bonds	60.0	23.11.2021
Company G	corporate bonds	28.2	31.12.2029
Company E	corporate bonds	17.9	31.12.2026
Company H	corporate bonds	4.4	31.01.2016
Company I	corporate bonds	3.4	30.09.2030
<b>Total</b>		<b>3 542.2</b>	

All contracts relate to the Agreement for Organisation, 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:	31.12.2016	31.12.2015
intangible assets	34.1	177.4
tangible fixed assets	8.7	20.4



## LOAN COMMITMENTS GRANTED

Nominal value of loan commitments granted	31.12.2016	31.12.2015
Credit lines and limits		
to financial entities	7 607.3	3 313.9
to non-financial entities	37 898.5	35 057.2
to public entities	3 856.3	4 080.4
<b>Total</b>	<b>49 362.1</b>	<b>42 451.5</b>
of which: irrevocable loan commitments	31 077.9	30 513.9

## GUARANTEE LIABILITIES GRANTED

Guarantees and pledges granted	31.12.2016	31.12.2015
Guarantees in domestic and foreign trading	7 780.2	8 836.5
Guarantees and pledges granted - domestic corporates bonds	4 768.6	5 665.2
Letters of credit granted	1 599.5	1 838.1
Guarantees and pledges granted - payment guarantee to financial entities	150.9	143.6
Guarantees and pledges granted - domestic municipal bonds	351.3	59.3
<b>Total</b>	<b>14 650.5</b>	<b>16 542.7</b>
of which: performance guarantees	2 446.9	2 378.4

Information about the provisions recognised for off-balance sheet financial and guarantee liabilities is presented in the note 'Provisions'.

## LIABILITIES GRANTED BY MATURITY

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	12 669.3	5 748.9	13 407.5	11 104.4	6 432.0	49 362.1
Guarantee liabilities granted	263.1	569.4	3 699.5	8 582.5	1 536.0	14 650.5
<b>Total</b>	<b>12 932.4</b>	<b>6 318.3</b>	<b>17 107.0</b>	<b>19 686.9</b>	<b>7 968.0</b>	<b>64 012.6</b>

Off-balance sheet liabilities granted by maturity - 31.12.2015	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	28 671.4	805.2	3 818.0	3 061.3	6 095.6	42 451.5
Guarantee liabilities granted	1 415.1	1 603.9	2 447.1	9 783.4	1 293.2	16 542.7
<b>Total</b>	<b>30 086.5</b>	<b>2 409.1</b>	<b>6 265.1</b>	<b>12 844.7</b>	<b>7 388.8</b>	<b>58 994.2</b>

## OFF-BALANCE SHEET LIABILITIES RECEIVED

Nominal value of off-balance sheet liabilities received	31.12.2016	31.12.2015
financial	81.1	48.4
guarantees	7 385.0	6 660.7
<b>Total liabilities received</b>	<b>7 466.1</b>	<b>6 709.1</b>



Due to the provisions of the Agreement which require the Nordea Bank AB (publ) Group to participate in the default risk of the Mortgage Portfolio, on 1 April 2014, PKO Bank Polski SA and Nordea Bank AB (publ) concluded a special indemnity agreement (the 'Special Indemnity Agreement'), according to which Nordea Bank AB (publ) will cover, 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.

As a part of works related to the settlement of the transaction, the Bank has made a valuation of the Special Indemnity Agreement on the basis of conducted analysis of probability of cash flows arising from the Agreement. The estimated expected value is zero.

#### **RIGHT TO SELL OR PLEDGE COLLATERAL ESTABLISHED FOR THE BANK**

As at 31 December 2016 and as at 31 December 2015, there was no collateral established for the Bank which the Bank was entitled to sell or encumber with another pledge in the event of fulfilment of all obligations by the owner of the collateral.

#### **42. LEGAL CLAIMS**

As at 31 December 2016, the total value of court proceedings in which the Bank is a defendant was PLN 383.4 million (as at 31 December 2015 amounted to PLN 411.2 million), while the total value of court proceedings in which the Bank is the plaintiff as at 31 December 2016 was PLN 1 027.4 million (as at 31 December 2015 amounted to PLN 553.4 million).

The most significant legal claims of the PKO Bank Polski SA Group 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 SOKiK. 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 Limited, 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 a motion for permission to submit a pleading with the statement of grounds and a pleading. By a decision of 5 December 2016, the Supreme Court permitted the pleading to be filed. No date has been set for a hearing before the Supreme Court.

As at 31 December 2016 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. By letter dated 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. As at 31 December 2016 the Bank had no provision due to this proceeding.

- **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 PATTERNS 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 4.0 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 4.0 million on 23 February 2016 year. On 26 September of 2016 bank appealed a cassation complaint to the Supreme Court. The case is pending.

- **BEFORE SOKiK (COURT OF COMPETITION AND CONSUMER PROTECTION) SEVEN 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) 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) recognition as illegal of the provisions in forms of mortgage loan agreement (product Własny Kąt Hipoteczny);
- 6) recognition as illegal of the provisions related to low downpayment insurance of mortgage loan Własny Kąt Hipoteczny repaid in annuity instalments in PLN,
- 7) recognition as illegal of the provisions of a standard agreement (A Policy for Issuing and Using Credit Cards and a Table of fees and commissions in respect of reminders and phone call intervention relating to delays in the repayment of debt, which, in the plaintiff's opinion, are against good practices and severely violate consumer interests)

As at 31 December 2016 the Bank had no provisions for above-mentioned proceeding due to the fact, that the 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,
- 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 branded 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. The Bank's position on the case is being prepared.

Moreover, there are twelve investigations proceedings pending before the President of UOKiK, relating to the Bank's activities and one statement by the President of UOKiK without instituting proceedings (in accordance with Article 49a of the Act on Competition and Consumer Protection).

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

As at the date of these financial statements eleven administrative proceedings, of which two 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.

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.



### 43. SUPPLEMENTARY INFORMATION TO THE STATEMENT OF CASH FLOWS

Cash and cash equivalents  
 Restricted cash  
 Cash flows from interests and dividends, both received and paid  
 Cash flow from operating activities – other adjustments  
 Explanation of differences between the statement of financial position and the cash flow statement changes of items presented under operating activities in the statement of cash flows

#### CASH AND CASH EQUIVALENTS

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 3 months from the date of acquisition.

Cash and cash equivalents	31.12.2016	31.12.2015
Cash and balances with the Central Bank	11 596.7	13 707.7
Deposits with the Central Bank	1 680.0	-
Current amounts due from banks	4 278.4	3 471.9
Cash and cash equivalents with restricted availability for use	13.3	10.1
<b>Total</b>	<b>17 568.4</b>	<b>17 189.7</b>

#### RESTRICTED CASH

Cash in the amount of PLN 13.3 million (as at 31 December 2015: PLN 10.1 million) pledged as collateral for securities transactions conducted by the Brokerage House of PKO Bank Polski SA are deposited in the National Depository for Securities (KDPW\_CCP), as part of the Guarantee Fund for the Settlement of Stock Exchange Transactions. Each direct participant who holds the status of settlement-making participant is obliged to make payments to the settlement fund which guarantees a proper settlement of the stock exchange transactions covered by that fund. The amount of the payments depends on the value of transactions made by each participant and is updated by KDPW\_CCP on a daily basis. In the statement of cash flows, these means are presented as restricted cash.

#### CASH FLOWS FROM INTERESTS AND DIVIDENDS, BOTH RECEIVED AND PAID

Interest income – received from	2016	2015
Trading assets	68.5	55.9
Financial instruments designated upon initial recognition at fair value through profit and loss	225.7	240.5
Hedging instruments	469.9	476.9
Placements	106.7	103.7
Loans and advances to customers	6 166.7	5 945.0
Investment securities	659.5	677.4
Other (mainly interest income on current accounts, purchased debt, realised guarantees)	895.0	1 123.9
<b>Total</b>	<b>8 592.0</b>	<b>8 623.3</b>



Interest expense – paid on	2016	2015
Deposits	(1 423.3)	(1 715.9)
Loans and advances received	(356.9)	(518.6)
Debt securities in issue	(72.1)	(77.1)
Other (mainly interest expense on current accounts, premium from debt securities, interest expense on cash collateral liabilities)	(519.9)	(525.6)
<b>Total</b>	<b>(2 372.2)</b>	<b>(2 837.2)</b>

Dividend income - received	2016	2015
Dividend income from subsidiaries, joint ventures and associates - received	151.5	112.1
Dividend income from other entities - received	10.3	10.7
<b>Total</b>	<b>161.8</b>	<b>122.8</b>

#### CASH FLOW FROM OPERATING ACTIVITIES – OTHER ADJUSTMENTS

Other adjustments	2016	2015
Interest accrued, discount, premium on debt securities	60.6	(898.7)
Hedge accounting	(31.0)	(62.9)
Actuarial gains and losses	2.0	(3.6)
Revaluation of available-for-sale financial assets	(487.4)	111.0
Valuation and impairment allowances on investments in subsidiaries, joint ventures and associates and other changes	(145.2)	(15.0)
Disposal and impairment allowances on tangible fixed assets and intangible assets	(24.8)	(5.0)
Changes resulting from business combination	-	6.1
<b>Total</b>	<b>(625.8)</b>	<b>(868.1)</b>

#### EXPLANATION OF DIFFERENCES BETWEEN THE STATEMENT OF FINANCIAL POSITION AND THE CASH FLOW STATEMENT CHANGES OF ITEMS PRESENTED UNDER OPERATING ACTIVITIES IN THE STATEMENT OF CASH FLOWS

(Gains) losses on investment activity due to sale and disposal of tangible fixed assets and intangible assets	2016	2015
Gains on sale and disposal of tangible fixed assets and intangible assets	(34.4)	(44.8)
Losses on sale and disposal of tangible fixed assets and intangible assets	30.7	30.8
<b>Total</b>	<b>(3.7)</b>	<b>(14.0)</b>

**FINANCIAL STATEMENTS OF PKO BANK POLSKI SA  
FOR THE YEAR ENDED 31 DECEMBER 2016  
(IN PLN MILLION)**



Bank Polski

<b>Change in loans and advances to customers</b>	<b>2016</b>	<b>2015</b>
Change in the balance of the statement of financial position	(514.8)	(10 994.9)
Change in the impairment allowances on amounts due from customers	570.3	(363.0)
Exclusion of the change in the balance of cash and cash equivalents	3.2	-
Changes resulting from business combinations	-	571.4
<b>Total</b>	<b>58.7</b>	<b>(10 786.5)</b>

<b>Interests and dividends</b>	<b>2016</b>	<b>2015</b>
Interest received from investment securities	(685.2)	(718.9)
Dividends received presented under investing activities	(161.8)	(122.8)
Repayment of interest on loans received	386.6	553.2
Repayment of interest on debt securities in issue and subordinated liabilities	78.8	101.2
<b>Total</b>	<b>(381.6)</b>	<b>(187.3)</b>

<b>Change in amounts due from banks</b>	<b>2016</b>	<b>2015</b>
Change in the balance of the statement of financial position	(3 449.0)	(1 983.8)
Change in impairment allowances on amounts due from banks	0.2	11.3
Exclusion of the change in the balance of cash and cash equivalents	806.5	1 127.6
Changes resulting from business combinations	-	33.0
<b>Total</b>	<b>(2 642.3)</b>	<b>(811.9)</b>

<b>Change in other assets and non-current assets held for sale</b>	<b>2016</b>	<b>2015</b>
Change in the balance of the statement of financial position and reclassification to other items	(1 157.4)	(693.1)
Changes resulting from business combinations	-	45.8
<b>Total</b>	<b>(1 157.4)</b>	<b>(647.3)</b>

<b>Change in amounts due to customers</b>	<b>2016</b>	<b>2015</b>
Change in the balance of the statement of financial position	7 562.3	15 859.1
Recognition of long-term loans and advances received from financial institutions other than banks/repayments of these loans and advances presented in financing activities	1 267.0	5 484.8
Changes resulting from business combinations	-	(595.1)
<b>Total</b>	<b>8 829.3</b>	<b>20 748.8</b>



Change in provisions and impairment allowances	2016	2015
Change in the balance of the statement of financial position	(22.9)	(57.4)
Change in impairment allowances on amount due from banks	(0.2)	(11.3)
Change in impairment allowances on amount due from customers	(570.3)	363.0
Change in provisions for other receivables	3.1	59.3
Changes resulting from business combinations	-	(334.8)
<b>Total</b>	<b>(590.3)</b>	<b>18.8</b>

Change in other liabilities and subordinated liabilities	2016	2015
Change in the balance of the statement of financial position	370.7	429.2
Changes resulting from business combinations	-	(5.8)
<b>Total</b>	<b>370.7</b>	<b>423.4</b>

#### 44. TRANSACTIONS WITH THE STATE TREASURY AND RELATED PARTIES

Transactions with the State Treasury  
Significant transactions with the State Treasury's related entities  
Equity related party transactions  
Personal related party transactions

##### TRANSACTIONS WITH THE STATE TREASURY

The State Treasury has control over the Bank as it holds a 29.43% interest in the Bank's share capital. The Bank's shareholding structure is described in detail in the note 36 '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 Bank'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 budget in respect of redemption interest receivable on housing loans.

Income due to temporary redemption by the state budget of interest on housing loans from the 'old' portfolio	2016	2015
Income recognised for this period	65.3	85.0
Income received in cash	24.8	34.8
Difference - 'Loans and advances to customers'	40.5	50.2

The Act on the coverage of repayment of certain 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.



The State Treasury guarantees are realized 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 Bank 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 Bank) and thus becomes a creditor towards the borrower, in line with the concept of guarantee.

PKO Bank Polski SA receives commission for settlements relating to redemption of interest by the State budget on housing loans – in 2016: PLN 3.1 million, in 2015: PLN 3.1 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 budget – in 2016: PLN 12.4 million, in 2015: PLN 12.3 million.

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 – in 2016: PLN 37.2 million, in 2015: PLN 23.2 million.

### SIGNIFICANT TRANSACTIONS WITH THE STATE TREASURY'S RELATED ENTITIES

The transactions were concluded at arm's length terms. The Bank's exposure and its liabilities in respect of 10 entities related to the State Treasury are presented below.

	Balance sheet exposure, including loans and debt instruments		Off-balance sheet exposure		Liabilities due to deposits	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015
counterparty 1	-	-	2 450.0	2 080.0	-	-
counterparty 2	385.6	250.0	1 676.6	2 471.0	270.7	240.5
counterparty 3	332.4	-	1 205.9	1 549.0	533.5	1 046.5
counterparty 4	1 327.1	1 504.0	1 529.4	2 569.0	3.3	19.2
counterparty 5	46.5	250.0	1 521.4	559.0	350.4	0.4
counterparty 6	-	-	1 069.3	1 811.0	1 085.3	501.0
counterparty 7	261.0	468.0	621.5	403.0	394.0	380.5
counterparty 8	1 502.6	1 146.0	868.6	696.0	126.2	606.3
counterparty 9	253.4	113.0	451.4	658.0	147.8	197.0
counterparty 10	215.7	215.0	402.5	534.0	6.9	63.8

In 2016, interest and commission income on the transactions with the 10 counterparties referred to above amounted to PLN 7.3 million (in 2015: PLN 27 million), and the respective interest expense amounted to PLN 11.5 million (in 2015: PLN 68 million). As at 31 December 2016 and as at 31 December 2015 respectively, no impairment allowances were recognised on an individual basis for the above-mentioned receivables.

In addition, on 7 December 2016, the Bank issued to customer a promise based on which the Bank is obliged to grant the customer a loan of up to PLN 3 200 million intended for financing the customer's investment activities. The promise agreed by the Bank and the customer provides that the loan will be granted on the basis of a loan agreement whose contents will be finally negotiated by 30 April 2017. The framework terms of the loan agreement were set out in an appendix to the promise and provide for, *ia.* securing the Bank's receivables in the form of financial and registered pledges, as well as the Bank receiving a declaration of submission to enforcement proceedings from the customer.

The principles for issuing the promise and the terms of the loan agreement do not differ from the standard ones used in the Bank or from the arm's length terms used in financing with a comparable credit risk profile. The promise is the Bank's first exposure to the customer and its subsidiaries in respect of agreements concluded over the past 12 months.

Other transactions with entities related to the State Treasury in 2016 and in 2015 comprised loans and advances granted, credit lines, guarantees granted and deposits placed.



## EQUITY RELATED PARTY TRANSACTIONS

In 2016 the Bank did not conclude significant transactions with related parties not on arm's length.

Margins on loan transactions are within a range of 0.28% - 5.62%. Repayment terms are within a range from one month to fifteen years.

As of 31 December 2016 / Entity	Receivables	of which loans	Liabilities	Off-balance sheet liabilities granted
KREDOBANK SA and its subsidiaries	194.2	98.2	5.8	133.8
Merkury - fizan and its subsidiaries	-	-	13.0	-
Neptun - fizan and its subsidiaries	243.2	243.2	43.7	-
PKO Bank Hipoteczny SA	3 468.5	393.8	13.1	1 506.2
PKO BP BANKOWY PTE SA	0.1	-	0.9	-
PKO BP Finat Sp. z o.o.	0.2	-	71.1	0.6
PKO Finance AB	-	-	6 704.6	-
PKO Leasing SA and its subsidiaries	10 709.6	10 709.2	66.6	6 112.2
PKO Towarzystwo Funduszy Inwestycyjnych SA	18.7	-	57.5	-
PKO Towarzystwo Ubezpieczeniowe SA	-	-	13.7	-
PKO Życie Towarzystwo Ubezpieczeń SA	-	-	351.9	1.0
Qualia Development Sp. z o.o. and its subsidiaries	-	-	130.0	-
<b>Total subsidiaries</b>	<b>14 634.5</b>	<b>11 444.4</b>	<b>7 471.9</b>	<b>7 753.8</b>

As of 31 December 2016 / Entity	Receivables	of which loans	Liabilities	Off-balance sheet liabilities granted
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	10.4	10.4	18.4	20.5
„Centrum Obsługi Biznesu” Sp z o.o.	27.6	27.6	9.7	-
Bank Pocztowy SA	-	-	0.8	1.1
„Poznański Fundusz Poręczeń Kredytowych” Sp. z o.o.	-	-	8.0	-
Walcownia Blach Grubych "Batory" Sp. z o.o.	-	-	2.1	-
<b>Total joint ventures and associates</b>	<b>38.0</b>	<b>38.0</b>	<b>39.0</b>	<b>21.6</b>

As of 31 December 2015 / Entity	Receivables	of which loans	Liabilities	Off-balance sheet liabilities granted
KREDOBANK SA and its subsidiaries	334.4	227.7	9.2	74.6
Merkury - fizan and its subsidiaries	39.2	39.2	22.4	-
Neptun - fizan and its subsidiaries	237.0	237.0	37.8	-
PKO Bank Hipoteczny SA	481.0	39.8	15.3	160.2
PKO BP BANKOWY PTE SA	69.7	-	2.9	-
PKO BP Finat Sp. z o.o.	0.2	-	151.3	0.6
PKO Finance AB	-	-	7 332.3	-
PKO Leasing SA and its subsidiaries	4 997.6	4 994.9	107.2	2 010.4
PKO Towarzystwo Funduszy Inwestycyjnych SA	19.0	-	60.2	-
PKO Towarzystwo Ubezpieczeniowe SA	-	-	8.6	-
PKO Życie Towarzystwo Ubezpieczeń SA	35.1	35.1	133.7	55.0
Qualia Development Sp. z o.o. and its subsidiaries	131.9	131.9	36.2	0.4
<b>Total subsidiaries</b>	<b>6 345.1</b>	<b>5 705.6</b>	<b>7 917.1</b>	<b>2 301.2</b>

As of 31 December 2015 / Entity	Receivables	of which loans	Liabilities	Off-balance sheet liabilities granted
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	6.0	-	31.1	2.0
„Centrum Obsługi Biznesu” Sp z o.o.	27.4	27.4	8.6	-
Bank Pocztowy SA	14.1	-	0.9	1.1
„Poznański Fundusz Poręczeń Kredytowych” Sp. z o.o.	-	-	2.8	-
<b>Total joint ventures and associates</b>	<b>47.4</b>	<b>27.4</b>	<b>43.4</b>	<b>3.1</b>

**FINANCIAL STATEMENTS OF PKO BANK POLSKI SA  
FOR THE YEAR ENDED 31 DECEMBER 2016  
(IN PLN MILLION)**


Bank Polski

12 months ended 31 December 2016 / Entity	Total income	of which interest and fee and commission	Total expenses	of which interest and fee and commission
KREDOBANK SA and its subsidiaries	8.6	8.5	0.1	-
Merkury - fizan and its subsidiaries	1.5	1.5	-	-
Neptun - fizan and its subsidiaries	4.2	4.1	0.4	0.3
PKO Bank Hipoteczny SA	99.1	87.6	1.1	-
PKO BP BANKOWY PTE SA	2.1	-	0.1	0.1
PKO BP Finat Sp. z o.o.	1.9	-	5.1	0.7
PKO Finance AB	-	-	265.6	265.6
PKO Leasing SA and its subsidiaries	147.1	139.9	19.4	-
PKO Towarzystwo Funduszy Inwestycyjnych SA	228.8	226.6	0.9	0.9
PKO Towarzystwo Ubezpieczeniowe SA	45.0	-	-	-
PKO Życie Towarzystwo Ubezpieczeń SA	50.5	3.0	1.1	1.1
Qualia Development Sp. z o.o. and its subsidiaries	4.6	4.1	1.6	1.6
<b>Total subsidiaries</b>	<b>593.4</b>	<b>475.3</b>	<b>295.4</b>	<b>270.3</b>

12 months ended 31 December 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.	40.6	0.3	0.4	0.1
„Centrum Obsługi Biznesu” Sp z o.o.	0.8	0.8	-	-
<b>Total joint ventures and associates</b>	<b>41.4</b>	<b>1.1</b>	<b>0.4</b>	<b>0.1</b>

12 months ended 31 December 2015 / Entity	Total income	of which interest and fee and commission	Total expenses	of which interest and fee and commission
Finansowa Kompania „Prywatne Inwestycje” Sp. z o.o.	-	-	30.7	-
KREDOBANK SA and its subsidiaries	8.3	7.4	31.2	-
Merkury - fizan and its subsidiaries	2.4	2.4	0.2	0.2
Neptun - fizan and its subsidiaries	4.5	4.5	0.3	0.3
PKO Bank Hipoteczny SA	9.5	4.9	1.7	1.7
PKO BP BANKOWY PTE SA	1.4	-	-	-
PKO BP Finat Sp. z o.o.	2.1	-	6.1	2.4
PKO Finance AB	-	-	444.0	444.0
PKO Leasing SA and its subsidiaries	112.1	105.5	18.3	2.0
PKO Towarzystwo Funduszy Inwestycyjnych SA	239.9	238.4	1.1	1.1
PKO Towarzystwo Ubezpieczeniowe SA	-	-	0.4	0.4
PKO Życie Towarzystwo Ubezpieczeń SA	0.9	0.9	1.7	1.7
Qualia Development Sp. z o.o. and its subsidiaries	7.7	7.7	1.0	0.9
<b>Total subsidiaries</b>	<b>388.8</b>	<b>371.7</b>	<b>536.7</b>	<b>454.7</b>

12 months ended 31 December 2015 / 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.	189.5	189.3	107.6	105.5
„Centrum Obsługi Biznesu” Sp z o.o.	0.8	0.8	0.1	0.1
Bank Pocztowy SA	0.2	0.2	0.2	-
<b>Total joint ventures and associates</b>	<b>190.5</b>	<b>190.3</b>	<b>107.9</b>	<b>105.6</b>

**PERSONAL RELATED PARTY TRANSACTIONS**

As at 31 December 2016 and 31 December 2015, one entity was related to the Bank through the key management personnel of PKO Bank Polski SA or close family members of the key management personnel. In 2016 and in 2015, no transactions were conducted between the Bank and that entity.



## 45. REMUNERATION OF THE PKO BANK POLSKI SA KEY MANAGEMENT

### ACCOUNTING POLICIES

Short-term employee benefits are employee benefits, which are settled in full within 12 months from the end of the annual reporting period, in which the employees performed work related to them. As a short-term employee benefits next to the base salary, not deferred part of the variable remuneration component paid in cash was recognised.

The deferred part of the variable remuneration component paid in cash was recognised as other long-term benefit.

Non-deferred and deferred remuneration components in the form of the financial instrument i.e. phantom shares (for which conversion into cash is carried out after an additional period of retention) are recognised as share-based payments settled in cash in accordance with principles described below.

### THE PRINCIPLES FOR DETERMINING THE VARIABLE REMUNERATION COMPONENTS POLICY FOR KEY MANAGEMENT PERSONNEL IN THE BANK

In order to fulfil the requirements of the Resolution No 258/2011 of the Polish Financial Supervision Authority of 4 October 2011 on detailed principles for functioning of the risk management system and internal control system and detailed terms of estimating internal capital by banks and reviewing the process of estimating and maintaining internal capital, and the principles for determining the variable remuneration components policy for key management personnel at the Bank, the Bank implemented by resolutions of:

- the Supervisory Board of the Bank: 'The variable remuneration components policy for key management personnel at the Bank' (constituting the basis of further regulation issue) and 'The variable remuneration components policy for the Management Board members',
- the Management Board of the Bank: 'The variable remuneration components policy for key management personnel'.

Cited Principles and Regulations issued on their basis describe the procedure of granting variable remuneration components associated with the results and effects of work to the above-mentioned persons. In accordance with the requirements of the cited resolution of the PFSA and in proportion specified in it, the variable remuneration components are granted in the form of:

- non-deferred (in the first year after the calendar year constituting a period of assessment),
- deferred (for the next three years after the first year of the assessment period),

both the non-deferred and deferred remuneration, is awarded in equal parts in cash and in the form of the financial instrument, i.e. the phantom shares (for which conversion into cash is carried out after an additional period of retention).

Component of remuneration in the form of the financial instrument is converted into phantom shares after granting a particular component - including the median of the daily average prices of the Bank's shares (Volume Weighted Average Price) on the Warsaw Stock Exchange, published in the Thomson Reuters or Bloomberg information system - from the fourth quarter of the assessment period. Next, after a period of retention and deferral period, shares are converted into cash - including the median of the daily average prices of the Bank's shares (Volume Weighted Average Price) on the Warsaw Stock Exchange from the period of a third quarter preceding the payment (the Management Board) and a third quarter of a calendar year, in which the payment is made (other persons on managerial positions), published in the Thomson Reuters or Bloomberg information system.

The deferred remuneration may be reduced in the event of deterioration in the financial performance of the Bank, the loss of the Bank or deterioration of other variables related to the effects of work during the evaluation of key management personnel and results of the performance of organizational units/cells supervised or managed by these persons, which were revealed after a period of evaluation.



## FINANCIAL DATA

## REMUNERATION RECEIVED BY MEMBERS OF THE SUPERVISORY BOARD FROM THE BANK (IN PLN THOUSAND)

Name and Surname	2016	2015
The Supervisory Board of the Bank		
Piotr Sadownik	167	-
Grażyna Ciużyńska	92	-
Zbigniew Hajłasz	72	-
Mirosław Barszcz	104	-
Adam Budnikowski	107	-
Wojciech Jasiński	103	-
Andrzej Kisielewicz	106	-
Elżbieta Mączczyńska - Ziemacka	128	120
Janusz Ostaszewski	103	-
<b>The Supervisory Board of the Bank</b>	<b>982</b>	<b>120</b>
Jerzy Góra	44	192
Agnieszka Winnik-Kalemba	58	-
Mirosław Czekaj	28	161
Tomasz Zganiacz	-	82
Małgorzata Dec-Kruczkowska	72	72
Mirosława Boryczka	-	90
Zofia Dzik	23	120
Krzysztof Kilian	19	62
Jarosław Klimont	-	59
Piotr Marczak	20	120
Marek Mroczkowski	22	120
<b>Remuneration of the Supervisory Board Members who ceased their functions in 2016 or 2015*</b>	<b>286</b>	<b>1 078</b>
<b>Total</b>	<b>1 268</b>	<b>1 198</b>

\* including post-employment benefits

## EMPLOYEE BENEFITS FOR MEMBERS OF THE MANAGEMENT BOARD DUE OR POTENTIALLY DUE FROM THE BANK (IN PLN THOUSAND)

Name and Surname	Total short-term employee benefits (in PLN thousand)		Other long-term benefits - variable remuneration in cash (in PLN thousand) <sup>3</sup>		Total share-based payments settled in cash (in PLN thousand)		
	Remuneration in 2016 <sup>1</sup>	other received in 2016 <sup>2</sup>	received in 2016	potential as at 31.12.2016	received in 2016	due as at 31.12.2016	potential as at 31.12.2016
Zbigniew Jagiełło	2 080	359	232	506	357	501	506
Janusz Derda	56	-	-	-	-	-	-
Bartosz Drabikowski	1 740	321	188	410	295	434	410
Maks Kraczkowski	698	-	-	-	-	-	-
Mieczysław Król	805	-	-	-	-	-	-
Piotr Mazur	1 567	298	108	353	213	355	353
Jakub Papierski	1 554	298	173	371	286	402	371
Jan Emeryk Rościszewski	629	-	-	-	-	-	-
<b>The Management Board of the Bank</b>	<b>9 129</b>	<b>1 276</b>	<b>702</b>	<b>1 640</b>	<b>1 151</b>	<b>1 692</b>	<b>1 640</b>
Piotr Alicki	1 312	298	166	361	278	397	361
Jarosław Myjak	394	189	152	271	250	284	271
Jacek Obłękowski	398	298	162	362	274	395	362
<b>Management Board Members who ceased their functions in 2016</b>	<b>2 104</b>	<b>785</b>	<b>480</b>	<b>994</b>	<b>802</b>	<b>1 076</b>	<b>994</b>
<b>Total</b>	<b>11 233</b>	<b>2 061</b>	<b>1 182</b>	<b>2 634</b>	<b>1 953</b>	<b>2 768</b>	<b>2 634</b>

<sup>1</sup> Includes basic remuneration and additional benefits due to employee pension programs (PPE), additional insurance, medical care and company social benefits fund (ZFSS).<sup>2</sup> Non-deferred component of variable remuneration (in cash form).<sup>3</sup> Deferred component of variable remuneration (in cash form).

**FINANCIAL STATEMENTS OF PKO BANK POLSKI SA  
FOR THE YEAR ENDED 31 DECEMBER 2016  
(IN PLN MILLION)**



Bank Polski

Name and Surname	Total short-term employee benefits (in PLN thousand)		Other long-term benefits - variable remuneration in cash (in PLN thousand) <sup>3</sup>		Total share-based payments settled in cash (in PLN thousand)		
	Remuneration in 2015 <sup>1</sup>	other received in 2015 <sup>2</sup>	received in 2015	potential as at 31.12.2015	received in 2015	due as at 31.12.2015	potential as at 31.12.2015
Zbigniew Jagiełło	2 018	289	168	447	417	357	447
Piotr Alicki	1 524	243	112	326	297	277	326
Bartosz Drabikowski	1 687	243	134	364	365	295	364
Piotr Mazur	1 520	215	60	261	257	213	261
Jarosław Myjak	1 504	215	104	296	276	250	296
Jacek Obłękowski	1 531	242	108	323	298	274	323
Jakub Papierski	1 527	247	118	343	330	286	343
<b>Total</b>	<b>11 311</b>	<b>1 694</b>	<b>804</b>	<b>2 360</b>	<b>2 240</b>	<b>1 952</b>	<b>2 360</b>

<sup>1</sup> Includes basic remuneration and additional benefits due to employee pension programs (PPE), additional insurance, medical care and company social benefits fund (ZFSS).

<sup>2</sup> Non-deferred component of variable remuneration (in cash form).

<sup>3</sup> Deferred component of variable remuneration (in cash form).

Post-employment benefits for Management Board Members who ceased to perform their function in 2016 (in PLN thousand)	2016
Piotr Alicki	417
Jarosław Myjak	262
Jacek Obłękowski	487
<b>Total</b>	<b>1 166</b>

Termination benefits for Management Board Members who ceased to perform their function in 2016 (in PLN thousand)	2016
Piotr Alicki	1 097
Jarosław Myjak	1 108
Jacek Obłękowski	1 108
<b>Total</b>	<b>3 313</b>

**REMUNERATION OF MEMBERS OF THE BANK'S MANAGEMENT BOARD RECEIVED FROM RELATED ENTITIES (OTHER THAN THE STATE TREASURY AND ENTITIES RELATED TO THE STATE TREASURY) (IN PLN THOUSAND)**

In 2016 Mr. Jakub Papierski received PLN 22 thousand as remuneration received from the Bank's associate (remuneration for 2015 amounted to PLN 42 thousand).

**LOANS AND ADVANCES GRANTED BY THE BANK TO THE MANAGEMENT (IN PLN THOUSAND)**

Loans and advances granted to management members by the Bank (in PLN thousand)	31.12.2016	31.12.2015
The Supervisory Board of the Bank	608	1 093
The Management Board	930	946
<b>Total</b>	<b>1 538</b>	<b>2 039</b>

Interest conditions and repayment periods of receivables do not differ neither from arm's length nor from repayment period set up for similar bank products.



## VARIABLE REMUNERATION COMPONENTS

	31.12.2016 (for the years 2012-2016)	31.12.2015 (for the years 2012-2015)
<b>Provision for variable remuneration components</b>		
The Bank's Management Board (including members of the Bank's Management Board who ceased to perform their functions in 2016)	16.7	14.2
Other Risk Takers (persons holding managerial positions other than members of the Bank's Management Board)	31.3	26.7
<b>Total provision</b>	<b>48.0</b>	<b>40.9</b>
<b>Remuneration paid during the year</b>	<b>2016 (for the years 2012-2016)</b>	<b>2015 (for the years 2012-2015)</b>
- granted in cash	11.4	8.9
The Bank's Management Board (including members of the Bank's Management Board who ceased to perform their functions in 2016)	3.2	2.5
Other Risk Takers	8.2	6.4
- granted in the form of financial instruments	8.9	7.3
The Bank's Management Board (including members of the Bank's Management Board who ceased to perform their functions in 2016)	2.0	2.2
Other Risk Takers	6.9	5.1
<b>Total amount paid</b>	<b>20.3</b>	<b>16.2</b>

## 46. FAIR VALUE HIERARCHY

### ACCOUNTING POLICIES AND ESTIMATES AND JUDGEMENTS

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

Depending on category of classification of financial assets and liabilities to specified level of hierarchy, different methods of fair value valuation are used.

#### LEVEL 1: PRICES QUOTED ON THE ACTIVE MARKETS

Financial assets and liabilities whose fair value is stated directly at prices quoted (not adjusted) from active markets for identical assets and liabilities. The Bank classifies to this category financial and equity instruments measured at fair value through profit and loss and available for sale, for which there is an active market and for which the fair value is determined with reference to market value, which is a bid price:

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

**LEVEL 2: VALUATION TECHNIQUES BASED ON OBSERVABLE MARKET DATA**

Financial assets and liabilities whose fair value is determined with use of valuation models where all significant entry data are observable on the market directly (as prices) or indirectly (based on prices). The Bank classifies to that category financial instruments for which there is no active market:

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

**LEVEL 3: OTHER VALUATION TECHNIQUES**

Financial assets and liabilities, whose fair value is determined with use of valuation models, for which available input data are not derived from observable markets (unobservable input data). The Bank classified to that category financial instruments, which are valued with internal valuation models:



FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE	VALUATION METHOD (TECHNIQUE)	UNOBSERVABLE INPUTS
PARTICIPATION UNITS IN MUTUAL FUND	Method of the net asset value of the Fund (NAV - Net Asset Value) i.e. the fair value of investment projects (of the companies) in the Fund, which are subject to semi-annual review or audit performed by the registered auditor.	Value of Fund's net assets.
C-SERIES PREFERENCE SHARES OF VISA INC.	Estimating the fair value based on the current market value of the listed ordinary shares of Visa Inc., including a discount which takes into account the limited liquidity of C-series shares and the terms and conditions of the conversion of C-series shares into ordinary shares.	Discount taking into account limited liquidity of C-series shares and the terms and conditions of the conversion of C-series shares into ordinary shares.
CORPORATE BONDS	Yield curve and a risk margin. Yield curves are built based on market rates, money market data, IRS transactions market.	Credit spread (credit margins determined on the basis of initial margins modified by credit indices quotes ascribed to issuers based on their ratings and business sector).

## FINANCIAL INFORMATION

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	20	358.2	358.2	-	-
Debt securities		343.4	343.4	-	-
Shares in other entities		11.3	11.3	-	-
Investment certificates, shares rights and pre-emptive rights		3.5	3.5	-	-
Derivative financial instruments	21	2 895.1	3.0	2 892.1	-
Hedging instruments		382.1	-	382.1	-
Trading instruments		2 513.0	3.0	2 510.0	-
Financial instruments designated upon initial recognition at fair value through profit and loss	23	11 743.9	2 506.5	9 237.4	-
Investment securities available for sale	25	35 773.3	26 674.2	5 691.0	3 408.1
Debt securities		35 314.6	26 638.9	5 691.0	2 984.7
Equity securities		160.9	35.3	-	125.6
Participation units in investment funds		297.8	-	-	297.8
<b>Financial assets measured at fair value - total</b>		<b>50 770.5</b>	<b>29 541.9</b>	<b>17 820.5</b>	<b>3 408.1</b>
Derivative financial instruments	21	4 229.5	1.0	4 228.5	-
Hedging instruments		1 162.9	-	1 162.9	-
Trading instruments		3 066.6	1.0	3 065.6	-
<b>Financial liabilities measured at fair value - total</b>		<b>4 229.5</b>	<b>1.0</b>	<b>4 228.5</b>	<b>-</b>

**FINANCIAL STATEMENTS OF PKO BANK POLSKI SA  
FOR THE YEAR ENDED 31 DECEMBER 2016  
(IN PLN MILLION)**


Bank Polski

Financial instruments designated upon initial recognition at fair value through profit and loss as at 31.12.2016	Carrying amount	Level 1	Level 2	Level 3
NBP money market bills	8 998.8	-	8 998.8	-
Treasury bonds PLN	1 431.7	1 431.7	-	-
foreign currency Treasury bonds	1 074.8	1 074.8	-	-
municipal bonds PLN	110.9	-	110.9	-
foreign currency municipal bonds	127.7	-	127.7	-
<b>TOTAL</b>	<b>11 743.9</b>	<b>2 506.5</b>	<b>9 237.4</b>	<b>-</b>

Investment securities available for sale as at 31.12.2016	Carrying amount	Level 1	Level 2	Level 3
Debt securities available for sale	35 314.6	26 638.9	5 691.0	2 984.7
Treasury bonds PLN	25 146.9	25 146.9	-	-
foreign currency Treasury bonds	457.1	457.1	-	-
municipal bonds PLN	4 551.8	-	4 551.8	-
corporate bonds PLN	4 581.2	692.3	1 139.2	2 749.7
foreign currency corporate bonds	577.6	342.6	-	235.0
Equity securities	160.9	35.3	-	125.6
Participation units in investment funds	297.8	-	-	297.8
<b>TOTAL</b>	<b>35 773.3</b>	<b>26 674.2</b>	<b>5 691.0</b>	<b>3 408.1</b>

Assets and liabilities measured at fair value as at 31.12.2015	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	20	793.2	793.2	-	-
Debt securities		776.7	776.7	-	-
Shares in other entities		9.9	9.9	-	-
Investment certificates, shares rights, pre-emptive rights		6.6	6.6	-	-
Derivative financial instruments	21	4 348.0	2.2	4 345.8	-
Hedging instruments		508.7	-	508.7	-
Trading instruments		3 839.3	2.2	3 837.1	-
Financial instruments designated upon initial recognition at fair value through profit and loss	23	12 796.0	2 551.9	10 244.1	-
Investment securities available for sale	25	27 841.5	18 941.7	5 265.0	3 634.8
Debt securities		27 259.5	18 883.9	5 265.0	3 110.6
Equity securities		385.4	57.8	-	327.6
Participation units in investment funds		196.6	-	-	196.6
<b>Financial assets measured at fair value – total</b>		<b>45 778.7</b>	<b>22 289.0</b>	<b>19 854.9</b>	<b>3 634.8</b>
Derivative financial instruments	21	4 627.2	1.5	4 625.7	-
Hedging instruments		998.5	-	998.5	-
Trading instruments		3 628.7	1.5	3 627.2	-
Debt securities in issue	32	71.7	-	71.7	-
<b>Financial liabilities measured at fair value - total</b>		<b>4 698.9</b>	<b>1.5</b>	<b>4 697.4</b>	<b>-</b>

**FINANCIAL STATEMENTS OF PKO BANK POLSKI SA  
FOR THE YEAR ENDED 31 DECEMBER 2016  
(IN PLN MILLION)**


Bank Polski

Financial instruments designated upon initial recognition at fair value through profit and loss as at 31.12.2015	Carrying amount	Level 1	Level 2	Level 3
NBP money market bills	9 996.9	-	9 996.9	-
Treasury bonds PLN	1 466.6	1 466.6	-	-
foreign currency Treasury bonds	1 085.3	1 085.3	-	-
municipal bonds PLN	115.9	-	115.9	-
foreign currency municipal bonds	131.3	-	131.3	-
<b>TOTAL</b>	<b>12 796.0</b>	<b>2 551.9</b>	<b>10 244.1</b>	<b>-</b>

Investment securities available for sale as at 31.12.2015	Carrying amount	Level 1	Level 2	Level 3
Debt securities available for sale	27 259.5	18 883.9	5 265.0	3 110.6
Treasury bonds PLN	17 710.7	17 710.7	-	-
foreign currency Treasury bonds	310.6	310.6	-	-
municipal bonds PLN	4 613.7	-	4 613.7	-
corporate bonds PLN	4 065.8	541.9	651.3	2 872.6
foreign currency corporate bonds	558.7	320.7	-	238.0
Equity securities	385.4	57.8	-	327.6
Participation units in investment funds	196.6	-	-	196.6
<b>TOTAL</b>	<b>27 841.5</b>	<b>18 941.7</b>	<b>5 265.0</b>	<b>3 634.8</b>

Impact of estimated parameters on fair value measurement of financial instruments at Level 3	31.12.2016		31.12.2015	
	positive scenario	negative scenario	positive scenario	negative scenario
Investment securities available for sale				
Participation units in investment fund <sup>1</sup>	312.7	282.9	206.5	186.8
Shares of Visa Inc./Visa Europe Limited <sup>2</sup>	99.7	70.4	378.7	282.0
Corporate bonds <sup>3</sup>	2 992.4	2 977.1	3 122.4	3 099.0

<sup>1</sup> Scenario assuming an increase/decrease in the Fund's net assets value of +/- 5% respectively.

<sup>2</sup> Scenario assuming a discount ratio of 0%/100% respectively.

<sup>3</sup> Scenario assuming a change in the credit spread of +/-10%.

Reconciliation of changes in the period in fair value at level 3 of fair value hierarchy	2016	2015
Opening balance at the beginning of the period	3 634.9	198.3
Total gains or losses	146.8	337.6
in profit or loss	101.9	-
recognised in other comprehensive income	44.9	337.6
Settlement of sale transaction of Visa Europe Limited shares	(337.0)	-
Taking up of shares in Visa Inc.	81.0	-
Taking up a new share issue in the Fund	67.6	-
Other purchases and sales (including settlements)	(185.2)	(12.0)
Foreign exchange differences	-	0.4
Transfers from Level 2 to Level 3	-	3 110.6
<b>Closing balance as the end of the period</b>	<b>3 408.1</b>	<b>3 634.9</b>



In 2016 Bank did not reclassify financial instruments to level 3 of the fair value hierarchy. In 2015 the Bank partially transferred corporate bonds recognised in investment securities available for sale from level 2 to levels 1 and 3 of the fair value hierarchy.

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

The Bank holds financial assets and liabilities which are not presented at fair value in the statement of financial position.

Where there is no market value of financial instruments available, their fair values have been estimated with the use of various valuation techniques. The fair value of financial instruments was measured using a model based on estimating the present value of future cash flows by discounting them using relevant discount rates.

All model calculations include certain simplifying assumptions and therefore are sensitive to those assumptions. Set out below is a summary of the main methods and assumptions used for estimation of fair values of financial instruments which are not measured at fair value.

For certain categories of financial instruments it has been assumed that their carrying amount equals approximately their fair values, which is due to lack of expected material differences between their carrying amount and their fair value resulting from the features of these groups (such as short term character, high correlation with market parameters, unique character of the instrument). This applies to the following groups of financial instruments:

- loans and advances to customers: a portion of the housing loans portfolio ('old' housing loans portfolio), loans with no specified repayment schedule, loans payable at the moment of valuation,
- amounts of the Bank due to customers: liabilities with no specified payment schedule, other specific products for which no active market exists,
- deposits and interbank placements with maturity date up to 7 days or with a variable interest rate,
- loans or advances granted and taken on interbank market at a variable interest rate (change of interest rate maximum on a 3 month basis),
- cash and balances with the Central Bank and amounts due to the Central Bank,
- other financial assets and liabilities.

For loans and advances to customers with no impairment triggers, present value of discounted cash flow model was used that includes current interest rate with credit margin risk and real maturities that stem from loan agreements. The current level of margins was calculated based on financial instrument transactions with similar risk level that took place in the last quarter that ended on the balance sheet date. For currency loans, the current loan margin for PLN loans was used and it was adjusted with the cost of currency acquisition in basis-swap transaction. The valuation does not take into consideration proposed system solutions which might result in losses being incurred by the Bank on the mortgage loan portfolio denominated in CHF. For impaired loans, it is assumed that fair value equals their carrying amount.

The fair value of deposits and other amounts due to customers other than banks, with specified maturities has been calculated using the discounted expected future cash flows and applying current interest rates for given deposit products. The fair value is calculated for each deposit and liability, then the fair values of the entire deposit portfolio are grouped by type of product and customer segment. For demand deposits, it is assumed that the fair value equals their carrying amount.

The fair value of the subordinated debt of the Bank has been estimated based on the expected future cash flows discounted using the yield curve.



The fair value of debt securities issued by PKO Bank Polski SA has been estimated based on the expected future cash flows discounted using the current interbank interest rates.

The fair value of interbank placements and deposits have been estimated based on the expected future cash flows discounted using the current interbank interest rates.

	level of hierarchy	valuation method	31.12.2016	
			carrying amount	fair value
Cash and balances with the Central Bank	n/a	value at cost to pay	13 276.7	13 276.7
Amounts due from banks	2	discounted cash flows	8 470.9	8 469.8
Loans and advances to customers			189 067.3	187 433.1
housing	3	discounted cash flows	97 866.5	94 091.4
corporate	3	discounted cash flows	62 143.4	62 940.7
consumer	3	discounted cash flows	22 847.7	24 264.9
debt securities (corporate)	3	discounted cash flows	2 282.8	2 209.2
debt securities (municipal)	3	discounted cash flows	2 587.9	2 587.9
receivables due from repurchase agreements	3	discounted cash flows	1 339.0	1 339.0
Investment securities held to maturity	3	discounted cash flows	157.0	157.0
Other financial assets	3	value at cost to pay less impairment allowance	1 791.3	1 791.3
Amounts due to the Central Bank	2	value at cost to pay	4.1	4.1
Amounts due to banks	2	discounted cash flows	18 716.9	18 716.9
Amounts due to customers			209 371.4	209 558.4
due to corporate entities	3	discounted cash flows	53 570.9	53 812.7
due to public entities	3	discounted cash flows	8 408.9	8 408.9
due to retail clients	3	discounted cash flows	147 391.6	147 336.8
Debt securities in issue	2	discounted cash flows	1 693.0	1 695.3
Subordinated debt	2	discounted cash flows	2 539.0	2 525.8
Other financial liabilities	3	value at cost to pay	255.5	255.5

	level of hierarchy	valuation method	31.12.2015	
			carrying amount	fair value
Cash and balances with the Central Bank	n/a	value at cost to pay	13 707.7	13 707.7
Amounts due from banks	2	discounted cash flows	5 021.9	5 021.9
Loans and advances to customers			188 552.4	181 648.6
housing	3	discounted cash flows	99 871.0	92 632.6
corporate	3	discounted cash flows	57 165.3	57 767.6
consumer	3	discounted cash flows	21 799.3	21 639.6
debt securities (corporate)	3	discounted cash flows	2 591.9	2 591.9
debt securities (municipal)	3	discounted cash flows	2 692.7	2 692.7
receivables due from repurchase agreements	3	discounted cash flows	4 432.2	4 324.2
Other financial assets	3	value at cost to pay less impairment allowance	787.3	787.3
Amounts due to the Central Bank	2	value at cost to pay	4.2	4.2
Amounts due to banks	2	discounted cash flows	18 249.9	18 249.9
Amounts due to customers			201 809.2	202 043.7
due to corporate entities	3	discounted cash flows	57 707.4	57 982.3
due to public entities	3	discounted cash flows	9 134.4	9 134.4
due to retail clients	3	discounted cash flows	134 967.4	134 927.0
Debt securities in issue	2	discounted cash flows	1 645.9	1 647.6
Subordinated debt	2	discounted cash flows	2 499.2	2 486.2
Other financial liabilities	3	value at cost to pay	2 098.1	2 098.1



## 48. OFFSETTING FINANCIAL ASSETS AND LIABILITIES

### ACCOUNTING POLICIES

The Bank 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 recognised 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, offsetting to be possible, the legal right may not be conditioned on the occurrence of a specific future event.

The Bank 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 mitigating 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).

### FINANCIAL INFORMATION

31.12.2016	Total financial assets	Derivatives	Receivable due from repurchase agreement
The amount of recognised financial assets (gross)	4 899.7	2 899.5	2 000.2
The amount of financial liabilities, which are offset in accordance with the criteria set out in § 42 of IAS 32 (gross)	(4.4)	(4.4)	-
The value of financial assets recognised in the statement of financial position (net)	4 895.3	2 895.1	2 000.2
Maximum potential amount subject to offsetting	2 095.9	2 095.9	-
The value of financial liabilities subject to enforceable framework agreement or similar agreement concerning offsetting (excluding financial collateral)	1 698.2	1 698.2	-
Cash collateral and in the form of securities received	397.7	397.7	-
<b>The net amount</b>	<b>2 799.4</b>	<b>799.2</b>	<b>2 000.2</b>

31.12.2016	Total financial liabilities	Derivatives	Receivable due from repurchase agreement
The amount of recognised financial liabilities (gross)	4 439.8	4 233.9	205.9
The amount of financial assets, which are offset in accordance with the criteria set out in § 42 of IAS 32 (gross) (net)	(4.4)	(4.4)	-
The value of financial assets subject to enforceable framework agreement or similar agreement concerning offsetting (excluding financial collateral)	1 698.2	1 698.2	-
Cash collateral and in the form of securities received	1 323.0	1 288.8	34.2
<b>The net amount</b>	<b>1 414.2</b>	<b>1 242.5</b>	<b>171.7</b>



31.12.2015	Total financial assets	Derivatives	Receivable due from repurchase agreement
The amount of recognised financial assets (gross)	9 767.8	4 354.9	5 412.8
The amount of financial liabilities, which are offset in accordance with the criteria set out in § 42 of IAS 32 (gross)	(6.9)	(6.9)	-
The value of financial assets recognised in the statement of financial position (net)	9 760.8	4 348.0	5 412.8
Maximum potential amount subject to offsetting	3 631.7	3 631.7	-
The value of financial liabilities subject to enforceable framework agreement or similar agreement concerning offsetting (excluding financial collateral)	2 794.9	2 794.9	-
Cash collateral and in the form of securities received	836.8	836.8	-
<b>The net amount</b>	<b>6 129.1</b>	<b>716.3</b>	<b>5 412.8</b>

31.12.2015	Total financial liabilities	Derivatives	Receivable due from repurchase agreement
The amount of recognised financial liabilities (gross)	5 660.2	4 634.1	1 026.1
The amount of financial assets, which are offset in accordance with the criteria set out in § 42 of IAS 32 (gross)	(6.9)	(6.9)	-
The value of financial liabilities recognised in the statement of financial position (net)	5 653.3	4 627.2	1 026.1
Maximum potential amount subject to offsetting	4 072.6	4 048.5	24.1
The value of financial assets subject to enforceable framework agreement or similar agreement concerning offsetting (excluding financial collateral)	2 794.9	2 794.9	-
Cash collateral and in the form of securities received	1 277.7	1 253.6	24.1
<b>The net amount</b>	<b>1 580.7</b>	<b>578.7</b>	<b>1 002.0</b>

#### 49. ASSETS PLEDGED AS COLLATERAL FOR LIABILITIES

Liabilities due to sell-buy-back transactions  
Liabilities from negative valuation of derivative instruments  
Preliminary Settlement Deposit of the National Depository for Securities (KDPW)  
Bank Deposit Guarantee Fund  
Legal limitations relating to the Bank's legal title  
Transferred financial assets

#### LIABILITIES DUE TO SELL-BUY-BACK TRANSACTIONS

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

Carrying amount	31.12.2016	31.12.2015
Debt securities	181.8	1 013.0
Repurchase agreements	205.9	1 026.1
<b>Net balance</b>	<b>(24.1)</b>	<b>(13.1)</b>

#### 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 December 2016 amounted to PLN 1 288.8 million (as at 31 December 2015 PLN 1 253.6 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	31.12.2016	31.12.2015
Value of the deposit	8.0	8.0
Nominal value of the pledge	8.0	8.0
Type of the pledge	Treasury bonds	Treasury bonds
Carrying amount of the pledge	8.0	8.0

#### BANK DEPOSIT GUARANTEE FUND

	31.12.2016	31.12.2015
Value of the fund	1 005.0	608.5
Nominal value of the pledge	1 060.0	650.0
Type of the pledge	Treasury bonds	Treasury bonds
Maturity of the pledge	25.01.2024	25.01.2024
Carrying amount of the pledge	1 020.8	627.4

Assets represent Treasury bonds with maturities sufficient to secure their carrying amount over the period defined by the Act. The Fund is increased or decreased on 1 July of each year, in proportion to the amount providing the basis for calculation of mandatory reserve deposits. Those funds are treated as assets held as collateral for own liabilities.

#### LEGAL LIMITATIONS RELATING TO THE BANK LEGAL TITLE

In the years ended 31 December 2016 and 31 December 2015, there were no intangible assets and tangible fixed assets which ownership by the Bank were subject to restrictions and pledged as collateral for liabilities.

#### TRANSFERRED FINANCIAL ASSETS

As at 31 December 2016 and as at 31 December 2015 the Bank did not have transferred financial assets, which are derecognised from the financial statements in their entirety, for which the Bank continues involvement in those assets.

### 50. FIDUCIARY ACTIVITIES

The Bank is a direct participant in the National Depository for Securities (Krajowy Depozyt Papierów Wartościowych) and the Securities Register (at the National Bank of Poland). The Bank 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 placed in the Bank within fiduciary services are not included in these financial statements as they do not meet the criteria of an asset.

### 51. INFORMATION ON THE ENTITY AUTHORIZED TO AUDIT THE FINANCIAL STATEMENTS

On 11 March 2015 the Supervisory Board of PKO Bank Polski selected KPMG Audyt Spółka z ograniczoną odpowiedzialnością spółka komandytowa as entity authorized to audit the financial statements of PKO Bank Polski and the consolidated financial statements of the PKO Bank Polski SA Group. KPMG Audyt Spółka z ograniczoną odpowiedzialnością spółka komandytowa registered in Warsaw, Inflancka 4A Street is registered under the number of 3546 on the list of entities authorized to audit financial statements, kept with the National Chamber of Statutory Auditors. The selection of the entity authorized to audit and review the financial statements was made by the Supervisory Board in accordance with applicable regulations and professional standards, on the basis of §15 section 1, point 4 of the Statute of the Bank.



On 10 April 2015, PKO Bank Polski SA and the KPMG Audyt Spółka z ograniczoną odpowiedzialnością spółka komandytowa - entity authorized to audit financial statements signed an agreement for the audit and review of the financial statements of the Bank and the PKO Bank Polski SA Group for the years 2015-2016.

Total net remuneration due to KPMG Audyt Spółka z ograniczoną odpowiedzialnością Sp. k. for the audit of the separate and consolidated financial statements of PKO Bank Polski SA in 2016 amounted to PLN 1 250 thousand (in 2015 PLN 1 250 thousand) and total net remuneration for the assurance services, including the review of the financial statements in 2016 amounted to PLN 2 381 thousand (in 2015 PLN 974 thousand). In 2016, net fees paid for other services amounted to PLN 68 thousand (in 2015 PLN 34 thousand).



## OBJECTIVES AND PRINCIPLES OF RISK MANAGEMENT

### 52. RISK MANAGEMENT IN PKO BANK POLSKI SA

Risk management is one of the most important internal processes in PKO Bank Polski SA. 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, in the changing macroeconomic and legal environment. The level of the risks plays an important role in the planning process.

At the Bank, the following types of risk have been identified, which are subject to management and some of them are considered significant<sup>1</sup>:

TYPE OF RISK	CONSIDERED TO BE SIGNIFICANT	SECTION
CREDIT	YES	53, 54, 56, 57
CREDIT CONCENTRATION	YES	55
RISK OF FOREIGN CURRENCY MORTGAGE LOANS	YES	58
INTEREST RATE	YES	59
CURRENCY	YES	60
LIQUIDITY, INCLUDING FINANCING RISK	YES	61
COMMODITY PRICE		62
PRICE OF EQUITY SECURITIES		62
OTHER PRICE RISK		62
DERIVATIVE	YES	63
OPERATIONAL	YES	64
COMPLIANCE AND CONDUCT	YES	65
BUSINESS (INCLUDING STRATEGIC RISK)	YES	65
LOSS OF REPUTATION	YES	65
MODELS	YES	65
MACROECONOMIC CHANGES	YES	65
CAPITAL	YES	65
EXCESSIVE LEVERAGE	YES	65

A detailed description of management policies for particular risks was presented in the Report on Capital Adequacy and other information subject to publication.

<sup>1</sup> The significance of the individual types of risk is established at the Bank's level. When determining criteria of classifying a given type of risk as significant, an influence of the significance of the risk on the Bank'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 Bank 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 Bank 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 Bank 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 Bank 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 is based especially on the following principles:

- 1) the Bank manages all of the identified types of risk,
- 2) the risk management process 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 Bank's activity and environment in which the Bank 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 process supports the implementation of the Bank's strategy in compliance with the risk management strategy, in particular with regard to the level of tolerance of the risk.

## RISK MANAGEMENT PROCESS

The process of risk management in PKO Bank Polski SA 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 activity of the Bank. Within the risk identification process, types of risk perceived as material in the Bank's 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 bank's pricing policy and stress-test are being conducted for each type of risk 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 Bank (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 Bank'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 tests (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.

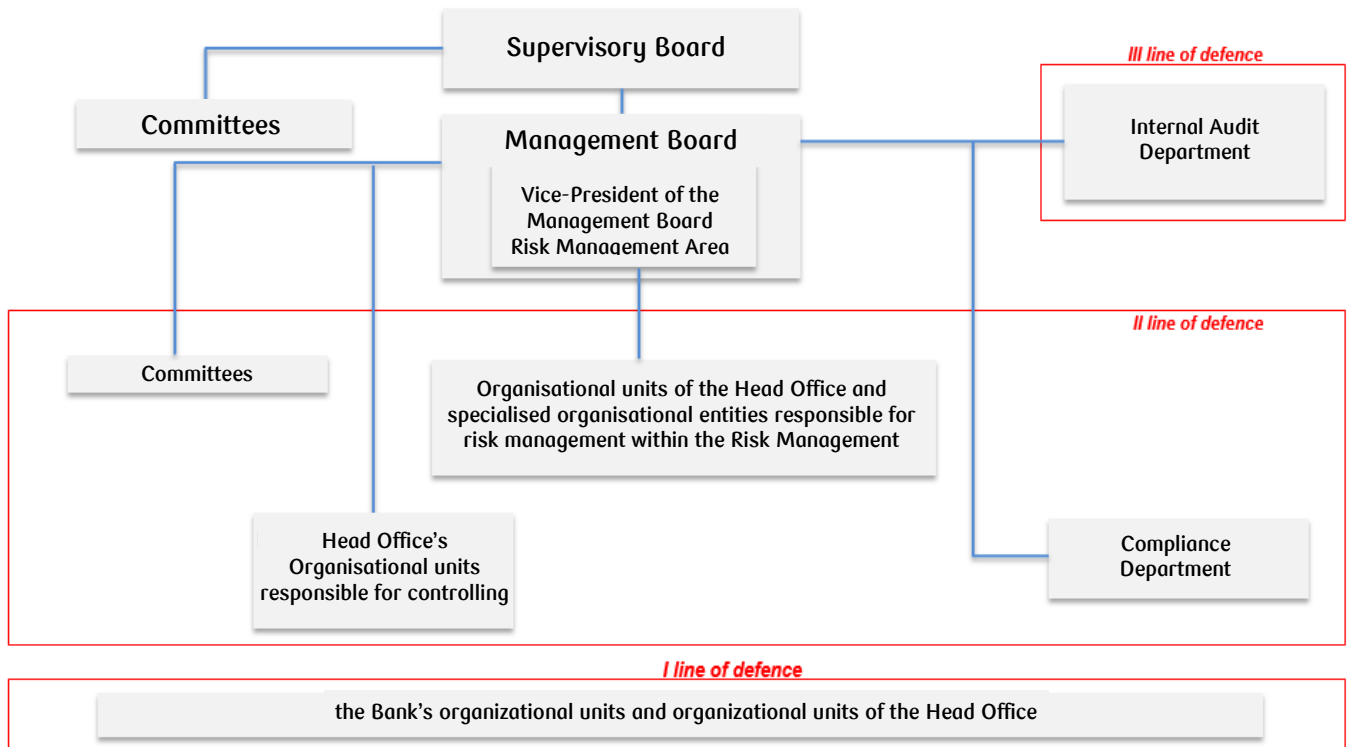
- **MANAGEMENT ACTIONS:**

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 BANK

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

The organization of risk management is presented in the chart below:



The risk management process is supervised by the Supervisory Board, which is informed on a regular basis about the risk profile of the Bank and the most important activities taken in the area of risk management. The Supervisory Board is supported by the following committees: the Supervisory Board Remuneration Committee, the Supervisory Board Risk Committee and the Supervisory Board Audit Committee.

In respect of risk management, the Management Board of PKO Bank Polski SA is responsible for strategic risk management, including supervising and monitoring actions taken by the Bank in 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 Bank:

- 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:

**THE FIRST LINE OF DEFENCE** - risk management within the defined limits based on the Bank's internal regulations, with built-in controls, internal control system and compliance with universally binding legal regulations, the Bank's internal regulations and market standards. This function is realized in all the Bank's organizational entities, in the Head Office's organizational units and covers those aspects of operations of particular entities, units and companies which may generate risk. The Bank's organizational entities and Head Office's organizational units are responsible for risk identification, designing and implementing appropriate controls, if they have not been implemented as part of the actions taken as the second line of defence.



**THE SECOND LINE OF DEFENCE** - in particular the measurement or assessment, control, monitoring and reporting particular risks important to the Bank, reporting identified threats and irregularities, preparing the Bank's internal regulations determining the risk management principles, methods, tools and procedures, and measuring operating effectiveness. The risk management system, including methods, tools, process and organization of risk management. This function is performed in particular in the Risk Management Area, Compliance Department and respective committees.

**THE THIRD LINE OF DEFENCE** - internal audit. The function is being performed as part of internal audit, including the audit of the effectiveness of the system of managing the risk.

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

- the function of the second line of defence as regards creating system solutions is independent of the function of the first line of defence,
- the function of the third line of defence is independent of the functions of the first and second lines of defence,
- the function of managing the compliance risk reports directly to the President of the Management Board.

### **SPECIFIC ACTIVITIES IN THE AREA OF RISK MANAGEMENT IN THE BANK UNDERTAKEN IN 2016**

PKO Bank Polski SA's priority is to maintain its strong equity position, including effective capital adequacy management, counteracting cyberthreats, while maintaining the priorities of efficiency and effective cost control and appropriate risk assessment. In this respect, the Bank took i.a. the following actions in 2016:

- turned the maturing own short-term bonds on bonds in the amount of PLN 1 billion (in May) and PLN 815 million (in November),
- turned the maturing own short-term bonds on bond with a maturity to one year in the amount of EUR 200 million,
- in connection with the acquisition of 100% shares in Raiffeisen-Leasing Polska SA by PKO Leasing SA on 1 December 2016, a decision was taken not to pay dividend from the Bank's profits earned in 2015 and retained earnings.

In 2016, the Bank conducted operating risk management-related preparatory work for starting operations of the Bank's new branch in the Czech Republic, the opening of which is planned for March 2017. As part of this work, in November 2016, the Bank filed an application with the Polish Financial Supervision Authority requesting consent for joint application of advanced measurement approach (AMA) and basic indicator approach (BIA) consisting of the calculating the requirements relating to own funds in respect of operational risk using the BIA method in respect of the operations of the Bank's branch in Germany and in the Czech Republic, and using the AMA approach for the remaining operations of the Bank.

In the first half of 2016, the Bank continued work related to model risk management in the process of adapting to the requirements of Recommendation W on risk management in banks, issued by the Polish Financial Supervision Authority in July 2015. As of 30 June 2016 the process of model risk management in the Bank is conducted pursuant to the requirements of Recommendation W.

In the fourth quarter of 2016, the Bank introduced changes to the process of managing the exposure concentration risk, which constitute the fulfilment of the requirements of Resolution No. 351/2016 of the Polish Financial Supervision Authority dated 24 May 2016 on issuing Recommendation C relating to concentration risk.

The amendments include i.a.: concentration risk management objectives and process, new measures of tolerance to concentration risk, including internal limits mitigating the risk of excessive concentration, the method of performing stress tests regarding concentration risk.

In the fourth quarter of 2016, the Bank updated and modified the method of assessing credited entrepreneurs in the formula of specialised lending, which allows an adequate credit risk assessment of large projects involving financing residential and commercial real estate.



## 53. CREDIT RISK MANAGEMENT

### DEFINITION

Credit risk is defined as a risk of occurrence of losses due to counterparty's default of payments to the Bank or as a risk of decrease in economic value of amounts due to the Bank as a result of deterioration of counterparty's ability to repay amounts due to the Bank.

### MANAGEMENT OBJECTIVE

The objective of credit risk management is to minimize losses on the loan portfolio as well as to minimize the risk of occurrence of loans exposed to impairment, while keeping expected level of profitability and value of loan portfolio at the same time.

The Bank primarily follows the following principles of credit risk management:

- each loan transaction is subject to comprehensive credit risk assessment, which is reflected in an internal rating or credit scoring,
- credit risk relating to loan transactions is measured on the stage of examining loan application and on a regular basis, as part of the monitoring process taking into consideration changes in external conditions and in the financial standing of the borrowers,
- credit risk assessment of exposures is separated from the sales function by ensuring proper organizational structure, independence of development and validation of tools supporting the credit risk assessment and independence of decisions accepting derogations from indication of these tools,
- terms of loan transactions that are offered to a client depend on the assessment of credit risk level generated by the transaction,
- loan granting decisions are made only by authorized persons,
- credit risk is diversified particularly by geographical location, by industry, by product and by clients,
- expected credit risk level is mitigated by collateral received by the Bank, margins from clients and impairment allowances (provisions) on loan exposures.

The above-mentioned principles are executed by the Bank through the use of advanced credit risk management methods, both on the level of individual credit exposures and on the level of the whole loan portfolio of the Bank. These methods are verified and developed to ensure compliance with the internal rating – based method requirements (IRB), i.e. advanced credit risk measurement method, which can be used while calculating requirements as regards own funds for credit risk after being approved by the Polish Financial Supervision Authority.

### MEASUREMENT AND ASSESSMENT OF CREDIT RISK

#### • CREDIT RISK MEASUREMENT AND ASSESSMENT METHODS

In order to assess the level of credit risk and profitability of loan portfolios, the Bank uses different credit risk measurement and valuation methods, including:

- Probability of Default (PD),
- Expected Loss (EL),
- Unexpected Loss (UL),
- Loss Given Default (LGD),
- Credit Value at Risk (CVaR),
- share and structure of impaired loans,
- coverage ratio of impaired loans with impairment allowances,
- cost of risk.

The Bank extends regularly the scope of credit risk measures used, taking into account the internal rating-based method (IRB) requirements, and extends the use of risk measures to fully cover the whole Bank's loan portfolio with these methods.

The portfolio credit risk measurement methods allow i.a. to reflect the credit risk in the price of products, determine the optimum conditions of financing availability and determine rates of impairment allowances.



The Bank performs analysis and stress-tests regarding the influence of potential changes in macroeconomic environment on the quality of Bank's loan portfolio. The test results are reported to the Bank's authorities. The above-mentioned information enables to identify and take measures to limit the negative influence of unfavourable market changes on the Bank's performance.

#### • RATING AND SCORING METHODS

The Bank assesses the risk of individual credit transactions with the use of scoring and rating methods, which are created, developed and supervised by the Banking Risk Division. These methods are supported by specialist IT application software. The scoring method is defined by Bank's internal regulations whose main aim is to ensure uniform and objective assessment of credit risk during the lending process.

The Bank assesses the credit risk of retail clients in two dimensions: creditworthiness assessed quantitatively and qualitatively. The quantitative assessment of creditworthiness consists of evaluation of the financial situation, whereas the qualitative assessment involves scoring and evaluating the client's credit history obtained from internal records of the Bank and external databases.

In the case of corporate clients from the small and medium enterprises segment that meet certain criteria, the Bank assesses credit risk using the scoring method. Such assessment refers to low-value, non-complex loan transactions and it is performed in two dimensions: clients' borrowing capacity and his creditworthiness. The assessment of borrowing capacity involves examination of the client's economic and financial situation, whereas the creditworthiness assessment involves scoring and evaluation of the client's credit history obtained from internal records of the Bank and external databases.

In other cases, the rating method is used for institutional customers.

The evaluation of credit risk related to financing institutional clients is performed in two dimensions: in respect of the client and of the transaction. The assessment measures comprise the assessment of the credibility of the client, i.e. rating; and the assessment of the transaction, i.e. liability repayment capacity in the specified amount and timing.

Rating models for corporate clients were prepared using internal data of the Bank which ensures that they are tailored to the risk profile of the Bank's clients. Models are based on a statistical dependence analysis between the default and a customer's risk rating. Rating includes an assessment of the financial indicators, qualitative factors and evaluation of behavioural factors. The client's risk assessment depends on the size of the enterprise for which analysis is made. In addition, the Bank uses a model for assessment of credited entrepreneurs in the formula of specialised lending, which allows adequate credit risk assessment of large projects involving real estate financing (e.g. office space, retail areas, industrial areas) and infrastructure projects (e.g. telecommunications, industrial, public utility infrastructure).

In order to examine the correctness of functioning of method applied in the Bank, the methodologies of credit risk assessment related to individual loan exposures are subject to periodical reviews.

The credit risk assessment process in Bank takes into account the requirements of the Polish Financial Supervision Authority as defined in the Recommendation S, relating to best practices for the management of mortgage-secured loan exposures and Recommendation T relating to best practices for the management of retail credit exposures.

The information about ratings and scoring is widely used in the Bank for the purposes of credit risk management, the system of credit decision making powers, determining the conditions in which credit assessment services are activated and in the credit risk assessment and reporting system.

#### MONITORING OF CREDIT RISK

Monitoring of credit risk is performed at individual loan transaction level and at portfolio level.

Monitoring of credit risk at the individual loan transaction level is governed, in particular, by the Bank's internal regulations concerning:

- the principles for the recognition of impairment allowances for loan exposures and impairment allowances on receivables due to unsettled forward transactions,
- the rules of functioning of the Early Warning System at the Bank,



- early monitoring of delays in the collection of receivables,
- the principles for the classification of loan exposures and determining the level of specific provisions.

In order to shorten the time of reaction to the warning signals observed, signalling an increase in the credit risk level, the Bank uses and develops an IT application, an Early Warning System (EWS).

Monitoring of credit risk at the portfolio level consists of:

- supervising the level of the portfolio credit risk on the basis of the adopted tools used for measuring credit risk, taking into consideration the identified sources of credit risk and analysing the effects and actions taken as part of system management,
- recommending preventive measures in the event of identifying an increased level of credit risk.

## CREDIT RISK REPORTING

The Bank prepares monthly and quarterly credit risk reports. The reporting of credit risk covers specifically cyclic information on the risk exposure of the credit portfolio. In addition to the information concerning the Bank, the reports also contain information about the credit risk level for the Group subsidiaries (i.a. KREDOBANK SA Group and the PKO Leasing SA Group), which have significant credit risk levels.

## MANAGEMENT ACTIONS CONCERNING CREDIT RISK

Basic credit risk management tools used by the Bank include:

- minimum transaction requirements (risk parameters) determined for a given type of transaction (e.g. minimum LTV value, maximum loan amount, required collateral),
- the principles of defining credit availability, including cut-offs – the minimum number of points awarded in the process of creditworthiness assessment with the use of a scoring system (for retail clients and SMEs) or the client's rating class (for corporate clients), which a client must obtain to receive a loan,
- concentration limits – limits defined in the Regulation of the European Parliament and Council (EU) No. 575/2013 on prudential requirements for credit institutions and investment firms ('CRR') and the Banking Law,
- industry-related limits – limits which reduce the risk level related to financing institutional clients that conduct business activities in industries characterized by high level of credit risk,
- limits on credit exposures related to the Bank's clients – the limits defining the appetite for credit risk as result of among others the recommendations S and T,
- credit limits defining the Bank's maximum exposure to a given client or country in respect of wholesale operations and settlement limits and limits for the period of exposure,
- competence limits – they define the maximum level of credit decision-making powers with regard to the Bank's clients, the limits depend primarily on the amount of the Bank's exposure to a given client (or a group of related clients) and the loan transaction period, the competence limit depends on the credit decision-making level (in the Bank's organizational structure),
- minimum credit margins – credit risk margins relating to a given credit transaction concluded by the Bank with a given corporate client, but the interest rate offered to a client cannot be lower than the reference rate plus credit risk margin.

## USE OF CREDIT RISK MITIGATION TECHNIQUES - COLLATERAL

Collateral management policy as regards credit risk plays a significant role in establishing minimum transaction terms. The Bank's collateral management is meant to secure properly the credit risk, to which the Bank is exposed, including first of all the fact of establishing collateral that will ensure the highest possible level of recovery in the event of realization of debt collateral activity.

In assessing collateral, the following factors are taken into account in particular:

- the economic and financial or social and financial situation of the entities providing personal guarantees,
- the condition and market value of the assets accepted as collateral and their vulnerability to depreciation in the period of maintaining the collateral (the impact of the technological wear and tear of a collateralized asset on its value),
- potential economic benefits of the Bank resulting from a specific method of securing receivables, including, in particular, the possibility of reducing impairment allowances,
- the method of establishing collateral, including the typical duration and complexity of formalities, as well as the necessary costs (the costs of maintaining collateral and the enforcement against the collateral), using the Bank's internal regulations concerning the assessment of collateral,



- the complexity, time-consuming nature and economic and legal conditions of the effective realization of collateral, in the context of enforcement restrictions and the applicable principles for the distribution of the sums obtained from individual enforcement or in the course of bankruptcy proceedings, the ranking of claims.

The type of collateral depends on the product and the client segment.

With regard to mortgage loans the obligatory collateral are mortgages on the property. Until an effective protection is established (depending on the type and amount of a loan) the Bank may accept temporary collateral in different form.

With regard to consumer loans, usually personal guarantees are used (a civil law surety/guarantee, a bill of exchange) or collateral is established on the client's bank account, his car or securities.

The collateral for loans intended for financing small and medium-sized enterprises as well as corporate customers is established, i.a.: on institutional debt, bank accounts, movables, real estate or securities or in the form of BGK guarantees (universally used in respect of small and medium enterprises).

The policy regarding collateral is defined by the Bank's internal regulations.

## 54. CREDIT RISK – FINANCIAL INFORMATION

Level of exposure to credit risk
Past due financial assets
Financial assets assessed on an individual basis for which individual impairment has been recognised by gross carrying amount
Internal rating classes
External rating classes

### LEVEL OF EXPOSURE TO CREDIT RISK

Level of exposure to credit risk - Items of the statement of financial position	31.12.2016	31.12.2015
Current account in the Central Bank	7 443.7	9 854.1
Amounts due from banks	8 470.9	5 021.9
Trading assets – debt securities	343.4	776.7
Derivative financial instruments	2 895.1	4 348.0
Financial instruments designated upon initial recognition at fair value through profit and loss - debt securities	11 743.9	12 796.0
Loans and advances to customers	189 067.3	188 552.4
housing	97 866.5	99 871.0
corporate	62 143.4	57 165.3
consumer	22 847.7	21 799.3
debt securities (corporate)	2 282.8	2 591.9
debt securities (municipal)	2 587.9	2 692.7
receivables due from repurchase agreements	1 339.0	4 432.2
Investment securities available for sale - debt securities	35 314.6	27 259.5
Other assets - other financial assets	1 791.3	787.3
<b>Total</b>	<b>257 070.2</b>	<b>249 395.9</b>



Level of exposure to credit risk - Off-balance sheet items	31.12.2016	31.12.2015
Irrevocable liabilities granted	31 077.9	30 513.9
Guarantees issued	7 931.1	8 980.1
Letters of credit issued	1 599.5	1 838.1
Underwriting of securities	5 119.9	5 724.5
<b>Total</b>	<b>45 728.4</b>	<b>47 056.6</b>

## PAST DUE OF FINANCIAL ASSETS

Financial assets gross 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	2 316.5	609.2	167.2	3 092.9
Other assets - other financial assets	0.1	-	11.4	11.5
<b>Total</b>	<b>2 316.6</b>	<b>609.2</b>	<b>178.6</b>	<b>3 104.4</b>

Financial assets gross which are past due but not impaired	31.12.2015			
	up to 1 month	1 - 3 months	over 3 months	Total
Loans and advances to customers	1 819.3	956.3	198.3	2 973.9
Other assets - other financial assets	-	-	6.4	6.4
<b>Total</b>	<b>1 819.3</b>	<b>956.3</b>	<b>204.7</b>	<b>2 980.3</b>

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 RECOGNISED

Financial assets assessed on an individual basis for which individual impairment has been recognised at gross carrying amounts	31.12.2016	31.12.2015
Loans and advances to customers	4 420.3	4 972.2
housing loans	739.3	1 047.7
consumer loans	218.1	300.7
corporate loans	3 389.3	3 515.9
debt securities	73.6	107.9
Investment debt securities available for sale	1 293.2	393.7
<b>Total</b>	<b>5 713.5</b>	<b>5 365.9</b>

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.

The financial effect of collaterals held in respect of the amount that best represents the maximum exposure to credit risk as at 31 December 2016 amounts to PLN 2 558 million (as at 31 December 2015 it amounted to PLN 2 789.4 million).



## INTERNAL RATING CLASSES

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.

Financial assets not past due nor impaired - INTERNAL RATING CLASSES	31.12.2016	31.12.2015
<b>Loans and advances to customers</b>	<b>167 476.1</b>	<b>166 987.5</b>
corporate loans	54 202.5	52 704.8
A (first rate)	948.6	989.8
B (very good)	2 065.4	1 408.8
C (good)	6 664.6	5 612.7
D (satisfactory)	7 204.9	11 861.0
E (average)	19 363.4	13 291.5
F (acceptable)	14 286.9	16 588.2
G (poor)	3 668.7	2 952.8
consumer and housing loans	113 273.6	114 282.7
A (first rate)	91 882.0	93 971.1
B (very good)	8 833.9	8 101.6
C (good)	5 469.4	5 344.5
D (average)	4 651.5	4 093.9
E (acceptable)	2 436.8	2 771.6
<b>Investment securities available for sale – debt securities</b>	<b>5 088.1</b>	<b>5 538.6</b>
A (first rate)	11.9	86.5
B (very good)	353.4	209.5
C (good)	712.2	685.0
D (satisfactory)	1 376.5	1 532.9
E (average)	1 461.6	1 270.2
F (acceptable)	1 069.7	1 030.8
G (poor)	63.2	628.4
G 3 (low)	39.6	-
H (bad)	-	95.3
<b>Total</b>	<b>172 564.2</b>	<b>172 526.1</b>



## EXTERNAL RATING CLASSES

Structure of debt securities and amounts due from banks, neither past due nor impaired by external rating classes is presented below:

31.12.2016	AAA	AA- to AA+	A- to A+	BBB- to BBB+	BB- to BB+	B- to B+	CCC- to CCC+	Total
Amounts due from banks	24.3	1 496.4	2 208.8	378.2	13.7	4.6	192.2	4 318.2
Debt securities	153.7	1 425.9	37 571.9	1 935.6	38.4	49.0	-	41 174.5
NBP money market bills	-	-	8 998.8	-	-	-	-	8 998.8
Treasury bonds	-	-	28 459.6	-	-	-	-	28 459.6
municipal bonds	-	14.6	113.5	104.3	38.4	-	-	270.8
corporate bonds	153.7	1 411.3	-	1 831.3	-	49.0	-	3 445.3
<b>TOTAL</b>	<b>178.0</b>	<b>2 922.3</b>	<b>39 780.7</b>	<b>2 313.8</b>	<b>52.1</b>	<b>53.6</b>	<b>192.2</b>	<b>45 492.7</b>

31.12.2015	AAA	AA- to AA+	A- to A+	BBB- to BBB+	BB- to BB+	B- to B+	CCC- to CCC+	Total
Amounts due from banks	45.1	695.1	698.7	470.3	10.0	-	255.5	2 174.7
Debt securities	-	-	32 843.8	1 473.7	435.7	-	-	34 753.2
NBP money market bills	-	-	9 996.9	-	-	-	-	9 996.9
Treasury bonds	-	-	21 221.9	-	-	-	-	21 221.9
municipal bonds	-	-	148.1	102.2	43.5	-	-	293.8
corporate bonds	-	-	1 476.9	1 371.5	392.2	-	-	3 240.6
<b>TOTAL</b>	<b>45.1</b>	<b>695.1</b>	<b>33 542.5</b>	<b>1 944.0</b>	<b>445.7</b>	<b>-</b>	<b>255.5</b>	<b>36 927.9</b>

## 55. CONCENTRATION OF CREDIT RISK AT THE BANK

Concentration by the largest entities  
 Concentration by the largest capital groups  
 Concentration by industries  
 Concentration by geographical regions  
 Concentration of credit risk by currency  
 Other types of concentration

PKO Bank Polski SA 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.

### CONCENTRATION BY THE LARGEST ENTITIES

The risk of concentration of exposures to individual customers and groups of related customers is monitored in accordance with CRR Regulation, according to which the Bank does not assume an exposure to a customer or a group of related customers, whose value exceeds 25% of the value of its recognised capital.

As at 31 December 2016 and 31 December 2015, those concentration limits had not been exceeded. As at 31 December 2016, the level of concentration of the Bank risk due to the largest exposure to a single entity was equal to 37.3%\* of the Bank's recognised capital (as at 31 December 2015 equal to 14.9%).

**FINANCIAL STATEMENTS OF PKO BANK POLSKI SA  
FOR THE YEAR ENDED 31 DECEMBER 2016  
(IN PLN MILLION)**


Bank Polski

31.12.2016			31.12.2015		
	Credit exposure includes loans, advances, purchased debts, discounts on bills of exchange, realised guarantees, interest receivable and off-balance sheet and capital exposures **	Share in loan portfolio, which includes off-balance sheet and capital exposures		Credit exposure includes loans, advances, purchased debts, discounts on bills of exchange, realised guarantees, interest receivable and off-balance sheet and capital exposures **	Share in loan portfolio, which includes off-balance sheet and capital exposures
1*	11 598.8	4.29%	1	4 073.4	1.54%
2*	4 204.5	1.55%	2*	3 906.5	1.47%
3	3 200.0	1.18%	3*	2 909.8	1.10%
4	2 856.4	1.06%	4	2 721.7	1.03%
5	2 450.0	0.91%	5	2 080.0	0.78%
6	2 371.1	0.88%	6	1 910.7	0.72%
7	2 064.5	0.76%	7	1 841.9	0.70%
8	1 570.7	0.58%	8	1 668.6	0.63%
9	1 582.6	0.59%	9	1 593.9	0.60%
10	1 481.9	0.55%	10	1 214.3	0.46%
11	1 325.5	0.49%	11	1 212.6	0.46%
12*	1 150.0	0.43%	12	1 007.8	0.38%
13	1 080.9	0.40%	13	964.0	0.36%
14	992.0	0.37%	14	894.8	0.34%
15	955.6	0.35%	15	893.6	0.34%
16	882.6	0.33%	16	870.9	0.33%
17	871.7	0.32%	17	852.9	0.32%
18	828.4	0.31%	18	851.9	0.32%
19	761.1	0.28%	19	811.3	0.31%
20	705.8	0.26%	20	775.7	0.29%
<b>Total</b>	<b>42 934.2</b>	<b>15.88%</b>	<b>Total</b>	<b>33 056.3</b>	<b>12.48%</b>

\* Concentration exempted from concentration limits.

\*\* Off-balance sheet exposure includes liability resulting from derivative transactions in the amount of their equivalent in the statement of financial position.

**CONCENTRATION BY THE LARGEST CAPITAL GROUPS**

As at 31 December 2016 the greatest concentration of PKO Bank Polski SA towards the capital group amounted to 6.35% of the loan portfolio of the Bank (2.94% as at 31 December 2015).

As at 31 December 2016 the greatest exposure of PKO Bank Polski SA towards the capital group amounted to 55.2%\* of the Bank's recognised capital (28.6%\* as at 31 December 2015).

31.12.2016			31.12.2015		
No.	Credit exposure includes loans, advances, purchased debts, discounts on bills of exchange, realised guarantees, interest receivable and off-balance sheet and capital exposure**	Share in loan portfolio, which includes off-balance sheet and capital exposures	No.	Credit exposure includes loans, advances, purchased debts, discounts on bills of exchange, realised guarantees, interest receivable and off-balance sheet and capital exposure**	Share in loan portfolio, which includes off-balance sheet and capital exposures
*1	17 181.4	6.35%	*1	7 785.2	2.94%
2	3 129.4	1.16%	2	4 213.8	1.59%
3	2 467.7	0.91%	3	3 288.9	1.24%
4	2 396.5	0.89%	4	2 925.6	1.10%
5	2 113.2	0.78%	5	2 741.4	1.03%
<b>Total</b>	<b>27 288.1</b>	<b>10.09%</b>	<b>Total</b>	<b>20 954.9</b>	<b>7.90%</b>

\* Concentration exempted from concentration limits.

\*\* Off-balance sheet exposure includes liability resulting from derivative transactions in the amount of their equivalent in the statement of financial position.



## CONCENTRATION BY INDUSTRIES

The Bank applies industry limits in order to mitigate credit risk related to corporate clients financing which operate in selected industries characterized by a high level of credit risk, as well as to avoid excessive level of concentration of exposure to individual industries.

As compared with 31 December 2015 the exposure of PKO Bank Polski SA in industry sectors has increased by approx. PLN 4.8 billion. The total exposure in the four largest industry groups 'Industrial processing', 'Maintenance of real estate', 'Wholesale and retail trade (...)', and 'Public administration and national defence' amounted to approx. 55% of the total loan portfolio covered by industry analysis.

Structure of exposure by industry as at 31 December 2016 and as at 31 December 2015 is presented in the table below:

Section	Section name	31.12.2016		31.12.2015	
		Exposure	Number of entities	Exposure	Number of entities
C	Industrial processing	16.05%	10.42%	17.01%	10.62%
L	Maintenance of real estate	16.72%	23.09%	17.99%	21.91%
G	Wholesale and retail trade; repair of motor vehicles	13.94%	23.88%	14.83%	23.98%
F	Construction	5.54%	10.31%	8.32%	10.93%
O	Public administration and national defence, obligatory social security	8.36%	0.50%	9.84%	0.55%
D	Electricity, gas, water vapour, hot water and air to the mechanical systems production and supply	2.15%	0.19%	2.12%	0.17%
Other exposures		37.24%	31.61%	29.89%	31.84%
<b>Total</b>		<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>

The above industry structure does not include exposure arising from debt securities reclassified from the category 'available for sale' to 'loans and advances to customers'.

## CONCENTRATION BY GEOGRAPHICAL REGIONS

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

The structure of the loan portfolio by geographical regions is identified in the Bank due to the area – a separate area for the retail market (ORD), a separate area for the corporate and investment banking (OKI). As at 31 December 2016, the largest concentration of the ORD loan portfolio occurs in region of Warsaw and Katowice (these regions account in total for 25% of the ORD portfolio).

Concentration of credit risk by geographical regions for Retail Clients	31.12.2016	31.12.2015
warszawski	14.46%	14.12%
katowicki	10.91%	10.85%
poznański	9.93%	9.88%
krakowski	9.14%	9.16%
łódzki	8.83%	8.96%
wrocławski	9.23%	8.93%
gdański	8.71%	8.66%
bydgoski	7.49%	7.61%
lubelski	6.92%	7.09%
białostocki	6.48%	6.55%
szczeciński	6.22%	6.21%
headquarter	0.84%	0.98%
other	0.84%	1.00%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>



As at 31 December 2016, the largest concentration of the ORK loan portfolio occurs in the headquarter and in the central macroregion (28% and 20% of the OKI portfolio, respectively).

Concentration of credit risk by geographical regions for Corporate Clients	31.12.2016	31.12.2015
central macroregion	28.38%	15.47%
north macroregion	9.68%	13.28%
west macroregion	8.29%	10.03%
south macroregion	8.64%	9.65%
north-east macroregion	4.52%	6.66%
south-west macroregion	6.09%	6.55%
south-east macroregion	5.52%	6.20%
headquarter	20.17%	21.93%
other	8.71%	10.23%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>

#### CONCENTRATION OF CREDIT RISK BY CURRENCY

As at 31 December 2016, the share of exposure in convertible currencies, other than PLN, in the total loan portfolio of the Bank amounted to 24.5%, which represents a decrease of approximately 0.4 p.p. compared to 31 December 2015. The greatest part of the Bank currency exposures are those in CHF which as at 31 December 2016 amounted to 65.1% of the currency portfolio (67.4% as at 31 December 2015).

Concentration of credit risk by currency	31.12.2016	31.12.2015
PLN	75.46%	75.13%
CHF	15.98%	16.76%
EUR	7.34%	6.80%
USD	1.05%	1.20%
GBP	0.05%	0.03%
other	0.12%	0.07%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>

#### OTHER TYPES OF CONCENTRATION

The Bank analyses the structure of the housing loan portfolio in terms of LTV levels. As at the end of 2016, as well as in 2015 the largest concentration was in the 71% - 90% LTV range.

The structure of the housing loan portfolio in terms of LTV	31.12.2016	31.12.2015
0% - 50%	24.82%	23.18%
51% - 70%	21.17%	19.17%
71% - 90%	32.63%	27.72%
91% - 100%	9.91%	13.64%
over 100%	11.47%	16.29%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>

In accordance with the Recommendations S and T of the Polish Financial Supervision Authority, the Bank uses internal limits on credit exposures related to the Bank's customers defining the appetite for credit risk.

As at 31 December 2016, these limits have not been exceeded.



## 56. FORBEARANCE PRACTICES

Bank treats as forbearance actions aimed at making changes in the contract terms agreed with a debtor or an issuer, forced by his difficult financial situation (restructuring activities introducing concessions that otherwise would not be granted). The aim of the forbearance activities is to restore a debtor or an issuer the ability to fulfil its liabilities to the Bank and to maximize the efficiency of non-performing loans management, i.e. obtaining the highest recoveries while minimizing the incurred costs.

Forbearance activities include a change in payment terms which is individually agreed on each contract basis. Such changes may concern:

- spreading the due debt into instalments,
- changes in a repayment schedule (annuity instalments, decreasing instalments),
- extension of the lending period,
- changes in interest rates,
- changes in the credit margin,
- loans reduction.

As a result of signing and a timely service of forbearance agreement, the loans becomes undue. Forbearance involves evaluation of the ability of a debtor to fulfil the forbearance agreement conditions (debt repayment according to the agreed schedule). Forbearance agreements are monitored on an on-going basis. If, as regards to the loan exposure the impairment is recognised, the impairment allowances are recognised to reflect identified loss.

Exposures with the status of forbearance, classified as non-performing, are included in the portfolio of performing exposures if the following conditions are met simultaneously:

- a debt does not meet individual impairment triggers and there is no impairment recognised,
- at least 12 months have elapsed from the conclusion of a forbearance agreement,
- forbearance agreement has covered the whole debt,
- a debtor has demonstrated the ability to fulfil the terms of the forbearance agreement.

Exposures cease to be subject of reporting with the forbearance status if the following conditions are met simultaneously:

- at least 24 months have elapsed from the date of including forborne exposition to the portfolio of performing loans (conditional period),
- at the end of the conditional period, discussed above, client does not have a debt overdue more than 30 days,
- timely repayment of at least 12 consecutive instalments occurred.

Exposures subject to forbearance in the loan portfolio	31.12.2016	31.12.2015
Loans and advances to customers gross, of which	196 387.2	196 442.6
forbearance	3 851.6	5 301.0
Impairment allowances on loans and advances to customers, of which:	(7 319.9)	(7 890.2)
forbearance	(899.2)	(911.2)
<b>Loans and advances to customers net, of which:</b>	<b>189 067.3</b>	<b>188 552.4</b>
<b>forbearance</b>	<b>2 952.4</b>	<b>4 389.8</b>



Loans and advances to customers subject to forbearance by product type (gross)	31.12.2016	31.12.2015
housing loans	1 546.2	2 124.5
corporate loans	1 999.0	2 647.3
consumer loans	306.4	529.2
Impairment allowances on loans and advances to customers subject to forbearance	(899.2)	(911.2)
<b>Loans and advances to customers net subject to forbearance</b>	<b>2 952.4</b>	<b>4 389.8</b>

Loans and advances to customers subject to forbearance by geographical region (gross)	31.12.2016	31.12.2015
mazowiecki	659.2	1 103.0
śląsko-opolski	481.8	724.0
wielkopolski	363.3	493.3
zachodnio-pomorski	336.0	441.9
łódzki	284.6	462.4
dolnośląski	300.2	380.7
podlaski	274.7	426.5
małopolsko-świętokrzyski	286.2	403.4
pomorski	271.6	332.5
kujawsko-pomorski	372.4	295.1
lubelsko-podkarpacki	199.1	211.2
warmińsko-mazurski	22.5	27.0
<b>Total</b>	<b>3 851.6</b>	<b>5 301.0</b>

Loans and advances to customers subject to forbearance - the Bank's exposure to credit risk	Exposure by gross carrying amount	
	31.12.2016	31.12.2015
Loans and advances impaired	2 071.6	2 246.5
Loans and advances not impaired, of which:	1 780.0	3 054.5
not past due	1 454.5	2 439.1
past due	325.5	615.4
<b>Total gross</b>	<b>3 851.6</b>	<b>5 301.0</b>

Change in carrying amounts of loans and advances to customers subject to forbearance as at the start and end of the period	31.12.2016	31.12.2015
Carrying amount at the beginning of the period, net	4 389.8	5 245.3
Impairment allowance (change in period)	12.0	(92.7)
Gross book value of loans and advances which ceased to satisfy the forbearance criterion in the period	(1 947.5)	(2 318.6)
Loans and advances recognised in the period, gross	975.0	1 871.7
Other changes/repayment	(476.9)	(315.9)
<b>Carrying amount at the end of the period, net</b>	<b>2 952.4</b>	<b>4 389.8</b>



Loans and advances to customers gross subject to forbearance by applied changes in terms of repayment	Gross carrying amount	
	31.12.2016	31.12.2015
Converting due debt into instalments	2 714.9	3 786.5
Change in repayment formula (annuity instalments, diminishing instalments)	1 702.1	2 729.8
Extention of loan period	1 431.0	1 551.4
Change in interest rate	583.0	683.6
Change in margin	535.5	187.7
Debt reduction	114.1	159.0

For a given loan exposure subject to forbearance more than one change in terms of repayment may be applied.

The amount of interest income recognised on loans and advances to customers which are subject to forbearance amounted to PLN 152.8 million in 2016 (in 2015 it amounted to PLN 315.7 million).

### INVESTMENT SECURITIES AVAILABLE FOR SALE SUBJECT TO FORBEARANCE

Amount of exposures subject to forbearance in the portfolio of investment securities available for sale	31.12.2016	31.12.2015
Debt securities available for sale, including: forbearance	35 588.2 1 293.2	27 312.6 393.7
Impairment allowances on investment securities available for sale, including: forbearance	(273.6) (273.6)	(53.1) (53.1)
<b>Investment securities available for sale net, including forbearance</b>	<b>35 314.6 1 019.6</b>	<b>27 259.5 340.6</b>

Investment securities available for sale subject to forbearance - the Bank's exposure to credit risk	Exposure by gross carrying amount	
	31.12.2016	31.12.2015
Investment securities available for sale, impaired	1 293.2	393.7
<b>Total gross</b>	<b>1 293.2</b>	<b>393.7</b>

Change in carrying amounts of available-for-sale investment securities subject to forbearance as at the beginning and end of the period	31.12.2016	31.12.2015
Carrying amount at the beginning of the period, net	340.6	-
Impairment allowance (change in the period)	(220.5)	(53.1)
Investment securities available for sale recognised in the period, gross	899.5	393.7
<b>Carrying amount at the end of the period, net</b>	<b>1 019.6</b>	<b>340.6</b>

Investment securities gross by applied changes in terms of repayment subject to forbearance	Gross carrying amount	
	31.12.2016	31.12.2015
Converting due debt into instalments	1 203.9	393.7
Change of the form of payment	716.4	393.7
Extention of loan period	716.4	393.7
Change in interest rate	716.4	393.7
Change in margin	716.4	393.7
Debt reduction	129.4	-



## 57. EXPOSURE TO THE COUNTERPARTY CREDIT RISK

### CREDIT RISK OF FINANCIAL INSTITUTIONS IN THE WHOLESALE MARKET

Credit risk concentration – interbank market – Interbank market exposure as at 31.12.2016\*

Counterparty	Country	Rating	Deposit (nominal value)	Type of instrument		Total
				Derivative instruments (market valuation, in case of positive valuation excl. collateral)	Securities (nominal value)	
Counterparty 1	Poland	A	-	0.4	900.0	900.4
Counterparty 2	Switzerland	AA	494.1	-	-	494.1
Counterparty 3	Belgium	BBB	398.2	7.0	-	405.2
Counterparty 4	Switzerland	AA	397.0	-	-	397.0
Counterparty 5	Luxembourg	A	323.0	-	-	323.0
Counterparty 6	Austria	BBB	287.6	-	-	287.6
Counterparty 7	Norway	A	167.2	-	-	167.2
Counterparty 8	Luxembourg	AAA	-	(19.4)	155.0	155.0
Counterparty 9	USA	AA	-	132.1	-	132.1
Counterparty 10	United Kingdom	A	-	110.4	-	110.4
Counterparty 11	Poland	A	100.0	(36.4)	-	100.0
Counterparty 12	Ukraine	CCC	91.9	-	-	91.9
Counterparty 13	Poland	BBB	-	64.6	-	64.6
Counterparty 14	Germany	A	-	44.7	-	44.7
Counterparty 15	United Kingdom	A	-	40.2	-	40.2
Counterparty 16	France	A	-	38.1	-	38.1
Counterparty 17	Poland	BB	-	33.5	-	33.5
Counterparty 18	Poland	No rating	20.0	0.6	-	20.6
Counterparty 19	Poland	BB	-	11.7	-	11.7
Counterparty 20	United Kingdom	AAA	-	10.0	-	10.0

\* Excluding exposure to the State Treasury and the National Bank of Poland.

Credit risk concentration – interbank market – Interbank market exposure as at 31.12.2015\*

Counterparty	Country	Rating	Deposit (nominal value)	Type of instrument		Total
				Derivative instruments (market valuation, in case of positive valuation excl. collateral)	Securities (nominal value)	
Counterparty 1	Poland	A	800.0	1.2	942.6	1 743.8
Counterparty 25	Poland	BBB	319.6	15.4	-	335.0
Counterparty 9	USA	AA	-	139.8	-	139.8
Counterparty 14	Germany	A	-	98.2	-	98.2
Counterparty 10	United Kingdom	A	-	95.1	-	95.1
Counterparty 29	France	A	-	69.9	-	69.9
Counterparty 13	Poland	BBB	-	55.5	-	55.5
Counterparty 16	France	A	-	52.4	-	52.4
Counterparty 17	Poland	BB	-	48.9	-	48.9
Counterparty 26	Germany	BBB	-	35.8	-	35.8
Counterparty 30	Switzerland	A	-	31.4	-	31.4
Counterparty 12	Ukraine	CCC	27.3	-	-	27.3
Counterparty 27	United Kingdom	AA	-	20.8	-	20.8
Counterparty 34	Canada	AA	-	19.6	-	19.6
Counterparty 3	Belgium	A	-	19.4	-	19.4
Counterparty 19	Poland	BB	-	18.9	-	18.9
Counterparty 2	Switzerland	AA	16.0	-	-	16.0
Counterparty 31	Denmark	A	-	14.0	-	14.0
Counterparty 32	Poland	No rating	14.0	(0.9)	-	14.0
Counterparty 28	United Kingdom	BBB	-	13.8	-	13.8

\* Excluding exposure to the State Treasury and the National Bank of Poland.



As at 31 December 2016, the Bank had access to two clearing houses (in one as an indirect participant, as a direct in the other), through which settled the defined in EMIR Regulation (Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories), derivative transactions on interest rate with selected national and foreign partners. In nominal terms, the share of transactions cleared centrally in case of IRS amounted to 57% of the total portfolio of IRS, in the case of the FRA – all the transactions were transactions submitted to the clearing houses for clearing.

As at 31 December 2016 the Bank had signed framework agreements, in accordance with ISDA/PBA standards, with 23 local banks and 62 foreign banks and credit institutions and collateral agreements CSA/PBA with 21 local banks and 52 foreign banks and credit institutions. Additionally, the Bank was a party of 22 agreements on repo (for standard GMRA/PBA).

Exposure structure by rating is presented in the table below. The ratings were determined based on external ratings granted by Moody's, Standard&Poor's and Fitch agencies (when a rating was granted by two agencies, the lower rating was applied, whereas when a rating was granted by three agencies, the middle rating was applied).

### CREDIT RISK OF FINANCIAL INSTITUTIONS ON A NON-WHOLESALE MARKET

In addition to the interbank market exposure, as at 31 December 2016 the Bank had an exposure to financial institutions on the non-wholesale market. (e.g. loans granted, bonds purchased outside interbank market).

The structure of exposures over PLN 10 million is presented in the table below:

2016	Nominal exposure amount		Country of the counterparty's registered office
	Statement of financial position item	Off-balance sheet item	
Counterparty 1	500.0	-	Poland
Counterparty 12	16.7	108.7	Ukraine
Counterparty 22	89.1	-	Poland
Counterparty 23	50.0	-	Poland
Counterparty 24	-	20.5	Denmark
Counterparty 9	-	60.0	USA
Counterparty 21	-	1 400.0	Poland

For comparison, the structure of exposure over PLN 10 million as at 31 December 2015 is presented in the table below:

2015	Nominal amount of exposure		Country of the counterparty's registered office
	Statement of financial position item	Off-balance sheet item	
Counterparty 1	500.0	-	Poland
Counterparty 9	0.5	59.5	USA
Counterparty 12	124.8	70.2	Ukraine
Counterparty 23	50.0	-	Poland
Counterparty 21	-	700.0	Poland
Counterparty 35	39.2	-	Poland
Counterparty 22	89.1	-	Poland
Counterparty 33	18.5	11.0	Sweden
Counterparty 24	2.7	17.8	Denmark

In 2016, the risk of adjustment of the value of derivatives in respect of counterparty credit risk (CVA) was distinguished from counterparty credit risk.



## 58. RISK MANAGEMENT OF FOREIGN CURRENCY MORTGAGE LOANS FOR INDIVIDUALS

As the result of the abandonment of EUR/CHF peg by the Swiss National Bank in January 2015 there was a significant appreciation of the Swiss franc against foreign currencies, including the Polish zloty. The Bank constantly analyses the impact of these events on the financial results including the risk of deterioration in the quality of the portfolio of mortgage loans denominated in CHF. The risk is partly mitigated by a decline in reference interest rates, CHF LIBOR.

Due to the fact that the significant appreciation of the CHF against Polish zloty results in a risk of an excessive burden for household which took mortgage loans indexed to CHF, thus timely debt service, from the beginning of 2015 the public debate continues on how to reduce the risk of insolvency of these borrowers. Emerging proposals for system solutions, submitted in form of civil or parliamentary bills, as well as presented by the public and supervisory authorities, may result in incurring losses by the Bank on this portfolio in the future periods.

The Bank has taken a number of actions designed to help the clients and at the same time to reduce the growth of the credit risk associated with the appreciation of the CHF- among other, lowering transaction exchange rates CHF/PLN at which amount payable in CHF is converted (i.e. currency spread) and taking into account the negative LIBOR for all customers.

The Bank analyses 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 own fund management.

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

Loans and advances to customers in CHF by impairment calculation method (translated into PLN)	31.12.2016			
	Financial institutions	Corporates	Households	Total
Assessed on an individual basis, of which:				
impaired	-	155.5	165.8	321.3
Assessed on a portfolio basis, impaired	-	128.4	137.2	265.6
Assessed on a group basis (IBNR)	-	22.9	1 184.5	1 207.4
Assessed on a group basis (IBNR)	5.1	345.1	29 361.2	29 711.4
<b>Loans and advances to customers - gross</b>	<b>5.1</b>	<b>523.5</b>	<b>30 711.5</b>	<b>31 240.1</b>
Impairment allowances on exposures assessed on an individual basis, of which:				
impaired	-	(54.5)	(64.4)	(118.9)
Impairment allowances on exposures assessed on a portfolio basis, impaired	-	(54.3)	(64.1)	(118.4)
Impairment allowances on exposures assessed in a group basis (IBNR)	-	(16.7)	(792.7)	(809.4)
Impairment allowances on exposures assessed in a group basis (IBNR)	-	(2.1)	(69.3)	(71.4)
<b>Impairment allowances on exposures - total</b>	<b>-</b>	<b>(73.3)</b>	<b>(926.4)</b>	<b>(999.7)</b>
<b>Loans and advances to customers net</b>	<b>5.1</b>	<b>450.2</b>	<b>29 785.1</b>	<b>30 240.4</b>

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

**FINANCIAL STATEMENTS OF PKO BANK POLSKI SA  
FOR THE YEAR ENDED 31 DECEMBER 2016  
(IN PLN MILLION)**



Bank Polski

Loans and advances to customers in CHF by impairment calculation method (translated into PLN)	31.12.2015			
	Financial institutions	Corporates	Households	Total
Assessed on an individual basis, of which:				
impaired	-	171.0	223.6	394.6
Assessed on a portfolio basis, impaired	-	134.7	208.1	342.8
Assessed on a group basis (IBNR)	6.1	372.3	30 309.1	30 687.5
<b>Loans and advances to customers - gross</b>	<b>6.1</b>	<b>575.3</b>	<b>31 659.2</b>	<b>32 240.6</b>
Impairment allowances on exposures assessed on an individual basis, of which:				
impaired	-	(45.6)	(95.9)	(141.5)
Impairment allowances on exposures assessed on a portfolio basis, impaired	-	(45.2)	(93.8)	(139.0)
Impairment allowances on exposures assessed on a group basis (IBNR)	(0.2)	(2.7)	(100.4)	(103.3)
<b>Impairment allowances on exposures - total</b>	<b>(0.2)</b>	<b>(66.5)</b>	<b>(895.5)</b>	<b>(962.2)</b>
<b>Loans and advances to customers net</b>	<b>5.9</b>	<b>508.8</b>	<b>30 763.7</b>	<b>31 278.4</b>

CHF exchange rate as at 31 December 2015 was equal to 3.9394 PLN.

Loans and advances to customers assessed on a group basis (IBNR)	31.12.2016		
	PLN	CHF	Other currencies
Loans and advances to customers gross	138 159.9	29 711.4	15 779.5
past due	2 056.1	657.6	168.3
not past due	136 103.8	29 053.8	15 611.2
Impairment allowances on exposures assessed on a group basis (IBNR)	(388.5)	(71.4)	(45.4)
past due	(119.0)	(34.6)	(3.9)
not past due	(269.5)	(36.8)	(41.5)
<b>Loans and advances to customers net</b>	<b>137 771.4</b>	<b>29 640.0</b>	<b>15 734.1</b>

Loans and advances to customers assessed on a group basis (IBNR)	31.12.2015		
	PLN	CHF	Other currencies
Loans and advances to customers gross	137 032.9	30 687.5	14 370.9
past due	1 856.4	719.8	74.1
not past due	135 176.5	29 967.7	14 296.8
Impairment allowances on exposures assessed on a group basis (IBNR)	(403.9)	(103.3)	(39.6)
past due	(146.2)	(49.9)	(4.8)
not past due	(257.7)	(53.4)	(34.8)
<b>Loans and advances to customers net</b>	<b>136 629.0</b>	<b>30 584.2</b>	<b>14 331.3</b>



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	898.7	557.0	88.7
Impairment allowances on exposures assessed on a group basis (IBNR)	(32.7)	(20.7)	(1.2)
<b>Net loans and advances to customers subject to forbearance</b>	<b>866.0</b>	<b>536.3</b>	<b>87.5</b>

Loans and advances to customers assessed on a group basis (IBNR) subject to forbearance by currencies	31.12.2015		
	PLN	CHF	Other currencies
Gross loans and advances to customers	1 709.4	776.5	65.2
Impairment allowances on exposures assessed on a group basis (IBNR)	(51.3)	(35.9)	(2.1)
<b>Net loans and advances to customers subject to forbearance</b>	<b>1 658.1</b>	<b>740.6</b>	<b>63.1</b>

As at 31 December 2016, the average LTV for loan portfolio in CHF amounted to 82.7% - compared to the average LTV for the whole portfolio amounting to 70.6%.

The share of foreign currency denominated housing loans extended in the years 2007 and 2008 in the foreign currency denominated housing loans for the household portfolio as at 31 December 2016 amounted to 44.02%

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;
  - 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.



## 59. INTEREST RATE RISK MANAGEMENT

Interest rate risk management

Financial information:

Repricing gap

Sensitivity measures

### INTEREST RATE RISK MANAGEMENT

#### DEFINITION

The interest rate risk is a risk of incurring losses on the Bank's statement of financial position and off-balance sheet items sensitive to interest rate fluctuations, as a result of changes in the interest rates on the market.

#### MANAGEMENT OBJECTIVE

Mitigate the risk of incurring potential losses arising from market interest rate changes to an acceptable level by appropriate shaping the structure of statement of financial position and off-balance sheet items.

#### RISK IDENTIFICATION AND MEASUREMENT

The Bank utilizes such interest rate risk measures as: sensitivity of interest income, sensitivity of economic value, value at risk (VaR), stress tests and repricing gap.

#### CONTROL

Control over interest rate risk covers determining interest rate risk limits and thresholds tailored to the scale and complexity of the Bank's operations, in particular the strategic limit of tolerance to interest rate risk.

#### FORECASTING AND MONITORING OF RISK

The following are monitored by the Bank on a regular basis:

- the level of interest rate risk,
- the degree of utilization of the strategic limit of interest rate risk tolerance,
- the degree of utilization of internal limits and threshold values relating to interest rate risk.

#### REPORTING

The reports on interest rate risk are developed on a daily, weekly, monthly and quarterly basis.

#### MANAGEMENT ACTIONS

The main tools used in interest rate risk management in the Bank include: procedures for interest rate risk management, limits and thresholds for interest rate risk.

The Bank established limits and thresholds for interest rate risk comprising i.a. the following: price sensitivity, sensitivity of the economic value and loss.

### FINANCIAL INFORMATION

#### 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 recognised on the transaction date.

FINANCIAL STATEMENTS OF PKO BANK POLSKI SA  
FOR THE YEAR ENDED 31 DECEMBER 2016  
(IN PLN MILLION)



Bank Polski

Repricing Gap	0-1 month	1-3 months	3-6 months	6-12 months	1-2 years	2-5 years	>5 years	Total
<b>PLN (in PLN million)</b>								31.12.2016
Periodic gap	55 317.7	18 245.9	(16 392.0)	(7 802.0)	(12 407.9)	(26 075.3)	5 816.5	16 702.9
Cumulative gap	55 317.7	73 563.6	57 171.6	49 369.6	36 961.7	10 886.4	16 702.9	
<b>PLN (in PLN million)</b>								31.12.2015
Periodic gap	41 811.0	47 417.5	(21 008.4)	(22 234.8)	(9 121.9)	(18 071.6)	3 090.6	21 882.4
Cumulative gap	41 811.0	89 228.5	68 220.1	45 985.3	36 863.4	18 791.8	21 882.4	

Repricing Gap	0-1 month	1-3 months	3-6 months	6-12 months	1-2 years	2-5 years	>5 years	Total
<b>USD (in USD million)</b>								31.12.2016
Periodic gap	801.5	(831.2)	(142.4)	91.8	108.1	3.0	(126.3)	(95.5)
Cumulative gap	801.5	(29.7)	(172.2)	(80.4)	27.7	30.7	(95.5)	-
<b>USD (in USD million)</b>								31.12.2015
Periodic gap	374.3	(392.1)	(55.9)	127.2	12.2	(21.5)	(133.6)	(89.4)
Cumulative gap	374.3	(17.8)	(73.7)	53.5	65.7	44.2	(89.4)	-

Repricing Gap	0-1 month	1-3 months	3-6 months	6-12 months	1-2 years	2-5 years	>5 years	Total
<b>EUR (in EUR million)</b>								31.12.2016
Periodic gap	2 330.6	(1 185.6)	(613.7)	(118.5)	(137.8)	(843.5)	70.0	(498.4)
Cumulative gap	2 330.6	1 145.1	531.3	412.8	275.0	(568.5)	(498.4)	-
<b>EUR (in EUR million)</b>								31.12.2015
Periodic gap	(135.4)	674.6	218.0	(187.2)	(382.4)	(837.7)	212.3	(437.8)
Cumulative gap	(135.4)	539.2	757.2	570.0	187.6	(650.1)	(437.8)	-

Repricing Gap	0-1 month	1-3 months	3-6 months	6-12 months	1-2 years	2-5 years	>5 years	Total
<b>CHF (in CHF million)</b>								31.12.2016
Periodic gap	116.0	2 961.8	159.5	(1 839.3)	1.6	(324.9)	(676.7)	398.1
Cumulative gap	116.0	3 077.8	3 237.3	1 398.1	1 399.7	1 074.7	398.1	-
<b>CHF (in CHF million)</b>								31.12.2015
Periodic gap	(371.4)	3 658.5	124.2	(1 808.4)	(74.7)	(416.7)	(715.9)	395.6
Cumulative gap	(371.4)	3 287.1	3 411.3	1 602.9	1 528.2	1 111.5	395.6	-

As at the end of 2016 and 2015, PKO Bank Polski SA had a positive cumulative gap in PLN in all the time horizons.

## SENSITIVITY MEASURES

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

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

Name of sensitivity measure	31.12.2016	31.12.2015
VaR for a 10-day time horizon at the confidence level of 99% (in PLN million)	268.8	271.7
Parallel movement of interest rate curves by 200 b.p. (in PLN million) (stress-test)*	2 130.6	2 040.2

\* 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.



As at 31 December 2016, the Bank's interest rate VaR for the 10-day time horizon (10-day VaR) amounted to PLN 268.8 million, which accounted for approximately 0.9% of the Bank's own funds. As at 31 December 2015, VaR for the Bank amounted to PLN 271.6 million, which accounted for approximately 1.0% of the Bank's own funds.

## 60. CURRENCY RISK MANAGEMENT

Currency risk management

Financial information:

Sensitivity measures

Currency position

Currency structure

### CURRENCY RISK MANAGEMENT

#### DEFINITION

Currency risk is the risk of incurring losses due to unfavourable exchange rate changes. The risk is generated by maintaining open currency positions in a given foreign currency.

#### MANAGEMENT OBJECTIVE

Mitigate the risk of incurring potential losses arising from exchange rate fluctuations to an acceptable level by appropriate shaping the structure of statement of financial position and off-balance sheet items.

#### RISK IDENTIFICATION AND MEASUREMENT

The Bank utilizes the following currency rate risk measures: value at risk (VaR) and stress tests.

#### CONTROL

Control over currency rate risk covers determining currency risk limits and thresholds tailored to the scale and complexity of the Bank's operations, in particular the strategic limit of tolerance to currency risk.

#### FORECASTING AND MONITORING OF RISK

The following, are monitored by the Bank on a regular basis:

- the level of currency risk,
- the degree of utilization of the strategic limit of currency risk tolerance,
- the degree of utilization of internal limits and threshold values relating to currency risk.

#### REPORTING

The reports on currency risk are developed on a daily, weekly, monthly and quarterly basis.

#### MANAGEMENT ACTIONS

Main tools used in currency risk management in the Bank include:

- procedures for currency risk management,
- limits and thresholds for currency risk,
- defining allowable types of transactions in foreign currencies and the exchange rates used in such transactions.

The Bank has set limits and threshold values for currency risk for i.a.: currency positions, Value at Risk calculated for a 10-day time horizon and daily loss from transactions on currency market.

**FINANCIAL INFORMATION****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	31.12.2016	31.12.2015
VaR for a 10-day time horizon at the confidence level of 99% (in PLN million)	9.5	25.4
Change in CUR/PLN by 20% (in PLN million) (stress-test)*	78.0	62.2

\* The table presents the 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 December 2016 and as at 31 December 2015.

**CURRENCY POSITION**

Foreign currency position	31.12.2016	31.12.2015
EUR	108.2	388.8
USD	68.9	3.3
CHF	(37.8)	(50.4)
GBP	8.5	(1.8)
Other (Global Net)	39.3	84.7

The volume of currency positions is a key factor determining the level of currency risk on which the Bank 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 Bank, both in the statement of financial position (such as loans) and off-balance sheet (such as derivatives, in particular CIRS transactions). In accordance with the principles of currency risk management at the Bank, the daily currency position opened by the Bank within the banking book (such as repayment of currency loan denominated in PLN by a client, conversion of currency loan) is closed every day, also using derivative instruments. This means that the currency position of the Bank at the end of the day may constitute only of generated unclosed position in banking book on this day and currency position in trading book within the limits, which results in a low exposure of the Bank to currency risk (with reference to own funds, VaR for a 10-day time horizon for the Bank's currency position as at 31 December 2016 amounted to approx. 0.03% and 0.09% as at 31 December 2015 respectively).

**FINANCIAL STATEMENTS OF PKO BANK POLSKI SA  
FOR THE YEAR ENDED 31 DECEMBER 2016  
(IN PLN MILLION)**


Bank Polski

**CURRENCY STRUCTURE**

	Currency translated to PLN - 31.12.2016				
	PLN	EUR	CHF	Other	Total
Cash and balances with the Central Bank	11 906.5	714.3	78.6	577.3	13 276.7
Amounts due from banks	5 125.0	2 093.1	502.7	750.1	8 470.9
Loans and advances to customers	148 369.0	14 489.8	31 240.1	2 288.3	196 387.2
Securities	45 606.0	1 278.3	1 031.4	391.5	48 307.2
Tangible fixed assets	13 890.8	-	-	-	13 890.8
Other assets and derivative financial instruments	6 612.5	221.8	3.3	81.9	6 919.5
Total assets (gross)	231 509.8	18 797.3	32 856.1	4 089.1	287 252.3
Depreciation / amortisation / impairment	(12 809.6)	(246.5)	(1 000.9)	(238.0)	(14 295.0)
<b>Total assets (net)</b>	<b>218 700.2</b>	<b>18 550.8</b>	<b>31 855.2</b>	<b>3 851.1</b>	<b>272 957.3</b>
Amounts due to the Central Bank	4.1	-	-	-	4.1
Amounts due to banks	791.1	2 647.1	15 238.8	39.9	18 716.9
Amounts due to customers	179 832.6	15 611.9	2 524.1	11 402.8	209 371.4
Debt securities in issue	808.9	884.1	-	-	1 693.0
Subordinated liabilities	1 616.6	-	922.4	-	2 539.0
Provisions	210.7	5.3	1.2	5.7	222.9
Other liabilities and derivative financial instruments	7 211.0	426.6	2.9	179.8	7 820.3
Equity	32 589.7	-	-	-	32 589.7
<b>Total liabilities and equity</b>	<b>223 064.7</b>	<b>19 575.0</b>	<b>18 689.4</b>	<b>11 628.2</b>	<b>272 957.3</b>
Off-balance sheet liabilities granted	53 984.0	6 030.5	221.2	3 776.9	64 012.6

	Currency translated to PLN - 31.12.2015				
	PLN	EUR	CHF	Other	Total
Cash and balances with the Central Bank	12 559.2	721.0	61.8	365.7	13 707.7
Amounts due from banks	2 357.4	1 668.7	115.7	880.1	5 021.9
Loans and advances to customers	148 668.8	13 226.9	32 240.6	2 306.3	196 442.6
Securities	38 851.7	1 433.3	993.6	223.5	41 502.1
Tangible fixed assets	13 148.5	-	-	-	13 148.5
Other assets and derivative financial instruments	6 821.3	215.7	41.7	90.3	7 169.0
Total assets (gross)	222 406.9	17 265.6	33 453.4	3 865.9	276 991.8
Depreciation / amortisation / impairment	(12 491.2)	(236.3)	(963.3)	(921.0)	(14 611.8)
<b>Total assets (net)</b>	<b>209 915.7</b>	<b>17 029.3</b>	<b>32 490.1</b>	<b>2 944.9</b>	<b>262 380.0</b>
Amounts due to the Central Bank	4.2	-	-	-	4.2
Amounts due to banks	1 044.8	2 527.6	14 372.3	305.2	18 249.9
Amounts due to customers	175 825.3	12 833.5	3 431.1	9 719.3	201 809.2
Debt securities in issue	866.0	851.6	-	-	1 717.6
Subordinated liabilities	1 616.7	-	882.5	-	2 499.2
Provisions	236.8	5.4	1.0	2.6	245.8
Other liabilities and derivative financial instruments	7 052.7	442.8	24.6	116.1	7 636.2
Equity	30 217.9	-	-	-	30 217.9
<b>Total liabilities and equity</b>	<b>216 864.4</b>	<b>16 660.9</b>	<b>18 711.5</b>	<b>10 143.2</b>	<b>262 380.0</b>
Off-balance sheet liabilities granted	49 295.5	5 032.1	218.8	4 447.8	58 994.2



## 61. LIQUIDITY RISK MANAGEMENT

Liquidity risk management

Financial information:

Liquidity gaps

Liquidity reserve and liquidity surplus

Supervisory liquidity measures

Permanent balances on deposits

Structure of the Bank's sources of financing

The contractual cash flows of the Bank's liabilities excluding derivative financial instruments

The contractual cash flows related to derivative financial instruments

Short-term and long-term assets and liabilities

### LIQUIDITY RISK MANAGEMENT

#### DEFINITION

The liquidity risk is defined as the lack of possibility to pay the debts on time due to the lack of liquid assets. Lack of liquidity may arise from inappropriate structure of the statement of financial position, mismatch of cash flows, not received payments from counterparties, sudden withdrawal of cash by clients or other market events.

The Bank manages the financing risk, which takes into account the risk of loss of financing sources and the lack of opportunities to renew matured funding, or loss of access to new financing sources.

#### MANAGEMENT OBJECTIVE

Ensure the necessary level of the funds to pay present and future debts (also potential) on time, taking into account the nature of performed activities and requirements which may occur due to changes in market environment, by shaping the structure of statement of financial position and off-balance sheet liabilities.

#### RISK IDENTIFICATION AND MEASUREMENT

The Bank makes use of the following liquidity risk measures:

- the contractual and adjusted liquidity gap in real terms,
- liquidity reserve,
- liquidity surplus,
- ratio of stable funding to illiquid assets,
- liquidity coverage ratio (LCR),
- national supervisory liquidity measures (M1-M4),
- measure of stability of deposit and loan portfolios,
- stress-tests (liquidity stress-tests).

#### CONTROL

Control over liquidity risk covers determining liquidity risk limits and thresholds tailored to the scale and complexity of the Bank's operations, in particular the strategic limit of tolerance to liquidity risk.

#### FORECASTING AND MONITORING

The Bank regularly monitors:

- utilization level of strategic tolerance risk losses limit,
- the degree of utilization of supervisory liquidity standards,
- the degree of utilization of internal limits and threshold values relating to liquidity risk,



- concentration of sources of financing,
- early warning signals – monitoring their level is aimed at the early discovery of unfavourable events which could have a negative impact on the Bank's or the financial sector's liquidity position (which, when exceeded, launch liquidity contingency plans).

The Bank also performs cyclic forecasts of liquidity risk levels, in consideration of the current developments in the Bank's operations. Liquidity forecasts account mainly for the level of particular liquidity risk measures in conditions of realizing the Bank's statement of financial position forecasts and realizing selected stress-test scenarios.

## REPORTING

Liquidity reports are developed on a daily, weekly, monthly and quarterly basis and once a year an in-depth long-term liquidity analysis is conducted.

## MANAGEMENT ACTIONS / TOOLS FOR RISK MANAGEMENT

The main tools for liquidity risk management in the Bank are as follows:

- procedures for liquidity risk management, in particular emergency plans,
- limits and thresholds mitigating for short, medium and long-term liquidity risk,
- national and European supervisory liquidity measures,
- deposit, investment and derivative transactions, including structural currency transactions and transactions for sale or purchase of securities,
- transactions ensuring long-term financing of the lending activities.

PKO Bank Polski SA policy concerning liquidity is based on keeping a portfolio of appropriate level of liquidity surplus through an increase in portfolio of liquid securities and stable sources of financing (stable deposit base, in particular). In liquidity risk management money market instruments, including NBP open market operations are also used.

## FINANCIAL INFORMATION

### 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
<b>31.12.2016</b>								
Adjusted gap in real terms	12 017.7	20 184.9	640.9	(222.6)	8 593.3	9 101.5	23 849.6	(74 165.3)
Cumulative adjusted gap in real terms	12 017.7	32 202.6	32 843.5	32 620.9	41 214.2	50 315.7	74 165.3	-
<b>31.12.2015</b>								
Adjusted gap in real terms	14 038.9	16 783.1	53.0	3 643.4	8 518.2	7 597.3	11 794.3	(62 428.2)
Cumulative adjusted gap in real terms	14 038.9	30 822.0	30 875.0	34 518.4	43 036.6	50 633.9	62 428.2	-

### LIQUIDITY RESERVE AND LIQUIDITY SURPLUS

Liquidity risk measure	31.12.2016	31.12.2015
Liquidity reserve up to 1 month* (in PLN billion)	31.2	30.2
Liquidity surplus in a horizon of up to 30 days** (in PLN billion)	13.0	14.5

\* 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	31.12.2016	31.12.2015
M1	24 464	18 907
M2	1.89	1.65
M3	11.63	9.87
M4	1.19	1.15
LCR	134.2%	129.5%

In the period ended 31 December 2015 and in the period ended 31 December 2016 ratios supervisory measures remained above the supervisory limits.

## PERMANENT BALANCES ON DEPOSITS

As at 31 December 2016 the level of permanent balances on deposits constituted approx. 93.8% of all deposits in the Bank (excluding interbank market), which means an increase by approximately 0.3 p.p. as compared to the end of 2015.

## STRUCTURE OF THE BANK'S SOURCES OF FINANCING

Structure of the Bank's sources of financing	31.12.2016	31.12.2015
Total deposits (excluding interbank market)	76.50%	75.96%
Interbank market deposits	0.30%	0.67%
Equity	12.40%	11.99%
Market financing	10.80%	11.38%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>

## THE CONTRACTUAL CASH FLOWS OF THE BANK'S LIABILITIES EXCLUDING DERIVATIVE FINANCIAL INSTRUMENTS

The tables below show the contractual maturity analysis presenting the outstanding contractual maturity dates by individual categories of statement of financial position and off-balance sheet liabilities, excluding derivative financial instruments.

The amounts denominated in foreign currencies have been translated using the average NBP exchange rate as at 31 December 2016 and as at 31 December 2015. The amounts disclosed comprise non-discounted future cash flows, both in respect of principal and interest (if applicable), in accordance with the contract, for the entire period to the date of the liability's maturity. In situations where the party to whom the Bank has a liability is able to select the settlement deadline, it has been assumed that the earliest date on which the Bank is obliged to settle the liability shall be taken into account. In situations where the Bank is obliged to settle the liabilities in instalments, each instalment is allocated to the earliest period in which the Bank might be obligated to settle. In the case of liabilities where the instalment is not fixed, the terms binding as at the reporting date have been adopted.


**Contractual flows of the Bank's liabilities by maturity**

The Bank's liabilities as at 31 December 2016 by maturities	Up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	Over 5 years	Contractual amount	Carrying amount
<b>Liabilities:</b>							
Amounts due to the Central Bank	4.1					4.1	4.1
Amounts due to banks	970.9	2.1	77.8	17 449.9	-	18 500.7	18 716.9
Amount due to customers	134 861.2	18 969.1	34 764.0	15 099.5	10 672.9	214 366.7	209 371.4
Debt securities in issue	-	-	1 699.4	-	-	1 699.4	1 693.0
Subordinated liabilities	-	33.0	45.7	350.6	2 604.4	3 033.7	2 539.0
Other liabilities	2 776.0	9.1	231.7	152.1	170.9	3 339.8	3 339.8
Off-balance sheet liabilities granted:							
- financial	12 669.3	5 748.9	13 407.5	11 104.4	6 432.0	49 362.1	-
- guarantee	263.1	569.4	3 699.5	8 582.5	1 536.0	14 650.5	-

The Bank's liabilities as at 31 December 2015 by maturities	Up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	Over 5 years	Contractual amount	Carrying amount
Amounts due to the Central Bank	4.2	-	-	-	-	4.2	4.2
Amounts due to banks	1 891.3	0.1	37.4	199.4	16 385.1	18 513.2	18 249.9
Amount due to customers	125 657.7	21 838.3	35 723.5	12 860.4	8 353.3	204 433.3	201 809.2
Debt securities in issue	-	59.6	1 652.3	-	-	1 711.9	1 717.6
Subordinated liabilities	-	33.0	44.2	319.3	2 650.3	3 046.8	2 499.2
Other liabilities	2 396.2	6.6	286.1	145.1	175.1	3 009.0	3 009.0
Off-balance sheet liabilities granted:							
- financial	28 671.4	805.3	3 817.9	3 061.3	6 095.6	42 451.5	-
- guarantee	1 415.1	1 603.9	2 447.1	9 783.4	1 293.2	16 542.7	-

**THE CONTRACTUAL CASH FLOWS RELATED TO DERIVATIVE FINANCIAL INSTRUMENTS**
**DERIVATIVE FINANCIAL INSTRUMENTS SETTLED IN NET AMOUNTS**

Derivative financial instruments settled by the Bank on a net basis include:

- interest rate swaps (IRS),
- Forward Rate Agreements (FRA),
- Non Deliverable Forwards (NDF),
- options.

The tables below show the contractual maturity analysis presenting the outstanding contractual maturity dates by individual categories of derivative financial instruments in respect of which the valuation as at the balance sheet date was negative (a liability) as at 31 December 2016 and as at 31 December 2015 respectively.

The amounts denominated in foreign currencies have been translated using the average NBP exchange rate as at 31 December 2016 and as at 31 December 2015. In case of IRS transactions, non-discounted future net cash flows in respect of interest have been presented and in case of the remaining derivative instruments settled on a net basis, the amount of the valuation as at 31 December 2016 and as at 31 December 2015 respectively was adopted as the value of a cash flow.

31 December 2016	Up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	Over 5 years	Contractual amount
<b>Derivative financial instruments - liabilities:</b>						
- Interest Rate Swap (IRS) transactions	(22.4)	(16.1)	(325.5)	(769.5)	(179.9)	(1 313.4)
- other derivative instruments: options, FRA, NDF	(110.0)	(72.9)	(624.4)	(524.4)	(0.2)	(1 332.0)



31 December 2015	Up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	Over 5 years	Contractual amount
<b>Derivative financial instruments - liabilities:</b>						
- Interest Rate Swap (IRS) transactions	(208.3)	(263.3)	(602.6)	(1 625.7)	(363.1)	(3 063.0)
- other derivative instruments: options, FRA, NDF	(153.8)	(122.9)	(507.3)	(886.0)	(0.4)	(1 670.4)

### DERIVATIVE FINANCIAL INSTRUMENTS SETTLED IN GROSS AMOUNTS

Derivative financial instruments settled by the Bank on a gross basis include:

- foreign currency swaps,
- foreign currency forwards,
- Cross Currency IRS (CIRS).

The tables below show the contractual maturity analysis, presenting the outstanding contractual maturity dates by individual categories of derivative financial instruments (inflows and outflows) in respect of which valuation as at the balance sheet date was negative (a liability).

The amounts denominated in foreign currencies have been translated using the average NBP exchange rate as at 31 December 2016 and as at 31 December 2015. The amounts disclosed comprise non-discounted future cash flows, both in respect of principal and interest (if applicable).

31 December 2016	Up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	Over 5 years	Contractual amount
- outflows	(7 030.1)	(2 243.3)	(4 699.8)	(3 089.5)	(40.5)	(17 103.1)
- inflows	8 057.7	2 593.3	4 944.0	9 907.8	141.7	25 644.6

31 December 2015	Up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	Over 5 years	Contractual amount
- outflows	(6 114.1)	(1 991.9)	(2 657.2)	(3 522.8)	(507.6)	(14 793.6)
- inflows	5 991.8	1 676.5	2 983.2	9 679.8	1 336.0	21 667.3

### SHORT-TERM AND LONG-TERM ASSETS AND LIABILITIES

The Bank classifies an asset as short-term when:

- it expects to realize the asset or intends to sell or consume it in the course of the normal operating cycle,
- is in possession of the asset primarily for the purpose of trading,
- it expects that the asset will be realized within twelve months after the reporting period, or
- the asset is cash or a cash equivalent (as defined in IAS 7) unless it is restricted from being exchanged or used to settle a liability for at least twelve months from the end of reporting period.

All other assets are classified as long-term assets.

The Bank classifies a liability as short-term when:

- it expect that it will be settled in the normal operating cycle,
- it holds the liability for the purpose of trading,
- its maturity is within twelve months from the end of the reporting period,
- the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period.

**FINANCIAL STATEMENTS OF PKO BANK POLSKI SA  
FOR THE YEAR ENDED 31 DECEMBER 2016  
(IN PLN MILLION)**


Bank Polski

All other liabilities are classified as long-term liabilities

31.12.2016	Short-term	Long-term	Impairment allowances	Total carrying amounts
Cash and balances with the Central Bank	13 276.7	-	-	13 276.7
Amounts due from banks	8 458.4	12.5	-	8 470.9
Trading assets	358.2	-	-	358.2
Derivative financial instruments	1 001.6	1 893.5	-	2 895.1
Financial instruments designated upon initial recognition at fair value through profit and loss	8 998.8	2 745.1	-	11 743.9
Loans and advances to customers	46 288.1	150 099.1	(7 319.9)	189 067.3
Investment securities available for sale	1 768.8	34 279.3	(274.8)	35 773.3
Investment securities held to maturity	-	157.0	-	157.0
Other assets	4 431.4	8 137.4	(1 353.9)	11 214.9
<b>Total assets</b>	<b>84 582.0</b>	<b>197 323.9</b>	<b>(8 948.6)</b>	<b>272 957.3</b>
Amounts due to the Central Bank	4.1	-	-	4.1
Amounts due to banks	1 631.4	17 085.5	-	18 716.9
Derivate financial instruments	1 632.2	2 597.3	-	4 229.5
Amounts due to customers	185 625.1	23 746.3	-	209 371.4
Debt securities in issue	1 693.0	-	-	1 693.0
Subordinated liabilities	-	2 539.0	-	2 539.0
Other liabilities	3 436.4	377.3	-	3 813.7
<b>Total liabilities</b>	<b>194 022.2</b>	<b>46 345.4</b>	<b>-</b>	<b>240 367.6</b>
<b>Equity</b>	<b>-</b>	<b>32 589.7</b>	<b>-</b>	<b>32 589.7</b>
<b>Total liabilities and equity</b>	<b>194 022.2</b>	<b>78 935.1</b>	<b>-</b>	<b>272 957.3</b>

31.12.2015	Short-term	Long-term	Impairment allowances	Total carrying amounts
Cash and balances with the Central Bank	13 707.7	-	-	13 707.7
Amounts due from banks	4 940.9	81.2	(0.2)	5 021.9
Trading assets	793.2	-	-	793.2
Derivative financial instruments	1 399.6	2 948.4	-	4 348.0
Financial instruments designated upon initial recognition at fair value through profit and loss	10 087.0	2 709.0	-	12 796.0
Loans and advances to customers	46 677.2	149 765.4	(7 890.2)	188 552.4
Investment securities available for sale	958.9	26 954.1	(53.3)	27 859.7
Other assets	3 612.7	7 151.2	(1 462.8)	9 301.1
<b>Total assets</b>	<b>82 177.2</b>	<b>189 609.3</b>	<b>(9 406.5)</b>	<b>262 380.0</b>
Amounts due to the Central Bank	4.2	-	-	4.2
Amounts due to banks	1 889.7	16 360.2	-	18 249.9
Derivate financial instruments	1 185.6	3 441.6	-	4 627.2
Amounts due to customers	182 364.1	19 445.1	-	201 809.2
Debt securities in issue	1 645.9	71.7	-	1 717.6
Subordinated liabilities	-	2 499.2	-	2 499.2
Other liabilities	2 874.0	380.8	-	3 254.8
<b>Total liabilities</b>	<b>189 963.5</b>	<b>42 198.6</b>	<b>-</b>	<b>232 162.1</b>
<b>Equity</b>	<b>-</b>	<b>30 217.9</b>	<b>-</b>	<b>30 217.9</b>
<b>Total liabilities and equity</b>	<b>189 963.5</b>	<b>72 416.5</b>	<b>-</b>	<b>262 380.0</b>



## 62. OTHER MARKET RISKS

### COMMODITY PRICE RISK MANAGEMENT

**DEFINITION** - Commodity price risk is the risk of incurring a loss due to changes in commodity prices, generated by maintaining open positions on particular types of goods.

**MANAGEMENT OBJECTIVE** - The objective of commodity price risk management is to reduce potential losses resulting from changes in commodity prices to the acceptable level by shaping the appropriate structure of these items.

**RISK IDENTIFICATION AND MEASUREMENT** - In respect of the measurement of the prices of commodities, information on the positions taken by the Bank in particular commodities is utilized, and stress-test analyses are performed.

**CONTROL** - Control of commodity prices covers determining respective limits and threshold levels tailored to the scale and complexity of the Bank's operations.

**FORECASTING AND MONITORING** - In respect of the commodity price risk the Bank regularly monitors, in particular: open commodity positions, results of stress-tests and the degree of utilization of external limits imposed on the risk.

**REPORTING** - Reports on commodity price risks are developed on a daily, weekly, monthly and quarterly basis.

**MANAGEMENT ACTIONS** - Commodity price risk is managed by imposing limits on instruments generating the commodity price risk, monitoring their use and reporting the risk level. The effect of commodity price risk on the Bank's financial position is immaterial.

### PRICE RISK OF EQUITY SECURITIES MANAGEMENT

**DEFINITION** - The price risk of equity securities is the risk of incurring a loss due to changes in the prices of equity securities on the public market or stock exchange indices, generated by maintaining open positions in instruments sensitive to changes in these market parameters. The risk results from operations conducted as part of trading activities of the Brokerage House of PKO Bank Polski SA, investing activities and from other operations as part of banking activities generating a position in equity securities.

**MANAGEMENT OBJECTIVE** - Managing the price of risk equity securities is aimed at limiting possible losses due to changes in the prices of equity securities on the public market or stock exchange indices to acceptable level, by optimizing the positions taken in instruments sensitive to changes in these market parameters.

**RISK IDENTIFICATION AND MEASUREMENT** - For the purpose of equity securities price risk management the Bank utilizes:

- analyses of stress tests, in consideration of changes in market prices of the base instrument and changes in its volatility,
- information on the utilization of limits of positions taken in the equity securities portfolio.

**CONTROL** - Control over equity securities risk covers determining equity securities risk limits and thresholds tailored to the scale and complexity of the Bank's operations.

**FORECASTING AND MONITORING** - The Bank regularly monitors the level of price risk of equity securities and the level of utilization of the limits on positions taken in the equity securities portfolio.

**REPORTING** - Reports on the risk of equity securities are prepared on a monthly and quarterly basis.

**MANAGEMENT ACTIONS** - The risk is managed by imposing limits on the activities of the Brokerage House of PKO Bank Polski SA and by monitoring the utilization thereof. The effect of the price risk of equity securities on the financial position of the Bank was assessed as immaterial. The positions taken in equity securities and index instruments are limited, and are not expected to increase significantly.



## OTHER PRICE RISK

Taking into consideration other price risks, at the end of the year 2016, the Bank was exposed to price risk of investment fund participation units in collective investment funds. Influence of this risk to the Bank's financial situation is immaterial.

## 63. DERIVATIVE INSTRUMENTS RISK MANAGEMENT

### DEFINITION

The risk of derivative instruments is a risk resulting from the Bank's taking up a position in derivative financial instruments.

### MANAGEMENT OBJECTIVE

Limiting potential losses in respect of changes in factors specific for derivatives (other than foreign currency rates or interest rates) to acceptable levels by appropriate formation of the structure of positions taken in those instruments.

### RISK IDENTIFICATION AND MEASUREMENT

For the purpose of managing derivatives risk, the Bank uses:

- the Value at Risk (VaR) model,
- analyses of stress tests, in consideration of changes in market prices of the base instrument, changes in its volatility, and changes in interest rates and rates of options sensitivity,
- rates of derivatives sensitivity.

### CONTROL

Control over derivatives covers determining derivatives risk limits and thresholds tailored to the scale and complexity of the Bank's operations.

### FORECASTING AND MONITORING

Monitoring the risk of derivative instruments takes place as part of monitoring of other types of financial and credit risk. The Bank puts particular emphasis to monitor financial risk related to the maintenance of currency options portfolio and customer credit risk resulting from amounts due to the Bank in respect of derivative instruments.

### REPORTING

The reports on derivatives risk are developed on a daily, weekly, monthly and quarterly basis.

### MANAGEMENT ACTIONS

The main tools used in derivative risk management are as follows:

- procedures for derivative risk management,
- limits and thresholds set for the risk related to derivative instruments,
- master agreements specifying i.a. settlement mechanisms,
- collateral agreements, under which selected clients of the Bank are required to establish a collateral on exposures due to derivative instruments.

Risk management is carried out by imposing limits on the derivative instruments, monitoring limits and reporting risk level.

The derivative risk management process is integrated in the Bank with management of the following types of risk: interest rate, currency, liquidity and credit risk. However, due to the specific nature of derivatives it is subject to special control specified in the internal regulations of the Bank.



## 64. OPERATIONAL RISK MANAGEMENT

### DEFINITION

Operational risk is defined as the risk of occurrence of a loss due to non-compliance or unreliability of internal processes, people and systems or external events. Operational risk takes into account legal risk, and does not include reputational risk and business risk.

### MANAGEMENT OBJECTIVE

The objective of operational risk management is to enhance collateral of the operational activity pursued by the Bank by improving the efficient, tailored to the profile and the scale of operations mechanisms of identification, assessment and measurement, controlling, monitoring reduction and reporting of operational risk.

### RISK IDENTIFICATION AND MEASUREMENT

Operational risk management comprises the identification of operational risk in particular through collecting data about the operational risk and the self-assessment of operational risk.

In order to manage the operational risk, the Bank gathers internal and external data about operational events and the causes and consequences of their occurrence, data on the factors of the business environment, results of operational risk self-assessment, data on KRI and data related to the quality of internal functional controls.

The operational risk self-assessment comprises identification and assessment of operational risk for Bank's products, processes and applications as well as organizational changes and it is conducted cyclically and before the introduction of new or changed Bank's products, processes and applications.

The measurement of operational risk comprises: calculation of Key Risk Indicators (KRI), requirement calculation of own funds for operational risk under the AMA (the Bank) and BIA (Branch in Germany), stress-tests and calculation of Bank's internal capital.

### CONTROL

Control of operational risk includes setting tailored to the scale and complexity of the Bank's activities risk controls in the form of limits on operational risk, in particular the strategic limits of tolerance and operational risk, losses limits, KRI with thresholds and critical values.

### FORECASTING AND MONITORING

The Bank regularly monitors:

- utilization level of strategic tolerance for the Bank and operational risk losses limits for the Bank,
- operational events and their consequences,
- results of operational risk self-assessment,
- requirement in respect of Bank's own funds as regards to operational risk in accordance with the AMA and BIA approach,
- results of stress-tests,
- Key Risk Indicators (KRI) in relation to threshold and critical values,
- the level of risk, areas and tools for operational risk management,
- effectiveness and timeliness of actions undertaken to reduce or transfer the operational risk,
- management activities, related to the presence of elevated or high levels of operational risk and their effectiveness in reducing the level of operational risk.

### REPORTING

Reporting of information concerning operational risk is performed for the needs of the senior management staff, the ORC, the RC, the Management Board and the Supervisory Board. Each month, information about operational risk is prepared and forwarded to the senior management staff, the organizational units of the Head Office and specialist organizational units responsible for system-based operational risk management. The scope of the information is diversified and tailored to the scope of responsibilities of the individual recipients of the information.



## MANAGEMENT ACTIONS

Management actions are taken in the following cases:

- on ORC's initiative or Management Board,
- on the initiative of organizational units and cells of the Bank managing operational risk,
- when operational risk exceeded levels described by Management Board or ORC.

Especially when the risk level is elevated or high, the Bank uses the following approach and instruments to manage the operational risk:

- risk reduction – mitigating the impact of risk factors or the consequences of its materialization by introducing or strengthening various types of instruments for managing operational risk such as: control instruments, human resources management instruments, determination or verification of threshold values and critical KRIs, determination or verification of operational risk levels and contingency plans,
- risk transfer – transfer of responsibility for covering potential losses on a third-party: insurance and outsourcing,
- risk avoidance – resignation from activity that generates risk or elimination the probability of the occurrence of a risk factor.

## 65. OTHER RISKS

Compliance risk management and conduct risk management Business risk management Reputation risk management Model risk management Macroeconomic changes risk management Capital risk management Management of the risk of excessive leverage
---

### COMPLIANCE RISK AND CONDUCT RISK MANAGEMENT

#### DEFINITION

Compliance risk is defined as the risk of legal sanctions, incurring financial losses or losing reputation due to failure of the Bank, the Bank's employees or entities acting on its behalf to comply with the provisions of the law, internal regulations, market standards adopted by the Bank.

The operational risk is the risk of a loss occurring to: 1) the client, 2) the Bank, including its reputation, 3) financial markets – with respect to their reputation, as a result of improper acts (also unintentional) or omissions of the Bank, its employees or related parties with respect to offering the purchase and provision of financial services.

#### MANAGEMENT OBJECTIVE

The objectives of the compliance risk and conduct risk management are as follows:

- strengthening the image of the Bank as an institution acting in accordance with the law and the accepted market standard, trustworthy, reliable and fair, among the Bank's shareholders, customers, employees, business partners and other market participants,
- preventing financial losses, legal penalties or the loss or reputation which may result from breaching the law, the Bank's internal regulations and the market standards adopted by the Bank,
- preventing losses to the Bank's clients, which could occur as a result of improper acts (also unintentional) or omissions on the part of the Bank, its employees or related parties with respect to offering the purchase and provision of financial services.

#### RISK IDENTIFICATION AND MEASUREMENT

For the purposes of the identification and assessment of compliance risk and conduct risk, the Bank uses information on the events of non-compliance and their causes, including information obtained as a result of an internal audit, internal inspection or external inspection.



Identification and assessment of compliance risk and conduct risk is based mainly on:

- 1) an estimation of the severity of the events of non-compliance, if any,
- 2) the results of operational risk self-assessment,
- 3) the results of a review and an assessment of the adequacy and effectiveness of controls,
- 4) information on irregularities identified within the internal control,
- 5) an assessment of the occurrence of additional legal compliance risk factors.

During the assessment, the nature and the potential scale of losses is identified and the possible ways of mitigating or eliminating the compliance risk. The assessment is conducted in the form of workshops.

---

#### MONITORING

Monitoring of the compliance and conduct risk is performed using information provided by the Bank's organizational units and consists of:

- an analysis of the events of non-compliance in the Bank and in the banking sector, the reasons for their occurrence and their effects,
- an assessment of changes in the key legal regulations affecting the operations of the Bank,
- an assessment of the actions taken by the Bank as part of compliance risk management,
- an assessment of operating effectiveness and the adequacy of controls associated with mitigating compliance risk,
- an analysis of the information on the status of the most important works carried out at the Bank in order to adapt to the generally applicable laws, market standards adopted by the Bank and positions of external supervisory and regulatory authorities,
- an analysis of the information on operating events, security incidents, disputes, including court cases brought against the Bank, complaints and irregularities associated with conduct risk.

---

#### REPORTING

The reporting of compliance risk and conduct risk takes the form of quarterly reports addressed to the Risk Committee, the Management Board, the Risk Committee of the Supervisory Board and the Supervisory Board and information submitted for the purposes of external regulatory and control bodies.

---

#### MANAGEMENT ACTIONS

Compliance risk management covers, in particular, the following issues:

- preventing the Bank from engaging in illegal activities,
- promoting ethical standards and monitoring their operation,
- managing conflicts of interests,
- preventing situations in which the Bank's employees could be perceived as pursuing their own interest in a professional context,
- professional, fair and transparent formulation of the product offer, advertising and marketing communication,
- ensuring data protection,
- prompt, fair and professional consideration of the customers' complaints, suggestions and claims,
- preventing situations in which a client is offered a product that does not match his or her needs,
- defining a method of offering a product which is adequate to the nature of that product,
- monitoring of sales and diligent performance of agreements concluded with clients.

In 2016, the Bank maintained its policy of zero tolerance to compliance risk, which means that the Bank focused on preventing this risk from materializing.



## BUSINESS RISK MANAGEMENT

<b>DEFINITION</b>	Business risk is the risk of incurring losses due to adverse changes in the business environment, taking bad decisions, the incorrect implementation of decisions taken, or not taking appropriate actions in response to changes in the business environment; this includes in particular strategic risk.
<b>MANAGEMENT OBJECTIVE</b>	Maintaining, on an acceptable level, the potential negative financial consequences resulting from adverse changes in the business environment, making adverse decisions, improper implementation of adopted decisions or lack of appropriate actions, which would be a response to changes in the business environment.
<b>RISK IDENTIFICATION AND MEASUREMENT</b>	<p>Identification is to recognize and determine factors both current and potential, resulting from current and planned activities of the Bank and which may significantly affect the financial position of the Bank, generating or change in the Bank's income and expense. The business risk is identified by identifying and analysing factors which contributed to significant variances between the actual revenue and expenses from their forecasted amounts.</p> <p>Measurement of business risk is aimed at defining the scale of threats related to the existence of business risk with the use of defined risk measures. The measurement of business risk includes: calculation of internal capital, conducting stress-test and reverse stress-tests.</p>
<b>CONTROL</b>	Control of the business risk is aimed at striving to maintain the business risk at an acceptable level. It involves setting and periodic review of the risk controls in the form of tolerance limits on the business risk along with its thresholds and critical values, adequate to the scale and complexity of the Bank.
<b>FORECASTING AND MONITORING</b>	<p>Forecasting of the business risk is aimed at determining an anticipated scenario of changes in the income and expense items in the income statement. The forecast is prepared once a quarter on a yearly basis and includes forecasting the level of business risk and internal capital.</p> <p>Once a quarter, the verification of a business risk forecast (so-called back testing) is performed.</p> <p>Monitoring of the business risk is aimed at diagnosing the areas which require management actions. Monitoring of business risk includes:</p> <ul style="list-style-type: none"> <li>• strategic levels of business risk tolerance – on a quarterly basis,</li> <li>• stress-tests results – on an annual basis,</li> <li>• reverse stress-test results – on an annual basis,</li> <li>• internal capital level – on a quarterly basis,</li> <li>• deviations from the implementation of business risk forecast – on a quarterly basis,</li> <li>• results of a survey conducted among senior management staff of the Bank – on an annual basis.</li> </ul>
<b>REPORTING</b>	Reporting is performed on a quarterly basis. The reports on the business risk level are addressed to the ALCO, the RC, the Management Board, the Risk Committee of the Supervisory Board and the Supervisory Board.
<b>MANAGEMENT ACTIONS</b>	<p>Management actions consist of, in particular:</p> <ul style="list-style-type: none"> <li>• verifying and updating quarterly financial forecasts, including actions aimed at lowering the business risk level in accordance with the limits,</li> <li>• monitoring the level of the strategic limit of tolerance to business risk.</li> </ul>



## REPUTATION RISK MANAGEMENT

<b>DEFINITION</b>	The reputation risk is understood as the risk of deterioration of reputation among clients, counterparties, investors, supervisory and control authorities, and the general public as a result of the Bank's business decisions, operating events, instances of non-compliance or other events.
<b>MANAGEMENT OBJECTIVE</b>	The objective of managing the reputation risk is to protect the Bank's reputation by counteracting the occurrence of reputation and limiting the negative effect of image-related events on the Bank's reputation.
<b>IDENTIFICATION</b>	Identification of the reputation risks covers the developments observed in the Bank's internal processes and in its external environment, including in particular: image-related events and factors related to the business environment, i.e. quantitative and qualitative information, including especially the data which describes the Bank and its external environment, which suggest the existence of the reputation risk.
<b>EVALUATION</b>	An assessment of the reputation risk involves evaluating the impact of image-related events on the Bank's reputation, and in particular, quantifying and determining the severity of reputation losses. The evaluation of a reputation loss includes the impact, credibility and the opinion-forming potential of the disclosure of an image-related event to the public.
<b>CONTROL</b>	Reputation risk monitoring includes the identification of reputation risk controls adjusted to the scale and complexity of the Bank's operations, in the form of reputation risk measures and their thresholds.
<b>MONITORING</b>	Reputation risk monitoring involves regular assessment of the values of reputation risk measures against the adopted thresholds. The reputation risk level is determined based on the reputation risk measures.
<b>REPORTING</b>	Information on the reputation risk is reported in the form of: <ol style="list-style-type: none"> <li>1) a semi-annual management report addressed to the Risk Committee, the Management Board, the Risk Committee of the Supervisory Board and the Supervisory Board,</li> <li>2) ad-hoc information on current events having a material impact on the Bank's reputation, addressed to the President of the Management Board and to his Office,</li> <li>3) information included in the Bank's and the Group's financial statements and provided at the request of the external supervisory and control bodies.</li> </ol>
<b>MANAGEMENT ACTIONS</b>	Based on the specific level of reputation risk management actions are taken which may cover: <ol style="list-style-type: none"> <li>1) an analysis of the causes of image-related events,</li> <li>2) an assessment of their consequences,</li> <li>3) proposed management actions aimed at mitigating the reputation risk level or it is confirmed that such actions are not needed, e.g. in the case of extraordinary incidental events.</li> </ol>

## MODEL RISK MANAGEMENT

<b>DEFINITION</b>	Model risk is the risk of incurring losses as a result of making incorrect business decisions on the basis of the models functioning.
<b>MANAGEMENT OBJECTIVE</b>	The objective of model risk management is to mitigate the risk of incurring losses as a result of making incorrect business decisions on the basis of existing models through a well-defined and implemented process of models management.  One of the elements of the model management process is to cover all significant models in the Bank with regular, independent validation.



<b>RISK IDENTIFICATION, MEASUREMENT AND EVALUATION</b>	<p>Identification of the model risk consists of, in particular, collecting information about the existing models and models planned to be implemented as well as determining the materiality of the models on a periodical basis.</p> <p>The model risk evaluation is aimed at determining the scale of the threats associated with the occurrence of the model risk. The evaluation is made at the level of each model as well as on an aggregate basis at the level of the Bank.</p>
<b>CONTROL</b>	<p>Control of the model risk is aimed at maintaining an aggregated evaluation of the model risk at a level which is acceptable to the Bank. Control of the model risk consists of determining the mechanisms used to diagnose the model risk level and tools for reducing the level of this risk. The tools used to diagnose the model risk include, in particular, a strategic limit of tolerance to the model risk and the threshold values of the model risk.</p>
<b>MONITORING</b>	<p>Monitoring of the model risk on a periodical basis is aimed at diagnosing the areas requiring management actions and includes, in particular:</p> <ul style="list-style-type: none"> <li>• updating the model risk level,</li> <li>• evaluating the utilization of the strategic limit of tolerance to the model risk and the threshold values of the model risk,</li> <li>• the verification of status of implementation and the valuation of effectiveness of implementation of the activities on mitigation of model risk.</li> </ul>
<b>REPORTING</b>	<p>Monitoring results are presented periodically in the reports addressed to the RC, the Management Board and the Supervisory Board.</p>
<b>MANAGEMENT ACTIONS</b>	<p>The purpose of management actions is to form a model risk management process and to affect the level of this risk, in particular by determining acceptable risk levels and making decisions about the use of tools supporting model risk management.</p>

## MACROECONOMIC CHANGES RISK MANAGEMENT

<b>DEFINITION</b>	<p>Risk of macroeconomic changes is a risk of deterioration of the financial situation of the Bank as a result of the adverse impact of changes in macroeconomic conditions.</p>
<b>MANAGEMENT OBJECTIVE</b>	<p>The purpose of risk of macroeconomic changes management is to identify macroeconomic factors having a significant impact on the Bank's activities and taking actions to reduce the adverse impact of potential changes in the macroeconomic situation on the financial situation of the Bank.</p>
<b>RISK IDENTIFICATION AND MEASUREMENT</b>	<p>Identification involves determination of scenarios of the potential macroeconomic changes and to determine risk factor (dependent on and independent of the Bank's activities) having the greatest impact on the financial situation of the Bank. Risk of macroeconomic changes results from interaction of factors dependent and independent of the Bank's activities. The Bank identifies the factors affecting the level of risk of macroeconomic changes during carrying out comprehensive stress-tests.</p> <p>The risk of macroeconomic changes materializes indirectly through other risks affecting the Bank's operations.</p> <p>For the purpose of measuring the risk of macroeconomic changes the Bank uses risk measures based on the results of comprehensive stress-tests, in particular:</p> <ul style="list-style-type: none"> <li>• financial result and its components,</li> <li>• capital adequacy measures and their components,</li> <li>• selected liquidity measures,</li> <li>• data relating to the quality of the loan portfolio.</li> </ul>



<b>CONTROL</b>	<p>Control of the risk of macroeconomic changes is aimed at striving to mitigate the adverse effect of potential changes in the macroeconomic situation on the financial position of the Bank.</p> <p>Control of the risk of macroeconomic changes consists of determining the acceptable risk level tailored to the scale of the Bank's operations, with the level of the risk of macroeconomic changes being assessed on the basis of the results of comprehensive stress tests. An acceptable level of the risk of macroeconomic changes is a situation in which stress test results do not point to the need to take any remedial measures.</p>
<b>MONITORING</b>	<p>Monitoring consists of, among other things, analysing macroeconomic factors and the economic situation on a current basis and includes in particular: changes in the macroeconomic situation, macroeconomic factors on which the Bank is sensitive, stress-test results, the level of the risk of macroeconomic changes.</p>
<b>REPORTING</b>	<p>Reporting is provided in the form of additional information about the risk of macroeconomic changes which accompanies a quarterly report on capital adequacy, in which the stress tests were conducted. The reports are addressed to the ALCO, the RC, the Management Board and the Supervisory Board.</p>
<b>MANAGEMENT ACTIONS</b>	<p>Management actions in particular consist of:</p> <ul style="list-style-type: none"> <li>• issuing internal regulations of the Bank,</li> <li>• determining acceptable levels of risk,</li> <li>• proposals of actions aimed at reducing the level of risk in the event of elevated or high risk of macroeconomic changes occurrence.</li> </ul>

## CAPITAL RISK MANAGEMENT

<b>DEFINITION</b>	<p>Capital risk is the risk of failing to ensure an appropriate level and structure of own funds, with respect to the scale of the Bank operations and risk exposure and, consequently, insufficient for the absorption of unexpected losses, taking into account development plans and extreme situations.</p>
<b>MANAGEMENT OBJECTIVE</b>	<p>The objective of managing the capital risk is to ensure an appropriate level and structure of own funds, with respect to the scale of the operations and risk exposure of the Bank, taking into account of the assumptions of the Bank's dividend policy as well as supervisory instructions and recommendations concerning capital adequacy.</p>
<b>RISK MEASUREMENT</b>	<p>The capital risk level for the Bank is determined based on the minimum, threshold and maximum values of capital adequacy measures, amongst others, the total capital ratio and basic capital (Tier 1) ratio. In addition, threshold and maximum values are determined for capital adequacy measures, as an excess over the minimum values constituting strategic tolerance limits for the capital adequacy measures.</p> <p>The capital risk level is determined as follows:</p> <ol style="list-style-type: none"> <li>1) low level - when all capital adequacy measures exceed the threshold values,</li> <li>2) raised level - when at least one adequacy measure is lower than a threshold value and no capital adequacy measure is lower than the strategic tolerance limit,</li> <li>3) high level - when at least one capital adequacy measure is lower than the strategic tolerance limit.</li> </ol>
<b>MONITORING</b>	<p>The Bank regularly monitors the level of capital adequacy measures in order to determine the degree of compliance with supervisory standards, internal strategic limits, and to identify instances which require taking capital contingency actions.</p> <p>Should a high level of capital risk be identified, the Bank takes measures to bring capital adequacy measures to a lower level, taking into account of the assumptions of the dividend policy as well as the supervisory instructions and recommendations concerning capital adequacy.</p>



## MANAGEMENT OF THE RISK OF EXCESSIVE LEVERAGE

<b>DEFINITION</b>	The risk of excessive leverage is the risk resulting from vulnerability to threats due to financial leverage or conditional financial leverage that may require taking unintended corrective actions to adjust business plans, including emergency sale of assets which could result in losses or result in the need for valuation adjustments of other assets.
<b>MANAGEMENT OBJECTIVE</b>	The objective of managing the risk of excessive leverage is to ensure an appropriate relationship between the size of the core capital (Tier 1) and the sum of the balance sheet assets and off-balance sheet liabilities granted by the Bank.
<b>IDENTIFICATION AND MEASUREMENT</b>	The risk of excessive leverage materializes as a mismatch of scale of activities and structure of the sources of financing and insufficient equipment of Bank's own funds. For the purpose of measuring the risk of excessive financial leverage, a leverage ratio is calculated as a measure of Tier 1 capital divided by the measure of total exposure and is expressed as a percentage rate. The leverage ratio is calculated on the reporting reference date. The leverage ratio is calculated both with reference to Tier 1 capital and in accordance with the transitional definition of Tier 1 capital.
<b>FORECASTING AND MONITORING</b>	The leverage ratio is forecasted regularly, on a quarterly basis. The following parameters are in particular subject to monitoring of the risk of excessive leverage: <ul style="list-style-type: none"> <li>• value of the leverage ratio,</li> <li>• threshold of the risk of excessive leverage,</li> <li>• deviation of the leverage ratio from forecasts.</li> </ul>
<b>CONTROL</b>	The objective of the control of the risk of excessive leverage is to strive to maintain the Bank's risk of excessive leverage at an acceptable level. It covers a periodical review of the risk control mechanisms in the form of a tolerance limit, including its threshold value.
<b>REPORTING</b>	Reporting is performed on a quarterly basis. The receivers of reports on the risk of excessive leverage are RC, the Management Board, the Risk Committee of the Supervisory Board and the Supervisory Board.
<b>MANAGEMENT ACTIONS</b>	The management actions concerning the risk of excessive financial leverage are identical to the management actions concerning capital risk. In the event of an increased risk, actions are taken to bring capital adequacy measures to a proper level, taking into account the assumptions of the dividend policy as well as supervisory suggestions and recommendations concerning capital adequacy.

## 66. COMPLEX STRESS-TESTS

Complex stress-tests are an integral part of the Bank's risk management and are complementary for stress-tests specific to particular types of risks. They collectively include the types of risk considered by the Bank to be significant. They include an analysis of the impact of changes in the environment and the functioning of the Bank on the Bank's financial position, in particular: the income statement, statement of financial position, own funds, capital adequacy and selected liquidity measures.

Complex stress-tests for use of the Bank are carried out every six months in the three-year horizon, taking into account changes in the value and structure of statement of financial position and income statement items (dynamic tests). Supervisory tests are carried out at the request of the supervisory authorities in accordance with the assumptions provided by the supervisory authorities.



## 67. CAPITAL ADEQUACY

Capital adequacy  
Own funds for capital adequacy purposes  
Requirements as regard own funds (Pillar I)  
Internal capital (Pillar II)  
Disclosures (Pillar III)

Capital adequacy is a process whose objective is to ensure that the level of risk which the Bank takes 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 capital planning process, including the policy concerning the sources of acquisition of capital.

The objective of capital adequacy management is to maintain own funds on a level that is adequate to the risk scale and profile of the Bank's activities continuously.

The process of managing the Bank's capital adequacy comprises:

- specifying and pursuing the Bank'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 Bank's own funds,
- capital emergency action,
- allocating own funds and internal capital requirements to business areas and customer segments in the Bank assessing the profitability of the individual business areas and customer segments.

The main capital adequacy measures are:

- total capital ratio,
- the relation of own funds to internal capital,
- Tier 1 core capital ratio,
- Tier 1 capital ratio,
- leverage ratio.

The objective of monitoring the level of capital adequacy measures is to determine the degree of compliance with supervisory standards and to identify cases which require taking capital emergency action.

The basic regulations applicable in the capital adequacy assessment process are:

- the CRR Regulation,
- the Banking Law,
- The Act of 5 August 2015 on macroprudential supervision over the financial system and crisis management in the financial system (hereinafter referred to as the 'Act on macroprudential supervision').



In 2016, the levels of capital ratios were dependent, among other things, on the following supervisory decisions:

- on 10 October 2016, the Bank received the decision of the Polish Financial Supervision Authority on the identification of the Bank as other systemically important institution ('O-SII') on the basis of the assessment of the Bank's systemic importance in accordance with the Act on macroprudential supervision and on the imposition of a buffer on the Bank of 0.75% of its total risk exposure calculated in accordance with CRR Regulation;
- on 18 October 2016, the Bank received the decision of the Polish Financial Supervision Authority on the recommendation to comply with an additional own funds requirement in excess of the value arising from the requirements calculated in accordance with the detailed principles set out in the CRR. The PFSA recommended that the Bank should maintain its own funds to cover the additional capital requirement in order to hedge the risk arising from foreign currency mortgage loans to households was set at the standalone level of 0.83 p.p., in excess of the total capital ratio, which should comprise at least 75% of Tier1 capital (which corresponds to a capital requirement of 0.62 p.p. in excess of the value of the Tier 1 capital ratio) and at least 56% of Tier 1 core capital (which corresponds to a capital requirement of 0.46 p.p. in excess of the value of the Tier 1 core capital ratio);
- on 5 December 2016, the Financial Stability Committee passed a resolution on a recommendation concerning maintaining the countercyclical buffer ratio at 0% and also decided to provide the European Systemic Risk Board with appropriate information about this buffer;
- on 30 December 2016, the Polish Financial Supervision Authority provided the Bank with information about the value of an additional own funds requirement in excess of the value arising from the requirements calculated in accordance with the detailed principles set out in the CRR. The level of the additional capital requirement to hedge the risk arising from foreign currency mortgage loans to households was set at the consolidated level of: 0.79 p.p., for the total capital ratio; 0.59 p.p. for the Tier 1 capital ratio and 0.44 p.p. for the Tier 1 core capital ratio.

In 2016 and in 2015, PKO Bank Polski maintained a secure capital base in excess of the supervisory and regulatory limits.

#### OWN FUNDS FOR CAPITAL ADEQUACY PURPOSES

As at 31 December 2016, the Bank's own funds calculated for capital adequacy purposes, included the Bank's net profit for 2015 (in the amount of PLN 2 571 million) and undistributed profits from previous years (in the amount of PLN 1 250 million). This amount increased the Bank's other reserves (the reserve capital and other reserves). Additionally, after receiving adequate approvals from PFSA, the Bank included in its Tier 1 capital net profit generated for three quarters of 2016 (reduced by expected financial burdens) in the amount of PLN 1 589 million.

#### REQUIREMENTS AS REGARD OWN FUNDS (PILLAR I)

The Bank calculates own funds requirements in respect for the following types of risk:

---

##### 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 recognised 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 recognised 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).

---



<b>OPERATIONAL RISK</b>	<ul style="list-style-type: none"> <li>in accordance with the AMA approach – with respect to the Bank’s activities, excluding the Bank’s branch in Germany,</li> <li>in accordance with the BIA approach – with respect to the activities of the Bank’s branch in Germany</li> </ul>
<b>MARKET RISK</b>	<ul style="list-style-type: none"> <li>currency risk – calculated under the core approach,</li> <li>commodity risk – calculated under the simplified approach,</li> <li>equity instruments risk – calculated under the simplified approach,</li> <li>specific risk of debt instruments – calculated under the core approach,</li> <li>general risk of debt instruments – calculated under the duration-based approach,</li> <li>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.</li> </ul>
<b>OTHER RISK</b>	<ul style="list-style-type: none"> <li>settlement risk and delivery risk – calculated under the approach specified in Title V, ‘Own funds requirements for settlement risk’ of the CRR Regulation,</li> <li>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,</li> <li>credit valuation adjustment risk – calculated under the approach set out in Title VI ‘Own funds requirements for credit valuation adjustment risk’ in Capital requirements of the CRR Regulation,</li> <li>exceeding a large exposure limit – calculated under the approach set out in Articles 395-401 of the CRR Regulation,</li> <li>for exposures to a central counterparty, a requirement for transactions and contributions made to the default fund of a qualifying central counterparty is calculated.</li> </ul>

	31.12.2016	31.12.2015
<b>Total own funds</b>	<b>31 129.3</b>	<b>27 249.5</b>
<b>Tier 1 capital</b>	<b>28 673.2</b>	<b>24 821.0</b>
Tier 1 capital before regulatory adjustments and reductions, including:	31 732.4	27 572.3
<i>Share capital</i>	1 250.0	1 250.0
<i>Other reserves</i>	27 823.4	24 002.3
<i>General banking risk fund for unidentified risk of banking activities</i>	1 070.0	1 070.0
<i>Retained earnings</i>	1 589.0	1 250.0
(-) Goodwill	(871.0)	(871.0)
(-) Other intangible assets	(1 693.6)	(1 654.9)
Cumulative other comprehensive income	(442.1)	74.5
Adjustments to Tier 1 capital due to prudential filters	11.1	(14.4)
Other adjustments in the transitional period in Tier 1 capital	(63.6)	(285.5)
<b>Tier 2 capital</b>	<b>2 456.1</b>	<b>2 428.5</b>
Equity instruments and subordinated loans eligible as Tier 2 capital	2 523.0	2 483.1
(-) Equity exposures deducted from own funds	(66.9)	(54.6)
<b>Requirements as regard own funds</b>	<b>14 489.4</b>	<b>14 269.5</b>
Credit risk	13 298.7	13 176.1
Operational risk	482.3	543.2
Market risk	661.3	518.7
Credit valuation adjustment risk	47.1	31.5
<b>Capital adequacy ratio</b>	<b>17.19%</b>	<b>15.28%</b>
<b>Tier 1 capital ratio</b>	<b>15.83%</b>	<b>13.92%</b>



## INTERNAL CAPITAL (PILLAR II)

In 2016 PKO Bank Polski SA calculated internal capital in accordance with external regulations:

- the CRR Regulation,
- the Banking Act,
- the Resolution No. 258/2011 of the PFSA,
- The Act on Macro-prudential supervision,

and the internal regulations of the Bank.

Internal capital is an estimated amount of capital necessary for covering all identified significant risk types which occur in the Bank's activities and the impact of changes in the business environment, taking into consideration the expected risk level.

The Bank regularly monitors the significance of the individual risk types relating to the Bank's activities.

The estimation of internal capital is aimed at determining the minimum level of own funds which ensures the safety of operations, taking into account changes in the profile and scale of the operations as well as adverse stress conditions.

The internal capital for covering the individual risk types is determined using the methods specified in the internal regulations. In the event of performing internal capital estimates based on statistical models, the annual forecast horizon is adopted and a 99.9% confidence level. The total internal capital of the Bank is the sum of internal capital amount necessary to cover all of the significant risks for the Bank.

The Bank adopts a prudent approach to the aggregation of risks and does not rely on the diversification effect. In 2016, the relation of the Bank's own funds to its internal capital remained on a level exceeding both the threshold set by the law and the Bank's internal limits.

## DISCLOSURES (PILLAR III)

The Bank annually announces information, in particular, about the risk management and capital adequacy in accordance with: the CRR regulation and the implementing acts thereto, the Banking Act, the Act on Macro-Prudential Supervision, Recommendation M relating to operational risk management in banks and Recommendation P relating to liquidity risk issued by the Polish Financial Supervision Authority.

Details of the scope of information disclosed, the method of its verification and publication are presented in PKO Bank Polski SA Capital Adequacy Information Policies and other information to be published, which are available on the Bank's website ([www.pkobp.pl](http://www.pkobp.pl)).



## 68. INFORMATION ON PORTFOLIO SALE OF RECEIVABLES

The Bank did not enter any securitization transactions, although in 2016 it performed portfolio sales of receivables (on and off-balance sheet loans) of over 38 thousand receivables due from retail customers and corporate entities with a total value of approx. PLN 2 103 million.

The total carrying amount of the provision for potential claims on sale of impaired loan portfolios as at 31 December 2016 amounted to PLN 2.9 million (as at 31 December 2015 it was PLN 2.1 million). As a result of loan sale all risks and rewards were transferred, hence the Bank derecognised these assets.

The Bank did not receive any securities due to the above-mentioned transactions.

## SUBSEQUENT EVENTS

1. On 26 January 2017, the Supervisory Board of PKO Bank Polski SA selected KPMG Audyt Spółka z ograniczoną odpowiedzialnością spółka komandytowa as the entity authorized to audit and review the financial statements of the Bank and consolidated financial statements of the PKO Bank Polski SA Group for 2017 - 2019.
2. In January 2017, PKO Bank Polski SA acquired 100% of shares in ZenCard Sp. z o.o. and took up shares in the increased capital of the Company. ZenCard Sp. z o.o. is a technology company which has built a platform for retailers enabling them to create discount and loyalty programs which also allows the virtualization of 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 card which is also a payment card. CEUP eService Sp. z o.o., one of the largest clearing agents in Poland, is the Company's strategic partner. The Bank is interested in using the Company's know-how in the area of developing the solutions produced and using the Company's products in the Bank's Group.
3. On 2 February 2017, PKO Bank Hipoteczny SA concluded with PKO Bank Polski SA the Agreement for a revolving working capital loan in the current account up to the limit of PLN 1 500 million, to be made available in instalments. The loan was granted for the period to 2 February 2020. On 2 February 2017, PLN 600 million was made available as part of the loan.
4. On 6 February 2017, PKO Bank Hipoteczny SA acquired another portfolio of receivables of mortgage-secured housing loans of PLN 337.6 million under the Framework Receivables Sale Agreement concluded on 17 November 2015 with PKO Bank Polski SA.
5. An Extraordinary Shareholders Meeting was convened for 13 March 2017 to consider, among other things, draft resolutions submitted by the State Treasury represented by the Minister of Development and Finance executing the rights from shares in PKO Bank Polski SA held by the State Treasury, on the rules for determining the remuneration of the Management and Supervisory Boards. These resolutions are intended to adapt the existing rules for remunerating members of the Bank's Management and Supervisory Boards to the provisions of the Act on determining the remuneration of persons managing certain companies.



The proposed remuneration of the Members of the Bank's Management Board and Supervisory Board was determined in accordance with the provisions of the Act on the principles for determining the salaries of persons managing certain companies. The designed remuneration principles are to replace the principles of remunerating Members of the Bank's Management and Supervisory Board Members currently in force which had been determined by the Bank's Supervisory Board and the Ordinary General Shareholders' Meeting respectively.

SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD OF THE BANK

21.02.2017	ZBIGNIEW JAGIEŁŁO	PRESIDENT OF THE MANAGEMENT BOARD	..... (SIGNATURE)
21.02.2017	JANUSZ DERDA	VICE-PRESIDENT OF THE MANAGEMENT BOARD	..... (SIGNATURE)
21.02.2017	BARTOSZ DRABIKOWSKI	VICE-PRESIDENT OF THE MANAGEMENT BOARD	..... (SIGNATURE)
21.02.2017	MAKS KRACZKOWSKI	VICE-PRESIDENT OF THE MANAGEMENT BOARD	..... (SIGNATURE)
21.02.2017	MIECZYŚŁAW KRÓL	VICE-PRESIDENT OF THE MANAGEMENT BOARD	..... (SIGNATURE)
21.02.2017	PIOTR MAZUR	VICE-PRESIDENT OF THE MANAGEMENT BOARD	..... (SIGNATURE)
21.02.2017	JAKUB PAPIERSKI	VICE-PRESIDENT OF THE MANAGEMENT BOARD	..... (SIGNATURE)
21.02.2017	JAN EMERYK ROŚCISZEWSKI	VICE-PRESIDENT OF THE MANAGEMENT BOARD	..... (SIGNATURE)

SIGNATURE OF PERSON RESPONSIBLE FOR  
MAINTAINING THE BOOKS OF ACCOUNT

21.02.2017

DANUTA SZYMAŃSKA  
DIRECTOR OF THE ACCOUNTING DIVISION

.....  
(SIGNATURE)