



Bank Polski



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

SELECTED CONSOLIDATED FINANCIAL DATA	PLN million		EUR million	
	period from 01.01.2019 to 30.06.2019	period from 01.01.2018 to 30.06.2018	period from 01.01.2019 to 30.06.2019	period from 01.01.2018 to 30.06.2018
Net interest income	4 993	4 499	1 164	1 061
Net fee and commission income	1 506	1 482	351	350
Operating profit/(loss)	2 949	2 301	688	543
Profit before tax	2 963	2 315	691	546
Net profit (including non-controlling shareholders)	2 079	1 689	485	398
Net profit attributable to equity holders of the parent company	2 079	1 690	485	399
Earnings per share for the period - basic (in PLN/EUR)	1,66	1,35	0,39	0,32
Earnings per share for the period - diluted (in PLN/EUR)	1,66	1,35	0,39	0,32
Total net comprehensive income	2 296	1 855	535	438
Net cash from/used in operating activities	(6 212)	(7 541)	(1 449)	(1 779)
Net cash from/used in investing activities	(5 885)	(1 991)	(1 372)	(470)
Net cash from/used in financing activities	(2 340)	1 438	(546)	339
Total net cash flows	(14 437)	(8 094)	(3 367)	(1 909)

SELECTED CONSOLIDATED FINANCIAL DATA	PLN million		EUR million	
	as at 30.06.2019	as at 31.12.2018	as at 30.06.2019	as at 31.12.2018
Total assets	328 992	324 255	77 373	75 408
Total equity	39 624	39 101	9 319	9 093
Capital attributable to equity holders of the parent company	39 634	39 111	9 321	9 096
Share capital	1 250	1 250	294	291
Number of shares (in million)	1 250	1 250	1 250	1 250
Book value per share (in PLN/EUR)	31,70	31,28	7,46	7,27
Diluted number of shares (in million)	1 250	1 250	1 250	1 250
Diluted book value per share (in PLN/EUR)	31,70	31,28	7,46	7,27
Total capital adequacy ratio	18,57%	18,88%	18,57%	18,88%
Tier 1	35 643	35 150	8 383	8 174
Tier 2	2 700	2 700	635	628

SELECTED CONSOLIDATED FINANCIAL STATEMENT ITEMS HAVE BEEN TRANSLATED INTO EUR AT THE FOLLOWING RATES	30.06.2019	31.12.2018	30.06.2018
average of NBP exchange rates at the end of monthly periods (income statement, statement of comprehensive income and statement of cash flow items)	4,2880	4,2669	4,2395
mid NBP exchange rates as at the date (statement of financial position items)	4,2520	4,3000	4,3616

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## CONSOLIDATED INCOME STATEMENT

CONSOLIDATED INCOME STATEMENT	Note	second quarter period from 01.04.2019 to 30.06.2019	2 quarters cumulative period from 01.01.2019 to 30.06.2019	second quarter period from 01.04.2018 to 30.06.2018	2 quarters cumulative period from 01.01.2018 to 30.06.2018
Interest income	8	3 141	6 199	2 837	5 585
Interest income calculated under the effective interest rate method		3 034	5 978	2 727	5 359
interest income on financial instruments measured at amortized cost		2 706	5 321	2 457	4 816
interest income on instruments measured at fair value through OCI		328	657	270	543
Income similar to interest income on instruments at fair value through profit or loss		107	221	110	226
Interest expenses	8	(603)	(1 206)	(550)	(1 086)
<b>Net interest income</b>		<b>2 538</b>	<b>4 993</b>	<b>2 287</b>	<b>4 499</b>
Fee and commission income	9	1 032	2 021	1 010	1 982
Fee and commission expense	9	(272)	(515)	(265)	(500)
<b>Net fee and commission income</b>		<b>760</b>	<b>1 506</b>	<b>745</b>	<b>1 482</b>
Dividend income		12	12	11	11
Net gain/(loss) in financial instruments measured at fair value through profit or loss		33	57	(2)	15
Net foreign exchange gains/(losses)		105	245	143	247
Gains/(losses) on derecognition of financial instruments not measured at fair value through profit or loss		33	86	57	94
measured at fair value through OCI		36	86	57	86
measured at amortized cost		(3)	-	-	8
Net allowances for credit losses	10	(319)	(644)	(362)	(687)
Net impairment allowances on financial assets		(3)	(10)	(15)	(23)
Other operating income	11	304	435	160	317
Other operating expenses	11	(46)	(101)	(126)	(184)
<b>Net other operating income and expense</b>		<b>258</b>	<b>334</b>	<b>34</b>	<b>133</b>
Administrative expenses	12	(1 383)	(2 709)	(1 338)	(2 631)
Net regulatory charges	13	(59)	(418)	(96)	(378)
Tax on certain financial institutions		(255)	(503)	(233)	(461)
<b>Operating profit/(loss)</b>		<b>1 720</b>	<b>2 949</b>	<b>1 231</b>	<b>2 301</b>
Shares in profits and losses of associates and joint ventures		9	14	8	14
<b>Profit before tax</b>		<b>1 729</b>	<b>2 963</b>	<b>1 239</b>	<b>2 315</b>
Income tax expense	14	(511)	(884)	(306)	(626)
Net profit (including non-controlling shareholders)		1 218	2 079	933	1 689
Profit (loss) attributable to non-controlling shareholders		1	-	-	(1)
<b>Net profit attributable to equity holders of the parent company</b>		<b>1 217</b>	<b>2 079</b>	<b>933</b>	<b>1 690</b>
Earnings per share					
- basic earnings per share for the period (PLN)		0,97	1,66	0,75	1,35
- diluted earnings per share for the period (PLN)		0,97	1,66	0,75	1,35
Weighted average number of ordinary shares during the period (in million)		1 250	1 250	1 250	1 250
Weighted average diluted number of ordinary shares during the period (in million)		1 250	1 250	1 250	1 250

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

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	Note	second quarter period from 01.04.2019 to 30.06.2019	2 quarters cumulative period from 01.01.2019 to 30.06.2019	second quarter period from 01.04.2018 to 30.06.2018	2 quarters cumulative period from 01.01.2018 to 30.06.2018
<b>Net profit (including non-controlling shareholders)</b>		1 218	2 079	933	1 689
<b>Other comprehensive income</b>		340	217	(24)	166
<b>Items which may be reclassified to profit or loss</b>		340	217	(24)	166
Cash flow hedges (gross)	17	180	329	62	11
Deferred income tax	14	(34)	(62)	(11)	(1)
Cash flow hedges (net)	17	146	267	51	10
Revaluation of fair value of financial assets measured at fair value through other comprehensive income, gross		270	6	(57)	242
Gains /losses transferred to profit or loss (on disposal)		(36)	(86)	(57)	(86)
Deferred income tax	14	(41)	17	21	(30)
Fair value of financial assets measured at fair value through other comprehensive income (net)		193	(63)	(93)	126
Foreign exchange differences on translation of foreign branches		1	11	18	28
Share in other comprehensive income of associates and joint ventures		-	2	-	2
<b>Total net comprehensive income</b>		<b>1 558</b>	<b>2 296</b>	<b>909</b>	<b>1 855</b>
Total net comprehensive income, of which attributable to:		1 558	2 296	909	1 855
shareholders of the Parent Company		1 557	2 296	909	1 856
non-controlling shareholders		1	-	-	(1)

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	30.06.2019	31.12.2018
<b>ASSETS</b>			
Cash and balances with Central Bank	15	12 901	22 925
Amounts due from banks	16	3 267	7 661
Hedging derivatives	17	726	658
Other derivative instruments	18	2 500	1 907
Securities	19	71 185	64 114
- held for trading		782	235
- not held for trading, measured at fair value through profit or loss		2 292	2 848
- measured at fair value through OCI		57 211	52 558
- measured at amortized cost		10 900	8 473
Loans and advances to customers	20	224 794	214 912
- not held for trading, measured at fair value through profit or loss		1 028	1 106
- measured at fair value through OCI		1	-
- measured at amortized cost		223 765	213 806
Investments in associates and joint ventures		332	344
Non-current assets held for sale		10	15
Intangible assets		3 130	3 195
Property, plant and equipment	22	4 462	2 931
Current income tax receivable		1	4
Deferred income tax assets		2 118	2 135
Other assets		3 566	3 454
<b>TOTAL ASSETS</b>		<b>328 992</b>	<b>324 255</b>

	Note	30.06.2019	31.12.2018
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
Amounts due to the Central Bank		9	7
Amounts due to banks	23	3 057	2 001
- measured at fair value through profit or loss		20	-
- at amortized cost		3 037	2 001
Hedging derivatives	17	485	471
Other derivative instruments	18	3 226	2 655
Amounts due to customers	24	240 420	242 816
- measured at fair value through profit or loss		15	-
- measured at amortized cost		240 405	242 816
Liabilities in respect of insurance activities		1 471	1 292
Debt securities in issue	26	29 654	28 627
Subordinated liabilities		2 730	2 731
Other liabilities	27	7 425	3 685
Current income tax liabilities		393	371
Deferred income tax liabilities		96	52
Provisions	28	402	446
<b>TOTAL LIABILITIES</b>		<b>289 368</b>	<b>285 154</b>
<b>Equity</b>			
Share capital		1 250	1 250
Other capital		34 204	34 505
Retained earnings		2 101	(385)
Net profit or loss for the year		2 079	3 741
Capital and reserves attributable to equity holders of the parent company		39 634	39 111
Non-controlling interests		(10)	(10)
<b>TOTAL EQUITY</b>		<b>39 624</b>	<b>39 101</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>328 992</b>	<b>324 255</b>
Total capital adequacy ratio	46	18,57%	18,88%
Book value (in PLN million)		39 624	39 101
Number of shares (in million)		1 250	1 250
Book value per share (in PLN)		31,70	31,28
Diluted number of shares (in million)		1 250	1 250
Diluted book value per share (in PLN)		31,70	31,28

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE 6 MONTHS ENDED 30 JUNE 2019	Share capital	Other capital Reserves			Accumulated other comprehensive income	Total other capital	Retained earnings	Net profit or loss for the period	Capital attributable to equity holders of the parent company	Total non- controlling interests	Total equity
		Supplementary capital	General banking risk fund	Other reserves							
31 December 2018	1 250	29 354	1 070	3 831	250	34 505	(385)	3 741	39 111	(10)	39 101
Changes due to IFRS 16 implementation	-	-	-	-	-	-	(111)	-	(111)	-	(111)
1 January 2019 (restated)	1 250	29 354	1 070	3 831	250	34 505	(496)	3 741	39 000	(10)	38 990
Transfer from retained earnings	-	-	-	-	-	-	3 741	(3 741)	-	-	-
Dividend declared	-	-	-	-	-	-	(1 662)	-	(1 662)	-	(1 662)
<b>Total comprehensive income, of which:</b>	-	-	-	-	217	217	-	2 079	2 296	-	2 296
Net profit for the period	-	-	-	-	-	-	-	2 079	2 079	-	2 079
Other comprehensive income	-	-	-	-	217	217	-	-	217	-	217
Covering of prior year loss <sup>1</sup>	-	-	-	(606)	-	(606)	606	-	-	-	-
Transfer of profit designated to equity	-	75	-	13	-	88	(88)	-	-	-	-
As at 30 June 2019	1 250	29 429	1 070	3 238	467	34 204	2 101	2 079	39 634	(10)	39 624

<sup>1</sup> The item includes among others covering by other capital reserves prior years' losses of PLN 535 million that arose as a result of changes in accounting policies resulting from first-time application of IFRS 9.

FOR THE 6 MONTHS ENDED 30 JUNE 2019	Accumulated other comprehensive income					
	Share in other comprehensive income of associates and joint ventures	Fair value of financial assets measured at fair value through other comprehensive income	Cash flow hedges	Actuarial gains and losses	Foreign exchange differences on translation of foreign branches	Total
1 January 2019	(13)	492	22	(10)	(241)	250
<b>Total comprehensive income, of which:</b>	2	(63)	267	-	11	217
Other comprehensive income	2	(63)	267	-	11	217
30 June 2019	(11)	429	289	(10)	(230)	467

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



FOR THE 6 MONTHS ENDED 30 JUNE 2018	Share capital	Other capital Reserves			Accumulated other comprehensive income	Total other capital	Retained earnings	Net profit or loss for the period	Capital attributable to equity holders of the parent company	Total non-controlling interests	Total equity
		Supplementary capital	General banking risk fund	Other reserves							
As at 31 December 2017	1 250	27 374	1 070	3 645	(110)	31 979	(66)	3 104	36 267	(11)	36 256
Changes due to IFRS 9 implementation	-	-	-	-	(78)	(78)	(567)	-	(645)	-	(645)
As at 1 January 2018 (restated)	1 250	27 374	1 070	3 645	(188)	31 901	(633)	3 104	35 622	(11)	35 611
Transfer from retained earnings	-	-	-	-	-	-	3 104	(3 104)	-	-	-
Dividend paid	-	-	-	-	-	-	(688)	-	(688)	-	(688)
<b>Total comprehensive income, of which:</b>	-	-	-	-	166	166	-	1 690	1 856	(1)	1 855
Net profit for the period	-	-	-	-	-	-	-	1 690	1 690	(1)	1 689
Other comprehensive income	-	-	-	-	166	166	-	-	166	-	166
Transfer of profit designated to equity	-	2 101	-	65	-	2 166	(2 166)	-	-	-	-
Mandatory buy-out of shares from non-controlling shareholders	-	-	-	-	-	-	(2)	-	(2)	-	(2)
As at 30 June 2018	1 250	29 475	1 070	3 710	(22)	34 233	(385)	1 690	36 788	(12)	36 776

FOR THE 6 MONTHS ENDED 30 JUNE 2018	Accumulated other comprehensive income					
	Share in other comprehensive income of associates and joint ventures	Fair value of financial assets measured at fair value through other comprehensive income	Cash flow hedges	Actuarial gains and losses	Foreign exchange differences on translation of foreign branches	Total
As at 31 December 2017	-	272	(116)	(9)	(257)	(110)
Changes due to IFRS 9 implementation	-	(78)	-	-	-	(78)
As at 1 January 2018 (restated)	-	194	(116)	(9)	(257)	(188)
<b>Total comprehensive income, of which:</b>	2	126	10	-	28	166
Other comprehensive income	2	126	10	-	28	166
30 June 2018	2	320	(106)	(9)	(229)	(22)

## CONSOLIDATED STATEMENT OF CASH FLOWS

	01.01- 30.06.2019	01.01- 30.06.2018
<b>Cash flows from operating activities</b>		
<b>Profit before tax</b>	<b>2 963</b>	<b>2 315</b>
<b>Total adjustments:</b>	<b>(9 175)</b>	<b>(9 856)</b>
Amortization and depreciation	496	407
(Gains)/losses on investing activities	(11)	(22)
Interest and dividends	(408)	(315)
Change in:		
amounts due from banks	(17)	5
- measured at amortized cost	(17)	5
hedging derivatives	(54)	381
other derivatives	(22)	(678)
securities	(1 062)	(110)
- held for trading	(547)	(704)
- not held for trading, measured at fair value through profit or loss	556	1 387
- measured at fair value through OCI	(940)	(495)
- measured at amortized cost	(131)	(298)
loans and advances to customers	(8 914)	(5 362)
- not held for trading, mandatorily measured at fair value through profit or loss	78	82
- measured at fair value through OCI	(1)	-
- measured at amortized cost	(8 991)	(5 444)
non-current assets held for sale	6	3
other assets	(52)	(651)
accumulated allowances for credit losses	91	(1 747)
accumulated allowances for non-financial assets and other provisions	(32)	16
amounts due to the Central Bank	2	(1)
amounts due to banks	866	134
- measured at fair value through profit or loss	20	-
- measured at amortized cost	846	134
amounts due to customers	(716)	(1 334)
- measured at fair value through profit or loss	15	-
- measured at amortized cost	(731)	(1 334)
liabilities in respect of insurance activities	179	198
debt securities in issue	(109)	784
subordinated liabilities	(1)	10
other liabilities	1 121	(504)
Income tax paid	(767)	(1 161)
Other adjustments	229	91
<b>Net cash from/used in operating activities</b>	<b>(6 212)</b>	<b>(7 541)</b>

	01.01- 30.06.2019	01.01- 30.06.2018
<b>Cash flows from investing activities</b>		
<b>Inflows from investing activities</b>	<b>133 771</b>	<b>157 773</b>
Proceeds from sale of subsidiaries	-	23
Proceeds from sale of and interest on securities measured at fair value through other comprehensive income	127 829	157 275
Proceeds from sale of and interest on securities measured at amortized cost	5 770	374
Proceeds from sale of intangible assets, property, plant and equipment and assets held for sale	136	87
Other inflows from investing activities (dividends)	36	14
<b>Outflows from investing activities</b>	<b>(139 656)</b>	<b>(159 764)</b>
Purchase of shares in subsidiaries, net of cash acquired	(279)	(2)
Purchase of securities measured at fair value through other comprehensive income	(131 039)	(158 887)
Purchase of securities measured at amortized cost	(7 934)	(565)
Purchase of intangible assets and property, plant and equipment	(404)	(310)
<b>Net cash from/used in investing activities</b>	<b>(5 885)</b>	<b>(1 991)</b>
<b>Cash flows from financing activities</b>		
Proceeds from debt securities in issue	7 561	7 321
Purchase/ redemption of debt securities	(6 675)	(3 958)
Proceeds from issue of subordinated bonds	-	1 000
Taking up loans and advances	153	168
Repayment of loans and advances	(2 947)	(2 842)
Payment of lease liabilities	(109)	-
Repayment of interest on long-term liabilities	(323)	(251)
<b>Net cash from/used in financing activities</b>	<b>(2 340)</b>	<b>1 438</b>
<b>Total net cash flows</b>	<b>(14 437)</b>	<b>(8 094)</b>
of which foreign exchange differences on cash and cash equivalents	(30)	263
Cash equivalents at the beginning of the period	30 526	23 000
Cash equivalents at the end of the period	16 089	14 906

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## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 1. GENERAL INFORMATION ABOUT THE GROUP AND THE BANK

#### ACTIVITIES OF THE GROUP AND THE BANK

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

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

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

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

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

Through its subsidiaries, the Group offers mortgage loans, provides specialized financial services related to leases, factoring, investment funds, pension funds, insurance and transfer agent services, managing car fleets, providing IT services and also outsourcing IT specialists and providing business outsourcing services, and real estate management services as well as banking and debt collection and financing services in Ukraine.

## INFORMATION ON MEMBERS OF THE SUPERVISORY AND MANAGEMENT BOARDS

As at 30 June 2019, the Supervisory Board of the Bank consisted of:

<b>Piotr Sadownik</b>	
Chairman of the Supervisory Board	Member of the Supervisory Board since 25 February 2016. Re-appointed to the Supervisory Board on 22 June 2017 for a current joint term of office and appointed Chairman of the Supervisory Board by the State Treasury on the same date.
<b>Grażyna Ciurzyńska</b>	
Vice-Chair of the Supervisory Board	Member of the Supervisory Board since 30 June 2016. Re-appointed to the Supervisory Board on 22 June 2017 for a current joint term of office and appointed Vice-Chair of the Supervisory Board by the State Treasury on the same date.
<b>Zbigniew Hajłasz</b>	
Secretary of the Supervisory Board	Member of the Supervisory Board since 30 June 2016. Re-appointed to the Supervisory Board for the current term of office on 22 June 2017. On 24 August 2017, re-appointed Secretary of the Supervisory Board.
<b>Mariusz Andrzejewski</b>	
Member of the Supervisory Board	Appointed to the Supervisory Board for the current term of office on 22 June 2017.
<b>Mirosław Barszcz</b>	
Member of the Supervisory Board	Member of the Supervisory Board since 25 February 2016. Re-appointed to the Supervisory Board for the current term of office on 22 June 2017.
<b>Adam Budnikowski</b>	
Member of the Supervisory Board	Member of the Supervisory Board since 25 February 2016. Re-appointed to the Supervisory Board for the current term of office on 22 June 2017.
<b>Dariusz Górski</b>	
Member of the Supervisory Board	Appointed to the Supervisory Board on 6 May 2019 for a current joint term of office, which began as on the date of the Annual General Meeting convened for 22 June 2017.
<b>Wojciech Jasiński</b>	
Member of the Supervisory Board	Member of the Supervisory Board since 25 February 2016. Re-appointed to the Supervisory Board for the current term of office on 22 June 2017.
<b>Andrzej Kisielewicz</b>	
Member of the Supervisory Board	Member of the Supervisory Board since 25 February 2016. Re-appointed to the Supervisory Board for the current term of office on 22 June 2017.
<b>Elżbieta Mącznyńska-Ziemacka</b>	
Member of the Supervisory Board	Member of the Supervisory Board since 20 June 2013. Re-appointed to the Supervisory Board for the current term of office on 22 June 2017.

On 6 May 2019 the Bank's Ordinary General Shareholders' Meeting acknowledged the correct performance of duties by all members of the Bank's Supervisory and Management Boards. Under the framework of changes to the composition of the Supervisory Board Janusz Ostaszewski was removed and Dariusz Górski was appointed to the Board.

As at 30 June 2019, the Management Board of the Bank consisted of:

<b>Zbigniew Jagiełło</b> President of the Management Board overseeing the Area of the President of the Management Board	On 14 June 2017, he was reappointed President of the Management Board of PKO Bank Polski SA for the current joint term of the Management Board, which commenced on 2 July 2017.
<b>Rafał Antczak</b> Vice-President of the Management Board, overseeing the Area of Corporate Banking, Analyses and Administration	On 14 June 2017, he was appointed Vice-President of the Management Board of PKO Bank Polski SA for the current joint term of the Management Board, which commenced on 2 July 2017.
<b>Rafał Kozłowski</b> Vice-President of the Management Board, overseeing the Area of Finance and Accounting	On 21 December 2017, he was appointed Vice-President of the Management Board of PKO Bank Polski SA, effective from 1 January 2018, for the current joint term of the Management Board, which commenced on 2 July 2017.
<b>Maks Kraczkowski</b> Vice-President of the Management Board, overseeing the Area of International and Transactional Banking and Cooperation with Local Authorities and Governmental Agencies	On 14 June 2017, he was reappointed Vice-President of the Management Board of PKO Bank Polski SA for the current joint term of the Management Board, which commenced on 2 July 2017.
<b>Mieczysław Król</b> Vice-President of the Management Board, overseeing the Area of Operations	On 14 June 2017, he was reappointed Vice-President of the Management Board of PKO Bank Polski SA for the current joint term of the Management Board, which commenced on 2 July 2017.
<b>Adam Marciniak</b> Vice-President of the Management Board, overseeing the Area of IT	On 21 September 2017, he was appointed Vice-President of the Management Board of PKO Bank Polski SA, effective from 1 October 2017, for the current joint term of the Management Board, which commenced on 2 July 2017.
<b>Piotr Mazur</b> Vice-President of the Management Board, overseeing the Area of Risk Management	On 14 June 2017, he was reappointed Vice-President of the Management Board of PKO Bank Polski SA for the current joint term of the Management Board, which commenced on 2 July 2017.
<b>Jakub Papierski</b> Vice-President of the Management Board, overseeing the Area of Corporate and Investment Banking	On 14 June 2017, he was reappointed Vice-President of the Management Board of PKO Bank Polski SA for the current joint term of the Management Board, which commenced on 2 July 2017.
<b>Jan Emeryk Rościszewski</b> Vice-President of the Management Board, overseeing the Area of Retail Market	On 14 June 2017, he was reappointed Vice-President of the Management Board of PKO Bank Polski SA for the current joint term of the Management Board, which commenced on 2 July 2017.

## 2. APPROVAL OF THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

## 3. BASIS OF PREPARATION OF THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The condensed interim consolidated financial statements of the Group cover the six-month period ended 30 June 2019, and contain comparative data for the six-month period ended 30 June 2018 (with regard to the consolidated income statement, consolidated statement of comprehensive income, statement of changes in consolidated equity, and consolidated statements of cash flows), and comparative data as at 31 December 2018 (in respect of the consolidated statement of financial position). The financial data is presented in Polish zloty (PLN) in millions, unless otherwise indicated. Therefore, discrepancies may occur due to the rounding of amounts to full millions.

These condensed interim consolidated financial statements of the PKO Bank Polski SA Group and were prepared in accordance with the requirements of International Accounting Standard No. 34 "Interim Financial Reporting" endorsed by the European Union.

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

These condensed interim consolidated financial statements for the six-month period of 2019 do not comprise all the information and disclosures which may be required in annual financial statements and should be read jointly with the annual consolidated financial statements of the PKO Bank Polski SA Group for the year ended 31 December 2018 that were prepared in accordance with the International Financial Reporting Standards endorsed by the European Union.

#### MANAGEMENT REPRESENTATION

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

#### 4. MSSF 16 LEASES

The standard applies to annual periods starting on or after 1 January 2019. It replaced IAS 17, "Leases", which was applicable to date. According to IFRS 16, a contract is a lease or contains a lease if it transfers the right to use an identified asset for a given period in exchange for consideration. An important element of the new definition of leasing is the requirement to exercise control over the leased asset and to obtain economic benefits from the asset component specified in the contract.

From the point of view of the lessee, IFRS 16 eliminates the classification of leases into operating leases and finance leases, introducing one model of recognition and measurement which is consistent with the recognition of financial leases under IAS 17. The lessee is required to recognize assets derived from the right of use of the leased asset in the statement of financial position and liabilities from lease payments, except for short-term lease contracts (up to 12 months) and lease contracts for non-significant assets. The lessee is also required to recognize the costs of depreciation of the asset from the right to use the leased asset and the interest expense on the lease liability in the income statement (according to IAS 17, expenditure related to the use of leased assets is included in administrative expenses). Right-of-use assets are subject to straight-line depreciation, while liabilities under lease contracts are measured using the amortized cost method.

The Group implemented the standard retrospectively, recognizing the cumulative effect of applying the standard to shareholders' equity as at 1 January 2019 without transforming the comparative data, including assets from the rights of use at an amount which is equal to the liabilities from the lease at the present value of the future lease payments, adjusted by the amount of prepayments recognized in the statement of financial position immediately before the date of first application.

#### LEASE LIABILITIES

The implementation of the standard resulted in the Group recognizing lease liabilities presented in Note 27 "Other Liabilities" of PLN 956 million at the present value of future lease payments which are to be paid up to the start of the application of IFRS 16, which consist of fixed lease payments and variable lease payments, which depend on market indicators.

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

#### RIGHT-OF-USE ASSETS

The Group recognized right-of-use assets as at 1 January 2019 at the level of PLN 960 million, which include the amount of the initial valuation of the lease liability of PLN 956 million and lease payments of PLN 4 million paid in advance.

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

## ESTIMATES USED

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

- Establishing the term of the lease for contracts concluded indefinitely

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

- Determining the interest rate used to discount future cash flows

The discount rates used by the Group to discount future lease payments (marginal lending rates) were at initial application within the range of 2.06% to 8.68% for PLN, from 0.6% to 4.0% for EUR, from 3.8% to 4.0% for USD and 18% for UAH, and were calculated on the basis of curves reflecting the cost of financing in the given currency, encompassing the tenor of the longest lease contract which is to be valued. The tenors of lease contracts lie within a range of 1 to 99 years for maturities corresponding to half of the term to maturity of the lease contract.

The total impact of the discount factor from the application of the above rates to the present value of lease liabilities was PLN 410 million.

## CAPITAL ADEQUACY

The increase in assets arising from recognizing right-of-use assets under lease contracts will result in an increase of PLN 78 million in capital requirements as at 1 January 2019. In addition, in view of the write-off of the right of perpetual usufruct of land of PLN 111 million, the Group's own funds will decline by the same amount. This contributed to a reduction in the Tier 1 capital ratio by approx. 14 b.p. and the total capital ratio by approx. 15 b.p. as at 1 January 2019.

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

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

<b>Operating lease liabilities as at 31.12.2018 (without discount)</b>	637
Future payments in respect of rights of perpetual usufruct	508
<b>Operating lease liabilities, including future payments in respect of rights of perpetual usufruct, as at</b>	<b>1 145</b>
Short-term lease agreements	(6)
Effect of discount using the incremental interest rate of 2.62% - 6.71%	(410)
Adjustment for the difference in recognition of lease agreement extension/termination option	227
<b>Financial liabilities in respect of leases as at 01.01.2019</b>	<b>956</b>

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

Compared with the disclosure of the impact of IFRS 16 implementation in the Report of the PKO Bank Polski SA Group for the first quarter of 2019, financial liabilities in respect of leases increased by PLN 34 million.

The impact of the implementation of IFRS 16 on the recognition of additional financial liabilities and the corresponding right-of-use of assets is shown below:

Impact on the statement of financial position	31.12.2018 under IAS 17	Right of perpetual usufruct of land written off	Effect of recognizing lease agreements (with discount)		Total effect of recognizing lease agreements (with discount)	01.01.2019 under IFRS 16
			in respect of rights of perpetual usufruct	in respect of operating leases		
<b>ASSETS</b>						
Property, plant and equipment, of which:	2 931	(111)	157	802	959	3 779
right of perpetual usufruct of assets	X	-	157	802	959	959
land and buildings	1 537	(111)	-	-	-	1 426
Non-current assets held for sale	15	-	1	-	1	16
right of perpetual usufruct of assets			1	-	1	1
Other assets, including:	3 454	-	-	(4)	(4)	3 450
prepayments and deferred costs	222	-	-	(4)	(4)	218
<b>LIABILITIES AND EQUITY</b>						
Other liabilities, including:	3 685	-	158	798	956	4 641
liabilities in respect of leases	X	-	158	798	956	956
<b>EQUITY</b>	39 101	(111)	-	-	-	38 990

As a result of the implementation of IFRS 16, in the six-month period ended 30 June 2019, administrative expenses were not charged with net lease instalments of PLN 109 million. The costs of lease instalments were allocated to depreciation in the amount of PLN 100 million and to the interest expenses of PLN 12 million.

## 5. OTHER CHANGES IN THE ACCOUNTING POLICIES

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

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

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

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

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

The Group is in the process of estimating the impact of IFRS 17 on the consolidated financial statements. The Group does not expect the impact of amendments to IFRS 3, IAS 1, IAS 8 and the Conceptual Framework to be material.

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

The Group made the following changes to its condensed interim consolidated financial statements to better reflect the data and presentation of economic events:

### CONSOLIDATED INCOME STATEMENT

CONSOLIDATED INCOME STATEMENT	2 quarters period from 01.01.2018 to 30.06.2018 before restatement	separate disclosure of "result on regulatory charges"	2 quarters period from 01.01.2018 to 30.06.2018 after restatement
Interest expenses and similar charges	(1 078)	(8)	(1 086)
Administrative expenses	(3 017)	386	(2 631)
Net regulatory charges	-	(378)	(378)
<b>Total</b>	<b>(4 095)</b>	<b>-</b>	<b>(4 095)</b>

CONSOLIDATED INCOME STATEMENT	second quarter period from 01.04.2018 to 30.06.2018 before restatement	separate disclosure of "result on regulatory charges"	second quarter period from 01.04.2018 to 30.06.2018 after restatement
Interest expenses and similar charges	(546)	(4)	(550)
Administrative expenses	(1 438)	100	(1 338)
Net regulatory charges	-	(96)	(96)
<b>Total</b>	<b>(1 984)</b>	<b>-</b>	<b>(1 984)</b>

### CONSOLIDATED STATEMENT OF CASH FLOWS

CONSOLIDATED STATEMENT OF CASH FLOWS	2 quarters period from 01.01.2018 to 30.06.2018 before restatement	identification and reclassification to new items	2 quarters period from 01.01.2018 to 30.06.2018 after restatement
<b>Cash flows from operating activities</b>			
change in the balance of securities	(128)	18	(110)
change in the balance of provisions and allowances for credit losses	(1 692)	1 692	-
change in accumulated allowances for credit losses	-	(1 747)	(1 747)
change in accumulated allowances for non-financial assets and other provisions	-	16	16
other adjustments	70	21	91
<b>Total</b>	<b>(1 750)</b>	<b>-</b>	<b>(1 750)</b>

## 7. INFORMATION ON OPERATING SEGMENTS

### INFORMATION ON OPERATING SEGMENTS

The PKO Bank Polski SA Group conducts business activities within the retail, corporate and investment segment, as well as the transfer centre and other activities.

Information about the segments was described in the consolidated financial statements of the PKO Bank Polski SA Group for the year ended 31 December 2018.

The following tables present data on revenues and results of individual operating segments of the Group for the six-month period ended 30 June 2019 and 30 June 2018, as well as assets and liabilities as at 30 June 2019 and 31 December 2018.

FOR THE 6 MONTHS ENDED 30 JUNE 2019	Continuing operations			Total activity of the PKO Bank Polski SA Group
	Retail segment	Corporate and investment segment	Transfer centre and other	
Net interest income	4 005	716	272	4 993
Net fee and commission income	1 234	282	(10)	1 506
Other net income	441	267	26	734
Net gain/(loss) on financial instruments measured at fair value through profit or loss	31	26	-	57
Net foreign exchange gains/(losses)	118	99	28	245
Gains/(losses) on derecognition of financial assets and financial liabilities not measured at fair value through profit or loss	2	84	-	86
Dividend income	-	12	-	12
Net other operating income and expense	277	59	(2)	334
Income/(expenses) relating to internal customers	13	(13)	-	-
Net allowances for credit losses	(518)	(126)	-	(644)
Net impairment allowances on non-current financial assets	(3)	(7)	-	(10)
Administrative expenses, of which:	(2 252)	(457)	-	(2 709)
amortization and depreciation	(413)	(83)	-	(496)
Net regulatory charges	(391)	(112)	85	(418)
Tax on certain financial institutions	(341)	(155)	(7)	(503)
Shares in profits and losses of associates and joint ventures	-	-	-	14
Segment profit/(loss) before tax	2 175	408	366	2 963
Income tax expense (tax burden)	-	-	-	(884)
Profit (loss) attributable to non-controlling shareholders	-	-	-	-
<b>Net profit attributable to equity holders of the parent company</b>	<b>2 175</b>	<b>408</b>	<b>366</b>	<b>2 079</b>

AS AT 30 JUNE 2019	Retail segment	Corporate and investment segment	Transfer centre and other	Total activity of the PKO Bank Polski SA Group
Assets	179 224	143 013	4 636	326 873
Unallocated assets	-	-	-	2 119
Total assets	179 224	143 013	4 636	328 992
Liabilities	196 052	57 107	35 720	288 879
Unallocated liabilities	-	-	-	489
Total liabilities	196 052	57 107	35 720	289 368

FOR THE 6 MONTHS ENDED 30 JUNE 2018	Continuing operations			
	Retail segment	Corporate and investment segment	Transfer centre and other	Total activity of the PKO Bank Polski SA Group
Net interest income	3 583	692	224	4 499
Net fee and commission income	1 227	264	(9)	1 482
Other net income	177	297	26	500
Net gain/(loss) on financial instruments measured at fair value through profit or loss	4	25	(14)	15
Net foreign exchange gains/(losses)	89	112	46	247
Gains/(losses) on derecognition of financial assets and financial liabilities not measured at fair value through profit or loss	9	85	-	94
Dividend income	-	11	-	11
Net other operating income and expense	62	77	(6)	133
Income/(expenses) relating to internal customers	13	(13)	-	-
Net allowances for credit losses	(547)	(140)	-	(687)
Net impairment allowances on non-current financial assets	(16)	(7)	-	(23)
Administrative expenses, of which:	(2 239)	(398)	6	(2 631)
amortization and depreciation	(351)	(56)	-	(407)
Net regulatory charges	(225)	(101)	(52)	(378)
Tax on certain financial institutions	(373)	(126)	38	(461)
Shares in profits and losses of associates and joint ventures	-	-	-	14
Segment profit/(loss) before tax	1 587	481	233	2 315
Income tax expense (tax burden)	-	-	-	(626)
Profit (loss) attributable to non-controlling shareholders	-	-	-	(1)
<b>Net profit attributable to equity holders of the parent company</b>	<b>1 587</b>	<b>481</b>	<b>233</b>	<b>1 690</b>

31 DECEMBER 2018	Retail segment	Corporate and investment segment	Transfer centre and other	Total activity of the PKO Bank Polski SA Group
Assets	170 234	145 898	5 984	322 116
Unallocated assets	-	-	-	2 139
Total assets	170 234	145 898	5 984	324 255
Liabilities	184 729	64 542	35 460	284 731
Unallocated liabilities	-	-	-	423
Total liabilities	184 729	64 542	35 460	285 154

## NOTES TO THE CONSOLIDATED INCOME STATEMENT

### 8. INTEREST INCOME AND EXPENSES

#### INTEREST INCOME:

INTEREST INCOME ON:	second quarter period from 01.04.2019 to 30.06.2019				2 quarters cumulative period from 01.01.2019 to 30.06.2019			
	financial instruments measured at amortised cost	instruments measured at fair value through OCI	instruments measured at fair value through profit or loss	Total	financial instruments measured at amortised cost	instruments measured at fair value through OCI	instruments measured at fair value through profit or loss	Total
loans to and other receivables from banks	22	-	-	22	49	-	-	49
hedging derivatives	-	-	80	80	-	-	169	169
debt securities	76	328	18	422	143	657	32	832
loans and advances to customers	2 608	-	9	2 617	5 129	-	20	5 149
<b>Total</b>	<b>2 706</b>	<b>328</b>	<b>107</b>	<b>3 141</b>	<b>5 321</b>	<b>657</b>	<b>221</b>	<b>6 199</b>
of which: interest income on impaired financial instruments	71	3	-	74	132	6	-	138

INTEREST INCOME ON:	second quarter period from 01.04.2018 to 30.06.2018				2 quarters cumulative period from 01.01.2018 to 30.06.2018			
	financial instruments measured at amortised cost	instruments measured at fair value through OCI	instruments measured at fair value through profit or loss	Total	financial instruments measured at amortised cost	instruments measured at fair value through OCI	instruments measured at fair value through profit or loss	Total
loans to and other receivables from banks	19	-	-	19	44	-	-	44
hedging derivatives	-	-	86	86	-	-	177	177
debt securities	47	270	19	336	93	543	38	674
loans and advances to customers	2 391	-	5	2 396	4 679	-	11	4 690
<b>Total</b>	<b>2 457</b>	<b>270</b>	<b>110</b>	<b>2 837</b>	<b>4 816</b>	<b>543</b>	<b>226</b>	<b>5 585</b>
of which: interest income on impaired financial instruments	78	3	-	81	141	7	-	148

#### INTEREST EXPENSES:

INTEREST EXPENSE ON:	second quarter period from 01.04.2019 to 30.06.2019				2 quarters cumulative period from 01.01.2019 to 30.06.2019			
	financial instruments measured at amortised cost	instruments measured at fair value through OCI	instruments measured at fair value through profit or loss	Total	financial instruments measured at amortised cost	instruments measured at fair value through OCI	instruments measured at fair value through profit or loss	Total
amounts due to banks (excluding loans and advances received)	(4)	-	-	(4)	(8)	-	-	(8)
placements	(5)	-	-	(5)	(8)	-	-	(8)
loans and advances received	(14)	-	-	(14)	(22)	-	-	(22)
lease	(6)	-	-	(6)	(12)	-	-	(12)
amounts due to customers (excluding loans and advances received)	(403)	-	-	(403)	(811)	-	-	(811)
debt securities	-	(20)	(4)	(24)	(1)	(42)	(8)	(51)
debt securities in issue	(124)	-	-	(124)	(249)	-	-	(249)
subordinated liabilities	(23)	-	-	(23)	(45)	-	-	(45)
<b>Total</b>	<b>(579)</b>	<b>(20)</b>	<b>(4)</b>	<b>(603)</b>	<b>(1 156)</b>	<b>(42)</b>	<b>(8)</b>	<b>(1 206)</b>

INTEREST EXPENSE ON:	second quarter period from 01.04.2018 to 30.06.2018				2 quarters cumulative period from 01.01.2018 to 30.06.2018			
	financial instruments measured at amortised cost	instruments measured at fair value through OCI	instruments measured at fair value through profit or loss	Total	financial instruments measured at amortised cost	instruments measured at fair value through OCI	instruments measured at fair value through profit or loss	Total
amounts due to banks (excluding loans and advances received)	(4)	-	-	(4)	(9)	-	-	(9)
placements	(4)	-	-	(4)	(8)	-	-	(8)
loans and advances received	(11)	-	-	(11)	(24)	-	-	(24)
amounts due to customers (excluding loans and advances received)	(374)	-	-	(374)	(748)	-	-	(748)
debt securities	-	(13)	(5)	(18)	-	(23)	(10)	(33)
debt securities in issue	(117)	-	-	(117)	(225)	-	-	(225)
subordinated liabilities	(22)	-	-	(22)	(39)	-	-	(39)
<b>Total</b>	<b>(532)</b>	<b>(13)</b>	<b>(5)</b>	<b>(550)</b>	<b>(1 053)</b>	<b>(23)</b>	<b>(10)</b>	<b>(1 086)</b>

## INTEREST INCOME BY SEGMENT:

INTEREST INCOME BY SEGMENT ON:	second quarter period from 01.04.2019 to 30.06.2019				2 quarters cumulative period from 01.01.2019 to 30.06.2019			
	Retail segment	Corporate and investment segment	Transfer centre and other	Total	Retail segment	Corporate and investment segment	Transfer centre and other	Total
loans to and other receivables from banks	-	16	6	22	-	33	16	49
hedging derivatives	-	-	80	80	-	-	169	169
debt securities	3	414	5	422	8	815	9	832
loans and advances to customers	2 096	521	-	2 617	4 142	1 007	-	5 149
<b>Total</b>	<b>2 099</b>	<b>951</b>	<b>91</b>	<b>3 141</b>	<b>4 150</b>	<b>1 855</b>	<b>194</b>	<b>6 199</b>

INTEREST INCOME BY SEGMENT ON:	second quarter period from 01.04.2018 to 30.06.2018				2 quarters cumulative period from 01.01.2018 to 30.06.2018			
	Retail segment	Corporate and investment	Transfer centre and other	Total	Retail segment	Corporate and investment	Transfer centre and other	Total
loans to and other receivables from banks	-	11	8	19	-	26	18	44
hedging derivatives	-	-	86	86	-	-	177	177
debt securities	4	328	4	336	8	658	8	674
loans and advances to customers	1 921	475	-	2 396	3 788	902	-	4 690
<b>Total</b>	<b>1 925</b>	<b>814</b>	<b>98</b>	<b>2 837</b>	<b>3 796</b>	<b>1 586</b>	<b>203</b>	<b>5 585</b>

## 9. FEE AND COMMISSION INCOME AND EXPENSES

### NET FEE AND COMMISSION INCOME:

NET FEE AND COMMISSION INCOME	second quarter period from 01.04.2019 to 30.06.2019	2 quarters cumulative period from 01.01.2019 to 30.06.2019	second quarter period from 01.04.2018 to 30.06.2018	2 quarters cumulative period from 01.01.2018 to 30.06.2018
Loans and insurance		223		196
Investment funds, pension funds and brokerage activity		169		203
Cards		145		130
Bank accounts and other		223		216
<b>Total</b>		<b>760</b>		<b>745</b>
		<b>1 506</b>		<b>1 482</b>

#### FEE AND COMMISSION INCOME:

FEE AND COMMISSION INCOME	second quarter period from 01.04.2019 to 30.06.2019	2 quarters cumulative period from 01.01.2019 to 30.06.2019	second quarter period from 01.04.2018 to 30.06.2018	2 quarters cumulative period from 01.01.2018 to 30.06.2018
<b>Loans and insurance</b>	223	427	196	364
granting of loans and advances	183	350	163	307
offering insurance products	40	77	33	57
<b>Investment funds, pension funds and brokerage activity</b>	179	377	213	436
maintenance of investment funds and OFE (including management fees)	134	276	160	321
handling and sale of investment and insurance products	9	21	13	28
conducting brokerage activities	36	80	40	87
<b>Cards</b>	335	632	313	589
<b>Bank accounts and other</b>	295	585	288	593
maintenance of bank accounts	214	424	206	415
cash operations	18	37	23	47
servicing foreign mass transactions	25	48	25	50
sale and distribution of court fee stamps	-	-	1	1
customer orders	12	23	11	22
fiduciary services	2	3	1	3
other	24	50	21	55
<b>Total</b>	<b>1 032</b>	<b>2 021</b>	<b>1 010</b>	<b>1 982</b>

#### FEE AND COMMISSION EXPENSE:

FEE AND COMMISSION EXPENSE	second quarter period from 01.04.2019 to 30.06.2019	2 quarters cumulative period from 01.01.2019 to 30.06.2019	second quarter period from 01.04.2018 to 30.06.2018	2 quarters cumulative period from 01.01.2018 to 30.06.2018
<b>Investment funds, pension funds and brokerage activity</b>	(10)	(20)	(10)	(21)
<b>Cards</b>	(190)	(361)	(183)	(336)
<b>Bank accounts and other</b>	(72)	(134)	(72)	(143)
commission paid to external entities for product sales	(13)	(23)	(15)	(30)
construction investment supervision and property valuation	(14)	(24)	(11)	(22)
clearing services	(9)	(18)	(5)	(15)
commissions for operating services provided by banks	(2)	(5)	(3)	(6)
sending short text messages (SMS)	(8)	(16)	(7)	(13)
other	(26)	(48)	(31)	(57)
<b>Total</b>	<b>(272)</b>	<b>(515)</b>	<b>(265)</b>	<b>(500)</b>

#### FEE AND COMMISSION INCOME BY SEGMENT:

FEE AND COMMISSION INCOME BY SEGMENT	second quarter period from 01.04.2019 to 30.06.2019			2 quarters cumulative period from 01.01 to 30.06.2019		
	Retail segment	Corporate and investment segment	Total	Retail segment	Corporate and investment segment	Total
<b>Loans and insurance</b>	151	72	223	284	143	427
granting of loans and advances	114	69	183	213	137	350
offering insurance products	37	3	40	71	6	77
<b>Investment funds, pension funds and brokerage activity</b>	153	26	179	316	61	377
maintenance of investment funds and OFE (including management fees)	132	2	134	272	4	276
handling and sale of investment and insurance products	9	-	9	21	-	21
conducting brokerage activities	12	24	36	23	57	80
<b>Cards</b>	320	15	335	606	26	632
<b>Bank accounts and other</b>	241	54	295	475	110	585
maintenance of bank accounts	187	27	214	373	51	424
cash operations	11	7	18	23	14	37
servicing foreign mass transactions	20	5	25	32	16	48
customer orders	7	5	12	13	10	23
fiduciary services	-	2	2	-	3	3
other	16	8	24	34	16	50
<b>Total</b>	<b>865</b>	<b>167</b>	<b>1 032</b>	<b>1 681</b>	<b>340</b>	<b>2 021</b>

FEE AND COMMISSION INCOME BY SEGMENT	second quarter period from 01.04.2018 to 30.06.2018			2 quarters cumulative period from 01.01.2018 to 30.06.2018		
	Retail segment	Corporate and investment	Total	Retail segment	Corporate and investment	Total
<b>Loans and insurance</b>	127	69	196	249	115	364
granting of loans and advances	96	67	163	196	111	307
offering insurance products	31	2	33	53	4	57
<b>Investment funds, pension funds and brokerage activity</b>	181	32	213	366	70	436
maintenance of investment funds and OFE (including management fees)	158	2	160	316	5	321
handling and sale of investment and insurance products	13	-	13	28	-	28
conducting brokerage activities	10	30	40	22	65	87
<b>Cards</b>	272	41	313	542	47	589
<b>Bank accounts and other</b>	222	66	288	467	126	593
maintenance of bank accounts	186	20	206	376	39	415
cash operations	16	7	23	33	14	47
servicing foreign mass transactions	13	12	25	28	22	50
sale and distribution of court fee stamps	-	1	1	-	1	1
customer orders	6	5	11	13	9	22
fiduciary services	-	1	1	-	3	3
other	1	20	21	17	38	55
<b>Total</b>	<b>802</b>	<b>208</b>	<b>1 010</b>	<b>1 624</b>	<b>358</b>	<b>1 982</b>

## 10. NET ALLOWANCES FOR CREDIT LOSSES

NET ALLOWANCES FOR CREDIT LOSSES	second quarter period from 01.04.2019 to 30.06.2019	2 quarters cumulative period from 01.01.2019 to 30.06.2019	second quarter period from 01.04.2018 to 30.06.2018	2 quarters cumulative period from 01.01.2018 to 30.06.2018
Debt securities	(7)	(5)	2	6
measured at fair value through OCI	(9)	(9)	4	4
measured at amortized cost	2	4	(2)	2
Loans and advances to customers	(322)	(641)	(354)	(689)
measured at amortized cost	(322)	(641)	(354)	(689)
housing	(57)	(67)	4	(55)
corporate	(93)	(231)	(190)	(350)
consumer	(152)	(308)	(145)	(245)
finance lease receivables	(20)	(35)	(23)	(39)
Other financial assets	(1)	(1)	-	-
Provisions for financial liabilities and guarantees granted	11	3	(10)	(4)
<b>Total</b>	<b>(319)</b>	<b>(644)</b>	<b>(362)</b>	<b>(687)</b>

CUMULATIVE ALLOWANCES FOR CREDIT LOSSES (BALANCE)	30.06.2019	31.12.2018
Amounts due from banks	1	1
measured at amortized cost	1	1
Debt securities	31	36
measured at fair value through OCI	10	10
measured at amortized cost	21	26
Loans and advances to customers	8 300	8 204
measured at amortized cost	8 300	8 204
Provisions for financial liabilities and guarantees granted	224	227
Other financial assets	100	97
<b>Total</b>	<b>8 656</b>	<b>8 565</b>

## 11. OTHER OPERATING INCOME AND EXPENSES

OTHER OPERATING INCOME	second quarter period from 01.04.2019 to 30.06.2019	2 quarters cumulative period from 01.01.2019 to 30.06.2019	second quarter period from 01.04.2018 to 30.06.2018	2 quarters cumulative period from 01.01.2018 to 30.06.2018
Net sales of finished goods and services	131	225	103	188
Gain related to loss of control over a subsidiary	-	-	11	11
Gains on sale or scrapping of property, plant and equipment, intangible assets and assets held for sale	14	23	12	25
Compensation and penalties received ancillary income	8	18	5	18
Recovery of receivables expired, forgiven or written off	2	3	1	4
Costs relating to a potential return of fees and commission to customers	58	58	-	-
Release of provision for legal claims	2	6	-	-
Gain on bargain purchase <sup>1</sup>	80	80	-	-
Other	9	22	28	71
<b>Total</b>	<b>304</b>	<b>435</b>	<b>160</b>	<b>317</b>

\*relates to the acquisition of Prime Car Management SA (PCM) by PKO Leasing SA. The details of the transaction are described in the Note "Changes to the Group companies"

OTHER OPERATING EXPENSES	second quarter period from 01.04.2019 to 30.06.2019	2 quarters cumulative period from 01.01.2019 to 30.06.2019	second quarter period from 01.04.2018 to 30.06.2018	2 quarters cumulative period from 01.01.2018 to 30.06.2018
Costs of products and services sold	(8)	(12)	(12)	(18)
Losses on sale or scrapping of property, plant and equipment, intangible assets and assets held for sale	(7)	(12)	(7)	(14)
Damages, penalties and fines paid and sundry expenses	(5)	(17)	(4)	(8)
Costs of donations made	(5)	(10)	-	(19)
Costs relating to a potential return of fees and commission to customers	-	-	(62)	(62)
Provision for future payments	(1)	(1)	(5)	(5)
Provisions for legal claims	(3)	(9)	(22)	(25)
Other	(17)	(40)	(14)	(33)
<b>Total</b>	<b>(46)</b>	<b>(101)</b>	<b>(126)</b>	<b>(184)</b>

## 12. ADMINISTRATIVE EXPENSES

ADMINISTRATIVE EXPENSES	second quarter period from 01.04.2019 to 30.06.2019	2 quarters cumulative period from 01.01.2019 to 30.06.2019	second quarter period from 01.04.2018 to 30.06.2018	2 quarters cumulative period from 01.01.2018 to 30.06.2018
Employee benefits	(798)	(1 569)	(769)	(1 520)
Overheads, including:	(329)	(644)	(368)	(704)
rent	(22)	(43)	(66)	(133)
IT	(77)	(152)	(71)	(143)
Depreciation and amortization	(256)	(496)	(201)	(407)
property, plant and equipment, of which:	(161)	(307)	(90)	(178)
IT	(31)	(62)	(28)	(57)
assets in respect of rights of perpetual usufruct	(51)	(100)	-	-
intangible assets, of which:	(95)	(189)	(111)	(228)
IT	(85)	(171)	(101)	(211)
investment properties	-	-	-	(1)
<b>Total</b>	<b>(1 383)</b>	<b>(2 709)</b>	<b>(1 338)</b>	<b>(2 631)</b>

EMPLOYEE BENEFITS	second quarter period from 01.04.2019 to 30.06.2019	2 quarters cumulative period from 01.01.2019 to 30.06.2019	second quarter period from 01.04.2018 to 30.06.2018	2 quarters cumulative period from 01.01.2018 to 30.06.2018
Wages and salaries, of which:	(661)	(1 302)	(638)	(1 263)
costs of contributions to the employee pension plan	(15)	(31)	(12)	(18)
restructuring costs	-	(23)	9	(36)
Social insurance, of which:	(114)	(223)	(111)	(217)
contributions for disability and retirement benefits	(94)	(190)	(90)	(185)
Other employee benefits	(23)	(44)	(20)	(40)
<b>Total</b>	<b>(798)</b>	<b>(1 569)</b>	<b>(769)</b>	<b>(1 520)</b>

NET REGULATORY CHARGES	second quarter period from 01.04.2019 to 30.06.2019	2 quarters cumulative period from 01.01.2019 to 30.06.2019	second quarter period from 01.04.2018 to 30.06.2018	2 quarters cumulative period from 01.01.2018 to 30.06.2018
Contributions and payments to the Bank Guarantee Fund (BGF), of which:	(40)	(428)	(65)	(298)
to the Resolution Fund	-	(348)	-	(167)
to the Banks' Guarantee Fund	(40)	(80)	(65)	(131)
Fees to the PFSA	-	(40)	-	(23)
Flat-rate income tax, of which:	(1)	85	(10)	(19)
withheld tax (20%)	-	138	(10)	(19)
flat-rate income tax (3%)	(1)	(53)	-	-
Other taxes and fees	(18)	(35)	(21)	(38)
<b>Total</b>	<b>(59)</b>	<b>(418)</b>	<b>(96)</b>	<b>(378)</b>

### 13. NET REGULATORY CHARGES

#### CONTRIBUTIONS AND PAYMENTS TO THE BGF:

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

The Group makes contributions to the banks' guarantee fund (quarterly) and the banks' mandatory restructuring fund (annually). Contributions to the guarantee fund and the mandatory restructuring fund are not tax-deductible.

#### FLAT-RATE INCOME TAX

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

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

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

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

The Group paid the tax in the statutory period, i.e. to 31 July 2019.

## 14. INCOME TAX

Pursuant to the agreement of 5 November 2018, PKO Bank Polski SA, together with PKO Bank Hipoteczny SA and PKO Leasing SA, form the Podatkowa Grupa Kapitałowa Powszechnej Kasy Oszczędności Banku Polskiego Spółki Akcyjnej ("Tax Group", "PGK PKO Banku Polskiego SA").

A tax group is an institution of the tax law stipulated in the provisions of the Corporate Income Tax Act. Its creation means that the income of the Tax Group companies will be consolidated for corporate income tax purposes and that solutions will be available facilitating the application of other, in particular operational, regulations of the Corporate Income Tax Act, dedicated specifically to Tax Groups.

PGK PKO Banku Polskiego SA was established for three tax years. The first tax year began on 1 January 2019. PKO Bank Polski SA is the parent of PGK PKO Banku Polskiego SA. PKO Bank Polski SA remits corporate income tax advances due from members of PGK, and the companies transfer tax advances resulting from their activities to the Bank. In the first year of its operations PGK pays tax advances to the Tax Office on a quarterly basis.

	second quarter period from 01.04.2019 to 30.06.2019	2 quarters cumulative period from 01.01.2019 to 30.06.2019	second quarter period from 01.04.2018 to 30.06.2018	2 quarters cumulative period from 01.01.2018 to 30.06.2018
Current income tax expense	(428)	(789)	(386)	(725)
Deferred income tax on temporary differences	(83)	(95)	80	99
Income tax expense recognized in the income statement	(511)	(884)	(306)	(626)
Income tax expense on temporary differences recognized in other comprehensive income	(75)	(45)	10	(31)
<b>Total</b>	<b>(586)</b>	<b>(929)</b>	<b>(296)</b>	<b>(657)</b>

	second quarter period from 01.04.2019 to 30.06.2019	2 quarters cumulative period from 01.01.2019 to 30.06.2019	second quarter period from 01.04.2018 to 30.06.2018	2 quarters cumulative period from 01.01.2018 to 30.06.2018
Profit before tax	1 729	2 963	1 239	2 315
Tax calculated using the enacted rate in force in Poland of 19%	(329)	(563)	(235)	(440)
Effect of different tax rates of foreign entities	-	(1)	-	-
Effect of permanent timing differences, of which:	(182)	(320)	(70)	(186)
contribution and payments to BGF	(8)	(81)	(14)	(57)
tax on financial institutions	(49)	(96)	(43)	(88)
3% flat-rate income tax on interest to non-residents	(12)	(12)	-	-
other permanent differences	(113)	(131)	(13)	(41)
Income tax expense recognized in the income statement	(511)	(884)	(305)	(626)
<b>Effective tax rate</b>	<b>29.55%</b>	<b>29.83%</b>	<b>24.62%</b>	<b>27.04%</b>

Tax systems of countries in which the Bank and entities in the PKO Bank Polski SA Group have their registered offices or branches are often subject to amendments to laws, among other things as a result of operations aimed at tightening the tax system, both at national and international level. In addition, understanding the regulations of the tax law, due to their ambiguity, may in practice lead to inconsistent interpretations by the tax authorities, differing from the interpretation by the taxpayer, and respective disputes may only be resolved by national or European courts. Therefore, interpretations of the tax law by the tax authorities differing from the practices implemented by the Bank or entities of the PKO Bank Polski SA Group cannot be eliminated and may have a significant unfavourable impact on their operations and financial condition, despite the various actions aimed at mitigating this risk, which are regularly undertaken and allowed by law.

Due to the doubts relating to taxation of foreign exchange differences on loans granted to the Bank and issue commitments in the territory of Sweden, PKO Finance AB, whose reporting currency is the EUR, applied to the Swedish Council for Tax Rulings (Skatterättsnämnden) for an individual ruling. PKO Finance AB lends funds to the Bank obtained from bonds issued and at the same time recognizes receivables from the loans and liabilities relating to the issue. Changes in foreign exchange rates have a symmetrical impact on the valuation of such receivables and

liabilities, because foreign exchange differences on the valuation of loans granted are matched with the opposite foreign exchange differences on the valuation of liabilities in respect of the bonds issued.

According to the ruling obtained on 14 March 2019, a company for which EUR is the reporting currency should tax the EUR/SEK exchange differences on the loans granted as at the maturity date, and at the same time it is not possible to recognize at the maturity date a tax cost related to foreign exchange differences on the company's liabilities in respect of the bond issue. The potential application of the Council's ruling to all loans granted by the company would mean recognizing a liability of EUR 31 million and a provision of EUR 35 million, as at 30 June 2019.

If the Council's ruling is upheld by the Swedish Supreme Administrative Court (Högsta förvaltningsdomstolen), it would mean that a different approach is applied in Sweden to companies reporting in EUR compared with companies reporting in SEK (which can also include foreign exchange differences on liabilities in their tax settlements), and this would increase the economic risk and prevent effective hedging of the foreign exchange risk. In the opinion of the Group, such an approach would be contrary to Art. 63 of the Treaty on the Functioning of the European Union (TFEU) related to the need to ensure free flow of capital in the EU or Art. 49 and 54 of TFEU related to the freedom of business activities. On 3 April 2019, the company appealed to the Swedish Supreme Administrative Court against the Council's ruling and on 1 July submitted extended arguments to dismiss the case.

## NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

CASH AND BALANCES WITH THE CENTRAL BANK	30.06.2019	31.12.2018
Current account with the Central Bank	8 577	17 391
Cash in hand	3 514	5 534
Deposits with the Central Bank	810	-
<b>Total</b>	<b>12 901</b>	<b>22 925</b>

### 16. AMOUNTS DUE FROM BANKS

AMOUNTS DUE FROM BANKS	30.06.2019	31.12.2018
<b>Measured at amortized cost</b>	<b>3 268</b>	<b>7 662</b>
Deposits at banks, including	2 170	6 437
restricted cash and cash equivalents	2	4
Current assets, including	1 010	1 174
restricted cash and cash equivalents	145	191
Loans and advances granted	66	48
Cash in transit	22	3
<b>Total, gross</b>	<b>3 268</b>	<b>7 662</b>
Allowances for credit losses	(1)	(1)
<b>Total</b>	<b>3 267</b>	<b>7 661</b>

### 17. HEDGE ACCOUNTING

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

In the six months ended 30 June 2019, the Group implemented two new hedging strategies, i.e. strategy 10 and strategy 11, described below. In 2018, the Group did not implement any new hedging strategies. With reference to other hedging strategies there were no changes in the period of six months ended 30 June 2019.

#### STRATEGY 1

HEDGING CASH FLOW VOLATILITY FROM MORTGAGE LOANS IN CHF AND DEPOSITS NEGOTIATED IN PLN RESULTING FROM THE RISK OF FLUCTUATIONS IN INTEREST RATES AND FOREIGN EXCHANGE RISK, USING CIRS TRANSACTIONS

HEDGING DERIVATIVES	NOMINAL VALUE OF HEDGING DERIVATIVES	NOMINAL-WEIGHTED AVERAGE MARGIN	CARRYING AMOUNT/FAIR VALUE OF HEDGING INSTRUMENTS		INEFFECTIVE PORTION OF CASH FLOW HEDGES RECOGNIZED IN THE INCOME STATEMENT	FAIR VALUE CHANGE OF A HEDGING INSTRUMENT FROM THE MOMENT OF ESTABLISHING THE HEDGE RELATIONSHIP	
			Assets	Liabilities			
<b>30.06.2019</b>							
CIRS CHF/PLN	float CHF	1 425	0.2071%	36	433	-	(389)
	float PLN	5 058	0.0000%				
<b>31.12.2018</b>							
CIRS CHF/PLN	float CHF	1 675	0.1530%	60	428	-	(377)
	float PLN	6 030	0.0000%				

HEDGED ITEMS	NOMINAL VALUE OF HEDGED ITEMS	ITEM IN THE STATEMENT OF FINANCIAL POSITION	FAIR VALUE CHANGE OF THE HEDGED ITEM FROM THE MOMENT OF ESTABLISHING THE HEDGE RELATIONSHIP
<b>30.06.2019</b>			
CHF Loans	1 425	Loans and advances to customers	
Deposits negotiated in PLN	5 058	Amounts due to customers	451
<b>31.12.2018</b>			
CHF Loans	1 675	Loans and advances to customers	
Deposits negotiated in PLN	6 030	Amounts due to customers	435

**STRATEGY 2**

**HEDGING CASH FLOW VOLATILITY FROM CASH LOANS IN PLN WITH FLUCTUATING INTEREST RATES, RESULTING FROM THE RISK OF FLUCTUATIONS IN INTEREST RATES, USING IRS TRANSACTIONS**

HEDGING DERIVATIVES	NOMINAL VALUE OF HEDGING DERIVATIVES	AVERAGE FIXED NOMINAL-WEIGHTED INTEREST RATE	CARRYING AMOUNT/FAIR VALUE OF HEDGING INSTRUMENTS		INEFFECTIVE PORTION OF CASH FLOW HEDGES RECOGNIZED IN THE INCOME STATEMENT	FAIR VALUE CHANGE OF A HEDGING INSTRUMENT FROM THE MOMENT OF ESTABLISHING THE HEDGE RELATIONSHIP	
			Assets	Liabilities			
<b>30.06.2019</b>							
IRS PLN	PLN	19 536	2.3482%	157	-	-	71
<b>31.12.2018</b>							
IRS PLN	PLN	11 575	2.4386%	101	-	(1)	57

HEDGED ITEMS	NOMINAL VALUE OF HEDGED ITEMS	ITEM IN THE STATEMENT OF FINANCIAL POSITION	FAIR VALUE CHANGE OF THE HEDGED ITEM FROM THE MOMENT OF ESTABLISHING THE HEDGE RELATIONSHIP
<b>30.06.2019</b>			
PLN Loans	19 536	Loans and advances to customers	(68)
<b>31.12.2018</b>			
PLN Loans	11 575	Loans and advances to customers	(55)

**STRATEGY 3**

**HEDGING CASH FLOW VOLATILITY OF FLOATING INTEREST LOANS IN CHF RESULTING FROM THE RISK OF FLUCTUATIONS IN INTEREST RATES, USING IRS TRANSACTIONS**

HEDGING DERIVATIVES	NOMINAL VALUE OF HEDGING DERIVATIVES	AVERAGE FIXED NOMINAL-WEIGHTED INTEREST RATE	CARRYING AMOUNT/FAIR VALUE OF HEDGING INSTRUMENTS		INEFFECTIVE PORTION OF CASH FLOW HEDGES RECOGNIZED IN THE INCOME STATEMENT	FAIR VALUE CHANGE OF A HEDGING INSTRUMENT FROM THE MOMENT OF ESTABLISHING THE HEDGE RELATIONSHIP	
			Assets	Liabilities			
<b>30.06.2019</b>							
IRS CHF	CHF	400	-0.4425%	12	-	-	4
<b>31.12.2018</b>							
IRS CHF	CHF	400	-0.4425%	7	-	-	2

HEDGED ITEMS	NOMINAL VALUE OF HEDGED ITEMS	ITEM IN THE STATEMENT OF FINANCIAL POSITION	FAIR VALUE CHANGE OF THE HEDGED ITEM FROM THE MOMENT OF ESTABLISHING THE HEDGE RELATIONSHIP
<b>30.06.2019</b>			
CHF Loans	400	Loans and advances to customers	(4)
<b>31.12.2018</b>			
CHF Loans	400	Loans and advances to customers	(2)

**STRATEGY 4**

**HEDGING CASH FLOW VOLATILITY OF FLOATING INTEREST LOANS IN EUR, RESULTING FROM THE RISK OF FLUCTUATIONS IN INTEREST RATES, USING IRS TRANSACTIONS**

HEDGING DERIVATIVES	NOMINAL VALUE OF HEDGING DERIVATIVES	AVERAGE FIXED NOMINAL-WEIGHTED INTEREST RATE	CARRYING AMOUNT/FAIR VALUE OF HEDGING INSTRUMENTS		INEFFECTIVE PORTION OF CASH FLOW HEDGES RECOGNIZED IN THE INCOME STATEMENT	FAIR VALUE CHANGE OF A HEDGING INSTRUMENT FROM THE MOMENT OF ESTABLISHING THE HEDGE RELATIONSHIP
			Assets	Liabilities		
<b>30.06.2019</b>						
IRS EUR	EUR	524	0,2087%	21	-	10
<b>31.12.2018</b>						
IRS EUR	EUR	524	0,2087%	2	5	(3)

HEDGED ITEMS	NOMINAL VALUE OF HEDGED ITEMS	ITEM IN THE STATEMENT OF FINANCIAL POSITION	FAIR VALUE CHANGE OF THE HEDGED ITEM FROM THE MOMENT OF ESTABLISHING THE HEDGE RELATIONSHIP
<b>30.06.2019</b>			
EUR loans	524	Loans and advances to customers	(10)
<b>31.12.2018</b>			
EUR loans	524	Loans and advances to customers	3

**STRATEGY 5**

**HEDGING CASH FLOW VOLATILITY FROM FLOATING INTEREST RATE CONVERTIBLE CURRENCY LOANS RESULTING FROM INTEREST RATE RISK, AND HEDGING CASH FLOW VOLATILITY FROM FIXED INTEREST CONVERTIBLE CURRENCY FINANCIAL LIABILITIES USING CIRS TRANSACTIONS**

HEDGING DERIVATIVES	NOMINAL VALUE OF HEDGING DERIVATIVES	NOMINAL-WEIGHTED AVERAGE MARGIN	CARRYING AMOUNT/FAIR VALUE OF HEDGING INSTRUMENTS		INEFFECTIVE PORTION OF CASH FLOW HEDGES RECOGNIZED IN THE INCOME STATEMENT	FAIR VALUE CHANGE OF A HEDGING INSTRUMENT FROM THE MOMENT OF ESTABLISHING THE HEDGE RELATIONSHIP
			Assets	Liabilities		
<b>30.06.2019</b>						
CIRS CHF/USD	float CHF	818		197	-	1
	fixed USD	875	2.4315%			146
CIRS CHF/EUR	float CHF	2 567		197	35	(14)
	fixed EUR	2 301	0.2958%			264
<b>31.12.2018</b>						
CIRS CHF/USD	float CHF	818		148	-	1
	fixed USD	875	2.4315%			88
CIRS CHF/EUR	float CHF	2 000		240	37	3
	fixed EUR	1 802	0.3504%			284

HEDGED ITEMS	NOMINAL VALUE OF HEDGED ITEMS	ITEM IN THE STATEMENT OF FINANCIAL POSITION	FAIR VALUE CHANGE OF THE HEDGED ITEM FROM THE MOMENT OF ESTABLISHING THE HEDGE RELATIONSHIP
<b>30.06.2019</b>			
CHF Loans	3 385	Loans and advances to customers	
Financial liabilities in USD	875	Debt securities in issue	(406)
Financial liabilities in EUR	2 301	Debt securities in issue	
<b>31.12.2018</b>			
CHF Loans	2 818	Loans and advances to customers	
Financial liabilities in USD	875	Debt securities in issue	(312)
Financial liabilities in EUR	1 802	Debt securities in issue	

**STRATEGY 6 HEDGING CASH FLOW VOLATILITY FROM MORTGAGE LOANS IN CONVERTIBLE CURRENCIES OTHER THAN CHF AND NEGOTIABLE TERM DEPOSITS IN PLN ARISING FROM THE RISK OF CHANGES IN INTEREST RATE AND FOREIGN EXCHANGE RISK, USING CIRS TRANSACTIONS**

HEDGING DERIVATIVES	NOMINAL VALUE OF HEDGING DERIVATIVES	NOMINAL-WEIGHTED AVERAGE MARGIN	CARRYING AMOUNT/FAIR VALUE OF HEDGING INSTRUMENTS		INEFFECTIVE PORTION OF CASH FLOW HEDGES RECOGNIZED IN THE INCOME STATEMENT	FAIR VALUE CHANGE OF A HEDGING INSTRUMENT FROM THE MOMENT OF ESTABLISHING THE HEDGE RELATIONSHIP
			Assets	Liabilities		
<b>30.06.2019</b>						
CIRS EUR/PLN	float EUR	125	0.0000%	14	-	-
	float PLN	545	-0.0092%			14
<b>31.12.2018</b>						
CIRS EUR/PLN	float EUR	125	0.0000%	7	-	-
	float PLN	545	-0.0092%			6

HEDGED ITEMS	NOMINAL VALUE OF HEDGED ITEMS	ITEM IN THE STATEMENT OF FINANCIAL POSITION	FAIR VALUE CHANGE OF THE HEDGED ITEM FROM THE MOMENT OF ESTABLISHING THE HEDGE RELATIONSHIP
<b>30.06.2019</b>			
EUR loans	125	Loans and advances to customers	
Deposits negotiated in PLN	545	Amounts due to customers	(13)
<b>31.12.2018</b>			
EUR loans	125	Loans and advances to customers	(6)
Deposits negotiated in PLN	545	Amounts due to customers	

**STRATEGY 7**

**HEDGING CASH FLOW VOLATILITY FROM MORTGAGE LOANS IN CONVERTIBLE CURRENCIES AND REGULAR SAVINGS PRODUCTS IN PLN RESULTING FROM THE RISK OF INTEREST RATE FLUCTUATIONS, USING CIRS TRANSACTIONS**

HEDGING DERIVATIVES	NOMINAL VALUE OF HEDGING DERIVATIVES	NOMINAL-WEIGHTED AVERAGE MARGIN	CARRYING AMOUNT/FAIR VALUE OF HEDGING INSTRUMENTS		INEFFECTIVE PORTION OF CASH FLOW HEDGES RECOGNIZED IN THE INCOME STATEMENT	FAIR VALUE CHANGE OF A HEDGING INSTRUMENT FROM THE MOMENT OF ESTABLISHING THE HEDGE RELATIONSHIP
			Assets	Liabilities		
<b>30.06.2019</b>						
CIRS CHF/PLN	float CHF	225	-0.2478%	20	-	18
	float PLN	872	0.0000%			
<b>31.12.2018</b>						
CIRS CHF/PLN	float CHF	225	-0.2478%	18	-	14
	float PLN	872	0.0000%			

HEDGED ITEMS	NOMINAL VALUE OF HEDGED ITEMS	ITEM IN THE STATEMENT OF FINANCIAL POSITION	FAIR VALUE CHANGE OF THE HEDGED ITEM FROM THE MOMENT OF ESTABLISHING THE HEDGE RELATIONSHIP
<b>30.06.2019</b>			
CHF Loans	225	Loans and advances to customers	(21)
Regular saving products in PLN	872	Amounts due to customers	
<b>31.12.2018</b>			
CHF Loans	225	Loans and advances to customers	(15)
Regular saving products in PLN	872	Amounts due to customers	

**STRATEGY 8**

**HEDGING FAIR VALUE FLUCTUATIONS OF FIXED-INTEREST-RATE LOANS IN CONVERTIBLE CURRENCIES RESULTING FROM THE RISK OF FLUCTUATIONS IN INTEREST RATES, USING IRS TRANSACTIONS**

HEDGING DERIVATIVES	NOMINAL VALUE OF HEDGING DERIVATIVES	AVERAGE FIXED NOMINAL-WEIGHTED INTEREST RATE	CARRYING AMOUNT/FAIR VALUE OF HEDGING INSTRUMENTS		INEFFECTIVE PORTION OF CASH FLOW HEDGES RECOGNIZED IN THE INCOME STATEMENT	FAIR VALUE CHANGE OF A HEDGING INSTRUMENT FROM THE MOMENT OF ESTABLISHING THE HEDGE RELATIONSHIP
			Assets	Liabilities		
<b>30.06.2019</b>						
IRS EUR	EUR	178	-0.2940%	-	9	2 (2)
<b>31.12.2018</b>						
IRS EUR	EUR	103	-0.3090%	-	1	1 -

HEDGED ITEMS	NOMINAL VALUE OF HEDGED ITEMS	ITEM IN THE STATEMENT OF FINANCIAL POSITION	FAIR VALUE CHANGE OF THE HEDGED ITEM FROM THE MOMENT OF ESTABLISHING THE HEDGE RELATIONSHIP
<b>30.06.2019</b>			
EUR loans	180	Loans and advances to customers	2
<b>31.12.2018</b>			
EUR loans	103	Loans and advances to customers	-

**STRATEGY 9**      **HEDGING CASH FLOWS VOLATILITY FROM FLOATING INTEREST RATE MORTGAGE LOANS IN PLN RESULTING FROM INTEREST RATE RISK AND HEDGING CASH FLOW VOLATILITY FROM FIXED INTEREST CONVERTIBLE CURRENCY FINANCIAL LIABILITIES RESULTING FROM FOREIGN EXCHANGE RISK USING CIRS TRANSACTIONS**

HEDGING DERIVATIVES	NOMINAL VALUE OF HEDGING DERIVATIVES	AVERAGE FIXED NOMINAL-WEIGHTED INTEREST RATE	CARRYING AMOUNT/FAIR VALUE OF HEDGING INSTRUMENTS		INEFFECTIVE PORTION OF CASH FLOW HEDGES RECOGNIZED IN THE INCOME STATEMENT	FAIR VALUE CHANGE OF A HEDGING INSTRUMENT FROM THE MOMENT OF ESTABLISHING THE HEDGE RELATIONSHIP
			Assets	Liabilities		
<b>30.06.2019</b>						
CIRS PLN/EUR	float PLN	2 964		72	8	(8)
	fixed EUR	699	0.6177%			
<b>31.12.2018</b>						
CIRS PLN/EUR	float PLN	2 101		75	-	7
	fixed EUR	499	0.7690%			

HEDGED ITEMS	NOMINAL VALUE OF HEDGED ITEMS	ITEM IN THE STATEMENT OF FINANCIAL POSITION	FAIR VALUE CHANGE OF THE HEDGED ITEM FROM THE MOMENT OF ESTABLISHING THE HEDGE RELATIONSHIP
<b>30.06.2019</b>			
PLN Loans	2 964	Loans and advances to customers	
Financial liabilities in EUR	699	Amounts due to customers	(68)
<b>31.12.2018</b>			
PLN Loans	2 101	Loans and advances to customers	
Financial liabilities in EUR	499	Amounts due to customers	(69)

**STRATEGY 10**      **HEDGING FLUCTUATIONS IN THE FAIR VALUE OF FIXED-INTEREST-RATE SECURITIES DENOMINATED IN CONVERTIBLE CURRENCIES, MEASURED AT AMORTIZED COST, RESULTING FROM INTEREST RATE RISK, USING IRS TRANSACTIONS**

<b>DESCRIPTION OF THE HEDGING RELATIONSHIP</b>	elimination of fluctuations in the fair value of fixed-interest-rate securities denominated in convertible currencies, measured at amortized cost resulting from changes in reference rates, over the hedging period
<b>HEDGED RISK</b>	interest rate risk
<b>HEDGING INSTRUMENT</b>	IRS transactions in foreign currencies, where the Group pays coupons based on a fixed rate (the market IRS rate) and receives coupons based on a floating reference rate without an additional margin.
<b>HEDGED ITEM</b>	component of the interest rate risk of securities denominated in a convertible currency, with a fixed interest rate, measured at amortized cost reflecting the market IRS rate
<b>SOURCES OF HEDGE INEFFECTIVENESS</b>	<ul style="list-style-type: none"> <li>▪ difference between the present value of the variable leg of the IRS transaction and the present nominal value of a security</li> <li>▪ CVA/DVA adjustment of the hedging instrument</li> </ul>

HEDGING DERIVATIVES	NOMINAL VALUE OF HEDGING DERIVATIVES	AVERAGE FIXED NOMINAL-WEIGHTED INTEREST RATE	CARRYING AMOUNT/FAIR VALUE OF HEDGING INSTRUMENTS		ADJUSTMENT OF FAIR VALUE MEASUREMENT OF THE HEDGED ITEM	FAIR VALUE CHANGE OF A HEDGING INSTRUMENT FROM THE MOMENT OF ESTABLISHING THE HEDGE RELATIONSHIP
			Assets	Liabilities		
30.06.2019						
IRS EUR	EUR	30	-0,3200%	-	1	2 (2)

HEDGED ITEMS	NOMINAL VALUE OF HEDGED ITEMS	ITEM IN THE STATEMENT OF FINANCIAL POSITION	FAIR VALUE CHANGE OF THE HEDGED ITEM FROM THE MOMENT OF ESTABLISHING THE HEDGE RELATIONSHIP
30.06.2019			
EUR securities	30	Securities measured at amortized cost	2

**STRATEGY 11** HEDGING THE FLUCTUATIONS IN THE FAIR VALUE OF FIXED-INTEREST-RATE SECURITIES IN A CONVERTIBLE CURRENCY, MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME, RESULTING FROM THE INTEREST RATE RISK, USING IRS TRANSACTIONS

<b>DESCRIPTION OF THE HEDGING RELATIONSHIP</b>	elimination of fluctuations in the fair value of fixed-interest-rate securities in convertible currencies, measured at fair value through other comprehensive income resulting from changes in reference rates, over the hedging period
<b>HEDGED RISK</b>	interest rate risk
<b>HEDGING INSTRUMENT</b>	IRS transactions in the same convertible currency as the securities, where the Group pays coupons based on a fixed rate (the market IRS rate) and receives coupons based on a floating reference rate.
<b>HEDGED ITEM</b>	component of the interest rate risk of fixed-interest-rate securities in convertible currencies measured at fair value through other comprehensive income, reflecting the market IRS rate
<b>SOURCES OF HEDGE INEFFECTIVENESS</b>	<ul style="list-style-type: none"> <li>▪ difference between the present value of the variable leg of the IRS transaction and the present nominal value of a security</li> <li>▪ CVA/DVA adjustment of the hedging instrument</li> </ul>

HEDGING DERIVATIVES	NOMINAL VALUE OF HEDGING DERIVATIVES	AVERAGE FIXED NOMINAL-WEIGHTED INTEREST RATE	CARRYING AMOUNT/FAIR VALUE OF HEDGING INSTRUMENTS		ADJUSTMENT OF FAIR VALUE MEASUREMENT OF THE HEDGED ITEM	FAIR VALUE CHANGE OF A HEDGING INSTRUMENT FROM THE MOMENT OF ESTABLISHING THE HEDGE RELATIONSHIP
			Assets	Liabilities		
30.06.2019						
IRS EUR	EUR	9	-0,3791%	-	-	-
IRS USD	USD	23	0,2372%	-	-	-

HEDGED ITEMS	NOMINAL VALUE OF HEDGED ITEMS	ITEM IN THE STATEMENT OF FINANCIAL POSITION	FAIR VALUE CHANGE OF THE HEDGED ITEM FROM THE MOMENT OF ESTABLISHING THE HEDGE RELATIONSHIP
30.06.2019			
EUR securities	9	Securities measured at fair value through OCI	-
USD securities	23		-

CARRYING AMOUNT OF HEDGING INSTRUMENTS	30.06.2019		31.12.2018	
	Assets	Liabilities	Assets	Liabilities
<b>Cash flow hedges</b>	726	476	658	470
Hedges of interest rate risk	190	-	110	5
IRS	190	-	110	5
Hedges of currency and interest rate risks	536	476	548	465
CIRS	536	476	548	465
<b>Fair value hedges</b>	-	9	-	1
Hedges of interest rate risk	-	9	-	1
IRS	-	9	-	1
<b>Total</b>	<b>726</b>	<b>485</b>	<b>658</b>	<b>471</b>

CHANGE IN OTHER COMPREHENSIVE INCOME RELATING TO CASH FLOW HEDGES AND AN INEFFECTIVE PORTION OF CASH FLOW HEDGES	second quarter period from 01.04.2019 to 30.06.2019	2 quarters cumulative period from 01.01.2019 to 30.06.2019	second quarter period from 01.04.2018 to 30.06.2018	2 quarters cumulative period from 01.01.2018 to 30.06.2018
<b>Other comprehensive income at the beginning of the period, gross</b>	177	28	(193)	(142)
Gains/losses recognized in other comprehensive income during the period	80	176	(140)	(145)
Amount transferred from other comprehensive income to the cash flow statement, of which:	100	153	202	156
- interest income	(80)	(169)	(86)	(177)
- net foreign exchange gains/(losses)	180	322	288	333
<b>Accumulated other comprehensive income at the end of the period, gross</b>	357	357	(131)	(131)
Tax effect	(68)	(68)	25	25
<b>Accumulated other comprehensive income at the end of the period, net</b>	<b>289</b>	<b>289</b>	<b>(106)</b>	<b>(106)</b>
<b>Impact on other comprehensive income during the period, gross</b>	<b>180</b>	<b>329</b>	<b>62</b>	<b>11</b>
Tax effect	(34)	(62)	(11)	(1)
<b>Impact on other comprehensive income during the period, net</b>	<b>146</b>	<b>267</b>	<b>51</b>	<b>10</b>
<b>Ineffective portion of cash flow hedges recognized in the income statements, including in:</b>	<b>(25)</b>	<b>(20)</b>	<b>4</b>	<b>7</b>
Net foreign exchange gains/(losses)	(24)	(20)	4	7
Gain/(loss) on financial instruments measured at fair value	(1)	-	-	-

HEDGES OF INTEREST RATE RISK	30.06.2019	31.12.2018
<b>Hedges of interest rate risk</b>		
Fair value measurement of the hedging derivative instrument		(8)
IRS fixed - float		(8)
Fair value adjustment of the hedged instrument attributable to the hedged risk		8
Loans and advances granted and fixed securities		8

## 18. OTHER DERIVATIVE FINANCIAL INSTRUMENTS

OTHER DERIVATIVE INSTRUMENTS - TYPE OF CONTRACT	30.06.2019		31.12.2018	
	Assets	Liabilities	Assets	Liabilities
IRS	1 563	2 091	1 178	1 832
CIRS	138	131	156	153
FX Swap	175	214	115	43
Options	186	277	262	268
Commodity swap	214	211	85	83
FRA	2	1	3	2
Forward	222	301	108	274
<b>Total</b>	<b>2 500</b>	<b>3 226</b>	<b>1 907</b>	<b>2 655</b>

## 19. SECURITIES

SECURITIES	30.06.2019	31.12.2018
Securities (excluding adjustments relating to fair value hedge accounting)	71 183	64 114
Adjustment relating to fair value hedge accounting	2	-
<b>Total</b>	<b>71 185</b>	<b>64 114</b>

As at 30 June 2019, the impairment allowance which did not reduce the fair value of securities measured at fair value through other comprehensive income amounted to PLN 36 million (PLN 25 million as at 31 December 2018).

SECURITIES (excluding adjustments relating to fair value hedge accounting) 30.06.2019	held for trading	not held for trading, measured at fair value through profit or loss	measured at fair value through OCI	measured at amortized cost	Total
Debt securities	751	613	57 211	10 898	69 473
NBP money market bills	-	-	2 500	-	2 500
Treasury bonds (in PLN)	612	419	45 282	4 709	51 022
Treasury bonds (in foreign currencies)	2	-	579	142	723
municipal bonds (in PLN)	16	-	5 370	4 634	10 020
corporate bonds (in PLN)	120	194	3 480	1 069	4 863
corporate bonds (in foreign currencies)	1	-	-	344	345
Equity securities	31	1 679	-	-	1 710
shares in other entities - not listed <sup>1</sup>	-	317	-	-	317
shares in other entities - listed	27	171	-	-	198
units in investment funds and investment certificates, rights to shares, pre-emptive rights	4	1 191	-	-	1 195
<b>Total</b>	<b>782</b>	<b>2 292</b>	<b>57 211</b>	<b>10 898</b>	<b>71 183</b>

<sup>1</sup> The item comprises the interest in: Polski Standard Płatności sp. z o.o. of PLN 24 million and Visa Inc. of PLN 191 million.

SECURITIES (excluding adjustments relating to fair value hedge accounting) 31.12.2018	held for trading	not held for trading, measured at fair value through profit or loss	measured at fair value through OCI	measured at amortized cost	Total
Debt securities	217	1 201	52 558	8 473	62 449
NBP money market bills	-	-	2 900	-	2 900
Treasury bonds (in PLN)	94	1 034	39 970	2 234	43 332
Treasury bonds (in foreign currencies)	4	-	393	124	521
municipal bonds (in PLN)	16	-	5 301	4 007	9 324
corporate bonds (in foreign currencies)	-	37	-	-	37
corporate bonds (in PLN)	102	130	3 942	1 764	5 938
corporate bonds (in foreign currencies)	1	-	52	344	397
Equity securities	18	1 647	-	-	1 665
shares in other entities - not listed <sup>1</sup>	-	269	-	-	269
shares in other entities - listed	13	180	-	-	193
units in investment funds and participation units in a collective investment undertaking, investment certificates, rights to shares, pre-emptive rights	5	1 198	-	-	1 203
<b>Total</b>	<b>235</b>	<b>2 848</b>	<b>52 558</b>	<b>8 473</b>	<b>64 114</b>

<sup>1</sup> The item comprises the interest in: Polski Standard Płatności sp. z o.o. of PLN 22 million and Visa Inc. of PLN 142 million.

The item "T-bonds in PLN and in foreign currencies" comprises Polish T-bonds. As at 30 June 2019 the item T-bonds in foreign currencies included Ukrainian T-bonds amounting to PLN 487 million (PLN 513 million as at 31 December 2018).

## 20. LOANS AND ADVANCES TO CUSTOMERS

LOANS AND ADVANCES TO CUSTOMERS	30.06.2019	31.12.2018
	Net amount	Net amount
Loans and advances to customers (excluding adjustments relating to fair value hedge accounting)	224 788	214 911
Adjustment relating to fair value hedge accounting	6	1
<b>Total loans and advances to customers</b>	<b>224 794</b>	<b>214 912</b>

LOANS AND ADVANCES TO CUSTOMERS (excluding adjustments relating to fair value hedge accounting) 30.06.2019	not held for trading, measured at fair value through profit or loss	measured at fair value through OCI	measured at amortized cost		Total	
	Net amount	Net amount	Gross amount	Allowances for credit losses	Net amount	Net amount
Loans	1 028	1	230 175	(8 300)	221 875	222 904
mortgage banking	22	-	111 122	(1 873)	109 249	109 271
housing	22	-	111 122	(1 873)	109 249	109 271
corporate	107	-	56 571	(1 863)	54 708	54 815
housing	-	-	359	(27)	332	332
corporate	107	-	51 534	(1 723)	49 811	49 918
finance leases	-	-	4 678	(113)	4 565	4 565
retail and private banking	874	1	29 063	(1 782)	27 281	28 156
consumer	874	1	28 971	(1 781)	27 190	28 065
finance leases	-	-	92	(1)	91	91
firms and enterprises	25	-	33 419	(2 782)	30 637	30 662
housing	-	-	5 852	(137)	5 715	5 715
corporate	25	-	15 663	(2 224)	13 439	13 464
finance leases	-	-	11 904	(421)	11 483	11 483
Reverse repo transactions	-	-	1 884	-	1 884	1 884
<b>Total</b>	<b>1 028</b>	<b>1</b>	<b>232 059</b>	<b>(8 300)</b>	<b>223 759</b>	<b>224 788</b>

LOANS AND ADVANCES TO CUSTOMERS (excluding adjustments relating to fair value hedge accounting) 31.12.2018	not held for trading, measured at fair value through profit or loss	measured at amortized cost		Total	
	Net amount	Gross amount	Allowances for credit losses	Net amount	Net amount
Loans	1 106	221 958	(8 204)	213 754	214 860
mortgage banking	27	108 481	(1 829)	106 652	106 679
housing	27	108 481	(1 829)	106 652	106 679
corporate	121	55 096	(2 008)	53 088	53 209
housing	-	321	(55)	266	266
corporate	121	50 239	(1 850)	48 389	48 510
finance leases	-	4 536	(103)	4 433	4 433
retail and private banking	931	27 299	(1 711)	25 588	26 519
consumer	931	27 281	(1 711)	25 570	26 501
finance leases	-	18	-	18	18
firms and enterprises	27	31 082	(2 656)	28 426	28 453
housing	-	5 979	(128)	5 851	5 851
corporate	27	14 671	(2 142)	12 529	12 556
finance leases	-	10 432	(386)	10 046	10 046
Reverse repo transactions	-	51	-	51	51
<b>Total</b>	<b>1 106</b>	<b>222 009</b>	<b>(8 204)</b>	<b>213 805</b>	<b>214 911</b>

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

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

### FINANCIAL ASSETS BROKEN DOWN BY STAGE OF IMPAIRMENT

CUMULATIVE INFORMATION ON FINANCIAL ASSETS BY PHASES OF IMPAIRMENT	30.06.2019			31.12.2018		
	Gross amount	Allowances for credit losses	Net amount	Gross amount	Allowances for credit losses	Net amount
<b>Measured at fair value through OCI</b>						
<b>securities</b>	57 221	(10)	57 211	52 568	(10)	52 558
Stage 1	56 675	-	56 675	51 709	-	51 709
Stage 2	55	-	55	388	-	388
Stage 3	491	(10)	481	471	(10)	461
<b>loans and advances to customers</b>	1	-	1	-	-	-
Stage 3	1	-	1	-	-	-
<b>Total measured at fair value through OCI</b>	<b>57 222</b>	<b>(10)</b>	<b>57 212</b>	<b>52 568</b>	<b>(10)</b>	<b>52 558</b>
<b>Measured at amortized cost:</b>						
<b>amounts due from banks</b>	3 268	(1)	3 267	7 662	(1)	7 661
Stage 1	3 268	(1)	3 267	7 662	(1)	7 661
<b>securities</b>	10 919	(21)	10 898	8 499	(26)	8 473
Stage 1	10 913	(18)	10 895	8 437	(15)	8 422
Stage 2	3	-	3	59	(8)	51
Stage 3	3	(3)	-	3	(3)	-
<b>loans and advances to customers</b>	232 059	(8 300)	223 759	222 009	(8 204)	213 805
Stage 1	204 717	(619)	204 098	194 391	(566)	193 825
Stage 2	16 621	(1 286)	15 335	16 168	(1 249)	14 919
Stage 3	10 721	(6 395)	4 326	11 450	(6 389)	5 061
<b>other financial assets</b>	2 743	(100)	2 643	2 922	(97)	2 825
Stage 1	2 644	(1)	2 643	2 825	-	2 825
Stage 3	99	(99)	-	97	(97)	-
<b>Total measured at amortised cost</b>	<b>248 989</b>	<b>(8 422)</b>	<b>240 567</b>	<b>241 092</b>	<b>(8 328)</b>	<b>232 764</b>
<b>Total financial assets by stages of impairment</b>						
Stage 1	278 217	(639)	277 578	265 024	(582)	264 442
Stage 2	16 679	(1 286)	15 393	16 615	(1 257)	15 358
Stage 3	11 315	(6 507)	4 808	12 021	(6 499)	5 522
<b>Total financial assets by phases of impairment</b>	<b>306 211</b>	<b>(8 432)</b>	<b>297 779</b>	<b>293 660</b>	<b>(8 338)</b>	<b>285 322</b>

LOAN QUALITY RATIOS (excluding adjustments relating to fair value hedge accounting)	30.06.2019	31.12.2018
Share of exposures with recognized impairment <sup>1</sup>	4,5%	4,9%
Coverage ratio of impaired loans <sup>2</sup>	77,6%	74,0%
Share of loans overdue for more than 90 days in gross loans and advances to customers	3,2%	3,2%

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

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

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



BY TYPE OF FINANCIAL ASSET (excluding adjustments relating to fair value hedge accounting) 30.06.2019	Gross amount - assets with no significant increase in credit risk since initial recognition (stage 1)	Allowances for credit losses (stage 1)	Gross amount - assets with a significant increase in credit risk since initial recognition, but not credit-impaired (stage 2)	Allowances for credit losses (stage 2)	Gross amount - assets at risk of impairment due to credit risk (stage 3)	Allowances for credit losses (stage 3)	Total gross amount	Total allowances for credit losses	Total net amount
amounts due from banks	3 268	(1)	-	-	-	-	3 268	(1)	3 267
securities	67 588	(18)	58	-	494	(13)	68 140	(31)	68 109
NBP money market bills	2 500	-	-	-	-	-	2 500	-	2 500
Treasury bonds	50 715	(3)	-	-	-	-	50 715	(3)	50 712
other	14 373	(15)	58	-	494	(13)	14 925	(28)	14 897
loans and advances to customers	204 717	(619)	16 621	(1 286)	10 722	(6 395)	232 060	(8 300)	223 760
housing	109 171	(57)	5 955	(527)	2 207	(1 453)	117 333	(2 037)	115 296
corporate	55 704	(331)	5 690	(355)	5 803	(3 261)	67 197	(3 947)	63 250
consumer	24 745	(173)	2 351	(318)	1 876	(1 290)	28 972	(1 781)	27 191
reverse repo transactions	1 884	-	-	-	-	-	1 884	-	1 884
finance lease receivables	13 213	(58)	2 625	(86)	836	(391)	16 674	(535)	16 139
other financial assets	2 644	(1)	-	-	99	(99)	2 743	(100)	2 643
<b>Total</b>	<b>278 217</b>	<b>(639)</b>	<b>16 679</b>	<b>(1 286)</b>	<b>11 315</b>	<b>(6 507)</b>	<b>306 211</b>	<b>(8 432)</b>	<b>297 779</b>
of which: financial assets impaired upon initial recognition - POCI	-	-	-	-	732	(96)	732	(96)	636

BY TYPE OF FINANCIAL ASSET (excluding adjustments relating to fair value hedge accounting) 31.12.2018	Gross amount - assets with no significant increase in credit risk since initial recognition (stage 1)	Allowances for credit losses (stage 1)	Gross amount - assets with a significant increase in credit risk since initial recognition, but not credit-impaired (stage 2)	Allowances for credit losses (stage 2)	Gross amount - assets at risk of impairment due to credit risk (stage 3)	of which: impaired assets, gross	Allowances for credit losses (stage 3)	Total gross amount	Total allowances for credit losses	Total net amount
amounts due from banks	7 662	(1)	-	-	-	-	-	7 662	(1)	7 661
securities	60 146	(15)	447	(8)	474	474	(13)	61 067	(36)	61 031
NBP money market bills	2 900	-	-	-	-	-	-	2 900	-	2 900
Treasury bonds	42 724	(3)	-	-	-	-	-	42 724	(3)	42 721
other	14 522	(12)	447	(8)	474	474	(13)	15 443	(33)	15 410
loans and advances to customers	194 391	(566)	16 168	(1 249)	11 450	11 111	(6 389)	222 009	(8 204)	213 805
housing	106 561	(54)	5 960	(538)	2 260	2 201	(1 420)	114 781	(2 012)	112 769
corporate	52 638	(318)	5 703	(320)	6 569	6 406	(3 354)	64 910	(3 992)	60 918
consumer	23 664	(160)	1 786	(311)	1 831	1 829	(1 240)	27 281	(1 711)	25 570
reverse repo transactions	51	-	-	-	-	-	-	51	-	51
finance lease receivables	11 477	(34)	2 719	(80)	790	675	(375)	14 986	(489)	14 497
other financial assets	2 825	-	-	-	97	97	(97)	2 922	(97)	2 825
<b>Total</b>	<b>265 024</b>	<b>(582)</b>	<b>16 615</b>	<b>(1 257)</b>	<b>12 021</b>	<b>11 682</b>	<b>(6 499)</b>	<b>293 660</b>	<b>(8 338)</b>	<b>285 322</b>
of which: financial assets impaired upon initial recognition - POCI	-	-	-	-	1 145	1 145	(141)	1 145	(141)	1 004

The total write-offs and sale of loan receivables in the first half of 2019 had an impact on the decrease in the share of impaired exposures of 0.2 p.p. (a decrease of 0.7 p.p. in the share of impaired exposures in 2018).

## 22. PROPERTY, PLANT AND EQUIPMENT

PROPERTY, PLANT AND EQUIPMENT	30.06.2019	31.12.2018
Land and buildings, including:	2 303	1 537
assets in respect of rights of perpetual usufruct	900	-
Machinery and equipment, including:	409	416
IT equipment	261	260
Assets under construction, including:	124	162
IT equipment	32	70
Other, including <sup>1</sup> :	1 626	816
assets in respect of rights of perpetual usufruct	31	-
<b>Total</b>	<b>4 462</b>	<b>2 931</b>

<sup>1</sup> An increase in the period of six months ended 30 June 2019 resulted from the acquisition of the PCM Group and the recognition of vehicles under operating leases.

## 23. AMOUNTS DUE TO BANKS

AMOUNTS DUE TO BANKS	30.06.2019	31.12.2018
Measured at fair value through profit or loss	20	-
short position in securities	20	-
Measured at amortized cost	3 037	2 001
Loans and advances received <sup>1</sup>	310	250
Bank deposits	832	729
Current accounts	1 735	872
Other monetary market deposits	160	150
<b>Total</b>	<b>3 057</b>	<b>2 001</b>

<sup>1</sup> The item "Loans and advances received" is presented in detail in Note 25 "Loans and advances received"

## 24. AMOUNTS DUE TO CUSTOMERS

AMOUNTS DUE TO CUSTOMERS	30.06.2019	31.12.2018
<b>Measured at fair value through profit or loss</b>	<b>15</b>	<b>-</b>
short position in securities	15	-
<b>Measured at amortized cost</b>	<b>240 405</b>	<b>242 816</b>
Amounts due to retail customers	173 602	165 182
Current accounts and overnight deposits	112 018	103 143
savings accounts	35 202	32 192
Term deposits	61 204	61 638
Other liabilities	380	401
Amounts due to corporate entities	49 106	55 302
Current accounts and overnight deposits	38 009	38 927
Term deposits	10 230	15 465
Other liabilities	867	910
Amounts due to public entities	13 565	16 459
Current accounts and overnight deposits	10 981	11 242
Term deposits	2 527	5 115
Other liabilities	57	102
Loans and advances received <sup>1</sup>	2 384	4 093
Liabilities in respect of insurance products	1 748	1 780
Unit-Linked	1 478	1 502
Savings insurance policies	2	2
"Safe Capital"	258	265
Structured products	10	11
<b>Total</b>	<b>240 420</b>	<b>242 816</b>

<sup>1</sup> The item "Loans and advances received" is presented in detail in Note 25 "Loans and advances received"

AMOUNTS DUE TO CUSTOMERS BY SEGMENT	30.06.2019	31.12.2018
retail and private banking	164 000	155 079
corporate	45 871	55 051
firms and enterprises	26 407	26 805
loans and advances received	2 384	4 093
other liabilities (including liabilities in respect of insurance products)	1 758	1 788
<b>Total</b>	<b>240 420</b>	<b>242 816</b>

## 25. LOANS AND ADVANCES RECEIVED

LOANS AND ADVANCES RECEIVED	30.06.2019	31.12.2018
From banks	310	250
From international financial institutions	2 384	4 093
European Investment Bank	1 164	2 639
Council of Europe Development Bank	996	1 153
European Bank for Reconstruction and Development	51	85
International Finance Corporation	159	201
International Financial Institutions of Ukraine	14	15
<b>Total</b>	<b>2 694</b>	<b>4 343</b>

## LOANS AND ADVANCES RECEIVED FROM BANKS

During the six-month period ended 30 June 2019 the Group drew loans of PLN 196 million (of which PLN 3 million relate to loans drawn by the Prime Car Management SA Group, taken over by the PKO Leasing SA Group) and repaid loans of PLN 1 265 million (of which PLN 1 115 million relates to the repayment of loans taken over by GK PKO Leasing as a result of acquiring the Prime Car Management Group).

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

Additionally, in 2018 the Group fully repaid loans received from:

- domestic banks, of PLN 15 million;
- foreign banks, of PLN 24 million.

In 2018, the Group incurred a loan of PLN 100 million.

## LOANS AND ADVANCES FROM INTERNATIONAL FINANCIAL INSTITUTIONS

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

Moreover, the Group made partial early repayments of loans and advances received from the Council of Europe Development Bank of EUR 16 million (PLN 66 million) and PLN 23 million, European Investment Bank of 13 million (PLN 54 million) and PLN 17 million, International Finance Corporation of EUR 9 million (PLN 40 million), and European Bank for Reconstruction and Development of PLN 34 million.

In 2018, the Group partly repaid loans and advances received from international financial institutions totalling PLN 648 million. At the same time, the Group drew loans and advances amounting to PLN 1 028 million.

## 26. LIABILITIES IN RESPECT OF SECURITIES IN ISSUE

LIABILITIES IN RESPECT OF DEBT SECURITIES IN ISSUE	30.06.2019	31.12.2018
<b>Measured at amortized cost:</b>	<b>29 654</b>	<b>28 627</b>
covered bonds issued by PKO Bank Hipoteczny SA	15 928	12 800
bonds issued by PKO Bank Hipoteczny SA	3 435	3 186
bonds issued by PKO Finance AB	3 992	6 238
bonds issued by PKO Bank Polski SA	5 337	5 367
bonds issued by the PKO Leasing SA Group	924	995
bonds issued by KREDOBANK SA	38	41
<b>Total</b>	<b>29 654</b>	<b>28 627</b>

LIABILITIES IN RESPECT OF DEBT SECURITIES IN ISSUE	30.06.2019	31.12.2018
<b>covered bonds, of which</b>	<b>15 928</b>	<b>12 800</b>
in PLN	4 111	3 852
in EUR, translated into PLN	11 817	8 948
<b>bonds, of which:</b>	<b>13 726</b>	<b>15 827</b>
in PLN	4 955	4 792
in EUR, translated into PLN	3 425	5 655
in USD, translated into PLN	3 773	3 812
in CHF, translated into PLN	1 535	1 527
in UAH, translated into PLN	38	41
<b>Total</b>	<b>29 654</b>	<b>28 627</b>

### ISSUE OF MORTGAGE-COVERED BONDS BY PKO BANK HIPOTECZNY SA

In the first half of 2019, PKO Bank Hipoteczny SA carried out:

- a) three foreign issues of mortgage-covered bonds denominated in EUR, addressed to institutional investors, with a total nominal value of EUR 700 million, including:
  - benchmark issue of mortgage-covered bonds series 7 with a nominal value of EUR 500 million;
  - issue of the second tranche of mortgage-covered bonds series 7 with a nominal value of EUR 100 million, which increased the value of the series to EUR 600 million;
  - issue of the second tranche of mortgage-covered bonds series 1 with a nominal value of EUR 100 million, which increased the value of the series to EUR 600 million.
- b) one Polish issue of PLN mortgage-covered bonds (series 12), addressed to institutional investors, with a nominal value of PLN 250 million; under this issue green mortgage-covered bonds were issued for the first time, i.e. mortgage-covered bonds the yields from which were used exclusively to finance new or refinance existing long-term mortgage housing loans for housing properties with high energy-effectiveness.

The issues of foreign mortgage-covered bonds referred to above are quoted on the exchange in Luxembourg and in Warsaw (parallel market of the Warsaw Stock Exchange), and the issue of Polish mortgage-covered bonds on the parallel market of the Warsaw Stock Exchange and on BondSpot.

In 2018, the Company conducted the following issues of mortgage-covered bonds: a foreign issue of denominated in EUR totalling EUR 500 million and five domestic issues in PLN with a total nominal value of PLN 1 590 million.

### BONDS ISSUED BY PKO BANK HIPOTECZNY SA

In the first half of 2019, under the Bond Issue Programme Agreement concluded with PKO Bank Polski SA, PKO Bank Hipoteczny SA issued 40 721 bonds with a total nominal value of PLN 4 072 million and redeemed 35 505 bonds with a total nominal value of PLN 3 550 million.

In 2018, as part of the said Programme, the Company issued 74 864 bonds with a total nominal value of PLN 7 486 million and redeemed 69 482 bonds with a total nominal value of PLN 6 948 million. Moreover, in December 2018, the Company conducted an issue of unsecured bonds with a nominal value of PLN 350 million maturing on 21 February 2020.

### BONDS ISSUED BY PKO FINANCE AB

In the first half of 2019, under the Bond Issue Programme Agreement concluded with PKO Bank Polski SA, PKO Finance AB redeemed bonds with a total nominal value of EUR 500 million.

### BONDS ISSUED BY PKO BANK POLSKI SA

In the first six months of 2019 PKO Bank Polski SA redeemed 6 150 bonds with a total nominal value of PLN 615 million and issued 6 000 bonds with a total nominal value of PLN 600 million.

In 2018, the Bank issued and redeemed securities amounting to PLN 1 300 million and issued bank bonds with a nominal value of PLN 1 265 million.

#### **BONDS ISSUED BY THE PKO LEASING SA GROUP**

In the first six months of 2019, PKO Leasing SA carried out:

- under the Bond Issue Agreement concluded with PKO Bank Polski SA, it issued 1 034 700 bonds with a total nominal value of PLN 1 034 million and redeemed 966 400 bonds with a total nominal value of PLN 966 million; in the first half of 2019 the value of the issue programme was increased from PLN 600 million to PLN 1 500 million;
- it redeemed the last 730 bonds with a total nominal value of PLN 73 million, which had been issued under the issue agreement concluded by Raiffeisen-Leasing Polska SA (whose legal successor is PKO Leasing SA) with Raiffeisen Bank Polska SA (whose legal successor is BNP Paribas Bank Polska SA).

Furthermore, ROOF Poland Leasing 2014 DAC repurchased a total of 2 869 class A1, A2 and B, issued under a lease portfolio securitization programme, with a total nominal value of PLN 287 million for redemption; and as at 30 June 2019, only class B bonds remained in the company's portfolio.

In 2018, PKO Leasing S issued 1 286 191 bonds with the total nominal value of PLN 1 286 million and redeemed 1 265 100 bonds with the total nominal value of PLN 1 265 million under a Bond Issuance Agreement with PKO Bank Polski SA.

In 2018, ROOF Poland Leasing 2014 DAC repurchased, with a view to redemption, 6 172 A1 and A2-class bonds issued under the lease portfolio securitization programme with the total nominal value of PLN 617 million.

#### **BONDS ISSUED BY KREDOBANK SA**

In the first half of 2019, KREDOBANK SA repurchased 41 558 bonds with a total nominal value of UAH 42 million and once again placed 1 438 bonds with a total nominal value of UAH 1 million (which had been repurchased by the company in 2017) on the market.

In 2018, KREDOBANK SA issued 250 000 bonds with a total nominal value of UAH 250 million and, in addition, placed on the market 39 822 bonds with a total nominal value of UAH 40 million (repurchased by the Company in 2017).

## 27. OTHER LIABILITIES

OTHER LIABILITIES	30.06.2019	31.12.2018
Expenses to be paid	646	626
Deferred income	451	395
Dividend payable	1 662	-
Liability in respect of tax on certain financial institutions	85	83
Interbank settlements	562	481
Liabilities arising from investing activities and internal operations	81	247
Amounts due to suppliers	253	184
Liabilities and settlements in respect of trading in securities	568	364
Settlement of financial instruments	14	6
Liabilities in respect of contribution to the Bank Guarantee Fund, of which:	598	248
contribution charged by BGF/ payable to BGF (the Resolution Fund)	326	-
maintained in the form of payment commitments, of which:	272	248
to the Resolution Fund	112	112
to the Banks' Guarantee Fund	160	136
Liabilities under the public law	190	163
Liabilities in respect of foreign exchange activities	341	298
Liabilities in respect of payment cards	489	15
Liabilities to insurance institutions	154	143
Liabilities in respect of leases	931	-
Other	400	432
<b>Total</b>	<b>7 425</b>	<b>3 685</b>
of which: other financial Liabilities	4 039	2 364

As at 30 June 2019, and as at 31 December 2018, the Group did not have any liabilities in respect of which it did not meet its contractual obligations.

## 28. PROVISIONS

FOR THE 6 MONTHS ENDED 30 JUNE 2019	Provisions for legal claims	Provisions for pensions and other defined post- employment benefits	Restructuring	Provisions for financial liabilities and guarantees granted	Other provisions	Total
<b>1 January 2019, of which:</b>	<b>54</b>	<b>50</b>	<b>24</b>	<b>227</b>	<b>91</b>	<b>446</b>
Short-term provisions	54	8	24	177	91	354
Long-term provisions	-	42	-	50	-	92
Taking up control over subsidiaries	-	-	-	-	3	3
Increases, including increases of existing provisions	9	-	23	90	2	124
Utilization	(2)	(1)	(8)	-	(3)	(14)
Amounts not utilized released during the period	(6)	-	-	(93)	(58)	(157)
<b>30 June 2019, of which:</b>	<b>55</b>	<b>49</b>	<b>39</b>	<b>224</b>	<b>35</b>	<b>402</b>
Short-term provisions	55	10	39	176	35	315
Long-term provisions	-	39	-	48	-	87

FOR THE 6 MONTHS ENDED 30 JUNE 2018	Provisions for legal claims	Provisions for pensions and other defined post-employment benefits	Restructuring	Provisions for financial liabilities and guarantees granted	Other provisions	Total
31 December 2017, of which:	21	46	-	86	62	215
Short-term provisions	21	7	-	61	62	151
Long-term provisions	-	39	-	25	-	64
Changes resulting from reclassification, of which:	-	15	21	-	(36)	-
Short-term provisions	-	15	21	-	(36)	-
Changes resulting from implementing IFRS 9, of which:	-	-	-	71	-	71
Short-term provisions	-	-	-	47	-	47
Long-term provisions	-	-	-	24	-	24
1 January 2018 roku (changed), of which:	21	61	21	157	26	286
Short-term provisions	21	22	21	108	26	198
Long-term provisions	-	39	-	49	-	88
Increases, including increases of existing provisions	26	-	45	100	67	238
Utilization	(6)	-	(11)	-	-	(17)
Amounts not utilized released during the period	(1)	(15)	(9)	(96)	(14)	(135)
Increase in discounted amount (passage of time) and effect	-	-	-	-	-	-
Foreign exchange differences on translation of foreign branches	-	-	-	-	-	-
Other changes and reclassifications	-	-	-	-	-	-
30 June 2018, of which:	40	46	46	161	79	372
Short-term provisions	40	7	46	127	79	299
Long-term provisions	-	39	-	34	-	73

## 29. SHAREHOLDING STRUCTURE OF THE BANK

NAME OF SHAREHOLDER	number of shares	number of votes %	Nominal value of 1 share	Interest in share capital %
As at 30 June 2019				
State Treasury	367 918 980	29.43%	1 zł	29.43%
Nationale Nederlanden Otwarty Fundusz Emerytalny <sup>1</sup>	94 257 435	7.54%	1 zł	7.54%
Aviva Open Pension Fund <sup>1</sup>	87 991 840	7.04%	1 zł	7.04%
Other shareholders <sup>2</sup>	699 831 745	55.99%	1 zł	55.99%
<b>Total</b>	<b>1 250 000 000</b>	<b>100.00%</b>	---	<b>100.00%</b>
As at 31 December 2018				
State Treasury	367 918 980	29.43%	1 zł	29.43%
Nationale Nederlanden Otwarty Fundusz Emerytalny <sup>1</sup>	95 472 008	7.64%	1 zł	7.64%
Aviva Open Pension Fund <sup>1</sup>	89 163 966	7.13%	1 zł	7.13%
Other shareholders <sup>2</sup>	697 445 046	55.80%	1 zł	55.80%
<b>Total</b>	<b>1 250 000 000</b>	<b>100.00%</b>	---	<b>100.00%</b>

<sup>1</sup> Calculation of shareholdings as at the end of 2019 and 2018 published by PTE in annual and semi-annual information about the structure of fund assets and quotations from the Bulletin of the Warsaw Stock Exchange (Cedula Giełdowa).

<sup>2</sup> Including Bank Gospodarstwa Krajowego which, as at 30 June 2019 and as at 31 December 2018, held 24 487 297 shares, constituting a 1.96% share of the votes at the General Shareholders' Meeting.

In the six-month period of 2019 and 2018, there were no changes in the amount of the share capital of the Bank.

### 30. CHANGES TO COMPANIES COMPRISING THE GROUP

In the first half of 2019, the following events had an impact on the PKO Bank Polski SA Group's structure:

#### ACQUISITION OF PRIME CAR MANAGEMENT SA BY PKO LEASING SA

##### DESCRIPTION OF THE TRANSACTION

PKO Leasing SA (the Bank's subsidiary) acquired a total of 100% of shares of the public company Prime Car Management SA (PCM), including:

- on 27 May 2019 it acquired 11 244 402 PCM shares (which comprise 94.42% interest in the company's share capital and give it 94.42% voting rights at its General Shareholders' Meeting) as a result of a call to subscribe for the sale of shares in PCM, published by PKO Leasing SA on 18 April 2019 pursuant to the procedures of Article 74 (1) of the Act of 29 July 2005 Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organized Trading, and on Public Companies (Act on Public Offering), by settling the purchase transaction of the shares to be subscribed for under stage I of the said call;
- on 24 June 2019 it acquired 664 438 shares of PCM (the remaining shares) under a squeeze-out according to the procedures stipulated in Article 82 (1) of the Act on Public Offering and the Regulation of the Finance Minister dated 14 November 2005 on acquiring public company's shares by way of a squeeze-out.

The total amount of the investment was PLN 283 million. The purchase was financed with an overdraft facility granted to PKO Leasing SA by PKO Bank Polski SA.

The acquired company engages in lease operations (finance and operating leases) and in vehicle fleet management.

The Company's share capital as at 30 June 2019 amounted to PLN 23 817 680 and consisted of 11 908 840 shares, each of PLN 2 nominal value.

Since April 2014 Prime Car Management SA has been listed on the Warsaw Stock Exchange (WSE). Trading in the company's shares has been suspended as of 18 June 2019.

In connection with the acquisition of PCM, its subsidiaries became part of the PKO Leasing SA Group. The subsidiaries included:

- Masterlease sp. z o.o. – the company's share capital amounts to PLN 7 905 000 and comprises 158 100 shares, each with a nominal value of PLN 50;
- MasterRent24 sp. z o.o. - the company's share capital amounts to PLN 2 850 000 and consists of 28 500 shares, each of PLN 100 nominal value.
- Futura Leasing SA - the company's share capital amounts to PLN 1 689 320 and comprises 1 689 320 shares, each with a nominal value of PLN 1.

The subsidiaries of PCM engage primarily in passenger car rental, finance leases, sales of vehicles and servicing and repairs of vehicles.

Simultaneously, in June 2019 PKO Bank Polski SA granted the company PCM two loans in a total amount PLN 1 890 million for the purpose of changing the financing structure of PCM and its Capital Group (refinancing of hitherto existing liabilities of PCM resulting from concluded loan agreements and issued bonds, as well as current activities financing and refinancing). The total amount of early loan repayments made by PCM as at 30 June 2019 was PLN 1 305 million.

##### ACCOUNTING FOR THE ASSETS ACQUIRED

As at the date of preparing these financial statements an initial settlement of assets acquired. The final settlement of the transaction which will take place within 12 months of the acquisition date may differ from the initial calculation described in these consolidated financial statements.

	Total companies from the Prime Car Management SA Group
Payment made	283
Net amount of identifiable assets and liabilities acquired	363
Gain on bargain purchase	80

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

On 31 January 2019 a merger took place between Qualia sp. z o.o (as the acquirer) and Qualia – Residence sp. z o.o. (as the acquiree).

Qualia Development sp. z o.o. sold All Soares In Qualia sp. Z o.o. (8 May 2019) and all shares Sarnia Dolina sp. z o.o. (on 19 June 2019) to NEPTUN – closed-ended investment fund of non-public assets.

## MERGER BETWEEN QUALIA DEVELOPMENT SP. Z O.O. AND PKO LEASING SA

On 28 June 2019 the merger between Qualia Development sp. z o.o. (the Bank's subsidiary) as the acquiree and PKO Leasing SA as the acquirer was registered in the National Court Register with jurisdiction over the registered office of the acquirer. The merger took place in accordance with Article 492 § 1 item 1 of the Commercial Companies Code (merger by acquisition) by transferring all the assets of the acquiree to the acquirer, with a simultaneous increase in the share capital of the acquirer and conversion of the shares of the acquiree into the shares of the acquirer.

After the merger PKO Bank Polski SA held 34 785 566 shares of PKO Leasing SA with a total nominal value of PLN 347 855 660 constituting 100% of the share capital and carrying 100% of the votes at the General Shareholders' Meeting.

## OTHER NOTES

### 31. DIVIDENDS PER SHARE AND PROFIT DISTRIBUTION

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

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

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

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

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

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

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

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

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

### 32. INFORMATION ABOUT LEASES

LEASE RELATED AMOUNTS RECOGNIZED IN THE INCOME STATEMENT - LESSOR	01.01- 30.06.2019
Amortization and depreciation of assets in respect of rights of perpetual usufruct, including:	(100)
land and buildings	(100)
Interest expense	(12)
Costs related to short-term lease agreements	(6)
Costs related to lease agreements in respect of low-value assets, which are not short-term agreements, non-deductible VAT expenses and costs of service charges	(30)
<b>Total costs</b>	<b>(148)</b>

RIGHT-OF-USE ASSETS	30.06.2019
<b>Property, plant and equipment</b>	<b>931</b>
Land and buildings	900
Other, including:	31
investment properties	31
<b>Non-current assets held for sale</b>	<b>3</b>
Land and buildings	3
<b>Total</b>	<b>934</b>

OTHER LIABILITIES	30.06.2019
Liabilities in respect of leases	931
<b>Total</b>	<b>931</b>

### 33. CONTINGENT LIABILITIES AND OFF-BALANCE SHEET COMMITMENTS GRANTED

Issuer of underwritten securities	Type of underwritten securities	Maximum commitment to take up securities	Contract expiry date
<b>As at 30 June 2019</b>			
Company A	corporate bonds	42	31.12.2022
<b>Total</b>		<b>42</b>	

Issuer of underwritten securities	Type of underwritten securities	Maximum commitment to take up securities	Contract expiry date
<b>As at 31 December 2018</b>			
Company C	corporate bonds	1 266	31.12.2020
Company B	corporate bonds	708	31.07.2020
Company A	corporate bonds	47	31.12.2022
<b>Total</b>		<b>2 021</b>	

All contracts relate to the Agreement for Organizing, Conducting and Servicing the Bond Issue Programme. All securities taken up by the Group under the underwriting programme have unlimited transferability, are not listed on the stock exchange and are not traded on a regulated OTC market.

### CONTRACTUAL LIABILITIES

VALUE OF CONTRACTUAL COMMITMENTS CONCERNING:	30.06.2019	31.12.2018
intangible assets	31	43
property, plant and equipment	30	51
<b>Total</b>	<b>61</b>	<b>94</b>

## FINANCIAL LIABILITIES AND GUARANTEE COMMITMENTS GRANTED

FINANCIAL LIABILITIES AND GUARANTEE COMMITMENTS GRANTED AS AT 30.06.2019	Nominal amount of liabilities with no significant increase in credit risk since initial recognition (stage 1)	Allowance for credit losses (stage 1)	Nominal amount of liabilities with a significant increase in credit risk since initial recognition, which are not credit-impaired (stage 2)	Allowance for credit losses (stage 2)	Nominal amount of liabilities at risk of impairment (stage 3)	Allowance for credit losses (stage 3)	Total nominal amount	Total provision	Total, net
<b>Financial liabilities granted:</b>									
Credit lines and limits	49 376	(80)	2 799	(82)	135	(11)	52 310	(173)	52 137
housing	3 640	(9)	466	(19)	6	(2)	4 112	(30)	4 082
corporate	37 637	(61)	1 066	(35)	121	(7)	38 824	(103)	38 721
consumer	8 099	(10)	1 267	(28)	8	(2)	9 374	(40)	9 334
Other	3 985	(12)	18	(1)	-	-	4 003	(13)	3 990
<b>Total</b>	<b>53 361</b>	<b>(92)</b>	<b>2 817</b>	<b>(83)</b>	<b>135</b>	<b>(11)</b>	<b>56 313</b>	<b>(186)</b>	<b>56 127</b>
of which irrevocable loan commitments	19 351	(26)	1 773	(40)	90	(4)	21 214	(70)	21 144
of which: purchased or originated credit-impaired off-balance sheet liabilities – POCI	-	-	-	-	80	-	80	-	80
<b>Guarantees and pledges granted</b>									
Guarantees granted in domestic and foreign trading	6 319	(8)	545	(11)	93	(15)	6 957	(34)	6 923
to financial entities	395	-	-	-	-	-	395	-	395
to non-financial entities	5 654	(8)	545	(11)	93	(15)	6 292	(34)	6 258
to public entities	270	-	-	-	-	-	270	-	270
Guarantees and pledges granted – domestic corporate bonds	98	(1)	-	-	-	-	98	(1)	97
to non-financial entities	98	(1)	-	-	-	-	98	(1)	97
Letters of credit issued	1 255	(1)	4	-	17	(2)	1 276	(3)	1 273
to non-financial entities	1 254	(1)	4	-	17	(2)	1 275	(3)	1 272
to public entities	1	-	-	-	-	-	1	-	1
Guarantees and pledges granted – payment guarantee to financial entities	52	-	-	-	-	-	52	-	52
Guarantees and pledges granted - domestic municipal bonds	112	-	-	-	-	-	112	-	112
<b>Total</b>	<b>7 836</b>	<b>(10)</b>	<b>549</b>	<b>(11)</b>	<b>110</b>	<b>(17)</b>	<b>8 495</b>	<b>(38)</b>	<b>8 457</b>
of which irrevocable loan commitments	4 726	(8)	545	(11)	93	(14)	5 364	(33)	5 331
of which performance guarantees granted	2 040	(3)	419	(8)	66	(14)	2 525	(25)	2 500

An increase in financial liabilities granted occurred mainly in credit lines and limits for businesses and was due to, among others, granting of new credit lines of PLN 5 680 million and an increase in current credit lines of PLN 2 215 million.

FINANCIAL LIABILITIES AND GUARANTEE COMMITMENTS GRANTED AS AT 31.12.2018	Nominal amount of liabilities with no significant increase in credit risk since initial recognition (stage 1)	Allowance for credit losses (stage 1)	Nominal amount of liabilities with a significant increase in credit risk since initial recognition, which are not credit-impaired (stage 2)	Allowance for credit losses (stage 2)	Nominal amount of liabilities at risk of impairment (stage 3)	Allowance for credit losses (stage 3)	Total nominal amount	Total provision	Total, net
<b>Financial liabilities granted:</b>									
Credit lines and limits	42 649	(75)	3 025	(77)	193	(14)	45 867	(166)	45 701
housing	3 813	(14)	454	(18)	8	(3)	4 275	(35)	4 240
corporate	31 019	(50)	1 422	(38)	177	(8)	32 618	(96)	32 522
consumer	7 817	(11)	1 149	(21)	8	(3)	8 974	(35)	8 939
Other	4 010	(11)	-	-	-	-	4 010	(11)	3 999
<b>Total</b>	<b>46 659</b>	<b>(86)</b>	<b>3 025</b>	<b>(77)</b>	<b>193</b>	<b>(14)</b>	<b>49 877</b>	<b>(177)</b>	<b>49 700</b>
of which irrevocable loan commitments	21 554	(28)	1 729	(35)	95	(4)	23 378	(67)	23 311
of which: purchased or originated credit-impaired off-balance sheet liabilities – POCI	-	-	-	-	80	-	80	-	80
<b>Guarantees and pledges granted</b>									
Guarantees granted in domestic and foreign trading	6 134	(10)	235	(9)	146	(27)	6 515	(46)	6 469
to financial entities	433	(1)	-	-	-	-	433	(1)	432
to non-financial entities	5 688	(8)	235	(9)	146	(27)	6 069	(44)	6 025
to public entities	13	(1)	-	-	-	-	13	(1)	12
Guarantees and pledges granted – domestic corporate bonds	2 021	(2)	-	-	-	-	2 021	(2)	2 019
to non-financial entities	2 021	(2)	-	-	-	-	2 021	(2)	2 019
Letters of credit issued	1 206	(1)	-	-	1	(1)	1 207	(2)	1 205
to non-financial entities	1 204	(1)	-	-	1	(1)	1 205	(2)	1 203
to public entities	2	-	-	-	-	-	2	-	2
Guarantees and pledges granted – payment guarantee to financial entities	4	-	-	-	-	-	4	-	4
Guarantees and pledges granted – domestic municipal bonds	188	-	-	-	-	-	188	-	188
<b>Total</b>	<b>9 553</b>	<b>(13)</b>	<b>235</b>	<b>(9)</b>	<b>147</b>	<b>(28)</b>	<b>9 935</b>	<b>(50)</b>	<b>9 885</b>
of which irrevocable loan commitments	6 135	(10)	235	(9)	146	(27)	6 516	(46)	6 470
of which performance guarantees granted	2 216	(5)	130	(5)	72	(9)	2 418	(19)	2 399

### 34. OFF-BALANCE SHEET LIABILITIES RECEIVED

#### OFF-BALANCE SHEET LIABILITIES RECEIVED

OFF-BALANCE SHEET LIABILITIES RECEIVED BY NOMINAL VALUE	30.06.2019	31.12.2018
Financial	111	90
Guarantee-related	2 562	1 825
<b>Total</b>	<b>2 673</b>	<b>1 915</b>

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

### 35. LEGAL CLAIMS

As at 30 June 2019, the total value of court cases (litigation), in which PKO Bank Polski SA Group companies (including the Bank) are the respondent was PLN 1 168 million, of which PLN 40 million related to litigation in Ukraine (as at 31 December 2018, the total value of the subject matter of all court proceedings was PLN 1 784 million), while the total value of the subject matter of court cases (litigation) in which PKO Bank Polski SA Group companies (including the Bank) are the claimant, as at 30 June 2019, was PLN 2 207 million, of which PLN 28 million applied to court cases in Ukraine (as at 31 December 2018, the total value of the subject matter of such litigation was PLN 1 838 million).

The most significant legal claims are described below. As at 30 June 2019 the Bank was a party to, among others, the following proceedings.

#### PROCEEDINGS RELATING TO RESTRICTIVE PRACTICES ON THE MARKET OF PAYMENTS WITH PAYMENT CARDS IN POLAND

The Bank is a party to proceedings initiated by the President of the Competition and Consumer Protection Office (Urząd Ochrony Konkurencji i Konsumentów – UOKiK) on the basis of a decision dated 23 April 2001 upon the request of the Polish Trade and Distribution Organization – Employers Association (Polska Organizacja Handlu i Dystrybucji - Związek Pracodawców - POHiD) against operators of the Visa and Europay payment systems and banks issuing Visa and Europay/ Eurocard/ Mastercard banking cards. The claims under these proceedings relate to the use of practices limiting competition on the market of banking card payments in Poland, consisting of applying pre-agreed “interchange” fees for transactions made using Visa and Europay/Eurocard/Mastercard banking cards as well as limiting access to this market for external entities. On 29 December 2006, UOKiK decided that the practices, consisting of joint determination of the “interchange” fee, did limit market competition and ordered that any such practices should be discontinued, and imposed a fine on, among other things, PKO Bank Polski SA, in the amount of PLN 16.6 million. The Bank appealed against the decision of the President of UOKiK to CCCP (Court for Competition and Consumer Protection / Sąd Ochrony Konkurencji i Konsumentów - SOKiK). By judgement of 21 November 2013 SOKiK reduced the penalty imposed on the Bank to PLN 10.4 million. The parties to the proceedings appealed against the judgment. In its judgment of 6 October 2015, the Court of Appeal in Warsaw restored the original amount of the imposed penalties stipulated in the decision of the UOKiK, i.e. a fine amounting to PLN 16.6 million (fine imposed on PKO Bank Polski SA) and a fine amounting to PLN 4.8 million (fine imposed on Nordea Bank Polska SA). The fines were paid by the Bank in October 2015. As a result of the cassation complaint made by the Bank, in its judgment dated 25 October 2017, the Supreme Court revoked the appealed judgment of the Court of Appeal in Warsaw and submitted the case for re-examination. The fines paid by the Bank were reimbursed to the Bank on 21 March 2018. Currently, the case is being examined by the Court of Appeal in Warsaw. After two hearings, the Court of Appeal adjourned the trial without setting a date. As at 30 June 2019 the Bank had a provision for this litigation of PLN 21 million (the same level as at 31 December 2018).

#### OTHER PROCEEDINGS ON THE DISTORTION OF COMPETITION

In the first half of 2019 no other Bank's Group companies were involved in material proceedings concerning practices that distort competition or arrangements with UOKiK in preliminary investigations, or addresses by the

President of UOKiK without instigating proceedings (according to Article 49a of the Act on Protection of Competition and Consumers).

#### **PROCEEDINGS CONCERNING THE USE OF PROHIBITED CONTRACTUAL PROVISIONS IN TEMPLATES OF CONSUMER LOAN AGREEMENTS, WITH THE EXCLUSION OF CREDIT CARD AGREEMENTS**

In a decision of 31 December 2013, the President of the UOKiK held that the Bank's activities constituted practices breaching the collective interests of consumers by applying the so-called variable interest rate clause and using a one-day information form and imposed a fine on the Bank of PLN 29 million (PLN 17 million for the first practice and PLN 12 million for the second). The Bank appealed against this decision to the Court for Competition and Consumer Protection (CCCP). By judgment of 9 July 2015, the CCCP overruled the decision of the President of UOKiK in respect of both practices and cancelled the fine in full. On 31 May 2017, the Court of Appeal in Warsaw upheld the decision of the Court for Competition and Consumer Protection (CCCP) in response to a cassation complaint by the President of the UOKiK in respect of the first practice; however, as for the second practice it held that part of the appeal was reasonable. The Court of Appeal held that the Bank had breached the collective interests of consumers by using a one-day information form, however the fine imposed by the UOKiK was reduced from PLN 12 million to PLN 6 million. The fine was paid on 17 July 2017. On 23 October 2017, the Bank filed a cassation complaint against the judgment of the Court of Appeal. The President of UOKiK also filed a cassation complaint.

By a decision of 10 April 2019, the Supreme Court refused to accept both cassation complaints for hearing. The case was therefore closed.

#### **PROCEEDINGS CONDUCTED BEFORE THE PRESIDENT OF THE OFFICE OF COMPETITION AND CONSUMER PROTECTION (UOKiK)**

Three proceedings have been brought before the President of UOKiK ex officio and are currently in progress:

- 1) proceedings opened ex officio on 28 June 2017 on the acknowledgement that the provisions of the template contract are inadmissible. The breach, of which the Bank is being accused, involves the use of contractual provisions in model mortgage loan agreements which are revalued/indexed/denominated in foreign currencies and their appendices, presenting the method of setting the foreign currency buy and sell rates, which, according to the President of the UOKiK, may be considered inadmissible in the light of Article 385 § 1 of the Civil Code. On 31 July 2018 the Bank filed a motion to issue a consent decree. By a decision of 28 February 2019, the President of UOKiK, extended the deadline for the closure of the proceeding to 30 June 2019. On 28 June 2019 the Bank submitted a motion to extend the deadline for the closure of the proceedings. As at 30 June 2019 the Bank had not set up a provision for these proceedings (similarly as at 31 December 2018);
- 2) proceedings initiated on 26 July 2017 ex officio about using practices which violate the collective interests of customers. The violation with which the Bank has been charged consists of collecting higher instalments on loans and advances to customers denominated in foreign currencies than those following from the information about foreign currency risk provided to customers before they had concluded the contracts, and transferring possible foreign exchange risk to the customers. The Bank presented its position on the claims in its letter dated 23 September 2017. In its letter of 14 March 2019, the President of UOKiK requested the Bank to present answers to 16 detailed questions in order to determine circumstances necessary to settle the case. The Bank provided answers in a letter dated 10 May 2019. As at 30 June 2019, the Bank had not set up a provision for the proceedings (similarly as at 31 December 2018);
- 3) proceedings opened ex officio on 12 March 2019 on the acknowledgement that the provisions of the model contract are inadmissible. The proceedings are related to modification clauses which specify the circumstances in which the Bank is entitled to amend the terms and conditions of the agreement, including the amount of fees and commission. The President of UOKiK called for the Bank to comment on the charges contained in the decision on initiating the proceedings. In its letter of 31 May 2019, the Bank presented its position on the charges made by the President of UOKiK. As at 30 June 2019 the Bank had not set up a provision for these proceedings.

#### **PROCEEDINGS BEFORE THE PRESIDENT OF THE ENERGY REGULATORY OFFICE (URE)**

In his letter dated 11 June 2019 the President of URE instigated administrative proceedings concerning charging the Bank with a fine in connection with the URE President's suspicion that the Bank breached its duty to abide by the restrictions in providing and consuming power between 10 and 31 August 2015 and called the Bank to take a position on the issue. The Bank presented its position on the claims in its letter dated 8 July 2019. As at 30 June 2019, the Bank had not set up a provision for the proceedings.

## THE MOST SIGNIFICANT PROCEEDINGS AGAINST THE BANK

- 1) in October 2013 the Bank received a claim for the payment of PLN 31 million in respect of the losses incurred as a result of a refusal to grant disaster loans, due to an alleged lack of cooperation on the part of the Bank, which in consequence was to lead to the seizure of the claimants' family farm. The case is currently being examined by a first instance court. As at 30 June 2019 and as at 31 December 2018, the Bank maintained a provision for this litigation of PLN 1 million;
- 2) in November 2013 the Warsaw Municipal Consumer Rights Adviser lodged a claim on behalf of 66 persons (a developer's customers, owners of properties encumbered with a mortgage to the benefit of the Bank) for determining the non-existence of the right relating to the contractual ordinary collective mortgage of PLN 12 million disclosed in the land and mortgage registers regarding properties belonging to these people. The City Consumer Ombudsman filed a potential claim to obligate the Bank to file a declaration of intent, namely to agree to the deletion of these mortgage entries. On 30 September 2016 the District Court in Warsaw agreed to the claim and passed a judgment in which it determined the non-existence of the contractual mortgages set up on the apartments, referring to the absence of any contract concluded between the Bank and the developer for the division of the mortgage in the event that separate titles are established for particular apartments. The Bank appealed against the said judgment. In its judgment dated 3 December 2018 the Appeal Court largely dismissed the Bank's appeal. The Court shared the Bank's position only as to one person, which it considered not to be a consumer. The Bank is analysing the justification for the judgment with a view to filing a cassation complaint. Given the nature of the claim, no provision was needed to be set up;
- 3) in August 2016 a claim for the payment of PLN 20 million was filed with the Bank in respect of a loss in the assets of the Bank's customer as a result of – in the Claimant's opinion – unfair tax information PIT 8C for 2007, 2008 and 2009 being issued by Dom Maklerski PKO BP; currently, the case is being examined by a Court of first instance. As at 30 June 2019 and as at 31 December 2018, the Bank had not set up a provision for the proceedings;
- 4) in March 2016 a claim was lodged against the Bank by the Official Receiver of a joint stock company under bankruptcy liquidation for recognizing as ineffective a legal transaction consisting of setting up a contractual collective mortgage of PLN 53 million on real estate on behalf of the Bank to secure four investor loan contracts. On 20 September 2017 the District Court in Warsaw dismissed the claim against the Bank. The Claimant appealed against this judgment, which was accepted by the judgment dated 22 May 2018. On 1 October 2018, the Bank filed a cassation complaint which the Supreme Court did not accept (ruling of 14 June 2019). The case was closed. Given the nature of the claim, no provision was needed to be set up;
- 5) in September 2016 the Bank received a claim for the payment of PLN 15 million in respect of compensation for a loss resulting from the fact that the Bank did not disburse the investment loan funds; in the claim the Claimant states that the purpose of the loan agreement was the consolidation of earlier liabilities and determining new terms and conditions for the repayment of the debt, and the fact that the Bank did not disburse the funds led to the liabilities becoming due and covered with the debt restructuring procedure. The proceedings are currently being conducted before a first instance court. As at 30 June 2019 and as at 31 December 2018, the Bank maintained a provision for this litigation of PLN 15 million;
- 6) in November and December 2018 the Bank received two claims for finding a writ of execution ineffective, based on the same writ of execution concerning an amount of over PLN 13 million, which had been previously presented to SKOK Wesola. In respect of both cases, the Bank responded questioning the claim. In one of the cases dated 23 May 2019 a non-final verdict was issued dismissing the action, and in the second case 1st instance proceedings are in progress. Given the nature of the claim, no provision was needed to be set up.

## LITIGATION AGAINST THE BANK RELATING TO FOREIGN CURRENCY LOANS GRANTED

As at 30 June 2019 1160 court proceedings relating to foreign currency loans granted were pending against the Bank with the total disputed amount of PLN 265 million, including two group proceedings regarding 75 loan agreements in the first, and 8 loan agreements in the second proceeding. The court proceedings were initiated against the Bank by its customers in connection with foreign currency loan agreements concluded. The Bank's customers' claims concerned mainly demands to determine the invalidity of all or part of the agreements or to receive refunds of allegedly undue benefits in connection with the abusive nature of the foreign currency clauses. None of the clauses used by the Bank in the agreements was entered in the register of prohibited contractual provisions. To-date judgments favourable for the Bank predominate in the final judgments passed by courts in cases to which the Bank is party.

Proceedings initiated by a request for a preliminary ruling by the Regional Court in Warsaw concerning individuals' action against one of the Polish banks are in progress before the Court of Justice of the European Union (CJEU). PKO

Bank Polski SA is not party to the proceedings. The case concerns a loan indexed to the Swiss franc granted in November 2008 by another bank.

On 14 May 2019 CJEU Advocate General issued an opinion on the case with a proposed preliminary ruling. The opinion of the CJEU Advocate General will be taken into consideration by CJEU in its preliminary rulings, but it is not decisive for the content of the ruling. To-date CJEU has not issued the preliminary ruling. Its content may have an impact on the judicature of Polish courts concerning loans in foreign currencies, in particular with respect to loans indexed to a foreign currency, but in every case the courts will individually investigate the facts of the case and legal status in the case, including the content of the loan agreement.

#### **COURT PROCEEDINGS AGAINST THE BANK CONCERNING REIMBURSEMENT OF THE COMMISSION IN THE EVENT OF PREPAYMENTS OF LOANS**

As at 30 June 2019 64 court proceedings were pending against the Bank with a total disputed amount of PLN 243 thousand, concerning the reimbursement of the commission in the event that the customer prepays all or part of the loan liability. To-date judgments favourable for the Bank predominate in the final judgments passed by courts in cases to which the Bank is party.

Proceedings initiated by a request for a preliminary ruling by the District Court for East Lublin concerning an action initiated by a company that purchases claims from individuals for the reimbursement of commission against a cooperative credit union (*spółdzielcza kasa oszczędnościowo - kredytowa*) and one of the banks are pending before the Court of Justice of the European Union (CJEU). PKO Bank Polski SA is not party to the proceedings. On 23 May 2019 CJEU Advocate General issued an opinion on the case with a proposed preliminary ruling. In his opinion, the Advocate General allowed two different interpretations of regulations as being compliant with the European Union regulations. The opinion of the CJEU Advocate General will be taken into consideration by CJEU in its preliminary rulings, but it is not decisive for the content of the ruling. To-date CJEU has not issued the preliminary ruling. Its content may have an impact on the judicature of Polish courts concerning the reimbursement of commission in the event of prepayments of loans, but in every case the courts will individually investigate the facts of the case and legal status in the case, including the content of the loan agreement.

#### **REPRIVATIZATION CLAIMS RELATING TO PROPERTIES USED BY THE BANK**

As at 30 June 2019, the following proceedings are being conducted:

- one proceeding conducted in respect of the Bank's properties, relating to reprivatization claims. This procedure has been suspended.
- 9 proceedings, of which one is suspended with respect to the real property of the other companies from the Group, the subject matter of which is to confirm that the administrative decisions are invalid or to return the property.

A procedure regarding a property of the Bank, which was pending in 2018, ended with a final court judgment of the Regional Court in Kalisz of 8 November 2018. In a letter dated 10 January 2019, the opposing party lodged a cassation complaint against this judgment, which is currently awaiting the Supreme Court's decision on whether it will be accepted for determination.

#### **CLAIMS FOR DAMAGES IN RESPECT OF THE INTERCHANGE FEE**

The Bank was served three summons to participate, as an intervening party on the respondent's side, in cases relating to the interchange fees. Other banks are respondents in the case. The claims vis-à-vis the sued banks amount to almost PLN 146 million and are pursued as damages for differences in interchange fees resulting from applying practices that limit competition. If the courts find the claims justified, the respondents may claim recourse in separate court proceedings from other banks, including, among others, from PKO Bank Polski SA.

The Management Board of PKO Bank Polski SA is of the opinion that it is unlikely that serious claims may be brought against the Group in these matters.

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

#### TRANSACTIONS WITH THE STATE TREASURY

The State Treasury has control over the Bank as it holds a 29.43% interest in the Bank's share capital.

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

Pursuant to the Act of 30 November 1995 on state support in the repayment of certain housing loans, reimbursement of guarantee bonuses paid, and amendments to certain Acts, PKO Bank Polski SA receives payments from the State budget in respect of the interest forgiven on housing loans.

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

As of 1 January 2018 based on the provisions of the Act of 30 November 1995 on state support in the repayment of certain housing loans, and reimbursement of guarantee bonuses paid, the borrowers acquired the right to be forgiven the remaining debt by the State Treasury, which will result in gradual (until 2026) full settlement of the housing loan indebtedness from the so-called "old" portfolio. The Bank conducts settlements related to the purchase of interest on housing loans by the State Treasury and in the six-month period of 2019 it received commission of less than PLN 1 million. In the corresponding period of 2018 it received PLN 1 million in this respect.

As of 1 January 1996, the Bank is the general distributor of revenue stamps, and in this respect it receives commission from the State Budget – in the six-month period ended 30 June 2019, the Bank received commission of less than PLN 1 million. In the corresponding period of 2018 it received PLN 1 million in this respect.

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

#### SIGNIFICANT TRANSACTIONS WITH ENTITIES RELATED TO THE STATE TREASURY

The transactions were concluded on arm's length terms.

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

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

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

#### RELATED-PARTY TRANSACTIONS – CAPITAL LINKS

Transactions of the Bank as Parent with its associates and joint ventures are presented in the table below. All transactions with joint ventures and associates referred to below were arm's length transactions. Repayment terms are within a range of from one month to seventeen years.

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

FOR THE 6 MONTHS ENDED 30 JUNE 2019 / ENTITY	Total income	of which interest and commission income	Total expense	of which interest and commission income
Centrum Elektronicznych Usług Płatniczych eService sp. z o.o.	225	199	50	50
„Centrum Obsługi Biznesu” sp. z o.o.	1	1	-	-
<b>Total joint ventures and associates</b>	<b>226</b>	<b>200</b>	<b>50</b>	<b>50</b>

AS AT 31 DECEMBER 2018 / ENTITY	Receivables	of which loans	Liabilities	Off-balance sheet liabilities granted
Centrum Elektronicznych Usług Płatniczych eService sp. z o.o.	40	23	43	23
„Centrum Obsługi Biznesu” sp. z o.o.	18	18	8	-
Bank Pocztowy SA	-	-	-	1
„Poznański Fundusz Poręczeń Kredytowych” sp. z o.o.	-	-	5	-
<b>Total joint ventures and associates</b>	<b>58</b>	<b>41</b>	<b>56</b>	<b>24</b>

FOR THE 6 MONTHS ENDED 30 JUNE 2018 / ENTITY	Total income	of which interest and commission income	Total expense	of which interest and commission income
Centrum Elektronicznych Usług Płatniczych eService sp. z o.o.	196	168	54	54
„Centrum Obsługi Biznesu” sp. z o.o.	2	2	-	-
<b>Total joint ventures and associates</b>	<b>198</b>	<b>170</b>	<b>54</b>	<b>54</b>

#### RELATED-PARTY TRANSACTIONS – PERSONAL LINKS

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

## BENEFITS FOR THE PKO BANK POLSKI SA KEY MANAGEMENT

Remuneration costs of the Management Board and Supervisory Board of the Bank

	01.01.2019 - 30.06.2019	01.01.2018 30.06.2018
<b>Management Board of the Bank</b>		
Short-term employee benefits <sup>1</sup>	3 368	3 348
Post-employment benefits <sup>2</sup>	172	305
Long-term benefits <sup>3</sup>	1 675	1 774
Share-based payments settled in monetary means <sup>4</sup>	1 675	1 774
<b>Supervisory Board of the Bank</b>		
Short-term employee benefits <sup>1</sup>	633	680

<sup>1</sup> Short-term employee benefits consist of: remuneration and social insurance contributions and other benefits settled within 12 months after the end of the reporting period.

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

<sup>3</sup> In item "Long-term benefits" there are included provisions for deferred remuneration components granted in monetary means.

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

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

Remuneration costs of the Management Boards and Supervisory Boards of the Group's subsidiaries

	01.01.2019 - 30.06.2019	01.01.2018 - 30.06.2018
<b>Management Boards of the Group's subsidiaries</b>		
Short-term employee benefits <sup>1</sup>	13 699	11 551
Post-employment benefits <sup>2</sup>	-	114
Long-term benefits <sup>3</sup>	1 713	2 117
Share-based payments settled in monetary means <sup>4</sup>	1 260	1 216
<b>Supervisory Boards of the Group's companies</b>		
Short-term employee benefits <sup>1</sup>	542	518

<sup>1</sup> Short-term employee benefits consist of: remuneration and social insurance contributions and other benefits settled within 12 months after the end of the reporting period.

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

<sup>3</sup> In item "Long-term benefits" there are included provisions for deferred remuneration components granted in monetary means.

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

### 37. FAIR VALUE HIERARCHY

The classification of financial instruments and methods for determining fair value are described in the Group's consolidated financial statements for 2018.

ASSETS MEASURED AT FAIR VALUE 30.06.2019	Level 1	Level 2	Level 3	
	Carrying amount	Prices quoted on active markets	Valuation techniques based on observable market data	Other valuation techniques
Hedging derivatives	726	-	726	-
Other derivative instruments	2 500	1	2 499	-
Securities	60 285	49 209	8 368	2 708
held for trading	782	782	-	-
debt securities	751	751	-	-
shares in other entities - listed	27	27	-	-
investment certificates, rights to shares, pre-emptive rights	4	4	-	-
not held for trading, measured at fair value through profit or loss	2 292	1 646	150	496
debt securities	613	419	14	180
shares in other entities - listed	171	171	-	-
shares in other entities - not listed	317	-	1	316
units in investment funds and participation units in a collective investment undertaking, investment certificates, rights to shares, pre-emptive rights	1 191	1 056	135	-
measured at fair value through OCI	57 211	46 781	8 218	2 212
debt securities	57 211	46 781	8 218	2 212
Loans and advances to customers	1 029	-	-	1 029
not held for trading, measured at fair value through profit or loss	1 028	-	-	1 028
housing loans	22	-	-	22
corporate loans	132	-	-	132
consumer loans	874	-	-	874
measured at fair value through OCI	1	-	-	1
consumer loans	1	-	-	1
<b>Total financial assets measured at fair value</b>	<b>64 540</b>	<b>49 210</b>	<b>11 593</b>	<b>3 737</b>

  

LIABILITIES MEASURED AT FAIR VALUE 30.06.2019	Level 1	Level 2	Level 3	
	Carrying amount	Prices quoted on active markets	Valuation techniques based on observable market data	Other valuation techniques
Hedging derivatives	485	-	485	-
Other derivative instruments	3 226	-	3 226	-
Short position in securities	35	35	-	-
<b>Total financial liabilities measured at fair value</b>	<b>3 746</b>	<b>35</b>	<b>3 711</b>	<b>-</b>

ASSETS AND LIABILITIES MEASURED AT FAIR VALUE AS AT 31.12.2018	Carrying amount	Level 1	Level 2	Level 3
		Prices quoted on active markets	Valuation techniques based on observable market data	Other valuation techniques
Hedging derivatives	658	-	-	658
Other derivative instruments	1 907	-	3	1 904
Securities	55 641	43 436	10 286	1 919
held for trading	235	235	-	-
debt securities	217	217	-	-
shares in other entities - listed	13	13	-	-
investment certificates, rights to shares, pre-emptive rights	5	5	-	-
not held for trading, measured at fair value through profit or loss	2 848	2 278	187	383
debt securities	1 201	1 034	52	115
shares in other entities - listed	180	180	-	-
shares in other entities - not listed	269	-	1	268
investment certificates, rights to shares, pre-emptive rights	1 198	1 064	134	-
measured at fair value through OCI	52 558	40 923	10 099	1 536
debt securities	52 558	40 923	10 099	1 536
Loans and advances to customers	1 106	-	-	1 106
not held for trading, measured at fair value through profit or loss	1 106	-	-	1 106
housing loans	27	-	-	27
corporate loans	148	-	-	148
consumer loans	931	-	-	931
<b>Total financial assets measured at fair value</b>	<b>59 312</b>	<b>43 439</b>	<b>12 848</b>	<b>3 025</b>

LIABILITIES MEASURED AT FAIR VALUE 31.12.2018	Carrying amount	Level 1	Level 2	Level 3
		Prices quoted on active markets	Valuation techniques based on observable market data	Other valuation techniques
Hedging derivatives	471	-	-	471
Other derivative instruments	2 655	-	-	2 655
<b>Total financial liabilities measured at fair value</b>	<b>3 126</b>	<b>-</b>	<b>-</b>	<b>3 126</b>

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

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

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

RECONCILIATION OF CHANGES DURING FAIR VALUE PERIODS ON FAIR VALUE HIERARCHY LEVEL 3	01.01-30.06.2019	01.01-30.06.2018
Opening balance at the beginning of the period	3 025	2 166
First-time application of IFRS 9		1 186
Opening balance at the beginning of the period – restated		3 352
Foreign exchange differences	(2)	17
Increased exposure in equity instruments	-	1
Issues and redemptions of corporate paper	(590)	(324)
Transfers of corporate bonds from level 2 to level 3	1 466	-
Reduction of equity exposure to a collective investment undertaking	-	(47)
Sale of participation units in a collective investment undertaking	-	(217)
Reclassification of loan exposures from measured at amortized cost to measured at fair value through profit or loss		-
Loans granted to customers during the period	6	-
Writing off / repayment of loans during the period	(10)	(82)
Net gain/(loss) on financial instruments measured at fair value through profit or loss	39	17
Change in valuation recognized in OCI - corporate bonds	(197)	(9)
<b>As at the end of the period</b>	<b>3 737</b>	<b>2 708</b>

IMPACT OF ESTIMATES ON FAIR VALUE MEASUREMENT OF LEVEL 3 FINANCIAL INSTRUMENTS	30.06.2019		31.12.2018	
	Fair value acc. to positive scenario	Fair value acc. to negative scenario	Fair value acc. to positive scenario	Fair value acc. to negative scenario
Not held for trading, measured at fair value through profit or loss				
Loans and advances to customers	1 058	999	1 138	1 075
Shares in Visa Inc.	197	172	148	124
Equity investments	130	118	132	119
Corporate bonds	180	180	115	115
<b>Measured at fair value through OCI</b>				
Corporate bonds	2 219	2 205	1 539	1 533

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

	level of fair value hierarchy	valuation method	30.06.2019	
			carrying amount	fair value
Cash and balances with Central Bank	n/a	at amount due	12 901	12 901
Amounts due from banks			3 267	3 267
measured at amortized cost	2	discounted cash flows	3 267	3 267
Securities			10 898	10 907
measured at amortized cost	3	discounted cash flows	10 898	10 907
debt securities (Treasury bonds)	1	market quotations	4 851	4 851
debt securities (corporate)	3	discounted cash flows	1 413	1 422
debt securities (municipal)	3	discounted cash flows	4 634	4 634
Loans and advances to customers			223 759	223 070
measured at amortized cost	3	discounted cash flows	223 759	223 070
housing loans	3	discounted cash flows	115 296	113 536
corporate loans	3	discounted cash flows	63 250	63 963
consumer loans	3	discounted cash flows	27 190	27 551
receivables in respect of repurchase agreements	2	discounted cash flows	1 884	1 884
finance lease receivables	3	discounted cash flows	16 139	16 136
Other financial assets	3	at amount due less impairment allowance	2 643	2 643
Amounts due to the Central Bank	2	at amount due	9	9
Amounts due to banks			3 037	3 037
measured at amortized cost	2	discounted cash flows	3 037	3 037
Amounts due to customers			240 405	240 345
measured at amortized cost	3	discounted cash flows	240 405	240 345
amounts due to retail customers	3	discounted cash flows	173 602	173 543
amounts due to business entities	3	discounted cash flows	49 106	49 105
amounts due to public entities	3	discounted cash flows	13 565	13 565
loans and advances received	3	discounted cash flows	2 384	2 384
liabilities in respect of insurance products	2	discounted cash flows	1 748	1 748
Debt securities in issue			29 654	30 116
measured at amortized cost	1, 2	market quotations/discounted cash flows	29 654	30 116
Subordinated liabilities			2 730	2 730
measured at amortized cost	2	discounted cash flows	2 730	2 730
Total financial liabilities	3	at amount due	4 039	4 039

	level of fair value hierarchy	valuation method	31.12.2018	
			carrying amount	fair value
Cash and balances with Central Bank	n/a	at amount due	22 925	22 925
Amounts due from banks	2	discounted cash flows	7 661	7 661
measured at amortized cost	2	discounted cash flows	7 661	7 661
Securities			8 473	8 476
measured at amortized cost			8 473	8 476
debt securities (Treasury bonds)	1	market quotations	2 358	2 361
debt securities (corporate)	3	discounted cash flows	2 108	2 108
debt securities (municipal)	3	discounted cash flows	4 007	4 007
Loans and advances to customers			213 806	213 438
measured at amortized cost			213 806	213 438
housing loans	3	discounted cash flows	112 770	111 761
corporate loans	3	discounted cash flows	60 918	61 294
consumer loans	3	discounted cash flows	25 570	25 820
receivables in respect of repurchase agreements	2	discounted cash flows	51	51
finance lease receivables	3	discounted cash flows	14 497	14 512
Other financial assets	3	at amount due less impairment allowance	2 825	2 825
Amounts due to the Central Bank	2	at amount due	7	7
Amounts due to other banks	2	discounted cash flows	2 001	2 001
Amounts due to customers			242 816	242 753
to corporate entities	3	discounted cash flows	55 302	55 301
to public entities	3	discounted cash flows	16 459	16 459
to retail customers	3	discounted cash flows	165 182	165 120
loans and advances received	3	discounted cash flows	4 093	4 093
liabilities in respect of insurance products	2	discounted cash flows	1 780	1 780
Debt securities in issue				
measured at amortized cost	1, 2	market quotations/discounted cash flows	28 627	28 725
Subordinated liabilities	2	discounted cash flows	2 731	2 731
Total financial liabilities	3	at amount due	2 364	2 364

### 39. ASSETS CONSTITUTING COLLATERAL FOR LIABILITIES AND TRANSFERRED FINANCIAL ASSETS

#### ISSUE OF MORTGAGE-COVERED BONDS BY PKO BANK HIPOTECZNY SA

The mortgage covered bonds are secured by loans secured by the highest priority mortgage. Additionally, the basis for the issue of mortgage-covered bonds may also be PKO Bank Hipoteczny SA's own funds:

- invested in securities issued or guaranteed by the National Bank of Poland, the European Central Bank, the governments and central banks of the Member States of the European Union, the Organization for Economic Cooperation and Development, with the exception of countries that are having or have had their foreign debt restructured in the past 5 years;
- invested in the National Bank of Poland;
- held in cash.

The nominal value of loans entered in the register of collaterals for mortgage-covered bonds and constituting the Group's cover pool representing collateral for the mortgage-covered bonds issued totalled PLN 18 782 million as at 30 June 2019, and the nominal value of the additional collateral in the form of securities issued by the State Treasury and denominated in PLN amounted to PLN 250 million. As at 31 December 2018, these figures were PLN 16 948 million and PLN 251 million respectively. The CIRS and FX-Forward transactions which hedge the foreign exchange and interest-rate risk of the issued EUR mortgage-covered bonds, and the IRS transactions hedging interest rate risk of the issued PLN fixed-interest-rate mortgage-covered bonds were also recognized in the register of collaterals for mortgage-covered bonds.

In the first half of 2019 and in the previous years the Bank's mortgage-covered bonds cover pool did not include asset-backed securities (ABS).

#### RECEIVABLES SUBJECT TO SECURITIZATION OF LEASE RECEIVABLES

In connection with the acquisition of Raiffeisen-Leasing Polska SA and its subsidiaries, on 1 December 2016 the Group consolidated a special purpose vehicle ROOF Poland Leasing 2014 DAC with its registered office in Ireland. The SPV is the buyer of securitized receivables resulting from lease agreements sold by Raiffeisen-Leasing Polska SA (currently: PKO Leasing SA) under the securitization plan which was initiated in December 2014. The receivables acquired by the SPV were financed by an issue of securities. The objective and benefit of selling these receivables to the SPV was to obtain and diversify sources of long-term financing.

The redemption of debt securities in the period from 1 January to 30 June 2019 according to their nominal values amounted to PLN 287 million: PLN 153 million (redeemed on 2 January 2019), and PLN 134 million (redeemed on 2 April 2019).

As at 30 June 2019, securitized lease receivables amounted to PLN 443 million. As at 31 December 2018, securitized lease receivables amounted to PLN 688 million.

#### LIABILITIES FROM THE NEGATIVE VALUATION OF DERIVATIVE INSTRUMENTS

Cash deposits with banks include assets held as collateral for originated liabilities, including settlements relating to the negative valuation of derivative instruments. As at 30 June 2019, such assets amounted to PLN 682 million (PLN 605 million as at 31 December 2018).

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

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

CARRYING AMOUNT / FAIR VALUE	30.06.2019	31.12.2018
Value of the deposit	10	10
Nominal value of the collateral	10	10
Type of collateral	Treasury bonds	Treasury bonds
Carrying amount of the collateral	8	10

#### FUND FOR THE PROTECTION OF GUARANTEED FUNDS

	30.06.2019	31.12.2018
Value of the fund	1 013	1 088
Nominal value of collateral	1 100	1 100
Type of collateral	Treasury bonds	Treasury bonds
Maturity of collateral	25.01.2024	25.01.2024
Carrying amount of collateral	1 102	1 103

#### FUNDS SECURING THE CONTRIBUTION COMMITMENTS OF PAYMENTS TO BE MADE TO THE BANK GUARANTEE FUND

	30.06.2019	31.12.2018
Value of the contribution made in the form of payables	272	248
Nominal value of the assets in which funds corresponding to payables were invested	353	324
Type of collateral	Treasury bonds	Treasury bonds
Maturity of the collateral	25.01.2024	25.01.2024
Carrying amount of the collateral	353	324

## OBJECTIVES AND PRINCIPLES OF RISK MANAGEMENT

The Group identifies risks in its operations and analyses the impact of each type of risk on the business operations of the Bank and entities in the Group. All the risks are managed; some of them have a material effect on the profitability and capital needed to cover them. All risks classified as material for the Bank are also material for the Group. The following risks are considered material for the Bank: credit risk, risk of foreign currency mortgage loans for households, foreign exchange risk, interest rate risk, liquidity risk (including financing risk), operating risk, business risk, risk of macroeconomic changes and model risk. Group entities may consider types of risks other than those listed above to be material, taking into account the specific nature and scale of their operations and the markets on which they operate. The materiality of all the identified risks is assessed on a regular basis, at least annually.

In the consolidated financial statements of the Group for 2018 and in the Report on Capital Adequacy and other information subject to publication in the Group as at 31 December 2018, the following elements of the risk management system were described in detail: risk definition, objectives of managing the specific risk, identification of the risk, measurement and evaluation, control, forecasting and monitoring, reporting and management activities to identify material types of risk.

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

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

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

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

In the first half of 2019 the Group increased the portfolio of short-term bonds issued (mainly 3-6 month bonds), conducted three issues of EUR mortgage-covered bonds and prepaid the borrowings received from the European Investment Bank, and redeemed matured originated issues under the EMTN programme.

#### 40. CREDIT RISK MANAGEMENT

##### FINANCIAL ASSETS WRITTEN OFF DURING THE DEBT RECOVERY PERIODS

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

FINANCIAL ASSETS WRITTEN OFF	01.01-30.06.2019	
	Partly written off	Fully written off
Securities		
measured at fair value through OCI	3	-
Loans and advances to customers		
measured at amortized cost	52	367
housing	28	26
corporate	15	222
consumer	9	119
finance lease receivables	-	17
<b>Total</b>	<b>55</b>	<b>384</b>

FINANCIAL ASSETS WRITTEN OFF	01.01-30.06.2018	
	Partly written off	Fully written off
Securities		
measured at fair value through OCI	2	-
Loans and advances to customers		
measured at amortized cost	2 354	101
housing	714	36
corporate	1 252	6
consumer	388	59
finance lease receivables	-	2
<b>Total</b>	<b>2 356</b>	<b>103</b>

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

In the first half of 2019 the Group performed block sales of impaired loan portfolios (balance sheet and off-balance sheet receivables) of more than 10.4 thousand individual receivables from retail and business customers amounting to approximately PLN 470 million. The total carrying amount of the provision for potential claims on the sale of impaired loan portfolios as at 30 June 2019 amounted to PLN 2 million (as at 31 December 2018, it amounted to PLN 2 million). As a result of the sale of the receivables all risks and rewards were transferred as a result of which the Group stopped recognizing these assets. The Group did not receive any securities as a result of these transactions.

## INTERNAL RATING CLASSES

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

### 41. CONCENTRATION OF CREDIT RISK AT THE GROUP

#### CONCENTRATION BY THE LARGEST ENTITIES

The Polish Banking Law sets the limits of the maximum exposure of the Bank which are translated to the Bank's Group. The risk of concentration of exposures to individual customers and groups of related customers is monitored in accordance with Regulation of the European Parliament and the Council (EU) No. 575/2013 on prudential requirements for credit institutions and investment firms (CRR), according to which the Group does not assume an exposure to a customer or a group of related customers whose value exceeds 25% of the value of its recognized capital.

As at 30 June 2019 and 31 December 2018 the concentration limits were not exceeded. As at 31 June 2019, the largest exposure<sup>1</sup> to a single entity accounted for 8.8% of the recognized consolidated capital (7.6% as at 31 December 2018).

#### CONCENTRATION BY THE LARGEST GROUPS

The largest concentration of the PKO Bank Polski SA's Group exposure<sup>1</sup> to a group of related borrowers amounted to 1.20% of the Group's loan portfolio (1.24% as at 31 December 2018).

As at 30 June 2019 the Group's largest concentration of exposure<sup>1</sup> amounted to 9.8% of the Group's recognized consolidated capital (9.7% as at 31 December 2018).

#### CONCENTRATION BY INDUSTRY

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

<sup>1</sup> The exposure covers loans and advances, repurchased receivables, discounted bills of exchange, debt securities, realized guarantees, interest receivable and off-balance sheet and equity exposures.

As at 30 June 2019, the total exposure to the three largest industry groups, i.e. “Financial and insurance activities”, “Public administration and national defence” and “Manufacturing”, amounted to 46% (46% as at 31 December 2018).

#### CONCENTRATION OF CREDIT RISK BY CURRENCY

As at 30 June 2019 the share of exposures in convertible currencies other than PLN in the whole of the Group's portfolio amounted to 19% (20% as at 31 December 2018). Exposures in CHF relating to the Group's housing loan portfolio represent the largest part of the Bank's currency exposure.

#### OTHER TYPES OF CONCENTRATION

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

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

LOANS AND ADVANCES TO CUSTOMERS BY CURRENCY (excluding adjustments relating to fair value hedge accounting) 30.06.2019	PLN	CHF	EUR	USD	OTHER	Total
<b>Not held for trading, measured at fair value through profit or loss</b>						
Loans and advances to customers		1 028	-	-	-	1 028
housing		22	-	-	-	22
corporate		132	-	-	-	132
consumer		874	-	-	-	874
<b>Not held for trading, measured at fair value through profit or loss</b>		1 028	-	-	-	1 028
<b>Measured at fair value through OCI</b>						
Gross loans		-	-	-	-	1
consumer		-	-	-	-	1
<b>Measured at fair value through OCI net</b>		-	-	-	-	1
<b>Measured at amortized cost</b>						
Gross loans	173 608	23 044	13 820	1 584	1 445	213 501
housing	91 785	22 355	2 973	53	167	117 333
corporate	53 634	465	10 826	1 529	743	67 197
consumer	28 189	224	21	2	535	28 971
Reverse repo transactions	1 884	-	-	-	-	1 884
Finance lease receivables	12 492	12	3 840	240	90	16 674
Allowances for credit losses	(6 824)	(878)	(392)	(41)	(165)	(8 300)
<b>Measured at amortized cost, net</b>	181 160	22 178	17 268	1 783	1 370	223 759
<b>Total</b>	182 188	22 178	17 268	1 783	1 371	224 788

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

LOANS AND ADVANCES TO CUSTOMERS BY CURRENCY (excluding adjustments relating to fair value hedge accounting)	PLN	CHF	EUR	USD	OTHER	Total	
31.12.2018							
Not held for trading, measured at fair value through profit or loss							
Loans and advances to customers		1 106	-	-	-	1 106	
housing		27	-	-	-	27	
corporate		148	-	-	-	148	
consumer		931	-	-	-	931	
Not held for trading, measured at fair value through profit or loss		1 106	-	-	-	1 106	
Measured at amortized cost							
Gross loans		166 902	24 015	12 807	1 995	1253	206 972
housing		88 157	23 265	3 155	58	146	114 781
corporate		52 193	505	9 628	1 935	649	64 910
consumer		26 552	245	24	2	458	27 281
Reverse repo transactions		51	-	-	-	-	51
Finance lease receivables		11 039	22	3 607	256	62	14 986
Allowances for credit losses		(6 724)	(826)	(372)	(139)	(143)	(8 204)
Measured at amortized cost, net		171 268	23 211	16 042	2 112	1 172	213 805
Total		172 374	23 211	16 042	2 112	1 172	214 911

LOANS AND ADVANCES TO CUSTOMERS IN CHF BY IMPAIRMENT STAGES (TRANSLATED INTO PLN at the exchange rate of 1 CHF = 3.8322)	30.06.2019			Total	
	Financial institutions	Corporates	Households		
Measured at amortized cost					
Gross amount		1	296	22 759	23 056
stage 1		-	103	19 899	20 002
stage 2		1	104	1 927	2 032
stage 3		-	89	933	1 022
Allowances for credit losses		-	(59)	(819)	(878)
stage 1		-	(1)	(12)	(13)
stage 2		-	(13)	(159)	(172)
stage 3		-	(45)	(648)	(693)
Measured at amortized cost, net		1	237	21 940	22 178
of which: purchased or granted credit-impaired financial assets (POCI)		-	-	51	51
Total		1	237	21 940	22 178

LOANS AND ADVANCES TO CUSTOMERS IN CHF BY IMPAIRMENT STAGES (TRANSLATED INTO PLN at the exchange rate of 1 CHF = 3,8166)	31.12.2018			Total	
	Financial institutions	Corporates	Households		
Measured at amortized cost					
Gross amount		1	324	23 712	24 037
stage 1		-	118	20 892	21 010
stage 2		1	111	1 872	1 984
stage 3		-	95	948	1 043
Allowances for credit losses		-	(59)	(767)	(826)
stage 1		-	(1)	(12)	(13)
stage 2		-	(12)	(130)	(142)
stage 3		-	(46)	(625)	(671)
Measured at amortized cost, net		1	265	22 945	23 211
of which: purchased or granted credit-impaired financial assets (POCI)		-	-	55	55
Total		1	265	22 945	23 211

## RISK MANAGEMENT OF FOREIGN CURRENCY HOUSING LOANS FOR HOUSEHOLDS

The Group analyses its portfolio of foreign currency housing loans for households in a specific manner and monitors the quality of the portfolio on an on-going basis.

The portfolio of foreign-currency housing loans for households is of good quality, as characterized, among other things, by the ratio of impaired loans.

Foreign currency home loans for households are monitored on a periodic basis. The risk profile of the portfolio of foreign-currency housing loans for households is regularly reported in consideration of their classification to LTV, DTI, the generation of granting, the amount of the loan granted, repayment delay and others.

HOUSING LOANS TO HOUSEHOLDS BY CURRENCY	30.06.2019			31.12.2018		
	gross	impairment allowance	net	gross	impairment allowance	net
PLN	89 556	(1 043)	88 513	86 024	(1 060)	84 964
CHF	22 353	(735)	21 618	23 263	(683)	22 580
EUR	2 973	(58)	2 915	3 155	(53)	3 102
USD	53	(7)	46	58	(6)	52
OTHER	167	(20)	147	146	(19)	127
<b>TOTAL</b>	<b>115 102</b>	<b>(1 863)</b>	<b>113 239</b>	<b>112 646</b>	<b>(1 821)</b>	<b>110 825</b>

As at 30 June 2019, the average LTV for the portfolio of CHF-denominated loans amounted to 61.3% (64.4% as at 31 December 2018) compared with the average LTV for the entire loan portfolio of 57.3% (59.2% as at 31 December 2018).

HOUSING LOANS AND ADVANCES IN FOREIGN CURRENCIES BY GRANTING DATE		INDEXED	DENOMINATED	Total
30.06.2019				
up to 2002	Gross amount	-	112	112
	Allowances for credit losses	-	(2)	(2)
	Net amount	-	110	110
from 2003 to 2009	Gross amount	-	18 611	18 611
	Allowances for credit losses	-	(696)	(696)
	Net amount	-	17 915	17 915
from 2010 to 2012	Gross amount	3 432	3 215	6 647
	Allowances for credit losses	(40)	(58)	(98)
	Net amount	3 392	3 157	6 549
from 2013 to 2016	Gross amount	5	16	21
	Allowances for credit losses	-	(4)	(4)
	Net amount	5	12	17
<b>Total</b>	<b>Gross amount</b>	<b>3 437</b>	<b>21 954</b>	<b>25 391</b>
	<b>Allowances for credit losses</b>	<b>(40)</b>	<b>(760)</b>	<b>(800)</b>
	<b>Net amount</b>	<b>3 397</b>	<b>21 194</b>	<b>24 591</b>

HOUSING LOANS AND ADVANCES IN FOREIGN CURRENCIES BY GRANTING DATE		INDEXED	DENOMINATED	Total
<b>31.12.2018</b>				
up to 2002	Gross amount	-	130	130
	Allowances for credit losses	-	(3)	(3)
	Net amount	-	127	127
from 2003 to 2009	Gross amount	-	19 401	19 401
	Allowances for credit losses	-	(651)	(651)
	Net amount	-	18 750	18 750
from 2010 to 2012	Gross amount	3 562	3 373	6 935
	Allowances for credit losses	(33)	(52)	(85)
	Net amount	3 529	3 321	6 850
from 2013 to 2016	Gross amount	5	17	22
	Allowances for credit losses	-	(4)	(4)
	Net amount	5	13	18
<b>Total</b>	<b>Gross amount</b>	<b>3 567</b>	<b>22 921</b>	<b>26 488</b>
	<b>Allowances for credit losses</b>	<b>(33)</b>	<b>(710)</b>	<b>(743)</b>
	<b>Net amount</b>	<b>3 534</b>	<b>22 211</b>	<b>25 745</b>

### 43. INTEREST RATE RISK MANAGEMENT

#### SENSITIVITY OF INTEREST INCOME

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

NAME OF SENSITIVITY MEASURE	30.06.2019	31.12.2018
Sensitivity of interest income (PLN million)	1 014	991

#### SENSITIVITY OF ECONOMIC VALUE

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

#### VALUE AT RISK

NAME OF SENSITIVITY MEASURE	30.06.2019	31.12.2018
IR VaR for a 10-day time horizon at the confidence level of 99% (in PLN million) <sup>1</sup> :		
Average value	6	6
Maximum value	10	11
Value at the end of the period	4	5

<sup>1</sup> due to the nature of the Group companies' operations, the Group presents Value at Risk for the Bank.

### 44. FOREIGN EXCHANGE RISK MANAGEMENT

#### SENSITIVITY MEASURES

NAME OF SENSITIVITY MEASURE	30.06.2019	31.12.2018
FX VaR for a 10-day time horizon at the confidence level of 99% (in PLN million)	5	4
Change in CUR/PLN by 20% (in PLN million) (stress-test) <sup>2</sup>	311	256

<sup>1</sup> Taking into account the nature of the operation of the other Group companies which generate material foreign exchange risk and the specific characteristics of the market in which they operate, the Group does not determine the consolidated VaR sensitivity measure. Such companies use their own risk measures to manage their foreign exchange risk. KREDOBANK SA applies the 10-day VaR which amounted to approx. PLN 0.3 million as at 30 June 2019 and to approx. PLN 0.2 million as at 31 December 2018.

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

## FOREIGN CURRENCY POSITION

FOREIGN CURRENCY POSITION	30.06.2019	31.12.2018
EUR	(78)	(127)
USD	31	(49)
CHF	(31)	(34)
GBP	2	57
Other (Global, Net)	46	38

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

## 45. LIQUIDITY RISK MANAGEMENT

### LIQUIDITY GAP

The adjusted liquidity gap comprises a set of particular categories of items of the statement of financial position adjusted in respect of their adjusted maturities. The liquidity gaps presented below represent the sum of adjusted liquidity gaps of the Bank (adjustments relate to, among other things, the Bank's core deposits from non-financial entities and their maturities, core overdrafts of non-financial entities and their maturities, and liquid securities and their maturities), PKO Bank Hipoteczny, PKO Leasing SA, KREDOBANK SA and PKO Życie Towarzystwo Ubezpieczeń SA, and the contractual liquidity gaps of the other Group companies.

	on demand	0-1 month	1-3 months	3-6 months	6-12 months	12-24 months	24-60 months	over 60 months
30.06.2019								
The Group - adjusted periodic gap in real terms	12 307	31 958	(1 149)	2 919	11 869	10 516	14 585	(83 005)
The Group - adjusted cumulative periodic gap in real terms	12 307	44 265	43 116	46 035	57 904	68 420	83 005	-
31.12.2018								
The Group - adjusted periodic gap in real terms	23 068	32 000	(2 665)	46	11 732	13 006	14 745	(91 932)
The Group - adjusted cumulative periodic gap in real terms	23 068	55 068	52 403	52 449	64 181	77 187	91 932	-

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

### SUPERVISORY LIQUIDITY MEASURES

The following supervisory liquidity measures are regularly determined and monitored by the Bank and the Group:

- the liquidity coverage ratio (LCR) – a measure determining the ratio of high-quality liquid assets to net outflows in a 30-day horizon in stress conditions (a supervisory measure defined in the CRR);
- the net stable financing ratio (NSFR) – a measure that determines the relationship between items that ensure stable financing to items that require stable financing.

The following supervisory liquidity measures are regularly determined and monitored by the Bank and the Group:

- M3 – Non-liquid assets to own funds (domestic supervisory ratio);
- M4 – Non-liquid assets and assets with limited liquidity to own funds and stable external funds ratio (domestic supervisory measure).

SUPERVISORY LIQUIDITY MEASURES	30.06.2019	31.12.2018
M3 - coverage ratio of non-liquid assets to own funds	13.25	17.44
M4 - coverage ratio of non-liquid assets and liquidity-restricted assets with own funds and stable external funds	1.19	1.22
NSFR - net stable funding ratio	119.1%	117.7%
LCR - liquidity coverage ratio	135.5%	132.0%

In the periods ended 30 June 2019 and 31 December 2018, liquidity measures remained above their respective supervisory limits. The LCR and NSFR ratios in the table refer to the Group, while the M3-M4 indicators refer to the Bank.

#### 46. CAPITAL ADEQUACY

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

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

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

- a security buffer which is mandatory for all banks and amounts to 2.5% (ultimate buffer level) as of 1 January 2019;
- a countercyclical buffer imposed to mitigate the systemic risk arising from the credit cycle. The countercyclical buffer is calculated in the weighted average of the countercyclical buffer ratios set by respective authorities of the states in which the Group has exposures. The countercyclical buffer is equal to 0% for credit exposures in the Republic of Poland.
- a systemic risk buffer – intended to prevent and mitigate long-term non-cyclical risk or macroprudential risk which may result in strong negative consequences for the financial system and the economy of a given country. The systemic risk buffer is equal to 3% for credit exposures in the Republic of Poland.
- a buffer due to identifying the Bank as an “other systemically important institution” (“O-SII”) in the amount of 1%.

Furthermore, the Bank is obliged to maintain own funds to cover an additional capital requirement in order to hedge the risk resulting from mortgage-secured loans and advances to households denominated in foreign currencies (“a discretionary capital requirement”, Pol: *domiar kapitałowy*) for consolidated capital ratios: 0.42 p.p.; Tier 1 capital ratio: 0.31 p.p.; and Tier 1 core capital ratio: 0.23 p.p.

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

## OWN FUNDS USED IN THE CALCULATION OF CAPITAL RATIOS

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

	30.06.2019	31.12.2018
<b>Total own funds</b>	<b>38 343</b>	<b>37 850</b>
<b>Tier 1 capital</b>	<b>35 643</b>	<b>35 150</b>
Tier 1 capital before regulatory adjustments and reductions, of which:	38 300	37 802
Share capital	1 250	1 250
Supplementary capital and other reserves	32 588	33 034
General banking risk fund	1 070	1 070
Retained earnings, of which:	3 392	2 448
retained earnings / loss brought forward	2 417	(88)
current profit included on approval of the PFSA	-	1 678
adjustment resulting from transitional solutions to mitigate the impact of IFRS 9 adoption on equity	975	858
(-) Goodwill	(1 160)	(1 160)
(-) Other intangible assets	(1 604)	(1 650)
Accumulated other comprehensive income	465	249
Adjustments in Tier 1 capital due to prudential filters	(358)	(91)
<b>Tier 2 capital</b>	<b>2 700</b>	<b>2 700</b>
Equity instruments and subordinated loans eligible as Tier 2 capital	2 700	2 700
<b>Requirements for own funds</b>	<b>16 517</b>	<b>16 035</b>
Credit risk	15 301	14 893
Operational risk	743	645
Market risk	448	472
Credit valuation adjustment risk	25	25
<b>Total capital adequacy ratio</b>	<b>18.57%</b>	<b>18.88%</b>
<b>Tier 1 capital ratio</b>	<b>17.26%</b>	<b>17.54%</b>

## 47. LEVERAGE RATIO

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

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

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

	Leverage ratio exposures specified in CRR	
	30.06.2019	31.12.2018
<b>Total capital and exposure measure</b>		
Tier 1 capital	35 643	35 150
Total exposure measure for the purpose of the leverage ratio	342 303	336 797
<b>Leverage ratio</b>		
Leverage ratio	10.41%	10.44%

## EVENTS AFTER THE END OF THE REPORTING PERIOD

### 48. EVENTS THAT TOOK PLACE AFTER THE BALANCE SHEET DATE

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

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

### SIGNATURES OF ALL MEMBERS OF THE BANK'S MANAGEMENT BOARD

12.08.2019	RAFAŁ ANTCZAK	VICE-PRESIDENT OF THE MANAGEMENT BOARD	..... (SIGNATURE)
12.08.2019	RAFAŁ KOZŁOWSKI	VICE-PRESIDENT OF THE MANAGEMENT BOARD	..... (SIGNATURE)
12.08.2019	MAKS KRACZKOWSKI	VICE-PRESIDENT OF THE MANAGEMENT BOARD	..... (SIGNATURE)
12.08.2019	MIECZYŚLAW KRÓL	VICE-PRESIDENT OF THE MANAGEMENT BOARD	..... (SIGNATURE)
12.08.2019	ADAM MARCINIAK	VICE-PRESIDENT OF THE MANAGEMENT BOARD	..... (SIGNATURE)
12.08.2019	PIOTR MAZUR	VICE-PRESIDENT OF THE MANAGEMENT BOARD	..... (SIGNATURE)
12.08.2019	JAKUB PAPIERSKI	VICE-PRESIDENT OF THE MANAGEMENT BOARD	..... (SIGNATURE)
12.08.2019	JAN EMERYK ROŚCISZEWSKI	VICE-PRESIDENT OF THE MANAGEMENT BOARD	..... (SIGNATURE)

SIGNATURE OF THE PERSON RESPONSIBLE  
FOR MAINTAINING THE BOOKS OF ACCOUNT

DANUTA SZYMAŃSKA  
DIRECTOR OF ACCOUNTING

.....  
(SIGNATURE)

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