Bank Polski

Capital Adequacy and Other Information Subject to Disclosure of The Group of Powszechna Kasa Oszczędności Bank Polski S.A. as at 30 June 2018

Introduction

The Report "Capital Adequacy and Other Information Subject to Disclosure of the Group of Powszechna Kasa Oszczędności Bank Polski S.A. as at 30 June 2018", hereinafter referred to as "the Report", was prepared in accordance with the provisions of Article 111a clause 1 of the Act of 29 August 1997 – Banking Law, hereinafter referred to as the "Banking Law", Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (hereinafter referred to as "CRR"), taking into account implementing acts under the CRR, the Act of 5 August 2015 on macroprudential supervision over the financial system and crisis management, hereinafter referred to as the "Act on macroprudential supervision", as well as Recommendation M of the Polish Financial Supervision Authority (*Komisja Nadzoru Finansowego*, hereinafter referred to as "PFSA") on the operational risk management in banks, Recommendation P on liquidity risk management in banks and Recommendation H on internal control system at banks.

Furthermore, the Report was prepared in accordance with the provisions of the Commission Implementing Regulation (EU) No 1423/2013 of 20 December 2013 laying down implementing technical standards with regard to disclosure of own funds requirements for institutions according to Regulation (EU) No 575/2013 of the European Parliament and of the Council (hereinafter referred to as "Regulation 1423/2013"), Commission Implementing Regulation (EU) No 2016/200 of 15 February 2016 laying down implementing technical standards with regard to disclosure of the leverage ratio for institutions, according to Regulation (EU) No 575/2013 of the European Parliament and of the Council (hereinafter referred to as "Regulation 2016/200"), Guidelines EBA/GL/2016/11 on disclosure requirements under Part Eight of Regulation (EU) No 575/2013 (hereinafter referred to as "Guidelines EBA/GL/2016/11"), Guidelines EBA/GL/2018/01 on uniform disclosures under Article 473a of Regulation (EU) No 575/2013 as regards the transitional period for mitigating the impact of the introduction of IFRS 9 on own funds (hereinafter referred to as "Guidelines EBA/GL/2018/01") in connection with applying the transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds and the Guidelines EBA/GL/2017/01 on LCR disclosure to complement the disclosure of liquidity risk management under Article 435 of Regulation (EU) No 575/2013.

Pursuant to Article 13 item 1 of the CRR, Powszechna Kasa Oszczędności Bank Polski S.A. ("PKO Bank Polski S.A.", "the Bank") being a European parent institution, discloses information regarding capital adequacy in a separate document annually, as referred to in Part Eight of the CRR, with part of the information disclosed semi-annually.

The Report should be analysed in conjunction with Report "Capital Adequacy and Other Information Subject to Disclosure of the Group of Powszechna Kasa Oszczędności Bank Polski S.A. as at 31 December 2017", which forms an integral part of the Report.

The Report covers the six-month period ended 30 June 2018. The report was prepared in accordance with regulations in force at 30 June 2018 and published on the Powszechna Kasa Oszczędności Bank Polski S.A. website (www.pkobp.pl).

According to the Commission Delegated Regulation (EU) No 183/2014, the credit risk adjustments for determining the own funds requirements are limited to amounts that have reduced the Common Equity Tier 1 (CET1), therefore specific credit risk adjustment as of 31 December 2017 are applied for determining the own funds requirements.

The Report includes consolidated data[1] of the PKO Bank Polski S.A. Group (hereinafter referred to as the "Bank Group"). Some of the information contained in the Report refers specifically to individual data of PKO Bank Polski S.A., due to Bank's significant influence on the Bank Group's risk profile.

Unless otherwise stated, the figures presented in the Report have been expressed in PLN million. Any differences in the totals and proportions result from the rounding to PLN million and to one decimal place respectively.

This Report has been subject to internal verification by the Bank's internal audit.

[1] Data provided only for entities subject to prudential consolidation.

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(IN PLN MILLION)

1. Information on the Bank and the Bank Group

Pursuant to the CRR, the prudential consolidation is used for the purposes of capital adequacy, which unlike IAS-compliant consolidation, encompasses only subordinated entities that can be defined as institutions, financial institutions or ancillary services undertakings only.

Pursuant to the CRR, prudential consolidation includes: PKO Bank Polski S.A., PKO Leasing S.A. Group, PKO BP BANKOWY PTE S.A., PKO Towarzystwo Funduszy Inwestycyjnych S.A., KREDOBANK SA Group, PKO Finance AB, PKO BP Finat Sp. z o.o., PKO Bank Hipoteczny S.A., and Bankowe Towarzystwo Kapitałowe S.A. Group.

Non-financial and insurance entities are not subject to prudential consolidation. Table 1.1 presents the differences in the scope of accounting and prudential consolidation of Group's entities as of 30 June 2018.

Table 1.1. Differences in accounting and regulatory consolidation and mapping of categories of financial statements to regulatory risk categories [template EU LI1]

	30.06.2018	
	a)	b)
	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation
Assets		
Cash and balances with the Central Bank	9 973	9 973
Amounts due from banks	4 973	4 872
Derivative hedging instruments	742	742
Other derivative instruments	1 982	1 982
Securities	61 165	58 957
Loans and advances to customers	207 593	207 770
Investments in associates and joint ventures	374	1 094
Non-current assets held for sale	158	335
Intangible assets	3 120	2 939
Property, plant and equipment	2 810	2 630
Current income tax receivable	1	1
Deferred tax assets	1 996	1 989
Other assets	3 780	3 127
Total assets	298 667	296 411
Liabilities		
Amounts due to the Central Bank	5	6
Amounts due to banks	2 090	2 056
Derivative hedging instruments	440	440
Other derivative instruments	2 141	2 141
Amounts due to customers	219 208	218 154
Liabilities due to insurance activities	1 383	-
Debt securities in issue	28 079	28 079
Subordinated liabilities	2 730	2 730
Other liabilities	5 246	5 297
Current income tax liabilities	158	152
Deferred tax liabilities	39	33
Provisions	372	372
Total equity		
Total equity	36 776	36 951
Total liabilities and total equity	298 667	296 411

Balance sheet values shown according to the prudential consolidation differ from the values included in the published financial statement as of 30 June 2018 only due to the application of different scope of consolidation.

2. Management system

The management system is a set of principles and mechanisms related to the decision-making process taking place in the Bank, as well as to the assessment of conducted banking activities. The Bank's management system comprises the risk management and internal control systems.

The risk management system is one of the most important internal processes at both PKO Bank Polski S.A. and other entities of the PKO Bank Polski S.A. Group. Risk management aims at ensuring profitability of business activity, while ensuring control of the risk level and maintaining it within the risk tolerance and limits applied by the Bank and the Bank Group, within the changing macroeconomic and legal environment. The level of risk is an important component of the planning process.

As part of prudential consolidation in the Bank Group, have been identified risks that are managed and some of them are considered to be significant: credit risk of insolvency, currency risk, interest rate risk, liquidity risk including financing risk, operational risk, business risk, macroeconomic risk and model risk.

The risk management system, including the principles of managing significant types of risk, is described in detail in the Report on Capital Adequacy and Other Information Subject to Disclosure of the PKO Bank Polski S.A. Group as at 31 December 2017 and the condensed interim consolidated financial statements of the PKO Bank Polski S.A. Group for the six months ended 30 June 2018.

2.1. Credit risk including counterparty credit risk

Credit risk is understood as the risk of incurring losses as a result of client's default or the risk of decrease in the economic value of the Bank Group receivables as a result of deterioration of the client's credibility.

The purpose of credit risk management is to limit losses arising from the credit portfolio and minimise risk of occurrence of credit exposures which may be subject to impairment, while maintaining the expected level of profitability and value of the credit portfolio.

The credit risk management process was adjusted to the changes resulting from IFRS 9 in the measurement of impairment of financial assets. Detailed information has been described in the condensed interim consolidated financial statements of the PKO Bank Polski S.A. Group for the six months ended 30 June 2018.

(IN PLN MILLION)

Credit quality of exposures

Tables 2.1, 2.2 and 2.3 present credit quality of exposures by exposure classes and instrument, by industry and by geography. Gross carrying value includes on-balance sheet and off-balance sheet exposures presented in accordance with Guidelines EBA/GL/2016/11.

Table 2.1. Credit quality of exposures by exposure classes and instruments [template EU CR1 A]

		30.06.2018						
		a)	b)	c)	d)	e)	f)	f)
		Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values
		Defaulted exposures	Non-defaulted exposures					(a+b-c-d)
1	Central governments or central banks	-	51 829	1	-	-	-	51 827
2	Regional governments or local authorities	-	9 924	11	-	-	-	9 914
3	Public sector entities	-	3 024	10	-	-	-	3 014
4	Multilateral development banks	-	164	-	-	-	-	164
5	International organisations	-	-	-	-	-	-	-
6	Institutions	-	11 267	62	-	-	-	11 205
7	Corporates	-	75 172	412	-	-	-	74 760
8	*Of which: SMEs*	-	8 641	49	-	-	-	8 592
9	Retail	-	108 911	679	-	2	-	108 232
10	*Of which: SMEs*	-	26 862	234	-	1	-	26 628
11	Secured by mortgages on immovable property	-	61 215	368	-	-	-	60 847
12	*Of which: SMEs*	-	996	32	-	-	-	964
13	Exposures in default	12 992	-	5 602	-	371	-	7 390
14	Items associated with particularly high risk	-	864	-	-	-	-	864
15	Covered bonds	-	-	-	-	-	-	-
16	Claims on institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-
17	Collective investments undertakings	-	10	-	-	-	-	10
18	Equity exposures	-	871	-	-	-	-	871
19	Other exposures	-	15 506	1	-	-	-	15 505
20	Total standardised approach	12 992	338 755	7 146	-	373	-	344 601
21	*Of which: Loans*	11 436	183 465	6 284	-	373	-	188 617
22	*Of which: Debt securities*	-	47 382	9	-	-	-	47 372
23	*Of which: Off-balance-sheet exposures*	433	52 519	-	-	-	-	52 952

(IN PLN MILLION)

Table 2.2. Credit quality of exposures by industry [template EU CR1-B]

	30.06.2018					
	a)	b)	c)	d)	e)	f)
	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Net values
	Defaulted exposures	Non-defaulted exposures				(a+b-c-d)
Agriculture, Forestry and Fishing	80	618	53	-	3	646
Mining and Quarrying	125	2 603	31	-	-	2 697
Manufacturing	1 837	22 425	628	-	16	23 634
Electricity, gas, steam and air conditioning	287	4 431	158	-	1	4 559
Water supply	43	1 094	30	-	1	1 106
Construction	1 027	7 780	538	-	20	8 268
Wholesale and Retail Trade	1 575	12 976	724	-	26	13 827
Transportation and Storage	294	4 284	173	-	11	4 406
Accommodation and Food Service Activities	931	1 149	336	-	8	1 745
Information and Communication	38	4 657	38	-	1	4 657
Financial and Insurance Activities	70	53 316	74	-	1	53 312
Real Estate Activities	703	11 821	290	-	3	12 234
Professional, Scientific and Technical Activities	324	8 050	196	-	3	8 178
Administrative and Support Service Actitivies	129	1 548	75	-	2	1 603
Public Administration and Defence, Compulsory Social Security	-	9 745	10	-	-	9 735
Education	28	346	17	-	-	356
Human Health and Social Work Activities	69	1 247	43	-	1	1 273
Arts, Entertainment and Recreation	58	731	24	-	-	765
Other Service Activities	5 373	189 936	3 708	-	275	191 601
Total	12 992	338 755	7 146	-	373	344 601

Gross carrying value includes: loans to clients, shares, treasury bills, bonds, nostro accounts, derivatives, other assets and off-balance sheet items. Exposures are presented in the table by industry.

(IN PLN MILLION)

The table below presents additional information on exposures in “Construction” and “Real Estate Activities” industries included in table 2.2, presented by type of the Bank’s internal segmentation.

Table 2.2a. Credit quality of exposures in “Construction” and “Real Estate Activities”

	30.06.2018				
	a)	b)		c)	d)
	Gross carrying values of			Specific credit risk adjustment	Net values
	Defaulted exposures	Non-defaulted exposures			
		On-Balance Sheet Amount	Off-Balance Sheet Amount		(a+b-c)
Construction (including: motorways, streets, bridges, finishing works)	301	1 006	2 421	174	3 554
Developers	955	5 998	3 982	635	10 300
Housing cooperatives	37	4 978	825	11	5 830

Construction industry exposures in the amount of PLN 3,728 million include on-balance sheet amount of PLN 1,307 million and off-balance sheet amount of PLN 2,421 million.

Table 2.3. Credit quality of exposures by geography [template EU CR1-C]

		30.06.2018					
		a)	b)	c)	d)	e)	f)
		Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	General credit risk adjustment	Net values
		Defaulted exposures	Non-defaulted exposures				(a+b-c-d)
1	Poland	12 812	327 915	6 944	-	372	333 784
2	Ukraine	92	2 345	106	-	-	2 331
3	United Kingdom	5	1 695	4	-	-	1 695
4	Netherlands	1	908	1	-	-	907
5	Germany	1	855	2	-	-	854
6	Switzerland	-	670	-	-	-	670
7	France	2	573	1	-	-	573
8	Sweden	-	530	-	-	-	530
9	Luksemburg	-	520	2	-	-	519
10	Belgium	-	503	-	-	-	503
11	Austria	-	466	-	-	-	466
12	United States	-	332	-	-	-	332
13	Other countries	79	1 442	85	-	1	1 437
14	Total	12 992	338 755	7 146	-	373	344 601

(IN PLN MILLION)

Table 2.4. Ageing of past-due exposures [template EU CR1-D]

		30.06.2018					
		a)	b)	c)	d)	e)	f)
		Gross carrying values					
		≤ 30 days	> 30 days ≤ 60 days	> 60 days ≤ 90 days	> 90 days ≤ 180 days	> 180 days ≤ 1 year	> 1 year
1	Loans	5 030	193	154	466	778	6 371
2	Debt securities	-	-	-	-	-	-
3	Total exposures	5 030	193	154	466	778	6 371

The table above presents past-due exposures (defaulted exposures) by the type of instrument.

Table 2.5. Changes in stock of defaulted and impaired loans and debt securities [template EU CR2-B]

		30.06.2018
		Gross carrying value defaulted exposures
1	**Opening balance**	12 909
2	Loans and debt securities that have defaulted or impaired since the last reporting period	1 294
3	Returned to non-defaulted status	493
4	Amounts written off	-373
5	Other changes	-1 332
6	Closing balance	12 992

The table above presents changes in the stock of defaulted and impaired loans and debt securities.

Use of credit risk mitigation techniques

Within the calculation of its own funds requirements, the Bank uses the credit assessments assigned by the following external credit assessment institutions (rating agencies):

1) Moody's Investors Service,
2) Standard and Poor's Ratings Services,
3) Fitch Ratings.

The Bank implemented the process of carrying the issuer's and issue's rating to off-trading book items for the purposes of calculation of the own funds requirements functions in accordance with the CRR, Part III, Title II, Chapter 2.

Table 2.6. CRM techniques – Overview [template EU CR3]

		30.06.2018				
		a)	b)	c)	d)	e)
		Exposures unsecured – Carrying amount	Exposures secured – Carrying amount	Exposures secured by collateral	Exposures secured by financial guarantees	Exposures secured by credit derivatives
1	Total loans*	289 876	7 343	4 954	2 390	-
2	Total debt securities	47 382	-	-	-	-
3	Total exposures	337 258	7 343	4 954	2 390	-
4	Of which defaulted	7 168	222	70	153	-

* Total loans represent total exposures net total debt securities

(IN PLN MILLION)

Table 2.7. Standardised approach – Credit risk exposure and CRM effects [template EU CR4]

		30.06.2018					
		a)	b)	c)	d)	e)	f)
		Exposures before CCF and CRM		Exposures post CCF and CRM		RWAs and RWA density	
	Exposure classes	On-balance-sheet amount	Off-balance-sheet amount	On-balance-sheet amount	Off-balance-sheet amount	RWAs	RWA density
1	Central governments or central banks	51 787	1	53 825	55	5 931	11,0%
2	Regional government or local authorities	8 329	1 585	8 461	396	1 795	20,3%
3	Public sector entities	370	2 644	295	54	174	49,9%
4	Multilateral development banks	131	-	131	-	-	0,0%
5	International organisations	-	-	-	-	-	0,0%
6	Institutions	4 614	3 337	4 614	1 656	1 882	30,0%
7	Corporates	44 475	29 196	39 985	4 688	43 489	97,3%
8	Retail	92 996	15 234	91 800	2 665	66 760	70,7%
9	Secured by mortgages on immovable property	60 470	377	60 422	66	51 408	85,0%
10	Exposures in default	6 980	410	6 774	116	8 480	123,1%
11	Exposures associated with particularly high risk	864	-	864	-	1 295	150,0%
12	Covered bonds	-	-	-	-	-	0,0%
13	Institutions and corporates with a short-term credit assessment	-	-	-	-	-	0,0%
14	Collective investment undertakings	10	-	10	-	10	100,0%
15	Equity	871	-	871	-	2 146	246,5%
16	Other items	15 497	9	15 497	4	5 237	33,8%
17	Total	287 392	52 792	283 549	9 701	188 607	64,3%

(IN PLN MILLION)

Table 2.8. Standardised approach [template EU CR5]

	Exposure classes	30.06.2018																	
		Risk weight																Total	Of which unrated
		0%	2%	4%	10%	20%	35%	50%	70%	75%	100%	150%	250%	370%	1250%	Others	Deducted		
1	Central governments or central banks	51 314	-	-	-	2	-	-	-	-	363	-	2 227	-	-	-	-	53 907	51 314
2	Regional government or local authoritiese	-	-	-	-	8 779	-	77	-	-	-	-	-	-	-	-	-	8 857	5 093
3	Public sector entities	-	-	-	-	1	-	348	-	-	-	-	-	-	-	-	-	349	340
4	Multilateral development banks	164	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	164	164
5	International organisations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6	Institutions	784	-	-	-	5 052	-	2 880	-	-	113	1	-	-	-	-	-	8 830	784
7	Corporates	-	-	-	-	-	-	324	-	-	45 438	-	-	-	-	-	-	45 762	2 940
8	Retail	-	-	-	-	-	-	-	-	94 466	-	-	-	-	-	-	-	94 466	94 466
9	Secured by mortgages on immovable property	-	-	-	-	-	32 858	563	-	-	1 635	25 433	-	-	-	-	-	60 488	60 488
10	Exposures in default	-	-	-	-	-	-	-	-	-	3 711	3 179	-	-	-	-	-	6 890	6 890
11	Exposures associated with particularly high risk	-	-	-	-	-	-	-	-	-	-	864	-	-	-	-	-	864	864
12	Covered bonds	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
13	Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
14	Collective investment undertakings	-	-	-	-	-	-	-	-	-	10	-	-	-	-	-	-	10	10
15	Equity	-	-	-	-	-	-	-	-	-	20	-	850	-	-	-	-	871	871
16	Other items	10 148	-	-	-	145	-	-	-	-	5 208	-	-	-	-	-	-	15 501	15 501
17	Total	62 410	-	-	-	13 980	32 858	4 193	-	94 466	56 497	29 476	3 078	-	-	-	-	296 958	239 726

The table above presents the total exposure amount of balance sheet and off-balance sheet items of the Bank Group in the amount of PLN 296 958 million, which is the total exposure after specific risk deductions and impairment losses and after applying appropriate conversion factors for off-balance sheet exposures, i.e. after multiplying the exposure amounts of off-balance items by the corresponding factors of 0%, 20%, 50% or 100%.

As of 30 June 2018 no netting of on- or off- balance sheet items pursuant to art. 205 of the CRR was used, therefore the provisions of art. 453 letter a) of the CRR, regarding the policies and processes for, and an indication of the extent to which the entity makes use of, on- and off- balance sheet netting, are not applicable.

As of 30 June 2018, the Bank utilised provisions laid out in art. 298 of the CRR, regarding effects of recognition of netting agreements, for the purpose of calculation of on-balance sheet equivalent of derivatives. Said agreements are entered into primarily with institutional counterparties. They allow for a settlement of all the transactions covered by the agreement, even in an event of default of one of the parties, with a total sum of market value of individual transactions. The agreements being netted meet the requirements laid out in art. 295-297 of the CRR.

(IN PLN MILLION)

Counterparty credit risk exposure and CVA

Table 2.9. Analysis of exposures subject to the CCR framework (excluding capital requirements or exposures cleared by the central counterparty) [template EU CCR1]

		30.06.2018						
		a)	b)	c)	d)	e)	f)	g)
		Notional	Replacement cost/current market value	Potential future credit exposure	EEPE	Multiplier	EAD post CRM	RWAs
1	Mark to market		1 354	2 818			3 675	1 738
2	Original exposure	-					-	-
3	Standardised approach		-			-	-	-
4	IMM (for derivatives and SFTs)				-	-	-	-
5	*Of which securities financing transactions*				-	-	-	-
6	*Of which derivatives and long settlement transactions*				-	-	-	-
7	*Of which from contractual cross-product netting*				-	-	-	-
8	Financial collateral simple method (for SFTs)						-	-
9	Financial collateral comprehensive method (for SFTs)						34	34
10	VaR for SFTsh						-	-
11	Total							1 772

The table above presents methods used by the Bank to calculate own funds requirements for counterparty credit risk (excluding capital requirements or exposures cleared by the central counterparty).

Table 2.10. Collateral structure for counterparty credit risk exposure [template EU CCR5-B]

	30.06.2018					
	a)	b)	c)	d)	e)	f)
	Collateral used in derivative transactions				Collateral used in SFTs	
	Fair value of collateral received		Fair value of posted collateral		Fair value of collateral received	Fair value of posted collateral
	Segregated	Unsegregated	Segregated	Unsegregated		
Total	763	-	-	-	628	43

The table above presents collateral structure included in the calculation of own funds requirements for counterparty credit risk.

Table 2.11. Standardised method - counterparty credit risk exposures by exposure category and risk weights [template EU CCR5-B]

	Exposure classes	30.06.2018												
		Risk weight											Total	Of which unrated
		0%	2%	4%	10%	20%	50%	70%	75%	100%	150%	Inne kwestie		
1	Central governments or central banks	26	-	-	-	-	-	-	-	-	-	-	26	26
2	Regional government or local authorities	-	-	-	-	-	-	-	-	-	-	-	-	-
3	Public sector entities	-	-	-	-	-	-	-	-	-	-	-	-	-
4	Multilateral development banks	33	-	-	-	-	-	-	-	-	-	-	33	33
5	International organisations	-	-	-	-	-	-	-	-	-	-	-	-	-
6	Institutions	781	-	-	-	697	1 077	-	-	5	-	-	2 560	781
7	Corporates	-	-	-	-	-	-	-	-	1 088	-	-	1 088	162
8	Retail	-	-	-	-	-	-	-	1	-	-	-	1	1
9	Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-	-	-	-
10	Other items	-	-	-	-	-	-	-	-	-	-	-	-	-
11	Total	840	-	-	-	697	1 077	-	1	1 093	-	-	3 709	1 004

The table above presents counterparty credit risk exposures by exposure category and risk weights.

(IN PLN MILLION)

Table 2.12. Exposures to central counterparties [template EU CCR8]

		30.06.2018	
		a)	b)
		EAD post CRM	RWAs
1	**Exposures to QCCPs (total)**		**40**
2	Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which	472	7
3	(i) OTC derivatives	466	7
4	(ii) Exchange-traded derivatives	6	-
5	(iii) SFTs	-	-
6	(iv) Netting sets where cross-product netting has been approved	-	-
7	Segregated initial margin	51	
8	Non-segregated initial margin	-	-
9	Prefunded default fund contributions	15	-
10	Alternative calculation of own funds requirements for exposures		33
11	**Exposures to non-QCCPs (total)**		**-**
12	Exposures for trades at non-QCCPs (excluding initial margin and default fund contributions); of which	-	-
13	i) OTC derivatives	-	-
14	ii) Exchange-traded derivatives	-	-
15	(iii) SFTs	-	-
16	(iv) Netting sets where cross-product netting has been approved	-	-
17	Segregated initial margin	-	
18	Non-segregated initial margin	-	-
19	Prefunded default fund contributions	-	-
20	Unfunded default fund contributions	-	-

The table above presents exposures to central counterparties used for the calculation of own funds requirements for counterparty credit risk.

Table 2.13. Standardised method - the effect of netting and established exposure value collateral [template EU CCR5-A]

		30.06.2018				
		a)	b)	c)	d)	e)
		Gross positive fair value or net carrying amount	Netting benefits	Netted current credit exposure	Collateral held	Net credit exposure
1	Derivatives	908	200	-	763	1 669
2	SFTs	671	-	-	671	34
3	Cross-product netting	-	-	-	-	-
4	**Total**	**1 580**	**200**	**-**	**1 434**	**1 703**

The table above presents the impact of netting and collateral held on exposure values.

Table 2.14. The CVA capital charge [template EU CCR2]

		30.06.2018	
		a)	b)
		Exposure value	RWAs
1	Total portfolios subject to the advanced method	-	-
2	(i) VaR component (including the 3× multiplier)		-
3	(ii) SVaR component (including the 3× multiplier)		-
4	All portfolios subject to the standardised method	1 824	579
EU4	Based on the original exposure method	-	-
5	Total subject to the CVA capital charge	-	-

The table above presents the exposure value used for the calculation of own funds requirements for CVA risk.

2.2. Interest rate risk

Interest rate risk is the risk of loss on the Bank Group's balance sheet and off-balance sheet items sensitive to interest rate changes, resulting from unfavourable interest rate changes on the market. Interest rate risk is actively managed by the Bank that results from both positions included in the trading book and positions which are not the part of the trading book.

The purpose of interest rate risk management is to mitigate the possible losses due to changes in the market interest rates to an acceptable level through appropriate shaping of the structure of the balance sheet and off-balance sheet items.

Table 2.15. Own funds requirement for market risk [template EU MR1]

		30.06.2018	
		a)	b)
		RWAs	Capital requirements
Outright products			
1	Interest rate risk (general and specific)	6 339	507
2	Equity risk (general and specific)	34	3
3	Foreign exchange risk	-	-
4	Commodity risk	-	-
Options			
5	Simplified approach	-	-
6	Delta-plus method	22	2
7	Scenario approach	3	0
8	Securitisation (specific risk)	-	-
9	Total	6 399	512

The table above presents the own funds requirements for market risk in the Bank Group.

The own funds requirement for FX risk was zero due to the fact that the total currency position did not exceed 2% of the Bank's own funds.

As of 30 June 2018 the Bank Group did not have an open position for commodity price risk, so the respective own funds requirement was zero.

Considering the fact that the Bank Group does not use internal models for the purpose of calculation of own funds requirements for market risk, art. 455 of the CRR does not apply.

2.3. Liquidity risk including financing risk

Liquidity risk is the risk of inability of timely discharge of liabilities due to absence of liquid cash and equivalents. The lack of liquidity may result from an improper balance sheet structure, cash flows mismatch, non-payment by contractors, and sudden withdrawal of funds by the clients or other market events.

The purpose of liquidity risk management is to secure necessary means through appropriate structuring of balance sheet and off-balance sheet items to discharge the current and future (also potential) liabilities to the nature of business activity and any needs that may result from a changing market environment.

The table below represents supervisory liquidity measures as of 30 June 2018 and 31 December 2017.

Table 2.16. Regulatory liquidity ratios

Additional liquidity measures	30.06.2018	31.12.2017
M3	14,86	13,92
M4	1,18	1,19
NSFR	110,7%	113,9%
LCR	132,4%	156,0%

During the periods ended 31 December 2017 and 30 June 2018 values of the supervisory measures remained above the supervisory limits. The LCR and NSFR ratios in the table above present values for the Bank Group, while the M3-M4 ratios are values for the Bank.

Table 2.17. Liquidity Coverage Ratio for the Bank Group

Currency and units (PLN million)		Total weighted value (avg)	
Quarter ending on (DD Month YYY)		30.06.2018	31.03.2018
Number of data points used in the calculation of averages		12	12
		Total adjusted value	
21	Liquidity buffer	46 504	46 128
22	Total net cash outflows	34 424	34 388
23	Liquidity coverage ratio (%)	135%	135%

The net liquidity coverage ratio is determined individually for each entity of the Bank Group subject to the requirement to determine this ratio and on a consolidated basis for the Bank Group. The list of companies included in the consolidation is determined in accordance with the scope of prudential consolidation.

As of 30 June 2018 the Bank Group had 3 currencies for which the value of liabilities in a given currency to the total value of liabilities in all currencies amounted to at least 5%: PLN, EUR and CHF.

2.4. Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events; includes legal risk and does not include reputation risk and business risk.

The purpose of operational risk management is to increase the security of Bank's operational activity through improvement of effective, adjusted to the profile and volume of activity, mechanisms of identification, assessment and measurement, control, as well as monitoring, mitigation and reporting on operational risk.

The principles of operational risk management are described in detail in the Report on Capital Adequacy and Other Information Subject to Disclosure of the PKO Bank Polski S.A. Group as at 31 December 2017.

3. Own funds

For the purpose of capital adequacy, own funds are calculated according to the regulations of the Banking Law and Part Two of the CRR together with supplementary acts related to the CRR.

Own funds of the Bank Group include Common Equity Tier 1 capital and Tier 2 capital. No items classified as Additional Tier 1 capital are identified in the Bank Group.

Included in the Common Equity Tier 1 capital are the following:

1) share capital – presented according to the Bank's Statutes and entry in the Trade Registry, at nominal value,
2) supplementary capital – established from the annual net profits, assigned to absorb balance sheet losses that may arise within the Bank Group's activities,
3) other reserve capital – established independently from the supplementary capital, created from the annual net profits in the amount defined by the General Meeting (hereinafter referred to as "GM"), assigned to absorb balance sheet losses exclusively,
4) other accumulated total income (except for profits and losses related to cash flow), with the unrealised profits and losses on instruments classified as AFS (available for sale), previously recognized under the transition period (until the end of 2017) in the amount accepted by the Banking Law,
5) general risk reserve created from the annual net profits in the amount defined by the GM, assigned to absorb unidentified losses may arise within the Bank's activities,
6) retained earnings,
7) net financial result prior to approval and net result for the current reporting period – calculated based on applicable accounting standards, decreased by any expected charges and dividends, in amounts not exceeding amounts audited by a certified public accountant; net financial result can be included in own funds under the condition of GM's approval or, prior to the aforementioned approval, consent of the PSFA.

In connection with the Bank's applications of the transitional arrangements in the scope of the impact of IFRS 9 accounting standards on capital adequacy (described later in the report), in the own funds an adjustment is made resulting from the application of transitional solutions to mitigate the impact of introduction of IFRS 9 on own funds.

Common Equity Tier 1 capital is reduced by the following items:

1) losses for the current financial year,
2) intangible assets valued at their carrying amount, after deduction of the related provisions for deferred tax. The deducted amount includes goodwill included in the valuation of significant investments,
3) additional adjustments for assets valued at their fair value, subject to requirements for prudent valuation, which are deducted from Common Equity Tier 1 capital,
4) deferred tax assets related to future profitability, not resulting from temporary differences, previously recognized in the amount described in the Banking Law during the transitional period (i.e. until the end of 2017),
5) additional fair value adjustments of liabilities and derivative instruments constituting liabilities, resulting from the own credit risk of the Bank, recognized in the amount described in the Banking Law during the transitional period (i.e. until the end of 2017),
6) deferred tax assets related to future profitability arising from temporary differences, not exceeding 10% of Common Equity Tier 1 capital of the Bank Group (after deductions described in items 1-5 and 7),
7) direct and indirect equity exposures of the Bank Group in financial sector entities in which it doesn't have any significant investments, in the form of shares or other instruments of Common Equity Tier 1 or Tier 2 capital of said entities, not exceeding 10% of Common Equity Tier 1 capital of the Bank Group (after deductions described in items 1-5),
8) direct and indirect capital exposure in financial sector entities in which the institution has significant investments, in the form of shares or other instruments of Common Equity Tier 1 of said entities, exceeding 10% of Common Equity Tier 1 capital of the Bank Group (after deductions described in items 1-5 and 7),
9) amount by which the sum of:
   a) deferred tax assets related to future profitability arising from temporary differences, not exceeding 10% of Common Equity Tier 1 capital of the Bank Group (after deductions described in items 1-5 and 7) and
   b) direct and indirect capital exposure in financial sector entities in which the Bank Group has significant investments, in the form of shares or other instruments of Common Equity Tier 1 of said entities, not exceeding 10% of Common Equity Tier 1 capital of the Bank Group (after deductions described in items 1-5 and 7),

   exceeds 17.65% of Common Equity Tier 1 capital of the institution (after deductions described in items 1-7). The amount below the aforementioned threshold is included in risk weighted exposures.

The Tier 2 capital comprises subordinated liabilities i.e. funds acquired by the Bank - in the amount and based on the consent of the PFSA issued in response to the Bank's request – conforming to the principles laid out in art. 63 of the CRR.

The Tier 2 capital is reduced by the following items:

1) direct and indirect capital exposure in financial sector entities in which the institution has significant investments, in the form of instruments of Tier 2 capital of said entities,
2) direct and indirect capital exposure in financial sector entities in which the institution doesn't have any significant investments, in the form of shares or other instruments of Tier 2 capital of said entities,
3) if the deductions described in points 1 and 2 above would result in a negative value of Tier 2 capital, the remaining value of said deductions is used to reduce Common Equity Tier 1 capital.

Conforming to the Executive Order 1423/2014, the Table 3.1 presents information on reconciliation of items from the report on the financial situation used in own fund requirements calculation as at 30 June 2018.

(IN PLN MILLION)

Table 3.1.Reconciliation of items of own funds and equity reported in the audited financial report

	30.06.2018				
	IFRS compliant financial report	De-consolidation of entities not subject to prudential consolidation	Prudential consolidation/CRR compliant financial report	Items not recognized in the regulatory own funds	Items recognized in the regulatory own funds
Assets					
Intangible assets	3 120	-181	2 939	-230	**2 709**
Liabilities					
Subordinated liabilities	2 730	-	2 730	-30	**2 700**
Capital					
Share capital	1 250	-	1 250	-	**1 250**
Supplementary capital	29 475	-73	29 402	-	**29 402**
Other reserves	3 710	-78	3 632	-	**3 632**
General banking risk reserve	1 070	-	1 070	-	**1 070**
Other income	-22	-1	-23	106	**83**
Revaluation capital related to assets avalable for sale	321	1	321	-	**321**
Revaluation capital related to cash flow hedging instruments	-106	-	-106	106	-
Exchange differences	-230	-1	-231	-	-231
Actuarial gains / losses	-9	-1	-10	-	-10
Share in other comprehensive income of an associated entity	2	-	2	-	**2**
Net profit for the current period	1 690	18	1 708	-1 708	-
Previous years' result	-385	297	-88	-	-88
Non-Controlling Interest	-12	12	-	-	-
Total own funds	**36 776**	**175**	**36 951**	**-1 603**	**35 348**
Additional deductions					**599**
Additional adjustments of assets measured at fair value					**-64**
Deferred tax assets reliant on future profitability excluding those arising from temporary differences					-
Adjustments due to IFRS9 in transitional period					**662**
Own funds total used for calculation of capital adequacy ratio					**35 938**

Conforming to the Executive Order 1423/2014, the Table 3.2 presents information on the type and value of key items of own funds utilised in the calculation of Total Capital Ratio as at 30 June 2018. Rows with values equal to 0 have been omitted.

(IN PLN MILLION)

Table 3.2. Own funds used for calculation of capital adequacy ratio (consolidated basis)

Common Equity Tier I capital: Instruments and reserves		(A) 30.06.2018	(B) References CRR
1	Capital instruments and the related share premium accounts	1 250	Art. 26 item 1(a)(b)
	of which: A-series registered shares	313	-
	of which: A-series common bearer shares	197	-
	of which: B-series common bearer shares	105	-
	of which: C-series common bearer shares	385	-
	of which: D-series common bearer shares	250	-
2	Retained earnings, of which:	574	Art. 26 item 1(c), Art. 28
	retained earnings	-88	
	adjustment resulting from transitional solutions to mitigate impact of IFRS 9 on equity	662	
3	Accumulated other comprehensive income	33 011	Art. 26 item 1(d)(e)
3a	Funds for general banking risk	1 070	Art. 26 item 1(f)
6	**Common Equity Tier I prior to regulatory adjustments**	**35 905**	Art. 26
Common Equity Tier I capital: regulatory adjustments			
7	Additional value adjustment (negative value)	-59	Art. 34
8	Intangible assets (net of related deferred tax liabilities) (negative value)	-2 709	Art. 36 item 1(b)
11	Fair value reserves related to gains or losses resulting from cash flow headging instruments	106	Art. 33 item 1(a)
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	-5	Art. 33 item 1(c)
28	**Total regulatory adjustments to Common equity Tier I**	-2 667	-
29	**Common Equity Tier I capital**	**33 238**	Art. 50
Additional Tier I: regulatory adjustments			
45	**Tier I capital (Tier I = Common Equity Tier I + Additional Tier I capital)**	**33 238**	Art. 25

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Tier II capital: instruments and provisions			
46	Capital instruments and the related share premium accounts	2 700	Art. 62(a), Art. 63
51	**Tier II capital before regulatory adjustments**	**2 700**	Art. 62
Tier II Capital: regulatory adjustments			-
58	**Tier II capital**	2 700	Art. 71
59	**Total capital (Tier I + Tier II capital)**	35 938	Art. 72
60	RWAs	206 248	-
Capital coefficients and buffers			
61	**Common Equity Tier 1 capital (expressed as a percentage of the total risk exposure amount)**	16.12%	Art. 92 item 1(a)
62	**Tier 1 capital (expressed as a percentage of the total risk exposure amount)**	16.12%	Art.. 92 item 1(b)
63	**Total capital (expressed as a percentage of the total risk exposure amount)**	17.42%	Art.. 92 item 1(c)
64	**Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus systemically important institution buffer expressed as a percentage of risk exposure amount)**	5.625%	-
65	of which: capital conservation buffer requirement	1.875%	-
66	of which: countercyclical buffer requirement	0.00%	-
67	of which: systemic risk buffer requirement	3.00%	-
67a	of which: Global Systemically Important Institution (G-SII) or other Systemically Important Institution (O-SII) buffer	0.75%	-
68	**Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)**	8.12%	-
Amounts below the thresholds for deduction (before risk weighting)			
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investement in those entities (amount below 10% threshold and net of eligible short positions)	229	Art. 36 item 1(h), Art. 46 item 4
73	Direct and indirect holdings by the instituion of the CET1 instruments of financial sector entities where the institution has a significant investement in those entities (amount below 10% threshold and net of eligible short positions)	700	Art. 36 item 1(i), Art. 48 item 1, Art. 470
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met)	2 227	Art. 36 ust. 1(c), Art. 48 item 1, Art. 470

As of 30 June 2018, conforming to Article 48 of the CRR, capital exposure in financial sector entities didn't exceed 10% of Common Equity Tier 1 capital, and therefore do not constitute an impairment to own funds of the Bank and the Bank Group and have been included in risk weighted assets.

(IN PLN MILLION)

The main features of instruments issued by the Bank and included in the Common Equity Tier 1 and instruments of Tier 2 capital are presented in Table 3.3 (PLN). Rows not related to the Bank Group companies have been omitted.

Table 3.3. Capital instruments' main features (PLN)

		30.06.2018						
Capital instruments'		Name I	Name II	Name III	Name IV	Name V	Name VI	Name VII
1	Issuer	PKO BP	PKO BP	PKO BP	PKO BP	PKO BP	PKO BP	PKO BP
2	Unique identifier (eg. CUSIP or Bloomberg identifier for private placement)	PLPKO0000016	PLPKO0000016	PLPKO0000016	PLPKO0000016	PLPKO0000016	PLPKO0000099	PLPKO0000107
3	Governing law(s) of the instrument	Polish law	Polish law	Polish law	Polish law	Polish law	Polish law	Polish law
4	Transitional CRR rules	Common Equity Tier I	Common Equity Tier I	Common Equity Tier I	Common Equity Tier I	Common Equity Tier I	Tier 2	Tier 2
5	Post-transitional CRR rules	Common Equity Tier I	Common Equity Tier I	Common Equity Tier I	Common Equity Tier I	Common Equity Tier I	Tier 2	Tier 2
6	Eligible at solo/(sub-)consolidated / solo and (sub-) consolidated	Solo and consolidated	Solo and consolidated	Solo and consolidated	Solo and consolidated	Solo and consolidated	Solo and consolidated	Solo and consolidated
7	Instrument type (types to be specified by each jurisdiction)	Common stock	Common stock	Common stock	Common stock	Common stock	Bonds	Bonds
8	Amount recognised in regulatory capital (PLN, as of most recent reporting date)	312 500 000	197 500 000	105 000 000	385 000 000	250 000 000	1 700 000 000	1 000 000 000
9	Nominal amount of instrument	312 500 000	197 500 000	105 000 000	385 000 000	250 000 000	1 700 000 000	1 000 000 000
9a	Issue price	312 500 000	197 500 000	105 000 000	385 000 000	250 000 000	-	-
12	Perpetual or dated	Perpetual	Perpetual	Perpetual	Perpetual	Perpetual	Dated	Dated
13	Original maturity date	No maturity	No maturity	No maturity	No maturity	No maturity	28.08.2027	06.03.2028
17	Fixed or floating dividend / coupon	Floating dividend	Floating dividend	Floating dividend	Floating dividend	Floating dividend	Floating coupon	Floating coupon
30	Write-down features	No	No	No	No	No	No	No
36	Non-compliant transitional features	No	No	No	No	No	No	No

At 30 June 2018 the net profit of the Bank for 2017 (PLN 2,086.5 million), after deducting the planned dividend, have been included in the own funds of the Bank calculated for capital adequacy purposes, with part of this amount (PLN 1,822 million) already recognized in the own funds of the Bank for 31 December 2017, in compliance with the PFSA's approval for including the net profit for 3 quarters of 2017 into own funds (after expected charges). This profit was included in supplementary and reserve capital, pursuant to Resolution 8/2018 of the General Meeting of Powszechna Kasa Oszczędności Bank Polski S.A. of 18 June 2018, regarding distribution of profits of PKO Bank Polski S.A. for year 2017.

In addition, the Bank obtained PFSA's permission to include in the own funds a new issue of subordinated bonds of the Bank in the amount of PLN 1,000 million.

4. Own funds requirements

Pursuant to the CRR, the Bank Group calculates own funds requirement for the following types of risk:

1) the credit risk – using the standardized approach pursuant to Part III, Title II, Chapter 2 of the CRR, using the following formula:
    a) statement of financial position items – a product of a carrying amount (considering value of adjustments for specific credit risk), a risk weight of the exposure calculated according to the standardised method of credit risk requirement as regards own funds and 8% (considering recognised collaterals),
    b) off-balance sheet liabilities granted – a product of value of liability (considering value of adjustments for specific credit risk), a risk weight of the product, a risk weight of off-balance sheet exposure calculated according to the standardized method of credit risk requirement for own funds and 8% (considering recognized collaterals),
    c) off-balance sheet transactions (derivative instruments) – a product of risk weight of the off-balance sheet transaction calculated according to the standardized method of credit risk requirement for own funds, equivalent in the statement of financial position of off-balance sheet transaction and 8% (the value of the equivalent in the statement of financial position is calculated in accordance with the mark-to-market method).
2) the operational risk[2]:
    a) using AMA for the Bank, excluding the Bank's foreign branches in the Federal Republic of Germany and in the Czech Republic,
    b) using BIA (pursuant to Part III, Title III of the CRR) for the Bank's foreign branch in the Federal Republic of Germany, the Czech Republic and Group entities subject to prudential consolidation,
3) the market risk (pursuant to Part III, Title IV, Chapter 2-4 of the CRR):
    a) foreign-exchange risk – using basic approach,
    b) commodities risk – using simplified approach,
    c) equity risk – using simplified approach,
    d) specific risk of debt instruments – using basic approach,
    e) general risk of debt instruments – using duration-based approach,
    f) other risks, apart from the delta risk (non-delta risk) – scenario approach for options for appropriate internal pricing models is implemented and delta-plus approach for other options.
4) other risks:
    a) settlement and delivery risk – pursuant to Part III, Title V of the CRR,
    b) counterparty credit risk – using mark-to-market method, pursuant to Part III, Title II, Chapter 6 of the CRR,
    c) credit valuation adjustment risk (CVA) – using standardised method, pursuant to Part III, Title VI of the CRR,
    d) large exposures limit risk – pursuant to articles 395-401 of the CRR,
    e) own funds requirement for trade exposures and own funds requirement for pre-funded contributions to the default fund of a CCP is calculated for exposures to a central counterparty, pursuant to Part III, Title II, Chapter 6, Section 9 of the CRR.

Total own funds requirement for the Bank Group comprises all of the above requirements for selected types or risk.

Contractual netting agreements are recognised in own funds requirement for counterparty credit risk pursuant to articles 295-298 of the CRR.

[2] Since 31 December 2015, with prior permission of the PFSA from July 2015 and January 2017, the AMA approach was applied to own funds requirements for operational risk of the Bank, excluding the Bank's foreign branch in the Federal Republic of Germany and in the Czech Republic (BIA).

(IN PLN MILLION)

Table 4.1 presents information on own funds requirement of the Bank Group.

Table 4.1 Risk weighted assets of the Bank Group [templateEU OV1]

References CRR			RWAs		Minimum capital requirements
			30.06.2018	31.03.2018	30.06.2018
	1	Credit risk (excluding CCR)	188 607	183 263	15 089
Art. 438(c)(d)	2	Of which the standardised approach	188 607	183 263	15 089
Art. 107 Art. 438(c)(d)	6	CCR	2 391	2 146	191
Art. 438(c)(d)	7	Of which mark to market	1 772	1 523	142
Art. 438(c)(d)	8	Of which original exposure	-	-	-
	9	Of which the standardised approach	-	-	-
	10	Of which internal model method (IMM)	-	-	-
Art. 438(c)(d)	11	Of which risk exposure amount for contributions to the default fund of a CCP and other exposures to the central counterparty	40	41	3
Art. 438(c)(d)	12	Of which CVA	579	583	46
Art. 438(e)	13	Settlement risk	-	-	-
Art. 438(e)	19	Market risk	6 399	5 412	512
	20	Of which the standardised approach	6 399	5 412	512
	21	Of which IMA	-	-	-
Art. 438(e)	22	Large exposures	-	-	-
Art. 438(f)	23	Operational risk	8 851	8 562	708
	24	Of which basic indicator approach	2 623	2 603	210
	25	Of which standardised approach	-	-	-
	26	Of which advanced measurement approach	6 228	5 959	498
Art. 437 item 2 Art. 48 Art. 60	27	Amounts below the thresholds for deduction (subject to 250% risk weight)	7 318	7 127	
Art. 500	28	Floor adjustment	-	-	-
	29	**Total**	**206 248**	**199 383**	**16 500**

(IN PLN MILLION)

5. Capital buffers

Pursuant to the CRR Regulation and the act on macroprudential supervision, the Bank Group is required to hold the combined buffer requirement, which is the sum of the existing buffers, i.e.:

1) a capital conservation buffer that applies to all banks. The buffer will be increased on a yearly basis until its final, stable level of 2.5% (from 1 January 2019). As of 31 December, 2017, the capital conservation buffer was equal to 1.25%. Since 1 January, 2018, the security buffer is equal to 1.875%;
2) a countercyclical buffer, which is imposed in order to mitigate the systemic risk resulting from the credit cycle. For exposures located in each Member State, the countercyclical buffer rate is set by authority designated by that Member State. From 1 January 2017, the countercyclical buffer is equal to 0% for credit exposures in the territory of the Republic of Poland;
3) a systemic risk buffer - is used to prevent and reduce the long-term non-cyclical risk or macro-prudential risk, which may cause severe negative consequences for the financial system and the economy of the country. Since 1 January, 2018 systematic risk buffer is equal to 3%, applying to all exposures located in the Republic of Poland;
4) a buffer for identifying the Bank as systemically important institutions ("O-SII") - as a result of the review, the Polish Financial Supervision Authority ("PFSA") issued a decision on 31 July 2018 imposing on the Bank a buffer of other systemically important institution, equivalent to 1.0% of the total risk exposure amount, instead of the current level of 0.75%.

Table 5.1. Countercyclical capital buffer specific for the Bank Group

		30.06.2018	31.12.2017
010	Total risk exposure amount	206 248	195 884
020	Institution specific countercyclical capital buffer rate (%)	-	-
030	Institution specific countercyclical capital buffer rate requirement	-	-

(IN PLN MILLION)

6. Leverage

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

The objective of leverage risk management is to ensure a proper relation between the amount of Tier 1 capital and the total balance and off-balance sheet assets. The principles of excessive financial leverage risk management have been described in the Bank's internal regulations regarding capital adequacy. For the assessment of excessive leverage risk are responsible Capital Adequacy and Operational Risk Department (The Risk Division) and Accounting and Taxes Department (Finance and Accounting Division).

For the purpose of measuring of leverage risk, the leverage ratio is expressed as a percentage calculated as Tier 1 capital divided by total exposure. The Bank Group calculates the leverage ratio as at the reporting date. The leverage ratio as at 31st December 2017 was calculated both for Tier 1 capital and for the temporary definition of Tier 1 capital.

In order to maintain the leverage ratio at an acceptable level, a strategic limit and a threshold value are set, both monitored and verified at least on a yearly basis. Leverage risk is considered low when it is equal to or higher than the threshold, elevated when the leverage value is below the threshold and is equal to or greater than the strategic tolerance limit, and high when the value leverage ratio is below the strategic tolerance limit.

The leverage ratio is calculated, reported and forecasted for the next 4 quarters on a regular basis. In case of an observed high or elevated leverage risk, proposals for management actions are prepared, taking into account the current macroeconomic situation and costs associated with the proposed activities. The leverage ratio is estimated in the financial planning process and takes into account scheduled changes in business activity and assets structure of the Bank and of the Bank Group. The Bank have developed the list of tools available in case of the need to increase Tier 1 capital or adjust balance sheet and off-balance sheet items structure in order to manage the leverage risk.

Table 6.1. Summary reconciliation of accounting assets and leverage ratio exposures [template LR Sum]

		CRR Leverage ratio exposures	
		30.06.2018	31.12.2017
1	Total assets as per published financial state	298 667	296 939
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	-2 256	-2 358
4	Adjustments for derivative financial instruments	2 986	2 528
5	Adjustments for securities financing transactions (SFTs)	-	-
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	11 992	11 919
7	Other adjustments	-594	-2 199
8	Total leverage ratio exposure measure	310 795	**306 830**

Table 6.2. Leverage ratio [template LR Com]

		CRR Leverage ratio exposures	
		30.06.2018	31.12.2017
On-balance sheet exposures (excluding derivatives and SFTs)			
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	297 762	294 748
2	Asset amounts deducted in determining Tier 1 capital	-2 665	-2 831
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)**	295 097	291 917
Derivative exposures			
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	1 396	1 133
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	2 986	2 528
7	Deductions of receivables assets for cash variation margin provided in derivatives transactions	-708	-705
11	**Total derivative exposures**	3 675	2 956
Securities financing transaction exposures			
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	34	38
14	Counterparty credit risk exposure for SFT assets	0	-
16	**Total securities financing transaction exposures**	34	38
Other off-balance sheet exposures			
17	Off-balance sheet exposures at gross notional amount	52 952	51 898
18	(Adjustments for conversion to credit equivalent amounts)	-40 960	-39 979
19	Other off-balance sheet exposures	11 992	11 919
Capital and total exposures			
20	Tier 1 capital	33 238	32 326
21	Total leverage ratio exposures	310 795	306 830
Leverage ratio			
22	Leverage ratio	10.69%	10.54%
Choice on transitional arrangements for the definition of the capital measure			
	Choice on transitional arrangements for the definition of the capital measure	Transitional	Transitional

(IN PLN MILLION)

Table 6.3. On-balance sheet exposures [template LRSpl]

		CRR Leverage ratio exposures	
		30.06.2018	31.12.2017
EU-1	**Total on-balance sheet exposures (excluding derivatives, SFTs), of which:**	**297 762**	**294 748**
EU-2	Trading book exposures	10 370	9 905
EU-3	Banking book exposures, of which:	287 392	284 843
EU-4	Covered bonds	-	-
EU-5	Exposures treated as sovereigns	51 787	56 980
EU-6	Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	8 830	9 458
EU-7	Institutions	4 614	4 790
EU-8	Secured by mortgages of immovable properties	60 470	55 019
EU-9	Retail exposures	92 996	92 680
EU-10	Corporate	44 475	42 685
EU-11	Exposures in default	6 980	5 879
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	17 241	17 353

*On-balance sheet exposures (excluding derivatives, SFTs)

The following factors influenced the leverage ratio as of 30 June 2018:

1) Increase in the value of exposure resulting from the increase in credit exposures,
2) increase in own funds as a result of the division of the Bank's profit for 2017 into supplementary and reserve capitals (after expected charges).

(IN PLN MILLION)

7. Capital adequacy

Capital adequacy is a process aiming to ensure that the risk level assumed by the Bank and the Bank Group for the development of business operations can be covered by available capital within specified risk tolerance levels and time horizon. Capital adequacy management process involves, in particular, adherence to applicable supervisory regulations and risk tolerance levels set in the Bank and the Bank Group, capital planning process, including policies related to sources of capital.

According to art. 92 of the CRR, the minimum capital ratio levels maintained by the Bank Group are as follows:

- Total capital ratio (TCR) – 8.0%,
- Tier 1 (T1) – 6.0%,
- Common Equity Tier 1 (CET1) – 4.5%.

The Bank Group is obliged to maintain the requirement of a combined buffer, which is the sum of buffers in force. Detailed information on capital buffers is presented in Chapter 5 of this report.

Additionally, the Bank Group is obliged to maintain its own funds to cover an additional capital requirement in order to hedge the risk resulting from mortgage-secured foreign currency credits, loans to households, so-called a discretionary capital requirement. On 15 December 2017, the Bank received a letter from the PFSA concerning the individual recommendation to comply with an additional own funds requirement for consolidated capital ratios. Total capital ratio: 0.61 percentage points. Tier 1 capital ratio: 0.46 percentage points. Common Equity Tier 1 capital ratio: 0.34 percentage points.

PKO Bank Polski S.A. received a response from Polish Financial Supervision Authority regarding applicability of a risk weight of 35% to exposures fully and completely secured by mortgages on residential property. The Bank treats the position of Polish Financial Supervision Authority as a possibility for broader application of preferential risk weight of 35%, based i.a. on an extended catalogue of sources on real property data utilized for the purpose of collateral valuation. The Bank predicts that such an approach will have a positive impact on the consolidated capital ratios in the 3rd and 4th quarter of 2018 in the total amount of 0.5 – 1.0 p.p.

Table 7.1. Capital ratios

Capital ratios	**30.06.2018**	**31.12.2017**
Total amount of risk exposure	206 248	195 884
Common Equity Tier 1 (CET1)	33 238	32 326
Tier 2 (T2) capital	2 700	1 700
Total capital (TC=T1+T2)	35 938	34 026
CET1 ratio (%)	**16.12%**	**16.50%**
T1 ratio (%)	**16.12%**	**16.50%**
TCR (%)	**17.42%**	**17.37%**

The impact of IFRS 9 on capital adequacy measures

The IFRS 9 Financial Instruments accounting standard replaced the IAS 39 Financial Instruments accounting at 1 January 2018. The IFRS 9 introduced changes to the classification and measurement of financial instruments, recognition and calculation of impairment and hedge accounting.

The impact of the provisions of IFRS 9 concerning changes in the impairment model on own funds and capital adequacy measures is regulated by Regulation (EU) 2017/2395 of the European Parliament and of the Council of 12 December 2017 amending Regulation (EU) No 575/2013 as regards transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds and for the large exposures treatment of certain public sector exposures denominated in the domestic currency of any Member State. In accordance with this regulation, banks may apply transitional provisions with respect to own funds and increase Tier 1 capital associated with the implementation of a new impairment model in the period of 5 consecutive years from 1 January 2018. The scaling factor shall decrease from one period to another.

The Bank has decided to apply the transitional provisions in full and to spread the impact of adjustments resulting from IFRS 9 implementation on own funds and capital adequacy measures over time.

Table 7.2 Impact of applying transitional arrangements on Group's own funds, risk weighted assets and capital and leverage ratios (in PLN thousand) [template MSSF 9-FL]

		30.06.2018	31.03.2018
Available capital (amounts)			
1	Common Equity Tier 1 (CET1) capital	33 238	32 759
2	Common Equity Tier 1 (CET1) capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	32 575	32 097
3	Tier 1 capital	33 238	32 759
4	Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	32 575	32 097
5	Total capital	35 938	35 459
6	Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	35 276	34 797
Risk-weighted assets (amounts)			
7	Total risk-weighted assets	206 248	199 387
8	Total risk-weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	205 468	198 711
Capital ratios			
9	Common Equity Tier 1 (as a percentage of risk exposure amount)	16.12%	16.43%
10	Common Equity Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	15.85%	16.15%
11	Tier 1 (as a percentage of risk exposure amount)	16.12%	16.43%
12	Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	15.85%	16.15%
13	Total capital (as a percentage of risk exposure amount)	17.42%	17.78%
14	Total capital (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	17,17%	17.51%
Leverage ratio			
15	Leverage ratio total exposure measure	310 795	307 149
16	Leverage ratio	10.69%	10.67%
17	Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	10.50%	10.47%

CAPITAL ADEQUACY AND OTHER INFORMATION SUBJECT TO DISCLOSURE OF THE PKO BANK POLSKI S.A. GROUP FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018 (IN PLN MILLION)

Declaration of the Management Board of PKO Bank Polski S.A.

The Management Board of PKO Bank Polski S.A. certifies that:

- To the best of its knowledge, information disclosed in accordance with section eight of the CRR was prepared in conformity with internal control processes
- To the best of its knowledge, the adequacy of rules related to risk management in PKO Bank Polski S.A. - particularly with the liquidity risk, guarantees that the risk management systems utilized are well suited to the risk profile and strategy of the Bank and the Bank Group.
- Approves the Report "Capital adequacy and other information subject to disclosure of the PKO Bank Polski S.A. Group as of 31 December 2017", which contains risk-related information, describes the general risk profile, including liquidity risk of the Bank and the Bank Group, related to their operational strategy, and contains key indicators and data, available to interested external parties, allowing for a comprehensive view of risk management in PKO Bank Polski S.A. and the Bank Group, including interaction between the Bank's risk profile and risk tolerance in the form of strategic tolerance limits, defined by the Management Board and accepted by the Supervisory Board.

Signatures of all members of the Management Board of PKO Bank Polski S.A.

11.09.2018	Zbigniew Jagiełło	President of the Management Board	.... (signature)
11.09.2018	Rafał Antczak	Vice-President of the Management Board	.... (signature)
11.09.2018	Rafał Kozłowski	Vice-President of the Management Board	.... (signature)
11.09.2018	Maks Kraczkowski	Vice-President of the Management Board	.... (signature)
11.09.2018	Mieczysław Król	Vice-President of the Management Board	.... (signature)
11.09.2018	Adam Marciniak	Vice-President of the Management Board	.... (signature)
11.09.2018	Piotr Mazur	Vice-President of the Management Board	.... (signature)
11.09.2018	Jakub Papierski	Vice-President of the Management Board	.... (signature)
11.09.2018	Jan Emeryk Rościszewski	Vice-President of the Management Board	.... (signature)