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Bank Polski

100
1919/2019

Consolidated financial statements of the PKO Bank Polski SA Group for the year ended 31 December 2019

Report publication date:
12 February 2020

SELECTED FINANCIAL DATA DERIVED FROM THE CONSOLIDATED FINANCIAL STATEMENTS

SELECTED CONSOLIDATED FINANCIAL DATA	PLN million		EUR million	
	period from 01.01.2019 to 31.12.2019	period from 01.01.2018 to 31.12.2018	period from 01.01.2019 to 31.12.2019	period from 01.01.2018 to 31.12.2018
Net interest income/(expense)	10 279	9 345	2 389	2 190
Net fee and commission income	3 047	3 013	708	706
Operating profit/(loss)	5 788	5 041	1 345	1 181
Profit before tax	**5 819**	**5 078**	**1 353**	**1 190**
Net profit (including non-controlling shareholders)	**4 032**	**3 742**	**937**	**877**
Net profit attributable to equity holders of the parent company	**4 031**	**3 741**	**937**	**877**
Earnings per share for the period - basic (in PLN/EUR)	**3,22**	**2,99**	**0,75**	**0,70**
Earnings per share for the period - diluted (in PLN/EUR)	**3,22**	**2,99**	**0,75**	**0,70**
Total net comprehensive income	4 251	4 180	988	980
Net cash from/used in operating activities	5 127	10 896	1 192	2 554
Net cash from/used in investing activities	(14 172)	(5 492)	(3 294)	(1 287)
Net cash from/used in financing activities	(2 800)	2 122	(651)	497
Total net cash flows	(11 845)	7 526	(2 753)	1 764

SELECTED CONSOLIDATED FINANCIAL DATA	PLN million		EUR million	
	as at 31.12.2019	as at 31.12.2018	as at 31.12.2019	as at 31.12.2018
Total assets	348 044	324 255	81 729	75 408
Total equity	41 578	39 101	9 764	9 093
Capital and reserves attributable to equity holders of the parent company	41 587	39 111	9 766	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)	33,26	31,28	7,81	7,27
Diluted number of shares (in million)	1 250	1 250	1 250	1 250
Diluted book value per share (in PLN/EUR)	33,26	31,28	7,81	7,27
Total capital adequacy ratio	18,42%	18,88%	18,42%	18,88%
Tier 1	36 717	35 150	8 622	8 174
Tier 2	2 700	2 700	634	628

SELECTED CONSOLIDATED FINANCIAL STATEMENT ITEMS HAVE BEEN TRANSLATED INTO EUR AT THE FOLLOWING RATES	from 01.01.2019 to 31.12.2019	from 01.01.2018 to 31.12.2018
arithmetic mean of NBP exchange rates at the end of a month (consolidated income statement, consolidated statement of comprehensive income and consolidated cash flow statement items)	4,3018	4,2669
	31.12.2019	31.12.2018
NBP mid exchange rates at the date indicated (consolidated statement of financial position)	4,2585	4,3000

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CONSOLIDATED INCOME STATEMENT

CONSOLIDATED INCOME STATEMENT	Note	2019	2018
Interest income	6	12 760	11 594
Interest income calculated under the effective interest rate method		11 439	11 121
interest income on financial instruments measured at amortized cost		10 071	9 986
interest income on instruments measured at fair value through OCI		1 368	1 135
Income similar to interest income on instruments at fair value through profit or loss		1 321	473
Interest expenses	6	(2 481)	**(2 249)**
Net interest income/(expense)		**10 279**	**9 345**
Fee and commission income	7	4 130	4 042
Fee and commission expense	7	(1 083)	(1 029)
Net fee and commission income		**3 047**	**3 013**
Dividend income	8	14	12
Net gain/(loss) in financial instruments measured at fair value through profit or loss	9	175	28
Net foreign exchange gains / (losses)	10	473	489
Gains/(losses) on derecognition of financial instruments not measured at fair value through profit or loss	11	145	135
Net expected credit losses	12	(1 147)	(1 373)
Impairment of non-financial assets	13	(114)	(78)
Cost of the legal risk of mortgage loans in convertible currencies	61	(451)	-
Other operating income	14	905	630
Other operating expenses	14	(368)	(313)
Net other operating income and expense		**537**	**317**
Administrative expenses	15	(5 611)	(5 322)
Net regulatory charges	16	(537)	(575)
Tax on certain financial institutions	17	(1 022)	(950)
Operating profit		**5 788**	**5 041**
Share in profits and losses of associates and joint ventures	39	31	37
Profit before tax		**5 819**	**5 078**
Income tax expense	18	(1 787)	(1 336)
Net profit (including non-controlling shareholders)		4 032	3 742
Profit (loss) attributable to non-controlling shareholders		1	1
Net profit attributable to equity holders of the parent company		**4 031**	**3 741**
Earnings per share			
– basic earnings per share for the period (PLN)		3,22	2,99
– diluted earnings per share for the period (PLN)		3,22	2,99
Weighted average number of ordinary shares during the period (in million)		1 250	1 250
Weighted average diluted number of ordinary shares during the period (in million)		1 250	1 250

(IN PLN MILLION)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	Note	2019	2018
Net profit (including non-controlling shareholders)		**4 032**	**3 742**
Other comprehensive income		**219**	**438**
Items which may be reclassified to profit or loss		**224**	**439**
Cash flow hedges (gross)	21	259	170
Deferred tax	18	(49)	(32)
Cash flow hedges (net)	21	210	138
Remeasurement of financial assets measured at fair value through other comprehensive income (gross)		115	493
Gains /losses transferred to the profit or loss (on disposal)	11	(158)	(131)
Deferred tax	18	7	(64)
Fair value of financial assets measured at fair value through other comprehensive income (net)		(36)	298
Foreign exchange differences on translation of foreign branches		50	16
Share in other comprehensive income of associates and joint ventures		-	(13)
Items which cannot be reclassified to profit or loss		**(5)**	**(1)**
Actuarial gains and losses (gross)		(7)	(1)
Deferred tax		2	-
Actuarial gains and losses (net)		(5)	(1)
Total net comprehensive income		**4 251**	**4 180**
Total net comprehensive income, of which attributable to:		4 251	4 180
equity holders of the parent		4 250	4 179
non-controlling shareholders		1	1

The notes on pages 14 to 207 are an integral part of these consolidated financial statements.

(IN PLN MILLION)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	31.12.2019	31.12.2018
ASSETS			
Cash and balances with Central Bank	19	14 677	22 925
Amounts due from banks	20	4 092	7 661
Hedging derivatives	21	645	658
Other derivative instruments	22	2 795	1 907
Securities	24	80 573	64 114
- held for trading		1 112	235
- not held for trading, measured at fair value through profit or loss		2 199	2 848
- measured at fair value through other comprehensive income		63 807	52 558
- measured at amortized cost		13 455	8 473
Loans and advances to customers	25	231 434	214 912
- not held for trading, measured at fair value through profit or loss		8 286	1 106
- measured at amortized cost		223 148	213 806
Investments in associates and joint ventures	39	377	344
Non-current assets held for sale		12	15
Intangible assets	27	3 178	3 195
Property, plant and equipment	27	4 442	2 931
Current income tax receivable		5	4
Deferred income tax assets	18	2 243	2 135
Other assets	28	3 571	3 454
TOTAL ASSETS		**348 044**	**324 255**

The notes on pages 14 to 207 are an integral part of these consolidated financial statements.

	Note	31.12.2019	31.12.2018
LIABILITIES AND EQUITY			
Liabilities			
Amounts due to the Central Bank		-	7
Amounts due to banks	29	2 885	2 001
- measured at fair value through profit or loss		317	-
- measured at amortized cost		2 568	2 001
Hedging derivatives	21	589	471
Other derivative instruments	22	2 924	2 655
Amounts due to customers	30	258 199	242 816
- measured at fair value through profit or loss		45	-
- measured at amortized cost		258 154	242 816
Liabilities in respect of insurance activities	32	1 640	1 292
Liabilities in respect of securities in issue	33	31 148	28 627
Subordinated liabilities	34	2 730	2 731
Other liabilities	35	5 075	3 685
Current income tax liabilities		455	371
Deferred income tax provision	18	239	52
Provisions	36	582	446
TOTAL LIABILITIES		**306 466**	**285 154**
Equity	37		
Share capital		1 250	1 250
Other capital		34 205	34 505
Retained earnings		2 101	(385)
Net profit or loss for the year		4 031	3 741
Capital and reserves attributable to equity holders of the parent company		41 587	39 111
Non-controlling interests		(9)	(10)
TOTAL EQUITY		**41 578**	**39 101**
TOTAL LIABILITIES AND EQUITY		**348 044**	**324 255**
Total capital adequacy ratio	65	18,42%	18,88%
Book value (in PLN million)		41 578	39 101
Number of shares (in million)		1 250	1 250
Book value per share (in PLN)		33,26	31,28
Diluted number of shares (in million)		1 250	1 250
Diluted book value per share (in PLN)		33,26	31,28

The notes on pages 14 to 207 are an integral part of these consolidated financial statements.

(IN PLN MILLION)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019	Share capital	Other capital: Reserves: Supplementary capital	Other capital: Reserves: General banking risk fund	Other capital: Reserves: Other reserves	Other capital: Accumulated other comprehensive income	Other capital: Total other capital	Retained earnings	Net profit or loss for the year	Capital and reserves attributable to equity holders of the parent company	Total non-controlling interests	Total equity
As at 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 (note 42)	-	-	-	-	-	-	(111)	-	(111)	-	(111)
As at 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 paid (note 41)	-	-	-	-	-	-	(1 663)	-	(1 663)	-	(1 663)
Total comprehensive income, of which:	-	-	-	-	219	219	-	4 031	4 250	1	4 251
Net profit for the year	-	-	-	-	-	-	-	4 031	4 031	1	4 032
Other comprehensive income	-	-	-	-	219	219	-	-	219	-	219
Covering of prior year loss[1]	-	-	-	(606)	-	(606)	606	-	-	-	-
Transfer from retained earnings to equity	-	75	-	12	-	87	(87)	-	-	-	-
As at 31 December 2019	1 250	29 429	1 070	3 237	469	34 205	2 101	4 031	41 587	(9)	41 578

[1] The item includes i.a. offset of prior years' losses of PLN 535 million that arose as a result of the changes in accounting policies resulting from the first-time application of IFRS 9.

FOR THE YEAR ENDED 31 DECEMBER 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
Total comprehensive income, of which:	-	(36)	210	(5)	50	219
Other comprehensive income	-	(36)	210	(5)	50	219
As at 31 December 2019	(13)	456	232	(15)	(191)	469

(IN PLN MILLION)

FOR THE YEAR ENDED 31 DECEMBER 2018	Share capital	Other capital					Retained earnings	Net profit or loss for the year	Capital and reserves attributable to equity holders of the parent company	Total non-controlling interests	Total equity
		Reserves			Accumulated other comprehensive income	Total other capital					
		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)
Total comprehensive income, of which:	-	-	-	-	438	438	-	3 741	4 179	1	4 180
Net profit for the year	-	-	-	-	-	-	-	3 741	3 741	1	3 742
Other comprehensive income	-	-	-	-	438	438	-	-	438	-	438
Transfer from retained earnings to equity	-	2 101	-	65	-	2 166	(2 166)	-	-	-	-
Transfer from other capital	-	(121)	-	121	-	-	-	-	-	-	-
Mandatory buy-out of shares from non-controlling shareholders	-	-	-	-	-	-	(2)	-	(2)	-	(2)
As at 31 December 2018	1 250	29 354	1 070	3 831	250	34 505	(385)	3 741	39 111	(10)	39 101

FOR THE YEAR ENDED 31 DECEMBER 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)
Total comprehensive income, of which:	(13)	298	138	(1)	16	438
Other comprehensive income	(13)	298	138	(1)	16	438
As at 31 December 2018	(13)	492	22	(10)	(241)	250

(IN PLN MILLION)

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	2019	2018
Cash flows from operating activities			
Profit before tax		**5 819**	**5 078**
Total adjustments:		**(692)**	**5 818**
Amortization and depreciation	15	1 049	821
(Gains)/losses on investing activities	45	(11)	(57)
Interest and dividends	45	(863)	(582)
Change in:			
amounts due from banks	45	(30)	(17)
hedging derivatives		131	496
other derivative instruments		(619)	(89)
securities	45	(2 028)	687
- held for trading		(877)	196
- not held for trading, measured at fair value through profit or loss		649	1 842
- measured at fair value through OCI		(1 456)	(1 163)
- measured at amortized cost		(344)	(188)
loans and advances to customers	45	(14 461)	(12 001)
- not held for trading, measured at fair value through profit or loss		(7 180)	(36)
- measured at amortized cost		(7 281)	(11 965)
non-current assets held for sale	45	3	142
other assets	45	(57)	(297)
accumulated allowances for expected credit losses	45	(956)	(2 374)
accumulated allowances on non-financial assets and other provisions	45	179	86
amounts due to banks	45	220	(40)
- measured at fair value through profit or loss		317	-
- measured at amortized cost		(97)	(40)
amounts due to customers	45	17 425	21 519
- measured at fair value through profit or loss		45	-
- measured at amortized cost		17 380	21 519
liabilities in respect of insurance activities		348	410
liabilities in respect of debt securities in issue	45	(143)	238
subordinated liabilities	45	(1)	11
other liabilities	45	566	(1 377)
Income tax paid		(1 592)	(1 845)
Other adjustments	45	148	87
Net cash from/used in operating activities		**5 127**	**10 896**

(IN PLN MILLION)

	Note	2019	2018
Cash flows from investing activities			
Inflows from investing activities		**218 185**	**267 760**
Proceeds from sale of subsidiaries		-	177
Proceeds from sale of and interest on securities measured at fair value through other comprehensive income		209 689	266 385
Proceeds from sale of and interest on securities measured at amortized cost		8 061	925
Proceeds from sale of intangible assets, property, plant and equipment and assets held for sale		385	239
Other inflows from investing activities (dividends)	45	50	34
Outflows from investing activities		**(232 357)**	**(273 252)**
Purchase of shares in subsidiaries, net of cash acquired		(275)	(2)
Acquisition of securities measured at fair value through other comprehensive income		(218 318)	(269 204)
Purchase of securities measured at amortized cost		(12 433)	(3 033)
Purchase of intangible assets and property, plant and equipment		(1 331)	(1 013)
Net cash from/used in investing activities		**(14 172)**	**(5 492)**

	Note	2019	2018
Cash flows from financing activities			
Proceeds from debt securities in issue	45	13 079	12 705
Redemption of debt securities	45	(10 665)	(8 248)
Proceeds from issue of subordinated bonds	45	-	1 000
Taking up loans and advances	45	665	1 128
Repayment of loans and advances	45	(3 353)	(3 264)
Dividend paid to shareholders		(1 663)	(688)
Payment of lease liabilities	43	(221)	
Repayment of interest on long-term liabilities	45	(642)	(511)
Net cash from/used in financing activities		**(2 800)**	**2 122**
Total net cash flows		**(11 845)**	**7 526**
of which foreign exchange differences on cash and cash equivalents		17	217
Cash equivalents at the beginning of the period		30 526	23 000
Cash equivalents at the end of the period	45	18 681	30 526

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION ABOUT THE GROUP

ACTIVITIES OF THE GROUP

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 Head of State Józef Piłsudski, Prime Minister Ignacy Paderewski and Hubert Linde, first founder and first president of Pocztowa 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 of 18 January 2000 (Journal of Laws of 2000 No. 5, item 55 as amended), Powszechna Kasa Oszczędności bank państwowy (state-owned bank) was transformed into a State-owned joint-stock company, Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna with its registered 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 with jurisdiction over the Bank's affairs is the District Court in Warsaw, the 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 (*Ceduła 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 and insurance, as well as provides services related to car fleet management, transfer agent, technological solutions, IT outsourcing and business support, real estate management and also conducts banking operations and provides debt collection and financing services in Ukraine.

INFORMATION ON MEMBERS OF THE SUPERVISORY BOARD AND MANAGEMENT BOARD

As at 31 December 2019, the Bank's Supervisory Board consisted of:

- Piotr Sadownik- Chairman of the Supervisory Board
- Grażyna Ciurzyńska– Deputy Chairperson of the Supervisory Board
- Zbigniew Hajłasz- Secretary of the Supervisory Board
- Mariusz Andrzejewski- Member of the Supervisory Board
- Mirosław Barszcz- Member of the Supervisory Board
- Adam Budnikowski- Member of the Supervisory Board
- Dariusz Górski- Member of the Supervisory Board (from 6 May 2019)
- Wojciech Jasiński – Member of the Supervisory Board
- Andrzej Kisielewicz- Member of the Supervisory Board
- Elżbieta Mączyńska-Ziemacka- Member of the Supervisory Board
- Krzysztof Michalski - Member of the Supervisory Board (from 17 September 2019).

On 6 May 2019 due to the changes in the composition of the Supervisory Board, Janusz Ostaszewski was dismissed.

On 23 January 2020, Mr Dariusz Górski resigned from the position of a Supervisory Board Member, with effect from 29 January 2020.

As at 31 December 2019, the Bank's Management Board consisted of:

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

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The consolidated financial statements of the Group cover the year ended 31 December 2019 and comprise the comparative data for the year ended 31 December 2018. The financial data is presented in Polish zloty (PLN) in millions, unless otherwise indicated.

These consolidated financial statements have been prepared on a fair value basis in respect of financial assets and liabilities measured at fair value through profit or loss, including derivatives and financial assets measured at fair value through other comprehensive income. The remaining financial assets are disclosed in amortized cost less allowances for expected loan losses. However the remaining financial liabilities are disclosed at amortized cost. Non-current assets are measured at acquisition cost less accumulated depreciation and impairment charges. Non-current assets (or groups of such assets) classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

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

Estimates and assumptions made by the Group are subject to periodic reviews. Changes in estimates are recognized in the period to which they relate.

2.1. Statement of compliance

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) as at 31 December 2019, and in the areas not regulated by these standards, in accordance with the requirements of the Accounting Act of 29 September 1994 and the respective secondary legislation issued on its basis, as well as the requirements relating to issuers of securities registered or applying for registration on an official stock market.

2.2. Going concern

The consolidated financial statements have been prepared on the basis of the assumption that the Group will continue as a going concern for a period of at least 12 months from the publication date, i.e. from 12 February 2020. As at the date of signing these consolidated financial statements, the Bank's Management Board is not aware of any facts or circumstances that would indicate a threat to the Bank's Group ability to continue in operation as a going concern for 12 months following the publication date as a result of any intended or compulsory discontinuation or significant limitation of the Bank's Group's existing operations.

2.3. Management Representation

The Management Board hereby represents that, to the best of its knowledge, these consolidated financial statements of the Group 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.

2.4. Approval of the financial statements

These consolidated financial statements, subject to review by the Audit Committee and adoption by the Supervisory Board of the Bank on 11 February 2020, were approved for publication by the Management Board on 11 February 2020.

(IN PLN MILLION)

3. DESCRIPTION OF SIGNIFICANT ACCOUNTING POLICIES

Major accounting policies and estimates and judgements applied in the preparation of these consolidated financial statements are presented below and in the notes. These policies were applied consistently in all the years presented, with the exception of the changes which followed from the implementation of IFRS 16 "Leases" on 1 January 2019, which are described in Note "Leases".

Below is a summary of accounting policies and major estimates and judgements for the individual items of the consolidated income statement and the consolidated statement of financial position.

CONSOLIDATED INCOME STATEMENT	Note	Accounting policy [1]	Major estimates and judgments[1]
Interest income and expense	6	Y	
Fee and commission income and expenses	7	Y	
Dividend income	8	Y	
Net gain/(loss) in financial instruments measured at fair value through profit or loss	9	Y	Y
Net foreign exchange gains / (losses)	10	Y	Y
Gains/(losses) on derecognition of financial instruments not measured at fair value through profit or loss	3	Y	
Net expected credit losses	26	Y	Y
Impairment of non-financial assets	27	Y	Y
Cost of the legal risk of mortgage loans in convertible currencies other	61		Y
Other operating income and expenses	14	Y	
Administrative expenses	15	Y	Y
Net regulatory charges	16	Y	
Tax on certain financial institutions	17		
Income tax expense	18	Y	

[1] The letter Y indicates the description of a particular accounting policy or major estimates and judgements in the relevant note.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION	Note	Accounting policy [1]	Major estimates and judgments[1]
Cash and balances with Central Bank	19	Y	
Amounts due from banks	3, 20	Y	
Hedging derivatives	21	Y	
Other derivative instruments	22	Y	Y
Securities	3, 24, 26	Y	
Loans and advances to customers	3, 25, 26	Y	Y
Intangible assets	27	Y	Y
Property, plant and equipment	27	Y	Y
Deferred income tax asset	18	Y	
Other assets	28	Y	
Amounts due to banks	3, 29	Y	
Amounts due to customers	3, 30	Y	
Liabilities in respect of insurance activities	32	Y	
Liabilities in respect of securities in issue	3	Y	
Subordinated liabilities	3	Y	
Other liabilities	35	Y	
Provisions	36	Y	Y
Equity	37	Y	

[1] The letter Y indicates the description of a particular accounting policy or major estimates and judgements in the relevant note.

(IN PLN MILLION)

3.1. Functional currency, presentation currency and foreign currencies

The functional currency of the parent and other entities included in these financial statements, except for the German Branch, the Czech Branch and entities conducting their activities outside of the Republic of Poland, is the Polish zloty. The functional currency of the entities operating in Ukraine is the Ukrainian hryvnia, the functional currency of the German Branch and the entities operating in Sweden and Ireland is the euro, and the functional currency of the Czech Branch is the Czech koruna.

- **Transactions and balances in foreign currencies**

Transactions denominated in foreign currencies are translated into the functional currency using exchange rate prevailing at the dates of the transactions. At each balance sheet date, items are translated by the Group using the following principles:

- cash items denominated in foreign currencies are translated using a closing rate i.e. the average rate announced by the National Bank of Poland prevailing as at the end of the reporting period;
- non-cash items measured at historical cost denominated in a foreign currency are translated using the exchange rate as at the date of the transaction;
- non-cash items measured at fair value in a foreign currency are translated using the exchange rates prevailing as at the date of determination of the fair value.

Foreign exchange gains and losses arising from the settlement of such transactions and from the valuation of monetary and non-monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

UAH	2019	2018
Foreign exchange rates as at the end of the period	0,1602	0,1357
Arithmetic mean of exchange rates as at the last day of each months in the period	0,1502	0,1330
The highest exchange rate during the period	0,1655	0,1424
The lowest exchange rate during the period	0,1345	0,1197

EUR	2019	2018
Foreign exchange rates as at the end of the period	4,2585	4,300
Arithmetic mean of exchange rates as at the last day of each months in the period	4,3018	4,2669
The highest exchange rate during the period	4,3844	4,3616
The lowest exchange rate during the period	4,2520	4,1488

CZK	2019	2018
Foreign exchange rates as at the end of the period	0,1676	0,1673
Arithmetic mean of exchange rates as at the last day of each months in the period	0,1676	0,1663
The highest exchange rate during the period	0,1695	0,1683
The lowest exchange rate during the period	0,1661	0,1640

3.2. BASIS OF CONSOLIDATION

- **CONSOLIDATION**

All subsidiaries of the PKO Bank Polski SA Group are consolidated using the acquisition accounting method.

The process of consolidation of financial statements of subsidiaries under the acquisition accounting method involves adding up the individual items of the statements of financial position, income statements and statements of comprehensive income of the parent company and the subsidiaries in their full amounts, and making appropriate consolidation adjustments and eliminations. The carrying amounts of the Bank's investments in subsidiaries and the equity of these entities at the date of their acquisition are eliminated on consolidation. The following items are eliminated in full on consolidation:

- intercompany receivables and payables and other settlements between consolidated entities of a similar nature;
- revenues and costs resulting from business transactions between consolidated entities;
- profits or losses resulting from business transactions between consolidated entities contained in the value of the consolidated entities' assets, except for impairment losses;
- dividends accrued or paid by subsidiaries to the parent and to other consolidated entities;
- inter-company cash flows in the statement of cash flows.

The consolidated statement of cash flows has been prepared on the basis of the consolidated statement of financial position, consolidated income statement and additional notes and explanations.

Financial statements of subsidiaries are prepared for the same reporting periods as the financial statements of the parent company. Consolidation adjustments are made in order to eliminate any differences in the accounting policies applied by the Bank and its subsidiaries.

- **ACQUISITION OF SUBSIDIARIES**

The acquisition of subsidiaries by the Group is accounted for under the acquisition method.

In respect of mergers of the Group companies, i.e. the so-called transactions under common control, the predecessor accounting method is applied, i.e. the acquired subsidiary is recognized at the carrying amount of its assets and liabilities recognized in the Group's consolidated financial statements in respect of the given subsidiary, including the goodwill arising from the acquisition of that subsidiary.

- **ASSOCIATES AND JOINT VENTURES**

The Group's share in the results of associates and joint ventures from the acquisition date is recorded in the income statement and its share in changes in the balance of other comprehensive income from the acquisition date is recorded in other comprehensive income. The carrying amount of investments is adjusted by the total movements in the individual equity items from the acquisition date. When the Group's share in the losses of these entities becomes equal or higher than the Group's interest in such entities, including unsecured receivables (if any), the Group discontinues recognizing further losses, unless it has assumed the obligation or made payments on behalf of the particular entity.

Unrealized gains on transactions between the Group and such entities are eliminated pro rata to the Group's interest in those entities. Unrealized losses are also eliminated, unless there is evidence of impairment of the transferred asset.

At each balance sheet date, the Group makes an assessment of whether there is any objective evidence of impairment in investments in associates and joint ventures. If any such evidence exists, the Group estimates the recoverable amount, i.e. the value in use of the investment or the fair value of the investment less costs to sell, whichever of these values is higher. If the carrying amount of an asset exceeds its recoverable amount, the Group recognizes an impairment allowance in the income statement.

3.3. ACCOUNTING FOR TRANSACTIONS

Financial assets and financial liabilities, including forward transactions and standardized transactions, which carry an obligation or a right to purchase or sell an agreed number of specified financial instruments at a fixed price in the future, are entered into the books of account under the date of the conclusion of the contract, irrespective of the settlement date provided in the contract.

3.4. DERECOGNITION OF FINANCIAL INSTRUMENTS FROM THE STATEMENT OF FINANCIAL POSITION

Financial assets are derecognized from the statement of financial position when contractual rights to the cash flows from the financial asset expire or when the Group does not have justified prospects for recovering the given financial asset in full or in part, or when the financial asset is transferred by the Group to another entity. The financial asset is transferred when the Group:

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

Upon the transfer of a financial asset, the Group evaluates the extent to which it retains the risks and benefits associated with holding that financial asset. In such case:

- if substantially all risks and benefits associated with holding a given financial asset are transferred, the financial asset is eliminated from the statement of financial position;
- if the Group retains substantially all risks and benefits associated with holding a given financial asset, the financial asset continues to be recognized in the statement of financial position;
- if substantially all risks and benefits associated with holding a given financial asset are neither transferred nor retained, the Group determines whether it has maintained control over that financial asset. If the Group has retained control, it continues to recognize the financial asset in the Group's statement of financial position to the extent of its continuing involvement in the financial asset; if control has not been retained, then the financial asset is derecognized from the statement of financial position.

The Group derecognizes a financial liability (or a part of a financial liability) from its statement of financial position when the obligation specified in the contract has been met or cancelled or has expired.

The Group derecognizes financial assets from its statement of financial position, among other things, when they are forgiven, their limitation period has expired or when they are irrecoverable. When the said assets are derecognized, they are charged to the respective credit loss allowances.

In the event that no allowances have been recorded, or if the amount of the allowance is less than the amount of the financial asset, the amount of the impairment allowance is increased by the difference between the value of the asset and the amount of the allowance that has been recognized to date.

3.5. THE PRINCIPLES FOR CLASSIFICATION OF FINANCIAL INSTRUMENTS

The Group classifies financial assets into the following categories:

- measured at amortized cost;
- measured at fair value through other comprehensive income;
- measured at fair value through profit or loss.

The Group classifies financial liabilities into the following categories:

- measured at amortized cost;
- measured at fair value through profit or loss.

Classification of financial assets as at the date of acquisition or origin depends on the business model adopted by the Group for the purposes of managing a particular group of assets and on the characteristics of the contractual cash flows resulting from a single asset or a group of assets. The Group identifies the following business models:

- the **“HOLD TO COLLECT”** cash flows model, in which financial assets originated or acquired are held in order to collect gains from contractual cash flows – this model is typical for lending activities;
- the **“HOLD TO COLLECT AND SELL”** cash flows model, in which financial assets originated or acquired are hold to collect gains from contractual cash flows, but they may also be sold - frequently and in transactions of a high volume – this model is typical for liquidity management activities;
- the residual model – other than the “held to collect” or the “hold to collect and sell” cash flows model.

Financial instruments have been classified at the moment of the first-time application of IFRS 9, i.e. as at 1 January 2018, and after that date, they are classified at the moment of recognition or significant modification of the instrument. A change in the classification of financial assets may be caused by a change in the business model.

Financial assets	**Classification and measurement**
Cash and balances with the Central Bank	measured at amortized cost
Amounts due from banks	measured at amortized cost
Hedging derivatives	not held for trading, measured at fair value through profit or loss or through other comprehensive income
Other derivative instruments	held for trading - measured at fair value through profit or loss
Securities	held for trading - measured at fair value through profit or loss
	not held for trading, measured at fair value through profit or loss
	measured at fair value through other comprehensive income
	measured at amortized cost
Loans and advances to customers	not held for trading, measured at fair value through profit or loss
	measured at fair value through other comprehensive income
	measured at amortized cost
Other financial assets	measured at amortized cost
Financial liabilities	**Classification and measurement**
Amounts due to the Central Bank	measured at amortized cost
Amounts due to banks	measured at fair value through profit or loss
	measured at amortized cost
Hedging derivatives	measured at fair value through profit or loss or other comprehensive income
Other derivative instruments	measured at fair value through profit or loss
Amounts due to customers	measured at fair value through profit or loss
	measured at amortized cost
Securities in issue	measured at amortized cost
Subordinated liabilities	measured at amortized cost
Total financial liabilities	measured at amortized cost

- **BUSINESS MODEL**

The business model is determined/selected upon initial recognition of financial assets. The determination/selection is performed at the level of individual groups of assets, in the context of the business area in connection with which the financial assets originated or were acquired, and is based, among other things, on the following factors:

- the method for assessing and reporting the financial assets portfolio;
- the method for managing the risk associated with such assets and the principles of remunerating the persons managing such portfolios.

In the "hold to collect" business model, assets are sold occasionally, in the event of an increase in credit risk or a change in the laws or regulations. The purpose of selling the assets is to maintain the assumed level of regulatory capital, in accordance with the principles described in the portfolio management strategy or close to maturity, in the event of a decrease in the credit rating below the level assumed for a given portfolio, significant internal restructuring or acquisition of another business, the performance of a contingency or recovery plan or another unforeseeable factor independent of the Group.

- **ASSESSMENT OF CONTRACTUAL CASH FLOW CHARACTERISTICS**

The assessment of the contractual cash flow characteristics establishes, based on a test of contractual cash flows, whether contractual cash flows are solely payments of principal and interest (hereinafter "SPPI test"). Interest is defined as consideration for the time value of money, credit risk relating to the principal remaining to be repaid within a specified period and other essential risks and costs associated with granting financing, as well as the profit margin.

Contractual cash flow characteristics do not affect the classification of the financial asset if:

- their effect on the contractual cash flows from that asset could not be significant (*de minimis* characteristic);
- they are not genuine, i.e. they affect the contractual cash flows from the instrument only in the case of occurrence of a very rare, unusual or very unlikely event (non-genuine characteristic).

In order to make such a determination, the potential impact of the contractual cash flow characteristics in each reporting period and throughout the whole life of the financial instrument is considered.

The SPPI test is performed for each financial asset in the "hold to collect" or "hold to collect and sell" models upon initial recognition (and for modifications which are significant after subsequent recognition of a financial asset).

If the qualitative assessment performed as part of the SPPI test is insufficient to determine whether the contractual cash flows are solely payments of principal and interest, a benchmark test (quantitative assessment) is performed to determine the difference between the (non-discounted) contractual cash flows and the (non-discounted) cash flows that would occur should the time value of money remain unchanged (the reference level of cash flows).

3.6. FINANCIAL ASSETS MEASURED AT AMORTIZED COST

Financial assets (comprise debt financial assets) are measured at amortized cost, provided that both the following conditions are met:

- the financial asset is held in accordance with the "hold to collect" business model;
- the terms and conditions of an agreement concerning the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding (the SPPI test is passed).

Upon initial recognition, these assets are measured at fair value. The initial value of an asset measured at amortized cost is adjusted by all commissions and fees which affect its effective return and constitute an integral element of the effective interest rate of this asset (commissions and fees arising in connection with activities performed by the Group and leading to the arising of the assets).

The carrying value of this category of assets is determined using the effective interest rate described in note 'Interest income and expenses', which is used to determine (calculate) the interest income generated by the asset in a given period, adjusting it for expected credit loss allowances.

Assets for which the schedule of future cash flows necessary for calculating the effective interest rate cannot be determined are not measured at amortized cost. Such assets are measured at amounts due which also include interest on receivables, taking into consideration allowances for expected credit losses. Commissions and fees connected with the arising of or decisive for the financial qualities of such assets should be settled over the period of life of the asset using the straight-line method, and are included in commission income.

3.7. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Financial assets (comprise debt financial assets) are measured at fair value through other comprehensive income if both the following conditions are met:

- financial assets are held in the business model whose purpose is to collect contractual cash flows and to sell financial assets; and
- the terms and conditions of an agreement concerning the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding (the SPPI test is passed).

Financial assets measured at fair value through other comprehensive income are measured at fair value. The effects of adjustments to the fair value of those financial assets until their derecognition or reclassification are recognized in other comprehensive income, with the exception of interest income, gains or losses in respect of impairment allowances for expected credit losses and foreign exchange gains or losses recognized in the income statement. The gain or loss recognized in other comprehensive income constitutes the difference between the fair value of a financial asset as at the measurement date and the value of the asset at amortized cost. If a financial asset is no longer recognized, the accumulated profit or loss, which was previously recognized in other comprehensive income, is reclassified from other comprehensive income to financial profit or loss in the form of a reclassification adjustment.

3.8. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

If financial assets do not satisfy any of the above-mentioned criteria of measurement at amortized cost or at fair value through other comprehensive income, they are classified as financial assets measured at fair value through profit or loss.

Additionally, on initial recognition, a financial asset may be irrevocably classified as measured at fair value through profit or loss (option to measure at fair value through profit or loss) if this eliminates or significantly reduces inconsistency of measurement or recognition which would arise as a result of measuring assets or liabilities, or recognizing the related gains or losses according to different accounting principles (accounting mismatch). This option is available for debt instruments both under the "hold to collect", and "hold to collect and sell" models.

In the consolidated financial consolidated statements of the Group, financial assets measured at fair value through profit or loss are presented as follows:

- held for trading – financial assets which:
  - have been purchased mainly to sell or redeem in the foreseeable future; or
  - upon initial recognition constitute part of a portfolio of specific financial instruments which are managed jointly and for which there is evidence that they currently generate short-term profits; or
  - are derivative financial instruments (with the exception of derivatives which are financial guarantee agreements or designated and effective hedges);
- financial assets that are not held for trading and must be measured at fair value through profit or loss - financial assets that have not passed the test of cash flow characteristics (irrespective of the business model); or financial assets classified to the residual model;
- financial assets designated to be measured at fair value through profit or loss at initial recognition (option to measure at fair value through profit or loss).

Gains or losses on assets measured at fair value through profit or loss are recognized in the income statement. Gains or losses on the measurement of a financial asset at fair value comprise the difference between the fair value of the asset and its value at amortized cost determined as at the measurement date.

3.9. EQUITY INSTRUMENTS

Investments in equity instruments are measured at fair value through profit or loss.

In the case of investments in equity instruments, the Group did not to use the option of measurement at fair value through other comprehensive income.

3.10. RECLASSIFICATION OF FINANCIAL ASSETS

Financial assets are reclassified only in the event of a change in the business model relating to the asset or a group of assets resulting from the commencement or discontinuation of a significant part of the entity's operations. Such changes are very infrequent. Reclassification is presented prospectively, i.e. without changing the effects of fair value measurement in earlier periods write-downs or accrued interest that have been recognized to date.

The following are not treated as changes in the business model:

- changes in the intentions regarding specific financial assets (even in the event of significant changes in market conditions);
- temporary discontinuation of a specific market for financial assets;
- a transfer of financial assets between business areas that apply different business models.

No financial liabilities are reclassified.

3.11. MODIFICATIONS – CHANGES IN CONTRACTUAL CASH FLOWS

Modification – understood as a change in the contractual cash flows in respect of a financial asset based on an annex to the contract, may be significant or insignificant. A change in the contractual cash flows resulting from execution of the terms of the contract is not a modification.

If the contractual cash flows associated with a financial asset are renegotiated or otherwise modified based on an annex to the agreement, and such renegotiation or modification does not lead to such a financial asset no longer being recognized ("AN INSIGNIFICANT MODIFICATION"), the gross carrying amount of the financial asset is recalculated and gain or loss arising from such modification is recognized in the financial result. An adjustment of the carrying amount of a financial asset resulting from the modification is recognized in the interest income/ expenses over time using the effective interest rate method. The carrying amount of a financial asset is calculated as the present value of renegotiated or modified contractual cash flows, discounted using the original effective interest rate on the financial asset (or, in the case of credit-impaired financial assets purchased or issued, the effective interest rate adjusted for credit risk) or, if applicable (e.g. with respect to gain or loss on a hedged item resulting from hedging), the updated effective interest rate. Any costs or fees incurred adjust the carrying amount of the modified financial asset and are amortized over the remaining part of the life of the modified financial asset.

In certain circumstances, renegotiation or modification of contractual cash flows associated with a financial asset may lead to derecognition of the financial asset. If an existing financial asset is derecognized due to its modification, and a modified asset is subsequently recognized, the modified asset is treated as a "new" financial asset ("A SIGNIFICANT MODIFICATION"). The new asset is recognized at the fair value and a new effective interest rate applicable to the new asset is calculated. If the characteristics of a modified new financial asset (after signing an annex) comply with the arm's length conditions, the carrying amount of that financial asset is equal to its fair value.

The assessment whether a given modification of financial assets is a significant or an insignificant modification depends on satisfaction of certain quantitative and qualitative criteria.

The following QUALITATIVE CRITERIA have been adopted:

- Currency translation;
- Change of debtor, other than caused by the debtor's death;
- Introducing or removing a contractual characteristic that adversely affects the test of cash flow characteristics (SPPI test) or removal of these features;
- Increased exposure to the debtor, which includes the amount of principal increase and an increase in off-balance sheet liabilities granted which exceed 10% of equity and off-balance sheet liabilities from before the increase for each individual exposure.

The occurrence of at least one of these criteria results in a significant modification.

The QUANTITATIVE CRITERION consists of a 10% test analysing the change in the contractual terms of a financial asset resulting in a difference between the amount of future cash flows arising from the changed financial asset discounted using the original effective interest rate and the amount of the future cash flows that would arise from the original financial asset discounted using the same interest rate.

In the event of the occurrence of a quantitative criterion (a difference) of more than 10%, the modification is considered significant, whereas a quantitative criterion of 10% or less means that the modification is considered insignificant.

3.12. MEASUREMENT OF PURCHASED OR ORIGINATED CREDIT IMPAIRED FINANCIAL ASSETS (POCI)

IFRS 9 distinguished a new category of purchased or originated credit-impaired financial assets (POCI).

POCI comprise debt financial assets measured at amortized cost and measured at fair value through other comprehensive income, i.e. loans and debt securities.

Such assets are initially recognized at the net carrying amount (net of write-downs), which corresponds to their fair value. Interest income on POCI assets is calculated based on the net carrying amount using the effective interest rate adjusted for credit risk recognized for the whole life of the asset. The interest rate adjusted for credit risk is calculated taking into account future cash flows adjusted for the effect of credit risk recognized over the whole life of the asset. The change in estimates of future recoveries in further reporting periods is recognized as a gain or loss on expected credit losses.

(IN PLN MILLION)

3.13. MEASUREMENT OF FINANCIAL LIABILITIES

Liabilities in respect of a short position in securities are measured at fair value through profit or loss.

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

3.14. STANDARDS AND INTERPRETATIONS APPLIED IN THE FINANCIAL STATEMENTS FOR THE FIRST TIME IN 2019

STANDARDS AND INTERPRETATIONS	DATE OF PUBLICATION / ISSUE	EFFECTIVE DATE / ENDORSEMENT BY EU	DESCRIPTION OF CHANGES AND IMPACT
IFRS 16 LEASES	13.01.2016	1.01.2019/ 31.10.2017	Detailed information disclosed in Note “Leases”
IFRIC 23 UNCERTAINTY OVER INCOME TAX TREATMENTS	7.06.2017	1.01.2019/ 23.10.2018	The interpretation defines the method of determination of the taxable profit (tax loss), tax base, unsettled tax losses, unused tax allowances and tax rates (hereinafter collectively named “tax position”), when there is an uncertainty over tax income treatment applied by an entity in a tax return (“uncertain tax treatment”). The interpretation requires that the entity: - decides whether the uncertain tax treatment is subject to individual or collective judgement, - assesses the probability that tax authorities will accept the uncertain tax treatment of a given position, applied or proposed by the entity in a tax return: i) if it is probable, the entity should consistently apply to this position the tax treatment applied or planned in a tax return, ii) if not, the entity should consider the uncertainty's results when determining its tax position for accounting purposes. The results should be assessed using an approach based on “most probable amount” or “expected value”, depending on which method provides better prediction of the resolution of the uncertainty. The interpretation has been applied by the Group. Further information is in the note “Income tax”.
IAS 28 AMENDMENTS: LONG-TERM INTERESTS IN ASSOCIATES AND JOINT VENTURES	12.10.2017	1.01.2019/ 8.02.2019	Amendments to IAS 28 clarify that an entity shall apply IFRS 9 “Financial instruments” to other financial instruments in associates and joint ventures to which the equity method does not apply. These instruments include long term interest which, in their economic substance, represent a part of the net investment in associates or joint ventures. Amendments to IAS 28 clarified that the IFRS 9 requirements should be applied to long-term interests before the IAS 28 requirements relating to allocation of the loss are applied, and that when applying IFRS 9 requirements, the entity does not take into account any adjustments to the carrying value of long-term interest resulting from the application of IAS 28.

(IN PLN MILLION)

			No material impact on the consolidated financial statements.
IAS 19 AMENDMENTS: PLAN AMENDMENT, CURTAILMENT OR SETTLEMENT	7.02.2018	1.01.2019/ 13.03.2019	Amendments to IAS 19 specify how an entity should determine the cost of defined pension benefit plans if changes to such plans occur. The standard determines how an entity accounts for a defined benefit plan. If a plan amendment, curtailment or settlement occurs, the entity is required to remeasure the net defined benefit liability or asset. The amendment requires the entity to use updated assumptions of the remeasurement to determine the current service cost and the net interest for the remaining part of the reporting period after the plan amendment. No material impact on the consolidated financial statements.
IAS 9 AMENDMENTS: PREPAYMENT FEATURES WITH NEGATIVE COMPENSATION	12.10.2017	1.01.2019/ 22.03.2018	The amendments add a provision relating to contracts with a prepayment option where the lender may be required to accept the prepayments at an amount less than the unpaid principal and interest owed. Such a prepayment could represent a payment for the borrower from the lender, rather than compensation from the borrower to the lender. Such a financial asset will qualify to be measured at amortized cost or at fair value through other comprehensive income (depending on the business model), but the negative compensation must represent a justified compensation for the early repayment of a contract. No material impact on the consolidated financial statements.
ANNUAL IMPROVEMENTS TO IFRSS 2015-2017 CYCLE, COVERING: • IFRS 3 AND IFRS 11: PREVIOUSLY HELD INTERESTS IN JOINT ARRANGEMENTS • IAS 12: INCOME TAX CONSEQUENCES OF PAYMENTS OF DIVIDEND • IAS 23: BORROWING COSTS ELIGIBLE FOR CAPITALIZATION	12.12.2017	1.01.2019/ 14.03.2019	The amendments relate to: - IFRS 3 - explanation that if an entity is taking over control over an operation which is a joint arrangements, it shall remeasure interest previously held in that entity; - IFRS 11 - explanation that an entity which gained joint control over an operation which is a joint arrangements, it shall not remeasure interest previously held in that entity; - IFRS 12 - explanation that any income tax consequences of the dividend (i.e. profit distribution) should be recognized in the income statement, regardless of how the income tax arises; - IAS 23 - amendments clarify that at the date of completing a capital expenditure project, special purpose financing “becomes” general purpose financing. No material impact on the consolidated financial statements.

(IN PLN MILLION)

3.15. NEW STANDARDS AND INTERPRETATIONS AND AMENDMENTS THERETO THAT HAVE BEEN PUBLISHED AND ENDORSED BY THE EUROPEAN UNION, BUT HAVE NOT COME INTO FORCE YET AND ARE NOT APPLIED BY THE GROUP

STANDARDS AND INTERPRETATIONS	DATE OF ISSUE / PUBLICATION	EFFECTIVE DATE IN EU / DATE OF ENDORSEMENT BY EU	DESCRIPTION OF CHANGES AND IMPACT
AMENDMENTS TO REFERENCES TO THE CONCEPTUAL FRAMEWORK IN IFRS	29.03.2018	1.01.2020/ 29.11.2019	The purpose of the amendments is to replace references to the previous conceptual framework in a number of standards and interpretations with references to the amended Conceptual Framework. The Group does not expect these amendments to have a material effect on the consolidated financial statements.
AMENDMENTS TO IAS 1 AND IAS 8: DEFINITION OF THE TERM 'MATERIAL'	31.10.2018	1.01.2020/ 29.11.2019	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 does not expect these amendments to have a material effect on the consolidated financial statements.
AMENDMENTS TO IFRS 9, IAS 39 AND IFRS 7 – IBOR REFORM	26.09.2019	1.01.2020/ 15.01.2020	The amendments introduce certain temporary, narrow departures from the requirements of hedge accounting included in IAS 39 and IFRS 9 which will enable entities to continue to comply with the applicable requirements, provided that the existing interest rate benchmarks do not change as a result of the interbank offering rate reform. The Group does not expect these amendments to have a material effect on the consolidated financial statements.

(IN PLN MILLION)

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

STANDARDS AND INTERPRETATIONS	DATE OF ISSUE / PUBLICATION	EFFECTIVE DATE	EFFECTIVE DATE IN EU (DATE OF ENDORSEMENT BY EU)	DESCRIPTION OF CHANGES AND IMPACT
IFRS 17 INSURANCE CONTRACTS	18.05.2017	1.01.2021	No data	IFRS 17 "Insurance Contracts" will replace IFRS 4 "Insurance contracts" which enabled entities to continue to recognize insurance contracts according to the accounting principles in force in the national standards, which, as a result, meant applying many different solutions. IFRS 17 introduces the requirements to recognize all insurance agreements in a consistent manner. Liabilities arising from contracts will be recognized at current prices, instead of historical cost. The application of the standard should follow the full retrospective approach (if not possible, the entity should use modified retrospective approach or the fair value approach). The Group is in the process of estimating the impact of IFRS 17 on the consolidated financial statements.
AMENDMENTS TO IFRS 3 BUSINESS COMBINATIONS	22.10.2018	1.01.2020	expected date of endorsement: 1 Q 2020	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. Prospective approach. The Group does not expect these amendments to have a material effect on the consolidated financial statements.

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

In order to ensure better reflection in the financial statements, the Group made the following presentation changes:

INCOME STATEMENT	period from 01.01.2018 to 31.12.2018 before restatement	separate disclosure of "net regulatory charges"	period from 01.01.2018 to 31.12.2018 restated
Interest expenses	(2 241)	(8)	(2 249)
General administrative expenses	(5 905)	583	(5 322)
Net regulatory charges	-	(575)	(575)
Total	**(8 146)**	-	**(8 146)**

5. INFORMATION ON OPERATING SEGMENTS

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

The PKO Bank Polski SA Group distinguishes three core segments:

RETAIL SEGMENT	The retail segment offers a full range of services to individuals as part of retail, private and mortgage banking. It also comprises transactions concluded with legal persons, i.e. firms and enterprises. The products and services offered to the customers in this segment comprise: current and savings accounts, term deposits, private banking services, combined investment and insurance products, credit and debit cards, electronic banking services. With regard to financing, this segment offers consumer loans, mortgage loans, including those offered by PKO Bank Hipoteczny SA, as well as business loans for firms and enterprises, developers, cooperatives and property managers, and leases and factoring offered by the PKO Leasing SA Group. In addition, the results of the retail segment comprise the results of the following companies: PKO TFI SA, PKO BP BANKOWY PTE SA, PKO Życie Towarzystwo Ubezpieczeń SA, PKO Towarzystwo Ubezpieczeń SA, PKO BP Finat sp. z o.o. and ZenCard sp. z o.o.
CORPORATE AND INVESTMENT SEGMENT	The corporate and investment segment includes transactions concluded with large corporate clients and financial institutions. This segment offers the following products and services: maintaining current accounts and term deposits, safekeeping of securities, currency products and derivatives, business loans, leasing and factoring offered by the PKO Leasing SA Group. In this segment, PKO Bank Polski SA also concludes, on its own or as part of syndicates with other banks, agreements for the financing of large projects in the form of loans and issues of non-treasury securities. Moreover, the segment comprises own operations, i.e. investing activities, brokerage activities, interbank transactions, transactions in derivatives and debt securities. The results of the corporate and investment segments also comprise the results of the companies operating in Ukraine, mainly KREDOBANK SA, and companies conducting IT services, real estate development and real estate management activities as well as funds investing money collected from investment fund participants.
TRANSFER CENTRE AND OTHER	The transfer & other activities centre comprises the result on internal settlements related to funds transfer pricing, the result on long-term sources of financing and the result on positions classified for hedge accounting, as well as the results not allocated to any other segment. Internal funds transfer is based on arm's length transfer pricing. Long-term external financing includes issuing securities, including mortgage covered bonds, subordinated liabilities and loans received from financial institutions. As part of this segment, the results of PKO Finance AB are presented.

The PKO BP SA Group accounts for transactions between the segments as if they were transactions between unrelated entities – using internal settlements rates. Transactions between the segments are conducted on an arm's length basis.

The accounting principles used in segment reporting are in compliance with the accounting policies described in these financial statements.

(IN PLN MILLION)

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

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

FOR THE YEAR ENDED 31 DECEMBER 2019	Continuing operations			
	Retail segment	Corporate and investment segment	Transfer centre and other	Total activity of the PKO Bank Polski SA Group
Net interest income/(expense)	8 285	1 538	456	10 279
Net fee and commission income	2 469	599	(21)	3 047
Other net income	650	595	99	1 344
Net gain/(loss) in financial instruments measured at fair value through profit or loss	75	149	(49)	175
Net foreign exchange gains / (losses)	221	187	65	473
Gains/(losses) on derecognition of financial assets and financial liabilities not measures at fair value through profit or loss	(9)	154	-	145
Dividend income	-	14	-	14
Net other operating income and expense	337	117	83	537
Income/(expenses) relating to internal customers	26	(26)	-	-
Net credit losses	(799)	(348)	-	(1 147)
Impairment of non-financial assets	(76)	(38)	-	(114)
Cost of the legal risk of mortgage loans in convertible currencies other	(451)	-		(451)
Administrative expenses, of which:	(4 628)	(982)	(1)	(5 611)
depreciation and amortisation	(866)	(183)	-	(1 049)
Net regulatory charges	(504)	(114)	81	(537)
Tax on certain financial institutions	(703)	(316)	(3)	(1 022)
Share in profits and losses of associates and joint ventures	-	-	-	31
Segment profit/(loss)	4 243	934	611	5 819
Income tax expense (tax burden)	-	-	-	(1 787)
Profit (loss) attributable to non-controlling shareholders	-	-	-	1
Net profit attributable to equity holders of the parent company	**4 243**	**934**	**611**	**4 031**

AS AT 31 DECEMBER 2019	Retail segment	Corporate and investment segment	Transfer centre and other	Total activity of the PKO Bank Polski SA Group
Assets	183 962	154 769	7 065	345 796
Unallocated assets	-	-	-	2 248
Total assets	183 962	154 769	7 065	348 044
Liabilities	208 771	59 030	37 971	305 772
Unallocated liabilities	-	-	-	694
Total liabilities	208 771	59 030	37 971	306 466

(IN PLN MILLION)

FOR THE YEAR ENDED 31 DECEMBER 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/(expense)	7 427	1 536	382	9 345
Net fee and commission income	2 523	508	(18)	3 013
Other net income	366	507	108	981
Net gain/(loss) in financial instruments measured at fair value through profit or loss	11	22	(5)	28
Net foreign exchange gains / (losses)	161	212	116	489
Gains/(losses) on derecognition of financial assets and financial liabilities not measures at fair value through profit or loss	6	129	-	135
Dividend income	-	12	-	12
Net other operating income and expense	161	159	(3)	317
Income/(expenses) relating to internal customers	27	(27)	-	-
Net credit losses	(1 050)	(323)	-	(1 373)
Impairment of non-financial assets	(23)	(55)	-	(78)
Administrative expenses, of which:	(4 492)	(835)	5	(5 322)
depreciation and amortisation	(703)	(118)	-	(821)
Net regulatory charges	(389)	(105)	(81)	(575)
Tax on certain financial institutions	(764)	(298)	112	(950)
Share in profits and losses of associates and joint ventures	-	-	-	37
Segment profit/(loss)	3 598	935	508	5 078
Income tax expense (tax burden)	-	-	-	(1 336)
Profit (loss) attributable to non-controlling shareholders	-	-	-	1
Net profit attributable to equity holders of the parent company	**3 598**	**935**	**508**	**3 741**

AS AT 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 AND THE STATEMENT OF FINANCIAL POSITION

6. INTEREST INCOME AND EXPENSES

ACCOUNTING POLICIES

Interest income and expenses comprise interest, including premiums and discounts in respect of financial instruments measured at amortized cost and instruments measured at fair value. Interest income includes interest income on hedging derivatives. Interest income and expenses also include fees and commissions received and paid, which are deferred using the effective interest rate and which are taken into account in the measurement of the financial instrument.

Interest income and expense is recognized on an accruals basis using the effective interest rate which discounts the estimated future cash flows throughout the life of the financial asset or financial liability to the carrying amount in respect of assets and to amortized cost in respect of financial liabilities, with the following exception:

- purchased or originated assets impaired due to credit risk (POCI). Interest income on POCI assets is calculated on the net carrying amount using the effective interest rate adjusted by credit risk recognized over the life cycle of the asset;
- financial assets which were not POCI assets, impaired due to credit risk, which then became credit impaired financial assets. Interest income on POCI assets is calculated on the net carrying amount using the original effective interest rate from the moment of recognizing premises for impairment of the asset.

The calculation of the effective interest rate covers all commissions, and received by the parties to the contract transaction costs paid, and all other premiums and discounts constituting an integral part of the effective interest rate.

The effect of the fair value measurement of financial assets acquired as part of business combinations between subsidiaries and impact of the European Union Court of Justice's ruling on consumer rights to reduce the cost of loan repaid before contractual maturity were also recognized in interest income.

- **INTEREST AND EXPENSES RESULTING FROM SALES OF INSURANCE PRODUCTS LINKED TO LOANS AND ADVANCES**

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

Remuneration received and receivable by the Group for offering insurance products for the products directly associated with the financial instruments is recognized using the effective interest rate method and recognized in interest income and in the part corresponding to the performance of the agency service, if the insurer is a Group company, it is accounted for using the straight line method during the term of the insurance product and is recognized as commission income.

Remuneration is divided into the commission portion and the interest portion based on the proportion of the fair value of the financial instrument and the fair value of the intermediation service to the sum of these two values, in accordance with the relative fair value model comprising a range of different parameters, including the average effective interest rate on the financial instrument, the average contractual and economic (actual) lending or lease period, the average insurance premium amount, the term of the insurance policy, the independent insurance agent's commission.

(IN PLN MILLION)

The fair value of a financial instrument is measured according to the income-based approach, involving the conversion of future cash flows to their present value using a discount rate consisting of a risk-free rate determined in relation to the average yield on 5-year and 10-year bonds in the past year, the risk premium determined in relation to the annual costs of credit risk and exceeding the credit risk premium, which reflects all other factors that the market participants would take into account in the fair value measurement under the current circumstances.

On the other hand, measurement of the fair value of the insurance intermediation service is based on the market approach, which consists in referring to prices and other information on identical or similar comparable market transactions.

Costs directly attributable to selling insurance products are accounted for in the same manner as the revenue, i.e. as a component of the amortized cost of a financial instrument or on a one-off basis.

The Group makes periodical estimations of the remuneration amount that will be recoverable in the future due to the early termination of the insurance contract based on historical data on premiums collected and refunds made. The provision for future refunds is allocated to the financial instrument and insurance service in accordance with the relative fair value model.

The Group reviews the correctness of the adopted parameters used in the relative fair value model and the ratio of provisions for refunds whenever the Bank becomes aware of the changes in this respect, at least once a year.

FINANCIAL INFORMATION

INTEREST INCOME ON:	2019	2018
loans to and other receivables from banks	97	92
hedging derivatives	324	355
debt securities	1 729	1 411
measured at amortized cost	313	202
measured at fair value through other comprehensive income	1 368	1 135
measured at fair value through profit or loss	48	74
loans and advances to customers (excluding finance lease receivables)	9 878	9 129
measured at amortized cost	8 929	9 085
measured at fair value through profit or loss	949	44
finance lease receivables	732	607
Total	**12 760**	**11 594**
of which: interest income on impaired financial instruments	268	307
INTEREST INCOME		
Interest income calculated under the effective interest rate method	11 439	11 121
on financial instruments measured at amortized cost	10 071	9 986
on instruments measured at fair value through other comprehensive income	1 368	1 135
Income similar to interest income on instruments measured at fair value through profit or loss	1 321	473
Total	**12 760**	**11 594**

In 2019, the Group reduced interest income on loans and advances to customers by PLN 178 million (the amount of PLN 31 relates to paid automatically before the balance sheet date reimbursement of costs and the amount of PLN 147 million relates to provisions for future reimbursement of costs) due to the European Union Court of Justice's ruling on consumer rights to reduce the cost of loan repaid before contractual maturity.

(IN PLN MILLION)

INTEREST EXPENSE ON:	2019	2018
amounts due to banks (excluding loans and advances received)	(11)	(14)
deposits	(20)	(22)
loans and advances received	(44)	(35)
leases	(26)	-
amounts due to customers (excluding loans and advances received)	(1 640)	(1 532)
debt securities	(134)	(76)
measured at amortized cost	(8)	(5)
measured at fair value through other comprehensive income	(115)	(53)
measured at fair value through profit or loss	(11)	(18)
debt securities in issue	(516)	(486)
subordinated liabilities	(90)	(84)
Total	**(2 481)**	**(2 249)**

INTEREST INCOME BY SEGMENT:	2019			
	Retail segment	Corporate and investment segment	Transfer centre and other	Total
loans to and other receivables from banks	-	58	39	97
hedging derivatives	-	-	324	324
debt securities	18	1 690	21	1 729
loans and advances to customers (excluding finance lease receivables)	8 035	1 843	-	9 878
finance lease receivables	545	187	-	732
Total	**8 598**	**3 778**	**384**	**12 760**

INTEREST INCOME BY SEGMENT:	2018			
	Retail segment	Corporate and investment segment	Transfer centre and other	Total
loans to and other receivables from banks	-	58	34	92
hedging derivatives	-	-	355	355
debt securities	15	1 380	16	1 411
loans and advances to customers (excluding finance lease receivables)	7 394	1 735	-	9 129
finance lease receivables	427	180	-	607
Total	**7 836**	**3 353**	**405**	**11 594**

7. Fee and commission income and expenses

Accounting policies

The Group recognizes fee and commission income that is not accounted for using the effective interest rate in such a manner so as to reflect the transfer of the goods or services promised to a customer in an amount reflecting the consideration to which – in accordance with the Group's expectations – it will be entitled in return for the goods or services in accordance with the five stage model for recognizing revenue.

Fee and commission income includes one-off amounts charged by the Group for services not related directly to the creation of financial assets, as well as amounts charged by the Group for services performed, which are recognized on a straight-line basis. Fee and commission income also includes fees and commissions recognized on a straight-line basis, received on loans and advances granted with an unspecified schedule of future cash flows for which the effective interest rate cannot be determined.

Upon concluding a contract, the Bank assesses whether it will be capable of fulfilling the commitment to perform over time or at a point in time.

The accounting policies for recognizing commission income on sales of insurance products linked to loans and advances are described in note "Interest income and expenses".

(IN PLN MILLION)

FINANCIAL INFORMATION

FEE AND COMMISSION INCOME	2019	2018
Loans and insurance	**866**	**761**
lending	711	636
offering insurance products	155	125
Investment funds, pension funds and brokerage activities	**740**	**833**
servicing investment funds and OFE (including management fees)	545	640
servicing and selling investment and insurance products	43	51
brokerage activities	152	142
Cards	**1 340**	**1 243**
Bank accounts and other	**1 184**	**1 205**
servicing bank accounts	850	836
cash operations	75	90
servicing foreign mass transactions	99	104
selling and distributing court fee stamps	-	1
customer orders	48	46
fiduciary services	6	6
other	106	122
Total	**4 130**	**4 042**

FEE AND COMMISSION EXPENSE	2019	2018
Investment funds, pension funds and brokerage activities	**(34)**	**(39)**
Cards	**(775)**	**(713)**
Bank accounts and other	**(274)**	**(277)**
commission paid to external entities for product sales	(46)	(55)
cost of construction investment supervision and property valuation	(46)	(44)
clearing services	(35)	(31)
commissions for operating services provided by banks	(11)	(15)
sending short text messages (SMS)	(33)	(27)
other	(103)	(105)
Total	**(1 083)**	**(1 029)**

FEE AND COMMISSION INCOME BY SEGMENT	2019			
	Retail segment	Corporate and investment segment	Transfer centre and other	Total
Loans and insurance	**621**	**245**	-	**866**
lending	479	232	-	711
offering insurance products	142	13	-	155
Investment funds, pension funds and brokerage activities	**582**	**158**	-	**740**
servicing investment funds and OFE (including management fees)	492	53	-	545
servicing and selling investment and insurance products	43	-	-	43
brokerage activities	47	105	-	152
Cards	**1 286**	**54**	-	**1 340**
Bank accounts and other	**961**	**223**	-	**1 184**
servicing bank accounts	742	108	-	850
cash operations	45	30	-	75
servicing foreign mass transactions	64	35	-	99
customer orders	27	21	-	48
fiduciary services	-	6	-	6
other	83	23	-	106
Total	**3 450**	**680**	-	**4 130**

(IN PLN MILLION)

FEE AND COMMISSION INCOME BY SEGMENT	2018			
	Retail segment	Corporate and investment segment	Transfer centre and other	Total
Loans and insurance[1]	558	203	-	761
lending	443	193	-	636
offering insurance products	115	10	-	125
Investment funds, pension funds and brokerage activities	719	114	-	833
servicing investment funds and OFE (including management fees)	631	9	-	640
servicing and selling investment and insurance products	51	-	-	51
brokerage activities	37	105	-	142
Cards[1]	1 178	65	-	1 243
Bank accounts and other	961	244	-	1 205
servicing bank accounts	752	84	-	836
cash operations	61	29	-	90
servicing foreign mass transactions	61	43	-	104
selling and distributing court fee stamps	-	1	-	1
customer orders	27	19	-	46
fiduciary services	-	6	-	6
other	60	62	-	122
Total	3 416	626	-	4 042

[1] In order to ensure comparability , the Group changed the data presented in “Loans and insurance” and “Cards” for 2018. The change consists in a transfer between segments and results from harmonization of the policies and a more precise division into income categories.

8. DIVIDEND INCOME

ACCOUNTING POLICIES

Dividend income is recognized on the date when the shareholders’ rights to its receipt is determined, if the Group is entitled to dividend, if it is likely that it will obtain economic benefits related to dividend and the amount of the dividend may be reliably determined.

FINANCIAL INFORMATION

DIVIDEND INCOME	2019	2018
In respect of:		
Financial assets held for trading	1	1
Financial instruments not held for trading, measured at fair value through profit or loss	13	11
Total	**14**	**12**

9. NET GAIN/(LOSS) ON FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

ACCOUNTING POLICIES

The net gain/(loss) on financial instruments measured at fair value through profit or loss includes gains and losses arising from disposal of financial instruments designated as financial assets / liabilities measured at fair value through profit or loss and the effect of their measurement at fair value. This item also includes the ineffective portion of cash flow hedges in the case of hedging strategies in which IRS contracts are the hedging instrument, as well as gains and losses on the hedging instrument and hedged item relating to the hedged risk (fair value hedges).

(IN PLN MILLION)

FINANCIAL INFORMATION

NET GAIN/(LOSS) ON FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	2019	2018
Financial instruments held for trading, of which:	93	(36)
derivatives	96	17
Financial instruments not held for trading, measured at fair value through profit or loss, of which:	80	67
loans and advances to customers	(58)	(11)
Hedge accounting	2	(3)
Total	**175**	**28**

10. FOREIGN EXCHANGE GAINS/ (LOSSES)

ACCOUNTING POLICIES

Foreign exchange gains (losses) comprise foreign exchange gains and losses, both realized and unrealized, resulting from valuation of assets and liabilities denominated in foreign currencies and from the fair value valuation of foreign currency derivatives (FX forward, FX swap, CIRS and currency options). In the case of the hedging strategies in which CIRS contracts are the hedging instrument, this item also includes the ineffective portion of cash flow hedges.

Impairment charges for loans, advances and other foreign currency-denominated receivables, which are recorded in PLN, are remeasured when the measurement of the underlying foreign currency-denominated assets changes. The effect of such remeasurement is recognized in foreign exchange gains/losses.

FINANCIAL INFORMATION

NET FOREIGN EXCHANGE GAINS/ (LOSSES)	2019	2018
Net foreign exchange gains/(losses), of which:	473	489
ineffective portion of cash flow hedges	(22)	12
Total	**473**	**489**

11. GAINS/(LOSSES) ON DERECOGNITION OF FINANCIAL INSTRUMENTS NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

GAINS/(LOSSES) ON DERECOGNITION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	2019	2018
Measured at fair value through OCI	158	131
Measured at amortized cost	(13)	4
Total	**145**	**135**

(IN PLN MILLION)

12. Allowances for expected credit losses

ALLOWANCES FOR EXPECTED CREDIT LOSSES	2019	2018
Debt securities	(3)	(10)
measured at fair value through OCI	(9)	-
measured at amortized cost	6	(10)
Loans and advances to customers	(1 104)	(1 292)
measured at fair value through other comprehensive income	1	-
consumer	1	-
measured at amortized cost	(1 105)	(1 292)
housing	(104)	(165)
business	(362)	(512)
consumer	(559)	(562)
finance lease receivables	(80)	(53)
Other financial assets	2	(1)
Provisions for financial liabilities and guarantees granted	(42)	(70)
Total	**(1 147)**	**(1 373)**

ACCUMULATED ALLOWANCES FOR EXPECTED CREDIT LOSSES (BALANCE)	31.12.2019	31.12.2018
Amounts due from banks	1	1
Debt securities	25	36
measured at fair value through OCI	5	10
measured at amortized cost	20	26
Loans and advances to customers	6 758	7 715
measured at fair value through other comprehensive income	1	-
measured at amortized cost	6 757	7 715
Provisions for financial liabilities and guarantees granted	269	227
Other financial assets	92	97
Total	**7 145**	**8 076**

13. Impairment of non-financial assets

IMPAIRMENT OF NON-FINANCIAL ASSETS	2019	2018
Non-current assets held for sale	-	(3)
Property, plant and equipment	(15)	(7)
Intangible assets	(51)	(22)
Investments in associates and joint ventures	(5)	(32)
Other financial assets, including inventories	(43)	(14)
Total	**(114)**	**(78)**

ACCUMULATED IMPAIRMENT OF NON-FINANCIAL ASSETS	31.12.2019	31.12.2018
Non-current assets held for sale	1	-
Property, plant and equipment	59	50
Intangible assets	274	221
Investments in associates and joint ventures	183	178
Other financial assets, including inventories	192	175
Total	**709**	**624**

(IN PLN MILLION)

14. OTHER OPERATING INCOME AND EXPENSES

ACCOUNTING POLICIES

Other operating income and expenses comprise income and costs not directly related to banking activities. Other operating income mainly includes operating lease income, gains on sale of investment in residential real estate, gains on sale/scrapping of fixed assets, intangible assets and foreclosed collateral, sale of shares in a subsidiary, legal damages, fines and penalties, income from lease/rental of properties. Other operating expenses mainly include provisioning costs for potential refund of fees to customers for early repayments of consumer and mortgage loans, losses on sale/scrapping of fixed assets, intangible assets and foreclosed collateral, and donations made.

In the Group companies, other operating income and expenses also include, respectively, revenue from the sale of finished goods, goods for resale and materials, and cost of their manufacture.

Other operating income and expenses also include provisions recognized and released for legal claims, excluding legal claims relating to mortgage loans in foreign currencies and other provisions.

FINANCIAL INFORMATION

OTHER OPERATING INCOME	2019	2018
Net sales of finished goods and services	333	311
Income on operating leases	273	81
Gain from losing control over a subsidiary	-	25
Gains on sale or scrapping of property, plant and equipment, intangible assets and assets held for sale	45	57
Damages, compensation and penalties received and ancillary income	35	38
Recovery of receivables expired, forgiven or written off	6	7
Income from BGF in respect of guarantees	-	8
Release of provision for potential return of fees and commission to customers	58	-
Provision for future payments	1	16
Release of provisions for legal claims excluding legal claims relating to mortgage loans in convertible currencies	7	4
Gain from a bargain purchase of PCM Group (see the Note 40)	102	-
Other	45	83
Total	**905**	**630**

The amount relating to the refund of the penalty imposed by UKOiK of PLN 21 million is shown in the item “Other” in 2018.

OTHER OPERATING EXPENSE	2019	2018
Costs of products and services sold	(22)	(32)
Losses on sale or scrapping of property, plant and equipment, intangible assets and assets held for sale	(34)	(25)
Damages, compensation and penalties paid and sundry costs	(11)	(17)
Donations made	(23)	(53)
Provision recognized for potential refunds of fees and commission to customers	(127)	(62)
Provision for future payments	(1)	(6)
Provision recognized for legal claims excluding legal claims relating to mortgage loans in convertible currencies	(8)	(43)
Other	(142)	(75)
Total	**(368)**	**(313)**

The penalty imposed by UKOiK of PLN 21 million is shown in the item “Provisions recognized for legal claims” in 2018.

The item “Other” includes the costs of car fleet management of PLN 57 million for 2019 and PLN 4 million for 2018.

A detailed description of the provision set up was provided in Note “Legal claims”.

(IN PLN MILLION)

In 2019, the Group recognized the cost of provision for potential refunds of fees to customers for early repayment of consumer and mortgage loans of PLN 127 million (see Note "Provisions" and Note "Legal claims").

15. ADMINISTRATIVE EXPENSES

ACCOUNTING POLICIES

EMPLOYEE BENEFITS	Employee benefits comprise wages and salaries and social insurance (including provisions for retirement and disability benefits, which are discussed in detail in the note "Provisions"), as well as costs of the employee pension scheme constituting a defined contribution scheme and the programme of variable remuneration components for persons occupying managerial positions, a part of which is recorded as a liability in respect of share-based payments settled in cash, in accordance with IFRS 2 Share-based payments (the programme of variable remuneration components has been discussed in detail in the note entitled "Remuneration of the PKO Bank Polski SA key management"). Moreover, as part of wages and salaries, the Group creates a provision for future liabilities in respect of compensation and severance bonuses paid out to employees with whom the employment relationship is terminated for reasons not related to the employees, and accruals related to costs attributable to the current period, which will be incurred in the next period, including bonuses and holiday pay, taking account of all unused holiday.
OVERHEADS	Overheads include the costs of maintaining fixed assets, IT and telecommunications services costs, costs of administration, promotion and advertising, property protection and training. Lease payments under short-term and low-value leases are recognized as an expense in the income statement as an expense on a straight-line basis over the lease term.

FINANCIAL INFORMATION

ADMINISTRATIVE EXPENSES	2019	2018
Employee benefits	(3 215)	(3 023)
Overheads, of which:	(1 347)	(1 478)
rent	(78)	(264)
IT	(321)	(294)
Amortization and depreciation	(1 049)	(821)
property, plant and equipment, of which:	(656)	(370)
IT	(124)	(118)
right-of-use assets	(206)	
intangible assets, of which:	(391)	(451)
IT	(358)	(415)
investment properties	(2)	-
Total	**(5 611)**	**(5 322)**

The decrease in rent and increase in depreciation of fixed assets resulted from adoption of IFRS 16 Leasing (for details, see Note "Leasing" and "Legal claims").

(IN PLN MILLION)

EMPLOYEE BENEFITS	2019	2018
Wages and salaries, including:	(2 693)	(2 537)
costs of contributions to the employee pension plan	(66)	(44)
restructuring costs	(32)	(26)
Social insurance, of which:	(432)	(404)
contributions for disability and retirement benefits	(363)	(343)
Other employee benefits	(90)	(82)
Total	**(3 215)**	**(3 023)**

16. NET REGULATORY CHARGES

ACCOUNTING POLICIES

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.
FEES TO PFSA	In accordance with IFRIC 21 “Levies”, fees paid to the Polish Financial Supervision Authority are recognized in profit or loss upon the occurrence of the obligating event. Both fees (to cover the cost of banking supervision and to cover the costs of supervision over the capital market) are paid once a year. Fees paid to the Polish Financial Supervision Authority are 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 a notification on the election of the 3% taxation option with the tax office in respect of: • 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 • interest on Eurobonds issued by the Bank before 1 January 2019.
OTHER TAXES AND FEES	Property tax, payments made to the State Fund for Rehabilitation of Disabled Persons, municipal and administration fees.

FINANCIAL INFORMATION

NET REGULATORY CHARGES	2019	2018
Contribution and payments to the Bank Guarantee Fund (BGF), including:	(509)	(427)
to the Resolution Fund	(348)	(167)
to the Banks' Guarantee Fund	(161)	(260)
Fees to PFSA	(41)	(28)
Flat-rate income tax, of which:	81	(49)
withheld tax (20%)	138	(49)
flat-rate income tax (3%)	(57)	-
Other taxes and fees	(68)	(71)
Total	**(537)**	**(575)**

(IN PLN MILLION)

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 request was accepted without issuing a decision on this matter. The Bank was informed by the Tax Office that its application had been approved and requested for the instruction on the overpayment settlement approach.

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, however the amount of tax (3%) on interest accrued in 2019 amounts to PLN 7 million. The 3% tax option in respect of tax interest on loan paid to PKO Finance AB results from Article 21 of the Act of 23 October 2018 on amendments to the Act on personal income tax, the Act on corporate income tax, the Act on tax code and other acts (Journal of Laws of 2018, item 2193 with further amendments). The Group paid the tax in the mandatory statutory period, i.e. to 31 July 2019.

17. TAX ON CERTAIN FINANCIAL INSTITUTIONS

As of 1 February 2016, the Act of 15 January 2016 on tax on certain financial institutions came into force, which covered, among other things, banks and insurance companies. The tax is charged on the surplus of a Bank's total assets above PLN 4 billion, based on the trial balance as at the end of each month. The tax base of insurance companies within one Group is determined jointly as the surplus of total assets over PLN 2 billion. Banks are entitled to reduce the tax base by deducting such items as e.g. own funds or the value of Treasury securities. Additionally, banks reduce the tax base by the value of assets acquired from the NBP, constituting collateral for a refinancing loan granted by the NBP. Insurance companies are entitled to reduce their tax base by the value of assets accumulated under the contracts for Employee Capital Plans that they service, as referred to in the Act on Employee Capital Plans of 4 October 2018.

The tax rate for all taxpayers is 0.0366% per month, and the tax is paid monthly by the 25th of the month following the month to which it relates. The tax paid is not tax-deductible for corporate income tax purposes.

TAX ON CERTAIN FINANCIAL INSTITUTIONS	2019	2018
Tax on certain financial institutions, of which:		
PKO Bank Polski SA	(931)	(883)
PKO Życie Towarzystwo Ubezpieczeń SA	(5)	(4)
PKO Bank Hipoteczny SA	(83)	(61)
PKO Towarzystwo Ubezpieczeń SA	(3)	(2)
Total	**(1 022)**	**(950)**

18. INCOME TAX

ACCOUNTING POLICIES

Corporate income tax is recognized as current tax and deferred tax. Current income tax is recognized in the income statement. Deferred income tax, depending on the source of temporary differences, is recorded in the income statement or in other comprehensive income.

Based on the contract dated 5 November 2018 PKO Bank Polski SA, jointly with its two subsidiaries: PKO Bank Hipoteczny SA and PKO Leasing SA, created a tax group: Podatkowa Grupa Kapitałowa Powszechnej Kasy Oszczędności Banku Polskiego Spółki Akcyjnej ("PGK PKO Banku Polskiego SA"). The respective contract was registered by the Head of the Second Masovian Tax Office in Warsaw.

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.

PKO Bank Polski SA is the parent of PGK PKO Banku Polskiego SA. PGK PKO Banku Polskiego SA was established for three tax years. The first tax year began on 1 January 2019.

- **CURRENT INCOME TAX**

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

Group Companies are Corporate Income Tax payers. The value of the Companies' current tax liability is transferred to offices of the tax administration authorities competent for the Companies' location.

Corporate Income Tax liabilities of particular Group Companies for 2019 will be paid in accordance with the schedules stipulated by the relevant tax regulations.

Pursuant to the principles governing the statute of limitations for tax liabilities, the correctness of income tax settlements may be audited within five years of the end of the year in which the deadline for the submission of the respective tax returns passed.

- **DEFERRED INCOME TAX**

Deferred tax is recognized in the amount of the difference between the tax value of the assets and liabilities and their carrying amounts for the purpose of financial reporting. The Group records deferred tax provisions and assets, which are recognized in the statement of financial position. Changes in the balance of deferred tax provisions and assets are recognized in mandatory charges to profit, with the exception of the effects of the measurement of financial assets measured at fair value through other comprehensive income, hedging instruments which are recognized in other comprehensive income, where changes in the balance of deferred tax provisions and assets are recognized in other comprehensive income. In determining deferred income tax, the deferred tax assets and provisions as at the beginning and as at the end of the reporting period are taken into account.

The carrying amounts of deferred tax assets are verified at each balance sheet date and decreased adequately if it is no longer likely that taxable income sufficient to realize a deferred tax asset in part or in full will be earned.

Deferred tax assets and provisions are measured using the tax rates which are expected to be in force in the period in which the asset will crystallize or the provision will be utilized, based on the tax rates (and tax regulations) binding as at the balance sheet date or tax rates and tax regulations that as at the balance sheet date are believed to be binding in the future.

For deferred income tax calculation the Group uses the 19% tax rate for entities operating in the territory of Poland, 18% tax rate for entities operating in Ukraine and 22% tax rate for entities operating in Sweden.

Deferred tax assets are offset by the Group against deferred tax provisions only when the Group has an enforceable legal title to offset current income tax receivables against current income tax liabilities and deferred income tax is related to the same taxpayer and the same tax authority.

(IN PLN MILLION)

FINANCIAL INFORMATION

- ### INCOME TAX EXPENSE

	2019	2018
Income tax expense recognized in the income statement	(1 787)	(1 336)
Current income tax expense	(1 675)	(1 626)
Deferred income tax on temporary differences	(112)	290
Income tax reported in other comprehensive income in respect of temporary differences	(40)	(96)
Total	**(1 827)**	**(1 432)**

- ### RECONCILIATION OF THE EFFECTIVE TAX RATE

	2019	2018
Profit or loss before tax	5 819	5 078
Tax calculated using the enacted rate in force in Poland (19%)	(1 106)	(965)
Effect of different tax rates of foreign entities	1	-
Effect of permanent timing differences, of which:	(687)	(377)
non-deductible allowances for expected credit losses	(31)	(84)
contributions and payments to the Bank Guarantee Fund	(97)	(80)
tax on certain financial institutions	(194)	(179)
cost of the legal risk of mortgage loans in convertible currencies other	(85)	-
interest on foreign exchange gains in Sweden	(274)	-
difference between carrying amounts and tax values of fixed assets	48	-
3% flat-rate income tax on interest for non-residents	(11)	-
other permanent differences	(43)	(34)
Effect of other timing differences, including new technologies tax relief and donations	5	6
Income tax expense recognized in the income statement	(1 787)	(1 336)
Effective tax rate	**30,71%**	**26,31%**

(IN PLN MILLION)

- **DEFERRED TAX ASSETS, NET**

DEFERRED TAX PROVISION	31.12.2018	INCOME STATEMENT	EFFECT OF ACQUISITION AND TAKING UP CONTROL OVER SUBSIDIARIES	OTHER COMPREHENSIVE INCOME	31.12.2019
Interest accrued on receivables (loans)	244	(24)	-	-	220
Capitalized interest on performing housing loans	40	(16)	-	-	24
Interest on securities	80	35	-	-	115
Valuation of securities	100	14	-	(1)	113
Valuation of derivatives	23	(7)	-	39	55
Difference between carrying amount and tax value of property, plant and equipment and intangible assets	306	(88)	-	-	218
Taxable income on the release of IBNR allowance, previously tax deductible, on implementation of IFRS 9	78	(13)	-	-	65
Prepayments	165	35	-	-	200
Tax on foreign exchange gains in Sweden	-	143	-	-	143
Other taxable temporary differences	5	8	-	-	13
Gross deferred income tax provision	**1 041**	**87**	-	**38**	**1 166**
DEFERRED TAX ASSET					
Interest accrued on liabilities	99	(13)	-	-	86
Valuation of derivatives	142	(123)	-	(10)	9
Valuation of securities	12	(17)	-	6	1
Provision for employee benefits	84	-	-	2	86
Allowances for expected credit losses	1 126	(128)	-	-	998
Fair value measurement of loans	17	101	-	-	118
Adjustment of straight-line valuation method and effective interest rate	800	100	-	-	900
Other deductible temporary differences	12	38	-	-	50
Provision for costs to be incurred	36	3	-	-	39
Tax loss brought forward	14	-	-	-	14
Difference between carrying amount and tax value of property, plant and equipment and intangible assets, including leased assets	782	14	73	-	869
Deferred tax asset, gross	**3 124**	**(25)**	**73**	**(2)**	**3 170**
Total effect of temporary differences	2 083	(112)	73	(40)	2 004
Deferred income tax provision (presented in the statement of financial position)	52	149	-	38	239
Deferred income tax asset (presented in the statement of financial position)	**2 135**	**37**	**73**	**(2)**	**2 243**

(IN PLN MILLION)

DEFERRED TAX PROVISION	31.12.2017	IMPACT ON OPENING BALANCE OF ADJUSTMENT ON ADOPTION OF IFRS 9 (retained earnings)	IMPACT ON OPENING BALANCE OF ADJUSTMENT ON ADOPTION OF IFRS 9 (other comprehensive income)	INCOME STATEMENT	OTHER COMPREHENSIVE INCOME	31.12.2018
Interest accrued on receivables (loans)	224	471	-	(451)	-	244
Interest on securities	62	-	-	18	-	80
Valuation of securities	8	29	(19)	18	64	100
Valuation of derivative financial instruments	8	-	-	2	13	23
Difference between carrying amount and tax value of property, plant and equipment and intangible assets	333	-	-	(27)	-	306
Taxable income on release of IBNR allowance which was tax deductible in the past due to the adoption of IFRS 9	-	-	-	78	-	78
Prepayments	120	-	-	45	-	165
Foreign exchange gains	18	-	-	(18)	-	-
Other taxable temporary differences	4	-	-	1	-	5
Deferred income tax provision, gross	**883**	**500**	**(19)**	**(400)**	**77**	**1 041**
DEFERRED TAX ASSET						
Interest accrued on liabilities	116	-	-	(17)	-	99
Valuation of derivatives	156	-	-	5	(19)	142
Valuation of securities	-	-	-	12	-	12
Provision for employee benefits	94	-	-	(10)	-	84
Allowances for credit losses	735	639	-	(248)	-	1 126
Fair value remeasurement of loans	-	-		17	-	17
Deferred commission to be settled under the straight-line method and effective interest rate	705	-	-	95	-	800
Other deductible temporary differences	27	-	-	(15)	-	12
Provision for costs to be incurred	41	-	-	(5)	-	36
Tax loss brought forward	16	-	-	(2)	-	14
Foreign exchange differences	1	-	-	(1)	-	-
Difference between carrying amount and tax value of property, plant and equipment and intangible assets, including leased assets	723	-	-	59	-	782
Negative temporary differences regarding the companies of the Group	-	-	-	-	-	-
Deferred tax asset, gross	**2 614**	**639**	**-**	**(110)**	**(19)**	**3 124**
Total effect of temporary differences	1 731	139	19	290	(96)	2 083
Deferred income tax provision (presented in the statement of financial position)	36	-	-	-	-	52
Deferred income tax asset (presented in the statement of financial position)	1 767	-	-	-	-	2 135

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 obtained from bonds issued to the Bank 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.

(IN PLN MILLION)

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 a tax cost related to foreign exchange differences on the company's liabilities in respect of the bond issue at the maturity date. 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 hamper effective hedging of the currency risk. In the opinion of the Group, such an approach would be contrary to Article 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 Article 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. In its opinion of 23 August 2019, the Swedish Tax Office (Skatteverket) took a negative stance on the company's appeal. The company sustained its position in the response to the opinion submitted to the Swedish Supreme Administrative Court on 25 September 2019. In addition, on 10 October 2019, the company submitted complementary documents to its appeal, in which it emphasized, among other things, the importance of the resolution for companies operating in the territory of Sweden and reporting in the euro.

In connection with IFRIC 23 "Uncertainty over Income Tax Treatments" entering into force, the Group made a judgment regarding the uncertain treatment of taxable income earned in the territory of Sweden in respect of foreign exchange differences on loans and liabilities relating to the bond issue. Consequently, as at 31 December 2019, the Group recognized current income tax liability of PLN 131 million and a deferred income tax provision of PLN 143 million. The Group reflected the effect of uncertainty by using the "most probable amount" method.

19. Cash and balances with the Central Bank

Accounting policies

The item "Cash and balances with the Central Bank" presents cash recognized at nominal value, and funds in the current account and deposits with the Central Bank measured at amortized cost, and in there is no schedule for future cash flows, at amounts due, including interest on those funds (if any).

Financial information

CASH AND BALANCES WITH THE CENTRAL BANK	31.12.2019	31.12.2018
Current account with the Central Bank	10 777	17 391
Cash in hand	3 900	5 534
Total	**14 677**	**22 925**

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

	31.12.2019	31.12.2018
Interest on funds in the mandatory reserve account	0,5%	0,5%

(IN PLN MILLION)

20. AMOUNTS DUE FROM BANKS

ACCOUNTING POLICIES

Principles of classification and measurement are described note "Description of significant accounting policies". In the case of receivables for which no future cash flow schedule can be determined, and thus the effective interest rate cannot be determined either, the receivable is measured at the amount due.

Amounts due from banks also include reverse repo transactions. Such transactions are measured at amortized cost. The difference between the sale price and repurchase price constitutes interest income and is settled over the period of the agreement using the effective interest rate.

FINANCIAL INFORMATION

AMOUNTS DUE FROM BANKS	31.12.2019	31.12.2018
Measured at amortized cost	**4 093**	**7 662**
Deposits with banks	2 995	6 437
Current accounts	997	1 174
Loans and advances granted	99	48
Cash in transit	2	3
Total, gross	**4 093**	**7 662**
Allowances for expected credit losses	(1)	(1)
Total	**4 092**	**7 661**

Detailed information about credit risk exposure for amounts due from banks is provided in note "Financial assets by stage of impairment and allowances for expected credit losses".

AMOUNTS DUE FROM BANKS BY MATURITY	31.12.2019	31.12.2018
Measured at amortized cost		
up to 1 month	3 988	7 628
1 to 3 months	78	4
3 months to 1 year	-	17
1 to 5 years	26	12
Total	**4 092**	**7 661**

21. HEDGE ACCOUNTING

RISK MANAGEMENT STRATEGY

The Group applies hedge accounting to hedge its interest rate risk and foreign exchange risk. The hedging transactions are concluded to mitigate the risk of incurring losses as a result of unfavourable changes in foreign currency exchange rates and interest rates. Cash flows related to the transactions performed and the fair value of assets held are hedged.

The interest rate risk covers in particular:

- the risk related to the assets and liabilities, and off-balance sheet items repricing (change in interest rates) frequency and dates mismatch (repricing date mismatch risk);
- the risk following from the change in the angle of the inclination and shape of the yield curve (yield curve risk);
- the risk resulting from an imperfect match between the reference rates used in respect of banking products and the changes in the market rates, or from imperfect transmission systems of changes in market interest rates on those products (base risk);
- risks resulting from options, including embedded options, e.g. restrictions on interests on loans (option risk).

The Group's foreign exchange risk arises as a result of transactions performed under:

- core business activities;
- trading activities;
- contracts concluded by the Group which generate foreign exchange risk.

Foreign exchange risk arising from the Group's activities is managed, where required, by specialized units as part of their own operations based on the data received on open currency positions.

A system of threshold values and limits attributed to particular interest and foreign exchange risks is in force at the Group, aimed at determining the maximum allowable risk level which ensures that the strategic tolerance limits are not exceeded.

ACCOUNTING POLICIES

The Group decided to further apply the provisions of IAS 39 and did not apply IFRS 9 in respect of hedge accounting.

- #### CASH FLOW HEDGES

Changes in the fair value of a derivative financial instrument designated as a cash flow hedge are recognized directly in other comprehensive income in respect of the portion constituting the effective portion of the hedge. The ineffective portion of a hedge is recognized in the income statement in the item "Net income from financial instruments designated at fair value through profit or loss" or "Foreign exchange gains (losses)".

Amounts transferred directly to other comprehensive income are transferred to the income statement in the same period or periods in which the hedged planned transaction affects the income statement. Interest and foreign exchange gains/losses are presented in the income statement, in "Net interest income" and "Net foreign exchange gains (losses)", respectively.

The effectiveness tests comprise the measurement of hedging transactions net of interest accrued and foreign exchange gains (losses) on the nominal value of the hedging transactions (in the case of CIRS transactions).

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

- #### FAIR VALUE HEDGES

Changes in the fair value of a derivative hedging instrument designated as fair value hedge are recognized in "Net income from financial instruments designated at fair value", net of the interest component. The interest component is presented in the same line item as interest income on the hedged item, i.e. in "Net interest income". A change in the adjustment of the measurement of a hedged item at fair value is recognized in "Net income from financial instruments designated at fair value through profit or loss".

The effectiveness tests comprise the measurement of hedging transactions net of accrued interest.

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

TYPES OF HEDGING STRATEGIES APPLIED BY THE GROUP

As at 31 December 2019, the Group had had active relationships as part of:

- 8 strategies for hedging cash flow volatility
- 3 strategies for hedging fair value volatility.

In 2019, the Group introduced two new hedging strategies for fair value hedges.

In 2018 the Group did not introduce any new hedging strategies.

The tables below summarize the types of strategies applied by the Group.

TYPE OF HEDGING STRATEGY	CASH FLOW HEDGES	
HEDGED RISK	foreign exchange risk and interest rate risk	interest rate risk
HEDGING INSTRUMENT	transactions CIRS float – float transactions CIRS fixed – float	transactions IRS fixed – float
HEDGED ITEM	• the portfolio of floating interest loans in foreign currencies, and • the portfolio of current negotiated term deposits, including their future renewals. In designating the hedged item, the Bank used the IAS39 AG 99C in the version adopted by the European Union, or • fixed interest rate financial liability denominated in foreign currency, or • the portfolio of floating interest rate regular savings products in PLN	the portfolio of loans in PLN or foreign currencies indexed to a floating interest rate
SOURCES OF HEDGE INEFFECTIVENESS	• margin on the hedging instrument • differences in discount on the hedged item and the hedging instrument • CVA/DVA adjustment of the hedging instrument	• change in market parameters between the moment of determining the terms and conditions relating to the hedged item and the moment of concluding the hedge • differences in discount on the hedged item and the hedging instrument • CVA/DVA adjustment of the hedging instrument
	The period in which cash flows are expected to occur and affect the financial results: January 2020 – October 2026	The period in which cash flows are expected to occur and affect the financial results: January 2020 – August 2028

TYPE OF HEDGING STRATEGY	FAIR VALUE HEDGES
HEDGED RISK	interest rate risk
HEDGING INSTRUMENT	IRS fixed – float transactions
HEDGED ITEM	a component of the interest rate risk relating to a fixed interest rate loan or security in a foreign currency, which corresponds to the market IRS rate
SOURCES OF HEDGE INEFFECTIVENESS	• change in market parameters between the moment of determining the terms and conditions relating to the hedged item and the moment of concluding the hedge • CVA/DVA adjustment of the hedging instrument • difference between the present value of the floating leg of IRS and the present value of the nominal value of a security

(IN PLN MILLION)

FINANCIAL INFORMATION

Hedging derivative 31.12.2019		Nominal amount of hedging derivatives	Average margin weighted by the nominal/ average fixed interest rate weighted by the nominal	Carrying amount (fair value) of hedging instruments		Ineffective portion of cash flow hedges recognized in the income statement /adjustments of fair value measurement of the hedged item	Change in the fair value of a hedging instrument since designation	Strategy number
				Assets	Liabilities			
Cash flow hedges								
CIRS CHF/PLN	float CHF	1 250	0,0024%	14	378	1	(379)	1, 7
	float PLN	4 524	0,0000%					
IRS PLN	PLN	40 783	2,2972%	239	8	2	63	2
IRS CHF	CHF	400	-0,4425%	8	-	-	2	3
IRS EUR	EUR	1 224	-0,1699%	15	2	-	6	3, 4
CIRS CHF/ USD	float CHF	818	0,0000%	189	-	(2)	124	5
	fixed USD	875	2,4315%					
CIRS CHF/ EUR	float CHF	2 567	0,0000%	86	186	(16)	(220)	5
	fixed EUR	2 301	0,2958%					
CIRS EUR/PLN	float EUR	100	0,0000%	11	-	-	11	6
	float PLN	437	-0,0277%					
CIRS PLN/ EUR	float PLN	2 964	0,0000%	79	8	(7)	67	9
	fixed EUR	699	0,6177%					
Fair value hedges								
IRS EUR	EUR	257	-0,1874%	1	6	4	(1)	8, 10 i 11
IRS USD	USD	134	1,5702%	3	1	(2)	1	11
TOTAL				**645**	**589**	**(20)**	**(326)**	

Hedging derivative 31.12.2018		Nominal amount of hedging derivatives	Average margin weighted by the nominal/ average fixed interest rate weighted by the nominal	Carrying amount (fair value) of hedging instruments		Ineffective portion of cash flow hedges recognized in the income statement /adjustments of fair value measurement of the hedged item	Change in the fair value of a hedging instrument since designation	Strategy number
				Assets	Liabilities			
Cash flow hedges								
CIRS CHF/PLN	float CHF	1 900	-0,0948%	78	428	-	(363)	1; 7
	float PLN	6 902	0,0000%					
IRS PLN	PLN	11 575	2,4386%	101	-	(1)	57	2
IRS CHF	CHF	400	-0,4425%	7	-	-	2	3
IRS EUR	EUR	524	0,2087%	2	5	-	(3)	3; 4
CIRS CHF/ USD	float CHF	818	0,0000%	148	-	1	88	5
	fixed USD	875	2,4315%					
CIRS CHF/ EUR	float CHF	2 001	0,0000%	240	37	3	284	5
	fixed EUR	1 802	0,3504%					
CIRS EUR/PLN	float EUR	125	0,0000%	7	-	-	6	6
	float PLN	546	-0,0092%					
CIRS PLN/ EUR	float PLN	2 101	0,0000%	75	-	7	76	9
	fixed EUR	499	0,7690%					
Fair value hedges								
IRS EUR	EUR	103	-0,3090%	-	1	1	-	8
TOTAL				**658**	**471**	**11**	**147**	

(IN PLN MILLION)

HEDGED ITEM 31.12.2019	CARRYING AMOUNT OF THE HEDGED ITEM	ITEM IN THE STATEMENT OF FINANCIAL POSITION	CHANGE IN THE FAIR VALUE THE HEDGED ITEM	STRATEGY NO.
Cash flow hedges				
Loans in CHF	1 025	Loans and advances to customers	391	1
Negotiated deposits in PLN	3 653	Amounts due to customers		
Loans in CHF	3 385	Loans and advances to customers	96	5
Financial liability in USD	875	Debt securities in issue		
Financial liability in EUR	2 301	Debt securities in issue		
Loans in CHF	225	Loans and advances to customers	7	7
Regular savings products in PLN	872	Amounts due to customers		
Loans in CHF	400	Loans and advances to customers	(2)	3
Loans in PLN	2 964	Loans and advances to customers	(67)	9
Financial liability in EUR	699	Debt securities in issue		
Loans in PLN	40 783	Loans and advances to customers	(58)	2
Loans in EUR	100	Loans and advances to customers	(10)	6
Negotiated deposits in PLN	437	Amounts due to customers		
Loans in EUR	1 224	Loans and advances to customers	(7)	3; 4
Fair value hedges				
Security in EUR	74	Securities measured at fair value through other comprehensive income	-	10; 11
Security in USD	134		(1)	11
Loans in EUR	183		1	8
TOTAL			**350**	

HEDGED ITEM 31.12.2018	CARRYING AMOUNT OF THE HEDGED ITEM	ITEM IN THE STATEMENT OF FINANCIAL POSITION	CHANGE IN THE FAIR VALUE THE HEDGED ITEM	STRATEGY NO.
Cash flow hedges				
Loans in CHF	1 675	Loans and advances to customers	435	1
Negotiated deposits in PLN	6 030	Amounts due to customers		
Loans in CHF	2 818	Loans and advances to customers	(312)	5
Financial liability in USD	875	Debt securities in issue		
Financial liability in EUR	1 802	Debt securities in issue		
Loans in CHF	225	Loans and advances to customers	(15)	7
Regular savings products in PLN	872	Amounts due to customers		
Loans in CHF	400	Loans and advances to customers	(2)	3
Loans in PLN	2 101	Loans and advances to customers	(69)	9
Financial liability in EUR	499	Debt securities in issue		
Loans in PLN	11 575	Loans and advances to customers	(55)	2
Loans in EUR	125	Loans and advances to customers	(6)	6
Negotiated deposits in PLN	545	Amounts due to customers		
Loans in EUR	524	Loans and advances to customers	3	3; 4
Fair value hedges				
Loans in EUR	103		-	8
TOTAL			**(21)**	

In 2019 and 2018 the Group did not use the hedging strategies referred to in IFRS 7 23C, i.e. strategies where both the hedging instrument and the hedged item change frequently (i.e. when the entity uses a dynamic process where both the exposure and the hedging instruments used to manage it do not remain unchanged over a longer period).

In 2019 and 2018 the Group did not identify a situation which is referred to in IFRS 7 23F, i.e. planned transactions for which hedge accounting had been used in the previous period but which are no longer expected to occur.

In 2019 and 2018 the Group did not use credit derivative instruments to manage its credit risk and did not designate a financial instrument (or its part) as measured at fair value through profit or loss, which would be linked to this instrument.

(IN PLN MILLION)

FINANCIAL INFORMATION

CARRYING AMOUNT OF DERIVATIVE HEDGING INSTRUMENTS	31.12.2019		31.12.2018	
	Assets	Liabilities	Assets	Liabilities
Cash flow hedges	641	582	658	470
- interest rate risk IRS	262	10	110	5
- foreign exchange risk and interest rate risk - CIRS	379	572	548	465
Fair value hedges	4	7	-	1
- interest rate risk IRS	4	7	-	1
Total	645	589	658	471

CASH FLOW HEDGES

CHANGE IN OTHER COMPREHENSIVE INCOME RELATING TO CASH FLOW HEDGES AND AN INEFFECTIVE PORTION OF CASH FLOW HEDGES	2019	2018
Other comprehensive income at the beginning of the period, gross	28	(142)
Gains/losses recognized in other comprehensive income during the period	187	(62)
Amounts transferred from other comprehensive income to the income statement, of which:	72	232
- interest income	(324)	(355)
- net foreign exchange gains/(losses)	396	587
Accumulated other comprehensive income at the end of the period, gross	287	28
Tax effect	(55)	(6)
Accumulated other comprehensive income at the end of the period, net	232	22
Impact on other comprehensive income during the period, gross	259	170
Tax effect	(49)	(32)
Impact on other comprehensive income during the period, net	210	138
Ineffective portion of cash flow hedges recognized in the income statements, including in:	(20)	11
Net foreign exchange gains / (losses)	(22)	12
Gain/(loss) on financial instruments measured at fair value	2	(1)

FAIR VALUE HEDGE

HEDGES OF INTEREST RATE RISK	31.12.2019	31.12.2018
Fair value measurement of the hedging derivative instrument - IRS	(3)	1
Fair value adjustment of the hedged instrument attributable to the hedged risk	5	1
Securities	1	
Loans and advances to customers	4	1

CALCULATION OF ESTIMATES

ESTIMATED CHANGE IN VALUATION FOLLOWING A PARALLEL SHIFT IN YIELD CURVES:	31.12.2019		31.12.2018	
	+50 bp scenario	-50 bp scenario	+50 bp scenario	-50 bp scenario
IRS	(190)	191	(146)	148
CIRS	(167)	170	(200)	204
Total	(357)	361	(346)	352

(IN PLN MILLION)

22. OTHER DERIVATIVE INSTRUMENTS

ACCOUNTING POLICIES

In its operations the Group uses derivative financial instruments for risk management purposes related to the Group's operations. The Group most often uses the following derivative instruments: IRS, CIRS, FX Swap, options, commodity swaps, FRA, Forwards and Futures. Derivative financial instruments are stated at fair value from the transaction date. Every derivative with positive fair value is shown under "Other derivative financial instruments" as an asset, and if the fair value is negative – as a liability.

The Group recognizes changes to the fair value measurement of derivative instruments which are not classified as hedging instruments and the gain/(loss) on the settlement of those instruments in the net gain/(loss) on financial instruments measured at fair value through profit or loss or net foreign exchange gains/(losses), depending on the type of derivative.

ESTIMATES AND JUDGEMENTS

The fair value of derivative instruments other than options is designated using the measurement methods that base on discounted cash flows which may be obtained from a given financial instrument. The measurement techniques for financial instruments other than options are based on yield curves constructed on the basis of available market data (deposit rates on the interbank market, quotations of IRS transactions). Options are valued using option pricing models. The variables and assumptions used in a valuation include, where available, data derived from observable markets.

The fair value of derivative instruments accounts for DVA (debit value adjustment), and CVA (credit value adjustment). The process of calculating CVA and DVA adjustments covers methods of designating the counterparty's or the Group's credit risk spread (e.g. the market based measurement based on liquid quotations of prices of debt instruments issued by the counterparty, the implicated spread from Credit Default Swap contracts), estimating the probability of the counterparty's or the Group's default and the recovery rate, as well as the calculation of CVA and DVA adjustments.

FINANCIAL INFORMATION

OTHER DERIVATIVE INSTRUMENTS - BY TYPE	31.12.2019		31.12.2018	
	Assets	Liabilities	Assets	Liabilities
IRS	1 523	1 624	1 178	1 832
CIRS	151	145	156	153
FX Swap	217	186	115	43
Options	312	336	262	268
Commodity swap	287	283	85	83
FRA	1	1	3	2
Forward	304	348	108	274
Futures	-	1	-	-
Total	**2 795**	**2 924**	**1 907**	**2 655**

CALCULATION OF ESTIMATES

The Group made simulations aimed at determining the possible impact of the changes in the yield curve on the valuation of transactions.

ESTIMATED CHANGE IN VALUATION FOLLOWING A PARALLEL SHIFT IN YIELD CURVES:	31.12.2019		31.12.2018	
	+50 bp scenario	-50 bp scenario	+50 bp scenario	-50 bp scenario
IRS	(182)	183	(145)	147
CIRS	(219)	222	(253)	259
other instruments	(2)	2	3	(3)
Total	**(403)**	**407**	**(395)**	**403**

	31.12.2019	31.12.2018
CVA and CDA adjustments	(9)	-

(IN PLN MILLION)

23. NOMINAL AMOUNTS OF INSTRUMENTS UNDERLYING HEDGING INSTRUMENTS AND OTHER DERIVATIVE INSTRUMENTS

NOMINAL AMOUNTS OF UNDERLYING HEDGING INSTRUMENTS (BUY AND SELL TOGETHER)
hedging instruments and other derivative instruments

31.12.2019	up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	over 5 years	Total
IRS	**7 204**	**40 152**	**187 598**	**206 124**	**39 435**	**480 513**
Purchase	3 602	20 076	93 799	103 062	19 718	240 257
Sale	3 602	20 076	93 799	103 062	19 717	240 256
CIRS	**1 386**	**406**	**4 248**	**70 580**	**7 554**	**84 174**
Purchase	694	191	2 019	38 160	3 772	44 836
Sale	692	215	2 229	32 420	3 782	39 338
FX Swap	**21 328**	**8 336**	**13 663**	**5 211**	**-**	**48 538**
Purchase of currencies	10 659	4 161	6 846	2 639	-	24 305
Sale of currencies	10 669	4 175	6 817	2 572	-	24 233
Options	**6 263**	**12 743**	**37 545**	**11 845**	**1**	**68 397**
Purchase	3 108	6 432	18 576	5 849	-	33 965
Sale	3 155	6 311	18 969	5 996	1	34 432
FRA	**-**	**-**	**22 211**	**1 000**	**-**	**23 211**
Purchase	-	-	12 397	500	-	12 897
Sale	-	-	9 814	500	-	10 314
Forward	**7 601**	**13 160**	**24 650**	**12 634**	**-**	**58 045**
Purchase of currencies	3 795	6 588	12 316	6 305	-	29 004
Sale of currencies	3 806	6 572	12 334	6 329	-	29 041
Other (including on stock exchange indices	**824**	**1 348**	**1 924**	**614**	**-**	**4 710**
Purchase	518	683	962	307	-	2 470
Sale	306	665	962	307	-	2 240
Total	**44 606**	**76 145**	**291 839**	**308 008**	**46 990**	**767 588**

NOMINAL AMOUNTS OF UNDERLYING HEDGING INSTRUMENTS (BUY AND SELL TOGETHER)
hedging instruments and other derivative instruments

31.12.2018	up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	over 5 years	Total
IRS	**21 512**	**13 904**	**94 288**	**192 674**	**35 386**	**357 764**
Purchase	10 756	6 952	47 144	96 337	17 693	178 882
Sale	10 756	6 952	47 144	96 337	17 693	178 882
CIRS	**-**	**-**	**9 540**	**36 754**	**22 527**	**68 821**
Purchase	-	-	4 717	20 680	13 377	38 774
Sale	-	-	4 823	16 074	9 150	30 047
FX Swap	**22 811**	**6 905**	**4 142**	**5 048**	**-**	**38 906**
Purchase of currencies	11 408	3 461	2 093	2 575	-	19 537
Sale of currencies	11 403	3 444	2 049	2 473	-	19 369
Options	**3 573**	**7 068**	**27 893**	**8 925**	**122**	**47 581**
Purchase	1 809	3 363	12 759	4 502	61	22 494
Sale	1 764	3 705	15 134	4 423	61	25 087
FRA	**-**	**-**	**20 853**	**2 700**	**-**	**23 553**
Purchase	-	-	11 120	1 200	-	12 320
Sale	-	-	9 733	1 500	-	11 233
Forward	**4 513**	**10 600**	**20 762**	**12 309**	**5**	**48 189**
Purchase of currencies	2 251	5 292	10 324	6 137	4	24 008
Sale of currencies	2 262	5 308	10 438	6 172	1	24 181
Other (including on stock exchange indices	**265**	**457**	**1 229**	**1 177**	**-**	**3 128**
Purchase	126	229	620	590	-	1 565
Sale	139	228	609	587	-	1 563
Total	**52 674**	**38 934**	**178 707**	**259 587**	**58 040**	**587 942**

(IN PLN MILLION)

NOMINAL VALUE OF HEDGING INSTRUMENTS BY MATURITY AS AT 31 DECEMBER 2019	up to 1 month	from 1 to 3 months	from 3 months to 1 year	from 1 to 5 years	over 5 years	Total
Cash flow hedges						
Hedges of interest rate risk						
IRS PLN fixed - float	500	4 700	25 492	10 031	60	**40 783**
IRS EUR fixed - float (original currency)	-	-	700	524	-	**1 224**
IRS CHF fixed - float (original currency)	-	-	-	400	-	**400**
Hedges of foreign exchange and interest rate risks						
CIRS float CHF/float PLN						
float CHF	-	50	425	750	25	**1 250**
float PLN	-	169	1 456	2 811	88	**4 524**
CIRS fixed USD/float CHF						
fixed USD	-	-	-	875	-	**875**
float CHF	-	-	-	817	-	**817**
CIRS float EUR/float PLN						
float EUR	25	-	-	75	-	**100**
float PLN	108	-	-	329	-	**437**
CIRS float PLN/fixed EUR						
float PLN	-	-	-	2 964	-	**2 964**
fixed EUR	-	-	-	699	-	**699**
CIRS fixed EUR/float CHF						
fixed EUR	-	-	-	2 301	-	**2 301**
float CHF	-	-	-	2 567	-	**2 567**
Fair value hedges						
Hedges of interest rate risk						
IRS USD fixed - float (original currency)	-	-	-	134		**134**
IRS EUR fixed - float (original currency)	-	-	-	209	48	**257**

NOMINAL VALUE OF HEDGING INSTRUMENTS BY MATURITY AS AT 31 DECEMBER 2018	up to 1 month	from 1 to 3 months	from 3 months to 1 year	from 1 to 5 years	over 5 years	Total
Cash flow hedges						
Hedges of interest rate risk						
IRS PLN fixed - float	-	300	1 230	9 985	60	**11 575**
IRS EUR fixed - float (original currency)	-	-	-	499	25	**524**
IRS CHF fixed - float (original currency)	-	-	-	400	-	**400**
Hedges of foreign exchange and interest rate risks						
CIRS float CHF/float PLN						
float CHF	-	-	650	1 225	25	**1 900**
float PLN	-	-	2 378	4 436	88	**6 902**
CIRS fixed USD/float CHF						
fixed USD	-	-	-	875	-	**875**
float CHF	-	-	-	818	-	**818**
CIRS float EUR/float PLN						
float EUR	-	-	25	100	-	**125**
float PLN	-	-	109	437	-	**546**
CIRS float PLN/fixed EUR						
float PLN	-	-	-	-	2 101	**2 101**
fixed EUR	-	-	-	-	499	**499**
CIRS fixed EUR/float CHF						
fixed EUR	-	-	-	1 302	500	**1 802**
float CHF	-	-	-	1 424	577	**2 001**
Fair value hedges						
Hedges of interest rate risk	-	-	-	-	-	**-**
IRS EUR fixed - float (original currency)	-	-	-	91	12	**103**

(IN PLN MILLION)

24. SECURITIES

ACCOUNTING POLICIES

Securities are classified in accordance with the principles of business model determination and an evaluation of the characteristics of contractual cash flows referred to in note "Description of significant accounting policies".

The item "Securities" also includes an adjustment relating to fair value hedge accounting for securities representing hedged items (note "Hedge Accounting").

FINANCIAL INFORMATION

SECURITIES	31.12.2019	31.12.2018
Securities (excluding adjustments relating to fair value hedge accounting)	80 572	64 114
Adjustment relating to fair value hedge accounting	1	-
Total	**80 573**	**64 114**

SECURITIES (excluding adjustments relating to fair value hedge accounting)	31.12.2019	31.12.2018
held for trading	1 112	235
not held for trading, measured at fair value through profit or loss	2 199	2 848
measured at fair value through OCI	63 807	52 558
measured at amortized cost	13 454	8 473
Total	**80 572**	**64 114**

SECURITIES (excluding adjustments relating to fair value hedge accounting) 31.12.2019	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	1 095	493	63 807	13 454	78 849
NBP money market bills	-	-	1 000	-	1 000
Treasury bonds (in PLN)	982	301	51 541	7 406	60 230
Treasury bonds (in foreign currencies)	2	-	2 520	60	2 582
municipal bonds (in PLN)	15	-	5 232	4 563	9 810
corporate bonds (in PLN)	95	192	3 514	1 083	4 884
corporate bonds (in foreign currencies)	1	-	-	342	343
Equity securities	17	1 706	-	-	1 723
shares in other entities - not listed	-	436	-	-	436
shares in other entities - listed	15	150	-	-	165
Participation units in investment funds, investment certificates, rights to shares, pre-emptive rights	2	1 120	-	-	1 122
Total	**1 112**	**2 199**	**63 807**	**13 454**	**80 572**

(IN PLN 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
municipal 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	-	269	-	-	269
shares in other entities - listed	13	180	-	-	193
Participation units in investment funds, investment certificates, rights to shares, pre-emptive rights	5	1 198	-	-	1 203
Total	**235**	**2 848**	**52 558**	**8 473**	**64 114**

The item "T-bonds in PLN and in foreign currencies" comprises Polish T-bonds. As at 31 December 2019 and 31 December 2018, the item "Treasury bonds in foreign currencies" also includes bonds issued by the State of Ukraine of PLN 492 and 513 million, respectively.

Information about credit risk exposure for securities measured at amortized cost and at fair value through other comprehensive income is provided in note "Financial assets by stage of impairment and allowances for expected credit losses".

SECURITIES (excluding adjustments relating to fair value hedge accounting) 31.12.2019	measured at fair value through OCI			measured at amortized cost		
	Gross amount	Allowances for expected credit losses	Net amount	Gross amount	Allowances for expected credit losses	Net amount
Debt securities	63 812	(5)	63 807	13 474	(20)	13 454
NBP money market bills	1 000	-	1 000	-	-	-
Treasury bonds (in PLN)	51 541	-	51 541	7 406	-	7 406
Treasury bonds (in foreign currencies)	2 520	-	2 520	61	(1)	60
municipal bonds (in PLN)	5 232	-	5 232	4 574	(11)	4 563
corporate bonds (in PLN)	3 519	(5)	3 514	1 087	(4)	1 083
corporate bonds (in foreign currencies)	-	-	-	346	(4)	342
Total	**63 812**	**(5)**	**63 807**	**13 474**	**(20)**	**13 454**

SECURITIES (excluding adjustments relating to fair value hedge accounting) 31.12.2018	measured at fair value through OCI			measured at amortized cost		
	Gross amount	Allowances for expected credit losses	Net amount	Gross amount	Allowances for expected credit losses	Net amount
Debt securities	52 568	(10)	52 558	8 499	(26)	8 473
NBP money market bills	2 900	-	2 900	-	-	-
Treasury bonds (in PLN)	39 970	-	39 970	2 234	-	2 234
Treasury bonds (in foreign currencies)	393	-	393	127	(3)	124
municipal bonds (in PLN)	5 301	-	5 301	4 013	(6)	4 007
corporate bonds (in PLN)	3 952	(10)	3 942	1 777	(13)	1 764
corporate bonds (in foreign currencies)	52	-	52	348	(4)	344
Total	**52 568**	**(10)**	**52 558**	**8 499**	**(26)**	**8 473**

	31.12.2019	31.12.2018
allowance which does not reduce the fair value of securities measured at fair value through other comprehensive income	21	25

(IN PLN MILLION)

SECURITIES BY MATURITY (excluding adjustments relating to fair value hedge accounting) 31.12.2019	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
with unspecified maturity - equity securities	17	1 706		-	1 723
up to 1 month	115	-	1 247	-	1 362
1 to 3 months	3	-	105	10	118
3 months to 1 year	331	47	2 215	403	2 996
1 to 5 years	150	228	44 804	8 693	53 875
over 5 years	496	218	15 436	4 348	20 498
Total	**1 112**	**2 199**	**63 807**	**13 454**	**80 572**

SECURITIES BY MATURITY (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
with unspecified maturity - equity securities	18	1 647	-	-	1 665
up to 1 month	4	-	4 531	19	4 554
1 to 3 months	-	-	443	136	579
3 months to 1 year	30	362	2 972	755	4 119
1 to 5 years	120	682	22 300	4 109	27 211
over 5 years	63	157	22 312	3 454	25 986
Total	**235**	**2 848**	**52 558**	**8 473**	**64 114**

25. Loans and advances to customers

Accounting policies

Loans and advances to customers comprise receivables in respect of loans and advances, finance lease receivables, and receivables in respect of reverse repo transactions in securities where banks are not a counterparty

Loans and advances to customers are classified in the above categories in accordance with the principles of business model determination and an evaluation of the characteristics of contractual cash flows referred to in note "Description of significant accounting policies".

Finance lease agreements are recognized as receivables in the amount equal to the current contractual value of the lease payments plus the potential unguaranteed residual value attributed to the lessor, determined as at the date of inception of the lease. Lease payments on finance leases are divided between interest income and a reduction in the balance of receivables in a manner enabling achieving a fixed interest rate on the remaining receivables.

Reverse repo transactions are measured at amortized cost. The difference between the sale price and repurchase price constitutes interest income and is settled over the period of the agreement using the effective interest rate.

The item "Loans and advances to customers" also includes an adjustment relating to fair value hedge accounting for loans and advances to customers representing hedged items (note "Hedge Accounting").

The impact of the legal risk related to exposures on mortgage loans in foreign currencies and legal claims existing at the reporting date was recognized by the Group as the adjustment to the gross carrying value of mortgage loans valued at amortised cost.

(IN PLN MILLION)

FINANCIAL INFORMATION

LOANS AND ADVANCES TO CUSTOMERS	31.12.2019 Net amount	31.12.2018 Net amount
Loans and advances to customers (excluding adjustments relating to fair value hedge accounting)	231 430	214 911
Adjustment relating to fair value hedge accounting	4	1
Total loans and advances to customers	**231 434**	**214 912**

LOANS AND ADVANCES TO CUSTOMERS (excluding adjustments relating to fair value hedge accounting)	31.12.2019	31.12.2018
measured at amortized cost	223 144	213 805
not held for trading, measured at fair value through profit or loss	8 286	1 106
Total	**231 430**	**214 911**

LOANS AND ADVANCES TO CUSTOMERS (excluding adjustments relating to fair value hedge accounting) 31.12.2019	not held for trading, measured at fair value through profit or loss	measured at amortized cost			Total
	Net amount	Gross amount	Allowances for expected credit losses	Net amount	Net amount
Loans	**8 286**	**212 496**	**(6 757)**	**205 739**	**214 025**
mortgage banking	15	120 444	(1 966)	118 478	**118 493**
corporate	148	69 176	(3 571)	65 605	**65 753**
retail and private banking	8 123	22 876	(1 220)	21 656	**29 779**
Finance lease receivables	-	**16 788**	**(464)**	**16 324**	
Receivables in respect of repurchase agreements	-	**1 081**		**1 081**	**1 081**
Total	**8 286**	**230 365**	**(6 757)**	**223 144**	**231 430**

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 expected credit losses	Net amount	Net amount
Loans	**1 106**	**206 972**	**(7 715)**	**199 257**	**200 363**
mortgage banking	27	114 781	(2 012)	112 769	112 796
corporate	148	64 910	(3 992)	60 918	61 066
retail and private banking	931	27 281	(1 711)	25 570	26 501
Finance lease receivables	-	**14 986**	**(489)**	**14 497**	**14 497**
Receivables in respect of repurchase agreements	-	**51**	-	**51**	**51**
Total	**1 106**	**222 009**	**(8 204)**	**213 805**	**214 911**

(IN PLN MILLION)

LOANS AND ADVANCES TO CUSTOMERS (excluding adjustments relating to fair value hedge accounting) 31.12.2019	not held for trading, measured at fair value through profit or loss	measured at amortized cost			Total
	Net amount	Gross amount	Allowances for expected credit losses	Net amount	Net amount
Loans	8 286	229 284	(7 221)	222 063	230 349
mortgage banking	15	114 233	(1 806)	112 427	**112 442**
housing	15	114 233	(1 806)	112 427	**112 442**
corporate	94	58 934	(1 769)	57 165	**57 259**
housing	-	308	(26)	282	**282**
business	94	53 745	(1 646)	52 099	**52 193**
finance lease receivables	-	4 881	(97)	4 784	**4 784**
retail and private banking	8 123	22 992	(1 221)	21 771	**29 894**
consumer	8 123	22 876	(1 220)	21 656	**29 779**
finance lease receivables	-	116	(1)	115	**115**
SME	54	33 125	(2 425)	30 700	**30 754**
housing	-	5 903	(134)	5 769	**5 769**
business	54	15 431	(1 925)	13 506	**13 560**
finance lease receivables	-	11 791	(366)	11 425	**11 425**
Receivables in respect of repurchase agreements	-	**1 081**		**1 081**	**1 081**
Total	8 286	230 365	(7 221)	223 144	231 430

The item “Gross housing loans at amortized cost” includes an adjustment reducing the carrying amount of loans of PLN 422 million in respect of the legal risk of the mortgage loans in convertible currencies (for details, see note “Risk management of foreign currency risk associated with mortgage loans for households”).

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 expected 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
business	121	50 239	(1 850)	48 389	48 510
finance lease receivables	-	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	26 519
finance lease receivables	-	18	-	18	18
SME	27	31 082	(2 656)	28 426	28 453
housing	-	5 979	(128)	5 851	5 851
business	27	14 671	(2 142)	12 529	12 556
finance lease receivables	-	10 432	(386)	10 046	10 046
Receivables in respect of repurchase agreements	-	**51**	-	**51**	**51**
Total	1 106	222 009	(8 204)	213 805	214 911

Further information about credit risk exposure for loans and advances to customers measured at amortized cost and at fair value through other comprehensive income is provided in note “Financial assets by stage of impairment and allowances for expected credit losses”.

(IN PLN MILLION)

LOANS AND ADVANCES TO CUSTOMERS BY MATURITY (excluding adjustments relating to fair value hedge accounting) 31.12.2019	not held for trading, mandatorily measured at fair value through profit or loss	measured at amortized cost	Total
up to 1 month	1 954	10 240	**12 194**
1 to 3 months	678	7 538	**8 216**
3 months to 1 year	2 829	30 693	**33 522**
1 to 5 years	2 467	71 423	**73 890**
over 5 years	358	103 250	**103 608**
Total	**8 286**	**223 144**	**231 430**

LOANS AND ADVANCES TO CUSTOMERS BY MATURITY (excluding adjustments relating to fair value hedge accounting) 31.12.2018	not held for trading, mandatorily measured at fair value through profit or loss	measured at amortized cost	Total
up to 1 month	225	9 478	**9 703**
1 to 3 months	34	6 120	**6 154**
3 months to 1 year	137	24 593	**24 730**
1 to 5 years	498	72 900	**73 398**
over 5 years	212	100 714	**100 926**
Total	**1 106**	**213 805**	**214 911**

- **RECLASSIFICATION OF LOANS FROM MEASURED AT AMORTIZED COST TO MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS**

In the third quarter of 2019, the Group reclassified a part of the portfolio of consumer loan with the net carrying amount of PLN 8 204 million from measured at amortized cost to measured at fair value through profit or loss. Reclassification related to the following products: cash loans, credit cards and revolving loans, which contained a multiple in the interest rate formula. The net impact of reclassification as at the reclassification date was nil.

Reclassification was justified by the fact that these contracts did not meet the IFRS 9 classification criteria for categories other than measured at fair value through profit or loss since the contracts for these products provided for a multiple in the interest rate formula.

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

ACCOUNTING POLICIES

The allowance for expected credit losses is recognized in the financial statements in the following manner:

- Financial assets measured at amortized cost: the allowance reduces the gross carrying amount of the financial asset; changes in the allowances amount are recognized in the income statement;
- Off-balance sheet liabilities of a financial nature and financial guarantees: the allowance is presented as a provision under liabilities; changes in the provisions amount are recognized in the income statement;
- Financial instruments measured at fair value through other comprehensive income: the carrying amount of assets recognized at fair value is not additionally decreased by the allowances; however, each change in the measurement is divided into the impairment component, which is recognized in the income statement, and the component relating to other changes in the fair value measurement, which is recognized in other comprehensive income;
- Financial assets measured at fair value through profit or loss: no allowances for expected credit losses are recognized.

ESTIMATES AND JUDGEMENTS

With regard to impairment, the Group applies the concept of expected losses.

The impairment model is applicable to financial assets that are not measured at fair value through profit or loss, comprising:

- debt financial instruments comprising credit exposures and securities;
- lease receivables;
- other financial assets;
- off-balance sheet financial and guarantee liabilities.

Expected credit losses are not recognized for equity instruments.

Impairment allowances for exposure reflect 12-month or lifetime expected credit losses on such exposures for a given financial asset.

The time horizon of an expected loss depends on whether a significant increase in credit risk occurred since the moment of initial recognition. Based on this criterion, financial assets are allocated to 3 stages:

STAGE 1 – exposures in which the credit risk is not significantly higher than upon initial recognition and no evidence of impairment is found;

STAGE 2 – exposures in which the credit risk is significantly higher than upon initial recognition, but no evidence of impairment is found;

STAGE 3 –assets in respect of which evidence of impairment is recognized, including assets granted or purchased with evidence of impairment recognized (upon being granted or purchased).

- **SIGNIFICANT INCREASE IN CREDIT RISK**

A significant increase in credit risk is verified according to the likelihood of default and its changes with respect to the date of originating the loan.

The Group uses a model based on a marginal PD calculation, i.e. the probability of default in a given month, to assess a material increase in credit risk for mortgage exposures and other retail exposures. This probability depends on the time that has passed from originating the exposure. This enables reflecting the differences in credit quality that are typical of exposures to individuals over the lifetime of the exposure. The marginal PD curves were determined on the basis of historic data at the level of homogeneous portfolios, which are separated according to the type of product, the year of their origination, the loan currency and the credit quality at the time of origination. The marginal PD is attributed to individual exposures by scaling the curve at the level of the portfolio to the individual assessment of the exposure / customer using application models (using data from loan applications) and behavioural models. The Group identifies the premise of a material increase in credit risk for a given exposure by comparing individual PD curves over the exposure horizon as at the date of initial recognition and as at the reporting date. Only the parts of the original and current PD curves which correspond to the period from the reporting date to the date of maturity of the exposure are compared as at each reporting date. The comparison is based on the average probability of default over the life of the loan in the period under review adjusted for current and forecast macroeconomic indicators.

The result of this comparison, referred to as statistic α, is referred to the threshold value above which an increase in credit risk is considered material. The threshold value is determined on the basis of the historical relationship between the values of the statistic α and the default arising. In this process the following probabilities are minimized:

- classification into a set of credit exposures with a significant increase in the level of credit risk (based on statistics), for which no event of default took place during the audited period (type I error)
- non-classification into the set of credit exposures with a significant increase in the level of credit risk (based on the statistics) for which an event of default occurred during the audited period (type II error).

(IN PLN MILLION)

According to data that is applicable at the end of 2019, an increase in the PD parameter by at least 2.6 compared to the value at the time of its recognition in the Group's accounts in respect of mortgage exposures and an increase by at least 2.5 in respect of other retail exposures constitutes a premise of a significant deterioration in credit quality (unchanged compared to end of 2018).

With respect to credit exposures for which the current risk of default does not exceed the level provided for in the price of the loan, the results of the comparison of the probability of default curves as at the date of initial recognition and as at the reporting date do not signify a material increase in credit risk.

The Group uses a model based on Markov chains to assess material increases in credit risk for institutional customers. Historical data is used to build matrices of probabilities of customers migrating between individual classes of risk that are determined on the basis of the Group's rating and scoring models. These migrations are determined within homogeneous portfolios, classified using, inter alia, customer and customer segment assessment methodologies.

An individual highest acceptable value of the probability of default is set for each class of risk and portfolio on the date of the initial recognition of the credit exposure, which, if exceeded, is identified as a material increase in credit risk. This value is set on the basis of the average probability of default for classes of risk worse than that at initial recognition of the exposure, weighted by the probability of transition to those classes of risk in the given time horizon.

In accordance with the data as at the end of 2019 and 2018, the minimum deterioration in the class of risk which constitutes a premise of a material improvement of the credit presented compared to the current class of risk were as follows:

Risk category	PD range	the minimum range of the risk category deterioration indicating a significant increase in credit risk[1]
A-B	0.0 - 0.90%	3 categories
C	0.90 - 1.78%	3 categories
D	1.78 - 3.55%	2 categories
E	3.55 - 7.07%	1 category
F	7.07 - 14.07%	1 category
G	14.07 - 99.99%	not applicable[2]

[1] average values (the scopes are determined separately for homogeneous groups of customers)
[2] deterioration of the class of risk is a direct premise of impairment

The Group uses all available qualitative and quantitative information to identify the remaining premises of a material increase in credit risk, including:

- restructuring measures introducing forbearance for a debtor in financial difficulties;
- extending the period for the repayment of a significant amount of principal or interest by more than 30 days;
- identified early warning signals as part of the monitoring process, suggesting a material increase in credit risk;
- a significant increase in the LTV ratio;
- an analyst's assessment according to an individual approach;
- quarantine for Stage 2 exposures, which have not shown premises for impairment in the previous 3 months.
- filing for consumer bankruptcy by any of the joint borrowers;
- transferring the credit exposure to be managed by the Group's restructuring and debt collection units.

- **IMPAIRED LOANS AND DEFINITION OF DEFAULT**

The premise for the impairment of a credit exposure is, in particular:

- a delay in the repayment of a materially significant amount of principal or interest by more than 90 days;
- deterioration of the debtor's economic and financial position during the lending period, expressed by the classification into a rating class or class of risk suggesting a material risk of default (Rating H);
- the conclusion of a restructuring agreement or the application of relief in debt repayment, which is forced by economic or legal reasons arising from the customer's financial difficulties (until the claim is recognized as remedied);
- filing a motion for the debtor's bankruptcy, placing the debtor into liquidation or the opening of enforcement proceedings with respect to the debtor.
- declaration of consumer bankruptcy by any of the joint borrowers.

In accordance with the 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 ("CRR"), the Group defines a state of default if it assesses that the debtor is unable to repay the loan liability without resorting to exercising the collateral or if the exposure is overdue more than 90 days. The premises of default are identical to the premises for impairment of the exposure.

- **CALCULATION OF THE EXPECTED CREDIT LOSS**

The model for the calculation of the expected credit loss is based on applying detailed segmentation to the credit portfolio, taking into account the following characteristics at product and customer level:

- type of credit product;
- currency of the product;
- year of granting;
- assessment of risk of the customer's default;
- the customer's business segment;
- method of assessing the customer risk.

The Group calculates expected credit losses on an individual and on a portfolio basis.

The individual basis is used in respect of individually significant exposures. The expected credit loss from the exposure is determined as the difference between its gross carrying amount (in the case of an off-balance sheet credit exposure – the value of its balance sheet equivalent) and the present value of the expected future cash flows, established by taking into account the possible scenarios regarding the performance of the contract and the management of credit exposure, weighted by the probability of their realization.

The portfolio method is applied to exposures that are not individually significant and in in the event of a failure to identify premises of impairment.

In the portfolio method, the expected loss is calculated as the product of the credit risk parameters: the probability of default (PD), the loss given default (LGD) and the value of the exposure at default (EAD); each of these parameters assumes the form of a vector representing the number of months covering the horizon of estimation of the credit loss.

The Group sets this horizon for retail exposures without a repayment schedule on the basis of behavioural data from historical observations. The loss expected both in the entire duration of the exposure and in a period of 12 months is the sum of expected losses in the individual periods discounted using the effective interest rate. The Group adjusts the parameter specifying the level of exposure at the time of default by the future repayments arising from the schedule and potential overpayments and underpayments to specify the value of the asset at the time of default in a given period.

The calculation of expected credit losses encompasses estimates of future macroeconomic conditions. In terms of portfolio analysis, the impact of macroeconomic scenarios is taken into account in the amount of the individual risk parameters. The methodology for calculating the risk parameters includes the study of the dependencies of these parameters on the macroeconomic conditions based on historical data. Three macroeconomic scenarios based on the Bank's own forecasts are used for calculating the expected loss – a baseline forecast with a probability of 80% and two alternative scenarios, each with a probability of 10%. The scope of the forecast indicators includes the GDP growth index, the rate of unemployment, the WIBOR 3M rate, the LIBOR CHF 3M rate, the CHF/PLN exchange rate, the property price index and the NBP reference rate. The final expected loss is the weighted average probability of scenarios from expected losses corresponding to individual scenarios. The Group assures compliance of the macroeconomic scenarios used for the calculation of the risk parameters with macroeconomic scenarios used for the credit risk budgeting processes. The baseline scenario uses the base macroeconomic forecasts. The forecasts are prepared on the basis of the quantitative models, taking into account adjustments for the presence of one-off events.

The extreme scenarios apply to cases of so-called internal shock, as a result of which the so-called external variables (foreign interest rates) do not change with respect to the baseline scenario. The extreme scenarios are developed on the basis of a statistical and econometric analysis, i.e. they do not reflect the events described, but the forecast path. Two scenarios are identified, optimistic and pessimistic. The share of the scenarios for the GDP path that falls between the optimistic and the pessimistic scenario is referred to as the probability of the baseline scenario. Such an assumption is used to forecast GDP growth, using a potential rate of growth of the Polish economy that varies over time, calculated with the use of quarterly data provided by the Central Statistical Office. The values of other macroeconomic variables used in the scenarios (rate of unemployment, property price index) are estimated after the extreme paths of GDP growth are defined.

The rate of unemployment is calculated on the basis of the quantified dependence on the difference between GDP growth and the potential rate of economic growth. The result is adjusted for significant structural changes taking place in the Polish economy, which are not encompassed by the quantitative model, in particular:

- the ageing of the Polish population (and the appearance of unsatisfied demand for labour, which will limit the scale of increase in the rate of unemployment in a situation in an economic downturn);
- the Polish labour market is nearing full employment (restrictions of supply mean that there is increasingly less space for a further decline in the rate of unemployment);
- the inflow of immigrants (only partly included in the official statistics).

The level of the property price index is set on the basis of changes in GDP, taking into account the conditions of supply and demand on the market based on the data and trends presented by the NBP in the publication "Information on housing prices and the situation on the residential and commercial property market in Poland" and the Group's own analyses. The forecasts of WIBOR and LIBOR deposit rates are mainly prepared on the basis of assumptions regarding central bank interest rates. The CHF/PLN exchange rate is a cross rate of the EUR/PLN and EUR/CHF exchange rates. Its forecasts are a combination of the forecasts for these two rates. The EUR/PLN and EUR/CHF forecasts are prepared on the basis of a macroeconomic analysis (current and historical) based on econometric methods, as well as on a technical analysis of the financial markets.

Both the process of assessing a material increase in credit risk and the process of calculating the expected loss are conducted monthly at the level of individual exposures. They use a dedicated computing environment that allows for the distribution of the results to the Group's internal units.

The Group has separated the portfolio of financial assets with low credit risk by classifying credit exposures for which the average long-term default rate does not exceed the probability of default specified by the rating agency for the worst class investment rating. This portfolio includes, in particular, credit exposures to banks, governments, local government entities and housing cooperatives and communities.

(IN PLN MILLION)

FINANCIAL INFORMATION

- **FINANCIAL ASSETS BY THE STAGE OF IMPAIRMENT**

AGGREGATE INFORMATION ON FINANCIAL ASSETS BY STAGE OF IMPAIRMENT (excluding adjustments relating to fair value hedge accounting)	31.12.2019			31.12.2018		
	Gross amount	Allowances for expected credit losses	Net amount	Gross amount	Allowances for expected credit losses	Net amount
Measured at fair value through other comprehensive income						
Securities	**63 812**	**(5)**	**63 807**	**52 568**	**(10)**	**52 558**
stage 1	63 290	-	63 290	51 709	-	51 709
stage 2	59	-	59	388	-	388
stage 3	463	(5)	458	471	(10)	461
Loans and advances to customers	**1**	**(1)**	**-**	**-**	**-**	**-**
stage 3	1	(1)	-	-	-	-
Total	**63 813**	**(6)**	**63 807**	**52 568**	**(10)**	**52 558**
Measured at amortized cost:						
Amounts due from banks	**4 093**	**(1)**	**4 092**	**7 662**	**(1)**	**7 661**
stage 1	4 093	(1)	4 092	7 662	(1)	7 661
Securities	**13 474**	**(20)**	**13 454**	**8 499**	**(26)**	**8 473**
stage 1	13 450	(16)	13 434	8 437	(15)	8 422
stage 2	20	-	20	59	(8)	51
stage 3	4	(4)	-	3	(3)	-
Loans and advances to customers	**230 365**	**(7 221)**	**223 144**	**222 009**	**(8 204)**	**213 805**
stage 1	205 817	(619)	205 198	194 391	(566)	193 825
stage 2	14 823	(1 142)	13 681	16 168	(1 249)	14 919
stage 3	9 725	(5 460)	4 265	11 450	(6 389)	5 061
Other financial assets	**2 716**	**(92)**	**2 624**	**2 922**	**(97)**	**2 825**
stage 1	2 624	-	2 624	2 825	-	2 825
stage 3	92	(92)	-	97	(97)	-
Total	**250 648**	**(7 334)**	**243 314**	**241 092**	**(8 328)**	**232 764**
Financial assets by stage of impairment						
stage 1	289 274	(636)	288 638	265 024	(582)	264 442
stage 2	14 902	(1 142)	13 760	16 615	(1 257)	15 358
stage 3	10 285	(5 562)	4 723	12 021	(6 499)	5 522
Total	**314 461**	**(7 340)**	**307 121**	**293 660**	**(8 338)**	**285 322**

(IN PLN MILLION)

BY MEASUREMENT MODEL (excluding adjustments relating to fair value hedge accounting) 31.12.2019	Gross amount (stage 1)	Allowances for expected credit losses (stage 1)	Gross amount (stage 2)	Allowances for expected credit losses (stage 2)	Gross amount (stage 3)	Allowances for expected credit losses (stage 3)
Measured at fair value through other comprehensive income						
securities	63 290	-	59	-	463	(5)
NBP money market bills	1 000	-	-	-	-	-
Treasury bonds	54 061	-	-	-	-	-
other	8 229	-	59	-	463	(5)
bank loans	-	-	-	-	1	(1)
consumer	-	-	-	-	1	(1)
Total	**63 290**	**-**	**59**	**-**	**464**	**(6)**
of which: purchased or originated credit-impaired financial assets – POCI	-	-	-	-	464	(6)
Measured at amortized cost						
amounts due from banks	4 093	(1)	-	-	-	-
securities	13 450	(16)	20	-	4	(4)
Treasury bonds	7 467	(1)	-	-	-	-
other	5 983	(15)	20	-	4	(4)
loans and advances to customers	205 817	(619)	14 823	(1 142)	9 725	(5 460)
bank loans	191 147	(584)	12 446	(1 072)	8 903	(5 101)
housing	112 528	(55)	5 806	(527)	2 110	(1 384)
business	58 701	(365)	4 918	(314)	5 557	(2 892)
consumer	19 918	(164)	1 722	(231)	1 236	(825)
receivables in respect of repurchase agreements	1 081	-	-	-	-	-
finance lease receivables	13 589	(35)	2 377	(70)	822	(359)
other financial assets	2 624	-	-	-	92	(92)
Total	**225 984**	**(636)**	**14 843**	**(1 142)**	**9 821**	**(5 556)**
of which: purchased or originated credit-impaired financial assets – POCI	-	-	-	-	386	(66)
Total	**289 274**	**(636)**	**14 902**	**(1 142)**	**10 285**	**(5 562)**

(IN PLN MILLION)

BY MEASUREMENT MODEL (excluding adjustments relating to fair value hedge accounting) 31.12.2018	Gross amount (stage 1)	Allowances for expected credit losses (stage 1)	Gross amount (stage 2)	Allowances for expected credit losses (stage 2)	Gross amount (stage 3)	of which: impaired assets, gross	Allowances for expected credit losses (stage 3)
Measured at fair value through other comprehensive income							
securities	51 709	-	388	-	471	471	(10)
NBP money market bills	2 900	-	-	-	-	-	-
Treasury bonds	40 363	-	-	-	-	-	-
other	8 446	-	388	-	471	471	(10)
Total	**51 709**	**-**	**388**	**-**	**471**	**471**	**(10)**
of which: purchased or originated credit-impaired financial assets – POCI	-	-	-	-	471	471	(10)
Measured at amortized cost							
amounts due from banks	7 662	(1)	-	-	-	-	-
securities	8 437	(15)	59	(8)	3	3	(3)
Treasury bonds	2 361	(3)	-	-	-	-	-
other	6 076	(12)	59	(8)	3	3	(3)
loans and advances to customers	194 391	(566)	16 168	(1 249)	11 450	11 111	(6 389)
bank loans	182 863	(532)	13 449	(1 169)	10 660	10 436	(6 014)
housing	106 561	(54)	5 960	(538)	2 260	2 201	(1 420)
business	52 638	(318)	5 703	(320)	6 569	6 406	(3 354)
consumer	23 664	(160)	1 786	(311)	1 831	1 829	(1 240)
receivables in respect of repurchase agreements	51	-	-	-	-		-
finance lease receivables	11 477	(34)	2 719	(80)	790	675	(375)
other financial assets	2 825	-	-	-	97	97	(97)
Total	**213 315**	**(582)**	**16 227**	**(1 257)**	**11 550**	**11 211**	**(6 489)**
of which: purchased or originated credit-impaired financial assets – POCI	-	-	-	-	674	674	(131)
Total	**265 024**	**(582)**	**16 615**	**(1 257)**	**12 021**	**11 682**	**(6 499)**

(IN PLN MILLION)

LOAN QUALITY RATIOS (excluding adjustments relating to fair value hedge accounting)	31.12.2019	31.12.2018
Share of impaired loans[1]	4,1%	4,9%
Coverage ratio of impaired loans[2]	74,4%	74,0%
Share of loans overdue for more than 90 days in gross loans and advances to customers	2,6%	3,2%

[1] The share of impaired exposures was determined for loans and securities (excluding NBP bills and T-bonds), measured at amortized cost, and loans measured at fair value through other comprehensive income, as the ratio of 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. Excluding the reclassification of part of amortised cost loans portfolio to portfolio measured at fair value through profit and loss in the amount of PLN 8 953 million (including those with impairment in the amount of PLN 822 million), the ratio would be higher by 0,2 percentage points than the presented one.

[2] The coverage ratio for impaired loans was determined as the ratio of total allowances for expected credit losses for loans and securities (excluding NBP bills and T-bonds), measured at amortized cost and loans measured at fair value through other comprehensive income, to the gross amount of impaired exposures from this portfolio. Excluding the reclassification of part of amortised cost loans portfolio to portfolio measured at fair value through profit and loss (credit loss allowance in the amount of PLN 757 million and the gross value of impaired loans in the amount of PLN 822 million), the ration would be higher by 1,4 percentage points than the presented one.

The total write-offs and sale of loan receivables in 2019 had an impact on the decrease in the share of impaired exposures of 0.6 p.p. (a decrease of 0.7 p.p. in the share of impaired exposures in 2018).

- **CHANGES IN THE GROSS CARRYING AMOUNT OF FINANCIAL ASSETS**

With regard to exposures which changed stages several times, the movement was presented as a transfer from the stage in which they were as at 1 January 2019 or upon their initial recognition to the impairment stage as at and 31 December 2019 (as at 1 January 2018 and 31 December 2018, respectively).

Securities measured at fair value through other comprehensive income	Stage 1	Stage 2	Stage 3	Total
Carrying amount, gross, as at 01.01.2019	51 709	388	471	52 568
Transfer from stage 2 and 3 to stage 1	295	(295)	-	-
Transfer from stage 1 and 3 to stage 2	(10)	10	-	-
Transfer from stage 1 and 2 to stage 3	-	(26)	26	-
Changes on financial instruments originated or purchased	217 981	22	-	218 003
Increase due to utilization of a limit or disbursement of tranches	315	-	-	315
Decrease due to repayment	(209 656)	(22)	(11)	(209 689)
Changes due to derecognition of financial instruments, including sale	(196)	(17)	-	(213)
Change due to write-off		-	3	3
Other changes, including foreign exchange differences	2 852	(1)	(26)	2 825
Carrying amount, gross, as at 31.12.2019	63 290	59	463	63 812

Securities measured at fair value through other comprehensive income	Stage 1	Stage 2	Stage 3	Total
Carrying amount, gross, as at 01.01.2018	46 765	-	473	47 238
Transfer from stage 1 and 3 to stage 2	(384)	384	-	-
Changes on financial instruments originated or purchased	268 776	2	-	268 778
Increase due to utilization of a limit or disbursement of tranches	426	-	-	426
Decrease due to repayment	(266 385)	-	-	(266 385)
Changes due to modification without derecognition	101	2	-	103
Change due to write-off	(3)	-	-	(3)
Other changes, including foreign exchange differences	2 413	-	(2)	2 411
Carrying amount, gross, as at 31.12.2018	51 709	388	471	52 568

(IN PLN MILLION)

Securities measured at amortized cost	Stage 1	Stage 2	Stage 3	Total
Carrying amount, gross, as at 01.01.2019	8 437	59	3	8 499
Transfer from stage 2 and 3 to stage 1	48	(48)	-	-
Transfer from stage 1 and 3 to stage 2	(18)	18	-	-
Changes on financial instruments originated or purchased	12 400	8	-	12 408
Increase due to utilization of a limit or disbursement of tranches	25	-	-	25
Decrease due to repayment	(8 053)	(8)	-	(8 061)
Changes due to modification without derecognition	1	-	-	1
Changes due to derecognition of financial instruments, including sale	(116)	(8)	-	(124)
Other changes, including foreign exchange differences	726	(1)	1	726
Carrying amount, gross, as at 31.12.2019	13 450	20	4	13 474

Securities measured at amortized cost	Stage 1	Stage 2	Stage 3	Total
Carrying amount, gross, as at 01.01.2018	6 194	-	3	6 197
Transfer from stage 1 and 3 to stage 2	(21)	21	-	-
Changes on financial instruments originated or purchased	2 995	38	-	3 033
Decrease due to repayment	(925)	-	-	(925)
Other changes, including foreign exchange differences	194	-	-	194
Carrying amount, gross, as at 31.12.2018	8 437	59	3	8 499

Amounts due from banks	Stage 1	Stage 2	Stage 3	Total
Carrying amount, gross, as at 01.01.2019	7 662			7 662
Changes on financial instruments originated or purchased	2 372	-	-	2 372
Increase due to utilization of a limit or disbursement of tranches	40	-	-	40
Decrease due to repayment	(6 177)	-	-	(6 177)
Changes due to derecognition of financial instruments, including sale	(8)	-	-	(8)
Other changes, including foreign exchange differences	204	-	-	204
Carrying amount, gross, as at 31.12.2019	4 093	-	-	4 093

Amounts due from banks	Stage 1	Stage 2	Stage 3	Total
Carrying amount, gross, as at 01.01.2018	5 233	-	-	5 233
Changes on financial instruments originated or purchased	6 006	-	-	6 006
Increase due to utilization of a limit or disbursement of tranches	831	-	-	831
Decrease due to repayment	(4 415)	-	-	(4 415)
Other changes, including foreign exchange differences	7	-	-	7
Carrying amount, gross, as at 31.12.2018	7 662	-	-	7 662

Housing loans - at amortized cost	Stage 1	Stage 2	Stage 3	Total
Carrying amount, gross, as at 01.01.2019	106 561	5 960	2 260	114 781
Transfer from stage 2 and 3 to stage 1	2 434	(2 427)	(7)	-
Transfer from stage 1 and 3 to stage 2	(2 858)	2 955	(97)	-
Transfer from stage 1 and 2 to stage 3	(89)	(254)	343	-
Changes on financial instruments originated or purchased	7 034	24	3	7 061
Increase due to utilization of a limit or disbursement of tranches	10 226	210	114	10 550
Decrease due to repayment	(11 898)	(1 492)	(208)	(13 598)
Changes due to modification without derecognition	78	(1)	(3)	74
Changes due to derecognition of financial instruments, including sale	(290)	(19)	(122)	(431)
Change due to write-off		(12)	(189)	(201)
Other changes, including foreign exchange differences	1 330	862	16	2 208
Carrying amount, gross, as at 31.12.2019	112 528	5 806	2 110	120 444

(IN PLN MILLION)

Housing loans - at amortized cost	Stage 1	Stage 2	Stage 3	Total
Carrying amount, gross, as at 01.01.2018	100 206	5 016	3 616	108 838
Transfer from stage 2 and 3 to stage 1	1 253	(1 233)	(20)	-
Transfer from stage 1 and 3 to stage 2	(1 846)	2 134	(288)	-
Transfer from stage 1 and 2 to stage 3	(641)	280	361	-
Changes on financial instruments originated or purchased	14 131	20	43	14 194
Increase due to utilization of a limit or disbursement of tranches	3 779	67	121	3 967
Decrease due to repayment	(14 626)	(395)	(1 208)	(16 229)
Changes due to modification without derecognition	86	(2)	(4)	80
Changes due to derecognition of financial instruments, including sale	(605)	(21)	(334)	(960)
Change due to write-off	-	(4)	(1 077)	(1 081)
Other changes, including foreign exchange differences	4 824	98	1 050	5 972
Carrying amount, gross, as at 31.12.2018	106 561	5 960	2 260	114 781

Corporate loans - at amortized cost	Stage 1	Stage 2	Stage 3	Total
Carrying amount, gross, as at 01.01.2019	52 638	5 703	6 569	64 910
Transfer from stage 2 and 3 to stage 1	1 024	(1 009)	(15)	-
Transfer from stage 1 and 3 to stage 2	(1 548)	1 658	(110)	-
Transfer from stage 1 and 2 to stage 3	(263)	(342)	605	-
Changes on financial instruments originated or purchased	11 968	371	535	12 874
Increase due to utilization of a limit or disbursement of tranches	11 229	446	295	11 970
Decrease due to repayment	(15 909)	(1 858)	(1 226)	(18 993)
Changes due to modification without derecognition	10	2	(1)	11
Changes due to derecognition of financial instruments, including sale	(580)	(49)	(388)	(1 017)
Change due to write-off	-	(7)	(714)	(721)
Other changes, including foreign exchange differences	132	3	7	142
Carrying amount, gross, as at 31.12.2019	58 701	4 918	5 557	69 176

Corporate loans - at amortized cost	Stage 1	Stage 2	Stage 3	Total
Carrying amount, gross, as at 01.01.2018	47 757	5 870	7 857	61 484
Transfer from stage 2 and 3 to stage 1	1 370	(1 322)	(48)	-
Transfer from stage 1 and 3 to stage 2	(2 269)	2 411	(142)	-
Transfer from stage 1 and 2 to stage 3	(266)	(303)	569	-
Changes on financial instruments originated or purchased	14 028	399	645	15 072
Increase due to utilization of a limit or disbursement of tranches	13 809	242	817	14 868
Decrease due to repayment	(20 172)	(1 418)	(982)	(22 572)
Changes due to modification without derecognition	(19)	(7)	7	(19)
Changes due to derecognition of financial instruments, including sale	(1 127)	(58)	(369)	(1 554)
Change due to write-off	-	(2)	(1 742)	(1 744)
Other changes, including foreign exchange differences	(473)	(109)	(43)	(625)
Carrying amount, gross, as at 31.12.2018	52 638	5 703	6 569	64 910

Consumer loans - at amortized cost	Stage 1	Stage 2	Stage 3	Total
Carrying amount, gross, as at 01.01.2019	23 664	1 786	1 831	27 281
Transfer from stage 2 and 3 to stage 1	233	(225)	(8)	-
Transfer from stage 1 and 3 to stage 2	(886)	910	(24)	-
Transfer from stage 1 and 2 to stage 3	(288)	(169)	457	-
Changes on financial instruments originated or purchased	11 931	456	104	12 491
Increase due to utilization of a limit or disbursement of tranches	1 572	97	122	1 791
Decrease due to repayment	(9 093)	(384)	(172)	(9 649)
Changes due to modification without derecognition	(6)	(2)	(7)	(15)
Changes due to derecognition of financial instruments, including sale	(161)	(66)	(126)	(353)
Change due to write-off	-	(10)	(383)	(393)
Reclassification from measured at fair value through profit or loss	(7 296)	(835)	(822)	(8 953)
Other changes, including foreign exchange differences	248	164	264	676
Carrying amount, gross, as at 31.12.2019	19 918	1 722	1 236	22 876

(IN PLN MILLION)

Consumer loans - at amortized cost	Stage 1	Stage 2	Stage 3	Total
Carrying amount, gross, as at 01.01.2018	21 660	1 608	2 391	25 659
Transfer from stage 2 and 3 to stage 1	475	(450)	(25)	-
Transfer from stage 1 and 3 to stage 2	(922)	993	(71)	-
Transfer from stage 1 and 2 to stage 3	(340)	(221)	561	-
Changes on financial instruments originated or purchased	9 167	297	116	9 580
Increase due to utilization of a limit or disbursement of tranches	2 217	158	131	2 506
Decrease due to repayment	(8 005)	(416)	(215)	(8 636)
Changes due to modification without derecognition	10	2	1	13
Changes due to derecognition of financial instruments, including sale	(567)	(19)	(199)	(785)
Change due to write-off	-	(3)	(827)	(830)
Other changes, including foreign exchange differences	(31)	(163)	(32)	(226)
Carrying amount, gross, as at 31.12.2018	23 664	1 786	1 831	27 281

Receivables in respect of repurchase agreements	Stage 1	Stage 2	Stage 3	Total
Carrying amount, gross, as at 01.01.2019	51	-	-	51
Changes on financial instruments originated or purchased	1 085	-	-	1 085
Increase due to utilization of a limit or disbursement of tranches	(51)	-	-	(51)
Other changes, including foreign exchange differences	(4)	-	-	(4)
Carrying amount, gross, as at 31.12.2019	1 081	-	-	1 081

Receivables in respect of repurchase agreements	Stage 1	Stage 2	Stage 3	Total
Carrying amount, gross, as at 01.01.2018	902	-	-	902
Changes on financial instruments originated or purchased	51	-	-	51
Decrease due to repayment	(902)	-	-	(902)
Carrying amount, gross, as at 31.12.2018	51	-	-	51

Other financial assets	Stage 1	Stage 2	Stage 3	Total
Carrying amount, gross, as at 01.01.2019	2 825	-	97	2 922
Changes on financial instruments originated or purchased	2 621	-	-	2 621
Decrease due to repayment/redemption	(2 825)	-	-	(2 825)
Changes due to derecognition of financial instruments, including sale	-	-	(5)	(5)
Change due to write-off	-	-	(3)	(3)
Other changes, including foreign exchange differences	3	-	3	6
Carrying amount, gross, as at 31.12.2019	2 624	-	92	2 716

Other financial assets	Stage 1	Stage 2	Stage 3	Total
Carrying amount, gross, as at 01.01.2018	2 378	-	99	2 477
Changes on financial instruments originated or purchased	2 826	-	97	2 923
Decrease due to repayment	(2 378)	-	(99)	(2 477)
Other changes, including foreign exchange differences	(1)		5	4
Carrying amount, gross, as at 31.12.2018	2 825	-	97	2 922

Finance lease receivables	Stage 1	Stage 2	Stage 3	Total
Carrying amount, gross, as at 01.01.2019	11 477	2 719	790	14 986
Transfer from stage 2 and 3 to stage 1	746	(726)	(20)	-
Transfer from stage 1 and 3 to stage 2	(793)	833	(40)	-
Transfer from stage 1 and 2 to stage 3	9	(312)	303	-
Changes on financial instruments originated or purchased	6 599	745	109	7 453
Increase due to utilization of a limit or disbursement of tranches	3	-	-	3
Decrease due to repayment	(2 749)	(630)	(140)	(3 519)
Changes due to derecognition of financial instruments, including sale	(980)	(251)	(40)	(1 271)
Change due to write-off	-	-	(126)	(126)
Other changes, including foreign exchange differences	(720)	(1)	(14)	(735)
Carrying amount, gross, as at 31.12.2019	13 592	2 377	822	16 791

(IN PLN MILLION)

Finance lease receivables	Stage 1	Stage 2	Stage 3	Total
Carrying amount, gross, as at 01.01.2018	10 034	2 335	792	13 161
Transfer from stage 2 and 3 to stage 1	750	-	(750)	-
Transfer from stage 1 and 3 to stage 2	(1)	1	-	-
Transfer from stage 1 and 2 to stage 3	(2 005)	-	2 005	-
Changes on financial instruments originated or purchased	6 467	-	-	6 467
Decrease due to repayment	(1 237)	(96)	(1 221)	(2 554)
Changes due to modification without derecognition	(700)	-	-	(700)
Changes due to derecognition of financial instruments, including sale	(1 834)	479	(22)	(1 377)
Change due to write-off	-	-	(14)	(14)
Other changes, including foreign exchange differences	3	-	-	3
Carrying amount, gross, as at 31.12.2018	11 477	2 719	790	14 986

- **CHANGE IN ALLOWANCES FOR EXPECTED CREDIT LOSSES**

With regard to exposures which changed stages several times, the movement was presented as a transfer from the stage in which they were as at 1 January 2019 or upon their initial recognition to the impairment stage as at 31 December 2019 (as at 1 January 2018 and 31 December 2018, respectively).

Securities measured at fair value through other comprehensive income	Stage 1	Stage 2	Stage 3	Total
As at 01.01.2019	-	-	10	10
Increase due to recognition and purchase	12	-	-	12
Changes due to changes in credit risk (net)	(9)	15	(6)	-
Decrease due to derecognition	(3)	-	-	(3)
Change in allowances due to write-off	-	-	3	3
Other adjustments	-	(15)	(2)	(17)
As at 31.12.2019	-	-	5	5

Securities measured at fair value through other comprehensive income	Stage 1	Stage 2	Stage 3	Total
As at 01.01.2018	-	-	15	15
Increase due to recognition and purchase	-	-	4	4
Changes due to changes in credit risk (net)	-	-	6	6
Decrease due to derecognition	-	-	(10)	(10)
Change in allowances due to write-off	-	-	(3)	(3)
Other adjustments	-	-	(2)	(2)
As at 31.12.2018	-	-	10	10

Securities measured at amortized cost	Stage 1	Stage 2	Stage 3	Total
As at 01.01.2019	15	8	3	26
Transfer from stage 2 and 3 to stage 1	8	(8)	-	-
Increase due to recognition and purchase	4	-	-	4
Changes due to changes in credit risk (net)	(10)	-	-	(10)
Other adjustments	(1)	-	1	-
As at 31.12.2019	16	-	4	20

Securities measured at amortized cost	Stage 1	Stage 2	Stage 3	Total
As at 01.01.2018	14	-	-	14
Increase due to recognition and purchase	4	3	3	10
Other adjustments	(3)	5	-	2
As at 31.12.2018	15	8	3	26

Amounts due from banks	Stage 1	Stage 2	Stage 3	Total
As at 01.01.2019	1	-	-	1
As at 31.12.2019	1	-	-	1

(IN PLN MILLION)

Amounts due from banks	Stage 1	Stage 2	Stage 3	Total
As at 01.01.2018	-	-	-	-
Other adjustments	1	-	-	1
As at 31.12.2018	1	-	-	1

Consumer loans - measured at fair value through other comprehensive income	Stage 1	Stage 2	Stage 3	Total
As at 01.01.2019	-	-	-	-
Decrease due to derecognition	-	-	(1)	(1)
Other adjustments	-	-	2	2
As at 31.12.2019	-	-	1	1

Housing loans - at amortized cost	Stage 1	Stage 2	Stage 3	Total
As at 01.01.2019	54	538	1 420	2 012
Transfer from stage 2 and 3 to stage 1	5	(5)	-	-
Transfer from stage 1 and 3 to stage 2	(205)	213	(8)	-
Transfer from stage 1 and 2 to stage 3	(32)	(92)	124	-
Increase due to recognition and purchase	4	-	1	5
Changes due to changes in credit risk (net)	189	(126)	39	102
Decrease due to derecognition	(2)	-	(2)	(4)
Changes due to modification without derecognition (net)	-	1	-	1
Change in allowances due to write-off	-	(12)	(189)	(201)
Other adjustments	42	10	(1)	51
As at 31.12.2019	55	527	1 384	1 966

Housing loans - at amortized cost	Stage 1	Stage 2	Stage 3	Total
As at 01.01.2018	53	430	2 547	3 030
Transfer from stage 2 and 3 to stage 1	8	(8)	-	-
Transfer from stage 1 and 3 to stage 2	(81)	139	(58)	-
Transfer from stage 1 and 2 to stage 3	(41)	(98)	139	-
Increase due to recognition and purchase	4	4	27	35
Changes due to changes in credit risk (net)	115	82	(61)	136
Decrease due to derecognition	-	(13)	(1)	(14)
Changes due to modification without derecognition (net)	1	1	6	8
Change in allowances due to write-off	-	(4)	(1 077)	(1 081)
Other adjustments	(5)	5	(102)	(102)
As at 31.12.2018	54	538	1 420	2 012

Corporate loans - at amortized cost	Stage 1	Stage 2	Stage 3	Total
As at 01.01.2019	318	320	3 354	3 992
Transfer from stage 2 and 3 to stage 1	13	(13)	-	-
Transfer from stage 1 and 3 to stage 2	(101)	107	(6)	-
Transfer from stage 1 and 2 to stage 3	(65)	(63)	128	-
Increase due to recognition and purchase	111	17	76	204
Changes due to changes in credit risk (net)	62	(55)	178	185
Decrease due to derecognition	(22)	(2)	(30)	(54)
Changes due to modification without derecognition (net)	3	4	17	24
Changes resulting from updating the applied estimation method (net)	-	-	3	3
Change in allowances due to write-off	-	(7)	(714)	(721)
Other adjustments	46	6	(114)	(62)
As at 31.12.2019	365	314	2 892	3 571

(IN PLN MILLION)

Corporate loans - at amortized cost	Stage 1	Stage 2	Stage 3	Total
As at 01.01.2018	296	368	4 480	5 144
Transfer from stage 2 and 3 to stage 1	308	(115)	(193)	-
Transfer from stage 1 and 3 to stage 2	(28)	75	(47)	-
Transfer from stage 1 and 2 to stage 3	(2)	(44)	46	-
Increase due to recognition and purchase	149	31	151	331
Changes due to changes in credit risk (net)	(388)	11	531	154
Decrease due to derecognition	(13)	(6)	(12)	(31)
Changes due to modification without derecognition (net)	23	3	32	58
Change in allowances due to write-off	-	(2)	(1 742)	(1 744)
Other adjustments	(27)	(1)	108	80
As at 31.12.2018	318	320	3 354	3 992

Consumer loans - at amortized cost	Stage 1	Stage 2	Stage 3	Total
As at 01.01.2019	160	311	1 240	1 711
Transfer from stage 2 and 3 to stage 1	2	(2)	-	-
Transfer from stage 1 and 3 to stage 2	(104)	107	(3)	-
Transfer from stage 1 and 2 to stage 3	(139)	(89)	228	-
Increase due to recognition and purchase	72	6	29	107
Changes due to changes in credit risk (net)	205	90	201	496
Decrease due to derecognition	(6)	(23)	(10)	(39)
Changes due to modification without derecognition (net)	-	1	(4)	(3)
Changes resulting from updating the applied estimation method (net)	(2)	1	(1)	(2)
Change in allowances due to write-off	-	(10)	(383)	(393)
Reclassification from amortized cost to measured at fair value through profit or loss	(45)	(106)	(599)	(750)
Other adjustments	21	(55)	127	93
As at 31.12.2019	164	231	825	1 220

Consumer loans - at amortized cost	Stage 1	Stage 2	Stage 3	Total
As at 01.01.2018	138	210	1 714	2 062
Transfer from stage 2 and 3 to stage 1	51	(51)	-	-
Transfer from stage 1 and 3 to stage 2	(4)	25	(21)	-
Transfer from stage 1 and 2 to stage 3	(18)	(49)	67	-
Increase due to recognition and purchase	62	2	42	106
Changes due to changes in credit risk (net)	(99)	190	381	472
Decrease due to derecognition	(5)	(11)	(5)	(21)
Changes due to modification without derecognition (net)	-	2	3	5
Change in allowances due to write-off	-	(3)	(827)	(830)
Other adjustments	35	(4)	(114)	(83)
As at 31.12.2018	160	311	1 240	1 711

Other financial assets	Stage 1	Stage 2	Stage 3	Total
As at 01.01.2019	-	-	97	97
Decrease due to derecognition	-	-	(2)	(2)
Change in impairment allowances due to write-off	-	-	(3)	(3)
As at 31.12.2019	-	-	92	92

Other financial assets	Stage 1	Stage 2	Stage 3	Total
As at 01.01.2018	-	-	99	99
Increase due to recognition and purchase	-	-	1	1
Change in allowances due to write-off	-	-	(5)	(5)
Other adjustments	-	-	2	2
As at 31.12.2018	-	-	97	97

(IN PLN MILLION)

Finance lease receivables	Stage 1	Stage 2	Stage 3	Total
As at 01.01.2019	34	80	375	489
Transfer from stage 2 and 3 to stage 1	20	(16)	(4)	-
Transfer from stage 1 and 3 to stage 2	(4)	12	(8)	-
Transfer from stage 1 and 2 to stage 3	-	(24)	24	-
Increase due to recognition and purchase	25	35	67	127
Changes due to changes in credit risk (net)	(5)	(16)	83	62
Decrease due to derecognition	(20)	(29)	(59)	(108)
Changes resulting from updating the applied estimation method (net)	-	-	(1)	(1)
Change in allowances due to write-off	-	-	(126)	(126)
Other adjustments	(15)	28	8	21
As at 31.12.2019	35	70	359	464

Finance lease receivables	Stage 1	Stage 2	Stage 3	Total
As at 01.01.2018	22	64	332	418
Transfer from stage 2 and 3 to stage 1	51	(53)	2	-
Transfer from stage 1 and 3 to stage 2	(144)	166	(22)	-
Transfer from stage 1 and 2 to stage 3	57	(162)	105	-
Increase due to recognition and purchase	24	44	78	146
Changes due to changes in credit risk (net)	32	41	(32)	41
Decrease due to derecognition	(9)	(19)	(106)	(134)
Change in allowances due to write-off	-	-	(14)	(14)
Other adjustments	1	(1)	32	32
As at 31.12.2018	34	80	375	489

- **PURCHASED OR ORIGINATED CREDIT-IMPAIRED FINANCIAL ASSETS – POCI**

Principles of classifying financial assets in POCI categories are described in note “Description of significant accounting policies”.

PURCHASED OR ORIGINATED CREDIT-IMPAIRED FINANCIAL ASSETS (POCI) – 31.12.2019	Gross amount	Impairment allowances	Net amount
Securities measured at fair value through other comprehensive income	463	(5)	458
Loans and advances to customers	387	(67)	320
measured at fair value through OCI	1	(1)	-
measured at amortized cost	386	(66)	320
Total	**850**	**(72)**	**778**

PURCHASED OR ORIGINATED CREDIT-IMPAIRED FINANCIAL ASSETS (POCI) – 31.12.2018	Gross amount	Impairment allowances	Net amount
Securities measured at fair value through other comprehensive income	471	(10)	461
Loans and advances to customers measured at amortized cost	674	(131)	543
Total	**1 145**	**(141)**	**1 004**

(IN PLN MILLION)

CHANGES IN GROSS CARRYING AMOUNT OF PURCHASED OR ORIGINATED CREDIT-IMPAIRED FINANCIAL ASSETS (POCI) IN 2019	As at the beginning of the period	Changes due to granted or purchased financial instruments and limit utilisation or tranche payment	Decrease due to derecognition/repayment	Changes due to contractual modification of cash flows from financial assets which does not lead to derecognition of these financial assets	Other adjustments	As at the end of the period
Securities	471	-	(8)	-	-	463
measured at fair value through other comprehensive income	471	-	(8)	-	-	463
Loans and advances to customers	674	169	(458)	1	1	387
measured at fair value through OCI	-	1	-	-	-	1
measured at amortized cost	674	168	(458)	1	1	386
Total	**1 145**	**169**	**(466)**	**1**	**1**	**850**

CHANGES IN GROSS CARRYING AMOUNT OF PURCHASED OR ORIGINATED CREDIT-IMPAIRED FINANCIAL ASSETS (POCI) IN 2018	As at the beginning of the period	Changes due to granted or purchased financial instruments and limit utilisation or tranche payment	Decrease due to derecognition/repayment	Other adjustments	As at the end of the period
Securities	473	-	(2)	-	471
measured at fair value through other comprehensive income	473	-	(2)	-	471
Loans and advances to customers	363	414	(108)	5	674
measured at amortized cost	363	414	(108)	5	674
Total	**836**	**414**	**(110)**	**5**	**1 145**

CHANGES IN IMPAIRMENT ALLOWANCES FOR PURCHASED OR ORIGINATED CREDIT-IMPAIRED FINANCIAL ASSETS (POCI) IN 2019	As at the beginning of the period	Increase due to recognition and purchase	Decrease due to derecognition	Changes due to changes in credit risk (net)	Change in impairment allowances due to write-off	Reclassification from amortized cost to at fair value through profit or loss	Other adjustments	As at the end of the period
Securities	10	-	-	(5)	-	-	-	5
measured at fair value through OCI	10	-	-	(5)	-	-	-	5
Loans and advances to customers	131	1	(46)	(58)	2	(28)	65	67
measured at fair value through OCI	-	-	-	1	-	-	-	1
measured at amortized cost	131	1	(46)	(59)	2	(28)	65	66
Total	**141**	**1**	**(46)**	**(63)**	**2**	**(28)**	**65**	**72**

CHANGES IN IMPAIRMENT ALLOWANCES FOR PURCHASED OR ORIGINATED CREDIT-IMPAIRED FINANCIAL ASSETS (POCI) IN 2018	As at 01.01.2018	Increase due to recognition and purchase	Decrease due to derecognition	Changes due to changes in credit risk (net)	Decrease in impairment allowances due to write-off	Other adjustments	As at 31.12.2018
Securities	15	-	-	(3)	-	(2)	10
measured at fair value through OCI	15	-	-	(3)	-	(2)	10
Loans and advances to customers	115	2	(50)	77	(26)	13	131
measured at amortized cost	115	2	(50)	77	(26)	13	131
Total	**130**	**2**	**(50)**	**74**	**(26)**	**11**	**141**

(IN PLN MILLION)

CALCULATION OF ESTIMATES

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

ESTIMATED CHANGE IN EXPECTED CREDIT LOSSES ON LOANS AND ADVANCES RESULTING FROM MATERIALIZATION OF A SCENARIO OF THE RISK PARAMETERS DETERIORATION OR IMPROVEMENT, OF WHICH:[1]	31.12.2019		31.12.2018	
	+10% scenario	-10% scenario	+10% scenario	-10% scenario
changes in the present value of estimated future cash flows for the Group's portfolio of individually impaired loans and advances assessed on an individual basis	(235)	308	(262)	360
changes in the probability of default	157	(164)	156	(165)
change in recovery rates	(424)	426	(490)	493

[1] positive amount- increase in allowances, negative amount- decrease in allowances

27. INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

ACCOUNTING POLICIES

SOFTWARE – Acquired computer software licenses are recognized in the amount of costs incurred on the purchase and preparation of the software for use, taking into consideration accumulated amortization and impairment allowances.

GOODWILL – Goodwill arising on acquisition of subsidiaries is recognized under "Intangible assets" and goodwill arising on acquisition of associates and joint ventures is recognized under "Investments in associates and joint ventures". The test for goodwill impairment is carried out at least at the end of each year.

CUSTOMER RELATIONS AND VALUE IN FORCE - As a result of a settlement of a transaction, two components of intangible assets that are recognized separately from goodwill, i.e. customer relations and value in force, representing the present value of future profits from concluded insurance contracts, were identified. These components of intangible assets are amortized using the declining balance method based on the rate of consumption of economic benefits arising from their use.

OTHER INTANGIBLE ASSETS – Other intangible assets acquired by the Group are recognized at purchase price or manufacturing cost, less accumulated amortization and impairment allowances.

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

PROPERTY, PLANT AND EQUIPMENT – are measured according to the purchase price or cost of production, less accumulated depreciation and impairment allowances.

INVESTMENT PROPERTIES - are measured according to accounting principles applied to property, plant and equipment.

CAPITAL EXPENDITURE ACCRUED – the carrying amount of property, plant and equipment and intangible assets is increased by additional expenditure incurred during their maintenance.

Right-of-use assets are presented in those items where the underlying assets would be presented, if owned by the Group.

- **DEPRECIATION / AMORTIZATION**

Depreciation of property, plant and equipment and amortization of intangible assets and investment properties begins on the first day of the month following the month in which the asset has been brought into use, with the exception of right-of-use assets, for which depreciation begins in the same month in which they have been accepted, and ends no later than at the time when:

- the amount of depreciation or amortization charges becomes equal to the initial cost of the asset; or
- end of the lease period; or
- the asset is designated for liquidation; or
- the asset is sold; or
- the asset is found to be missing; or
- it is found - as a result of verification - that the expected residual value of the asset exceeds its (net) carrying amount, taking into account the expected residual value of the asset upon scrapping, i.e. the net amount that the Group expects to obtain at the end of the useful life of the asset, net of its expected costs to sell.

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

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

- **IMPAIRMENT ALLOWANCES ON NON-FINANCIAL NON-CURRENT ASSETS AND RIGHT-OF-USE ASSETS**

Impairment allowances in respect of cash generating units first and foremost reduce the goodwill relating to those cash generating units (groups of units), and then they reduce proportionally the book value of other assets in the unit (group of units).

An impairment allowance in respect of goodwill cannot be reversed.

The impairment allowance may be reversed if there was a change in the estimates used to determine the recoverable amount. An impairment allowance may be reversed only to the level at which the carrying amount of an asset does not exceed the carrying amount – less depreciation/amortization – which would be determined should the impairment allowance not have been recorded.

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

ESTIMATES AND JUDGEMENTS

- **USEFUL ECONOMIC LIVES OF PROPERTY, PLANT AND EQUIPMENT, INTANGIBLE ASSETS AND INVESTMENT PROPERTIES**

In estimating useful economic lives of particular types of property, plant and equipment, intangible assets and investment properties, the following factors are considered:

- expected physical wear and tear, estimated based on the average period of use recorded to date, reflecting the normal physical wear and tear rate, intensity of use etc.,
- technical or market obsolescence,
- legal and other limitations on the use of the asset,
- expected use of the asset;

- other factors affecting useful lives of such assets.

When the period of use of a given asset results from a contract term, the useful economic life of such an asset corresponds to the period defined in the contract. If the estimated useful life is shorter than the period defined in the contract, the estimated useful economic life is applied. The adopted depreciation / amortization method and useful life for property, plant and equipment, investment properties and intangible assets are reviewed on an annual basis.

Depreciation /amortization periods applied by PKO Bank Polski SA Group:

Fixed assets	Economic useful lives
Buildings, premises, cooperative rights to premises (including investment properties)	from 25 to 60 years
Leasehold improvements (buildings, premises)	from 1 to 11 years (or the period of the lease, if shorter)
Machinery and equipment	from 2 to 15 years
Computer hardware	from 2 to 10 years
Vehicles	from 3 to 5 years
Intangible assets	**Economic useful lives**
Software	from 1 to 20 years
Other intangible assets	from 2 to 20 years

- **IMPAIRMENT ALLOWANCES**

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

(IN PLN MILLION)

FINANCIAL INFORMATION

• INTANGIBLE ASSETS

INTANGIBLE ASSETS 31.12.2019	Software	Goodwill	Future profit on concluded insurance contracts	Customer relationships	Other, including capital expenditure		Total
						of which: software	
Carrying amount, gross, as at 1 January 2019	**5 206**	**1 438**	**141**	**150**	**410**	**283**	**7 345**
Purchase	31	-	-	-	370	370	401
Transfers from capital expenditure	305	-	-	-	(305)	(305)	-
Scrapping and sale	(6)	-	-	-	(1)	(1)	(7)
Foreign exchange differences on translation of foreign branches	7	-	-	-	-	-	7
Other, including loss of control over a subsidiary	9	-	-	7	5	-	21
Carrying amount, gross, as at 31 December 2019	**5 552**	**1 438**	**141**	**157**	**479**	**347**	**7 767**
Accumulated amortization as at 1 January 2019	**(3 686)**	**-**	**(90)**	**(77)**	**(76)**	**-**	**(3 929)**
Amortization charge for the period	(358)	-	(10)	(14)	(9)	-	(391)
Scrapping and sale	5	-	-	-	-	-	5
Accumulated amortization as at 31 December 2019	**(4 039)**	**-**	**(100)**	**(91)**	**(85)**	**-**	**(4 315)**
Impairment allowances as at 1 January 2019	**(18)**	**(187)**	**-**	**-**	**(16)**	**(10)**	**(221)**
Recognized during the period	(1)	(51)	-	-	(1)	(1)	(53)
Reversed during the period	-	-	-	-	2	-	2
Other	-	-	-	-	(2)	-	(2)
Impairment allowances as at 31 December 2019	**(19)**	**(238)**	**-**	**-**	**(17)**	**(11)**	**(274)**
Net carrying amount as at 1 January 2019	**1 502**	**1 251**	**51**	**73**	**318**	**273**	**3 195**
Net carrying amount as at 31 December 2019	**1 494**	**1 200**	**41**	**66**	**377**	**336**	**3 178**

(IN PLN MILLION)

INTANGIBLE ASSETS 31.12.2018	Software	Goodwill	Future profit on concluded insurance contracts	Customer relationships	Other, including capital expenditure	of which: software	Total
Carrying amount, gross, as at 1 January 2018	4 832	1 438	141	150	361	232	6 922
Purchase	23	-	-	-	384	384	407
Transfers from capital expenditure	332	-	-	-	(332)	(332)	-
Scrapping and sale	(1)	-	-	-	(3)	(2)	(4)
Foreign exchange differences on translation of foreign branches	3	-	-	-	-	-	3
Other, including loss of control over a subsidiary	17	-	-	-	-	1	17
Carrying amount, gross, as at 31 December 2018	5 206	1 438	141	150	410	283	7 345
Accumulated amortization as at 1 January 2018	(3 272)	-	(75)	(62)	(72)	-	(3 481)
Amortization charge for the period	(415)	-	(15)	(13)	(8)	-	(451)
Scrapping and sale	1	-	-	-	1	-	2
Foreign exchange differences on translation of foreign branches	(1)	-	-	-	-	-	(1)
Other, including loss of control over a subsidiary	1	-	-	(2)	3	-	2
Accumulated amortization as at 31 December 2018	(3 686)	-	(90)	(77)	(76)	-	(3 929)
Impairment allowances as at 1 January 2018	(18)	(175)	-	-	(6)	-	(199)
Recognized during the period	-	(12)	-	-	(10)	(10)	(22)
Impairment allowances as at 31 December 2018	(18)	(187)	-	-	(16)	(10)	(221)
Net carrying amount as at 1 January 2018	1 542	1 263	66	88	283	232	3 242
Net carrying amount as at 31 December 2018	1 502	1 251	51	73	318	273	3 195

With regard to the Bank, a significant item of intangible assets relates to expenditures on the Integrated Information System (IIS). The total capital expenditure incurred for the IIS system in the years 2003–2019 amounted to PLN 1 538 million. The net carrying amount of the Integrated Information System (IIS) amounted to PLN 590 million as at 31 December 2019 (PLN 581 million as at 31 December 2018). The expected useful life of the IIS system is 24 years. As at 31 December 2019, the remaining useful life is 11 years.

(IN PLN MILLION)

- **GOODWILL**

Net goodwill	31.12.2019	31.12.2018
Nordea Bank Polska SA	863	863
PKO Życie Towarzystwo Ubezpieczeń SA	91	91
PKO Leasing Pro SA	31	31
Raiffeisen - Leasing Polska SA and its subsidiaries (PKO Leasing SA)	57	57
PKO Towarzystwo Funduszy Inwestycyjnych SA	150	150
PKO BP BANKOWY PTE SA	-	51
Assets taken over from CFP Sp. z o.o.	8	8
Total	**1 200**	**1 251**

GOODWILL	IMPAIRMENT TEST - METHOD
NORDEA BANK POLSKA SA	The impairment test is conducted by comparing the carrying amounts of Cash Generating Units ('CGUs') with their recoverable amount. Two CGUs were identified to which goodwill on acquisition of Nordea Bank Polska SA was allocated – the retail and corporate CGU. The residual value of a CGU has been calculated by extrapolating the cash flow projections beyond the period of the forecast, using the growth rate adopted at a level of 2.6%. Cash flow projections are based on the assumptions included in the financial plan of the Bank for 2019. For the discounting of the future cash flows a discount rate of 8.7% was used, taking into account the risk-free rate and risk premium. No impairment of goodwill was recognized.
PKO TOWARZYSTWO FUNDUSZY INWESTYCYJNYCH SA	The impairment test was carried out on the basis of the two-year financial forecast prepared by the company, taking into account the residual value. No impairment of goodwill was recognized.
PKO ŻYCIE TOWARZYSTWO UBEZPIECZEŃ SA	The impairment test carried out was developed on the basis of the present value of expected future cash flows for the Bank, taking into account the residual value. Future cash flows were estimated on the basis prepared by the Company's 10 year financial forecast. No impairment of goodwill was recognized.
PKO LEASING PRO SA	The goodwill arising on the acquisition of the company was allocated to the whole of PKO Leasing SA as the immediate parent company, which acquired the assets of PKO Leasing Pro SA in the merger. The impairment test was prepared on the basis of the present value of the expected future cash flows generated by the company, estimated on the basis of the financial forecast prepared by the company for five years with the simultaneous fading out of activities thereafter. No impairment of goodwill was recognized.
RAIFFEISEN - LEASING POLSKA SA AND ITS SUBSIDIARIES (PKO LEASING SA)	The goodwill that arose on the acquisition of the company was allocated to the portion of the assets of the PKO Leasing SA Group that was separately recorded in the accounts as assets of the Raiffeisen-Leasing Polska SA Group that was acquired. The impairment test was carried out using the discounted dividend method on the basis of the eight-year financial forecast prepared by the company, taking into account the residual value. No impairment of goodwill was recognized.

PKO BP BANKOWY PTE SA	The impairment test was conducted using the embedded value method, according to which the value in use of the company's shares was established. The test took into account the governmental draft of the Act on the amendment of certain acts in connection with a transfer of funds from open pension funds to individual pension accounts. The said Act changes the operating model of open pension funds by enabling transfers of funds from open pension funds to individual pension accounts (IKE or ZUS) and introduces a pension system based on four pillars: Individual Pension Accounts (*Indywidualne Konta Emerytalne*), State Insurance Institution (ZUS), Employee Equity Plans (*Pracownicze Plany Kapitałowe*) and Individual Retirement Security Accounts (*Induwidualne Konta Zabezpieczenia Emerytalnego*) (on 24 January 2020, the Polish Parliament passed the said Act). As a results of conducting the said tests, an allowance covering the full amount of goodwill was set up.

A discount rate of 7.84% which accounts for the risk-free rate on 10-year Treasury bond yields as at the date of the valuation and for market risk premium and risk ratio specified for PKO Bank Polski SA's projects were used (with the exception of Nordea Bank Polska SA) for discounting future cash flows in the impairment tests described above.

The measurement methods and forecast periods were adapted to the specificity of the assets or companies measured.

(IN PLN MILLION)

• Property, plant and equipment

PROPERTY, PLANT AND EQUIPMENT 31.12.2019	Land and buildings			Machinery and equipment			Assets under construction		Other			Total				
	for own use	in operating leases	Total	for own use	in operating leases	Total	for own use	Total	for own use	in operating leases	Total	for own use	in operating leases	Total	of which: right-of-use assets	*of which: write-off of rights to perpetual usufruct of land*
Carrying amount, gross, as at 31 December 2018	2 618	27	2 645	1 635	9	1 644	165	165	763	657	1 420	5 181	693	5 874		
Changes due to IFRS 16 implementation	795	-	795	-	-	-	-	-	33	-	33	828	-	828	959	(131)
Carrying amount, gross, as at 1 January 2019	3 413	27	3 440	1 635	9	1 644	165	165	796	657	1 453	6 009	693	6 702	959	(131)
Purchase	136	-	136	42	-	42	273	273	479	-	479	930	-	930	127	-
Transfers from capital expenditure	58	-	58	117	-	117	(214)	(214)	39	-	39	-	-	-	-	-
Scrapping and sale	(55)	-	(55)	(144)	-	(144)	-	-	(514)	-	(514)	(713)	-	(713)	(9)	-
Taking up control over subsidiaries	22	-	22	2	-	2	-	-	10	1 019	1 029	34	1 019	1 053	18	-
Other, including loss of control over a subsidiary	(13)	(8)	(21)	4	-	4	(3)	(3)	(7)	(25)	(32)	(19)	(33)	(52)	(1)	-
Carrying amount as at the end of the period, gross	3 561	19	3 580	1 656	9	1 665	221	221	803	1 651	2 454	6 241	1 679	7 920	1 094	(131)
Accumulated depreciation as at 31 December 2018	(1 067)	(2)	(1 069)	(1 222)	(5)	(1 227)	-	-	(471)	(126)	(597)	(2 760)	(133)	(2 893)		
Changes due to IFRS 16 implementation	19	-	19	-	-	-	-	-	-	-	-	19	-	19	-	19
Accumulated depreciation as at 1 January 2019	(1 048)	(2)	(1 050)	(1 222)	(5)	(1 227)	-	-	(471)	(126)	(597)	(2 741)	(133)	(2 874)	-	19
Depreciation charge for the period	(296)	-	(296)	(170)	(2)	(172)	(1)	-	(53)	(135)	(188)	(520)	(136)	(656)	(206)	-
Scrapping and sale	34	-	34	142	-	142	-	-	197	-	197	373	-	373	-	-
Taking up control over subsidiaries	(4)	-	(4)	(2)	-	(2)	-	-	(3)	(258)	(261)	(9)	(258)	(267)	(1)	-
Other, including loss of control over a subsidiary	14	-	14	(6)	-	(6)	-	-	(158)	155	(3)	(150)	155	5	-	-
Accumulated depreciation as at the end of the period	(1 300)	(2)	(1 302)	(1 258)	(7)	(1 265)	(1)		(488)	(364)	(852)	(3 047)	(372)	(3 419)	(207)	19
Impairment allowances as at 31 December 2018	(37)	(2)	(39)	(1)	-	(1)	(3)	(3)	(3)	(4)	(7)	(44)	(6)	(50)		
Changes due to IFRS 16 implementation	1	-	1	-	-	-	-	-	-	-	-	1	-	1	-	1
Impairment allowances as at 1 January 2019	(36)	(2)	(38)	(1)	-	(1)	(3)	(3)	(3)	(4)	(7)	(43)	(6)	(49)	-	1
Recognized during the period	(14)	-	(14)	-	-	-	-	-	(1)	-	(1)	(15)	-	(15)	(1)	-
Reversed during the period	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	4	-	4	-	-	-	(1)	(1)	3	(1)	2	6	(1)	5	-	
Impairment allowances as at the end of the period	(46)	(2)	(48)	(1)	-	(1)	(4)	(4)	(1)	(5)	(6)	(52)	(7)	(59)	(1)	1
Net carrying amount as at 1 January 2019	2 329	23	2 352	412	4	416	162	162	322	527	849	3 225	554	3 779	959	-
Net carrying amount as at 31 December 2019	2 215	15	2 230	397	2	399	216	217	314	1 282	1 596	3 142	1 300	4 442	886	(111)

(IN PLN MILLION)

PROPERTY, PLANT AND EQUIPMENT 31.12.2018	Land and buildings		Machinery and equipment			Assets under		Other			Total		
	for own use	Total	for own use	in operating leases	Total	for own use	Total	for own use	in operating leases	Total	for own use	in operating leases	Total
Carrying amount, gross, as at 1 January 2018	2 696	2 696	1 621	9	1 630	126	126	825	470	1 295	5 268	479	5 747
Purchase	8	8	24	-	24	231	231	343	-	343	606	-	606
Transfers from capital expenditure	31	31	118	-	118	(189)	(189)	40	-	40	-	-	-
Scrapping and sale	(54)	(54)	(117)	-	(117)	-	-	(201)	-	(201)	(372)	-	(372)
Other, including loss of control over a subsidiary	(36)	(36)	(11)	-	(11)	(3)	(3)	(191)	134	(57)	(241)	134	(107)
Carrying amount, gross, as at 31 December 2018	2 645	2 645	1 635	9	1 644	165	165	816	604	1 420	5 261	613	5 874
	-	-	-	-	-	-	-	-	-	-	-	-	-
Accumulated depreciation as at 1 January 2018	(1 034)	(1 034)	(1 189)	(3)	(1 192)	-	-	(478)	(82)	(560)	(2 701)	(85)	(2 786)
Depreciation charge for the period	(89)	(89)	(163)	(2)	(165)	-	-	(58)	(58)	(116)	(310)	(60)	(370)
Scrapping and sale	34	34	116	-	116	-	-	76	-	76	226	-	226
Other, including loss of control over a subsidiary	20	20	14	-	14	-	-	(34)	37	3	-	37	37
Accumulated depreciation as at 31 December 2018	(1 069)	(1 069)	(1 222)	(5)	(1 227)	-	-	(494)	(103)	(597)	(2 785)	(108)	(2 893)
	-	-	-	-	-	-	-	-	-	-	-	-	-
Impairment allowances as at 1 January 2018	(33)	(33)	(1)	-	(1)	(3)	(3)	(4)	(5)	(9)	(41)	(5)	(46)
Recognized during the period	(9)	(9)	-	-	-	-	-	2	-	2	(7)	-	(7)
Reversed during the period	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	3	3	-	-	-	-	-	-	-	-	3	-	3
Impairment allowances as at 31 December 2018	(39)	(39)	(1)	-	(1)	(3)	(3)	(2)	(5)	(7)	(45)	(5)	(50)
	-	-	-	-	-	-	-	-	-	-	-	-	-
Net carrying amount as at 1 January 2018	1 629	1 629	431	6	437	123	123	343	383	726	2 526	389	2 915
Net carrying amount as at 31 December 2018	1 537	1 537	412	4	416	162	162	320	496	816	2 431	500	2 931

(IN PLN MILLION)

CALCULATION OF ESTIMATES

The impact of change in the economic useful life of assets being subject to depreciation and classified as land and buildings is presented in the table below:

CHANGE IN THE ECONOMIC USEFUL LIFE OF DEPRECIABLE ASSETS CLASSIFIED AS LAND AND BUILDINGS	31.12.2019		31.12.2018	
	scenario +10 years	scenario -10 years	scenario +10 years	scenario -10 years
Depreciation cost	(36)	245	(38)	258

28. OTHER ASSETS

ACCOUNTING POLICIES

Financial assets recognized in this item are stated at amounts due, comprising also potential interest on such assets, taking into consideration provisions for expected loan losses. Non-financial assets are measured in accordance with the valuation principles applicable to specific categories of assets recognized in this item.

FINANCIAL INFORMATION

OTHER ASSETS	31.12.2019	31.12.2018
Settlements in respect of card transactions	1 301	1 629
Settlements of financial instruments	73	82
Receivables in respect of cash settlements	193	189
Receivables and settlements in respect of trading in securities	3	32
Inventories	141	103
Assets for sale	140	82
Prepayments and deferred costs	186	222
Trade receivables	146	164
VAT receivable	270	148
Ceded technical reserves	858	672
Settlements with the state budget in respect of flat-rate income tax	115	-
Other	145	131
Total	**3 571**	**3 454**
of which: other financial assets	2 624	2 825

OTHER ASSETS – INVENTORIES	31.12.2019	31.12.2018
Goods for resale	135	102
Construction projects for sale	-	1
Materials	16	11
Impairment allowances on inventories	(10)	(11)
Total	**141**	**103**

(IN PLN MILLION)

- **MANAGEMENT OF FORECLOSED COLLATERAL– ITEM "ASSETS FOR SALE"**

Collaterals foreclosed as a result of restructuring or debt collection activities are either designated for sale or used by the Group for internal purposes. Details of the foreclosed assets are analysed in order to determine whether they can be used by the Group for internal purposes.

All of the assets foreclosed as a result of restructuring and debt collection activities in the years ended 31 December 2019 and 31 December 2018, respectively, were designated for sale. Activities undertaken by the Group are aimed at selling assets as soon as possible.

The primary procedure for the sale of assets is an open tender. In justified cases, the sale follows a different procedure depending on the specifics of the sold property.

29. AMOUNTS DUE TO BANKS

ACCOUNTING POLICIES

Principles of classification and measurement are described note "Description of significant accounting policies".

FINANCIAL INFORMATION

AMOUNTS DUE TO BANKS	31.12.2019	31.12.2018
Measured at fair value through profit or loss:	**317**	-
short position in securities	317	-
Measured at amortized cost	**2 568**	**2 001**
Loans and borrowings received[1]	750	250
Bank deposits	786	729
Current accounts	915	872
Other monetary market deposits	117	150
Total	**2 885**	**2 001**

[1] The item "Loans and advances received" is presented in detail in Note "Loans and advances received"."

AMOUNTS DUE TO BANKS BY MATURITY	31.12.2019	31.12.2018
Measured at fair value through profit or loss:	**317**	-
up to 1 month	317	-
Measured at amortized cost:	**2 568**	**2 001**
up to 1 month	1 730	1 733
1 to 3 months	91	18
3 months to 1 year	117	150
1 to 5 years	630	100
Total	**2 885**	**2 001**

(IN PLN MILLION)

30. Amounts due to customers

Accounting policies

Principles of classification and measurement are described note "Description of significant accounting policies". This item also includes reverse repo transactions with a defined contractual term and specified price. The securities that are a component of the reverse repo transactions are not eliminated from the statement of financial position and are measured in accordance with the principles specified for each category of securities. The difference between the sales price and the repurchase price is the interest expense and is deferred over the term of the contract using the effective interest rate.

Financial information

AMOUNTS DUE TO CUSTOMERS	31.12.2019	31.12.2018
Measured at fair value through profit or loss	45	-
short position in securities	45	-
Measured at amortized cost	**258 154**	**242 816**
Amounts due to individuals	186 691	165 182
Current accounts and overnight deposits, of which:	122 008	103 143
savings accounts	38 053	32 192
Term deposits	64 300	61 638
Other liabilities	383	401
Amounts due to business entities	56 406	55 302
Current accounts and overnight deposits, of which:	45 894	38 927
savings accounts	46	46
Term deposits	9 670	15 465
Other liabilities	842	910
Amounts due to public sector	11 354	16 459
Current accounts and overnight deposits	10 997	11 242
Term deposits	331	5 115
Other liabilities	26	102
Loans and borrowings received[1]	2 029	4 093
Liabilities in respect of insurance products	1 674	1 780
Unit-Linked	1 409	1 502
Saving insurance policies	2	2
"Safe Capital"	253	265
Structured products	10	11
Total	**258 199**	**242 816**

[1] The item "Loans and advances received" is presented in detail in Note "Loans and advances received"."

AMOUNTS DUE TO CUSTOMERS BY SEGMENT	31.12.2019	31.12.2018
retail and private banking	174 091	155 079
corporate	49 918	55 051
SME	30 476	26 805
loans and advances received	2 029	4 093
other liabilities (including liabilities in respect of insurance products)	1 685	1 788
Total	**258 199**	**242 816**

(IN PLN MILLION)

AMOUNTS DUE TO CUSTOMERS BY MATURITY	31.12.2019	31.12.2018
Measured at fair value through profit or loss:	45	-
up to 1 month	45	-
Measured at amortized cost:	258 154	242 816
up to 1 month	197 229	179 874
1 to 3 months	16 866	22 449
3 months to 1 year	29 416	25 483
1 to 5 years	5 649	6 860
over 5 years	8 994	8 150
Total	**258 199**	**242 816**

31. LOANS AND ADVANCES RECEIVED

LOANS AND ADVANCES RECEIVED	31.12.2019	31.12.2018
From banks	750	250
From international financial institutions	2 029	4 093
European Investment Bank	1 093	2 639
Council of Europe Development Bank	766	1 153
European Bank for Reconstruction and Development	34	85
International Finance Corporation	120	201
international financial institutions in Ukraine	16	15
Total	**2 779**	**4 343**

- **LOANS AND ADVANCES RECEIVED FROM BANKS**

Date of receipt of a loan or advance by the Group	Nominal amount	Currency	Maturity	Carrying amount at 31.12.2019	Carrying amount at 31.12.2018
05.06.2017	150	PLN	10.06.2019	-	150
10.06.2019	150	PLN	12.06.2020	150	-
27.12.2018	100	PLN	28.12.2020	100	100
04.12.2019	500	PLN	04.12.2023	500	-
Total				**750**	**250**

(IN PLN MILLION)

- **LOANS AND ADVANCES FROM INTERNATIONAL FINANCIAL INSTITUTIONS**

Date of receipt of a loan or advance by the Group	Nominal amount	Currency	Maturity	Carrying amount at 31.12.2019	Carrying amount at 31.12.2018
28.12.2006	5	EUR	30.04.2022	21	21
28.12.2006	97	PLN	30.04.2020	97	97
28.12.2006	7	CHF	30.04.2020	28	27
30.04.2009	76	CHF	30.04.2019	-	58
23.10.2009	182	CHF	23.10.2019	-	694
23.12.2009	50	EUR	23.12.2019	-	43
23.12.2010	75	EUR	23.12.2020	64	129
25.09.2013	75	EUR	25.09.2023	256	322
29.10.2013	105	PLN	30.04.2019	-	18
29.10.2013	25	EUR	31.08.2019	-	27
29.11.2013	185	CHF	29.11.2023	-	706
11.06.2015	132	PLN	31.07.2021	46	73
11.06.2015	42	PLN	30.09.2020	6	15
11.06.2015	10	EUR	30.09.2020	6	15
11.06.2015	10	EUR	31.03.2021	11	19
11.06.2015	20	EUR	30.04.2021	26	43
25.09.2015	15	EUR	30.11.2020	16	32
25.09.2015	25	EUR	30.09.2021	47	74
25.09.2015	43	PLN	30.11.2020	11	21
16.03.2016	85	PLN	01.03.2019	-	17
16.03.2016	175	PLN	01.09.2020	34	68
18.03.2016	66	EUR	31.12.2022	120	201
28.10.2016	20	EUR	31.12.2021	34	56
28.10.2016	20	EUR	31.01.2022	39	51
28.09.2017	50	EUR	30.11.2022	159	215
28.09.2017	50	EUR	30.11.2022	213	215
11.10.2017	100	UAH	10.10.2019	-	15
08.12.2017	40	EUR	31.01.2022	130	172
23.10.2018	646	PLN	23.10.2023	649	649
10.10.2019	100	UAH	08.10.2021	16	-
Total				2 029	4 093

32. LIABILITIES IN RESPECT OF INSURANCE ACTIVITIES

ACCOUNTING POLICIES

Liabilities in respect of insurance activities comprise technical reserves to cover current and future claims and costs which may arise from the insurance contracts concluded, i.e. unearned premium and unexpired risk reserves, outstanding claims and benefits reserve, reserve for bonuses and discounts for the insured, life insurance reserve, and other.

FINANCIAL INFORMATION

LIABILITIES IN RESPECT OF INSURANCE ACTIVITIES	31.12.2019	31.12.2018
Technical reserves	1 640	1 292
Total	1 640	1 292

The majority of insurance products refer to investment products where the risk is borne by the policyholder.

(IN PLN MILLION)

33. DEBT SECURITIES IN ISSUE

DEBT SECURITIES IN ISSUE	31.12.2019	31.12.2018
Measured at amortized cost:	**31 148**	**28 627**
covered bonds issued by PKO Bank Hipoteczny SA	16 198	12 800
bonds issued by PKO Bank Hipoteczny SA	3 947	3 186
bonds issued by PKO Bank Polski SA	4 769	5 367
bonds issued by PKO Finance AB	4 057	6 238
bonds issued by the PKO Leasing SA Group[1]	2 132	995
bonds issued by Kredobank SA	45	41
Total	**31 148**	**28 627**

[1] including the bonds taken up by the PKO Leasing SA Group as part of the acquisition of Raiffeisen Leasing Polska SA.

DEBT SECURITIES IN ISSUE	31.12.2019	31.12.2018
bonds, of which:	**14 950**	**15 827**
in PLN	6 079	4 792
in EUR, translated into PLN	3 415	5 655
in USD, translated into PLN	3 842	3 812
in CHF, translated into PLN	1 569	1 527
in UAH, translated into PLN	45	41
mortgage covered bonds, of which	**16 198**	**12 800**
in PLN	4 351	3 852
in EUR, translated into PLN	11 847	8 948
Total	**31 148**	**28 627**

LIABILITIES IN RESPECT OF DEBT SECURITIES IN ISSUE - BY MATURITY	31.12.2019	31.12.2018
Measured at amortized cost:	**31 148**	**28 627**
up to 1 month	796	2 767
1 to 3 months	802	625
3 months to 1 year	2 366	3 080
1 to 5 years	24 410	16 261
over 5 years	2 774	5 894
Total	**31 148**	**28 627**

ADDITIONAL INFORMATION	31.12.2019	31.12.2018
issuance of debt securities during the period (nominal value)		
in PLN	11 311	13 277
in original currency (EUR)	700	500
in original currency (UAH)	17	290
redemption of debt securities during the period (nominal value)		
in PLN	9 552	10 130
in original currency (EUR)	500	-
in original currency (UAH)	43	-

(IN PLN MILLION)

- **Bonds issued by PKO Bank Polski SA**

Issuance date	Type of interest rate	Interest rate	Nominal amount	Currency	Maturity	Carrying amount at 31.12.2019	Carrying amount at 31.12.2018
25.07.2017	fixed	0,75	750	EUR	25.07.2021	3 200	3 229
02.11.2017	fixed	0,30	400	CHF	02.11.2021	1 569	1 527
16.11.2018	zero coupon	-	615	PLN	16.05.2019	-	611
16.05.2019	zero coupon	-	600	PLN	15.11.2019	-	-
Total						4 769	5 367

- **Bonds issued by PKO Bank Hipoteczny SA**

Issuance date	Type of interest rate	Interest rate (index + margin)	Nominal amount	Currency	Maturity	Carrying amount at 31.12.2019	Carrying amount at 31.12.2018
09.02.2018	zero coupon	-	4	PLN	08.02.2019	-	4
23.07.2018	zero coupon	-	262	PLN	23.01.2019	-	262
08.08.2018	zero coupon	-	14	PLN	08.08.2019	-	14
21.09.2018	zero coupon	-	723	PLN	05.04.2019	-	719
21.09.2018	zero coupon	-	19	PLN	23.01.2019	-	19
01.10.2018	zero coupon	-	55	PLN	05.04.2019	-	55
05.10.2018	zero coupon	-	10	PLN	05.04.2019	-	10
16.10.2018	zero coupon	-	40	PLN	09.05.2019	-	40
22.10.2018	zero coupon	-	605	PLN	09.05.2019	-	600
22.10.2018	zero coupon	-	23	PLN	05.02.2019	-	23
26.10.2018	zero coupon	-	4	PLN	25.10.2019	-	4
26.10.2018	zero coupon	-	50	PLN	24.01.2019	-	50
13.11.2018	zero coupon	-	120	PLN	05.02.2019	-	119
15.11.2018	zero coupon	-	68	PLN	13.02.2019	-	68
21.11.2018	zero coupon	-	145	PLN	22.02.2019	-	145
21.11.2018	zero coupon	-	233	PLN	10.06.2019	-	231
17.12.2018	zero coupon	-	150	PLN	10.06.2019	-	149
29.12.2018	zero coupon	-	58	PLN	19.03.2019	-	58
21.12.2018	zero coupon	-	204	PLN	10.06.2019	-	167
28.12.2018	zero coupon	-	100	PLN	26.06.2019	-	99
21.12.2018	zero coupon	-	350	PLN	21.02.2020	351	350
05.02.2019	zero coupon	-	102	PLN	05.02.2020	102	-
10.07.2019	variable	WIBOR6M + 0.30	162	PLN	10.01.2020	163	-
11.07.2019	variable	WIBOR3M + 0.60	46	PLN	12.07.2021	46	-
23.07.2019	zero coupon	-	634	PLN	23.01.2020	633	-
23.08.2019	zero coupon	-	200	PLN	21.02.2020	200	-
28.08.2019	variable	WIBOR3M + 0.60	44	PLN	30.08.2021	44	-
02.10.2019	zero coupon	-	900	PLN	01.04.2020	895	-
17.10.2019	variable	WIBOR3M + 0.60	40	PLN	18.10.2021	40	-
06.11.2019	zero coupon	-	727	PLN	08.05.2020	722	-
06.12.2019	zero coupon	-	738	PLN	08.06.2020	731	-
18.12.2019	variable	WIBOR3M + 0.60	20	PLN	20.12.2021	20	-
Total						3 947	3 186

(IN PLN MILLION)

- **Bonds issued by PKO Finance AB**

Issuance date	Type of interest rate	Interest rate	Nominal amount	Currency	Maturity	Carrying amount at 31.12.2019	Carrying amount at 31.12.2018
25.07.2012	fixed	4.00	50	EUR	25.07.2022	215	218
26.09.2012	fixed	4,63	1 000	USD	26.09.2022	3 842	3 812
23.01.2014	fixed	2,32	500	EUR	23.01.2019	-	2 208
Total						4 057	6 238

- **Bonds issued by the PKO Leasing SA Group**

Issuance date	Type of interest rate	Nominal amount	Currency	Maturity	Carrying amount at 31.12.2019	Carrying amount at 31.12.2018
01.12.2014[1]	variable	146	PLN	02.10.2025	147	640
01.06.2016	variable	73	PLN	01.06.2019	-	73
09.08.2018	variable	30	PLN	14.02.2019	-	30
05.09.2018	variable	53	PLN	05.03.2019	-	53
13.09.2018	variable	34	PLN	08.01.2019	-	34
10.10.2018	variable	39	PLN	08.01.2019	-	38
19.10.2018	variable	37	PLN	18.01.2019	-	37
30.10.2018	variable	30	PLN	08.01.2019	-	30
07.12.2018	variable	60	PLN	06.03.2019	-	60
30.08.2019	variable	150	PLN	28.02.2020	149	-
26.09.2019[1]	variable	1 835	PLN	28.12.2029	1 836	-
Total					2 132	995

[1] the bonds taken up by the PKO Leasing SA Group as part of the acquisition of Raiffeisen Leasing Polska SA and securitization of lease receivables conducted in September 2019, respectively. Bonds are secured with securitized lease receivables (see note "Information on securitization of the lease portfolio and portfolio sale of receivables").

- **Bonds issued by Kredobank SA**

Issuance date	Type of interest rate	Nominal amount	Currency	Maturity	Carrying amount at 31.12.2019	Carrying amount at 31.12.2018
01.12.2017	fixed	18	UAH	26.11.2022	3	6
13.07.2018	variable	250	UAH	28.12.2022	42	35
Total					45	41

(IN PLN MILLION)

- **MORTGAGE COVERED BONDS ISSUED BY PKO BANK HIPOTECZNY SA**

Issuance date	Type of interest rate	Interest rate (index + margin)	Nominal amount	Currency	Maturity	Carrying amount at 31.12.2019	Carrying amount at 31.12.2018
11.12.2015	variable	WIBOR3M + 0.75	18	PLN	11.12.2020	18	19
27.04.2016	variable	WIBOR3M + 0.65	484	PLN	28.04.2021	487	486
17.06.2016	variable	WIBOR3M + 0.59	500	PLN	18.06.2021	500	500
24.10.2016	fixed	0,125	500	EUR	24.06.2022	2 126	2 144
02.02.2017	fixed	0,820	25	EUR	02.02.2024	107	108
30.03.2017	fixed	0,625	500	EUR	24.01.2023	2 139	2 159
28.04.2017	variable	WIBOR3M + 0.69	500	PLN	18.05.2022	500	501
22.06.2017	fixed	2,69	264	PLN	10.09.2021	266	266
27.09.2017	fixed	0,75	500	EUR	27.08.2024	2 130	2 149
27.10.2017	variable	WIBOR3M + 0.60	500	PLN	27.06.2023	499	500
02.11.2017	fixed	0,47	54	EUR	03.11.2022	230	232
22.03.2018	fixed	0,75	500	EUR	24.01.2024	2 139	2 156
27.04.2018	variable	WIBOR3M + 0.49	695	PLN	25.04.2024	698	693
18.05.2018	variable	WIBOR3M + 0.32	100	PLN	29.04.2022	100	100
27.07.2018	variable	WIBOR3M + 0.62	497	PLN	25.07.2025	499	498
24.08.2018	fixed	3,49	60	PLN	24.08.2028	61	61
26.10.2018	variable	WIBOR3M + 0.66	230	PLN	28.04.2025	231	228
28.01.2019	fixed	0,25	500	EUR	23.11.2021	2 126	-
01.03.2019	fixed	0,25	100	EUR	23.11.2021	426	-
08.03.2019	fixed	0,125	100	EUR	24.06.2022	424	-
10.06.2019	variable	WIBOR3M + 0.60	244	PLN	30.09.2024	244	-
02.12.2019	variable	WIBOR3M + 0.51	247	PLN	02.12.2024	248	-
Total						16 198	12 800

34. SUBORDINATED LIABILITIES

	Nominal amount	Interest rate	Currency	Period	Carrying amount	
					31.12.2019	31.12.2018
Subordinated bonds	1 700	3,34	PLN	28.08.2017-28.08.2027	1 719	1 720
Subordinated bonds	1 000	3,29	PLN	05.03.2018 -06.03.2028	1 011	1 011
Total					2 730	2 731

The subordinated bonds were designated for increasing the Group's supplementary funds upon approval of the Polish Financial Supervision Authority.

On 28 February 2018, the Bank placed an issue of subordinated bonds totalling PLN 1 000 million. The nominal value of one bond is PLN 500 000 and the issue price is equal to the nominal value. The bonds bear interest in semi-annual interest periods, and interest on the bonds is assessed with reference to the nominal value at a floating interest rate of WIBOR 6M increased by a margin of 150 bp over the entire issue period. On 8 March 2018, the Polish Financial Supervision Authority agreed to designate proceeds from the issue of subordinated bonds for an increase in the Bank's Tier 2 capital.

(IN PLN MILLION)

35. Other liabilities

Accounting policies

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

Financial information

OTHER LIABILITIES	31.12.2019	31.12.2018
Expenses to be paid	813	626
Deferred income	454	395
Liability in respect of tax on certain financial institutions	86	83
Interbank settlements	461	481
Liabilities arising from investing activities and internal operations	251	247
Amounts due to suppliers	178	184
Liabilities and settlements in respect of trading in securities	586	364
Settlements of financial instruments	22	6
Liabilities maintained in respect of contribution to the Bank Guarantee Fund, maintained in the form of payment commitments	394	248
to the Resolution Fund	217	112
to the Banks' Guarantee Fund	177	136
Settlements with the state budget	158	163
Liabilities in respect of foreign exchange activities	201	298
Liabilities in respect of payment cards	20	15
Liabilities to insurance institutions	174	143
Lease liabilities	894	-
Other	383	432
Total	**5 075**	**3 685**
of which: other financial liabilities	3 600	2 364

The item “Liabilities in respect of contributions to the Bank Guarantee Fund” includes an obligation to pay contributions to the BGF (see note “Assets pledged to secure liabilities and financial assets transferred”).

The item “Expenses to be paid” includes the impact of the potential refunds of costs to customers on early repayment of open consumer and mortgage loans of PLN 147 million.

As at 31 December 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.

36. PROVISIONS

ACCOUNTING POLICIES, ESTIMATES AND JUDGEMENTS

- **PROVISIONS FOR LEGAL CLAIMS, EXCLUDING LEGAL CLAIMS RELATING TO MORTGAGE LOANS IN CONVERTIBLE CURRENCIES**

The provisions legal claims include disputes with business partners, customers and external institutions (e.g. UOKiK), and are created based on an evaluation of the probability of a court case being lost by the Group (litigation pending has been discussed in the detail in note "Legal claims").

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

- **PROVISION FOR PENSIONS AND OTHER LIABILITIES FROM DEFINED-BENEFIT POST-EMPLOYMENT PLANS**

The provision for retirement and disability benefits resulting from the Labour Code is created individually for each employee on the basis of an actuarial valuation. The provision for employee benefits is determined on the basis of the Group's internal regulations.

Provisions for employee benefits are measured using actuarial techniques and assumptions. The calculation of the provision includes all retirement and pension benefits expected to be paid in the future. The provision was created on the basis of a list of persons with all necessary employee information, in particular the length of their service, age and gender. The provisions calculated are equal to discounted future payments, taking into account staff turnover.

- **PROVISION FOR LOAN LIABILITIES AND GUARANTEES GRANTED**

The provision for financial liabilities and guarantees is established at the amount of the expected credit losses (for details please see the note "Financial assets by stage of impairment and allowances for expected credit losses ").

In the portfolio analysis, when determining provisions, portfolio parameters estimated using statistical methods are used, based on historical observations of the exposure with the same characteristics, the parameters which define a marginal probability of evidence of impairment, the average utilization of an off-balance sheet liability and the level of anticipated loss in the event of impairment in subsequent months in the period from the reporting date to the horizon of the calculation of the anticipated loss.

With regard to exposures which are material on an individual basis, and are subject to assessment, the provision is determined on a case by case basis – as the difference between the expected amount of the balance sheet exposure which will arise as a result of an off-balance sheet liability at the date of overdue amounts arising treated as evidence of impairment, and the present value of the expected future cash flows obtained from the exposure.

- **PROVISION FOR POTENTIAL LEGAL CLAIMS AGAINST THE BANK RELATING TO MORTGAGE LOANS IN CONVERTIBLE CURRENCIES**

The provision is described in note "Risk management of foreign currency risk associated with mortgage loans for households"

- **PROVISION FOR REFUNDS OF COSTS TO CUSTOMERS ON EARLY REPAYMENT OF CONSUMER LOANS**

The amount of the provision for refunds of costs to customers on early repayment of consumer loans is affected by the percentage of prepaid consumer loans, expected amount of consumer claims referring to refunds of loan costs prepaid before the balance sheet data and the average amount of the refund.

- **OTHER PROVISIONS**

Other provisions mainly include provisions for potential claims on the sale of receivables, described in detail in note "Information on securitization of the lease portfolio and portfolio sale of receivables".

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

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

(IN PLN MILLION)

FINANCIAL INFORMATION

Provisions	2019	2018
Provision for off-balance sheet liabilities and guarantees granted	269	227
Other provisions	313	219
Total	**582**	**446**

FOR THE YEAR ENDED 31 DECEMBER 2019	Provisions for legal claims exluding legal claims relating to mortgage loans in convertible currencies	Provision for pensions and other liabilities from defined-benefit post-employment plans	Restructuring	Provision for refunds of costs to customers on early repayment of consumer loans and mortgage loans	Provision for potential legal claims against the Bank relating to mortgage loans in convertible currencies	Provision for off-balance sheet liabilities and guarantees granted	Other provisions, including provisions for employee disputed claims	Total
As at 1 January 2019, including:	54	50	24	-	-	227	91	446
Short-term provisions	3	8	24	-	-	177	66	278
Long-term provisions	51	42	-	-	-	50	25	168
Taking up control over subsidiaries	-	-	-	-	-	-	2	2
Loss of control over subsidiaries	-	-	-	-	-	-	-	-
Increase, of which increases of existing provisions	8	4	33	127	29	289	4	494
Utilized	(3)	(1)	(15)	(23)	-	-	(4)	(46)
Released during the period	(7)	(2)	(1)	-	-	(247)	(63)	(320)
Other changes and reclassifications	-	6	-	-	-	-	-	6
As at 31 December 2019, of which:	52	57	41	104	29	269	30	582
Short-term provisions	2	7	41	104	-	226	6	386
Long-term provisions	50	50	-	-	29	43	24	196

As at 31 December 2019, the column "Provisions for potential legal claims against the Bank relating to mortgage loans in convertible currencies" contains the provision for potential legal claims against the Bank relating to mortgage loans in convertible currencies of PLN 29 million (for details, see note "Risk management of foreign currency risk associated with mortgage loans for households"). The column "Provision for refunds of costs to customers on early repayment of consumer loans" contains a provision recognized for the refund of costs to customers on early repayment of consumer and mortgage loans of PLN 104 million.

FOR THE YEAR ENDED 31 DECEMBER 2018	Provisions for legal claims exluding legal claims relating to mortgage loans in convertible currencies	Provision for pensions and other liabilities from defined-benefit post-employment plans	Restructuring	Provision for refunds of costs to customers on early repayment of consumer loans and mortgage loans	Provision for potential legal claims against the Bank relating to mortgage loans in convertible currencies	Provision for off-balance sheet liabilities and guarantees granted	Other provisions, including provisions for employee disputed claims	Total
As at 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 due to reclassification	-	**15**	**21**	-	-	-	**(36)**	-
Short-term provisions	-	15	21	-	-	-	(36)	-
Changes due to IFRS 9 implementation, of which	-	-	-	-	-	71	-	**71**
Short-term provisions	-	-	-	-	-	47	-	**47**
Long-term provisions	-	-	-	-	-	24	-	**24**
As at 1 January 2018 (restated), of which:	**21**	**61**	**21**	-	-	**157**	**26**	**286**
Short-term provisions		22	21	-	-	108	26	177
Long-term provisions	21	39	-	-	-	49	-	109
Increase, of which increases of existing provisions	43	4	45	-	-	232	93	417
Utilized	(6)	(3)	(23)	-	-	-	-	(32)
Released during the period	(4)	(13)	(19)	-	-	(162)	(28)	(226)
Other changes and reclassifications	-	1	-	-	-	-	-	1
As at 31 December 2018, of which:	**54**	**50**	**24**	-	-	**227**	**91**	**446**
Short-term provisions	3	8	24	-	-	177	66	278
Long-term provisions	51	42	-	-	-	50	25	168

A provision of PLN 62 million (which was released in 2019 – for details please see the note "Legal claims") was recognized for potential returns of commissions and fees to customers as well as costs of meeting obligations resulting from the provision of free of charge services to customers in the item "Other provisions, including provisions for employee disputes" specified in the line "Increases, including increases in existing provisions".

(IN PLN MILLION)

CALCULATION OF ESTIMATES

The Group updated its estimates of provisions for pensions and other liabilities from defined benefit post-employment plans as at 31 December 2019 using an external independent actuary's calculations. The calculated provisions are equal to the discounted payments that will be made in the future, taking into account the employment turnover.

FACTORS CONTRIBUTING TO THE PROVISION AMOUNT	2019	2 018
adopted discount rate	2,00%	3,00%
weighted average labour mobility ratio	9,36%	8,48%
average remaining employment period in years	7,80	7,89
10-year average assumed annual increase in the basis for calculation of retirement and disability benefits	2,26%	2,30%

The impact of the increase/decrease in the financial discount rate and of the planned increases of 1 p.p. in the provision base on the decrease/increase in the value of the provision for retirement and other defined benefit post-employment plans as at 31 December 2019 and as at 31 December 2018 is presented in the tables below:

ESTIMATED CHANGE IN PROVISIONS 31.12.2019	Discount rate		Planned increases in base amounts	
	scenario +1pp	scenario -1pp	scenario +1pp	scenario -1pp
Provision for pensions and other liabilities from defined-benefit post-employment plans	(4)	5	6	(4)

ESTIMATED CHANGE IN PROVISIONS 31.12.2018	Discount rate		Planned increases in base amounts	
	scenario +1pp	scenario -1pp	scenario +1pp	scenario -1pp
Provision for pensions and other liabilities from defined-benefit post-employment plans	(3)	5	4	(3)

The Group performed sensitivity analysis for estimated provision for reimbursement for clients on early repayments of consumer and mortgage loans before 31 December 2019 due to changes in the number of claims and average value of refund.

ESTIMATED CHANGE IN PROVISIONS	Change in the amount of consumer claims		Change in the average amount of the refund	
	-10%	10%	-10%	10%
Provision for refunds of costs to customers on early repayment of consumer and mortgage loans	(10)	10	(10)	10

37. EQUITY AND SHAREHOLDING STRUCTURE OF THE BANK

ACCOUNTING POLICIES

Equity constitutes capital and reserves created in accordance with the legal regulations.

The classification to particular components discussed below results from the Polish Commercial Companies Code, the Banking Law and the requirements of IAS 1.7, IAS 1.78.e, IAS 1.54.q-r and IAS 1.79.b.

Equity components of the subsidiaries other than share capital, in proportion to the parent's interest in the subsidiary, are added to respective equity components of the parent. The Group's equity includes only those parts of the equity of the subsidiaries which arose after the acquisition of shares by the parent. In accordance with the legal regulations in force in Poland, only the equity of the parent and the equity of specific subsidiaries, determined on the basis of stand-alone financial statements, are distributable.

Equity components:

- Share capital comprises solely the share capital of the parent and is stated at nominal value in accordance with the Articles of Association and entry to the Register of Entrepreneurs.

(IN PLN MILLION)

- Supplementary capital is created according to the Articles of Association of Group companies, from the appropriation of profits and from share premium less issue costs and it is to cover the potential losses which might result from the Group's activities.
- General banking risk fund in PKO Bank Polski SA is created from profit after tax in accordance with the Banking Law, and it is to cover unidentified risks of the Bank's operations.
- Other reserves are created from the appropriation of net profit. Other reserves are only meant to cover any potential balance-sheet losses.
- Non-controlling interests represent the part of capital in a subsidiary which cannot be directly or indirectly assigned to the parent company.
- Accumulated other comprehensive income includes the effects of the measurement of financial assets at fair value through other comprehensive income, allowances for expected credit losses on these assets, the effective portion of cash flow hedges in hedge accounting, as well as actuarial gains and losses. Deferred tax on those items is recognized in other comprehensive income. Moreover, the item includes the share of the parent in the total other comprehensive income of associates and joint ventures and foreign exchange differences on translation to Polish currency of the net result of the foreign operation at an exchange rate constituting the arithmetic mean of the average foreign exchange rates as at the day ending each of the months in the financial year published by the National Bank of Poland.

FINANCIAL INFORMATION

EQUITY	31.12.2019	31.12.2018
Share capital	1 250	1 250
Supplementary capital	29 429	29 354
General banking risk fund	1 070	1 070
Other reserves	3 237	3 831
Accumulated other comprehensive income	469	250
Retained earnings	2 101	(385)
Net profit or loss for the year	4 031	3 741
Non-controlling interests	(9)	(10)
Total	**41 578**	**39 101**

SHAREHOLDING STRUCTURE OF THE BANK

According to the information available as at 31 December 2019 the Bank's shareholding structure is as follows:

NAME OF SHAREHOLDER	number of shares	voting rights%	Nominal value of 1 share	Interest held%
As at 31 December 2019				
State Treasury	367 918 980	29,43%	PLN 1	29,43%
Nationale Nederlanden Open Pension Fund (ING Open Pension Funds until 23.06.2015)[1]	94 500 000	7,56%	PLN 1	7,56%
Aviva Open Pension Fund[1]	88 010 319	7,04%	PLN 1	7,04%
Other shareholders[2]	699 570 701	55,97%	PLN 1	55,97%
Total	**1 250 000 000**	**100,00%**	---	**100,00%**
As at 31 December 2018				
State Treasury	367 918 980	29,43%	PLN 1	29,43%
Nationale Nederlanden Open Pension Fund (ING Open Pension Funds until 23.06.2015)[1]	95 472 008	7,64%	PLN 1	7,64%
Aviva Open Pension Fund[1]	89 163 966	7,13%	PLN 1	7,13%
Other shareholders[2]	697 445 046	55,80%	PLN 1	55,80%
Total	**1 250 000 000**	**100,00%**	---	**100,00%**

[1] Calculation of shareholdings as at the end of the year published by PTE in annual information about the structure of fund assets and quotation from the securities exchange official list (*Ceduła Giełdowa*).

[2] Including Bank Gospodarstwa Krajowego which, as at 31.12.2019, held 24 487 297 shares, constituting a 1.96% share of the votes at the General Shareholders' Meeting.

(IN PLN MILLION)

All the shares of PKO Bank Polski SA carry the same rights and obligations. No shares are preferred shares (one share entitles to one vote), in particular with regard to voting rights or dividend. The Articles of Association of PKO Bank Polski SA restrict the voting rights of shareholders holding more than 10% of the total number of votes at the General Shareholders' Meeting and forbid those shareholders to execute more than 10% of the total number of votes at the General Shareholders' Meeting. The above restriction does not apply to:

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

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

Pursuant to Article 13 (1) (26) of the Act dated 16 December 2016 on the rules for managing the State property, the shares of PKO Bank Polski S.A. owned by the State Treasury may not be sold (excluding statutory exceptions).

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

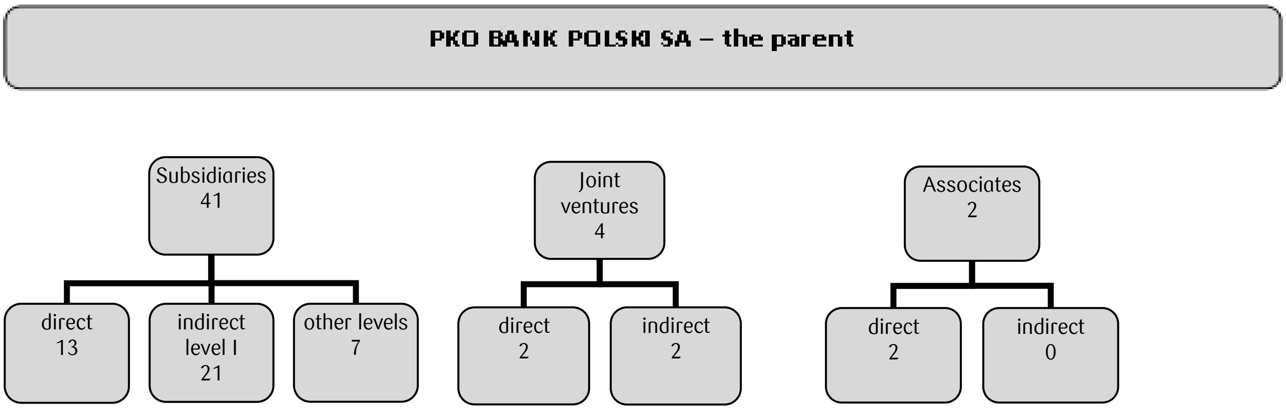
STRUCTURE OF PKO BANK POLSKI SA'S SHARE CAPITAL:

Series	Type of shares	Number of shares	Nominal value of 1 share	Nominal value of the series (PLN)
Series A	ordinary registered shares	312 500 000	PLN 1	312 500 000,00
Series A	ordinary bearer shares	197 500 000	PLN 1	197 500 000,00
Series B	ordinary bearer shares	105 000 000	PLN 1	105 000 000,00
Series C	ordinary bearer shares	385 000 000	PLN 1	385 000 000,00
Series D	ordinary bearer shares	250 000 000	PLN 1	250 000 000,00
Total	---	**1 250 000 000**	---	**1 250 000 000,00**

In 2019 and in 2018, there were no changes in the amount of the share capital of PKO Bank Polski SA. Shares of PKO Bank Polski SA issued are not preference shares and are fully paid up.

(IN PLN MILLION)

38. Structure and the scope of activities of the PKO Bank Polski SA Group



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

No.	ENTITY NAME	REGISTERED OFFICE	BUSINESS ACTIVITIES	% SHARE IN CAPITAL	
	DIRECT SUBSIDIARIES			31.12.2019	31.12.2018
1	PKO Bank Hipoteczny SA	Gdynia	Banking activities	100	100
2	PKO Towarzystwo Funduszy Inwestycyjnych SA	Warsaw	Investment fund management	100	100
3	PKO Leasing SA	Łódź	Leasing and lending	100	100
4	PKO BP BANKOWY PTE SA	Warsaw	Pension fund management	100	100
5	PKO BP Finat sp. z o.o.	Warsaw	Provision of services, including transfer agent services	100	100
6	PKO Życie Towarzystwo Ubezpieczeń SA	Warsaw	Life insurance	100	100
7	PKO Towarzystwo Ubezpieczeń SA	Warsaw	Other personal and property insurance	100	100
8	PKO Finance AB	Stockholm, Sweden	Financial services	100	100
9	KREDOBANK SA	Lviv, Ukraine	Banking activities	100	100
10	ZenCard sp. z o.o.	Warsaw	IT support for trade and services	100	100
11	Merkury - fiz an[1]	Warsaw	investing money collected from fund participants	100	100
12	NEPTUN - fizan[1]	Warsaw		100	100
13	PKO VC - fizan[1]	Warsaw		100	100
	Qualia Development sp. z o.o.[2]	Warsaw	Property development	-	100
	Operator Chmury Krajowej sp. z o.o.[3]	Warsaw	cloud computing services	-	100

[1] PKO Bank Polski SA has investment certificates of the Fund; the share in the Fund's investment certificates is presented in the item "% share in equity".

[2] On 28 June 2019 Qualia-Development sp. z o.o., as the target company, was combined with and PKO Leasing SA as the acquiring company.

[3] From 5 September 2019, the company is classified as a joint venture.

(IN PLN MILLION)

No.	ENTITY NAME / INDIRECT SUBSIDIARIES	REGISTERED OFFICE	BUSINESS ACTIVITIES	% SHARE IN CAPITAL* 31.12.2019	31.12.2018
	GRUPA PKO Leasing SA				
1	PKO Leasing Nieruchomości sp. z o.o.	Warsaw	Leasing	100	100
2	PKO Agencja Ubezpieczeniowa sp. z o.o.	Warsaw	intermediation in concluding insurance contracts	100	100
	2.1 PKO Leasing Finanse sp. z o.o.	Warsaw	sale of post-lease items	100	100
3	PKO Leasing Sverige AB	Stockholm, Sweden	Leasing	100	100
4	PKO Faktoring SA	Warsaw	Factoring activities	100	100
5	Prime Car Management SA[1]	Gdańsk	leasing and fleet management	100	-
	5.1 Futura Leasing SA	Gdańsk	leasing and selling post-lease items	100	-
	5.2 Masterlease sp. z o.o.	Gdańsk	Leasing	100	-
	5.3 MasterRent24 sp. z o.o.	Gdańsk	short-term car rent	100	-
6	ROOF Poland Leasing 2014 DAC[2]	Dublin, Ireland	SPV created for securitization of lease receivables	-	-
7	Polish Lease Prime 1 DAC[3]	Dublin, Ireland		-	-
	PKO Życie Towarzystwo Ubezpieczeń SA GROUP				
8	Ubezpieczeniowe Usługi Finansowe sp. z o.o.	Warsaw	Services	100	100
	KREDOBANK SA GROUP				
9	Finansowa Kompania „Idea Kapitał" sp. z o.o.	Lviv, Ukraine	Services	100	100
	Merkury - fiz an				
10	"Zarząd Majątkiem Górczewska" sp. z o.o.	Warsaw	Property management	100	100
11	Molina sp. z o.o.	Warsaw	general partner in the fund's companies	100	100
12	Molina spółka z ograniczoną odpowiedzialnością 1 S.K.A.	Warsaw	buying and selling real estate on own account, property management	100	100
13	Molina spółka z ograniczoną odpowiedzialnością 2 S.K.A.	Warsaw		100	100
14	Molina spółka z ograniczoną odpowiedzialnością 3 S.K.A. w likwidacji (*in liquidation*)	Warsaw		100	100
15	Molina spółka z ograniczoną odpowiedzialnością 4 S.K.A.	Warsaw		100	100
16	Molina spółka z ograniczoną odpowiedzialnością 5 S.K.A.	Warsaw		100	100
17	Molina spółka z ograniczoną odpowiedzialnością 6 S.K.A.	Warsaw		100	100
	NEPTUN - fizan				
18	Qualia sp. z o.o.[4]	Warsaw	post-sale services in respect of developer products	100	-
19	Sarnia Dolina sp. z o.o.[5]	Warsaw	Property development	100	-
20	Bankowe Towarzystwo Kapitałowe SA	Warsaw	Services	100	100
	20.1 „Inter-Risk Ukraina" additional liability company[6]	Kiev, Ukraine	Debt collection	99,90	99,90
	20.2 Finansowa Kompania "Prywatne Inwestycje" sp. z o.o.[7]	Kiev, Ukraine	Financial services	95,4676	95,4676
21	"CENTRUM HAFFNERA" sp. z o.o.	Sopot	managing a subsidiary	72,9766	72,9766
	21.1 "Sopot Zdrój" sp. z o.o.	Sopot	Property management	100	100

* share in equity of the direct parent

1 A subsidiary of PKO Leasing SA since 27 May 2019.
2 In accordance with IFRS 10, PKO Leasing SA exercises control over the company, although it does not have a capital share in it.
3 A subsidiary of PKO Leasing SA since 26 September 2019; in accordance with IFRS 10, PKO Leasing SA exercises control over the company, although it does not have a capital share in it.
4 On 31 January 2019, a merger took place between Qualia sp. z o.o. as the acquiring company and Qualia - Residence sp. z o.o. and the target company. Until 7 May 2019, Qualia sp. z o.o. was a subsidiary of Qualia Development sp. z o.o.
5 Until 18 June 2019, a subsidiary of Qualia Development sp. z o.o.
6 Finansowa Kompania "Prywatne Inwestycje" Sp. z o.o. is the second shareholder of the company.
7 "Inter-Risk Ukraina" – a company with additional liability – remains the second shareholder of the company..

(IN PLN MILLION)

39. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

SELECTED INFORMATION ON ASSOCIATES AND JOINT VENTURES

The Group holds the following associates and joint ventures.

No.	ENTITY NAME	REGISTERED OFFICE	BUSINESS ACTIVITIES	% SHARE IN CAPITAL* 31.12.2019	31.12.2018
	Joint ventures of the PKO Bank Polski SA				
1	Operator Chmury Krajowej sp. z o.o.[1]	Warsaw	cloud computing services	50	-
2	Centrum Elektronicznych Usług Płatniczych eService sp. z o.o.	Warsaw	activities supporting financial services, including processing transactions concluded using payment instruments	34	34
	1 EVO Payments International s.r.o.	Prague, the Czech Republic	activities supporting financial services	100	100
	EVO Payments International sp. z o.o.[2]	Warsaw	activities supporting financial services	-	100
	Joint venture of NEPTUN - fizan				
	2 "Centrum Obsługi Biznesu" sp. z o.o.	Poznań	Property management	41,4455	41,4455
	Associates of PKO Bank Polski SA				
1	Bank Pocztowy SA	Bydgoszcz	Banking activities	25,0001	25,0001
2	"Poznański Fundusz Poręczeń Kredytowych" Sp. z o.o.	Poznań	sureties	33,33	33,33

* share in equity of the entity exercising joint control / having a significant impact / the direct parent

[1] From 5 September 2019, a joint venture of PKO Bank Polski SA; previously a subsidiary with 100% interest in the Bank's equity.

[2] On 1 October 2019, a business combination of EVO Payments International sp. z o.o. as the target company and Centrum Elektronicznych Usług Płatniczych eService sp. z o.o. as the acquiring company took place.

A summary of the financial data separately for each joint venture and each associate of the Group is presented below. The amounts presented are derived from the financial statements of the specific entities prepared in accordance with IFRS or Polish Accounting Standards (PAS). In the case of companies which have subsidiaries, the presented data is derived from the consolidated financial statements of these companies The data for 2018 is derived from audited financial statements.

Centrum Elektronicznych Usług Płatniczych eService sp. z o.o. (in accordance with IFR	31.12.2019	31.12.2018
Current assets	291	270
Non-current assets	197	219
Current liabilities	202	207
Non-current liabilities	22	20
	01.01-31.12.2019	01.01-31.12.2018
Revenue	557	519
Profit/(loss) for the period	107	87
Other comprehensive income	2	2
Total comprehensive income	109	89
Dividend received from an entity classified as a joint venture	36	22

"Centrum Obsługi Biznesu" Sp. o.o. (in accordance with PAS)	31.12.2019	31.12.2018
Current assets	8	10
Non-current assets	77	79
Current liabilities	38	32
Non-current liabilities	39	51
	01.01-31.12.2019	01.01-31.12.2018
Revenue	26	25
Profit/(loss) for the period	-	(1)

(IN PLN MILLION)

Bank Pocztowy SA (in accordance with IFRS, data as published by the Company)	30.06.2019	31.12.2018
Total assets	7 884	7 565
Total liabilities	7 280	6 963
	01.01-30.06.2019	01.01-31.12.2018
Revenue	220	439
Net profit/(loss) for the period	11	7
Other comprehensive income	(8)	12
Total comprehensive income	3	19

“Poznański Fundusz Poręczeń Kredytowych” Sp. z o.o. (in accordance with PAS)	31.12.2019	31.12.2018
Current assets	31	28
Current liabilities	4	4
Non-current liabilities	8	5
	01.01-31.12.2019	01.01-31.12.2018
Revenue	2	1
Profit/(loss) for the period	-	-

Operator Chmury Krajowej sp. z o.o. (in accordance with IFRS)[1]	31.12.2019	31.12.2018
Current assets	61	-
Non-current assets	65	-
Current liabilities	17	-
Non-current liabilities	12	-
	01.01-31.12.2019	01.01-31.12.2018
Revenue	11	-
Profit/(loss) for the period	(23)	-

[1] From 5 September 2019, the company is classified as a joint venture. As at 31 December 2018, the company was a subsidiary.

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JOINT VENTURES	31.12.2019	31.12.2018
“Centrum Obsługi Biznesu” Sp. z o.o.	-	-
Purchase price	17	17
Change in the share in net assets	(14)	(14)
Impairment allowances	(3)	(3)
The Centrum Elektronicznych Usług Płatniczych eService sp. z o.o. Group	250	256
Value of shares as at the date of obtaining joint control	197	197
Change in the share in net assets	53	59
Operator Chmury Krajowej sp. z o.o.	39	-
Value of shares as at the date of obtaining joint control	43	-
Change in the share in net assets	(4)	-
Total	**289**	**256**

ASSOCIATES	31.12.2019	31.12.2018
Bank Pocztowy SA	88	88
Purchase price	184	184
Change in the share in net assets	78	73
Impairment allowances	(174)	(169)
"Poznański Fundusz Poręczeń Kredytowych" Sp. z o.o.	-	-
Purchase price	2	2
Change in the share in net assets	4	4
Impairment allowances	(6)	(6)
Total	**88**	**88**

CHANGE IN INVESTMENTS IN JOINT VENTURES	2019	2018
Investments in joint ventures as at the beginning of the period	256	244
Reclassification of interests in subsidiaries to joint ventures	43	-
Share in profits/ (losses)	26	34
Dividend	(36)	(22)
Investments in joint ventures as at the end of the period	**289**	**256**

CHANGE IN INVESTMENTS IN ASSOCIATES	2019	2018
Investments in associates as at the beginning of the period	88	149
Share in profits/ (losses)	5	3
Net impairment allowance	(5)	(32)
Share in the change of other equity components	-	(13)
Reclassification of shares from associates to financial assets	-	(19)
Investments in associates as at the end of the period	**88**	**88**

As at 31 December 2019, and as at 31 December 2018, the parent entity did not have any share in contingent liabilities of the associates acquired together with another investor.

IMPAIRMENT ALLOWANCES – RECONCILIATION OF MOVEMENTS	2019	2018
As at the beginning of the period	178	146
Recognized during the period	5	32
As at the end of the period	**183**	**178**

40. Changes to companies comprising the Group

In 2019, the following selected 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:

Consideration given for the shares of the Prime Car Management S.A. Group companies	date of settlement/exchange	number of shares	in PLN million
- purchased as a result of the first call	27.05.2019	11 244 402	267
- purchased as a result of the squeeze-out	24.06.2019	664 438	16
Total		**11 908 840**	**283**

Until 17 June 2019, the shares of PCM were traded on the Warsaw Stock Exchange (WSE). On 31 October 2019, they were withdrawn from stock exchange trading. The purchase of shares was financed with an overdraft facility granted to PKO Leasing SA by Bank.

(IN PLN MILLION)

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

The Company's share capital as at 31 December 2019 amounts to PLN 23 817 680 and consists of 11 908 840 shares, each of PLN 2 nominal value.

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

Company	Share capital	Number of shares	Nominal value of the shares
Masterlease sp. z o.o.	PLN 7 905 000	158 100	PLN 50
MasterRent24 sp. z o.o.	PLN 2 850 000	28 500	PLN 100
Futura Leasing SA	PLN 1 689 320	1 689 320	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, the Bank granted PCM two loans totalling PLN 1 890 million for the purpose of changing the financing structure of PCM and its Group (refinancing of hitherto existing liabilities of PCM resulting from loan agreements concluded and bonds issued, as well as current financing and refinancing activities).

- **ACCOUNTING FOR THE ACQUISITION**

The transaction was accounted for using the acquisition method in accordance with IFRS 3 which requires: identifying the acquirer, determining the date of acquisition, recognizing and measuring identifiable assets acquired, liabilities assumed measured at fair value as at the date of acquisition, and all non-controlling shares in the acquiree, as well as recognizing and measuring goodwill or gains from bargain purchase.

Taking into account the fact that control over PCM and its subsidiaries was taken over as of 27 May 2019, the transaction was accounted for on the basis of PCM's consolidated financial statements as at 31 May 2019 and adjusted for material operations which took place between 27 May 2019 and 31 May 2019, i.e. from the date of assuming control.

- **RECOGNITION AND MEASUREMENT OF IDENTIFIABLE ASSETS ACQUIRED AND LIABILITIES ASSUMED IN ACCORDANCE WITH IFRS**

As at the date of preparing these financial statements, an initial provisional measurement of the acquisition transaction was performed, in particular as regards the portfolio of lease receivables, the portfolio of assets leased under operating leases; contingent liabilities were also identified and measured. The final transaction settlement may differ from the preliminary settlement presented in these financial statements.

In accordance with IFRS 3.45, the Group has 12 months - i.e. to 26 May 2020 for determining final amounts.

The data concerning fair value measurement of identified assets acquired and liabilities assumed presented below has been based on the identification performed from the perspective of the entire PCM Group.

ASSETS	Data of the Prime Car Management S.A. Group as at the acquisition date 27.05.2019 (at amounts derived from the financial statements)	Adjustment relating to fair value measurement	Fair value of the assets acquired
Amounts due from banks	8	-	8
Loans and advances to customers	1 116	(38)	1 078
Intangible assets, of which:	-	10	10
Trademark	-	3	3
Customer relationships	-	7	7
Property, plant and equipment	835	(49)	786
Deferred income tax assets	70	3	73
Other assets	87	(10)	77
Total	**2 116**	**(84)**	**2 032**

(IN PLN MILLION)

LIABILITIES	Data of the Prime Car Management S.A. Group as at the acquisition date 27.05.2019 (as per financial statements)	Adjustment relating to fair value measurement	Fair value of the assets acquired
Amounts due to banks	1 301	-	1 301
Amounts due to customers	2	-	2
Debt securities in issue	250	-	250
Other liabilities	110	(20)	90
Current income tax liabilities	2	-	2
Provisions	2	-	2
Total	**1 667**	**(20)**	**1 647**
Net assets	**449**	**(64)**	**385**

- **INFORMATION ON ASSUMPTIONS AND VALUATION METHODS RELATING TO INDIVIDUAL IDENTIFIABLE ASSETS ACQUIRED AND LIABILITIES ASSUMED AS AT 27 MAY 2019**

  - Loans and advances to customers

The tables below show acquired loans and advances to customers at fair value as at 27 May 2019. They comprise exclusively lease receivables.

LOANS AND ADVANCES TO CUSTOMERS BY CUSTOMER SEGMENTS	Data of the Prime Car Management S.A. Group as at the acquisition date 27.05.2019 (as per the financial statements)	Adjustment relating to fair value measurement	Fair value of the assets acquired
Loans and advances to customers, gross, of which:	**1 166**	**(65)**	**1 101**
measured at amortized cost	1 166	(65)	1 101
corporate	102	(5)	97
retail and private banking	74	(4)	70
SME	990	(56)	934
Allowances for expected credit losses	**(50)**	**27**	**(23)**
measured at amortized cost	(50)	27	(23)
corporate	(4)	2	(2)
retail and private banking	(3)	2	(1)
SME	(43)	23	(20)
Loans and advances to customers, net, of which:	**1 116**	**(38)**	**1 078**
measured at amortized cost	1 116	(38)	1 078
corporate	98	(3)	95
retail and private banking	71	(2)	69
SME	947	(33)	914

The portfolio of finance lease receivables has been measured at fair value using the discounted cash flow method (the income approach) based on discounted cash flows arising from contracts concluded. The expected cash flows have been defined as a sum of contractual principal instalments, including the residual amounts of the leased assets and interest instalments determined based on forward interest rates and effective contractual rates.

The expected cash flows have been discounted using the effective market rates being the sum of the relevant forward rate and effective market margin. Effective market margins have been established as the average margins for homogeneous groups of products for transactions concluded during the last three months by Prime Car Management S.A. In the Group's opinion, the margins realized during the last three months by the acquired PCM constitute an appropriate approximation of market margins as at the valuation date.

The total adjustments arising from fair value measurement of the portfolio of finance lease receivables amounted to PLN (-)38 million.

- Intangible assets – customer relationships

Upon accounting for the acquisition transaction customer relationships were identified arising from concluding finance and operating lease agreements in an amount of: PLN 2 million and PLN 5 million respectively. Customer relationships in the area of the lease portfolio have been analysed separately for the portfolio of finance and operating lease agreements. Customer relationships were measured using the multi-period excess earnings method.

Under this method value is determined based on discounted future cash flows arising from additional earnings generated by a company possessing a given intangible asset above the earnings generated by a company which does not possess such an asset. The method also takes into account the costs and investments related to an intangible asset, marketing expenses etc. In order to estimate the fair value of customer relationships the entity identifies the relationships with the key customers for the individual CGUs, determines the forecast period of their duration and forecast revenue from the individual relationships, and direct costs related to those relationships. Administrative expenses (including amortization and depreciation) are deducted each year from such cash flows. The required return on other assets contributing to generating revenue from customer relationships is also deducted (property, plant and equipment, trademarks, organized labour). Charges arising from using other assets correspond to the required return on individual tangible and intangible assets used for generating revenue from customer relationships. The required return is calculated accordingly for non-current assets, trademarks, organized labour and the capital requirement, and then set off against revenue from customer relationships.

Cash flows received in the individual years are subsequently discounted using the discount rate plus a suitable premium for intangible assets. The discounted cash flows thus calculated are an estimate of the intangible asset.

- Intangible assets – trademark

As part of the settlement of the acquisition transaction the Masterlease trademark was measured at PLN 3 million. Measurement of the trademark based on the market level of licence fees was performed by determining the present value of future licence payments as a result of holding the right to the trademark. This method is based on the assumption that the benefits arising from holding the trademark are equal to the costs that the entity would have to incur if it did not have the right to the trademark but only used it based on a licence agreement at market rates. The market level of the licence fee can be determined by analysing licence rates for using trademarks applied between non-related parties within a comparable market segment. The valuation was performed based on the so-called umbrella approach. The value of the Materlease trademark was based on the activities of PCM as a whole.

- Property, plant and equipment items subject to operating lease

As part of the transaction's settlement the residual value of cars used under operating lease was adjusted by PLN (-) 49 million. The adjustment has been estimated based on residual values adopted by PCM adjusted for the valuation prepared by an independent surveyor, which was slightly lower than the prices actually applied by the company during 2019.

- Other assets – inventories – pre-contract and post-contract cars.

As part of the transaction's settlement the residual value of pre-contract and post-contract cars was adjusted by PLN (-) 5 million.

Fair value of post-lease cars which have been recovered by PCM as a result of terminating agreements or through a debt recovery process has been established in an amount of the valuation performed by an independent surveyor and it is slightly lower than the margins actually obtained by the company in 2019.

Fair value of pre-lease cars which were not transferred to PCM customers as part of finance or operating lease agreements is based on cost adjusted for a write-down for each month of their being kept in the books of account.

As part of the transaction settlement, other assets adjustments amounted to minus PLN 5 million were made. The aforementioned adjustments relate to:

- write-off interest accrued on operating lease contracts that do not meet the definition of assets as at the date of taking control (due to the measurement of fixed assets subject to operating lease at fair value), in the total amount of minus PLN 6 million;
- changes in settlements due to maintenance services within the scope of car fleet management services (in order to proportional recognition of the financial results in contractual maturity period in accordance with IFRS 15 Revenue from contracts with clients) in the total amount of PLN 1 million;

(IN PLN MILLION)

As part of the transaction settlement, other liabilities adjustments amounted to minus PLN 20 million were made. The aforementioned adjustments relate to::

- write-off accrued revenues due to initial fees in operating leasing that do not meet the definition of an obligation as at the date of taking control, in the total amount of minus PLN 17 million;
- changes in settlements due to maintenance services within the scope of car fleet management services (in order to proportional recognition of the financial results in contractual maturity period in accordance with IFRS 15 Revenue from contracts with clients) in the total amount of PLN 1 million.

GAIN FROM A BARGAIN PURCHASE ARISING FROM THE TRANSACTION

As a result of the settlement of the purchase of PCM shares, gain from a bargain purchase was recognized in an amount of the difference between the consideration transferred and a net amount of identifiable assets acquired and liabilities assumed measured in accordance with IFRS.

	Total, Prime Car Management S.A. Group companies
Consideration paid	283
Net identifiable assets acquired and liabilities assumed	385
Gain from bargain purchase, of which:	**(102)**
corporate segment	(23)
retail segment	(79)

The Group purchased the shares in PCM to obtain economic benefits by increasing the customer base in the lease portfolio, in particular the operating lease. The synergy effect of acquiring Prime Car Management S.A. with its subsidiaries will comprise strengthening the leading position in the sector of lease services, including operating lease, and developing fleet management and car lease services.

ADDITIONAL INFORMATION

Due to the fact that the business combination took place during the reporting period, presented below is the aggregate income statement of the acquired entities from the date of acquisition to 31 December 2019 and the income statement of the Group for the period from 1 January to 31 December 2019 presented as though the acquisition date fell on 1 January 2019.

The table below shows the amounts of revenue and costs, and profits or losses of the PCM Group from the date of acquisition, i.e. from 27 May 2019.

INCOME STATEMENT	Data of the Prime Car Management S.A. Group for the period from acquisition date
Interest income	37
Interest expense	(31)
Net interest income	**6**
Fee and commission income	5
Fee and commission expense	(1)
Net fee and commission income/(expense)	**4**
Net expected credit losses, impairment allowances and provisions	(10)
Other operating income	198
Other operating expenses	(72)
Net, other operating income and expense	**126**
Administrative expenses	(121)
Operating profit	5
Profit before tax	**5**
Income tax expense	(2)
Net profit (including non-controlling shareholders)	3
Net profit attributable to equity holders of the parent	**3**

(IN PLN MILLION)

The table below shows the income statement of the PKO Leasing SA Group, including the PCM Group, for the current reporting period, calculated as though the beginning of the reporting period, i.e. 1 January 2019, was the date of assuming control.

INCOME STATEMENT	The PKO Bank Polski SA Group for the period from 1 January to 31 December 2019 (including the Prime Car Management S.A. Group from the acquisition date)	The Prime Car Management S.A. Group for the period from 1 January 2019 to the acquisition date	The PKO Bank Polski SA Group, including the Prime Car Management S.A. Group for the period from 1 January 2019 to 31 December 2019
Interest and similar income	12 760	26	12 786
Interest expense	(2 481)	(24)	(2 505)
Net interest income	**10 279**	**2**	**10 281**
Fee and commission income	4 130	2	4 132
Fee and commission expense	(1 083)	(1)	(1 084)
Net fee and commission income/(expense)	**3 047**	**1**	**3 048**
Dividend income	14	-	14
Net gain/(loss) on financial instruments measured at fair value through profit or loss	175	-	175
Net foreign exchange gains/(losses)	473	-	473
Gains/(losses) on derecognition of financial assets and financial liabilities not measured at fair value through profit or loss	145	-	145
Net expected credit losses	(1 147)	1	(1 146)
Impairment of non-financial assets	(114)		(114)
Cost of the legal risk of mortgage loans in convertible currencies	(451)		(451)
Other operating income	905	323	1 228
Other operating expenses	(368)	(232)	(600)
Net other operating income and expense	**537**	**91**	**628**
Administrative expenses	(5 611)	(89)	(5 700)
Net regulatory charges	(537)	-	(537)
Tax on certain financial institutions	(1 022)	-	(1 022)
Operating profit	**5 788**	**6**	**5 794**
Shares in profits / (losses) of associates and joint ventures	31	-	31
Profit before tax	**5 819**	**6**	**5 825**
Income tax expense	(1 787)	(2)	(1 789)
Net profit (including non-controlling shareholders)	4 032	4	4 036
Profit / (loss) attributable to non-controlling shareholders	1	-	1
Net profit attributable to equity holders of the parent company	**4 031**	**4**	**4 035**

OTHER CHANGES IN THE PKO LEASING SA GROUP

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 in 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 Meeting of Shareholders.

On 26 September 2019, PKO Leasing SA sold a portfolio of securitized lease receivables to the special-purpose vehicle Polish Lease Prime 1 Designated Activity Company (Polish Lease Prime 1 DAC) with its registered office in Dublin (Ireland). Under IFRS 10, Polish Lease Prime 1 DAC meets the definition of a subsidiary of PKO Leasing SA and has been consolidated.

RECLASSIFICATION OF OPERATOR CHMURY KRAJOWEJ SP. Z O.O.

On 5 September 2019, the increase in the share capital of Operator Chmury Krajowej sp. z o.o. of PLN 60 million, acquired by Polski Fundusz Rozwoju SA, and the amended Articles of Association of the company, were entered in the National Court Register.

Following the above-mentioned capital increase, the share capital of Operator Chmury Krajowej sp. z o.o. amounts to PLN 120 million and is divided into 1 200 000 shares of PLN 100 nominal value each. PKO Bank Polski SA holds 600 000 shares of the company with a total nominal value of PLN 60 million constituting 50% of the share capital and carrying 50% of the votes at the General Shareholders' Meeting.

PKO Bank Polski SA changed the company's classification from a subsidiary to a joint venture.

OTHER NOTES

41. DIVIDENDS PER SHARE

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 on 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:

- dividend to the shareholders of PLN 1 662 500 000;
- reserves of 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 Annual 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.

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

42. LEASES

ACCOUNTING POLICIES

IFRS 16 "Leases" applies to annual periods starting on or after 1 January 2019. It replaced the previously binding IAS 17 "Leases". 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. A significant element of the new definition of the lease is the requirement to control the use of the asset and obtain economic benefits from the identified asset.

From the point of view of the lessee, IFRS 16 eliminates the classification of leases into operating and finance leases and introduces the recognition and measurement model convergent to the recognition of finance leases under IAS 17. The lessee is obliged to recognize the right-of-use assets in respect of the leased assets in the statement of financial position and lease liabilities, with the exception of short-term lease agreements (up to 12 months) and leases of assets of immaterial value. 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). The right-of-use assets are subject to straight-line depreciation, while lease liabilities 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 right-of-use assets 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.

- **LEASES - LESSOR**

The Group acts as a lessor in lease agreements relating to vehicles, buildings, including office space, and machinery and equipment. The Group conducts lease activities through the entities from the PKO Leasing SA Group and KREDOBANK SA.

The Group as a lessor classifies leases as operating or finance leases.

A lease agreement is classified as an operating lease if substantially all risks and benefits from owning the underlying assets are not transferred. In such an instance the Group records lease payments as income on a straight-line basis.

A lease agreement is classified as a finance lease if substantially all risks and benefits from owning the underlying assets are transferred. The Group classifies agreements as finance leases where at least one or all of the following conditions have been met:

- the lease transfers ownership of the underlying asset to the lessee by the end of the lease term;
- the lessee has the option to purchase the underlying asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception date, that the option will be exercised;
- the lease term is for the major part of the economic life of the underlying asset even if title is not transferred;
- at the inception date, the present value of the lease payments amounts to at least substantially all of the fair value of the underlying asset (in a sublease it is the value of the right-of-use asset arising from the master lease agreement); and
- the underlying asset is of such a specialized nature that only the lessee can use it without major modifications.

At the inception of a lease, the Group as a lessor in a finance lease presents receivables in an amount equal to the net investment in the lease, i.e. gross investment in the lease discounted with the interest rate implicit in the lease.

Gross investment in the lease is the sum of:

- lease payments receivable by a lessor under a finance lease; and
- any unguaranteed residual value accruing to the lessor.

Interest rate implicit in the lease applied by the Group is the rate of interest that causes the present value of the lease payments and the unguaranteed residual value to equal the sum of the fair value of the underlying asset and any initial direct costs of the Group.

- **LEASE - LESSEE**

Lease agreements or agreements containing a lease according to the Group's classification include agreements under which the Group:

- obtains the right of use of the identified asset and the supplier's ability to substitute an alternative asset is not significant; and
- has the right to obtain substantially all economic benefits from the right of use over the period of use; and
- has the right to direct the use of the identified asset over the period of use, when:
  - the Group has the right to direct how and for what purpose the asset is used throughout the period of use; or
  - the relevant decisions about how and for what purpose the asset is used are predetermined.

The Group applies exceptions and does not recognize right-of-use assets and liabilities with respect to:

- short-term leases, which include agreements without an option to buy an asset, concluded for a period not exceeding 12 months from the inception date, in particular agreements concluded for an indefinite period with a short (up to 12 months) notice period, without significant penalties, which include in particular leasehold improvements incurred and relocation costs;
- low-value leases (an asset's value is lower than PLN 20 000, determined based on the value of a new asset, regardless of the age of the leased asset), excluding agreements for rental of space.

The Group initially measures lease liabilities at the present value of the lease payments outstanding as at that date.

The amount of the lease liability is affected by:

- fixed payments less any lease incentives payable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- any residual guarantees expected from the lessee;
- the exercise price of a purchase option if the probability that the lessee would exercise that option is higher than 50%;
- payments of penalties for terminating the lease, if the lease agreement contains an option for the Group to terminate the lease as a lessee.

The Group does not classify variable fees that depend on external factors as lease payments.

After initial recognition the Group's lease liabilities are measured at amortized cost.

The Group records revaluation of lease liabilities as an adjustment to the right-of-use asset. If as a result of remeasurement the carrying amount of the right-of-use asset is reduced to zero and the lease liability is further reduced, the Group recognizes the remaining amount of the remeasurement as a profit or loss.

The Group initially measures the right-of-use assets at cost, which comprises:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group.

The Group subsequently measures the right-of-use asset at cost less accumulated depreciation (depreciation calculated under the straight-line method) and accumulated impairment losses, adjusted for any remeasurement of the lease liability.

To discount future lease payments, the Group applies discount rates that:

- have been calculated based on yield curves reflecting the cost of financing in a given currency;
- cover the tenor of the longest lease contract subject to measurement and reflecting - for a given currency - a fixed market interest rate and the Group's cost of financing (the tenors of the lease agreements are within the range from 1 to 99 years);
- have been read from the curve for maturity corresponding to a half of the maturity of the lease agreement.

The Group performs quarterly updates of the incremental borrowing rate for lease agreements.

The Group applies the same discount rates for the portfolio of car leases and property leases, including rights to perpetual usufruct of land, taking into account the impact of the lease security on the discount rate applied.

The Group recognizes the lease payments relating to short-term or low-value leases as cost using the straight-line method, over the term of the lease. The differences between the amounts paid and those arising from the straight-line recognition of the costs are recorded as prepayments or accruals.

Impact of implementing IFRS 16:

- **Lease liabilities**

The implementation of the standard resulted in the Group recognizing lease liabilities presented in the Note "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 and which consist of fixed and variable lease payments, depending on market indicators.

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

- **Right-of-use assets**

As at 1 January 2019 the Group recognized right-of-use assets 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 undistributed profit.

- **Estimates adopted**

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 transition and, in the absence of such investments, a 4-year term, taking into account any significant costs related to a change of location of the branches during their operation. The total impact of the extension of the term of the lease on the value of the liability in excess of the irrevocable term of the lease (contractual notice period) 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 (incremental borrowing rates) were within the range from 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 agreement which is to be measured. The tenors of lease contracts lie within a range of 1 to 99 years. The discount rates adopted for the purpose of the estimate were rates for maturity corresponding to one-half of the maturity of the lease agreement.

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 resulted in an increase in capital requirements of PLN 78 million as at 1 January 2019. Furthermore, in view of the write-down of the right of perpetual usufruct of land of PLN 111 million, the Group's own funds will decline by the same amount. This has contributed to a reduction in the Tier 1 capital ratio by approx. 14 bp and the total capital ratio by approx. 15 bp.

(IN PLN MILLION)

- **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 irrecoverable 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:

Operating lease liabilities as at 31.12.2018 (not discounted)	**637**
Future payments in respect of right-of-use	508
Operating lease payments, together with future payments in respect of right-of-use as at 31.12.2018 (not discounted)	**1 145**
Short-term lease agreements	(6)
Impact of discounting at the incremental borrowing rate	(410)
Adjusted for the difference in the recognition of the extension/termination option	227
Financial liabilities in respect of leases as at 01.01.2019	**956**

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	31.12.2017 (under IAS 17)	Write-off of rights to perpetual usufruct of land	Effect of recognizing lease agreements (with discount)		Total effect of recognizing lease agreements (with discount)	As at 01.01.2019 under IFRS 16
			right-of-use assets	operating leases		
ASSETS						
Property, plant and equipment, including:	2 931	(111)	157	802	959	3 779
right-of-use asset		-	157	802	959	959
land and buildings	1 537	(111)	-	-	-	1 426
Non-current assets held for sale	15	-	1	-	1	16
right-of-use asset	-	-	1	-	1	1
Other assets, of which	3 454	-	-	(4)	(4)	3 450
prepayments and deferred costs	222	-	-	(4)	(4)	218
LIABILITIES AND EQUITY						
Other liabilities, including:	3 685	-	158	798	956	4 641
lease liabilities		-	158	798	956	956
Equity	39 101	(111)	-	-	-	38 990

As a result of implementing IFRS 16, in 2019, administrative expenses were not charged with net lease instalments of PLN 221 million. The costs of lease instalments in the amount of PLN 206 million were allocated to depreciation and PLN 26 million was allocated to interest expense.

FINANCIAL INFORMATION:

- **LESSEE**

LESSEE – AMOUNTS RECOGNIZED IN THE INCOME STATEMENT	2019
Depreciation of the right-of-use assets	(206)
Costs of interest on lease liabilities	(26)
Costs related to short-term lease contracts	(12)
Costs related to lease agreements in respect of low-value assets which are not short-term lease agreements, non-deductible VAT expenses and costs of service charges	(66)
Total	(310)

LESSEE – TOTAL CASH OUTFLOWS ON LEASES	2019
Total cash outflows on leases	221

(IN PLN MILLION)

RIGHT-OF-USE ASSETS	31.12.2019
Property, plant and equipment	**886**
Land and buildings	860
Other, including:	26
investment properties	26
Non-current assets held for sale	**1**
Land and buildings	1
Total	**887**

OTHER LIABILITIES	31.12.2019
Lease liabilities	**894**

- **LESSOR - OPERATING LEASE**

LESSOR – OPERATING LEASES	2019	2018
Lease receivables	273	81
Depreciation of property, plant and equipment leased out under operating leases	138	60
Total net income on operating leases	**135**	**21**

TOTAL FUTURE LEASE PAYMENTS UNDER IRREVOCABLE OPERATING LEASES- LESSOR	31.12.2019	31.12.2018
For a period:		
up to 1 year	453	73
from 1 to 2 years	244	42
from 2 to 3 years	179	25
from 3 to 4 years	63	7
from 4 to 5 years	9	1
over 5 years	2	6
Total	**950**	**154**

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

Assets leased out under operating lease contracts are presented in the note “Intangible assets and property, plant and equipment.”

- **LESSOR - FINANCE LEASE**

LESSOR – FINANCE LEASES	2019	2018
Interest income on finance lease receivables	732	607

(IN PLN MILLION)

GROSS INVESTMENT IN THE LEASE AND MINIMUM LEASE PAYMENTS RECEIVABLE AT 31.12.2019	Gross investment in the lease	of which:		Unrealized income	Net investment in the lease
		Undiscounted lease payments	Undiscounted non-guaranteed residual values attributable to the lessor		
Lease receivables, gross					
up to 1 year	7 165	6 999	166	(627)	6 538
1 to 2 years	4 862	4 687	175	(378)	4 484
from 2 to 3 years	3 209	3 094	115	(196)	3 013
from 3 to 4 years	1 725	1 693	32	(88)	1 637
from 4 to 5 years	795	783	12	(32)	763
over 5 years	374	373	1	(21)	353
Total, gross	**18 130**	**17 629**	**501**	**(1 342)**	**16 788**
Allowances for expected losses	(464)	(464)	-	-	(464)
Total, net	**17 666**	**17 165**	**501**	**(1 342)**	**16 324**

GROSS INVESTMENT IN THE LEASE AND MINIMUM LEASE PAYMENTS RECEIVABLE AT 31.12.2018	Gross investment in the lease	of which:		Unrealized income	Net investment in the lease
		Undiscounted lease payments	Undiscounted non-guaranteed residual values attributable to the lessor		
Lease receivables, gross					
up to 1 year	6 059	6 059	-	(521)	5 538
1 to 2 years	4 287	4 287	-	(267)	4 020
from 2 to 3 years	2 914	2 914	-	(179)	2 735
from 3 to 4 years	1 634	1 634	-	(98)	1 536
from 4 to 5 years	771	771	-	(46)	725
over 5 years	460	460	-	(28)	432
Total, gross	**16 125**	**16 125**	-	**(1 139)**	**14 986**
Allowances for expected losses	(489)	(489)	-	-	(489)
Total, net	**15 636**	**15 636**	-	**(1 139)**	**14 497**

43. CONTINGENT LIABILITIES AND OFF-BALANCE SHEET LIABILITIES RECEIVED AND GRANTED

ACCOUNTING POLICIES

Upon initial recognition financial guarantee agreements are stated at fair value. In subsequent periods, as at the balance sheet date, financial guarantees are measured at the higher of:

- allowances for expected credit losses; or
- the amount of commission recognized initially, less accumulated amortization in accordance with IFRS 15.

FINANCIAL INFORMATION

- **SECURITIES PROGRAMMES COVERED WITH UNDERWRITING AGREEMENTS (THE GROUP'S MAXIMUM COMMITMENT TO TAKE UP SECURITIES)**

Issuer of underwritten securities	Type of underwritten securities	Maximum commitment to take up securities	Contract expiry date
As at 31 December 2019			
Company C	corporate bonds	36	31.12.2022
Total		**36**	

(IN PLN MILLION)

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

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

- **CONTRACTUAL COMMITMENTS**

VALUE OF CONTRACTUAL COMMITMENTS CONCERNING:	31.12.2019	31.12.2018
intangible assets	28	43
property, plant and equipment	29	51
Total	**57**	**94**

- **FINANCIAL LIABILITIES AND GUARANTEES GRANTED**

FINANCING AND GUARANTEE LIABILITIES GRANTED AS AT 31.12.2019	Liabilities granted at nominal amount	Provisions for liabilities granted under IFRS 9	Financing and guarantee liabilities granted, net
Financing liabilities granted:			
Credit lines and limits	55 368	(209)	55 159
housing	3 329	(30)	3 299
business	38 265	(119)	38 146
consumer	9 766	(47)	9 719
Other	4 008	(13)	3 995
Total	**55 368**	**(209)**	**55 159**
of which irrevocable loan commitments	22 756	(87)	22 669
Guarantees and pledges granted:			
Guarantees granted in domestic and foreign trading	10 137	(57)	10 080
to financial entities	595	-	595
to non-financial entities	9 383	(57)	9 326
to public sector	159	-	159
Guarantees and pledges granted – domestic corporate bonds	36	-	36
to non-financial entities	36	-	36
Letters of credit granted	1 201	(3)	1 198
to non-financial entities	1 201	(3)	1 198
Guarantees and warranties granted – payment guarantee for financial entities	35	-	35
Guarantees and pledges granted - domestic municipal bonds	101	-	101
Total	**11 510**	**(60)**	**11 450**
of which irrevocable loan commitments	8 147	(56)	8 091
of which performance guarantees granted	2 560	(14)	2 546
Total	**66 878**	**(269)**	**66 609**

(IN PLN MILLION)

FINANCIAL AND GUARANTEE COMMITMENTS GRANTED AS AT 31.12.2018	Liabilities granted at nominal amount	Provisions for liabilities granted under IFRS 9	Financing and guarantee liabilities granted, net
Financing liabilities granted:			
Credit lines and limits	45 867	(166)	45 701
housing	4 275	(35)	4 240
business	32 618	(96)	32 522
consumer	8 974	(35)	8 939
Other	4 010	(11)	3 999
Total	**49 877**	**(177)**	**49 700**
of which irrevocable loan commitments	23 378	(67)	23 311
Guarantees and pledges granted:			
Guarantees granted in domestic and foreign trading	6 515	(46)	6 469
to financial entities	433	(1)	432
to non-financial entities	6 069	(44)	6 025
to public sector	13	(1)	12
Guarantees and pledges granted – domestic corporate bonds	2 021	(2)	2 019
to non-financial entities	2 021	(2)	2 019
Letters of credit granted	1 207	(2)	1 205
to non-financial entities	1 205	(2)	1 203
to public sector	2	-	2
Guarantees and warranties granted – payment guarantee for financial entities	4	-	4
Guarantees and pledges granted - domestic municipal bonds	188	-	188
Total	**9 935**	**(50)**	**9 885**
of which irrevocable loan commitments	6 516	(46)	6 470
of which performance guarantees granted	2 418	(19)	2 399
Total financial and guarantee commitments	**59 812**	**(227)**	**59 585**

- ## LIABILITIES GRANTED BY MATURITY

LIABILITIES GRANTED BY MATURITY AS AT 31.12.2019	up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	over 5 years	Total
Liabilities granted at nominal amount						
Liabilities granted - financing	15 936	3 567	15 086	12 000	8 779	55 368
Liabilities granted - guarantees and pledges	161	1 653	5 185	3 176	1 335	11 510
Total	**16 097**	**5 220**	**20 271**	**15 176**	**10 114**	**66 878**

LIABILITIES GRANTED BY MATURITY AS AT 31.12.2018	up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	over 5 years	Total
Liabilities granted at nominal amount						
Liabilities granted - financing	12 626	2 874	13 293	12 026	9 058	49 877
Liabilities granted - guarantees and pledges	290	693	4 823	3 313	816	9 935
Total	**12 916**	**3 567**	**18 116**	**15 339**	**9 874**	**59 812**

(IN PLN MILLION)

FINANCING AND GUARANTEE LIABILITIES GRANTED AS AT 31.12.2019	Nominal value of liabilities (stage 1)	Allowances for expected credit losses (stage 1)	Nominal value of liabilities (stage 2)	Allowances for expected credit losses (stage 2)	Nominal value of liabilities (stage 3)	Provision for expected credit losses (stage 3)	Total nominal amount	Total provision	Total net amount
Financing liabilities granted:									
Credit lines and limits	48 365	(91)	2 812	(77)	183	(28)	51 360	(196)	51 164
housing	3 013	(16)	309	(12)	7	(2)	3 329	(30)	3 299
business	36 942	(61)	1 155	(35)	168	(23)	38 265	(119)	38 146
consumer	8 410	(14)	1 348	(30)	8	(3)	9 766	(47)	9 719
Other	4 005	(13)	3	-	-	-	4 008	(13)	3 995
Total	**52 370**	**(104)**	**2 815**	**(77)**	**183**	**(28)**	**55 368**	**(209)**	**55 159**
of which irrevocable loan commitments	20 684	(29)	1 974	(47)	98	(11)	22 756	(87)	22 669
of which: purchased or originated credit-impaired off-balance sheet liabilities – POCI	-	-	-	-	67	-	67	-	67
Guarantees and pledges granted:									
Guarantees granted in domestic and foreign trading	9 345	(6)	501	(11)	291	(40)	10 137	(57)	10 080
to financial entities	595	-	-	-	-	-	595	-	595
to non-financial entities	8 591	(6)	501	(11)	291	(40)	9 383	(57)	9 326
to public sector	159	-	-	-	-	-	159	-	159
Guarantees and pledges granted – domestic corporate bonds	36	-	-	-	-	-	36	-	36
to non-financial entities	36	-	-	-	-		36	-	36
Letters of credit granted	1 188	(1)	-	-	13	(2)	1 201	(3)	1 198
to non-financial entities	1 188	(1)			13	(2)	1 201	(3)	1 198
Guarantees and warranties granted – payment guarantee for financial entities	35	-	-	-	-	-	35	-	35
Guarantees and pledges granted - domestic municipal bonds	101	-	-	-	-	-	101	-	101
Total	**10 705**	**(7)**	**501**	**(11)**	**304**	**(42)**	11 510	(60)	11 450
of which irrevocable loan commitments	7 355	(5)	501	(11)	291	(40)	8 147	(56)	8 091
of which performance guarantees granted	2 021	(1)	390	(1)	149	(12)	2 560	(14)	2 546

(IN PLN MILLION)

FINANCIAL AND GUARANTEE COMMITMENTS GRANTED AS AT 31.12.2018	Nominal value of liabilities (stage 1)	Allowances for expected credit losses (stage 1)	Nominal value of liabilities (stage 2)	Allowances for expected credit losses (stage 2)	Nominal value of liabilities (stage 3)	Provision for expected credit losses (stage 3)	Total nominal amount	Total provision	Total net amount
Financing liabilities granted:									
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
business	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
Total	**46 659**	**(86)**	**3 025**	**(77)**	**193**	**(14)**	**49 877**	**(177)**	**49 700**
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
Guarantees and pledges granted:									
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 sector	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 granted	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 sector	2	-	-	-	-	-	2	-	2
Guarantees and warranties granted – payment guarantee for financial entities	4	-	-	-	-	-	4	-	4
Guarantees and pledges granted - domestic municipal bonds	188	-	-	-	-	-	188	-	188
Total	**9 553**	**(13)**	**235**	**(9)**	**147**	**(28)**	9 935	(50)	9 885
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

(IN PLN MILLION)

FINANCING AND GUARANTEE LIABILITIES GRANTED - MOVEMENTS BETWEEN IMPAIRMENT STAGES AS AT 31.12.2019	Gross amount							
	AMOUNTS NOT SUBJECT TO TRANSFER IN A GIVEN PERIOD	Transfer between stage 1 and stage 2		Transfers between stage 2 and stage 3		Transfer between stage 1 and stage 3		TOTAL
		from stage 1 to stage 2	from stage 2 to stage 1	from stage 2 to stage 3	from stage 3 to stage 2	from stage 1 to stage 3	from stage 3 to stage 1	
Financing liabilities granted:								
Credit lines and limits	49 380	1 045	850	20	3	60	2	51 360
Other	4 008	-	-	-	-	-	-	4 008
Total	**53 388**	**1 045**	**850**	**20**	**3**	**60**	**2**	**55 368**
Guarantees and pledges granted:								
Guarantees granted in domestic and foreign trading	9 666	309	21	3	-	138	-	10 137
Guarantees and pledges granted – domestic corporate bonds	36	-	-	-	-	-	-	36
Letters of credit granted	1 201	-	-	-	-	-	-	1 201
Guarantees and warranties granted – payment guarantee for financial entities	35	-	-	-	-	-	-	35
Guarantees and pledges granted - domestic municipal bonds	101	-	-	-	-	-	-	101
Total	**11 039**	**309**	**21**	**3**	**-**	**138**	**-**	**11 510**

FINANCING AND GUARANTEE LIABILITIES GRANTED - MOVEMENTS BETWEEN IMPAIRMENT STAGES AS AT 31.12.2019	Provisions							
	AMOUNTS NOT SUBJECT TO TRANSFER IN A GIVEN PERIOD	Transfer between stage 1 and stage 2		Transfers between stage 2 and stage 3		Transfer between stage 1 and stage 3		TOTAL
		from stage 1 to stage 2	from stage 2 to stage 1	from stage 2 to stage 3	from stage 3 to stage 2	from stage 1 to stage 3	from stage 3 to stage 1	
Financing liabilities granted:								
Credit lines and limits	(146)	(29)	(1)	(4)	-	(16)	-	(196)
Other	(13)	-	-	-	-	-	-	(13)
Total	**(159)**	**(29)**	**(1)**	**(4)**	**-**	**(16)**	**-**	**(209)**
Guarantees and pledges granted:								
Guarantees granted in domestic and foreign trading	(30)	(3)	-	-	-	(24)	-	(57)
Letters of credit granted	(3)	-	-	-	-	-	-	(3)
Total	**(33)**	**(3)**	**-**	**-**	**-**	**(24)**	**-**	**(60)**

(IN PLN MILLION)

FINANCING AND GUARANTEE LIABILITIES GRANTED - MOVEMENTS BETWEEN IMPAIRMENT STAGES AS AT 31.12.2018	Gross amount							
	AMOUNTS NOT SUBJECT TO TRANSFER IN A GIVEN PERIOD	Transfer between stage 1 and stage 2		Transfers between stage 2 and stage 3		Transfer between stage 1 and stage 3		TOTAL
		from stage 1 to stage 2	from stage 2 to stage 1	from stage 2 to stage 3	from stage 3 to stage 2	from stage 1 to stage 3	from stage 3 to stage 1	
Financing liabilities granted:								
Credit lines and limits	43 389	1 820	585	6	4	60	3	45 867
Other	4 010	-	-	-	-	-	-	4 010
Total	**47 399**	**1 820**	**585**	**6**	**4**	**60**	**3**	**49 877**
Guarantees and pledges granted:								
Guarantees granted in domestic and foreign trading	6 141	180	163	3	-	28	-	6 515
Guarantees and pledges granted – domestic corporate bonds	2 021	-	-	-	-	-	-	2 021
Letters of credit granted	1 204	1	1	1	-	-	-	1 207
Guarantees and warranties granted – payment guarantee for financial entities	4	-	-	-	-	-	-	4
Guarantees and pledges granted - domestic municipal bonds	188	-	-	-	-	-	-	188
Total	**9 558**	**181**	**164**	**4**	-	**28**	-	**9 935**

FINANCING AND GUARANTEE LIABILITIES GRANTED - MOVEMENTS BETWEEN IMPAIRMENT STAGES AS AT 31.12.2018	Provisions							
	AMOUNTS NOT SUBJECT TO TRANSFER IN A GIVEN PERIOD	Transfer between stage 1 and stage 2		Transfers between stage 2 and stage 3		Transfer between stage 1 and stage 3		TOTAL
		from stage 1 to stage 2	from stage 2 to stage 1	from stage 2 to stage 3	from stage 3 to stage 2	from stage 1 to stage 3	from stage 3 to stage 1	
Financing liabilities granted:								
Credit lines and limits	(100)	(59)	(4)	-	-	(3)	-	(166)
Other	(11)	-	-	-	-	-	-	(11)
Total	**(111)**	**(59)**	**(4)**	-	-	**(3)**	-	**(177)**
Guarantees and pledges granted:								
Guarantees granted in domestic and foreign trading	(34)	(7)	-	-	-	(5)	-	(46)
Guarantees and pledges granted – domestic corporate bonds	(2)	-	-	-	-	-	-	(2)
Letters of credit granted	(2)	-	-	-	-	-	-	(2)
Total	**(38)**	**(7)**	-	-	-	**(5)**	-	**(50)**

(IN PLN MILLION)

- **OFF-BALANCE SHEET LIABILITIES RECEIVED**

OFF-BALANCE SHEET LIABILITIES RECEIVED BY NOMINAL VALUE	31.12.2019	31.12.2018
Financing	119	90
Guarantees	2 478	1 825
Total	**2 597**	**1 915**

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.

- **RIGHT TO SELL OR PLEDGE A COLLATERAL ESTABLISHED FOR THE GROUP**

As at 31 December 2019, and as at 31 December 2018 there were no collaterals established for the benefit of the Bank's Group, which the Group was entitled to sell or pledge, if all obligations of the collateral holder were performed.

44. LEGAL CLAIMS

As at 31 December 2019, the total value of court cases (litigation), in which PKO Bank Polski SA Group companies (including the Bank) are the respondent was PLN 1 194 million (as at 31 December 2018, the aggregate value of such litigation was PLN 1 784 million), while the total value of court cases (litigation) in which PKO Bank Polski SA Group companies (including the Bank) are the claimant, as at 31 December 2019, was PLN 2 527 million (as at 31 December 2018, the total value of such litigation was PLN 1 838 million).

The effect of CJEU judgements of 13th September 2019 and 3rd October 2019 and proceedings conducted before the UOKIK are described below.

LITIGATION AGAINST THE BANK RELATING TO FOREIGN CURRENCY LOANS GRANTED

As at 31 December 2019, 1645 court proceedings relating to foreign currency loans granted were pending against the Bank (870 court proceedings as at 31 December 2018) with a total disputed amount of PLN 392 million (PLN 210 million as at 31 December 2018), 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. Taking a prudent approach to the protection against the legal risk relating to the court cases which were pending as at 31 December 2019, the Group set up a provision for these pending litigations of PLN 141 million, which reduced the gross carrying amount of mortgage loans.

On 3 October 2019 the Court of Justice of the European Union ("CJEU") handed down its judgment in Case C-260/18 initiated by requests for a preliminary ruling from the Sąd Okręgowy w Warszawie (Regional Court in Warsaw). The Bank was not a party to the proceedings before the CJEU. The CJEU responded to the four questions asked by the Polish court in respect of an indexed loan contract from November 2008. The CJEU judgment applies only to a situation where the national court has previously found the given contractual term abusive. According to the CJEU judgment, it is the exclusive authority of national courts to assess, as part of court proceedings, whether a particular contractual term may be considered abusive in the context of a particular case. The CJEU left it up to the national courts to assess whether a contract contains abusive clauses and whether, after the elimination of such abusive clauses, the contract may continue to apply and, if not, whether there is a national provision that can replace the removed clauses. In this respect, the CJEU did not support the need to annul contracts, but merely did not rule out such a solution, leaving the final assessment to the national courts, while pointing out that "Based on well-established case-law, the purpose of this provision, and in the first instance of the second part of the sentence, is not to annul all contracts containing unfair terms but to replace the formal balance which the contract establishes between the rights and obligations of the parties with an effective balance which re-establishes equality between them (...)".

On the basis of the CJEU judgment, if a national court concludes that a contractual term is contrary to the consumer's interests (abusive), the term is not binding on the parties to the contract. The court removes the term from the contract. The next step is for the court to determine whether the contract may continue (be performed) and, if so, in what form. The court also analyses whether there is a supplementary provision of law that may replace the removed contractual terms. If the court concludes that the contract cannot be performed without the removed terms and, at the same time, it is not possible to replace the removed terms with supplementary provisions of national law, the court may declare the contract invalid.

The CJEU judgment will affect national courts' case-law first and foremost with regard to loans indexed to a foreign currency and the courts will examine the factual and legal situation, including the text of the loan contract, on a case-by-case basis. It should be pointed out that contracts indexed to CHF are clearly a minority in the Bank's portfolio (see the note "Management of currency risk associated with mortgage loans for households"). The majority are loan agreements denominated in CHF, where the amount of CHF debt was known to the borrower already at the date of execution of the loan agreement and resulted directly from it. Agreements for loans indexed to CHF in the Bank's portfolio contain terms according to which the LIBOR interest rate applies to loans whose currency is CHF, whereas if the currency of loans is PLN then the WIBOR interest rate should be applied according to these contractual terms.

Regardless of the absence of significant losses resulting from court cases finalized with a valid court judgment before the date of preparing these financial statements and, in the vast majority, a different nature of the contracts than those covered by the preliminary question referred to above, taking into account an increase in the number of claims relating to mortgage loans in foreign currencies noted in the banking sector, and given the lack of a uniform line of jurisprudence with regard to such loans, in accordance with the prudence concept the Group assessed the legal risk arising not only from the related court cases existing as at the balance sheet date, but also based on certain assumptions as to potential new claims in the future with regard to the entire portfolio of mortgage loans in foreign currencies granted in the past years. In addition, the Group determined scenarios for the possible outcomes in relation to various types of contract templates used in the past and assigned specific probabilities of materialization to these scenarios, based on own analyses and opinions of external lawyers. Based on this analysis, the Group measured the legal risk relating to the entire portfolio of mortgage loans in foreign currencies and arising from potential future legal claims at PLN 281 million. Given the fact that the said amount relates to a new estimate of cash flows from the mortgage loan portfolio, in accordance with IFRS 9 B5.4.6, it reduces the gross balance of such loans as at 31 December 2019 (note "Loans and advances to customers"), with the corresponding charge to costs of 2019, in item "Cost of the legal risk of mortgage loans in convertible currencies". Additionally, the Bank has set up the provision for potential legal claims against the Bank relating to mortgage loans in convertible currencies of PLN 29 million (see note "Provisions").

Due to the short span of historical data and the small scale of the Group's legal risk relating to mortgage loans in foreign currencies to-date, estimates of the number of potential future claims and the direction of jurisprudence are burdened with material uncertainty which results from the need to use certain assumptions based on expert judgment. These assumptions are described in note "Risk management of foreign currency risk associated with mortgage loans for households" and will be reviewed by the Group in subsequent periods.

COURT PROCEEDINGS AGAINST THE BANK CONCERNING REIMBURSEMENT OF THE COMMISSION IN THE EVENT OF PREPAYMENT OF LOANS

As at 31 December 2019, 102 court proceedings were pending against the Bank with a total disputed amount of PLN 640 thousand, concerning the reimbursement of the commission in the event that the customer prepays all or part of the loan liability. The provision for these proceedings as at 31 December 2019 is PLN 355 thousand.

On 11 September 2019, the Court of Justice of the European Union ("CJEU") handed down its judgment in Case C-383/18 initiated by a request for a preliminary ruling from the Sąd Rejonowy Lublin-Wschód w Lublinie (Lublin-Wschód District Court in Lublin) with its seat in Świdnik. The Bank was not a party to the proceedings before the CJEU. In its judgment, the CJEU interpreted Article 16(1) of Directive 2008/48/EC of the European Parliament and of the Council, stating that it should be interpreted as meaning that the right of a consumer to a reduction in the total cost of the loan in the event of early repayment of the loan includes all the costs imposed on the consumer. In the CJEU's opinion, the phrase "costs relating to the remaining duration of the contract" should not relate to the type of costs (possibility of connecting them with the duration of the contract) or to their due date, but only to the method of calculation of a reduction. However, the Court did not rule on the method of calculation of reimbursement of costs and left it to national courts.

The CJEU judgment will affect national courts' case-law in cases involving reimbursement of commission, including those involving the Bank.

As a result of an analysis of the effects of CJEU's judgment, the Group reviewed its approach to refunds of the part of total costs of consumer and mortgage loans relating to the period from early repayment of the loan until its original maturity date. Currently, such refunds are made on an ongoing basis. The Group estimated the possible prepayments which may occur in the future in relation to the consumer and mortgage loans as at the balance sheet date and reduced its interest income by PLN 147 million, in accordance with the provisions of IFRS 9 (note "Other liabilities" and "Interest income and expenses"). Moreover, the Group estimated the likely costs of satisfying customer complaints relating to reimbursement of commission in connection with early repayments in the past. These costs amounting to PLN 104 million were included in the balance of provisions (note "Provisions"), with the corresponding charge to other operating expenses (note "Other operating income and expenses").

Due to the short span of historical data, estimates of the number of potential customers complains and loans repayment ratio, especially relating to mortgage loans, are uncertain.

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:

- Proceedings initiated 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 template 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. In the opinion of the UOKiK President, a part of the provisions included in the appendix to the annexe is imprecise, and the manner of determining exchange rates on this basis depends on factors randomly adopted by the Bank. In the opinion of the UOKiK President, such wording of the provisions may lead to the inability of consumers to verify whether the Bank accurately estimated the exchange rate at which it translates loan/mortgage loan instalments. In its letter dated 9 August 2017 the Bank presented its position on the charges formulated by the UOKiK President. On 31 July 2018 the Bank filed a motion for the issuance of a consent decree. In his letter dated 20 September 2019 the President of UOKiK extended the term to the conclusion of the proceedings until 31 December 2019. On 23 December 2019 the Bank submitted a letter in which it informed about its will to close the proceedings by issuance of a consent decree and asked for a meeting with the representatives of UOKiK to discuss the Bank's position concerning the obligations. As at 31 December 2019 the President of UOKiK did not undertake any further steps in this matter. As at 31 December 2019 the Group had not set up a provision for these proceedings.
- Proceedings initiated on 26 July 2017 ex officio concerning 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 denominated in foreign currencies to customers than those following from the advice about interest rate risk provided to customers before they had concluded the contracts, and transferring possible currency 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 that the Bank present answers to 16 detailed questions in order to determine the circumstances necessary to settle the case. The Bank provided answers in a letter dated 10 May 2019. As at 31 December 2019 the President of UOKiK did not undertake any further steps in this matter. As at 31 December 2019 the Group had not set up a provision for these proceedings.
- Proceedings initiated ex officio on 12 March 2019 on the acknowledgement that the provisions of the template 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. In the opinion of the President of UOKiK the modification clauses applied by the Bank give the Bank unilateral unlimited and arbitrary possibilities of modifying the execution of the agreement. Consequently, the President of UOKiK is of the opinion that the clauses applied by the Bank shape the rights and obligations of the consumers in a way that is contrary to good practice and are a gross violation of their interests, which justifies the conclusion that they are abusive. In its letter of 31 May 2019, the Bank presented its position on the charges made by the President of UOKiK. By a letter dated 12 August 2019, the President of UOKiK, extended the deadline for the closure of the proceeding to 31 December 2019, and then by a letter dated 19 December 2019 - to 30 April 2020. As at 31 December 2019 the Group had not set up a provision for these proceedings.

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

The Bank is 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 the above 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 others, the Bank, 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; PKO Bank Polski SA is the legal successor of Nordea Bank Polska S.A. through a merger pursuant to Article 492 § 1 point 1 of the Commercial Companies Code). The fine was 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 fine paid by the Bank was 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 31 December 2019 the Bank maintained a provision for this litigation of PLN 21 million.

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 restrict 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 Bank entered the proceedings as a side intervener.

REPRIVATIZATION CLAIMS RELATING TO PROPERTIES USED BY THE BANK

As at the date of the consolidated financial statements the three proceedings pertaining to reprivatization claims. One of the proceedings has been suspended. In the second proceeding ended with a final court judgment favourable to the Bank, the opposing party lodged a cassation complaint, and the Supreme Court accepted it for consideration. In the third proceeding the subject matter of which is to confirm invalidity of the decision refusing to grant temporary ownership of the Bank's property to the applicant, the cassation complaint has been lodged with the Voivodeship Administrative Court against the final decision discontinuing the proceedings as groundless.

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

(IN PLN MILLION)

45. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

• CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash in hand, cash on nostro accounts and a deposit with the National Bank of Poland, as well as current amounts due from banks, and other cash equivalents with maturities up to 3 months from the date of acquisition.

CASH AND CASH EQUIVALENTS	31.12.2019	31.12.2018
Cash, balances with the Central Bank	14 677	22 925
Current amounts due from banks	3 768	7 396
Restricted cash and cash equivalents, of which	236	205
restricted cash and cash equivalents – amounts due from banks	224	195
restricted cash and cash equivalents – loans and advances to customers	12	10
Total	**18 681**	**30 526**

• RESTRICTED CASH AND CASH EQUIVALENTS

Cash and cash equivalents of PLN 236 million (as at 31 December 2018: PLN 205 million), including:

- PLN 12 million (as at 31 December 2018: PLN 10 million) pledged as collateral for securities' transactions conducted by Biuro Maklerskie PKO BP are deposited in the National Depository for Securities (KDPW_CCP), as part of the Guarantee Fund for the Settlement of Stock Exchange Transactions. Each direct participant who holds the status of settlement-making participant is obliged to make payments to the settlement fund which guarantees a proper settlement of the stock exchange transactions covered by that fund. The amount of the payments depends on the value of transactions made by each participant and is updated by KDPW_CCP on a daily basis.
- PLN 4 million (as at 31 December 2018: PLN 4 million) paid in by participants in IKE, IKZE, PPE and PSO, which was not converted by the transfer agent into investment fund participation units by 31 December 2019 and 31 December 2018, respectively.
- PLN 220 million (as at 31 December 2018: PLN 191 million) pledged as a collateral for securitization transactions.

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

INTEREST INCOME ON:	2019	2018
loans and advances to banks	105	81
hedging derivatives	418	524
debt securities	1 506	1 170
loans and advances to customers	9 538	8 943
Total	**11 567**	**10 718**

The above amount of interest received does not include the amounts of commissions recognized with the usage of effective interest rate as interest income.

(IN PLN MILLION)

INTEREST EXPENSE – PAID:	2019	2018
amounts due to banks	(58)	(58)
amounts due to customers	(1 753)	(1 415)
leases	(26)	-
debt securities	(91)	(50)
debt securities in issue	(521)	(453)
subordinated liabilities	(90)	(74)
Total	**(2 539)**	**(2 050)**

DIVIDEND INCOME RECEIVED	2019	2018
from associates and joint ventures	36	22
on financial assets held for trading	1	1
on financial instruments not held for trading, measured at fair value through profit or loss	13	11
Total	**50**	34

- **CASH FLOW FROM OPERATING ACTIVITIES – OTHER ADJUSTMENTS**

OTHER ADJUSTMENTS	2019	2018
Changes resulting from acquisition of business entities	(30)	-
Cash flow hedges	210	138
Actuarial gains and losses	(7)	(1)
Foreign exchange differences on translation of foreign branches	50	16
Remeasurement of shares in associates and joint ventures, and other changes	(123)	(51)
Scrapping of property, plant and equipment and intangible assets	48	(15)
Total	**148**	87

- **EXPLANATION OF DIFFERENCES BETWEEN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION AND CHANGES IN THESE ITEMS PRESENTED UNDER OPERATING ACTIVITIES IN THE CONSOLIDATED CASH FLOW STATEMENT**

(GAIN)/LOSS ON INVESTING ACTIVITIES RELATING TO SALE OR SCRAPPING OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS	2019	2018
Gains on sale or scrapping of property, plant and equipment and assets held for sale	(45)	(57)
Losses on sale or scrapping of property, plant and equipment, intangible assets and assets held for sale	34	25
Gain from losing control over a subsidiary	-	(25)
Total	**(11)**	**(57)**

(IN PLN MILLION)

INTEREST AND DIVIDENDS	2019	2018
Presented under financing activities:	(1 505)	(1 093)
dividends received from associates and joint ventures	(36)	(22)
dividends received on securities held for trading	(1)	(1)
dividends received on securities not held for trading, measured at fair value through profit or loss	(13)	(11)
interest received on securities measured at fair value through other comprehensive income	(1 200)	(1 014)
interest received on securities measured at amortized cost	(255)	(45)
Presented under financing activities:	642	511
interest paid on debt securities in issue	521	413
interest paid on subordinated loan	90	74
interest paid on loans and advances received	31	24
Total	**(863)**	**(582)**

CHANGES IN AMOUNTS DUE FROM BANKS	2019	2018
Change in the balance sheet	3 569	(2 428)
Changes in allowances for expected credit losses	-	(1)
Exclusion of the change in cash and cash equivalents	(3 599)	2 412
Total	**(30)**	**(17)**

CHANGE IN SECURITIES	2019	2018
Change in the balance sheet	(16 459)	(10 039)
Changes due to IFRS 9 implementation	-	4 449
Changes in allowances for expected credit losses	11	(7)
Fair value of financial assets measures at fair value through other comprehensive income (net)	(36)	298
Presentation of purchase /sale of securities measured at fair value through other comprehensive income in investing activities under investing activities	9 829	3 875
Presentation of purchase /sale of securities measured at amortized cost under investing activities	4 627	2 111
Total	**(2 028)**	**687**

CHANGE IN LOANS AND ADVANCES TO CUSTOMERS	2019	2018
Change in the balance sheet	(16 522)	(9 284)
Changes resulting from acquisition of business entities	1 077	-
Changes due to IFRS 9 implementation	-	(5 165)
Changes in allowances for expected credit losses	982	2 449
Exclusion of the change in cash and cash equivalents	2	(1)
Total	**(14 461)**	**(12 001)**

(IN PLN MILLION)

CHANGE IN NON-CURRENT ASSETS HELD FOR SALE	2019	2018
Change in the balance sheet	3	123
Changes due to IFRS 16 implementation	1	-
Change in allowances for non-current assets held for sale	(1)	19
Total	**3**	**142**

CHANGE IN OTHER ASSETS AND INVENTORIES	2019	2018
Change in the balance sheet	(117)	(343)
Changes resulting from acquisition of business entities	76	-
Changes due to IFRS 16 implementation	(4)	
Changes in allowances for other assets and inventories	(12)	46
Total	**(57)**	**(297)**

CHANGE IN AMOUNTS DUE TO BANKS	2019	2018
Change in the balance sheet	877	(2 556)
Changes resulting from acquisition of business entities	(1 301)	-
Presentation of long-term loans and loans from banks, including interest, under financing activities	644	2 516
Total	**220**	**(40)**

CHANGE IN AMOUNTS DUE TO CUSTOMERS	2019	2018
Change in the balance sheet	15 383	21 899
Changes resulting from acquisition of business entities	(2)	-
Presentation of long-term loans and loans from financial institutions other than banks obtained/repaid , including interest, under financing activities	2 044	(380)
Total	**17 425**	**21 519**

Change in liabilities in respect of debt securities in issue	2019	2018
Change in the balance sheet	2 521	4 695
Changes resulting from acquisition of business entities	(250)	-
Presentation of liabilities in respect of debt securities in issue, including interest, under financing activities	(2 414)	(4 457)
Total	**(143)**	**238**

CHANGE IN SUBORDINATED LIABILITIES	2019	2018
Change in the balance sheet	(1)	1 011
Presentation of subordinated liabilities incurred/repaid, including interest, under financing activities	-	(1 000)
Total	**(1)**	**11**

(IN PLN MILLION)

CHANGE IN OTHER LIABILITIES	2019	2018
Change in the balance sheet	1 390	(1 377)
Changes due to IFRS 16 implementation	(956)	
Changes resulting from acquisition of business entities	(89)	-
Presentation of lease payments under financing activities	221	-
Total	**566**	**(1 377)**

CHANGE IN ACCUMULATED EXPECTED CREDIT LOSSES AND IMPAIRMENT ALLOWANCES ON NON-FINANCIAL ASSETS AND OTHER	2019	2018
Change in accumulated impairment allowances and expected credit losses	(956)	(2 374)
for amounts due from banks	-	1
for loans and advances to customers	(982)	(2 449)
for securities	(11)	7
for other financial assets	(5)	(3)
provisions for financing liabilities and guarantees granted	42	70
Change in accumulated impairment allowances on non-financial assets and other provision	179	86
for non-current assets held for sale	1	(19)
for property, plant and equipment	9	4
for intangible assets	53	22
for investments in associates and joint ventures	5	32
for other financial assets, including inventories	17	(43)
other provisions	94	90
Total	**(777)**	**(2 288)**

- **RECONCILIATION OF ITEMS PRESENTED IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION WITH FINANCING ACTIVITIES IN THE CONSOLIDATED STATEMENT OF CASH FLOWS**

	Note	31.12.2018	Recognized under financing activities in the consolidated cash flow statement		Recognized under financing activities in the consolidated cash flow statement	31.12.2019
			Incurred	Repaid	Other changes, including foreign exchange differences	
Loans and borrowings received		4 343	665	(3 353)	1 124	2 779
from banks	29	250	650	(1 294)	1 144	750
from customers	30	4 093	15	(2 059)	(20)	2 029
Liabilities in respect of securities in issue	33	28 627	13 079	(10 665)	107	31 148
Subordinated liabilities - subordinated bonds	34	2 731	-	-	(1)	2 730
Payment of lease liabilities	42	-	-	(221)	-	(221)
Total		35 701	13 744	(14 239)	1 230	36 436

(IN PLN MILLION)

	Note	31.12.2017	Recognized under financing activities in the consolidated cash flow statement		Recognized under financing activities in the consolidated cash flow statement	31.12.2018
			Incurred	Repaid	Other changes, including foreign exchange differences	
Loans and borrowings received		6 348	1 128	(3 264)	131	4 343
from banks	29	2 785	100	(2 616)	(19)	250
from customers	30	3 563	1 028	(648)	150	4 093
Liabilities in respect of securities in issue	33	23 932	12 705	(8 248)	238	28 627
Subordinated liabilities - subordinated bonds	34	1 720	1 000	-	11	2 731
Total		32 000	14 833	(11 512)	380	35 701

46. TRANSACTIONS WITH THE STATE TREASURY AND RELATED PARTIES

- ### TRANSACTIONS WITH THE STATE TREASURY

The State Treasury holds a 29.43% interest in the Bank's share capital.

Pursuant to the Act of 30 November 1995 on State support in 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 as repurchase of interest receivable on housing loans.

INCOME FROM TEMPORARY REDEMPTION BY THE STATE TREASURY OF INTEREST ON HOUSING LOANS IN THE 'OLD' PORTFOLIO	2019	2018
Income recognized on the accruals basis	93	383
Income recognized on the cash basis	75	361
Difference – "Loans and advances to customers"	18	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 partial purchase of interest on housing loans by the State Treasury and in 2019 it received commission of below PLN 1 million, and in 2018 of 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 2019 the Bank received commission of below PLN 1 million in this respect, and in 2018 it received PLN 1 million.

Biuro Maklerskie PKO BP plays the role of an agent for the issue of retail treasury bonds under the agreement signed with the Ministry of Finance on 11 February 2003. Under this agreement, Biuro Maklerskie PKO BP receives a fee for providing the services of an agent for the issue of bonds- in 2019 in the amount of PLN 83 million, and in 2018 in the amount of PLN 59 million.

(IN PLN MILLION)

- **SIGNIFICANT TRANSACTIONS WITH THE STATE TREASURY'S RELATED ENTITIES**

The Group's exposure and the value of the Group's liabilities to 10 entities related to the State Treasury with the highest total exposure are presented below. The transactions were concluded at arm's length terms.

	BALANCE SHEET EXPOSURE, INCLUDING EXPOSURE TO LOANS AND DEBT INSTRUMENTS		OFF-BALANCE SHEET EXPOSURE		LIABILITIES IN RESPECT OF DEPOSITS	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018
counterparty 1	-	-	2 453	2 450	-	-
counterparty 2	3 443	2 774	350	-	61	153
counterparty 3	240	263	3 520	1 635	3 686	2 633
counterparty 4	1 726	1 188	1 193	1 671	94	32
counterparty 5	614	439	2 291	1 730	175	32
counterparty 6	2 021	2 047	667	663	122	491
counterparty 7	485	347	2 132	1 552	231	1 397
counterparty 8	599	895	1 683	1 378	350	317
counterparty 9	467	617	1 080	922	50	284
counterparty 10	167	159	802	549	6	2

In 2019, interest and commission income on the transactions with the 10 counterparties referred to above amounted to PLN 200 million (in 2018, PLN 158 million), and the respective interest expense amounted to PLN 29 million (in 2018, PLN 33 million). As at 31 December 2019 and as at 31 December 2018, respectively, no allowances for expected credit losses were recognized for the above-mentioned receivables.

In the opinion of the Bank, all transactions with entities related to the State Treasury are concluded on an arm's-length basis.

- **RELATED-PARTY TRANSACTIONS – CAPITAL LINKS**

Transactions of the parent company with associates and joint ventures are presented in the table below. All transactions with subsidiaries, 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 31 DECEMBER 2019 / ENTITY	Receivables	of which loans	Liabilities	Off-balance sheet liabilities granted
Centrum Elektronicznych Usług Płatniczych eService sp. z o.o.	80	26	43	32
"Centrum Obsługi Biznesu" Sp. z o.o.	19	19	6	-
Bank Pocztowy SA	-	-	-	1
"Poznański Fundusz Poręczeń Kredytowych" Sp. z o.o.	-	-	1	-
Operator Chmury Krajowej sp. z o.o.	-	-	59	769
Total joint ventures and associates	**99**	**45**	**109**	**802**

FOR THE YEAR ENDED 31 DECEMBER 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.	508	468	125	125
"Centrum Obsługi Biznesu" Sp. z o.o.	1	1	-	-
Operator Chmury Krajowej sp. z o.o.	-	-	9	-
Total joint ventures and associates	**509**	**469**	**134**	**125**

(IN PLN MILLION)

AS AT 31 DECEMBER 2018 / ENTITY	Receivables	of which loans	Liabilities	Off-balance sheet liabilities granted
Centrum Elektronicznych Usług Płatniczych eService sp. z o.o.	40	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	-
Total joint ventures and associates	**58**	**41**	**56**	**24**

FOR THE YEAR ENDED 31 DECEMBER 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.	463	457	137	137
"Centrum Obsługi Biznesu" Sp. z o.o.	1	1	-	-
Total joint ventures and associates	**464**	**458**	**137**	**137**

- **RELATED-PARTY TRANSACTIONS – PERSONAL LINKS**

As at 31 December 2019, six 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. As at 31 December 2018 it was six entities. In 2019 and in 2018, no transactions were conducted between the Group and those entities.

47. BENEFITS FOR THE PKO BANK POLSKI SA KEY MANAGEMENT

ACCOUNTING POLICIES

Short-term employee benefits include, apart from the base salary, also the part of the variable remuneration component paid in cash which is not deferred.

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

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

- **VARIABLE REMUNERATION COMPONENTS OF KEY MANAGEMENT PERSONNEL IN THE GROUP**

Variable remuneration components are granted in the form of: non-deferred (in the first year after the calendar year constituting an appraisal period), and deferred remuneration (for the next three years after the first year of the appraisal period), whereas both the non-deferred and deferred remuneration is awarded in equal parts in cash and in the form of financial instruments, i.e. phantom shares (for which conversion into cash is carried out after an additional period of retention).

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

The deferred remuneration may be reduced in the event of deterioration in the financial performance of the Bank or a Group Company, respectively, a loss incurred by the Bank / Company or deterioration of other variables related to the performance in the period of appraisal of key management personnel and results of the organizational units/cells supervised or managed by these people, which were revealed after the appraisal period.

In 2019, variable remuneration components were also granted in selected PKO Bank Polski SA Group companies. Regulations on variable remuneration components for members of the Management Board applied in: PKO Bank Hipoteczny SA, PKO BP BANKOWY PTE SA, PKO TFI SA, PKO Leasing SA, PKO Towarzystwo Ubezpieczeń SA and PKO Życie Towarzystwo Ubezpieczeń SA. Simultaneously, employees in certain managerial positions at PKO Bank Hipoteczny SA, PKO Towarzystwo Ubezpieczen SA and PKO Zycie Towarzystwo Ubezpieczen SA having a significant impact on the company's risk profile, and certain employees at PKO TFI SA, whose jobs include activities that materially affect the risk profile of the company or the fund management company, were also covered by variable remuneration policies.

FINANCIAL INFORMATION (IN PLN THOUSAND)

COST OF REMUNERATION OF THE BANK'S MANAGEMENT AND SUPERVISORY BOARDS	2019	2018
Management Board of the Bank		
Short-term employee benefits	8 791	8 558
Long-term benefits	1 350	1 293
Share-based payments settled in cash	3 375	3 232
Benefits for Members of the Bank's Management Board who ceased to perform their functions in previous years	172	343
Total	**13 688**	**13 426**
Supervisory Board of the Bank		
Short-term employee benefits	1 340	1 351
Total	**1 340**	**1 351**

(IN PLN MILLION)

COSTS OF REMUNERATION OF THE SUBSIDIARIES' MANAGEMENT AND SUPERVISORY BOARDS	2019	2018
Management Boards of the Companies		
Short-term employee benefits	28 450	22 760
Long-term benefits	1 817	2 562
Share-based payments settled in cash	2 528	2 674
Benefits to members of the Companies' Management Boards who ceased to perform their functions in prior years	108	243
Total	**32 903**	**28 239**
Supervisory Boards of the Companies		
Short-term employee benefits	1 542	942
Total	**1 542**	**942**

LOANS AND ADVANCES GRANTED BY THE BANK TO THE ITS MANAGEMENT AND SUPERVISORY BOARDS	31.12.2019	31.12.2018
Supervisory Board of the Bank	376	416
Management Board of the Bank	1 340	1 344
Total	**1 716**	**1 760**

The interest rates and repayment terms do not differ from the arm's-length conditions for similar banking products.

The Bank provides the key management personnel, members of the Supervisory Board and their families with standard financial services which comprise, among other things, operating bank accounts, accepting deposits, granting loans and providing other financial services. All these transactions are concluded on an arm's length basis.

- **VARIABLE REMUNERATION COMPONENTS**

PROVISION FOR VARIABLE REMUNERATION COMPONENTS	31.12.2019 (for 2014-2019)	31.12.2018 (for 2013-2018)
Management Board (including members who ceased to perform their functions)	18	22
Other Risk Takers (persons holding managerial positions other than members of the Bank's Management Board)	39	37
Group entities	22	25
Total provision	**79**	**84**
Remuneration paid during the year	2019 (for 2014-2019)	2018 (for 2013-2018)
- granted in cash	**21**	**18**
Management Board (including members who ceased to perform their functions)	6	1
Other Risk Takers (persons holding managerial positions other than members of the Bank's Management Board)	9	9
Group entities	6	8
- granted in the form of financial instruments	**18**	**17**
Management Board (including members who ceased to perform their functions)	4	4
Other Risk Takers (persons holding managerial positions other than members of the Bank's Management Board)	10	10
Group entities	4	3
Total remuneration paid	**39**	**35**

48. FAIR VALUE HIERARCHY

ACCOUNTING POLICIES, AND ESTIMATES AND JUDGEMENTS

Depending on the classification of financial assets and liabilities to a specific level of the hierarchy, different methods of fair value measurement are used.

- **LEVEL 1: PRICES QUOTED ON ACTIVE MARKETS**

Financial assets and liabilities whose fair value is stated directly at prices quoted (not adjusted) on active markets for identical assets and liabilities. In this category the Group classifies financial instruments for which there is an active market and for which the fair value is determined with reference to the market value, which is a bid price:

- debt securities valued using fixing from Bondspot platform or Bloomberg or Reuters information services,
- debt and equity securities which are traded on a regulated market, including in the portfolio of Biuro Maklerskie PKO BP;
- derivative instruments, which are traded on a regulated market.

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

Financial assets and liabilities whose fair value is determined using valuation models where all significant entry data are observable on the market directly (as prices) or indirectly (based on prices). In this category, the Group classifies financial instruments for which there is no active market:

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

COMMODITY SWAP TRANSACTIONS	Commodity price yield curve.	Commodity price yield curves are built based on money market data, market rate SWAP points.

- **LEVEL 3: OTHER VALUATION TECHNIQUES**

Financial assets and liabilities whose fair value is determined using valuation models for which input data is not based on observable market data (unobservable input data). In this category, the Group classifies financial instruments, which are valued using internal valuation models:

FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE	VALUATION METHOD (TECHNIQUE)	UNOBSERVABLE INPUT
FINANCIAL INSTRUMENTS NOT HELD FOR TRADING, MANDATORILY MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS		
LOANS AND ADVANCES TO CUSTOMERS	Discounted cash flow method	Effective margin on loans
C-SERIES PREFERENCE SHARES OF VISA INC.	Estimation of the fair value based on the current market value of the listed ordinary shares of Visa Inc., including a discount which takes into account the limited liquidity of C-series shares and the terms and conditions of conversion of C-series shares into ordinary shares.	Discount taking into account the limited liquidity of C-series shares and the terms of converting the C-series shares into ordinary shares.
SHARES IN BIURO INFORMACJI KREDYTOWEJ SA	Estimation of the fair value based on the present value of the forecast results of the company	Forecast results of the company Discount rate
SHARES IN POLSKI STANDARD PŁATNOSCI SP. Z O.O.	Estimation of the fair value based on the present value of the forecast results of the company	Forecast results of the company Discount rate
SHARES IN SOCIETY FOR WORLDWIDE INTERBANK FINANCIAL TELECOMMUNICATION	Market value of the shares estimated by the company	Market value estimated by the company
SHARES IN KRAJOWA IZBA ROZLICZENIOWA SA	Estimation of the fair value based on the present value of the forecast results of the company	Forecast results of the company Discount rate
CORPORATE BONDS	Yield curve and risk margin model. Yield curves are built based on market rates, money market data and IRS transactions market.	Credit spread (credit margins determined on the basis of initial margins modified by credit indices quotes ascribed to issuers based on their ratings and business sectors)
FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME		
CORPORATE BONDS	Yield curve and risk margin model. Yield curves are built based on market rates, money market data and IRS transactions market.	Credit spread (credit margins determined on the basis of initial margins modified by credit indices quotes ascribed to issuers based on their ratings and business sectors)

(IN PLN MILLION)

ASSETS MEASURED AT FAIR VALUE 31.12.2019	Carrying amount	Level 1 Prices quoted on active markets	Level 2 Valuation techniques based on observable market data	Level 3 Other valuation techniques
Hedging derivatives	645	-	645	-
Other derivative instruments	2 795	1	2 794	-
Securities	67 118	57 089	7 206	2 823
held for trading	1 112	1 112	-	-
debt securities	1 095	1 095	-	-
shares in other entities - listed	15	15	-	-
Participation units in investment funds, investment certificates, rights to shares, pre-emptive rights	2	2	-	-
not held for trading, measured at fair value through profit or loss	2 199	1 439	144	616
debt securities	493	301	12	180
shares in other entities - listed	150	150	-	-
shares in other entities - not listed	436	-	-	436
Participation units in investment funds, investment certificates, rights to shares, pre-emptive rights	1 120	988	132	-
measured at fair value through OCI	63 807	54 538	7 062	2 207
debt securities	63 807	54 538	7 062	2 207
Loans and advances to customers	8 286	-	-	8 286
not held for trading, measured at fair value through profit or loss	8 286	-	-	8 286
housing loans	15	-	-	15
business loans	148	-	-	148
consumer loans	8 123	-	-	8 123
Total financial assets measured at fair value	**78 844**	**57 090**	**10 645**	**11 109**

LIABILITIES MEASURED AT FAIR VALUE 31.12.2019	Carrying amount	Level 1 Prices quoted on active markets	Level 2 Valuation techniques based on observable market data	Level 3 Other valuation techniques
Hedging derivatives	589	-	589	-
Other derivative instruments	2 924	-	2 924	-
Liabilities in respect of a short position in securities	362	362	-	-
Total financial liabilities measured at fair value	**3 875**	**362**	**3 513**	**-**

(IN PLN MILLION)

ASSETS MEASURED AT FAIR VALUE 31.12.2018	Carrying amount	Level 1 Prices quoted on active markets	Level 2 Valuation techniques based on observable market data	Level 3 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	-	-
Participation units in investment funds, 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
Participation units in investment funds, 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
business loans	148	-	-	148
consumer loans	931	-	-	931
Total financial assets measured at fair value	**59 312**	**43 439**	**12 848**	**3 025**

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

In 2019 corporate bonds amounting to PLN 1 469 million were transferred from level 2 to level 3 as a result of a change in the manner of calculating the risk margin. In 2018 there were no transfers between the different levels of fair value hierarchy.

(IN PLN MILLION)

IMPACT OF ESTIMATES ON FAIR VALUE MEASUREMENT OF LEVEL 3 FINANCIAL INSTRUMENTS	31.12.2019 Fair value under positive scenario	31.12.2019 Fair value under negative scenario	31.12.2018 Fair value under positive scenario	31.12.2018 Fair value under negative scenario
Not held for trading, measured at fair value through profit or loss				
Loans and advances to customers[1]	8 526	8 054	1 138	1 075
Shares in Visa Inc.[2]	225	199	148	124
Corporate bonds[3]	180	180	115	115
Equity investments[4]	226	204	132	119
Measured at fair value through other comprehensive income				
Corporate bonds[3]	2 212	2 202	1 539	1 533

[1] A scenario assuming a change in the discount rate of +/- 0.5 p.p.

[2] A scenario assuming a discount rate in respect of the future conditions of converting C-series shares to ordinary shares at a level of 0%/100% respectively

[3] A scenario assuming a change in valuation of +/ -5%

[4] A scenario assuming a change in the credit spread of +/-10%

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

RECONCILIATION OF CHANGES DURING THE REPORTING PERIOD TO FAIR VALUE AT LEVEL 3	2019	2018
Opening balance at the beginning of the period	**3 025**	**3 352**
Foreign exchange differences	2	18
Increase in exposure to equity instruments	-	2
Issues and redemptions of corporate bonds	(710)	(129)
Transfers from level 2 to level 3	1 469	-
Reduction of equity exposure to a collective investment undertaking	-	(47)
Sale of participation units in a collective investment undertaking	-	(217)
Reclassification of credit exposures from measured at amortized cost to measures at fair value through profit or loss	8 204	205
Loans granted to customers during the reporting period	779	7
Sale / repayment of loans during the reporting period	(1 748)	(167)
Net gain/(loss) in financial instruments measured at fair value through profit or loss	108	11
Change in the valuation recognized in OCI	(20)	(10)
As at the end of the period	**11 109**	**3 025**

49. Financial assets and financial liabilities not presented at fair value in the consolidated statement of financial position

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

For many financial instruments, the market values are unattainable hence the presented fair values are estimated with the use of an array of measurement techniques.

All model calculations include certain simplifying assumptions and therefore are sensitive to those assumptions. For certain categories of financial instruments, it has been assumed that their carrying amount equals approximately their fair values, which is due to lack of expected material differences between their carrying amount and fair value resulting from the features of these categories (such as short term nature, high correlation with market parameters, a unique nature of the instrument).

Item	**Major methods and assumptions used when estimating fair values of financial instruments not measured at fair value**
Amounts due from and to banks	• interbank placements and deposits - the model based on expected cash flows discounted using the current interbank market rates • interbank deposits and placements with maturities of up to 7 days or with variable interest, loans or advances granted and received on the interbank market with variable interest (with interest rate changes occurring every 3 months or less) - fair value equals the carrying amount
Securities	• Treasury bonds - market quotations • corporate and municipal bonds - discounted cash flow method
Loans and advances to customers	• not impaired: the model based on estimating the present value of future cash flows by discounting cash flows using current interest rates; the model takes into account the credit risk margin and adjusted maturities stemming from the loan agreements. The current level of margins was determined for transactions concluded in the last quarter ending on the balance sheet date involving instruments with the similar credit risk profile. The current margin for loans in PLN adjusted for the cost of foreign currency acquisition in basis-swap transactions was applied to loans in foreign currencies. • finance lease receivables - the model of expected cash flows discounted using the internal rate of return for lease transactions of the same type concluded by the Group during the period directly preceding the end of the reporting period; • impaired: fair values are equal to carrying amounts; • loans and advances to customers: a part of the housing loan portfolio (the “old” housing loan portfolio), loans with no specific repayment schedule, loans due as at the moment of valuation - fair values are equal to carrying amounts;
Amounts due to customers	• deposits and other amounts due to customers other than banks with fixed maturities; the model of expected cash flows discounted using current interest rates appropriate for the individual deposit products. The fair value is calculated for each deposit and liability, and then the fair values for the entire deposit portfolio are grouped by product type and by customer segment. • amounts due to customers: liabilities with no specific repayment schedule, other specific products for which no active market exists - fair values are equal to carrying amounts
Liabilities in respect of securities in issue	The Bank: The model of expected cash flows discounted using the current interbank market rates and market quotations
	PKO Finance AB: Bloomberg quotations.

(IN PLN MILLION)

Subordinated liabilities	The model of expected cash flows discounted based on yield curves.
Cash and balances with the Central Bank and amounts due to the Central Bank	Fair values are equal to carrying amounts.
Other financial assets and financial liabilities	Fair values are equal to carrying amounts.

	level of fair value hierarchy	31.12.2019	
		carrying amount	fair value
Cash and balances with Central Bank	n/a	14 677	14 677
Amounts due from banks	2	4 092	4 092
Securities	1, 3	13 454	13 518
Loans and advances to customers		223 144	222 155
housing loans	3	118 478	116 435
business loans	3	65 605	66 385
consumer loans	3	21 656	21 926
receivables in respect of repurchase agreements	2	1 081	1 081
finance lease receivables	3	16 324	16 328
Other financial assets	3	2 624	2 624
Amounts due to banks	2	2 568	2 568
Amounts due to customers		256 480	256 480
amounts due to individuals	3	186 691	186 691
amounts due to business entities	3	56 406	56 406
amounts due to public sector	3	11 354	11 354
loans and advances received	3	2 029	2 029
Liabilities in respect of securities in issue	1, 2	31 148	31 595
Subordinated liabilities	2	2 730	2 730
Other financial liabilities	3	3 600	3 600

(IN PLN MILLION)

	level of fair value hierarchy	31.12.2018	
		carrying amount	fair value
Cash and balances with Central Bank	n/a	22 925	22 925
Amounts due from banks	2	7 661	7 661
Securities	1.3	8 473	8 476
Loans and advances to customers		213 806	213 438
housing loans	3	112 770	111 761
business loans	3	60 918	61 294
consumer loans	3	25 570	25 820
receivables in respect of repurchase agreements	2	51	51
finance lease receivables	3	14 497	14 512
Other financial assets	3	2 825	2 825
Amounts due to the Central Bank	2	7	7
Amounts due to banks	2	2 001	2 001
Amounts due to customers		241 036	240 973
amounts due to individuals	3	165 182	165 120
amounts due to business entities	3	55 302	55 301
amounts due to public sector	3	16 459	16 459
loans and advances received	3	4 093	4 093
Liabilities in respect of securities in issue	1, 2	28 627	28 725
Subordinated liabilities	2	2 731	2 731
Other financial liabilities	3	2 364	2 364

50. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

Exposures arising from derivatives are further secured by margin deposits provided by counterparties as part of executing CSA (Credit Support Annex).

OFFSETTING – ASSETS 31.12.2019	Total financial assets	Derivatives	Amounts due from repurchase agreements
Recognized financial assets, gross	4 521	3 440	1 081
Financial assets recognized in the statement of financial position, net	4 521	3 440	1 081
Financial instruments not subject to offsetting in the financial statements	2 486	2 486	-
Financial liabilities subject to enforceable framework agreement or similar agreement concerning offsetting (excluding financial collateral)	1 744	1 744	-
Cash or securities received as collateral	742	742	-
Net amount	**2 035**	**954**	**1 081**

(IN PLN MILLION)

OFFSETTING – LIABILITIES 31.12.2019	Total financial liabilities	Derivatives	Amounts due from repurchase agreements
Recognized financial liabilities, gross	3 513	3 513	-
Financial assets recognized in the statement of financial position, net	3 513	3 513	-
Financial instruments not subject to offsetting in the financial statements	2 540	2 540	-
Financial assets subject to enforceable framework agreement or similar agreement concerning offsetting (excluding financial collateral)	1 744	1 744	-
Cash or securities received as collateral	796	796	-
Net amount	**973**	**973**	**-**

OFFSETTING – ASSETS 31.12.2018	Total financial assets	Derivatives	Amounts due from repurchase agreements
Recognized financial assets, gross	2 617	2 566	51
Financial liabilities subject to offsetting, gross	(1)	(1)	-
Financial assets recognized in the statement of financial position, net	2 616	2 565	51
Financial instruments not subject to offsetting in the financial statements	1 889	1 874	15
Financial liabilities subject to enforceable framework agreement or similar agreement concerning offsetting (excluding financial collateral)	1 565	1 565	-
Cash or securities received as collateral	324	309	15
Net amount	**727**	**691**	**36**

OFFSETTING – LIABILITIES 31.12.2018	Total financial liabilities	Derivatives	Amounts due from repurchase agreements
Recognized financial liabilities, gross	3 127	3 127	-
Financial liabilities subject to offsetting, gross	(1)	(1)	-
Financial assets recognized in the statement of financial position, net	3 126	3 126	-
Financial instruments not subject to offsetting in the financial statements	2 171	2 170	1
Financial assets subject to enforceable framework agreement or similar agreement concerning offsetting (excluding financial collateral)	1 565	1 565	-
Cash or securities received as collateral	606	605	1
Net amount	**955**	**956**	**(1)**

51. Assets pledged as collateral for liabilities and transferred financial assets

- ### Collateral for mortgage covered bonds of 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, governments and central banks of members of the European Union and/or the Organization for Economic Cooperation and Development, excluding countries that are restructuring or have restructured their foreign debt in the past 5 years;
- invested in the National Bank of Poland;
- held in cash.

(IN PLN MILLION)

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 20 273 million as at 30 September 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 it amounted to 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 nine months ended 30 September 2019 and in the previous years the mortgage covered bonds cover pool did not include asset-backed securities (ABS), that do not meet the requirements described in paragraph 1 of Article 80 of the Guideline (EU) 2015/510 of the European Central Bank of 19 December 2014 on the implementation of the Eurosystem monetary policy framework (ECB/2014/60) (recast).

- **RECEIVABLES SUBJECT TO SECURITIZATION OF LEASE RECEIVABLES**

For detailed information see the Note "Information on securitization of the lease portfolio and package sale of receivables".

- **LIABILITIES FROM THE NEGATIVE VALUATION OF DERIVATIVE INSTRUMENTS**

Cash deposits with banks include assets held as collateral for own liabilities, including settlements relating to negative valuation of derivative instruments.

	31.12.2019	31.12.2018
Aktywa będące zabezpieczeniem zobowiązań własnych	796	605

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

Biuro Maklerskie PKO BP holds bonds with the National Depository for Securities as collateral for the settlement of transactions with the Clearing House.

CARRYING AMOUNT / FAIR VALUE	31.12.2019	31.12.2018
Value of the deposit	10	10
Nominal value of the pledge	12	10
Type of collateral	Treasury bonds	Treasury bonds
Carrying amount of the pledge	12	10

- **FUND FOR THE PROTECTION OF GUARANTEED FUNDS**

	31.12.2019	31.12.2018
Value of the fund	1 082	1 088
Nominal value of the pledge	1 200	1 100
Maturity of the pledge	25.01.2024	25.01.2024
Carrying amount of the pledge	1 206	1 103

The assets that constitute security for the fund are Treasury bonds which mature in the period that ensures securing the carrying amount over the period specified in the Act of 10 June 2016 on the Bank Guarantee Fund, Deposit Guarantee Scheme and Resolution. The Fund is increased or decreased on 1 July of each year, in proportion to the amount representing the basis for calculation of the mandatory reserve deposits. These assets are treated as assets pledged as collateral for own liabilities.

(IN PLN MILLION)

- **FUNDS SECURING LIABILITIES IN RESPECT OF CONTRIBUTIONS TO THE BANK GUARANTEE FUND (BGF)**

	31.12.2019	31.12.2018
Value of the contribution made in the form of payables	394	247
Nominal value of the assets in which funds corresponding to payables were invested	499	324
Maturity of the pledge	25.01.2024	25.01.2024
Carrying amount of the pledge	501	324

Starting from 2017, the value of contributions in the form of payment obligations represents 30% of the contributions to the Bank Guarantee Fund (the "BGF") for the Deposit Guarantee Fund or the Bank Resolution Fund. Assets securing payment commitments include Treasury bonds pledged for BGF in the amount which ensures maintaining the ratio of the value of property rights securing payment commitments to the amount of payment commitments of no less than 110%. For purposes of establishing the minimum ratio of assets to the amount of payment commitment, the value of property rights securing payment commitments is determined at the amount specified based on the last fixing rate of the day in the electronic market for Treasury securities organized by the minister responsible for the budgetary matters, plus interest due as at the valuation date, unless interest has already been included in the fixing rate.

Such assets funds are treated as assets pledged as collateral for own liabilities, they cannot be pledged or encumbered in any way, are excluded from judicial or administrative enforcement proceedings and do not form part of the estate in bankruptcy. The amount of funds securing payment commitments relating to contributions to the BGF will be increased on payment dates of contributions to the Deposit Guarantee Fund (quarterly) and the Bank Resolution Fund (in the third quarter of a given year) representing not more than 30% of the contribution established by the BGF.

The amount of these funds may decrease if the Bank is called by the BGF to transfer the amount corresponding to the value of payment commitments in cash.

- **LEGAL LIMITATIONS RELATING TO THE GROUP'S TITLE**

In the years ended 31 December 2019 and 31 December 2018, respectively, there were no intangible assets or property, plant and equipment items to which the Group's legal title would be limited and pledged as collateral for the Bank's liabilities.

52. FIDUCIARY ACTIVITIES

The parent is a direct participant in the Central Securities Depository of Poland (Krajowy Depozyt Papierów Wartościowych) and the Securities Register (at the National Bank of Poland). The parent maintains securities accounts and handles transactions on the domestic and foreign markets, provides fiduciary services and performs depository role for pension and investment funds. Assets held by the parent as part of providing fiduciary services have not been disclosed in these financial statements since they do not meet the definition of the parent's assets.

53. INFORMATION ON THE ENTITY AUTHORIZED TO AUDIT THE FINANCIAL STATEMENTS

On 26 January 2017, based on § 15.1.4 of the Bank's Articles of Association, the Supervisory Board of PKO Bank Polski SA selected KPMG Audyt Spółka z ograniczoną odpowiedzialnoscią spółka komandytowa as the audit firm authorized to audit and review the financial statements of the Bank and the consolidated financial statements of the PKO Bank Polski SA Group for the years 2017-2019. The same entity had audited the Bank's and the Group's financial statements for the years 2015-2016. KPMG Audyt Spółka z ograniczoną odpowiedzialnością spółka komandytowa with its registered office in Warsaw, ul. Inflancka 4A is entered in the list of audit companies maintained by the National Board of Registered Auditors with the number 3546. On 12 April 2017, the Bank concluded another agreement with KPMG for the audit and review of the financial statements of the Bank and of the Bank' Group for the years 2017-2019.

Based on the Supervisory Board's declaration, the Management Board states that the appointment of the audit firm, KPMG Audyt Spółka z ograniczoną odpowiedzialnością spółka komandytowa, to audit the Bank Group's consolidated financial statements for the year ended 31 December 2019 and the Bank's financial statements for the year ended 31 December 2019 (Audit) was made in accordance with the provisions of the law and the internal rules of the Bank accepted by the Supervisory Board on the appointment of the audit firm, which were in force as at the date on which the choice was made. Simultaneously, based on the Supervisory Board's declaration, the Management Board states that:

- the audit firm, KPMG, and the members of the team conducting the Audit satisfied the conditions for preparing an impartial and independent Audit report, in accordance with the generally applicable provisions of the law, standards of practising the profession and principles of professional ethics;
- the generally binding provisions of the law related to the rotation of audit firms and the key registered auditor auditing the Group's consolidated financial statements and the Bank's financial statements, and the related periods of grace and procedure are observed at the Bank;
- the Bank has a policy on and a procedure for the selection of audit firm for auditing the Bank's and the Group's financial statements, as well as a policy on the provision of admissible non-audit services by the audit firm conducting the audit, affiliates of that audit firm and a member of the network of audit firms, to the Bank and companies from the Bank's Group, including services that are conditionally released from the prohibition of provision of services by the audit firm.

TOTAL NET REMUNERATION OF KPMG FOR: **(in PLN thousand)**	**2019**	**2018**
audit of the Bank's financial statements and the Group's consolidated financial statements	1 537	1 577
assurance services, including reviews of the financial statements	961	1 309

Moreover, on 13 December 2018, pursuant to § 15 clause 1 point 2 of the Bank's Articles of Association, the Bank's Supervisory Board selected PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp. k. (hereinafter PWC) as the audit firm to audit and review the financial statements of the Bank and of the Bank's Group for the years 2020-2021. PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp. k. with its registered office in Warsaw, ul. Polna 11 is entered in the list of audit companies maintained by the National Board of Registered Auditors with the number 144. On 24 January 2019, the Bank concluded an agreement with PWC for the audit and review of the financial statements of the Bank and of the Bank' Group for the years 2020-2021.

OBJECTIVES AND PRINCIPLES OF RISK MANAGEMENT

54. Risk management within the Group

Risk management is one of the most important internal processes in both PKO Bank Polski SA and other entities of the PKO Bank Polski SA Group. Risk management is aimed at ensuring profitability of the business activities while monitoring the risk level, keeping the risks within the risk tolerances and limits adopted by the Bank and the Group, in a changing macroeconomic and legal environment. The level of risk is an important part of the planning processes.

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. The materiality of all the identified risks is assessed on a regular basis, at least annually. When assessing the materiality of the risks, the Group applies the criteria for recognizing a given type of risk as material. 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, currency risk, interest rate risk, liquidity risk (including financing risk), operating risk, business risk, risk of macroeconomic changes and model risk. Group entities may consider the 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 Bank verifies materiality of these risks at the Group level. Group entities participate in an assessment of materiality of the risks initiated by the parent and assessed at the Group level.

A detailed description of the management policies for material risks is presented in the Report on Capital Adequacy and other information subject to publication by the PKO Bank Polski SA Group.

Risk management objective

The objective of risk management is to strive to maintain the level of risk within the accepted tolerances in order to:

- protect shareholder value:
- protect customer deposits;
- support the Group in conducting efficient operations.

The risk management objectives are achieved, in particular, by providing appropriate information on the risks, so that decisions are made in full awareness of the particular risks involved.

Main principles of risk management

The Group's risk management is based, in particular, on the following principles:

- the Group manages all the risks identified;
- the risk management process is appropriate from the perspective of the scale of operations and materiality, scale and complexity of a given risk, and adjusted on an on-going basis to take account of the new risks and their sources;
- risk management methods (especially models and their assumptions) and risk management measurement or assessment systems are tailored to the scale and complexity of individual risks, the current and planned operations of the Group and its operating environment, and are periodically verified and validated;
- the area of risk management remains organizationally independent from business activities;
- risk management is integrated into the planning and controlling systems;
- the level of risk is monitored and controlled on an on-going basis;
- the risk management process supports the implementation of the Bank's strategy in compliance with the Risk Management Strategy, in particular with respect to the level of risk tolerance.

THE RISK MANAGEMENT PROCESS

The process of risk management in the Group consists of the following stages:

- **RISK IDENTIFICATION:**

Risk identification consists in recognizing the existing and potential sources of risk and estimating the significance of its potential impact on the Bank’s and the Group's operations. As part of risk identification, the risks considered to be material in the Bank’s or the Group's operations are identified.

- **RISK MEASUREMENT AND ASSESSMENT:**

Risk measurement covers determination of the risk assessment measures adequate to the type and significance of the risk, data availability and quantitative risk assessment by means of determined measures, as well as risk assessment aimed at identifying the scale or scope of risk, taking into account the achievement of the risk management objectives. As part of risk measurement, valuation of the risks for the purpose of the pricing policy and stress tests are conducted on the basis of assumptions which ensure a sound assessment of the risk. Stress test scenarios include, among other things, the requirements stemming from Recommendations of the Polish Financial Supervision Authority. In addition, the Group conducts comprehensive stress tests (CST) which are an integral element of the risk management and which supplement stress tests specific for individual risks. CST also covers an analysis of the impact of changes in the environment (in particular, the macroeconomic environment) and the Bank's functioning on the Group's financial position.

- **RISK CONTROL:**

Risk control involves determination of the tools to be used for measuring or reducing the level of risk in specific areas of the Group’s activities. Risk control involves determining risk controls adapted to the scale and complexity of operations of the Bank and of the Bank Group, in particular in the form of monitored strategic tolerance limits for individual risks, and undertaking management actions in case such limits are exceeded.

- **RISK FORECASTING AND MONITORING:**

Risk forecasting and monitoring involves preparing risk level forecasts and monitoring deviations from forecasts or the adopted benchmarks (e.g. limits, thresholds, plans, prior period measurements, recommendations and instructions issued by supervisory and regulatory authority), and performing (specific and comprehensive) stress tests and reverse stress tests. Risk level forecasts are verified. Risk monitoring frequency is adequate to the significance and variability of specific risks.

- **RISK REPORTING:**

Risk reporting consists in regularly providing information to the Bank's governing bodies on the results of the risk measurement or assessment, actions taken and follow-up recommendations. The scope, frequency and form of the reporting are adjusted to the managerial level of the recipients. If potential liquidity problems arise, the Supervisory Board is immediately informed about the level of the Bank's liquidity, threats and remedial actions taken, and in the event of significant operational events or security incidents.

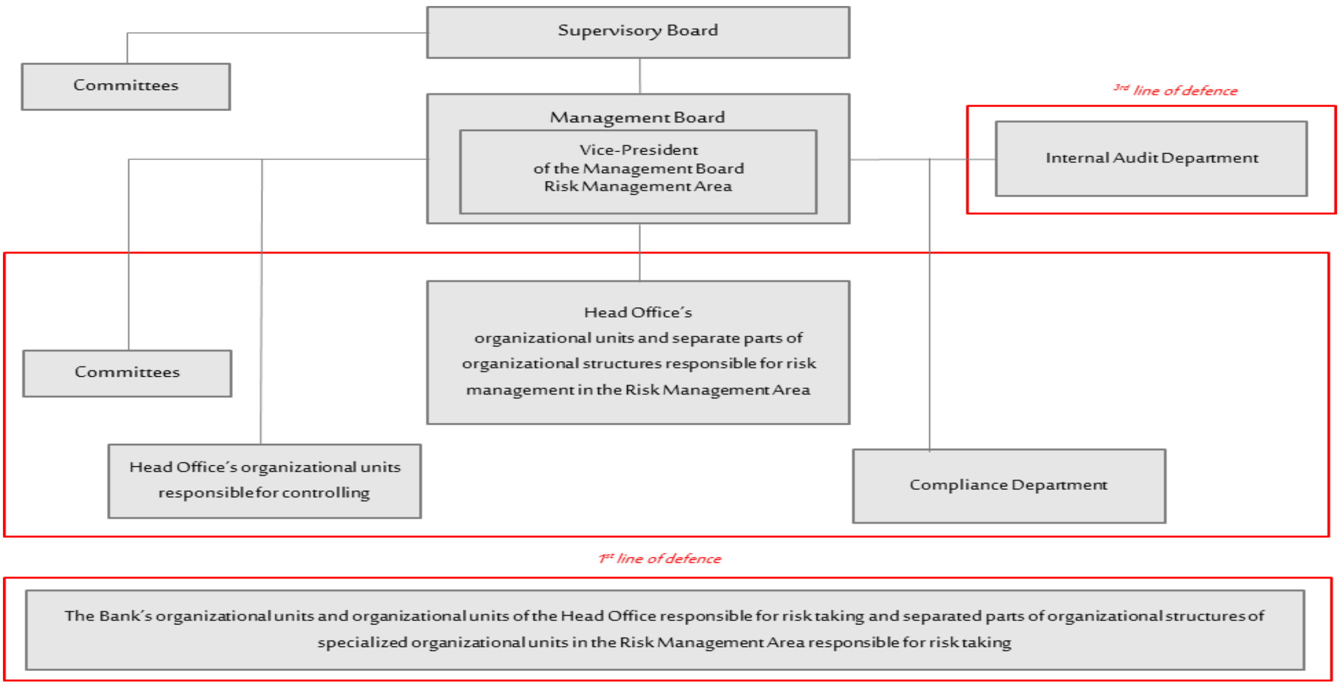
- **MANAGEMENT ACTIONS:**

Management actions consist particularly in issuing internal regulations affecting the management processes relating to of different types of risk, establishing the level of risk tolerance, establishing limits and thresholds, issuing recommendations, and making decisions, including decisions to use tools supporting risk management. The objective of management actions is to shape the risk management process and the risk levels.

ORGANIZATION OF RISK MANAGEMENT WITHIN THE GROUP

The Bank supervises the functioning of individual entities in the PKO Bank Polski SA Group. As part of its supervisory role, the Bank monitors their risk management systems and supports their development. In addition, the Bank takes into account the level of risk in particular Group companies for purposes of risk monitoring and reporting system at Group level. Risk management in the Bank takes place in all of the organizational units of the Bank.

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



The risk management system is supervised by the Supervisory Board of the Bank which controls and evaluates the adequacy and effectiveness of the system. The Supervisory Board evaluates whether or not individual elements of the risk management system support the correct execution of the process for setting and achieving specific objectives of the Bank. In particular, the Supervisory Board verifies if the system applies formal rules to set out the size of the risk taken and risk management principles, as well as formal procedures to identify, measure or estimate and monitor the risks associated with the Bank's operations, taking into account the anticipated level of risk in the future. The Supervisory Board verifies whether formal limits restricting the risk and the rules of conduct in the case when limits are exceeded are applied as part of the risk management system, and if the adopted management reporting system enables monitoring the risk levels. The Supervisory Board evaluates whether the risk management system is updated on an on-going basis to take into account new risk factors and sources. The Supervisory Board is supported by the following committees: the Supervisory Board Nominations and Remuneration Committee, the Supervisory Board Risk Committee and the Supervisory Board Audit Committee.

In respect of risk management, the Management Board of PKO Bank Polski SA is responsible for strategic risk management, including supervising and monitoring actions taken by the Bank in respect of risk management. The Management Board makes major decisions affecting the risk profile of the Bank and adopts internal regulations concerning risk management. In its risk management activities, the Management Board is supported by the following committees:

- the Risk Committee;
- the Asset and Liability Committee (ALCO);
- The Bank’s Credit Committee;
- the Operational Risk Committee.

The risk management process is carried out in three independent but complementary lines of defence:

THE FIRST LINE OF DEFENCE - is formed of organizational structures responsible for product management, executing sales of products and customer servicing, and of other structures which perform risk-generating operating tasks based on the internal regulations. The function is realized in all organizational units of the Bank, as well as in the Group entities. The organizational units of the Bank implement appropriate risk controls, including in particular limits, designed by the second-level organizational units of the Bank, and ensure that they are met by means of appropriate controls.

At the same time, the Bank Group companies are obliged to have comparable and consistent systems for risk assessment and control, taking into account the specific characteristics of each entity and its market.

THE SECOND LINE OF DEFENCE - covers compliance units and involves the identification, measurement, evaluation or control, monitoring and reporting of significant types of risks, and of the threats and irregularities identified; the tasks are executed by dedicated organizational structures acting on the basis of the applicable internal regulations of the Bank; the objective of these structures is to ensure that the tasks performed as part of the first level are properly governed in the internal regulations of the Bank and that they effectively limit the risk, support risk measurement, assessment and analysis and contribute to operational efficiency. The second line of defence supports actions undertaken in order to eliminate unfavourable deviations from the financial plan (i.e. the budget), to the extent applicable to figures which affect the quantitative strategic risk tolerance limits adopted in the financial plan. The function is performed, in particular by the Risk Management Area, the Compliance Department and relevant committees. The second line of defence supports actions undertaken in order to eliminate unfavourable deviations from the financial plan, to the extent applicable to figures which affect the quantitative strategic risk tolerance limits adopted in the financial plan. These tasks are performed in particular in the organizational units of the Bank responsible for controlling.

THE THIRD LINE OF DEFENCE - consists of the internal audit function which performs independent audits of individual components of the Bank’s management system, including the risk management system, and of the internal control system; the internal audit operates independently of the first and second lines of defence and may support their actions by way of consultations, but without participating in their decision-making. The function is performed in accordance with the Bank’s internal regulations concerning the operation of the internal control system.

The independence of the lines consists in ensuring organizational separation at the following levels:

- the function of the second line of defence with regard to creating system solutions is independent of the function of the first line of defence;
- the function of the third line of defence is independent of the functions of the first and second lines of defence.

RISK MANAGEMENT WITHIN THE GROUP

The principles concerning the management of specific risks types in the Bank's Group's entities are set out in their internal regulations, implemented after having consulted the Bank and taking into account the Bank's recommendations. The risk management policies of these entities are implemented in accordance with the principles of consistency and comparability of the assessments of individual types of risks in the Bank and in the Bank's Group entities, taking into account the extent and the type of relations between the Group entities, the specific characteristics and scale of their operations and the markets on which they operate.

The risk management function in the Group entities is executed, in particular, by:

- participation of the units from the Bank's Risk Management Area or of the relevant committees of the Bank in consulting large transactions in the Group entities;
- the assessments and reviews of the internal regulations concerning risk management in individual Group entities by Bank's units from Risk Management Area and Compliance Department;
- reporting of the Group risks to the relevant committees of the Bank or to the Management Board;
- monitoring the strategic limits of risk tolerance for the Group.

SPECIFIC ACTIVITIES IN THE AREA OF RISK MANAGEMENT UNDERTAKEN BY THE GROUP IN 2019

In 2019 exposure to the risk of mortgage loans for households denominated in foreign currencies was considered to be material.

In September 2019, PKO Leasing SA conducted the largest securitization of assets on the Polish market. The transaction consisted of selling the portfolio of high quality lease receivables with a total value of PLN 2.5 billion (see the Note "Information on securitization of lease portfolio and portfolio sale of receivables").

In 2019 the Group made an early repayment of funding obtained from the European Investment Bank, repayment of own issues maturing, as part of the EMTN programme, and it repaid an instalment of a loan from the Council of Europe Development Bank.

In 2019 PKO Bank Hipoteczny SA conducted new issues of mortgage covered bonds. Both domestic and international institutional investors acquired these mortgage covered bonds. PKO Bank Hipoteczny SA's mortgage covered bonds are among the safest debt instruments on the Polish financial market. This is reflected in the highest possible rating which can be obtained by Polish securities of Aa3 assigned by Moody's.

As part of 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.

55. Credit risk management

- **Definition**

Credit risk is defined as the risk of losses being incurred as a result of a customer's default on its liabilities towards the Group or the risk of a decrease in the economic value of amounts due to the Group as a result of deterioration of a customer's ability to repay the customers' liabilities.

- **Risk management objective**

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

The Bank and the Group subsidiaries are guided mainly by the following credit risk management principles:

- every loan transaction is subject to comprehensive credit risk assessment, which is reflected in an internal rating or credit scoring;
- credit risk relating to loan transactions is measured at the stage of examining a loan application and on a regular basis, as part of the monitoring process, taking into consideration changes in external conditions and in the financial standing of the borrowers;
- credit risk assessment of exposures is separated from the sales function by ensuring an appropriate organizational structure, independence in developing and validating tools supporting an assessment of credit risk and independence of decisions approving deviations from the suggestions resulting from using these tools;
- terms and conditions of a loan transactions offered to a customer depend on the assessment of credit risk level generated by the transaction;
- credit decisions may be taken solely by persons authorized to do so;
- credit risk is diversified, in particular, in terms of geographical areas, industries, products and customers;
- an expected credit risk level is mitigated by collateral received by the Bank, margins from customers and impairment allowances (provisions) for expected credit losses.

The above-mentioned principles are implemented by the Group through the use of advanced credit risk management methods, both at the level of individual credit exposures and of the entire loan portfolio of the Group. These methods are verified and developed to ensure compliance with the requirements of the internal rating-based method (IRB), i.e. an advanced credit risk measurement method which may be used to calculate the capital requirements for credit risk, subject to an approval by the Polish Financial Supervision Authority.

The Group entities which have significant credit risk levels (the KREDOBANK SA Group, the PKO Leasing SA Group, PKO Bank Hipoteczny SA and Finansowa Kompania "Prywatne Inwestycje" sp. z o.o.) manage their credit risk individually, but the methods used for credit risk assessment and measurement are adjusted to the methods used by PKO Bank Polski SA, taking into account the specific nature of activities of these companies.

Any changes to the solutions used by the Group's subsidiaries must be agreed every time with the Bank's units responsible for risk management.

The PKO Leasing SA Group, the KREDOBANK SA Group, and Finansowa Kompania "Prywatne Inwestycje" sp. z o.o. and PKO Bank Hipoteczny SA measure their credit risk regularly and the results of such measurements are submitted to the Bank.

Within the structures of PKO Bank Hipoteczny SA, the KREDOBANK SA Group and the PKO Leasing SA Group, there are organizational units in the risk management areas which are responsible, in particular, for:

- developing methodologies for credit risk assessment and recognition of provisions and allowances;
- control over and monitoring of credit risk in the lending process;
- quality and efficiency of the restructuring and debt collection processes;

In these companies, the credit decision limits depend primarily on: the amount of the exposure to a given customer, the amount of an individual credit transaction and the duration of the lending period.

The process of credit decision-making in PKO Bank Hipoteczny SA, the KREDOBANK SA Group and the PKO Leasing SA Group is supported by credit committees which are involved in the process for credit transactions which generate an increased credit risk level.

Relevant organizational units of the Risk Management Area participate in managing the credit risk in the Group entities by consulting projects and periodically reviewing internal regulations of these entities relating to the assessment of credit risk, and by making recommendations for amendments to such internal regulations. The Bank supports implementation of the recommended changes in credit risk assessment policies in the Group entities.

Measurement and assessment of credit risk

- ### Credit risk measurement and assessment methods

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

- probability of default (PD);
- loss given default (LGD);
- credit conversion factor (CCF);
- expected credit loss (ECL);
- credit value at risk (CVaR);
- the share and structure of impaired credit exposures;
- coverage ratio of impaired loans;
- cost of credit risk;
- stress tests.

The Group systematically expands the scope of credit risk measures used, taking into account the requirements of the IRB method, and extends the use of risk measures to cover the entire loan portfolio of the Group.

The portfolio credit risk measurement methods allow, among other things, to reflect the credit risk in the price of products, determine the best conditions of financing availability and to determine the level of impairment allowances.

The Group performs analyses and stress tests relating to the impact of potential changes in the macroeconomic environment on the quality of the Group's loan portfolio, and the results of such analyses and stress tests are presented in reports to the Bank's governing bodies. Such information enables the identification and implementation of the measures mitigating the negative effects of the impact of unfavourable market conditions on the Group's profit or loss.

The credit risk assessment process at the Bank's Group takes into account the requirements of the Polish Financial Supervision Authority as laid down in the PFSA Recommendations.

- ### Rating and scoring methods

An assessment of the risk of individual loan transactions is performed by the Group using the scoring and rating methods which are supported by dedicated IT applications. The risk assessment method is defined in the Group's internal regulations whose main aim is to ensure a uniform and objective evaluation of credit risk during the lending process.

The Group evaluates the credit risk of retail customers in two dimensions: qualitative and quantitative assessment of their borrowing capacity. A quantitative borrowing capacity assessment consists in examining a customer's financial position, and the qualitative assessment involves scoring and assessing a customer's credit history obtained from the Group's internal records and external databases.

In the case of corporate customers in the small- and medium-sized enterprises segment who meet certain criteria, the Group assesses credit risk using the scoring method. Such assessment refers to low-value, non-complex loan transactions and it is performed in two dimensions: a customer's borrowing capacity and his creditworthiness. An assessment of the borrowing capacity consists in examining a customer's economic and financial position, and the assessment of creditworthiness involves scoring and evaluating the customer's credit history obtained from the Group's internal records and external databases.

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

An assessment of the credit risk associated with financing institutional customers is performed by the Bank in two dimensions: the customer and the transaction. The measures involved include an evaluation of the customer's creditworthiness, i.e. the rating, and an assessment of the transaction risk, i.e. the customer's ability to repay the amounts due in the amounts and on the dates specified.

Rating models for institutional customers are developed using the Group's internal data, thus ensuring that they are tailored to the risk profiles of the Group's customers. Models are based on a statistical analysis of the relationship between default and a customer's risk scoring. The scoring includes an evaluation of financial ratios, qualitative factors and behavioural factors. A customer's risk assessment depends on the size of the assessed enterprise. In addition, the Group applies a model for the assessment of credited entrepreneurs in the formula of specialized lending, which allows an adequate credit risk assessment of large projects involving real estate financing (e.g. office space, retail space, industrial space) and infrastructure projects (e.g. telecommunication, industrial or public utility infrastructure).

Rating models are implemented within the IT tool which supports the assessment of the Group's credit risk associated with the financing of institutional customers.

In order to examine the correct operation of the methods applied by the Group, credit risk assessment methodologies relating to individual loan exposures are subject to periodical reviews.

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

Information on rating and scoring assessments is widely used in the Group to manage credit risk, in the system of credit decision authorizations, to determine the amounts triggering the credit risk assessment services and in the credit risk measurement and reporting system.

- **CREDIT RISK FORECASTING AND MONITORING**

Credit risk forecasting and monitoring involves preparing risk level forecasts and monitoring deviations from the forecasts or the adopted benchmarks (e.g. limits, thresholds, plans, prior period measurements, recommendations and instructions issued by external supervisory and regulatory authority), and performing (specific and comprehensive) stress tests. Risk level forecasts are subject to backtesting.

Credit risk is monitored at the level of individual credit transactions and at portfolio level.

Credit risk monitoring at the individual loan transaction level is governed, in particular, by the Group's internal regulations concerning:

- assessment of the credit risk related to customer financing;
- method of assessing customers;
- identification of groups of related entities;
- evaluation of collateral and inspection of investments;
- recognition of allowances for expected credit losses;
- Early Warning System;
- operating procedures.

In order to accelerate the response to the warning signals noted reflecting an increased credit risk level, the Group uses and develops an IT application, the Early Warning System (EWS).

Credit risk monitoring at the portfolio level consists in:

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

- **CREDIT RISK REPORTING**

Credit risk reporting includes periodical reporting of the loan portfolio risk exposure.

The Group prepares monthly and quarterly credit risk reports. Credit risk reporting covers regular information on the scale of the risk exposure of the loan portfolio. In addition to information for the Bank, the reports also include information on the level of credit risk in the Group entities where a material level of credit risk was identified (e.g. the KREDOBANK SA Group, the PKO Leasing SA Group, PKO Bank Hipoteczny SA).

- **MANAGEMENT ACTIONS RELATING TO CREDIT RISK**

The purpose of management actions is to shape and optimize the credit risk management system and credit risk level at the Group.

The credit risk management actions include particularly:

- issuing internal regulations governing the credit risk management system at the Group;
- issuing recommendations, guidelines for conduct, explanations and interpretation of the Group's internal regulations;
- taking decisions regarding the acceptable level of credit risk, including in particular lending decisions;
- developing and improving credit risk control tools and mechanisms which make it possible to maintain the credit risk level within the limits acceptable to the Group;
- developing and monitoring the operation of credit risk management controls;
- developing and improving credit risk assessment methods and models;
- developing and improving IT tools used in credit risk management;
- planning actions and issuing recommendations.

The main credit risk management tools used by the Group include:

- minimum transaction requirements (risk parameters) determined for a given type of transaction (e.g. minimum LTV value, maximum loan amount, required collateral),
- the principles of defining credit availability, including cut-offs - the minimum number of points awarded in the process of creditworthiness assessment with the use of a scoring system (for retail customers and SMEs) or the customer's rating class (for corporate clients), which a client must obtain to receive a loan;
- concentration limits – limits defined in the Regulation of the European Parliament and the Council (EU) No. 575/2013 on prudential requirements for credit institutions and investment firms (CRR Regulation) and the Polish Banking Law, or internal limits defining concentration risk appetite;
- industry-related limits – limits which reduce the risk level related to financing institutional customers conducting business activities in industries characterized by high level of credit risk;
- the limits defining the appetite for credit risk resulting from, among other things, Recommendations S and T;
- credit limits defining the Group's maximum exposure to a customer or a country in respect of wholesale market transactions, settlement limits and limits for exposure duration;
- authorization limits – limits defining the maximum level of credit decision-making powers with regard to the Group's customers; the limits depend primarily on the amount of the Bank's exposure to a given customer (or a group of related customers) and the lending period; authorization limits depend on the level (in the Bank's organizational structure) at which credit decisions are made;
- minimum credit margins – credit risk margins relating to a given credit transaction concluded by the Group with a given corporate customer, where the interest rate offered to the customer should not be lower than the reference rate plus an appropriate credit risk margin. If the reference rate achieves a value equal to or lower than zero, the zero value should be adopted to determine the interest rate.

- **USE OF CREDIT RISK MITIGATION TECHNIQUES - COLLATERAL**

The collateral management policy plays a significant role in establishing minimum transaction terms. The Bank's and the Group's collateral management policy is meant to properly protect it against credit risk to which the Group is exposed, including first and foremost by establishing collateral as liquid as possible. Collateral may be considered liquid if it can be sold without a significant decrease in its price and at a time which does not expose the Bank to a change in the collateral value due to price fluctuations typical for a given asset.

The Group strives to diversify collateral in terms of its forms and assets used as collateral.

The Group evaluates collateral from the perspective of the actual possibility of using it to satisfy its claims.

In addition, when assessing collateral, the Group takes into account the following factors:

- the economic, financial and economic, or social and financial position of entities which provide personal guarantees;
- the condition and market value of the assets accepted as collateral and their vulnerability to depreciation in the period of maintaining the collateral (the impact of the technological wear and tear of a collateralized asset on its value);
- potential economic benefits to the Group resulting from a specific method of securing receivables, including, in particular, the possibility of reducing allowances for expected credit losses;
- the method of establishing collateral, including the typical duration and complexity of formalities, as well as the necessary costs (the costs of maintaining collateral and the enforcement on collateral), using the Group's internal regulations concerning the assessment of collateral;
- the complexity, time-consuming nature and economic and legal conditions of the effective realization of collateral, in the context of enforcement restrictions and the applicable principles for the distribution of the sums obtained from individual enforcement or in the course of bankruptcy proceedings, the ranking of claims;
- the type of collateral depends on the level of risk of a given customer or transaction.

When granting loans intended to finance housing and commercial properties, a mortgage on the financed property is an obligatory type of collateral.

Until an effective protection is established (depending on the type and amount of a loan), the Group may accept temporary collateral in different form.

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

The collateral for loans intended for the financing of small- and medium-sized enterprises as well as corporate customers is established, among other things: on receivables from business operations, bank accounts, movables, real estate or securities. The collateral management policy is set out in the internal regulations of the Group's subsidiaries.

When concluding lease agreements, the PKO Leasing SA Group, as the owner of the assets leased, treats the leased assets as collateral.

(IN PLN MILLION)

56. CREDIT RISK - FINANCIAL INFORMATION

- EXPOSURE TO CREDIT RISK

MAXIMUM EXPOSURE TO CREDIT RISK – FINANCIAL INSTRUMENTS NOT SUBJECT TO IMPAIRMENT REQUIREMENTS	31.12.2019	31.12.2018
Hedging derivatives	645	658
Other derivative instruments	2 795	1 907
Securities:	3 311	3 083
held for trading	1 112	235
not held for trading, measured at fair value through profit or loss	2 199	2 848
Loans and advances to customers not held for trading, measured at fair value through profit or loss	8 286	1 106
housing	15	27
business	148	148
consumer	8 123	931
Total	**15 037**	**6 754**

(IN PLN MILLION)

- **PAST DUE FINANCIAL ASSETS SUBJECT TO IMPAIRMENT OR IMPAIRED**

EXPOSURES PAST DUE 31.12.2019	stage 1		stage 2				stage 3				TOTAL
	up to 30 days	TOTAL	up to 30 days	30 to 90 days	over 90 days	TOTAL	up to 30 days	30 to 90 days	over 90 days	TOTAL	
Loans and advances to customers:	2 755	2 755	1 822	803	22	2 647	255	263	1 767	2 285	7 687
bank loans	1 286	1 286	1 010	380	17	1 407	216	149	1 580	1 945	4 638
housing	380	380	718	174	-	892	78	78	300	456	1 728
business	673	673	142	132	17	291	110	43	1 061	1 214	2 178
consumer	233	233	150	74	-	224	27	29	219	275	732
finance lease receivables	1 469	1 469	812	423	5	1 240	39	114	187	340	3 049
Total, net	**2 755**	**2 755**	**1 822**	**803**	**22**	**2 647**	**255**	**263**	**1 767**	**2 285**	**7 687**

EXPOSURES PAST DUE 31.12.2018	stage 1		stage 2				stage 3				TOTAL
	up to 30 days	TOTAL	up to 30 days	30 to 90 days	over 90 days	TOTAL	up to 30 days	30 to 90 days	over 90 days	TOTAL	
Loans and advances to customers:	2 155	2 155	1 966	1 149	8	3 123	205	273	2 244	2 722	8 000
bank loans	989	989	1 062	726	8	1 796	160	174	2 114	2 448	5 233
housing	392	392	742	168	-	910	62	75	429	566	1 868
business	303	303	146	467	8	621	62	60	1 346	1 468	2 392
consumer	294	294	174	91	-	265	36	39	339	414	973
finance lease receivables	1 166	1 166	904	423	-	1 327	45	99	130	274	2 767
Total, net	**2 155**	**2 155**	**1 966**	**1 149**	**8**	**3 123**	**205**	**273**	**2 244**	**2 722**	**8 000**

The Group takes into account the minimum levels of matured amounts of PLN 500 for credit exposures to individuals and PLN 3 000 for other credit exposures to specify whether a loan is overdue.

Loans and advances to customers were secured by the following collateral established for the Group: mortgages, registered pledges, transfer of ownership, restrictions on a deposit account, insurance of the credit exposure, as well as guarantees and sureties.

(IN PLN MILLION)

Modifications

FINANCIAL ASSETS SUBJECT TO MODIFICATION	2019	
Financial assets subject to modification during the period:	**Stage 2**	**Stage 3**
Valuation at amortized cost before modification	432	372
gain(loss) on modification	4	(14)
Financial assets subject to modification since initial recognition:	**31.12.2019**	
gross carrying amount of financial assets subject to modification for which expected losses were calculated over the lifetime and which are classified as Stage 1 after modification		229

FINANCIAL ASSETS SUBJECT TO MODIFICATION	2018	
Financial assets subject to modification during the period:	**Stage 2**	**Stage 3**
Valuation at amortized cost before modification	350	349
gain(loss) on modification	-	(7)
Financial assets subject to modification since initial recognition:	**31.12.2018**	
gross carrying amount of financial assets subject to modification for which expected losses were calculated over the lifetime and which are classified as Stage 1 after modification		103

Receivables written off during the period, subject to recovery procedures

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

RECEIVABLES WRITTEN OFF	2019		2018	
	Partly written off	Fully written off	Partly written off	Fully written off
Securities				
measured at fair value through OCI	-	-	3	-
Loans and advances to customers				
measured at amortized cost	41	689	1 980	1 217
housing	14	103	515	527
business	8	427	1 154	500
consumer	19	159	311	190
finance lease receivables	-	126	-	14
not held for trading, mandatorily measured at fair value through profit or loss	3	-	-	-
Other financial assets	-	1	-	-
Total	**44**	**816**	**1 983**	**1 231**

The Group adopted the following criteria for writing off receivables:

- the receivable has fully matured and is in particular the consequence of a loan, advance, contractual overdraft, guarantee or warranty of loan, advance or bond repayment;
- in accordance with IAS and IFRS the allowance for expected loan losses:
  - covers 100% of the gross carrying amount of the asset; or
  - exceeds 90% of the gross carrying amount of the asset and: actions have been or still are taken in respect of the receivable which did not lead to its recovery, and the assessment of the probability of recovering the receivable, in particular with respect to the determinations of the bailiff or the receiver, transferability of collateral, category of satisfaction, position in the mortgage register, indicate that the whole receivable is unlikely to be recovered; or during the last 12 calendar months, amounts paid towards the repayment of the receivable were insufficient to cover the interest accrued on a current basis.

(IN PLN MILLION)

QUALITY OF THE PORTFOLIO COVERED BY THE RATING MODEL FOR COMMERCIAL, HOUSING AND CONSUMER LOANS

EXPOSURE CREDIT RISK BY PD 31.12.2019	Carrying amount, gross				
	Stage 1	Stage 2	Stage 3	POCI	TOTAL
HOUSING LOANS	**112 528**	**5 806**	**2 021**	**89**	**120 444**
0.00 - 0.02%	6 580	12	-	-	6 592
0.02 - 0.07%	32 268	79	-	1	32 348
0.07 - 0.11%	14 728	49	-	2	14 779
0.11 - 0.18%	18 044	107	-	-	18 151
0.18 - 0.45%	24 825	337	-	4	25 166
0.45 - 1.78%	10 964	982	-	8	11 954
1.78 - 99.99%	1 186	4 172	-	15	5 373
100%	-	-	2 021	59	2 080
without internal rating[1]	3 933	68	-	-	4 001
BUSINESS LOANS (including finance lease receivables)	**72 290**	**7 295**	**6 130**	**249**	**85 964**
0.00 - 0.45%	8 117	13	3	4	8 137
0.45 - 0.90%	8 302	80	-	-	8 382
0.90 - 1.78%	12 745	1 311	-	12	14 068
1.78 - 3.55%	20 104	1 353	-	2	21 459
3.55 - 7.07%	16 680	1 256	-	-	17 936
7.07 - 14.07%	5 484	1 967	-	5	7 456
14.07 - 99.99%	480	1 099	6 127	112	7 818
100%	-	-	-	114	114
without internal rating[1]	378	216	-	-	594
CONSUMER LOANS	**19 918**	**1 722**	**1 188**	**49**	**22 877**
0.00 - 0.45%	4 591	24	-	-	4 615
0.45 - 0.90%	5 492	73	-	-	5 565
0.90 - 1.78%	4 393	162	-	-	4 555
1.78 - 3.55%	2 798	256	-	-	3 054
3.55 - 7.07%	1 320	283	-	-	1 603
7.07 - 14.07%	529	307	-	-	836
14.07 - 99.99%	121	574	-	-	695
100%	-	-	1 188	49	1 237
without internal rating[1]	674	43	-	-	717
Total	**204 736**	**14 823**	**9 339**	**387**	**229 285**

[1] This item refers mainly to Housing Communities and Cooperatives exposures.

(IN PLN MILLION)

EXPOSURE CREDIT RISK BY PD 31.12.2018	Carrying amount, gross				
	Stage 1	Stage 2	Stage 3	POCI	TOTAL
HOUSING LOANS	**106 561**	**5 960**	**2 154**	**106**	**114 781**
0.00 - 0.02%	7 729	15	-	-	7 744
0.02 - 0.07%	28 309	66	-	-	28 375
0.07 - 0.11%	13 546	52	-	1	13 599
0.11 - 0.18%	16 717	145	-	-	16 862
0.18 - 0.45%	22 513	321	-	5	22 839
0.45 - 1.78%	10 969	568	-	9	11 546
1.78 - 99.99%	2 442	4 773	-	19	7 234
100%	-	-	2 154	72	2 226
without internal rating[1]	4 336	20	-	-	4 356
BUSINESS LOANS (including finance lease receivables)	**64 115**	**8 422**	**6 846**	**513**	**79 896**
0.00 - 0.45%	7 515	1	-	-	7 516
0.45 - 0.90%	8 694	58	-	-	8 752
0.90 - 1.78%	7 709	95	-	-	7 804
1.78 - 3.55%	10 978	785	-	-	11 763
3.55 - 7.07%	20 671	2 252	-	18	22 941
7.07 - 14.07%	7 714	2 156	-	1	9 871
14.07 - 99.99%	545	2 898	-	3	3 446
100%	-	-	6 846	491	7 337
without internal rating[1]	289	177	-	-	466
CONSUMER LOANS	**23 664**	**1 786**	**1 776**	**55**	**27 281**
0.00 - 0.45%	4 012	25	-	-	4 037
0.45 - 0.90%	6 864	48	-	-	6 912
0.90 - 1.78%	5 827	64	-	-	5 891
1.78 - 3.55%	3 742	178	-	-	3 920
3.55 - 7.07%	1 537	293	-	-	1 830
7.07 - 14.07%	871	340	-	-	1 211
14.07 - 99.99%	302	746	-	-	1 048
100%	-	-	1 776	55	1 831
without internal rating[1]	509	92	-	-	601
Total	**194 340**	**16 168**	**10 776**	**674**	**221 958**

[1] This item refers mainly to Housing Communities and Cooperatives exposures.

- ## QUALITY OF THE PORTFOLIO COVERED BY THE RATING MODEL FOR OFF-BALANCE SHEET LIABILITIES

EXPOSURE CREDIT RISK BY PD 31.12.2019	Carrying amount, gross				
	Stage 1	Stage 2	Stage 3	POCI	TOTAL
OFF-BALANCE SHEET LIABILITIES					
0.00 - 0.45%	11 674	42	-	-	11 716
0.45 - 0.90%	14 966	43	-	-	15 009
0.90 - 1.78%	7 580	167	-	-	7 747
1.78 - 3.55%	6 789	435	-	-	7 224
3.55 - 7.07%	6 871	650	-	-	7 521
7.07 - 14.07%	3 924	579	-	-	4 503
14.07 - 99.99%	131	107	-	-	238
100%	-	-	420	67	487
without internal rating[1]	11 140	1 293	-	-	12 433
Total	**63 075**	**3 316**	**420**	**67**	**66 878**

[1] This item refers mainly the State Treasury exposures and credit lines for derivative transactions.

(IN PLN MILLION)

EXPOSURE CREDIT RISK BY PD 31.12.2018	Carrying amount, gross				
	Stage 1	Stage 2	Stage 3	POCI	TOTAL
OFF-BALANCE SHEET LIABILITIES					
0.00 - 0.45%	11 636	21	-	-	11 657
0.45 - 0.90%	11 214	28	-	-	11 242
0.90 - 1.78%	7 307	69	-	-	7 376
1.78 - 3.55%	6 838	711	-	-	7 549
3.55 - 7.07%	3 422	489	-	-	3 911
7.07 - 14.07%	4 510	718	-	-	5 228
14.07 - 99.99%	195	113	-	-	308
100%	-	-	260	80	340
without internal rating[1]	11 090	1 111	-	-	12 201
Total	56 212	3 260	260	80	59 812

[1] This item refers mainly the State Treasury exposures and credit lines for derivative transactions.

- QUALITY OF THE PORTFOLIO COVERED BY THE RATING MODEL FOR AMOUNTS DUE FROM BANKS

31.12.2019	Carrying amount, gross				
AMOUNTS DUE FROM BANKS	Stage 1	Stage 2	Stage 3	POCI	TOTAL
EXTERNAL RATINGS	4 077	-	-	-	4 077
AAA	462	-	-	-	462
AA	1 107	-	-	-	1 107
A	1 540	-	-	-	1 540
BBB	793	-	-	-	793
BB	1	-	-	-	1
B	174	-	-	-	174
INTERNAL RATINGS	16	-	-	-	16
0,97%	6	-	-	-	6
3,13%	10	-	-	-	10
TOTAL	4 093	-	-	-	4 093

31.12.2018	Carrying amount, gross				
AMOUNTS DUE FROM BANKS	Stage 1	Stage 2	Stage 3	POCI	TOTAL
EXTERNAL RATINGS	7 649	-	-	-	7 649
AAA	985	-	-	-	985
AA	2 651	-	-	-	2 651
A	3 263	-	-	-	3 263
BBB	638	-	-	-	638
BB	10	-	-	-	10
B	101	-	-	-	101
CCC	1	-	-	-	1
INTERNAL RATINGS	13	-	-	-	13
0,06%	4	-	-	-	4
0,97%	9	-	-	-	9
TOTAL	7 662	-	-	-	7 662

(IN PLN MILLION)

- **QUALITY OF THE PORTFOLIO COVERED BY THE RATING MODEL FOR DEBT SECURITIES**

31.12.2019	Carrying amount, gross				
DEBT SECURITIES	Stage 1	Stage 2	Stage 3	POCI	TOTAL
EXTERNAL RATINGS	63 548	-	-	-	63 548
AAA	1 064	-	-	-	1 064
A	60 195	-	-	-	60 195
BBB	2 207	-	-	-	2 207
BB	82	-	-	-	82
INTERNAL RATINGS	9 878	79	-	-	9 957
0.00 - 0.45%	8 133	-	-	-	8 133
0.45 - 0.90%	764	77	-	-	841
0.90 - 1.78%	162	2	-	-	164
1.78 - 3.55%	542	-	-	-	542
3.55 - 7.07%	31	-	-	-	31
7.07 - 14.07%	246	-	-	-	246
100,00%	-	-	-	463	463
without internal rating	3 314	-	4	-	3 318
TOTAL	76 740	79	4	-	76 823

31.12.2018	Carrying amount, gross				
DEBT SECURITIES	Stage 1	Stage 2	Stage 3	POCI	TOTAL
EXTERNAL RATINGS	50 619	-	-	-	50 619
AAA	207	-	-	-	207
AA	91	-	-	-	91
A	45 902	-	-	-	45 902
BBB	3 829	-	-	-	3 829
BB	73	-	-	-	73
B	517	-	-	-	517
INTERNAL RATINGS	9 489	447	3	471	10 410
0.00 - 0.45%	7 670	-	-	-	7 670
0.45 - 0.90%	908	367	-	-	1 275
0.90 - 1.78%	221	16	-	-	237
1.78 - 3.55%	125	-	-	-	125
3.55 - 7.07%	315	-	-	-	315
7.07 - 14.07%	250	-	-	-	250
14.07 - 99.99%	-	64	-	-	64
100,00%	-	-	3	471	474
without internal rating	38	-	-	-	38
					-
TOTAL	60 146	447	3	471	61 067

57. Managing credit concentration risk in the Group

The Group defines credit concentration risk as the risk arising from a considerable exposure to single customers or groups of related customers whose repayment capacity depends on a common risk factor. The Group analyses the risk of concentration towards:

- the largest entities (customers);
- the largest groups of related customers;
- industry sectors;
- geographical regions;
- currencies;
- exposures secured with a mortgage;

Management objective

The objective of concentration risk management is to ensure a safe structure of the loan portfolio by mitigating threats arising from excessive concentrations relating to exposures characterized by the potential to generate significant losses for the Group.

Measurement and assessment of concentration risk

The Group measures and assesses concentration risk by examining the actual aggregate exposure to a customer or to a group of related customers and the actual aggregate exposure to individual groups of loan portfolios.

The Group's actual exposure is defined in the CRR, which means all assets or off-balance sheet items, including exposures in the banking and trading book and indirect exposures arising from the collateral applied.

Concentration risk is identified by recognizing the factors due to which the risk may arise or the level of the Group's exposure may change, including potential risk factors resulting, for example, from planned activities of the Group. In the process of identifying concentration risk, the Group:

- identifies and updates the structure of the group of related customers;
- aggregates the exposures towards a customer or a group of related customers;
- applies exemptions from regulatory limits for large exposures, in accordance with the CRR. The Group's tolerance to concentration risk is determined by:
- external regulatory limits arising from Article 395 of the CRR and from Article 79a of the Banking Law;
- internal limits of the Group;
  - strategic limits of concentration risk tolerance;
  - limits that define the appetite for concentration risk.

The Group uses the following to measure concentration risk:

- the exposure concentration ratio of the Group towards a customer or a group of related customers in relation to the Group's eligible capital;
- ratios evaluating the diversification level (e.g. the Herfindahl Hirschmann index);
- Gini coefficient;
- graphic measures of portfolio concentration (Lorenz curve).

To measure concentration risk and evaluate the effect of internal and external factors on this risk, the Group performs stress tests with respect to concentration risk for large exposures.

- **MONITORING AND FORECASTING CONCENTRATION RISK**

The Group monitors concentration risk:

- on an individual level, by verifying the exposure concentration ratio for a customer or a group of related customers, each time before applying for a decision on granting financing, or increasing the amount of the exposure, and before taking other actions resulting in increasing the Bank's exposure on other accounts;
- on a systemic level, by:
    - daily control over compliance with the external concentration limit and identifying large exposures;
    - monthly control over the limit arising from Article 79a of the Banking Law;
    - monthly or quarterly control over compliance with the Group's internal limits with respect to concentration risk;
    - monitoring early warning ratios with respect to concentration;

The Group forecasts changes in the level of concentration risk as part of its analyses and reviews of internal limits and the concentration risk management policy, and in the process of concentration risk stress testing.

The Group performs stress tests to examine, for example, the effect of macroeconomic factors on individual concentrations, the impact of decisions of other financial market participants, decisions on customer mergers, dependency on other risks, for example, currency risk, which may contribute to the materialization of concentration risk, and the effect of other factors from the internal and external environment on the concentration risk.

Concentration risk is tested as part of comprehensive stress tests which enable evaluating the forecast effect of correlated credit, interest rate, currency, operating and liquidity risks and concentration risk on the expected credit losses of the Group.

- **CONCENTRATION RISK REPORTING**

Reports on concentration risk are prepared on a daily, monthly and quarterly basis.

Concentration risk reporting comprises periodic (monthly or quarterly) reporting to the Bank's relevant bodies on the scale of exposure to concentration risk, which may lead to a significant change in the Bank's risk profile, including in particular:

- on the utilization of limits defining the risk appetite and on potentially exceeding those limits;
- on early warning ratios;
- on stress test results;
- on portfolio concentration risk and concentration of the Group's largest exposures and compliance with concentration standards arising from the Banking Law.

- **MANAGEMENT ACTIONS RELATING TO CONCENTRATION RISK**

The purpose of management actions is to shape and optimize the concentration risk management process and concentration risk level at the Group (preventing excessive concentrations).

Management actions comprise in particular:

- publishing the Bank's internal regulations on the process of concentration risk management, defining the tolerance level for concentration risk, determining limits and threshold amounts;
- issuing recommendations, guidelines for conduct, explanations and interpretations of internal regulations;
- taking decisions concerning an acceptable level of concentration risk, including in particular decisions determining the threshold values of limits reflecting concentration risk appetite;
- developing and improving concentration risk control tools which make it possible to maintain the concentration risk level within the limits acceptable to the Bank;

(IN PLN MILLION)

- developing and improving concentration risk assessment methods taking into account changeability of the macroeconomic situation, including crises on foreign and domestic markets and changeability of the regulatory environment;
- developing and improving IT tools to support concentration risk management;
- **CONCENTRATION BY THE LARGEST ENTITIES (CUSTOMERS)**

The Banking Law sets the limits of the maximum exposure of the Bank which are translated to the Group. The risk of concentration of exposures to individual customers and groups of related customers is monitored in accordance with the CRR, according to which the Group shall not assume an exposure to a customer or a group of related customers the value of which exceeds 25% of the value of its eligible capital.

As at 31 December 2019 and 31 December 2018, concentration limits were not exceeded. As at 31 December 2019, the largest exposure to a single entity accounted for 9.62% of eligible consolidated capital (7.55% as at 31 December 2018).

The Group's exposure to 20 largest non-banking customers[2]:

31.12.2019				31.12.2018			
No.	Credit exposures include loans, advances, purchased debt, discounted bill of exchange, realized guarantees, interest receivable and off-balance sheet and capital exposures	Share in the loan portfolio, including off-balance sheet and capital exposures	Share in the eligible capital of the Bank	No.	Credit exposures include loans, advances, purchased debt, discounted bill of exchange, realized guarantees, interest receivable and off-balance sheet and capital exposures	Share in the loan portfolio, including off-balance sheet and capital exposures	Share in the eligible capital of the Bank
1.	3 792	1,18%	9,62%	1.	2 859	0,96%	7,55%
2.	3 753	1,16%	9,52%	2.	2 777	0,93%	7,34%
3.	2 899	0,90%	7,35%	3.	2 710	0,91%	7,16%
4.	2 717	0,84%	6,89%	4.	2 450	0,82%	6,47%
5.	2 679	0,83%	6,80%	5.	2 274	0,76%	6,01%
6.	2 583	0,80%	6,55%	6.	2 169	0,73%	5,73%
7.	2 453	0,76%	6,22%	7.	1 899	0,64%	5,02%
8.	2 270	0,70%	5,76%	8.	1 898	0,64%	5,01%
9.	1 792	0,56%	4,55%	9.	1 669	0,56%	4,41%
10.	1 547	0,48%	3,92%	10.	1 539	0,52%	4,07%
11.	1 279	0,40%	3,24%	11.	958	0,32%	2,53%
12.	1 098	0,34%	2,79%	12.	783	0,26%	2,07%
13.	961	0,30%	2,44%	13.	776	0,26%	2,05%
14.	961	0,30%	2,44%	14.	747	0,25%	1,97%
15.	817	0,25%	2,07%	15.	746	0,25%	1,97%
16.[1]	798	0,25%	2,02%	16.	743	0,25%	1,96%
17.	743	0,23%	1,88%	17.	740	0,25%	1,96%
18.	689	0,21%	1,75%	18.	721	0,24%	1,90%
19.	670	0,21%	1,70%	19.	708	0,24%	1,87%
20.	664	0,21%	1,68%	20.	705	0,24%	1,86%
Total	**35 165**	10,90%	**89,21%**	**Total**	**29 871**	**10,03%**	**78,92%**

[1] exposure excluded from exposure concentration limit under the CRR

[2] exposures to State Treasury and National Bank of Poland were excluded

(IN PLN MILLION)

- **CONCENTRATION BY THE LARGEST GROUPS OF RELATED CUSTOMERS**

The largest concentration of the Group's exposure to a group of related borrowers amounted to 1.42% of the Group's loan portfolio (1.24% as at 31 December 2018).

As at 31 December 2019, the largest concentration of the Group's exposures amounted to 11.7% of eligible consolidated capital (9.7% as at 31 December 2018).

The Group's exposure to 5 largest capital groups[2]:

31.12.2019				31.12.2018			
No.	Credit exposures include loans, advances, purchased debt, discounted bill of exchange, realized guarantees, interest receivable and off-balance sheet and capital exposures	Share in the loan portfolio, including off-balance sheet and capital exposures	Share in the eligible capital of the Bank	No.	Credit exposures include loans, advances, purchased debt, discounted bill of exchange, realized guarantees, interest receivable and off-balance sheet and capital exposures	Share in the loan portfolio, including off-balance sheet and capital exposures	Share in the eligible capital of the Bank
1.	4 593	1,42%	11,65%	1.	3 683	1,24%	9,73%
2.	3 839	1,19%	9,74%	2.	3 160	1,06%	8,35%
3.	3 591	1,11%	9,11%	3.	2 863	0,96%	7,56%
4.	3 183	0,99%	8,08%	4.	2 446	0,82%	6,46%
5.	2 912	0,90%	7,39%	5.	2 280	0,77%	6,02%
Total	**18 118**	**5,61%**	**45,96%**	**Total**	**14 432**	**4,85%**	**38,13%**

[2] the list does not include exposures to the State Treasury which is the ultimate parent for each group of related customers

- **CONCENTRATION BY INDUSTRY**

The Group's exposure to the industry portfolio has increased. The structure of the Group's exposure by industry sector is dominated by entities operating in the "Financial and insurance activity" and "Industrial processing" sections. The Group's exposure to these sectors represents approximately 32% of the entire industry portfolio.

SECTION	SECTION NAME	31.12.2019		31.12.2018	
		EXPOSURE	NUMBER OF ENTITIES	EXPOSURE	NUMBER OF ENTITIES
K	Financial and insurance activities	17,10%	1,99%	16,77%	2,07%
C	Industrial processing	15,32%	11,34%	15,92%	11,40%
L.	Real estate administration	10,53%	13,85%	10,48%	14,45%
G	Wholesale and retail trade, repair of motor vehicles	11,57%	22,59%	11,61%	23,00%
O	Public administration and national defence, obligatory social security	12,45%	0,24%	12,93%	0,26%
Other exposures		33,03%	49,99%	32,29%	48,82%
Total		**100,00%**	**100,00%**	**100,00%**	**100,00%**

(IN PLN MILLION)

- **CONCENTRATION BY GEOGRAPHICAL REGIONS**

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

The Group classifies the structure of the loan portfolio by geographical regions depending on the customer area – it is different for the Retail Market Area (RMA) and for the Corporate and Investment Banking Area (CaIBA).

In 2019, the largest concentration of the RMA loan portfolio was in the Warsaw region and Katowice region (these regions account for around 27% of the RMA portfolio) (27% as at 31 December 2018).

CONCENTRATION OF CREDIT RISK BY GEOGRAPHICAL REGION FOR RETAIL CUSTOMERS	31.12.2019	31.12.2018
Warsaw region	15,78%	15,55%
katowicki (Katowice region)	11,46%	11,22%
Poznań region	9,70%	9,84%
Kraków region	8,68%	8,82%
Łódź region	8,00%	8,20%
Wrocław region	9,78%	9,62%
Gdańsk region	8,34%	8,36%
Bydgoszcze region	6,83%	6,96%
Lublin region	6,83%	6,80%
Białystok region	6,44%	6,42%
Szczecin region	6,08%	6,14%
Head Office	0,55%	0,55%
other	0,22%	0,56%
foreign countries	1,31%	0,96%
Total	**100,00%**	**100,00%**

In 2019, as in 2018, the highest concentration of the CaIBA loan portfolio is in the central macro-region - 45% of the CaIBA portfolio.

CONCENTRATION OF CREDIT RISK BY GEOGRAPHICAL REGION FOR CORPORATE CUSTOMERS	31.12.2019	31.12.2018
Head Office	2,98%	1,34%
central macroregion	45,35%	43,71%
northern macroregion	8,77%	10,33%
western macroregion	11,05%	11,18%
southern macroregion	10,24%	9,51%
south-eastern macroregion	8,85%	10,25%
north-eastern macroregion	4,88%	5,08%
south-western macroregion	6,75%	7,72%
foreign countries	1,13%	0,88%
Total	**100,00%**	**100,00%**

(IN PLN MILLION)

- **CONCENTRATION OF CREDIT RISK BY CURRENCY**

As at 31 December 2019, the share of exposures in convertible currencies other than PLN in the entire Group's portfolio amounted to 18% and it went down compared with 2018.

Exposures in CHF represent the largest part of the Group's foreign currency exposure with a 46% share in the entire foreign currency portfolio of the Bank as at the end of 2019 (52% as at 31 December 2018). Loans in EUR went up, their share as at the end of 2019 increased to 45% of the foreign currency portfolio (from 42% as at the end of 2018).

CONCENTRATION OF CREDIT RISK BY CURRENCY	31.12.2019	31.12.2018
PLN	81,78%	81,06%
Foreign currencies, of which:	18,22%	18,94%
CHF	8,46%	9,80%
EUR	8,16%	7,99%
USD	0,80%	1,05%
UAH	0,62%	0,02%
GBP	0,03%	0,04%
other	0,15%	0,04%
Total	**100,00%**	**100,00%**

- **OTHER TYPES OF CONCENTRATION**

The Group analyses the structure of its housing loan portfolio by LTV levels. Both in 2019 and in 2018, the largest concentration was in the LTV range of 61%-80%.

LOAN PORTFOLIO STRUCTURE BY LTV	31.12.2019	31.12.2018
0% - 40%	23,28%	20,72%
41% -60%	31,75%	26,03%
61% - 80%	35,88%	38,55%
81% - 90%	6,61%	10,25%
91% - 100%	1,11%	1,95%
over 100%	1,37%	2,50%
Total	**100,00%**	**100,00%**

The average LTV of the portfolio of housing loans amounted to 55.32% as at 31 December 2019 and 59.22% as at 31 December 2018.

	31.12.2019	31.12.2018
average LTV for CHF loan portfolio	58,68%	64,38%
average LTV for the whole portfolio	55,32%	59,22%

58. COLLATERAL

In the period ended 31 December 2019, the Bank did not make any changes in its collateral policies.

The Group takes into account the collateral held for credit exposures when estimating the expected credit loss. With respect to individually significant impaired exposures, future collateral recoveries are estimated individually and taken into account in determining the expected loss, with a weight corresponding to the assessment of the probability of implementation of the debt recovery scenario. The value of collateral recoveries estimated under the recovery scenario for impaired exposures at the balance sheet date was PLN 2 418 million (as at 31 December 2018 PLN 2 601 million).

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

59. FORBEARANCE PRACTICES

Forbearance is defined by the Group as actions aimed at amending the contractual terms agreed with a debtor or an issuer, forced by the debtor's or issuer's difficult financial situation (restructuring activities introducing concessions that otherwise would not have been granted). The aim of forbearance activities is to restore a debtor's or an issuer's ability to settle their liabilities towards the Group and to maximize the efficiency of non-performing loans management, i.e. obtaining the highest possible recoveries while minimizing the costs incurred.

Forbearance changes in repayment terms may consist in:

- dividing the debt due into instalments;
- changing the repayment scheme (fixed payments, degressive payments);
- extending the loan period;
- changing interest rate;
- changing the margin;
- reducing the debt.

As a result of signing and repaying the amounts due under a forbearance agreement on a timely basis, a non-performing loan becomes a performing loan.

The provision of facilities within the framework of forbearance, as a premise of impairment, results in the recognition of the premise of impairment and the classification of the credit exposure into the portfolio of exposures at risk of impairment.

The inclusion of such exposures in the portfolio of performing exposures (discontinuation of recognition of the forbearance agreement as an impairment trigger) takes place at least 12 months after the introduction of forbearance, provided that all payments in arrears and at least six scheduled payments have been made by the customer and, in the Group's opinion, the current situation of the customer does not pose a threat to their compliance with the terms of the restructuring agreement.

Exposures cease to meet the criteria of a forborne exposure when all of the following conditions are met:

- at least 24 months have passed from the date of including the exposure into the portfolio of performing exposures (conditional period);
- as at the end of the conditional period referred to above, the customer has no debt towards the Group overdue for more than 30 days;
- at least 12 instalments have been repaid on a timely basis and in the amounts agreed.

Forborne exposures are monitored on an on-going basis. Throughout the whole period of their recognition, allowances are recognized for these exposures in the amount of expected losses over the life horizon of the exposure.

(IN PLN MILLION)

31.12.2019	Performing exposures subject to forbearance					Non-performing exposures subject to forbearance					Exposures subject to forbearance, gross	Exposures subject to forbearance, net
	Instruments with modified terms and conditions	Refinancing	Total, gross	Impairment allowance	Total, net	Instruments with modified terms and conditions	Refinancing	Total, gross	Impairment allowance	Total, net		
Not held for trading, measured at fair value through profit or loss:	19	-	19	-	19	216	-	216	-	216	235	235
Consumer loans	19	-	19	-	19	37	-	37	-	37	56	56
consumer	19	-	19	-	19	37	-	37	-	37	56	56
Corporate bonds (in PLN)	-	-	-	-	-	179	-	179	-	179	179	179
Measured at fair value through other comprehensive income:	-	-	-	-	-	463	-	463	(5)	458	463	458
Corporate bonds (in PLN)	-	-	-	-	-	463	-	463	(5)	458	463	458
											-	
Measured at amortized cost:	1 129	1	1 130	(70)	1 060	2 068	45	2 113	(822)	1 291	3 243	2 351
Loans	1 121	1	1 122	(70)	1 052	1 998	45	2 043	(810)	1 233	3 165	2 285
housing	466	-	466	(27)	439	485	-	485	(226)	259	951	698
business	600	1	601	(39)	562	1 399	42	1 441	(548)	893	2 042	1 455
consumer	55	-	55	(4)	51	114	3	117	(36)	81	172	132
Finance lease receivables	8	-	8	-	8	70	-	70	(12)	58	78	66
Total	**1 148**	**1**	**1 149**	**(70)**	**1 079**	**2 747**	**45**	**2 792**	**(827)**	**1 965**	**3 941**	**3 044**

(IN PLN MILLION)

31.12.2018	Performing exposures subject to forbearance					Non-performing exposures subject to forbearance					Exposures subject to forbearance, gross	Exposures subject to forbearance, net
	Instruments with modified terms and conditions	Refinancing	Total, gross	Impairment allowance	Total, net	Instruments with modified terms and conditions	Refinancing	Total, gross	Impairment allowance	Total, net		
Not held for trading, measured at fair value through profit or loss:	-	-	-	-	-	116	-	116	-	116	116	116
Consumer loans	-	-	-	-	-	1	-	1	-	1	1	1
Corporate bonds (in PLN)	-	-	-	-	-	115	-	115	-	115	115	115
Measured at fair value through other comprehensive income:	37	-	37	-	37	471	-	471	(10)	461	508	498
Corporate bonds (in PLN)	12	-	12	-	12	471	-	471	(10)	461	483	473
Corporate bonds (in foreign currencies)	25	-	25	-	25	-	-	-			25	25
Measured at amortized cost:	1 116	2	1 118	(79)	1 039	3 026	183	3 209	(1 205)	2 004	4 327	3 043
Loans	1 101	2	1 103	(79)	1 024	2 935	183	3 118	(1 193)	1 925	4 221	2 949
housing	556	-	556	(36)	520	689	-	689	(375)	314	1 245	834
business	462	2	464	(37)	427	2 050	180	2 230	(732)	1 498	2 694	1 925
consumer	83	-	83	(6)	77	196	3	199	(86)	113	282	190
Finance lease receivables	15	-	15	-	15	91	-	91	(12)	79	106	94
Total	**1 153**	**2**	**1 155**	**(79)**	**1 076**	**3 613**	**183**	**3 796**	**(1 215)**	**2 581**	**4 951**	**3 657**

(IN PLN MILLION)

LOANS AND ADVANCES TO CUSTOMERS SUBJECT TO FORBEARANCE BY TYPE OF CHANGES IN TERMS OF REPAYMENT, GROSS	31.12.2019	31.12.2018
Interest income on loans and advances to customers subject to forebearance	139	141

60. EXPOSURE TO COUNTERPARTY CREDIT RISK

CONCENTRATION OF CREDIT RISK – INTERBANK AND WHOLESALE MARKETS – EXPOSURE AS AT 31.12.2019[1]								
			Interbank market – wholesale			Non-wholesale market		
Counterparty	Country	Rating	Deposit	Derivatives (market value, excluding collateral if positive)	Securities (nominal value)	Nominal balance sheet exposure	Nominal off-balance sheet exposure	Total
Counterparty 1	supranational institution	AAA	-	3	1 017	-	-	1 020
Counterparty 2	Austria	BBB	681	-	-	-	-	681
Counterparty 3	Switzerland	AAA	456	(11)	-	-	-	456
Counterparty 4	UK	A	341	-	-	-	-	341
Counterparty 5	USA	AA	266	-	-	-	-	266
Counterparty 6	Austria	A	199	(5)	-	-	-	199
Counterparty 7	Poland	A	-	1	1	150	-	152
Counterparty 8	Finland	AA	-	(88)	-	20	123	144
Counterparty 9	Ireland	AA	110	-	-	-	-	110
Counterparty 10	USA	AA	-	88	-	5	5	98
Counterparty 11	Denmark	A	74	(2)	-	-	-	74
Counterparty 12	UK	AA	-	70	-	-	-	70
Counterparty 13	Germany	BBB	-	67	-	-	-	67
Counterparty 14	Poland	BBB	-	39	-	-	-	39
Counterparty 15	UK	A	-	36	-	-	-	36
Counterparty 16	UK	A	-	32	-	-	-	32
Counterparty 17	Germany	AA	-	27	-	-	-	27
Counterparty 18	Germany	BBB	-	25	-	-	-	25
Counterparty 19	Luxembourg	AA	-	-	-	0	20	20
Counterparty 20	France	A	-	20	-	-	-	20

[1] Excluding exposure to the State Treasury and the National Bank of Poland.

(IN PLN MILLION)

Counterparty	Country	Rating	Interbank market – wholesale			Non-wholesale market		
			Deposit	Derivatives (market value, excluding collateral if positive)	Securities (nominal value)	Nominal balance sheet exposure	Nominal off-balance sheet exposure	Total
Counterparty 3	Switzerland	AAA	985	(1)	-	-	-	985
Counterparty 8	Finland	AA	600	(24)	-	13	100	713
Counterparty 30	Belgium	A	700	1	-	-	-	701
Counterparty 6	Austria	A	581	-	-	-	-	581
Counterparty 35	Norway	A	515	-	-	-	-	515
Counterparty 64	Switzerland	AA	493	-	-	-	-	493
Counterparty 21	Austria	BBB	467	-	-	-	-	467
Counterparty 65	Poland	A	-	1	400	-	-	401
Counterparty 66	Switzerland	AA	400	-	-	-	-	400
Counterparty 67	Switzerland	AA	376	-	-	-	-	376
Counterparty 68	China	A	280	-	-	-	-	280
Counterparty 1	supranational institution	AAA	-	(1)	200	-	-	200
Counterparty 9	Ireland	AA	194	-	-	-	-	194
Counterparty 69	Switzerland	AA	146	-	-	-	-	146
Counterparty 7	Poland	A	-	-	-	140	-	140
Counterparty 70	Italy	BBB	99	-	-	-	-	99
Counterparty 12	UK	AA	-	97	-	-	-	97
Counterparty 10	USA	AA	-	71	-	-	10	81
Counterparty 14	Poland	BBB	-	51	28	-	-	79
Counterparty 13	Germany	BBB	-	76	-	-	-	76

[1] Excluding exposure to the State Treasury and the National Bank of Poland

As at 31 December 2019 and 31 December 2018, the Group had access to two clearing houses (in one, as an indirect participant, and in the other - as a direct participant), through which it cleared interest rate derivative transactions specified in the EMIR Regulation and the related delegated and executive regulations, with selected domestic and foreign counterparties. In nominal terms, the share of transactions cleared centrally was 93% of the entire IRS/OIS portfolio, and in the case of FRA, all transactions were submitted for clearing to clearing houses.

61. Management of currency risk associated with mortgage loans for households

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

HOUSING LOANS TO HOUSEHOLDS BY CURRENCY 31.12.2019	Individuals			Individual entrepreneurs, Non-commercial institutions operating for the benefit of households			Razem		
	gross	allowance	net	gross	allowance	net	gross	allowance	net
PLN	89 745	(1 034)	88 711	4 081	(11)	4 070	93 826	(1 045)	92 781
CHF	21 410	(692)	20 718	4	-	4	21 414	(692)	20 722
EUR	2 825	(53)	2 772	-	-	-	2 825	(53)	2 772
USD	50	(6)	44	-	-	-	50	(6)	44
UAH	209	(21)	188	-	-	-	209	(21)	188
INNE	9	-	9	-	-	-	9	-	9
RAZEM	**114 248**	**(1 806)**	**112 442**	**4 085**	**(11)**	**4 074**	**118 333**	**(1 817)**	**116 516**

(IN PLN MILLION)

HOUSING LOANS TO HOUSEHOLDS BY CURRENCY 31.12.2018	Individuals			Individual entrepreneurs, Non-commercial institutions operating for the benefit of households			Total		
	gross	allowance	net	gross	allowance	net	gross	allowance	net
PLN	81 891	(1 068)	80 823	3 964	(14)	3 950	85 855	(1 082)	84 773
CHF	23 259	(683)	22 576	4	-	4	23 263	(683)	22 580
EUR	3 154	(53)	3 101	-	-	-	3 154	(53)	3 101
USD	59	(6)	53	-	-	-	59	(6)	53
UAH	135	(19)	116	-	-	-	135	(19)	116
INNE	10	-	10	-	-	-	10	-	10
RAZEM	108 508	(1 829)	106 679	3 968	(14)	3 954	112 476	(1 843)	110 633

The Bank includes the following customer groups to households: private individuals being mortgage banking clients, individual entrepreneurs and individual farmers.

HOUSING LOANS AND ADVANCES IN FOREIGN CURRENCIES BY GRANTING DATE 31.12.2019		INDEXED	DENOMINATED	Total
up to 2002 year	Gross amount	-	98	**98**
	Allowances for credit losses	-	(2)	**(2)**
	Net amount	-	96	**96**
	Number of loans granted	-	6 704	**6 704**
from 2003 to 2006	Gross amount	-	4 974	**4 974**
	Allowances for credit losses	-	(107)	**(107)**
	Net amount	-	4 867	**4 867**
	Number of loans granted	-	47 821	**47 821**
from 2007 to 2009	Gross amount	-	12 753	**12 753**
	Allowances for credit losses	-	(542)	**(542)**
	Net amount	-	12 211	**12 211**
	Number of loans granted	-	54 056	**54 056**
from 2010 to 2012	Gross amount	3 362	3 085	**6 447**
	Allowances for credit losses	(39)	(57)	**(96)**
	Net amount	3 323	3 028	**6 351**
	Number of loans granted	11 115	12 709	**23 824**
from 2013 to 2016	Gross amount	5	14	**19**
	Allowances for credit losses	-	(2)	**(2)**
	Net amount	5	12	**17**
	Number of loans granted	18	47	**65**
Total	**Gross amount**	**3 367**	**20 924**	**11 538**
	Allowances for credit losses	**(39)**	**(710)**	**(207)**
	Net amount	**3 328**	**20 214**	**11 331**
	Number of loans granted	**11 133**	**121 337**	**132 470**

(IN PLN MILLION)

MORTGAGE LOANS AND ADVANCES IN FOREIGN CURRENCIES BY GRANTING DATE 31.12.2018		INDEXED	DENOMINATED	Total
up to 2002 year	Gross amount	-	130	**130**
	Allowances for credit losses	-	(3)	**(3)**
	Net amount	-	127	**127**
	Number of loans granted	-	7 850	**7 850**
from 2003 to 2006	Gross amount	-	5 491	**5 491**
	Allowances for credit losses	-	(120)	**(120)**
	Net amount	-	5 371	**5 371**
	Number of loans granted	-	51 943	**51 943**
from 2007 to 2009	Gross amount	-	13 899	**13 899**
	Allowances for credit losses	-	(527)	**(527)**
	Net amount	-	13 372	**13 372**
	Number of loans granted	-	56 045	**56 045**
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**
	Number of loans granted	11 527	13 353	**24 880**
from 2013 to 2016	Gross amount	5	17	**22**
	Allowances for credit losses	-	(4)	**(4)**
	Net amount	5	13	**18**
	Number of loans granted	18	53	**71**
Total	**Gross amount**	**3 567**	**22 910**	**12 578**
	Allowances for credit losses	**(33)**	**(706)**	**(212)**
	Net amount	**3 534**	**22 204**	**12 366**
	Number of loans granted	**11 545**	**129 244**	**140 789**

- **LEGAL RISK OF MORTGAGE LOANS IN CONVERTIBLE CURRENCIES**

As at 31 December 2019 the Group recognized the impact of legal risk related to the portfolio of mortgage loans in convertible currencies granted to households in its financial statements. In accordance with IAS 37, the Group recorded a provision for potential litigation of PLN 29 million for repaid loan agreements. For active agreements, the Group adjusted the gross carrying amount of mortgage loans to reflect the modified estimated cash flows arising from the agreements, in accordance with IFRS 9, and reduced their value by PLN 281 million. At the same time, as at 31 December 2019 the Group recorded a provision of PLN 141 million for pending litigation in its financial statements, and adjusted the gross carrying amount of mortgage loans by this amount. The aggregate impact of legal risk of PLN 451 million was recognized in the income statement in a separate line as the cost of legal risk related to mortgage loans in convertible currencies.

The Group applied two independent models of predicting potential losses arising from the legal risk and obtained similar amounts of expected loss. These models take into account the forecast increase in the number of suits in the three-year horizon and divide the portfolio of mortgage loans in convertible currencies into generations, among others, based on the following criteria: characteristics of the agreement, date of granting the loan, exchange rate as at the grant date, loan amount, type of product and entity granting the loan. The calculation of potential losses takes into account possible scenarios of how the litigation would be resolved and their probability, taking into account the history of former verdicts and assessments by independent law firms.

The Group calculated the legal risk-related loss using the statistical method in respect of the expected value being the sum of the products of the probabilities of specific litigation resolutions and the loss calculated for each scenario, taking into account alternative prediction methods with respect to the number of disputes within a three-year horizon. Additionally, the Group's model takes into account the effect of customer characteristics on the amount of expected loss.

The Group applied simplifications in the calculation of expected loss in connection with legal risk following from an analysis of a long series of historical data, including data of the acquired entities and a number of scenarios of possible dispute resolutions. In the Group's opinion, the simplifications adopted do not have a significant effect on the amount of potential loss.

Due to a short horizon of available historical data and significant uncertainty as to the direction of court decisions as well as the market conditions, the adopted methodology for estimating losses related to legal risk will be updated in subsequent reporting periods.

The Group conducted a sensitivity analysis of models under which a change in the following parameters would have the following effect on the amount of the estimated allowance for legal risk:

Parameter	Scenario	Impact on the loss due to legal risk of the portfolio of mortgage loans in convertible currencies granted to households
Number of lawsuits	20%	62
	-20%	(62)
Time horizon of the forecast	4 year	115
	2 year	(106)

If an additional 1% of the Bank's customers holding mortgage loans in convertible currencies filed a lawsuit against the Bank, then the impact on the loss due to legal risk of the portfolio of mortgage loans in convertible currencies would increase by PLN 100 million.

62. INTEREST RATE RISK MANAGEMENT

INTEREST RATE RISK MANAGEMENT

- **DEFINITION**

Interest rate risk is a risk of losses being incurred on the Group's balance sheet and off-balance sheet items sensitive to interest rate fluctuations, as a result of changes in market interest rates.

- **RISK MANAGEMENT OBJECTIVE**

To reduce the potential losses resulting from market interest rate fluctuations to an acceptable level by properly shaping the structure of balance sheet and off-balance sheet items.

- **RISK IDENTIFICATION AND MEASUREMENT**

The Group uses the following measures of interest rate risk: interest income sensitivity, economic value sensitivity, value at risk (VaR), stress tests and repricing gaps.

- **RISK CONTROL**

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

- **RISK FORECASTING AND MONITORING**

The following measures are monitored by the Group on a regular basis:

- the levels of interest rate risk measures;
- utilization of the strategic limit of tolerance to interest rate risk;
- utilization of internal limits and thresholds of interest rate risk.

- **REPORTING**

Reports on interest rate risk are prepared on a daily, weekly, monthly and quarterly basis.

- **MANAGEMENT ACTIONS**

The main tools for interest rate risk management used by the Group are: interest rate risk management procedures, interest rate risk limits and thresholds.

The Group established limits and thresholds for interest rate risk comprising, among other things, interest income sensitivity, economic value sensitivity and losses.

FINANCIAL INFORMATION

The PKO Bank Polski SA Group's exposure to interest rate risk remained within the adopted limits as at 31 December 2019 and 31 December 2018. The Group was mainly exposed to PLN interest rate risk. Interest rate risk generated by the Group companies did not materially affect the interest rate risk of the entire Group and therefore did not change its risk profile significantly.

The Bank categorizes its portfolios from the perspective of interest rate risk management:

- the banking book - comprises balance sheet and off-balance sheet items not included in the trading book, in particular items resulting from the Bank's core activities, transactions concluded for investment and liquidity purposes and their hedging transactions;
- the trading book - comprises transactions concluded on financial instruments as part of activities conducted on own account and an behalf of the customers.

THE BANKING BOOK

In order to monitor interest rate risk the Bank applies interest rate risk measures that reflect the identified four main types of interest rate risk:

- the risk of revaluation date mismatch;
- the yield curve risk;
- the basis risk; and
- the customer option risk.

SENSITIVITY OF INTEREST INCOME

The sensitivity of interest income to sudden shifts in the yield curve is determined by a potential financial effect of such a shift reflected in a changed amount of interest income in a given time horizon. The change results from the mismatch between revaluation dates of assets, liabilities and off-balance sheet liabilities granted and received (in particular derivative instruments) sensitive to interest rate fluctuations.

Sensitivity of interest income in the banking book of the Group to the abrupt shift in the yield curve of 100 bp in a one-year horizon in all currencies is shown in the table below:

NAME OF SENSITIVITY MEASURE	31.12.2019	31.12.2018
Sensitivity of interest income (PLN million)	907	1 001

SENSITIVITY OF ECONOMIC VALUE

Sensitivity of economic value reflects the fair value changes of items in the portfolio arising from a parallel shift of the yield curves up by one basis point.

The table below presents the economic value sensitivity measure (BPV) of the banking book of the Group in all currencies as at 31 December 2019 and 31 December 2018:

NAME OF SENSITIVITY MEASURE	31.12.2019	31.12.2018
Sensitivity of economic value (PLN million)	3	8

THE TRADING BOOK

In order to monitor the interest rate risk in the trading book the Bank applies the value-at-risk (VaR) measure;

VALUE AT RISK

The IR VaR measure is the amount of potential loss that may occur in normal market conditions at a specific time (i.e. horizon) and with an assumed level of probability related to changes in interest rate curves.

The IR VaR in the Bank's trading book is shown in the table below:

NAME OF SENSITIVITY MEASURE	31.12.2019	31.12.2018
IR VaR for a 10-day time horizon at the confidence level of 99% (in PLN million):		
Average value	5	6
Maximum value	10	11
As at the end of the period	6	5

63. Currency risk management

Currency risk management

- **Definition**

Currency risk is the risk of incurring losses due to unfavourable exchange rate fluctuations. The risk is generated by maintaining open currency positions in various foreign currencies.

- **Risk management objective**

To reduce the potential losses resulting from exchange rate fluctuations to an acceptable level by properly shaping the currency structure of balance sheet and off-balance sheet items.

- **Risk identification and measurement**

The Group uses the following measures of currency risk: value-at-risk (VaR) and stress tests.

- **Risk control**

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

- **Risk forecasting and monitoring**

The following measures are monitored by the Group on a regular basis:

- the level of currency risk measures;
- utilization of the strategic limit of tolerance to currency risk;
- utilization of internal limits and thresholds of currency risk.

- **Reporting**

Reports on currency risk are prepared on a daily, weekly, monthly and quarterly basis.

- **Management actions**

The main tools for currency risk management used by the Group are:

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

The Group has set limits and thresholds for currency risk for, among other things, currency positions, Value at Risk calculated for a 10-day time horizon and loss from transactions on the currency market.

FINANCIAL INFORMATION

- **SENSITIVITY MEASURES**

The FX VaR measure is the potential amount of loss that may occur in normal market conditions at a specific time (i.e. horizon) and with an assumed level of probability related to changes in foreign exchange rates.

Stress tests are used to estimate loss in an event of abrupt changes on the currency market which are not described by default using statistical measures.

The Bank's FX VaR, in aggregate for all currencies, is presented in the table below:

SENSITIVITY MEASURE	31.12.2019	31.12.2018
VaR for a 10-day time horizon at the confidence level of 99% (in PLN million)[1]	9	4

[1] Taking into account the nature of the operations of other Group companies which generate material forex risk and the specific characteristics of the market in which they operate, the parent does not determine the consolidated VaR sensitivity measure. These companies use their own risk measures to manage their foreign exchange risk. KREDOBANK SA applies the 10-day VaR which amounted to PLN 0.1 million as at 31 December 2019 and to PLN 0.2 million as at 31 December 2018.

- **FOREIGN CURRENCY POSITION**

The Group's foreign currency positions are presented in the table below:

FOREIGN CURRENCY POSITION	31.12.2019	31.12.2018
EUR	(152)	(127)
CHF	(238)	(34)
Other (Global, Net)	7	46

Currency positions (in addition to volatility of foreign exchange rates) are a key factor determining the level of currency risk to which the Group is exposed. The foreign currency positions is determined by all foreign currency transactions concluded, both in the statement of financial position and off-balance sheet transactions. The Group's exposure to currency risk is low.

(IN PLN MILLION)

• Financial assets and liabilities by currency

CURRENCY STRUCTURE 31.12.2019	Foreign currency translated into PLN						
	PLN	CHF	EUR	USD	UAH	Other	Total
Cash and balances with Central Bank	13 652	43	641	101	47	193	14 677
Amounts due from banks	755	53	1 797	994	191	302	4 092
Hedging derivatives	618	8	16	3	-	-	645
Other derivative instruments	2 499		231	64	-	1	2 795
Securities	77 255	-	2 081	1 189	48	-	80 573
- held for trading	1 109	-	3	-	-	-	1 112
- not held for trading, mandatorily measured at fair value through profit or loss	1 807	-	148	244	-	-	2 199
- measured at fair value through other comprehensive income;	61 287	-	1 584	888	48	-	63 807
- measured at amortized cost	13 052	-	346	57	-	-	13 455
Loans and advances to customers	188 882	21 229	17 522	1 821	1 501	479	231 434
- not held for trading, mandatorily measured at fair value through profit or loss	8 286	-	-	-	-	-	8 286
- measured at amortized cost	180 596	21 229	17 522	1 821	1 501	479	223 148
Other financial assets	2 482	-	78	20	8	36	2 624
Total financial assets	**286 143**	**21 333**	**22 367**	**4 192**	**1 795**	**1 011**	**336 841**
Amounts due to the Central Bank	-	-	-	-	-	-	-
Amounts due to banks	1 481	9	583	259	11	542	2 885
- measured at fair value through profit or loss	317	-	-	-	-	-	317
- measured at amortized cost	1 164	9	583	259	11	542	2 568
Hedging derivatives	581	-	7	1	-	-	589
Other derivative instruments	2 590	-	240	94	-	-	2 924
Amounts due to customers	227 343	537	18 669	7 896	1 476	2 278	258 199
- measured at fair value through profit or loss	45	-	-	-	-	-	45
- measured at amortized cost	227 298	537	18 669	7 896	1 476	2 278	258 154
Liabilities in respect of securities in issue	10 430	1 569	15 262	3 842	45	-	31 148
- measured at fair value through profit or loss	-	-	-	-	-	-	-
Subordinated liabilities	2 730	-	-	-	-	-	2 730
Total financial liabilities	2 998	1	415	77	65	44	3 600
Provisions for financial liabilities and guarantees granted	217	2	34	13	2	1	269
Total financial liabilities	**248 370**	**2 118**	**35 210**	**12 182**	**1 599**	**2 865**	**302 344**
Financial liabilities and guarantees granted	56 564	136	5 466	4 083	270	359	66 878

CURRENCY STRUCTURE 31.12.2018	Foreign currency translated into PLN						
	PLN	CHF	EUR	USD	UAH	Other	Total
Cash and balances with Central Bank	21 663	68	726	166	35	267	22 925
Amounts due from banks	1 664	7	2 870	2 208	103	809	7 661
Hedging derivatives	649	7	2	-	-	-	658
Other derivative instruments	1 715	-	144	48	-	-	1 907
Securities	62 796	-	684	561	72	1	64 114
- held for trading	230	-	5	-	-	-	235
- not held for trading, mandatorily measured at fair value through profit or loss	2 448	-	188	212	-	-	2 848
- measured at fair value through other comprehensive income;	52 113	-	63	309	72	1	52 558
- measured at amortized cost	8 005	-	428	40	-	-	8 473
Loans and advances to customers	172 374	23 211	16 043	2 112	1 028	144	214 912
- not held for trading, mandatorily measured at fair value through profit or loss	1 106	-	-	-	-	-	1 106
- measured at amortized cost	171 268	23 211	16 043	2 112	1 028	144	213 806
Other financial assets	2 723	-	66	20	-	16	2 825
Total financial assets	**263 584**	**23 293**	**20 535**	**5 115**	**1 238**	**1 237**	**315 002**
Amounts due to the Central Bank	7	-	-	-	-	-	7
Amounts due to banks	1 129	7	588	263	10	4	2 001
Hedging derivatives	464	-	7	-	-	-	471
Other derivative instruments	2 458	-	163	33	-	1	2 655
Amounts due to customers	215 720	1 919	15 127	7 262	1 034	1 754	242 816
Liabilities in respect of securities in issue	8 644	1 527	14 603	3 812	41	-	28 627
Subordinated liabilities	2 731	-	-	-	-	-	2 731
Total financial liabilities	1 906	13	337	65	21	22	2 364
Provisions for financial liabilities and guarantees granted	169	2	54	1	-	1	227
Total financial liabilities	**233 228**	**3 468**	**30 879**	**11 436**	**1 106**	**1 782**	**281 899**
Financial liabilities and guarantees granted	50 798	150	5 804	2 601	238	221	59 812

64. LIQUIDITY RISK MANAGEMENT

- ### DEFINITION

Liquidity risk is the risk of inability to settle liabilities as they become due because of the absence of liquid assets. The lack of liquidity may be due to an inappropriate structure of assets and liabilities, including off-balance sheet, a mismatch of cash flows, customers' failing to settle their liabilities, a sudden withdrawal of funds by the customers or other market events.

The Group also manages the financing risk which takes into account the risk of losing the existing sources of financing and inability of renewing the required means of financing or a loss of access to new sources of financing.

- ### RISK MANAGEMENT OBJECTIVE

To ensure the necessary level of funds needed to settle current and future liabilities (also potential ones) as they become due, taking into account the nature of the activities conducted and the needs which may arise due to changes in the market environment, by appropriately establishing the structure of balance sheet and off-balance sheet assets and liabilities.

- ### RISK IDENTIFICATION AND MEASUREMENT

The Group uses the following measures of the liquidity risk:

- contractual and adjusted liquidity gap;
- liquidity reserve;
- liquidity surplus;
- the ratio of stable funds to illiquid assets;
- liquidity coverage ratio (LCR);
- domestic supervisory liquidity measures (M3-M4)
- measures of stability of the deposit and loan portfolios;
- liquidity stress tests.

- ### RISK CONTROL

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

- ### RISK FORECASTING AND MONITORING

The following measures are monitored by the Group on a regular basis:

- utilization of the strategic limit of tolerance to liquidity risk;
- utilization of regulatory liquidity standards;
- utilization of internal limits and thresholds of liquidity risk;
- concentration of the sources of financing;
- early warning indicators - monitored for the early detection of unfavourable occurrences which may have a negative impact on the Group's or the financial sector's liquidity position (when exceeded, early warning indicators trigger liquidity contingency plans).

The Group also makes regular liquidity forecasts which take into account the current developments in the Group's operations. Liquidity forecasts include primarily the levels of selected liquidity risk measures envisaged in the forecasts of the Group's statement of financial position and in selected stress test scenarios.

(IN PLN MILLION)

- **REPORTING**

Liquidity reports are developed on a daily, weekly, monthly and quarterly basis and once a year, an in-depth long-term liquidity analysis is performed. The reports contain information on liquidity risk exposure and on the risk limits utilization. The reports are addressed mainly to: ALCO, RC, the Management Board, the Risk Committee and the Supervisory Board.

- **MANAGEMENT ACTIONS / RISK MANAGEMENT TOOLS**

The main tools for liquidity risk management used by the Group are:

- procedures for liquidity risk management, in particular contingency plans;
- limits and thresholds to mitigate short-term, medium-term and long-term liquidity risk;
- national and European supervisory liquidity standards;
- deposit, investment and securities transactions and well as derivatives, including structural currency transactions and transactions for sale or purchase of securities;
- transactions ensuring long-term financing of the lending activities.

The Group's policy concerning liquidity is based on keeping an appropriate level of liquidity surplus and supervisory and internal measures of liquidity risk and financing through an increase in the portfolio of liquid securities, and stable sources of financing (a stable deposit base, in particular). In liquidity risk management, money market instruments, including NBP open market operations, are also used.

FINANCIAL INFORMATION

- **LIQUIDITY GAP**

The adjusted liquidity gap comprises a set of particular balance sheet and off-balance sheet categories 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, overdrafts and credit cards 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
31.12.2019								
The Group - adjusted periodic gap in real terms	11 355	30 783	(8 092)	(7 285)	(3 317)	5 024	18 205	(46 673)
The Group - adjusted cumulative periodic gap in real terms	11 355	42 138	34 046	26 761	23 444	28 468	46 673	
31.12.2018[1]								
The Group - adjusted periodic gap in real terms	23 472	22 809	(8 470)	(6 419)	2 860	12 441	14 482	(61 175)
The Group - adjusted cumulative periodic gap in real terms	23 472	46 281	37 811	31 392	34 252	46 693	61 175	

[1] brought to comparability with the data as at 31 December 2019.

In all time horizons, the adjusted cumulative liquidity gap of the Group, determined as the sum of the adjusted liquidity gaps of the Bank, PKO Bank Hipoteczny SA, PKO Leasing SA, KREDOBANK and PKO Życie Towarzystwo Ubezpieczeń SA and the contractual liquidity gaps of the other Group companies with respect to items of the statement of financial position, was positive both as at 31 December 2019 and 31 December 2018. This means that the Group has a surplus of the assets receivable over the liabilities payable.

(IN PLN MILLION)

- **SUPERVISORY LIQUIDITY MEASURES**

The following supervisory liquidity measures are regularly set and monitored at the Bank and the Group:

- Liquidity Coverage Ratio (LCR) - defining the relation of high-quality liquid assets to net outflows in the 30-day horizon in stress conditions (supervisory measure specified in the CRR Regulation);
- Net Stable Funding Ratio (NSFR) - a measure defining the relationship of items providing stable funding to items requiring stable funding;

The following supervisory liquidity measures are regularly set and monitored at the Bank:

- M3 – non-liquid assets to own funds (national supervisory ratio);
- M4 – non-liquid assets and assets with limited liquidity to own funds and stable external funds (national supervisory ratio);

SUPERVISORY LIQUIDITY MEASURES	31.12.2019	31.12.2018
M3 - coverage ratio of non-liquid assets to own funds	14,92	17,44
M4 - coverage ratio of non-liquid assets and liquidity-restricted assets with own funds and stable external funds	1,25	1,22
NSFR - net stable funding ratio	123,1%	117,7%
LCR - liquidity coverage ratio	146,3%	132,0%

In the period ended 31 December 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.

- **CORE DEPOSIT BASE**

As at 31 December 2019, the core deposit base constituted approx. 93.8% of all deposits placed with the Bank (excluding the interbank market), which represents a decrease of ca. 0.1 p.p. compared with the end of 2018.

- **STRUCTURE OF THE SOURCES OF FINANCING**

	31.12.2019	31.12.2018
Total deposits (excluding interbank market)	76,44%	75,76%
Interbank market deposits	0,40%	0,63%
Equity	11,59%	12,05%
Market financing	11,57%	11,56%
Total	**100,00%**	**100,00%**

(IN PLN MILLION)

- **CONTRACTUAL CASH FLOWS FROM THE GROUP'S LIABILITIES, EXCLUDING DERIVATIVE FINANCIAL INSTRUMENTS**

The amounts disclosed comprise non-discounted future cash flows, both in respect of the principal and interest (if applicable), in accordance with the contract, for the entire period to the date of the liability's maturity. Where the party to whom the Group has a liability is able to select the settlement deadline, it has been assumed that the earliest date on which the Group is obliged to settle the liability shall be taken into account. Where the Group is obliged to settle the liabilities in instalments, each instalment is allocated to the earliest period in which the Group might be obligated to settle. In the case of liabilities where instalment amounts are not fixed, the terms binding as at the reporting date have been adopted.

GROUP'S LIABILITIES AS AT 31 DECEMBER 2019, BY MATURITY	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 year	Over 5 years	Contractual amount	Carrying amount
Liabilities:							
Amounts due to banks	2 124	16	384	637	-	3 161	**2 885**
Amounts due to customers	197 831	17 260	29 862	6 064	10 521	261 538	**258 199**
Liabilities in respect of securities in issue	914	797	2 769	27 267	811	32 558	**31 148**
Subordinated liabilities	-	45	45	473	2 913	3 476	**2 730**
Lease liabilities	19	37	155	495	411	1 117	**894**
Other liabilities	2 706	-	-	-	-	2 706	**2 706**
Total	**203 594**	**18 155**	**33 215**	**34 936**	**14 656**	**304 556**	**298 924**
Off-balance sheet liabilities:							
financing, granted	15 936	3 567	15 086	12 000	8 779	55 368	
guarantees, granted	161	1 653	5 185	3 176	1 335	11 510	

GROUP'S LIABILITIES AS AT 31 DECEMBER 2018, BY MATURITY	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 year	Over 5 years	Contractual amount	Carrying amount
Liabilities:							
Amounts due to the Central Bank	7	-	-	-	-	7	7
Amounts due to banks	1 722	67	152	103	-	2 043	**2 001**
Amounts due to customers	182 651	21 468	27 168	11 568	8 041	250 895	**242 816**
Liabilities in respect of securities in issue	722	610	3 278	12 768	5 992	23 370	**28 627**
Subordinated liabilities	-	62	62	542	3 362	4 028	**2 731**
Other liabilities	3 685	-	-	-	-	3 685	**3 685**
Total	**188 787**	**22 207**	**30 660**	**24 981**	**17 395**	**284 029**	**279 867**
Off-balance sheet liabilities:							
financing, granted	12 626	2 874	13 293	12 026	9 058	49 877	-
guarantees, granted	290	693	4 823	3 313	816	9 935	-

- **CONTRACTUAL CASH FLOWS FROM LIABILITIES IN RESPECT OF DERIVATIVE FINANCIAL INSTRUMENTS FOR WHICH THE VALUATION AS AT THE BALANCE SHEET DATE WAS NEGATIVE (A LIABILITY) AND WHICH ARE SETTLED ON A NET BASIS**

In the case of IRS and NDF transactions, non-discounted future net cash flows in respect of interest and principal have been presented and in the case of the remaining derivative instruments settled on a net basis, the amount of the valuation as at 31 December 2019 and as at 31 December 2018 respectively was adopted as the cash flow amount.

As at 31 December 2019	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 year	over 5 years	Contractual amount
Derivative financial instruments - liabilities:						
- Interest rate swap (IRS)	(114)	(199)	(89)	3	61	(338)
- other derivatives (options, FRA, NDF)	(610)	(962)	(2 061)	(2 495)	-	(6 128)

As at 31 December 2018	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 year	over 5 years	Contractual amount
Derivative financial instruments - liabilities:						
- Interest rate swap (IRS)	(13)	6	235	(1 104)	(276)	(1 153)
- other derivatives (options, FRA, NDF)	(455)	(1 393)	(2 876)	(2 062)	-	(6 788)

(IN PLN MILLION)

- **CONTRACTUAL CASH FLOWS FROM LIABILITIES IN RESPECT OF DERIVATIVE FINANCIAL INSTRUMENTS FOR WHICH THE VALUATION AS AT THE BALANCE SHEET DATE WAS NEGATIVE (A LIABILITY) AND WHICH ARE SETTLED ON A GROSS BASIS**

The amounts disclosed comprise non-discounted future cash flows, both in respect of principal and interest (if applicable).

As at 31 December 2019	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 year	over 5 years	Contractual amount
Derivative financial instruments:						
- outflows	(8 643)	(3 819)	(6 264)	(5 696)	(369)	(24 791)
- inflows	8 915	3 848	7 379	5 687	838	26 667

As at 31 December 2018	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 year	over 5 years	Contractual amount
Derivative financial instruments:						
- outflows	(8 014)	(2 683)	(4 183)	(3 396)	(1 158)	(19 434)
- inflows	17 051	2 761	6 213	8 088	2 813	36 924

- **CURRENT AND NON-CURRENT ASSETS AND LIABILITIES**

FINANCIAL ASSETS 31.12.2019	Current	Non-current	Allowances for expected credit losses/ Impairment allowances	Total carrying amount
Cash and balances with Central Bank	14 677	-	-	14 677
Amounts due from banks	4 067	26	(1)	4 092
Hedging derivatives	160	485	-	645
Other derivative instruments	1 190	1 605	-	2 795
Securities	6 845	73 753	(25)	80 573
- held for trading	1 112	-	-	1 112
- not held for trading, mandatorily measured at fair value through profit or loss	1 753	446	-	2 199
- measured at fair value through other comprehensive income;	3 567	60 245	(5)	63 807
- measured at amortized cost	413	13 062	(20)	13 455
Loans and advances to customers	56 731	181 925	(7 222)	231 434
- not held for trading, mandatorily measured at fair value through profit or loss	5 461	2 825	-	8 286
- measured at fair value through other comprehensive income;	1	-	(1)	-
- measured at amortized cost	51 269	179 100	(7 221)	223 148
Other financial assets	2 624	92	(92)	2 624
Total financial assets	**86 294**	**257 886**	**(7 340)**	**336 840**

FINANCIAL LIABILITIES 31.12.2019	Current	Non-current	Total carrying amount
Amounts due to banks	2 255	630	2 885
Hedging derivatives	238	351	589
Other derivative instruments	1 272	1 652	2 924
Amounts due to customers	243 556	14 643	258 199
Liabilities in respect of securities in issue	4 166	26 982	31 148
Subordinated liabilities	-	2 730	2 730
Other financial liabilities	2 768	832	3 600
Provisions for financial liabilities and guarantees granted	226	43	269
Total financial liabilities	**254 481**	**47 863**	**302 344**

(IN PLN MILLION)

FINANCIAL ASSETS 31.12.2018	Current	Non-current	Allowances for expected credit losses/ Impairment allowances	Total carrying amount
Cash and balances with Central Bank	22 925	-	-	22 925
Amounts due from banks	7 650	12	(1)	7 661
Hedging derivatives	43	615	-	658
Other derivative instruments	700	1 207	-	1 907
Securities	11 106	53 044	(36)	64 114
- held for trading	235	-	-	235
- not held for trading, mandatorily measured at fair value through profit or loss	2 009	839	-	2 848
- measured at fair value through other comprehensive income;	7 946	44 622	(10)	52 558
- measured at amortized cost	916	7 583	(26)	8 473
Loans and advances to customers	43 785	179 331	(8 204)	214 912
- not held for trading, mandatorily measured at fair value through profit or loss	396	710	-	1 106
- measured at amortized cost	43 389	178 621	(8 204)	213 806
Other financial assets	2 498	424	(97)	2 825
Total financial assets	**88 707**	**234 633**	**(8 338)**	**315 002**

FINANCIAL LIABILITIES 31.12.2018	Current	Non-current	Total carrying amount
Amounts due to the Central Bank	7	-	7
Amounts due to banks	1 901	100	2 001
Hedging derivatives	123	348	471
Other derivative instruments	1 333	1 322	2 655
Amounts due to customers	227 806	15 010	242 816
Liabilities in respect of securities in issue	6 472	22 155	28 627
Subordinated liabilities	-	2 731	2 731
Other financial liabilities	2 352	12	2 364
Provisions for financial liabilities and guarantees granted	177	50	227
Total financial liabilities	**240 171**	**41 728**	**281 899**

65. CAPITAL ADEQUACY

- **CAPITAL ADEQUACY**

Capital adequacy management is a process intended to ensure that the level of risk which the Bank and the Group assumes in relation to the development of its business activities may be covered with its capital, taking into account a specific risk tolerance level and time horizon. The process of managing capital adequacy comprises, in particular, compliance with the applicable regulations of the supervisory and control authorities, as well as the risk tolerance level determined within the Bank and the Bank's Group and the capital planning process, including the policy concerning the sources of acquisition of capital.

The objective of capital adequacy management is to maintain own funds at a level which is adequate to the scale and profile of the risk relating to the Group's activities at all times.

The process of managing the Group's capital adequacy comprises:

- specifying and pursuing the Group's capital targets;
- identifying and monitoring significant types of risk;
- measuring or estimating internal capital to cover individual risk types of risk and total internal capital;
- determining strategic tolerance limits and thresholds of capital adequacy measures;
- forecasting, monitoring and reporting the level and structure of equity and capital adequacy;
- managing the structure of the balance sheet to optimize the quality of the Bank's own funds,
- emergency measures with regard to capital;
- stress tests;
- planning and allocating own funds and internal capital to business areas and customer segments in the Bank as well as individual Group companies;
- assessing the profitability of individual business areas and customer segments.

Capital adequacy measures include:

- total capital ratio (TCR);
- the ratio of own funds to internal capital;
- Tier 1 core capital ratio (CET1);
- Tier 1 capital ratio (T1);
- leverage ratio;
- MREL ratio in relation to total equity and liabilities.

The objective of monitoring the level of capital adequacy measures is to determine the degree of compliance with supervisory standards and to identify cases which require emergency measures to be implemented or a capital protection plan to be prepared.

Major regulations applicable in the capital adequacy assessment process include:

- the Polish Banking Law;
- the CRR;
- the Act of 5 August 2015 on macro-prudential supervision over the financial system and crisis management in the financial system (as amended), hereinafter referred to as "the Act on macro-prudential supervision";
- the Regulation of the Minister of Finance of 6 March 2018 on the risk management and internal control systems, remuneration policy and the detailed procedure for estimating the internal capital in banks;
- the Act of 10 June 2016 on the Bank Guarantee Fund, Deposit Guarantee Scheme and Resolution.

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 macro-prudential supervision, the Group is obliged to maintain a combined buffer above the minimum set in Article 92 of the CRR Regulation, representing the sum of the applicable buffers, namely:

- the conservation buffer which applies to all banks. As at 31 December 2019, the conservation buffer amounted to 2.5%.
- the countercyclical buffer imposed to mitigate the systemic risk arising from the credit cycle. The Group calculates the countercyclical buffer at the level specified by the relevant authority of the country where the Group has exposures. The countercyclical buffer for loan exposures on the territory of Poland is equal to zero. Due to the fact that the Group also conducts foreign activities, the level of the countercyclical buffer specific to the Group is 0.01%.
- the systemic risk buffer – intended to prevent and mitigate long-term non-cyclical risk or prudential risk which may cause strong negative consequences for the financial system and the economy of a given country. As at 31 December 2019, the systemic risk buffer was equal to 3% for exposures on the territory of Poland. Due to the fact that the Group also conducts foreign activities, the systemic risk buffer specific to the Bank's Group is 2.88%
- O-SII buffer related to the Bank being identified as a systemically important institution, which did not change in 2019 and amounts to 1% of the total exposure to risk calculated in accordance with the IRR Regulation.

In addition, the Group 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 ("discretionary capital requirement"). As at 31 December 2019, the discretionary capital requirement for consolidated capital ratios was: 0.36 p.p. for the total capital ratio; 0.27 p.p. for Tier 1 capital ratio; and 0.20 p.p. for Tier 1 core capital ratio.

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 0.10 p.p.

On 4 November 2019, the Group received a letter from the Bank Guarantee Fund concerning the plan for achieving the required minimum level of own funds and liabilities which can be written off or converted (MREL). The MREL set for the Bank on the consolidated level amounted to 14.376% of the total liabilities and own funds ("TLOF"), which corresponds to 22.807% of the total risk exposure ("TRE"). This requirement should be achieved as at 1 January 2023. The BGF has set a path for reaching the target level of MREL according to which as at the end of 2019 the ratio of MREL to TLOF is 9.316% on the consolidated level, which corresponds to 14.779% of TRE. As at 31 December 2019 the Bank's consolidated MREL ratio amounted to 11.665% in relation to TLOF and 18.419% in relation to TRE, significantly exceeding the transitional levels indicated by the Bank Guarantee Fund.

- **OWN FUNDS FOR CAPITAL ADEQUACY PURPOSES**

In 2019 and 2018, the Group's capital adequacy level remained at a safe level, well above the supervisory limits.

- **REQUIREMENTS RELATING TO OWN FUNDS (PILLAR I)**

The Group calculates own funds requirements for the following types of risk:

CREDIT RISK	under the standard approach, using the following formulas with regard to: BALANCE SHEET EXPOSURES - a product of a carrying amount (accounting for adjustments for specific credit risk), a risk weight of the exposure calculated according to the standardized method of credit risk requirement as regards own funds and 8% (considering recognized collateral), OFF-BALANCE SHEET LIABILITIES GRANTED - a product of the amount of a liability (accounting for 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% (accounting for recognized collateral), OFF-BALANCE SHEET TRANSACTIONS (DERIVATIVE INSTRUMENTS) - a product of risk weight of an off-balance sheet transaction calculated according to the standardized method of credit risk requirement for own funds, the equivalent of the off-balance sheet transaction in the statement of financial position and 8% (the value of the equivalent in the statement of financial position is calculated in accordance with the mark-to-market method).
OPERATIONAL RISK	• in accordance with the AMA approach - with respect to the Bank's activities, taking into account the branch in Germany and excluding the branch in the Czech Republic; • in accordance with the BIA approach - with respect to the activities of the branch in the Czech Republic and entities of the Group subject to the prudential consolidation.
MARKET RISK	• currency risk - calculated under the core approach; • commodity risk - calculated under the simplified approach; • equity instruments risk - calculated under the simplified approach; • specific risk of debt instruments - calculated under the core approach; • general risk of debt instruments - calculated under the duration-based approach; • other types of risk, other than delta risk (non-delta risk) calculated under the scenario approach in the case of options for which the Bank uses its own valuation models and under the delta plus approach for other options.
OTHER RISKS	• settlement risk and delivery risk - calculated under the approach specified in Title V, 'Own funds requirements for settlement risk' of the CRR; • counterparty credit risk - calculated under the approach set out in Chapter 6, 'Counterparty credit risk' of Title II, 'Capital requirements for credit risk' of the CRR; • credit valuation adjustment risk - calculated under the approach specified in Title VI, 'Own funds requirements for credit valuation adjustment risk' of the CRR; • exceeding the large exposures limit – calculated under the approach set out in paragraphs 395-401 of the CRR; • for exposures to a central counterparty, a requirement for transactions and contributions made to the default fund of a qualifying central counterparty is calculated.

(IN PLN MILLION)

	31.12.2019	31.12.2018
Total own funds	**39 417**	**37 850**
Tier 1 capital	**36 717**	**35 150**
Share capital	1 250	1 250
Supplementary capital	29 428	29 281
Other reserves	3 160	3 753
General banking risk fund	1 070	1 070
Accumulated other comprehensive income (excluding cash flow hedges)	238	226
fair value of financial assets measured at fair value through OCI	459	492
foreign exchange differences on translation of foreign branches	(193)	(242)
actuarial gains and losses	(16)	(11)
share in other comprehensive income of associates and joint ventures	(12)	(13)
Current period profit/loss (lowered by expected charges, included by permission from the PFSA)	1 038	1 678
Undivided profit/uncovered losses	2 417	(88)
Intangible assets	(2 820)	(2 810)
(-) Goodwill	(1 109)	(1 160)
(-) Other intangible assets	(1 711)	(1 650)
Adjustments to Tier 1	936	790
fair value gains and losses arising from the institution's own credit risk related to derivative liabilities (DVA)	(10)	(9)
additional valuation adjustment (AVA)	(84)	(59)
adjustment resulting from transitional solutions to mitigate the impact of IFRS 9 adoption on equity	1 030	858
Tier 2 capital	**2 700**	**2 700**
Equity instruments and subordinated loans eligible as Tier 2 capital	2 700	2 700
Requirements for own funds	**17 120**	**16 035**
Credit risk	15 835	14 893
Operational risk	843	645
Market risk	419	472
Credit valuation adjustment risk	23	25
Total capital adequacy ratio	**18,42%**	**18,88%**
Tier 1 capital ratio	**17,16%**	**17,54%**

According to CRR Regulations for capital adequacy purposes, prudential consolidation is used, unlike consolidation in accordance with IFRS, includes only subsidiaries that meet the definition of an institution, financial institution or any ancillary services enterprise.

In addition, pursuant to Article 19 Paragraph 1 of the CRR, prudential consolidation may exclude entities whose total value of assets and off-balance sheet items are less than EUR 10 million.

Other subsidiaries, not consolidated with the full method for the purposes of prudential consolidation are measured using the equity method.

The Group for the purposes of prudential consolidation consists of following entities:

- PKO Bank Polski SA;
- Grupa Kapitałowa PKO Leasing SA;
- PKO BP BANKOWY PTE SA;
- PKO Towarzystwo Funduszy Inwestycyjnych SA;
- Grupa Kapitałowa KREDOBANK SA;
- PKO Finance AB;
- PKO BP Finat sp. z o.o.;
- PKO Bank Hipoteczny SA;
- Grupa Kapitałowa Bankowe Towarzystwo Kapitałowe SA

Non-financial and insurance entities are excluded from the prudential consolidation.

(IN PLN MILLION)

The table below shows a reconciliation of items of the statement of financial position used to calculate own funds with the regulatory own funds.

31.12.2019	Statement of financial position under IFRS	Elimination of companies excluded from prudential consolidation	Prudential consolidation/ Statement of financial position under CRR	Items not included in regulatory own funds	Items included in regulatory own funds
ASSETS					
Intangible assets	3 178	(164)	3 014	(194)	2 820
LIABILITIES					
Subordinated liabilities	2 730	-	2 730	(30)	2 700
EQUITY					
Share capital	1 250	-	1 250	-	1 250
Supplementary capital	29 429	(1)	29 428	-	29 428
Other reserves	3 237	(77)	3 160	-	3 160
General banking risk fund	1 070	-	1 070	-	1 070
Accumulated other comprehensive income	469	-	469	(231)	238
fair value of financial assets measured at fair value through other comprehensive income	456	3	459	-	459
cash flow hedges	232	(1)	231	(231)	-
foreign exchange differences on translation of foreign branches	(191)	(2)	(193)	-	(193)
actuarial gains and losses	(15)	(1)	(16)	-	(16)
share in other comprehensive income of subsidiaries, associates and joint ventures	(13)	1	(12)	-	(12)
Net profit or loss for the year	4 031	19	4 050	(4 243)	(193)
Retained earnings	2 101	316	2 417	(1 958)	459
Non-controlling interests	(9)	9	-	-	-
TOTAL EQUITY	**41 578**	**266**	**41 844**	**(6 432)**	**35 412**
ADDITIONAL ADJUSTMENTS TO TIER I					936
fair value gains and losses arising from the institution's own credit risk related to derivative liabilities (DVA)					(10)
additional valuation adjustment (AVA)					(84)
adjustment resulting from transitional solutions to mitigate the impact of IFRS 9 adoption on equity					1 030
TOTAL OWN FUNDS FOR CALCULATION OF THE TOTAL CAPITAL RATIO					39 417

(IN PLN MILLION)

31.12.2018	Statement of financial position under IFRS	Elimination of companies excluded from prudential consolidation	Prudential consolidation/ Statement of financial position under CRR	Items not included in regulatory own funds	Items included in regulatory own funds
ASSETS					
Intangible assets	3 195	(164)	3 031	(221)	2 810
LIABILITIES					
Subordinated liabilities	2 731	-	2 731	(31)	2 700
EQUITY					
Share capital	1 250	-	1 250	-	1 250
Supplementary capital	29 354	(73)	29 281	-	29 281
Other reserves	3 831	(78)	3 753	-	3 753
General banking risk fund	1 070	-	1 070	-	1 070
Accumulated other comprehensive income	250	(1)	249	(23)	226
fair value of financial assets measured at fair value through other comprehensive income	492	-	492	-	492
cash flow hedges	22	1	23	(23)	-
foreign exchange differences on translation of foreign branches	(241)	(1)	(242)	-	(242)
actuarial gains and losses	(10)	(1)	(11)	-	(11)
share in other comprehensive income of subsidiaries, associates and joint ventures	(13)	-	(13)	-	(13)
Net profit or loss for the year	3 741	44	3 785	(2 107)	1 678
Retained earnings	(385)	297	(88)	-	(88)
Non-controlling interests	(10)	10	-	-	-
TOTAL EQUITY	**39 101**	**199**	**39 300**	**(2 130)**	**37 170**
ADDITIONAL ADJUSTMENTS					790
debit valuation adjustment, additional valuation adjustment					(68)
adjustment resulting from transitional solutions to mitigate the impact of IFRS 9 adoption on equity					858
TOTAL OWN FUNDS FOR CALCULATION OF THE TOTAL CAPITAL RATIO					37 850

(IN PLN MILLION)

CONSOLIDATED INCOME STATEMENT IN ACCORDANCE WITH THE CRR

CONSOLIDATED INCOME STATEMENT	2019	2018
Interest and similar income	12 746	11 585
Interest expenses and similar charges	(2 495)	(2 258)
Net interest income/(expense)	10 251	9 327
Fee and commission income	4 245	4 128
Fee and commission expense	(1 085)	(1 029)
Net fee and commission income	3 160	3 099
Dividend income	14	12
Net gain/(loss) in financial instruments measured at fair value through profit or loss	180	40
Net foreign exchange gains / (losses)	473	497
Gains/(losses) on derecognition of financial instruments not measured at fair value through profit or loss	143	128
Net credit losses	(1 148)	(1 328)
Impairment of non-financial assets	(111)	(113)
Cost of the legal risk of mortgage loans in convertible currencies other	(451)	-
Other operating income	608	310
Other operating expenses	(352)	(280)
Net other operating income and expense	256	30
Administrative expenses	(5 497)	(5 187)
Net regulatory charges	(531)	(574)
Tax on certain financial institutions	(1 014)	(944)
Operating profit	**5 725**	**4 987**
Share in profits and losses of associates and joint ventures	82	109
Profit before tax	5 807	5 096
Income tax expense	(1 757)	(1 311)
Net profit (including non-controlling shareholders)	4 050	3 785
Profit (loss) attributable to non-controlling shareholders	-	-
Net profit attributable to equity holders of the parent company	**4 050**	**3 785**

• INTERNAL CAPITAL (PILLAR II)

In 2019, the Group calculated internal capital in accordance with the commonly binding legal regulations:

- the CRR;
- the Polish Banking Law;
- the Regulation of the Minister of Development and Finance of 6 March 2017 on the risk management and internal control systems, remuneration policy and the detailed procedure for estimating the internal capital in banks;
- The Act on Macro-prudential supervision;

and the internal regulations of the Bank and the Group.

Internal capital is the amount of capital estimated by the Group that is necessary to cover all of significant risks characteristic of the Group's activities and the effect of changes in the business environment, taking account of the anticipated risk level. The estimation of internal capital is aimed at determining the minimum level of own funds which ensures the safety of operations, taking into account changes in the profile and scale of the operations as well as adverse stress conditions.

The internal capital for covering significant risk types is determined using the methods specified in the internal regulations.

The relation of the Group's own funds to its internal capital remained on a level exceeding both the threshold set by the law and the Group's internal limits.

(IN PLN MILLION)

- **DISCLOSURES (PILLAR III)**

The Group publishes annual information in particular concerning risk management and capital adequacy in accordance with: the CRR Regulation and the executive acts to the CRR, guidelines of the European Banking Authority, including guidelines concerning disclosure requirements pursuant to section eight of the CRR Regulation ("EBA guidelines"), the Act on Macro-prudential supervision, the Polish Banking Law Act, Recommendations H, M and P issued by the Polish Financial Supervision Authority as part of the Report, "Capital adequacy and other information to be published by the Powszechna Kasa Oszczędności Banku Polskiego Spółka Akcyjna Group".

Details of the scope of information disclosed, the method of its verification and publication are presented in PKO Bank Polski SA Capital Adequacy Information Policies and other information to be published, which are available on the Bank's website (www.pkobp.pl).

66. LEVERAGE RATIO

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

The objective of excessive leverage risk management is to ensure an appropriate relationship between the amount of the core capital (Tier 1) and the total of on-balance sheet assets and off-balance sheet liabilities granted by the Group.

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 31 December 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	
	31.12.2019	**31.12.2018**
Total capital and exposure measure		
Tier 1 capital	36 717	35 150
Total exposure measure for leverage ratio calculation	364 618	336 797
Leverage ratio		
Leverage ratio	10,07%	10,44%

(IN PLN MILLION)

67. INFORMATION ON SECURITIZATION OF LEASE PORTFOLIO AND PORTFOLIO SALE OF RECEIVABLES

The SPV, ROOF Poland Leasing 2014 DAC with its registered office in Ireland is a buyer of securitized receivables arising from lease agreements sold by Raiffeisen-Leasing Polska SA (currently: PKO Leasing SA) as part of the securitization programme which started 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.

Polish Lease Prime 1 DAC with its registered office in Ireland is a SPV established to service leasing securitization carried out under PKO Leasing S.A.

There are no capital connections between ROOF Poland Leasing 2014 DAC and Polish Lease Prime 1 DAC. The SPVs were established in accordance with the regulations of Irish company law in the form of Designated Activity Company (DAC), i.e. a capital company with the right to perform only activities specified in the founding act. The founding acts of aforementioned SPVs indicate the conclusion of financial transactions, including securitization, in the scope of their operations.

PKO leasing acts as the originator of securitization of leasing receivables, and Roof Poland Leasing 2014 DAC and Polish Lease Prime 1 DAC act as a special purpose unit for securitization purposes.

The establishment of an entity independent from the entity initiating securitization is a market standard resulting from the expectations of all business partners, especially investors and banks providing financing. Such approach allows to separate the originator's credit risk, in this case PKO Leasing SA, from the portfolio credit risk of receivables, which are collateral for bonds issued by special purpose vehicles. The contractual framework for the operation of special purpose vehicles has been created to protect the interests of all parties of the securitization transaction. As a rule, SPVs are managed in accordance with the provisions resulting from the contracts constituting the basis for securitization.

In accordance with IFRS 10, PKO Leasing SA exercises control over abovementioned companies, although it does not have a capital share in them.

In September 2019, PKO Leasing SA conducted securitization of lease receivables with the value of PLN 2 500 million. On 26 September 2019, the Company sold lease receivables to the special-purpose vehicle Polish Lease Prime 1 Designated Activity Company (Polish Lease Prime 1 DAC) with its registered office in Dublin (Ireland). The receivables purchased by the SPV were financed mainly with an issue of securities (bonds) conducted on 26 September 2019 with the redemption date falling on 28 December 2029 and with funds obtained as part of the PKO Leasing SA Group. Bonds with a nominal value of PLN 1 835 million were taken up by entities from outside the PKO Bank Polski SA Group. The objective of and benefit from selling these receivables to the SPV was to obtain and diversify sources of long-term financing.

The redemption of debt securities in 2019 according to their nominal value totalled PLN 491 million, including PLN 153 million redeemed on 2 January 2019, PLN 134 million redeemed on 2 April 2019, PLN 110 million redeemed on 2 July 2019 and PLN 94 million redeemed on 2 October 2019.

The redemption of debt securities in 2018 according to their nominal value amounted to PLN 70 million redeemed on 2 January 2018, PLN 204 million redeemed on 3 April 2018, PLN 178 million redeemed on 2 July 2018 and PLN 165 million redeemed on 2 October 2018.

As at 31 December 2019, securitized lease receivables amounted to PLN 2 723 million. As at 31 December 2018, securitized lease receivables amounted to PLN 688 million.

Carrying amounts of the financial assets and financial liabilities covered by securitization are presented in the table below:

31.12.2019	Transaction value	Amount of risk remaining in the Group
Carrying amount of assets	2 723	2 723
Carrying amount of liabilities	1 983	1 983
Net balance	740	740

(IN PLN MILLION)

31.12.2018	Transaction value	Amount of risk remaining in the Group
Carrying amount of assets	688	688
Carrying amount of liabilities	643	643
Net balance	45	45

Moreover, in 2019 the Group performed sales of impaired loan portfolios (balance sheet and off-balance sheet receivables) of more than 1.7 thousand individual receivables from retail and business customers amounting to approximately PLN 1 790 million (PLN 1 380 million in 2018). The total carrying amount of the provisions for potential claims on the sale of impaired loan portfolios as at 31 December 2019 amounted to PLN 2 million (as at 31 December 2018 it was 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.

(IN PLN MILLION)

SUBSEQUENT EVENTS

68. SUBSEQUENT EVENTS

After the balance sheet date no events took place which could have a significant impact on future financial results.

SIGNATURES OF ALL MEMBERS OF THE BANK'S MANAGEMENT BOARD

11.02.2020	ZBIGNIEW JAGIEŁŁO	PRESIDENT OF THE MANAGEMENT BOARD
11.02.2020	RAFAŁ ANTCZAK	VICE-PRESIDENT OF THE MANAGEMENT BOARD
11.02.2020	RAFAŁ KOZŁOWSKI	VICE-PRESIDENT OF THE MANAGEMENT BOARD
11.02.2020	MAKS KRACZKOWSKI	VICE-PRESIDENT OF THE MANAGEMENT BOARD
11.02.2020	MIECZYSŁAW KRÓL	VICE-PRESIDENT OF THE MANAGEMENT BOARD
11.02.2020	ADAM MARCINIAK	VICE-PRESIDENT OF THE MANAGEMENT BOARD
11.02.2020	PIOTR MAZUR	VICE-PRESIDENT OF THE MANAGEMENT BOARD
11.02.2020	JAKUB PAPIERSKI	VICE-PRESIDENT OF THE MANAGEMENT BOARD
11.02.2020	JAN EMERYK ROŚCISZEWSKI	VICE-PRESIDENT OF THE MANAGEMENT BOARD

SIGNATURE OF THE PERSON RESPONSIBLE

FOR MAINTAINING THE BOOKS OF ACCOUNT

DANUTA SZYMAŃSKA

DIRECTOR OF THE ACCOUNTING DIVISION