Unconsolidated Financial Statements of Bank Pekao S.A. for the year ended on 31 December 2019

Warsaw, February 2020

This document is a free translation of the Polish original. Terminology current in Anglo-Saxon countries has been used where practicable for the purposes of this translation in order to aid understanding. The binding Polish original should be referred to in matters of interpretation.

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Unconsolidated income statement

(in PLN thousand)

	NOTE	2019	2018 RESTATED
Interest income	8	6 420 302	5 941 176
Financial assets measured at amortised cost		5 513 813	5 066 072
Financial assets measured at fair value through other comprehensive income		644 069	699 844
Financial assets measured at fair value through profit or loss		262 420	175 260
Interest expense	8	(1 110 680)	(1 072 163)
Net interest income		5 309 622	4 869 013
Fee and commission income	9	2 453 654	2 392 585
Fee and commission expense	9	(373 381)	(369 326)
Net fee and commission income		2 080 273	2 023 259
Dividend income	10	291 427	255 364
Result on financial assets and liabilities measured at fair value through profit or loss	11	128 400	66 710
Result on fair value hedge accounting	26	(1 666)	723
Result on derecognition of financial assets and liabilities not measured at fair value through profit or loss	12	70 953	140 652
Net impairment losses on financial assets and off-balance sheet commitments	13	(624 107)	(500 447)
Net other operating income and expenses	14	7 994	122 600
Administrative expenses	15	(3 786 262)	(3 607 875)
Personnel expenses		(1 823 257)	(1 781 967)
Other administrative expenses		(1 963 005)	(1 825 908)
Depreciation and amortization	16	(460 868)	(338 179)
Gains (losses) on subsidiaries and associates	17	-	(11 069)
PROFIT BEFORE INCOME TAX		**3 015 766**	**3 020 751**
Income tax expense	18	(768 299)	(710 151)
NET PROFIT		**2 247 467**	**2 310 600**
Earnings per share (in PLN per share)			
basic for the period	19	8.56	8.80
diluted for the period	19	8.56	8.80

Notes to the financial statements presented on pages 11 – 183 constitute an integral part of the unconsolidated financial statements.

Unconsolidated statement of comprehensive income

(in PLN thousand)

	NOTE	2019	2018
Net profit		**2 247 467**	**2 310 600**
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss:			
Change in fair value of financial assets measured at fair value through other comprehensive income:		130 089	12 472
Profit or loss on fair value measurement		192 127	141 158
Profit or loss reclassified to income statement after derecognition		(62 038)	(128 686)
Change in fair value of cash flow hedges	26	75 223	44 959
Tax on items that are or may be reclassified subsequently to profit or loss	18	(39 009)	(10 912)
Items that will never be reclassified to profit or loss:			
Effects of the revaluation or sale of investments in equity instruments designated at fair value through other		(7 462)	(29 551)
Remeasurements of the defined benefit liabilities		(2 665)	404
Tax on items that will never be reclassified to profit or loss	18	1 924	5 550
Other comprehensive income (net of tax)		**158 100**	**22 922**
Total comprehensive income		**2 405 567**	**2 333 522**

Notes to the financial statements presented on pages 11 – 183 constitute an integral part of the unconsolidated financial statements.

Unconsolidated statement of financial position

(in PLN thousand)

	NOTE	31.12.2019	31.12.2018
ASSETS			
Cash and due from Central Bank	21	5 138 758	12 972 575
Loans and advances to banks	22	2 243 908	2 508 553
Financial assets held for trading	23	1 279 495	890 339
Derivative financial instruments (held for trading)	24	2 085 989	1 455 976
Loans and advances to customers	25	131 675 384	122 349 115
1. Measured at amortised cost		129 886 963	120 349 597
2. Measured at fair value through profit or loss		242 639	302 630
3. Measured at fair value through other comprehensive income		1 545 782	1 696 888
Hedging instruments	26	377 208	313 565
Investment (placement) securities	27	45 873 297	38 333 179
1. Measured at fair value through profit or loss		125 454	65 408
2. Designated at fair value through profit or loss		-	-
3. Measured at fair value through other comprehensive income (debt securities)		30 964 680	26 904 574
4. Designated at fair value through other comprehensive income (equity instruments)		225 332	232 830
5. Measured at amortised cost		14 557 831	11 130 367
Assets held for sale	28	17 175	11 550
Investments in subsidiaries		1 626 449	1 682 756
Investments in associates		-	-
Intangible assets	31	739 777	633 165
Property, plant and equipment	32	1 842 378	1 384 203
Investment properties		-	11 168
Income tax assets		777 116	840 988
1. Current tax assets		-	-
2. Deferred tax assets		777 116	840 988
Other assets		973 058	960 044
TOTAL ASSETS		**194 649 992**	**184 347 176**
EQUITY AND LIABILITIES			
Liabilities			
Amounts due to Central Bank	21	4 550	5 067
Amounts due to other banks	36	3 043 969	2 921 955
Financial liabilities held for trading	23	184 799	102 429
Derivative financial instruments (held for trading)	24	2 040 368	1 919 394
Amounts due to customers	37	158 544 670	150 132 028
Hedging instruments	26	614 765	905 056
Debt securities issued	38	1 604 344	1 732 596
Subordinated liabilities	39	2 764 493	2 012 485
Income tax liabilities		168 318	187 938
1. Current tax liabilities		168 318	187 938
2. Deferred tax liabilities		-	-
Provisions	40	773 057	654 960
Other liabilities		2 379 871	1 951 270
TOTAL LIABILITIES		**172 123 204**	**162 525 178**
Equity			
Share capital	46	262 470	262 470
Other capital and reserves	47	20 016 851	20 185 676
Retained earnings and net profit for the period	47	2 247 467	1 373 852
TOTAL EQUITY		**22 526 788**	**21 821 998**
TOTAL LIABILITIES AND EQUITY		**194 649 992**	**184 347 176**

Notes to the financial statements presented on pages 11 – 183 constitute an integral part of the unconsolidated financial statements.

Unconsolidated statement of changes in equity

(in PLN thousand)

For the period from 1 January 2019 to 31 December 2019

	SHARE CAPITAL	OTHER CAPITAL AND RESERVES						RETAINED EARNINGS AND NET PROFIT FOR THE PERIOD	TOTAL EQUITY
		TOTAL OTHER CAPITAL AND RESERVES	SHARE PREMIUM	GENERAL BANKING RISK FUND	OTHER RESERVE CAPITAL	REVALUATION RESERVES	OTHER		
Equity as at 1.01.2019	**262 470**	**20 185 676**	**9 137 221**	**1 982 459**	**8 627 858**	**205 011**	**233 127**	**1 373 852**	**21 821 998**
Comprehensive income	**-**	**158 100**	**-**	**-**	**-**	**158 100**	**-**	**2 247 467**	**2 405 567**
Remeasurements of the defined benefit liabilities (net of tax)	-	(2 159)	-	-	-	(2 159)	-	-	(2 159)
Revaluation of debt financial instruments and loans measured at fair value through other comprehensive income (net of tax)	-	105 372	-	-	-	105 372	-	-	105 372
Revaluation or sale of investments in equity instruments designated at fair value through other comprehensive income (net of tax)	-	(6 044)	-	-	-	(6 044)	-	-	(6 044)
Revaluation of hedging financial instruments (net of tax)	-	60 931	-	-	-	60 931	-	-	60 931
Net profit for the period	-	-	-	-	-	-	-	2 247 467	2 247 467
Appropriation of retained earnings	**-**	**578 298**	**-**	**-**	**578 298**	**-**	**-**	**(2 310 600)**	**(1 732 302)**
Dividend paid	-	-	-	-	-	-	-	(1 732 302)	(1 732 302)
Profit appropriation	-	578 298	-	-	578 298	-	-	(578 298)	-
Other	**-**	**(905 223)**	**-**	**-**	**(905 223)**	**-**	**-**	**936 748**	**31 525**
Coverage of negative impact of IFRS 9 implementation	-	(936 748)	-	-	(936 748)	-	-	936 748	-
Transfer of a part of CDM assets and liabilities to the Bank	-	31 525	-	-	31 525	-	-	-	31 525
Equity as at 31.12.2018	**262 470**	**20 016 851**	**9 137 221**	**1 982 459**	**8 300 933**	**363 111**	**233 127**	**2 247 467**	**22 526 788**

Notes to the financial statements presented on pages 11 – 183 constitute an integral part of the unconsolidated financial statements.

Unconsolidated statement of changes in equity

(in PLN thousand)

For the period from 1 January 2018 to 31 December 2018

	SHARE CAPITAL	OTHER CAPITAL AND RESERVES						RETAINED EARNINGS AND NET PROFIT FOR THE PERIOD	TOTAL EQUITY
		TOTAL OTHER CAPITAL AND RESERVES	SHARE PREMIUM	GENERAL BANKING RISK FUND	OTHER RESERVE CAPITAL	REVALUATION RESERVES	OTHER		
Equity as at 1.01.2018	**262 470**	**19 907 935**	**9 137 221**	**1 982 459**	**8 612 550**	**(57 422)**	**233 127**	**2 088 129**	**22 258 534**
Initial application of IFRS 9	-	240 203	-	-	-	240 203	-	(936 748)	(696 545)
Equity as at 1.01.2018 - restated	**262 470**	**20 148 138**	**9 137 221**	**1 982 459**	**8 612 550**	**182 781**	**233 127**	**1 151 381**	**21 561 989**
Comprehensive income	**-**	**22 922**	**-**	**-**	**692**	**22 230**	**-**	**2 310 600**	**2 333 522**
Remeasurements of the defined benefit liabilities (net of tax)	-	327	-	-	-	327	-	-	327
Revaluation of debt financial instruments and loans measured at fair value through other comprehensive income (net of tax)	-	10 102	-	-	-	10 102	-	-	10 102
Revaluation or sale of investments in equity instruments designated at fair value through other comprehensive income (net of tax)	-	(23 924)	-	-	692	(24 616)	-	-	(23 924)
Revaluation of hedging financial instruments (net of tax)	-	36 417	-	-	-	36 417	-	-	36 417
Net profit for the period	-	-	-	-	-	-	-	2 310 600	2 310 600
Appropriation of retained earnings	**-**	**14 616**	**-**	**-**	**14 616**	**-**	**-**	**(2 088 129)**	**(2 073 513)**
Dividend paid	-	-	-	-	-	-	-	(2 073 513)	(2 073 513)
Profit appropriation	-	14 616	-	-	14 616	-	-	(14 616)	-
Equity as at 31.12.2018	**262 470**	**20 185 676**	**9 137 221**	**1 982 459**	**8 627 858**	**205 011**	**233 127**	**1 373 852**	**21 821 998**

Notes to the financial statements presented on pages 11 – 183 constitute an integral part of the unconsolidated financial statements.

Unconsolidated cash flow statement

(in PLN thousand)

	NOTE	2019	2018
Cash flow from operating activities – indirect method			
Net profit for the period		**2 247 467**	**2 310 600**
Adjustments for:		**(2 320 064)**	**(5 277 256)**
Depreciation and amortization	16	460 868	338 179
(Gains) losses on investing activities		(86 372)	(236 749)
Impairment on Investments in subsidiaries	8	(5 309 622)	(4 869 013)
Net interest income	10	(291 427)	(255 364)
Dividend income		6 376 534	6 280 309
Interest received		(1 138 084)	(1 056 723)
Interest paid		768 299	710 151
Income tax		(615 472)	(701 827)
Income tax paid		83 160	332 137
Change in loans and advances to banks		(389 961)	836 445
Change in financial assets held for trading		(630 013)	(104 632)
Change in derivative financial instruments (assets)		(9 359 628)	(7 484 633)
Change in loans and advances to customers		(836 350)	(646 228)
Change in investment (placement) securities		(534 751)	(103 307)
Change in other assets		85 991	(325 747)
Change in amounts due to banks		82 370	(367 019)
Change in financial liabilities held for trading		120 974	(117 534)
Change in derivative financial instruments (liabilities)		8 625 640	3 231 864
Change in amounts due to customers		17 071	(9 632)
Change in debt securities issued		2 008	5 297
Change in subordinated liabilities		(8 092)	X
Change in provisions		118 097	970
Change in other liabilities		138 696	(734 200)
Net cash flows from operating activities		**(72 597)**	**(2 966 656)**
Cash flow from investing activities			
Investing activity inflows		**137 310 546**	**146 545 988**
Sale of investment securities		135 988 504	145 276 591
Sale of intangible assets and property, plant and equipment	31, 32	18 095	73 552
Dividend received	10	291 427	255 364
Other investing inflows		1 012 520	940 481
Investing activity outflows		**(143 980 921)**	**(134 377 693)**
Acquisition of investment securities	31, 32	(143 520 085)	(134 058 724)
Acquisition of intangible assets and property, plant and equipment		(460 836)	(318 969)
Net cash flows from investing activities		**(6 670 375)**	**12 168 295**

Notes to the financial statements presented on pages 11 – 183 constitute an integral part of the unconsolidated financial statements.

Unconsolidated cash flow statement

(in PLN thousand)

	NOTE	2019	2018
Cash flows from financing activities			
Financing activity inflows		**2 376 280**	**2 672 934**
Due to loans and advances received from banks	48	245 881	9 250
Issue of debt securities	48	1 380 399	1 913 684
Issue of subordinated liabilities	48	750 000	750 000
Financing activity outflows		**(3 645 896)**	**(3 935 510)**
Repayment of loans and advances received from banks	48	(215 429)	(216 237)
Redemption of debt securities	48	(1 507 034)	(1 645 760)
Dividends and other payments to shareholders		(1 732 302)	(2 073 513)
Payments for the principal portion of the lease liabilities		(191 131)	X
Net cash flows from financing activities		**(1 269 616)**	**(1 262 576)**
Total net cash flows		**(8 012 588)**	**7 939 063**
including: effect of exchange rate fluctuations on cash and cash equivalents held		(10 906)	92 587
Net change in cash and cash equivalents		**(8 012 588)**	**7 939 063**
Cash and cash equivalents at the beginning of the period	48	**15 232 770**	**7 293 707**
Cash and cash equivalents at the end of the period	48	**7 220 182**	**15 232 770**

Notes to the financial statements presented on pages 11 – 183 constitute an integral part of the unconsolidated financial statements.

The accompanying notes to the financial statements constitute an integral part of the unconsolidated financial statements.

1. General information

Bank Polska Kasa Opieki Spółka Akcyjna (hereafter 'Bank Pekao S.A.' or 'the Bank'), with its headhalfs in Warsaw 00-950, Grzybowska Street 53/57, was incorporated on 29 October 1929 in the Commercial Register of the District Court in Warsaw and has been continuously operating since its incorporation.

Bank Pekao S.A. is registered in the National Court Registry – Enterprise Registry of the Warsaw District Court XII Commercial Division of the National Court Registry in Warsaw under the reference number KRS 0000014843.

The Bank's shares are quoted on the Warsaw Stock Exchange (WSE). The Bank's securities, traded on regulated markets, are classified in the banking sector.

Bank Pekao S.A. is a universal commercial bank, offering a broad range of banking services on domestic and foreign financial markets, provided to retail and corporate clients, in compliance with the scope of services, set forth in the Bank's Articles of Association.

The Bank runs both PLN and forex operations, and it actively participates in both domestic and foreign financial markets. Moreover, acting through its subsidiaries, the Bank provides stockbroking, leasing, factoring operations and offering other financial services.

According to IFRS 10 'unconsolidated financial statements', the parent entity of Bank Pekao S.A. is Powszechny Zakład Ubezpieczeń S.A. (hereinafter 'PZU S.A.') with its registered office in Warsaw at Al. Jana Pawła II 24.

The Bank also prepares Consolidated Financial Statements of Bank Pekao S.A. Group.

The share ownership structure of the Bank is presented in the Note 5.1 of the Report on the activities of Bank Pekao S.A. for the year 2019.

2. Business combinations

Division of Centralny Dom Maklerski Pekao S.A.

On 30 August 2019 the company Centralny Dom Maklerski Pekao S.A. (hereinafter 'CDM') was divided in accordance with the procedure specified in Art. 529 § 1.1 of the Commercial Companies Code, i.e. through:

- a transfer to the Bank of a part of the assets and liabilities and the rights and obligations of CDM in the form of the organised part of the enterprise of CDM connected with the provision of brokerage services, and
- a transfer to Centrum Bankowości Bezpośredniej (hereinafter 'CBB') of a part of the assets and liabilities and the rights and obligations of CDM in the form of the organised part of the enterprise of CDM connected with the provision of call center services.

Following the division, on 30 August 2019, the CDM was struck off from the National Court Register by the District Court for the Capital City of Warsaw in Warsaw, XIII Commercial Division of the National Court Register. Consequently, pursuant to Art. 530 § 1 of the Commercial Companies Code, the CDM was wound up without going into liquidation on the date on which it was struck off the National Court Register and, in accordance with Article 531 § 1 of the Commercial Companies Code, the CDM division has become legally effective.

The transfer transaction of CDM assets was recognized in accordance with adopted accounting policies, applied for business combinations under common control. The Bank recognized transferred assets and liabilities of the CDM at their book values. Pursuant to the transaction, neither goodwill nor gain on a bargain purchase was recognized. The difference between the value of transferred assets and liabilities, and the value of the Bank's investment in CDM in the amount of PLN 31 525 thousand was recognized in the equity of the Bank. The transfer transaction of CDM assets had no impact on the Group.

Notes to the financial statements (cont.)

(in PLN thousand)

3. Statement of compliance

The annual unconsolidated financial statements ('financial statements') of Bank Pekao S.A. have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union, and in respect to matters that are not regulated by the above standards, in accordance with the requirements of the Accounting Act dated 29 September 1994 (Official Journal from 2019, item 351) and respective operating regulations, and in accordance with the requirements for issuers of securities admitted or sought to be admitted to trading on an official stock exchange listing market.

These unconsolidated financial statements were approved for publication by the Bank's Management Board on 26 February 2020.

4. Significant accounting policies

4.1 Basis of preparation of Unconsolidated Financial Statements

General information

These Unconsolidated Financial Statements of the Bank, which have been prepared for the year ended on 31 December 2019, contain financial information of all the activities performed by the Bank

The financial statements have been prepared in Polish zloty, and all data in the financial statements are presented in PLN thousand (PLN '000), unless indicated otherwise.

The financial statements have been prepared on a going concern basis on the assumption that the Bank will continue its business operations substantially unchanged in scope for a period of at least one year from the balance sheet date.

The accounting principles as described below have been consistently applied for all the reporting periods.

Unconsolidated Financial Statements of the Bank for the year ended on 31 December 2019 have been prepared based on the following valuation methods:

- at fair value for derivatives, financial assets and liabilities held for trading, financial assets designated as measured at fair value through profit and loss at initial recognition, equity instruments, financial assets classified to business model whose objective is achieved by both collecting contractual cash flows and selling financial assets that do meet SPPI criteria (Solely Payments of Principal and Interest criteria) and financial assets that do not meet SPPI criteria,
- at amortized cost for financial assets, classified to business model whose objective is to hold financial assets in order to collect contractual cash and meeting SPPI criteria at the same time, for other financial liabilities,
- at historical cost for non-financial assets and liabilities,
- non-current assets (or disposal groups) classified as held for sale are measured at the lower of the carrying amount or the fair value less costs to sell.

The unconsolidated financial statements include the requirements of all the International Financial Reporting Standards and International Accounting Standards approved by the European Union and related interpretations. Changes in published standards and interpretations, which became effective on or after 1 January 2019, had no material impact on the Bank's financial statements, with the exception of IFRS 16 'Leasing' (Note 4.9).

The Bank has adopted IFRS 16 'Financial Instruments' with a date of transition of 1 January 2018. The adoption of IFRS 16 has resulted in changes in the accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. In accordance with the transitional provisions included in IFRS 16, the Bank decided to apply IFRS 16 retrospectively with the recognition of the potential, cumulative effect of the first application in the item 'Retained earnings' as at 1 January 2019.

Notes to the financial statements (cont.)

(in PLN thousand)

The financial statements does not take into consideration interpretations and amendments to Standards, pending approval by the European Union or approved by the European Union but came into force or shall come into force after the balance sheet date (Note 4.10 and Note 4.11). In the Bank's opinion, amendments to Standards and interpretations will not have a material impact on the unconsolidated financial statements of the Bank,

Comparability of financial data

In the unconsolidated financial statements for the year ended on 31 December 2019 the Bank made changes in the presentation of selected items of the income statement. The items: 'Net result on other provisions' and 'Gains (losses) on disposal of property, plant and equipment and intangible assets' are presented in the line 'Net other operating income and expenses'.

The above-mentioned changes resulted in restatement of comparable data, but without impact on the net profit for the period.

A description of the changes and their impact on the comparative data of the income statement are presented in the table below

UNCONSOLIDATED INCOME STATEMENT	DATE FOR 2018 BEFORE RESTATEMENT	RESTATEMENT	DATE FOR 2018 AFTER RESTATEMENT
Net result on other provisions	(14 663)	14 663	-
Gains (losses) on disposal of property plant and equipment and intangible assets	96 056	(96 056)	-
Net other operating income and expenses	41 207	81 393	122 600

4.2 Accounting estimates

Preparation of financial statements in accordance with IFRS requires the Bank to make certain estimates and to adopt certain assumptions, which affect the amounts of assets and liabilities presented in the financial statements.

Estimates and assumptions are reviewed on an ongoing basis and rely on historic data and other factors including expectation of the future events which seems justified in given circumstances. Although the estimates are based on the best knowledge of current conditions and activities which the Bank will undertake, the actual results may differ from such estimates.

Estimates and underlying assumptions are subject to a regular review. Revisions to accounting estimates are recongised prospectively starting from the period in which the estimates are revised.

Information on the applied estimates and the underlying uncertainty related to significant risk of the material adjustments in the financial statements are presented below.

Impairment of loans and advances to customers, expected credit losses

At each balance sheet date the Bank assesses whether there is any objective evidence ('trigger') that credit exposures are impaired. Impairment losses are incurred if, and only if at least one impairment trigger, which has a negative impact on the estimated future cash flows of the credit exposure.

In the process of impairment assessment the Bank considers all credit exposures, irrespective of the level of risk of particular credit exposures or a group of credit exposures.

The Bank splits the credit exposures into individually significant exposures and individually insignificant exposures. The individually significant exposures are in particular all credit exposures of the borrower, for whom total Bank's exposure exceeds the threshold value as at balance sheet date and the restructuring credit exposures of debtors being the entrepreneurs within the meaning of the Article 43 of the Civil Code. The individually insignificant exposures are all credit exposures, which are not classified as individually significant exposures.

For all loans exposures, which are impaired, the Bank measures the amount of impairment allowance as the difference between the credit exposure's carrying amount and the present value of estimated future cash flows, discounted at the credit exposure's effective interest rate.

For all individually significant exposures, which are impaired as at balance sheet date, the Bank measures the impairment allowance (impairment loss) as part of individual assessment. The individual assessment is carrying out by the Bank's employees and consists of individual verification of the impairment occurrence and projection of future cash flows from foreclosure less costs for obtaining and selling the collateral or other resources.

The Bank compares the estimated future cash flows applied for measurement of individual impairment allowances with the actual cash flows on a regular basis.

For all individually insignificant exposures, for which impairment triggers have been identified and for all credit exposures, for which no impairment triggers have been identified, the Bank measures the allowance according to IFRS 9 based on the expected credit losses and taking into account forecasts and expected future economic conditions in the context of credit risk exposure assessment in the period of 12 months or in the lifetime horizon (hereinafter referred to as 'ECL').

More information about the applied assumptions and the underlying uncertainty related to the estimates in respect to expected credit losses, as well as the sensitivity analysis concerning impairment of loans and advances estimates were presented in Note 5.2 'Credit risk'.

Impairment of non-current assets

At each balance sheet date the Bank reviews its non-current assets for indications of impairment. Where such indications exist, the Bank makes a formal estimation of the recoverable value. If the carrying amount of a given asset is in excess of its recoverable value, impairment is defined and a write-down is recorded to adjust the carrying amount to the level of its recoverable value. The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value-in-use.

Estimation of the value-in-use of an assets (or cash generating unit) requires assumptions to be made regarding, among other, future cash flows which the Bank may obtain from the given asset (or cash generating unit), any changes in amount or timing of occurrence of these cash flows and other factors such as the lack of liquidity. The adoption of different measurement assumptions may affect the carrying amount of some of the Bank's non-current assets.

Measurement of derivatives, unquoted debt securities measured at fair value through other comprehensive income and loans and advances to customers measured at fair value through other comprehensive income and measured at fair value through profit or loss

The fair value of non-option derivatives, debt securities measured at fair value through other comprehensive income and loans and advances to customers measured at fair value through other comprehensive income and measured at fair value through profit or loss that do not have a quoted market price on an active market is measured using valuation models based on discounted cash flows. Options are valued using option valuation models. Variables used for valuation purposes include, where possible, the data from observable markets. However, the Bank also adopts assumptions concerning counterparty's credit risks which affect the valuation of instruments. The adoption of other measurement assumptions may affect the valuation of these financial instruments. The assumptions used for fair value measurement are described in detail in Note 5.7 'Fair value of financial assets and liabilities'

Provisions for defined benefit plans

The principal actuarial assumptions applied to estimation of provisions for defined benefit plans, as well as the sensitivity analysis were presented in Note 42.

Notes to the financial statements (cont.)

(in PLN thousand)

Goodwill

The Bank performs an impairment test of goodwill on a yearly basis or more often if impairment triggers occur. The assessment of goodwill impairment requires an estimate of value in use of all cash-generating units to which the goodwill relates. The principal assumptions applied to an impairment test of goodwill were presented in Note 31.

Provisions for legal risk regarding foreign currency mortgage loans in CHF

As at 31 December 2019 the Bank assessed the probability of the impact of legal risk regarding foreign currency mortgage loans in CHF on future expected cash flows from loan exposures and the probability of cash outflows.

Given the inconsistent judicial decisions regarding foreign currency mortgage loans in CHF and the short period of historical data regarding lawsuits related to the above-mentioned loans, the estimation of the provision required the Bank to adopt expert assumptions and is associated with significant uncertainty.

Details on the main assumptions used to estimate the provisions for legal risk regarding foreign currency mortgage loans in CHF are presented in Note 5.2 of these unconsolidated financial statements.

Provisions for commission refunds in the event of early repayment of loan

As at 31 December 2019 the Bank assessed the legal risk arising from the judgment of the Court of Justice of the European Union (hereinafter the ‘CJEU’) on consumer loans and estimated the possible amount of cash outflow as a refund of commission to the customer in relation to early repayment of consumer loans (for loans prepaid before the judgment of the CJEU, i.e. before 11 September 2019).

In addition, with regard to balance-sheet exposures as at 31 December 2019, the Bank estimated the possible prepayments of these exposures in the future.

The estimates required the Bank to adopt expert assumptions primarily regarding the scale of complaints and amounts reimbursed for prepaid loans before the CJEU judgment, as well as the expected scale of prepayments and future returns for balance sheet exposures, and are associated with significant uncertainty.

Details on the estimated provision for earlier repayments of consumer loans are presented in Note 40 to these unconsolidated financial statements.

Notes to the financial statements (cont.)

(in PLN thousand)

4.3 Foreign currencies

- Transactions and balances
  Foreign currency transactions are calculated into the functional currency using the spot exchange rate from the date of the transaction. Gains and losses from foreign currency translation differences resulting from settlements of such transactions and from the statement of financial position valuation of monetary assets and liabilities expressed in foreign currencies are recognized in the income statement.
- Foreign currency translation differences arising from non-monetary items, such as equity instruments classified as financial assets measured at fair value through the profit or loss are recognized together with the changes in the fair value of that item in the income statement.
- Foreign currency translation differences arising from non-monetary items such as equity instruments classified as financial assets measured at fair value through other comprehensive income are recognized in the revaluation reserves.

The foreign exchange rate differences from the valuation of foreign entities are accounted for as a separate component of equity.

Goodwill arising on acquisition of the entity operating abroad as well as any adjustments of the balance sheet value of assets and liabilities to fair value arising on the acquisition of the entity are treated as assets and liabilities of a foreign entity i.e. they are expressed in the functional currency of the overseas entity and translated at the closing exchange rate as described above.

4.4 Income statement

Interest income and expense
The Bank recognizes in the income statement all interest income and expense related to financial instruments measured at amortized cost using the effective interest rate method, financial assets measured at fair value through other comprehensive income and financial assets and liabilities measured through profit or loss.

The effective interest rate is the discount rate of estimated future cash inflows and payments made during the expected period until the expiry date of the financial instruments, and in justified cases in a shorter time, to the gross carrying amount of such financial asset or to the amortised cost of financial liability. The calculation of the effective interest rate includes all commissions paid and received by parties to the agreement, transaction costs and all other premiums and discounts, comprising an integral part of the effective interest rate.

Interest income includes interest and commission fees received or due from loans, interbank deposits and securities measured at amortised cost recognized in the calculation of effective interest rate of loans and financial assets measured at fair value through other comprehensive income or through profit or loss and hedging derivatives.

Gross carrying amount of the financial asset is the basis for interest income calculation except for credit-impaired financial assets and purchased or originated credit-impaired financial assets (POCI assets). At the recognition of impairment of financial assets measured at amortized cost or financial assets measured at fair value through other comprehensive income, the interest income is still recognized in profit or loss but is calculated by applying the effective interest rate to the gross carrying amount less the impairment charges.

Interest expense related to liabilities associated with client accounts and debt securities issued are recognized in the profit or loss using the effective interest rate.

Fee and commission income and expense
Fee and commission income is generated from financial services provided by the Bank. Fee and commission income and expense is recognized in the profit or loss using the following methods:

- fees and commissions directly attributable to financial asset or liability origination (both income and expense) are recognized in the income statement using the effective interest rate method and are described above,
- fees and commissions relating to the loans and advances without a defined repayment schedule and without a defined interest rate schedule e.g. overdraft facilities and credit cards are amortized over the life of the product using the straight line method,

- other fees and commissions arising from the Bank's financial services offering (customer account transaction charges, credit card servicing transactions, bonuses from card providers in order to cover the marketing card cost, brokerage activity and canvassing) as well as the trade margins on foreign exchange transactions with the Bank's clients are recognized in the income statement up-front when the corresponding service is provided.

Income and expense from bancassurance
The Bank splits the remuneration for sale of insurance products linked to loans into separate components, i.e. dividing the remuneration into proportion of fair value of financial instrument and fair value of intermediary service to the sum of those values. The fair values of particular components of the remuneration are determined based on market data to a highest degree.

The particular components of the Bank's remuneration for sale of insurance products linked to loans are recognized in the income statement according to the following principles:

- remuneration from financial instrument – as part of effective interest rate calculation, included in interest income,
- remuneration for intermediary service – upfront at the time when the insurance product in sold, included in fee and commission income.

Additionally the Bank estimates the part of the remuneration which will be refunded in the future (eg. due to early termination of insurance contract, early repayment of loan). The estimate of the provision for future refunds is based on the analysis of historical data and expectations in respect to refunds trend in the future.

Result on financial assets and liabilities measured at fair value through profit or loss
Result on financial assets measured at fair value through profit or loss includes:

- Foreign exchange result
  The foreign exchange gains (losses) are calculated taking into account the positive and negative foreign currency translation differences, whether realized or unrealized from the daily valuation of assets and liabilities denominated in foreign currencies. The revaluation is perform using the average exchange announced by the NBP on the balance sheet date.
  The foreign exchange result includes swap points from derivative transactions, entered into by the Bank for the purpose of managing the Bank's liquidity in foreign currencies.
  Income from foreign exchange positions includes also foreign currency translation differences from valuation of investments in foreign operations arising on disposal thereof. Until the disposal, foreign currency translation differences from valuation of assets in foreign operations are recognized in 'Other capital and reserves'.
- Result on derivatives, loans and advances to customers and securities measured at fair value through profit or loss.
  The income referred to above includes gains and losses realized on a sale or a change in the fair value of the assets mentioned above.
  The accrued interest and unwinding of a discount or a premium on loans and advances to customers and debt securities measured at fair value through profit or loss is presented in the net interest income.

Gains (losses) on financial assets/liabilities designated at fair value through profit or loss
This includes gains and losses realized on a sale or a change in the fair value of assets and liabilities, designated at fair value through profit or loss.

The accrued interest and unwinding of a discount or a premium on financial assets/liabilities designated at fair value through profit or loss are recognized in the interest result.

Other operating income/expense
Other operating income includes mainly amounts received for compensation, revenues from operating leases, recovery of debt collection costs, excess payments, miscellaneous income and releases of provision for legal cases. Other operating expenses include mainly the costs of client claims, compensation paid, sundry expenses and costs of provision for litigations.

4.5 Valuation of financial assets and liabilities, derivative financial instruments

Financial assets
Financial assets are classified into the following categories:

- financial assets measured at amortised cost,
- financial assets measured at fair value through other comprehensive income,
- financial assets measured at fair value through profit or loss.

The above mentioned classification is based on the entity's business model for managing the financial assets and the characteristics regarding the contractual cash flows (i.e. whether the contractual payments are solely payments of principal and interest on the principal amount outstanding 'SPPI').

The financial assets could be classified depending on the Bank's business model to the following categories:

- a business model whose objective is to hold financial assets in order to collect contractual cash flows,
- a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets,
- other business model than business model whose objective is to hold financial assets in order to collect contractual cash flows and business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

The business model assessment

The assessment of the business model is made at the initial recognition of the asset (with the exception of the first adoption of IFRS 9 – when implementing the Standard, the Bank classified the particular groups of the asset in accordance with the business model applied at the date of the implementation of the IFRS 9 i.e. 1 January 2018, not at the initial recognition of the financial asset.

The business model criteria refers to the way the Bank's managing financial assets in order to generate cash flows.

The Bank evaluates the purpose of the business model, to which the particular financial assets are classified on the level of particular portfolios of the assets – performing the analysis on those portfolio level is a reliable reflection of the Bank's business activities regarding these models and also reflects to information analysis of those activities provided to the Bank's management.

The assessment of the business model is based on the analysis of the following information regarding the portfolio of the financial assets:

- applied policies and business aims for the particular portfolio and its practical implementation. In particular, the management's strategy regarding the acquisition of revenues from contractual interest payments, maintaining a specific interest rate profile of the portfolio, managing the liquidity gap and obtaining cash flows as a result of the sale of financial assets is assessed,
- the manner in which the profitability of the portfolio is assessed and reported to the Bank's Management Board,
- types of risk that affect the profitability and effectiveness of a given business model (and financial assets held under this business model) and the manner of managing the identified types of risk,
- the way in which the managers of business operations are remunerated under a given business model - eg whether the remuneration depends on changes in the fair value of financial assets or the value of contractual cash flows obtained,
- frequency, value and moment of sale of financial assets made in prior reporting periods, the reasons for these sales and expectations regarding future sales activity. However, information on sales activity is analyzed taking into account the overall assessment of the Bank's implementation of the adopted method of managing financial assets and generating cash flows.

Before making a decision regarding allocating a portfolio of financial assets to a business model which purpose is to obtain contractual cash flows, the Bank reviews and evaluates significant and objective quantitative data influencing the allocation of asset portfolios to the relevant business model, in particular:

- the value of sales of financial assets made within the particular portfolios,
- the frequency of sales of financial assets as part of particular portfolios,
- expectation analysis regarding the value of planned sales of financial assets and their frequency of the particular portfolios, this analysis is carried out on the basis of probable scenarios of the Bank's business activities in the future.

The portfolios of financial assets from which sales are made that do not result from an increase in credit risk meet the assumptions of the business model, which purpose is to obtain contractual cash flows, provided that these sales:

- are at low volume (even with a relatively high frequency of sales) or
- are made rarely - as a result of one-off events, which the probability to occur again in the future, according to the Bank's professional judgment is rare (even with a relatively high volume) or
- they occur close to the maturity date of the financial assets being sold, and the revenue obtained from such sales is similar to those which could be obtained from remaining contractual cash flows as if the financial asset was held in the Bank's portfolio to the original maturity date.

The following sales are excluded from the analysis of sales value:
- the sales resulting from an increase in the credit risk of financial assets, regardless of their frequency and volume,
- the sales resulting from one-off events, which the probability to occur again in the future, according to the Bank's professional judgment is rare,
- the sales made close to maturity.

A held to obtain contractual cash flows or sale business model includes a portfolio of financial assets whose purpose is, in particular, managing current liquidity levels, maintaining the assumed profitability profile and/or adjust the duration of the asset and financial liabilities, and a level of sales are higher than for those financial assets classified in a model which purpose is to obtain contractual cash flows.

The business model comprising financial assets held for sale and other includes assets that do not meet the criteria to be classified into the business model, which purpose is to obtain contractual cash flows the business model which purpose is to obtain contractual cash flows or sales and also acquiring cash flows from interest and capital is not the main business target.

Assessment, whether the contractual payments are solely payments of principal and interest on the principal amount outstanding (SPPI criteria)

For the purposes of assessing cash flow characteristics, 'principal' is defined as the fair value of a financial asset at the time of initial recognition. 'Interest' is defined as the time value of money and the credit risk related to the unpaid part of principal and also other risks and costs associated with a standard loan agreement (e.g. liquidity risk or administrative costs) and margin.

When assessing whether the contractual cash flows constitute solely payments of principal and interest, the Bank analyzes contractual cash flows. This analysis includes an assessment whether the contractual terms include any provisions that the contractual payments could be changed or the amount of the contractual payments could be changed in a way that from an economic point of view they will not only represent repayments of principal and interest on the outstanding principal. When making this assessment, the Bank takes into account the occurrence of, among others:
- conditional events that may change the amount or timing of the payment,
- financial leverage (for example, interest terms include a multiplier greater than 1),
- terms regarding the extension of the contract or prepayment option,
- terms that the Bank's cash flow claim is limited to a specified assets (eg non-recourse assets),
- terms that modify the time value of money – e.g. mismatch of the frequency of the revaluation of the reference interest rate to its tenor.

The SPPI test is conducted for each financial asset classified into the business model, which purpose is to obtain contractual cash flows or a business model which purpose is to obtain contractual cash flows or sale, as at the initial recognition date or as at the latest significant annex date changing the terms of contractual cash flows.

The Bank performs an SPPI test at the level of homogeneous groups of standard products or at the level of a single contract for non-standard products or at the level of ISIN code for debt securities.

In situation when the time value of money is modified for a particular financial asset, the Bank is required to make an additional assessment (i.e. Benchmark Test) to determine whether the contractual cash flows are still solely payments of principal and interest on the principal amount outstanding by determining how different the contractual (undiscounted) cash flows could be from the (undiscounted) cash flows that would arise if the time value of money element was not be modified (the benchmark cash flows). Benchmark Testing is not permitted for situation that some terms modify contractual cash flows, such as the built-in leverage element.

Financial assets measured at amortized cost

Financial assets are measured at amortized cost if at the same time they meet the following two criteria:
- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets measured at amortized cost include amounts due from the Central Bank, amounts due from other banks, loans and advances to customers, investment debt securities, receivables reverse-repo and buy-sell-back transactions, meeting the criteria described in the previous paragraph.

Upon initial recognition, these assets are measured at fair value increased by transaction costs that are directly attributable to the acquisition or issue of a financial asset.

After initial recognition, these assets are measured at amortized cost using the effective interest rate. The calculation of the effective interest rate includes all commissions paid and received by the parties, transaction costs and other bonuses and discounts constituting an intergrated part of the effective interest rate.

Interest accrued using the effective interest rate is recognized in net interest income.

Since the impairment recognition, the interest recognized in the income statement is calculated based on the net carrying amount, whereas the interest recognized in the statement of financial position is accrued on the gross carrying amount. The impairment allowances are estimated for the part of accrued interest exposure, which the Bank consider as difficult to recover.

Allowances for expected credit losses reduce the gross carrying amount of assets, on the other hand they are recognized in the income statement under ‘Net impairment losses on financial assets and off-balance sheet commitments’.

Financial assets measured at fair value through other comprehensive income
Financial assets (excluding equity instruments) are measured at fair value through other comprehensive income when they simultaneously meet the following two conditions and have not been designated for measurement at fair value through profit or loss:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI criteria are met).

Financial assets measured at fair value through other comprehensive income include investment debt securities as well as loans and advances to customers that meet the criteria described in the previous paragraph.

Interest accrued using the effective interest rate is recognized in net interest income.

The effects of changes in fair value are recognized in other comprehensive income until the asset is excluded from the statement of financial position, when accumulated profit or loss is recognized in the income statement under ‘Result on derecognition of financial assets and liabilities not measured at fair value through profit or loss’.

An allowance for expected credit losses from financial assets that are measured at fair value through other comprehensive income is recognized in other comprehensive income and does not reduce the carrying amount of the financial asset in the statement of financial position. On the other hand, an expected credit risk allowance is recognized in the income statement under ‘Net impairment losses on financial assets and off-balance sheet commitments’.

Purchased or originated credit-impaired financial assets (POCI)
The Bank distinguishes the category of purchased or originated credit-impaired assets. POCI are assets that are credit-impaired on initial recognition. Financial assets that were classified as POCI at initial recognition should be treated as POCI in all subsequent periods until they are derecognition.

POCI assets may arise through:

- by purchasing a contract that meets the definition of POCI (e.g. as a result of a merger with another entity or purchase of a portfolio of assets),
- by concluding a contract that is POCI at the time of original granting (e.g. granting a loan to a customer in a bad financial condition),
- by modifying the contract (e.g. under restructuring) qualifying this contract to be derecognised, resulting in a recognitionof a new contract meeting the definition of POCI. Conditions for qualifying a contract to be derecognised are described below.

At initial recognition, POCI assets are recognized in the balance sheet at their fair value, in particular they do not have recognized impairment allowance.

Notes to the financial statements (cont.)

(in PLN thousand)

POCI assets do not constitute a separate accounting category of financial assets. They are classified into accounting categories in accordance with the general principles for classification of financial assets. The categories in which POCI assets may exist are a category of financial assets measured at amortized cost and financial assets measured at fair value through other comprehensive income.

Investments in equity instruments
For investments in equity instruments not held for trading, the Bank may irrevocably choose to present changes in their fair value in other comprehensive income. The Bank makes a decision in this respect based on an individual analysis of each investment. In such a case the amounts presented in other comprehensive income are not subsequently transferred to profit or loss. In case of sale of an equity investment elected to be measured at fair value through other comprehensive income, a result on sale is transferred to the item 'Other reserve capital'.

Equity investments not designated for measurement at fair value through other comprehensive income at the initial recognition are measured at fair value through profit or loss. Changes in the fair value of such investments, as well as the result on sales, are recognized in the income statement under 'Result on financial assets and liabilities measured at fair value through profit or loss'.

Dividends from equity instruments, both measured at fair value through profit or loss and designated for valuation through other comprehensive income, are recognized in the income statement when the Bank's right to receive payment is established.

Financial assets at fair value through profit or loss
In this category, the Bank qualifies derivatives (non-hedging instruments), debt and equity securities, loans and receivables that were acquired or included in this category with the intention of selling in the short term. In addition, this category includes financial assets not held for trading that are compulsorily measured at fair value through profit or loss for which the SPPI test has not been passed.

Moreover, at initial recognition, the Bank may irrevocably designate selected financial assets that meet the amortized cost measurement criteria or at fair value through other comprehensive income for measurement at fair value through profit or loss if it eliminates or significantly reduces the accounting mismatch that would otherwise arise from measuring assets at different methods.

Changes in the fair value of assets, which occur during the period from transaction date to transaction settlement date, shall be recognized similarly as in the case of the asset held.

Credits and loans are recognized on the date of cash disbursement to the debtor.

Derivative instruments are recognized or derecognized on transaction dates.

Reclassification of financial asset
Financial assets are not reclassified in the reporting periods following the initial recognition, except for the reporting period following the change of the business model for managing financial assets by the Bank.

The reclassification of financial assets is applied prospectively from the reclassification date - without restatement of previously recognized gains or losses (including impairment gains or losses) or interest.

The following are not changes in business model:

- a change in intention related to particular financial assets (even in circumstances of significant changes in market conditions),
- the temporary disappearance of a particular market for financial assets,
- a transfer of financial assets between parts of the entity with different business models.

Notes to the financial statements (cont.)

(in PLN thousand)

Modifications of financial assets

If the terms of the financial asset agreement change, the Bank assesses whether the cash flows generated by the modified asset differ significantly from those generated by the asset before modifying the terms of its agreement. If a significant difference is identified, the original financial asset is derecognised, and the modified financial asset is recognized in the books at its fair value.

If the cash flows generated by the modified asset measured at amortized cost are not materially different from the original cash flows, the modification does not result in derecognition of the financial asset. In this case, the Bank recalculates the gross carrying amount of the financial asset. Quantitative information about financial assets that were subject to modification that didn't result in derecognition was presented in Note 5.2 Credit risk.

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

The Bank has adopted the following quality criteria to determine significant modifications:

- currency conversion, unless it results from existing contractual provisions or requirements of applicable legal regulations,
- change (replacement) of the debtor, excluding the addition/departure of the joint debtor or taking over the loan in inheritance,
- consolidation of several exposures into one under an annex or settlement/restructuring agreement,
- change in the terms of the contract resulting in a change in the result of the SPPI test.

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

The Bank has adopted the following quantitative criteria to determine significant modifications:

- extension of the loan term by at least one year and at least a doubling of the residual maturity to the original maturity (meeting both conditions jointly) for Stage 1 and Stage 2, or
- increasing the current loan amount/limit by at least 10% for Stage 1 and Stage 2 or increasing the current loan amount/limit for a contract in Stage 3.

If the terms of a financial asset agreement are modified, and the modification does not result in derecognition of the asset from the balance sheet, the determination, whether the credit risk of a given asset significantly increases, is made by comparing:

- lifetime PD on the reporting date, based on modified conditions, with
- lifetime PD estimated on the basis of data valid at the date of initial recognition and initial contractual terms.

In the case of modification of financial assets, the Bank analyzes whether the modification has improved or restored the Bank's ability to collect interest and principal. As part of this process, the Bank assesses the borrower's ability to pay in relation to modified terms of agreement.

Notes to the financial statements (cont.)

(in PLN thousand)

Impairment of financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired include observable data about the following events:

1) significant financial difficulty of the issuer or the borrower,
2) a breach of contract, such as a default or past due event,
3) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider,
4) it is becoming probable that the borrower will enter bankruptcy or other financial reorganization,
5) the disappearance of an active market for that financial asset because of financial difficulties, or
6) the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

The Bank recognises a loss allowance for expected credit losses on a financial asset that is measured at amortised cost or at fair value through other comprehensive income, a lease receivable, a contract asset or a loan commitment and a financial guarantee contract.

A loss allowance for financial assets that are measured at fair value through other comprehensive income is recognised in other comprehensive income and is not reducing the carrying amount of the financial asset in the statement of financial position.

If, at the reporting date, the credit risk on a financial instrument has not increased significantly since initial recognition, the Bank measures the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses.

At each reporting date, the Bank measures the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition.

The Bank recognises in profit or loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognised in accordance with this chapter.

For loan commitments and financial guarantee contracts, the date that the Bank becomes a party to the irrevocable commitment shall be considered to be the date of initial recognition for the purposes of applying the impairment requirements.

Since initial recognition of POCI assets, the Bank recognises the cumulative changes in lifetime expected credit losses as a loss allowance for purchased or originated credit-impaired financial assets. At each reporting date, the Bank recognises in profit or loss the amount of the change in lifetime expected credit losses as an impairment gain or loss. An entity shall recognise favourable changes in lifetime expected credit losses as an impairment gain, even if the lifetime expected credit losses are less than the amount of expected credit losses that were included in the estimated cash flows on initial recognition.

The Bank measures the loss allowance at an amount equal to lifetime expected credit losses for:

1) trade receivables or contract assets that result from transactions that are within the scope of IFRS 15,
2) receivables that result from transactions that are within the scope of IFRS 16 (other than receivables from finance lease).

Expected credit losses are not recognized for impairment of equity instruments.

The methodology for calculating expected credit losses is described in detail in 'The description of the model for impairment allowance' in Note 5.2.

Notes to the financial statements (cont.)

(in PLN thousand)

Derivative financial instruments and hedge accounting

The Bank acquires the derivative financial instruments: currency transactions (spot, forward, currency swap and currency options, CIRS), exchange rate transactions (FRA, IRS, CAP), derivative transactions based on security prices, indices of stocks and commodities. Derivative financial instruments are initially recorded at fair value as at the transaction date and subsequently re-measured at fair value at each balance sheet date. The fair value is established on the basis of market quotations for an instrument traded in an active market, as well as on the basis of valuation techniques, including models using discounted cash flows and options valuation models, depending on which valuation method is appropriate.

Positive valuation of derivative financial instruments is presented in the statement of financial position in the line ‘Derivative financial instruments (held for trading)’ or ‘Hedging instruments’ on an asset side, whereas the negative valuation - ‘Derivative financial instruments (held for trading)’ or ‘Hedging instruments’ on a liabilities side.

In case of contracts that are not financial instruments with a component of an instrument meeting the above conditions the built-in derivative instrument is classified in accordance with assets or liabilities of derivatives financial instruments with respect to the income statement in accordance with derivative financial instruments valuation principles.

The method of recognition of the changes in the fair value of an instrument depends on whether a derivative instrument is classified as held for trading or is designated as a hedging item under hedge accounting.

The changes in fair value of the derivative financial instruments held for trading are recognized in the income statement.

The Bank designates some of its derivative instruments as hedging items in applying hedge accounting. The Bank decided to take advantage of the choice which gives IFRS 9 and continues to apply the hedge accounting requirements of IAS 39. This decision will apply to all hedging relationships, for which the Bank applies and will apply hedge accounting in the future. The Bank implemented fair value hedge accounting as well as cash flow hedge accounting.

Fair value hedge accounting principles

Changes in the measurement to fair value of financial instruments indicated as hedged positions are recognized - in the part ensuing from hedged risk - in the income statement. In the remaining part, changes in the carrying amount are recognized in accordance with the principles applicable for the given class of financial instruments.

Changes in the fair market valuation of derivative financial instruments, indicated as hedging positions in fair value hedge accounting, are recognized in the profit or loss in the same caption, in which the gains/losses from change in the value of hedged positions are recognized.

Interest income on derivative instruments hedging interest positions hedged is presented as interest margin.

The Bank ceases to apply hedge accounting, when the hedging instrument expires, is sold, dissolved or released (the replacement of one hedging instrument with another or extension of validity of given hedging instrument is not considered an expiration or release, providing such replacement or extension of validity is a part of a documented hedging strategy adopted by given unit), or does not meet the criteria of hedge accounting or the Bank ceases the hedging relation.

An adjustment for the hedged risk on hedged interest position is amortized in the income statement at the point of ceasing to apply hedge accounting.

Notes to the financial statements (cont.)

(in PLN thousand)

Cash flow hedge accounting principles

Changes in the fair value of the derivative financial instruments indicated as cash flow hedging instruments are recognized:

- directly in the caption 'Revaluation reserves' in the part constituting the effective hedge,
- in the income statement in the line 'Result on financial assets and liabilities held for trading' in the part representing ineffective hedge.

The amounts accumulated in the 'Revaluation reserves' are transferred to the income statement in the period, in which the hedge is reflected in the income statement and are presented in the same lines as individual components of the hedged position measurement, i.e. the interest income from hedging derivatives in cash flow hedge accounting is recognized in the interest result, whereas gains/losses from foreign exchange revaluation are presented in the foreign exchange gains (losses).

The Bank ceases to apply hedge accounting when the hedging instrument expires or is sold, or if the Bank revokes the designation. In such cases, the accumulated gains or losses related to such hedging item, initially recognized in 'Revaluation reserves', if the hedge was effective, are still presented in equity until the planned transaction was closed and recognized in the income statement.

If the planned transaction is no longer probable, the cumulative gains or losses recognized in 'Revaluation reserves' are transferred to the income statement for the given period.

Financial liabilities

The Bank classifies financial liabilities other than financial guarantee contracts and loan commitments, as measured at amortized cost or at fair value through profit or loss.

Financial liabilities valued at amortized cost include liabilities to banks and customers, loans taken by the Bank, issued own debt securities and subordinated liabilities.

De-recognition of financial instruments from the statement of financial position

Financial assets are derecognized when the contractual rights to the cash flows from the financial assets expire or when the Bank transfers the contractual rights to receive the cash flows in a transaction in which substantially all risk and rewards of ownership of the financial asset are transferred.

The Bank derecognizes a credit or a loan receivable, or its part, when it is sold. Additionally, the Bank writes-off a receivable against the corresponding impairment provision (completely or partially) when the debt redemption process is completed and when no further cash flows from the given receivable are expected. Such cases are documented in compliance with the current tax regulations.

The value of contractual cash flows required under contracts of financial assets, which were written-off in 2019 and are still subject to enforcement proceedings as at 31 December 2019, is PLN 581 666 thousand (as at 31 December 2018 - PLN 3 437 332 thousand).

Accumulated profits and losses that have been recognized in other comprehensive income from equity instruments designated to be measured at fair value through other comprehensive income are not recognized in the profit and loss account when these financial instruments are removed from the balance sheet.

The Bank derecognizes a financial liability, or its part, when the liability expires. The liability expires when the obligation stated in the agreement is settled, redeemed or the period for its collection expires.

Repo and reverse-repo agreements

Repo and reverse-repo transactions, as well as sell-buy back and buy-sell back transactions are classified as sales or purchase transactions of securities with the obligation of repurchase or resale at an agreed date and price.

Sales transactions of securities with the repurchase obligation granted (repo and sell-buy back) are recognized as at transaction date in amounts due to other banks or amounts due to customers from deposits depending upon the counterparty to the transaction. Securities purchased in reverse-repo and buy-sell back transactions are recognized as loans and receivables from banks or as loans and receivables from customers, depending upon the counterparty to the transaction.

The difference between the sale and repurchase price is recognized as interest income or expense, and amortized over the contractual life of the contract using the effective interest rate method.

Recognition of the provision for legal risk regarding foreign currency mortgage loans in CHF

With respect to foreign currency mortgage loans in CHF outstanding at 31 December 2019, the Bank recognizes that legal risk has an impact on the expected cash flow from the loan exposure and the amount of the provision is the difference between the expected cash flow from the given exposure and the contractual cash flows.

In connection with the above, the Bank adopts the approach that the amount of the provision for unpaid loan exposures as at 31 December 2019 (including existing and possible future claims) is recognized in 'Impairment allowances for loan exposures' (in correspondence with 'Net impairment losses on financial assets and off-balance sheet commitments').

In the case of the part of the provision related to repaid foreign currency mortgage loans in CHF (including existing and possible future claims), the amount of the provision is recognized as 'Provisions' in correspondence with 'Other operating expenses'.

The Bank estimates the legal risk provisions for foreign currency mortgage loans in CHF in accordance with the methodology described in Note 5.2 of these unconsolidated financial statements.

4.6 Valuation of other items in the Bank's unconsolidated statement of financial position

Intangible assets

Goodwill

Goodwill is defined as a surplus of the purchasing price over the fair value of acquired assets, liabilities assumed and contingent liabilities of the acquired subsidiary, associate or a unit under joint control. Goodwill at initial recognition is carried at purchase price reduced by any accumulated impairment losses. Impairment is determined by estimating the recoverable value of the cash generating unit, to which given goodwill pertains.

If the recoverable value of the cash generating unit is lower than the carrying amount an impairment charge is made. Impairment identified in the course of such tests is not subject to subsequent adjustments.

Goodwill on acquisition of subsidiaries is presented in intangible assets and goodwill on acquisition of associates is presented under the caption 'Investments in associates'.

Other intangible assets

Intangible assets are assets controlled by the Bank which do not have a physical form which are identifiable and represent future economic benefits for the Bank directly attributable to such assets.
These assets include:

- computer software licenses,
- copyrights,
- costs of completed development works.

Intangible assets are initially carried at purchase price. Subsequently intangible assets are stated at cost less accumulated amortization and accumulated impairment losses.

Intangible assets with a definite useful life are amortized over their estimated useful life. Intangible assets with indefinite useful life are not amortized.
All intangible assets are reviewed on a periodical basis to verify if any significant impairment triggers occurred, which would require performing a test for impairment and a potential impairment charge.

Notes to the financial statements (cont.)

(in PLN thousand)

As far as intangible assets with indefinite useful life and those still not put into service are concerned, impairment test is performed on a yearly basis and additionally when impairment triggers are identified.

Property, plant and equipment

Property, plant and equipment are defined as controlled non-current assets and assets under construction. Non-current assets include certain tangible assets with an expected useful life longer than one year, which are maintained for the purpose of own use or to be leased to other entities.

Property, plant and equipment are recognized at historical cost less accumulated depreciation and accumulated impairment write downs. Historical cost consists of purchase price or development cost and costs directly related to the purchase of a given asset.

Each component of property, plant and equipment, the purchase price or production cost of which is significant compared to the purchase price or production cost of the entire item is a subject to separate depreciation. The Bank separates the initial value of property, plant and equipment into its significant parts.

Subsequent expenditures relating to property plant and equipment are capitalized only when it is probable that such expenditures will result in future economic benefits to the Bank, and the cost of such expenses can be reliably measured.

Service and maintenance costs of property, plant and equipment are expensed in the reporting period in which they have been incurred.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset. Other borrowing costs are recognized as an expense.

Depreciation and amortization

Depreciation expense for property, plant and equipment and investment properties and the amortization expense for intangible assets are calculated using straight line method over the expected useful life of an asset. Depreciated value is defined as the purchase price or cost to develop a given asset, less residual value of the asset. Depreciation rates and residual values of assets, determined for balance-sheet purposes, are subject to regular reviews, with results of such reviews recognized in the same period.

The statement of financial position depreciation and amortization rates applied to property, plant and equipment, investment properties and intangible assets are as follows:

a) depreciation rates applied for non-current assets

Buildings and structures and cooperative ownership rights to residential premises and cooperative ownership rights to commercial premises	1.5% – 10.0%
Technical equipment and machines	4.5% – 30.0%
Vehicles	7% – 20.0%

b) amortization rates for intangible assets

Software licenses, copyrights	12.5% – 50.0%
Costs of completed development projects	33.3%
Other intangibles	20% - 33.3%

c) depreciation rates for investment properties

Buildings and structures	1.5% – 10.0%

Land, non-current assets under construction and intangible assets under development are not subject to depreciation and amortization.

Depreciation and impairment deductions are charged to the income statement in the item ‘Depreciation and amortization’.

Investment properties

Investment properties assets are recognized initially at purchase cost, taking the transaction costs into consideration. Upon initial recognition, investment property assets are measured using the purchasing price model.

Investment property assets are derecognized from the statement of financial position when disposed of, or when such investment property is permanently decommissioned and no future benefits are expected from its sale. Any gains or losses resulting from de-recognition of an investment property are recognized in the income statement in the period when such de-recognition occurred.

Non-current assets held for sale and discontinued operations

Non-current assets held for sale include assets, the carrying amount of which is to be recovered by way of resale and not from their continued use. The only assets classified as held for sale are those available for immediate sale in their present condition, and the sale of which is highly probable, i.e. when the decision has been made to sell a given asset, an active program to identify a buyer has been launched and the divestment plan is completed. Moreover, such assets are offered for sale at a price which approximates its present fair value, and it is expected that the sale will be recognized as completed within one year from the date of such asset is reclassified into this category.

Non-current assets held for sale are recognized at the carrying amount or at fair value reduced by the cost of such assets, whichever is lower. Assets classified in this category are not subject to depreciation.

A discontinued operation is a component of the Bank's business which constitutes a separate line of business or a geographical area of operations, which was sold, made available for sale or to be disposed, or is a subsidiary acquired exclusively with a view to re-sale. Classification as a discontinued operation occurs on disposal or when the operation meets the criteria to be classified as held for sale. When an operation is classified as held for sale, the comparative figures in the income statement are represented as if the operation had been discontinued from the beginning of the comparative period.

Leasing – accounting policy from 1 January 2019

At inception of a contract, the Bank assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Bank is a party to lease contracts, based on which the Bank accepts the right to use an identified asset for a period of time in exchange for consideration.

The Bank is also a party to lease contracts, based on which the Bank transfers the right to use of an identified asset for a period of time in exchange for consideration.

Bank as a lessee

The Bank, as a lessee, recognizes the lease contract as a component of the right-to-use assets and the corresponding lease liability on the date when the subject of the lease is available for use. Each lease payment is allocated between the liability and accrued interest on the liability. Interest expense is recognized in the income statement over the lease term to obtain a constant periodic interest rate on the remaining balance of the lease liability. The right-of-use asset is depreciated on a straight-line basis over the shorter of two periods: the useful life of the asset or the lease term. The Bank recognizes the right-of-use assets in the item of the statement of financial position 'Property, plant and equipment' and lease liabilities - in the item of the statement of financial position 'Amounts due to customers' or 'Amounts due to banks'.

The right-of-use assets are measured at cost, comprising:

- 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 lessee, and
- an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located, if the lessee incurs liabilities regarding these costs.

On the date when the lease commences, the Bank, as a lessee, measures the lease liability in the present value of lease payments outstanding as at that date. The lease liabilities include the current value of the following lease payments:

- fixed payments, less any lease incentives receivable,
- variable lease payments that depend on an index or a rate,
- amounts expected to be payable by the lessee under residual value guarantees,
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

The lease payments are discounted using the interest rate implicit in the lease, if the rate can be readily determined, or the Bank's incremental borrowing rate.

After the lease commencement date, the Bank taken into account changes in lease payments (resulting, inter alia, from changes in the index, rate, lease term), by remeasuring the lease liabilities and the right-of-use assets.

The Bank does not recognize the right-of-use assets and lease liabilities for short-term lease contracts and lease contracts of low-value assets. Short-term lease payments and payments for leases of low-value assets are recognized as an expense in the income statement on a straight-line basis. Short-term lease contracts are lease contracts that have a lease term of 12 months or less. Low-value assets include mainly lease of space (land) for ATMs.

The Bank as lessor
At commencement date of a lease, the Bank, as a lessor, classifies each lease contract as an operating lease or a finance lease. The Bank classifies a lease as a finance lease whether it transfers substantially all the risks and rewards of ownership of an underlying asset. Conversely, if substantially all the risks and rewards of ownership of the underlying asset are not transferred, the lease is considered to be an operating lease. In the process of determining the classification of a lease contract, the Bank takes into account elements such as whether the lease term accounts for the major part of the economic life of the underlying asset.

Finance lease
At the commencement date, the Bank, as a lessor, recognizes assets held under a finance lease in its statement of financial position and present them as a receivables from finance lease at an amount equal to the net investment in the lease, i.e. at present value of lease payments and any unguaranteed residual value assigned to the Bank.

At the finance lease commencement date, the lease payments included in the measurement of the net investment in the lease comprise the following payments for the right to use the underlying asset during the lease term that are not received at the commencement date:
- fixed payments, less any lease incentives payable,
- variable lease payments that depend on an index or a rate,
- any residual value guarantees provided to the Bank as a lessor,
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

During the lease term, the Bank, as a lessor, recognizes interest income, based on a pattern reflecting a constant periodic rate of return on the Bank's net investment in the lease. Lease payments paid over the lease term, reduce both the principal and the accrued interest.

The Bank applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease. The estimated unguaranteed residual values used in computing the gross investment in the lease are regularly reviewed by the Bank.

Operating lease
During the lease term, the Bank, as a lessor, recognizes lease payments from operating lease as income on a straight-line basis and presents them in the item 'Other operating income'. The depreciation of leased assets is recognized in accordance with the principles applied by the Bank for property, plant and equipment.

Leases – accounting policy applied until 31 December 2018
The Bank is a party to leasing contracts on the basis of which it grants a right to use a non-current asset or an intangible asset for an agreed period of time in return for payment.

The Bank is also a party to leasing contracts under which it receives a right to use a non-asset or an intangible asset for an agreed period of time from another party in return for a payment.

Notes to the financial statements (cont.)

(in PLN thousand)

Operating leases

In the case of leasing contracts entered into by the Bank acting as lessor, the leased asset is presented in the Bank's statement of financial position, since there is no transfer to the lessee of essentially all risks and benefits resulting from the asset.

In the case of lease agreements, entered into by the Bank as lessee, the leased asset is not recognized in the Bank's statement of financial position.

The entire amount of charges from operating leases is recognized in the profit or loss on a straight line basis, throughout the leasing period.

Finance leases

The Bank as lessor

In the lease agreements, where essentially all risks and benefits relating to the ownership of an asset are transferred, the leased asset is no longer recognized in the statement of financial position of the Bank. However, receivables are recognized in the amount equal to the present value of the minimum lease payments. Lease payments are split into the financial income and the reduction of receivables balance in order to maintain a fixed interest rate on the outstanding liability.

Lease payments from agreements, which do not meet the conditions of finance lease agreements are recognized as revenues in the income statement using the straight-line method over the life of the lease.

The Bank as lessee

For lease agreements in which in principle all risks and benefits relating to ownership of the leased assets are transferred to the Bank, the leased asset is recognized as a non-current asset and simultaneously a liability is recognized in the amount equal to the present value of minimum lease payments as at the date of commencement of the lease. Lease payments are split into costs of lease charges and a reduction of liabilities in order to maintain a fixed interest rate on the outstanding liability. Financial costs are recognized directly in the income statement.

Non-current assets subject to finance lease agreements are depreciated in the same way as other non-current assets. However, if it is uncertain whether the ownership of the asset subject of the contract will be transferred then the asset is depreciated over the shorter of the expected useful life or the initial period of lease.

Lease charges from agreements that do not fulfill the criteria for finance lease agreements are recognized as costs in the income statement on a straight line basis over the lease period.

Provisions

The provisions are recognized when the Bank has a present obligation (legal or constructive) resulting from the past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

If the effect of the time value of money is material, the amount of a provision is established by discounting forecasted future cash flows to the present value, using the discount rate reflecting current market estimates of the time value of money and the possible risk associated with the obligation.

The provisions include provisions for litigation and claims (in this provision for legal risk regarding foreign currency mortgage loans in CHF and provision for early repayments of consumer loans), provisions relating to long-term employee benefits, in this those measured by an actuary and provisions for restructuring costs. The provision for restructuring costs is recognized when the general recognition criteria for provisions and detailed criteria for recognition of provisions for restructuring cost under IAS 37 'Provisions, contingent liabilities and contingent assets' are met. The amount of employment restructuring provision is calculated by the Bank on the basis of the best available estimates of direct outlays resulting from restructuring activities, which are not connected with the Bank's current activities.

The provisions are charged to the income statement, except for actuarial gains and losses from the measurement of the defined benefit plans obligations, which are recognized in other comprehensive income.

Deferred income and accrued expenses (liabilities)

This caption includes primarily commission income settled using the straight line method and other income charged in advance, that will be recognized in the income statement in the future periods.

Notes to the financial statements (cont.)

(in PLN thousand)

Accrued expenses include accrued costs resulting from services provided for the Bank by counterparties which will be settled in future periods, accrued payroll and other employee benefits (including annual and Christmas bonuses, other bonuses and awards and accrued holiday pay).

Deferred income and accrued expenses are presented in the statement of financial position under the caption 'Other liabilities'.

Government grants

The Bank recognizes government grants when there is reasonable assurance that it will comply with any conditions attached to the grant and the grant will be received. Government grants are recognized in profit or loss in the periods in which the related expenses are recognized which the grants are intended to compensate. For the settlement of the grant, the Bank uses the income method. Government grants related to assets are presented in the statement of financial position of the Bank as a reduction in the carrying value of the asset.

Equity of the Bank

Equity is comprised of the capital and funds created by the companies of the Bank in accordance with the binding legal regulations and the appropriate laws and Articles of Association. Equity also includes retained earnings. Subsidiaries' equity line items, other that share capital, are added to the relevant equity line items of the parent company, in the proportion of the Bank's interest.

The equity of the Bank includes only those parts of the subsidiaries' equity which were created after the date of purchase of shares or stocks by the parent entity.

The Bank equity consists of the following:

a) share capital - applies only to the capital of the Bank as the parent entity and is presented at nominal value specified in the Articles of Association and in the entry in the Enterprises Registry,
b) 'issue premium' - surplus generated during share issues over the nominal value of such issues, remaining after the issue costs are covered. Moreover, this item also includes a change in the value of minority shares, ensuing from an increase of the share of the Parent entity in Bank's share capital,
c) the general banking risk fund is established at Bank Pekao S.A. in keeping with the Banking Act dated 29 August 1997 from profit after tax,
d) other reserve capital utilized for the purposes defined in the Statute is created from appropriations of profits,
e) revaluation reserve includes the impact of revaluation of debt financial instruments measured at fair value through other comprehensive income, revaluation or sale of investments in equity instruments designated at fair value through other comprehensive income, revaluation of derivative instruments hedging cash flows, remeasurements of the defined benefit liabilities and the value of deferred tax for items classified as temporary differences, recognized as valuation allowance. In the statement of financial position, the valuation allowance is presented as net value,
f) other capital:
    - other supplementary capital, established in keeping with provisions under the Articles of Association of companies from profit appropriations,
    - bonds convertible to shares - includes the fair value of financial instruments issued as part of transactions settled in equity instruments,
    - brokerage activity fund for stock broking operations, carried out by Bank Pekao S.A.,
    - retained earnings from prior periods includes undistributed profit and uncovered losses generated/incurred in prior periods by subsidiaries unconsolidated full method,
    - net profit/loss which constitutes profit/loss presented in the income statement for the relevant period. Net profit is after accounting for income tax.

Bank's Pekao S.A. phantom shares-settled share-based payment transaction
The cost of transactions settled with employees in phantom shares is measured by reference to the fair value of the liability as of the balance sheet date.

The fair value of the liability is estimated based upon the Bank's shares price on the (WSE) as of the balance sheet date and expected number of phantom shares to which full rights will be acquired.

The cost of phantom share-based payments is recognized in personnel expenses together with the accompanying increase in the value of liabilities towards employees presented in 'Provisions'.

The accumulated cost recognized for transactions settled in phantom shares for each balance sheet date until the vesting date reflects the extent of elapse of the vesting period and the number of rights to shares the rights to which – in the opinion of the Bank's Management Board for that date based on best available estimates of the number of phantom shares – will be eventually vested.

4.7 Income tax

Income tax expense comprises current and deferred tax. The income tax expense is recognized in the income statement excluding the situations when it is recognized directly in equity. The current tax is the tax payable of the Bank entities on their taxable income for the period, calculated based on binding tax rates, and any adjustment to tax payable in respect of previous years. The receivables resulting from taxes are disclosed if the Bank's companies has sufficient certainty that they exist and that they will be recovered.

Deferred tax assets and deferred tax liabilities are calculated, using the balance sheet method, on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax is determined using tax rates based on legislation enacted or substantively enacted at the balance sheet date and expected to apply when the deferred tax asset or the deferred tax liability is realized.

A deferred tax asset is recognized for negative temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized.

A deferred tax liability is calculated using the balance sheet method based on identification of positive temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes.

4.8 Other

Contingent liabilities and commitments
The Bank enters into transactions which are not recognized in the statement of financial position as assets or liabilities, but which result in contingent liabilities and commitments. Contingent liabilities are characterized as:

- a potential obligation the existence of which will be confirmed upon occurrence or non-occurrence of uncertain future events that are beyond the control of the Bank (e.g. litigations),
- a current obligation which arises as a result of past events but is not recognized in the statement of financial position as it is improbable that it will result in an outflow of benefits to settle the obligation or the amount of the obligation cannot be reliably measured (mainly: unused credit lines and guarantees and letters of credit issued).

Financial guarantees
Financial guarantees are measured at the higher of:

- the amount of the loss allowance, or
- the amount initially recognised less the cumulative amount of income recognised in accordance with the principles of IFRS 15.

(in PLN thousand)

4.9 New standards, interpretations and amendments to published standards that have been approved and published by the European Union and are effective on or after 1 January 2019

IFRS 16 'Leases'

As at the date of first application of IFRS 16, i.e as at 1 January 2019, the Bank recognized new right-of-use assets of the Bank's Head Office, the Bank's branches buildings, perpetual usufruct rights and IT infrastructure. For these lease contracts, previously classified as operating leases in accordance with IAS 17, the Bank recognized leases as leasing liabilities measured at the present value of remaining lease payments discounted using the Bank's incremental borrowing rates and recognized the right-to-use assets in the amount equal to leasing liabilities, adjusted by the amount of any prepayments or accrued lease payments relating to these leases, recognized in the statement of financial position prior to the date of first application.

The impact of first application of IFRS 16 as at 1 January 2019 is presented the table below.

	IMPACT OF FIRST APPLICATION OF IFRS 16 AS AT 1.01.2019
Property, plant and equipment	572 267
Other assets	(35 807)
Amounts due to Banks	1 056
Amounts due to customers	535 404

The first application of IFRS 16 had no impact on the item 'Retained earnings'.

The incremental borrowing rates calculated by the Group and applied to the leasing liabilities on 1 January 2019 were in the range (depending on the duration of the contract):

- for contracts in PLN: from 2.03% to 4.20%,
- for contracts in EUR: from 0.16% to 2.39%,
- for contracts in USD: from 3.31% to 4.11%,
- for contracts in GBP: from 1.41% to 2.78%.

The reconciliation of operating lease liabilities disclosed in accordance with IAS 17 *Leases* and the lease liabilities recognized on the date of the first application of IFRS 16 is presented in the table below.

	RECONCILIATION OF LEASING LIABILITIES
Operating lease liabilities disclosed as at 31 December 2018	**357 255**
Discount effect using the above disclosed incremental borrowing rates on the date of first application	(20 081)
Financial lease liabilities recognized as at 31 December 2018	38 014
Recognition of new assets in the form of perpetual usufruct rights and IT infrastructure	209 241
(Less): short-term leases recognized on a straight-line basis as expense	(9 684)
(Less): low-value leases recognized on a straight-line basis as expense	(271)
Leasing liabilities recognized as at 1 January 2019	**574 474**

Applying IFRS 16 for the first time, the Bank applied the following practical expedients permitted by the new standard:

- application of a single discount rate to a portfolio of leases with reasonably similar characteristics,
- exclusion the initial direct costs from the measurement of the right-of-use assets,
- a lessee may use hindsight in determining the lease term, if the contract contains options to extend or terminate the lease.

Notes to the financial statements (cont.)

(in PLN thousand)

Other standards, interpretations and amendments to published standards that have been approved and published by the European Union and entered into force from or after 1 January 2019:

STANDARD/ INTERPRETATION	DESCRIPTION	IMPACT ASSESSMENT
IFRS 9 (amendment) 'Financial Instruments'	Amendments to IFRS 9 - Prepayment Features with Negative Compensation – modify the existing requirements regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments. Under the amendments, the sign of the prepayment amount is not relevant, i. e. depending on the interest rate prevailing at the time of termination, a payment may also be made in favour of the contracting party effecting the early repayment. The calculation of this compensation payment must be the same for both the case of an early repayment penalty and the case of an early repayment gain.	The standard's amendments did not have a material impact on the financial statements in the period of its first application.
IAS 28 (amendment) 'Investments in Associates and Joint Ventures'	Amendments to IAS 28 - Long-term Interests in Associates and Joint Ventures - were introduced to clarify that an entity applies IFRS 9 including its impairment requirements, to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.	The standard's amendments did not have a material impact on the financial statements in the period of its first application.
IFRIC 23 'Uncertainty over Income Tax Treatments'	It may be unclear how tax law applies to a particular transaction or circumstance, or whether a taxation authority will accept a company's tax treatment. IAS 12 Income Taxes specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. IFRIC 23 provides requirements that add to the requirements in IAS 12 by specifying how to reflect the effects of uncertainty in accounting for income taxes.	The interpretation did not have a material impact on the financial statements in the period of its first application.
IAS 19 (amendment) 'Employee Benefits'	Amendments to IAS 19 'Employee Benefits' - Plan Amendment, Curtailment or Settlement – require to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan.	The standard's amendments did not have a material impact on the financial statements in the period of its first application.
Improvements to IFRS 2015-2017	Amendments to various standards resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording. The amendments clarify that: a company remeasures its previously held interest in a joint operation when it obtains control of the business (IFRS 3), a company does not remeasure its previously held interest in a joint operation when it obtains joint control of the business (IFRS 11), a company accounts for all income tax consequences of dividend payments in the same way (IAS 12), and a company treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale (IAS 23).	The standards amendments did not have a material impact on the financial statements in the period of its first application.

(in PLN thousand)

4.10 New standards, interpretations and amendments to published standards that have been published by the International Accounting Standards Board (IASB) and approved by the European Union but are not yet effective

STANDARD/ INTERPRETATION	DESCRIPTION	IMPACT ASSESSMENT
IAS 1 (amendment) **‘**Presentation of financial statements’ and **IAS 8 (amendment)** ‘Accounting policies, changes in accounting estimates and errors’	The amendments clarify and align the definition of ‘material’ and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards. Date of application: annual periods beginning on or after 1 January 2020.	The Bank claims that the standard’s amendments will not have a material impact on the financial statements in the period of its first application.
IFRS 9 (amendment) ‘Financial instruments’ and **IFRS 7 (amendment)** ‘Financial instruments: disclosures’	The changes are mandatory and apply to all hedging relationships that are affected by uncertainty arising from the interest rate benchmark reform. The amendments introduce a temporary exemption from the application of specific hedge accounting requirements in such a way that the interest rate benchmark reform does not result in the termination of hedge accounting. The key exemptions resulting from the Changes relate to: • the requirement that flows are 'highly likely', • risk components, • prospective assessment, • retrospective effectiveness test (applies to IAS 39), • reclassification of the provision for cash flow hedges.	The Bank decided to apply these changes in the standards earlier, i.e. the principles resulting from these changes were adopted as binding in 2019. Details are presented in Note 26 to these unconsolidated financial statements.

4.11 New standards, interpretations and amendments to published standards that have been published by the International Accounting Standards Board (IASB) and not yet approved by the European Union

STANDARD/ INTERPRETATION	DESCRIPTION	IMPACT ASSESSMENT
IFRS 17 ‘Insurance Contracts’	The new standard requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 ‘Insurance Contracts’ and related interpretations while applied. Date of application: annual periods beginning on or after 1 January 2021.	The Bank claims that the new standard will not have a material impact on the financial statements in the period of its first application.
IFRS 3 (amendment) ‘Business combinations’	The amendments narrowed and clarified the definition of a business. They also permit a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business. Date of application: annual periods beginning on or after 1 January 2020.	The Bank claims that the standard’s amendments will not have a material impact on the financial statements in the period of its first application.
IAS 1 (amendment) **‘**Presentation of financial statements’	The amendments affect requirements in IAS 1 for the presentation of liabilities. In particular, these amendments clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. Date of application: annual periods beginning on or after 1 January 2022.	The Bank claims that the standard’s amendments will not have a material impact on the financial statements in the period of its first application.

5. Risk management

The risk management policy of the Bank aims at optimizing the structure of the balance sheet and off-balance sheet items taking into consideration the assumed risk-income relation and overall impact of various risks that the Bank undertakes in conducting its business activities. Risks are monitored and controlled with reference to profitability and capital coverage and are regularly reported in accordance with rules presented below.

All significant risks incurred in the course of the Bank's operations are described in the further part of the Note.

5.1 Organizational structure of risk management

Supervisory Board

The Supervisory Board provides supervision over the risk management system, assessing its adequacy and effectiveness. Moreover, the Supervisory Board supervises the compliance of the Bank's policy with respect to risk taking with the Bank's strategy and financial plan. Carrying out their tasks, the Supervisory Board is assisted by the Risk Committee.

Management Board

The Management Board is responsible for the development, implementation and functioning of risk management processes by, among others, introduction of relevant, internal regulations, taking into consideration the results of internal audit inspections.

The Bank's Management Board is responsible for the effectiveness of the risk management system, internal control system, internal capital computation process and the effectiveness of the review of the process of computing and monitoring of internal capital. Moreover, the Management Board introduces the essential adjustments or improvements to those processes and systems whenever necessary. This need may be a consequence of changes to risk levels of the Bank's operations, business environment factors or irregularities in the functioning of processes or systems.

Periodically, the Bank Management Board submits to the Bank's Supervisory Board concise information on the types, scale and significance of risks the Bank is exposed to, as well as on methods used in the management of such risks.

The Bank Management Board is responsible for assessing, whether activities such as identification, measurement, monitoring, reporting and control or mitigation are carried out appropriately within the scope of the risk management process. Moreover, the Management Board examines whether the management at all levels effectively manage the risks within the scope of their competence.

Committees

Performing these risk management tasks, the Management Board is supported by the relevant committees:

- Assets, Liabilities and Risk Management Committee – in market risk management, liquidity and capital adequacy,
- Liquidity and Market Risk Committee, acting as support for the Assets, Liabilities and Risk Management Committee – in liquidity and market risk management,
- Operational Risk Committee – in operational risk management,
- Credit Committee – in making credit decisions within the powers, and in the case of issuing recommendations on the largest transactions presented to the Management Board for decision,
- Change Management Committee – in the implementation of new or modification of existing products and business and non-business processes,
- Safety Committee – in the field of security and business continuity management,
- Model Risk Committee – in model risk management.

5.2 Credit risk

Credit risk is one of the basic risks associated with activities of the Bank. The percentage share of credits and loans in the Bank's statement of financial position makes the maintenance of this risk at safe level essential to the Bank's performance. The process of credit risk management is centralized and managed mainly by Risk Management Division units, situated at the Bank Head Office or in local units.

The integration of various risks in the Risk Management Division, where apart from credit risk, market and operational risk are dealt with, facilitates effective management of all credit-related risks.

This process covers all credit functions – credit analysis, making credit decisions, monitoring and loan administration, as well as restructuring and collection.

These functions are conducted in compliance with the Bank's credit policy, adopted by the Bank's Management Board and the Bank's Supervisory Board for a given reporting year. The effectiveness and efficiency of credit functions are achieved using diverse credit methods and methodologies, supported by advanced IT tools, integrated into the Bank's general IT system. The Bank's procedures facilitate credit risk mitigation, in particular those related to transaction risk evaluation, to establishing collateral, setting authorization limits for granting loans and limiting of exposure to some areas of business activity in line with current client's segmentation scheme in the Bank.

The Bank's lending activity is limited by the restrictions of the external regulations as well as internal prudential standards in order to increase safety. These restrictions refer in particular to credit exposure concentration, credit quality ratios and exposure limits for particular foreign countries, foreign banks and domestic financial institutions.

Credit granting authorizations, restrictions on crediting the specific business activities as well as internal and external prudential standards include not only credits, loans and guarantees, but also derivatives transactions and debt securities.

The Bank established the following portfolio limits in the Bank's credit policy:

- exposure limits for sectors of economy,
- share of significant exposures in the loan portfolio of the Bank,
- customer segment limits and FX limits,
- product limits (mortgage loans to private individuals, exposures to business entities secured by mortgage, inculidng financing commercial real estate).

The internal limits system operating in the Bank also includes a number of detailed limits supporting key limits set out in the credit policy.

Since limits are determined by decision-making bodies which simultaneously receive and analyze reports on credit risk, limit-related decisions take into consideration the credit risk assessments supported by internal rating systems. Moreover, the Bank limits higher risk credit transactions, marked by excess risk by restricting the decision-making powers in such cases to higher-level decision-making bodies.

The management of the Bank's credit portfolio quality is further supported by regular reviews and continuous monitoring of timely loan repayments and the financial condition of the borrowers.

Rating models utilized in the credit risk management process

For credit risk management purposes, the Bank uses the internal rating models depending on the client's segment and/or exposure type.

The rating process is a significant element of credit risk assessment in relation to clients and transactions, and constitutes a preliminary stage of the credit decision-making process of granting a new credit or changing the terms and conditions of an existing credit and of the credit portfolio quality monitoring process.

In the credit risk measurement the following three parameters are used: PD, LGD and EAD. PD is the probability of a client's failure to meet its obligations and hence the violation of contract terms and conditions by the borrower within one year horizon, such default may be subject-matter or product-related. LGD indicates the estimated value of the loss to be incurred for any credit transaction from the date of occurrence of such default. EAD reflects the estimated value of credit exposure as at such date.

The risk parameters used in the rating models are designed for calculation of the expected losses resulted from credit risk.

The value of expected loss is one of the significant assessment criteria taken into consideration by the decision-making bodies in the course of the crediting process. In particular, this value is compared to the requested margin level.

The level of minimum margins for given products or client segments is determined based upon risk analysis, taking into consideration the value of risk parameters assessed and comprising an element of internal rating systems.

The client and transaction rating, as well as other credit risk parameters hold a significant role in the Credit Risk Management Information System. For each rating model, the credit risk reports provide information on the comparison between the realized parameters and the theoretical values for each rating class.

Credit risk reports are generated on a monthly basis, with their scope varying depending upon the recipient of the report (the higher the management level, the more aggregated the information presented). Hence, the reports are being effectively used in the credit risk management process.

For internal purposes, within the Bank the following rating models are used, developed in accordance with provisions of 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:

1) For the private individuals, the Bank uses the following models applicable for:
   - mortgage loans,
   - consumer loans,
   - renewable limits.
2) For the corporate clients, the Bank uses rating models dividing clients into:
   - non-financial enterprises,
     - corporate clients,
     - small and medium enterprises (SME),
   - specialized lending (commercial real estate financing),
   - local government units.

The following exposure types are not covered by internal rating models:

1) retail exposures immaterial in terms of size and perceived risk profile:
   - overdrafts,
   - exposures related to credit cards,
   - exposures related to the Building Society (Kasa Mieszkaniowa) unit,
   - other loans.
2) corporate clients:
   - exposures to stock exchanges and other financial intermediators,
   - exposures to insurance companies,
   - project financing,
   - purchased receivables,
   - exposures to investment funds,
   - exposures to leasing companies and financial holding companies,
   - other loans immaterial in terms of size and perceived risk profile.
3) exposures to regional governments and local authorities which are not treated as exposures to central governments, for which the number of significant counterparties is limited,
4) Bank's exposures to Pekao Group entities, subject to appropriate prudential requirements.

The tables below present the quality of the loan portfolio as at 31 December 2019 and 31 December 2018.

Notes to the financial statements (cont.)

(in PLN thousand)

The distribution of rated portfolio for individual client segment (excluding impaired loans)

RATING CLASS	RANGE OF PD	31.12.2019											
		GROSS CARRYING AMOUNT OF ON-BALANCE EXPOSURES						NOMINAL AMOUNT OF OFF-BALANCE EXPOSURES					% PORT-FOLIO
		STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT-	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT-IMPAIRED (POCI)	TOTAL	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT-	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		TOTAL	
				INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT					INDIVIDUAL ASSESSMENT	GROUP ASSESSME		
MORTGAGE LOANS													
1	0.00% <= PD < 0.06%	9 233 873	1 485 203				10 719 076	291 995	194			292 189	18.3%
2	0.06% <= PD < 0.19%	4 177 756	1 249 785				5 427 541	318 470	187			318 657	9.5%
3	0.19% <= PD < 0.35%	22 531 902	4 762 961				27 294 863	348 180	24 159			372 339	46.0%
4	0.35% <= PD < 0.73%	9 480 685	2 521 353				12 002 038	199 831	32 424			232 255	20.3%
5	0.73% <= PD < 3.50%	636 636	1 294 035				1 930 671	109 036	32 316			141 352	3.4%
6	3.50% <= PD < 14.00%	45 478	648 205				693 683	13 996	58 877			72 873	1.3%
7	14.00% <= PD < 100.00%	3 749	719 254				723 003	330	10 047			10 377	1.2%
Total		**46 110 079**	**12 680 796**				**58 790 875**	**1 281 838**	**158 204**			**1 440 042**	**100,0%**
CONSUMER LOANS													
1	0.00% <= PD < 0.09%	728 599	147 737				876 336	4	-			4	7.3%
2	0.09% <= PD < 0.18%	1 537 399	198 793				1 736 192	59	-			59	14.6%
3	0.18% <= PD < 0.39%	2 734 533	223 202				2 957 735	41	-			41	24.9%
4	0.39% <= PD < 0.90%	2 619 406	152 819				2 772 225	329	-			329	23.2%
5	0.90% <= PD < 2.60%	1 708 634	165 775				1 874 409	43	-			43	15.7%
6	2.60% <= PD < 9.00%	623 057	332 672				955 729	4	19			23	8.0%
7	9.00% <= PD < 30.00%	156 692	308 864				465 556	1	201			202	3.9%
8	30.00% <= PD < 100.00%	21 284	268 797				290 081	-	6			6	2.4%
Total		**10 129 604**	**1 798 659**				**11 928 263**	**481**	**226**			**707**	**100.0%**
LIMITS													
1	0.00% <= PD < 0.02%	1 111	5 580				6 691	34 123	332 426			366 549	36.0%
2	0.02% <= PD < 0.11%	9 364	40 404				49 768	41 943	271 628			313 571	35.1%
3	0.11% <= PD < 0.35%	11 564	65 151				76 715	8 897	64 278			73 175	14.5%
4	0.35% <= PD < 0.89%	4 580	45 388				49 968	1 898	18 048			19 946	6.8%
5	0.89% <= PD < 2.00%	2 264	26 539				28 803	501	7 740			8 241	3.6%
6	2.00% <= PD < 4.80%	1 125	18 019				19 144	262	6 757			7 019	2.5%
7	4.80% <= PD < 100.00%	211	9 460				9 671	202	5 670			5 872	1.5%
Total		**30 219**	**210 541**				**240 760**	**87 826**	**706 547**			**794 373**	**100.0%**
Individual client segment - total		**56 269 902**	**14 689 996**				**70 959 898**	**1 370 145**	**864 977**			**2 235 122**	

Notes to the financial statements (cont.)

(in PLN thousand)

The distribution of rated portfolio for individual client segment (excluding impaired loans

RATING CLASS	RANGE OF PD	31.12.2018											
		GROSS CARRYING AMOUNT OF ON-BALANCE EXPOSURES						NOMINAL AMOUNT OF OFF-BALANCE EXPOSURES					% PORTFOLIO
		STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT-IMPAIRED	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT-IMPAIRED (POCI)	TOTAL	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT-IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		TOTAL	
				INDIVIDUAL ASSESSMEN	GROUP ASSESSMEN					INDIVIDUAL ASSESSMEN	GROUP ASSESSMEN		
MORTGAGE LOANS													
1	0.00% <= PD < 0.06%	8 666 275	1 780 996				10 447 271	287 264	2 208			289 472	19.4%
2	0.06% <= PD < 0.19%	3 938 029	1 370 048				5 308 077	309 139	2 864			312 003	10.2%
3	0.19% <= PD < 0.35%	19 489 854	4 889 979				24 379 833	303 131	27 983			331 114	44.7%
4	0.35% <= PD < 0.73%	7 122 393	3 187 017				10 309 410	179 126	29 801			208 927	19.0%
5	0.73% <= PD < 3.50%	687 410	1 546 084				2 233 494	100 814	29 487			130 301	4.3%
6	3.50% <= PD < 14.00%	34 579	586 560				621 139	9 470	60 148			69 618	1.2%
7	14.00% <= PD < 100.00%	554	668 569				669 123	19	5 094			5 113	1.2%
Total		**39 939 094**	**14 029 253**				**53 968 347**	**1 188 963**	**157 585**			**1 346 548**	**100,0%**
CONSUMER LOANS													
1	0.00% <= PD < 0.09%	655 592	142 190				797 782	194	-			194	7.1%
2	0.09% <= PD < 0.18%	1 453 915	189 229				1 643 144	335	-			335	14.7%
3	0.18% <= PD < 0.39%	2 531 257	208 958				2 740 215	53	-			53	24.5%
4	0.39% <= PD < 0.90%	2 440 988	126 235				2 567 223	42	-			42	23.0%
5	0.90% <= PD < 2.60%	1 676 831	124 991				1 801 822	209	-			209	16.1%
6	2.60% <= PD < 9.00%	818 889	182 305				1 001 194	339	-			339	9.0%
7	9.00% <= PD < 30.00%	204 291	194 604				398 895	-	201			201	3.6%
8	30.00% <= PD < 100.00%	19 002	205 128				224 130	-	7			7	2.0%
Total		**9 800 765**	**1 373 640**				**11 174 405**	**1 172**	**208**			**1 380**	**100.0%**
LIMITS													
1	0.00% <= PD < 0.02%	2 883	5 200				8 083	94 494	329 639			424 133	38.9%
2	0.02% <= PD < 0.11%	17 450	37 825				55 275	78 153	205 964			284 117	30.5%
3	0.11% <= PD < 0.35%	20 790	57 233				78 023	18 333	61 019			79 352	14.2%
4	0.35% <= PD < 0.89%	9 281	51 406				60 687	3 861	20 794			24 655	7.7%
5	0.89% <= PD < 2.00%	4 260	31 919				36 179	1 082	9 613			10 695	4.2%
6	2.00% <= PD < 4.80%	2 023	22 260				24 283	657	6 170			6 827	2.8%
7	4.80% <= PD < 100.00%	566	12 891				13 457	368	5 005			5 373	1.7%
Total		**57 253**	**218 734**				**275 987**	**196 948**	**638 204**			**835 152**	**100.0%**
Individual client segment - total		**49 797 112**	**15 621 627**				**65 418 739**	**1 387 083**	**795 997**			**2 183 080**	

Notes to the financial statements (cont.)

(in PLN thousand)

The distribution of rated portfolio for corporate client segment (excluding impaired loans)

RATING CLASS	RANGE OF PD	31.12.2019											% PORTFOLIO
		GROSS CARRYING AMOUNT OF ON-BALANCE EXPOSURES						NOMINAL AMOUNT OF OFF-BALANCE EXPOSURES					
		STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT-IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT-IMPAIRED (POCI)	TOTAL	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT-IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		TOTAL	
				INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT					INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
CORPORATES													
1	0.00% <= PD < 0.14%	275 630	671				276 301	859 367	2 001			861 368	2.2%
2	0.14% <= PD < 0.25%	1 880 637	8 227				1 888 864	5 346 078	25 827			5 371 905	13.8%
3	0.25% <= PD < 0.42%	3 963 063	169 016				4 132 079	4 506 882	219 586			4 726 468	16.9%
4	0.42% <= PD < 0.77%	6 078 657	194 449				6 273 106	5 281 087	334 418			5 615 505	22.7%
5	0.77% <= PD < 1.42%	4 799 018	295 243				5 094 261	3 606 115	384 703			3 990 818	17.3%
6	1.42% <= PD < 2.85%	3 169 057	563 146				3 732 203	2 621 428	254 241			2 875 669	12.6%
7	2.85% <= PD < 6.00%	559 941	226 291				786 232	1 543 789	356 684			1 900 473	5.1%
8	6.00% <= PD < 12.00%	1 212 535	1 813 748				3 026 283	986 933	393 162			1 380 095	8.4%
9	12.00% <= PD < 100.00%	121 795	249 586				371 381	7 523	159 192			166 715	1.0%
Total		**22 060 333**	**3 520 377**				**25 580 710**	**24 759 202**	**2 129 814**			**26 889 016**	**100.0%**
SMEs													
1	0.00% <= PD < 0.06%	17 333	2 702				20 035	29 066	310			29 376	1.1%
2	0.06% <= PD < 0.14%	223 137	3 459				226 596	233 168	2 854			236 022	9.9%
3	0.14% <= PD < 0.35%	770 220	55 836				826 056	394 508	17 389			411 897	26.6%
4	0.35% <= PD < 0.88%	813 715	82 688				896 403	247 706	42 686			290 392	25.4%
5	0.88% <= PD < 2.10%	602 666	80 864				683 530	128 830	14 136			142 966	17.7%
6	2.10% <= PD < 4.00%	253 834	44 055				297 889	71 490	5 690			77 180	8.0%
7	4.00% <= PD < 7.00%	100 628	46 823				147 451	20 074	2 813			22 887	3.7%
8	7.00% <= PD < 12.00%	65 851	48 545				114 396	27 723	7 639			35 362	3.2%
9	12.00% <= PD < 22.00%	82 690	30 797				113 487	18 795	1 254			20 049	2.9%
10	22.00% <= PD < 100.00%	16 074	54 124				70 198	775	1 249			2 024	1.5%
Total		**2 946 148**	**449 893**				**3 396 041**	**1 172 135**	**96 020**			**1 268 155**	**100.0%**
Corporate client segment - total		**25 006 481**	**3 970 270**				**28 976 751**	**25 931 337**	**2 225 834**			**28 157 171**	

Notes to the financial statements (cont.)

(in PLN thousand)

The distribution of rated portfolio for corporate client segment (excluding impaired loans)

RATING CLASS	RANGE OF PD	31.12.2018											
		GROSS CARRYING AMOUNT OF ON-BALANCE EXPOSURES						NOMINAL AMOUNT OF OFF-BALANCE EXPOSURES					% PORT-FOLIO
		STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT-IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT-IMPAIRED (POCI)	TOTAL	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT-IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		TOTAL	
				INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT					INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
CORPORATES													
1	0.00% <= PD < 0.15%	502 738	8 300				511 038	2 225 560	13 187			2 238 747	5.2%
2	0.15% <= PD < 0.27%	1 953 673	47 758				2 001 431	2 827 794	27 452			2 855 246	9.3%
3	0.27% <= PD < 0.45%	3 651 157	56 875				3 708 032	3 237 748	81 099			3 318 847	13.4%
4	0.45% <= PD < 0.75%	4 942 251	128 214				5 070 465	6 380 043	431 920			6 811 963	22.6%
5	0.75% <= PD < 1.27%	3 632 780	810 592				4 443 372	5 656 673	1 212 310			6 868 983	21.6%
6	1.27% <= PD < 2.25%	3 559 709	393 069				3 952 778	2 938 157	395 343			3 333 500	13.9%
7	2.25% <= PD < 4.00%	1 008 324	503 834				1 512 158	925 159	206 145			1 131 304	5.0%
8	4.00% <= PD < 8.50%	1 028 128	893 421				1 921 549	1 955 801	355 943			2 311 744	8.1%
9	8.50% <= PD < 100.00%	82 765	132 909				215 674	187 655	67 344			254 999	0.9%
Total		**20 361 525**	**2 974 972**				**23 336 497**	**26 334 590**	**2 790 743**			**29 125 333**	**100.0%**
SMEs													
1	0.00% <= PD < 0.06%	18 000	1 438				19 438	47 119	1 561			48 680	1.1%
2	0.06% <= PD < 0.14%	276 547	14 475				291 022	327 770	3 449			331 219	10.4%
3	0.14% <= PD < 0.35%	862 656	50 491				913 147	509 977	23 439			533 416	24.3%
4	0.35% <= PD < 0.88%	976 510	106 473				1 082 983	359 443	47 227			406 670	25.1%
5	0.88% <= PD < 2.10%	758 679	115 372				874 051	185 520	24 774			210 294	18.2%
6	2.10% <= PD < 4.00%	354 590	74 735				429 325	83 199	19 184			102 383	8.9%
7	4.00% <= PD < 7.00%	198 485	57 209				255 694	43 733	9 355			53 088	5.2%
8	7.00% <= PD < 12.00%	119 256	49 008				168 264	15 205	5 952			21 157	3.2%
9	12.00% <= PD < 22.00%	48 522	43 415				91 937	5 936	4 039			9 975	1.7%
10	22.00% <= PD < 100.00%	29 227	75 943				105 170	6 365	2 439			8 804	1.9%
Total		**3 642 472**	**588 559**				**4 231 031**	**1 584 267**	**141 419**			**1 725 686**	**100.0%**
Corporate client segment - total		**24 003 997**	**3 563 531**				**27 567 528**	**27 918 857**	**2 932 162**			**30 851 019**	

Notes to the financial statements (cont.)

(in PLN thousand)

The distribution of rated portfolio for local government units segment (excluding impaired loans)

RATING CLASS	RANGE OF PD	31.12.2019											
		GROSS CARRYING AMOUNT OF ON-BALANCE EXPOSURES						NOMINAL AMOUNT OF OFF-BALANCE EXPOSURES					% PORTFOLIO
		STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT-IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT-IMPAIRED (POCI)	TOTAL	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT-IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		TOTAL	
				INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT					INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
LOCAL GOVERNMENT UNITS													
1	0.00% <= PD < 0.04%	19 171	-				19 171	58 069	-			58 069	3.4%
2	0.04% <= PD < 0.06%	242 222	-				242 222	1 017	-			1 017	10.8%
3	0.06% <= PD < 0.13%	137 284	-				137 284	24 028	-			24 028	7.2%
4	0.13% <= PD < 0.27%	513 020	-				513 020	192 381	-			192 381	31.3%
5	0.27% <= PD < 0.50%	326 835	-				326 835	35 200	-			35 200	16.0%
6	0.50% <= PD < 0.80%	572 450	-				572 450	8 000	-			8 000	25.7%
7	0.80% <= PD < 1.60%	101 926	-				101 926	17 525	-			17 525	5.3%
8	1.60% <= PD < 100.00%	6 467	-				6 467	184	-			184	0.3%
Total		**1 919 375**	**-**				**1 919 375**	**336 404**	**-**			**336 404**	**100.0%**

RATING CLASS	RANGE OF PD	31.12.2018											
		GROSS CARRYING AMOUNT OF ON-BALANCE EXPOSURES						NOMINAL AMOUNT OF OFF-BALANCE EXPOSURES					% PORT-FOLIO
		STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT-IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT-IMPAIRED (POCI)	TOTAL	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT-IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		TOTAL	
				INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT					INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
LOCAL GOVERNMENT UNITS													
1	0.00% <= PD < 0.04%	650	-				650	10 032	-			10 032	0.4%
2	0.04% <= PD < 0.06%	344 709	-				344 709	55 820	-			55 820	14.8%
3	0.06% <= PD < 0.13%	337 260	-				337 260	15 505	-			15 505	13.0%
4	0.13% <= PD < 0.27%	347 994	-				347 994	162 257	-			162 257	18.8%
5	0.27% <= PD < 0.50%	636 686	-				636 686	45 007	-			45 007	25.1%
6	0.50% <= PD < 0.80%	686 002	-				686 002	8 875	-			8 875	25.6%
7	0.80% <= PD < 1.60%	33 108	-				33 108	11 000	-			11 000	1.6%
8	1.60% <= PD < 100.00%	17 730	-				17 730	25	-			25	0.7%
Total		**2 404 139**	**-**				**2 404 139**	**308 521**	**-**			**308 521**	**100.0%**

For specialized lending, the Bank adopts slotting criteria approach within internal rating method which uses supervisory categories in the process of assigning risk weigh category.

Notes to the financial statements (cont.)

(in PLN thousand)

The distribution of the portfolio exposure to specialized lending (excluding impaired loans)

SUPERVISORY CATHEGORY	31.12.2019											
	GROSS CARRYING AMOUNT OF ON-BALANCE EXPOSURES						NOMINAL AMOUNT OF OFF-BALANCE EXPOSURES					% PORTFOLIO
	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT-IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT-IMPAIRED (POCI)	TOTAL	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT-IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		TOTAL	
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT					INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
EXPOSURE TO SPECIALIZED LENDING												
High	654 675	-				654 675	51 116	-			51 116	9.8%
Good	4 173 576	-				4 173 576	1 321 969	-			1 321 969	75.9%
Satisfactory	298 261	608 620				906 881	68 463	-			68 463	13.5%
Low	-	55 415				55 415	-	-			-	0.8%
Total	**5 126 512**	**664 035**				**5 790 547**	**1 441 548**	**-**			**1 441 548**	**100.0%**

SUPERVISORY CATHEGORY	31.12.2018											
	GROSS CARRYING AMOUNT OF ON-BALANCE EXPOSURES						NOMINAL AMOUNT OF OFF-BALANCE EXPOSURES					% PORT-FOLIO
	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT-IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT-IMPAIRED (POCI)	TOTAL	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT-IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		TOTAL	
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT					INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
EXPOSURE TO SPECIALIZED LENDING												
High	1 351 575	53 798				1 405 373	243 336	-			243 336	19.7%
Good	3 875 730	-				3 875 730	1 628 766	-			1 628 766	65.8%
Satisfactory	706 146	90 611				796 757	395 251	-			395 251	14.3%
Low	-	13 556				13 556	-	5 000			5 000	0.2%
Total	**5 933 451**	**157 965**				**6 091 416**	**2 267 353**	**5 000**			**2 272 353**	**100.0%**

Notes to the financial statements (cont.)

(in PLN thousand)

Portfolio of exposures not covered by the rating model (excluding impaired loans), broken down by delays in repayment

	31.12.2019											
	GROSS CARRYING AMOUNT OF ON-BALANCE EXPOSURES						NOMINAL AMOUNT OF OFF-BALANCE EXPOSURES					% PORT-FOLIO
	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT-IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED) INDIVIDUAL ASSESSMENT	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED) GROUP ASSESSMENT	PURCHASED OR ORIGINATED CREDIT-IMPAIRED (POCI)	TOTAL	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT-IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED) INDIVIDUAL ASSESSMENT	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED) GROUP ASSESSMENT	TOTAL	
EXPOSURES NOT COVERED BY THE RATING MODEL												
Not past due	21 915 112	410 776				22 325 888	22 797 500	158 974			22 956 474	99.2%
Past due, of which:	52 592	43 548				96 140	44 371	246 588			290 959	0.8%
up to 1 month	52 592	28 819				81 411	44 371	1 809			46 180	0.3%
between 1 month and 2 months	-	13 582				13 582	-	491			491	0.0%
between 2 months and 3 months	-	1 147				1 147	-	244 288			244 288	0.5%
Total	**21 967 704**	**454 324**				**22 422 028**	**22 841 871**	**405 562**			**23 247 433**	**100.0%**

	31.12.2018											
	GROSS CARRYING AMOUNT OF ON-BALANCE EXPOSURES						NOMINAL AMOUNT OF OFF-BALANCE EXPOSURES					% PORT-FOLIO
	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT-IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED) INDIVIDUAL ASSESSMENT	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED) GROUP ASSESSMENT	PURCHASED OR ORIGINATED CREDIT-IMPAIRED (POCI)	TOTAL	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT-IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED) INDIVIDUAL ASSESSMENT	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED) GROUP ASSESSMENT	TOTAL	
EXPOSURES NOT COVERED BY THE RATING MODEL												
Not past due	18 449 778	473 470				18 923 248	15 517 628	203 025			15 720 653	99.0%
Past due, of which:	110 119	202 863				312 982	27 842	10 062			37 904	1.0%
up to 1 month	110 119	26 448				136 567	27 842	8 042			35 884	0.5%
between 1 month and 2 months	-	12 112				12 112	-	714			714	0.0%
between 2 months and 3 months	-	164 303				164 303	-	1 306			1 306	0.5%
Total	**18 559 897**	**676 333**				**19 236 230**	**15 545 470**	**213 087**			**15 758 557**	**100.0%**

Notes to the financial statements (cont.)

(in PLN thousand)

Portfolio of impaired exposures, broken down by delays in repayment

	31.12.2019											
	GROSS CARRYING AMOUNT OF ON-BALANCE EXPOSURES						NOMINAL AMOUNT OF OFF-BALANCE EXPOSURES					% PORTFOLIO
	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT-IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED) INDIVIDUAL ASSESSMENT	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED) GROUP ASSESSMENT	PURCHASED OR ORIGINATED CREDIT-IMPAIRED (POCI)	TOTAL	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT-IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED) INDIVIDUAL ASSESSMENT	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED) GROUP ASSESSMENT	TOTAL	
IMPAIRED EXPOSURES												
Not past due			1 347 338	291 298	5 530	1 644 166			296 433	7 496	303 929	23.7%
Past due, of which:			3 488 870	2 503 709	4 519	5 997 098			264 860	3 531	268 391	76.3%
up to 1 month			42 311	218 805	251	261 367			268	661	929	3.2%
between 1 month and 3 months			21 585	229 278	125	250 988			21	656	677	3.1%
between 3 months and 1 year			95 247	412 750	288	508 285			119 558	779	120 337	7.7%
between 1 year and 5 years			742 582	833 330	797	1 576 709			143 313	1 155	144 468	20.9%
above 5 years			2 587 145	809 546	3 058	3 399 749			1 700	280	1 980	41.4%
Total			**4 836 208**	**2 795 007**	**10 049**	**7 641 264**			**561 293**	**11 027**	**572 320**	**100.0%**

	31.12.2018											
	GROSS CARRYING AMOUNT OF ON-BALANCE EXPOSURES						NOMINAL AMOUNT OF OFF-BALANCE EXPOSURES					% PORT-FOLIO
	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT-IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED) INDIVIDUAL ASSESSMENT	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED) GROUP ASSESSMENT	PURCHASED OR ORIGINATED CREDIT-IMPAIRED (POCI)	TOTAL	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT-IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED) INDIVIDUAL ASSESSMENT	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED) GROUP ASSESSMENT	TOTAL	
IMPAIRED EXPOSURES												
Not past due			1 247 059	231 711	911	1 479 681			274 600	6 713	281 313	22.2%
Past due, of which:			3 569 411	2 308 616	54 011	5 932 038			225 579	2 737	228 316	77.8%
up to 1 month			76 656	186 353	433	263 442			200 912	671	201 583	5.9%
between 1 month and 3 months			158 564	197 365	187	356 116			19 202	389	19 591	4.7%
between 3 months and 1 year			293 838	358 077	362	652 277			355	709	1 064	8.2%
between 1 year and 5 years			1 246 939	809 902	3 217	2 060 058			5 017	799	5 816	26.1%
above 5 years			1 793 414	756 919	49 812	2 600 145			93	169	262	32.9%
Total			**4 816 470**	**2 540 327**	**54 922**	**7 411 719**			**500 179**	**9 450**	**509 629**	**100.0%**

Notes to the financial statements (cont.)

(in PLN thousand)

Client/transaction rating and credit risk decision-making level

Decision-making level connected with transaction approval is directly dependent upon the client's rating.

Decision-making entitlement limits are associated with the position held, determined in accordance with the Bank's organizational structure. The limits are determined taking the following matters into consideration:

- the Bank's total exposure to a client, including the amount of the requested transaction,
- type of a client,
- commitments of persons and entities associated with the client.

Validation of rating models

The internal validation of models and risk parameter assessments is focused on the quality assessment of risk models and the accuracy and stability of parameter assessments, applied by the Bank. Validation is carried out at the level of each risk model, although the Bank may apply several models for each class of exposures.

Moreover, the internal audit unit is obligated to review the Bank's rating systems and their functionality at least once a year. In particular, the internal audit unit reviews the scope of operations of credit division and estimations of risk parameters. It also verifies compliance of rating systems and their functionality with all requirements of advanced methods.

Division of loans and advances to customers for covered and not covered by internal rating models

PORTFOLIO	31.12.2019		
	GROSS CARRYING AMOUNT	IMPAIRMENT ALLOWANCE	NET CARRYING AMOUNT
Exposures with no impairment	130 068 599	(1 019 496)	129 049 103
Rated portfolio for individual client segment	70 959 898	(593 592)	70 366 306
Mortgage loans	58 790 875	(268 208)	58 522 667
Consumer loans	11 928 263	(317 714)	11 610 549
Limits	240 760	(7 670)	233 090
Rated portfolio for corporate client segment	28 976 751	(174 901)	28 801 850
Corporates	25 580 710	(131 751)	25 448 959
SMEs	3 396 041	(43 150)	3 352 891
Rated portfolio for local government units segment	1 919 375	(2 114)	1 917 261
Specialized lending exposures	5 790 547	(46 102)	5 744 445
Exposures not covered by the rating model	22 422 028	(202 787)	22 219 241
Impaired exposures	7 641 264	(5 257 622)	2 383 642
Total loans and advances to customers (*)	**137 709 863**	**(6 277 118)**	**131 432 745**

PORTFOLIO	31.12.2018		
	GROSS CARRYING AMOUNT	IMPAIRMENT ALLOWANCE	NET CARRYING AMOUNT
Exposures with no impairment	120 718 052	(1 031 963)	119 686 089
Rated portfolio for individual client segment	65 418 739	(515 724)	64 903 015
Mortgage loans	53 968 347	(259 517)	53 708 830
Consumer loans	11 174 405	(247 538)	10 926 867
Limits	275 987	(8 669)	267 318
Rated portfolio for corporate client segment	27 567 528	(170 223)	27 397 305
Corporates	23 336 497	(106 569)	23 229 928
SMEs	4 231 031	(63 654)	4 167 377
Rated portfolio for local government units segment	2 404 139	(3 258)	2 400 881
Specialized lending exposures	6 091 416	(81 702)	6 009 714
Exposures not covered by the rating model	19 236 230	(261 056)	18 975 174
Impaired exposures	7 411 719	(5 051 323)	2 360 396
Total loans and advances to customers (*)	**128 129 771**	**(6 083 286)**	**122 046 485**

(*) Loans and advances to customers measured at amortised cost, measured at fair value through other comprehensive income and receivables from finance leases.

Notes to the financial statements (cont.)

(in PLN thousand)

Division of off-balance sheet exposures to customers (loan commitments and financial guarantee contracts) for covered and not covered by internal rating models

PORTFOLIO	31.12.2019	
	NOMINAL AMOUNT	IMPAIRMENT ALLOWANCE
Exposures with no impairment	55 417 678	(134 755)
Rated portfolio for individual client segment	2 235 122	(5 490)
Mortgage loans	1 440 042	(3 236)
Consumer loans	707	(45)
Limits	794 373	(2 209)
Rated portfolio for corporate client segment	28 157 171	(64 217)
Corporates	26 889 016	(62 282)
SMEs	1 268 155	(1 935)
Rated portfolio for local government units segment	336 404	(37)
Specialized lending exposures	1 441 548	(1 805)
Exposures not covered by the rating model	23 247 433	(63 206)
Impaired exposures	572 320	(186 387)
Total off- balance sheet exposures to customers	**55 989 998**	**(321 142)**

PORTFOLIO	31.12.2018	
	NOMINAL AMOUNT	IMPAIRMENT ALLOWANCE
Exposures with no impairment	51 373 530	(156 587)
Rated portfolio for individual client segment	2 183 080	(4 484)
Mortgage loans	1 346 548	(2 205)
Consumer loans	1 380	(58)
Limits	835 152	(2 221)
Rated portfolio for corporate client segment	30 851 019	(79 838)
Corporates	29 125 333	(75 629)
SMEs	1 725 686	(4 209)
Rated portfolio for local government units segment	308 521	(87)
Specialized lending exposures	2 272 353	(10 973)
Exposures not covered by the rating model	15 758 557	(61 205)
Impaired exposures	509 629	(112 495)
Total off- balance sheet exposures to customers	**51 883 159**	**(269 082)**

Notes to the financial statements (cont.)

(in PLN thousand)

Classification of loans and advances to banks according to Fitch ratings

31.12.2019	CARRYING AMOUNT						%PORTFOLIO
	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT-IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT-IMPAIRED (POCI)	TOTAL	
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT			
LOANS AND ADVANCES TO BANKS MEASURED AT AMORTISED COST							
AA+ to AA-	22 413	-	-	-	-	22 413	1.0%
A+ to A-	899 921	288	-	95	-	900 304	40.1%
BBB+ to BBB-	748 786	-	-	-	-	748 786	33.3%
BB+ to BB-	8 384	-	-	-	-	8 384	0.4%
B+ do B-	65	-	-	-	-	65	0.0%
No rating	566 848	3	-	1	-	566 852	25.2%
Total gross carrying amount	**2 246 417**	**291**	**-**	**96**	**-**	**2 246 804**	**100.0%**
Impairment allowance	(2 895)	-	-	(1)	-	(2 896)	
Total net carrying amount	**2 243 522**	**291**	**-**	**95**	**-**	**2 243 908**	

31.12.2018	CARRYING AMOUNT						%PORTFOLIO
	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT-IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT-IMPAIRED (POCI)	TOTAL	
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT			
LOANS AND ADVANCES TO BANKS MEASURED AT AMORTISED COST							
AA+ to AA-	89 431	-	-	-	-	89 431	3.6%
A+ to A-	1 141 105	614	-	108	-	1 141 827	45.3%
BBB+ to BBB-	977 532	-	-	-	-	977 532	38.8%
BB+ to BB-	2 150	-	-	-	-	2 150	0.1%
No rating	299 056	-	8 987	-	-	308 043	12.2%
Total gross carrying amount	**2 509 274**	**614**	**8 987**	**108**	**-**	**2 518 983**	**100.0%**
Impairment allowance	(1 444)	-	(8 987)	-	-	(10 431)	
Total net carrying amount	**2 507 830**	**614**	**-**	**108**	**-**	**2 508 552**	

Notes to the financial statements (cont.)

(in PLN thousand)

Classification of exposures to debt securities according to Fitch ratings

31.12.2019	CARRYING AMOUNT						%PORTFOLIO
	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT-IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT-IMPAIRED (POCI)	TOTAL	
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT			
DEBT SECURITIES MEASURED AT AMORTISED COST							
A+ to A-	8 955 963	-	-	-	-	8 955 963	61.2%
BBB+ do BBB-	234 218	-	-	-	-	234 218	1.6%
No rating	5 078 450	331 816	32 370	-	-	5 442 636	37.2%
Gross carrying amount	**14 268 631**	**331 816**	**32 370**	**-**	**-**	**14 632 817**	**100.0%**
Impairment allowance	(25 661)	(16 955)	(32 370)	-	-	(74 986)	
Carrying amount	**14 242 970**	**314 861**	**-**	**-**	**-**	**14 557 831**	
DEBT SECURITIES MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME							
AAA	3 632 368	-	-	-	-	3 632 368	11.7%
A+ to A-	18 898 077	-	-	-	-	18 898 077	61.0%
BBB+ to BBB-	2 044 168	-	-	-	-	2 044 168	6.6%
BB+ do BB-	83 026	-	-	-	-	83 026	0.3%
No rating	6 294 181	12 860	-	-	-	6 307 041	20.4%
Carrying amount	**30 951 820**	**12 860**	**-**	**-**	**-**	**30 964 680**	**100.0%**
Impairment allowance (*)	(32 425)	(671)	-	-	-	(33 096)	
DEBT SECURITIES HELD FOR TRADING							
A+ to A-						1 142 873	89.3%
BBB+ to BBB-						111 474	8.7%
No rating						25 148	2.0%
Carrying amount						**1 279 495**	**100.0%**

Notes to the financial statements (cont.)

(in PLN thousand)

Classification of exposures to debt securities according to Fitch ratings

31.12.2018	CARRYING AMOUNT						%PORTFOLIO
	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT-IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT-IMPAIRED (POCI)	TOTAL	
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT			
DEBT SECURITIES MEASURED AT AMORTISED COST							
A+ to A-	5 237 109	-	-	-	-	5 237 109	46.8%
BBB+ do BBB-	676 433	-	-	-	-	676 433	6.0%
No rating	5 244 567	-	31 547	-	-	5 276 114	47.2%
Gross carrying amount	**11 158 109**	**-**	**31 547**	**-**	**-**	**11 189 656**	**100.0%**
Impairment allowance	(27 742)	-	(31 547)	-	-	(59 289)	
Carrying amount	**11 130 367**	**-**	**-**	**-**	**-**	**11 130 367**	
DEBT SECURITIES MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME							
AAA	952 874	-	-	-	-	952 874	3.5%
A+ to A-	14 264 346	-	-	-	-	14 264 346	53.0%
BBB+ to BBB-	693 351	-	-	-	-	693 351	2.6%
No rating	10 994 003	-	-	-	-	10 994 003	40.9%
Carrying amount	**26 904 574**	**-**	**-**	**-**	**-**	**26 904 574**	**100.0%**
Impairment allowance (*)	(28 207)	-	-	-	-	(28 207)	
DEBT SECURITIES HELD FOR TRADING							
A+ to A-						679 691	76.3%
BBB+ to BBB-						14 184	1.6%
No rating						196 464	22.1%
Carrying amount						**890 339**	**100.0%**

(*) The impairment allowance for debt securities measured at fair value through other comprehensive income is included in the 'Revaluation reserve' item and does not reduce the carrying amount.

(in PLN thousand)

Classification of exposures to derivative financial instruments according to Fitch ratings

31.12.2019	DERIVATIVES HELD FOR TRANDING			HEDGING DERIVATIVES			TOTAL	%PORTFOLIO
	BANKS	OTHER FINANCIAL INSTITUTIONS	NON-FINANCIAL ENTITIES	BANKS	OTHER FINANCIAL INSTITUTIONS	NON-FINANCIAL ENTITIES		
AAA	330 847	766 811	-	9 729	284 315	-	1 391 702	56.5%
AA+ to AA-	28 540	-	-	1 725	-	-	30 265	1.2%
A+ to A-	118 460	1 110	-	33 184	1 216	-	153 970	6.3%
BBB+ to BBB-	193 502	-	97 825	21 641	-	-	312 968	12.7%
BB+ to BB-	2 348	-	-	-	-	-	2 348	0.1%
B+ to B-	-	-	-	-	-	-	-	-
No rating	113 009	110 426	323 111	25 398	-	-	571 944	23.2%
Total	**786 706**	**878 347**	**420 936**	**91 677**	**285 531**	**-**	**2 463 197**	**100.0%**

31.12.2018	DERIVATIVES HELD FOR TRANDING			HEDGING DERIVATIVES			TOTAL	%PORTFOLIO
	BANKS	OTHER FINANCIAL INSTITUTIONS	NON-FINANCIAL ENTITIES	BANKS	OTHER FINANCIAL INSTITUTIONS	NON-FINANCIAL ENTITIES		
AAA	251 167	297 401	-	27 308	244 370	-	820 246	46.4%
AA+ to AA-	47 748	-	-	-	-	-	47 748	2.7%
A+ to A-	163 280	540	-	14 170	-	-	177 990	10.1%
BBB+ to BBB-	188 186	-	17 060	11 791	-	-	217 037	12.3%
BB+ to BB-	117	-	-	-	-	-	117	-
B+ to B-	1 894	-	-	-	-	-	1 894	0.1%
No rating	126 081	116 219	246 283	15 926	-	-	504 509	28.4%
Total	**778 473**	**414 160**	**263 343**	**69 195**	**244 370**	**-**	**1 769 541**	**100.0%**

The description of the model for impairment allowance

Since 1 January 2018, the Bank has recognized impairment allowance in accordance with the IFRS 9. IFRS 9 assumes the calculation of impairment losses based on expected credit losses and taking into account forecasts and expected future economic conditions in the context of credit risk exposure assessment.

Expected credit loss model

The impairment model applies to financial assets classified, in accordance with the IFRS 9, as financial assets at amortized cost or at fair value through other comprehensive income, with the exception of equity instruments.

The impairment model in accordance with IFRS 9 is based on the allocation of exposure to one of the three stages, depending on credit quality changes compared to the initial recognition of assets in the accounting records. How to calculate the impairment loss depends on the stage.

STAGE	CLASSIFICATION CRITERION TO THE STAGE	THE METHOD OF CALCULATING THE IMPAIRMENT ALLOWANCE
Stage 1	Exposures for which no significant increase in credit risk has been identified since the initial recognition until the balance sheet date and no impairment was identified	12-month expected credit losses
Stage 2	Exposures for which a significant increase in credit risk has been identified since the initial recognition until the balance sheet date and no impairment was identified	Lifetime expected credit losses
Stage 3	Exposures for which impairment has been identified	

In addition, financial assets that were classified as POCI at the time of initial recognition are treated as POCI (i.e. purchased or originated credit-impaired) in all subsequent periods until they are derecognised. This rule applies even if, in the meantime, the asset has been healed. In other words, assets once recognized as POCI remain in this status regardless of future changes in estimates of their cash flows.

In the case of instruments with the POCI status, life-time expected credit losses are recognized throughout the lifetime of these instruments.

Calculation of expected credit losses

Calculation of expected credit losses in a lifetime horizon requires the application of multi-annual risk parameters.

For the purpose of calculating the credit loss in accordance with IFRS 9, the Bank compares the cash flows that it should receive pursuant to the agreement with the borrower and the flows estimated by the Bank that it expects to receive. The difference is discounted by the original effective interest rate.

Expected credit losses are determined in the contractual maturity period with the exception of products meeting the criteria of IFRS 9 para. 5.5.20, for which the Bank determines the expected losses in the period in which it is exposed to credit risk (i.e. in the economic maturity).

Methodology for calculating Bank parameters - PD, RR and EAD.

Multi-annual PD parameters are an assessment of the probability of a default event in the next annual intervals in the lifetime. The PD long-term curve for a given exposure depends on the current value of the 12M PD parameter (and the appropriate rating class) determined based on the internal PD models of the Bank. In the estimation, the Bank:

- estimates unbiased PD parameters without taking into account additional margins of conservatism (IFRS 9, paragraph 5.5.17 (a)),
- takes into account current and forecasted macroeconomic conditions (IFRS 9, paragraph 5.5.17 (c)).

The calculation of expected recovery rates (RR) is based on the 'pool' model, in which, within homogeneous groups, average monthly recoveries are calculated conditionally against the month since default (MSD). Homogeneous groups of accounts were separated on the basis of the following characteristics:

- the type of borrower,
- product type,
- ranges of the LTV parameter (for mortgages and housing loans).

As part of defined homogeneous groups, average monthly recovery rates are calculated, which consist of repayments and recoveries resulting from both the secured part and the unsecured exposure, weighted by the value of outstanding capital observed at the beginning of a given MSD.

For products for which a repayment schedule is available, the Bank sets the exposure value at the moment of default (EAD, Exposure at Default) and principal at the moment of default (PAD, Principal at Default) in the lifetime (i.e. for future repayments) based on contractual payment schedules and taking into account the following effects:

- the effect of arrears on principal and interest installments related to the expected non-payment of the last installments prior to the occurrence of the default,
- the effect of arrears of payments (principal and interest) on the date of calculation of the provision,
- the effect of settlement of the EIR adjustment over time.

For products for which a repayment schedule is not available, the Bank sets the long-term EAD and PAD using the CCF (Credit Conversion Factor) parameters. The CCF_1Y parameter, which estimates the percentage utilization of the remaining part of the limit in the period of 12 months before the expected moment of the default event, is used to determine the expected value of PAD and EAD parameters in the 12M period from the reference date. The CCF_2Y parameter is used to determine the expected value of PAD and EAD parameters from 12M after the reference date to the maturity date of the account.

For exposures for which it is not possible to determine risk parameters based on internal models, the Bank adopts an approach based on using parameters from other portfolios with similar characteristics.

The models and parameters used to calculate impairment allowance are periodically validated.

The low credit risk criterion

According to par. 5.5.10 IFRS 9 exposures that are considered as low risk credit exposures at the reporting date may remain in Stage 1, regardless of the scale of the relative credit deterioration from the initial recognition. According to par. B.5.5.22 of IFRS 9, the credit risk of a financial instrument is considered low when:

- the financial instrument has a low risk of default,
- the borrower has a strong capacity to meet its contractual cash flow obligations in the near term,
- adverse changes in the economic and business conditions in the long term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Bank applies a low credit risk criterion for three portfolios: exposures to banks, exposures to local government units and exposures to the State Treasury and the National Bank of Poland.

Financial assets with an identified significant increase in credit risk

Financial assets for which at the balance sheet date the Bank will identify a significant increase in credit risk from the initial recognition are classified in Stage 2. The Bank recognizes that for a given asset a significant increase in credit risk has been identified if a quantitative or qualitative criterion is met in particular of contractual payments are more than 30 days past due, where the occurrence of a given criterion is verified at the exposure level.

Quantitative criteria

Taking into account the requirements of the standard, the Bank defined three basic characteristics of the quantitative model:

- the measure on the basis of which the allocation is made to stages,
- the significance of the deterioration of the credit quality,
- quantification of the level of significant deterioration.

The measure, on the basis of which the allocation to stages is made, was set by the Bank as the ratio of:

- current credit risk assessment defined as lifetime PD in the horizon from the reporting date to the maturity date determined on the basis of the characteristics effective as at the reporting date,
- the original credit risk assessment defined as lifetime PD in the period from the reporting date to the maturity date determined on the basis of the characteristics applicable as at the date of initial recognition.

The assessment of a significant credit risk deterioration is carried out by comparing the observed value of a relative change in the risk assessment with the theoretical value, which is the threshold above which the Bank considers that a significant deterioration in credit risk occurred.

The allocation threshold at the single exposure level is determined by a statistical model based, among others, on information on the credit risk assessment as of the date of the initial recognition and the time from the date of the initial recognition of the exposure.

Qualitative criteria

As a result of the monitoring process carried out by the Bank, the qualitative criteria for the allocation to Stage 2 are identified, such as:

- a delay in repayment over 30 days (30 DPD),
- occurrence of forbearance status,
- exposure is on the Watchlist.

In addition to the above, the Bank has defined a number of specific quality criteria for various types of portfolios, such as, inter alia, changes in the Bank's internal rating specific to customers in a given segment, changes in supervisory classes for selected segments (eg specialized financing), warning signals identified in the monitoring system and credit risk management or the results of individual monitoring.

(in PLN thousand)

Financial assets with identified impairment

Financial assets for which at the balance sheet date the Bank has identified occurrences of the default event are classified in Stage 3.

In the second half of 2019 the Bank modified the default definition in terms of identifying quantitative trigger. The new definition of default was used both to estimate the respective risk parameters used to estimate the expected credit loss and to classify the exposure to Stage 3. The quantitative trigger occurs when at the aggregation level the number of days in arrears for the amount overdue above the materiality threshold exceeds 90 days. Daily data is used for current data and some historical data. The introduced changes are the first stage of implementation in the Bank of Guidelines EBA /GL /2016/07 regarding the application of the definition of default, as specified in art. 178 of Regulation (EU) No 575/2013.

The Bank recognizes that for a given asset a default was identified if at least one of the following occurred:

- amount of arrears above the set materiality threshold for over 90 days,
- exposure during the restructuring process,
- other qualitative impairment trigger.

For SME and corporate segments, default is identified at the customer level, whereas for the retail segment at the customer/product group level. The criterion of days and amounts of delays is also defined at the level of identification. Similarly, if for any of the contracts under the aggregated group there is a default condition, all contracts in this group are treated as default.

The Bank applies a six-month quarantine period effective from the moment all defaults cease to exist.

Sensitivity analysis regarding the forecast of the macroeconomic situation

Changes in expected credit losses for exposures without impairment presented in the table below were assessed as a difference between expected credit losses calculated for a specific macroeconomic scenario and expected credit losses calculated taking into account all macroeconomic scenarios weighed with the probability of their implementation (in accordance with IFRS 9).

Macroeconomic scenarios include forecasts of macroeconomic factors influencing the level of expected credit losses and are prepared by the Macroeconomic Research Office on a quarterly basis. The forecasts take into account the following factors: GDP growth, registered unemployment rate and 3-month WIBOR in 3 scenarios: baseline (assumed for calculation), optimistic (assuming positive changes in factors in subsequent years against the baseline scenario) and pessimistic (assuming negative changes in factors in the following years against the baseline scenario).

31.12.2019	BASLINE SCENARIO	OPTIMISTIC SCENARIO	PESSIMISTIC SCENARIO
Changes in expected credit losses for exposures without impairment (Stages 1 and 2) assuming 100% implementation of the scenario	(5 527)	(10 182)	59 053

31.12.2018	BASLINE SCENARIO	OPTIMISTIC SCENARIO	PESSIMISTIC SCENARIO
Changes in expected credit losses for exposures without impairment (Stages 1 and 2) assuming 100% implementation of the scenario	(18 298)	(55 645)	144 869

Notes to the financial statements (cont.)

(in PLN thousand)

The tables below present the changes in impairment allowances and gross carrying amount of financial assets not measured at fair value through profit or loss by class of financial assets

	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT-IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT-IMPAIRED (POCI)	TOTAL
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
LOANS AND ADVANCES TO BANKS AND CENTRAL BANKS MEASURED AT AMORTISED COST (*)						
GROSS CARRYING AMOUNT						
GROSS CARRYING AMOUNT AS AT 1.01.2019	**12 299 883**	**614**	**8 987**	**108**	**-**	**12 309 592**
Transfer to Stage 1	96	(95)	-	(1)	-	-
Transfer to Stage 2	(68)	74	-	(6)	-	-
Transfer to Stage 3	(9)	(23)	-	32	-	-
New / Purchased / Granted financial assets	2 044 641	-	-	-	-	2 044 641
Financial assets derecognised, other than write-offs (repayments)	(9 993 899)	(236)	-	(46)	-	(9 994 181)
Other, in this changes resulting from exchange rates	(2 271)	(43)	(8 987)	9	-	(11 292)
GROSS CARRYING AMOUNT AS AT 31.12.2019	**4 348 373**	**291**	**-**	**96**	**-**	**4 348 760**
IMPAIRMENT ALLOWANCE						
IMPAIRMENT ALLOWANCE AS AT 1.01.2019	**2 356**	**-**	**8 987**	**-**	**-**	**11 343**
Transfer to Stage 1	-	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
New / Purchased / Granted financial assets	1 840	-	-	-	-	1 840
Financial assets derecognised, other than write-offs (repayments)	(881)	(85)	-	(20)	-	(986)
Changes in level of credit risk (excluding the transfers between the Stages)	(121)	-	-	10	-	(111)
Other, in this changes resulting from exchange rates	(125)	85	(8 987)	11	-	(9 016)
IMPAIRMENT ALLOWANCE AS AT 31.12.2019	**3 069**	**-**	**-**	**1**	**-**	**3 070**

(*) Receivables from the Central Bank include a current account and deposits.
(**) Including the value of contractual interest subject to partial write-off in the amount of PLN 5 079 thousand.

Notes to the financial statements (cont.)

(in PLN thousand)

	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT-IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT-IMPAIRED (POCI)	TOTAL
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
LOANS AND ADVANCES TO BANKS AND CENTRAL BANKS MEASURED AT AMORTISED COST (*)						
GROSS CARRYING AMOUNT						
GROSS CARRYING AMOUNT AS AT 1.01.2018	**5 191 846**	**1 071**	**21 014**	**113**	**-**	**5 214 044**
Transfer to Stage 1	161	(160)	-	(1)	-	-
Transfer to Stage 2	(187)	196	-	(9)	-	-
Transfer to Stage 3	(17)	(45)	-	62	-	-
New / Purchased / Granted financial assets	8 924 862	-	-	-	-	8 924 862
Financial assets derecognised, other than write-offs (repayments)	(1 815 360)	(414)	-	(46)	-	(1 815 820)
Financial assets written off (**)	-	-	(5 079)	-	-	(5 079)
Other, in this changes resulting from exchange rates	(1 422)	(34)	(6 948)	(11)	-	(8 415)
GROSS CARRYING AMOUNT AS AT 31.12.2018	**12 299 883**	**614**	**8 987**	**108**	**-**	**12 309 592**
IMPAIRMENT ALLOWANCE						
IMPAIRMENT ALLOWANCE AS AT 1.01.2018	**506**	**-**	**21 127**	**-**	**-**	**21 633**
Transfer to Stage 1	-	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
New / Purchased / Granted financial assets	1 114	-	-	-	-	1 114
Financial assets derecognised, other than write-offs (repayments)	(279)	-	-	-	-	(279)
Financial assets written off (**)	-	-	(5 079)	-	-	(5 079)
Changes in level of credit risk (excluding the transfers between the Stages)	102	2	-	-	-	104
Other, in this changes resulting from exchange rates	913	(2)	(7 061)	-	-	(6 150)
IMPAIRMENT ALLOWANCE AS AT 31.12.2018	**2 356**	**-**	**8 987**	**-**	**-**	**11 343**

(*) Receivables from the Central Bank include a current account and deposits.
(**) Including the value of contractual interest subject to partial write-off in the amount of PLN 5 079 thousand.

Notes to the financial statements (cont.)

(in PLN thousand)

	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT-IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT-IMPAIRED (POCI)	TOTAL
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
LOANS AND ADVANCES TO CUSTOMERS MEASURED AT AMORTISED COST						
GROSS CARRYING AMOUNT						
GROSS CARRYING AMOUNT AS AT1.01.2019	**99 001 708**	**20 019 456**	**4 816 470**	**2 540 327**	**54 922**	**126 432 883**
Transfer to Stage 1	4 524 073	(4 504 629)	(2 028)	(17 416)	-	-
Transfer to Stage 2	(6 888 696)	7 003 804	(90)	(115 018)	-	-
Transfer to Stage 3	(725 383)	(706 620)	512 052	919 951	-	-
New / Purchased / Granted financial assets	37 697 546	-	-	-	5 145	37 702 691
Financial assets derecognised, other than write-offs (repayments)	(24 059 040)	(2 771 006)	(356 264)	(325 966)	(49 677)	(27 561 953)
Financial assets written off (*)	-	-	(311 111)	(270 429)	(126)	(581 666)
Modifications not resulting in derecognition	(2 223)	-	-	-	-	(2 223)
Other, in this changes resulting from exchange rates	(195 173)	129 000	177 179	63 558	(215)	174 349
GROSS CARRYING AMOUNT AS AT 31.12.2019	**109 352 812**	**19 170 005**	**4 836 208**	**2 795 007**	**10 049**	**136 164 081**
IMPAIRMENT ALLOWANCE						
IMPAIRMENT ALLOWANCE AS AT 1.01.2019	**375 911**	**656 689**	**3 196 748**	**1 801 503**	**52 435**	**6 083 286**
Transfer to Stage 1	131 217	(123 407)	(566)	(7 244)	-	-
Transfer to Stage 2	(36 721)	84 771	(608)	(47 442)	-	-
Transfer to Stage 3	(120 047)	(188 508)	36 889	271 666	-	-
New / Purchased / Granted financial assets	144 647	-	-	-	2 783	147 430
Financial assets derecognised, other than write-offs (repayments)	(65 324)	(33 564)	(43 350)	(53 096)	(5 551)	(200 885)
Financial assets written off (*)	-	-	(311 111)	(270 429)	(126)	(581 666)
Changes in level of credit risk (excluding the transfers between the Stages)	(130 710)	296 320	241 300	201 291	(9 775)	598 426
Other, in this changes resulting from exchange rates	16 866	10 705	213 219	27 231	(37 494)	230 527
IMPAIRMENT ALLOWANCE AS AT 31.12.2019	**315 839**	**703 006**	**3 332 521**	**1 923 480**	**2 272**	**6 277 118**

(*) Including the value of contractual interest subject to partial write-off in the amount of PLN 291 269 thousand.
(**) Including the provision for legal risk regarding foreign currency mortgage loans in the amount of PLN 27 712 thousand.

The total value of undiscounted expected credit losses at the time of initial recognition of financial assets purchased or originated credit impaired in the period ended 31 December 2019 amounted to PLN 3 249 thousand.

Notes to the financial statements (cont.)

(in PLN thousand)

	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT-IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT-IMPAIRED (POCI)	TOTAL
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
LOANS AND ADVANCES TO CUSTOMERS MEASURED AT AMORTISED COST						
GROSS CARRYING AMOUNT						
GROSS CARRYING AMOUNT AS AT 1.01.2018	**90 774 367**	**20 855 774**	**7 104 498**	**3 325 887**	**49 262**	**122 109 788**
Transfer to Stage 1	3 235 606	(3 227 122)	(46)	(8 438)	-	-
Transfer to Stage 2	(6 039 736)	6 112 908	(2 923)	(70 249)	-	-
Transfer to Stage 3	(801 476)	(548 195)	669 620	680 051	-	-
New / Purchased / Granted financial assets	31 885 548	-	-	-	2 116	31 887 664
Financial assets derecognised, other than write-offs (repayments)	(20 141 281)	(3 205 159)	(719 613)	(297 845)	(2 692)	(24 366 590)
Financial assets written off (*)	-	-	(2 209 476)	(1 222 760)	(17)	(3 432 253)
Other, in this changes resulting from exchange rates	88 680	31 250	(25 590)	133 681	6 253	234 274
GROSS CARRYING AMOUNT AS AT 31.12.2018	**99 001 708**	**20 019 456**	**4 816 470**	**2 540 327**	**54 922**	**126 432 883**
IMPAIRMENT ALLOWANCE						
IMPAIRMENT ALLOWANCE AS AT 1.01.2018	**375 984**	**646 291**	**5 335 611**	**2 792 920**	**37 157**	**9 187 963**
Transfer to Stage 1	96 254	(91 944)	(618)	(3 692)	-	-
Transfer to Stage 2	(23 811)	57 845	(3 713)	(30 321)	-	-
Transfer to Stage 3	(22 076)	(70 811)	23 642	69 245	-	-
New / Purchased / Granted financial assets	146 784	-	-	-	-	146 784
Financial assets derecognised, other than write-offs (repayments)	(81 504)	(43 811)	(73 521)	(39 719)	-	(238 555)
Financial assets written off (*)	-	-	(2 209 476)	(1 222 760)	(17)	(3 432 253)
Changes in level of credit risk (excluding the transfers between the Stages)	(108 452)	163 109	260 895	220 672	1 549	537 773
Other, in this changes resulting from exchange rates	(7 268)	(3 990)	(136 072)	15 158	13 746	(118 426)
IMPAIRMENT ALLOWANCE AS AT 31.12.2018	**375 911**	**656 689**	**3 196 748**	**1 801 503**	**52 435**	**6 083 286**

(*) Including the value of contractual interest subject to partial write-off in the amount of PLN 3 023 332 thousand.

The total value of undiscounted expected credit losses at the time of initial recognition of financial assets purchased or originated credit impaired in the period ended 31 December 2018 amounted to PLN 11 552 thousand.

Notes to the financial statements (cont.)

(in PLN thousand)

	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT-IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT-IMPAIRED (POCI)	TOTAL
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
LOANS AND ADVANCES TO CUSTOMERS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME						
CARRYING AMOUNT						
CARRYING AMOUNT AS AT 1.01.2019	**1 696 888**	**-**	**-**	**-**	**-**	**1 696 888**
Transfer to Stage 1	-	-	-	-	-	-
Transfer to Stage 2	(623 665)	623 665	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
New / Purchased / Granted financial assets	571 101	-	-	-	-	571 101
Financial assets derecognised, other than write-offs (repayments)	(706 447)	(15 977)	-	-	-	(722 424)
Other, in this changes resulting from exchange rates	(715)	932	-	-	-	217
CARRYING AMOUNT AS AT 31.12.2019	**937 162**	**608 620**	**-**	**-**	**-**	**1 545 782**
IMPAIRMENT ALLOWANCE (*)						
IMPAIRMENT ALLOWANCE AS AT 1.01.2019	**16 723**	**-**	**-**	**-**	**-**	**16 723**
Transfer to Stage 1	-	-	-	-	-	-
Transfer to Stage 2	(7 955)	7 955	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
New / purchased / granted financial assets	2 307	-	-	-	-	2 307
Financial assets derecognised, other than write-offs (repayments)	(3 484)	-	-	-	-	(3 484)
Changes in level of credit risk (excluding the transfers between the Stages)	(2 404)	9 431	-	-	-	7 027
Other, in this changes resulting from exchange rates	(233)	16	-	-	-	(217)
IMPAIRMENT ALLOWANCE AS AT 31.12.2019	**4 954**	**17 402**	**-**	**-**	**-**	**22 356**

(*) The impairment allowance for loans and advances to customers measured at fair value through other comprehensive income is included in the 'Revaluation reserve' item and does not reduce the carrying amount of the loan.

Notes to the financial statements (cont.)

(in PLN thousand)

	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT-IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT-IMPAIRED (POCI)	TOTAL
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
LOANS AND ADVANCES TO CUSTOMERS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME						
CARRYING AMOUNT						
CARRYING AMOUNT AS AT 1.01.2018	**1 841 682**	**-**	**-**	**-**	**-**	**1 841 682**
Transfer to Stage 1	-	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
New / Purchased / Granted financial assets	401 500	-	-	-	-	401 500
Financial assets derecognised, other than write-offs (repayments)	(590 674)	-	-	-	-	(590 674)
Other, in this changes resulting from exchange rates	44 380	-	-	-	-	44 380
CARRYING AMOUNT AS AT 31.12.2018	**1 696 888**	**-**	**-**	**-**	**-**	**1 696 888**
IMPAIRMENT ALLOWANCE (*)						
IMPAIRMENT ALLOWANCE AS AT 1.01.2018	**26 065**	**-**	**-**	**-**	**-**	**26 065**
Transfer to Stage 1	-	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
New / Purchased / Granted financial assets	1 457	-	-	-	-	1 457
Financial assets derecognised, other than write-offs (repayments)	(2 629)	-	-	-	-	(2 629)
Changes in level of credit risk (excluding the transfers between the Stages)	(8 171)	-	-	-	-	(8 171)
Other, in this changes resulting from exchange rates	1	-	-	-	-	1
IMPAIRMENT ALLOWANCE AS AT 31.12.2018	**16 723**	**-**	**-**	**-**	**-**	**16 723**

(*) The impairment allowance for loans and advances to customers measured at fair value through other comprehensive income is included in the 'Revaluation reserve' item and does not reduce the carrying amount of the loan.

Notes to the financial statements (cont.)

(in PLN thousand)

	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT-IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT-IMPAIRED (POCI)	TOTAL
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
DEBT SECURITIES MEASURED AT AMORTISED COST						
GROSS CARRYING AMOUNT						
GROSS CARRYING AMOUNT AS AT 1.01.2019	**11 158 109**	**-**	**31 547**	**-**	**-**	**11 189 656**
Transfer to Stage 1	-	-	-	-	-	-
Transfer to Stage 2	(331 816)	331 816	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
New / purchased / granted financial assets	8 234 245	-	-	-	-	8 234 245
Financial assets derecognised, other than write-offs (repayments)	(4 964 041)	-	-	-	-	(4 964 041)
Other, in this changes resulting from exchange rates	172 134	-	823	-	-	172 957
GROSS CARRYING AMOUNT AS AT 31.12.2019	**14 268 631**	**331 816**	**32 370**	**-**	**-**	**14 632 817**
IMPAIRMENT ALLOWANCE						
IMPAIRMENT ALLOWANCE AS AT 1.01.2019	**27 742**	**-**	**31 547**	**-**	**-**	**59 289**
Transfer to Stage 1	-	-	-	-	-	-
Transfer to Stage 2	(9 448)	9 448	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
New / purchased / granted financial assets	4 470	-	-	-	-	4 470
Financial assets derecognised, other than write-offs (repayments)	(3 090)	-	-	-	-	(3 090)
Changes in level of credit risk (excluding the transfers between the Stages)	6 053	7 506	-	-	-	13 559
Other, in this changes resulting from exchange rates	(66)	1	823	-	-	758
IMPAIRMENT ALLOWANCE AS AT 31.12.2019	**25 661**	**16 955**	**32 370**	**-**	**-**	**74 986**

Notes to the financial statements (cont.)

(in PLN thousand)

	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT-IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT-IMPAIRED (POCI)	TOTAL
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
DEBT SECURITIES MEASURED AT AMORTISED COST						
GROSS CARRYING AMOUNT						
GROSS CARRYING AMOUNT AS AT 1.01.2018	**11 412 837**	**-**	**30 031**	**-**	**-**	**11 442 868**
Transfer to Stage 1	-	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
New / purchased / granted financial assets	2 876 001	-	-	-	-	2 876 001
Financial assets derecognised, other than write-offs (repayments)	(3 223 033)	-	-	-	-	(3 223 033)
Other, in this changes resulting from exchange rates	92 304	-	1 516	-	-	93 820
GROSS CARRYING AMOUNT AS AT 31.12.2018	**11 158 109**	**-**	**31 547**	**-**	**-**	**11 189 656**
IMPAIRMENT ALLOWANCE						
IMPAIRMENT ALLOWANCE AS AT 1.01.2018	**27 589**	**-**	**30 031**	**-**	**-**	**57 620**
Transfer to Stage 1	-	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
New / purchased / granted financial assets	2 155	-	-	-	-	2 155
Financial assets derecognised, other than write-offs (repayments)	(1 929)	-	-	-	-	(1 929)
Changes in level of credit risk (excluding the transfers between the Stages)	1 325	-	-	-	-	1 325
Other, in this changes resulting from exchange rates	(1 398)	-	1 516	-	-	118
IMPAIRMENT ALLOWANCE AS AT 31.12.2018	**27 742**	**-**	**31 547**	**-**	**-**	**59 289**

Notes to the financial statements (cont.)

(in PLN thousand)

	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT-IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT-IMPAIRED (POCI)	TOTAL
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
DEBT SECURITIES MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME						
CARRYING AMOUNT						
CARRYING AMOUNT AS AT 1.01.2019	**26 904 574**	**-**	**-**	**-**	**-**	**26 904 574**
Transfer to Stage 1	-	-	-	-	-	-
Transfer to Stage 2	(12 860)	12 860	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
New / purchased / granted financial assets	135 290 310	-	-	-	-	135 290 310
Financial assets derecognised, other than write-offs (repayments)	(131 970 590)	-	-	-	-	(131 970 590)
Other, in this changes resulting from exchange rates	740 386	-	-	-	-	740 386
CARRYING AMOUNT AS AT 31.12.2019	**30 951 820**	**12 860**	**-**	**-**	**-**	**30 964 680**
IMPAIRMENT ALLOWANCE (*)						
IMPAIRMENT ALLOWANCE AS AT 1.01.2019	**28 207**	**-**	**-**	**-**	**-**	**28 207**
Transfer to Stage 1	-	-	-	-	-	-
Transfer to Stage 2	(388)	388	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
New / purchased / granted financial assets	10 398	-	-	-	-	10 398
Financial assets derecognised, other than write-offs (repayments)	(6 824)	-	-	-	-	(6 824)
Changes in level of credit risk (excluding the transfers between the Stages)	1 030	283	-	-	-	1 313
Other, in this changes resulting from exchange rates	2	-	-	-	-	2
IMPAIRMENT ALLOWANCE AS AT 31.12.2019	**32 425**	**671**	**-**	**-**	**-**	**33 096**

(*) The impairment allowance for debt securities measured at fair value through other comprehensive income is included in the ‘Revaluation reserve’ item and does not reduce the carrying amount of the securities.

Notes to the financial statements (cont.)

(in PLN thousand)

	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT-IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT-IMPAIRED (POCI)	TOTAL
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
DEBT SECURITIES MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME						
CARRYING AMOUNT						
CARRYING AMOUNT AS AT 1.01.2018	**37 891 326**	**-**	**-**	**-**	**-**	**37 891 326**
Transfer to Stage 1	-	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
New / purchased / granted financial assets	131 184 662	-	-	-	-	131 184 662
Financial assets derecognised, other than write-offs (repayments)	(142 855 233)	-	-	-	-	(142 855 233)
Other, in this changes resulting from exchange rates	683 819	-	-	-	-	683 819
CARRYING AMOUNT AS AT 31.12.2018	**26 904 574**	**-**	**-**	**-**	**-**	**26 904 574**
IMPAIRMENT ALLOWANCE (*)						
IMPAIRMENT ALLOWANCE AS AT 1.01.2018	**24 213**	**-**	**-**	**-**	**-**	**24 213**
Transfer to Stage 1	-	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
New / purchased / granted financial assets	14 818	-	-	-	-	14 818
Financial assets derecognised, other than write-offs (repayments)	(7 049)	-	-	-	-	(7 049)
Changes in level of credit risk (excluding the transfers between the Stages)	(3 774)	-	-	-	-	(3 774)
Other, in this changes resulting from exchange rates	(1)	-	-	-	-	(1)
IMPAIRMENT ALLOWANCE AS AT 31.12.2018	**28 207**	**-**	**-**	**-**	**-**	**28 207**

(*) The impairment allowance for debt securities measured at fair value through other comprehensive income is included in the 'Revaluation reserve' item and does not reduce the carrying amount of the securities.

Notes to the financial statements (cont.)

(in PLN thousand)

Bank's exposure to credit risk

The maximum credit risk exposure

The table below presents the maximum credit risk exposure for statement of financial position and off-balance sheet positions as at the reporting date

	31.12.2019	31.12.2018
Due from Central Bank	2 101 782	9 789 696
Loans and advances from banks and from customers	133 919 292	124 857 667
Financial assets held for trading	1 279 495	890 339
Derivative financial instruments (held for trading)	2 085 989	1 455 976
Hedging instruments	377 208	313 565
Investment securities	45 873 297	38 333 179
Other assets (*)	3 307 570	2 582 025
Balance sheet exposure (**)	**188 944 633**	**178 222 447**
Obligations to grant loans	37 338 574	35 341 470
Other contingent liabilities	22 042 849	20 010 888
Off-balance sheet exposure	**59 381 423**	**55 352 358**
Total	**248 326 056**	**233 574 805**

(*) Includes the following items of the statement of financial position: 'Investments in subsidiaries', 'Investments in associates' and part of 'Other assets' (Accrued income, Interbank and interbranch settlements, Card settlements, Other debtor).

(**) Balance sheet exposure is equal to the carrying amount presented in the statement of financial position.

Credit risk mitigation methods

Bank has established specific policies with regard to collateral accepted to secure loans and guarantees. This policy is reflected under internal rules and regulations, which are based on supervision rules, specified in 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.

Notes to the financial statements (cont.)

(in PLN thousand)

The most frequently used types of collateral for credits and loans, accepted in compliance with the relevant policy of Bank, are as follows:

COLLATERAL	COLLATERAL VALUATION PRINCIPLES
MORTGAGES	
- commercial - residential	Collateral value is defined as the fair market value endorsed by a real estate expert. Other evidenced sources of valuation are acceptable, e.g. binding purchase offer, value dependent on the stage of tendering procedure, etc.
REGISTERED PLEDGE/ ASSIGNMENT:	
- inventories	The value is defined basing on well evidenced sources e.g. amount derived from pledge agreement, amount disclosed in last financial statements, insurance policy, stock exchange quotations, the value disclosed through foreclosure procedure supported with evidence e.g. prepared by bailiff/receiver.
- machines and appliances	The value is defined as expert appraisal or present value determined based on other, sound sources, such as current purchase offer, register of debtor's non-current assets, value evidenced by bailiff or court receiver, etc.
- vehicles	The value is defined based on available tables (e.g. from insurance companies) proving the car value depending on its producer, age, initial price, or other reliable sources e.g. value stated in the insurance policy.
- other	The value is defined upon individually. The valuation should result from reliable sources.
- securities and cash	The value is defined upon individually estimated fair market value. Recovery rate shall be assessed prudently reflecting the securities price volatility.
TRANSFER OF RECEIVABLES	
- from clients with investment rating assigned by independent rating agency or by internal rating system of the Bank	The value is defined upon individually assessed claims' amount.
- from other counterparties	The value is defined upon individually assessed claim's amount.
GUARANTIES/SURETIES (INCL. RAFTS)/ACCESSION TO DEBT	
- from banks and the State Treasury	Up to the guaranteed amount.
- from other counterparties enjoying good financial standing, particularly when confirmed by investment rating, assigned by an independent rating agency or by the internal rating system of the Bank	The value is defined upon individually assessed claim's amount.
- from other counterparties	Individually assessed fair market value.

The financial effect of pledged collaterals for exposure portfolio with recognized impairment defined individually amounts to PLN 872 980 thousand as at 31 December 2019 (PLN 975 738 thousand as at 31 December 2018). The level of required impairment allowances for the portfolio would increase by this amount, if the discounted cash flows from collateral were not taken into account during estimation.

Notes to the financial statements (cont.)

(in PLN thousand)

The Bank analyzes the concentration within LtV levels (the ratio of debt to the value of collateral), which is particularly important in the case of mortgage loans to individual clients.

The structure of mortgage loans to individual clients according to the LtV level is presented below:

31.12.2019	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT-IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT-IMPAIRED (POCI)	TOTAL
LTV LEVEL			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
MORTGAGE LOANS TO INDIVIDUAL CLIENTS – GROSS CARRYING AMOUNT						
0% < LtV <= 50%	9 796 025	5 426 020	12 180	259 660	-	15 493 885
50% < LtV <= 70%	17 068 730	4 017 582	21 810	271 399	-	21 379 521
70% < LtV <= 90%	10 799 352	1 780 327	5 655	115 232	-	12 700 566
90% < LtV <= 100%	142 346	33 663	397	3 740	-	180 146
100% < LtV	76 365	18 720	13 591	3 684	-	112 360
Total	**37 882 818**	**11 276 312**	**53 633**	**653 715**	**-**	**49 866 478**

31.12.2018	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT-IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT-IMPAIRED (POCI)	TOTAL
LTV LEVEL			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
MORTGAGE LOANS TO INDIVIDUAL CLIENTS – GROSS CARRYING AMOUNT						
0% < LtV <= 50%	6 844 263	4 893 825	12 611	191 765	-	11 942 464
50% < LtV <= 70%	9 247 740	3 468 122	22 654	168 269	-	12 906 785
70% < LtV <= 90%	15 930 335	3 819 160	11 032	195 575	-	19 956 102
90% < LtV <= 100%	510 451	173 848	1 244	19 348	-	704 891
100% < LtV	88 948	36 443	1 985	7 134	-	134 510
Total	**32 621 737**	**12 391 398**	**49 526**	**582 091**	**-**	**45 644 752**

Notes to the financial statements (cont.)

(in PLN thousand)

Credit risk concentration

According to valid regulations the total exposure of the Bank to single borrower or a group of borrowers related by capital or management may not exceed 25% of the Bank's own funds. In 2019 the maximum exposure limits set in the valid regulations were not exceeded.

a) Breakdown by individual entities

EXPOSURE TO 10 LARGERST CLIENTS OF THE BANK AS AT 31 DECEMBER 2019	% SHARE OF PORTFOLIO
Client 1	1.1%
Client 2	1.1%
Client 3	0.8%
Client 4	0.7%
Client 5	0.6%
Client 6	0.6%
Client 7	0.6%
Client 8	0.6%
Client 9	0.4%
Client 10	0.4%
Total	**6.9%**

EXPOSURE TO 10 LARGERST CLIENTS OF THE BANK AS AT 31 DECEMBER 2018	% SHARE OF PORTFOLIO
Client 1	1.3%
Client 2	1.2%
Client 3	0.8%
Client 4	0.7%
Client 5	0.7%
Client 6	0.5%
Client 7	0.5%
Client 8	0.5%
Client 9	0.5%
Client 10	0.5%
Total	**7.2%**

b) Concentration by capital groups

EXPOSURE TO 5 LARGEST CAPITAL GROUPS SERVICED BY THE BANK AS AT 31 DECEMBER 2019	% SHARE OF PORTFOLIO
Group 1	1.3%
Group 2	1.1%
Group 3	0.9%
Group 4	0.9%
Group 5	0.8%
Total	**5.0%**

EXPOSURE TO 5 LARGEST CAPITAL GROUPS SERVICED BY THE BANK AS AT 31 DECEMBER 2018	% SHARE OF PORTFOLIO
Group 1	1.5%
Group 2	1.2%
Group 3	1.0%
Group 4	1.0%
Group 5	0.9%
Total	**5.5%**

Notes to the financial statements (cont.)

(in PLN thousand)

c) Sector concentration

In order to mitigate credit risk associated with excessive sector concentration the Bank sets up a system for shaping the sectoral structure of credit exposure. Every year within Credit Policy the Bank defines sector limits for particular sectors of economy. These limits are subject to ongoing monitoring. The system applies to credit exposure in particular types of business activity according to the classification based on the Polish Classification of Economic Activities (Polska Klasyfikacja Działalności – PKD).

Concentration limits are set based on the Bank's current credit exposure and risk assessment of each sector. Periodic monitoring of the Bank's exposure allows for ongoing identification of the sectors in which the concentration of sector risk may be too excessive. In such cases, an analysis of the economic situation of the sector is performed including both the current and forecast trends and an assessment of quality of the current exposure to that sector. These measures enable the Bank to formulate the activities to reduce sector concentration risk and ongoing adaptation of the Bank's Credit Policy to a changing environment.

The table below presents the structure of exposures by sectors

EXPOSURE'S STUCTURE BY SECTORS	31.12.2019	31.12.2018
Agriculture, forestry and fishing	0.7%	0.8%
Mining and quarrying	1.2%	2.3%
Manufacturing	19.1%	19.0%
Electricity, gas, steam and air conditioning supply	7.5%	5.8%
Water supply	2.4%	2.3%
Construction	4.3%	5.5%
Wholesale and retail trade	14.6%	14.2%
Transport and storage	5.1%	4.7%
Accommodation and food service activities	2.6%	2.6%
Information and communication	2.0%	2.5%
Financial and insurance activities	16.0%	13.5%
Real estate activities	11.5%	11.8%
Professional, scientific and technical activities	3.2%	3.3%
Administrative and support service activities	1.4%	1.8%
Public administration and defence, compulsory social security	6.2%	7.2%
Education	0.2%	0.2%
Human health services and social work activities	0.7%	0.7%
Arts, entertainment and recreation	1.1%	0.6%
Others	0.2%	1.2%
Total	**100.0%**	**100.0%**

(in PLN thousand)

Financial assets subject to modification

The table below presents information about financial assets that were subject to a modification that didn't result in derecognition and for which, prior to modification, an impairment loss on expected credit losses was calculated as a loan loss over the lifetime of the exposure.

	2019	2018
FINANCIAL ASSETS WHICH WERE SUBJECT TO MODIFICATION IN THE PERIOD		
Carrying amount according to the amortised cost before modification	16 662	23 950
Net modification gain or loss	(373)	(8)
FINANCIAL ASSETS WHICH WERE SUBJECT TO MODIFICATION SINCE INITIAL RECOGNITION		
Gross carrying amount of financial assets for which the loss allowance has changed during the reporting period from lifetime expected credit losses to an amount equal to 12-month expected credit losses	12 286	624

Forbearance measures

Forborne exposures are debt contracts in respect of which forbearance measures have been extended and as a result of the, so called, rejection test they have been finally classified as performing forborne exposures or non-performing forborne exposures. Forbearance measures occur in situations in which the borrower is considered to be unable to meet the terms and conditions due to financial difficulties, including problems with debt service. Due to these difficulties, the Bank decides to modify the terms and conditions of the contract to allow the borrower sufficient ability to service the debt. Modification of the terms and conditions of the contract may include i.e. the reduction of the interest rate, principal, accrued interest or the rescheduling of the dates of payment of principal or interests.

The Bank determines the list of the forbearance measures, including in particular:

- the extension of initial maturity (due) date (in case of additional appendix to the contract) or signing a restructuring contract (in case of full past-due debt), in particular as a result of constant reduction of installments amount,
- the modification of the contract's terms or conditions which results in lower interests and/or principal payments to eliminate the past-due debt,
- . the refinancing by the other loan in the Bank.

The classification as forborne exposure shall be discontinued when all the following conditions are met:

- the contract is considered as a performing exposure,
- a minimum 2 year probation period has passed from the date the forborne exposure was considered as performing ,
- none of the exposures to the debtor is at least 30 days past-due at the end of the probation period of forborne exposure.

If conditions, referred to above, are not fulfilled at the end of the probation period, exposures are classified as performing or non-performing forborne exposures respectively in the probation period untill all these conditions are met. The fulfilment of the conditions is assessed at least on a quarterly basis.

Exposure is classified as forbearance only if the modification of the contractual terms is related to the financial difficulties of the borrower.

The forbearance agreements are monitored for fulfillment of contractual provisions. Dedicated units of the Bank manage the agreements with identified forbearance measures and monitor such agreements on an on-going basis.

The decision to apply the forbearance measure is undertaken by authorized unit within the credit application process.

The accounting policies in respect to the evaluation and the provisioning of the forborne exposures generally follow the principles in line with the provisions of IFRS 9,

The Bank also identifies the assets' significant credit risk increase for which the forbearance measures have been applied, for the purpose of the process of impairment allowance recognition according to IFRS 9.

Notes to the financial statements (cont.)

(in PLN thousand)

Share of forborne exposures in the Bank's loan portfolio

	31.12.2019					
	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT-IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT-IMPAIRED (POCI)	TOTAL
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
Loans and advances measured at amortised cost, including:	**109 036 973**	**18 466 999**	**1 503 687**	**871 527**	**7 777**	**129 886 963**
Forborne exposures gross	347 639	112 208	2 261 037	485 121	577	3 206 582
Loss allowance	(2 938)	(11 647)	(1 389 932)	(264 347)	(258)	(1 669 122)
Forborne exposures net	344 701	100 561	871 105	220 774	319	1 537 460
Loans and advances measured at fair value through other comprehensive income, including:	**937 162**	**608 620**	**-**	**-**	**-**	**1 545 782**
Forborne exposures	-	-	-	-	-	-
Loss allowance (*)	-	-	-	-	-	-
Loans and advances measured at fair value through profit or loss, including:						**242 639**
Forborne exposures						998

	31.12.2018					
	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT-IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT-IMPAIRED (POCI)	TOTAL
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
Loans and advances measured at amortised cost, including:	**98 624 992**	**19 362 767**	**1 619 701**	**739 650**	**2 487**	**120 349 597**
Forborne exposures gross	479 885	161 514	2 551 359	429 879	813	3 623 450
Loss allowance	(6 444)	(6 786)	(1 485 700)	(235 467)	(509)	(1 734 906)
Forborne exposures net	473 441	154 728	1 065 659	194 412	304	1 888 544
Loans and advances measured at fair value through other comprehensive income, including:	**1 696 888**	**-**	**-**	**-**	**-**	**1 696 888**
Forborne exposures	-	-	-	-	-	-
Loss allowance (*)	-	-	-	-	-	-
Loans and advances measured at fair value through profit or loss, including:						**302 630**
Forborne exposures						2 063

(*) The impairment allowance for loans and advances to customers measured at fair value through other comprehensive income is included in the 'Revaluation reserve' item and does not reduce the carrying amount of the loan.

Notes to the financial statements (cont.)

(in PLN thousand)

The quality analysis of forborne exposures broken down by delays in repayment

	31.12.2019					
	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT-IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT-IMPAIRED (POCI)	TOTAL
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
FORBORNE EXPOSURES MEASURED AT AMORTISED COST						
Gross carrying amount, of which:	**347 639**	**112 208**	**2 261 037**	**485 121**	**577**	**3 206 582**
not past due	347 404	76 919	645 538	165 042	289	1 235 192
up to 1 month	235	27 931	17 246	81 371	13	126 796
between 1 month and 3 months	-	7 358	17 456	50 415	48	75 277
between 3 months and 1 year	-	-	64 456	56 824	125	121 405
between 1 year and 5 years	-	-	266 867	105 206	39	372 112
above 5 years	-	-	1 249 474	26 263	63	1 275 800
Impairment allowances, of which:	**(2 938)**	**(11 647)**	**(1 389 932)**	**(264 347)**	**(258)**	**(1 669 122)**
not past due	(2 922)	(5 725)	(177 133)	(59 176)	(119)	(245 075)
up to 1 month	(16)	(4 044)	(7 745)	(33 496)	77	(45 224)
between 1 month and 3 months	-	(1 878)	(8 210)	(26 054)	8	(36 134)
between 3 months and 1 year	-	-	(25 678)	(37 245)	(122)	(63 045)
between 1 year and 5 years	-	-	(172 198)	(82 750)	(39)	(254 987)
above 5 years	-	-	(998 968)	(25 626)	(63)	(1 024 657)
FORBORNE EXPOSURES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS						
Carrying amount, of which:						**998**
not past due						28
up to 1 month						-
between 1 month and 3 months						73
between 3 months and 1 year						152
between 1 year and 5 years						745
above 5 years						-

Notes to the financial statements (cont.)

(in PLN thousand)

	31.12.2018					
	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT-IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT-IMPAIRED (POCI)	TOTAL
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
FORBORNE EXPOSURES MEASURED AT AMORTISED COST						
Gross carrying amount, of which:	**479 885**	**161 514**	**2 551 359**	**429 879**	**813**	**3 623 450**
not past due	478 845	118 478	904 469	137 676	336	1 639 804
up to 1 month	1 040	36 062	21 404	65 098	140	123 744
between 1 month and 3 months	-	5 782	8 056	46 912	39	60 789
between 3 months and 1 year	-	108	110 767	53 778	63	164 716
between 1 year and 5 years	-	692	989 142	110 354	130	1 100 318
above 5 years	-	392	517 521	16 061	105	534 079
Impairment allowances, of which:	**(6 444)**	**(6 786)**	**(1 485 700)**	**(235 467)**	**(509)**	**(1 734 906)**
not past due	(6 400)	(2 873)	(221 208)	(50 640)	(143)	(281 264)
up to 1 month	(44)	(2 749)	(10 142)	(25 761)	(29)	(38 725)
between 1 month and 3 months	-	(699)	(4 211)	(22 510)	(39)	(27 459)
between 3 months and 1 year	-	(50)	(56 719)	(32 897)	(63)	(89 729)
between 1 year and 5 years	-	(241)	(733 579)	(88 176)	(130)	(822 126)
above 5 years	-	(174)	(459 841)	(15 483)	(105)	(475 603)
FORBORNE EXPOSURES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS						
Carrying amount, of which:						**2 063**
not past due						243
up to 1 month						28
between 1 month and 3 months						-
between 3 months and 1 year						-
between 1 year and 5 years						1 792
above 5 years						-

Changes in net carrying amount of forborne exposures

	2019	2018
Carrying amount at the beginning	**1 890 607**	**2 123 555**
The effect of IFRS 9 implementing	-	(40 197)
Adjusted carrying amount at the beginning	**1 890 607**	**2 083 358**
Amount of exposures recognized in the period	142 285	267 879
Amount of exposures derecognized in the period	(282 404)	(64 108)
Changes in impairment allowances	8 580	(181 330)
Other changes	(220 610)	(215 192)
Carrying amount at the end	**1 538 458**	**1 890 607**
Interest income	83 599	115 023

Notes to the financial statements (cont.)

(in PLN thousand)

Forborne exposures by type of forbearance activity

	31.12.2019	31.12.2018
Modification of terms and conditions	1 538 458	1 784 689
Refinancing	-	105 918
Carrying amount	**1 538 458**	**1 890 607**

Forborne exposures by product type

	31.12.2019	31.12.2018
Mortgage loans	1 065 076	1 135 977
Current accounts	55 722	57 330
Operating loans	89 084	353 815
Investment loans	230 342	240 975
Cash loans	76 279	79 846
Other loans and advances	21 955	22 664
Carrying amount	**1 538 458**	**1 890 607**

Forborne exposures by industrial sectors

	31.12.2019	31.12.2018
Corporates:	1 195 674	1 551 396
Real estate activities	775 249	941 806
Manufacturing	78 079	257 750
Wholesale and retail trade	101 848	91 416
Accommodation and food service activities	49 460	71 490
Construction	99 478	67 439
Professional, scientific and technical activities	51 248	49 777
Transportation and storage	3 538	31 938
Agriculture, forestry and fishing	18 402	23 757
Other sectors	18 372	16 023
Individuals	342 784	339 211
Carrying amount	**1 538 458**	**1 890 607**

Forborne exposures by geographical structure

	31.12.2019	31.12.2018
Poland	1 537 432	1 889 638
Other countries	1 026	969
Carrying amount	**1 538 458**	**1 890 607**

Notes to the financial statements (cont.)

(in PLN thousand)

CHF loans to individuals

Since 2003 Bank Pekao S.A. has not granted CHF loans for individuals. Almost the entire portfolio of CHF loans for individuals was granted before August 2006 by Bank BPH S.A. and then taken over by Bank Pekao S.A. as a result of the merger.

The table below presents the structure and quality of CHF loans for individuals.

	31.12.2019					
	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT-IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT-IMPAIRED (POCI)	TOTAL
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
Gross carrying amount, of which:	**3 372**	**2 555 642**	**30 843**	**163 352**	**-**	**2 753 209**
denominated in CHF	3 372	2 546 227	30 843	162 541	-	2 742 983
indexed to CHF	-	9 415	-	811	-	10 226
Impairment allowances, of which (*):	**(3)**	**(55 939)**	**(20 053)**	**(79 988)**	**-**	**(155 983)**
denominated in CHF	(3)	(55 882)	(20 053)	(79 680)	-	(155 618)
indexed to CHF	-	(57)	-	(308)	-	(365)
Carrying amount, of which:	**3 369**	**2 499 703**	**10 790**	**83 364**	**-**	**2 597 226**
denominated in CHF	3 369	2 490 345	10 790	82 861	-	2 587 365
indexed to CHF	-	9 358	-	503	-	9 861

(*) Including the provision for legal risk regarding foreign currency mortgage loans in the amount of PLN 27 712 thousand

	31.12.2018					
	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT-IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT-IMPAIRED (POCI)	TOTAL
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
Gross carrying amount, of which:	**372**	**2 821 284**	**30 125**	**162 975**	**-**	**3 014 756**
denominated in CHF	372	2 807 082	30 125	161 856	-	2 999 435
indexed to CHF	-	14 202	-	1 119	-	15 321
Impairment allowances, of which:	**(7)**	**(30 407)**	**(15 897)**	**(81 343)**	**-**	**(127 654)**
denominated in CHF	(7)	(30 365)	(15 897)	(80 950)	-	(127 219)
indexed to CHF	-	(42)	-	(393)	-	(435)
Carrying amount, of which:	**365**	**2 790 877**	**14 228**	**81 632**	**-**	**2 887 102**
denominated in CHF	365	2 776 717	14 228	80 906	-	2 872 216
indexed to CHF	-	14 160	-	726	-	14 886

As of 31 December 2019 the average LTV for CHF loans to individuals granted by the Bank amounted to 39.1% (44.2% as at 31 December 2018), with an average LTV for the whole portfolio of mortgage loans of 57.7% (62.8% as at 31 December 2018).

Issue related to the ruling of the Court of Justice of the European Union regarding a loan indexed to CHF granted by another bank

In April 2018, the District Court in Warsaw submitted a request to the Court of Justice of the European Union (hereinafter the 'CJEU') for a preliminary ruling regarding the effects of any abusive provisions of the individual loan agreement indexed to CHF granted by one of the banks.

On 3 October 2019 the CJEU issued a ruling regarding the above-mentioned request. The CJEU interpreted the provisions of Council Directive 93/13/EEC of 5 April 1993 on unfair terms in consumer contracts based on the loan agreement indexed to CHF. The CJEU has indicated the effects of recognition of possible abusiveness of conversion clauses by the national court, without at the same time examining the possible abusiveness of contractual provisions. The CJEU did not prejudge that should the national court determine any abusiveness, the court should declare the entire contract invalid. The assessment in this respect remains to be decided by the national court, however, the CJEU did not rule out the possibility of filling the gap resulting from the abusiveness of conversion clauses by means of national disposable provisions.

The judgment of the CJEU is a general guideline for Polish courts. Final decisions taken by Polish courts will be made on the basis of EU regulations interpreted in accordance with the judgment of the CJEU, taking into account the provisions of national law and analysis of the individual circumstances of each case. At the same time, it is still difficult to talk about the shaped case law on mortgage loans in CHF, which is often confirmed by mutually exclusive rulings of common courts, as well as legal questions to the CJEU and the Supreme Court to resolve court doubts.

Considering the increase in the number of lawsuits regarding foreign currency mortgage loans in CHF observed in the banking sector and the heterogeneity in the ruling line regarding the above loans, as at 31 December 2019 the Bank estimated the provision for the above legal risk related to foreign currency mortgage loan agreements in CHF in the total amount of PLN 46.7 million.

The above amount of the provision includes the following elements:

1. PLN 27.7 million for current and future claims regarding balance sheet exposures recognized as impairment allowances for loan exposures in correspondence with 'Net impairment losses on financial assets and off-balance sheet commitments',
2. PLN 19.0 million for current and future claims regarding paid exposures recognized as provisions in correspondence with 'Other operating expenses'.

As at 31 December 2019 lawsuits in number of 158 were pending against the Bank regarding foreign currency mortgage loans in CHF, which were granted in previous years with a total amount in dispute of PLN 43.7 million (as at 31 December 2018 the number of cases was 68, corresponding to the total amount in dispute of PLN 22.3 million). In relation to the above lawsuits, the Bank estimated the provision in the total amount of PLN 14.2 million based on an external legal opinion regarding the assessment of contractual patterns of foreign currency mortgage loans in CHF and on the individual assessment (for each lawsuit) of the risk of losing a given case in court, taking into account the nature of the claim, as well as possible financial consequences.

In addition, as at 31 December 2019, the Bank estimated the portfolio provision in the total amount of PLN 32.5 million, which was determined in relation to future possible lawsuits regarding the portfolio of foreign currency mortgage loans in CHF.

The calculation of the provision was based on an assessment of the legal risk associated with the abovementioned agreements (performed by the Bank with the involvement of an external legal company) and concerned mainly the determination of the following elements:

estimating of the value of the portfolio, where in the future lawsuits will be brought by customers regarding the questioning of the loan agreement,

a) estimating of the probability of losing the abovementioned future court cases,
b) estimating of the possible financial consequences in the event of losing a court case, assuming as possible scenarios:
    - annulment of the entire foreign currency mortgage agreement in CHF as a result of considering the valorisation clause as illegal,
    - recognition that the clauses contained in the loan agreement constitute unlawful contractual provisions resulting in the determination of the loan balance in PLN and leaving the interest rate on the loan based on the LIBOR rate,
    - recognition of the valorisation clause as abusive and replacing it with the average exchange rate of the National Bank of Poland,
    - dismiss the action.

Taking into account the short period after the issuance of the CJEU ruling, and thus also a short history of data on the scale of lawsuits and the shapely direction of possible court decisions with respect to foreign currency mortgage loans in CHF, the estimates of the above provision required the Bank to adopt many expert assumptions that are subject to significant uncertainty.

The Bank carried out a sensitivity analysis in relation to significant provisioning parameters, where a change in the level of these parameters would have the following impact on the amount of the provision for legal risk of foreign currency mortgage loans in CHF.

Parameter	Scenario	Impact on the level of provision
Number of lawsuits	+20%	6.5
	-20%	(6.5)
Time horizon	4 year	8.2
	2 year	(4.1)

If an additional 1% of the Bank's customers with foreign currency mortgage loans in CHF filed a lawsuit against the Bank, then the impact on the loss from legal risk on mortgage loans in convertible currencies would increase by PLN 15 million.

The Bank will monitor the impact of the CJEU ruling on the direction of decisions taken by Polish courts, as well as market practice and behavior of borrowers, and will update all assumptions adopted in the process of creating provisions for legal risk related to foreign currency mortgage loans in CHF. Accordingly, the amount of the provision may change in the future.

(in PLN thousand)

Offsetting financial assets and financial liabilities

The disclosures in the tables below include financial assets and financial liabilities that are subject to an enforceable master netting agreements or similar agreements, irrespective of whether they are offset in the statement of financial position.

The netting agreements concluded by the Bank are:

- ISDA agreements and similar master netting agreements on derivatives,
- GMRA agreements on repo and reverse-repo transactions.

The netting agreements do not meet the criteria for offsetting in the statement of financial position. This is because they create for the parties to the agreement a right of set-off of recognized amounts that is enforceable only following an event of default, insolvency or bankruptcy of the one of the counterparty. At the balance, day there were no cases of offsetting financial assets and financial liabilities for these netting agreements.

The Bank receives and gives collateral in the form of cash and marketable securities in respect of the following transactions:

- derivatives,
- repo and reverse-repo transactions.

Such collateral is subject to standard industry terms. The collateral in the form of cash stems from an ISDA Credit Support Annex (CSA).

The securities received/given as collateral on repo and reverse-repo transaction can be pledged or sold during the term of the transaction but have to be returned on maturity of the transaction. The terms also give each party the right to terminate the related transactions on the counterparty's failure to post collateral.

Financial assets and financial liabilities subject to enforceable master netting agreements and similar agreements and which may be potentially offset in the statement of financial position.

31.12.2019	CARRYING AMOUNT OF FINANCIAL ASSETS PRESENTED IN THE STATEMENT OF FINANCIAL POSITION	AMOUNT OF POTENTIAL OFFSETTING		NET AMOUNT
		FINANCIAL INSTRUMENTS (INCLUDING RECEIVED COLLATERAL IN THE FORM OF SECURITIES)	CASH COLLATERAL RECEIVED	
FINANCIAL ASSETS				
Derivatives	2 412 367	(1 850 010)	(310 724)	251 633
TOTAL	**2 412 367**	**(1 850 010)**	**(310 724)**	**251 633**

31.12.2019	CARRYING AMOUNT OF FINANCIAL LIABILITIES PRESENTED IN THE STATEMENT OF FINANCIAL POSITION	AMOUNT OF POTENTIAL OFFSETTING		NET AMOUNT
		FINANCIAL INSTRUMENTS (INCLUDING PLEDGED COLLATERAL IN THE FORM OF SECURITIES)	CASH COLLATERAL PLEDGED	
FINANCIAL LIABILITIES				
Derivatives	2 589 498	(1 882 641)	(613 100)	93 757
TOTAL	**2 589 498**	**(1 882 641)**	**(613 100)**	**93 757**

31.12.2018	CARRYING AMOUNT OF FINANCIAL ASSETS PRESENTED IN THE STATEMENT OF FINANCIAL POSITION	AMOUNT OF POTENTIAL OFFSETTING		NET AMOUNT
		FINANCIAL INSTRUMENTS (INCLUDING RECEIVED COLLATERAL IN THE FORM OF SECURITIES)	CASH COLLATERAL RECEIVED	
FINANCIAL ASSETS				
Derivatives	1 707 743	(1 363 113)	(163 164)	181 465
TOTAL	**1 707 743**	**(1 363 113)**	**(163 164)**	**181 465**

Notes to the financial statements (cont.)

(in PLN thousand)

31.12.2018	CARRYING AMOUNT OF FINANCIAL LIABILITIES PRESENTED IN THE STATEMENT OF FINANCIAL POSITION	AMOUNT OF POTENTIAL OFFSETTING		NET AMOUNT
		FINANCIAL INSTRUMENTS (INCLUDING PLEDGED COLLATERAL IN THE FORM OF SECURITIES)	CASH COLLATERAL PLEDGED	
FINANCIAL LIABILITIES				
Derivatives	2 779 301	(1 834 018)	(838 090)	107 193
TOTAL	**2 779 301**	**(1 834 018)**	**(838 090)**	**107 193**

The carrying amount of financial assets and financial liabilities disclosed in the above tables have been measured in the statement of financial position on the following bases:

- derivatives – fair value,
- assets and liabilities resulting from repo and reverse-repo transactions – amortized cost.

Reconciliation of the carrying amount of financial assets and financial liabilities subject to enforceable master netting agreements and similar agreements to the amounts presented in the statement of financial position.

31.12.2019	NET CARRYING AMOUNT	ITEM IN STATEMENT OF FINANCIAL POSITION	CARRYING AMOUNT IN STATEMENT OF FINANCIAL POSITION	CARRYING AMOUNT OF TRANSACTIONS NOT IN SCOPE OF OFFSETTING DISCLOSURES	NOTE
FINANCIAL ASSETS					
Derivatives	2 035 159	Derivative financial instruments (held for trading)	2 085 989	50 830	24
	377 208	Hedging instruments	377 208	-	26
FINANCIAL LIABILITIES					
Derivatives	1 974 733	Derivative financial instruments (held for trading)	2 040 368	65 635	24
	614 765	Hedging instruments	614 765	-	26

31.12.2018	NET CARRYING AMOUNT	ITEM IN STATEMENT OF FINANCIAL POSITION	CARRYING AMOUNT IN STATEMENT OF FINANCIAL POSITION	CARRYING AMOUNT OF TRANSACTIONS NOT IN SCOPE OF OFFSETTING DISCLOSURES	NOTE
FINANCIAL ASSETS					
Derivatives	1 394 178	Derivative financial instruments (held for trading)	1 455 976	61 798	24
	313 565	Hedging instruments	313 565	-	26
FINANCIAL LIABILITIES					
Derivatives	1 874 245	Derivative financial instruments (held for trading)	1 919 394	45 149	24
	905 056	Hedging instruments	905 056	-	26

(in PLN thousand)

5.3 Market risk

The Bank is exposed in its operations to market risk and other types of risk caused by changing market risk parameters.

Market risk is the risk of deteriorating financial result or capital of the Bank resulting from market changes. The main factors of market risk are as follows:

- interest rates,
- foreign exchange rates,
- stock prices,
- commodity prices.

The Bank established a market risk management system, providing structural, organizational and methodological frames for the purpose of shaping the structure of balance and off-balance items to assure the achievement of strategic goals.

The main objective of market risk management is to optimize financial results so as to assure the implementation of financial goals of the Bank while keeping the exposure to market risk within the risk appetite defined through risk limits approved by the Management Board and the Supervisory Board.

The organization of the market risk management process is based on a three-tier control system, established in compliance with the best international banking practices and recommendations from banking supervision. The process of market risk management and procedures regulating it have been developed taking into consideration the split into trading and banking books.

Market risk of the trading book

The Bank's management of market risk of the trading book aims at optimizing the financial results and assuring the highest possible quality of customer service in reference to the market accessability (market making) while staying within the limits of risk approved by the Management Board and the Supervisory Board.

The main tool for market risk of the trading book measurement is Value at Risk model (VaR). This value corresponds to the level of a one-day loss, which will be exceeded with the probability not greater than 1%. VaR value is calculated with historical simulation method based on 2 years of historical observations of market risk factors' dynamics. The set of factors used when calculating VaR consists of all significant market factors that are taken into account for valuation of financial instruments, excluding specific credit risk of an issuer and counterparty. Estimating the impact of changes in market factors on the present value of a given portfolio is performed under the full revaluation (which is a difference between the value of the portfolio after the adjustments in market parameters' levels by historically observed changes of the parameters and the present value of the portfolio). For such a set of probable changes in the portfolio value (distribution), VaR is defined to be equal to 1% quantile.

The model is subject to continuous, statistical verification by comparing the VaR values to actual and revaluated performance figures. Results of analyses carried out in 2019 and 2018 confirmed the adequacy of the model applied.

The tables below presents the market risk exposure of the trading portfolio of the Bank measured by Value at Risk in 2019 and 2018

	31.12.2019	MINIMUM VALUE	AVERAGE VALUE	MAXIMUM VALUE
foreign exchange risk	237	6	190	1 161
interest rate risk	1 098	873	1 386	2 055
Trading portfolio	1 100	874	1 447	2 581

	31.12.2018	MINIMUM VALUE	AVERAGE VALUE	MAXIMUM VALUE
foreign exchange risk	117	9	171	1 232
interest rate risk	1 154	472	1 083	1 733
Trading portfolio	1 129	488	1 103	2 384

Notes to the financial statements (cont.)

(in PLN thousand)

Interest rate risk of the banking book

In managing the interest rate risk of the banking book the Bank aims at hedging the economic value of capital and achieving the planned interest result within the accepted limits. The financial position of the Bank in relation to changing interest rates is monitored through the interest rate gap (repricing gap), duration analysis, sensitivity analysis, stress testing and VaR. The interest rate risk of the banking book measurement is generally carried out on a monthly basis.

In 2019, the Bank adjusted the interest rate risk management process in the banking book to the requirements laid down in EBA guidelines 'Guidelines on the management of interest rate risk arising from non-trading activities' released on 19 July 2018 (EBA/GL/2018/02).

The table below presents the sensitivity levels of the contractual interest income (NII) to the interest rate change by 100 b.p. and of economic value of the Bank's equity (EVE) to the interest rate change by 200 b.p. (standard regulatory shock excluding the risk profile of own funds) for the end of December 2019 and December 2018.

SENSITIVITY IN %	31.12.2019	31.12.2018
NII	(6.94)	(8.65)
EVE	(2.94) (*)	(1.07)

(*) EVE measurement as at 31.12.2019 accounts for EBA 'Guidelines on the management of interest rate risk arising from non-trading activities' of 19 July 2018 (EBA/GL/2018/02).

Currency risk

Currency risk management is performed simultaneously for the trading and the banking book. The objective of currency risk management is to maintain the currency profile of statement of financial position and off-balance items within the internal limits.

The tables below present the Bank's foreign currency risk profile measured by Value at Risk and currency position

VALUE AT RISK	31.12.2019	31.12.2018
Currencies total (*)	122	54

(*) VaR presented in 'Currencies total' is VaR for the whole portfolio, and includes correlations among currencies.

(in PLN thousand)

Currency exposure of the Bank

31.12.2019	BALANCE SHEET OPERATIONS		OFF-BALANCE SHEET OPERATIONS DERIVETIVES		NET POSITION
	ASSETS	LIABILITIES	LONG POSITION	SHORT POSITION	
EUR	23 018 008	19 107 106	14 770 726	18 597 989	83 639
USD	5 108 516	8 431 987	12 363 822	9 006 351	34 000
CHF	2 715 419	614 002	2 968 114	5 069 893	(362)
GBP	445 661	969 948	748 318	224 240	(209)
JPY	16 353	113 221	112 481	15 541	72
NOK	303 790	68 356	10 677	245 964	147
CZK	99 210	34 910	198 046	262 370	(24)
SEK	97 899	69 352	60 956	89 485	18
Other currencies	157 176	184 642	378 101	349 701	934
TOTAL	**31 962 032**	**29 593 524**	**31 611 241**	**33 861 534**	**118 215**

31.12.2018	BALANCE SHEET OPERATIONS		OFF-BALANCE SHEET OPERATIONS DERIVETIVES		NET POSITION
	ASSETS	LIABILITIES	LONG POSITION	SHORT POSITION	
EUR	22 455 421	18 387 092	10 131 578	14 181 183	18 724
USD	5 483 705	8 283 535	11 114 205	8 301 420	12 955
CHF	3 007 369	578 497	4 229 992	6 664 142	(5 278)
GBP	275 357	975 357	827 920	126 347	1 573
HUF	3 219	190 119	243 818	57 151	(233)
NOK	209 725	46 549	190 749	353 895	30
CZK	53 790	71 006	246 324	229 050	58
SEK	89 227	45 522	9 862	53 484	83
Other currencies	94 500	174 422	183 285	99 929	3 434
TOTAL	**31 672 313**	**28 752 099**	**27 177 733**	**30 066 601**	**31 346**

5.4 Liquidity risk

The objective of liquidity risk management is to:

- ensure and maintain the Bank's solvency with respect to current and future payables taking into account the cost of acquiring liquidity and return on the Bank's equity,
- prevent the occurrance of crisis situations, and
- provide solutions necessary to survive a crisis situation when such circumstances occur.

The Bank has centralized liquidity risk management system covering current liquidity management and first level control performed by the responsible functions, the second level control carried out by a dedicated unit responsible of risk management and independent audit.

Managing the Bank's liquidity is carried out in intraday, short-term and long-term horizon. Analysing of Intraday liquidity concerns flows realized during the day, through a short-term liquidity analysis is understood liquidity measurement system which refers to the time horizon shorter than one year, long-term analysis covers period above one year. Due to the specific tools and techniques used for liquidity risk management, the Bank manages current and medium-term liquidity together with short-term liquidity.

The liquidity control is performing as a continuous process of determining and analysing the levels of various indicators and measures related to intraday, short-term and long-term liquidity. Monitoring frequency is matched to the specific liquidity aspect – e.g. daily for short-term liquidity, monthly for long-term liquidity. Liquidity ratios and measures are subject to a formal limiting process. The limits' utilisation is regularly monitored and presented to the Bank Management. In case of exceeding, escalation process is running as to inform decision-makers and ultimately to restore the liquidity risk exposures to acceptable levels.

Scenario-based stress analyses, conducted on a monthly basis, constitute an integral part of the Bank's liquidity monitoring process. Within the scope of these analyses Bank's liquidity is assessed under the conditions of crisis which is caused by financial markets or is caused by internal factors, specific to the Bank.

Managing the liquidity, the Bank pays special attention to the liquidity in foreign currencies through monitoring, limiting and controlling the liquidity individually for each currency, as well as monitoring demand for the current and future currency liquidity and in case of identification of such need the Bank hedges using currency swaps. The Bank monitors also the potential influence on the liquidity of placing required collateral deposits for derivative transaction.

In order to define the principles of contingency liquidity management, Bank introduced, approved by the Management Board, 'Contingency Liquidity Policy', which defines the contingency procedures in the event of crisis situations. This policy involves daily monitoring of the system and specific to the Bank's early-warning indicators as well as three levels of liquidity risk states depending on the level of early-warning indicators, the Bank's and market situation. It also defines the sources for covering the expected outflows from the Bank. This document sets the procedures for monitoring the liquidity states, emergency action procedures, task forces dedicated for restoring the Bank's liquidity and the Bank Management's responsibilities for taking necessary decisions to restore the required liquidity level.

Below are presented basic quantitative information concerning the Bank's liquidity at the end of 2019 year in comparison to the end of 2018. They cover the structure of financial liabilities by contractual maturity, adjusted liquidity gap and financial flows from derivative transactions.

(in PLN thousand)

Structure of financial liabilities by contractual maturity

31.12.2019	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
BALANCE SHEET LIABILITIES (*)						
Amounts due to banks (**) (***)	1 661 130	48 552	171 899	613 258	603 447	3 098 286
Amounts due to customers (***)	123 471 043	12 590 259	20 906 526	546 046	940 818	158 454 692
Leasing	13 510	15 892	69 629	207 820	370 330	677 181
Debt securities issued	95 843	519 113	946 599	55 890	-	1 617 445
Subordinated liabilities	-	-	82 067	321 949	3 121 594	3 525 610
Financial liabilities held for trading	74 115	-	12 087	42 114	56 483	184 799
Total	**125 315 641**	**13 173 816**	**22 188 807**	**1 787 077**	**5 092 672**	**167 558 013**
OFF-BALANCE SHEET COMMITMENTS (*)						
Off-balance sheet commitments Financial liabilities granted	37 235 632	-	-	-	-	37 235 632
Off-balance sheet commitments Guarantees liabilities granted	21 792 826	-	-	-	-	21 792 826
Total	**59 028 458**	**-**	**-**	**-**	**-**	**59 028 458**

31.12.2018	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
BALANCE SHEET LIABILITIES (*)						
Amounts due to banks (**) (***)	1 563 680	51 873	171 860	720 186	466 350	2 973 949
Amounts due to customers (***)	117 580 349	11 606 641	20 838 450	850 341	653 782	151 529 563
Leasing	-	-	-	38 014	-	38 014
Debt securities issued	-	102 056	1 061 429	584 671	-	1 748 156
Subordinated liabilities	-	-	67 102	294 264	2 429 522	2 790 888
Financial liabilities held for trading	-	-	-	57 421	45 008	102 429
Total	**119 144 029**	**11 760 570**	**22 138 841**	**2 544 897**	**3 594 662**	**159 182 999**
OFF-BALANCE SHEET COMMITMENTS (*)						
Off-balance sheet commitments Financial liabilities granted	35 199 622	-	-	-	-	35 199 622
Off-balance sheet commitments Guarantees liabilities granted	19 043 911	-	-	-	-	19 043 911
Total	**54 243 533**	**-**	**-**	**-**	**-**	**54 243 533**

(*) Exposure amounts from balance liabilities, financing-related off-balance sheet commitments granted and guarantee liabilities granted have been allocated to earliest tenors, for which an outflow of assets from the Bank is possible based on contracts entered into by the Bank. However, outflows expected by the Bank are actually significantly lower than those indicated by the specification presented above. The above is a consequence of considerable diversification of amounts due to customers and stages of life of individual contracts. Risk monitoring and management in relation to the outflow of assets are provided by the Bank on continuous basis. The Bank estimates also more probable flows that are reflected in Tables 'Adjusted liquidity gap'.

(**) Including Central Bank.

(***) without leasing liabilities

Adjusted liquidity gap

The adjusted liquidity gaps presented below include, inter alia, the adjustments concerning the stability of core deposits and their maturity, adjustments of flows from granted off-balance sheet commitments arising from financing, guarantees and from assets without contractual repayment schedules. On top of that, included are also the adjusted flows stemming from the Bank's security portfolio and flows resulting from earlier repayment of mortgage loans portfolio. These are the main elements differentiating the adjusted gaps from unadjusted ones. Moreover, the gaps are of static nature, i.e. they do not take into consideration the impact of changes of balance sheet and off-balance sheet items volume (i.e. new deposits).

(in PLN thousand)

Adjusted liquidity gap

31.12.2019	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
Balance sheet assets	37 289 235	5 749 275	27 614 844	62 970 209	61 026 429	194 649 992
Balance sheet liabilities	10 571 118	8 483 214	20 603 246	15 503 903	139 488 511	194 649 992
Off-balance sheet assets/liabilities (net)	(6 432 613)	(1 061 775)	1 149 837	2 998 797	3 038 425	(307 329)
Periodic gap	**20 285 504**	**(3 795 714)**	**8 161 435**	**50 465 103**	**(75 423 657)**	**(307 329)**
Cumulated gap	**-**	**16 489 790**	**24 651 225**	**75 116 328**	**(307 329)**	**-**

31.12.2018	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
Balance sheet assets	38 469 391	4 301 852	27 945 498	54 740 456	58 889 979	184 347 176
Balance sheet liabilities	14 158 802	6 388 596	21 540 559	15 865 849	126 393 370	184 347 176
Off-balance sheet assets/liabilities (net)	(5 432 795)	(858 201)	40 105	2 806 125	2 794 283	(650 483)
Periodic gap	**18 877 794**	**(2 944 945)**	**6 445 044**	**41 680 732**	**(64 709 108)**	**(650 483)**
Cumulated gap	**-**	**15 932 849**	**22 377 893**	**64 058 625**	**(650 483)**	**-**

Off-balance derivative transactions

The following are the liabilities and financial cash flows associated with off-balance sheet derivative transactions, settled, respectively in net and gross amounts.

Off-balance sheet derivative transactions settled by the Bank in net amounts include:

- Interest Rate Swaps (IRS),
- Forward Rate Agreements (FRA),
- Foreign currency options and for gold,
- Interest rate options (Cap/Floor),
- Transactions based on equity securities and stock indexes,
- Transactions based on commodities and precious metals.

Off-balance derivative transactions settled by the Bank in gross amounts include:

- Cross-Currency Interest Rate Swaps (CIRS),
- Foreign currency forward contracts,
- Foreign currency swaps (FX-Swap),
- Forward contracts based on securities.

Liabilities from off-balance transactions on derivatives recognized in net amounts

	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
31.12.2019	48 242	92 083	204 441	980 160	593 030	**1 917 956**
31.12.2018	93 469	49 950	566 715	786 415	402 470	**1 899 019**

Notes to the financial statements (cont.)

(in PLN thousand)

Flows related to off-balance derivative transactions settled in gross amounts

	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
31.12.2019						
Inflows	20 678 287	7 002 569	14 517 278	11 933 202	1 501 027	**55 632 363**
Outflows	20 715 278	6 980 073	14 520 523	12 023 733	1 707 454	**55 947 061**
31.12.2018						
Inflows	23 547 848	5 499 680	9 683 794	7 569 348	2 237 288	**48 537 958**
Outflows	24 336 212	5 496 469	10 102 035	7 633 251	2 422 687	**49 990 654**

5.5 Operational risk

Operational risk is defined as the risk of losses resulting from inadequacy or failure of internal processes, people, systems or external events. It includes law risk, whereas strategic risk, business risk and reputation risk are separate risk categories.

Operational risk management is based on internal procedures that are consistent with the law requirements, resolutions, recommendations and guidelines of the supervisor. Operational risk management includes identification, assessment, monitoring, preventing and reporting. Identification and assessment of operational risk is based on an analysis of internal factors and external factors that may have a significant impact on the achievement of the objectives of the Bank.

The main tools used in identifying and assessing operational risk are: internal operational events, external operational events, key risk indicators, scenario analysis and self-assessment of operational risk. Monitoring activities are conducted on three levels of defence: risk management in operational activity of the Bank (all employees), risk management control (Integrated Risk Management Department) and internal audit (Internal Audit Department). Preventing operational risk includes definition of operational risk limits, and the obligation to initiate mitigation actions in case they are exceeded, the system of internal control, business continuity plans and insurance coverage.

Operational risk reporting system enables the assessment of the Bank's exposure to operational risk and the effective management of this risk, and also plays a fundamental role in the process of informing the Supervisory Board, the Management Board and executives of the Bank's exposure to operational risk. It is based in particular on the quarterly reports on operational risk control that include, among others: profile of operational risk, loss limit utilization, analysis of trends in the relevant categories of operational risk, potential losses, information on key indicators of operational risk and operational risk capital requirement.

The Supervisory Board, the Management Board and the Operational Risk Committee are involved in operational risk management. The Integrated Risk Management Department coordinates the process of operational risk management. All employees of the Bank and selected specialized units are responsible in their areas for operational risk management, due to diversified character of this risk which requires professional knowledge.

In order to ensure compliance of the operational risk management system with regulatory requirements, at least once a year verification of the operational risk management system is carried out.

The table below presents operational events by categories as defined by the Article 324 of Regulation (EU) No 575/2013 of the European Parliament and of the Council:

- internal frauds – losses resulting from acts of intended fraud, misappropriation of property, circumvention of regulations, the laws and internal policies of a company, excluding losses resulting from diversity or discrimination of employees, which concern at least one internal party,
- external frauds – losses being a consequence of acts of defraud, misappropriation of property or circumvention of regulations performed by a third party,
- employment practices and workplace safety – losses due to acts inconsistent with regulations or employment agreements, workplace health and safety agreements, payments from personal injuries claims or losses from discrimination and unequal employee treatment,
- clients, products and business practices – losses arising from failures of meeting professional obligations towards clients due to unintended or negligent acts (including custody requirements and appropriate behavior) or concerning specific features or a design of a product,

(in PLN thousand)

- damages to physical assets – losses due to damage or loss of tangible assets resulting from natural disasters or other events,
- business disruption and system failures – losses stemming from business or system failures,
- execution, delivery and process management – losses resulting from failed transaction settlements or process management and losses from relations with cooperating parties and vendors.

OPERATING EVENTS BY CATEGORIES	2019	2018
Clients, products and business practices Execution, delivery and process management	66.93%	55.40%
Execution, delivery and process management	20.09%	17.38%
Employment practices and workplace safety	6.79%	16.98%
Damages to physical assets	3.60%	6.65%
External frauds	2.06%	2.84%
Internal frauds	0.38%	0.49%
Business disruption and system failures	0.15%	0.26%
Total	**100.00%**	**100.00%**

5.6 Capital management

The capital management process applied by Bank has been adopted for the following purposes:

- ensuring the safe and secure functioning by maintaining the balance between the capacity to undertake risk (limited by own funds), and the risk levels generated,
- maintenance of capital for covering risk above the minimum stated levels in order to assure further business operations, taking into consideration the possible, future changes in capital requirements and to safeguard the interests of shareholders,
- maintenance of the optimal capital structure in order to maintain the desired quality of risk coverage capital,
- creation of value to shareholders by the best possible utilization of the Bank funds.

The Bank has put in place a formalized process of capital management and monitoring, established within the scope of Internal Capital Adequacy Assessment Process – ICAAP. The Finance Division under the Chief Financial Officer is responsible for functioning of the capital management process in the Bank. The ultimate responsibility for capital management is allocated to the Management Board of the Bank, supported by the Assets, Liabilities and Risk Management Committee, which approves the capital management process. The Supervisory Board supervises the capital management system, in particular approves the capital management strategy. The Capital Management Strategy defines the objectives and general rules of the management and monitoring of the Bank's capital adequacy, such as the guidelines concerning risk coverage sources, preferred structure of capital for risk coverage, long-term capital targets, capital limits system and sources of additional capital under contingency situations.

The Bank has also implemented the Capital Contingency Policy which establishes rules and obligations in the event of crisis appearance or further development that would significantly reduce capitalization level of the Bank or Group. The policy defines the principles of supervision including split of responsibilities for the purpose of early and consistent management in case of crisis situation development.

The capital adequacy of the Bank is controlled by the Assets, Liabilities and Risk Management Committee and Management Board of Bank. Periodic reports on the scale and direction of changes of the capital ratios together with indication of potential threats are prepared for the Supervisory Board, Management Board and for the Assets, Liabilities and Risk Management Committee. The level of basic types of risks is monitored according to the external limits of the banking supervision and the internal limits of the Bank. Analyses and evaluations of directions of business activities development are performed assessing the compliance with capital requirements. Forecasting and monitoring of risk weighted assets, own funds and capital ratios constitute an integral part of the planning and budgeting process, including stress tests.

Notes to the financial statements (cont.)

(in PLN thousand)

The Bank also has a capital allocation process in place, with an aim of guaranteeing the shareholders a safe and effective return on invested capital. On one hand, the process requires capital allocations to products/clients/business lines, which guarantee profits adequate to the risks taken, while on the other hand taking into consideration the cost of capital associated with the business decisions taken. Risk-related efficiency ratios are used in the analyses of income generated compared against the risk taken as well as for the optimization of capital usage for different types of operations.

Regulatory capital requirements

Calculations of the regulatory capital requirements were performed based on 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, with further amendments as well as Commission Implementing and Delegated Regulations (EU) (hereinafter: 'Regulation 575/2013').

According to law, Bank is required to maintain minimal values of capital ratios resulting from Pillar I level (Regulation 575/2013), capital requirement of Pillar II resulting from The Banking Act and combined buffer requirement resulting from Act on macro-prudential supervision.

Minimal value of capital ratios on Pillar 1 level are:

- Total capital ratio (TCR) in amount of 8%,
- Tier 1 capital ratio (T1) in amount of 6%,
- Common Equity Tier 1 capital ratio (CET 1) in amount of 4.5%.

Bank does not have any Capital requirement of Pillar 2.

Combined buffer requirement, as at 31 December 2019 consists of:

- Capital conservation buffer in amount of 2.50%,
- Countercyclical capital buffer in amount of 0.01% (countercyclical capital buffer was calculated as of 31.12.2019 at the level 0.0096%),
- Other systemically important institution buffer in amount of 0.75%,
- Systemic risk buffer in amount of 2.89% (the systemic risk buffer rate is 3% of the total risk exposure amount for all exposures located only on the territory of the Republic of Poland).

In total, Bank is required to maintain:

- Total capital ratio (TCR) in amount of 14.15%,
- Capital ratio Tier 1 (T1) in amount of 12.15%,
- Common Equity Tier (CET 1) in amount of 10.65%.

As at 31 December 2019 total capital ratio of the Bank amounted at 18.7 % (as at 31 December 2018 – 18.7%).

	31.12.2019	31.12.2018
CAPITAL REQUIREMENTS		
Credit and counterparty risk including CVA	9 377 557	8 785 901
Market risk	87 707	64 437
Operational risk	443 575	450 366
Total capital requirement	**9 908 839**	**9 300 704**
OWN FUNDS		
Common Equity Tier 1 capital	20 448 802	19 714 754
Capital Tier 1	2 750 000	2 000 000
Own funds for total capital ratio	**23 198 802**	**21 714 754**
OWN FUNDS REQUIREMENTS		
Common Equity Tier 1 capital ratio (%)	**16.5%**	**17.0%**
Total capital ratio (%)	**18.7%**	**18.7%**

Total capital ratio at the end of 2019 did not change in comparison to the end of 2018.

(in PLN thousand)

Total capital requirement increased by 6.5%, mainly due to higher credit risk capital requirement resulting mainly from increase in loan volumes.

As of 31 December 2019 Common Equity Tier 1 capital was higher by 3.7% as compared to 31 December 2018. Increase in own funds for total capital ratio calculation by 6.8% resulted from retention of 25% of Bank's net profit for year 2018 and including in Tier 2 capital, after obtaining KNF approval, the amount of PLN 0.75 billion from the issue of subordinated bonds

For the purpose of capital requirement calculation the Bank uses:

- Standardised Approach for credit risk capital requirement calculation,
- Financial Collateral Comprehensive Method for credit risk mitigation,
- Mark-to-Market Method for counterparty credit risk capital requirement calculation,
- Standardised Approach for capital requirement calculation of specific risk and duration-based calculation for general risk of debt instruments,
- Standardised Approach for capital requirement calculation of general and specific risk of equity instruments,
- Standardised Approach for capital requirement calculation for pre-funded contributions to the default fund of a qualifying central counterparty,
- Standardised Approach for foreign-exchange risk capital requirement calculation,
- Simplified approach for commodities risk capital requirement calculation,
- Standardised Approach for capital requirements for credit risk valuation adjustment risk,
- Advanced Measurement Approach for operational risk measurement.

Own funds

The Bank defines components of own funds in line with the binding law, particularly with Regulation No 575/2013 and The Banking Act of 29 August 1997 with further amendments.

The Bank's own funds consist of Common Equity Tier 1 capital. Additional Tier 1 capital and Tier 2 capital.

	31.12.2019	31.12.2018
OWN FUNDS		
Capital	22 526 788	21 821 998
Component of the capital not included into own funds, in which:	**(2 064 215)**	**(2 310 600)**
Current year net profit	(2 247 467)	(2 310 600)
Current year net profit included in own funds after KNF approval	183 252	-
Regulatory adjustments, in which:	**(13 771)**	**203 356**
Intangible assets	(676 946)	(565 402)
Cash flow hedges	(102 678)	(41 747)
Adjustments mitigating impact of IFRS 9 introduction in transitional period	805 540	850 761
Additional value adjustments due to prudent calculation	(39 687)	(40 256)
Common Equity Tier 1 capital	**20 448 802**	**19 714 754**
Equity Tier 2 capital	**2 750 000**	**2 000 000**
Own funds for total capital ratio	**23 198 802**	**21 714 754**

Components of capital not included into own funds:

- current year net profit – net profit of current reporting period, verified by statutory auditor responsible for auditing of the Bank's accounts reduced by all foreseeable charge and dividend, can be included into Common Equity Tier 1 capital only with the permission of KNF. As at 31 December 2019, the amount of 183 252 thousand PLN from the prudently unconsolidated net profit of the Bank for the first half of 2019 was included into Common Equity Tier 1 capital.

Regulatory adjustments:

- intangible assets (after deduction of related deferred tax liabilities) decrease Common Equity Tier 1 capital, according to Article 36 of Regulation No 575/2013,
- reserves related to gains or losses on cash flow hedges of financial instruments that are not valued at fair value, including projected cash flows are excluded from the accumulated other comprehensive income, according to Article 33(a) of Regulation 575/2013,
- additional value adjustments due to prudent valuation are created for every asset measured at fair value, according to Article 34 of Regulation No 575/2013,
- adjustments in transitional period resulting from introduction of IFRS 9.

Internal capital adequacy assessment

To assess the internal capital adequacy, the Bank applies methods designed internally.

The Bank takes the following risks into consideration:

- credit risk,
- operational risk,
- market risk,
- liquidity risk,
- real estate risk,
- macroeconomic risk,
- business risk (including strategic risk),
- compliance risk,
- reputational risk,
- model risk,
- excessive leverage risk,
- bancassurance risk,
- financial investment risk.

For each risk deemed material, the Bank develops and applies adequate risk assessment and measurement methods. The Bank applies the following risk assessment methods:

- qualitative assessment – applied in case of risks which are difficult to measure (compliance, reputational and bancassurance risks) with potencial capital coverage in other risks areas,
- assessment by estimation of capital buffer, for risks that are not easily quantifiable however some aggregate assessment of their impact is possible (model risk and macroeconomic risk),
- quantitative assessment – applied for risks which can be measured with the use of economic capital (other risk types apart from liquidity risk and excessive leverage risk) or based on other risk-specific measures (liquidity risk and excessive leverage risk).

Generally, preferred methods of measuring risks and determining the resulting capital requirements are Value at Risk models, based on assumptions derived from the Bank's risk appetite. The models are developed in compliance with the best market practices and regulatory requirements and supplemented with stress tests and/or scenario analyses. In case of risk types for which such methodologies have not been finally developed or implemented, the Bank uses regulatory models supplemented with stress tests or simplified measurement methods.

Also, a consistent methodology for estimating the buffer for macroeconomic changes and model risks has been developed. The macroeconomic changes risk capital buffer is determined on the basis of the impact of the economic slowdown scenario on economic capital in the forecast horizon with additional consideration of the impact of interest rate change on net interest income as well as on changes in the valuation of the portfolios classified as HTCS.

Model risk is estimated using results of model validation and scenario analyses making it possible to evaluate the impact of potential model inconsistencies on its output. Based on the aggregated output, the model risk capital buffer is determined.

The procedure of estimating capital needs starts with the calculation of economic capital, separately for each material quantifiable risk identified by the Bank. Next, economic capital figures for individual risks are aggregated. Then, this amount is increased by the capital buffer for model and macroeconomic risks. The sum of economic capital and the capital buffer constitutes the internal capital of the Bank.

5.7 Fair value of financial assets and liabilities

Financial instruments that are measured at fair value in the unconsolidated statement of financial position of the Bank

The measurement of fair value of financial instruments, for which market values from active markets are available, is based on market quotations of a given instrument (mark-to-market).

The measurement of fair value of Over-the-counter ('OTC') derivatives and instruments with limited liquidity (i.e. for which no market quotations are available), is made on the basis of other instruments quotations on active markets by replication thereof using a number of valuation techniques, including the estimation of present value of future cash flows (mark-to-model).

As of 31 December 2019 and 31 December 2018, the Bank classified the financial assets and liabilities measured at fair value into the following hierarchy of three categories based on the following hierarchy:

- Level 1: mark-to-market, applies to securities quoted on active markets,
- Level 2: mark-to-model valuation with model parameterization, based on quotations from active markets for given type of instrument, applies to illiquid government, municipal, corporate and central bank debt securities, linear and non-linear derivative instruments of interest rate markets (including forward transactions on debt securities), equity, commodity and foreign currency exchange markets, except for those cases that meet the criteria of Level 3,
- Level 3: mark-to-model valuation with partial model parameterization, based on estimated risk factors, applicable to loans and advances, corporate and municipal debt securities and for linear and non-linear derivative instruments of interest rate, equity, commodity and foreign currency exchange markets for which unobservable parameters (e.g. credit risk factors) are recognized as significant.

The measurement at fair value is performed directly by an organizational unit within Risk Management Division, independent of front-office units. The methodology of fair value measurement, including the changes of its parameterization, is subject to approval of Assets and Liabilities Committee (ALCO). The adequacy of measurement methods is subject to on-going analysis and periodical reviews in the framework of model risk management. The same Risk Management Division unit performs the assessment of adequacy and significance of risk factors and assignment of valuation models to appropriate method class, according to established hierarchy of classification.

Notes to the financial statements (cont.)

(in PLN thousand)

Assets and liabilities measured at fair value in breakdown by fair value hierarchy levels

31.12.2019	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Assets:	**15 467 463**	**12 376 755**	**9 002 361**	**36 846 579**
Financial assets held for trading	1 123 003	148 321	8 171	1 279 495
Derivative financial instruments, including:	-	2 082 947	3 042	2 085 989
Banks	-	783 664	3 042	786 706
Customers	-	1 299 283	-	1 299 283
Hedging instruments, including:	-	377 208	-	377 208
Banks	-	91 677	-	91 677
Customers	-	285 531	-	285 531
Securities measured at fair value through other comprehensive income	14 344 460	9 768 279	7 077 273	31 190 012
Securities measured at fair value through profit or loss	-	-	125 454	125 454
Loans and advances to customers measured at fair value through other comprehensive income	-	-	1 545 782	1 545 782
Loans and advances to customers measured at fair value through profit or loss	-	-	242 639	242 639
Liabilities:	**184 799**	**2 655 133**	**-**	**2 839 932**
Financial liabilities held for trading	184 799	-	-	184 799
Derivative financial instruments, including:	-	2 040 368	-	2 040 368
Banks	-	713 693	-	713 693
Customers	-	1 326 675	-	1 326 675
Hedging instruments, including:	-	614 765	-	614 765
Banks	-	566 163	-	566 163
Customers	-	48 602	-	48 602

31.12.2018	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Assets:	**12 494 171**	**10 091 049**	**9 276 990**	**31 862 210**
Financial assets held for trading	632 316	159 022	99 001	890 339
Derivative financial instruments, including:	-	1 454 746	1 230	1 455 976
Banks	-	777 243	1 230	778 473
Customers	-	677 503	-	677 503
Hedging instruments, including:	-	313 565	-	313 565
Banks	-	69 195	-	69 195
Customers	-	244 370	-	244 370
Securities measured at fair value through other comprehensive income	11 861 855	8 163 716	7 111 833	27 137 404
Securities measured at fair value through profit or loss	-	-	65 408	65 408
Loans and advances to customers measured at fair value through other comprehensive income	-	-	1 696 888	1 696 888
Loans and advances to customers measured at fair value through profit or loss	-	-	302 630	302 630
Liabilities:	**102 429**	**2 824 450**	**-**	**2 926 879**
Financial liabilities held for trading	102 429	-	-	102 429
Derivative financial instruments, including:	-	1 919 394	-	1 919 394
Banks	-	686 757	-	686 757
Customers	-	1 232 637	-	1 232 637
Hedging instruments, including:	-	905 056	-	905 056
Banks	-	882 460	-	882 460
Customers	-	22 596	-	22 596

Notes to the financial statements (cont.)

(in PLN thousand)

Change in fair value of financial assets measured at fair value according to Level 3 by the Bank

2019	FINANCIAL ASSETS HELD FOR TRADING	DERIVATIVE FINANCIAL INSTRUMENTS (ASSETS)	LOANS AND ADVANCES TO CUSTOMERS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	LOANS AND ADVANCES TO CUSTOMERS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	SECURITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	SECURITIES MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME
Opening balance	**99 001**	**1 230**	**1 696 888**	**302 630**	**65 408**	**7 111 833**
Increases, including:	630 034	3 032	218 375	-	60 046	1 985 420
Reclassification	-	1 486		-	-	544 884
Derivatives transactions made in 2019	-	-		-	-	-
Acquisition/Granting	628 919	-	166 522	-	-	1 212 241
Transactions made in 2019	-	363	-	-	-	-
Gains on financial instruments	1 115	1 183	51 853	-	60 046	228 295
recognized in the income statement	1 115	1 183	34 347	-	60 046	181 369
recognized in revaluation reserves	-	-	17 506	-	-	46 926
Decreases, including:	(720 864)	(1 220)	(369 481)	(59 991)	-	(2 019 980)
Reclassification	-	-	-	-	-	(83 209)
Settlement/redemption	(131 455)	-	(55 795)	(58 649)	-	(366 767)
Sale/Repayment	(589 388)	-	(313 686)	-	-	(1 552 779)
Losses on financial instruments	(21)	(1 220)	-	(1 342)	-	(17 225)
recognized in the income statement	(21)	(1 220)	-	(1 342)	-	(1 399)
recognized in revaluation reserves	-	-	-		-	(15 826)
Closing balance	**8 171**	**3 042**	**1 545 782**	**242 639**	**125 454**	**7 077 273**
Unrealized income from financial instruments held in portfolio at the end of the period, recognized in:	**20**	**1 183**	**9 071**	**(3 393)**	**-**	**66 197**
Income statement:	20	1 183	(6 920)	(3 393)	-	32 071
net interest income	13	-	968	138	-	35 952
net impairment losses on financial assets and off-balance sheet commitments	-	-	(7 888)		-	(3 881)
result on financial assets and liabilities held for trading	7	1 183	-	(3 531)	-	-
Other comprehensive income	-	-	15 991	-	-	34 126

Notes to the financial statements (cont.)

(in PLN thousand)

Change in fair value of financial assets measured at fair value according to Level 3 by the Bank

2018	FINANCIAL ASSETS HELD FOR TRADING	DERIVATIVE FINANCIAL INSTRUMENTS (ASSETS)	LOANS AND ADVANCES TO CUSTOMERS MEASURED AT FAIR VALUETHROUGH OTHER COMPREHENSIVE INCOME	LOANS AND ADVANCES TO CUSTOMERS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	SECURITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	SECURITIES MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME
Opening balance	**14 211**	**1 218**	**-**	**-**	**-**	**711 823**
Initial application of IFRS 9	-	-	1 841 682	365 137	**52 339**	4 360 232
Opening balance - restated	**14 211**	**1 218**	**1 841 682**	**365 137**	**52 339**	**5 072 055**
Increases, including:	1 511 412	12	480 016	8 976	13 069	3 094 204
Reclassification	392	-	-	-	-	10 869
Transactions made in 2018	-	-	-	2 745	-	-
Acquisition /Granting	1 510 007	-	408 520	-	-	3 034 342
Gains on financial instruments	1 013	12	71 496	6 231	13 069	48 993
recognized in the income statement	1 013	12	39 931	6 231	13 069	48 993
recognized in revaluation reserves	-	-	31 565	-	-	-
Decreases, including:	(1 426 622)	-	(624 810)	(71 483)	-	(1 054 426)
Reclassification	(14 211)	-	-	-	-	(124 275)
Settlement/Redemption	(738)	-	(36 789)	(71 483)	-	(45 018)
Sale/Repayment	(1 411 659)	-	(588 021)	-	-	(825 745)
Losses on financial instruments	(14)	-	-	-	-	(59 388)
recognized in the income statement	(14)	-	-	-	-	-
recognized in revaluation reserves	-	-	-	-	-	(59 388)
Closing balance	**99 001**	**1 230**	**1 696 888**	**302 630**	**65 408**	**7 111 833**
Unrealized income from financial instruments held in portfolio at the end of the period, recognized in:	**46**	**12**	**66 705**	**6 095**	**-**	**28 486**
Income statement:	46	12	34 098	6 095	-	40 133
net interest income	40	-	28 479	2 287	-	40 133
net impairment losses on financial assets and off-balance sheet commitments	-	-	5 619	-	-	-
result on financial assets and liabilities held for trading	6	12	-	3 808	-	-
Other comprehensive income	-	-	32 607	-	-	(11 647)

Notes to the financial statements (cont.)

(In PLN thousand)

Transfers of instruments between fair value hierarchy levels are based on changes in availability of active market quotations as at the end of the reporting periods.

In the period from 1 January to 31 December 2019 the following transfers of financial instruments between the levels of the fair value hierarchy were made:

- from Level 3 to Level 2: municipal and corporate bonds which were valued based on information on the prices of comparable financial instruments, municipal and corporate bonds with immaterial impact of the estimated credit parameters on the valuation and capital market derivative instruments for which impact of the unobservable factor (correlation) on the valuation was immaterial,
- from Level 2 to Level 3: municipal and corporate bonds, for which impact of estimated credit parameters was material and capital market derivative instruments with material impact of the estimated factor (correlation) on the valuation.

The impact of estimated parameters on measurement of financial instruments for which the Bank applies fair value valuation according to Level 3 as at 31 December 2019 and as at 31 December 2018 is as follows:

FINANCIAL ASSET/LIABILITY	FAIR VALUE AS AT 31.12.2019	VALUATION TECHNIQUE	UNOBSERVABLE FACTOR	ALTERNATIVE FACTOR RANGE (WEIGHTED AVERAGE)	IMPACT ON FAIR VALUE AS AT 31.12.2019	
					POSITIVE SCENARIO	NEGATIVE SCENARIO
Corporate and municipal debt securities	6 890 342	Discounted cash flow	Credit spread	0.37% - 0.95%	68 220	(83 460)
Derivatives	3 042	Black Scholes Model	Correlation	0 -1	410	(8)
Loans and advances measured at fair value through profit or loss	242 639	Discounted cash flow	Credit spread	1.40%-2.11%	3 260	(3 416)
Loans and advances measured at fair value through other comprehensive income	1 545 782	Discounted cash flow	Credit spread	2.59%-3.30%	15 522	(15 304)

FINANCIAL ASSETS	FAIR VALUE AS AT 31.12.2019	PARAMETR	SCENARIO	IMPACT ON FAIR VALUE AS AT 31.12.2019	
				POSITIVE SCENARIO	NEGATIVE SCENARIO
Equity instruments mandatorily measured at fair value through profit or loss	125 454	Conversion discount	+10% / -10%	15 682	(15 682)
Equity instrument in entity providing credit information designated for measurement at fair value through other comprehensive income	176 965	Discount rate	+1% / -1%	19 905	(16 250)

Notes to the financial statements (cont.)

(In PLN thousand)

FINANCIAL ASSET/LIABILITY	FAIR VALUE AS AT 31.12.2018	VALUATION TECHNIQUE	UNOBSERVABLE FACTOR	ALTERNATIVE FACTOR RANGE (WEIGHTED AVERAGE)	IMPACT ON FAIR VALUE AS AT 31.12.2018	
					POSITIVE SCENARIO	NEGATIVE SCENARIO
Corporate and municipal debt securities	7 021 454	Discounted cash flow	Credit spread	0.35%-1.04%	87 509	(87 509)
Derivatives	1 230	Black Scholes Model	Correlation	0-1	558	(684)
Loans and advances measured at fair value through profit or loss	302 630	Discounted cash flow	Credit spread	0.43%-1.11%	3 066	(3 015)
Loans and advances measured at fair value through other comprehensive income	1 696 888	Discounted cash flow	Credit spread	2.07%-2.75%	11 524	(8 854)

FINANCIAL ASSETS	FAIR VALUE AS AT 31.12.2018	PARAMETR	SCENARIO	IMPACT ON FAIR VALUE AS AT 31.12.2018	
				POSITIVE SCENARIO	NEGATIVE SCENARIO
Equity instruments mandatorily measured at fair value through profit or loss	65 408	Conversion discount	+10% / -10%	10 901	(10 901)
Equity instrument in entity providing credit information designated for measurement at fair value through other comprehensive income	172 561	Discount rate	+1% / -1%	19 868	(16 150)

Financial instruments that are not measured at fair value in the statement of financial position of the Bank

The Bank also holds financial instruments which are not presented at fair value in the financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

As of 31 December 2019 and 31 December 2018, the Bank classified the financial assets and liabilities not measured at fair value in the unconsolidated statement of financial position into the following three categories based on the valuation level:

- Level 1: mark-to-market, applies to government securities quoted on the liquid market and cash,
- Level 2: mark-to-model valuation with model parameterization, based on quotations from active markets for given type of instrument, applies to interbank deposits, own issues, illiquid government, municipal, corporate and central bank debt securities,
- Level 3: mark-to-model valuation with partial model parameterization, based on estimated risk factors, is applicable to corporate and municipal debt securities and loans and deposits for which the applied credit risk factor (an unobservable parameter) is recognized significant.

In case of certain groups of financial assets, recognized at the amount to be received with impairment considered, the fair value was assumed to be equal to carrying amount. The above applies in particular to cash and other financial assets and liabilities.

In the case of loans for which no quoted market values are available, the fair values presented are generally estimated using valuation techniques taking into consideration the assumption, that at the moment when the loan is granted its fair value is equal to its carrying amount. Fair value of non-impaired loans is equal to the sum of future expected cash flows, discounted at the balance sheet date, less expected credit loss. The discount rate is defined as the appropriate market risk-free rate plus the liquidity risk margin and current sales margin for the given loan products group. The margin is computed on loans granted broken down by loan product groups and maturity.

For the purpose of the fair value of foreign currency loans estimation, the margin on PLN loans adjusted by the cross-currency basis swap quotes and FX-Swap is used. The fair value of impaired loans is defined as equal to the sum of expected recoveries, discounted with the use of effective interest rate, since the average expected recovery values take the element of credit risk fully into consideration. In case of loans without repayment schedule (loans in current account, overdrafts and credit cards), the fair value was assumed as equal to the carrying amount.

Since no quoted market prices are available for deposits, their fair values have been generally estimated using valuation techniques with the assumption that the fair value of a deposit at the moment of its receipt is equal to its carrying amount. The fair value of term deposits is equal to the sum of future expected cash flows, discounted at the relevant balance sheet date. The cash flow discount rate is defined as the relevant market risk-free rate, increased by the sales margin. The margin is computed on deposits acquired during last three months broken down by deposit product Banks and maturity. In case of short term deposits (current deposits, overnights, saving accounts), the fair value was assumed as equal to the carrying amount.

The fair value of deposits and loans, apart from cash and mortgage loans denominated in PLN and CHF for which prepayment model is used, is calculated based on contractual cash flows.

The mark-to-model valuation of own issue debt instruments is based on the method of discounting the future cash flows. Variable cash flows are estimated based upon rates adopted for specific markets (depending upon issue specifications). Both the fixed and implied cash flows are discounted using interbank money market rates.

Notes to the financial statements (cont.)

(In PLN thousand)

Assets and liabilities not measured at fair value in the financial statement in breakdown by fair value hierarchy levels

31.12.2019	CARRYING AMOUNT	FAIR VALUE	OF WHICH:		
			LEVEL 1	LEVEL 2	LEVEL 3
ASSETS					
Cash and due from Central Bank	5 138 758	5 138 145	3 036 363	2 101 782	-
Loans and advance to banks	2 243 908	2 246 223	-	1 038 859	1 207 364
Loans and advances to customers measured at amortised cost	129 886 963	131 260 959	-	502 344	130 758 615
Debt securities measured at amortised cost	14 557 831	14 885 744	9 102 253	1 068 286	4 715 205
Total Assets	**151 827 460**	**153 531 071**	**12 138 616**	**4 711 271**	**136 681 184**
LIABILITIES					
Amounts due to Central Bank	4 550	4 602	-	-	4 602
Amounts due to other banks	3 043 969	3 083 744	-	678 799	2 404 945
Amounts due to customers	158 543 950	158 779 955	-	379 787	158 400 168
Debt securities issued	1 604 344	1 602 985	-	1 602 985	-
Subordinated liabilities	2 764 493	2 766 289	-	2 766 289	-
Total Liabilities	**165 961 306**	**166 237 575**	**-**	**5 427 860**	**160 809 715**

31.12.2018	CARRYING AMOUNT	FAIR VALUE	OF WHICH:		
			LEVEL 1	LEVEL 2	LEVEL 3
ASSETS					
Cash and due from Central Bank	12 972 575	12 970 021	3 182 868	9 787 153	-
Loans and advance to banks	2 508 553	2 509 509	-	1 241 170	1 268 339
Loans and advances to customers measured at amortised cost	120 349 597	120 878 815	-	-	120 878 815
Debt securities measured at amortised cost	11 130 367	11 225 335	5 136 636	1 188 734	4 899 965
Total Assets	**146 961 092**	**147 583 680**	**8 319 504**	**12 217 057**	**127 047 119**
LIABILITIES					
Amounts due to Central Bank	5 067	5 070	-	-	5 070
Amounts due to other banks	2 921 955	2 952 856	-	278 288	2 674 568
Amounts due to customers	150 132 028	150 134 795	-	347 902	149 786 893
Debt securities issued	1 732 596	1 729 580	-	1 729 580	-
Subordinated liabilities	2 012 485	2 013 376	-	2 013 376	-
Total Liabilities	**156 804 131**	**156 835 677**	**-**	**4 369 146**	**152 466 531**

6. Custody activity

Custody activities are performed by virtue of a permit, issued by the Polish Financial Supervision Authority. The Bank's clients include a number of domestic and foreign financial institutions, banks offering custody and investment services, insurance companies, investment and pension funds, as well as non-financial institutions. The Bank provides custody services, including, inter alia, the settlement of transactions effected on domestic and international markets, custody of clients' assets, running of securities accounts, valuation of assets and services related to dividend and interest payments. The Bank also performs the activities of investment and pension funds depository.

As at 31 December 2019 the Bank maintained 7 954 securities accounts and omnibus accounts (in comparison to 13 001 accounts as at 31 December 2018).

7. Brokerage activity

Bank Pekao S.A. provides access to a wide range of the capital market services and products offered by the separated organizational unit of the Bank – Biuro Maklerskie Pekao, designed to sell capital market products.

In 2019, there was a consolidation of brokerage activities in the Pekao Group, as a result of which Centralny Dom Maklerski Pekao S.A. became a part of Biuro Maklerskie Pekao. Additionally, within the consolidation process, Dom Inwestycyjny Xelion Sp. z o.o. (DI Xelion) ceased brokerage activities, and their customers received an attractive offer to transfer assets to Biuro Maklerskie Pekao.

The objective of Biuro Maklerskie Pekao (in December 2019, the name of Dom Maklerski Pekao changed to Biuro Maklerskie Pekao) is to provide the highest quality brokerage services within the Bank's offer. The comprehensive offer enables investors, in particular the individual clients of the Bank, to invest in financial instruments with diverse characteristics, which are listed on the regulated market and on the alternative trading system organized by the Warsaw Stock Exchange (GPW S.A.) and by the BondSpot S.A. (i.e. shares, treasury and corporate bonds, derivatives – futures and options, ETF, certificates, warrants) as well as the instruments traded on the specific foreign markets offered via any customer service channel (i.e. website, mobile service, telephone, and in the form of direct service provided by Customer Advisors through the branches).

As part of the cooperation within the entities of the Capital Group, Biuro acts as an Offeror and an entity accepting subscriptions for investment certificates of Closed-end Investment Funds offered by TFI PZU, for mortgage bonds issued by Pekao Bank Hipoteczny S.A. and also acts as an intermediary in sales of the Structured Certificates of Deposit issued by Bank Pekao S.A.

Additionally, Biuro provides support for Structured Certificates issued by UniCredit Bank AG and Raiffeisen Centrobank AG and offers participation units of FIO of selected Investment Fund Companies.

As part of retail consortia, Biuro Maklerskie Pekao offers investors to acquire instruments in the IPOs serviced by the entity as well as to make transactions on the non-public market.

The direct service is provided in 379 Brokerage Services Spots located in the Bank Pekao S.A.'s branches throughout Poland and via remote channels of Pekao24Makler (website, telephone, mobile application) fully integrated with the Bank's electronic banking platform Pekao24.

Biuro Maklerskie Pekao is a member of the Warsaw Stock Exchange S.A. (GPW) and a direct participant in the National Depository of Securities S.A. (KDPW).

Biuro Maklerskie Pekao conform to the Good Practices Code of Brokerage Firms guaranteeing comprehensive services in accordance with highest ethics standards. Biuro Maklerskie Pekao actively participates in capital market development in Poland.

Notes to the financial statements (cont.)

(In PLN thousand)

Information about the financial instruments of the clients held on securities accounts or stored in a form of document

	31.12.2019		31.12.2018	
	QUANTITY (PCS)	VALUE	QUANTITY (PCS)	VALUE
CLIENTS' FINANCIAL INSTRUMENTS				
Held on securities accounts	2 599 565 898	27 209 243	1 002 377 159	16 364 804
Equity securities and rights to such financial assets	2 570 184 410	25 103 445	1 001 966 031	15 695 591
Debt instruments and rights to such financial assets	29 381 488	2 105 798	411 128	669 213
Stored in a form of document	690 909 626	5 668 875	-	-
Equity securities and rights to such financial assets	690 909 626	5 668 875	-	-
Debt instruments and rights to such financial assets	-	-	-	-

Customers' cash on brokerage accounts

	31.12.2019	31.12.2018
Deposited on cash accounts in brokerage house and paid for securities bought in IPO or on the primary market	919 969	315 324
Other customers' cash	13 372	1 156
Total	**933 341**	**316 480**

Settlements due to unsettled transactions

	31.12.2019	31.12.2018
Receivables from executed transactions	-	2 419
Liabilities from executed transactions	3 091	5

Settlements with the National Depository of Securities S.A. (KDPW), KDPW_CCP S.A. and other stock exchange clearing houses

	31.12.2019	31.12.2018
Receivables from clearing fund	-	840
Receivables from margin deposits	30 378	10 172
Other receivables	-	55
Total receivables	**30 378**	**11 067**
Liabilities from margin deposit	740	-
Total Liabilities	**740**	**-**

Notes to the financial statements (cont.)

(In PLN thousand)

8. Interest income and expense

Interest income

	2019			
	FINANCIAL ASSETS MEASURED AT AMORTISED COST	FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER PROFIT OR LOSS	TOTAL
Loans and other receivables from customers	5 083 796	40 127	6 316	5 130 239
Interbank placements	46 086	-	-	46 086
Reverse repo transactions	39 129	-	-	39 129
Investment securities	344 802	603 942	-	948 744
Hedging derivatives	-	-	235 250	235 250
Financial assets held for trading	-	-	20 854	20 854
Total	**5 513 813**	**644 069**	**262 420**	**6 420 302**

	2018			
	FINANCIAL ASSETS MEASURED AT AMORTISED COST	FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER PROFIT OR LOSS	TOTAL
Loans and other receivables from customers	4 695 301	34 657	7 612	4 737 570
Interbank placements	52 940	-	-	52 940
Reverse repo transactions	27 059	-	-	27 059
Investment securities	290 772	665 187	-	955 959
Hedging derivatives	-	-	155 547	155 547
Financial assets held for trading	-	-	12 101	12 101
Total	**5 066 072**	**699 844**	**175 260**	**5 941 176**

Interest expense

	2019	2018
Deposits from customers	(924 788)	(940 779)
Interbank deposits	(20 768)	(16 087)
Repo transactions	(40 310)	(34 782)
Loans and advances received	(2 305)	(774)
Leasing	(16 568)	(7 785)
Debt securities issued	(105 941)	(71 956)
Total	**(1 110 680)**	**(1 072 163)**

The amounts shown above contain interest expense relating to the financial liabilities measured at amortised cost.

Notes to the financial statements (cont.)

(In PLN thousand)

9. Fee and commission income and expense

Fee and commission income

	2019	2018
Accounts maintenance, payment orders and cash transactions	635 820	622 694
Payment cards	610 518	596 925
Loans and advances	391 547	359 464
Margin on foreign exchange transactions with clients	491 758	461 308
Intermediation in sale of investment and insurance products	143 762	178 307
Securities operations	19 671	14 602
Custody activity	58 530	63 296
Guarantees, letters of credit and similar transactions	63 918	63 426
Other	38 130	32 563
Total	**2 453 654**	**2 392 585**

Fee and commission expense

	2019	2018
Payment cards	(264 275)	(269 052)
Money orders and transfers	(23 343)	(21 364)
Securities and derivatives operations	(26 131)	(27 005)
Accounts maintenance	(32 945)	(28 350)
Custody activity	(15 996)	(16 125)
Acquisition services	(4 792)	(4 695)
Other	(5 899)	(2 735)
Total	**(373 381)**	**(369 326)**

Fee and commission income and expense (other than the amounts included in determining the effective interest rate) arising from financial assets and financial liabilities that are not at fair value through profit or loss.

10. Dividend income

	2019	2018
Subsidiaries	269 154	235 263
Issuers of securities measured at fair value through profit or loss	1 023	485
Issuers of equity instruments designated at fair value through profit or loss	21 250	19 616
Total	**291 427**	**255 364**

Notes to the financial statements (cont.)

(In PLN thousand)

11. Result on financial assets and liabilities measured at fair value through profit or loss

	2019	2018
Gains (losses) on loans and advances to customers measured mandatorily at fair value through profit or loss	(3 485)	(4 866)
Gains (losses) on securities measured mandatorily at fair value through profit or loss	59 263	7 937
Foreign currency exchange result	(35 079)	803
Gains (losses) on derivatives	87 185	42 108
Gains (losses) on securities held for trading	20 516	20 728
Total	**128 400**	**66 710**

12. Result on derecognition of financial assets and liabilities not measured at fair value through profit or loss

Realized gains

	2018	2018
Financial assets measured at amortised cost	19 154	12 050
Financial assets measured at fair value through other comprehensive income	62 318	128 871
Financial liabilities not measured at fair value through profit and loss	-	1
Total	**81 472**	**140 922**

Realized losses

	2019	2018
Financial assets measured at amortised cost	(9 793)	-
Financial assets measured at fair value through other comprehensive income	(281)	(185)
Financial liabilities not measured at fair value through profit and loss	(445)	(85)
Total	**(10 519)**	**(270)**

Net realized profit	**70 953**	**140 652**

Notes to the financial statements (cont.)

(In PLN thousand)

13. Net impairment losses on financial assets and off-balance sheet commitments

	2019	2018
Loans and other financial assets measured at amortized cost (*) (**)	(518 002)	(446 942)
Debt securities measured at amortized cost	(14 939)	(1 550)
Loans measured at fair value through other comprehensive income	(5 850)	9 343
Debt securities measured at fair value through other comprehensive income	(4 887)	(3 995)
Off-balance sheet commitments	(52 717)	(57 303)
Provision for legal risk regarding foreign currency mortgage loans	(27 712)	-
Total	**(624 107)**	**(500 447)**

(*)Item includes impairment losses on loans and advances to banks and receivables from financial leases.
(**) In 2019 the Bank sold loans with a total debt of PLN 663.1 million. The realized gross result on the transaction was PLN 40.9 million. In 2018 the Bank sold loans with a total debt of PLN 280.7 million. The realized gross result on the transaction was PLN 36.4 million.

14. Net other operating income and expenses

Other operating income

	2019	2018 RESTATED
Gains on disposal of property, plant and equipment and intangible assets	19 707	96 759
Premises rental income	21 470	24 178
Compensation, recoveries, penalty fees and fines received	19 832	24 686
Miscellaneous income	19 449	10 687
Recovery of debt collection costs	15 800	11 777
Releases of impairment allowances for litigation and other assets	479	246
Write offs for liabilities disputable and other provisions	4 752	229
Other	1 811	1 216
Total	**103 300**	**169 778**

Other operating expenses

	2019	2018 RESTATED
Write downs for liabilities disputable and other provisions	(53 356)	(14 892)
Provision for legal risk regarding foreign currency mortgage loans	(18 990)	-
Card transactions monitoring costs	(6 814)	(8 624)
Sundry expenses	(5 144)	(7 207)
Credit insurance expenses	(605)	(3 675)
Costs of litigation and claims	(2 809)	(2 423)
Impairment allowance for disputed claims and other assets	(791)	(6 511)
Loss on disposal of property, plant and equipment and intangible assets	(2 734)	(703)
Compensation, penalty fees and fines paid	(415)	(630)
Other	(3 648)	(2 513)
Total	**(95 306)**	**(47 178)**

Net other operating income and expenses	**7 994**	**122 600**

Notes to the financial statements (cont.)

(In PLN thousand)

15. Administrative expenses

Personnel expenses

	2019	2018
Wages and salaries	(1 532 141)	(1 492 614)
Insurance and other charges related to employees	(277 926)	(271 755)
Share-based payments expenses	(13 190)	(17 598)
Total	**(1 823 257)**	**(1 781 967)**

Other administrative expenses

	2018	2018
General expenses	(867 150)	(947 579)
Taxes and charges	(28 101)	(34 722)
Bank Guarantee Fund fee	(452 141)	(265 099)
Financial supervision authority fee (KNF)	(24 210)	(16 516)
Tax on certain financial institutions	(591 403)	(561 992)
Total	**(1 963 005)**	**(1 825 908)**

Total administrative expenses	**(3 786 262)**	**(3 607 875)**

From 1 January 2017 new rules for making contributions to Bank Guarantee Fund (hereinafter 'BGF'), defined in the Act of 10 June 2016 on Bank Guarantee Fund, deposit guarantee schemes and resolution of banks (hereinafter 'BGF Act'), have to be applied.

In accordance with BGF Act, the banks are committed to make quarterly contributions to deposit guarantee fund of banks and annual contribution to resolution fund of banks. Such contributions are expenses not deductible for tax purposes. The obligation to make quarterly contribution to deposit guarantee fund of banks arises at the first day of each quarter, whereas the obligation to make annual contribution to resolution fund of banks arises at 1 January of the year concerned.

As a result of application of the Interpretation IFRIC 21 *Levies* for recognition of the above obligations, the costs of quarterly contribution to deposit guarantee fund of banks in the amount of PLN 82 287 thousand on 2019 (PLN 121 856 thousand on 2018) and the costs of annual contribution to resolution fund of banks in the amount of PLN 369 854 thousand (PLN 143 243 thousand in 2018).

16. Depreciation and amortization

	2019	2018
Property, plant and equipment	(277 525)	(166 150)
Investment property	(219)	(293)
Intangible assets	(183 124)	(171 736)
Total	**(460 868)**	**(338 179)**

Notes to the financial statements (cont.)

(In PLN thousand)

17. Total gains (losses) from subsidiaries and associates

	2019	2018
Impairment allowances for equity investments	-	(11 069)
Total gains (losses) from subsidiaries and associates	**-**	**(11 069)**

18. Income tax

Reconciliation between tax calculated by applying the current tax rate to accounting profit and the actual tax charge presented in the unconsolidated income statement.

	2019	2018
Profit before income tax	**3 015 766**	**3 020 751**
Tax charge according to applicable tax rate 19%	**572 996**	**573 943**
Permanent differences:	**195 303**	**136 208**
Non taxable income	(59 735)	(51 447)
Non tax deductible costs, including:	256 188	194 577
Bank Guarantee fund fee	85 907	50 369
Banking tax	112 367	106 778
Other non tax deductible costs	57 914	37 430
Impact of other tax rates applied in accordance with art.19.1.2 of CIT Act	-	-
Tax relieves not included in the income statement	82	40
Other	(1 232)	(6 962)
Effective income tax charge on gross profit	**768 299**	**710 151**

The applicable tax rate of 19% is corporate income tax rate binding in Poland.

Notes to the financial statements (cont.)

(In PLN thousand)

The basic components of income tax charge presented in the income statement and equity

	2019	2018
INCOME STATEMENT		
Current tax	**(741 983)**	**(701 505)**
Current tax charge in the income statement	(741 228)	(708 463)
Adjustments related to the current tax from previous years	(305)	7 150
Other taxes (e.g. withholding tax)	(450)	(192)
Deferred tax	**(26 316)**	**(8 646)**
Occurrence and reversal of temporary differences	(26 316)	(8 646)
Tax charge in the unconsolidated income statement	**(768 299)**	**(710 151)**
EQUITY		
Current tax	**X**	**53**
Deferred tax	**(37 085)**	**(5 415)**
Income and costs disclosed in other comprehensive income:		
revaluation of financial instruments - cash flows hedges	(14 292)	(8 542)
revaluation of available for sale financial assets – debt securities	X	X
fair value revaluation through other comprehensive income	(24 717)	(2 370)
fair value revaluation through other comprehensive income –equity securities	X	X
Tax on items that are or may be reclassified subsequently to profit or loss	**(39 009)**	**(10 912)**
Tax charge on items that never be reclassified to profit and loss	**1 924**	**5 497**
fair value revaluation through other comprehensive income – equity securities	1 418	5 774
sale of the shares - equity securities	X	(200)
remeasurements of the defined benefit liabilities	506	(77)
Total charge	**(805 384)**	**(715 513)**

Notes to the financial statements (cont.)

(In PLN thousand)

	CHANGES IN TEMPORARY DIFFERENCES IN 2019									
	OPENING BALANCE			CHANGES RECOGNIZED IN		CHANGES RESULTING FROM CHANGES IN THE SCOPE OF CONSOLIDATION AND OTHER		OPENING BALANCE		
	TOTAL DEFERRED TAX	IN THE INCOME STATEMENT	IN EQUITY	THE INCOME STATEMENT	IN EQUITY	THE INCOME STATEMENT	EQUITY	TOTAL DEFERRED TAX	IN THE INCOME STATEMENT	IN EQUITY
DEFFERED TAX LIABILITY										
Accrued income – securities	-	-	-	-	-	-	-	-	-	-
Accrued income – loans	131 927	131 927	-	(12 398)	-	-	-	119 529	119 529	-
Change in revaluation of financial assets	239 503	174 259	65 244	66 646	37 631	201	(199)	343 782	241 106	102 676
Accelerated depreciation	114 951	114 951	-	(9 523)	-	-	-	105 428	105 428	-
Investment relief	3 833	3 833	-	591	-	-	-	4 424	4 424	-
Paid intermediation costs	132 387	132 387	-	27 298	-	-	-	159 685	159 685	-
Other	2 466	2 466	-	(420)	-	284	-	2 330	2 330	-
Gross deferred tax liabilities	**625 067**	**559 823**	**65 244**	**72 194**	**37 631**	**485**	**(199)**	**735 178**	**632 502**	**102 676**
DEFFERED TAX ASSET										
Accrued expenses - securities	5 873	5 873	-	80 813	-	-	-	86 686	86 686	-
Accrued expenses - deposits and loans	35 836	35 836	-	595	-	-	-	36 431	36 431	-
Downward revaluation of financial assets	397 681	397 681	-	(84 976)	-	-	-	312 705	312 705	-
Income received to be amortized over time from loans and current accounts	286 669	286 669	-	35 864	-	-	-	322 533	322 533	-
Loan provisions charges	594 811	594 811	-	9 384	-	(145)	-	604 050	604 050	-
Personnel related provisions	114 301	97 346	16 955	2 273	546	-	(40)	117 080	99 619	17 461
Accruals	20 495	20 495	-	1 478	-	-	-	21 973	21 973	-
Previous year losses	-	-	-	-	-	-	-	-	-	-
Other	10 389	10 389	-	447	-	-	-	10 836	10 836	-
Gross deferred tax assets	**1 466 055**	**1 449 100**	**16 955**	**45 878**	**546**	**(145)**	**(40)**	**1 512 294**	**1 494 833**	**17 461**
Deferred tax charge	**X**	**X**	**X**	**(26 316)**	**(37 085)**	**(630)**	**159**	**X**	**X**	**X**
Net deferred tax assets	**840 988**	**889 277**	**(48 289)**	**X**	**X**	**X**	**X**	**777 116**	**862 331**	**(85 215)**
Net deferred tax liabilities	**-**	**-**	**-**	**X**	**X**	**X**	**X**	**-**	**-**	**-**

Notes to the financial statements (cont.)

(In PLN thousand)

	CHANGES IN TEMPORARY DIFFERENCES IN 2018									
	OPENING BALANCE			CHANGES RECOGNIZED IN		CHANGES RESULTING FROM CHANGES IN THE SCOPE OF CONSOLIDATION AND OTHER		OPENING BALANCE		
	TOTAL DEFERRED TAX	IN THE INCOME STATEMENT	IN EQUITY	THE INCOME STATEMENT	IN EQUITY	THE INCOME STATEMENT	EQUITY	TOTAL DEFERRED TAX	IN THE INCOME STATEMENT	IN EQUITY
DEFFERED TAX LIABILITY										
Accrued income – securities	11 800	11 800	-	(8 760)	-	(3 040)	-	-	-	-
Accrued income – loans	138 433	138 433	-	(6 506)	-	-	-	131 927	131 927	-
Change in revaluation of financial assets	137 220	133 658	3 562	40 601	598	-	61 084	239 503	174 259	65 244
Accelerated depreciation	114 625	114 625	-	326	-	-	-	114 951	114 951	-
Investment relief	4 199	4 199	-	(366)	-	-	-	3 833	3 833	-
Paid intermediation costs	111 039	111 039	-	22 129	-	(781)	-	132 387	132 387	-
Other	1 607	1 607	-	859	-	-	-	2 466	2 466	-
Gross deferred tax liabilities	**518 923**	**515 361**	**3 562**	**48 283**	**598**	**(3 821)**	**61 084**	**625 067**	**559 823**	**65 244**
DEFFERED TAX ASSET										
Accrued expenses - securities	-	-	-	5 873	-	-	-	5 873	5 873	-
Accrued expenses - deposits and loans	35 371	35 371	-	465	-	-	-	35 836	35 836	-
Downward revaluation of financial assets	367 406	367 406	-	30 890	-	(615)	-	397 681	397 681	-
Income received to be amortized over time from loans and current accounts	197 778	197 778	-	44 033	-	44 858	-	286 669	286 669	-
Loan provisions charges	489 743	489 743	-	(46 988)	(4 741)	152 056	4 741	594 811	594 811	-
Personnel related provisions	110 134	93 103	17 031	1 200	(76)	3 043	-	114 301	97 346	16 955
Accruals	16 393	16 393	-	4 102	-	-	-	20 495	20 495	-
Previous year losses	-	-	-	-	-	-	-	-	-	-
Other	10 327	10 327	-	62	-	-	-	10 389	10 389	-
Gross deferred tax assets	**1 227 152**	**1 210 121**	**17 031**	**39 637**	**(4 817)**	**199 342**	**4 741**	**1 466 055**	**1 449 100**	**16 955**
Deferred tax charge	**X**	**X**	**X**	**(8 646)**	**(5 415)**	**203 163**	**(56 343)**	**X**	**X**	**X**
Net deferred tax assets	**708 229**	**694 760**	**13 469**	**X**	**X**	**X**	**X**	**840 988**	**889 277**	**(48 289)**
Net deferred tax liabilities	**-**	**-**	**-**	**X**	**X**	**X**	**X**	**-**	**-**	**-**

(In PLN thousand)

In the opinion of the Bank the deferred tax asset in the amount of PLN 777 116 thousand reported as at 31 December 2019 is sustainable in total amount. The analysis was performed based on the past results of the company and assumed results in the future periods. The analysis assumed the five years' time horizon.

As at 31 December 2019 and 31 December 2018, there were no temporary differences related to investments in subsidiaries and associates, for which deferred tax liability was not created as a result of meeting the conditions of controlling the terms of temporary differences' reversing and being probable that these differences will not reverse in foreseeable future.

As at 31 December 2019 and 31 December 2018, there were no temporary differences, unused tax losses and unused tax relieves which were not included in the deferred tax assets.

19. Earnings per share

Basic earnings per share

Basic earnings per share are calculated by dividing the net profit attributable to equity holders of the Bank by the weighted average number of the ordinary shares outstanding during the period.

	2019	2018
Net profit	2 247 467	2 310 600
Weighted average number of ordinary shares in the period	262 470 034	262 470 034
Earnings per share (in PLN per share)	8.56	8.80

Diluted earnings per share

Diluted earnings per share are calculated by dividing the net profit attributable to equity holders of the Bank by the weighted average number of the ordinary shares outstanding during the given period adjusted for all potential dilution of ordinary shares.

As at 31 December 2019 there were no diluting instruments in the form of convertible bonds in the Bank.

	2018	2018
Net profit	2 247 467	2 310 600
Weighted average number of ordinary shares in the period	262 470 034	262 470 034
Weighted average number of ordinary shares for the purpose of calculation of diluted earnings per share	262 470 034	262 470 034
Diluted earnings per share (in PLN per share)	8.56	8.80

20. Dividends

As at the date of approval of these financial statements for publication, the Management Board of Bank Pekao S.A. did not make a decision regarding the recommendation about dividend payment for 2019.

(In PLN thousand)

21. Cash and balances with Central Bank

CASH AND DUE FROM CENTRAL BANK	31.12.2019	31.12.2018
Cash	3 036 976	3 182 868
Current account at Central Bank	2 101 956	9 790 608
Other	-	11
Gross carrying amount	**5 138 932**	**12 973 487**
Impairment allowances	(174)	(912)
Net carrying amount	**5 138 758**	**12 972 575**

AMOUNTS DUE TO CENTRAL BANK	31.12.2019	31.12.2018
Term deposits	4 550	5 067
Total	**4 550**	**5 067**

Receivables and liabilities to the Central Bank are measured at amortized cost.

Cash and balances with Central Bank by currency

31.12.2019	ASSETS	LIABILITIES
PLN	3 759 446	4 550
EUR	806 786	-
USD	242 253	-
GBP	101 235	-
CHF	78 726	-
NOK	53 804	-
Other currencies	96 508	-
Total	**5 138 758**	**4 550**

31.12.2018	ASSETS	LIABILITIES
PLN	10 417 622	5 067
EUR	1 980 231	-
USD	211 636	-
GBP	132 732	-
CHF	78 688	-
NOK	41 374	-
Other currencies	110 292	-
Total	**12 972 575**	**5 067**

Bank is required to held on current account in the Central Bank the average monthly balance comply with the mandatory reserve declaration.

As at 31 December 2019 the interest rate of funds held on the mandatory reserve account is at 0.5% (as at 31 December 2018 - 0.5%).

Notes to the financial statements (cont.)

(In PLN thousand)

22. Loans and advances to banks

Loans and advances to banks by product type

	31.12.2019	31.12.2018
Current accounts	618 837	272 635
Interbank placements	200 843	843 804
Loans and advances	172 583	262 067
Cash collaterals	733 090	984 843
Reverse repo transactions	219 153	126 442
Cash in transit	302 298	29 193
Total gross amount	**2 246 804**	**2 518 984**
Impairment allowances	(2 896)	(10 431)
Total net amount	**2 243 908**	**2 508 553**

Loans and advances to banks are measured at amortised cost.

Loans and advances to banks by contractual maturity

	31.12.2019	31.12.2018
Loans and advances to banks, including:		
up to 1 month	2 080 342	2 242 866
between 1 and 3 months	3 037	49 890
between 3 months and 1 year	83 041	125 022
between 1 and 5 years	78 005	88 031
over 5 years	81	51
past due	2 298	13 124
Total gross amount	**2 246 804**	**2 518 984**
Impairment allowances	(2 896)	(10 431)
Total net amount	**2 243 908**	**2 508 553**

Loans and advances to banks by currency

	31.12.2019	31.12.2018
PLN	787 958	614 043
EUR	980 977	1 641 379
GBP	164 928	3 998
USD	80 993	159 804
HUF	53 159	2 525
CZK	50 945	113
Other currencies	124 948	86 691
Total	**2 243 908**	**2 508 553**

(In PLN thousand)

23. Financial assets and liabilities held for trading

Financial assets and liabilities held for trading by product type

	31.12.2019	31.12.2018
FINANCIAL ASSETS		
Debt securities	1 279 495	890 339
Total financial assets	**1 279 495**	**890 339**
FINANCIAL LIABILITIES		
Debt securities	184 799	102 429
Total financial liabilities	**184 799**	**102 429**

Financial assets and liabilities held for trading are measured at fair value through profit or loss.

Debt securities held for trading

	31.12.2019	31.12.2018
FINANCIAL ASSETS		
Debt securities issued by central governments	1 131 734	637 765
T- bills	-	-
T- bonds	1 131 734	637 765
Debt securities issued by banks	13 974	48 582
Debt securities issued by business entities	133 787	203 992
Total financial assets	**1 279 495**	**890 339**
FINANCIAL LIABILITIES		
Debt securities issued by central governments	184 799	102 429
T- bonds	184 799	102 429
Total financial liabilities	**184 799**	**102 429**

Debt securities held for trading by maturity

	31.12.2019	31.12.2018
FINANCIAL ASSETS		
Debt securities, including:		
up to 1 month	21	1 720
between 1 and 3 months	100 922	63 434
between 3 months and 1 year	27 093	146 883
between 1 and 5 years	1 121 806	612 870
over 5 years	29 653	65 432
unspecified term	-	-
Total financial assets	**1 279 495**	**890 339**
FINANCIAL LIABILITIES		
Debt securities, including:		
up to 1 month	74 115	-
between 1 and 3 months	-	-
between 3 months and 1 year	12 087	-
between 1 and 5 years	42 114	57 421
over 5 years	56 483	45 008
Total financial liabilities	**184 799**	**102 429**

(In PLN thousand)

Debt securities held for trading by currency

	31.12.2019	31.12.2018
FINANCIAL ASSETS		
PLN	1 264 654	880 457
EUR	12 735	8 634
USD	2 106	1 248
Total financial assets	**1 279 495**	**890 339**
FINANCIAL LIABILITIES		
PLN	184 799	102 429
Total financial liabilities	**184 799**	**102 429**

24. Derivative financial instruments (held for trading)

Derivative financial instruments at the Bank

In its operations the Bank uses different financial derivatives that are offered to the clients and are used for managing risks involved in the Bank's business. The majority of derivatives at the Bank include over-the-counter contracts. Regulated stock exchange contracts (mainly futures) represent a small part of those derivatives.

Derivative foreign exchange transactions include the obligation to buy or sell foreign and domestic currency assets. Forward foreign exchange transactions are based on the foreign exchange rates, specified on the transaction date for a predefined future date. These transactions are valued using the discounted cash flow model. Cash flows are discounted according to zero-coupon yield curves, relevant for a given market.

Foreign exchange swaps are a combination of a swap of specific currencies as at spot date and of reverse a transaction as at forward date with foreign exchange rates specified in advance on transaction date. Transactions of such type are settled by an exchange of assets These transactions are valued using the discounted cash flow model. Cash flows are discounted according to zero-coupon yield curves relevant for a given market.

Foreign exchange options with delivery are defined as contracts, where one of the parties, i.e. the option buyer, purchases from the other party, referred to as the option writer, at a so-called premium price the right without the obligation to buy (call option) or to sell (put option), at a specified point of time in the future or during a specified time range a foreign currency amount specified in the contract at the exchange rate set during the conclusion of the option agreement.

In case of options settled in net amounts, upon acquisition of the rights, the buyer receives an amount of money equal to the product of notional and difference between spot ad strike price.

Barrier option with one barrier is a type of option where exercise of the option depends on the underlying crossing or reaching a given barrier level. A barrier may be reached starting from lower ('UP') or from higher ('DOWN') level of the underlying instrument. 'IN' options start their lives worthless and only become active when a predetermined knock-in barrier price is breached. 'OUT' options start their lives active and become null and void when a certain knock-out barrier price is breached.

Foreign exchange options are priced using the Garman-Kohlhagen valuation model (and in case of barrier and Asian options using the so-called expanded Garman-Kohlhagen model). Parameters of the model based on market quotations of plain-vanilla at-the-money options and market spreads for out-of-the-money and in-the-money options (volatility smile) for standard maturity.

Derivatives related to interest rates enable the Bank and its customers to transfer, modify or limit interest rate risk.

In the case of Interest Rate Swaps (IRS), counterparties exchange between each other the flows of interest payments, accrued on the nominal amount identified in the contract. These transactions are valued using the discounted cash flow model. Floating (implied) cash flows are estimated on base of respective IRS rates. Floating and fixed cash flows are discounted by relevant zero-coupon yield curves.

Forward Rate Agreements (FRA) involve both parties undertaking to pay interest on a predefined nominal amount for a specified period starting in the future and charged according to the interest rate determined on the day of the agreement. The parties settle the transaction on value date using the reference rate as a discount rate in the process of discounting the difference between the FRA rate (forward rate as at transaction date) and the reference rate. These transactions are valued using the discounted cash flow model.

Cross currency IRS involves both parties swapping capital and interest flows in different currencies in a specified period. These transactions are valued using the discounted cash flow model. Valuation of Basis Swap transactions (cross currency IRS with floating coupon) takes into account market quotations of basis spread (Basis swap spread).

In the case of forward transactions on securities, counterparties agree to buy or sell specified securities on a forward date for a payment fixed on the date of transaction. Such transactions are measured based upon the valuation of the security (mark-to-market or mark-to-model) and valuation of the related payment (method of discounting cash flows by money market rate).

Interest rate options (cap/floor) are contracts where one of the parties, the option buyer, purchases from the other party, the option writer, at a so-called premium price, the right without the obligation to borrow (cap) or lend (floor) at specified points of time in the future (independently) amounts specified in the contract at the interest rate set during the conclusion of the option. Contracts are net-settled (without fund location) at agreed time. Transactions of this type are valued using the Normal model (Bachelier model). The model is parameterized based upon market quotations of options as at standard quoted maturities.

Interest rate futures transactions refer to standardized forward contracts purchased on the stock market. Futures contracts are measured based upon quotations available directly from stock exchanges.

Commodity swap contracts are obligations to net settlement equivalent to the execution of a commodity buy or sell transaction at the settlement price according to determination rules set at the trade inception. Commodity instruments are valued with the discounted cash flows method, which includes commodity prices term structure.

Asian commodity options are contracts with the right to buy or sell a certain amount of commodity on an expiry date at the specified price, where settlement price is based on an average level established on the basis of a series of commodity price observations in the period preceding the maturity date of the option. Commodity options are valued with the Black-Scholes model that includes moment matching of commodity price distribution for the arithmetic average.

Derivative financial instruments embedded in other instruments

The Bank uses derivatives financial instruments embedded in complex financial instruments, i.e. such as including both a derivative and base agreement, which results in part of the cash flows of the combined instrument changing similarly to cash flows of an independent derivative. Derivatives embedded in other instruments cause part or all cash flows resulting from the base agreement to be modified as per a specific interest rate, price of a security, foreign exchange rate, price index or interest rate index.

The Bank has deposits and certificates of deposits on offer which include embedded derivatives. As the nature of such instrument is not strictly associated with the nature of the deposit agreement, the embedded instrument is separated and classified into the portfolio held-for-trading. The valuation of such instrument is recognized in the income statement. Embedded instruments include simple options (plain vanilla) and exotic options for single stocks, commodities, indices and other market indices, including interest rate indices, foreign exchange rates and their related baskets.

All embedded options are immediately closed back-to-back on the interbank market.

Notes to the financial statements (cont.)

(In PLN thousand)

Currency options embedded in deposits are valued as other currency options.

Exotic options embedded in deposits as well as their close positions are valued using the Monte-Carlo simulation technique assuming Geometric Brownian Motion model of risk factors. Model parameters are determined first of all on the basis of quoted options and futures contracts and in their absence based on statistical measures of the underlying instrument dynamic.

Risk involved in financial derivatives

Market risk and credit risk are the basic types of risk, associated with derivatives.

At the beginning, financial derivatives usually have a small market value or no market value at all. It is a consequence of the fact that derivatives require no initial net investments, or require a very small net investment compared to other types of contracts, which display a similar reaction to changing market conditions.

Derivatives gain positive or negative value as a result of change in specific interest rates, prices of securities, prices of commodities, currency exchange rates, price index, credit standing or credit index or another market parameter. In case of such changes, the derivatives held become more or less advantageous than instruments with the same residual maturity, available at that moment on the market.

Credit risk related to derivative contracts is a potential cost of concluding a new contract on the original terms and conditions if the other party to the original contract fails to meet its obligations. In order to assess the potential cost of replacement the Bank uses the same method as for credit risk assessment. In order to control its credit risk levels the Bank performs assessments of other contract parties using the same methods as for credit decisions.

Notes to the financial statements (cont.)

(In PLN thousand)

The following tables present nominal amounts of financial derivatives and fair values of such derivatives.

Nominal amounts of certain financial instruments are used for comparison with balance sheet instruments but need not necessarily indicate what the future cash flow amounts will be or what the current fair value of such instruments is and therefore do not reflect the Bank's credit or price risk level.

Fair value of trading derivatives

31.12.2019	ASSETS	LIABILITIES
Interest rate transactions		
Interest Rate Swaps (IRS)	1 644 621	1 604 186
Forward Rate Agreements (FRA)	284	3
Options	8 463	2 003
Other	39	61
Foreign currency and gold transactions		
Cross-Currency Interest Rate Swaps (CIRS)	81 369	53 546
Currency Forward Agreements	153 950	157 608
Currency Swaps (FX-Swap)	80 285	109 509
Options for currency and gold	73 950	72 799
Transactions based on equity securities and stock indexes		
Options	3 084	3 076
Other	-	-
Transactions based on commodities and precious metals		
Options	25 646	23 523
Other	14 298	14 054
Total	**2 085 989**	**2 040 368**

31.12.2018	ASSETS	LIABILITIES
Interest rate transactions		
Interest Rate Swaps (IRS)	1 154 369	1 595 812
Forward Rate Agreements (FRA)	1 609	776
Options	6 822	2 122
Other	529	1 175
Foreign currency and gold transactions		
Cross-Currency Interest Rate Swaps (CIRS)	37 859	29 475
Currency Forward Agreements	56 147	114 757
Currency Swaps (FX-Swap)	55 514	34 253
Options for currency and for gold	39 434	39 699
Transactions based on equity securities and stock indexes		
Options	2 714	2 693
Other	-	-
Transactions based on commodities and precious metals		
Options	55 222	53 415
Other	45 757	45 217
Total	**1 455 976**	**1 919 394**

Derivative financial instruments are measured at fair value through profit or loss.

Notes to the financial statements (cont.)

(In PLN thousand)

Nominal value of trading derivatives

31.12.2019	CONTRACTUAL MATURITY					TOTAL
	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	
Interest rate transactions						
Interest Rate Swaps (IRS)	2 995 055	12 029 328	59 733 223	91 708 769	30 547 721	197 014 096
Forward Rate Agreements (FRA)	550 000	-	-	-	-	550 000
Options	-	252 278	2 216 992	2 595 213	294 715	5 359 198
Other	78 340	-	-	-	-	78 340
Foreign currencies and in gold transactions						-
Cross-Currency Interest Rate Swaps (CIRS) – currency bought	-	1 013 584	1 242 697	6 215 984	166 666	8 638 931
Cross-Currency Interest Rate Swaps (CIRS) – currency sold	-	1 016 622	1 227 952	6 191 523	166 383	8 602 480
Currency Forward Agreements – currency bought	5 107 200	2 854 577	6 417 509	4 360 671	-	18 739 957
Currency Forward Agreements – currency sold	5 114 742	2 850 759	6 427 955	4 378 171	-	18 771 627
Currency Swaps (FX-Swap) – currency bought	13 821 068	1 703 894	3 999 958	598 423	-	20 123 343
Currency Swaps (FX-Swap) – currency sold	13 836 643	1 711 052	4 028 472	591 352	-	20 167 519
Options bought	1 241 286	1 109 559	5 131 752	2 596 963	-	10 079 560
Options sold	1 247 505	1 363 199	4 886 284	2 600 452	-	10 097 440
Transactions based on equity securities and stock indexes						-
Options	-	-	52 245	58 518	-	110 763
Other	-	-	-	-	-	-
Transactions based on commodities and precious metals						-
Options	120 372	387 365	1 154 744	670 370	-	2 332 851
Other	150 827	226 004	180 367	22 895	-	580 093
Total	**44 263 038**	**26 518 221**	**96 700 150**	**122 589 304**	**31 175 485**	**321 246 198**

31.12.2018	CONTRACTUAL MATURITY					TOTAL
	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	
Interest rate transactions						
Interest Rate Swaps (IRS)	6 273 879	2 949 405	22 245 907	58 730 301	20 813 961	111 013 453
Forward Rate Agreements (FRA)	1 950 000	3 200 000	7 100 000	300 000	-	12 550 000
Options	-	-	872 972	3 143 618	81 448	4 098 038
Other	2 490 966	-	-	-	-	2 490 966
Foreign currencies and in gold transactions						
Cross-Currency Interest Rate Swaps (CIRS) – currency bought	-	57 249	269 208	4 888 647	731 927	5 947 031
Cross-Currency Interest Rate Swaps (CIRS) – currency sold	-	52 095	267 651	4 892 043	731 933	5 943 722
Currency Forward Agreements – currency bought	6 512 520	2 168 174	4 539 882	1 415 653	-	14 636 229
Currency Forward Agreements – currency sold	6 516 088	2 181 576	4 601 423	1 421 946	-	14 721 033
Currency Swaps (FX-Swap) – currency bought	14 560 296	2 444 391	990 310	433 276	-	18 428 273
Currency Swaps (FX-Swap) – currency sold	14 557 574	2 441 497	975 955	403 277	-	18 378 303
Options bought	258 944	773 298	2 684 757	1 453 805	-	5 170 804
Options sold	261 917	777 948	2 688 626	1 453 805	-	5 182 296
Transactions based on equity securities and stock indexes						
Options	-	-	68 404	49 972	-	118 376
Other	-	-	-	-	-	-
Transactions based on commodities and precious metals						
Options	85 477	242 350	1 261 812	523 425	-	2 113 064
Other	210 460	318 852	371 803	72 384	-	973 499
Total	**53 678 121**	**17 606 835**	**48 938 710**	**79 182 152**	**22 359 269**	**221 765 087**

(In PLN thousand)

25. Loans and advances to customers

Loans and advances to customers by product type

	31.12.2019			
	AMORTISED COST	FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	FAIR VALUE THROUGH PROFIT OR LOSS	TOTAL
Mortgage loans	68 557 662	972 945	21 600	69 552 207
Current accounts	12 224 536	-	-	12 224 536
Operating loans	15 075 523	404 374	22 518	15 502 415
Investment loans	20 562 225	168 463	57 226	20 787 914
Cash loans	14 674 372	-	-	14 674 372
Payment cards receivables	1 113 077	-	-	1 113 077
Factoring	2 582 870	-	-	2 582 870
Other loans and advances	837 126	-	141 295	978 421
Debt securities	-	-	-	-
Reverse repo transactions	502 300	-	-	502 300
Cash in transit	34 390	-	-	34 390
Gross carrying amount	**136 164 081**	**1 545 782**	**242 639**	**137 952 502**
Impairment allowances (*) (**)	(6 277 118)	-	-	(6 277 118)
Carrying amount	**129 886 963**	**1 545 782**	**242 639**	**131 675 384**

(*) The impairment allowance for loans and advances to customers measured at fair value through other comprehensive income in the amount of PLN 22 356 thousand is included in the 'Revaluation reserve' item and does not reduce the carrying amount of the loan.
(**) Including the provision for legal risk regarding foreign currency mortgage loans in the amount of PLN 27 712 thousand.

	31.12.2018			
	AMORTISED COST	FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	FAIR VALUE THROUGH PROFIT OR LOSS	TOTAL
Mortgage loans	62 442 290	1 295 388	26 826	63 764 504
Current accounts	12 154 351	-	-	12 154 351
Operating loans	14 685 725	401 500	27 750	15 114 975
Investment loans	19 009 562	-	95 669	19 105 231
Cash loans	13 681 398	-	-	13 681 398
Payment cards receivables	1 141 961	-	-	1 141 961
Factoring	2 459 439	-	-	2 459 439
Other loans and advances	794 079	-	152 385	946 464
Debt securities	-	-	-	-
Reverse repo transactions	-	-	-	-
Cash in transit	64 078	-	-	64 078
Gross carrying amount	**126 432 883**	**1 696 888**	**302 630**	**128 432 401**
Impairment allowances (*)	(6 083 286)	-	-	(6 083 286)
Carrying amount	**120 349 597**	**1 696 888**	**302 630**	**122 349 115**

(*) The impairment allowance for loans and advances to customers measured at fair value other comprehensive income in the amount of PLN 16 723 thousand is included in the 'Revaluation reserve' item and does not reduce the carrying amount of the loan.

Notes to the financial statements (cont.)

(In PLN thousand)

Loans and advances to customers by customer type

	31.12.2019			
	AMORTISED COST	FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	FAIR VALUE THROUGH PROFIT OR LOSS	TOTAL
Corporate	57 266 692	1 545 782	44 128	58 856 602
Individuals	75 991 832	-	141 296	76 133 128
Budget entities	2 905 557	-	57 215	2 962 772
Gross carrying amount	**136 164 081**	**1 545 782**	**242 639**	**137 952 502**
Impairment allowances (*) (**)	(6 277 118)	-	-	(6 277 118)
Carrying amount	**129 886 963**	**1 545 782**	**242 639**	**131 675 384**

(*) The impairment allowance for loans and advances to customers measured at fair value other comprehensive income in the amount of PLN 22 356 thousand is included in the 'Revaluation reserve' item and does not reduce the carrying amount of the loan.

(**) Including the provision for legal risk regarding foreign currency mortgage loans in the amount of PLN 27 712 thousand.

	31.12.2018			
	AMORTISED COST	FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	FAIR VALUE THROUGH PROFIT OR LOSS	TOTAL
Corporate	52 738 662	1 696 888	56 407	54 491 957
Individuals	70 329 019	-	152 385	70 481 404
Budget entities	3 365 202	-	93 838	3 459 040
Gross carrying amount	**126 432 883**	**1 696 888**	**302 630**	**128 432 401**
Impairment allowances (*)	(6 083 286)	-	-	(6 083 286)
Carrying amount	**120 349 597**	**1 696 888**	**302 630**	**122 349 115**

(*) The impairment allowance for loans and advances to customers measured at fair value other comprehensive income in the amount of PLN 16 723 thousand is included in the 'Revaluation reserve' item and does not reduce the carrying amount of the loan.

Notes to the financial statements (cont.)

(In PLN thousand)

Loans and advances to customers by contractual maturity

	31.12.2019			
	AMORTISED COST	FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	FAIR VALUE THROUGH PROFIT OR LOSS	TOTAL
Loans and advances to customers, including:				
up to 1 month	16 067 547	-	2 395	16 069 942
between 1 and 3 months	4 324 282	-	14 669	4 338 951
between 3 months and 1 year	13 524 297	51 859	50 043	13 626 199
between 1 and 5 years	42 093 945	350 768	130 095	42 574 808
over 5 years	55 634 329	1 143 155	43 567	56 821 051
past due	4 519 681	-	1 870	4 521 551
Gross carrying amount	**136 164 081**	**1 545 782**	**242 639**	**137 952 502**
Impairment allowances (*) (**)	(6 277 118)	-	-	(6 277 118)
Carrying amount	**129 886 963**	**1 545 782**	**242 639**	**131 675 384**

(*) The impairment allowance for loans and advances to customers measured at fair value other comprehensive income in the amount of PLN 22 356 thousand is included in the 'Revaluation reserve' item and does not reduce the carrying amount of the loan.

(**) Including the provision for legal risk regarding foreign currency mortgage loans in the amount of PLN 27 712 thousand.

	31.12.2018			
	AMORTISED COST	FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	FAIR VALUE THROUGH PROFIT OR LOSS	TOTAL
Loans and advances to customers, including:				
up to 1 month	15 495 044	-	2 332	15 497 376
between 1 and 3 months	3 535 849	-	15 097	3 550 946
between 3 months and 1 year	14 602 154	122 967	52 597	14 777 718
between 1 and 5 years	36 129 694	536 191	168 618	36 834 503
over 5 years	51 956 261	1 037 730	61 071	53 055 062
past due	4 713 881	-	2 915	4 716 796
Gross carrying amount	**126 432 883**	**1 696 888**	**302 630**	**128 432 401**
Impairment allowances (*)	(6 083 286)	-	-	(6 083 286)
Carrying amount	**120 349 597**	**1 696 888**	**302 630**	**122 349 115**

(*) The impairment allowance for loans and advances to customers measured at fair value other comprehensive income in the amount of PLN 16 723 thousand is included in the 'Revaluation reserve' item and does not reduce the carrying amount of the loan.

Notes to the financial statements (cont.)

(In PLN thousand)

Loans and advances to customers by currency

	31.12.2019			
	AMORTISED COST	FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	FAIR VALUE THROUGH PROFIT OR LOSS	TOTAL
PLN	108 998 763	50 124	242 639	109 291 526
CHF	2 600 631	-	-	2 600 631
EUR	16 497 283	1 495 658	-	17 992 941
USD	1 313 033	-	-	1 313 033
Other currencies	477 253	-	-	477 253
Total	**129 886 963**	**1 545 782**	**242 639**	**131 675 384**

	31.12.2018			
	AMORTISED COST	FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	FAIR VALUE THROUGH PROFIT OR LOSS	TOTAL
PLN	101 521 368	48 039	302 630	101 872 037
CHF	2 895 803	-	-	2 895 803
EUR	13 803 852	1 648 849	-	15 452 701
USD	1 754 991	-	-	1 754 991
Other currencies	373 583	-	-	373 583
Total	**120 349 597**	**1 696 888**	**302 630**	**122 349 115**

26. Hedge accounting

The Bank decided to take advantage of the choice given by IFRS 9 and continues to apply hedge accounting procedures according to IAS 39. This decision concerns all hedging relationships, for which the Bank applies and will apply hedge accounting in the future.

As of 31 December 2019 the Bank applies fair value hedge accounting and cash flow hedge accounting.

- **FVH** - fair value hedge accounting:
  - Interest rate swaps (IRS) designated to hedge debt securities denominated in PLN, EUR and USD (hereafter: **FVH IRS bonds**),
- **CFH** - cash flow hedge accounting:
  - Interest rate swaps (IRS) designated to hedge floating rate loans and securities denominated in PLN (hereafter: **CFH IRS loans/bonds**),
  - Interest rate swaps (IRS) designated to hedge deposits denominated in PLN and EUR, which economically reflect long-term variable-rate liability (hereafter: **CFH IRS deposits**),
  - cross-currency interest rate swaps (basis swap) designated to hedge floating rate loans denominated in CHF and liabilities denominated in PLN, which economically reflect long-term variable-rate liability (hereafter: **CFH CIRS deposits/loans**),
  - FX-Swaps designated to hedge floating rate loans denominated in EUR and current and term deposits denominated in USD (two hedging relationships, jointly hereafter **CFH FX-Swap deposits/loans**).

Impact of the IBOR reform on hedge accounting

In relation to the amendments to IAS 39 and IFRS 9 published on 16 January 2020 (described in the accounting policy - Note 4.10), the Bank took advantage of the possibility of earlier application of the above-mentioned changes to IAS 39 and IFRS 9 concerning the impact of the interest rate benchmark reform on hedge accounting (Interbank Offer Rate - 'IBOR reform') and as part of the prospective assessment of the effectiveness of hedging relationships did not take into account the impact of uncertainty regarding LIBOR benchmarks after 31 December 2021.

Below is the list of hedging relationships and the nominal amounts of hedging instruments designated thereto, which may be affected by the reform of the LIBOR interest rate benchmarks as at 31 December 2019:

- CFH CIRS deposits / loans (CHF 543 million transactions based on CHF LIBOR),
- FVH IRS bonds (USD 198 million transactions based on USD LIBOR.

Notes to the financial statements (cont.)

(In PLN thousand)

Fair value hedge accounting

The Bank applies fair value hedge accounting for fixed coupon debt securities denominated in PLN, EUR and USD, hedged with interest rate swap (IRS) transactions in the same currencies. The Bank hedges component of interest rate risk related to the fair value changes of the hedged item resulting exclusively from the volatility of market interest rates (WIBOR, EURIBOR, LIBOR USD). The IRS transactions receive floating-rate flows, and pay fixed-rate flows. In the past, hedged risk component accounted for a significant portion of changes in fair value of the hedged item.

The approach of the Bank to market risk managemant, including interest rate risk, is presented in Note 5.2. Details regarding exposure of the Bank to interest rate risk is disclosed in Note 5.2.

The use of derivative instruments to hedge the exposure to changes in interest rates generates counterparty credit risk of derivative transactions. The Bank mitigates this risk by requiring the counterparties to post collateral deposits and by settling derivative transactions through Central Counterparty Clearing Houses (CCPs) whch apply a number of mechanisms allowing systemic reduction of the risk of default on obligations under concluded transactions.

The Bank applies fair value hedge accounting to a hedging relationship if it is justified to expect that the hedge will be highly effective in achieving offsetting fair value changes attributable to the hedged risk in the future and if assessment of hedge effectiveness indicates high effectiveness in all financial reporting periods for which the hedge was designated.

According to the approach of the Bank, hedge ratio is determined as ratio of fair value of the hedged item to fair value of the hedging instrument. A hedging relationship is considered effective if all of the following criteria are met:

- high effectiveness of the hedge can be expected on the basis of comparison of critical terms of the hedged item and the hedging instrument,
- in each reporting period, hedge ratio is within 80% - 125% range or relation of inefficiency amount to nominal value of the hedged item is less or equal than the threshold specified in documentation of the hedging relationship, where inefficiency amount is calculated as the sum of cumulative fair value changes of the hedged item and the hedging instrument,
- in each reporting period, simulation of hedge ratio in assumed evoluation of market reference rates scenarios is within 80% - 125% range.

Notes to the financial statements (cont.)

(In PLN thousand)

As regards fair value hedge relationships, the main sources of ineffectiveness are:

- impact of the counterparty credit risk and own credit risk of the Bank on the fair value of the hedging transactions (IRS), which is not reflected in the fair value of the hedged item,
- differences in maturities of the interest rate swaps and debt securities,
- differences in coupon amounts generated by the hedged item and hedging instruments.

The tables below present interest rate swaps which are used by the Bank as instruments hedging interest rate risk in fair value hedge accounting as of 31 December 2019 and 31 December 2018.

Nominal values and interest rates of hedging derivatives - fair value hedge

31.12.2019 HEDGING RELATIONSHIP	CURRENCY		CONTRACTUAL MATURITY UP TO 1 MONTH	BETWEEN1 AND 3 MONTHS	BETWEEN 3 MONTHS TO 1 YEAR	BETWEEN 1 TO 5 YEARS	OVER 5 YEARS	TOTAL
FVH IRS bonds	PLN	Nominal value	-	-	-	280 000	200 000	480 000
		Average fixed interest rate (%)	-	-	-	1.8	1.8	1.8
	EUR	Nominal value	-	-	470 564	604 707	628 129	1 703 400
		Average fixed interest rate (%)	-	-	1.2	0.4	(0.1)	0.4
	USD	Nominal value	-	-	-	637 102	113 931	751 033
		Average fixed interest rate (%)	-	-	-	3.7	2.0	3.5
Total nominal value			**-**	**-**	**470 564**	**1 521 809**	**942 060**	**2 934 433**

31.12.2018 HEDGING RELATIONSHIP	CURRENCY		CONTRACTUAL MATURITY UP TO 1 MONTH	BETWEEN1 AND 3 MONTHS	BETWEEN 3 MONTHS TO 1 YEAR	BETWEEN 1 TO 5 YEARS	OVER 5 YEARS	TOTAL
FVH IRS bonds	PLN	Nominal value	-	-	-	280 000	200 000	480 000
		Average fixed interest rate (%)	-	-	-	1.8	1.8	1.8
	EUR	Nominal value	262 300	-	-	883 650	836 350	1 982 300
		Average fixed interest rate (%)	0.2	-	-	0.9	0.1	0.5
	USD	Nominal value	-	-	127 830	244 381	499 138	871 349
		Average fixed interest rate (%)	-	-	6.9	4.9	3.7	4.5
Total nominal value			**262 300**	**-**	**127 830**	**1 408 031**	**1 535 488**	**3 333 649**

Notes to the financial statements (cont.)

(In PLN thousand)

Impact of fair value hedge (interest rate risk hedging) on balance sheet and financial result

31.12.2019	FVH IRS BONDS – IRS HEDGING DEBT SECURITIES MEASURED AT:		TOTAL
	AMORTISED COST	FAIR VALUE THROUGHT OTHER COMPREHENSIVE INCOME	
Hedging instruments			
Nominal value	200 000	2 734 433	2 934 433
Carrying amount – assets	-	637	637
Carrying amount – liabilities	15 469	145 897	161 366
Balance sheet item in which hedging instrument is reported	Hedging instruments	Hedging instruments	Hedging instruments
Amount of changes in fair value of the hedging instrument in the reporting period used for estimating hedge inefficiency	(5 871)	(37 241)	(43 112)
Amount of hedge ineffectiveness recognized in the income statement 'Result on fair value hedge accounting'	(282)	(1 384)	(1 666)
Hedged item			
Carrying amount – assets	214 291	2 973 347	3 187 638
Accumulated amount of the adjustment to the fair value of the hedged item included in the carrying amount of the hedged item recognized in the balance sheet - assets	14 288	174 946	189 234
Balance sheet item in which hedged item is reported	Hedging instruments	Hedging instruments	Hedging instruments
Change in the value of hedged item used for estimating hedge inefficiency in the reporting period	5 588	35 858	41 446
Accumulated amount of the adjustment to the fair value of the hedged item remaining in the balance sheet for those hedged items for which adjustments of the balance sheet item for adjustment to fair value has been discontinued	-	-	-

31.12.2018	FVH IRS BONDS – IRS HEDGING DEBT SECURITIES MEASURED AT:		TOTAL
	AMORTISED COST	FAIR VALUE THROUGHT OTHER COMPREHENSIVE INCOME	
Hedging instruments			
Nominal value	200 000	3 133 649	3 333 649
Carrying amount – assets	-	21 166	21 166
Carrying amount – liabilities	9 592	134 080	143 672
Balance sheet item in which hedging instrument is reported	Hedging instruments	Hedging instruments	Hedging instruments
Amount of changes in fair value of the hedging instrument in the reporting period used for estimating hedge inefficiency	(7 560)	48 638	41 078
Amount of hedge ineffectiveness recognized in the income statement 'Result on fair value hedge accounting'	(78)	2 933	2 855
Hedged item			
Carrying amount – assets	208 402	3 335 538	3 543 940
Accumulated amount of the adjustment to the fair value of the hedged item included in the carrying amount of the hedged item recognized in the balance sheet - assets	8 700	124 954	133 654
Balance sheet item in which hedged item is reported	Hedging instruments	Hedging instruments	Hedging instruments
Change in the value of hedged item used for estimating hedge inefficiency in the reporting period	7 476	(45 707)	(38 231)
Accumulated amount of the adjustment to the fair value of the hedged item remaining in the balance sheet for those hedged items for which adjustments of the balance sheet item for adjustment to fair value has been discontinued	-	-	-

(In PLN thousand)

Cash flow hedge accounting

The Bank applies:

- cross-currency interest rate swaps (basis swap) to hedge exposure to interest rate risk related to volatility of market reference rates (WIBOR, LIBOR CHF) and exposure to currency risk. Portfolios of variable-rate loans denominated in CHF and deposits in PLN (which economically reflects to long-term variable-rate liability) are hedged items in this hedging relationship. CIRS transactions are decomposed into the part hedging the portfolio of assets and the part hedging the portfolio of liabilities,
- interest rate swaps (IRS) to hedge the exposure to interest rate risk related to the volatility of market reference rates (WIBOR), generated by portfolios of variable-rate loans denominated in PLN,
- currency swaps (FX-Swap) to hedge the exposure to interest rate risk related to the volatility of market reference rates (EURIBOR, LIBOR USD), and the exposure to the currency risk, generated by both, portfolios of variable-rate of loans denominated in EUR and portfolios of term and negotiable deposits in USD,
- currency swaps (FX-Swap) to hedge the exposure to the currency risk, generated by both, portfolios of loans denominated in EUR and portfolios of current and term deposits in USD (new hedging relationship),
- interest rate swaps (IRS) to hedge the exposure to interest rate risk related to the volatility of market reference rates (WIBOR, EURIBOR), generated by portfolio of deposits denominated in PLN and EUR, which economically reflect a long-term, variable-rate liability.

In period form 1 January 2019 the Bank established new hedging relationship (FX-Swap), analogous to the existing one in terms of both hedging instruments and underlying position, but covering the currency risk only.

The new relationship is to replace the existing one: while all FX-Swaps designated to hedge accounting after 31 March 2019 supply the new hedge, the previous relationship is expected to gradually expire till February 2020.

Compared with the relation existing so far, the assessment of ineffectiveness in te new hedging relationship differs (due to the alternative construction of the hypothetical derivative), however the difference remains immaterial in terms of amounts. Due to this fact, as well as to the identity of the hedged items and types of hedging transactions, both relationships are presented together.

Approach of the Bank to hedging interest rate risk through cash flow hedge accounting is the same as the approach applied in the fair value hedge accounting as described above, i.e. only the component of interest rate risk related exclusively to volatility of market reference rates (in the case of cash flows hedge: WIBOR, EURIBOR, LIBOR USD, LIBOR CHF) is hedged.

Approach of the Bank to market risk management, including interest rate risk and currency risk, is presented in Note 5.2. Details regarding the Bank’s interest rate risk and currency risk exposure are disclosed in Note 5.2.

As in the case of the fair value hedge, using derivative instruments to hedge the exposure to interest rate risk and currency risk generates counterparty credit risk of the derivative transactions, which is not compensated by the hedged item. The Bank manages this risk in a way similar to fair value hedge.

The Bank applies cash flow hedge accounting to a hedging relationship if it is justified to expect that the hedge will be highly effective in achieving offsetting cash flow changes attributable to the hedged risk in the future and if assessment of hedge effectiveness indicates high effectiveness in all financial reporting periods for which the hedge was designated. The assessment is conducted using hypothetical derivative method.

Notes to the financial statements (cont.)

(In PLN thousand)

According to the approach of the Bank, a hedging relationship is considered effective if all of the following criteria are met:

- correlation coefficient between market reference rate of hedged items and market reference rate of hedging instrument is high,
- forecasted interest flows generated by hedged items are not lower than forecasted interest flows generated by hedging instruments,
- in each reporting period, ratio of the fair value of the hedged item to the fair value of the hedging instrument is within 80% - 125% range or relation of inefficiency amount to nominal value of the hedged item is less or equal to the threshold specified in documentation of the hedging relationship, where inefficiency amount is calculated as the sum of cumulative fair value changes of the hedged item and the hedging instrument,
- In each reporting period, ratio of fair value changes of the hedged item to the hedging instrument due to parallel fall or rise in yield curves by 100 basis point is within 80% - 125% range.

In the case of hedging interest rate and currency risk of portfolios of loans and deposits, the manner of managing these portfolios was adopted allowing for regular inclusion of new transactions in the hedging relationship and exclusion of transactions from the hedging relationship as a result of repayment or classification to non-performing category. As a result, the exposure of these portfolios to interest rate and currency risk is constantly changing. Because of frequent changes to term structure of the portfolio, the Bank dynamically assigns the hedged items and allows for matching of hedging instruments to these changes.

As regards cash flow hedge relationships, the main sources of ineffectiveness are:

- impact of counterparty and the Bank's own credit risk on the fair value of the hedging instruments, i.e. interest rate swap (IRS), cross-currency interest rate swap (basis swap), currency swap (FX swap) which is not reflected in the fair value of the hedged item,
- differences in repricing frequency of the hedging instruments and and hedged loans and deposits.

Notes to the financial statements (cont.)

(In PLN thousand)

Nominal values of hedging derivatives – cash flow hedge

31.12.2019 HEDGING RELATIONSHIP	CURRENCY		CONTRACTUAL MATURITY UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS TO 1 YEAR	BETWEEN 1 TO 5 YEARS	OVER 5 YEARS	TOTAL
CFH IRS loans	PLN	Nominal value	600 000	-	1 400 000	7 000 000	3 200 000	12 200 000
		Average fixed interest rate (%)	3.9	-	3.6	2.3	2.0	2.4
CFH IRS deposits	PLN	Nominal value	-	-	47 000	215 000	289 000	551 000
		Average fixed interest rate (%)	-	-	1.8	1.8	1.9	1.8
	EUR	Nominal value	-	-	28 106	624 296	-	652 402
		Average fixed interest rate (%)	-	-	(0.4)	(0.4)	-	(0.4)
CFH CIRS deposits/ loans	CHF/PLN	Nominal value	-	-	519 141	1 620 811	2 875 432	5 015 384
		Average fixed interest rate (%)	-	-	-	-	-	-
		Average fixed interest rate CHF/PLN	-	-	-	-	-	-
CFH FX Swap deposits/loans	EUR/PLN	Nominal value	1 581 919	2 452 959	2 635 470	-	-	6 670 348
		Average fixed interest rate EUR/USD	4.3	4.4	4.4	-	-	4.4
	USD/PLN	Nominal value	193 193	-	1 151 106	-	-	1 344 299
		Average fixed interest rate USD/PLN	3.9	-	3.9	-	-	3.9
	EUR/USD	Nominal value	1 660 461	379 194	1 387 541	-	-	3 427 196
		Average fixed interest rate EUR/PLN	1.1	1.1	1.2	-	-	1.1
Total nominal value			**4 035 573**	**2 832 153**	**7 168 364**	**9 460 107**	**6 364 432**	**29 860 629**

31.12.2018 HEDGING RELATIONSHIP	CURRENCY		CONTRACTUAL MATURITY UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS TO 1 YEAR	BETWEEN 1 TO 5 YEARS	OVER 5 YEARS	TOTAL
CFH IRS loans	PLN	Nominal value	1 400 000	-	200 000	2 800 000	4 200 000	8 600 000
		Average fixed interest rate (%)	3.7	-	3.5	3.4	2.6	3.0
CFH IRS deposits	PLN	Nominal value	-	-	-	242 000	207 000	449 000
		Average fixed interest rate (%)	-	-	-	1.8	1.8	1.8
	EUR	Nominal value	-	-	-	658 760	-	658 760
		Average fixed interest rate (%)	-	-	-	(0.3)	-	(0.3)
CFH CIRS deposits/ loans	CHF/PLN	Nominal value	-	-	6 745 876	1 747 759	3 196 115	11 689 750
		Average fixed interest rate (%)	-	-	-	-	-	-
		Average fixed interest rate CHF/PLN	-	-	-	-	-	-
CFH FX Swap deposits/loans	EUR/PLN	Nominal value	2 420 194	864 917	1 395 524	-	-	4 680 635
		Average fixed interest rate EUR/USD	4.3	4.3	4.4	-	-	4.4
	EUR/USD	Nominal value	826 421	786 249	-	-	-	1 612 670
		Average fixed interest rate EUR/PLN	1.1	1.2	-	-	-	1.2
Total nominal value			**4 646 615**	**1 651 166**	**8 341 400**	**5 448 519**	**7 603 115**	**27 690 815**

Notes to the financial statements (cont.)

(In PLN thousand)

Impact of cash of hedge on balance sheet and financial result

31.12.2019	INTEREST RATE RISK		INTEREST RATE RISK / CURRENCY RISK	
HEDGE IN RELATIONSHIP	CFH IRS LOANS	CFH IRS DEPOSITS	CFH CIRS DEPOSITS/LOANS	CFH FX SWAP DEPOSITS/LOANS
Hedging instruments				
Nominal value	12 200 000	1 203 402	5 015 384	11 441 843
Carrying amount – assets	290 699	2 708	-	83 164
Carrying amount – liabilities	8 247	28 699	391 365	25 088
Balance sheet item in which hedging instrument is reported	Hedging instruments	Hedging instruments	Hedging instruments	Hedging instruments
Change in the fair value of the hedging instrument used for estimating hedge ineffectiveness	49 328	(10 521)	32 807	2 226
Gains or losses resulting from hedging, recognized in other comprehensive income	-	-	-	-
Amount of hedge ineffectiveness recognized in the income statement in item 'Result on financial assets and liabilities measured at fair value through profit or loss'	(1 265)	-	(2)	(6)
Amount transferred from the revaluation reserves due to cash flow hedge accounting to the income statement as a reclassification adjustment	-	-	-	-
Income statement item in which reclassification adjustment is reported	Result on financial assets and liabilities measured at fair value through profit or loss	Result on financial assets and liabilities measured at fair value through profit or loss	Result on financial assets and liabilities measured at fair value through profit or loss	Result on financial assets and liabilities measured at fair value through profit or loss
Hedged item				
Amount of change in the fair value of a hypothetical derivative representing the hedged item used for estimating the hedge ineffectiveness in the reporting period	(50 455)	10 521	(48 923)	(2 248)
Revaluation reserve due to cash flow hedge accounting for relationships for which hedge accounting will be continued after the end of the reporting period	200 961	(22 346)	(53 646)	1 794
Revaluation reserve due to cash flow hedge accounting for relationships for which hedge accounting is no longer applied	-	-	-	-

Notes to the financial statements (cont.)

(In PLN thousand)

31.12.2018	INTEREST RATE RISK		INTEREST RATE RISK / CURRENCY RISK	
HEDGE IN RELATIONSHIP	CFH IRS LOANS	CFH IRS DEPOSITS	CFH CIRS DEPOSITS/LOANS	CFH FX SWAP DEPOSITS/LOANS
Hedging instruments				
Nominal value	8 600 000	1 107 760	11 689 750	6 293 305
Carrying amount – assets	261 759	-	-	30 640
Carrying amount – liabilities	-	15 613	745 171	600
Balance sheet item in which hedging instrument is reported	Hedging instruments	Hedging instruments	Hedging instruments	Hedging instruments
Change in the fair value of the hedging instrument used for estimating hedge ineffectiveness	48 745	(10 856)	9 369	(175)
Gains or losses resulting from hedging, recognized in other comprehensive income	-	-	-	-
Amount of hedge ineffectiveness recognized in the income statement in item 'Result on financial assets and liabilities measured at fair value through profit or loss'	205	-	(23)	7
Amount transferred from the revaluation reserves due to cash flow hedge accounting to the income statement as a reclassification adjustment	-	-	-	-
Income statement item in which reclassification adjustment is reported	Result on financial assets and liabilities measured at fair value through profit or loss	Result on financial assets and liabilities measured at fair value through profit or loss	Result on financial assets and liabilities measured at fair value through profit or loss	Result on financial assets and liabilities measured at fair value through profit or loss
Hedged item				
Amount of change in the fair value of a hypothetical derivative representing the hedged item used for estimating the hedge ineffectiveness in the reporting period	(48 745)	10 856	(13 313)	185
Revaluation reserve due to cash flow hedge accounting for relationships for which hedge accounting will be continued after the end of the reporting period	150 374	(11 975)	(86 447)	(412)
Revaluation reserve due to cash flow hedge accounting for relationships for which hedge accounting is no longer applied	-	-	-	-

Changes in the revaluation reserve from the valuation of hedging derivatives in cash flow hedge accounting

	2019	2018
Opening balance	**51 540**	**6 581**
INTEREST RATE RISK		
Gains or losses resulting from hedging, recognized in other comprehensive income during the reporting period	40 216	35 756
Part of the loss transferred to the income statement due to the lack of expectation of materialization of the hedged item	-	-
INTEREST RATE RISK / CURRENCY RISK		
Gains or losses resulting from hedging, recognized in other comprehensive income during the reporting period	35 007	9 203
Part of the loss transferred to the income statement due to the lack of expectation of materialization of the hedged item	-	-
Closing balance	**126 763**	**51 540**

(In PLN thousand)

27. Investment (placement) securities

	31.12.2019	31.12.2018
Debt securities measured at amortised cost	14 557 831	11 130 367
Debt securities measured at fair value through other comprehensive income	30 964 680	26 904 574
Equity instruments designated at fair value through other comprehensive income	225 332	232 830
Equity instruments mandatorily measured at fair value through profit or loss	125 454	65 408
Total	**45 873 297**	**38 333 179**

Debt securities measured at amortised cost

	31.12.2019	31.12.2018
Debt securities issued by central governments	8 880 617	5 111 495
T-bills	-	-
T-bonds	8 880 617	5 111 495
Debt securities issued by Central Banks	64 262	13 798
Debt securities issued by business entities	2 416 388	3 426 605
Debt securities issued by local governments	3 196 564	2 578 469
Total	**14 557 831**	**11 130 367**
including impairment of assets	(74 986)	(59 289)

Debt securities measured at fair value through other comprehensive income

	31.12.2019	31.12.2018
Debt securities issued by central governments	18 525 465	15 447 380
T-bills	-	-
T-bonds	18 275 855	15 197 169
Other	249 610	250 211
Debt securities issued by Central Banks	3 000 508	2 985 696
Debt securities issued by banks	3 768 345	3 418 866
Debt securities issued by business entities	2 732 829	1 985 860
Debt securities issued by local governments	2 937 533	3 066 772
Total	**30 964 680**	**26 904 574**
Impairment of assets (*)	(33 096)	(28 207)

(*) The impairment allowance for debt securities measured at fair value through other comprehensive income is included in the 'Revaluation reserve' item and does not reduce the carrying amount.

Notes to the financial statements (cont.)

(In PLN thousand)

Equity instruments designated at fair value through other comprehensive income

The portfolio of equity instruments designated for measurement at fair value through other comprehensive income includes the investments that the Bank considers as strategic.

	FAIR VALUE AS AT 31.12.2019	DIVIDENDS RECOGNIZED IN 2019
Entity X from construction sector	29 371	-
Entity Y from construction sector	859	-
Entity providing credit information	176 965	20 155
Infrastructure entity of Polish banking sector	14 327	1 095
Intermediary in transactions among financial entities	3 810	-
Total	**225 332**	**21 250**

In 2019 Bank did not sell investments in equity instruments designated for measurement at fair value through other comprehensive income.

In 2018, as a result of the decisions taken, the Bank sold the following investments in equity instruments designated for measurement at fair value through other comprehensive income. The realized result on the sale of these investments was transferred to the item 'Other reserve capital'.

2019	FAIR VALUE AT THE 31.12.2018	DIVIDENDS RECOGNIZED IN 2018
Entity X from construction sector	38 299	-
Entity Y from construction sector	5 151	-
Entity providing credit information	172 561	18 833
Infrastructure entity of Polish banking sector	13 136	784
Intermediary in transactions among financial entities	3 683	-
Total	**232 830**	**19 617**

2018	FAIR VALUE AT THE DERECOGNITON DATE	NET RESULT FROM SALE
Entity X from construction sector	823	8
Entity Y from construction sector	766	621
Intermediary in transactions among financial entities	151	63
Total	**1 740**	**692**

Notes to the financial statements (cont.)

(In PLN thousand)

Equity instruments mandatorily measured at fair value through profit or loss

	31.12.2019	31.12.2018
Shares	125 454	65 408
Total	**125 454**	**65 408**

Investment debt securities according to contractual maturity

	31.12.2019	31.12.2018
Debt securities, including:		
up to 1 month	3 719 821	3 724 720
between 1 and 3 months	66 038	134 911
between 3 months and 1 year	3 725 987	2 919 847
between 1 and 5 years	25 751 347	19 591 668
over 5 years	12 259 318	11 663 795
Total	**45 522 511**	**38 034 941**

Investment debt securities by currency

	31.12.2019	31.12.2018
PLN	39 458 491	31 926 297
EUR	2 831 292	2 967 951
USD	3 232 728	3 140 693
Total	**45 522 511**	**38 034 941**

(In PLN thousand)

28. Assets and liabilities held for sale

As at 31 December 2019 non-current assets classified as held for sale are identified non-current assets meeting requirements of IFRS 5 ‘Non-current Assets Held for Sale and Discontinued Operations’:

- real estate,
- other property, plant and equipment.

Assets held for sale

	31.12.2019	31.12.2018
ASSETS HELD FOR SALE		
Property, plant and equipment	17 175	11 550
Total assets	**17 175**	**11 550**

Changes in the balance of non-current assets held for sale

ASSETS HELD FOR SALE	2019	2018
Opening balance	**11 550**	**51 450**
Increases, including:	50 127	14
transfer from property, plant and equipment	39 314	-
transfer from investment properties	10 813	-
other	-	14
Decreases, including:	(44 502)	(39 914)
transfer to property, plant and equipment	(290)	(28 425)
disposal	(43 560)	(10 637)
other	(652)	(852)
Closing balance	**17 175**	**11 550**

The effect of disposal of other assets

	2019	2018
Sales revenues	53 709	47 245
Net carrying amount of disposed assets (including sale costs)	(43 560)	(12 530)
Profit/loss on sale before income tax	**10 149**	**34 715**

Notes to the financial statements (cont.)

(In PLN thousand)

29. Investments in subsidiaries

Condensed information about subsidiaries as at 31 December 2019 (*)

NAME OF ENTITY	LOCATION	ACTIVITIES	ASSETS	LIABILITIES	REVENUES	NET PROFIT /LOSS	% OF SHARES	CARRYING AMOUNT OF SHARES
Pekao Investment Banking S.A.	Warsaw	Brokerage services	259 700	25 089	23 680	(19 044)	100.00	274 334
Pekao Faktoring Sp. z o.o.	Lublin	Factoring	3 646 244	3 575 650	87 288	19 245	100.00	50 268
Pekao Fundusz Kapitałowy Sp. z o.o. (in liquidation)	Warsaw	Business consulting	52 929	77	549	384	100.00	51 380
Pekao Powszechne Towarzystwo Emerytalne S.A. (in liquidation)	Warsaw	Pension funds management	63 486	354	728	743	100.00	61 834
Pekao Financial Services Sp. z o.o.	Warsaw	Transferable agent	51 274	16 235	53 796	4 687	66.50	4 500
Pekao Leasing Sp. z o.o.	Warsaw	Lease services	7 603 344	7 069 708	261 067	83 529	100.00	278 798
Centrum Kart S.A.	Warsaw	Additional financial services	45 017	12 905	164	589	100.00	17 592
Pekao Bank Hipoteczny S.A.	Warsaw	Banking services	2 546 926	2 265 881	81 186	(37 702)	100.00	233 823
Pekao Property S.A. (in liquidation)	Warsaw	Real estate development services	26 249	155	220	(102)	100.00	26 460
Pekao Direct Sp. z o.o.(ex. Centrum Bankowości Bezpośredniej Sp. z o.o.)	Cracow	Call-center services	26 455	12 045	27 261	2 219	100.00	547
Pekao Investment Management S.A. (**)	Warsaw	Holding	311 932	30 044	327 321	126 019	100.00	605 794
Dom Inwestycyjny Xelion Sp. z o.o.	Warsaw	Financial intermediation	71 908	35 443	41 251	549	100.00	21 119
Total								**1 626 449**

(*) Data available at the date of financial statements.
(**) Consolidated data together a company of Pekao TFI SA.

Notes to the financial statements (cont.)

(In PLN thousand)

Condensed information about subsidiaries as at 31 December 2018 (*)

NAME OF ENTITY	LOCATION	ACTIVITIES	ASSETS	LIABILITIES	REVENUES	NET PROFIT /LOSS	% OF SHARES	CARRYING AMOUNT OF SHARES
Centralny Dom Maklerski Pekao S.A.	Warsaw	Brokerage services	884 512	738 735	97 642	24 805	100.00	56 332
Pekao Investment Banking S.A.	Warsaw	Brokerage services	331 246	68 325	45 497	9 637	100.00	274 334
Pekao Faktoring Sp. z o.o.	Lublin	Factoring	2 270 156	2 205 183	52 766	13 676	100.00.	50 268
Pekao Fundusz Kapitałowy Sp. z o.o. (in liquidation)	Warsaw	Business consulting	52 512	44	584	377	100.00	51 380
Pekao Powszechne Towarzystwo Emerytalne S.A.	Warsaw	Pension funds management	63 554	1 164	7 663	3 004	100.00	61 834
Pekao Financial Services Sp. z o.o.	Warsaw	Transferable agent	42 780	8 479	53 796	3 926	66.50	4 500
Pekao Leasing Sp. z o.o.	Warsaw	Lease services	5 910 200	5 412 467	194 174	47 625	100.00	278 798
Centrum Kart S.A.	Warsaw	Additional financial services	44 993	13 182	160	332	100.00	17 592
Pekao Bank Hipoteczny S.A.	Warsaw	Banking services	2 414 484	2 096 196	66 724	2 554	100.00	233 823
Pekao Property S.A.	Warsaw	Real estate development services	26 271	40	272	(114)	100.00	26 460
Centrum Bankowości Bezpośredniej Sp. z o.o.	Cracow	Call-center services	21 427	9 192	24 510	3 243	100.00	522
Pekao Investment Management S.A. (**)	Warsaw	Holding	310 235	28 676	343 082	90 201	100.00	605 794
Dom Inwestycyjny Xelion Sp. z o.o.	Warsaw	Financial intermediation	96 341	60 425	54 103	5 034	100.00	21 119
Total								**1 682 756**

(*) Data available at the date of financial statements.
(**) Consolidated data together a company of Pekao TFI SA

Changes in investment into subsidiaries

	2019	2018
Opening balance	**1 682 756**	**1 693 825**
Increases, including:	25	-
Transfer of a part assets and liabilities CDM S.A to CBB Sp. z o.o.	25	-
Decreases, including	(56 332)	(11 069)
przejęcie przez Bank spółki CDM S.A.	(56 332)	-
changes of impairment allowances	-	(11 069)
Closing balance	**1 626 449**	**1 682 756**

Notes to the financial statements (cont.)

(In PLN thousand)

The structure of investments in subsidiaries

	31.12.2019	31.12.2018
Investment in subsidiaries, including:		
banks	233 823	233 823
other financial institutions	1 314 786	1 371 093
non-financial institutions	77 840	77 840
Total	**1 626 449**	**1 682 756**

30. Investments in associates

Information about associates as at 31 December 2019 (*)

NAME OF ENTITY	LOCATION	ACTIVITIES	ASSETS	LIABILITIES	REVENUES	NET PROFIT/LOSS	% OF SHARES	CARRYING AMOUNT OF SHARES
CPF Management	Tortola, British Virgin Islands	Advisory services– currently does not provide its services	n/a	n/a	n/a	n/a	40.00	-
Total								**-**

Information about associates as at 31 December 2018 (*)

NAME OF ENTITY	LOCATION	ACTIVITIES	ASSETS	LIABILITIES	REVENUES	NET PROFIT/LOSS	% OF SHARES	CARRYING AMOUNT OF SHARES
CPF Management	Tortola, British Virgin Islands	Advisory services– currently does not provide its services	n/a	n/a	n/a	n/a	40.00	-
Total								**-**

(*) Data available at the date of financial statements.

As at 31 December 2019 and 31 December 2018, the Bank did not have the investment in entities under common control.

Notes to the financial statements (cont.)

(In PLN thousand)

31. Intangible assets

	31.12.2019	31.12.2018
Intangible assets, including:	687 142	580 530
research and development expenditures	-	3
licenses and patents	445 205	428 767
other	5 240	5 434
assets under construction	236 697	146 326
Goodwill	52 635	52 635
Total	**739 777**	**633 165**

The item 'Goodwill' contains:

- goodwill that was transferred to Bank Pekao S.A. on integration with Bank BPH S.A. It represents the goodwill recognized upon acquisition of Pierwszy Komercyjny Bank S.A. in Lublin ('PKBL') by Bank BPH S.A. and relates to those branches of the PKBL which were transferred to Bank Pekao S.A. as a result of integration with Bank BPH S.A. It is determined the smallest identifiable cash-generating units ('CGU'), to which the goodwill has been allocated in the amount of PLN 51 675 thousand,
- goodwill recognized upon acquisition of Spółdzielcza Kasa Oszczędnościowo – Kredytowa im. Mikołaja Kopernika by Bank Pekao S.A. It is determined the smallest identifiable cash-generating units ('CGU'), to which the goodwill has been allocated in the amount of PLN 960 thousand.

In respect to the goodwill, the impairment tests are performed annually, irrespective of whether there is any indication that it may be impaired.

The impairment tests are performed by comparing the carrying amount of the CGU, including the goodwill, with the recoverable amount of the CGU. The recoverable amount is estimated on the basis of value in use of the CGU. The value in use is the present, estimated value of the future cash flows for the period of 5 years, taking into account the residual value of the CGU. The residual value of the CGU is calculated based on an extrapolation of cash flows projections beyond the forecast period using the growth rate of 2.5%. The forecasts of the future cash flows are based on the assumptions included the budget for 2020 and financial plan for 2021-2024. To discount the future cash flows, it is applied the discount rate of 8.41%, which includes the risk-free rate and the risk premium.

The impairment tests performed as at 31 December 2019 showed the surplus of the recoverable amount over the carrying amount of the CGU, and therefore no CGU impairments were recognized.

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Notes to the financial statements (cont.)

(In PLN thousand)

Changes in 'Intangibles assets' in the course of the reporting period

2019	RESEARCH AND DEVELOPMENT COSTS	LICENSES AND PATENTS	OTHER	ASSETS UNDER CONSTRUCTION	GOODWILL	TOTAL
GROSS VALUE						
Opening balance	**72 455**	**2 543 875**	**34 556**	**146 326**	**52 635**	**2 849 847**
Increases, including:	-	214 173	1 803	282 260	-	498 236
Acquisitions	-	-	-	253 681	-	253 681
Other	-	-	919	478	-	1 397
Business combination	-	23 925	20	-	-	23 945
Transfer from investments outlays	-	188 100	864	-	-	188 964
the work carried out on their own	-	2 148	-	28 101	-	30 249
Decreases, including:	-	(14 493)	(75)	(191 889)	-	(206 457)
Liquidation	-	(13 574)	(75)	-	-	(13 649)
Sale	-	-	-	-	-	-
Other	-	(919)	-	(2 925)	-	(3 844)
transfer from investments outlays	-	-	-	(188 964)	-	(188 964)
Closing balance	**72 455**	**2 743 555**	**36 284**	**236 697**	**52 635**	**3 141 626**
ACCUMULATED AMORTIZATION						
Opening balance	**72 452**	**2 115 108**	**29 122**	**-**	**-**	**2 216 682**
Amortization	3	181 144	1 977	-	-	183 124
Liquidation	-	(13 574)	(75)	-	-	(13 649)
Sale	-	-	-	-	-	-
Business combination	-	15 672	20	-	-	15 692
Other	-	-	-	-	-	-
Closing balance	**72 455**	**2 298 350**	**31 044**	**-**	**-**	**2 401 849**
IMPAIRMENT						
Opening balance	**-**	**-**	**-**	**-**	**-**	**-**
Closing balance	**-**	**-**	**-**	**-**	**-**	**-**
NET VALUE						
Opening balance	**3**	**428 767**	**5 434**	**146 326**	**52 635**	**633 165**
Closing balance	**-**	**445 205**	**5 240**	**236 697**	**52 635**	**739 777**

Notes to the financial statements (cont.)

(In PLN thousand)

Changes in 'Intangibles assets' in the course of the reporting period

2018	RESEARCH AND DEVELOPMENT COSTS	LICENSES AND PATENTS	OTHER	ASSETS UNDER CONSTRUCTION	GOODWILL	TOTAL
GROSS VALUE						
Opening balance	**89 929**	**2 439 080**	**35 412**	**98 715**	**52 635**	**2 715 771**
Increases, including:	-	126 458	1 681	177 114	-	305 253
Acquisitions	-	-	-	168 582	-	168 582
Other	-	3	-	8 532	-	8 535
transfer from investments outlays	-	126 455	1 681	-	-	128 136
Decreases, including:	(17 474)	(21 663)	(2 537)	(129 503)	-	(171 177)
Liquidation	(17 474)	(21 663)	(1 199)	-	-	(40 336)
Sale	-	-	(1 338)	-	-	(1 338)
Other	-	-	-	(1 367)	-	(1 367)
transfer from investments outlays	-	-	-	(128 136)	-	(128 136)
Closing balance	**72 455**	**2 543 875**	**34 556**	**146 326**	**52 635**	**2 849 847**
ACCUMULATED AMORTIZATION						
Opening balance	**88 856**	**1 967 526**	**30 068**	**-**	**-**	**2 086 450**
Amortization	1 070	169 107	1 559	-	-	171 736
Liquidation	(17 474)	(21 529)	(1 167)	-	-	(40 170)
Sale	-	-	(1 338)	-	-	(1 338)
Other	-	4	-	-	-	4
Closing balance	**72 452**	**2 115 108**	**29 122**	**-**	**-**	**2 216 682**
IMPAIRMENT						
Opening balance	**-**	**-**	**-**	**-**	**-**	**-**
Closing balance	**-**	**-**	**-**	**-**	**-**	**-**
NET VALUE						
Opening balance	**1 073**	**471 554**	**5 344**	**98 715**	**52 635**	**629 321**
Closing balance	**3**	**428 767**	**5 434**	**146 326**	**52 635**	**633 165**

In the period from 1 January to 31 December 2019 the Bank acquired intangible assets in the amount of PLN 253 681 thousand (in 2018 – PLN 168 582 thousand).

In the period from 1 January to 31 December 2019 and in 2018 there have been no intangible assets whose title is restricted and pledged as security for liabilities.

Notes to the financial statements (cont.)

(In PLN thousand)

Contractual commitments

As at 31 December 2019 the contractual commitments for the acquisition of intangible assets amounted to PLN 174 945 thousand, whereas as at 31 December 2018 - PLN 42 494 thousand.

32. Property, plant and equipment

Non current assets

	31.12.2019	31.12.2018
Non-current assets, including:	1 667 277	1 242 536
land and buildings	1 282 742	924 412
machinery and equipment	267 508	213 216
transport vehicles	26 130	33 584
other	90 897	71 324
Non-current assets under construction and prepayments	175 101	141 667
Total	**1 842 378**	**1 384 203**

Notes to the financial statements (cont.)

(In PLN thousand)

Changes in 'Property, plant and equipment' in the course of the reporting period

2019	LANDS AND BUILDINGS	MACHINERY AND EQUIPMENT	MEANS OF TRANSPORTATION	OTHER	NON-CURRENT ASSETS UNDER CONSTRUCTION AND PREPAYMENTS	TOTAL
GROSS VALUE						
Opening balance	**2 261 495**	**1 276 648**	**74 073**	**455 340**	**141 667**	**4 209 223**
Impact of IFRS 16 application	496 852	75 415	-	-	-	572 267
Opening balance with impact of IFRS 16	**2 758 347**	**1 352 063**	**74 073**	**455 340**	**141 667**	**4 781 490**
Increases, including:	115 598	117 420	7 906	41 765	205 044	487 733
acquisitions	-	-	-	-	204 823	204 823
other	13 992	3 451	7 165	71	-	24 679
business combination	63 077	17 252	741	5 335	221	86 626
transfer from non-current assets under construction	38 529	96 717	-	36 359	-	171 605
Decreases, including:	(110 366)	(84 472)	(1 480)	(38 872)	(171 610)	(406 800)
liquidation and sale	(44 015)	(65 465)	(1 480)	(38 774)	-	(149 734)
transfer to non-current assets held for sale	(66 351)	(18 940)	-	(98)	-	(85 389)
other	-	(67)	-	-	(5)	(72)
transfer from non-current assets under construction	-	-	-	-	(171 605)	(171 605)
Closing balance	**2 763 579**	**1 385 011**	**80 499**	**458 233**	**175 101**	**4 862 423**
ACCUMULATED DEPRECIATION						
Opening balance	**1 332 755**	**1 060 834**	**40 489**	**383 930**	**-**	**2 818 008**
Increases, including:	205 846	136 774	15 052	19 981	-	377 653
depreciation	157 946	87 471	14 708	14 756	-	274 881
other	47	35 887	-	66	-	36 000
business combination	47 853	13 416	344	5 159	-	66 772
Decreases, including:	(63 627)	(82 626)	(1 172)	(36 660)	-	(184 085)
liquidation and sale	(34 994)	(64 862)	(1 172)	(36 567)	-	(137 595)
transfer to non-current assets held for sale	(28 518)	(17 464)	-	(93)	-	(46 075)
other	(115)	(300)	-	-	-	(415)
Closing balance	**1 474 974**	**1 114 982**	**54 369**	**367 251**	**-**	**3 011 576**
IMPAIRMENT						
Opening balance	**4 328**	**2 598**	**-**	**86**	**-**	**7 012**
Increases	2 662	-	-	-	-	2 662
Decreases	(1 127)	(77)	-	(1)	-	(1 205)
Closing balance	**5 863**	**2 521**	**-**	**85**	**-**	**8 469**
NET VALUE						
Opening balance	**924 412**	**213 216**	**33 584**	**71 324**	**141 667**	**1 384 203**
Closing balance	**1 282 742**	**267 508**	**26 130**	**90 897**	**175 101**	**1 842 378**

Notes to the financial statements (cont.)

(In PLN thousand)

Changes in 'Property, plant and equipment' in the course of the reporting period

2018	LANDS AND BUILDINGS	MACHINERY AND EQUIPMENT	MEANS OF TRANSPORTATION	OTHER	NON-CURRENT ASSETS UNDER CONSTRUCTION AND PREPAYMENTS	TOTAL
GROSS VALUE						
Opening balance	**2 259 914**	**1 382 802**	**74 034**	**303 231**	**97 789**	**4 117 770**
Increases, including:	31 868	54 088	4 897	167 498	150 388	408 739
acquisitions	-	-	-	-	150 388	150 388
other	9 084	7	4 897	137 959	-	151 947
transfer from non-current assets under construction	22 784	54 081	-	29 539	-	106 404
Decreases, including:	(30 287)	(160 242)	(4 858)	(15 389)	(106 510)	(317 286)
liquidation and sale	(30 166)	(22 524)	(4 858)	(15 389)	-	(72 937)
transfer to non-current assets held for sale	-	-	-	-	-	-
other	(121)	(137 718)	-	-	(106)	(137 945)
transfer from non-current assets under construction	-	-	-	-	(106 404)	(106 404)
Closing balance	**2 261 495**	**1 276 648**	**74 073**	**455 340**	**141 667**	**4 209 223**
ACCUMULATED DEPRECIATION						
Opening balance	**1 278 440**	**1 134 781**	**29 268**	**266 816**	**-**	**2 709 305**
Increases, including:	73 527	66 517	15 490	132 355	-	287 889
depreciation	70 444	66 510	15 490	13 706	-	166 150
other	3 083	7	-	118 649	-	121 739
Decreases, including:	(19 212)	(140 464)	(4 269)	(15 241)	-	(179 186)
liquidation and sale	(19 089)	(21 815)	(4 269)	(15 241)	-	(60 414)
transfer to non-current assets held for sale	-	-	-	-	-	-
other	(123)	(118 649)	-	-	-	(118 772)
Closing balance	**1 332 755**	**1 060 834**	**40 489**	**383 930**	**-**	**2 818 008**
IMPAIRMENT						
Opening balance	**4 384**	**2 709**	**-**	**81**	**-**	**7 174**
Increases	-	-	-	5	-	5
Decreases	(56)	(111)	-	-	-	(167)
Closing balance	**4 328**	**2 598**	**-**	**86**	**-**	**7 012**
NET VALUE						
Opening balance	**977 090**	**245 312**	**44 766**	**36 334**	**97 789**	**1 401 291**
Closing balance	**924 412**	**213 216**	**33 584**	**71 324**	**141 667**	**1 384 203**

In the period from 1 January to 31 December 2019 the Bank acquired property, plant and equipment in the amount of PLN 204 823 thousand (in 2018 - PLN 150 388 thousand), while the value of property, plant and equipment sold amounted to PLN 8 542 thousand (in 2018 - PLN 11 238 thousand).

The amount of compensations received from third parties for impairment of loss of property, plant and equipment items recognized in the income statement for 2019 stood at PLN 2 671 thousand (in 2018 - PLN 2 166 thousand).

In 2019 and in 2018 there have been no property, plant and equipment whose title is restricted and pledged as security for liabilities.

Contractual commitments

As at 31 December 2019 the contractual commitments for the acquisition of property, plant and equipment amounted to PLN 39 481 thousand, whereas as at 31 December 2018 - PLN 7 402 thousand.

Notes to the financial statements (cont.)

(In PLN thousand)

33. Investment property

The Bank values investment property using the historical cost model.
The rights to sell the investment property and the rights to transfer related revenues and profits are not a subject to limitations.

Changes in the 'Investment property' in the course of the reporting period

	2019	2018
GROSS VALUE		
Opening balance	**18 818**	**19 860**
Increases, including:	-	-
acquisitions	-	-
other	-	-
Decreases, including:	(18 818)	(1 042)
sale of real estate	-	(1 042)
transfer to non-current assets held for sale	(18 615)	-
transfer to property plant and equipment	(203)	-
other	-	-
Closing balance	**-**	**18 818**
ACCUMULATED DEPRECIATION		
Opening balance	**7 631**	**7 379**
Increases, including:	219	293
depreciation	219	293
other	-	-
Decreases, including:	(7 850)	(41)
sale of real estate	-	(41)
transfer to non-current assets held for sale	(7 802)	-
transfer to property plant and equipment	(48)	-
other	-	-
Closing balance	**-**	**7 631**
IMPAIRMENT		
Opening balance	**19**	**19**
Increases, including:	-	-
impairment charges	-	-
Decreases, including:	(19)	-
sale of real estate	-	-
transfer to non-current assets held for sale	-	-
transfer to property plant and equipment	-	-
other	(19)	-
Closing balance	**-**	**19**
NET VALUE		
Opening balance	**11 168**	**12 462**
Closing balance	**-**	**11 168**

The fair value of investment property as at 31 December 2018 stood at PLN 13 168 thousand. The fair value of investment property are categorized in Level 3 of the fair value hierarchy. The fair value was measured based on valuations of the property appraisers, having appropriate professional qualifications and recent experience in the location of the properties being valued. The valuations of investment property are based on investment method or profits method, taking into account such unobservable input data as expected rental growth rate, void periods, occupancy rate, discount rate.

The following amounts of revenues and costs associated with investment properties have been recognized in the income statement

(In PLN thousand)

	2019	2018
Rental revenues from investment properties	2 216	2 460
Direct operating expenses associated with investment properties (including repair and maintenance costs) which generated rental revenues during the reporting period	(541)	(519)
Direct operating expenses associated with investment properties (including repair and maintenance costs) which did not generate rental revenues during the reporting period	-	-

34. Other assets

	31.12.2019	31.12.2018
Prepaid expenses	31 589	31 199
Perpetual usufruct rights	-	35 807
Accrued income	173 110	177 097
Interbank and interbranch settlements	16 465	44
Other debtors	85 834	96 914
Card settlements	666 060	618 983
Total	**973 058**	**960 044**

Prepaid expenses represent expenditures, which will be amortized against income statement in the forthcoming reporting periods.

35. Assets pledged as security for liabilities

Financial assets pledged as security for liabilities

TYPE OF TRANSACTION AS AT 31.12.2019	SECURITY	CARRYING VALUE OF ASSETS PLEDGED AS SECURITY FOR LIABILITIES	NOMINAL VALUE OF ASSETS PLEDGED AS SECURITY FOR LIABILITIES	VALUE OF LIABILITIES SUBJECT TO SECURITY
Repo transactions	bonds	597 540	584 833	598 241
Coverage of Fund for protection of guaranteed assets to the benefit of the Bank Guarantee Fund	bonds	652 929	615 000	-
Coverage of payment commitments to the guarantee fund for the Bank Guarantee Fund	bonds	82 529	81 000	79 123
Coverage of payment commitments to the resolution fund for the Bank Guarantee Fund	bonds	237 583	230 000	206 998
Lombard and technical loan	bonds	5 758 095	5 548 332	-
Other loans	bonds	373 537	360 100	314 430
Coverage of the Guarantee Fund for the Settlement of Stock Exchange Transactions to Central Securities Depository (KDPW)	cash deposits	30 378	30 378	-
Derivatives	bonds	54 461	53 452	32 631

Notes to the financial statements (cont.)

(In PLN thousand)

Financial assets pledged as security for liabilities

TYPE OF TRANSACTION AS AT 31.12.2018	SECURITY	CARRYING VALUE OF ASSETS PLEDGED AS SECURITY FOR LIABILITIES	NOMINAL VALUE OF ASSETS PLEDGED AS SECURITY FOR LIABILITIES	VALUE OF LIABILITIES SUBJECT TO SECURITY
Repo transactions	bonds	417 979	352 714	415 119
Coverage of Fund for protection of guaranteed assets to the benefit of the Bank Guarantee Fund	bonds	738 038	690 000	-
Coverage of payment commitments to the guarantee fund for the Bank Guarantee Fund	bonds	71 227	70 000	63 415
Coverage of payment commitments to the resolution fund for the Bank Guarantee Fund	bonds	108 876	107 000	96 042
Lombard and technical loan	bonds	3 700 090	3 652 863	-
Other loans	bonds	236 083	221 100	206 151
Coverage of the Guarantee Fund for the Settlement of Stock Exchange Transactions to Central Securities Depository (KDPW)	cash deposits	10 559	10 559	-
Derivatives	bonds	529 569	520 445	470 905

The freeze on securities is a consequence of:

- in case of Repo and Sell-buy-back transactions – binding money market standards for such transactions,
- in case of freeze to the benefit of BFG – binding provisions of the Law on Banking Guaranty Fund BFG,
- in case of lombard and technical loans – policy and standards, applied by the National Bank of Poland NBP,
- in case of other loans, deposits and derivatives – terms and conditions of the agreement, entered between Bank Pekao S.A. and its clients,
- in case of freeze to the benefit of KDPW – with the status of the clearing member for brokerage transactions.

36. Amounts due to other banks

Amounts due to other banks by product type

	31.12.2019	31.12.2018
Current accounts	725 260	1 065 658
Interbank deposits and other liabilities	691 719	394 155
Loans and advances received	1 381 474	1 354 225
Repo transactions	218 449	67 447
Cash in transit	26 466	40 470
Leasing liabilities	601	-
Total	**3 043 969**	**2 921 955**

Amounts due to other banks are measured at amortised cost.

(In PLN thousand)

Amounts due to other banks by currency

	31.12.2019	31.12.2018
PLN	1 541 687	1 269 471
CHF	192 684	227 132
EUR	1 258 007	1 329 859
USD	20 908	55 435
Other currencies	30 683	40 058
Total	**3 043 969**	**2 921 955**

37. Amounts due to customers

Amounts due to customers by entity and product type

	31.12.2019	31.12.2018
Amounts due to corporate, including:	54 719 433	54 815 040
current accounts	42 366 012	39 973 872
term deposits and other liabilities	12 353 421	14 841 168
Amounts due to budget entities, including:	10 915 849	10 946 851
current accounts	10 526 619	9 753 945
term deposits and other liabilities	389 230	1 192 906
Amounts due to individuals, including:	91 874 677	83 789 393
current accounts	56 987 681	49 259 984
term deposits and other liabilities	34 886 996	34 529 409
Repo transactions	379 792	347 672
Cash in transit	240 407	195 058
Leasing liabilities	414 512	38 014
Total	**158 544 670**	**150 132 028**

Amounts due to other banks are measured at amortised cost.

Amounts due to customers by currency

	31.12.2019	31.12.2018
PLN	131 101 655	123 652 417
CHF	420 985	350 391
EUR	17 349 999	16 572 028
USD	8 265 919	8 099 778
Other currencies	1 406 112	1 457 414
Total	**158 544 670**	**150 132 028**

Notes to the financial statements (cont.)

(In PLN thousand)

38. Debt securities issued

Debt securities issued by type

	31.12.2019	31.12.2018
Certificates of deposit	1 604 344	1 732 596
Total	**1 604 344**	**1 732 596**

Amounts debt securities issued are measured at amortised cost.

The Bank redeems its own debt securities issued on a timely basis.

Debt securities issued by currency

	31.12.2019	31.12.2018
PLN	1 579 558	1 732 596
EUR	24 786	-
Total	**1 604 344**	**1 732 596**

39. Subordinated liabilities

On 30 October 2017, the Bank issued 10 years subordinated bonds with a total nominal value of PLN 1.25 billion. The funds from the issue were designated – after receiving the approval of the Polish Financial Supervision Authority (PFSA) on 21 December 2017 – to increase the Bank's supplementary capital, pursuant to art. 127 para. 2 point 2 of the Banking Law and art. 63 of Regulation No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms. The bonds were introduced to trading on the ASO Catalyst market.

On 15 October 2018, the Bank issued 10 years subordinated bonds with a total nominal value of PLN 0.55 billion. The funds from the issue were designated – after receiving the approval of the Polish Financial Supervision Authority on 16 November 2018 – to increase the Bank's supplementary capital, pursuant to art. 127 para. 2 point 2 of the Banking Law and art. 63 of Regulation No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms. The bonds were introduced to trading on the ASO Catalyst market.

On 15 October 2018, the Bank issued 15 years subordinated bonds with a total nominal value of PLN 0.20 billion. The funds from the issue were designated – after receiving the approval of the Polish Financial Supervision Authority on 18 October 2018 – to increase the Bank's supplementary capital, pursuant to art. 127 para. 2 point 2 of the Banking Law and art. 63 of Regulation No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms. The bonds were introduced to trading on the ASO Catalyst market.

On 4 June 2019, the Bank issued 12 years subordinated bonds with a total nominal value of PLN 0.35 billion. The funds from the issue were designated – after receiving the approval of the Polish Financial Supervision Authority on 8 July 2019 – to increase the Bank's supplementary capital, pursuant to art. 127 para. 2 point 2 of the Banking Law and art. 63 of Regulation No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms. The bonds were introduced to trading on the ASO Catalyst market.

Notes to the financial statements (cont.)

(In PLN thousand)

On 4 December 2019, the Bank issued 12 years subordinated bonds with a total nominal value of PLN 0.40 billion. The funds from the issue were designated – after receiving the approval of the Polish Financial Supervision Authority on 10 December 2019 – to increase the Bank's supplementary capital, pursuant to art. 127 para. 2 point 2 of the Banking Law and art. 63 of Regulation No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms. The bonds were introduced to trading on the ASO Catalyst market.

Subordinated liabilities by type

TYPE OF TRANSACTION	NOMINAL AMOUNT	CURRENCY	INTEREST RATE	ISSUE DATE	MATURITY DATE	SPECIAL TERMS	BALANCE SHEET VALUE AS AT 31.12.2019
Subordinated bonds	1 250 000	PLN	variable, WIBOR 6M + margin	30.10.2017	29.10.2027	Call option giving the Bank the right of early redemption within 5 years from the issue date, subject to the approval of the PFSA	1 257 025
Subordinated bonds	550 000	PLN	variable, WIBOR 6M + margin	15.10.2018	16.10.2028	Call option giving the Bank the right of early redemption within 5 years from the issue date, subject to the approval of the PFSA	553 926
Subordinated bonds	200 000	PLN	variable, WIBOR 6M + margin	15.10.2018	14.10.2033	Call option giving the Bank the right of early redemption within 10 years from the issue date, subject to the approval of the PFSA	201 534
Subordinated bonds	350 000	PLN	variable, WIBOR 6M + margin	04.06.2019	04.06.2031	Call option giving the Bank the right of early redemption within 12 years from the issue date, subject to the approval of the PFSA	350 937
Subordinated bonds	400 000	PLN	variable, WIBOR 6M + margin	04.12.2019	04.06.2031	Call option giving the Bank the right of early redemption within 12 years from the issue date, subject to the approval of the PFSA	401 071
Total	**2 750 000**						**2 764 493**

TYPE OF TRANSACTION	NOMINAL AMOUNT	CURRENCY	INTEREST RATE	ISSUE DATE	MATURITY DATE	SPECIAL TERMS	BALANCE SHEET VALUE AS AT 31.12.2018
Subordinated bonds	1 250 000	PLN	variable, WIBOR 6M + margin	30.10.2017	29.10.2027	Call option giving the Bank the right of early redemption within 5 years from the issue date, subject to the approval of the PFSA	1 257 025
Subordinated bonds	550 000	PLN	variable, WIBOR 6M + margin	15.10.2018	16.10.2028	Call option giving the Bank the right of early redemption within 5 years from the issue date, subject to the approval of the PFSA	553 926
Subordinated bonds	200 000	PLN	variable, WIBOR 6M + margin	15.10.2018	14.10.2033	Call option giving the Bank the right of early redemption within 10 years from the issue date, subject to the approval of the PFSA	201 534
Total	**2 000 000**						**2 012 485**

(In PLN thousand)

40. Provisions

Changes in provisions in the reporting period

2019	PROVISIONS FOR LITIGATION AND CLAIMS (*)	RESTRUCTURING PROVISION	PROVISONS FOR DEFINED BENEFIT PLANS	PROVISIONS FOR UNDRAWN CREDIT FACILITIES AND GUARANTEES ISSUED	OTHER PROVISIONS	TOTAL
Opening balance	**53 988**	**-**	**284 634**	**271 609**	**44 729**	**654 960**
Provision charges/revaluation	72 346	85 000	23 063	223 079	13 190	416 678
Provision utilization	(22 433)	(66 046)	(25 310)	-	(14 204)	(127 993)
Provision releases	(4 752)	-	-	(170 363)	-	(175 115)
Foreign currency exchange differences	-	-	-	(37)	-	(37)
Other changes	186	-	3 600	-	778	4 564
Closing balance	**99 335**	**18 954**	**285 987**	**324 288**	**44 493**	**773 057**
Short term	28 970	18 954	142	44 509	-	92 575
Long term	70 365	-	285 845	279 779	44 493	680 482

(*) Including the provision for legal risk regarding foreign currency mortgage loans in CHF in the amount of PLN 18 990 thousand and a provision for early repayments of consumer loans in the amount of PLN 26 279 thousand as at 31 December 2019.

2018	PROVISIONS FOR LITIGATION AND CLAIMS	RESTRUCTURING PROVISION	PROVISONS FOR DEFINED BENEFIT PLANS	PROVISIONS FOR UNDRAWN CREDIT FACILITIES AND GUARANTEES ISSUED	OTHER PROVISIONS	TOTAL
Opening balance	**15 204**	**-**	**295 551**	**245 993**	**36 887**	**593 635**
Initial application of IFRS 9	-	-	-	35 332	-	35 332
Opening balance - restated	**15 204**	**-**	**295 551**	**281 325**	**36 887**	**628 967**
Provision charges/revaluation	14 892	-	27 691	226 848	17 598	287 029
Provision utilization	(3 418)	-	(38 205)	(24 808)	(9 756)	(76 187)
Provision releases	(229)	-	-	(169 545)	-	(169 774)
Foreign currency exchange differences	-	-	-	1 549	-	1 549
Other changes	27 539	-	(403)	(43 760)	-	(16 624)
Closing balance	**53 988**	**-**	**284 634**	**271 609**	**44 729**	**654 960**
Short term	2 715	-	11 240	53 051	-	67 006
Long term	51 273	-	273 394	218 558	44 729	587 954

Provisions for litigation and claims

Provisions for litigation and claims include court, administrative and other legal proceedings. Provisions for litigation and claims were estimated in the amount of expected outflow of resources embodying economic benefits.

Provisions for litigation and claims also include the part of total provision created for legal risk related to foreign currency mortgage loans in CHF, in part relating to exposures already repaid (fully or partially). Details about the above provisions are presented in Note 4.5 and 5.2 of these unconsolidated financial statements.

An issue related to the judgment of the Court of Justice of the European Union regarding consumer credit agreements

On 11 September 2019, the Court of Justice of the European Union (hereinafter the ‘CJEU’) issued a judgment in Case C-383/18 concerning preliminary questions regarding the consumer's right to reduce the total cost of loan in the event of early repayment of consumer loan.

The Bank analyzed the legal risk resulting from the above judgment and in accordance with IAS 37 ‘Provisions, contingent liabilities and contingent assets’ assessed the probability of cash outflow as a refund of commission in connection with early repayment of loans made by borrowers before the abovementioned judgment of the CJEU.

(In PLN thousand)

For the purpose of estimating the aforementioned provision, the Bank performed an analysis of data on early repayment of loans and complaints. As a result of the above, the Bank has determined a matrix of probability of repayment depending on the amount of commission to be repaid and the period when the earlier repayment was made.

As a result of the above analysis, the Bank recognized a provision in the amount of PLN 29.1 million regarding early repayments of consumer loans made before the judgment of the CJEU (i.e. before 11 September 2019), charged to ‘Other operating expenses’.

The estimates required the Bank to adopt expert assumptions and are associated with significant uncertainty.

In relation to the above, the Bank conducted a sensitivity analysis in relation to significant provisioning parameters, where a change in the level of these parameters would have the following impact on the amount of the provision:

Parameter	Scenario	Impact on the level of provision
Change in the number of complaints	+1000 pieces	0.9
	-1000 pieces	(0.9)
Change in average refund amount	+10%	2.9
	-10%	(2.9)

In the case of early repayment of loans made by borrowers after the judgment of the CJEU (i.e. after 11 September 2019), the Bank automatically reduces the borrower's total cost of loan and returns the funds to the customer.

In addition, with respect to balance sheet exposures as at 31 December 2019, the Bank estimated possible future prepayments of these exposures. Therefore, in accordance with the principles set out by IFRS 9, the Bank adjusted interest income by PLN 9.5 million in correspondence with ‘Other liabilities’.

Restructuring provision

The Management Board of Bank Pekao S.A. informed that on 4 April 2019, in accordance with the Act of 13 March 2003 on special rules of terminating employment contracts for reasons not attributable to the employees (Journal of Laws, 2018, item 1969), adopted a resolution on the intended collective redundancies and the start of the consultation procedure for collective redundancies.

The intention of the Bank’s Management Board is to terminate employment contracts with up to 900 employees and amend terms and conditions of employment with up to 620 employees, between 26 April 2019 and 31 October 2019.

The Bank estimated all the costs of termination of employment contracts and amendment of terms and conditions of employment the Bank’s employees related to the collective redundancies for PLN 85 million and the restructuring provision in this amount was created in the Bank's accounting books.

The balance of the restructuring provision as at 31 December 2019 relates to payments made in 2020.

Provisions for defined benefits plans

Provisions for defined benefits plans consist of provisions for retirement benefits and death-in-service benefits.The present value of such obligations is measured by an independent actuary using the projected unit credit method.

Other provisions

Other provisions include in particular provisions for other employee benefits.

Notes to the financial statements (cont.)

(In PLN thousand)

41. Other liabilities

	31.12.2019	31.12.2018
Deferred income	155 357	131 493
Provisions for holiday leave	56 413	59 977
Provisions for other employee-related liabilities	210 108	211 987
Provisions for administrative costs	129 652	123 961
Other costs to be paid (*)	74 185	92 695
Other creditors	648 542	457 333
Interbank and interbranch settlements	744 616	572 840
Card settlements	360 998	300 984
Total	**2 379 871**	**1 951 270**

(*) in this as at 31 December 2019 PLN 49 737 thousand of provision for future refunds of the part of the remuneration for sale of insurance products linked to loans (PLN 69 388 thousand as at 31 December 2018).

42. Defined benefit plans

Based on internal regulations in respect to remuneration, the employees of the Bank or their families are entitled to defined benefits other than remuneration:

a) retirement benefits,

b) death-in-service benefits.

The present value of such obligations is measured by an independent actuary using the projected unit credit method.

The amount of the retirement benefits and death-in-service benefits is dependent on length of service and amount of remuneration. The expected amount of the benefits is discounted actuarially, taking into account the financial discount rate and the probability of an individual get to the retirement age or die while working respectively. The financial discount rate is determined by reference to market yields at the end of reporting period on government bonds. The probability of an individual get to the retirement age or die while working is determined using the multiple decrement model, taking into consideration the following risks: possibility of dismissal from service, risk of total disability to work and risk of death.

These defined benefit plans expose the Bank to actuarial risk, such as:

- interest rate risk – the decrease in market yields on government bonds would increase the defined benefit plans obligations,
- remuneration risk – the increase in remuneration of the Bank's employees would increase the defined benefit plans obligations,
- longevity risk – the increase in life expectancy of the Bank's employees would increase the defined benefit plans obligations.

The principal actuarial assumptions as at 31 December 2019 are as follows:

- the discount rate at the level of 2.0% (2.7% as at 31 December 2018),
- the future salary growth rate at the level of 2.75% (2.5% as at 31 December 2018),
- the probable number of leaving employees calculated on the basis of historical data concerning personnel rotation in the Bank,
- the mortality adopted in accordance with Life Expectancy Tables for men and women, published the Central Statistical Office, adequately adjusted on the basis of historical data of the Bank.

Notes to the financial statements (cont.)

(In PLN thousand)

Reconciliation of the present value of defined benefit plans obligations

The following table presents a reconciliation from the opening balances to closing balances for the present value of defined benefit plans obligations.

	2019	2018
Opening balance	**284 634**	**295 551**
Current service cost	15 586	18 234
Interest expense	7 477	9 457
Remeasurements of the defined benefit obligations:	2 848	(403)
actuarial gains and losses arising from changes in demographic assumptions	25 009	(515)
actuarial gains and losses arising from changes in financial assumptions	26 347	12 759
actuarial gains and losses arising from experience adjustments	(48 508)	(12 647)
Contributions paid by the employer	(25 310)	(38 205)
Business combinations	752	-
Closing balance	**285 987**	**284 634**

Sensitivity analysis

The following table presents how the impact on the defined benefits obligations would have increased (decreased) as a result of a change in the respective actuarial assumptions by one percent.

31.12.2019	DEFINED BENEFIT PLANS OBLIGATIONS	
	1 PERCENT INCREASE	1 PERCENT DECREASE
Discount rate	(24 367)	28 198
Future salary growth rate	27 622	(24 373)

31.12.2018	DEFINED BENEFIT PLANS OBLIGATIONS	
	1 PERCENT INCREASE	1 PERCENT DECREASE
Discount rate	(24 620)	28 563
Future salary growth rate	27 693	(24 379)

Maturity of defined benefit plans obligations

The following table presents the maturity profile of the defined benefit plans obligations.

	31.12.2019	31.12.2018
The weighted average duration of the defined benefit plans obligations (in years)	9.3	9.3

(In PLN thousand)

43. Share-based payments

Incentive programs

In 2018, the Long-Term Incentive Program of the UniCredit Group 2008 in the scope of share options was completed. Share-based payment transactions are recognized as settled in cash. Fair value of share options granted and shares of UniCredit S.p.A. was estimated as at the grant date based on the Hull and White model.

The tables below present changes in the number of stock options and performance shares of UniCredit S.p.A., as well as the weighted average exercise prices

2018	STOCK OPTIONS	
	NUMBER	WEIGHTED AVERAGE EXECUTION PRICE
Opening balance	1 072 660	-
Granted during the year	-	-
Redeemed during the year	(231 843)	-
Exercised during the year	-	-
Terminated during the year	(840 817)	-
Existing at the period-end	-	-
Executable at the period-end	-	-

The liabilities of granted rights to shares under Employee Share Ownership Plan until 31 December 2019 amounted to PLN 220 thousand (as at 31 December 2018 - PLN 220 thousand).

In 2019 and 2018 Bank there were no cost relating to the incentive programs granted to the emloyees of the Bank by UniCredit Group.

System of Variable Remuneration for the Management Team

The system of variable remuneration is addressed to Employees defined in the Bank as persons in managerial positions, who have a significant impact on the risk profile of the Bank and who are key employees for the fulfillment of the Bank's strategy, risk management and long-term increase of the Bank's income.

The aim of the system is to support the execution of the Bank's operational strategy, its risk management and to limit conflict of interests.

Under the system the participant can receive the variable compensation, which is paid out based on a bonus pool approach providing for a comprehensive performance measurement at individual level, level of his/her organizational unit and results of the entire Bank as well as risk assessment, verification of the Participant's compliant behaviour with respect to law provisions and standards adopted by the Bank.

The compensation consists of cash payment and cash-settled share based payment realized in the form of phantom shares as cash equivalent amounting to the value of granted phantom shares.

Notes to the financial statements (cont.)

(In PLN thousand)

During the reporting period ending on 31 December 2019 the Bank had the following share-based payments transactions:

	SYSTEM 2015(*)	SYSTEM 2016(*)	SYSTEM 2017(*)	SYSTEM 2018(*)	SYSTEM 2019(**)
Transaction type	Cash-settled share based payments				
Start date of the assessment period	1 January 2015	1 January 2016	1 January 2017	1 January 2018	1 January 2019
Program announcement date	July 2015	June 2016	April 2017	April 2018	January 2019
Program granting date	16 June 2016	19 April 2017	21 June 2018	25 July 2019	Date of Supervisory Board meeting
Number of instruments granted (pcs)	93 359	127 256	43 578	168 242	Will be defined on granting date
Maturity date	31 July 2021	31 July 2022	31 July 2023	31 July 2024	31 July 2025
Vesting date for Management Board Members and Executive Vice President	• 40% in the year of program granting (settlement after 2 years retention period) • 24% after 2 years from program granting date (settlement after 1 year retention period) • 12% after 3 years from program granting date (settlement after 1 year retention period) • 24% after 4 years from program granting date (settlement after 1 year retention period)	• 40% in the year of program granting (settlement after 2 years retention period) • 24% after 2 years from program granting date (settlement after 1 year retention period) • 12% after 3 years from program granting date (settlement after 1 year retention period) • 24% after 4 years from program granting date (settlement after 1 year retention period)	• 40% in the year of program granting (settlement after 2 years retention period) • 24% after 2 years from program granting date (settlement after 1 year retention period) • 12% after 3 years from program granting date (settlement after 1 year retention period) • 24% after 4 years from program granting date (settlement after 1 year retention period)	• 40% in the year of program granting (settlement after 1 year retention period) • 12% after 2 years from program granting date (settlement after 1 year retention period) • 24% after 3 years from program granting date (settlement after 1 year retention period) • 24% after 4 years from program granting date (settlement after 1 year retention period)	• 60% in the year of program granting (settlement after 1 year retention period) • 13.34 after 1 year from program granting date (settlement after 1 year retention period) • 13.34 after 2 years from program granting date (settlement after 1 year retention period) • 13.32% after 3 years from program granting date (settlement after 1 year retention period)
Vesting date for remaining participants	• 60% in the year of program granting (settlement after 3 years retention period) • 20% after 3 years from program granting date (settlement after 1 year retention period) • 20% after 4 years from program granting date (settlement after 1 year retention period)	• 60% in the year of program granting (settlement after 2 years retention period) • 20% after 2 years from program granting date (settlement after 1 year retention period) • 20% after 3 years from program granting date (settlement after 1 year retention period)	• 60% in the year of program granting (settlement after 2 years retention period) • 20% after 2 years from program granting date (settlement after 1 year retention period) • 20% after 3 years from program granting date (settlement after 1 year retention period)	• 60% in the year of program granting (settlement after 1 year retention period) • 13.34% after 1 year from program granting date (settlement after 1 year retention period) • 13.34% after 2 years from program granting date (settlement after 1 year retention period) • 13.32% after 3 years from program granting date (settlement after 1 year retention period)	• 60% in the year of program granting (settlement after 1 year retention period) • 13.34% after 1 year from program granting date (settlement after 1 year retention period) • 13.34% after 2 years from program granting date (settlement after 1 year retention period) • 13.32% after 3 years from program granting date (settlement after 1 year retention period)
Vesting conditions	Risk assessment, Compliance assessment, Continuous employment, Reaching the aim based on financial results of the Bank for a given period				
Program settlement	(*)The participant will receive a cash payment amounting to the number the possessed phantom shares times the arithmetic mean of the Bank's share prices at the Warsaw Stock Exchange: • in case of the settlement made at the dates of instalment after the mandatory retention period, for a month preceding the day of General Meeting approving the financial statements for a given year, • in case of settlement made in the voluntary retention period, for 10 working days following the day of release of the financial report in a given quarter, and benefits from acquired phantom shares in the amount equivalent to dividend paid to shareholders in the retention period for shares acquired by the participant. (**)The participant will receive a cash payment amounting to the number the possessed phantom shares times the average closing price of the Bank's shares at the Warsaw Stock Exchange for 30 calendar days preceding the day of the Supervisory Board meeting, where it evaluates the Bank's financial statements for a given year and benefits from acquired phantom shares in the amount corresponding to the dividend paid to shareholders during the mandatory retention period for shares acquired by the participant.				

(In PLN thousand)

Since January 2019, the System of Variable Remuneration for the Management Team has been in force, reflecting the provisions of the resolution of the General Meeting of the Bank on adjusting the remuneration of members of the management board to the requirements of the Act on the principles of determining the remuneration of persons managing certain companies.

For the System 2015, 2016, 2017 and 2018 the fair value of the program was estimated based upon the Bank's shares price on the WSE as of the balance sheet date and expected number of phantom shares to which the rights will be acquired.

For the System 2019, as of 31 December 2019 the Bank prepared the program valuation, presuming that the phantom shares were granted on 31 December 2019. This value will be changed at the actual date of granting the program.

The system of variable remuneration realized in the form of phantom shares is a program settled in cash, and therefore its fair value is adjusted on each balance sheet date until the the program settlement, which in case of this program coincides with the vesting date.

The carrying amount of liabilities for cash - settled phantom shares amounted to PLN 44 493 thousand as at 31 December 2019 (as at 31 December 2018 – PLN 44 729 thousand).

The total intrinsic value of liabilities for vested rights to phantom shares amounted to PLN 33 585 thousand as at 31 December 2019 (as at 31 December 2018 – PLN 30 145 thousand).

The remuneration expenses for 2019 relating to the system of variable remuneration in the form of phantom shares amounted to PLN 13 190 thousand (in 2018 - PLN 17 598 thousand).

The table below presents changes in the number of Bank's phantom shares.

	2019	2018
Opening balance	276 564	297 483
Granted during the year	168 242	43 578
Redeemed during the year	-	-
Exercised during the year	(110 460)	(64 498)
Terminated during the year	-	-
Existing at the period-end	334 346	276 563

The table above does not present the number of shares granted in respect of System 2019. This number will be determined in 2020 after evaluation of the financial statements for 2019 by the Supervisory Board. The hypothetical number of shares determined on the basis of the base value of the granted bonus to each of the program participants and arithmetic mean of the Bank's share price on the WSE in December 2019 amounts to 155 979.

(In PLN thousand)

44. Leasing

Bank as a Lessor

As a lessor, the Bank acts in premises rental contracts classified as operating leases.

In 2019, the Bank recognized revenues from the rental of premises in the amount of PLN 19 795 thousand (in 2018 - PLN 22 236 thousand).

The table below presents the maturity analysis of lease payments, presenting the undiscounted lease payments to be received after the balance sheet date.

31.12.2019 – OPERATING LEASES UNDER IFRS 16	
Up to 1 year	2 702
Between 1 and 2 years	917
Between 2 and 3 years	709
Between 3 and 4 years	613
Between 4 and 5 years	486
Over 5 years	4 515
Total	**9 942**
31.12.2018 – OPERATING LEASES UNDER IAS 17	
Up to 1 year	5 513
Between 1 and 5 years	2 414
Over 5 years	380
Total	**8 307**

Bank as a Lessee

As a lessee, the Bank acts in building and IT infrastructure lease contracts. In addition, the Bank as a lessee acts in the concluded with the subsidiary Pekao Leasing Sp. z o.o. lease contracts regarding passenger cars. These agreements give the Bank the opportunity to purchase cars that are leased after the end of the lease term.

Information on lease contracts in which the Bank acts as a lessee is presented below.

Right-of-use assets

2019	LANDS AND BUILDINGS	MACHINERY AND EQUIPMENT	MEANS OF TRANSPORT	TOTAL
Opening balance	**496 852**	**75 415**	**33 584**	**605 851**
Depreciation	(100 015)	(18 854)	(9 813)	(128 682)
Additions to right-of-use assets	30 755	-	2 329	33 084
Lease change	2 385	-	-	2 385
Derecognition of right-of-use assets	(19 629)	(56 561)	-	(76 190)
Closing balance	**410 348**	**-**	**26 100**	**436 448**

Lease liabilities

ITEM OF STATEMENT OF FINANCIAL POSITION	31.12.2019	1.01.2019
Amounts due to other banks	601	1 056
Amounts due to customers	414 512	573 418
Total	**415 113**	**574 474**

(In PLN thousand)

Amounts recognized in income statement

2019 – LEASES UNDER IFRS 16	
Interest expense on lease liabilities	(16 568)
Expenses relating to short-term leases presented in 'Other administrative expenses'	(8 092)
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets presented in 'Other administrative expenses'	(91)
2018 – LEASES UNDER IAS 17	
Lease expenses	(156 256)

Amounts recognized in cash flow statement

In 2019, total cash outflow for leases amounted to PLN 207 315 thousand.

45. Contingent commitments

Lawsuits

As of 31 December 2019 the following court cases for payment are pending with involvement of the Bank, that are important in view of the value of the object of litigation:

1) in the group of liabilities (against the Bank):

- brought by a legal person – lawsuit for payment by virtue of improper performance of an agreement, value of the object of litigation EUR 17 521 646 (which as of 31 December 2019 at mid NBP rate was equivalent to PLN 74 617 929.49), litigation initiation date – 19 July 2018, on 27 May 2019 the Arbitration Court at the Polish Chamber of Commerce passed a sentence dismissing the suit in its entirety, the sentence is legally valid but the plaintiff lodged a complaint with a court of general jurisdiction and demand the sentence to be repealed, in the present factual and legal circumstances the Bank assesses the funds outflow risk as possible,
- brought by the receiver for a joint stock company in liquidation bankruptcy – lawsuit for payment of compensation for a damage incurred as a result of the Bank's demanding immediate payment of the amounts due in virtue of payment of the price from the credit receivables transfer agreement and conducting debt enforcement collection of the portion of the price remaining for payment by a court enforcement officer, value of the object of litigation PLN 57 450 130 litigation initiation date – 30 April 2015, in the present factual and legal circumstances the Bank assesses the funds outflow risk as possible,
- brought by a natural person – lawsuit for payment by the Bank of an amount charged by virtue of settlement of financial future or forward transactions, value of the object of litigation PLN 38 916 555.18, litigation initiation date – 2 October 2016, on 6 May 2019 the Regional Court in Warsaw issued a sentence ordering the Bank to pay the amount of PLN 3 392 349.18 and as to the remainder the Court dismissed the suit, the sentence is not legally valid, the Bank and the plaintiff appealed against the judgment. In the present factual and legal circumstances regarding the amount awarded by the Circuit Court the Bank assesses the funds outflow risk as probable and in the remaining scope as possible,
- brought by a beneficiary of warranty – lawsuit for payment of a claim by virtue of the warranty issued by the Bank, value of the object of litigation PLN 32 750 000.00 litigation initiation date – 14 January 2014, in the present factual and legal circumstances the Bank assesses the funds outflow risk as minor,
- brought by a beneficiary of warranty – lawsuit for payment of a claim by virtue of the warranty issued by the Bank, value of the object of litigation PLN 32 491 607.61, litigation initiation date – 25 July 2019, Before the delivery of the lawsuit, the Bank paid the claimant the main claim sought by the lawsuit from funds obtained from the counter guarantor. On 22 November 2019 the plaintiff limited the claim for payment to an amount of PLN 436 188.70 for the statutory default interest. In the present factual and legal circumstances the Bank assesses the funds outflow risk as minor,

- brought by a natural person – lawsuit for payment of damages by the Bank resulting from improper conduct of a Bank entity – former ex. Pekao S.A. Central Brokerage House, the value of the object of litigation is PLN 30 000 000, the date of the litigation initiation is 16 May 2019, on 7 February 2020 the Regional Court in Warsaw issued a sentence dismissing the suit in its entirety, the sentence is not legally valid. In the present factual and legal circumstances the Bank assesses the funds outflow risk as minor,

1) in the group of receivables (brought by the Bank):

- Bank's main intervention lawsuit against the parties of the main lawsuit – the object of the intervention is the demand for payment by virtue of the assignment of receivables securing Bank's liabilities, value of the object of litigation is PLN 321 979 666.87, litigation initiation date – 26 October 2018,
- Bank's lawsuit for payment against limited debtor by virtue of mortgage collateralizing repayment of the granted credit, value of the object of litigation PLN 132 877 901, litigation initiation date – 21 January 2016,
- Bank's main intervention lawsuit against the parties of the main lawsuit – the object of the intervention is the demand for payment by virtue of the assignment of receivables securing Bank's liabilities, value of the object of litigation PLN 119 020 334, litigation initiation date – 26 October 2018,
- Bank's mutual lawsuit for payment of amounts due by virtue of the transfer of receivables, value of the object of litigation PLN 89 977 886, litigation initiation date – 28 February 2013,
- Bank's main intervention lawsuit against the parties of the main lawsuit – the object of the intervention is the demand to execute (pay) the liabilities purchased by the Bank from one of the defendants against the other defendant, value of the object of litigation PLN 67 432 617.21 , litigation initiation date – 23 January 2006.

None of the litigations pending in the four quarter of the year 2019 before the court, authority competent for arbitrary proceedings or a body of public administration posed a threat for financial liquidity of the Bank.

As at 31 December 2019, the Bank created provisions for litigations against the Bank which, according to the legal opinion, are connected with a risk of the funds outflow resulting from the fulfillment of the obligation. The value of the above provisions as at 31 December 2019 is PLN 99 335 thousand (PLN 53 988 thousand as at 31 December 2018).

In addition, as at 31 December 2019 the Bank assessed the legal risk of foreign currency mortgage loans in CHF and created a provision related to this risk. Details are presented in Note 5.2 of these unconsolidated financial statements.

Notes to the financial statements (cont.)

(In PLN thousand)

Financial commitments granted

Financial commitments granted by entities

	31.12.2019	31.12.2018
Financial commitments granted to:		
banks	669 821	819 358
customers entities	35 908 132	33 717 710
budget entities	657 679	662 554
Total	**37 235 632**	**35 199 622**

Guarantees issued

Guarantees issued by entities

	31.12.2019	31.12.2018
Issued to banks:	2 368 639	1 541 015
guarantees	2 168 540	1 535 957
sureties	153 750	-
confirmed export letters of credit	46 349	5 058
Issued customers entities	18 741 322	17 340 356
guarantees	12 108 330	10 341 630
securities' underwriting guarantees	2 982 379	4 320 967
sureties	3 650 613	2 677 759
Issued to budget entities:	682 865	162 540
guarantees	29 070	13 192
securities' underwriting guarantees	653 795	149 348
Total	**21 792 826**	**19 043 911**

Off-balance sheet commitments received

Off-balance sheet commitments received by entity

	31.12.2019	31.12.2018
Financial received from:	233 370	556 713
banks	233 370	356 739
customers entities	-	199 974
budget entities	-	-
Guarantees received from:	17 581 742	19 686 788
banks	4 820 053	3 556 825
clients entities	11 746 732	15 126 821
budget entities	1 014 957	1 003 142
Total	**17 815 112**	**20 243 501**

Moreover, the Bank has the ability to obtain financing from National Bank of Poland secured securities.

46. Share capital

Shareholding structure

CLASS/ISSUE	TYPE OF SHARES	NUMBER OF SHARES	NOMINAL VALUE OF CLASS/ISSUE	EQUITY COVERAGE	DATE OF REGISTRATION	DIVIDEND RIGHTS (FROM DATE)
A	Common bearer stock	137 650 000	137 650	Fully paid-up	21.12.1997	01.01.1998
B	Common bearer stock	7 690 000	7 690	Fully paid-up	06.10.1998	01.01.1998
C	Common bearer stock	10 630 632	10 631	Fully paid-up	12.12.2000	01.01.2000
D	Common bearer stock	9 777 571	9 777	Fully paid-up	12.12.2000	01.01.2000
E	Common bearer stock	373 644	374	Fully paid-up	29.08.2003	01.01.2003
F	Common bearer stock	621 411	621	Fully paid-up	29.08.2003	19.05.2006 16.05.2007
G	Common bearer stock	603 377	603	Fully paid-up	29.08.2003	15.05.2008
H	Common bearer stock	359 840	360	Fully paid-up	12.08.2004	01.01.2004
I	Common bearer stock	94 763 559	94 764	Fully paid-up	29.11.2007	01.01.2008
Total number of Shares (pcs)		**262 470 034**				
Total share capital in PLN thousand			**262 470**			
Nominal value per share = PLN 1.00						

Change in the number of shares (pcs)

2019	ISSUED AND FULLY PAID-UP SHARES	TOTAL
Opening balance	262 470 034	262 470 034
Closing balance	262 470 034	262 470 034

2018	ISSUED AND FULLY PAID-UP SHARES	TOTAL
Opening balance	262 470 034	262 470 034
Closing balance	262 470 034	262 470 034

Notes to the financial statements (cont.)

(In PLN thousand)

47. Other capital and reserves, retained earnings and profit for the period

The table below presents the structure of the Banks's equity attributable to equity holders of the Bank

	31.12.2019	31.12.2018
Share premium	9 137 221	9 137 221
General banking risk fund	1 982 459	1 982 459
Other reserve capital	8 300 933	8 627 858
Revaluation reserves, in this:	363 111	205 011
remeasurements of the defined benefit liabilities (net of tax)	(74 441)	(72 282)
revaluation of debt financial instruments and loans measured at fair value through other comprehensive income (net of tax)	202 262	96 890
revaluation or sale of investments in equity instruments designated at fair value through other comprehensive income (net of tax)	132 612	138 656
revaluation of hedging financial instruments (net of tax)	102 678	41 747
Other supplementary capital, in this:	233 127	233 127
supplementary capital	189 308	189 308
bonds convertible into shares - equity component	28 819	28 819
fund for brokerage activities	15 000	15 000
Other capital and reserves	**20 016 851**	**20 185 676**
Retained earnings	-	(936 748)
Net profit for the period	2 247 467	2 310 600
Retained earnings and net profit for the period	**2 247 467**	**1 373 852**
Total	**22 264 318**	**21 559 528**

The net profit of the Bank for 2018 in the amount of PLN 2 310 600 thousand was distributed in the following way: PLN 1 732 302 thousand – to dividend, PLN 578 298 thousand – to Other Reserve Capital.

Notes to the financial statements (cont.)

(In PLN thousand)

48. Additional information to the unconsolidated cash flow statement

Cash and cash equivalents

	31.12.2019	31.12.2018
Cash and amounts due from Central Bank	5 138 758	12 972 575
Loans and receivables from banks with maturity up to 3 months	2 081 424	2 260 195
Cash and Cash equivalents presented in the cash flow statement	**7 220 182**	**15 232 770**

Restricted availability cash and cash equivalents as at 31 December 2019 amounted to PLN 5 523 571 thousand (PLN 5 101 972 thousand as at 31 December 2018).

Changes in liabilities arising from financing activities

	BALANCE AS AT 1 JANUARY 2019	IMPACT OF IFRS 16 APPLICATION	BALANCE AS AT 1 JANUARY 2019 WITH IMPACT OF IFRS 16	CHANGES FROM FINANCING CASH FLOWS	NON-CASH CHANGES		BALANCE AS AT 31 DECEMBER 2019
					THE EFFECT OF CHANGES IN FOREIGN EXCHANGE RATES	OTHER CHANGES	
Debt securities issued	1 732 596	-	1 732 596	(126 635)	-	(1 617)	1 604 344
Subordinated liabilities	2 012 485	-	2 012 485	750 000	-	2 008	2 764 493
Loans and advances received	1 354 225	-	1 354 225	30 452	305	(3 508)	1 381 474
Lease liabilities	38 014	536 460	574 474	(191 131)	-	31 770	415 113
Total	**5 137 320**	**536 460**	**5 673 780**	**462 686**	**305**	**28 653**	**6 165 424**

	BALANCE AS AT 1 JANUARY 2018	CHANGES FROM FINANCING CASH FLOWS	NON-CASH CHANGES		BALANCE AS AT 31 DECEMBER 2018
			THE EFFECT OF CHANGES IN FOREIGN EXCHANGE RATES	OTHER CHANGES (*)	
Debt securities issued	1 470 000	267 924	-	(5 328)	1 732 596
Subordinated liabilities	1 257 188	750 000	-	5 297	2 012 485
Loans and advances received	1 507 313	(206 987)	53 853	46	1 354 225
Lease liabilities	-	-	-	38 014	38 014
Total	**4 234 501**	**810 937**	**53 853**	**38 029**	**5 137 320**

(In PLN thousand)

49. Related party transactions

The transactions between the Bank and related parties are typical transactions arising from current operating activities conducted by the Bank. Such transactions mainly include loans, deposits, foreign currency transactions and guarantees.

The credit granting process applicable to the Bank's management and entities related to the Bank

According to the Banking Act, credit transactions with Members of the Bank's Management Board and Supervisory Board, persons holding managerial positions at the Bank, with the entities related financially or organizationally therewith, shall be effected according to Regulation adopted by the Supervisory Board of the Bank.

The Regulation provides detailed decision-making procedures, applicable to transactions with such persons and entities, also defining the decision-making levels authorized to take decisions. In particular, the transactions with the Members of the Bank's Management Board or Supervisory Board or with an entity related therewith financially or organizationally, are subject to decisions taken by the Bank's Management Board and Supervisory Board.

Members of the Bank's Management Board and entities related therewith financially or organizationally may take advantage of credit products offered by the Bank on standard terms and conditions of the Bank. In particular, the Bank may not offer more advantageous credit interest rates to such persons or entities.

Credit risk assessment is performed using the methodology applied by the Bank, tailored to the client's segment and type of transaction.

In case of entities related to the Bank, the standard credit procedures are applied, with transaction-related decisions taken exclusively at level of the Bank's Head Office.

Notes to the financial statements (cont.)

(In PLN thousand)

Related party transactions

Related party transactions as at 31 December 2019

NAME OF ENTITY	RECEIVABLES FROM LOANS, ADVANCES AND PLACEMENTS	SECURITIES	RECEIVABLES FROM REVALUATION OF DERIVATIVES	OTHER RECEIVABLES	LIABILITIES FROM LOANS AND DEPOSITS	LIABILITIES FROM REVALUATION OF DERIVATIVES	OTHER LIABILITIES
PZU S.A. – the Bank ‘s parent entity	255	-	-	3 948	53 255	637	-
Entities of PZU S.A. Group excluding the Bank Pekao S.A. Group entities	10 113	-	763	5 247	120 539	10 647	5
Bank Pekao S.A. Group entities							
Subsidiaries							
Pekao Investment Banking S.A.	-	-	-	-	201 551	-	-
Pekao Leasing Sp. z o.o.	1 299 459	2 016	135	58	24 453	-	-
Pekao Faktoring Sp. z o.o.	2 552 647	632	-	31	8 770	-	-
Pekao Fundusz Kapitałowy Sp. z o.o. (in liguidation)	-	-	-	-	52 910	-	-
Pekao Powszechne Towarzystwo Emerytalne S.A. (in liguidation)	-	-	-	-	63 486	-	-
Centrum Kart S.A.	57	-	-	197	20 422	-	10 700
Pekao Financial Services Sp. z o. o.	9	-	-	5	7 831	-	-
Pekao Bank Hipoteczny S.A.	458 122	136 113	6 389	-	20 148	7 096	-
Pekao Property S.A. (in liguidation)	-	-	-	6 231	26 091	-	-
Pekao Direct Sp. z o.o. ex. Centrum Bankowości	-	-	-	42	12 096	-	4 477
FPB – Media Sp. z o. o. (in bankruptcy)	8 971	-	-	-	-	-	-
Dom Inwestycyjny Xelion Sp. z o.o.	-	-	-	-	38 859	-	-
Pekao Investment Management S.A.	-	-	-	-	100 263	-	-
Pekao TFI S.A. (PIM S.A. subsidiary)	-	-	-	9 893	170 442	-	-
Total of Bank Pekao S.A. Group entieties	**4 319 265**	**138 761**	**6 524**	**16 457**	**747 322**	**7 096**	**15 177**
Key management personnel of the Bank Pekao S.A.	38	-	-	-	9 538	-	-
Total	**4 329 671**	**138 761**	**7 287**	**25 652**	**930 654**	**18 380**	**15 182**

Notes to the financial statements (cont.)

(In PLN thousand)

Receivables from loans and deposits by contractual maturity

31.12.2019	CURRENT (*)	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1AND 5 YEARS	OVER 5 YEARS	TOTAL
PZU S.A. – the Bank ‘s parent entity	5	250	-	-	-	-	255
Entities of PZU S.A. Group excluding the Bank Pekao S.A. Group entities	13	10 100	-	-	-	-	10 113
Bank Pekao S.A. Group entities							
Subsidiaries	1 056 678	832 694	226 747	1 785 064	384 159	33 923	4 319 265
Key management personnel of the Bank Pekao S.A.	-	-	-	-	38	-	38
Total	**1 056 696**	**843 044**	**226 747**	**1 785 064**	**384 197**	**33 923**	**4 329 671**

(*) Current receivables include Nostro account and cash collaterals

Liabilities due to loans and deposits by contractual maturity

31.12.2019	CURRENT (*)	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1AND 5 YEARS	OVER 5 YEARS	TOTAL
PZU S.A. – the Bank ‘s parent entity	53 255	-	-	-	-	-	53 255
Entities of PZU S.A. Group excluding the Bank Pekao S.A. Group entities	120 539	-	-	-	-	-	120 539
Bank Pekao S.A. Group entities							
Subsidiaries	225 097	193 833	307 234	8 355	12 803	-	747 322
Key management personnel of the Bank Pekao S.A.	8 327	52	56	1 103	-	-	9 538
Total	**407 218**	**193 885**	**307 290**	**9 458**	**12 803**	**-**	**930 654**

(*) Current receivables include Loro account and cash collaterals

Notes to the financial statements (cont.)

(In PLN thousand)

Receivables from loans and deposits by currency

31.12.2019	EUR	USD	CHF	PLN	OTHER	TOTAL
PZU S.A. – the Bank 's parent entity	-	-	-	255	-	255
Entities of PZU S.A. Group excluding the Bank Pekao S.A. Group entities	-	-	-	10 113	-	10 113
Bank Pekao S.A. Group entities						
Subsidiaries	1 188 358	264 195	-	2 865 378	1 334	4 319 265
Key management personnel of the Bank Pekao S.A.	-	-	-	38	-	38
Total	**1 188 358**	**264 195**	**-**	**2 875 784**	**1 334**	**4 329 671**

Liabilities due to loans and deposits by currency

31.12.2019	EUR	USD	CHF	PLN	OTHER	TOTAL
PZU S.A. – the Bank 's parent entity	34	-	-	53 221	-	53 255
Entities of PZU S.A. Group excluding the Bank Pekao S.A. Group entities	2 561	857	469	115 783	869	120 539
Bank Pekao S.A. Group entities						
Subsidiaries	13 674	942	5 458	727 248	-	747 322
Key management personnel of the Bank Pekao S.A.	3 159	101	9	6 269	-	9 538
Total	**19 428**	**1 900**	**5 936**	**902 521**	**869**	**930 654**

Notes to the financial statements (cont.)

(In PLN thousand)

Related party transactions as at 31 December 2018

NAME OF ENTITY	RECEIVABLES FROM LOANS, ADVANCES AND PLACEMENTS	SECURITIES	RECEIVABLES FROM REVALUATION OF DERIVATIVES	OTHER RECEIVABLES	LIABILITIES FROM LOANS AND DEPOSITS	LIABILITIES FROM REVALUATION OF DERIVATIVES	OTHER LIABILITIES
PZU S.A. – the Bank ‘s parent entity	4	-	104	98	23 722	-	-
Entities of PZU S.A. Group excluding the Bank Pekao S.A. Group entities	294	-	2 663	2 076	54 158	547	-
Bank Pekao S.A. Group entities							
Subsidiaries							
Pekao Investment Banking S.A.	-	-	-	50	248 709	-	50
Pekao Leasing Sp. z o.o.	773 004	125 110	199	-	95 880	744	31 539
Pekao Faktoring Sp. z o.o.	2 163 824	-	-	-	6 499	-	-
Centralny Dom Maklerski Pekao S.A.	-	-	-	-	703 124	-	161
Pekao Fundusz Kapitałowy Sp. z o.o. (in liguidation)	-	-	-	-	52 511	-	-
Pekao Powszechne Towarzystwo Emerytalne S.A. (in liguidation)	-	-	-	-	33 338	-	-
Centrum Kart S.A.	-	-	-	-	20 424	-	10 621
Pekao Financial Services Sp. z o. o.	-	-	-	-	8 655	-	-
Pekao Bank Hipoteczny S.A.	244 450	10 015	5 588	-	13 011	5 876	-
Pekao Property S.A. (in liquidation)	6 230	-	-	-	26 203	-	-
Centrum Bankowości Bezpośredniej Sp. z o.o	16	-	-	19	10 150	-	6 500
FPB – Media Sp. z o. o.	8 971	-	-	-	280	-	-
Dom Inwestycyjny Xelion Sp. z o.o.	-	-	-	2	64 061	-	-
Pekao Investment Management S.A.	-	-	-	-	136 211	-	-
Pekao TFI S.A. (PIM S.A. subsidiary)	-	-	-	7 471	132 599	-	-
Total of Bank Pekao S.A. Group entieties	**3 196 495**	**135 125**	**5 787**	**7 542**	**1 551 655**	**6 620**	**48 871**
Key management personnel of the Bank Pekao S.A.	440	-	-	-	6 608	-	-
Total	**3 197 233**	**135 125**	**8 554**	**9 716**	**1 636 143**	**7 167**	**48 871**

Notes to the financial statements (cont.)

(In PLN thousand)

Receivables from loans and deposits by contractual maturity

31.12.2018	CURRENT (*)	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1AND 5 YEARS	OVER 5 YEARS	TOTAL
PZU S.A. – the Bank ‘s parent entity	-	4	-	-	-	-	4
Entities of PZU S.A. Group excluding the Bank Pekao S.A. Group entities	4	290	-	-	-	-	294
Bank Pekao S.A. Group entities							
Subsidiaries	728 240	407 815	62 469	1 793 829	194 343	9 799	3 196 495
Key management personnel of the Bank Pekao S.A.	-	-	-	39	9	392	440
Total	**728 244**	**408 109**	**62 469**	**1 793 868**	**194 352**	**10 191**	**3 197 233**

(*) Current receivables include Nostro account and cash collaterals

Liabilities due to loans and deposits by contractual maturity

31.12.2018	CURRENT (*)	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1AND 5 YEARS	OVER 5 YEARS	TOTAL
PZU S.A. – the Bank ‘s parent entity	23 722	-	-	-	-	-	23 722
Entities of PZU S.A. Group excluding the Bank Pekao S.A. Group entities	49 406	4 752	-	-	-	-	54 158
Bank Pekao S.A. Group entities							
Subsidiaries	1 017 020	204 804	189 318	122 113	18 400	-	1 551 655
Key management personnel of the Bank Pekao S.A.	6 498	3	1	106	-	-	6 608
Total	**1 096 646**	**209 559**	**189 319**	**122 219**	**18 400**	**-**	**1 636 143**

(*) Current receivables include Loro account and cash collaterals

Notes to the financial statements (cont.)

(In PLN thousand)

Receivables from loans and deposits by currency

31.12.2018	EUR	USD	CHF	PLN	OTHER	TOTAL
PZU S.A. – the Bank ‘s parent entity	-	-	-	4	-	4
Entities of PZU S.A. Group excluding the Bank Pekao S.A. Group entities	-	-	-	294	-	294
Bank Pekao S.A. Group entities						
Subsidiaries	413 477	1 375	208	2 779 831	1 604	3 196 495
Key management personnel of the Bank Pekao S.A.	-	-	392	48	-	440
Total	**413 477**	**1 375**	**600**	**2 780 177**	**1 604**	**3 197 233**

Liabilities due to loans and deposits by currency

31.12.2018	EUR	USD	CHF	PLN	OTHER	TOTAL
PZU S.A. – the Bank ‘s parent entity	34	-	-	23 688	-	23 722
Entities of PZU S.A. Group excluding the Bank Pekao S.A. Group entities	743	1 356	232	50 319	1 508	54 158
Bank Pekao S.A. Group entities						
Subsidiaries	102 622	36 635	1 557	1 406 937	3 904	1 551 655
Key management personnel of the Bank Pekao S.A.	3 207	130	16	3 253	2	6 608
Total	**106 606**	**38 121**	**1 805**	**1 484 197**	**5 414**	**1 636 143**

Notes to the financial statements (cont.)

(In PLN thousand)

Income and expenses from transactions with related parties for the period from 1 January to 31 December 2019

NAME OF ENTITY	INTEREST INCOME	INTERES EXPENSE	FEE AND COMMISSION INCOME	FEE AND COMMISSIO EXPENSE	INCOME FROM DERIVATIVES AND OTHER	EXPENSES FROM DERIVATIVES AND OTHER
PZU S.A. – the Bank ‘s parent entity	654	(621)	7 255	(518)	153	(1 605)
Entities of PZU S.A. Group excluding the Bank Pekao S.A. Group entities	602	(1 579)	18 419	(143)	1 937	(14 983)
Bank Pekao S.A. Group entities						
Subsidiaries						
Pekao Investment Banking S.A.	3	(1 930)	159	(112)	75	(60)
Centralny Dom Maklerski Pekao S.A. (*)	-	(652)	828	(16)	2 385	(1 962)
Pekao Leasing Sp. z o.o.	24 476	(4 102)	14 021	(2)	8 302	(492)
Pekao Faktoring Sp. z o.o.	35 303	(72)	2 234	-	361	-
Pekao Powszechne Towarzystwo Emerytalne S.A. (in liguidation)	-	(637)	9	-	13	-
Pekao Fundusz Kapitałowy Sp. z o.o. (in liquidation)	-	(549)	4	-	7	-
Centrum Kart S.A.	-	(165)	1 032	-	993	(51 405)
Pekao Financial Services Sp. z o.o.	-	(65)	70	-	66	(12)
Pekao Bank Hipoteczny S.A.	7 194	(285)	1 840	-	267	(16 036)
Pekao Direct Sp. z o.o. (ex. Centrum Bankowości Bezpośredniej Sp. z o.o.)	-	(1)	2	(26 035)	1 732	(42 314)
Pekao Property S.A. (in liquidation)	-	(220)	3	-	37	-
FPB - Media Sp. z o.o. (in bankruptcy)	69	-	1	-	-	-
Dom Inwestycyjny Xelion Sp. z o.o.	-	(645)	66	-	64	(21)
Pekao Investment Management S.A.	-	(1 496)	10	-	-	-
Pekao TFI S.A. (PIM S.A. subsidiary)	-	(1 619)	96 388	-	3	-
Total of Bank Pekao S.A. Group entities	**67 045**	**(12 438)**	**116 667**	**(26 165)**	**14 305**	**(112 302)**
Key management personnel of the Bank Pekao S.A.	9	(41)	1	-	-	-
Total	**68 310**	**(14 679)**	**142 342**	**(26 826)**	**16 395**	**(128 890)**

(*) Data up to 30 August 2019, i.e. until the date of division of the company

Notes to the financial statements (cont.)

(In PLN thousand)

Income and expenses from transactions with related parties for the period from 1 January to 31 December 2018

NAME OF ENTITY	INTEREST INCOME	INTERES EXPENSE	FEE AND COMMISSION INCOME	FEE AND COMMISSION EXPENSE	INCOME FROM DERIVATIVES AND OTHER	EXPENSES FROM DERIVATIVES AND OTHER
PZU S.A. – the Bank ‘s Pekao S.A. parent entity	990	(238)	850	-	376	(6 473)
Entities of PZU S.A. Group excluding the Bank Pekao S.A. Group entities	290	(512)	4 691	(147)	6 855	(1 233)
Bank Pekao S.A. Group entities						
Subsidiaries						
Pekao Investment Banking S.A.	2	(2 727)	183	(94)	69	(5)
Centralny Dom Maklerski Pekao S.A.	-	(2 353)	1 288	(3 913)	3 100	(2 655)
Pekao Leasing Sp. z o.o.	40 292	(6 338)	9 572	(12)	1 066	(450)
Pekao Faktoring Sp. z o.o.	22 581	(11)	873	-	325	-
Pekao Powszechne Towarzystwo Emerytalne S.A. (in liquidation)	-	(301)	557	-	3	-
Pekao Fundusz Kapitałowy Sp. z o.o. (in liquidation)	-	(584)	5	-	28	-
Centrum Kart S.A.	-	(161)	955	-	1 015	(49 710)
Pekao Financial Services Sp. z o.o.	-	(93)	68	-	54	-
Pekao Bank Hipoteczny S.A.	2 153	(639)	1 652	-	1 083	(5 967)
Centrum Bankowości Bezpośredniej Sp. z o.o.	-	(5)	5	(23 081)	1 665	(42 946)
Pekao Property S.A.	-	(272)	3	-	21	-
FPB - Media Sp. z o.o.	280	(3)	3	-	-	-
Dom Inwestycyjny Xelion Sp. z o.o.	-	(508)	50	-	22	-
Pekao Investment Management S.A.	-	(1 943)	10	-	-	-
Pekao TFI S.A. (jednostka zależna PIM S.A.)	-	(1 422)	155 920	-	-	-
Total of Bank Pekao S.A. Group entities	**65 308**	**(17 360)**	**171 144**	**(27 100)**	**8 451**	**(101 733)**
Key management personnel of the Bank Pekao S.A.	2	(64)	1	-	-	-
Total	**66 590**	**(18 174)**	**176 686**	**(27 247)**	**15 682**	**(109 439)**

Notes to the financial statements (cont.)

(In PLN thousand)

Off-balance sheet financial commitments and guarantees as at 31 December 2019

NAME OF ENTITY	GRANTED		RECEIVED	
	FINANCIAL	GUARANTEES	FINANCIAL	GUARANTEES
PZU S.A. – the Bank 's parent entity	2 801	15 000	-	-
Entities of PZU S.A. Group excluding the Bank Pekao S.A. Group entities	665	10 000	-	-
Bank Pekao S.A. Group entities				
Subsidiaries				
Pekao Investment Banking S.A.	139	-	-	-
Pekao Leasing Sp. z o.o.	2 137 998	7 603 412	-	-
Pekao Faktoring Sp. z o.o.	936 069	1 046 100	-	-
Centrum Kart S.A.	43	3 000	-	-
Pekao Financial Services Sp. z o. o.	65	1 103	-	-
Pekao Bank Hipoteczny S.A.	292 079	500 251	-	-
Pekao Direct Sp. z o.o. (ex. Centrum Bankowości Bezpośredniej Sp. z o.o.)	66	-	-	-
Dom Inwestycyjny Xelion Sp. z o.o.	5	-	-	-
Pekao TFI S.A. (PIM S.A. subsidiary)	101	-	-	-
Total of Bank Pekao S.A. Group entities	**3 366 565**	**9 153 866**	**-**	**-**
Key management personnel of the Bank Pekao S.A.	172	-	-	-
Total	**3 370 203**	**9 178 866**	**-**	**-**

Notes to the financial statements (cont.)

(In PLN thousand)

Off-balance sheet financial commitments and guarantees granted by contractual maturity

31.12.2019	CURRENT	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
Financial commitments granted							
PZU S.A. – the Bank ‘s parent entity	-	-	-	-	2 801	-	2 801
Entities of PZU S.A. Group excluding the Bank Pekao S.A. Group entities	-	-	-	-	665	-	665
Bank Pekao S.A. Group entities							
Subsidiaries	-	3 366 019	10	-	397	139	3 366 565
Key management personnel of the Bank Pekao S.A.	-	-	-	-	172	-	172
Total	**-**	**3 366 019**	**10**	**-**	**4 035**	**139**	**3 370 203**
Guarantees issued							
PZU S.A. – the Bank ‘s parent entity	-	15 000	-	-	-	-	15 000
Entities of PZU S.A. Group excluding the Bank Pekao S.A. Group entities	-	10 000	-	-	-	-	10 000
Bank Pekao S.A. Group entities							
Subsidiaries	-	6 342 516	1 062 600	1 045 000	703 750	-	9 153 866
Total	**-**	**6 367 516**	**1 062 600**	**1 045 000**	**703 750**	**-**	**9 178 866**

Notes to the financial statements (cont.)

(In PLN thousand)

Off-balance sheet financial commitments and guarantees granted by currency

31.12.2019	EUR	USD	CHF	PLN	INNE	TOTAL
Financial commitments granted						
PZU S.A. – the Bank 's parent entity	-	-	-	2 801	-	2 801
Entities of PZU S.A. Group excluding the Bank Pekao S.A. Group entities	-	-	-	665	-	665
Bank Pekao S.A. Group entities						
Subsidiaries	336	-	-	3 366 229	-	3 366 565
Key management personnel of the Bank Pekao S.A.	-	-	-	172	-	172
Total	**336**	**-**	**-**	**3 369 867**	**-**	**3 370 203**
Guarantees issued						
PZU S.A. – the Bank 's parent entity	-	-	-	15 000	-	15 000
Entities of PZU S.A. Group excluding the Bank Pekao S.A. Group entities	-	-	-	10 000	-	10 000
Bank Pekao S.A. Group entities						
Subsidiaries	3 340 531	-	-	5 813 335	-	9 153 866
Total	**3 340 531**	**-**	**-**	**5 838 335**	**-**	**9 178 866**

Notes to the financial statements (cont.)

(In PLN thousand)

Off-balance sheet financial commitments and guarantees as at 31 December 2018

NAME OF ENTITY	GRANTED		RECEIVED	
	FINANCIAL	GUARANTEES	FINANCIAL	GUARANTEES
PZU S.A. – the Bank ‘s parent entity	2 818	15 000	-	-
Entities of PZU S.A. Group excluding the Bank Pekao S.A. Group entities	617	16 000	-	6 000
Bank Pekao S.A. Group entities				
Subsidiaries				
Pekao Investment Banking S.A.	124	-	-	-
Pekao Leasing Sp. z o.o.	2 375 537	6 114 794	-	-
Pekao Faktoring Sp. z o.o.	677 320	-	-	-
Centralny Dom Maklerski Pekao S.A.	60	-	-	-
Pekao Powszechne Towarzystwo Emerytalne S.A. (in liquidation)	60	-	-	-
Centrum Kart S.A.	83	3 000	-	-
Pekao Financial Services Sp. z o. o.	65	1 086	-	-
Pekao Bank Hipoteczny S.A.	507 203	310 253	-	-
Centrum Bankowości Bezpośredniej Sp. z o.o	34	-	-	-
Pekao Investment Management S.A.	5	-	-	-
Pekao TFI S.A. (PIM S.A. subsidiary)	89	-	-	-
Total of Bank Pekao S.A. Group entities	**3 560 580**	**6 429 133**	**-**	**-**
Key management personnel of the Bank Pekao S.A.	488	-	-	-
Total	**3 564 503**	**6 460 133**	**-**	**6 000**

Notes to the financial statements (cont.)

(in PLN thousand)

Off-balance sheet financial commitments and guarantees granted by contractual maturity

31.12.2018	CURRENT	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
Financial commitments granted							
PZU S.A. – the Bank ‘s parent entity	-	-	-	-	2 818	-	2 818
Entities of PZU S.A. Group excluding the Bank Pekao S.A. Group entities	-	20	-	-	597	-	617
Bank Pekao S.A. Group entities							
Subsidiaries	-	-	507 116	3 052 873	591	-	3 560 580
Key management personnel of the Bank Pekao S.A.	-	-	-	75	412	1	488
Total	**-**	**20**	**507 116**	**3 052 948**	**4 418**	**1**	**3 564 503**
Guarantees issued							
PZU S.A. – the Bank ‘s parent entity	-	49	11	14 940	-	-	15 000
Entities of PZU S.A. Group excluding the Bank Pekao S.A. Group entities	-	50	6 040	9 910	-	-	16 000
Bank Pekao S.A. Group entities							
Subsidiaries	-	609 400	635 000	1 451 075	1 239 658	2 494 000	6 429 133
Total	**-**	**609 499**	**641 051**	**1 475 925**	**1 239 658**	**2 494 000**	**6 460 133**
Guarantees received							
Entities of PZU S.A. Group excluding the Bank Pekao S.A. Group entities	-	-	6 000	-	-	-	6 000
Total	**-**	**-**	**6 000**	**-**	**-**	**-**	**6 000**

Notes to the financial statements (cont.)

(in PLN thousand)

Off-balance sheet financial commitments and guarantees granted by currency

31.12.2018	EUR	USD	CHF	PLN	INNE	TOTAL
Financial commitments granted						
PZU S.A. – the Bank 's parent entity	-	-	-	2 818	-	2 818
Entities of PZU S.A. Group excluding the Bank Pekao S.A. Group entities	-	-	-	617	-	617
Bank Pekao S.A. Group entities						
Subsidiaries	-	-	-	3 560 580	-	3 560 580
Key management personnel of the Bank Pekao S.A.	-	-	-	488	-	488
Total	**-**	**-**	**-**	**3 564 503**	**-**	**3 564 503**
Guarantees issued						
PZU S.A. – the Bank 's parent entity	-	-	-	15 000	-	15 000
Entities of PZU S.A. Group excluding the Bank Pekao S.A. Group entities	-	-	-	16 000	-	16 000
Bank Pekao S.A. Group entities						
Subsidiaries	3 002 009	-	-	3 427 124	-	6 429 133
Total	**3 002 009**	**-**	**-**	**3 458 124**	**-**	**6 460 133**
Guarantees received						
Entities of PZU S.A. Group excluding the Bank Pekao S.A. Group entities	-	-	-	6 000	-	6 000
Total	**-**	**-**	**-**	**6 000**	**-**	**6 000**

(in PLN thousand)

Remuneration expenses of the Bank's Management Board and Supervisory Board Members

	VALUE OF BENEFITS	
	2019	2018
Management Board of the Bank		
Short-term employee benefits (*)	12 223	12 817
Post-employment benefits	139	1 169
Long-term benefits (**)	1 370	1 350
Paid termination benefits	3 845	2 808
Share-based payments (***)	5 418	2 975
Total	**22 995**	**21 119**
Supervisory Board of the Bank		
Short-term employee benefits (*)	1 049	1 279
Total	**1 049**	**1 279**

(*) Short-term employee benefits include: base salary, bonuses and other benefits due in next 12 months from the date of the balance sheet.
(**) The item 'Other long-term benefit' includes: provisions for deferred bonus payments.
(***) The value of share-based payments is a part of Personnel Expenses, recognized according to IFRS 2 during the reporting period in the income statement, representing the settlement of fair value of share options and shares, including phantom shares, granted to the Members of the Bank's Management Board.

The Bank's Management Board and Supervisory Board Members did not receive any remuneration from subsidiaries and associates in the period from 1 January to 31 December 2019 and in the period from 1 January to 31 December 2018.

50. Repo and reverse repo transactions

The Bank increases its funds through the sale of financial instruments with the repurchase promise granted (repo and sell-buy back) at the same price increased by interest.

Securities composing the balance sheet portfolio of the Bank as well as securities with obligation of resale (reverse repo and buy-sell back transactions) may be a subject to repo and sell-buy back transactions.

Notes to the financial statements (cont.)

(in PLN thousand)

Securities composing the balance sheet portfolio of the Bank and treated as repo and sell-buy back transactions are not derecognized from the statement of financial position due to the fact that the Bank holds all benefits and risk deriving from these assets.

	31.12.2019		31.12.2018	
	FAIR VALUE OF ASSETS	CARRYING AMOUNT OF RELATED LIABILITIES	FAIR VALUE OF ASSETS	CARRYING AMOUNT OF RELATED LIABILITIES
Financial assets held for trading				
up to 1 month	218 252	218 449	67 432	67 447
Total financial assets held for trading	**218 252**	**218 449**	**67 432**	**67 447**
Financial assets measured at fair value through other comprehensive income				
up to 1 month	379 287	379 792	225 248	225 424
Total financial assets measured at fair value through other comprehensive income	**379 287**	**379 792**	**225 248**	**225 424**
Financial assets measured at amortised cost				
up to 1 month	-	-	41 314	40 092
from 1 to 3 months	-	-	84 672	82 156
Total financial assets measured at amortised cost	**-**	**-**	**125 986**	**122 248**
Total	**597 539**	**598 241**	**418 666**	**415 119**

The Bank purchases financial instruments with the obligations of repurchase or resale (reverse-repo and buy-sell back) at the same price increased by interest.

Securities treated as repo and sell-buy back transactions are not derecognized from the statement of financial position due to the fact that the Bank holds all the benefits and the risk deriving from these assets.

	31.12.2019		31.12.2018	
	CARRYING AMOUNT OF ASSETS	FAIR VALUE OF HEDGE ASSETS	CARRYING AMOUNT OF ASSETS	FAIR VALUE OF HEDGE ASSETS
Loans and advances to banks				
up to 1 month	219 146	217 141	126 440	125 810
Total loans and advances to bank	**219 146**	**217 141**	**126 440**	**125 810**
Loans and advances to customers				
up to 1 month	502 262	495 610	-	-
Total loans and advances to customers	**502 262**	**495 610**	**-**	**-**
Total	**721 408**	**712 751**	**126 440**	**125 810**

Financial assets which are subject to reverse repo and buy-sell back transactions constitute collateral accepted by the Bank, which the Bank has the right to sell or pledge.

	31.12.2019	31.12.2018
Fair value of assets pledged as collaterals, in this:	712 751	125 810
Short sale	184 799	102 429
Reverse repo transactions/ buy-sell-back	-	-

(in PLN thousand)

51. Company Social Benefits Fund ('ZFŚS')

The Social Benefits Fund Act of 4 March 1994 with subsequent amendments introduced the requirement to create a Company's Social Benefits Fund by all employers employing over 20 employees. The Bank has created the ZFŚS Fund and is making periodic charges to the ZFŚS Fund in amounts required by the Act. The basic aim of the ZFŚS Fund is to subsidize social assistance in benefit of the employees, former employees (pensioners and the retired) and entitled members of their families.

The liabilities of the ZFŚS Fund represent the accumulated value of charges made by the Company towards the ZFŚS Fund decreased by the amount of non-returnable expenditures of the ZFŚS Fund.

In the statement of financial position, the Bank netted the ZFŚS Fund assets against the ZFŚS Fund value, due to the fact that the assets of the ZFŚS Fund do not represent the assets of the Bank. For this reason the amount pertaining to the ZFŚS Fund in the unconsolidated statement of financial position as at 31 December 2019 and 31 December 2018 was nil.

The table below presents the assets according to type and book value, the balance of the Fund and costs related to ZFŚS.

	31.12.2019	31.12.2018
Loans granted to employees	26 159	27 803
Cash at ZFŚS account	779	4 115
ZFŚS assets	**26 938**	**31 918**
ZFŚS value	**26 938**	**31 918**
	2019	**2018**
Deductions made to ZFŚS during fiscal period	23 842	23 460

52. Subsequent events

On 20 February 2020 Bank, in accordance with the Act of 13 March 2003 on special rules of terminating employment contracts for reasons not attributable to the employees (unified text Journal of Laws 2018, position 1969), adopted a resolution on the intended collective redundancies and the start of the consultation procedure for collective redundancies.

The intention of the Bank is to terminate employment contracts with up to 1 200 employees and amend terms and conditions of employment with up to 1 350 employees, between 12 March 2020 and 31 October 2020.

On 20 February 2020, the Bank informed company-level trade unions about the reason for the intended collective redundancies and ask them to join the consultation process. In addition, the Bank informed the labor office of the intended collective redundancies at the Bank.

The Bank will publish another announcement on collective redundancies on completion of the consultations with the trade unions, as required by applicable laws, which will include information about the estimated provision to be raised for restructuring of employment at the Bank, which will be fully charged to the Bank's financial results. The final amount of the provision and the impact of the employment restructuring on the Bank's financial performance will be disclosed in the financial statements.

Signatures of the Management Board Members

Date	Name/Surname	Position/Function	Signature
26.02.2020	Marek Lusztyn	President of the Management Board	
26.02.2020	Jarosław Fuchs	Vice President of the Management Board	
26.02.2020	Marcin Gadomski	Vice President of the Management Board	
26.02.2020	Tomasz Kubiak	Vice President of the Management Board	
26.02.2020	Tomasz Styczyński	Vice President of the Management Board	
26.02.2020	Marek Tomczuk	Vice President of the Management Board	
26.02.2020	Magdalena Zmitrowicz	Vice President of the Management Board	
26.02.2020	Grzegorz Olszewski	Member of the Management Board	

Glossary

Glossary

IFRS – International Financial Reporting Standards – the standards, interpretations and their structure adopted by the International Accounting Standards Board (IASB.)

IAS – International Accounting Standards – previous name of the standards forming part of the current IFRS.

IFRIC – International Financial Reporting Interpretations Committee – the committee operating under the International Accounting Standards Board publishing interpretations of IFRS.

CIRS – Currency Interest Rate Swap – the transaction exchange of principal amounts and interest payments in different currencies between two counterparties.

IRS – Interest Rate Swap – the agreement between two counterparties, under which the counterparties pay each other (at specified intervals during the contract life) interest on contractual principal of the contract, charged at a different interest rate.

FRA – Forward Rate Agreement – the contract under which two counterparties fix the interest rate that will apply in the future for a specified amount expressed in currency of the transaction for a predetermined period.

CAP – the financial agreement, which limits the risk borne by lender on a variable interest rate, exposed to the potential loss as a result of increase in interest rates. Cap option is a series of call options on interest rates, in which the issuer guarantees the buyer the compensation of the additional interest costs, that the buyer must pay if the interest rate on loan increases above the fixed interest rate.

FLOOR –the financial agreement, which limits the risk of incurring losses resulting from decrease in interest rates by the lender providing the loan at a variable interest rate. Floor option is a series of put options on interest rates, in which the issuer guarantees the interest to be paid on the loan if the interest rate on the loan decreases below the fixed interest rate.

PD – Probability Default – the parameter used in Internal Ratings-Based Approach which determines the likelihood that the debtor will be unable to meet its obligation. PD is a financial term describing the likelihood of a default over an one year time horizon.

LGD – Loss Given Default – the percentage of loss over the total exposure when bank's counterparty goes to default.

EAD – Exposure at Default.

EL – Expected Loss.

Life-time ECL – Lifetime Expected Credit Loss CCF – Credit Conversion Factor.

CCF – Credit Conversion Factor.

VaR – Value at Risk – the risk measure by which the market value of an asset or portfolio may be reduced for a given assumptions, probability and time horizon.

ICAAP – Internal Capital Adequacy Assessment Process – the process of assessing internal capital adequacy.

FVH – fair value hedge accounting.

LTV – Loan to Value.

CFH – cash flow hedge accounting.