Consolidated Financial Statements of Bank Pekao S.A. Group 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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Consolidated income statement

(in PLN thousand)

	NOTE	2019	2018 RESTATED
Interest income	10	6 692 914	6 122 338
Financial assets measured at amortised cost		5 792 886	5 251 535
Financial assets measured at fair value through other comprehensive income		642 179	697 108
Financial assets measured at fair value through profit or loss		257 849	173 695
Interest expense	10	(1 224 868)	(1 128 372)
Net interest income		5 468 046	4 993 966
Fee and commission income	11	2 912 452	2 844 117
Fee and commission expense	11	(378 788)	(381 533)
Net fee and commission income		2 533 664	2 462 584
Dividend income	12	22 407	20 186
Result on financial assets and liabilities measured at fair value through profit or loss	13	143 871	74 420
Result on fair value hedge accounting	28	(1 666)	723
Result on derecognition of financial assets and liabilities not measured at fair value through profit or loss	14	71 901	141 671
Net impairment losses on financial assets and off-balance sheet commitments	15	(696 038)	(511 025)
Net other operating income and expenses	16	43 506	136 655
Administrative expenses	17	(4 078 985)	(3 900 415)
Personnel expenses		(2 077 696)	(2 036 582)
Other administrative expenses		(2 001 289)	(1 863 833)
Depreciation and amortization	18	(504 217)	(371 421)
PROFIT BEFORE INCOME TAX		**3 002 489**	**3 047 344**
Income tax expense	19	(835 872)	(759 534)
NET PROFIT		**2 166 617**	**2 287 810**
1. Attributable to equity holders of the Bank		2 165 047	2 287 160
2. Attributable to non-controlling interests	48	1 570	650
Earnings per share (in PLN per share)			
basic for the period	20	8.25	8.71
diluted for the period	20	8.25	8.71

Notes to the financial statements presented on pages 10 - 184 constitute an integral part of the consolidated financial statements.

Consolidated statement of comprehensive income

(in PLN thousand)

	NOTE	2019	2018
Net profit		**2 166 617**	**2 287 810**
Other comprehensive income			
Item 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:		129 086	16 165
Profit or loss on fair value measurement		191 771	145 870
Profit or loss reclassification to income statement after derecognition		(62 685)	(129 705)
Change in fair value of cash flow hedges	28	75 223	44 959
Tax on items that are or may be reclassified subsequently to profit or loss	19	(38 818)	(11 614)
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 comprehensive		(7 462)	(29 694)
Remeasurements of the defined benefit liabilities		(2 783)	463
Tax on items that will never be reclassified to profit or loss	19	1 946	5 565
Other comprehensive income (net of tax)		**157 192**	**25 844**
Total comprehensive income		**2 323 809**	**2 313 654**
1. Attributable to equity holders of the Bank		2 322 247	2 313 011
2. Attributable to non-controlling interests		1 562	643

Notes to the financial statements presented on pages 10 - 184 constitute an integral part of the consolidated financial statements.

Consolidated statement of financial position

(in PLN thousand)

	NOTE	31.12.2019	31.12.2018
ASSETS			
Cash and due from Central Bank	22	5 162 682	13 026 584
Loans and advances to banks	23	1 791 436	2 268 422
Financial assets held for trading	24	1 281 664	762 712
Derivative financial instruments (held for trading)	25	2 079 529	1 451 662
Loans and advances to customers	26	134 200 413	123 970 055
1. Measured at amortised cost		132 577 167	122 156 323
2. Measured at fair value through profit or loss		242 639	302 630
3. Measured at fair value through other comprehensive income		1 380 607	1 511 102
Receivables from finance leases	27	6 712 939	5 326 667
Hedging instruments	28	377 208	313 565
Investments (placement) securities	29	45 893 115	38 586 995
1. Measured at fair value through profit or loss		146 119	65 408
2. Designated at fair value through profit or loss		-	-
3. Measured at fair value through other comprehensive income (debt securities)		30 942 999	27 032 827
4. Designated at fair value through other comprehensive income (equity instruments)		225 332	232 861
5. Measured at amortised cost		14 578 665	11 255 899
Assets held for sale	30	17 175	11 550
Investments in associates		-	-
Intangible assets	31	1 617 531	1 526 746
Property, plant and equipment	32	1 920 252	1 419 942
Investment properties	33	-	11 168
Income tax assets		1 095 050	1 132 416
1. Current tax assets		420	1 345
2. Deferred tax assets	19	1 094 630	1 131 071
Other assets	34	1 173 925	1 281 321
TOTAL ASSETS		**203 322 919**	**191 089 805**
EQUITY AND LIABILITIES			
Liabilities			
Amounts due to Central Bank	22	4 550	5 067
Amounts due to other banks	36	6 539 539	5 615 631
Financial liabilities held for trading	24	184 799	102 429
Derivative financial instruments (held for trading)	25	2 034 113	1 913 046
Amounts due to customers	37	157 989 734	149 491 059
Hedging instruments	28	614 765	905 056
Debt securities issued	38	6 307 837	5 230 814
Subordinated liabilities	39	2 764 493	2 012 485
Income tax liabilities		216 920	244 534
1. Current tax liabilities		187 002	211 826
2. Deferred tax liabilities	19	29 918	32 708
Provisions	40	752 597	635 085
Other liabilities	41	2 515 546	2 126 382
TOTAL LIABILITIES		**179 924 893**	**168 281 588**
Equity			
Share capital	46	262 470	262 470
Other capital and reserves	47	20 665 430	20 865 916
Retained earnings and net profit for the period	47	2 458 387	1 668 340
Total equity attributable to equity holders of the Bank		**23 386 287**	**22 796 726**
Non-controlling interests	48	11 739	11 491
TOTAL EQUITY		**23 398 026**	**22 808 217**
TOTAL LIABILITIES AND EQUITY		**203 322 919**	**191 089 805**

Notes to the financial statements presented on pages 10 - 184 constitute an integral part of the consolidated financial statements.

Consolidated statement of changes in equity

(in PLN thousand)

For the period from 1 January 2019 to 31 December 2019

	EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK										
		OTHER CAPITAL AND RESERVES									
	SHARE CAPITAL	TOTAL OTHER CAPITAL AND RESERVES	SHARE PREMIUM	GENERAL BANKING RISK FUND	OTHER RESERVE CAPITAL	REVALUATIO N RESERVES	OTHER	RETAINED EARNINGS AND NET PROFIT FOR THE PERIOD	TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK	NON - CONTROLLING INTERESTS	TOTAL EQUITY
Equity as at 1.01.2019	**262 470**	**20 865 916**	**9 137 221**	**1 982 459**	**9 137 113**	**202 663**	**406 460**	**1 668 340**	**22 796 726**	**11 491**	**22 808 217**
Comprehensive income	**-**	**157 200**	**-**	**-**	**195**	**157 005**	**-**	**2 165 047**	**2 322 247**	**1 562**	**2 323 809**
Remeasurements of the defined benefit liabilities (net of tax)	-	(2 247)	-	-	171	(2 418)	-	-	(2 247)	(8)	(2 255)
Revaluation of debt financial instruments and loans measured at fair value through other comprehensive income (net of tax)	-	104 560	-	-	-	104 560	-	-	104 560	-	104 560
Revaluation or sale of investments in equity instruments designated at fair value through other comprehensive income (net of tax)	-	(6 044)	-	-	24	(6 068)	-	-	(6 044)	-	(6 044)
Revaluation of hedging financial instruments (net of tax)	-	60 931	-	-	-	60 931	-	-	60 931	-	60 931
Net profit for the period	-	-	-	-	-	-	-	2 165 047	2 165 047	1 570	2 166 617
Appropriation of retained earnings	**-**	**593 566**	**-**	**-**	**587 318**	**-**	**6 248**	**(2 325 868)**	**(1 732 302)**	**(1 214)**	**(1 733 516)**
Dividend paid	-	-	-	-	-	-	-	(1 732 302)	(1 732 302)	(1 214)	(1 733 516)
Profit appropriation to other reserves	-	593 566	-	-	587 318	-	6 248	(593 566)	-	-	-
Other	**-**	**(951 252)**	**-**	**-**	**(936 782)**	**-**	**(14 470)**	**950 868**	**(384)**	**(100)**	**(484)**
Coverage of negative impact of IFRS 9 implementation	-	(951 218)	-	-	(936 748)	-	(14 470)	951 218	-	-	-
Other	-	(34)	-	-	(34)	-	-	(350)	(384)	(100)	(484)
Equity as at 31.12.2019	**262 470**	**20 665 430**	**9 137 221**	**1 982 459**	**8 787 844**	**359 668**	**398 238**	**2 458 387**	**23 386 287**	**11 739**	**23 398 026**

Notes to the financial statements presented on pages 10 - 184 constitute an integral part of the consolidated financial statements.

Consolidated statement of changes in equity (cont.)

(in PLN thousand)

For the period from 1 January 2018 to 31 December 2018

	EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK										
		OTHER CAPITAL AND RESERVES									
	SHARE CAPITAL	TOTAL OTHER CAPITAL AND RESERVES	SHARE PREMIUM	GENERAL BANKING RISK FUND	OTHER RESERVE CAPITAL	REVALUATION RESERVES	OTHER	RETAINED EARNINGS AND NET PROFIT FOR THE PERIOD	TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK	NON - CONTROLLING INTERESTS	TOTAL EQUITY
Equity as at 1.01.2018	**262 470**	**20 561 177**	**9 137 221**	**1 982 459**	**9 099 775**	**(56 528)**	**398 250**	**2 444 167**	**23 267 814**	**-**	**23 267 814**
Initial application of IFRS 9	-	236 085	-	-	-	236 085	-	(965 681)	(729 596)	-	(729 596)
Equity as at 1.01.2018 - restated	**262 470**	**20 797 262**	**9 137 221**	**1 982 459**	**9 099 775**	**179 557**	**398 250**	**1 478 486**	**22 538 218**	**-**	**22 538 218**
Comprehensive income	**-**	**25 851**	**-**	**-**	**1 070**	**24 781**	**-**	**2 287 160**	**2 313 011**	**643**	**2 313 654**
Remeasurements of the defined benefit liabilities (net of tax)	-	381	-	-	-	381	-	-	381	(7)	374
Revaluation of debt financial instruments and loans measured at fair value through other comprehensive income (net of tax)	-	13 093	-	-	-	13 093	-	-	13 093	-	13 093
Revaluation or sale of investments in equity instruments designated at fair value through other comprehensive income (net of tax)	-	(24 040)	-	-	1 070	(25 110)	-	-	(24 040)	-	(24 040)
Revaluation of hedging financial instruments (net of tax)	-	36 417	-	-	-	36 417	-	-	36 417	-	36 417
Net profit for the period	-	-	-	-	-	-	-	2 287 160	2 287 160	650	2 287 810
Appropriation of retained earnings	**-**	**23 793**	**-**	**-**	**15 583**	**-**	**8 210**	**(2 097 306)**	**(2 073 513)**	**-**	**(2 073 513)**
Dividend paid	-	-	-	-	-	-	-	(2 073 513)	(2 073 513)	-	(2 073 513)
Profit appropriation to other reserves	-	23 793	-	-	15 583	-	8 210	(23 793)	-	-	-
Other	**-**	**19 010**	**-**	**-**	**20 685**	**(1 675)**	**-**	**-**	**19 010**	**10 848**	**29 858**
Changes in non-controlling interests	-	(3 491)	-	-	(3 513)	22	-	-	(3 491)	10 848	7 357
Transfer of management of Pekao OFE and DFE Pekao funds	-	22 680	-	-	22 680	-	-	-	22 680	-	22 680
Other	-	(179)	-	-	1 518	(1 697)	-	-	(179)	-	(179)
Equity as at 31.12.2018	**262 470**	**20 865 916**	**9 137 221**	**1 982 459**	**9 137 113**	**202 663**	**406 460**	**1 668 340**	**22 796 726**	**11 491**	**22 808 217**

Notes to the financial statements presented on pages 10 - 184 constitute an integral part of the consolidated financial statements.

Consolidated cash flow statement

(in PLN thousand)

	NOTE	2019	2018
Cash flow from operating activities – indirect method			
Net profit for the period		**2 165 047**	**2 287 160**
Adjustments for:		**(4 657 909)**	**(8 383 760)**
Depreciation and amortization	18	504 217	371 421
(Gains) losses on investing activities		(87 553)	(219 352)
Net interest income	10	(5 468 046)	(4 993 966)
Dividend income	12	(22 407)	(20 186)
Interest received		6 651 445	6 405 018
Interest paid		(1 222 560)	(1 104 841)
Income tax		835 872	759 534
Income tax paid		(715 814)	(788 309)
Change in loans and advances to banks		49 884	457 652
Change in financial assets held for trading		(519 757)	959 720
Change in derivative financial instruments (assets)		(627 867)	(102 615)
Change in loans and advances to customers		(10 266 108)	(9 972 210)
Change in receivables from finance leases		(1 386 272)	(978 812)
Change in investment (placement) securities		(920 794)	(663 618)
Change in other assets		(458 629)	(229 358)
Change in amounts due to banks		(184 375)	(300 670)
Change in financial liabilities held for trading		82 370	(367 019)
Change in derivative financial instruments (liabilities)		121 067	(117 057)
Change in amounts due to customers		8 733 103	3 303 034
Change in debt securities issued		28 267	(21 581)
Change in subordinated liabilities		2 008	5 296
Payments for short-term leases and leases of low-value assets		(20 908)	X
Change in provisions		117 512	(28 397)
Change in other liabilities		117 436	(737 444)
Net cash flows from operating activities		**(2 492 862)**	**(6 096 600)**
Cash flow from investing activities			
Investing activity inflows		**137 843 004**	**146 468 577**
Sale of investment securities		136 750 241	145 398 785
Sale of intangible assets and property, plant and equipment	31, 32	56 306	82 863
Dividend received	12	22 407	20 186
Transfer of management funds		-	22 680
Other investing inflows		1 014 050	944 063
Investing activity outflows		**(144 596 833)**	**(134 541 854)**
Acquisition of investment securities		(144 045 837)	(134 178 502)
Acquisition of intangible assets and property, plant and equipment	31, 32	(550 996)	(363 352)
Net cash flows from investing activities		**(6 753 829)**	**11 926 723**

Notes to the financial statements presented on pages 10 - 184 constitute an integral part of the consolidated financial statements.

Consolidated cash flow statement (cont.)

(in PLN thousand)

	NOTE	2019	2018
Cash flows from financing activities			
Financing activity inflows		**13 120 042**	**10 681 834**
Due to loans and advances received from banks	49	4 299 917	4 275 890
Issue of debt securities	49	8 070 125	5 655 944
Issue of subordinated liabilities	49	750 000	750 000
Financing activity outflows		**(12 161 645)**	**(8 617 731)**
Repayment of loans and advances received from banks	49	(3 200 119)	(3 356 866)
Redemption of debt securities	49	(7 029 763)	(3 187 352)
Dividends and other payments to shareholders		(1 732 302)	(2 073 513)
Payments for the principal portion of the lease liabilities		(199 461)	X
Net cash flows from financing activities		**958 397**	**2 064 103**
Total net cash flows		**(8 288 294)**	**7 894 226**
including: effect of exchange rate fluctuations on cash and cash equivalents held		(6 436)	73 494
Net change in cash and cash equivalents		**(8 288 294)**	**7 894 226**
Cash and cash equivalents at the beginning of the period	49	**15 239 266**	**7 345 040**
Cash and cash equivalents at the end of the period	49	**6 950 972**	**15 239 266**

Notes to the financial statements presented on pages 10 – 184 constitute an integral part of the consolidated financial statements.

Notes to the financial statements

(in PLN thousand)

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

1. General information

Bank Polska Kasa Opieki Spółka Akcyjna (hereafter 'Bank Pekao S.A.' or 'the Bank'), with its headquarters 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 Group provides stockbroking, leasing, factoring operations and offering other financial services.

According to IFRS 10 'Consolidated 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 consolidated financial statements of Bank Pekao S.A. Group for the period from 1 January 2019 to 31 December 2019 contain financial information of the Bank and its subsidiaries (together referred to as the 'Group'), and the associates accounted for using equity method.

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. Group for the year of 2019.

(in PLN thousand)

2. Group structure

The Group consists of Bank Pekao S.A. as the parent entity and the following subsidiaries

NAME OF ENTITY	LOCATION	CORE ACTIVITY	PERCENTAGE OF THE GROUP'S OWNERSHIP RIGHTS IN SHARE CAPITAL/VOTING	
			31.12.2019	31.12.2018
Pekao Bank Hipoteczny S.A.	Warsaw	Banking	100.00	100.00
Centralny Dom Maklerski Pekao S.A.	Warsaw	Brokerage	-	100.00
Pekao Leasing Sp. z o.o.	Warsaw	Leasing services	100.00	100.00
Pekao Investment Banking S.A.	Warsaw	Brokerage	100.00	100.00
Pekao Faktoring Sp. z o.o.	Lublin	Factoring services	100.00	100.00
Pekao Powszechne Towarzystwo Emerytalne S.A. (in liquidation)	Warsaw	Pension fund management	100.00	100.00
Centrum Kart S.A.	Warsaw	Financial support	100.00	100.00
Pekao Financial Services Sp. z o.o.	Warsaw	Transferable agent	66.50	66.50
Pekao Direct Sp. z o.o. (ex. Centrum Bankowości Bezpośredniej Sp. z o.o.)	Cracow	Call-center services	100.00	100.00
Pekao Property S.A. (in liquidation)	Warsaw	Real estate development	100.00	100.00
FPB - Media Sp. z o.o. (in bankruptcy)	*Warsaw*	*Real estate development*	*100.00*	*100.00*
Pekao Fundusz Kapitałowy Sp. z o.o. (in liquidation)	Warsaw	Business consulting	100.00	100.00
Dom Inwestycyjny Xelion Sp. z o.o.	Warsaw	Financial intermediary	100.00	100.00
Pekao Investment Management S.A.	Warsaw	Asset management	100.00	100.00
Pekao TFI S.A.	*Warsaw*	*Asset management*	*100.00*	*100.00*

As at 31 December 2019, all subsidiaries of the Bank have been consolidated.

Associates
Bank Pekao S.A. Group has an interest in the following associates

NAME OF ENTITY	LOCATION	CORE ACTIVITY	PERCENTAGE OF THE GROUP'S OWNERSHIP RIGHTS IN SHARE CAPITAL/VOTING	
			31.12.2019	31.12.2018
CPF Management	Tortola, British Virgin Islands	Financial brokerage – not operating	40.00	40.00

As at 31 December 2019, the Group held no shares in entities under joint control.

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 Pekao Direct Sp. z o.o. (ex. 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.

Notes to the financial statements (cont.)

(in PLN thousand)

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 transfer transaction of CDM assets had no impact on the Group.

Planned sale of the organised part of the enterprise of Pekao Investment Banking S.A.
It is planned to sell the organised part of the enterprise of Pekao Investment Banking S.A. connected with the provision of brokerage services to the Bank's organizational unit - Dom Maklerski Pekao. Other operations of Pekao Investment Banking S.A. connected with offering investment banking services will remain in the Company.

3. Business combinations

In 2019 there were no business combinations in the Group.

4. Statement of compliance

The annual consolidated financial statements (‘financial statements’) of Bank Pekao S.A. Group 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 consolidated financial statements were approved for publication by the Bank’s Management Board on 26 February 2020.

5. Significant accounting policies

5.1 Basis of preparation of Consolidated Financial Statements

General information
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 Group 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. The principles have been applied consistently by all the Group entities.

Notes to the financial statements (cont.)

(in PLN thousand)

Consolidated Financial Statements of the Group 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 consolidated 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 Group's financial statements, with the exception of IFRS 16 (Note 5.10).

From 1 January 2019 the Group adopted the International Financial Reporting Standard No. 16 'Leases' (hereinafter 'IFRS 16'). The application of IFRS 16 resulted in changes to the Group's accounting policy regarding the recognition, measurement and presentation of lease agreements. In accordance with the transitional provisions included in IFRS 16, the Group 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.

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 5.11 and Note 5.12). In the Group's opinion, amendments to Standards and interpretations will not have a material impact on the consolidated financial statements of the Group,

Comparability of financial data

In the consolidated financial statements for the year ended on 31 December 2019 the Group 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.

CONSOLIDATED INCOME STATEMENT	DATE FOR 2018 BEFORE RESTATEMENT	RESTATEMENT	DATE FOR 2018 AFTER RESTATEMENT
Net result on other provisions	(13 958)	13 958	-
Gains (losses) on disposal of property plant and equipment and intangible assets	87 097	(87 097)	-
Net other operating income and expenses	63 516	73 139	136 655

5.2 Consolidation

Consolidation principles
The consolidated financial statements of Bank Pekao S.A. Group include the financial data of Bank Pekao S.A. and its subsidiaries as at 31 December 2019. The financial statements of the subsidiaries are prepared at the same reporting date as those of the parent entity, using consistent accounting policies within the Group in all important aspects.

All intra-group balances and transactions, including unrealized gains, have been eliminated. Unrealized losses are also eliminated, unless there is an objective evidence of impairment, which should be recognized in the consolidated financial statements.

Investments in subsidiaries
Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group has power over an entity, is exposed to or has rights to variable returns from its involvement with the entity and has the ability to affect these returns through its power over the entity. The subsidiaries are consolidated from the date of obtaining control by the Group until the date when the control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. Identifiable assets acquired and liabilities assumed are measured at their fair values at the acquisition date. The Group measures any non-controlling interests in the acquire at fair value or at the present ownership instruments' proportionate share in the recognized amounts of the acquire's identifiable net assets.

Acquisition-related costs are expenses as incurred (in the income statement under 'Administrative expenses').
If the business combination is achieved in stages, the acquirer remeasures its previously held equity interests in the acquiree at fair value at the acquisition date (date of obtaining control) and recognizes the resulting gain or loss in the income statement.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognized and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the income statement.

The above policy does not apply to the business combinations under common control.

The changes in a parent entity's ownership interest in a subsidiary that do not result in the parent entity losing control of the subsidiary are accounted for as equity transactions (i.e. transactions with owners of parent entity). The Group recognizes directly in equity any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received, and attributes it to the owners of the parent entity.

When the Group ceases to have control over the subsidiary, any retained interest in that subsidiary is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognized in the income statement.

Recognition of business combinations under common control at book value
Business combinations under common control are excluded from the scope of IFRS. As a consequence, following the recommendation included in IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors', in the absence of any specific guidance within IFRS, Bank Pekao S.A. has adopted the accounting policy consistently applied in all business combinations under common and recognizes those transactions using book value.

The acquirer recognizes the assets and liabilities of the acquired entity at their current book value adjusted exclusively for the purpose of aligning the accounting principles. Neither goodwill, nor badwill is recognized.

Any difference between the book value of the net assets acquired and the fair value of the consideration paid is recognized in the Group's equity. In applying this book value method, the comparative periods are not restated.

If the transaction results in the acquisition of non-controlling interests, the acquisition of any non-controlling interest is accounted for separately.

There is no guidance in IFRS how to determine the percentage of non-controlling interests acquired from the perspective of a subsidiary. Accordingly Bank Pekao S.A. uses the same principles as the ultimate parent for estimating the value of non-controlling interests acquired.

Investments in associates

An associate is an entity over which the Group has significant influence, and that is neither a subsidiary nor a joint venture. The Group usually holds from 20% to 50% of the voting rights in an associate. The equity method is calculated using the financial statements of the associates. The balance sheet dates of the Group and its associates are the same.

On acquisition of the investment, any difference between the cost of the investment and the Group's share in the net fair value of the investee's identifiable assets and liabilities is accounted for as follows:

- goodwill relating to an associate is included in the carrying amount of the investment,
- any excess of the Group's share in the net fair value of the investee's identifiable assets and liabilities over the cost of the investment is included as income in the determination of the Group's share in the associate's profit or loss in the period in which the investment is acquired.

The Group recognizes the investments in associates applying the equity method. The investment in associates is initially recognized at cost and the carrying amount is increased or decreased to recognize the Group’s share in net assets of the associate after the date of acquisition, net of any impairment allowances.

The Group’s share of post-acquisition profit or loss is recognized in the income statement, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. Distributions received from an associate reduce the carrying amount of the investment.

If the Group’s share in the losses of an associate equals or exceeds the Group’s share in the associate, the Group ceases to recognize further losses, unless it assumed obligations or made a payment on behalf of the associate.

Unrealized profits or losses from transactions between the Group and associates are eliminated pro rata to the Group’s share in the associates.

5.3 Accounting estimates

Preparation of financial statements in accordance with IFRS requires the Group 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 Group 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 Group 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 Group considers all credit exposures, irrespective of the level of risk of particular credit exposures or a group of credit exposures.

The Group 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 Group'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 Group 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 Group measures the impairment allowance (impairment loss) as part of individual assessment. The individual assessment is carrying out by the Group'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 Group 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 Group 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 6.2 'Credit risk'.

Impairment of non-current assets

At each balance sheet date the Group reviews its non-current assets for indications of impairment. Where such indications exist, the Group 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 Group 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 Group 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 6.7 '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.

Goodwill

The Group 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 Group 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 Group 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 6.2 of these consolidated financial statements.

Provisions for commission refunds in the event of early repayment of loan
As at 31 December 2019 the Group 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 Group estimated the possible prepayments of these exposures in the future.

The estimates required the Group 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 consolidated financial statements.

5.4 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.

5.5 Income statement

Interest income and expense

The Group 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 Group. 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 Group'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 Group 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 Group'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 Group 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 Group for the purpose of managing the Group'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.

5.6 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 Group'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 Group 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 Group's managing financial assets in order to generate cash flows.

The Group 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 Group'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 Group'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 Group 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 Group'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 Group'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 Group'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 Group'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 Group 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 Group 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 Group'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 Group 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 Group 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 (SPPI criteria are met).

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 Group 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 Group 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.

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 Group 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 sucha 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 Group's right to receive payment is established.

Financial assets at fair value through profit or loss
In this category, the Group 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 Group.

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.

Modifications of financial assets

If the terms of the financial asset agreement change, the Group 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 Group 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 6.2 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 Group 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 Group 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 Group analyzes whether the modification has improved or restored the Group's ability to collect interest and principal. As part of this process, the Group assesses the borrower's ability to pay in relation to modified terms of agreement.

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 Group 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 Group measures the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses.

At each reporting date, the Group 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 Group 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 Group 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 Group 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 Group 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 Group 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 6.2.

Derivative financial instruments and hedge accounting
The Group 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 Group designates some of its derivative instruments as hedging items in applying hedge accounting. The Group 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 Group 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 Group 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 Group 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.

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 Group ceases to apply hedge accounting when the hedging instrument expires or is sold, or if the Group 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 Group 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 Group, issued own debt securities and subordinated liabilities.

Notes to the financial statements (cont.)

(in PLN thousand)

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 Group 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 Group derecognizes a credit or a loan receivable, or its part, when it is sold. Additionally, the Group 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 592 055 thousand (as at 31 December 2018 - PLN 3 487 833 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 Group 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 Group 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 Group 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 Group estimates the legal risk provisions for foreign currency mortgage loans in CHF in accordance with the methodology described in Note 6.2 of these consolidated financial statements.

Notes to the financial statements (cont.)

(in PLN thousand)

5.7 Valuation of other items in the Group's consolidated statement of financial position

Intangible assets

Goodwill

Goodwill is defined as a surplus of the purchasing price over the fair value of acquired assets, assumed liabilities 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 Group which do not have a physical form which are identifiable and represent future economic benefits for the Group 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.

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 Group 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 Group, and the cost of such expenses can be reliably measured.

(in PLN thousand)

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 Group'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.

Leases – accounting policy applied from 1 January 2019
At inception of a contract, the Group 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 Group is a party to lease contracts, based on which the Group accepts the right to use an identified asset for a period of time in exchange for consideration.

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

Group as a lessee
The Group, 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 Group 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 Group, 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 Group's incremental borrowing rate.

After the lease commencement date, the Group 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 Group 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.

Group as a lessor

At commencement date of a lease, the Group, as a lessor, classifies each lease contract as an operating lease or a finance lease. The Group 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 Group 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 Group, 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 Group.

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

The Group 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 Group.

Operating lease

During the lease term, the Group, 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 Group for property, plant and equipment.

Leases – accounting policy applied until 31 December 2018

The Group 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 Group 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.

Operating leases

In the case of leasing contracts entered into by the Group acting as lessor, the leased asset is presented in the Group’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 Group as lessee, the leased asset is not recognized in the Group’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.

Notes to the financial statements (cont.)

(in PLN thousand)

Finance leases

The Group 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 Group. 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 Group as lessee

For lease agreements in which in principle all risks and benefits relating to ownership of the leased assets are transferred to the Group, 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 Group 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 Group on the basis of the best available estimates of direct outlays resulting from restructuring activities, which are not connected with the Group'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.

Accrued expenses include accrued costs resulting from services provided for the Group 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'.

Notes to the financial statements (cont.)

(in PLN thousand)

Government grants

The Group 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 Group uses the income method. Government grants related to assets are presented in the statement of financial position of the Group as a reduction in the carrying value of the asset.

Equity of the Group

Equity is comprised of the capital and funds created by the companies of the Group 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 Group's interest.

The equity of the Group 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 Group 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 consolidated 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.

Non - controlling interests

Non - controlling interests are defined as the equity in a subsidiary not attributable, directly or indirectly, to the Bank.

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'.

Notes to the financial statements (cont.)

(in PLN thousand)

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.

5.8 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 Group 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 Group'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.

5.9 Other

Contingent liabilities and commitments
The Group 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 Group (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)

5.10 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 Group 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 Group recognized leases as leasing liabilities measured at the present value of remaining lease payments discounted using the Group'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	613 854
Other assets	(35 807)
Amounts due to banks	1 056
Amounts due to customers	576 991

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	**391 298**
Discount effect using the above disclosed incremental borrowing rates on the date of first application	(21 101)
Financial lease liabilities recognized as at 31 December 2018	7 142
Recognition of new assets in the form of perpetual usufruct rights and IT infrastructure	218 324
(Less): short-term leases recognized on a straight-line basis as expense	(10 203)
(Less): low-value leases recognized on a straight-line basis as expense	(271)
Leasing liabilities recognized as at 1 January 2019	**585 189**

Applying IFRS 16 for the first time, the Group 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)

5.11 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 Group 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 Group 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 28 to these consolidated financial statements.

5.12. 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 Group 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 Group 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 Group claims that the standard's amendments will not have a material impact on the financial statements in the period of its first application.

6. Risk management

The risk management policy of the Group aims at optimizing the structure of the balance sheet and off-balance sheet items taking into consideration the assumed risks-income relation and overall impact of variuos risks that the Group 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 Group's operations are described in the further part of the Note.

6.1 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 Group's policy with respect to risk taking with the Group'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 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 Group's operations, business environment factors or irregularities in the functioning of processes or systems.

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

The 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 is effectively managing 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.

6.2 Credit risk

Credit risk is one of the basic risks associated with activities of the Group. The percentage share of credits and loans in the Group's statement of financial position makes the maintenance of this risk at safe level essential to the Group'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 regulation 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.

Notes to the financial statements (cont.)

(in PLN thousand)

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.
3) For the corporate clients, Pekao Bank Hipoteczny S.A. uses the SOP rating model (Point Rating System).

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.

The tables below present the quality of the loan portfolio.

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-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		
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					% 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		
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											
		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	% PORT-FOLIO
				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	24.4%
4	0.35% <= PD < 0.88%	976 510	106 473				1 082 983	359 443	47 227			406 670	25.0%
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**	

(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					% 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%	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%**

Notes to the financial statements (cont.)

(in PLN thousand)

The distribution of rated portfolio covered by the SOP rating model of Pekao Bank Hipoteczny S.A. for the corporate client segment (excluding impaired loans)

RATING CLASS	31.12.2019											% PORT-FOLIO
	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) 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	
CORPORATE SEGMENT COVERED BY SOP RATING MODEL												
SOP1	5 944	-				5 944	-	-			-	0.8%
SOP2	22 736	4 542				27 278	-	-			-	3.5%
SOP3	331 144	8 828				339 972	-	-			-	43.0%
SOP4	381 781	14 710				396 491	-	-			-	50.1%
SOP5	6 449	14 164				20 613	-	-			-	2.6%
Total	**748 054**	**42 244**				**790 298**	**-**	**-**			**-**	**100.0%**

RATING CLASS	31.12.2018											% PORT-FOLIO
	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) 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	
CORPORATE SEGMENT COVERED BY SOP RATING MODEL												
SOP1	7 065	-				7 065	-	-			-	0.9%
SOP2	24 329	4 925				29 254	-	-			-	3.8%
SOP3	365 095	8 162				373 257	315	-			315	49.1%
SOP4	311 628	23 679				335 307	-	-			-	44.1%
SOP5	1 811	14 044				15 855	-	-			-	2.1%
Total	**709 928**	**50 810**				**760 738**	**315**	**-**			**315**	**100.0%**

Notes to the financial statements (cont.)

(in PLN thousand)

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

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					% 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	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					% 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	
EXPOSURES NOT COVERED BY THE RATING MODEL												
Not past due	28 888 704	574 281				29 462 985	13 869 014	203 582			14 072 596	97.0%
Past due, of which:	779 215	281 690				1 060 905	44 371	246 588			290 959	3.0%
up to 1 month	779 215	75 632				854 847	44 371	1 809			46 180	2.0%
between 1 month and 2 months	-	95 958				95 958	-	491			491	0.2%
above 2 months	-	110 100				110 100	-	244 288			244 288	0.8%
Total	**29 667 919**	**855 971**				**30 523 890**	**13 913 385**	**450 170**			**14 363 555**	**100.0%**

	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) 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	23 646 003	567 638				24 213 641	7 649 251	215 018			7 864 269	97.2%
Past due, of which:	564 297	356 776				921 073	27 842	10 062			37 904	2.9%
up to 1 month	564 297	66 682				630 979	27 842	8 042			35 884	2.0%
between 1 month and 2 months	-	110 453				110 453	-	714			714	0.3%
above 2 months	-	179 641				179 641	-	1 306			1 306	0.5%
Total	**24 210 300**	**924 414**				**25 134 714**	**7 677 093**	**225 080**			**7 902 173**	**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					% 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		
IMPAIRED EXPOSURES												
Not past due			1 503 188	298 129	9 314	1 810 631			296 433	8 134	304 567	24.2%
Past due, of which:			3 747 663	2 587 719	33 492	6 368 874			264 860	3 531	268 391	75.8%
up to 1 month			55 302	220 230	11 929	287 461			268	661	929	3.3%
between 1 month and 3 months			51 513	232 646	5 796	289 955			21	656	677	3.3%
between 3 months and 1 year			128 969	430 116	288	559 373			119 558	779	120 337	7.8%
between 1 year and 5 years			819 136	888 457	797	1 708 390			143 313	1 155	144 468	21.2%
above 5 years			2 692 743	816 270	14 682	3 523 695			1 700	280	1 980	40.2%
Total			**5 250 851**	**2 885 848**	**42 806**	**8 179 505**			**561 293**	**11 665**	**572 958**	**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)		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		
IMPAIRED EXPOSURES												
Not past due			1 308 260	242 608	15 639	1 566 507			274 600	6 713	281 313	22.1%
Past due, of which:			3 800 001	2 398 499	71 926	6 270 426			225 579	2 737	228 316	77.9%
up to 1 month			87 771	188 345	7 721	283 837			200 912	671	201 583	5.8%
between 1 month and 3 months			176 815	200 735	187	377 737			19 202	389	19 591	4.8%
between 3 months and 1 year			334 112	374 010	362	708 484			355	709	1 064	8.5%
between 1 year and 5 years			1 306 983	870 098	5 245	2 182 326			5 017	799	5 816	26.2%
above 5 years			1 894 320	765 311	58 411	2 718 042			93	169	262	32.6%
Total			**5 108 261**	**2 641 107**	**87 565**	**7 836 933**			**500 179**	**9 450**	**509 629**	**100.0%**

(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	138 960 759	(1 016 007)	137 944 752
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
Corporate client segment covered by the SOP rating model of Pekao Bank Hipoteczny S.A.	790 298	(3 052)	787 246
Specialized lending exposures	5 790 547	(46 102)	5 744 445
Exposures not covered by the rating model	30 523 890	(196 246)	30 327 644
Impaired exposures	8 179 505	(5 453 544)	2 725 961
Total loans and advances to customers subject to impairment (*)	**147 140 264**	**(6 469 551)**	**140 670 713**

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

(in PLN thousand)

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

PORTFOLIO	31.12.2018		
	GROSS CARRYING AMOUNT	IMPAIRMENT ALLOWANCE	NET CARRYING AMOUNT
Exposures with no impairment	127 377 274	(1 023 186)	126 354 088
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
Corporate client segment covered by the SOP rating model of Pekao Bank Hipoteczny S.A.	760 738	(1 997)	758 741
Specialized lending exposures	6 091 416	(81 702)	6 009 714
Exposures not covered by the rating model	25 134 714	(250 282)	24 884 432
Impaired exposures	7 836 933	(5 197 270)	2 639 663
Total loans and advances to customers subject to impairment (*)	**135 214 207**	**(6 220 456)**	**128 993 751**

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

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	46 533 800	(101 901)
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	(64 207)
Corporates	26 889 016	(62 272)
SMEs	1 268 155	(1 935)
Rated portfolio for local government units segment	336 404	(37)
Corporate client segment covered by the SOP rating model of Pekao Bank Hipoteczny S.A.	-	-
Specialized lending exposures	1 441 548	(1 805)
Exposures not covered by the rating model	14 363 555	(30 362)
Impaired exposures	572 958	(186 387)
Total off- balance sheet exposures to customers	**47 106 758**	**(288 288)**

(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	31.12.2018	
	NOMINAL AMOUNT	IMPAIRMENT ALLOWANCE
Exposures with no impairment	43 517 461	(128 203)
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)
Corporate client segment covered by the SOP rating model of Pekao Bank Hipoteczny S.A.	315	-
Specialized lending exposures	2 272 353	(10 973)
Exposures not covered by the rating model	7 902 173	(32 821)
Impaired exposures	509 629	(112 495)
Total off- balance sheet exposures to customers	**44 027 090**	**(240 698)**

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	1.3%
A+ to A-	899 921	288	-	95	-	900 304	50.2%
BBB+ to BBB-	291 058	-	-	-	-	291 058	16.2%
BB+ to BB-	8 384	-	-	-	-	8 384	0.5%
B+ do B-	65	-	-	-	-	65	0.0%
No rating	570 396	3	-	1	-	570 400	31.8%
Total gross carrying amount	**1 792 237**	**291**	**-**	**96**	**-**	**1 792 624**	**100.0%**
Impairment allowance	(1 187)	-	-	(1)	-	(1 188)	
Total net carrying amount	**1 791 050**	**291**	**-**	**95**	**-**	**1 791 436**	

(in PLN thousand)

Classification of loans and advances to banks 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			
LOANS AND ADVANCES TO BANKS MEASURED AT AMORTISED COST							
AA+ to AA-	89 431	-	-	-	-	89 431	3.9%
A+ to A-	1 141 105	614	-	108	-	1 141 827	50.1%
BBB+ to BBB-	733 081	-	-	-	-	733 081	32.2%
BB+ to BB-	2 150	-	-	-	-	2 150	0.1%
No rating	302 854	-	8 987	-	-	311 841	13.7%
Total gross carrying amount	**2 268 621**	**614**	**8 987**	**108**	**-**	**2 278 330**	**100.0%**
Impairment allowance	(921)	-	(8 987)	-	-	(9 908)	
Total net carrying amount	**2 267 700**	**614**	**-**	**108**	**-**	**2 268 422**	

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-	8 976 804	-	-	-	-	8 976 804	61.3%
BBB+ do BBB-	234 218	-	-	-	-	234 218	1.6%
No rating	5 078 450	331 816	32 370	-	-	5 442 636	37.1%
Gross carrying amount	**14 289 472**	**331 816**	**32 370**	**-**	**-**	**14 653 658**	**100.0%**
Impairment allowance	(25 668)	(16 955)	(32 370)	-	-	(74 993)	
Carrying amount	**14 263 804**	**314 861**	**-**	**-**	**-**	**14 578 665**	
DEBT SECURITIES MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME							
AAA	3 632 368	-	-	-	-	3 632 368	11.7%
A+ to A-	19 012 373	-	-	-	-	19 012 373	61.4%
BBB+ do BBB-	1 908 191	-	-	-	-	1 908 191	6.2%
BB+ do BB-	83 026	-	-	-	-	83 026	0.3%
No rating	6 294 181	12 860	-	-	-	6 307 041	20.4%
Carrying amount	**30 930 139**	**12 860**	**-**	**-**	**-**	**30 942 999**	**100.0%**
Impairment allowance (*)	(32 000)	(671)	-	-	-	(32 671)	
DEBT SECURITIES HELD FOR TRADING							
A+ to A-						1 142 872	89.5%
BBB+ to BBB-						111 338	8.7%
No rating						22 501	1.8%
Carrying amount						**1 276 711**	**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.

Notes to the financial statements (cont.)

(in PLN thousand)

Classification of exposures to debt securities according to Fitch ratings

31.12.2018	CARRYING AMOUNT						%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	
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT			
DEBT SECURITIES MEASURED AT AMORTISED COST							
A+ to A-	5 362 693	-	-	-	-	5 362 693	47.4%
BBB+ do BBB-	676 434	-	-	-	-	676 434	6.0%
No rating	5 244 564	-	31 547	-	-	5 276 111	46.6%
Gross carrying amount	**11 283 691**	**-**	**31 547**	**-**	**-**	**11 315 238**	**100.0%**
Impairment allowance	(27 792)	-	(31 547)	-	-	(59 339)	
Carrying amount	**11 255 899**	**-**	**-**	**-**	**-**	**11 255 899**	
DEBT SECURITIES MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME							
AAA	952 874	-	-	-	-	952 874	3.5%
A+ to A-	14 392 599	-	-	-	-	14 392 599	53.2%
BBB+ to BBB-	693 351	-	-	-	-	693 351	2.6%
No rating	10 994 003	-	-	-	-	10 994 003	40.7%
Carrying amount	**27 032 827**	**-**	**-**	**-**	**-**	**27 032 827**	**100.0%**
Impairment allowance (*)	(28 307)	**-**	**-**	**-**	**-**	(28 307)	
DEBT SECURITIES HELD FOR TRADING							
A+ to A-						679 689	90.0%
BBB+ to BBB-						4 169	0.6%
No rating						71 355	9.4%
Carrying amount						**755 213**	**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.

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	56.6%
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-	187 160	-	97 825	21 641	-	-	306 626	12.5%
BB+ to BB-	2 348	-	-	-	-	-	2 348	0.1%
B+ to B-	-	-	-	-	-	-	-	-
No rating	113 009	110 305	323 114	25 398	-	-	571 826	23.3%
Total	**780 364**	**878 226**	**420 939**	**91 677**	**285 531**	**-**	**2 456 737**	**100.0%**

(in PLN thousand)

Classification of exposures to derivative financial instruments according to Fitch ratings

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	46.5%
AA+ to AA-	47 748	-	-	-	-	-	47 748	2.7%
A+ to A-	163 280	540	-	14 170	-	-	177 990	10.1%
BBB+ to BBB-	184 064	-	17 060	11 791	-	-	212 915	12.1%
BB+ to BB-	117	-	-	-	-	-	117	-
B+ to B-	1 894	-	-	-	-	-	1 894	0.1%
No rating	126 081	116 021	246 289	15 926	-	-	504 317	28.5%
Total	**774 351**	**413 962**	**263 349**	**69 195**	**244 370**	**-**	**1 765 227**	**100.0%**

The description of the model for impairment allowance
Since 1 January 2018, the Group has recognized impairment allowance in accordance with the IRFS 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 Group compares the cash flows that it should receive pursuant to the agreement with the borrower and the flows estimated by the Group 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 Group determines the expected losses in the period in which it is exposed to credit risk (ie in the economic maturity).

Methodology for calculating group 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 Group. In the estimation, the Group:

a) estimates unbiased PD parameters without taking into account additional margins of conservatism (IFRS 9, paragraph 5.5.17 (a)),
b) 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 months 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 Group 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 (ie 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 Group sets the long-term EAD and PAD using the CCF (Credit Conversion Factor) and 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 Group 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 Group 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 Group will identify a significant increase in credit risk from the initial recognition are classified in Stage 2. The Group 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 if 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 Group 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 Group 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 Group 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 Group, 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 Group has defined a number of specific quality criteria for various types of portfolios, such as, inter alia, changes in the Group'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.

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

In the second half of 2019 the Group 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 Group 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 Group 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.

(in PLN thousand)

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 Group 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	**12 113 231**	**614**	**8 987**	**108**	**-**	**12 122 940**
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	1 774 684	-	-	-	-	1 774 684
Financial assets derecognised, other than write-offs (repayments)	(9 938 380)	(236)	-	(46)	-	(9 938 662)
Other, in this changes resulting from exchange rates	(31 446)	(43)	(8 987)	9	-	(40 467)
GROSS CARRYING AMOUNT AS AT 31.12.2019	**3 918 108**	**291**	**-**	**96**	**-**	**3 918 495**
IMPAIRMENT ALLOWANCE						
IMPAIRMENT ALLOWANCE AS AT 1.01.2019	**1 834**	**-**	**8 987**	**-**	**-**	**10 821**
Transfer to Stage 1	-	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
New / purchased / granted financial assets	3 587	-	-	-	-	3 587
Financial assets derecognised, other than write-offs (repayments)	(1 440)	(85)	-	(21)	-	(1 546)
Changes in level of credit risk (excluding the transfers between the Stages)	(1 345)	-	-	10	-	(1 335)
Other, in this changes resulting from exchange rates	(1 275)	85	(8 987)	12	-	(10 165)
IMPAIRMENT ALLOWANCE AS AT 31.12.2019	**1 361**	**-**	**-**	**1**	**-**	**1 362**

(*) Receivables from the Central Bank include a current account and deposits.

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	**5 175 069**	**1 071**	**21 014**	**113**	**-**	**5 197 267**
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	8 712 604	-	-	-	-	8 712 604
Financial assets derecognised, other than write-offs (repayments)	(1 750 421)	(414)	-	(46)	-	(1 750 881)
Financial assets written off (**)	-	-	(5 079)	-	-	(5 079)
Other, in this changes resulting from exchange rates	(23 978)	(34)	(6 948)	(11)	-	(30 971)
GROSS CARRYING AMOUNT AS AT 31.12.2018	**12 113 231**	**614**	**8 987**	**108**	**-**	**12 122 940**
IMPAIRMENT ALLOWANCE						
IMPAIRMENT ALLOWANCE AS AT 1.01.2018	**425**	**-**	**21 127**	**-**	**-**	**21 552**
Transfer to Stage 1	-	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
New / purchased / granted financial assets	1 633	-	-	-	-	1 633
Financial assets derecognised, other than write-offs (repayments)	(378)	-	-	-	-	(378)
Financial assets written off (**)	-	-	(5 079)	-	-	(5 079)
Changes in level of credit risk (excluding the transfers between the Stages)	(363)	2	-	-	-	(361)
Other, in this changes resulting from exchange rates	517	(2)	(7 061)	-	-	(6 546)
IMPAIRMENT ALLOWANCE AS AT 31.12.2018	**1 834**	**-**	**8 987**	**-**	**-**	**10 821**

(*) 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 AT 1.01.2019	**100 388 050**	**20 213 176**	**5 063 110**	**2 542 099**	**87 565**	**128 294 000**
Transfer to Stage 1	4 642 225	(4 617 247)	(7 562)	(17 416)	-	-
Transfer to Stage 2	(7 118 153)	7 239 409	(6 238)	(115 018)	-	-
Transfer to Stage 3	(739 724)	(737 339)	545 459	931 604	-	-
New / purchased / granted financial assets	38 405 396	-	-	-	5 145	38 410 541
Financial assets derecognised, other than write-offs (repayments)	(23 660 804)	(2 782 864)	(361 593)	(337 530)	(49 677)	(27 192 468)
Financial assets written off (*)	-	-	(321 500)	(270 429)	(126)	(592 055)
Modifications not resulting in derecognition	(2 223)	-	-	-	-	(2 223)
Other, in this changes resulting from exchange rates	(316 621)	123 179	172 545	63 558	(101)	42 560
GROSS CARRYING AMOUNT AS AT 31.12.2019	**111 598 146**	**19 438 314**	**5 084 221**	**2 796 868**	**42 806**	**138 960 355**
IMPAIRMENT ALLOWANCE						
IMPAIRMENT ALLOWANCE AS AT 1.01.2019	**358 389**	**659 536**	**3 265 624**	**1 800 673**	**53 455**	**6 137 677**
Transfer to Stage 1	134 108	(126 074)	(790)	(7 244)	-	-
Transfer to Stage 2	(36 836)	85 718	(1 440)	(47 442)	-	-
Transfer to Stage 3	(120 056)	(189 882)	38 272	271 666	-	-
New / purchased / granted financial assets	150 989	6	-	-	2 783	153 778
Financial assets derecognised, other than write-offs (repayments)	(68 125)	(33 594)	(43 861)	(53 249)	(5 551)	(204 380)
Financial assets written off (*)	-	-	(321 500)	(270 429)	(126)	(592 055)
Changes in level of credit risk (excluding the transfers between the Stages) (**)	(133 499)	300 874	281 639	201 483	(2 587)	647 910
Other, in this changes resulting from exchange rates	16 108	13 965	227 633	19 082	(36 530)	240 258
IMPAIRMENT ALLOWANCE AS AT 31.12.2019	**301 078**	**710 549**	**3 445 577**	**1 914 540**	**11 444**	**6 383 188**

(*) Including the value of contractual interest subject to partial write-off in the amount of PLN 301 658 thousand.

(**) Including the provision for legal risk regarding foreign currency mortgage loans in the amount of PLN 36 265 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) INDIVIDUAL ASSESSMENT	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED) GROUP ASSESSMENT	PURCHASED OR ORIGINATED CREDIT-IMPAIRED (POCI)	TOTAL
LOANS AND ADVANCES TO CUSTOMERS MEASURED AT AMORTISED COST						
GROSS CARRYING AMOUNT						
GROSS CARRYING AMOUNT AS AT 1.01.2018	**89 734 902**	**20 981 569**	**7 423 047**	**3 327 030**	**81 046**	**121 547 594**
Transfer to Stage 1	3 294 387	(3 278 870)	(7 079)	(8 438)	-	-
Transfer to Stage 2	(6 143 253)	6 247 851	(34 349)	(70 249)	-	-
Transfer to Stage 3	(809 369)	(564 304)	693 622	680 051	-	-
New / purchased / granted financial assets	29 903 625	(1)	-	-	2 116	29 905 740
Financial assets derecognised, other than write-offs (repayments)	(16 531 169)	(3 211 797)	(725 496)	(297 910)	(2 692)	(20 769 064)
Financial assets written off (*)	-	-	(2 259 977)	(1 222 760)	(17)	(3 482 754)
Modifications not resulting in derecognition	-	-	(1 002)	-	1 002	-
Other, in this changes resulting from exchange rates	938 927	38 728	(25 656)	134 375	6 110	1 092 484
GROSS CARRYING AMOUNT AS AT 31.12.2018	**100 388 050**	**20 213 176**	**5 063 110**	**2 542 099**	**87 565**	**128 294 000**
IMPAIRMENT ALLOWANCE						
IMPAIRMENT ALLOWANCE AS AT 1.01.2018	**353 983**	**648 652**	**5 441 071**	**2 793 536**	**37 157**	**9 274 399**
Transfer to Stage 1	98 214	(93 714)	(808)	(3 692)	-	-
Transfer to Stage 2	(23 913)	59 078	(4 844)	(30 321)	-	-
Transfer to Stage 3	(22 079)	(71 886)	24 721	69 244	-	-
New / purchased / granted financial assets	147 555	-	-	-	-	147 555
Financial assets derecognised, other than write-offs (repayments)	(81 783)	(43 871)	(73 716)	(39 730)	-	(239 100)
Financial assets written off (*)	-	-	(2 259 977)	(1 222 760)	(17)	(3 482 754)
Changes in level of credit risk (excluding the transfers between the Stages)	(105 917)	165 377	269 352	220 270	2 569	551 651
Other, in this changes resulting from exchange rates	(7 671)	(4 100)	(130 175)	14 126	13 746	(114 074)
IMPAIRMENT ALLOWANCE AS AT 31.12.2018	**358 389**	**659 536**	**3 265 624**	**1 800 673**	**53 455**	**6 137 677**

(*) Including the value of contractual interest subject to partial write-off in the amount of PLN 3 072 340 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 11 863 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		
RECEIVABLES FROM FINANCE LEASES						
GROSS CARRYING AMOUNT						
GROSS CARRYING AMOUNT AS AT 1.01.2019	**5 160 123**	**105 171**	**45 151**	**99 008**	-	**5 409 453**
Transfer to Stage 1	52 391	(48 401)	(2 945)	(1 045)	-	-
Transfer to Stage 2	(226 670)	233 357	(3 606)	(3 081)	-	-
Transfer to Stage 3	(58 798)	(124 655)	169 646	13 807	-	-
New/Purchased/Granted financial assets	3 321 107	-	-	-	-	3 321 107
Financial assets derecognised, other than write-offs (repayments)	(1 879 977)	(68 562)	(40 285)	(6 152)	-	(1 994 976)
Financial assets written off	-	-	(5 014)	(13 557)	-	(18 571)
Other, in this changes resulting from exchange rates	(66)	78 672	3 683	-	-	82 289
GROSS CARRYING AMOUNT AS AT 31.12.2019	**6 368 110**	**175 582**	**166 630**	**88 980**	-	**6 799 302**
IMPAIRMENT ALLOWANCE						
IMPAIRMENT ALLOWANCE AS AT 1.01.2019	**4 029**	**1 877**	**15 467**	**61 413**	**-**	**82 786**
Transfer to Stage 1	647	(560)	(51)	(36)	-	-
Transfer to Stage 2	(228)	640	(262)	(150)	-	-
Transfer to Stage 3	(47)	(142)	189	-	-	-
New/Purchased/Granted financial assets	1 941	-	-	-	-	1 941
Financial assets derecognised, other than write-offs (repayments)	(3 086)	(143)	(2 624)	-	-	(5 853)
Financial assets written off	-	-	(5 014)	(13 557)	-	(18 571)
Changes in level of credit risk (excluding the transfers between the Stages)	-	433	13 321	12 353	-	26 107
Other, in this changes resulting from exchange rates	(42)	(336)	(2 017)	2 348	-	(47)
IMPAIRMENT ALLOWANCE AS AT 31.12.2019	**3 214**	**1 769**	**19 009**	**62 371**	**-**	**86 363**

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		
RECEIVABLES FROM FINANCE LEASES						
GROSS CARRYING AMOUNT						
GROSS CARRYING AMOUNT AS AT 1.01.2018	**4 090 628**	**208 808**	**51 859**	**173 772**	-	**4 525 067**
Transfer to Stage 1	115 788	(114 500)	-	(1 288)	-	-
Transfer to Stage 2	(93 574)	95 127	(842)	(711)	-	-
Transfer to Stage 3	(27 299)	(28 999)	22 120	34 178	-	-
New/Purchased/Granted financial assets	1 835 998	-	-	-	-	1 835 998
Financial assets derecognised, other than write-offs (repayments)	(1 013 470)	(24 226)	(8 070)	(8 269)	-	(1 054 035)
Other, in this changes resulting from exchange rates	252 052	(31 039)	(19 916)	(98 674)	-	102 423
GROSS CARRYING AMOUNT AS AT 31.12.2018	**5 160 123**	**105 171**	**45 151**	**99 008**		**5 409 453**
IMPAIRMENT ALLOWANCE						
IMPAIRMENT ALLOWANCE AS AT 1.01.2018	**4 343**	**3 125**	**26 965**	**142 779**	**-**	**177 212**
Transfer to Stage 1	2 493	(1 858)	-	(635)	-	-
Transfer to Stage 2	(1 701)	1 812	(60)	(51)	-	-
Transfer to Stage 3	(19 649)	(421)	8 259	11 811	-	-
New/Purchased/Granted financial assets	23 595	-	-	-	-	23 595
Financial assets derecognised, other than write-offs (repayments)	(2 827)	(2 792)	(1 637)	(2 937)	-	(10 193)
Changes in models and risk parameters	3	-	-	3 770	-	3 773
Other, in this changes resulting from exchange rates	(2 228)	2 011	(18 060)	(93 324)	-	(111 601)
IMPAIRMENT ALLOWANCE AS AT 31.12.2018	**4 029**	**1 877**	**15 467**	**61 413**	**-**	**82 786**

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	**1 511 102**	**-**	**-**	**-**	**-**	**1 511 102**
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)	(686 334)	(15 977)	-	-	-	(702 311)
Other, in this changes resulting from exchange rates	(217)	932	-	-	-	715
CARRYING AMOUNT AS AT 31.12.2019	**771 987**	**608 620**	**-**	**-**	**-**	**1 380 607**
IMPAIRMENT ALLOWANCE (*)						
IMPAIRMENT ALLOWANCE AS AT 1.01.2019	**14 590**	**-**	**-**	**-**	**-**	**14 590**
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)	(3 267)	-	-	-	-	(3 267)
Changes in level of credit risk (excluding the transfers between the Stages)	(2 049)	9 431	-	-	-	7 382
Other, in this changes resulting from exchange rates	(219)	15	-	-	-	(204)
IMPAIRMENT ALLOWANCE AS AT 31.12.2019	**3 407**	**17 401**	**-**	**-**	**-**	**20 808**

(*) 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.

(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	**1 555 964**	**-**	**-**	**-**	**-**	**1 555 964**
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)	(489 874)	-	-	-	-	(489 874)
Other, in this changes resulting from exchange rates	43 512	-	-	-	-	43 512
CARRYING AMOUNT AS AT 31.12.2018	**1 511 102**	**-**	**-**	**-**	**-**	**1 511 102**
IMPAIRMENT ALLOWANCE (*)						
IMPAIRMENT ALLOWANCE AS AT 1.01.2018	**18 159**	**-**	**-**	**-**	**-**	**18 159**
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)	(1 782)	-	-	-	-	(1 782)
Changes in level of credit risk (excluding the transfers between the Stages)	(3 244)	-	-	-	-	(3 244)
IMPAIRMENT ALLOWANCE AS AT 31.12.2018	**14 590**	**-**	**-**	**-**	**-**	**14 590**

(*) 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) INDIVIDUAL ASSESSMENT	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED) GROUP ASSESSMENT	PURCHASED OR ORIGINATED CREDIT-IMPAIRED (POCI)	TOTAL
DEBT SECURITIES MEASURED AT AMORTISED COST						
GROSS CARRYING AMOUNT						
GROSS CARRYING AMOUNT AS AT 1.01.2019	**11 283 691**	**-**	**31 547**	**-**	**-**	**11 315 238**
Transfer to Stage 1	-	-	-	-	-	-
Transfer to Stage 2	(331 816)	331 816	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
New / purchased / granted financial assets	8 775 942	-	-	-	-	8 775 942
Financial assets derecognised, other than write-offs (repayments)	(5 610 765)	-	-	-	-	(5 610 765)
Other, in this changes resulting from exchange rates	172 420	-	823	-	-	173 243
GROSS CARRYING AMOUNT AS AT 31.12.2019	**14 289 472**	**331 816**	**32 370**	**-**	**-**	**14 653 658**
IMPAIRMENT ALLOWANCE						
IMPAIRMENT ALLOWANCE AS AT 1.01.2019	**27 792**	**-**	**31 547**	**-**	**-**	**59 339**
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)	6 010	7 506	-	-	-	13 516
Other, in this changes resulting from exchange rates	(66)	1	823	-	-	758
IMPAIRMENT ALLOWANCE AS AT 31.12.2019	**25 668**	**16 955**	**32 370**	**-**	**-**	**74 993**

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	**11 527 804**	**-**	**30 031**	**-**	**-**	**11 557 835**
Transfer to Stage 1	-	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
New / purchased / granted financial assets	2 904 447	-	-	-	-	2 904 447
Financial assets derecognised, other than write-offs (repayments)	(3 242 441)	-	-	-	-	(3 242 441)
Other, in this changes resulting from exchange rates	93 881	-	1 516	-	-	95 397
GROSS CARRYING AMOUNT AS AT 31.12.2018	**11 283 691**	**-**	**31 547**	**-**	**-**	**11 315 238**
IMPAIRMENT ALLOWANCE						
IMPAIRMENT ALLOWANCE AS AT 1.01.2018	**27 667**	**-**	**30 031**	**-**	**-**	**57 698**
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)	1 297	-	-	-	-	1 297
Other, in this changes resulting from exchange rates	(1 398)	-	1 516	-	-	118
IMPAIRMENT ALLOWANCE AS AT 31.12.2018	**27 792**	**-**	**31 547**	**-**	**-**	**59 339**

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	**27 032 827**	**-**	**-**	**-**	**-**	**27 032 827**
Transfer to Stage 1	-	-	-	-	-	-
Transfer to Stage 2	(12 860)	12 860	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
New / purchased / granted financial assets	135 254 183	-	-	-	-	135 254 183
Financial assets derecognised, other than write-offs (repayments)	(132 086 153)	-	-	-	-	(132 086 153)
Other, in this changes resulting from exchange rates	742 142	-	-	-	-	742 142
CARRYING AMOUNT AS AT 31.12.2019	**30 930 139**	**12 860**	**-**	**-**	**-**	**30 942 999**
IMPAIRMENT ALLOWANCE (*)						
IMPAIRMENT ALLOWANCE AS AT 1.01.2019	**28 307**	**-**	**-**	**-**	**-**	**28 307**
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)	507	283	-	-	-	790
IMPAIRMENT ALLOWANCE AS AT 31.12.2019	**32 000**	**671**	**-**	**-**	**-**	**32 671**

(*) 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	**38 031 871**	**-**	**-**	**-**	**-**	**38 031 871**
Transfer to Stage 1	-	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
New / purchased / granted financial assets	131 261 992	-	-	-	-	131 261 992
Financial assets derecognised, other than write-offs (repayments)	(142 945 930)	-	-	-	-	(142 945 930)
Other, in this changes resulting from exchange rates	684 894	-	-	-	-	684 894
CARRYING AMOUNT AS AT 31.12.2018	**27 032 827**	**-**	**-**	**-**	**-**	**27 032 827**
IMPAIRMENT ALLOWANCE (*)						
IMPAIRMENT ALLOWANCE AS AT 1.01.2018	**24 311**	**-**	**-**	**-**	**-**	**24 311**
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)	(3 799)	-	-	-	-	(3 799)
Other, in this changes resulting from exchange rates	26	-	-	-	-	26
IMPAIRMENT ALLOWANCE AS AT 31.12.2018	**28 307**	**-**	**-**	**-**	**-**	**28 307**

(*) 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.

(in PLN thousand)

Group'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	2 101 783	9 843 697
Loans and advances from banks and from customers	135 991 849	126 238 477
Receivables from finance leases	6 712 939	5 326 667
Financial assets held for trading	1 281 664	762 712
Derivative financial instruments (held for trading)	2 079 529	1 451 662
Hedging instruments	377 208	313 565
Investment securities	45 893 115	38 586 995
Other assets (*)	1 129 836	1 201 548
Balance sheet exposure (**)	**195 567 923**	**183 725 323**
Obligations to grant loans	36 806 862	33 079 728
Other contingent liabilities	12 865 603	13 567 107
Off-balance sheet exposure	**49 672 465**	**46 646 835**
Total	**245 240 388**	**230 372 158**

(*) 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

Group 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 Group are as follows

COLLATERAL	COLLATERAL VALUATION PRINCIPLES
MORTGAGES	
commercial	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.
residential	
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 1 002 267 thousand as at 31 December 2019 (PLN 1 139 834 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 Group 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 LTV LEVEL	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
MORTGAGE LOANS TO INDIVIDUAL CLIENTS – GROSS CARRYING AMOUNT						
0% < LtV <= 50%	9 953 978	5 433 129	13 365	271 363	220	15 672 055
50% < LtV <= 70%	17 249 461	4 025 334	27 863	285 902	976	21 589 536
70% < LtV <= 90%	11 275 400	1 787 413	13 358	126 012	-	13 202 183
90% < LtV <= 100%	143 352	34 352	397	8 257	-	186 358
100% < LtV	76 512	18 721	27 987	7 091	-	130 311
Total	**38 698 703**	**11 298 949**	**82 970**	**698 625**	**1 196**	**50 780 443**

31.12.2018 LTV LEVEL	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
MORTGAGE LOANS TO INDIVIDUAL CLIENTS – GROSS CARRYING AMOUNT						
0% < LtV <= 50%	7 068 019	4 913 239	51 383	191 765	997	12 225 403
50% < LtV <= 70%	9 440 444	3 492 466	64 344	168 269	918	13 166 441
70% < LtV <= 90%	16 279 287	3 834 248	58 335	195 575	2 028	20 369 473
90% < LtV <= 100%	516 559	173 848	7 652	19 348	-	717 407
100% < LtV	89 418	36 443	8 412	7 134	-	141 407
Total	**33 393 727**	**12 450 244**	**190 126**	**582 091**	**3 943**	**46 620 131**

Credit risk concentration

According to valid regulations the total exposure of the Group to single borrower or a group of borrowers related by capital or management may not exceed 25% of the Group'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 GROUP AS AT 31 DECEMBER 2019	% SHARE OF PORTFOLIO
Client 1	1.3%
Client 2	1.2%
Client 3	1.0%
Client 4	0.7%
Client 5	0.7%
Client 6	0.6%
Client 7	0.5%
Client 8	0.5%
Client 9	0.5%
Client 10	0.5%
Total	**7.5%**

Notes to the financial statements (cont.)

(in PLN thousand)

EXPOSURE TO 10 LARGERST CLIENTS OF THE GROUP AS AT 31 DECEMBER 2018	% SHARE OF PORTFOLIO
Client 1	1.3%
Client 2	1.2%
Client 3	1.0%
Client 4	0.7%
Client 5	0.7%
Client 6	0.6%
Client 7	0.5%
Client 8	0.5%
Client 9	0.5%
Client 10	0.5%
Total	**7.5%**

b) Concentration by capital groups

EXPOSURE TO 5 LARGEST CAPITAL GROUPS SERVICED BY THE GROUP AS AT 31 DECEMBER 2019	% SHARE OF PORTFOLIO
Group 1	1.3%
Group 2	1.1%
Group 3	1.1%
Group 4	1.0%
Group 5	0.9%
Total	**5.4%**

EXPOSURE TO 5 LARGEST CAPITAL GROUPS SERVICED BY THE GROUP AS AT 31 DECEMBER 2018	% SHARE OF PORTFOLIO
Group 1	1.5%
Group 2	1.3%
Group 3	1.1%
Group 4	1.0%
Group 5	0.9%
Total	**5.8%**

c) Breakdown by industrial sectors.

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.

Notes to the financial statements (cont.)

(in PLN thousand)

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	0.8%	0.9%
Mining and quarrying	1.8%	2.3%
Manufacturing	22.0%	21.5%
Electricity, gas, steam and air conditioning supply	7.8%	6.1%
Water supply	2.5%	2.5%
Construction	4.9%	6.0%
Wholesale and retail trade	17.5%	16.5%
Transport and storage	6.9%	6.2%
Accommodation and food service activities	2.8%	2.8%
Information and communication	2.1%	2.7%
Financial and insurance activities	3.5%	3.4%
Real estate activities	12.3%	12.7%
Professional, scientific and technical activities	3.6%	3.7%
Administrative and support service activities	1.6%	2.0%
Public administration and defence, compulsory social security	6.6%	7.7%
Education	0.3%	0.2%
Human health services and social work activities	0.8%	0.8%
Arts, entertainment and recreation	1.1%	0.6%
Others	1.1%	1.4%
Total	**100.0%**	**100.0%**

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	32 458	34 690
Net modification gain or loss	(333)	340
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	12 450	5 039

Notes to the financial statements (cont.)

(in PLN thousand)

Forbearance measures

Forborne exposures are debt contracts in respect of which forbearance measures have been extended and in the result of the, so called, rejection test 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, including problems with debt service, of the contract due to financial difficulties. Based on 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 Group 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 Group.

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 above, are not fullfiled at the end of the probation period, exposures are classified respectively as performing or non-performing forborne exposures in the probation period untill all these conditions are met. The fullfilment of the conditions is assesed 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 Group 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 the 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 Group 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 Group'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:	**111 297 068**	**18 727 765**	**1 638 644**	**882 328**	**31 362**	**132 577 167**
Forborne exposures gross	349 409	112 400	2 288 966	508 654	21 491	3 280 920
Loss allowance	(2 950)	(11 656)	(1 394 073)	(267 702)	(757)	(1 677 138)
Forborne exposures net	346 459	100 744	894 893	240 952	20 734	1 603 782
Loans and advances measured at fair value through other comprehensive income, including:	**771 987**	**608 620**	**-**	**-**	**-**	**1 380 607**
Forborne exposures	-	-	-	-	-	-
Loss allowance (*)	-	-	-	-	-	-
Loans and advances measured at fair value through profit or loss, including:						**242 639**
Forborne exposures						998
Leasing exposures measured at amortised cost, including:	**6 364 896**	**173 813**	**147 621**	**26 609**	**-**	**6 712 939**
Forborne exposures gross	1 674	4 482	27 697	5 428	-	39 281
Loss allowance	(3)	(42)	(6 639)	(4 165)	-	(10 849)
Forborne exposures net	1 671	4 440	21 058	1 263	-	28 432

	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:	**100 029 662**	**19 553 639**	**1 797 467**	**741 445**	**34 110**	**122 156 323**
Forborne exposures gross	482 174	161 514	2 612 229	429 879	22 829	3 708 625
Loss allowance	(6 454)	(6 786)	(1 490 977)	(235 467)	(178)	(1 739 862)
Forborne exposures net	475 720	154 728	1 121 252	194 412	22 651	1 968 763
Loans and advances measured at fair value through other comprehensive income, including:	**1 511 102**	**-**	**-**	**-**	**-**	**1 511 102**
Forborne exposures	-	-	-	-	-	-
Loss allowance (*)	-	-	-	-	-	-
Loans and advances measured at fair value through profit or loss, including:						**302 630**
Forborne exposures						2 063
Leasing exposures measured at amortised cost, including:	**5 155 746**	**103 294**	**29 684**	**37 595**	**-**	**5 326 319**
Forborne exposures gross	2 513	3 151	22 052	5 305	-	33 021
Loss allowance	(3)	(34)	(4 622)	(2 488)	-	(7 147)
Forborne exposures net	2 510	3 117	17 430	2 817	-	25 874

(*) 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:	**351 083**	**116 882**	**2 316 663**	**514 082**	**21 491**	**3 320 201**
not past due	350 079	77 417	675 415	176 584	3 633	1 283 128
up to 1 month	1 004	31 565	21 529	82 628	11 912	148 638
between 1 month and 3 months	-	7 852	25 027	53 869	5 719	92 467
between 3 months and 1 year	-	48	66 605	61 493	125	128 271
between 1 year and 5 years	-	-	269 795	108 383	39	378 217
above 5 years	-	-	1 258 292	31 125	63	1 289 480
Impairment allowances, of which:	**(2 953)**	**(11 698)**	**(1 400 712)**	**(271 867)**	**(757)**	**(1 687 987)**
not past due	(2 934)	(5 730)	(183 320)	(61 597)	75	(253 506)
up to 1 month	(19)	(4 088)	(9 378)	(33 675)	257	(46 903)
between 1 month and 3 months	-	(1 880)	(9 304)	(26 514)	(865)	(38 563)
between 3 months and 1 year	-	-	(22 090)	(37 884)	(122)	(60 096)
between 1 year and 5 years	-	-	(174 792)	(84 158)	(39)	(258 989)
above 5 years	-	-	(1 001 828)	(28 039)	(63)	(1 029 930)
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						-

(*) The item includes loans and advances measured at amortised cost and leasing exposures measured at amortised cost.

(in PLN thousand)

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

	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:	**484 687**	**164 665**	**2 634 281**	**435 184**	**22 829**	**3 741 646**
not past due	483 056	119 170	946 923	138 752	15 064	1 702 965
up to 1 month	1 384	36 852	20 977	65 098	7 428	131 739
between 1 month and 3 months	247	7 451	15 001	47 275	39	70 013
between 3 months and 1 year	-	108	129 026	54 834	63	184 031
between 1 year and 5 years	-	692	993 699	111 568	130	1 106 089
above 5 years	-	392	528 655	17 657	105	546 809
Impairment allowances, of which:	**(6 457)**	**(6 820)**	**(1 495 599)**	**(237 955)**	**(178)**	**(1 747 009)**
not past due	(6 411)	(2 883)	(226 038)	(50 746)	116	(285 962)
up to 1 month	(44)	(2 755)	(6 561)	(25 761)	43	(35 078)
between 1 month and 3 months	(2)	(717)	(4 795)	(22 848)	(39)	(28 401)
between 3 months and 1 year	-	(50)	(60 372)	(33 081)	(63)	(93 566)
between 1 year and 5 years	-	(241)	(735 932)	(89 083)	(130)	(825 386)
above 5 years	-	(174)	(461 901)	(16 436)	(105)	(478 616)
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						-

(*) The item includes loans and advances measured at amortised cost and leasing exposures measured at amortised cost.

Changes in net carrying amount of forborne exposures

	2019	2018
Carrying amount at the beginning	**1 996 700**	**2 241 637**
The effect of IFRS9 implementing	-	(43 178)
Adjusted carrying amount at the beginning	**1 996 700**	**2 198 459**
Amount of exposures recognized in the period	148 281	281 443
Amount of exposures derecognized in the period	(308 316)	(84 327)
Changes in impairment allowances	16 599	(181 255)
Other changes	(220 052)	(217 620)
Carrying amount at the end	**1 633 212**	**1 996 700**
Interest income	86 240	118 977

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	1 633 212	1 890 782
Refinancing	-	105 918
Carrying amount	**1 633 212**	**1 996 700**

Forborne exposures by product type

	31.12.2019	31.12.2018
Mortgage loans	1 110 981	1 189 740
Current accounts	55 722	57 330
Operating loans	84 409	349 204
Investment loans	230 342	240 975
Cash loans	76 279	79 846
Other loans and advances	75 479	79 605
Carrying amount	**1 633 212**	**1 996 700**

Forborne exposures by industrial sectors

	31.12.2019	31.12.2018
Corporates:	1 259 141	1 610 841
Real estate activities	788 418	951 585
Manufacturing	78 282	267 151
Wholesale and retail trade	109 514	97 754
Accommodation and food service activities	49 469	94 102
Construction	120 280	69 864
Professional, scientific and technical activities	56 838	49 818
Transportation and storage	17 274	38 263
Agriculture, forestry and fishing	18 402	23 757
Other sectors	20 664	18 547
Individuals	374 071	385 859
Carrying amount	**1 633 212**	**1 996 700**

Forborne exposures by geographical structure

	31.12.2019	31.12.2018
Poland	1 632 186	1 995 731
Other countries	1 026	969
Carrying amount	**1 633 212**	**1 996 700**

(in PLN thousand)

CHF loans to individuals

Since 2003 Bank Pekao S.A. has not granted CHF loans for individuals. Almost the entire current portfolio of CHF loans for individuals has been taken over by the Bank in the process of division by a spin-off of Bank BPH S.A. (loans granted before August 2006).

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:	**192 721**	**2 595 740**	**38 245**	**175 961**	**752**	**3 003 419**
denominated in CHF	192 721	2 586 325	38 245	175 150	752	2 993 193
indexed to CHF	-	9 415	-	811	-	10 226
Impairment allowances, of which: (*)	**(194)**	**(57 680)**	**(21 617)**	**(82 240)**	**(303)**	**(162 034)**
denominated in CHF	(194)	(57 623)	(21 617)	(81 932)	(303)	(161 669)
indexed to CHF	-	(57)	-	(308)	-	(365)
Carrying amount, of which:	**192 527**	**2 538 060**	**16 628**	**93 721**	**449**	**2 841 385**
denominated in CHF	192 527	2 528 702	16 628	93 218	449	2 831 524
indexed to CHF	-	9 358	-	503	-	9 861

(*) Including the provision for legal risk regarding foreign currency mortgage loans in the amount of PLN 36 265 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:	**212 732**	**2 861 362**	**53 780**	**162 975**	**742**	**3 291 591**
denominated in CHF	212 732	2 847 160	53 780	161 856	742	3 276 270
indexed to CHF	-	14 202	-	1 119	-	15 321
Impairment allowances, of which:	**(218)**	**(31 655)**	**(19 054)**	**(81 343)**	**(292)**	**(132 562)**
denominated in CHF	(218)	(31 613)	(19 054)	(80 950)	(292)	(132 127)
indexed to CHF	-	(42)	-	(393)	-	(435)
Carrying amount, of which:	**212 514**	**2 829 707**	**34 726**	**81 632**	**450**	**3 159 029**
denominated in CHF	212 514	2 815 547	34 726	80 906	450	3 144 143
indexed to CHF	-	14 160	-	726	-	14 886

As of 31 December 2019 the average LTV for CHF loans to individuals granted by the Group amounted to 39.9% (44.9% as at 31 December 2018), with an average LTV for the whole portfolio of mortgage loans of 57.9% (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.

Notes to financial statements (cont.)

(in PLN thousand)

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 Group estimated the provision for the above legal risk related to foreign currency mortgage loan agreements in CHF in the total amount of PLN 58.7 million.

The above amount of the provision includes the following elements:

1. PLN 36.3 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 22.4 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 195 were pending against the Group regarding foreign currency mortgage loans in CHF, which were granted in previous years with a total amount in dispute of PLN 59 million (as at 31 December 2018 the number of cases was 90, corresponding to the total amount in dispute of PLN 32 million). In relation to the above lawsuits, the Group estimated the provision in the total amount of PLN 19.9 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 Group estimated the portfolio provision in the total amount of PLN 38.8 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 Group with the involvement of an external legal company) and concerned mainly the determination of the following elements:

a) estimating of the value of the portfolio, where in the future lawsuits will be brought by customers regarding the questioning of the loan agreement,
b) estimating of the probability of losing the abovementioned future court cases,
c) 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 agrement 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 Group to adopt many expert assumptions that are subject to significant uncertainty.

The Group 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%	(7.8)
	-20%	(7.8)
Time horizon	4 years	8.2
	2 years	(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 16.1 million.

The Group 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.

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 Group 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.

Notes to the financial statements (cont.)

(in PLN thousand)

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	2 405 890	(1 843 533)	(310 017)	252 340
TOTAL	**2 405 890**	**(1 843 533)**	**(310 017)**	**252 340**

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	2 583 243	(1 876 385)	(613 100)	93 758
TOTAL	**2 583 243**	**(1 876 385)**	**(613 100)**	**93 758**

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	1 703 422	(1 358 792)	(163 164)	181 466
TOTAL	**1 703 422**	**(1 358 792)**	**(163 164)**	**181 466**

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	2 772 953	(1 827 670)	(837 802)	107 481
TOTAL	**2 772 953**	**(1 827 670)**	**(837 802)**	**107 481**

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.

(in PLN thousand)

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	2 028 682	Derivative financial instruments (held for trading)	2 079 529	50 847	25
	377 208	Hedging instruments	377 208	-	28
FINANCIAL LIABILITIES					
Derivatives	1 968 478	Derivative financial instruments (held for trading)	2 034 113	65 635	25
	614 765	Hedging instruments	614 765	-	28

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	1 389 857	Derivative financial instruments (held for trading)	1 451 662	61 805	25
	313 565	Hedging instruments	313 565	-	28
FINANCIAL LIABILITIES					
Derivatives	1 867 897	Derivative financial instruments (held for trading)	1 913 046	45 149	25
	905 056	Hedging instruments	905 056	-	28

6.3 Market risk

The Group 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 Group resulting from market changes. The main factors of market risk are as follows:

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

The Group 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 Group 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.

Notes to the financial statements (cont.)

(in PLN thousand)

Market risk of the trading book

The Group'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 table below presents the market risk exposure of the trading portfolio of the Group 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	1 098	880	1 450	2 623

	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	1 140	526	1 081	2 362

Interest rate risk of the banking book

In managing the interest rate risk of the banking book the Group aims at hedging the economic value of capital and achieving the planned interest result within the accepted limits. The financial position of the Group 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)	(8.64)
EVE	(3.04) (*)	(0.95)

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

(in PLN thousand)

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 Group's foreign currency risk profile measured by Value at Risk and currency position.

VALUE AT RISK	31.12.2019	31.12.2018
Currencies total (*)	117	63

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

Currency exposure

31.12.2019	BALANCE SHEET OPERATIONS		OFF-BALANCE SHEET OPERATIONS DERIVETIVES		NET POSITION
	ASSETS	LIABILITIES	LONG POSITION	SHORT POSITION	
EUR	25 522 777	21 461 513	14 617 411	18 597 989	80 686
USD	5 112 512	8 432 086	12 359 267	9 006 351	33 342
CHF	3 073 660	608 801	1 462 323	3 928 880	(1 698)
GBP	446 240	969 983	748 318	224 240	335
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	157 179	184 644	378 101	349 701	935
TOTAL	**34 829 620**	**31 942 866**	**29 947 580**	**32 720 521**	**113 813**

31.12.2018	BALANCE SHEET OPERATIONS		OFF-BALANCE SHEET OPERATIONS DERIVETIVES		NET POSITION
	ASSETS	LIABILITIES	LONG POSITION	SHORT POSITION	
EUR	24 632 826	20 844 996	10 064 928	13 837 183	15 575
USD	5 489 616	8 284 208	11 109 318	8 301 417	13 309
CHF	3 416 822	575 102	2 966 698	5 813 214	(4 796)
GBP	275 460	975 366	827 920	126 347	1 667
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	89 258	45 553	9 862	53 484	83
Other currencies	95 077	174 994	183 285	99 929	3 439
TOTAL	**34 265 793**	**31 207 893**	**25 842 902**	**28 871 670**	**29 132**

6.4 Liquidity risk

The objective of liquidity risk management is to:

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

The Group 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 for risk management and independent audit

Managing the Group'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 Group 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 Management of the Bank and subsidiaries. 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 Group's liquidity monitoring process. Within the scope of these analyses the Group's liquidity is assessed under the conditions of crisis which is caused by financial markets or is caused by internal factors, specific to the Group.

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

Below are presented basic quantitative information concerning the Group'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 (**) (***)	1 415 554	108 652	681 721	3 859 602	603 447	6 668 976
Amounts due to customers (***)	123 172 156	12 311 942	20 923 266	553 333	946 193	157 906 890
Lease liabilities	12 654	15 350	65 324	205 049	370 895	669 272
Debt securities issued	947 507	1 855 445	2 107 611	1 134 305	171 918	6 216 786
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	**125 621 986**	**14 291 389**	**23 872 076**	**6 116 352**	**5 270 530**	**175 172 333**
OFF-BALANCE SHEET COMMITMENTS (*)						
Off-balance sheet commitments Financial liabilities granted	36 713 927	-	-	-	-	36 713 927
Off-balance sheet commitments Guarantees liabilities granted	12 638 960	-	-	-	-	12 638 960
Total	**49 352 887**	**-**	**-**	**-**	**-**	**49 352 887**

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 (**) (***)	1 570 449	73 595	760 790	2 823 741	469 919	5 698 494
Amounts due to customers (***)	116 699 233	11 421 810	20 661 983	523 031	596 809	149 902 866
Lease liabilities	-	-	-	-	7 142	7 142
Debt securities issued	377 147	1 042 779	1 730 684	1 868 403	258 681	5 277 694
Subordinated liabilities	-	-	67 102	294 264	2 429 522	2 790 888
Financial liabilities held for trading	-	-	-	57 421	45 008	102 429
Total	**118 646 829**	**12 538 184**	**23 220 559**	**5 566 860**	**3 807 081**	**163 779 513**
OFF-BALANCE SHEET COMMITMENTS (*)						
Off-balance sheet commitments Financial liabilities granted	32 954 143	-	-	-	-	32 954 143
Off-balance sheet commitments Guarantees liabilities granted	12 614 778	-	-	-	-	12 614 778
Total	**45 568 921**	**-**	**-**	**-**	**-**	**45 568 921**

(*) 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 Group is possible based on contracts entered into by the Group. However, outflows expected by the Group 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 Group on continuous basis. The Group 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 maturities, 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 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	39 979 611	7 183 432	27 270 488	67 711 772	61 177 616	203 322 919
Balance sheet liabilities	11 597 534	9 637 749	22 276 041	19 569 624	140 241 971	203 322 919
Off-balance sheet assets/liabilities (net)	(6 184 210)	(1 154 062)	1 039 085	2 976 635	3 008 982	(313 570)
Periodic gap	**22 197 867**	**(3 608 379)**	**6 033 532**	**51 118 783**	**(76 055 373)**	**(313 570)**
Cumulated gap	**-**	**18 589 488**	**24 623 020**	**75 741 803**	**(313 570)**	**-**

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	40 715 921	5 075 145	27 701 793	58 785 842	58 811 104	191 089 805
Balance sheet liabilities	15 151 534	6 926 374	21 669 415	19 301 852	128 040 630	191 089 805
Off-balance sheet assets/liabilities (net)	(5 208 969)	(726 064)	(289 272)	2 794 211	2 768 679	(661 415)
Periodic gap	**20 355 418**	**(2 577 293)**	**5 743 106**	**42 278 201**	**(66 460 847)**	**(661 415)**
Cumulated gap	**-**	**17 778 125**	**23 521 231**	**65 799 432**	**(661 415)**	**-**

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 Group in net amounts include:

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

Off-balance sheet derivative transactions settled by the Group 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	978 232	593 030	**1 916 028**
31.12.2018	93 469	49 950	566 715	783 578	402 470	**1 896 182**

(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	20 497 021	6 329 541	14 466 176	10 015 196	1 501 027	**52 808 961**
Outflows	20 533 834	6 312 447	14 469 199	10 106 968	1 707 454	**53 129 902**
31.12.2018						
Inflows	23 455 395	5 399 366	9 380 505	5 504 825	2 237 288	**45 977 379**
Outflows	24 236 650	5 401 374	9 801 035	5 567 894	2 422 687	**47 429 640**

6.5 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 Group. 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 Group'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 Group'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 Group 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,

(in PLN thousand)

- 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,
- 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	67.85%	55.21%
Execution, delivery and process management	19.61%	18.10%
Employment practices and workplace safety	6.49%	15.57%
Damages to physical assets	3.45%	7.04%
External frauds	1.96%	2.83%
Internal frauds	0.49%	0.96%
Business disruption and system failures	0.15%	0.29%
Total	**100.00%**	**100.00%**

6.6 Capital management

The capital management process applied by the Group 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 Group funds.

The Group has put in place a formalized process of capital management and monitoring, established within the scope of Internal Capital Adequacy Assessment Process - ICAAP process. 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 Group'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 Group 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.

Notes to the financial statements (cont.)

(in PLN thousand)

The capital adequacy of the Group 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 Group. 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.

The Group 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 of the European Parliament and of the Council (EU) No 575/2013 of June 26, 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012, together with further amendments, in particular Regulation (EU) 2019/876 of the European Parliament and of the Council of 20 May 2019 amending Regulation (EU) No 575/2013 as regards the leverage ratio, the net stable funding ratio, requirements for own funds and eligible liabilities, counterparty credit risk, market risk, exposures to central counterparties, exposures to collective investment undertakings, large exposures, reporting and disclosure requirements, as well as Commission Implementing Regulations or Delegated Regulations (EU) (CRR Regulation).

According to law, Group is required to maintain minimal values of capital ratios resulting from Pillar 1 level (Regulation 575/2013), capital requirement of Pillar 2 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 I capital ratio (CET 1) in amount of 4.5%.

Capital requirement of Pillar 2 for Pekao Group, results from individual requirement imposed on Pekao Bank Hipoteczny S.A., by KNF, amounts to 0.01% for TCR.

Combined buffer requirement, as at 31 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 0.0086%),
- Other systemically important institution buffer in amount of 0.75%,
- Systemic risk buffer in amount of 2.90% (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, Group is required to maintain:

- Total capital ratio (TCR) in amount of 14.17%,
- Capital ratio Tier 1 (T1) in amount of 12.16%,
- Common Equity Tier (CET 1) in amount of 10.66%.

Notes to the financial statements (cont.)

(in PLN thousand)

As at 31 December 2019 total capital ratio of the Group amounted at 17.1% (as at 31 December 2018 – 17.4%).

	31.12.2019	31.12.2018
CAPITAL REQUIREMENTS		
Credit and counterparty risk including CVA and the risk related to the contribution to the central counterparty fund in the event of default	10 226 991	9 386 890
Market risk	87 596	63 294
Operational risk	527 844	564 145
Total capital requirement	**10 842 431**	**10 014 329**
OWN FUNDS		
Common Equity Tier 1 capital	20 387 099	19 796 894
Capital Tier 1	2 750 000	2 000 000
Own funds for total capital ratio	**23 137 099**	**21 796 894**
OWN FUNDS REQUIREMENTS		
Common Equity Tier 1 capital ratio (%)	**15.0%**	**15.8%**
Total capital ratio (%)	**17.1%**	**17.4%**

Total capital ratio at the end of 2019 compared with the end of 2018 decreased by 0.3 p.p.

Total capital requirement increased by 8.3%, mainly due to higher credit risk capital requirement resulting mainly from increase in loan volumes.

As at 31 December 2019 Common Equity Tier 1 Capital was higer by 3.0% as compared to 31 December 2018 due to retention of 25% of Bank’s net profit for year 2018. Increase in own funds for total capital ratio calculation by 6.1% resulted from 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 Group 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 in case of Bank (however, at a level not lower than 50% of the capital requirement calculated using the Standardised Approach and Standardised Approach for Bank’s subsidiaries.

(in PLN thousand)

Own funds

The Group 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 Group's own funds consist of Common Equity Tier 1 capital and Tier 2 capital. Additional Tier 2 capital are not identified in the Group.

	31.12.2019	31.12.2018
OWN FUNDS		
Capital	**23 398 026**	**22 808 217**
Different scope of consolidation	**(10 976)**	**(10 967)**
Component of the capital not included into own funds, in which:	**(2 073 651)**	**(2 275 824)**
Current year net profit	(2 165 039)	(2 275 824)
Current year net profit included in own funds after KNF approval	91 388	-
Regulatory adjustments, in which:	**(926 301)**	**(724 532)**
Intangible assets	(1 554 367)	(1 458 563)
Capital from revaluation	(102 678)	(41 747)
Deferred tax assets that rely on future profitability	(10 739)	(23 183)
Adjustments mitigating impact of IFRS 9 introduction in transitional period	792 732	851 126
Additional value adjustments due to prudent calculation	(39 510)	(40 674)
Minority interests	(11 739)	(11 491)
Common Equity Tier 1 capital	**20 387 098**	**19 796 894**
Tier 2 capital	**2 750 000**	**2 000 000**
Own funds for total capital ratio	**23 137 098**	**21 796 894**

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 of December 2019, the amount of 91 388 thousand PLN from the prudently consolidated net profit of the Group for the first half of 2019 was included in 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,
- deferred tax assets that rely on future profitability and do not arise from temporary differences, decrease Common Equity Tier 1 capital according to Article 36 of Regulation 575/2013.

Internal capital adequacy assessment

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

The Group 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 Group develops and applies adequate risk assessment and measurement methods. The Group 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 Group’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 Group 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 Group. Next, economic capital figures for individual risks are aggregated. Then, the 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 Group.

6.7 Fair value of financial assets and liabilities

Financial instruments that are measured at fair value in the consolidated statement of financial position of the Group

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).

Notes to the financial statements (cont.)

(in PLN thousand)

As of 31 December 2019 and 31 December 2018, the Group 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.

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:	**15 586 725**	**12 388 299**	**8 701 073**	**36 676 097**
Financial assets held for trading	1 127 955	145 674	8 035	1 281 664
Derivative financial instruments, including:	14	2 076 473	3 042	2 079 529
Banks	-	777 322	3 042	780 364
Customers	14	1 299 151	-	1 299 165
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	14 458 756	9 768 279	6 941 296	31 168 331
Securities measured at fair value through profit or loss	-	20 665	125 454	146 119
Loans and advances to customers measured at fair value through other comprehensive income	-	-	1 380 607	1 380 607
Loans and advances to customers measured at fair value through profit or loss	-	-	242 639	242 639
Liabilities:	**184 799**	**2 648 878**	**-**	**2 833 677**
Financial liabilities held for trading	184 799	-	-	184 799
Derivative financial instruments, including:	-	2 034 113	-	2 034 113
Banks	-	707 435	-	707 435
Customers	-	1 326 678	-	1 326 678
Hedging instruments, including:	-	614 765	-	614 765
Banks	-	566 163	-	566 163
Customers	-	48 602	-	48 602

Notes to the financial statements (cont.)

(in PLN thousand)

31.12.2018	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Assets:	**12 629 955**	**10 024 499**	**9 018 313**	**31 672 767**
Financial assets held for trading	639 815	96 787	26 110	762 712
Derivative financial instruments, including:	1	1 450 431	1 230	1 451 662
Banks	-	773 121	1 230	774 351
Customers	1	677 310	-	677 311
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	11 990 139	8 163 716	7 111 833	27 265 688
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	-	-	1 511 102	1 511 102
Loans and advances to customers measured at fair value through profit or loss	-	-	302 630	302 630
Liabilities:	**102 429**	**2 818 102**	**-**	**2 920 531**
Financial liabilities held for trading	102 429	-	-	102 429
Derivative financial instruments, including:	-	1 913 046	-	1 913 046
Banks	-	681 122	-	681 122
Customers	-	1 231 924	-	1 231 924
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 Group

2019	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	**26 110**	**1 230**	**1 511 102**	**302 630**	**65 408**	**7 111 833**
Increases, including:	559 472	3 032	212 096	-	60 046	1 770 090
Reclassification	-	1 486	-	-	-	544 884
Transactions made in 2019	-	-	-	-	-	-
Acquisition/Granting	558 474	-	166 522	-	-	997 151
Settlement/Redemption	-	363	-	-	-	-
Gains on financial instruments	998	1 183	45 574	-	60 046	228 055
recognized in the income statement	998	1 183	29 189	-	60 046	181 129
recognized in revaluation reserves	-	-	16 385	-	-	46 926
Decreases, including:	(577 547)	(1 220)	(342 591)	(59 991)	-	(1 940 627)
Reclassification	-	-	-		-	(83 209)
Settlement/Redemption	(101 455)	-	(50 451)	(58 649)	-	(366 689)
Sale/Repayment	(476 089)	-	(292 140)		-	(1 474 887)
Losses on financial instruments	(3)	(1 220)	-	(1 342)	-	(15 842)
recognized in the income statement	(3)	(1 220)	-	(1 342)	-	(16)
recognized in revaluation reserves	-	-	-	-	-	(15 826)
Closing balance	**8 035**	**3 042**	**1 380 607**	**242 639**	**125 454**	**6 941 296**
Unrealized income from financial instruments held in portfolio at the end of the period, recognized in:	**20**	**1 183**	**7 510**	**(3 393)**	**-**	**66 673**
Income statement:	20	1 183	(7 422)	(3 393)	-	32 556
net interest income	13	-	762	138	-	35 907
net impairment losses on financial assets and off-balance sheet commitments	-	-	(8 184)		-	(3 351)
result on financial assets and liabilities held for trading	7	1 183	-	(3 531)	-	-
Other comprehensive income	-	-	14 932	-	-	34 117

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 Group

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**	**-**	**-**	**-**	**735 442**
Initial application of IFRS 9	-	-	1 555 964	365 137	52 339	4 336 613
Opening balance - restated	**14 211**	**1 218**	**1 555 964**	**365 137**	**52 339**	**5 072 055**
Increases, including:	672 824	12	468 833	8 976	13 069	3 094 204
Reclassification	392	-	-	-	-	10 869
Transactions made in 2018	-	-	-	2 745	-	-
Acquisition/Granting	671 700	-	408 521	-	-	3 034 342
Gains on financial instruments	732	12	60 312	6 231	13 069	48 993
recognized in the income statement	732	12	28 805	6 231	13 069	48 993
recognized in revaluation reserves	-	-	31 507	-	-	-
Decreases, including:	(660 925)	-	(513 695)	(71 483)	-	(1 054 426)
Reclassification	(14 211)	-	-	-	-	(124 277)
Settlement/Redemption	(680)	-	(26 217)	(71 483)	-	(45 018)
Sale/Repayment	(646 020)	-	(487 478)	-	-	(825 745)
Losses on financial instruments	(14)	-	-	-	-	(59 386)
recognized in the income statement	(14)	-	-	-	-	-
recognized in revaluation reserves	-	-	-	-	-	(59 386)
Closing balance	**26 110**	**1 230**	**1 511 102**	**302 630**	**65 408**	**7 111 833**
Unrealized income from financial instruments held in portfolio at the end of the period, recognized in:	**29**	**12**	**57 554**	**6 095**	**-**	**28 486**
Income statement:	29	12	25 179	6 095	-	40 133
net interest income	40	-	24 008	2 287	-	40 133
net impairment losses on financial assets and off-balance sheet commitments	-	-	1 171	-	-	-
result on financial assets and liabilities held for trading	(11)	12	-	3 808	-	-
Other comprehensive income	-	-	32 375	-	-	(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	6 754 229	Discounted cash flow	Credit spread	0.37%-0.95%	65 792	(81 032)
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	1 380 607	Discounted cash flow	Credit spread	2.64%-3.36%	13 671	(13 473)

FINANCIAL ASSET	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)

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	6 948 563	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	1 511 102	Discounted cash flow	Credit spread	2.07%-2.75%	11 524	(8 854)

Notes to the financial statements (cont.)

(In PLN thousand)

FINANCIAL ASSET	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 consolidated statement of financial position of the Group

The Group 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 Group classified the financial assets and liabilities not measured at fair value in the consolidated 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 groups and maturity. In case of short term deposits (current deposits, overnights, saving accounts), the fair value was assumed as equal to the carrying amount.

(In PLN thousand)

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.

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	5 162 682	5 162 069	3 036 372	2 125 697	-
Loans and advance to banks	1 791 436	1 791 459	-	744 569	1 046 890
Loans and advances to customers measured at amortised cost	132 577 167	133 916 679	-	502 344	133 414 335
Receivables from financial leases	6 712 939	6 737 380	-	-	6 737 380
Debt securities measured at amortised cost	14 578 665	14 906 622	9 123 131	1 068 286	4 715 205
Total Assets	**160 822 889**	**162 514 209**	**12 159 503**	**4 440 896**	**145 913 810**
Liabilities					
Amounts due to Central Bank	4 550	4 602	-	-	4 602
Amounts due to other banks	6 539 539	6 559 562	-	678 799	5 880 763
Amounts due to customers	157 989 734	158 224 937	-	379 787	157 845 150
Debt securities issued	6 307 837	6 314 855	-	6 314 855	-
Subordinated liabilities	2 764 493	2 766 289	-	2 766 289	-
Total Liabilities	**173 606 153**	**173 870 245**	**-**	**10 139 730**	**163 730 515**

31.12.2018	CARRYING AMOUNT	FAIR VALUE	OF WHICH:		
			LEVEL 1	LEVEL 2	LEVEL 3
Assets					
Cash and due from Central Bank	13 026 584	13 024 030	3 182 875	9 841 155	-
Loans and advance to banks	2 268 422	2 267 651	-	1 244 964	1 022 687
Loans and advances to customers measured at amortised cost	122 156 323	122 627 126	-	-	122 627 126
Receivables from financial leases	5 326 667	5 425 500	-	-	5 425 500
Debt securities measured at amortised cost	11 255 899	11 351 480	5 262 781	1 188 734	4 899 965
Total Assets	**154 033 895**	**154 695 787**	**8 445 656**	**12 274 853**	**133 975 278**
Liabilities					
Amounts due to Central Bank	5 067	5 070	-	-	5 070
Amounts due to other banks	5 615 631	5 637 204	-	278 288	5 358 916
Amounts due to customers	149 491 059	149 509 499	-	347 902	149 161 597
Debt securities issued	5 230 814	5 318 902	-	5 318 902	-
Subordinated liabilities	2 012 485	2 013 376	-	2 013 376	-
Total Liabilities	**162 355 056**	**162 484 051**	**-**	**7 958 468**	**154 525 583**

7. 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. In addition, in 2019, the Bank began providing services as an issue agent.

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).

8. 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.

(In PLN thousand)

Pekao Investment Banking S.A.

Pekao Investment Banking S.A. operates as a brokerage house supervised by the Financial Supervision Commission, focusing on the service of institutional and corporate clients. Pekao Investment Banking S.A. is also supervised to a limited extent by the supervisory authorities in the EU-countries in which the operations of Pekao Investment Banking S.A. have been passported. The scope of services provided by comprises in particular the acceptance and transfer of orders for the purchase or sale of financial instruments, the execution of these orders on the account of the person or entity placing the order, the offering of financial instruments, advisory services for enterprises on capital structure, corporate strategy or other matters related to such structure or strategy as well as advisory services and other services relating to mergers, spin-offs and acquisitions of companies, underwriting and similar services and research activity.

Pekao Investment Banking S.A. also performs the function of market maker both on the capital market and on the derivatives market, and in this role is one of the most active market makers.

Pekao Investment Banking S.A. is a member of the Warsaw Stock Exchange S.A. (GPW), a member of BondSpot S.A and a direct participant in the National Depository of Securities S.A. (KDPW).

Dom Inwestycyjny Xelion Sp. z o.o.

The company conducts brokerage activities on the basis of a permit issued by the Polish Financial Supervision Authority from March 2012. On 30 June 2019, the company terminated its provision of services to clients in the scope of order processing services and keeping securities accounts. At 31 December 2019, the Company provided brokerage services in the areas of:

- acceptance and transfer of orders for purchase or sale of financial instruments,
- keeping cash accounts (used for making settlements in connection with financial instruments purchased or sold through DI Xelion),
- investment advisory,
- preparing of investment analysis, financial analysis and general recommendations on transactions in financial instruments,
- offering financial instruments.

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	3 313 008 312	31 425 948	3 609 113 519	33 265 033
Equity securities and rights to such financial assets	3 283 626 824	29 320 150	3 509 654 903	30 950 495
Debt instruments and rights to such financial assets	29 381 488	2 105 798	99 458 616	2 314 538
Stored in a form of document	695 744 441	5 673 161	2 627 668 166	6 264 162
Equity securities and rights to such financial assets	695 744 441	5 673 161	2 627 668 166	6 264 162
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	953 833	1 088 795
Other customers' cash	15 346	10 426
Total	**969 179**	**1 099 221**

(In PLN thousand)

Settlements due to unsettled transactions

	31.12.2019	31.12.2018
Receivables from executed transactions	-	20 002
Liabilities from executed transactions	4 589	13 066

Settlements with 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	3 020	23 674
Receivables from margin deposits	32 645	29 970
Other receivables	36	1 409
Total receivables	**35 701**	**55 053**
Amounts due on margin deposits	893	1 831
Other liabilities	81	274
Total liabilities	**974**	**2 105**

Settlement with entities running regulated securities markets and commodity exchanges

	31.12.2019	31.12.2018
Amounts due to Warsaw Stock Exchange S.A.	82	417
Total liabilities	**82**	**417**

9. Operating segments

Data reported in the section stem from the application of the management model (‘Model’) in which the main criterion for segmentation is the classification of customers based on their profile and service model.

Reporting and monitoring of results, for managerial purposes, include all components of the income statement up to the gross profit level. Therefore, the income from the segment’s activities as well as operating costs related to those activities (including direct and allocated costs in line with the allocation model applied) and other components of income statement are attached to each segment.

The Group settles transactions between segments on an arm’s length basis by applying current market prices. Fund transfers between retail, private, corporate and investment banking segments, and the assets and liabilities management and other area are based on market prices applicable to the funds’ currency and maturity, including liquidity margins.

Operating segments

The operating segments of the Group are as follows:

- Retail banking – all banking activities related to retail customers (including private banking customers) and micro companies with annual turnover not exceeding PLN 5 million, as well as results of the subsidiaries, and shares in net profit of associates accounted for using the equity method, that are assigned to the retail banking activity,
- SME banking - all banking activities related to the companies with annual turnover from PLN 5 million to PLN 40 million and below 5 million in the case of companies conducting full accounting,
- Corporate and Investment banking – all banking activities related to the medium and large companies and results of the subsidiaries that are assigned to the Corporate and Investment banking activity,
- Assets and Liabilities management and other – supervision and monitoring of fund transfers, interbank market, debt securities and other instruments, other activities centrally managed as well as the results of subsidiaries and share in net profit of associates accounted for using the equity method that are not assigned to other reported segments.

Notes to the financial statements (cont.)

(In PLN thousand)

Operating segments reporting for the period from 1 January to 31 December 2019

	RETAIL BANKING	CORPORATE AND INVESTMENT BANKING	SME BANKING	ASSETS AND LIABILITIES MANAGEMENT AND OTHER	TOTAL
External interest income	3 476 799	2 181 757	144 161	890 197	6 692 914
External interest expenses	(596 365)	(479 986)	(41 297)	(107 220)	(1 224 868)
Net external interest income	**2 880 434**	**1 701 771**	**102 864**	**782 977**	**5 468 046**
Internal interest income	2 007 261	870 103	161 455	(3 038 819)	-
Internal interest expenses	(1 762 195)	(1 351 739)	(71 228)	3 185 162	-
Net internal interest income	**245 066**	**(481 636)**	**90 227**	**146 343**	**-**
Total net interest income	**3 125 500**	**1 220 135**	**193 091**	**929 320**	**5 468 046**
Non-interest income	**1 485 011**	**971 704**	**295 832**	**115 271**	**2 867 818**
Operating income	**4 610 511**	**2 191 839**	**488 923**	**1 044 591**	**8 335 864**
Personnel expenses	(1 013 203)	(280 366)	(91 021)	(693 106)	(2 077 696)
Other administrative expenses	(1 374 790)	(390 108)	(133 290)	943 028	(955 160)
Depreciation and amortisation	(175 541)	(29 594)	(4 618)	(294 464)	(504 217)
Operating costs	**(2 563 534)**	**(700 068)**	**(228 929)**	**(44 542)**	**(3 537 073)**
Gross operating profit	**2 046 977**	**1 491 771**	**259 994**	**1 000 049**	**4 798 791**
Net impairment losses on financial assets and off-balance sheet commitments	(440 366)	(292 205)	(8 721)	45 254	(696 038)
Net operating profit	**1 606 611**	**1 199 566**	**251 273**	**1 045 303**	**4 102 753**
Net result on other provisions	(56 663)	(635)	-	(14 044)	(71 342)
Guarantee funds charges	(298 067)	(249 198)	(14 193)	106 732	(454 726)
Tax on certain financial institutions	-	-	-	(591 403)	(591 403)
Net result on investment activities	(369)	380	-	17 196	17 207
Profit before tax	**1 251 512**	**950 113**	**237 080**	**563 784**	**3 002 489**
Income tax expense					(835 872)
Net profit for the period					**2 166 617**
Attributable to equity holders of the Bank					**2 165 047**
Attributable to non-controling interests					1 570
Allocated assets	77 294 826	73 298 860	3 546 802	38 316 964	192 457 452
Unallocated assets					10 865 467
Total assets					**203 322 919**
Allocated liabilities	100 118 450	55 550 597	11 262 938	3 646 376	170 578 361
Unallocated liabilities					9 346 532
Total liabilities					**179 924 893**

Notes to the financial statements (cont.)

(In PLN thousand)

Operating segments reporting for the period from 1 January to 31 December 2018

	RETAIL BANKING	CORPORATE AND INVESTMENT BANKING	SME BANKING	ASSETS AND LIABILITIES MANAGEMENT AND OTHER	TOTAL
External interest income	3 103 074	1 982 272	141 659	895 333	6 122 338
External interest expenses	(541 123)	(478 998)	(42 610)	(65 641)	(1 128 372)
Net external interest income	**2 561 951**	**1 503 274**	**99 049**	**829 692**	**4 993 966**
Internal interest income	1 755 982	847 459	152 544	(2 755 985)	-
Internal interest expenses	(1 582 893)	(1 292 335)	(68 852)	2 944 080	-
Net internal interest income	**173 089**	**(444 876)**	**83 692**	**188 095**	**-**
Total net interest income	**2 735 040**	**1 058 398**	**182 741**	**1 017 787**	**4 993 966**
Non-interest income	**1 454 341**	**902 267**	**260 814**	**145 678**	**2 763 100**
Operating income	**4 189 381**	**1 960 665**	**443 555**	**1 163 465**	**7 757 066**
Personnel expenses	(1 163 586)	(276 285)	(84 124)	(512 587)	(2 036 582)
Other administrative expenses	(1 223 594)	(371 021)	(124 789)	683 755	(1 035 649)
Depreciation and amortisation	(170 398)	(25 073)	(4 549)	(171 401)	(371 421)
Operating costs	**(2 557 578)**	**(672 379)**	**(213 462)**	**(233)**	**(3 443 652)**
Gross operating profit	**1 631 803**	**1 288 286**	**230 093**	**1 163 232**	**4 313 414**
Net impairment losses on financial assets and off-balance sheet commitments	(313 366)	(213 751)	(31 913)	48 005	(511 025)
Net operating profit	**1 318 437**	**1 074 535**	**198 180**	**1 211 237**	**3 802 389**
Net result on other provisions	(1 632)	(421)	-	(11 905)	(13 958)
Guarantee funds charges	(168 366)	(149 100)	(8 437)	59 711	(266 192)
Tax on certain financial institutions	-	-	-	(561 992)	(561 992)
Net result on investment activities	254	254	-	86 589	87 097
Profit before tax	**1 148 693**	**925 268**	**189 743**	**783 640**	**3 047 344**
Income tax expense					(759 534)
Net profit for the period					**2 287 810**
Attributable to equity holders of the Bank					**2 287 160**
Attributable to non-controling interests					650
Allocated assets	72 695 522	66 709 246	3 311 523	37 831 915	180 548 206
Unallocated assets					10 541 599
Total assets					**191 089 805**
Allocated liabilities	93 474 754	56 142 646	11 270 442	2 355 472	163 243 314
Unallocated liabilities					5 038 274
Total liabilities					**168 281 588**

Notes to the financial statements (cont.)

(In PLN thousand)

Reconciliations of operating income for reportable segments

	2019	2018
Net interest income	5 468 046	4 993 966
Net fee and commission income	2 533 664	2 462 584
Dividend income	22 407	20 186
Result on financial assets and liabilities measured at fair value through profit or loss	143 871	74 420
Result on fair value hedge accounting	(1 666)	723
Profit (loss) from derecognition of financial assets and financial liabilities not at fair value through profit or loss	71 901	141 671
Operating income	**8 238 223**	**7 693 550**
Net other operating income and expenses	97 641	63 516
Total operating income for reportable segments	**8 335 864**	**7 757 066**

10. Interest income and expense

Interest income

	2019			
	FINANCIAL ASSETS MEASURED AT AMORTISED COST	FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	TOTAL
Loans and other receivables from customers	5 361 339	35 611	6 317	5 403 267
Interbank placements	46 204	-	-	46 204
Reverse repo transactions	39 129	-	-	39 129
Investment securities	346 214	606 568	-	952 782
Hedging derivatives	-	-	235 250	235 250
Financial assets held for trading	-	-	16 282	16 282
Total	**5 792 886**	**642 179**	**257 849**	**6 692 914**

	2018			
	FINANCIAL ASSETS MEASURED AT AMORTISED COST	FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	TOTAL
Loans and other receivables from customers	4 878 511	29 554	7 612	4 915 677
Interbank placements	53 077	-	-	53 077
Reverse repo transactions	27 059	-	-	27 059
Investment securities	292 888	667 554	-	960 442
Hedging derivatives	-	-	155 547	155 547
Financial assets held for trading	-	-	10 536	10 536
Total	**5 251 535**	**697 108**	**173 695**	**6 122 338**

Notes to the financial statements (cont.)

(In PLN thousand)

Interest expense

	2019	2018
Deposits from customers	(917 285)	(931 162)
Interbank deposits	(20 484)	(15 448)
Repo transactions	(40 310)	(34 782)
Loans and advances received	(31 937)	(9 324)
Leasing	(13 388)	(1 497)
Debt securities issued	(201 464)	(136 159)
Total	**(1 224 868)**	**(1 128 372)**

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

11. Fee and commission income and expense

Fee and commission income

	2019	2018
Accounts maintenance, payment orders and cash transactions	634 828	621 181
Payment cards	610 495	596 898
Loans and advances	433 970	390 207
Margin on foreign exchange transactions with clients	491 758	461 308
Service and sell investment, insurance and retirement products	521 987	540 461
Securities operations	55 722	77 185
Custody activity	51 157	56 558
Guarantees, letters of credit and similar transactions	62 729	63 024
Other	49 806	37 295
Total	**2 912 452**	**2 844 117**

Fee and commission expense

	2019	2018
Payment cards	(264 275)	(269 052)
Money orders and transfers	(23 343)	(21 364)
Securities and derivatives operations	(31 290)	(30 742)
Accounts maintenance	(28 944)	(33 395)
Custody activity	(15 996)	(16 125)
Pension and investment funds management charges	(4 817)	(4 721)
Acquisition services	(1 029)	(1 772)
Other	(9 094)	(4 362)
Total	**(378 788)**	**(381 533)**

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.

(In PLN thousand)

12. Dividend income

	2019	2018
Issuers of securities measured at fair value through profit or loss	1 157	545
Issuers of equity instruments designated at fair value through other comprehensive income	21 250	19 641
Total	**22 407**	**20 186**

13. 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	59 746	8 082
Foreign currency exchange result	(30 003)	3 640
Gains (losses) on derivatives	97 179	48 460
Gains (losses) on securities held for trading	20 434	19 104
Total	**143 871**	**74 420**

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

Realized gains

	2019	2018
Financial assets measured at amortised cost	19 472	12 050
Financial assets measured at fair value through other comprehensive income	62 979	129 890
Financial liabilities not measured at fair value through profit or loss	-	1
Total	**82 451**	**141 941**

Realized losses

	2019	2018
Financial assets measured at fair value through other comprehensive income	(9 811)	-
Financial assets measured at fair value through other comprehensive income	(294)	(185)
Financial liabilities not measured at fair value through profit or loss	(445)	(85)
Total	**(10 550)**	**(270)**

Net realized profit	**71 901**	**141 671**

(In PLN thousand)

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

	2019	2018
Loans and other financial assets measured at amortized cost (*) (**)	(583 944)	(474 402)
Debt securities measured at amortized cost	(14 896)	(1 523)
Loans measured at fair value through other comprehensive income	(6 422)	3 569
Debt securities measured at fair value through other comprehensive income	(4 364)	(3 969)
Off-balance sheet commitments	(50 147)	(34 700)
Provision for legal risk regarding foreign currency mortgage loans	(36 265)	-
Total	**(696 038)**	**(511 025)**

(*) Item includes impairment losses on loans and advances to banks and receivables from financial leases.
(**) In 2019 the Group 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 Group sold loans with a total debt of PLN 392.9 million. The realized gross result on the transaction was PLN 37.3 million.

16. Net other operating income and expenses

Other operating income

	2019	2018 RESTATED
Gains on disposal of property, plant and equipment and intangible assets	22 166	97 398
Premises rental income	17 975	20 458
Leasing net income (*)	1 649	12 095
Compensation, recoveries, penalty fees and fines received	23 345	26 539
Miscellaneous income	52 122	11 041
Recovery of debt collection costs	16 212	12 531
Net revenues from sale of products, goods and services	4 200	3 472
Releases of impairment allowances for litigation and other assets	1 057	1 330
Write offs for liabilities disputable and other provisions	4 795	1 143
Other	4 775	3 651
Total	**148 296**	**189 658**

(*) Leasing net income

	2019	2018 RESTATED
Income from operating leases	4 885	1 830
Costs of depreciation of fixed assets provided under operating leases	(3 172)	(600)
Other income from financial lease	(64)	10 865
Total	**1 649**	**12 095**

(In PLN thousand)

Other operating expenses

	2019	2018 RESTATED
Write downs for liabilities disputable and other provisions	(53 696)	(15 101)
Provision for legal risk regarding foreign currency mortgage loans	(22 441)	-
Loss on disposal of property, plant and equipment and intangible assets	(4 959)	(10 301)
Card transactions monitoring costs	(6 857)	(8 624)
Sundry expenses	(5 167)	(7 327)
Credit insurance expenses	(605)	(3 675)
Costs of litigation and claims	(2 887)	(2 502)
Impairment allowance for litigations and other assets	(1 314)	(1 010)
Compensation, penalty fees and fines paid	(533)	(1 136)
Other	(6 331)	(3 327)
Total	**(104 790)**	**(53 003)**

Net other operating income and expenses	**43 506**	**136 655**

17. Administrative expenses

Personnel expenses

	2019	2018
Wages and salaries	(1 749 736)	(1 711 040)
Insurance and other charges related to employees	(314 770)	(307 897)
Share-based payments expenses	(13 190)	(17 645)
Total	**(2 077 696)**	**(2 036 582)**

Other administrative expenses

	2019	2018
General expenses	(896 482)	(977 808)
Taxes and charges	(33 430)	(39 434)
Bank Guarantee Fund fee	(454 726)	(266 192)
Financial supervision authority fee (KNF)	(25 248)	(18 407)
Tax on certain financial institutions	(591 403)	(561 992)
Total	**(2 001 289)**	**(1 863 833)**

Total administrative expenses	**(4 078 985)**	**(3 900 415)**

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.

(In PLN thousand)

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 (PLN 121 856 thousand in 2018) and the costs of annual contribution to resolution fund of banks in the amount of PLN 372 439 thousand (PLN 144 336 thousand in 2018).

18. Depreciation and amortization

	2019	2018
Property, plant and equipment	(298 897)	(177 769)
Investment property	(219)	(541)
Intangible assets	(205 101)	(193 111)
Total	**(504 217)**	**(371 421)**

19. Income Tax

The below additional information notes present the Group gross profit's.

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

	2019	2018
Profit before income tax	**3 002 489**	**3 047 344**
Tax charge according to applicable tax rate	**570 473**	**578 995**
Permanent differences:	**265 399**	**180 539**
Non taxable income	(9 696)	(8 169)
Non tax deductible costs including:	262 061	195 429
Bank Guarantee fund fee	86 398	50 576
Banking tax	112 367	106 778
Other non tax deductible costs	63 296	38 075
Impact of other tax rates applied in accordance with art.19.1.2 of CIT Act	(32)	602
Impact of utilized tax losses	-	-
Tax relieves not included in the income statement	82	40
Other	12 984	(7 363)
Effective income tax charge on gross profit	**835 872**	**759 534**

The applied tax rate of 19% is the 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	**(839 109)**	**(798 732)**
Current tax charge in the income statement	(831 542)	(805 749)
Adjustments related to the current tax from previous years	(7 117)	7 214
Other taxes (e.g. withholding tax)	(450)	(197)
Deferred tax	**3 237**	**39 198**
Occurrence and reversal of temporary differences	3 237	38 198
Tax charge in the consolidated income statement	**(835 872)**	**(759 534)**
EQUITY		
Current tax	**-**	**53**
Deferred tax	**(36 872)**	**(6 102)**
Income and costs disclosed in other comprehensive income:		
revaluation of financial instruments - cash flows hedges	(14 292)	(8 542)
fair value revaluation through other comprehensive income	(24 526)	(3 072)
Tax on items that are or may be reclassified subsequently to profit or loss	**(38 818)**	**(11 614)**
Tax charge on items that will never be reclassified to profit or loss	**1 946**	**5 512**
fair value revaluation through other comprehensive income –equity securities	1 418	5 890
sale of the shares - equity securities	-	(289)
remeasurements the defined benefit liabilities	528	(89)
Total charge	**(872 744)**	**(765 583)**

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	347	347	-	(72)	-	-	-	275	275	-
Accrued income – loans	140 900	140 900	-	(12 264)	-	-	-	128 636	128 636	-
Change in revaluation of financial assets	245 741	180 836	64 905	67 651	37 441	288	(293)	350 828	248 775	102 053
Accelerated depreciation	116 804	116 804	-	(10 681)	-	-	-	106 123	106 123	-
Investment relief	4 539	4 539	-	(115)	-	-	-	4 424	4 424	-
Paid intermediation costs	132 387	132 387	-	27 298	-	-	-	159 685	159 685	-
Other	35 422	35 422	-	(3 113)	-	21	-	32 330	32 330	-
Gross deferred tax liabilities	**676 140**	**611 235**	**64 905**	**68 704**	**37 441**	**309**	**(293)**	**782 301**	**680 248**	**102 053**
DEFFERED TAX ASSET										
Accrued expenses - securities	7 523	7 523	-	81 142	-	-	-	88 665	88 665	-
Accrued expenses - deposits and loans	35 929	35 929	-	639	-	-	-	36 568	36 568	-
Downward revaluation of financial assets	397 708	397 708	-	(85 113)	-	-	-	312 595	312 595	-
Income received to be amortized over time from loans and current accounts	286 623	286 623	-	35 882	-	-	-	322 505	322 505	-
Loan provisions charges	616 125	616 125	-	21 421	-	-	-	637 546	637 546	-
Personnel related provisions	123 484	106 521	16 963	1 216	569	-	-	125 269	107 737	17 532
Accruals	26 639	26 639	-	2 931	-	-	-	29 570	29 570	-
Previous year losses	23 183	23 183	-	(12 444)	-	-	-	10 739	10 739	-
Difference between accounting and tax value of leased assets and other differences from leasing	243 308	243 308	-	26 310	-	-	-	269 618	269 618	-
Other	13 981	13 981	-	(43)	-	-	-	13 938	13 938	-
Gross deferred tax assets	**1 774 503**	**1 757 540**	**16 963**	**71 941**	**569**	**-**	**-**	**1 847 013**	**1 829 481**	**17 532**
Deferred tax charge	**X**	**X**	**X**	**3 237**	**(36 872)**	**(309)**	**293**	**X**	**X**	**X**
Net deferred tax assets	**1 131 071**	**1 179 013**	**(47 942)**	**X**	**X**	**X**	**X**	**1 094 630**	**1 179 151**	**(84 521)**
Net deferred tax liabilities	**32 708**	**32 708**	**-**	**X**	**X**	**X**	**X**	**29 918**	**29 918**	**-**

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	12 293	12 293	-	(8 906)	-	(3 040)	-	347	347	-
Accrued income – loans	146 472	146 472	-	(5 572)	-	-	-	140 900	140 900	-
Change in revaluation of financial assets	142 336	138 423	3 913	42 414	(98)	(1)	61 090	245 741	180 836	64 905
Accelerated depreciation	116 374	116 374	-	430	-	-	-	116 804	116 804	-
Investment relief	4 960	4 960	-	(421)	-	-	-	4 539	4 539	-
Paid intermediation costs	111 039	111 039	-	22 129	-	(781)	-	132 387	132 387	-
Other	39 740	39 740	-	(9 776)	-	5 458	-	35 422	35 422	-
Gross deferred tax liabilities	**573 214**	**569 301**	**3 913**	**40 298**	**(98)**	**1 636**	**61 090**	**676 140**	**611 235**	**64 905**
DEFFERED TAX ASSET										
Accrued expenses - securities	1 522	1 522	-	6 001	-	-	-	7 523	7 523	-
Accrued expenses - deposits and loans	35 752	35 752	-	177	-	-	-	35 929	35 929	-
Downward revaluation of financial assets	367 245	367 245	-	31 077	(1 364)	(614)	1 364	397 708	397 708	-
Income received to be amortized over time from loans and current accounts	198 116	198 116	-	43 649	-	44 858	-	286 623	286 623	-
Loan provisions charges	519 588	519 588	-	(58 711)	(4 744)	155 248	4 744	616 125	616 125	-
Personnel related provisions	119 618	102 563	17 055	915	(92)	3 043	-	123 484	106 521	16 963
Accruals	23 380	23 380		3 259	-	-	-	26 639	26 639	-
Previous year losses	24 889	24 889	-	(1 706)	-	-	-	23 183	23 183	-
Difference between accounting and tax value of leased assets and other differences from leasing	187 173	187 173	-	56 135	-	-	-	243 308	243 308	-
Other	9 042	9 042	-	(1 300)	-	6 239	-	13 981	13 981	-
Gross deferred tax assets	**1 486 325**	**1 469 270**	**17 055**	**79 496**	**(6 200)**	**208 774**	**6 108**	**1 774 503**	**1 757 540**	**16 963**
Deferred tax charge	**X**	**X**	**X**	**39 198**	**(6 102)**	**207 138**	**(54 982)**	**X**	**X**	**X**
Net deferred tax assets	**950 795**	**937 653**	**13 142**	**X**	**X**	**X**	**X**	**1 131 071**	**1 179 013**	**(47 942)**
Net deferred tax liabilities	**37 684**	**37 684**	**-**	**X**	**X**	**X**	**X**	**32 708**	**32 708**	**-**

(In PLN thousand)

In the opinion of the Group the deferred tax asset in the amount of PLN 1 094 630 thousand reported as at 31 December 2019 is sustainable in total amount. The analysis was performed based on the past results of the Group's companies 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 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.

The table below presents the amount of negative temporary differences, unrecognized tax losses, unutilized tax reliefs, in relation to which deferred tax asset was not recognized in the statement of financial position as well as the expiration date of temporary differences.

EXPIRATION YEAR OF TEMPORARY DIFFERENCES	AMOUNT OF DIFFERENCES AS AT 31.12.2019	AMOUNT OF DIFFERENCES AS AT 31.12.2018
2019	-	20 787
2020	187	313
2021	12 914	187
2022	11 462	-
2023	14	-
No time limits	1 550	1 511
Total	**26 127**	**22 798**

20. 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	2 165 047	2 287 160
Weighted average number of ordinary shares in the period	262 470 034	262 470 034
Earnings per share (in PLN per share)	8.25	8.71

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 Group.

	2019	2018
Net profit	2 165 047	2 287 160
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)	8.25	8.71

(In PLN thousand)

21. Dividend

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.

22. Cash and balances with Central Bank

CASH AND DUE FROM CENTRAL BANK	31.12.2019	31.12.2018
Cash	3 036 985	3 182 875
Current account at Central Bank	2 101 957	9 790 609
Other	23 914	54 013
Gross carrying amount	**5 162 856**	**13 027 497**
Impairment allowances	(174)	(913)
Net carrying amount	**5 162 682**	**13 026 584**

AMOUNTS DUE TO CENTRAL BANK	31.12.2019	31.12.2018
Term deposits	4 550	5 067
Amounts due to Central Bank	**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	3 783 370	4 550
EUR	806 786	-
USD	242 253	-
GBP	101 235	-
CHF	78 726	-
NOK	53 804	-
Other currencies	96 508	-
Total	**5 162 682**	**4 550**

31.12.2018	ASSETS	LIABILITIES
PLN	10 471 632	5 067
EUR	1 980 231	-
USD	211 636	-
GBP	132 732	-
CHF	78 688	-
NOK	41 374	-
Other currencies	110 291	-
Total	**13 026 584**	**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%).

(In PLN thousand)

23. Loans and advances to banks

Loans and advances to banks by product type

	31.12.2019	31.12.2018
Current accounts	325 704	276 433
Interbank placements	200 840	843 804
Loans and advances	11 536	19 085
Cash collaterals	733 093	983 373
Reverse repo transactions	219 153	126 442
Cash in transit	302 298	29 193
Total gross amount	**1 792 624**	**2 278 330**
Impairment allowances	(1 188)	(9 908)
Total net amount	**1 791 436**	**2 268 422**

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	1 787 208	2 245 192
between 1 and 3 months	3 033	9
between 3 months and 1 year	-	19 923
between 1 and 5 years	4	31
over 5 years	81	51
past due	2 298	13 124
Total gross amount	**1 792 624**	**2 278 330**
Impairment allowances	(1 188)	(9 908)
Total net amount	**1 791 436**	**2 268 422**

Loans and advances to banks by currency

	31.12.2019	31.12.2018
PLN	418 280	493 697
EUR	894 689	1 521 593
GBP	168 424	1 998
USD	80 993	159 804
HUF	53 159	2 525
CZK	50 945	113
Other currencies	124 946	88 692
Total	**1 791 436**	**2 268 422**

Notes to the financial statements (cont.)

(In PLN thousand)

24. 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	1 276 711	755 213
Equity securities	4 953	7 499
Total financial assets	**1 281 664**	**762 712**
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	1 131 733	637 765
T- bills	-	-
T- bonds	1 131 733	637 765
Debt securities issued by banks	13 838	38 567
Debt securities issued by business entities	131 140	78 881
Total financial assets	**1 276 711**	**755 213**
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**

Equity securities held for trading

	31.12.2019	31.12.2018
Shares	2 620	2 446
Participation units	2 333	5 053
Total	**4 953**	**7 499**

(In PLN thousand)

Debt securities held for trading by maturity

	31.12.2019	31.12.2018
FINANCIAL ASSETS		
Debt securities, including:		
up to 1 month	-	1 720
between 1 and 3 months	100 122	-
between 3 months and 1 year	25 267	85 206
between 1 and 5 years	1 121 671	612 870
over 5 years	29 651	55 417
unspecified term	-	-
Total financial assets	**1 276 711**	**755 213**
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**

Debt securities held for trading by currency

	31.12.2019	31.12.2018
FINANCIAL ASSETS		
PLN	1 262 006	745 331
EUR	12 599	8 634
USD	2 106	1 248
Total financial assets	**1 276 711**	**755 213**
FINANCIAL LIABILITIES		
PLN	184 799	102 429
Total financial liabilities	**184 799**	**102 429**

25. Derivative financial instruments (held for trading)

Derivative financial instruments at the Group
In its operations the Group uses different financial derivatives that are offered to the clients and are used for managing risks involved in the Group's business. The majority of derivatives at the Group 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 maturities.

Derivatives related to interest rates enable the Group 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 a 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 Group 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 Group 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.

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 maturities, 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 Group uses the same method as for credit risk assessment. In order to control its credit risk levels the Group performs assessments of other contract parties using the same methods as for credit decisions.

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 Group's credit or price risk level.

Notes to the financial statements (cont.)

(In PLN thousand)

Fair value of trading derivatives

31.12.2019	ASSETS	LIABILITIES
Interest rate transactions		
Interest Rate Swaps (IRS)	1 644 485	1 602 258
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)	75 005	49 332
Currency Forward Agreements	153 953	157 608
Currency Swaps (FX-Swap)	80 308	109 396
Options for currency and gold	73 950	72 799
Transactions based on equity securities and stock indexes		
Options	3 084	3 076
Other	14	-
Transactions based on commodities and precious metals		
Options	25 646	23 523
Other	14 298	14 054
Total	**2 079 529**	**2 034 113**

31.12.2018	ASSETS	LIABILITIES
Interest rate transactions		
Interest Rate Swaps (IRS)	1 154 170	1 592 975
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)	33 723	26 679
Currency Forward Agreements	56 153	114 042
Currency Swaps (FX-Swap)	55 528	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	1	-
Transactions based on commodities and precious metals		
Options	55 222	53 415
Other	45 757	45 217
Total	**1 451 662**	**1 913 046**

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 1MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	
Interest rate transactions						
Interest Rate Swaps (IRS)	2 995 055	12 029 328	59 733 223	91 624 322	30 547 721	196 929 649
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 currency and gold transactions						
Cross-Currency Interest Rate Swaps (CIRS) - currency bought	-	340 556	1 191 595	4 297 890	166 666	5 996 707
Cross-Currency Interest Rate Swaps (CIRS) - currency sold	-	348 996	1 176 628	4 274 673	166 383	5 966 680
Currency Forward Agreements - currency bought	5 107 200	2 854 577	6 417 509	4 360 759	-	18 740 045
Currency Forward Agreements - currency sold	5 114 742	2 850 759	6 427 955	4 378 256	-	18 771 712
Currency Swaps (FX-Swap) – currency bought	13 639 802	1 703 894	3 999 958	598 423	-	19 942 077
Currency Swaps (FX-Swap) – currency sold	13 655 199	1 711 052	4 028 472	591 352	-	19 986 075
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	-	-	-	1 183	-	1 183
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	**43 900 328**	**25 177 567**	**96 597 724**	**118 671 269**	**31 175 485**	**315 522 373**

Notes to the financial statements (cont.)

(In PLN thousand)

Nominal value of trading derivatives

31.12.2018	CONTRACTUAL MATURITY					TOTAL
	UP TO 1MONTH	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)	6 273 879	2 949 405	22 245 907	58 637 184	20 813 961	110 920 336
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	2 483 891	-	-	-	-	2 483 891
Foreign currency and gold transactions						
Cross-Currency Interest Rate Swaps (CIRS) - currency bought	-	-	269 208	2 823 945	731 927	3 825 080
Cross-Currency Interest Rate Swaps (CIRS) - currency sold	-	-	267 651	2 826 512	731 933	3 826 096
Currency Forward Agreements - currency bought	6 512 520	2 125 109	4 236 593	1 415 833	-	14 290 055
Currency Forward Agreements - currency sold	6 516 088	2 138 576	4 300 423	1 422 120	-	14 377 207
Currency Swaps (FX-Swap) – currency bought	14 467 843	2 444 391	990 310	433 276	-	18 335 820
Currency Swaps (FX-Swap) – currency sold	14 465 086	2 441 497	975 955	403 277	-	18 285 815
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	-	-	-	2 696	-	2 696
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	**53 486 105**	**17 411 426**	**48 334 421**	**74 961 852**	**22 359 269**	**216 553 073**

(In PLN thousand)

26. 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	70 892 003	807 770	21 600	71 721 373
Current accounts	11 473 778	-	-	11 473 778
Operating loans	12 008 401	404 374	22 518	12 435 293
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	6 206 770	-	-	6 206 770
Other loans and advances	1 493 039	-	141 295	1 634 334
Debt securities	-	-	-	-
Reverse repo transactions	502 300	-	-	502 300
Cash in transit	34 390	-	-	34 390
Gross carrying amount	**138 960 355**	**1 380 607**	**242 639**	**140 583 601**
Impairment allowances (*) (**)	(6 383 188)	-	-	(6 383 188)
Carrying amount	**132 577 167**	**1 380 607**	**242 639**	**134 200 413**

(*) The impairment allowance for loans and advances to customers measured at fair value through other comprehensive income in the amount of PLN 20 808 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 36 265 thousand.

	31.12.2018			
	AMORTISED COST	FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	FAIR VALUE THROUGH PROFIT OR LOSS	TOTAL
Mortgage loans	64 592 080	1 109 602	26 826	65 728 508
Current accounts	11 481 932	-	-	11 481 932
Operating loans	12 412 344	401 500	27 750	12 841 594
Investment loans	19 009 546	-	95 669	19 105 215
Cash loans	13 681 398	-	-	13 681 398
Payment cards receivables	1 141 961	-	-	1 141 961
Factoring	4 714 939	-	-	4 714 939
Other loans and advances	1 195 464	-	152 385	1 347 849
Debt securities	-	-	-	-
Reverse repo transactions	-	-	-	-
Cash in transit	64 336	-	-	64 336
Gross carrying amount	**128 294 000**	**1 511 102**	**302 630**	**130 107 732**
Impairment allowances (*)	(6 137 677)	-	-	(6 137 677)
Carrying amount	**122 156 323**	**1 511 102**	**302 630**	**123 970 055**

(*) The impairment allowance for loans and advances to customers measured at fair value through other comprehensive income in the amount of PLN 14 590 thousand is included in the 'Revaluation reserve' item and does not reduce the carrying amount of the loan.

(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	58 501 431	1 380 607	44 128	59 926 166
Individuals	77 159 169	-	141 296	77 300 465
Budget entities	3 299 755	-	57 215	3 356 970
Gross carrying amount	**138 960 355**	**1 380 607**	**242 639**	**140 583 601**
Impairment allowances (*) (**)	(6 383 188)	-	-	(6 383 188)
Carrying amount	**132 577 167**	**1 380 607**	**242 639**	**134 200 413**

(*) The impairment allowance for loans and advances to customers measured at fair value through other comprehensive income in the amount of PLN 20 808 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 36 265 thousand.

	31.12.2018			
	AMORTISED COST	FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	FAIR VALUE THROUGH PROFIT OR LOSS	TOTAL
Corporate	53 186 945	1 511 102	56 407	54 754 454
Individuals	71 306 127	-	152 385	71 458 512
Budget entities	3 800 928	-	93 838	3 894 766
Gross carrying amount	**128 294 000**	**1 511 102**	**302 630**	**130 107 732**
Impairment allowances (*)	(6 137 677)	-	-	(6 137 677)
Carrying amount	**122 156 323**	**1 511 102**	**302 630**	**123 970 055**

(*) The impairment allowance for loans and advances to customers measured at fair value through other comprehensive income in the amount of PLN 14 590 thousand is included in the 'Revaluation reserve' item and does not reduce the carrying amount of the loan.

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	16 318 074	-	2 395	16 320 469
between 1 and 3 months	5 120 653	-	14 669	5 135 322
between 3 months and 1 year	12 688 713	197	50 043	12 738 953
between 1 and 5 years	43 036 397	249 076	130 095	43 415 568
over 5 years	56 905 196	1 131 334	43 567	58 080 097
past due	4 891 322	-	1 870	4 893 192
Gross carrying amount	**138 960 355**	**1 380 607**	**242 639**	**140 583 601**
Impairment allowances (*) (**)	(6 383 188)	-	-	(6 383 188)
Carrying amount	**132 577 167**	**1 380 607**	**242 639**	**134 200 413**

(*) The impairment allowance for loans and advances to customers measured at fair value through through other comprehensive income in the amount of PLN 20 808 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 36 265 thousand.

Notes to the financial statements (cont.)

(In PLN thousand)

Loans and advances to customers by contractual maturity

	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	16 076 736	-	2 332	16 079 068
between 1 and 3 months	3 988 069	-	15 097	4 003 166
between 3 months and 1 year	13 201 050	72 224	52 597	13 325 871
between 1 and 5 years	37 046 831	413 713	168 618	37 629 162
over 5 years	53 029 499	1 025 165	61 070	54 115 734
past due	4 951 815	-	2 916	4 954 731
Gross carrying amount	**128 294 000**	**1 511 102**	**302 630**	**130 107 732**
Impairment allowances (*)	(6 137 677)	-	-	(6 137 677)
Carrying amount	**122 156 323**	**1 511 102**	**302 630**	**123 970 055**

(*) The impairment allowance for loans and advances to customers measured at fair value through other comprehensive income in the amount of PLN 14 590 thousand is included in the 'Revaluation reserve' item and does not reduce the carrying amount of the loan.

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	110 965 867	50 124	242 639	111 258 630
CHF	2 958 004	-	-	2 958 004
EUR	16 923 752	1 330 483	-	18 254 235
USD	1 252 267	-	-	1 252 267
Other currencies	477 277	-	-	477 277
Total	**132 577 167**	**1 380 607**	**242 639**	**134 200 413**

	31.12.2018			
	AMORTISED COST	FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	FAIR VALUE THROUGH PROFIT OR LOSS	TOTAL
PLN	102 206 944	48 040	302 630	102 557 614
CHF	3 306 813	-	-	3 306 813
EUR	14 509 721	1 463 062	-	15 972 783
USD	1 759 248	-	-	1 759 248
Other currencies	373 597	-	-	373 597
Total	**122 156 323**	**1 511 102**	**302 630**	**123 970 055**

(In PLN thousand)

27. Receivables from finance leases

As a lessor, the Group concludes contracts classified as finance leases, the main subject of which are means of transport, machinery and technical equipment. The main lessor in the Group is Pekao Leasing Sp. z o.o.

In 2019, the Group recognized a gain on sale of the right-of-use assets in the amount of PLN 264 thousand (in 2018 a gain amounted to PLN 358 thousand PLN), presented in 'Other operating income'.

In 2019, the Group recognized interest income on finance lease receivables in the amount of PLN 210 489 thousand (in 2018 - PLN 151 107 thousand).

The tables below present the maturity analysis of lease receivables, presenting the undiscounted lease payments to be received after the balance sheet date.

31.12.2019 – FINANCE LEASES UNDER IFRS 16	
Up to 1 year	2 503 384
Between 1 and 2 years	1 757 776
Between 2 and 3 years	1 338 587
Between 3 and 4 years	732 174
Between 4 and 5 years	392 005
Over 5 years	532 296
Total undiscounted lease payments	**7 256 222**
Unearned interest income	(456 920)
Net investment in the lease	**6 799 302**
Impairment allowances	(86 363)
Carrying amount	**6 712 939**

31.12.2018 – FINANCE LEASES UNDER IAS 17	GROSS LEASING INVESTMENT	PRESENT VALUE OF MINIMUM LEASE PAYMENTS
Up to 1 year	1 953 203	1 790 340
Between 1 and 5 years	3 387 505	3 187 430
Over 5 years	455 669	431 683
Total	**5 796 377**	**5 409 453**
Unearned finance income	(386 924)	
Net leasing investment	**5 409 453**	
Unguaranteed residual values accruing to the benefit of the lessor	-	
Present value of minimum lease payments	5 409 453	
Impairment allowances	(82 786)	
Carrying amount	**5 326 667**	

(In PLN thousand)

Receivables from financial leases by entity

	31.12.2019	31.12.2018
Loans and advances to banks	117	348
Loans and advances to customers	6 799 185	5 409 105
Gross carrying amount	**6 799 302**	**5 409 453**
Impairment allowances	(86 363)	(82 786)
Carrying amount	**6 712 939**	**5 326 667**

Receivables from financial leases by currency

	31.12.2019	31.12.2018
PLN	4 189 954	3 462 582
CHF	-	214
EUR	2 457 554	1 863 019
USD	65 431	852
Total	**6 712 939**	**5 326 667**

28. Hedge accounting

The Group 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 Group 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 5.10), 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)

Fair value hedge accounting

The Group 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 Group 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 6.3. Details regarding exposure of the Bank to interest rate risk is disclosed in Note 6.3.

The use of derivative instruments to hedge the exposure to changes in interest rates generates counterparty credit risk of derivative transactions. The Group 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 Group 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 Group, 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.

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

- impact of the counterparty credit risk and own credit risk of the Group 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 Group as instruments hedging interest rate risk in fair value hedge accounting as of 31 December 2019 and 31 December 2018.

Notes to the financial statements (cont.)

(In PLN thousand)

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

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

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
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**

(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	-	-	-

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

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	-	-	-

Notes to the financial statements (cont.)

(In PLN thousand)

Cash flow hedge accounting

The Group 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 swap (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 denominated 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 perion form 1 January the Groupk 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 Group 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 Group to market risk management, including interest rate risk and currency risk, is presented in Note 6.3. Details regarding the Group's interest rate risk and currency risk exposure are disclosed in Note 6.3.

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 Group manages this risk in a way similar to fair value hedge.

The Group 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 Group, 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 Group 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 Group'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.

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
CHF 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/PLN	4.3	4.4	4.4	-	-	4.4
	USD/PLN	Nominal value	193 193	-	1 151 106	-	-	1 344 299
		Average fixed interest rate EUSD/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/USD	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**

Notes to the financial statements (cont.)

(In PLN thousand)

Nominal values of hedging derivatives – cash flow hedge

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
CHF 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/PLN	4.3	4.3	4.4	-	-	4.4
	EUR/USD	Nominal value	826 421	786 249	-	-	-	1 612 670
		Average fixed interest rate EUR/USD	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

HEDGE IN RELATIONSHIP as at 31.12.2019	INTEREST RATE RISK		INTEREST RATE RISK / CURRENCY RISK	
	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)

Impact of cash of hedge on balance sheet and financial result

HEDGE IN RELATIONSHIP as at 31.12.2018	INTEREST RATE RISK		INTEREST RATE RISK / CURRENCY RISK	
	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)

29. Investment (placement) securities

	31.12.2019	31.12.2018
Debt securities measured at amortised cost	14 578 665	11 255 899
Debt securities measured at fair value through other comprehensive income	30 942 999	27 032 827
Equity instruments designated for measurement at fair value through other comprehensive income	225 332	232 861
Equity instruments mandatorily measured at fair value through profit or loss	146 119	65 408
Total	**45 893 115**	**38 586 995**

Debt securities measured at amortised cost

	31.12.2019	31.12.2018
Debt securities issued by central governments	8 901 451	5 237 027
T-bills	-	-
T-bonds	8 901 451	5 237 027
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	**14 578 665**	**11 255 899**
including impairment of assets	(74 993)	(59 339)

Debt securities measured at fair value through other comprehensive income

	31.12.2019	31.12.2018
Debt securities issued by central governments	18 639 761	15 575 633
T-bills	-	-
T-bonds	18 390 151	15 325 422
Other	249 610	250 211
Debt securities issued by central banks	3 000 508	2 985 696
Debt securities issued by banks	3 632 368	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	**30 942 999**	**27 032 827**
including impairment of assets (*)	(32 671)	(28 307)

(*) 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)

Equity instruments designated for measurement 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 Group 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**

	FAIR VALUE AS AT 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	-
Stock exchange	31	25
Total	**232 861**	**19 642**

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

In 2018, as a result of the decisions taken, the Group 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 DERECOGNITON DATE	NET RESULT FROM SALE
Stock exchange	31	24
Total	**31**	**24**

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
Stock exchange	467	378
Total	**2 207**	**1 070**

(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
Investment certificates	20 665	-
Total	**146 119**	**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	3 784 220
between 1 and 3 months	66 038	134 911
between 3 months and 1 year	3 746 821	2 959 486
between 1 and 5 years	25 630 355	19 671 719
over 5 years	12 358 629	11 738 390
Total	**45 521 664**	**38 288 726**

Investment debt securities by currency

	31.12.2019	31.12.2018
PLN	39 593 621	32 180 082
EUR	2 695 315	2 967 951
USD	3 232 728	3 140 693
Total	**45 521 664**	**38 288 726**

30. 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**

Notes to the financial statements (cont.)

(In PLN thousand)

The changes in the balance of assets held for sale

ASSETS HELD FOR SALE	2019	2018
Opening balance	**11 550**	**65 565**
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)	(54 029)
transfer to property, plant and equipment	(290)	(28 425)
disposal	(43 560)	(10 637)
other	(652)	(14 967)
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**

31. Intangible assets

	31.12.2019	31.12.2018
Intangible assets, including:	869 883	779 098
research and development expenditures	4 715	3
licenses and patents	467 147	461 255
other	156 963	168 827
assets under construction	241 058	149 013
Goodwill	747 648	747 648
Total	**1 617 531**	**1 526 746**

Notes to the financial statements (cont.)

(In PLN thousand)

The item ‘Goodwill’ contains:

- goodwill recognized upon acquisition of Pekao Investment Management S.A. and indirectly Pekao TFI S.A. 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 692 128 thousand,
- 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,
- goodwill recognized upon acquisition of Pekao Leasing i Finanse S.A. (formerly BPH Leasing S.A.) by Pekao Leasing Holding S.A. (formerly BPH PBK Leasing S.A.). It is determined the smallest identifiable cash-generating units (‘CGU’), to which the goodwill has been allocated in the amount of PLN 2 885 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.

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	**72 456**	**2 671 395**	**209 638**	**149 013**	**747 648**	**3 850 150**
Increases including:	5 197	206 194	1 784	294 625	-	507 800
acquisitions	-	5 316	-	263 073	-	268 389
transfer from investments outlays	2 220	190 477	864	-	-	193 561
the work carried out on their own	1 549	2 148	-	31 074	-	34 771
other	1 428	8 253	920	478	-	11 079
Decreases, including:	(4)	(41 200)	(75)	(202 580)	-	(243 859)
liquidation	-	(13 984)	(75)	-	-	(14 059)
sale	-	-	-	-	-	-
transfer from investments outlays	-	-	-	(193 561)	-	(193 561)
other	(4)	(27 216)	-	(9 019)	-	(36 239)
Closing balance	**77 649**	**2 836 389**	**211 347**	**241 058**	**747 648**	**4 114 091**
ACCUMULATED AMORTIZATION						
Opening balance	**72 453**	**2 210 140**	**40 811**	**-**	**-**	**2 323 404**
Amortization	422	191 031	13 648	-	-	205 101
Liquidation	-	(13 984)	(75)	-	-	(14 059)
Sale	-	-	-	-	-	-
Other	59	(17 945)	-	-	-	(17 886)
Closing balance	**72 934**	**2 369 242**	**54 384**	**-**	**-**	**2 496 560**
IMPAIRMENT						
Opening balance	**-**	**-**	**-**	**-**	-	**-**
Increases	-	-	-	-	-	-
Decreases	-	-	-	-	-	-
Closing balance	**-**	**-**	**-**	**-**	**-**	**-**
NET VALUE						
Opening balance	**3**	**461 255**	**168 827**	**149 013**	**747 648**	**1 526 746**
Closing balance	**4 715**	**467 147**	**156 963**	**241 058**	**747 648**	**1 617 531**

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	**89 930**	**2 541 145**	**210 492**	**105 755**	**747 648**	**3 694 970**
Increases including:	-	154 306	1 681	181 173	-	337 160
acquisitions	-	8 731	-	172 642	-	181 373
business combination	-	10 867	-	-	-	10 867
transfer from investments outlays	-	128 159	1 681	-	-	129 840
other	-	6 549	-	8 531	-	15 080
Decreases, including:	(17 474)	(24 056)	(2 535)	(137 915)	-	(181 980)
liquidation	(17 474)	(24 056)	(1 198)	-	-	(42 728)
sale	-	-	(1 337)	-	-	(1 337)
transfer from investments outlays	-	-	-	(129 840)	-	(129 840)
other	-	-	-	(8 075)	-	(8 075)
Closing balance	**72 456**	**2 671 395**	**209 638**	**149 013**	**747 648**	**3 850 150**
ACCUMULATED AMORTIZATION						
Opening balance	**88 857**	**2 050 383**	**30 085**	**-**	**-**	**2 169 325**
Amortization	1 070	178 812	13 229	-	-	193 111
Business combination	-	4 862	-	-	-	4 862
Liquidation	(17 474)	(23 921)	(1 166)	-	-	(42 561)
Sale	-	-	(1 337)	-	-	(1 337)
Other	-	4	-	-	-	4
Closing balance	**72 453**	**2 210 140**	**40 811**	**-**	**-**	**2 323 404**
IMPAIRMENT						
Opening balance	**-**	**-**	**-**	**-**	**-**	**-**
Increases	-	-	-	-	-	-
Decreases	-	-	-	-	-	-
Closing balance	**-**	**-**	**-**	**-**	**-**	**-**
NET VALUE						
Opening balance	**1 073**	**490 762**	**180 407**	**105 755**	**747 648**	**1 525 645**
Closing balance	**3**	**461 255**	**168 827**	**149 013**	**747 648**	**1 526 746**

In the period from 1 January to 31 December 2019 the Group acquired intangible assets in the amount of PLN 268 389 thousand (in 2018 – PLN 181 373 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.

Contractual commitments

As at 31 December 2019 the contractual commitments for the acquisition of intangible assets amounted to PLN 39 911 thousand, whereas as at 31 December 2018 - PLN 43 136 thousand.

(In PLN thousand)

32. Property, plant and equipment

	31.12.2019	31.12.2018
Non-current assets, including:	1 743 300	1 277 774
land and buildings	1 288 838	919 785
machinery and equipment	288 008	232 069
transport vehicles	73 528	53 029
other	92 926	72 891
Non-current assets under construction and prepayments	176 952	142 168
Total	**1 920 252**	**1 419 942**

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	**2 296 470**	**1 360 208**	**98 897**	**468 456**	**142 168**	**4 366 199**
Impact of IFRS 16 Application	538 439	75 415	-	-	-	613 854
Opening balance with impact of IFRS 16	**2 834 909**	1 435 623	**98 897**	**468 456**	**142 168**	**4 980 053**
Increases, including:	72 162	112 091	74 850	37 916	208 766	505 785
acquisitions	981	5 866	66 136	1 079	208 545	282 607
other	32 529	7 413	8 714	324	221	49 201
transfer from non-current assets under construction	38 652	98 812	-	36 513	-	173 977
Decreases, including:	(118 298)	(88 317)	(38 934)	(40 698)	(173 982)	(460 229)
liquidation and sale	(44 588)	(68 199)	(8 353)	(40 237)	-	(161 377)
transfer to non-current assets held for sale	(66 351)	(18 940)	-	(98)	(5)	(85 394)
other	(7 359)	(1 178)	(30 581)	(363)	-	(39 481)
transfer from non-current assets under construction	-	-	-	-	(173 977)	(173 977)
Closing balance	**2 788 773**	**1 459 397**	**134 813**	**465 674**	**176 952**	**5 025 609**
ACCUMULATED DEPRECIATION						
Opening balance	**1 372 357**	**1 125 427**	**45 868**	**395 413**	**-**	**2 939 065**
Increases, including:	185 119	127 065	20 208	15 625	-	348 017
depreciation	185 072	78 434	17 035	15 490	-	296 031
other	47	48 631	3 173	135	-	51 986
Decreases, including:	(63 627)	(83 623)	(4 791)	(38 375)	-	(190 416)
liquidation and sale	(34 994)	(64 862)	(4 579)	(37 957)	-	(142 392)
transfer to non-current assets held for sale	(28 518)	(17 464)	-	(93)	-	(46 075)
other	(115)	(1 297)	(212)	(325)	-	(1 949)
Closing balance	**1 493 849**	**1 168 869**	**61 285**	**372 663**	**-**	**3 096 666**
IMPAIRMENT						
Opening balance	**4 328**	**2 712**	**-**	**152**	**-**	**7 192**
Increases	2 885	-	-	-	-	2 885
Decreases	(1 127)	(192)	-	(67)	-	(1 386)
Closing balance	**6 086**	**2 520**	**-**	**85**	**-**	**8 691**
NET VALUE						
Opening balance	**919 785**	**232 069**	**53 029**	**72 891**	**142 168**	**1 419 942**
Closing balance	**1 288 838**	**288 008**	**73 528**	**92 926**	**176 952**	**1 920 252**

(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	**2 296 502**	**1 461 506**	**89 501**	**315 789**	**98 278**	**4 261 576**
Increases, including:	32 181	62 871	27 276	168 401	153 125	443 854
acquisitions	435	6 362	21 215	843	153 125	181 980
other	8 962	4	6 061	137 718	-	152 745
transfer from non-current assets under construction	22 784	56 505	-	29 840	-	109 129
Decreases, including:	(32 213)	(164 169)	(17 880)	(15 734)	(109 235)	(339 231)
liquidation and sale	(32 209)	(26 451)	(17 751)	(15 734)	-	(92 145)
transfer to non-current assets held for sale	-	-	-	-	(106)	(106)
other	(4)	(137 718)	(129)	-	-	(137 851)
transfer from non-current assets under construction	-	-	-	-	(109 129)	(109 129)
Closing balance	**2 296 470**	**1 360 208**	**98 897**	**468 456**	**142 168**	**4 366 199**
ACCUMULATED DEPRECIATION						
Opening balance	**1 318 581**	**1 196 011**	**35 518**	**277 969**	**-**	**2 828 079**
Increases, including:	74 235	73 798	18 129	133 219	-	299 381
depreciation	71 273	73 798	18 129	14 569	-	177 769
other	2 962	-	-	118 650	-	121 612
Decreases, including:	(20 459)	(144 382)	(7 779)	(15 775)	-	(188 395)
liquidation and sale	(20 459)	(25 732)	(7 750)	(15 734)	-	(69 675)
transfer to non-current assets held for sale	-	-	-	-	-	-
other	-	(118 650)	(29)	(41)	-	(118 720)
Closing balance	**1 372 357**	**1 125 427**	**45 868**	**395 413**	**-**	**2 939 065**
IMPAIRMENT						
Opening balance	**5 058**	**2 822**	**-**	**148**	**-**	**8 028**
Increases	-	-	-	4	-	4
Decreases	(730)	(110)	-	-	-	(840)
Closing balance	**4 328**	**2 712**	**-**	**152**	**-**	**7 192**
NET VALUE						
Opening balance	**972 863**	**262 673**	**53 983**	**37 672**	**98 278**	**1 425 469**
Closing balance	**919 785**	**232 069**	**53 029**	**72 891**	**142 168**	**1 419 942**

In the period from 1 January to 31 December 2019 the Group acquired property, plant and equipment in the amount of PLN 282 607 thousand (in 2018 - PLN 181 980 thousand), while the value of property, plant and equipment sold amounted to PLN 12 149 thousand (in 2018 - PLN 20 833 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 2 674 thousand (in 2018 - PLN 2 193 thousand).

In the period from 1 January to 31 December 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 (as at 31 December 2018 - PLN 7 402 thousand).

(In PLN thousand)

33. Investment property

The Group 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 'Investment property' in the course of the reporting period

	2019	2018
GROSS VALUE		
Opening balance	**18 818**	**44 049**
Increases, including:	-	-
acquisitions	-	-
transfer from property plant and equipment	-	-
other	-	-
Decreases, including:	(18 818)	(25 231)
sale of real estate	-	(1 042)
transfer to non-current assets held for sale	(18 615)	-
transfer to property plant and equipment	(203)	-
other	-	(24 190)
Closing balance	**-**	**18 818**
ACCUMULATED DEPRECIATION		
Opening balance	**7 631**	**15 711**
Increases, including:	219	541
depreciation for the period	219	541
transfer from property plant and equipment	-	-
other	-	-
Decreases, including:	(7 850)	(8 621)
sale of real estate	-	(40)
transfer to non-current assets held for sale	(7 802)	-
transfer to property plant and equipment	(48)	-
other	-	(8 581)
Closing balance	**-**	**7 631**
IMPAIRMENT		
Opening balance	**19**	**6 171**
Increases, including:	-	-
impairment charges	-	-
Decreases, including:	(19)	(6 152)
sale of real estate	-	-
transfer to non-current assets held for sale	-	-
other	(19)	(6 152)
Closing balance	**-**	**19**
NET VALUE		
Opening balance	**11 168**	**22 167**
Closing balance	**-**	**11 168**

(In PLN thousand)

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

	2019	2018
Rental revenues from investment properties	2 215	4 136
Direct operating expenses associated with investment properties (including repair and maintenance costs) which generated rental revenues during the reporting period	(541)	(1 235)
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	43 963	43 966
Perpetual usufruct rights	-	35 807
Accrued income	174 809	178 234
Interbank and interbranch settlements	16 465	44
Other debtors	272 616	404 286
Card settlements	666 072	618 984
Total	**1 173 925**	**1 281 321**

Prepaid expenses represent expenditures, which will be amortized against income statement in the forthcoming reporting periods.

(In PLN thousand)

35. Assets pledged as security for liabilities

The following 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	239 577	232 000	208 549
Lombard and technical loan	bonds	5 758 095	5 548 332	-
Other loans	bonds	373 537	360 100	314 430
Debt securities issued	loans, bonds	1 871 923	1 872 149	1 342 437
Coverage of the Guarantee Fund for the Settlement of Stock Exchange Transactions to Central Securities Depository (KDPW)	bonds, cash deposits	32 645	32 645	-
Derivatives	bonds	54 461	53 452	32 631

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	738 238	690 200	-
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	109 874	108 000	96 818
Lombard and technical loan	bonds	3 700 090	3 652 863	-
Other loans	bonds	236 083	221 100	206 151
Debt securities issued	loans, bonds	1 462 355	1 460 936	1 819 911
Coverage of the Guarantee Fund for the Settlement of Stock Exchange Transactions to Central Securities Depository (KDPW)	bonds, cash deposits	46 439	46 313	-
Derivatives	bonds	529 569	520 445	470 905

(In PLN thousand)

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 issue of debt securities – binding provisions of the Law on Mortgage Bonds and Mortgage Banks,
- 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	408 172	1 053 416
Interbank deposits and other liabilities	691 719	394 156
Loans and advances received	5 194 074	4 060 142
Repo transactions	218 449	67 447
Cash in transit	26 466	40 470
Lease liabilities	659	-
Total	**6 539 539**	**5 615 631**

Amounts due to other banks are measured at amortised cost.

Amounts due to other banks by currency

	31.12.2019	31.12.2018
PLN	2 988 513	1 799 447
CHF	187 225	226 207
EUR	3 312 304	3 494 632
USD	20 814	55 287
Other currencies	30 683	40 058
Total	**6 539 539**	**5 615 631**

Notes to the financial statements (cont.)

(In PLN thousand)

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:	54 146 677	53 468 205
current accounts	42 198 847	39 426 301
term deposits and other liabilities	11 947 830	14 041 904
Amounts due to budget entities, including:	10 915 849	10 946 907
current accounts	10 526 619	9 754 001
term deposits and other liabilities	389 230	1 192 906
Amounts due to individuals, including:	91 900 464	84 510 108
current accounts	57 013 373	49 773 217
term deposits and other liabilities	34 887 091	34 736 891
Repo transactions	379 792	347 672
Cash in transit	240 407	211 025
Lease liabilities	406 545	7 142
Total	**157 989 734**	**149 491 059**

Amounts due to customers are measured at amortised cost.

Amounts due to customers by currency

	31.12.2019	31.12.2018
PLN	130 477 778	123 029 852
CHF	421 014	350 419
EUR	17 418 917	16 552 992
USD	8 265 877	8 100 077
Other currencies	1 406 148	1 457 719
Total	**157 989 734**	**149 491 059**

38. Debt securities issued

Debt securities issued by type

	31.12.2019	31.12.2018
Liabilities from bonds	3 361 056	1 978 319
Certificates of deposit	1 604 344	1 732 596
Mortgage bonds	1 342 437	1 519 899
Total	**6 307 837**	**5 230 814**

Amounts debt securities issued are measured at amortised cost.

The Group redeems its own debt securities issued on a timely basis.

(In PLN thousand)

Debt securities issued by currency

	31.12.2019	31.12.2018
PLN	6 057 073	4 901 179
EUR	24 786	329 635
USD	225 978	-
Total	**6 307 837**	**5 230 814**

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 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.

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.

Notes to the financial statements (cont.)

(In PLN thousand)

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	04.06.2019	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	401 071
TOTAL	**2 750 000**						**2 764 493**

Subordinated liabilities by type

TYPE OF TRANSACTION	NOMINAL AMOUNT	CURRENCY	INTEREST RATE	ISSUE DATE	MATURITY DATE	SPECIAL TERMS	BALANCE SHEET VALUE AS AT 31.12.2018
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	**54 890**	**-**	**289 287**	**240 698**	**50 210**	**635 085**
Provision charges/revaluation	76 137	85 000	23 493	209 988	13 364	407 982
Provision utilization	(22 484)	(66 046)	(25 414)	-	(15 842)	(129 786)
Provision releases	(4 795)	-	(24)	(159 841)	-	(164 660)
Foreign currency exchange differences	-	-	-	57	-	57
Other changes	185	-	2 927	-	807	3 919
Closing balance	**103 933**	**18 954**	**290 269**	**290 902**	**48 539**	**752 597**
Short term	32 696	18 954	261	41 155	920	93 986
Long term	71 237	-	290 008	249 747	47 619	658 611

(*) Including the provision for legal risk regarding foreign currency mortgage loans in CHF in the amount of PLN 22 441 thousand and a provision for early repayments of consumer loans in the amount of PLN 26 279 thousand as at 31 December 2019.

Changes in provisions in the reporting period

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	**17 132**	**-**	**300 248**	**236 909**	**48 333**	**602 622**
Initial application of IFRS 9	-	-	-	36 266	-	36 266
Opening balance - restated	**17 132**	**-**	**300 248**	**273 175**	**48 333**	**638 888**
Provision charges/revaluation	15 101	-	27 920	203 941	17 825	264 787
Provision utilization	(3 739)	-	(38 567)	(24 808)	(15 899)	(83 013)
Provision releases	(1 143)	-	(5)	(169 241)	(49)	(170 438)
Foreign currency exchange differences	-	-	-	1 391	-	1 391
Other changes	27 539	-	(309)	(43 760)	-	(16 530)
Closing balance	**54 890**	**-**	**289 287**	**240 698**	**50 210**	**635 085**
Short term	3 559	-	12 740	50 987	1 968	69 254
Long term	51 331	-	276 547	189 711	48 242	565 831

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 5.7 and 6.2 of these consolidated financial statements.

(In PLN thousand)

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 Group 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.

For the purpose of estimating the aforementioned provision, the Group performed an analysis of data on early repayment of loans and complaints. As a result of the above, the Group 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 Group 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 Group to adopt expert assumptions and are associated with significant uncertainty.

In relation to the above, the Group 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 Group 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 Group estimated possible future prepayments of these exposures. Therefore, in accordance with the principles set out by IFRS 9, the Group 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.

(In PLN thousand)

41. Other liabilities

	31.12.2019	31.12.2018
Deferred income	177 582	133 844
Provisions for holiday leave	62 768	68 910
Provisions for other employee-related liabilities	243 609	248 472
Provisions for administrative costs	140 913	132 140
Other costs to be paid (*)	77 075	99 054
Other creditors	707 971	570 122
Interbank and interbranch settlements	744 616	572 840
Card settlements	361 012	301 000
Total	**2 515 546**	**2 126 382**

(*) 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 Group 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 Group 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 Group's employees would increase the defined benefit plans obligations,
- longevity risk – the increase in life expectancy of the Group'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% (2.70 % as at 31 December 2018),
- the future salary growth rate at the level of 2.75% (2.50 % as at 31 December 2018),
- the probable number of leaving employees calculated on the basis of historical data concerning personnel rotation in the Group,
- 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 Group.

(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	**289 287**	**300 248**
Current service cost	15 915	18 360
Interest expense	7 554	9 555
Remeasurements of the defined benefit obligations:	2 174	(489)
actuarial gains and losses arising from changes in demographic assumptions	24 227	(523)
actuarial gains and losses arising from changes in financial assumptions	26 722	12 858
actuarial gains and losses arising from experience adjustments	(48 775)	(12 824)
Contributions paid by the employer	(25 414)	(38 567)
Business combination	753	-
Closing balance	**290 269**	**289 107**

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 fair value of granted rights to shares under Employee Share Ownership Plan until 31 December 2019 amounted to PLN 220 thousand as at 31 December 2019 (as at 31 December 2018 - PLN 220 thousand).

In 2019 and 2018 Group there were no cost relating to the incentive programs granted to the emloyees of the Bank by UniCredit.

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	31July 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 years 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 years 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 2 years retention period) • 13.34% after 1 years 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 2 years retention period) • 13.34% after 1 year from program granting date (settlement after 1 year retention period) 1 • 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.				

Notes to the financial statements (cont.)

(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, 2018 and 2019 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 evaluationl of the financial statements for 2018 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.

System of Variable Remuneration for the Management Team of the subsidiaries Pekao

In order to meet the requirements concerning the rules of establishing the policy of variable remuneration components for individuals holding managerial positions (Regulation of the Minister of Development and Finance on the risk management system and internal control system, remuneration policy and a detailed method of estimating internal capital in banks of 6 March 2017 (Official Journal from 2016, item 1988, 1948, 1997 and 2260 and from 2017, item 85), the Bank's subsidiaries, Pekao Bank Hipoteczny S.A., Pekao Leasing Sp. z o.o., Pekao Investment Banking S.A, Dom Inwestycyjny Xelion Sp. z o.o., Pekao Faktoring Sp. z o.o,. Pekao Direct Sp. z o.o. (ex. Centrum Bankowości Bezpośredniej Sp. z o.o.) and Pekao Towarzystwo Funduszy Inwestycyjnych S.A. use a variable remuneration system for the management.

Within the system participant can receive the bonus depending on the performance and results of work of the participant, of the business unit and the company's results in the area of responsibility of the person, taking into account the results of the whole company, as well as verification of the compliance of Participant's behaviour with respect to law provisions and standards adopted by the company.

At least 40 % components of variable renumerations is settled and paid in the time-period of 3 to 5 years since the granting date.

(in PLN thousand)

The companies measure the future employees benefits at fair value of accepted liabilities, in accordance with IAS 19 ‘Employee benefits’. Results of liabilities meassurement at fair value are presented in income statement as personnel expenses.

The carrying amount of liabilities for cash-settled phantom shares amounted to PLN 6 621 thousand as at 31 December 2019 (as at 31 December 2018 – PLN 5 603 thousand).

The remuneration expenses for 2019 relating to the system of variable remuneration in the form of phantom shares amounted to PLN 3 405 thousand (in 2018 - PLN 2 140 thousand).

44. Leasing

The Group as a Lessor
As a lessor, the Group acts in premises rental contracts classified as operating leases.

In 2019, the Group recognized revenues from the rental of premises and car leasing in the amount of PLN 20 848 thousand (in 2018 - PLN 18 823 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	2 668
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	**9 908**
31.12.2018 – OPERATING LEASES UNDER IAS 17	
Up to 1 year	9 896
Between 1years and 5 years	8 629
Over 5 years	380
Total	**18 905**

The Group as Lessee
As a lessee, the Group acts in building and IT infrastructure lease contracts.

Information on lease contracts in which the Group acts as a lessee is presented below.

Right-of-use assets

2019	LANDS AND BUILDINGS	MACHINERY AND EQUIPMENT	MEANS OF TRANSPORT	TOTAL
Opening balance	**538 439**	**75 415**	**36 142**	**649 996**
Depreciation	(110 473)	(18 854)	(10 809)	(140 136)
Additions to right-of-use assets	31 509	-	3 091	34 600
Lease change	2 385	-	-	2 385
Derecognition of right-of-use assets	(25 048)	(56 561)	(299)	(81 908)
Closing balance	**436 812**	**-**	**28 125**	**464 937**

(in PLN thousand)

Lease liabilities

ITEM OF STATEMENT OF FINANCIAL POSITION	31.12.2019	1.01.2019
Amounts due to other banks	3 444	1 056
Amounts due to customers	403 761	584 133
Total	**407 205**	**585 189**

Amounts recognized in income statement

2019 – LEASES UNDER IFRS 16	
Interest expense on lease liabilities	(13 388)
Expenses relating to short-term leases presented in 'Other administrative expenses'	(20 755)
Expenses relating to leases of low-value assets, excluding short-termleases of low-value assets presented in 'Other administrative expenses'	(153)
2018 – LEASES UNDER IAS 17	
Lease expenses	(171 100)

Amounts recognized in cash flow statement
In 2019, total cash outflow for leases amounted to PLN 241 124 thousand.

45. Contingent commitments

Court cases

As of 31 December 2019 the following court cases for payment are pending with involvement of the Group, that are important in view of the value of the object of litigation:

1) in the group of liabilities (against the Group):

- 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,

(in PLN thousand)

- 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 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 Group entity – former 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,

2) in the group of receivables (brought by the Group):

- 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 Group.

The Group created provisions for litigations against the Group entities 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 provisions as at 31 December 2019 is PLN 103 933 thousand (PLN 54 890 thousand as at 31 December 2018).

In addition, as at 31 December 2019 the Group assessed the legal risk of foreign currency mortgage loans in CHF and created a provision related to this risk. Details are presented in Note 6.2 of these consolidated financial statements.

Financial commitments granted

Financial commitments granted by entity

	31.12.2019	31.12.2018
Financial commitments granted to:		
banks	377 742	312 155
customers entities	35 678 506	31 979 434
budget entities	657 679	662 554
Total	**36 713 927**	**32 954 143**

(in PLN thousand)

Guarantees issued

Guarantees issued by entity

	31.12.2019	31.12.2018
Issued to banks:	1 868 388	1 229 675
guarantees	1 822 039	1 224 617
confirmed export letters of credit	46 349	5 058
Issued customers entities	10 087 707	11 222 563
guarantees	7 048 690	6 824 237
securities' underwriting guarantees	2 982 379	4 320 967
sureties	56 638	77 359
Issued to budget entities:	682 865	162 540
guarantees	29 070	13 192
securities' underwriting guarantees	653 795	149 348
Total	**12 638 960**	**12 614 778**

Off-balance sheet commitments received

Off-balance sheet commitments received by entity

	31.12.2019	31.12.2018
Financial received from:	1 297 658	1 085 713
banks	1 297 658	885 739
customers entities	-	199 974
budget entities	-	-
Guarantees received from:	18 071 470	20 181 274
banks	4 896 962	3 556 811
clients entities	12 159 551	15 621 321
budget entities	1 014 957	1 003 142
Total	**19 369 128**	**21 266 987**

Moreover, the Group 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	REGISTRATION DATE	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

(in PLN thousand)

47. Other capital and reserves, retained earnings and profit for the period

The table below presents the structure of the Group'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	8 787 844	9 137 113
Revaluation reserves, in this:	359 668	202 663
remeasurements of the defined benefit liabilities (net of tax)	(74 718)	(72 300)
revaluation of debt financial instruments and loans measured at fair value through other comprehensive income (net of tax)	199 096	94 536
revaluation or sale of investments in equity instruments designated at fair value through other comprehensive income (net of tax)	132 612	138 680
revaluation of hedging financial instruments (net of tax)	102 678	41 747
Other supplementary capital, in this:	398 238	406 460
supplementary capital	354 419	362 641
bonds convertible into shares - equity component	28 819	28 819
fund for brokerage activities	15 000	15 000
Other capital and reserves	**20 665 430**	**20 865 916**
Retained earnings	293 340	(618 820)
Net profit for the period	2 165 047	2 287 160
Retained earnings and net profit for the period	**2 458 387**	**1 668 340**
Total	**23 123 817**	**22 534 256**

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. Non - controlling interests

The below table presents the information for each of the subsidiaries that have non-controlling interests that are material to the Group

NAME OF THE SUBSIDIARY	COUNTRY OF INCORPORATION AND PLACE OF BUSINESS	PERCENTAGE SHARE OF NON-CONTROLLING INTERESTS IN SHARE CAPITAL / VOTING RIGHTS		NET PROFIT FOR THE PERIOD ATTRIBUTABLE TO NON-CONTROLLING INTERESTS		ACCUMULATED NON-CONTROLLING INTERESTS	
		31.12.2019	31.12.2018	2019	2018	31.12.2019	31.12.2018
Pekao Financial Services Sp. z o.o.	Poland	33.50	33.50	1 570	650	11 739	11 491
Total				**1 570**	**650**	**11 739**	**11 491**

The summarized financial information of each of the subsidiaries that are material to the Group are presented below

	PEKAO FINANCIAL SERVICES SP. Z O.O.	
	31.12.2019	31.12.2018
Loans and advances to banks	11 319	12 114
Intangible assets	15 284	11 706
Property, plant and equipment	16 077	10 185
Other items of assets	8 594	8 775
TOTAL ASSETS	**51 274**	**42 780**
Amounts due to customers	5 215	-
Other liabilities	9 340	6 724
Other items of liabilities	1 679	1 755
TOTAL LIABILITIES	**16 234**	**8 479**

	PEKAO FINANCIAL SERVICES SP. Z O.O.	
	2019	2018
Revenue	64 545	53 796
Net profit for the period	4 687	3 926
Other comprehensive income	(23)	(21)
Total comprehensive income	**4 664**	**3 905**
Dividends paid to non-controlling interests	1 214	-
Cash flows from operating activities	17 250	9 774
Cash flows from investing activities	(10 948)	(6 034)
Cash flows from financing activities	(7 097)	(5 000)
Net change in cash and cash equivalents	(795)	(1 260)
Cash and cash equivalents at the beginning of the period	12 117	13 377
Cash and cash equivalents at the end of the period	11 322	12 117

Notes to the financial statements (cont.)

(in PLN thousand)

49. Additional information to the consolidated cash flow statement

Cash and cash equivalents

	31.12.2019	31.12.2018
Cash and amounts due from Central Bank	5 162 682	13 026 584
Loans and receivables from banks with maturity up to 3 months	1 788 290	2 212 682
Cash and Cash equivalents presented in the cash flow statement	**6 950 972**	**15 239 266**

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 1.01.2019	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 31.12.2019
					THE EFFECT OF CHANGES IN FOREIGN EXCHANGE RATES	OTHER CHANGES	
Debt securities issued	5 230 814	-	5 230 814	1 040 362	(3 487)	40 148	6 307 837
Subordinated liabilities	2 012 485	-	2 012 485	750 000	-	2 008	2 764 493
Loans and advances received	4 060 142	-	4 060 142	1 099 798	33 498	636	5 194 074
Lease liabilities	7 142	578 047	585 189	(199 461)	-	21 477	407 205
Total	**11 310 583**	**578 047**	**11 888 630**	**2 690 699**	**30 011**	**64 269**	**14 673 609**

	BALANCE AS AT 1.01. 2018	CHANGES FROM FINANCING CASH FLOWS	NON-CASH CHANGES		BALANCE AS AT 31.12.2018
			THE EFFECT OF CHANGES IN FOREIGN EXCHANGE RATES	OTHER CHANGES	
Debt securities issued	2 771 399	2 468 592	11 206	(20 383)	5 230 814
Subordinated liabilities	1 257 188	750 000	-	5 297	2 012 485
Loans and advances received	3 006 353	919 024	136 683	(1 918)	4 060 142
Lease liabilities	-	-	-	7 142	7 142
Total	**7 034 940**	**4 137 616**	**147 889**	**(9 862)**	**11 310 583**

50. 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.

(in PLN thousand)

Related party transactions

Related party transactions as at 31 December 2019

NAME OF ENTITY	RECEIVABLES FROM LOANS 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	-	-	7 751	53 255	637	151
Entities of PZU S.A. Group excluding of Bank Pekao S.A. Group entities	10 113	-	763	9 135	121 845	10 647	1 513
Key management personnel of the Bank Pekao S.A.	38	-	-	-	9 538	-	-
Total	**10 406**	**-**	**763**	**16 886**	**184 638**	**11 284**	**1 664**

Receivables from loans and placements by contractual maturity

31.12.2019	CURRENT (*)	UP TO 1 MONTH	BETWEEN 1AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
PZU S.A. – the Bank's parent entity	5	250	-	-	-	-	255
Entities of PZU S.A. Group excluding of Bank Pekao S.A. Group entities	13	10 100	-	-	-	-	10 113
Key management personnel of the Bank Pekao S.A.	-	-	-	-	38	-	38
Total	**18**	**10 350**	**-**	**-**	**38**	**-**	**10 406**

(*) Current receivables include Nostro account and cash collaterals.

Liabilities from loans and deposits by contractual maturity

31.12.2019	CURRENT (*)	UP TO 1 MONTH	BETWEEN 1AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 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 of Bank Pekao S.A. Group entities	120 573	13	27	122	1 110	-	121 845
Key management personnel of the Bank Pekao S.A.	8 327	52	56	1 103	-	-	9 538
Total	**182 155**	**65**	**83**	**1 225**	**1 110**	**-**	**184 638**

(*) Current liabilities include Loro account and cash collaterals.

Notes to the financial statements (cont.)

(in PLN thousand)

Receivables from loans and placements 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 of Bank Pekao S.A. Group entities	-	-	-	10 113	-	10 113
Key management personnel of the Bank Pekao S.A.	-	-	-	38	-	38
Total	**-**	**-**	**-**	**10 406**	**-**	**10 406**

Liabilities from 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 of Bank Pekao S.A. Group entities	2 561	857	469	117 089	869	121 845
Key management personnel of the Bank Pekao S.A.	3 159	101	9	6 269	-	9 538
Total	**5 754**	**958**	**478**	**176 579**	**869**	**184 638**

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	492	23 722	-	134
Entities of PZU S.A. Group excluding of Bank Pekao S.A. Group entities	421	-	2 663	6 727	54 158	547	1 891
Key management personnel of the Bank Pekao S.A.	440	-	-	-	6 609	-	-
Total	**865**	**-**	**2 767**	**7 219**	**84 489**	**547**	**2 025**

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 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
PZU S.A. – the Bank's parent entity	-	4	-	-	-	-	4
Entities of PZU S.A. Group excluding of Bank Pekao S.A. Group entities	6	301	21	93	-	-	421
Key management personnel of the Bank Pekao S.A.	-	-	-	39	9	392	440
Total	**6**	**305**	**21**	**132**	**9**	**392**	**865**

(*) Current receivables includude Nostro accounts 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 1 AND 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 of Bank Pekao S.A. Group entities	49 406	4 752	-	-	-	-	54 158
Key management personnel of the Bank Pekao S.A.	6 499	3	1	106	-	-	6 609
Total	**79 627**	**4 755**	**1**	**106**	**-**	**-**	**84 489**

(*) Current liabilities include Loro accounts 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 of Bank Pekao S.A. Group entities	-	-	-	421	-	421
Key management personnel of the Bank Pekao S.A.	-	-	392	48	-	440
Total	**-**	**-**	**392**	**473**	**-**	**865**

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 of Bank Pekao S.A. Group entities	743	1 356	232	50 319	1 508	54 158
Key management personnel of the Bank Pekao S.A.	3 207	130	16	3 254	2	6 609
Total	**3 984**	**1 486**	**248**	**77 261**	**1 510**	**84 489**

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 COMMISSION EXPENSE	INCOME FROM DERIVATIVES AND OTHER	EXPENSES FROM DERIVATIVES AND OTHER
PZU S.A. – the Bank ‘s parent entity	654	(621)	18 145	(681)	153	(2 026)
Entities of PZU S.A. Group excluding the Bank Pekao S.A. Group entities	608	(1 579)	48 248	(143)	1 949	(24 479)
Key management personnel of the Bank Pekao S.A.	9	(41)	1	-	-	-
Total	**1 271**	**(2 241)**	**66 394**	**(824)**	**2 102**	**(26 505)**

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 parent entity	990	(238)	1 769	(2)	376	(7 443)
Entities of PZU S.A. Group excluding the Bank Pekao S.A. Group entities	300	(512)	28 682	(147)	6 856	(8 085)
Key management personnel of the Bank Pekao S.A.	2	(64)	1	-	-	-
Total	**1 292**	**(814)**	**30 452**	**(149)**	**7 232**	**(15 528)**

Notes to the financial statements (cont.)

(in PLN thousand)

Off-balance sheet financial liabilities and guarantees as at 31 December 2019

NAME OF ENTITY	GRANTED		RECEIVED	
	FINANCIAL	GUARANTEES	FINANCIAL	GUARANTEE
PZU S.A. – the Bank's parent entity	2 801	15 000	-	489 728
Entities of PZU S.A. Group excluding of Bank Pekao S.A. Group entities	665	10 000	-	-
Key management personnel of the Bank Pekao S.A.	172	-	-	-
Total	**3 638**	**25 000**	**-**	**489 728**

Off-balance sheet financial commitments and guarantees 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 of Bank Pekao S.A. Group entities	-	-	-	-	665	-	665
Key management personnel of the Bank Pekao S.A.	-	-	-	-	172	-	172
Total	**-**	**-**	**-**	**-**	**3 638**	**-**	**3 638**
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
Total	**-**	**25 000**	**-**	**-**	**-**	**-**	**25 000**
Guarantees received							
PZU S.A. – the Bank's parent entity	-	-	-	-	-	489 728	489 728
Total	**-**	**-**	**-**	**-**	**-**	**489 728**	**489 728**

Notes to the financial statements (cont.)

(in PLN thousand)

Off-balance sheet financial commitments and guarantees by currency

31.12.2019	EUR	USD	CHF	PLN	OTHER	TOTAL
FINANCIAL COMMITMENTS GRANTED						
PZU S.A. – the Bank's parent entity	-	-	-	2 801	-	2 801
Entities of PZU S.A. Group excluding of Bank Pekao S.A. Group entities	-	-	-	665	-	665
Key management personnel of the Bank Pekao S.A.	-	-	-	172	-	172
Total	**-**	**-**	**-**	**3 638**	**-**	**3 638**
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
Total	**-**	**-**	**-**	**25 000**	**-**	**25 000**
Guarantees received						
PZU S.A. – the Bank's parent entity	489 728	-	-	-	-	489 728
Total	**489 728**	**-**	**-**	**-**	**-**	**489 728**

Notes to the financial statements (cont.)

(in PLN thousand)

Off-balance sheet financial liabilities and guarantees as at 31 December 2018

NAME OF ENTITY	GRANTED		RECEIVED	
	FINANCIAL	GUARANTEES	FINANCIAL	GUARANTEE
PZU S.A. – the Bank's parent entity	2 818	15 000	-	494 500
Entities of PZU S.A. Group excluding of Bank Pekao S.A. Group entities	617	16 000	-	6 000
Key management personnel of the Bank Pekao S.A.	488	-	-	-
Total	**3 923**	**31 000**	**-**	**500 500**

Off-balance sheet financial commitments and guarantees 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 of Bank Pekao S.A. Group entities	-	20	-	-	597	-	617
Key management personnel of the Bank Pekao S.A.	-	-	-	75	412	1	488
Total	**-**	**20**	**-**	**75**	**3 827**	**1**	**3 923**
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
Total	**-**	**99**	**6 051**	**24 850**	**-**	**-**	**31 000**
Guarantees received							
PZU S.A. – the Bank's parent entity	-	-	-	-	-	494 500	494 500
Entities of PZU S.A. Group excluding the Bank Pekao S.A. Group entities	-	-	6 000	-	-	-	6 000
Total	**-**	**-**	**6 000**	**-**	**-**	**494 500**	**500 500**

Notes to the financial statements (cont.)

(in PLN thousand)

Off-balance sheet financial commitments and guarantees by currency

31.12.2018	EUR	USD	CHF	PLN	OTHER	TOTAL
FINANCIAL COMMITMENTS GRANTED						
PZU S.A. – the Bank's parent entity	-	-	-	2 818	-	2 818
Entities of PZU S.A. Group excluding of Bank Pekao S.A. Group entities	-	-	-	617	-	617
Key management personnel of the Bank Pekao S.A.	-	-	-	488	-	488
Total	**-**	**-**	**-**	**3 923**	**-**	**3 923**
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
Total	**-**	**-**	**-**	**31 000**	**-**	**31 000**
Guarantees received						
PZU S.A. – the Bank's parent entity	494 500	-	-	-	-	494 500
Entities of PZU S.A. Group excluding the Bank Pekao S.A. Group entities	-	-	-	6 000	-	6 000
Total	**494 500**	**-**	**-**	**6 000**	**-**	**500 500**

(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 2019 and 2018.

Remuneration expenses of Supervisory Boards and Management Boards of subsidiaries

	VALUE OF BENEFITS	
	2019	2018
Companies' Management Boards		
Short-term employee benefits	13 551	16 391
Post-employment benefits	1 590	1 635
Long-term benefits	1 180	1 932
Paid termination benefits	1 726	2 162
Total	**18 047**	**22 120**
Companies' Supervisory Boards		
Short-term employee benefits	732	746
Total	**732**	**746**

51. Repo and reverse repo transactions

The Group increases its funds by sales transactions 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 Group 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.

Securities composing the balance sheet portfolio of the Group and treated as repo and sell-buy back transactions are not derecognized from the statement of financial position due to the fact that the Group holds all the benefits and the risk deriving from these assets.

(in PLN thousand)

	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 Group 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 reverse-repo and buy-sell back transactions are not disclosed at the statement of financial position due to the fact that the Group do not holds all the advantages of risks and awareness 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 subject to reverse repo and buy-sell back transactions constitute collateral accepted by the Group, which the Group 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)

52. 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 and Group companies employing at least 20 staff have created the ZFŚS Fund and are 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 consolidated statement of financial position, the Group netted the ZFŚS Fund assets against the ZFŚS Funds value, due to the fact that the assets of the ZFŚS Fund do not represent the assets of the Group. For this reason the amount pertaining to the ZFŚS Fund in the consolidated statement of financial position as at 31 December 2019 and 31 December 2018 was zero.

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	26 460	28 197
Cash at ZFŚS account	2 028	5 567
ZFŚS assets	**28 488**	**33 764**
ZFŚS value	**28 488**	**33 764**
	2019	**2018**
Deductions made to ZFŚS during fiscal period	25 658	25 326

53. 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.

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.