Bank Polski

1919/2019

Report of the PKO Bank Polski SA Group for the first quarter of 2019

Report publication date:
15 May 2019

SELECTED CONSOLIDATED FINANCIAL DATA	PLN million		EUR million	
	period from 01.01.2019 to 31.03.2019	period from 01.01.2018 to 31.03.2018	period from 01.01.2019 to 31.03.2019	period from 01.01.2018 to 31.03.2018
Net interest income/(expense)	2 455	2 212	571	529
Net fee and commission income/(expense)	746	737	174	176
Operating profit/(loss)	1 229	1 070	286	256
Profit before income tax	**1 234**	**1 076**	**287**	**258**
Net profit (including non-controlling shareholders)	**861**	**756**	**200**	**181**
Net profit attributable to equity holders of the parent company	**862**	**757**	**201**	**181**
Earnings per share for the period - basic (in PLN/EUR)	**0,69**	**0,61**	**0,16**	**0,14**
Earnings per share for the period - diluted (in PLN/EUR)	**0,69**	**0,61**	**0,16**	**0,14**
Total net comprehensive income	738	946	172	226
Net cash from/used in operating activities	(4 577)	(5 861)	(1 065)	(1 403)
Net cash from/used in investing activities	(3 813)	2 455	(887)	588
Net cash generated from/used in financing activities	(550)	393	(128)	94
Total net cash flows	(8 940)	(3 013)	(2 080)	(721)

SELECTED CONSOLIDATED FINANCIAL DATA	PLN million		EUR million	
	As at 31.03.2019	As at 31.12.2018	As at 31.03.2019	As at 31.12.2018
Total assets	325 833	324 255	75 752	75 408
Total equity	39 728	39 101	9 236	9 093
Capital and reserves attributable to equity holders of the parent company	39 739	39 111	9 239	9 096
Share capital	1 250	1 250	291	291
Number of shares (in million)	1 250	1 250	1 250	1 250
Book value per share (in PLN/EUR)	31,78	31,28	7,39	7,27
Diluted number of shares (in million)	1 250	1 250	1 250	1 250
Diluted book value per share (in PLN/EUR)	31,78	31,28	7,39	7,27
Total capital adequacy ratio	18,36%	18,88%	18,36%	18,88%
Tier 1	34 792	35 150	8 089	8 174
Tier 2	2 700	2 700	628	628

SELECTED SEPARATE FINANCIAL DATA	PLN million		EUR million	
	period from 01.01.2019 to 31.03.2019	period from 01.01.2018 to 31.03.2018	period from 01.01.2019 to 31.03.2019	period from 01.01.2018 to 31.03.2018
Net interest income/(expense)	2 231	2 039	519	488
Net fee and commission income/(expense)	596	610	139	146
Operating profit/(loss)	1 057	893	246	214
Profit before income tax	**1 057**	**893**	**246**	**214**
Net profit for the year	**737**	**614**	**171**	**147**
Earnings per share for the period - basic (in PLN/EUR)	**0,59**	**0,49**	**0,14**	**0,12**
Earnings per share for the period - diluted (in PLN/EUR)	**0,59**	**0,49**	**0,14**	**0,12**
Total net comprehensive income	597	813	139	195
Net cash from/used in operating activities	(1 430)	(3 717)	(333)	(890)
Net cash from/used in investing activities	(3 767)	2 430	(876)	582
Net cash generated from/used in financing activities	(3 736)	(1 800)	(869)	(431)
Total net cash flows	(8 933)	(3 087)	(2 079)	(739)

SELECTED SEPARATE FINANCIAL DATA	PLN million		EUR million	
	As at 31.03.2019	As at 31.12.2018	As at 31.03.2019	As at 31.12.2018
Total assets	298 403	300 413	69 375	69 863
Total equity	38 846	38 360	9 031	8 921
Share capital	1 250	1 250	291	291
Number of shares (in million)	1 250	1 250	1 250	1 250
Book value per share (in PLN/EUR)	31,08	30,69	7,22	7,14
Diluted number of shares (in million)	1 250	1 250	1 250	1 250
Diluted book value per share (in PLN/EUR)	31,08	30,69	7,22	7,14
Total capital adequacy ratio	20,76%	21,33%	20,76%	21,33%
Tier 1	34 649	35 070	8 055	8 156
Tier 2	2 700	2 700	628	628

SELECTED FINANCIAL STATEMENT ITEMS HAVE BEEN TRANSLATED INTO EUR AT THE FOLLOWING RATES	31.03.2019	31.12.2018	31.03.2018
average of NBP exchange rates at the end of monthly periods (income statement, statement of comprehensive income and cash flow statement items)	4.2978	4.2669	4.1784
mid NBP exchange rates at the date (statement of financial position items)	4.3013	4.3000	4.2085

Directors' Commentary to the financial results of the PKO Bank Polski SA Group for the three-month period ended 31 March 2019

Report publication date:
15 May 2019

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1.1. THE MOST IMPORTANT EVENTS IN THE FIRST QUARTER OF 2019

The Powszechna Kasa Oszczędności Bank Polski SA Group (the PKO Bank Polski SA Group, the Bank's Group) is one of the largest financial institutions in Poland, and one of the largest financial groups in Central and Eastern Europe. Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna (PKO Bank Polski SA or the Bank), the Bank Group's parent company, is the largest commercial bank in Poland and the leader on the Polish market in terms of the scale of its operations, equity, loans, savings, number of Customers and the size of the distribution network. The Bank's Group stands out on the Polish market due to its high financial results, which ensure its stable and safe growth.

PKO Bank Polski SA is celebrating its centenary in 2019. The Bank's history began on 7 February 1919, when the Chief of State Józef Piłsudski, the Prime Minister Ignacy Paderewski and the Minister of Post and Telegraph Hubert Linde signed a decree founding Pocztowa Kasa Oszczędnościowa (the Postal Savings Bank). Since that time, the Bank has set trends on the Polish market of financial institutions by introducing attractive products and services, investing in breakthrough technologies and implementing innovative solutions.

THE BEST MOBILE BANKING IN THE WORLD

PKO Bank Polski SA delivers the most developed mobile banking system in the world to its Customers – its IKO application for which the total number of activations reached almost 3.4 million as at the end of March 2019.

In February 2019, for the second time, IKO took first place in the ranking of mobile applications offered by 100 of the biggest banks in the world, published by Retail Banker International. The ranking is based on scores given by customers of the two largest application stores on iOS and Android. Having scored 4.8/5 based on more than 300 000 opinions, IKO left the mobile applications of other banks from all parts of the world behind.

THE BANK'S GROUP IS EXTENDING ITS OFFER OF PRODUCTS AND SERVICES

The Bank's Group offers modern and comprehensive solutions. The Bank meets the expectations of its retail and corporate Customers, taking into consideration their size, sector and stage of development. It provides the Customers with professional tools, which make it easier to control their finances and conduct business activities.

The actions carried out by PKO Bank Polski SA in the first quarter of 2019 include:

- offering a special deposit for the Bank's centenary with an interest rate of 1.919% p.a.; such deposits could be opened until 15 March 2019 for a period of 100 days;
- launching access to new e-banking services for firms: e-accounting (an accounting application integrated with the iPKO system, which includes the following functions: invoicing, finance management, quick access to payments, current sales and costs analyses and expense budgeting), and e-lawyer (a tool developed by the start-up TuPrawnik, which provides fast and comprehensive remote solutions to legal problems);
- introducing debit cards with the logos of selected Ekstraklasa (the Polish top football league) clubs and debit cards with an image prepared for the Bank's centenary.

PKO BP FINAT SP. Z O.O. AS THE OPERATOR OF THE EMPLOYEE CAPITAL PLANS REGISTRATION SYSTEM

PKO BP Finat sp. z o.o. and Polski Fundusz Rozwoju SA (the Polish Development Fund) signed an agreement on establishing the Employee Capital Plans Registration System, whose operation will start on 1 July 2019. The system will be integrated with all entities maintaining Employee Capital Plans in order to accumulate the information from the whole market on an on-going basis.

PKO BANK POLSKI SA PLACED "GREEN" GOVERNMENT BONDS

PKO Bank Polski SA, in cooperation with a consortium of foreign banks, organized and placed on the euro market an issue of green Polish government bonds with a value of EUR 2 billion. These bonds are used for raising funds for the financing of investments aimed at mitigating the adverse effect of human activity on the natural environment.

1.2. SELECTED FINANCIAL DATA

The activities in which the PKO Bank Polski SA Group engaged in the first quarter of 2019 allowed it to achieve very good financial results and to reinforce its leading position among the largest financial institutions in Poland.

Table 1. Basic financial data of the PKO Bank Polski SA Group (in PLN million)

	1 quarter of 2019	1 quarter of 2018	Change (y/y)
Net profit	862	757	+13.9%
Net interest income	2 455	2 212	+11%
Net fee and commission income	746	737	+1.2%
Result on business activities	3 494	3 206	+9%
Operating expenses	-1 685	-1 575	+7%
Tax on certain financial institutions	-248	-228	+8.8%
Net write-downs and impairment	-332	-333	-0,3%
Total assets	325 833	295 095	+10.4%
Total equity	39 728	36 557	+8.7%
ROA net	1,2%	1,1%	+0.1 p.p.
ROE net	10,1%	9,5%	+0.6 p.p.
C/I (cost to income ratio)	44,1%	45,3%	-1.2 p.p.
Net interest margin	3,43%	3,36%	+0.07 p.p.
Share of impaired loans	4,6%	5,4%	-0.8 p.p.
Cost of risk	-0,57%	-0,69%	+0.12 p.p.
Total capital ratio	18,36%	17,78%	+0.58 p.p.
Tier 1 capital ratio	17,03%	16,43%	+0.60 p.p.

In the first quarter of 2019, the PKO Bank Polski SA Group earned a profit of PLN 862 million, i.e. nearly 14% higher than in the corresponding period of the prior year. The more than two-digit increase in the net profit was a result of:

1) an improvement in the result on business activities, which amounted to PLN 3 494 million (+9.0% y/y) mainly due to an increase in net interest income of 11.0% y/y resulting from an increase in volumes and in the interest margin;
2) an increase in operating expenses (of 7.0% y/y), mainly regulatory, associated with an increase in the contributions to the Bank Guarantee Fund (BFG);
3) a stable level of net write-downs and impairment, accompanied by a decrease in the cost of risk to 0.57%.

As a result of the actions also taken also in the first quarter of 2019, the scale of the Group's activities increased significantly y/y:

- total assets reached almost PLN 326 billion (+PLN 31 billion y/y);
- the financing granted to the Customers increased to PLN 234 billion (+PLN 17 billion y/y);
- Customer deposits increased to PLN 237 billion (+PLN 23 billion y/y).

In the first quarter of 2019, the Bank's Group:

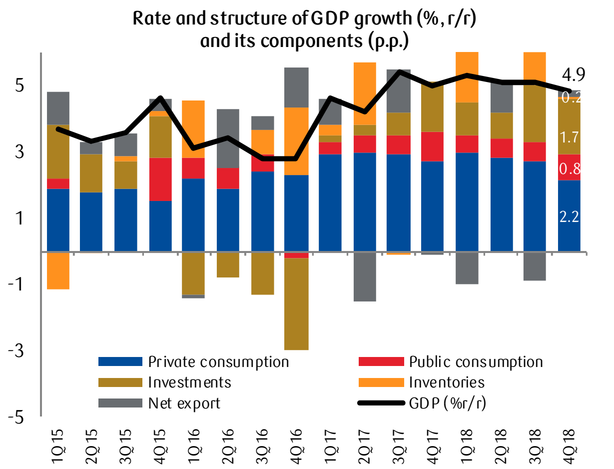
- maintained a high share in the loans and savings market at a level of 17.6% and 17.9% respectively;
- strengthened its leading position on the retail investment fund market and reached a market share of 21.8%;

- held first position on the market of housing loans for individuals[1] with a share of nearly 27% – loans granted in the first quarter of 2019 amounted to PLN 3.5 billion.

2. EXTERNAL BUSINESS CONDITIONS

2.1. MACROECONOMIC ENVIRONMENT

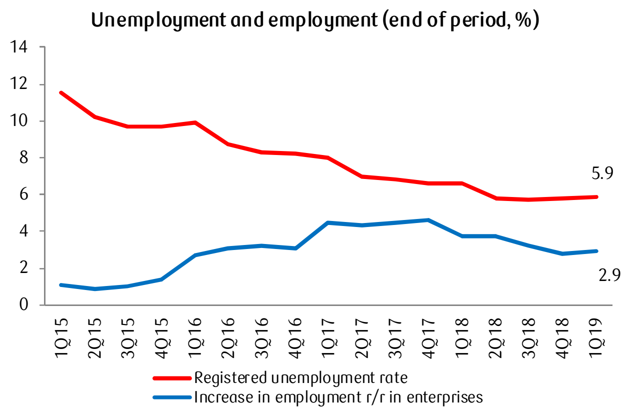
Macroeconomic factors affecting the national economy in the first quarter of 2019:



- **THE PACE OF ECONOMIC GROWTH IS SLOWING DOWN A LITTLE**

The rate of GDP growth (assessed based on available data) decreased to 4.2%–4.5% y/y in the first quarter of 2019 (compared with 4.9% y/y in the fourth quarter of 2018).

Consumption, supported with fast income growth and the highest consumer optimism ever, remained the key driver of economic growth in the first quarter of 2019. Capital expenditure in the public sector slowed down after the local elections but, at the same time, some increase was noted in private capital expenditure. The slowdown in economic growth expected in 2019 (mainly as a reaction to less favourable conditions in the external environment of the Polish economy) will be mitigated by the announced fiscal impulse, which will amount to approx. 1% of GDP in 2019.



- **A FURTHER IMPROVEMENT OF LABOUR MARKET CONDITIONS**

The registered unemployment rate recorded a slight increase (typical at the beginning of a year) and amounted to 5.9% in March compared to 5.8% as at the end of 2018. The unemployment rate was still falling after eliminating seasonal factors and reached a historically low level of 5.6% in March despite the labour market approaching the supply limit (a lack of unemployed persons willing to and capable of taking up a job). The rate of growth in wages and salaries in the enterprises sector stabilised in the second half of 2018 at about 7% y/y to drop subsequently (probably temporarily) to 5.7% y/y in March. Research of the economic conditions indicates a drop in demand for labour at the beginning of 2019, which, in combination with the existing supply limitations, will probably cause a certain slowdown in the rate of wages and salaries growth.

- **INFLATION RETURNED TO THE RANGE OF DEVIATION FROM THE NBP TARGET**

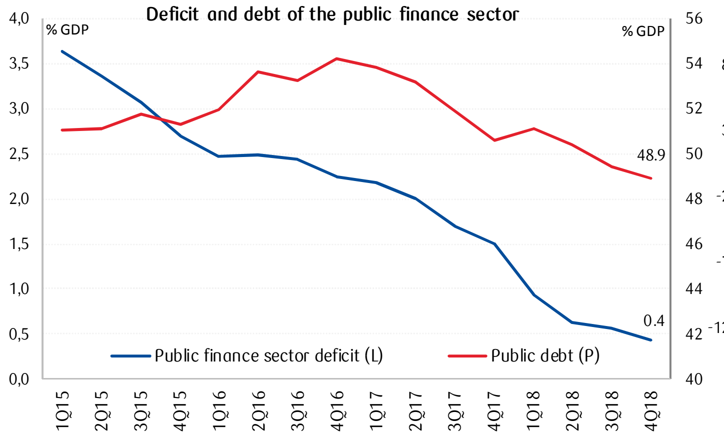
In the first quarter of 2019, CPI inflation returned to the acceptable range of deviation from the NBP target and amounted to 1.7% y/y in March compared to 1.1% y/y as at the end of 2018. The increase in inflation is due to an increase in food prices (as a result of last year's drought) and an increase in core inflation to the highest level in five years (1.4% y/y in March). Higher core inflation probably reflects an increase in the prices of services, which is driven by higher wages and salaries. The electricity prices, frozen (at least in the transitional period) at the end of 2018 level, remain a source of uncertainty as to the future inflation path.

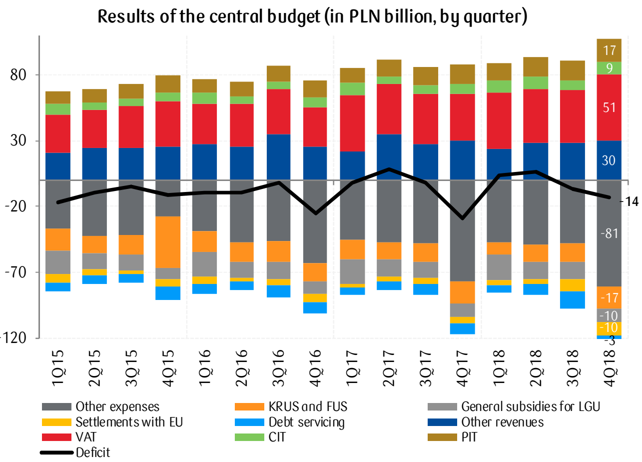
- **HISTORICALLY GOOD RESULTS OF THE PUBLIC FINANCE SECTOR**

The condition of the public finance sector in 2018 was exceptionally good. The public finance sector deficit amounted to 0.4% of GDP compared to 1.5% of GDP in 2017 and the public debt (according to ESA) dropped to 48.9% of GDP from 50.6% in 2017. The good results of the state budget (the lowest deficit since 1997 – PLN 10.4 billion) contributed to this achievement. The increase in revenues reflects the good condition of the economy and the further sealing of the tax system. On the expenditure side, it should be noted that the subsidy to the Social Insurance Fund (FUS) was

[1] Data of the Polish Bank Association

significantly lower than planned. The good result of the FUS reflects the good situation on the labour market, legalization of foreign labour and digitization of contribution collection. Data for January and February 2019 confirms the continuation of positive trends in the public finance sector, although the effects of sealing the tax system are decreasing. Despite a planned increase in public spending, there is no risk of exceeding the public finance sector deficit limit of 3% of GDP.





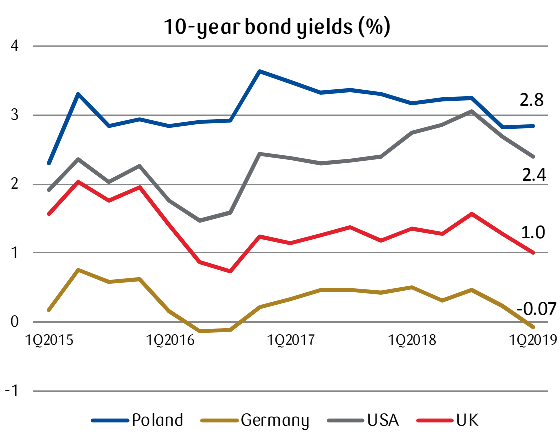
- **STABILIZATION OF THE MONETARY POLICY**

NBP's interest rates:

- reference 1.50%
- bills of exchange rediscount 1.75%
- lombard 2.50%

The NBP interest rates have remained at historically low levels for five years (the reference rate being 1.50%). The Monetary Policy Council's opinion that stabilizing interest rates, even over a horizon of up to the end of 2020, is justified, results mainly from the inflation level (including core inflation) being below the target, the expected gradual drop in the rate of economic growth and the fact that the tense situation on the labour market does not translate into increased price pressure. The fears concerning the pro-inflation effects of the fiscal package made some of the Monetary Policy Council members speak of potential interest rate increases; however, the chances for such proposal being supported by the majority of the Council members seem small.

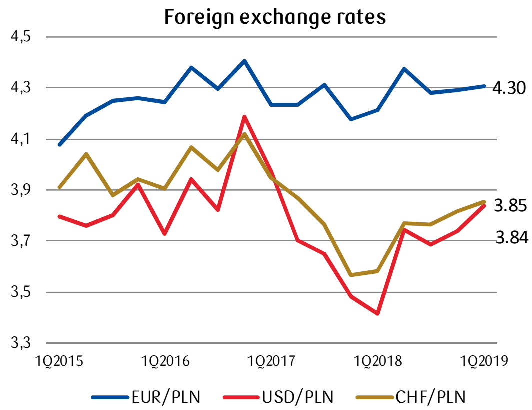
2.2. SITUATION ON THE FINANCIAL MARKET



- **INTEREST RATE MARKET**

In the first quarter of 2019, the return on the Polish 2-year Treasury bonds increased by 35 b.p., whereas the return on 5-year bonds and 10-year bonds remained stable (compared with the end of 2018). The sale of bonds with shorter maturities was mainly due to domestic factors which caused a decrease in the probability of interest rate decreases and even some speculation about a possible increase. The plans to increase social transfers (e.g. extending the 500+ programme, "thirteenth pension" for retirees) announced by the ruling party affected investor expectations concerning the increased supply of bonds on the primary market in consecutive quarters due to the potentially higher demand of the state budget for credit. An increase in return on securities with longer maturities was suppressed by the situation on the main global markets, where the returns on 10-year German bonds dropped below zero, and the returns on American securities reflected the end of the interest rate growth cycle or even the possibility of a decrease.

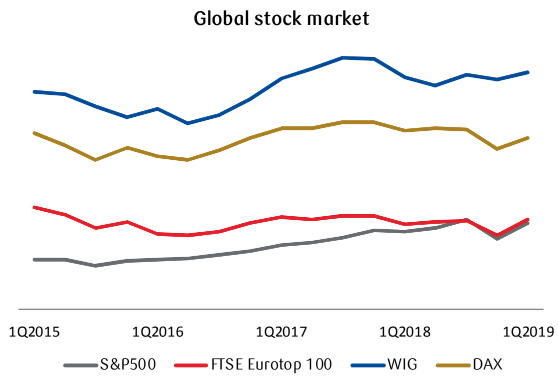
- **CURRENCY MARKET**



The EUR/USD exchange rate varied between 1.12 and 1.16 in the first quarter of 2019 (1.12 as at the end of the quarter). The EUR/PLN rate varied between 4.26 and 4.35 and amounted to 4.30 on the last day of the quarter. In the first months of the year, the euro lost against the dollar mainly due to the disappointing situation in the euro zone and the related more and more "dove-like" approach of the ECB to monetary policy issues. The American central bank also adopted a less stringent approach and e.g. gave up its plans to increase interest rates in 2019. The Polish zloty exchange rate against the euro did not change significantly until mid-February. After the NBP President suggested a possibility of decreasing the interest rates in the event of a major economic slowdown, the EUR/PLN exchange rate increased to 4.35. However, the market quickly verified the slow-down scenario and the interest rate decreases when the ruling party announced its plans to extend the social programmes. The Polish zloty gained against the common currency as a result (the rate went down to 4.30).

- **STOCK MARKET**

Investments on global stock markets generated profit in the first quarter of 2019. The main Polish stock exchange index, WIG, increased by 3.4%, the medium-sized companies index mWIG increased by 6.2%, and the small companies index sWIG80 – by 12.5%. The bounce was due to a reaction of the market to the poor end of the previous year and softer policies of the central banks. The fears of an economic slowdown in the USA and in the euro zone made the Fed and ECB withdraw from the announced interest rate increases, which increased the relative attractiveness of shares as a class of investment assets and was generally perceived by investors as an action stimulating economic activity.



Despite the fact that the economic situation was better than expected and the GDP growth prospects increased significantly, the results of the Warsaw Stock Exchange (WSE) were relatively poor compared with most foreign stock exchanges. Uncertainty in the regulatory environment did not encourage investments in the banking and power sectors, and the companies from these sectors account for a large part of the main stock market indices. The small and medium companies' indices did better and more accurately reflected the economic situation, which was better than expected. Additionally, such companies were perceived by investors as underappreciated after the last year's sell-off caused by the problems of some investment fund companies.

2.3. STANDING OF THE POLISH BANKING SECTOR

NET PROFIT AND PROFITABILITY[2]

In the period from January to February 2019, banks operated in the conditions of a stable developing economy, the good financial conditions of households and enterprises and low interest rates.

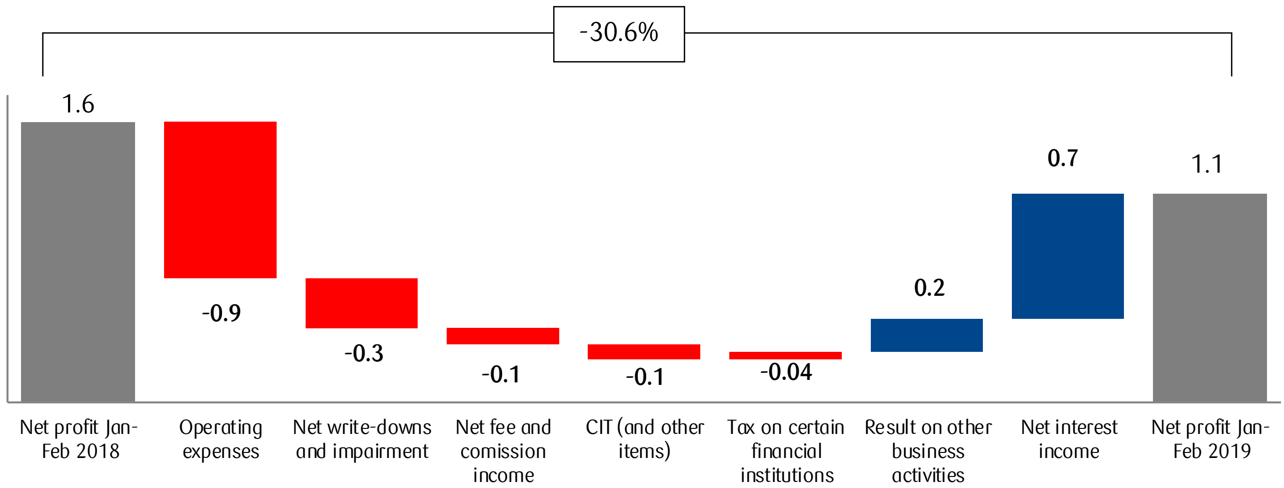
PLN 1.1 billion	-30.6% y/y	6.9% (-0.1 p.p. y/y)
net profit of the banking sector earned in January-February 2019	change in the net profit of the banking sector	return on equity of the banking sector as at the end of February 2019

During the period, the banking sector earned a net profit of PLN 1.1 billion, i.e. (-)30.6% lower than in the corresponding period of 2018. An increase in operating expenses, driven mainly by a strong growth in the amount of payments due to the BFG, had the biggest adverse effect on the net profit. In addition to the increase in operating expenses, the net profit was negatively affected by deterioration in net write-downs and the continued decrease in net

[2] Based on the NBP data; calculations of PKO Bank Polski SA.

fee and commission income. Increases in the net interest income and the profit/loss on other business activities had an opposite effect.

Change in the net profit of the banking sector (PLN billion)



The loan portfolio quality improved as at the end of February 2019 (in relation to the previous year). The share of non-performing loans granted to non-financial entities dropped to 6.8% compared to 7.7% as at the end of February 2018, which was mainly due to an improvement in the quality of all main categories of loans (corporate, consumer and housing).

Return on equity of the banking sector deteriorated as at the end of February 2019; ROE[3] decreased to 6.9% from 7.1% as at the end of December 2018 and 7.0% as at the end of February 2018.

LOAN AND DEPOSIT MARKET[4]

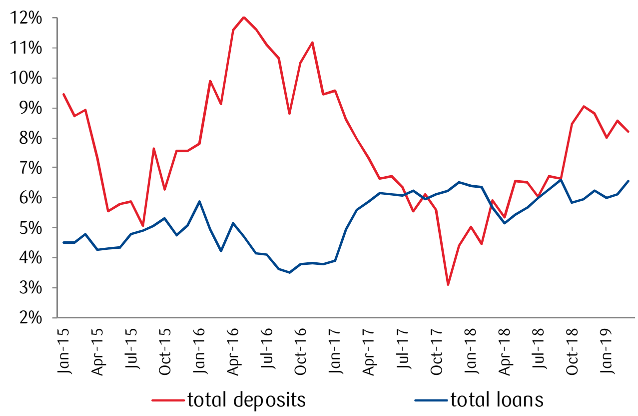
In the first quarter of 2019, the stable and sustainable growth of the Polish economy had a positive effect on the situation on the loan and deposit market. As at the end of the first quarter of 2019, the overall rate of growth of loans (without taking into account the changes in foreign exchange rates) accelerated to 6.5% y/y (6.2% as at the end of 2018), and the rate of growth of deposits slowed down slightly to 8.2% y/y (8.8% as at the end of 2018).

The rate of growth of loans slowed down slightly in the first quarter of 2019 for households:

– housing loans in PLN: to 11.4% (11.6% as at the end of 2018);

– consumer loans: to 8.3% (8.6% as at the end of 2018).

Changes in total loans and total deposits (y/y)



Own funds remained a significant source of financing of the capital expenditure projects of enterprises. Given such conditions, the rate of growth of corporate loans (without taking into account changes in foreign exchange rates) slowed down slightly in the first quarter of 2019 to 7.1% (7.4% y/y as at the end of 2018).

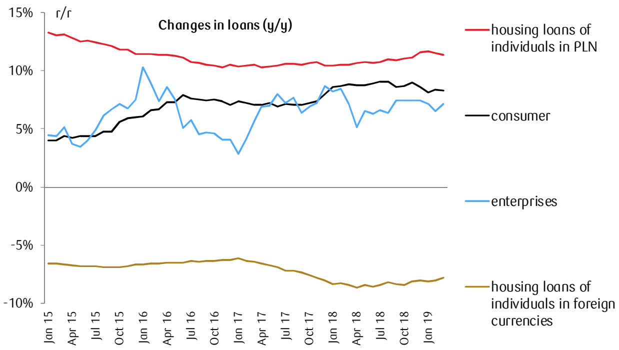
The households' risk aversion remained at the same level in the first quarter of 2019, which resulted from the low rates of return on investment funds. Although the situation improved in relation to the 4th quarter of 2018, the balance of investment fund assets held by individuals continued to decrease y/y (-1.2% compared to -3.3% y/y as at the end of 2018).

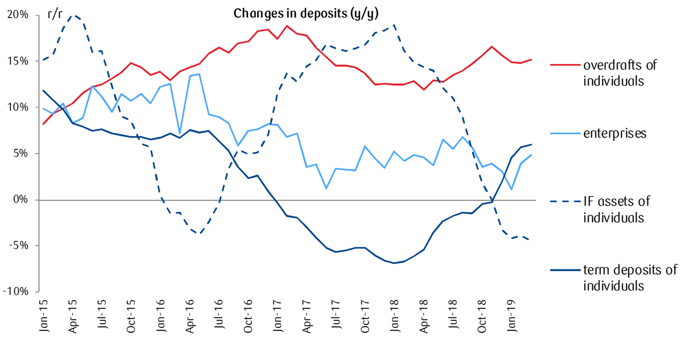
In the first quarter of 2019, the estimated value of household savings increased by approx. PLN 34.8 billion (+2.6%) to PLN 1 372.5 billion. The annual rate of growth of term deposits of individuals continued to accelerate to 5.9% (2.0% as at the end of 2018). At the same time, the high, two-digit rate of growth of current deposits of individuals slowed

[3] Return on equity (ROE) – the ratio of the net profit of the banking sector in the last 12 months to average equity in the period.
[4] Based on the NBP data; calculations of PKO Bank Polski SA.

down a little (to 15.2% vs 15.7% as at the end of 2018). Given the good financial condition of households, the annual rate of growth of their deposits accelerated to 4.9% (3.1% as at the end of 2018).

The situation on the investment fund market encouraged the flow of deposits into the banking sector and had a positive effect on liquidity. Therefore, the loans/deposits ratio decreased to 96.1% as at the end of the first quarter of 2019 (-0.8 p.p. vs the end of 2018).

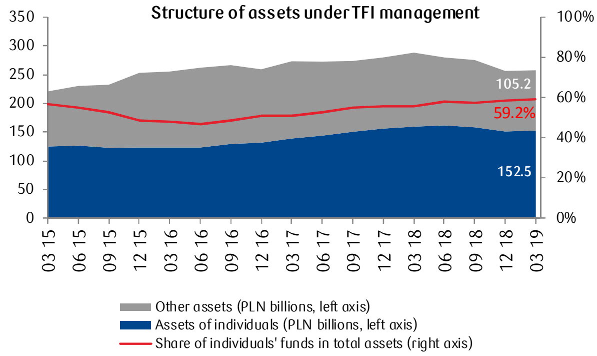




2.4. STANDING OF THE POLISH NON-BANKING SECTOR

INVESTMENT FUND MARKET

In the first quarter of 2019, the situation on the Polish investment fund market was affected, among others, by an upturn on the Warsaw Stock Exchange. At the same time, the level of average annual rates of return realized in the main market segments was lower than or close to the average interest rates on new term deposits, and the perception of the investment fund market by investors could still be affected by the controversies associated with the operations of some Investment Fund Management Companies (Towarzystwa Funduszy Inwestycyjnych – TFI) in 2018. This determined a high level of aversion to the risk of investing in investment fund participation units and the continued outflow of funds of individuals from that market.



In the first quarter of 2019, the balance of payments made by individuals to the investment fund market and redemptions of their funds remained negative, but nevertheless it was significantly lower than in the fourth quarter of 2018 (PLN -1.0 billion and PLN -5.1 billion, respectively). The total net assets of TFIs increased by PLN 1.0 billion (+0.4%) in the first quarter of 2019 to PLN 257.6 billion. The IF assets held by individuals increased by PLN 1.6 billion (+1.0%); the IF assets held by institutional entities decreased by PLN -0.6 billion (-0.6%).

FACTORING MARKET

In the first quarter of 2019, there was a continued high demand for factoring services, and the total transactions of firms associated in the Polish Factors Association went up by 18.4% achieving a level of PLN 62.6 billion. Nearly 16 thousand business entities availed themselves of the services of factoring firms.

Non-recourse factoring continued to be the most popular among entrepreneurs, and its share in the total turnover of factoring firms approximated 50.1%. The share of the second largest market segment, i.e. recourse factoring was 33%. Manufacturing and distribution enterprises continued to use factoring services most frequently.

2.5. THE UKRAINIAN MARKET

ECONOMIC CONDITION

After the acceleration to 3.5% y/y in the fourth quarter of 2018, the economic growth most probably slowed down slightly at the beginning of 2019. The negative effect of a decrease in industry output (-2.6% y/y on average in January-February vs -0.4% y/y in the fourth quarter) is offset by growing retail sales (7.5% y/y in January-February vs 4.8% y/y in the fourth quarter) and a decrease in trade deficit (due to a decrease in import at the turn of the year). An increase in consumption reflects the fast growth of wages and salaries (10.1% y/y in real terms in January-February vs 11.7% y/y on average in the fourth quarter) and the growing transfers of earnings from abroad.

Stabilization of the GDP growth, increase in retail sales, wages and salaries, and the improved collectability of taxes led to a visible improvement in taxable income, causing an increase in the state budget proceeds of 17.0% in 2018. At the same time, the faster growth in spending resulted in a bigger deficit of the public finance sector (1.9% of GDP in 2018 vs 1.4% of GDP in 2017). The data for January 2019 shows stable growth of PIT inflows (approx. 23% y/y), acceleration of the growth rate of CIT inflows (approx. 53% y/y) and a visible drop in VAT inflows (-77.3% y/y) whose scale indicates some shifts in VAT payments and returns. As a result, a deficit of the central budget was recorded as at the end of January (for the first time since 2015).

Inflation continued a downward trend (8.8% y/y in February vs 9.8% y/y in December 2018 and 14.0% y/y a year before), which was also true about core inflation (7.8% y/y in February, the lowest since October 2017). This, in combination with the appreciation of the hryvnia (to 27.25 UAH/USD as at the end of March 2019 vs 27.69 UAH/USD as at the end of 2018), encouraged the central bank to change the communication policy. In March, the central bank maintained the interest rate at the same level of 18.0% (which had prevailed since September 2018), but at the same time it announced that, based on its April macroeconomic projections, it could start a cycle of interest rate decreases.

UKRAINIAN BANKING SECTOR

In accordance with NBU data, the number of banks operating in Ukraine did not change in the period from January to February 2019 (77 vs 82 a year before). The value of total assets of the Ukrainian banking system decreased slightly to UAH 1 354.7 billion as at the end of February vs UAH 1 360.8 billion as at the end of December 2018. At the same time, it was significantly higher than in the first quarter of 2018 (UAH 1 295.8 billion). An increase in equity to UAH 169.2 billion in February (compared to UAH 155.7 billion as at the end of December 2018) resulted in an improvement in the simple leverage ratio to 12.5% from 11.4% as at the end of 2018. The capital adequacy ratio increased in February to 16.9% vs 16.2% as at the end of December (and 10% required by the regulator).

The volume of loans amounted to UAH 1 085.7 billion as at the end of February 2019 (- UAH38.3 billion from the beginning of the year). Its decrease resulted (mainly) from a decrease in the value of foreign currency loans granted to residents (mainly corporate entities), which was associated with the above-mentioned appreciation of the hryvnia (in particular, in late February and early March). The balance of deposits maintained at banks increased slightly in the period under discussion (UAH +3.9 billion) despite a decrease in foreign currency deposits (mainly of private enterprises) of UAH 8.6 billion. A strong growth in deposits of the public finance sector in the period discussed could indicate the temporary nature of the high state budget deficit after January. The loan to deposit ratio (LtD) decreased to 113.1% as at the end of February vs 117.6% in December and 118.0% a year before.

The banks are continuing to improve their profitability. ROA amounted to 3.84% as at the end of February (vs 1.65% in 2018), whereas ROE amounted to 32.1% (vs 14.26% in 2018).

2.6. REGULATORY AND LEGAL ENVIRONMENT

The financial and organizational situation of the PKO Bank Polski SA Group and other financial sector entities was affected by new legal and regulatory solutions implemented in the first quarter of 2019, including:

SOLUTION	IMPACT
PAYMENTS TO BGF	
Resolutions of the BGF Board of February 2019 (9/2019 and 11/2019), which changed the obligations of the banking sector towards the bank deposit guarantee system by approx. 27% in total, including:	Increase in operating expenses, decrease in profit

- an increase in the contribution to the compulsory resolution fund of more than 108%;
- a decrease in the contribution to the guarantee fund of nearly 27%.

PRUDENTIAL AND CAPITAL REQUIREMENTS	
The Act on macroprudential supervision over the financial system and crisis management (Journal of Laws of 2017, item 1934 as amended), which, among other things, increases the capital conservation buffer from 1.875% to 2.5% as of 1 January 2019.	Increase in the minimum capital adequacy ratio
A NEW ACCOUNTING STANDARD	
The accounting standard IFRS 16, which from January 1, 2019 introduces new principles for identifying and accounting for leases, the consequences of which include elimination of the division of leases into operating and finance.	Increase in total assets and total equity & liabilities, decrease in capital ratios, change in the cost structure, increased tax on certain financial institutions
PROTECTION OF INVESTORS / CUSTOMERS	
The Act on amendment of certain acts in connection with introducing stronger supervision over the financial market and protection of investors on that market of 9 November 2018 (Journal of Laws of 218, item 2243), which introduced, among other things, changes concerning the dematerialization of covered bonds and bonds and registration of such securities as of 1 January 2019.	Impact on the structure of business activities
SEALING OF THE TAX SYSTEMS	
Amendment of the Act on exchanging tax information with other states (Journal of Laws of 2017, item 648 as amended), which imposes on banks, brokerage offices, investment funds and insurance companies an obligation to collect (by 30 June 2019) tax residence declarations from the customers who opened their accounts with them in the period from 1 January 2016 to 30 April 2017.	Increase in operating expenses
TAX CHANGES	
The Act amending the Personal Income Tax Act, the Corporate Income Tax Act, the Tax Code and certain other acts of 23 October 2018 (Journal of Laws of 2018, item 2193), which, as of 1 January 2019, introduced the following: - new obligations in respect of identifying and reporting to the Head of the National Revenue Administration the information on tax schemes (mandatory disclosure rules – MDR); - new withholding tax (WHT) principles applicable to some types of income payable to non-residents, including: • introducing an option (as an alternative to WHT) of charging 3% tax on interest on bonds issued before 1 January 2019 and interest on some loans granted before 1 January 2019; • tax exemption with respect to interest income and income from discount on some bonds issued after 1 January 2019, obtained on the territory of Poland; • extending the scope of the conditions that must be fulfilled by a non-resident to be considered "an actual owner" of the receivables obtained in order to apply exemption from WHT; - new transfer pricing regulations; - change in the principles for taxation of commercial property. The Act amending the Personal Income Tax Act, the Corporate Income Tax Act and certain other acts of 23 October 2018 (Journal of Laws of 2018, item 2159) changed the principles for treating expenses on cars as tax-deductible.	Varied impact on the financial result (and an increase in transaction charges)
INVESTMENT FUNDS	
The Regulation of the Minister of Finance of 13 December 2018, which as of 1 January 2019 introduced the maximum amount of the fixed fee payable to the management company for managing open-ended investment funds or specialist open-ended investment funds (Journal of Laws of 2018, item 2380).	Impact on the amount of revenues of investment fund companies

In the first quarter of 2019, the operations and results of the PKO Bank Polski SA Group were affected by the new legal solutions introduced in Ukraine (where the subsidiary KREDOBANK SA operates), including:

SOLUTION	IMPACT
BASIC INTEREST RATES	
Resolutions of the Management Board of the National Bank of Ukraine (NBU) no. 88/2018 and 199/2019, which maintained the discount rate at 18%	Impact on the net interest income and profitability of banks
THE NEW ACCOUNTING STANDARD IFRS 16	
The NBU decision no. 22/2019 on gradual transition to the new accounting standard IFRS 16 in the first quarter of 2019 and, consequently, the application of new principles for the identification and recognition of leases, which include elimination of the distinction between operating and finance leases.	Increase in total assets and total equity & liabilities, increase in liability ratios, decrease in capital ratios

2.7. THE FACTORS THAT MAY AFFECT THE FINANCIAL RESULTS OF THE BANK'S GROUP IN THE SECOND QUARTER OF 2019

The operations of the Bank's Group in subsequent quarters of 2019 could be affected by the following external conditions:

IN THE GLOBAL ECONOMY

- prolonged slowdown in the rate of growth of the global economy, including in particular the German industry (given the strong consumer sector);
- stabilization of interest rates in the United States and the continued mild approach of the European Central Bank;
- potential escalation of tension in the area of trade policy (probable alleviation of the conflict between USA and China and growth of tension between the USA and the European Union);
- uncertainty as to the ultimate form of and date of Brexit;
- effects of easing the economic policy in China, which may be noticeable in the second half of 2019;
- possible further growth of geopolitical tensions;
- the political and economic situation in Ukraine (also after the presidential election).

IN THE POLISH ECONOMY

- increased absorption of European funds and the peak of the investment cycle;
- a potential decrease in demand for Polish export due to a slowdown in the German economy;
- a fiscal impulse that might increase the rate of growth of consumption and GDP;
- high level of consumer optimism and a further increase in the disposable income of households;
- ease of tension on the labour market due to supply limitations (demographic factors, lowering of the retirement age) may be accompanied by a slightly lower demand for labour in the service sector;
- the possibility of maintaining high salary growth and a simultaneous reversal of the downward trend in the unemployment rate;
- stabilization of CPI inflation below the inflation target (2.50%) throughout 2019 and its increase above the target at the beginning of 2020 due to a deferred increase in electricity prices;
- stabilization of NBP interest rates and a high probability that the NBP interest rates will remain unchanged at least until the end of 2020;
- maintaining high interest in deposit and credit products (in particular in the retail segment, including housing).

NEW REGULATORY SOLUTIONS, INCLUDING:

- potential statutory solutions concerning foreign currency housing loans granted to households;
- potential statutory solutions concerning the transfer of funds accumulated in OFE to IKE or to ZUS;
- the Act on employee capital plans of 4 October 2018 (Journal of Laws of 2018, item 2215), which introduces the obligation to establish employee capital plans (PPK) from 1 July 2019 and regulates the principles for making payments to such plans;
- the Act amending the act on exchanging tax information with other states and certain other acts of 4 April 2019, which will impose additional information requirements on banks (it is expected to enter into force in the second quarter of 2019).

3. FINANCIAL RESULTS OF THE BANK'S GROUP

3.1. KEY FINANCIAL INDICATORS

The results achieved by the PKO Bank Polski SA Group are reflected in the key financial indicators, which are presented in the following table.

Table 2. Key financial indicators of the PKO Bank Polski SA Group

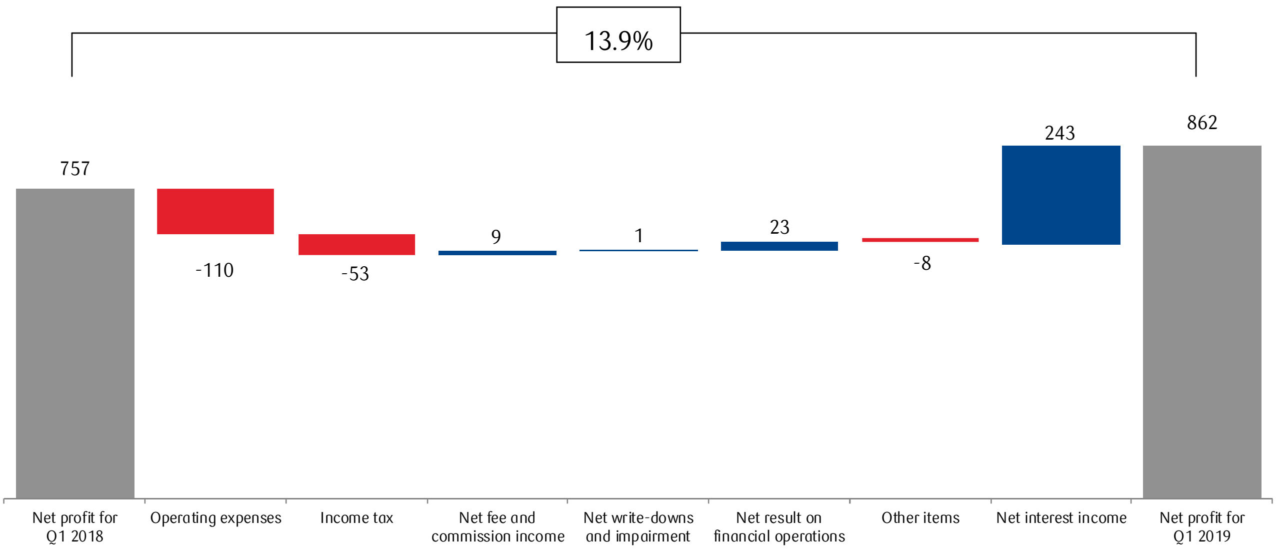
	31.03.2019	31.03.2018	Change
Net ROA (net profit/average balance of assets)	1,2%	1,1%	+0.1 p.p.
Net ROE (net profit/average balance of equity)	10,1%	9,5%	+0.6 p.p.
C/I (costs to income ratio)	44,1%	45,3%	-1.2 p.p.
Net interest margin (net interest income/average balance of interest-bearing assets)	3,43%	3,36%	+0.07 p.p.
Share of impaired loans	4,6%	5,4%	-0.8 p.p.
Cost of risk	-0,57%	-0,69%	+0.12 p.p.
Total capital ratio (own funds/total capital requirement*12.5)	18,36%	17,78%	+0.58 p.p.
Tier 1 capital ratio	17,03%	16,43%	+0.6 p.p.

3.2. CONSOLIDATED INCOME STATEMENT

Net interest income
Net fee and commission income
Net other income
Operating expenses
Net write-downs and impairment

The consolidated net profit of the PKO Bank Polski SA Group earned in the first quarter of 2019 amounted to PLN 862 million and was PLN 105 million (+13.9%) higher than in the corresponding period of 2018.

Change in the net profit of the PKO Bank Polski SA Group (in PLN million)



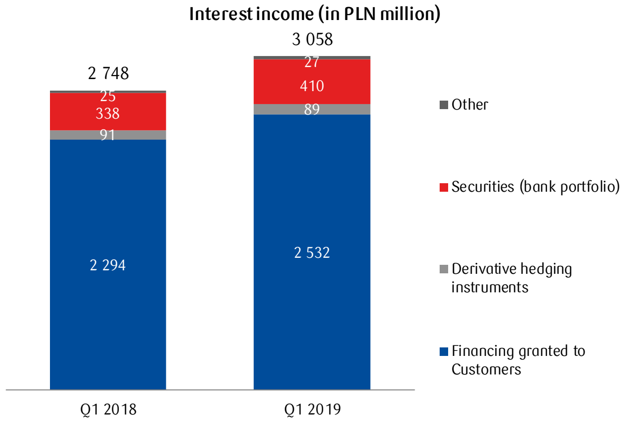
The result on business activities of the PKO Bank Polski SA Group for the first quarter of 2019 amounted to PLN 3 494 million and was PLN 288 million, i.e. 9.0%, higher y/y, mainly as a result of an increase in net interest income.

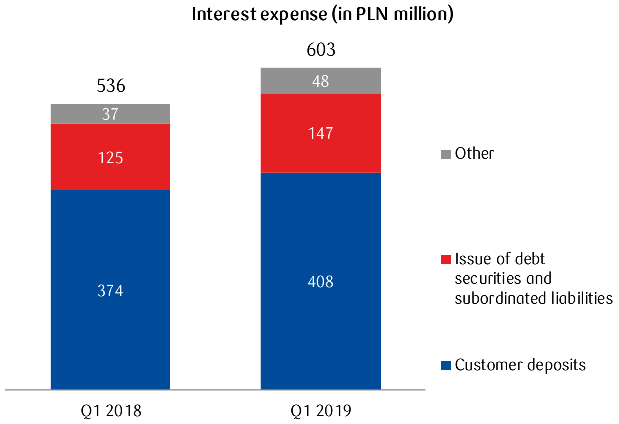
Table 3. Income statement of the PKO Bank Polski SA Group (in PLN million)

	01.01-31.03.2019	01.01-31.03.2018	Change (in PLN million)	Change (in %)
Net interest income	**2 455**	**2 212**	**243**	**11,0%**
Net fee and commission income	**746**	**737**	**9**	**1,2%**
Net other income	**293**	**257**	**36**	**14,0%**
Dividend income	0	0	0	x
Result on financial operations	77	54	23	42,6%
Foreign exchange result	140	104	36	34,6%
Net other operating income and expenses	76	99	-23	-23,2%
Result on business activities	**3 494**	**3 206**	**288**	**9,0%**
Operating expenses	-1 685	-1 575	-110	7,0%
Tax on certain financial institutions	-248	-228	-20	8,8%
Net operating income/expenses	**1 561**	**1 403**	**158**	**11,3%**
Net impairment allowances and write-downs	-332	-333	1	-0,3%
Share in profits and losses of associates and joint ventures	5	6	-1	-16,7%
Profit before tax	**1 234**	**1 076**	**158**	**14,7%**
Corporate income tax	-373	-320	-53	16,6%
Net profit (including non-controlling shareholders)	**861**	**756**	**105**	**13,9%**
Profits and losses of non-controlling shareholders	-1	-1	0	0,0%
Net profit	**862**	**757**	**105**	**13,9%**

NET INTEREST INCOME

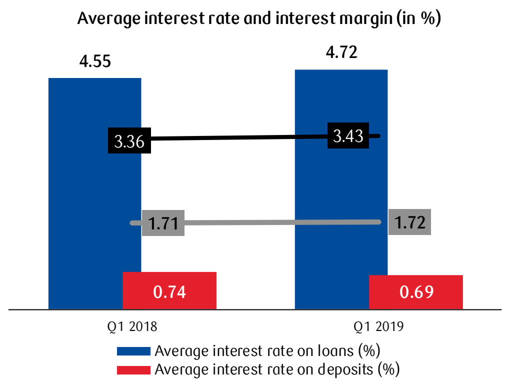
The net interest income for the first quarter of 2019 amounted to PLN 2 455 million, i.e. PLN 243 million more than in the first quarter of 2018. The higher net interest income resulted from an increase in volumes and interest margin.





The interest income amounted to PLN 3 058 million and was PLN 310 million higher than in the same period of 2018 mainly as a result of:

- an increase in income on loans and advances granted to Customers of PLN 238 million y/y – associated with an increase in the average volume of loan receivables of PLN 15 billion, accompanied by a change in their structure (an increase in the share of consumer loans and lease receivables at the expense of housing loans in foreign currencies), while the market levels of interest rates for PLN, CHF and EUR remained unchanged;
- a higher income on securities (+PLN 72 million y/y), mainly due to an increase in the average volume of PLN 7 billion resulting from the purchases of Treasury bonds,
- while the changes in other income were small and offset one another.



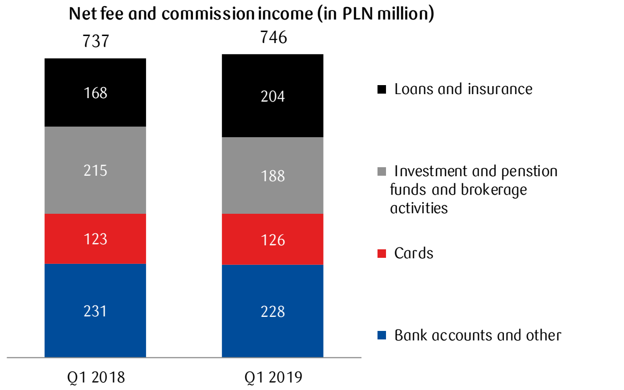
Interest expenses amounted to PLN 603 million and were PLN 67 million higher than in the corresponding period of 2018. The increase in interest expenses mainly resulted from an increase in the costs of the deposit base of PLN 34 million y/y, which was due to obtaining funds on term deposits (the Independence deposit and the Anniversary deposit).

The interest margin increased by approx. 0.07 p.p. y/y to 3.43% as at the end of the first quarter of 2019. The average interest on amounts due in respect of loans of the PKO Bank Polski SA Group amounted to 4.72% as at the end of the first quarter of 2019 and the average interest on total deposits was 0.69%, compared to 4.55% and 0.74%, respectively, as at the end of the first quarter of 2018.

NET FEE AND COMMISSION INCOME

The net fee and commission income for the first quarter of 2019 amounted to PLN 746 million and was PLN 9 million higher than in the same period of the previous year. The level of net fee and commission income was driven by:

- a higher net income on loans and insurance (+PLN 36 million y/y), mainly due to an increase in commissions on business loans and the sales of insurance products linked to consumer and housing loans;
- a higher net income on payment and credit cards (+PLN 3 million y/y), due to the higher number of cards and higher volumes of non-cash transactions;
- a lower net income on servicing bank accounts and other income (- PLN 3 million y/y), among other things related to a change in the structure of the accounts of Customers who choose less expensive accounts;
- a lower net income on investment and pension funds and brokerage activities (- PLN 27 million y/y), mainly due to a decrease in the fund sales and a change in the sales structure, as well as a change in the commission for fund management and lower commissions on transactions on the primary market.

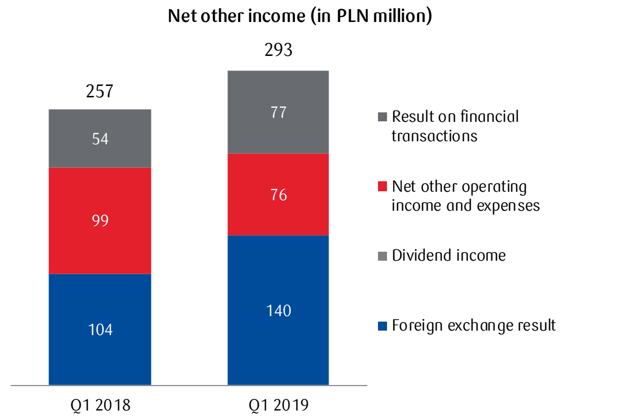


NET OTHER INCOME

The net other income for the first quarter of 2019 amounted to PLN 293 million and was PLN 36 million higher than in the corresponding period of the previous year due to:

- higher net income on financial operations (+PLN 23 million y/y), mainly due to an increase in net income on the sales of securities;
- higher net foreign exchange gains/(losses) (+PLN 36 million y/y), mainly due to a higher result on embedded derivatives,

accompanied by PLN 23 million y/y lower net other operating income and expenses due to (among other things) sales of real estate in the first quarter of 2018.

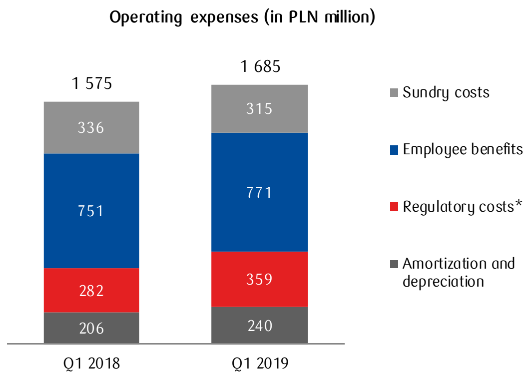


OPERATING EXPENSES

In the first quarter of 2019, operating expenses amounted to PLN 1 685 million and were 7.0% y/y higher than in the same period of the previous year. Their level was mainly determined by:

- an increase in the costs of employee benefits of PLN 20 million, i.e. of 2.7%;
- a decrease in overheads of PLN 21 million, i.e. of 6.3%, mainly in connection with the decreases in the following expenses:

  – the costs of maintenance and lease of non-current assets (a decrease of PLN 48 million, mainly due to lower costs of real estate services after the implementation of IFRS 16 regulations from January 2019),



*includes net regulatory charges and taxes and fees and simultaneous increases in the following expenses:

– marketing (of PLN 14 million – including mainly the Bank's activities in respect of its image, of PLN 7 million, and sponsorship activities, of PLN 4 million);

– IT (of PLN 4 million, including mainly higher costs of software services);

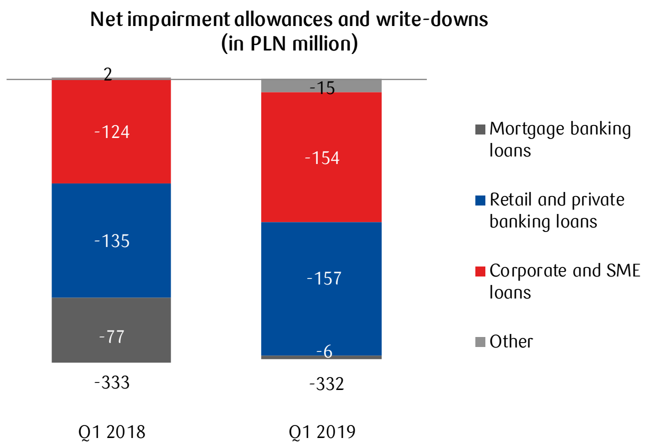
- an increase of PLN 155 million, i.e. 66.5%, in contributions to the Bank Guarantee Fund (BGF) – the BGF costs amounted to PLN 388 million, of which the contribution to the fund for compulsory resolution of banks was PLN 348 million. In the same period of the previous year, the BGF costs amounted to PLN 233 million and the contribution to the compulsory resolution fund amounted to PLN 167 million;
- an increase of PLN 17 million, i.e. 73.9%, in charges to the Polish Financial Supervision Authority, including mainly the payments towards the costs of banking supervision;
- an increase in amortization and depreciation of PLN 34 million, i.e. 16.5%, including mainly the effect of the implementation of IFRS 16 with respect to the lease of real estate and cars, and a simultaneous decrease in amortization of intangible assets relating to the Bank's computerization, mainly resulting from the extension of the useful life of the Integrated IT System (ZSI) from the first quarter of 2019.
- a decrease in the costs of WHT on the issue of foreign bonds of PLN 95 million related to an adjustment of grossing up of interest for the years 2017–2019 and recognition of 3% tax on interest paid for the period 2014 – first quarter of 2019);

As a result of implementing IFRS 16, sundry costs did not include lease payments approximating PLN 55 million. The cost of the lease instalments was recognized in amortization and depreciation in the amount of approx. PLN 49 million and in interest expense in the amount of PLN 6 million.

The operating efficiency of the PKO Bank Polski SA Group measured with the annual C/I ratio was 44.1%, which means an improvement of 1.2 p.p. y/y due to an improved result on business activities (+9.0% y/y) and despite an increase in operating expenses (+7.0% y/y).

NET WRITE-DOWNS AND IMPAIRMENT

In the first quarter of 2019, net write-downs and impairment amounted to PLN (-)332 million and were similar to the amount for the corresponding period of the prior year. The better result on mortgage loans was offset by a decrease in the results on retail and corporate loans.



The share of loans with recognized impairment as at the end of the first quarter of 2019 amounted to 4.6% (a decrease of 0.8 p.p. in relation to the first quarter of 2018).

The cost of risk as at the end of the first quarter of 2019 amounted to 0.57%, i.e. it improved by 0.12 p.p. in relation to the corresponding period of the previous year.

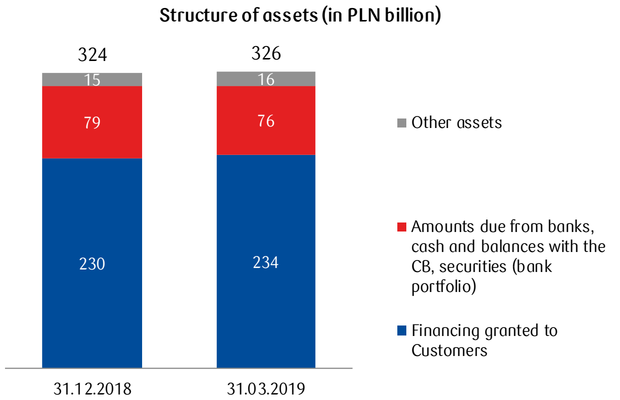
The improvement in the risk ratios, accompanied by an increase in the gross amount of financing granted to Customers of approx. 7% y/y, is a result of the continuation of the conservative credit risk management policy of the Bank's Group and careful monitoring of the portfolio of receivables.

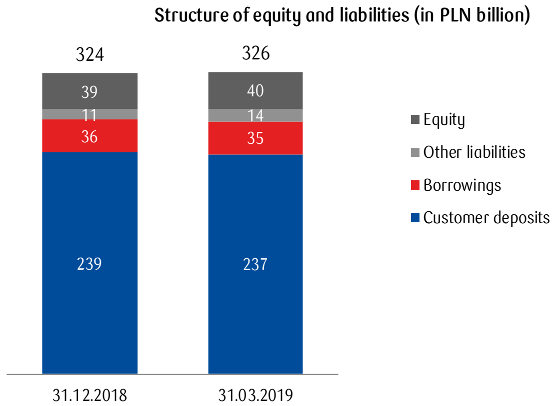
3.3. STATEMENT OF FINANCIAL POSITION

MAIN ITEMS OF THE STATEMENT OF FINANCIAL POSITION

Total assets and total equity and liabilities of the PKO Bank Polski SA Group as at the end of the first quarter of 2019 amounted to nearly PLN 326 billion (an increase of approx. PLN 1.6 billion since the beginning of the year). Therefore, the PKO Bank Polski SA Group consolidated its position as the largest institution in the Polish banking sector.

On the assets side, the Bank's Group recognized an increase in the financing granted to Customers. As far as the sources of financing are concerned, other liabilities, mainly to banks, increased since the beginning of the year, which was accompanied by lower borrowings and lower Customer deposits (mainly those of corporate Customers).





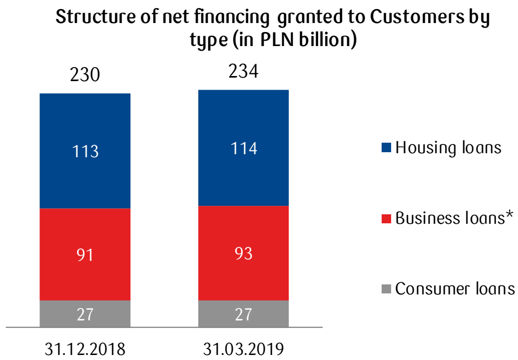
FINANCING GRANTED TO CUSTOMERS

As at the end of the first quarter of 2019, the amount of financing granted to Customers of the Bank's Group exceeded PLN 234.1 billion and was nearly PLN 3.6 billion higher than as at the beginning of the year.

The structure of the net financing granted includes mainly housing loans and amounts due from corporate customers (48.7% and 39.9% as at the end of March 2019, respectively).

An increase in financing granted to corporate Customers of PLN 2.1 billion and in housing loans of PLN 1.2 billion was recorded in the first quarter of 2019.

In terms of maturity, the loans and advances granted to Customers comprise mainly long-term loans, which is mainly due to the high share of housing loans.

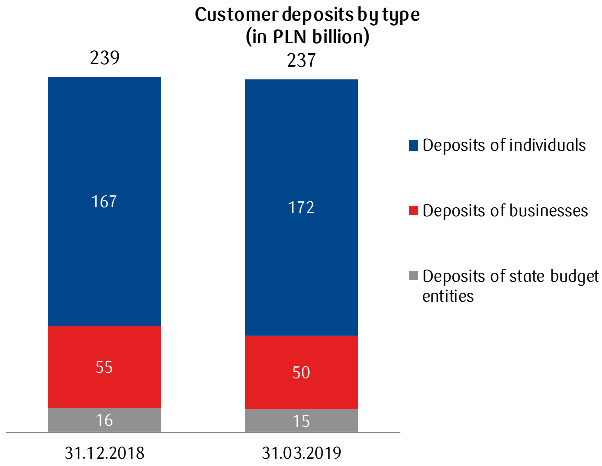


*including lease receivables and bonds other than Treasury (excluding those held for trading)

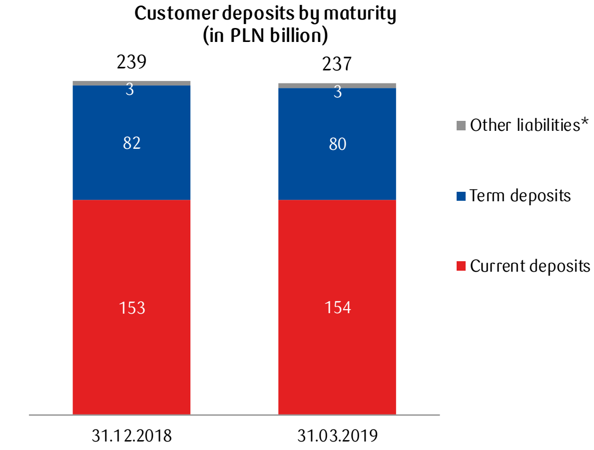
CUSTOMER DEPOSITS

Customer deposits constitute the basic source of financing the assets of the Bank's Group. As at the end of the first quarter of 2019, they amounted to PLN 237.0 billion, which means a decrease of PLN 1.7 billion since the beginning of the year. The decrease in the deposit base was mainly due to a decrease in the deposits of business entities (PLN -5.7 billion) and state budget entities (PLN -1.1 billion) accompanied by an increase in deposits of individuals (PLN +5.1 billion).

In the structure of Customer deposits, the main item is deposits of individuals (73% of the portfolio as at the end of March 2019). Deposits of business entities are the second largest category of Customer deposits (21% of the portfolio as at the end of March 2019).



*including liabilities in respect of insurance products



*Other liabilities include liabilities in respect of insurance products

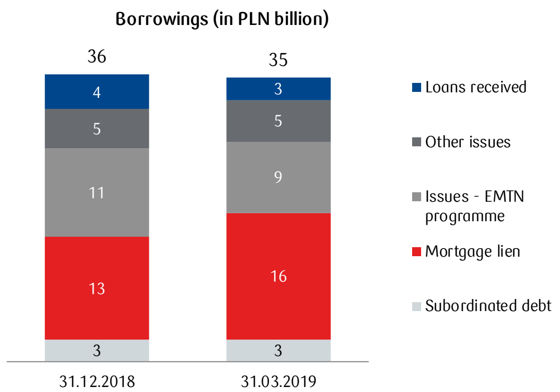
The share of current deposits in total deposits increased to 65% (+1 p.p. in relation to the end of 2018).

BORROWINGS

The PKO Bank Polski SA Group is an active participant in the market of issues of debt securities, both domestic and foreign. Such actions are aimed at diversifying the sources of financing of the operations and adjusting them to regulatory requirements.

The long-term sources of financing amounted to approx. PLN 35 billion as at the end of March 2019 (PLN 0.4 billion less than as at the beginning of the year). The change in the amount of the sources of financing was due to:

- the continued issue of covered bonds by PKO Bank Hipoteczny SA (with a nominal value of EUR 700 million);
- redemption of the bonds issued by PKO Finance AB of EUR 500 million in January 2019;
- repayment of loans received from international financial institutions.



3.4. EQUITY AND CAPITAL ADEQUACY MEASURES

The capital adequacy of the PKO Bank Polski SA Group in the first quarter of 2019 was maintained significantly above the regulatory limits. The capital adequacy measures of the PKO Bank Polski SA Group as at 31 March 2019 were calculated based on the CRR provisions, taking into account prudential consolidation.

As at the end of the first quarter of 2019, the total capital ratio of the PKO Bank Polski SA Group amounted to 18.36%, and the Tier 1 equity ratio amounted to 17.03% and went down by 0.5 p.p. compared with the end of 2018.

The decrease in capital ratios in the first quarter of 2019 compared with the end of 2018 is mainly the effect of an increase in the requirements with respect to own funds of approx. PLN 0.3 billion as a result of an increase in the portfolio of business and consumer loans and the growth of exchange rates, accompanied by a reduction in own funds of approx. PLN (-)0.4 billion, which was mainly due to:

- applying IFRS 16 from 1 January 2019, which resulted in an increase in the requirements of PLN 0.08 billion and a reduction in own funds of approx. PLN (-)0.11 billion in connection with writing off the right to perpetual usufruct of land, which resulted in the drop of the total capital ratio of approx. 15 b.p. and the Tier I ratio of approx. 14 b.p.;
- a decrease in retained earnings of approx. PLN (-)0.09 billion in connection with the change of the loss amortization ratio per IFRS 9 (as at the end of December 2018 it amounted to 95%, currently it is 85%);
- a decrease in the valuation of securities measured at fair value through equity of PLN (-)0.3 billion.

4. Activities of the PKO Bank Polski SA Group

4.1. Operating segments of the Bank's Group

The PKO Bank Polski SA Group conducts business activities within segments offering products and services addressed to specific groups of Customers. The manner in which the business segments are divided ensures consistency with the sales management model and offers Customers a comprehensive product mix comprising both traditional banking products and more complex investment products. The Bank's Group currently conducts its business activities in two segments: the retail segment and the corporate and investment segment.

Retail segment

The retail segment offers a full range of banking products and services to individuals using retail and private banking. It also comprises transactions with firms and enterprises, developers, cooperatives and property managers. The products and services offered to the Customers in this segment comprise: current and savings accounts, term deposits, private banking services, insurance and combined investment and insurance products, credit and debit cards, electronic and mobile banking services, consumer and housing loans, business loans, leasing and factoring.

Number of Customers: 10.7 million

Financing granted: PLN 170 billion

Savings volume: PLN 240 billion

Corporate and investment segment

The corporate and investment segment comprises transactions with corporate Customers, local government entities and financial institutions. The products and services offered to the Customers comprise: transactional banking (including maintaining bank accounts), deposit products and other products used for liquidity management purposes, trade finance, treasury products, and credit products for the financing of both current and investment needs (including leasing and factoring). The segment also comprises brokerage activities and own activities, i.e. the management of the Bank's liquidity and investment activities.

Number of Customers: 15.6 thousand

Financing granted: PLN 71 billion

Deposits volume: PLN 49 billion

4.2. RETAIL SEGMENT

The segment's Customers Business volumes Actions taken in the first quarter of 2019

In the first quarter of 2019, the PKO Bank Polski SA Group continued building strong, long-term relations with the Customers in the retail segment. The Group focused on adjusting the products to the Customers' needs and developing access tools and channels, allowing the Customers to manage their finances conveniently at any place or time.

THE SEGMENT'S CUSTOMERS

As at the end of March 2019, the retail segment served more than 10.7[5] million Customers, including:

- 10.2 million individuals;
- 0.5 million firms and enterprises.

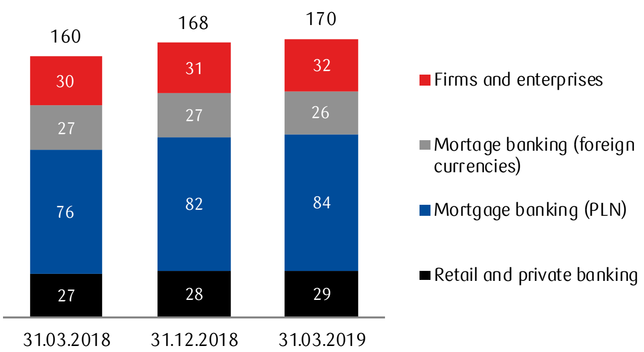
Since the beginning of 2019, the number of the segment's Customers increased by nearly 70 thousand.

BUSINESS VOLUMES

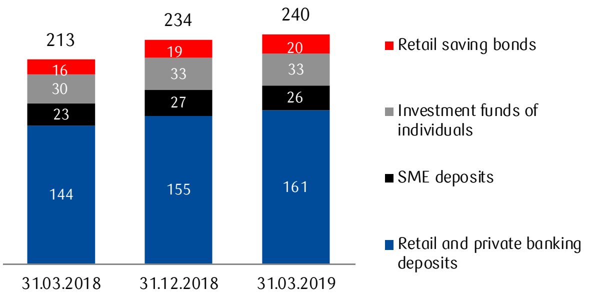
As at the end of March 2019, the total financing provided to the retail segment Customers amounted to PLN 170 billion and was nearly PLN 2.5 billion (i.e. 1.5%) higher than as at the beginning of the year.

This was mainly due to the increases in the portfolios of mortgage loans in PLN (+PLN 1.6 billion), retail and private banking loans (+PLN 0.4 billion) and loans granted to firms and enterprises (+PLN 0.9 billion), accompanied by a decrease in the portfolio of mortgage loans in foreign currencies (PLN -0.3 billion) due to loan repayments.

Gross loan receivables in the retail segment (in PLN billion)



Customers' savings in the retail segment (in PLN billion)



As at 31 March 2019, the savings of the retail segment amounted to PLN 240 billion and since the beginning of the year the balance increased by PLN 5.6 billion (i.e. 2.4%).

This increase was mainly due to an increase in the amount of retail and private banking deposits, mainly current deposits. Moreover, the amount of savings invested in retail bonds increased in the first quarter of 2019, while the funds invested by individuals in investment funds and deposits of firms and enterprises decreased.

ACTIONS TAKEN IN THE FIRST QUARTER OF 2019

In the first quarter of 2019, the PKO Bank Polski SA Group took the following actions:

- on the housing loans market:
  - it granted loans to individuals totalling PLN 3.5 billion, which enabled it to maintain first position on the market with a market share of 27% throughout the first quarter of 2019;
  - it changed the reference rate for mortgage loans from WIBOR 3M to WIBOR 6M in the new offer;
- on the consumer loans market:
  - as of 30 March 2019, it launched a commission-free cash loan for Customers who are applying for a loan with PKO Bank Polski SA for the first time in 10 years – the loan is granted on the same terms in the iPKO transaction service, through the IKO application, in branches, agencies and on the telephone;

[5] In 2019, the presentation of the number of the segment Customers changed. The former approach was based on the perspective of products and individual business lines, whereas the new methodology is focused on customer centeredness and on the Bank's potential.

- as of 1 January 2019, it introduced the possibility of concluding Preferential Student Loan agreements;
- it eliminated the need to provide security for overdraft facilities of up to PLN 200 thousand (the total credit exposure of the Bank to the Customer with respect to consumer transactions, including the facility applied for);

- with respect to supporting the operations and financing of firms and enterprises:
  - it launched a new eKsięgowość service, which is integrated with the iPKO Internet banking and the Business Assistant and enables management of the company's finances from the perspective of accounting and settlements, as well as accounting documents and invoices;
  - it provided access to a new business support service, i.e. a legal aid service ePrawnik, which helps to find, within a short time, a lawyer with the most suitable specialization to provide a specified legal service for a pre-determined price;
  - it allowed Corporate Banking Customers to submit Standard Audit Files for Tax to the Bank through iPKO and iPKO Biznes;
- with respect to transactions and savings:
  - it strengthened its leading position on the market in terms of the number of current accounts maintained, which amounted to 7.5 million and increased by 300 thousand during the year;
  - for the Bank's centenary, it launched an exceptional deposit for new funds with an interest rate of 1.919% p.a., with the contractual term of 100 days, which was offered between 15 January and 15 March 2019 – sales of the Lokata Urodzinowa (Anniversary Deposit) amounted to nearly PLN 4 billion;
  - it started cooperation with Ekstraklasa SA, i.e. it added to its offer the Official Ekstraklasa Card – a debit card with the logos of 15 top league football clubs;
  - it launched two new, free of charge debit card images prepared for the Bank's centenary;
  - on 18 February 2019, as the first bank in Poland, it introduced the possibility of an income tax payment from the government website www.epodatki.gov.pl using the Paybynet system – the data necessary to make a tax payment to the competent tax office is transferred automatically from the tax portal of the Ministry of Finance, "Twój e-PIT", which guarantees the correctness of the data and eliminates any potential errors made by the payer;
- with respect to the investment offer:
  - the fee for the purchase of units in the fund PKO Portfele Inwestycyjne at the Bank's branches was decreased from 2% to 1%, and the fees for the purchase of PKO TFI fund units through iPKO were cancelled;
  - it carried out a promotion of the PKO Papierów Dłużnych Plus and PKO Obligacji Długoterminowych subfunds (they were offered by the Bank's branches without fees);
- with respect to the Customer service process digitization, it opened a virtual showroom of rental cars on its website www.autowynajem.pkoleasing.pl.

4.3. Corporate and investment segment

Due to the implementation of new management standards in the corporate sales network, the PKO Bank Polski SA Group consistently developed its cooperation with Customers and extended its scope based on a wide range of products offered.

The Bank's Customers interested in doing business on international markets may use a wide range of products and services, such as: transactional banking products (including international cash pooling), e-banking, treasury products, trade finance and corporate loans, which are offered by the Bank's foreign branches.

The segment's Customers

As at the end of March 2019, the Corporate and Investment Segment provided services to 15.6 thousand Customers, including:

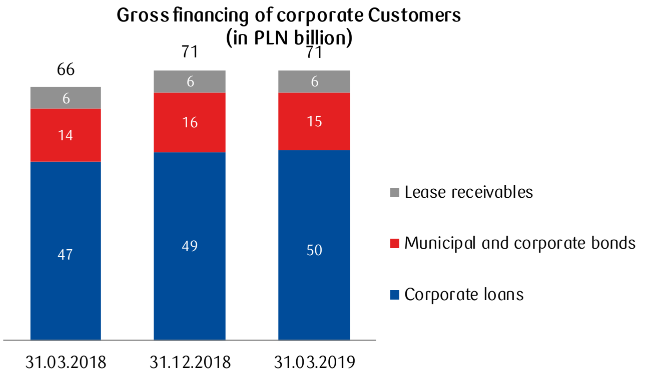
- almost 8.6 thousand corporate Customers;
- 1.2 thousand strategic Customers;
- 4.8 thousand local government units and central government institutions, including other public entities and related entities.
- 0.7 thousand foreign Customers;

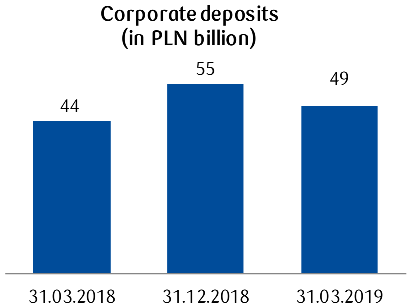
- 0.3 thousand financial Customers.

Since the beginning of 2019, the number of the segment's Customers has increased slightly.

BUSINESS VOLUMES

As at the end of March 2019, the total financing of corporate Customers (including loans, bonds issued and lease receivables) amounted to PLN 71 billion and did not change significantly since the beginning of the year. The financing in the form of business loans increased in the first quarter of 2019. At the same time, the amount of bonds went down.





The balance of deposits of corporate Customers amounted to nearly PLN 49 billion as at the end of March 2019 and was PLN 6.5 billion (i.e. 12%) lower than as at the end of 2018. The decrease in deposits recognized in the first quarter of 2019 is associated with the high base of reference from the end of the year 2018.

ACTIONS TAKEN IN THE FIRST QUARTER OF 2019

In the first quarter of 2019, the PKO Bank Polski SA Group took the following actions:

- with respect to Customer service and transaction banking:
  - it launched a function which allows Customers to send their SAF-T files on the basis of which the Bank will adjust its offer to the Customers' needs and simplify the processes;
  - for the largest Customers, who require individual solutions, it launched an interbank cash pooling service – an innovative liquidity management solution which allows active and automatic management of cash accumulated on the Group companies' accounts maintained by various domestic and foreign banks;
  - it won a public procurement contract and, as a result, continued to provide services to the Wielkopolskie Voivodship, which confirms its position as unquestionable leader among providers of services to local government units. The Bank's Group provides services to 9 voivodships;
- with respect to the financing of corporate Customers by consortia of banks and organization of bond issues, the Group concluded:
  - 3 agreements as a member of a consortium of banks totalling PLN 3.3 billion, of which the share of PKO Bank Polski amounted to PLN 0.7 billion;
  - 3 agreements for municipal bond issues with annexes extending the period of availability of the programme, totalling PLN 12 billion;
  - a corporate bond issue agreement amounting to PLN 100 million;
- with respect to brokerage activities (Dom Maklerski PKO Banku Polskiego SA):
  - it achieved turnover of almost PLN 9 billion on the secondary share market, which represented 8.2% of the market and gave Dom Maklerski PKO Banku Polskiego SA 2nd place in the ranking of brokerage houses;
  - in the area of option transactions, it took first place on the market with a share of 24.5%;
  - it coordinated and participated in accelerated book building in the transaction of Deutsche Bank selling the shares of Santander Bank Polska SA with a value of approx. PLN 560 million;
  - on the debt securities market, the Group, acting as the offeror, executed a transaction of issue of Echo Investment SA bonds for the amount of approx. PLN 34 million and distributed the Ghelamco Invest sp. z o.o. bonds totalling PLN 35 million;
  - acting as an intermediary, it executed a call for subscription for the shares of GINO ROSSI SA with a value of approx. PLN 18 million;

– it maintained nearly 126 thousand securities accounts and cash accounts, and more than 200 thousand register accounts. In terms of the number of securities accounts (according to KDPW data) the Brokerage House ranked fourth out of 39 market participants;
– it organized the seventh edition of the CEE Capital Markets conference in London aimed at promoting the Polish capital market – forty companies from Poland and other CEE countries met with foreign institutional investors.

4.4. MARKET POSITION OF THE PKO BANK POLSKI SA GROUP

The PKO Bank Polski SA Group has the leading shares in the Polish market of bank loans and savings, the Polish lease market and the Polish retail investment fund market.

As a result of the actions taken in the first quarter of 2019, the Bank's Group:

- maintained a big share in the loan market, both in terms of volume and in terms of sales of selected products;
- maintained its position on the market of retail savings.

Table 4. Market shares

	31.03.2019	31.12.2018	31.03.2018	Change since:	
				31.12.2018	31.03.2018
Loans for:	**17,6%**	**17,59%**	**17,6%**	**0,0 p.p.**	**0,0 p.p.**
individuals, of which:	22,9%	22,90%	22,9%	0,0 p.p.	0,0 p.p.
housing	26,1%	26,08%	26,0%	0,0 p.p.	0,1 p.p.
PLN	28,2%	28,30%	28,4%	-0,1 p.p.	-0,2 p.p.
foreign currency	21,0%	21,04%	21,1%	0,0 p.p.	-0,1 p.p.
consumer and other	15,8%	15,80%	15,8%	0,0 p.p.	0,0 p.p.
in curent account	32,1%	31,75%	31,3%	0,3 p.p.	0,8 p.p.
institutional entities	12,8%	12,67%	12,8%	0,1 p.p.	0,0 p.p.
Non-Treasury debt securities (indebtedness)	**32,4%**	**32,46%**	**29,9%**	**-0,1 p.p.**	**2,5 p.p.**
Mortgage loans (sales)	**26,8%**	**28,87%**	**26,5%**	**-2,1 p.p.**	**0,3 p.p.**
Total savings*	**17,9%**	**18,40%**	**16,8%**	**-0,5 p.p.**	**1,1 p.p.**
savings of individuals**	22,1%	22,13%	21,3%	0,0 p.p.	0,8 p.p.
Deposits for:	**17,5%**	**18,09%**	**17,1%**	**-0,6 p.p.**	**0,4 p.p.**
individuals	20,2%	20,16%	20,2%	0,0 p.p.	0,0 p.p.
institutional entities	13,6%	15,17%	12,9%	-1,6 p.p.	0,7 p.p.
TFI assets - funds of individuals	**21,8%**	**22,17%**	**18,6%**	**-0,4 p.p.**	**3,2 p.p.**
Brokerage activities - transactions on secondary market	**8,2%**	**7,68%**	**8,6%**	**0,5 p.p.**	**-0,4 p.p.**

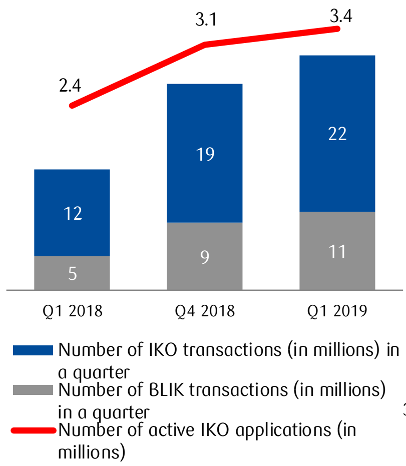
Source: NBP, WSE, Polish Leasing Association, PBA, Analizy Online
* Total savings include total deposits, TFI assets and saving Treasuring bonds.
** Savings of individuals include deposits of individuals, funds of individuals and saving Treasury bonds.

4.5. DISTRIBUTION NETWORK AND ACCESS CHANNELS

IKO mobile banking
Electronic banking
Network of branches and agencies

IKO MOBILE BANKING

IKO is the world's most popular and appreciated mobile payment application. It combines the banking function with the payment function. As at the end of the first quarter of 2019, the total number of active IKO applications was close to 3.4 million.



For the second time, IKO took first place in the ranking of mobile applications published by Retail Banker International, based on the Customers' opinions. It left behind the applications offered by such giants as JP Morgan Chase, Barclays or Bank of America.

New functionalities are constantly added to the mobile application.

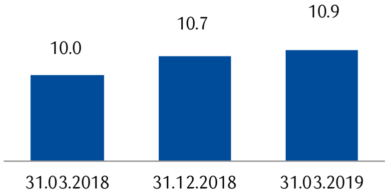
In the first quarter of 2019, the following functions were launched: notification management and logging in with a fingerprint on the start screen and convenient standing orders for charity as part of the "Pomagaj z nami" ("Help with us") programme.

ELECTRONIC BANKING

The Customers of PKO Bank Polski SA can use a package of electronic banking services as part of the generally available iPKO service. Enterprises have their own dedicated electronic banking service iPKO Biznes.

Using such services gives Customers access to information about accounts and products, as well as access to public administration services, and allows them to conclude transactions through the Internet, self-service terminals and telephone. As at the end of the first quarter of 2019, 10.9 million Customers had access to iPKO, and more than 63 thousand customers used iPKO Biznes.

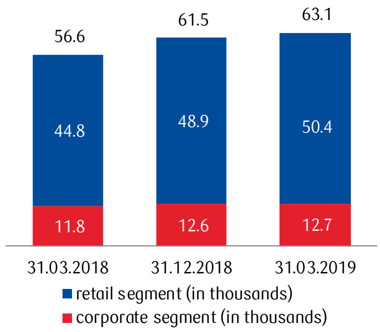
Number of retail segment Customers with access to iPKO (in millions)*



*number of agreements for e-banking services signed

The Bank added the following new products and services to its e-banking offer in the first quarter of 2019:

Number of Customers with access to iPKO Biznes



- a new appearance and functionality of the Accounts section, as well as a transformed history of operations;
- an application available through iPKO for teenagers aged 13-18 for a card to the PKO Konto Pierwsze account (the First PKO Account) - the application is then accepted on iPKO by a parent or legal guardian;
- the possibility of applying for a debit card through iPKO and the Contact Centre available to such users as a person authorized to dispose with a bank account or a person unrelated to the Bank who has a record with PKO Bank Polski SA – new look and functionality of the Accounts section, as well as a transformed history of operations.
- a panel for managing liquidity limits in iPKO Biznes;
- a mechanism of waiting for funds for international transfers was made available in iPKO Biznes. It makes it possible to order international transactions despite the lack of sufficient funds on the account – the system monitors the available balance and automatically performs the transaction when the account is credited with sufficient funds;
- in order to secure Customers' funds, default daily limits for money transfers, adjusted to the turnover on Customers' accounts, were introduced in iPKO Biznes – the system allows the convenient management of such limits.

NETWORK OF BRANCHES AND AGENCIES

PKO Bank Polski SA provides its Customers with a wide network of retail branches and agencies, private banking offices, corporate branches, as well as branches located abroad.

As at 31 March 2019, the PKO Bank Polski SA retail network consisted of 1 092 branches and offices organized into 11 regional branches. Compared to the end of 2018, the total number of retail branches decreased by 10.

The corporate segment's sales network consists of 33 Regional Corporate Centres organized into seven Regional Corporate Branches, as well as the branches located in the Federal Republic of Germany and the Czech Republic.

The branch and ATM network is complemented by the agency network. As at the end of March 2019, PKO Bank Polski SA collaborated with 557 agencies.

Table 5. Operating data of the segments

	31.03.2019	31.12.2018	31.03.2018	Change since: 31.12.2018	Change since: 31.03.2018
Number of branches in the retail segment	**1 103**	**1 113**	**1 145**	**-10**	**-42**
regional retail branches	11	11	11	0	0
retail branches	1 073	1 083	1 124	-10	-51
private banking branches	8	8	8	0	0
corporate banking branches	11	11	2	0	9
Number of branches in the corporate and investment segment:	**42**	**42**	**41**	**0**	**1**
regional corporate branches	7	7	7	0	0
regional corporate centres	33	33	32	0	1
foreign branches	2	2	2	0	0
Number of ATMs	**3 104**	**3 133**	**3 179**	**-29**	**-75**
Number of agencies	**557**	**577**	**712**	**-20**	**-155**

4.6. Activities of the PKO Bank Polski SA Group companies

PKO BANK HIPOTECZNY SA

PKO Bank Hipoteczny SA is the leader on the Polish market of mortgage banks in terms of total assets and the portfolio of mortgage loans. The company is also the biggest and the most active issuer of mortgage bonds in Poland.

PKO Bank Hipoteczny SA specializes in granting housing mortgage loans to retail Customers. It also purchases receivables under such loans from PKO Bank Polski SA. PKO Bank Hipoteczny SA acquires loans for its portfolio based on strategic cooperation with PKO Bank Polski SA.

In the first quarter of 2019, under the Framework Agreement for the Sale of Receivables signed in 2015 with PKO Bank Polski SA, PKO Bank Hipoteczny SA acquired housing loans portfolios secured with mortgages totalling PLN 1.5 billion. The total value of the gross loan portfolio of PKO Bank Hipoteczny SA as at 31 March 2019 amounted to PLN 23.1 billion, including housing loans secured with mortgages acquired under the agreement with PKO Bank Polski SA amounting to PLN 13.5 billion.

The main objective of the company is the issue of covered bonds (in PLN and foreign currencies), which are among the main sources of long-term financing of loans secured with real estate in the PKO Bank Polski SA Group. The covered bonds are issued exclusively on the basis of housing loans in PLN, which comply with the conservative criteria regarding both the assessment of the borrower's creditworthiness and the valuation of mortgaged property.

In the first quarter of 2019, the company conducted foreign issues of covered bonds denominated in EUR, addressed to institutional investors, with a total nominal value of EUR 700 million.

The total value of covered bonds issued by PKO Bank Hipoteczny SA and outstanding (at nominal value) as at the end of March 2019 amounted to PLN 15.8 billion.

Covered bonds of PKO Bank Hipoteczny SA (both in PLN and in EUR) have been assigned a long-term rating Aa3 by Moody's Investors Service. PKO Bank Hipoteczny SA is the only Polish issuer of covered bonds whose covered bond issue programmes obtained such a high score.

PKO TOWARZYSTWO FUNDUSZY INWESTYCYJNYCH SA

The basic scope of the company's activities comprises creating and managing investment funds (which includes intermediation in selling and buying of units), representing them before third parties and managing Customer portfolios comprising one or more financial instruments. The Company also offers specialist investment schemes and maintains employee pension schemes.

The net asset value of funds managed by the company as at the end of March 2019 was PLN 35.4 billion, which represents a minimal decrease compared with the end of 2018 (-0.6%).

PKO Towarzystwo Funduszy Inwestycyjnych SA is ranked second in terms of net asset value, with a 13.7% share in the market of investment funds, and first in terms of assets of individuals under management with a market share of 21.8%*.

As at 31 March 2019, PKO TFI SA managed 59 investment funds and sub-funds.

In the first quarter of 2019, the Polish Financial Supervision Authority registered 21 Employee Pension Plans managed by PKO TFI SA.

** Source: Analizy Online*

PKO BP BANKOWY PTE SA

The company's operations comprise creating and managing open and voluntary pension funds and representing them before third parties. The company manages PKO BP Bankowy Otwarty Fundusz Emerytalny and PKO Dobrowolny Fundusz Emerytalny, as part of which Indywidualne

Konto Emerytalne (IKE) and Indywidualne Konto Zabezpieczenia Emerytalnego (IKZE) are offered.

Results of the Open Pension Fund (OFE)

As at the end of March 2019, the net asset value of PKO BP Bankowy OFE managed by PKO BP BANKOWY PTE SA amounted to PLN 7.3 billion, representing a slight increase in relation to the balance as at the end of 2018 (4.2%).

PKO BP Bankowy OFE had more than 909 thousand participants as at the end of March 2019.

PKO BP Bankowy OFE is ranked 8th on the pension fund market in terms of the net value of assets and 9th in terms of the number of participants*.

According to the Polish Financial Supervision Authority ranking, PKO BP Bankowy OFE achieved a rate of return of 20.995% for the period from 31 March 2016 to 29 March 2019, compared with the weighted average rate of return for all funds of 19.700% (third place among the pension funds operating on the market).

* Source: www.knf.gov.pl

PKO Leasing SA Group

PKO Leasing SA with its subsidiaries - PKO Leasing Sverige AB and PKO Leasing Nieruchomości sp. z o.o. offers services within the scope of leasing and loans. The Customers are able to finance their fixed assets, such as passenger cars, delivery vehicles, trucks, machines, equipment, technological lines, medical equipment and IT hardware and software using this financing. The offer also includes managing car fleets. Moreover, the PKO Leasing SA Group companies provide specialist services within the scope of developing insurance products and schemes and deal with selling post-leasing objects.

The Group also includes PKO Faktoring SA which provides a comprehensive range of factoring services.

Lease activities:

In the first quarter of 2019, the lease companies of the PKO Leasing SA Group financed fixed assets with a total value of PLN 2.4 billion, which represents an 8% increase compared with the corresponding period of 2018. Almost 10 thousand cars leased for the amount of more than PLN 1 billion, which represents a volume growth of 16% y/y, should be noted.

As at the end of March 2019, the combined carrying value of amounts due from Customers for financing of fixed assets (both due and not yet due) and carrying value of fixed assets leased by the PKO Leasing SA Group under operating lease agreements was PLN 17.4 billion. As at the end of March 2018, the carrying value was PLN 15.5 billion.

According to the data of the Polish Leasing Association, the PKO Leasing SA Group was ranked 1st on the market of lease services in terms of value of the funds provided to Customers in 2018, with an 11.2% market share.[6]

Factoring activities:

PKO Faktoring SA provides domestic and export factoring services without recourse and with recourse, reverse factoring and factoring schemes for suppliers.

In the first quarter of 2019, the factoring turnover amounted to PLN 4.1 billion (in the same period of 2018, the company's turnover amounted to PLN 3.7 billion); the number of Customers as at the end of March 2019 was 545.

As at 31 March 2019, PKO Faktoring SA was ranked 8th among factoring firms belonging to the Polish Factors Association (in terms of turnover), with a market share of 6.5%.

PKO Życie Towarzystwo Ubezpieczeń SA Group

The PKO Życie Towarzystwo Ubezpieczeń SA Group comprises PKO Życie Towarzystwo Ubezpieczeń SA and its subsidiary - Ubezpieczeniowe Usługi Finansowe sp. z o.o.

The scope of activities of PKO Życie Towarzystwo Ubezpieczeń SA comprises insurance activities in the area of the first category of insurance – life insurance.

PKO Życie Towarzystwo Ubezpieczeń SA offers a wide range of insurance products. The company focuses on insuring the life and health of its Customers. It offers independent products and products supplementing the bank products offered by PKO Bank Polski SA.

Gross written premiums from insurance contracts signed by the company in the first quarter of 2019 amounted to PLN 127.9 million, compared to PLN 103.3 million in the first quarter of 2018. As at the end of March 2019, the company insured more than 893 thousand people (738 thousand people as at the end of March 2018).

The operations of Ubezpieczeniowe Usługi Finansowe sp. z o.o. comprise provision of support

[6] Data for 2019 has not been published.

	services.
PKO Towarzystwo Ubezpieczeń SA	The company's business activities comprise non-life insurance (category II of insurance) – other personal insurance and property insurance. PKO Towarzystwo Ubezpieczeń SA focuses on insuring the risks of a loss of income, the outcome of accidents and illness, as well as on insuring real estate for borrowers and mortgage borrowers. The company offers a wide range of insurance products addressed to the Customers of the Bank and other entities that belong to the Bank's Group. Gross written premiums from insurance contracts signed by the company in the first quarter of 2019 amounted to PLN 153.2 million, compared to PLN 117.3 million in the first quarter of 2018. As at the end of March 2019, the company insured 849 thousand people (642 thousand people as at the end of March 2018).
KREDOBANK SA Group **(data according to the IFRS applied by the PKO Bank Polski SA Group)**	The KREDOBANK SA Group comprises KREDOBANK SA and is subsidiary Finansowa Kompania "Idea Kapitał" sp. z o.o. KREDOBANK SA is a universal bank providing services to retail Customers and firms and enterprises conducting their activities mainly in the western part of Ukraine and in Kiev. At the same time, it strives to gain corporate Customers with high credibility. The company offers services which include: maintaining accounts of individuals and businesses, accumulating deposits, granting loans, pledges and guarantees, leasing, transactions in bills, foreign currency market transactions and transactions on the securities market. The operations of Finansowa Kompania "Idea Kapitał" sp. z o.o. comprise legal services relating to the acquired claims in respect of loan agreements. In the first quarter of 2019, the loan portfolio of the KREDOBANK SA Group (gross) increased by UAH 710 million, or 6.9%, and amounted to UAH 11 038 million (the gross loan portfolio expressed in PLN amounted to PLN 1 558 million). The increase in the value of the loan portfolio in UAH is mainly due to sales of new loans. In the first quarter of 2019, term deposits of KREDOBANK SA Group Customers increased by UAH 226 million, i.e. by 4.0%, and amounted to UAH 5 848 million (term deposits expressed in PLN amounted to PLN 825 million). The increase in UAH deposits results from the reliability and ranking of KREDOBANK SA on the Ukrainian banking market. As at 31 March 2019, the network of KREDOBANK SA branches comprised the Head Office in Lviv and 86 branches in 22 out of 24 Ukrainian districts; 7 branches were closed in the first quarter of 2019.
PKO BP Finat sp. z o.o.	PKO BP Finat sp. z o.o. provides comprehensive services to financial sector firms, including provision of technological solutions, transfer agent services, accounting services for funds and companies and handling of group insurance dedicated to the products offered by PKO Bank Polski SA. It also specializes in competence outsourcing of IT specialists, project teams and IT processes. Based on the permit granted by the Polish Financial Supervision Authority, the company also provides services of a national payment institution. In the first quarter of 2019, the company and Polski Fundusz Rozwoju SA signed an agreement of the establishment of the Employee Capital Plans (PPK) Registration System. The system will be launched by the company by 1 July 2019. As part of this cooperation, PKO BP Finat sp. z o.o. will also maintain and operate all the PPK records.
Operator Chmury Krajowej sp. z o.o.	The company was formed in November 2019 to provide comprehensive services for storing and remote processing of data. At the end of March 2019, the company achieved the operational ability to provide cloud-based services using its own infrastructure and began to provide services to its first Client PKO Bank Polski SA – the company's services comprise outsourcing of a test environment based on the IaaS and PaaS (Infrastructure as a Service, and Platform as a Service) models. The company began cooperating with Exatel SA and Krajowa Izba Rozliczeniowa SA within the scope of the use of safe data centres in Mazowsze, and with five partners: Asseco Data Systems SA, Accenture sp. z o.o., DXC Technology Polska sp. z o.o., Asseco Poland SA and Sygnity SA within the scope of service support for potential Clients (in the first quarter of 2019 talks and negotiations were conducted, and appropriate agreements were signed at the beginning of April 2019).

4.7. PRIZES AND AWARDS

In the first quarter of 2019, the PKO Bank Polski SA Group received numerous prizes and awards, the most important of which are the following:

DYNAMIC DEVELOPMENT AND EXCELLENT FINANCIAL RESULTS	
THE MOST RELIABLE IN THE POLISH ECONOMY	PKO Bank Polski SA was the best in the "Most reliable in the Polish economy" competition organized by the ISBNews agency. It won two prizes in the "Most Reliable Company" and "Most Reliable Financial Institution" categories. The jury appreciated the Bank's record-breaking financial results, development of its business, implementation of advanced technological solutions and safety. The aim of the competition is to recognize the entrepreneurs and firms that participate in the economic achievements of the country – active, reliable, trusted partners in business and good employers.
MODERN TECHNOLOGY LEADER	
THE HEART CORPORATE INNOVATION AWARDS 2018!	PKO Bank Polski SA won two prizes in The Heart Corporate Innovation Awards 2018! In the "Transformation Team" category, the jury appreciated New Model of Work – NOW!, which is consistent with the digitization idea, and in the "Collaboration of the Year" category it appreciated the Bank's collaboration with the start-up Coinfirm, which led to the application of blockchain technology on the largest scale in the European banking sector. The Heart Corporate Innovation Awards is a competition for enterprises which introduce innovations, build new projects and collaborate with start-ups.
BEST PRODUCTS AND SERVICES	
IKO – THE BEST APPLICATION IN THE WORLD	Once again, the mobile application IKO won the prestigious banking application ranking published by the British financial monthly Retail Banker International. The PKO Bank Polski SA's proprietary application left behind the solutions of such global banking giants as JP Morgan Chase, Barclays or Bank of America. For the second time, IKO was the most appreciated application in the world (according to Customers' opinions). In two of the largest application stores, customers gave IKO more than 300 thousand opinions, the average being 4.8 out of 5 stars.
STRONG BRAND	
SUPERBRANDS 2019	PKO Bank Polski SA won the Superbrands 2019 title in the 13th edition of the Superbrands Polska competition. This title confirms the strength, trust, attractive image and high quality of the brand. The title is granted based on the results of voting by the Board of Experts and a Brand Strength Index survey performed by the ARC Rynek i Opinia research institute.
CORPORATE SOCIAL RESPONSIBILITY (CSR) ACTIONS THAT GAINED APPRECIATION	
PKO BANK POLSKI SA – THE ETHICAL FIRM OF THE YEAR 2018	PKO Bank Polski SA received an award in the fifth edition of the Ethical Firm competition for fair and transparent business practices consistent with the principles of corporate social responsibility. The aim of the competition is to promote the companies that take actions to build and improve organizational culture based on ethics in a systematic manner. The competition is organized by the *Puls Biznesu* magazine with the support of PwC.
MODEL COMMUNICATION WITH THE MARKET	
PKO BANK POLSKI SA APPRECIATED BY INDIVIDUAL INVESTORS	PKO Bank Polski SA was appreciated by individual investors in the investor relations survey conducted among WIG30 companies. It took second place in the ranking prepared by the WSE journal *Parkiet* and the Chamber of Brokerage Houses. PKO Bank Polski SA builds investor relations based on transparency, openness and dialogue. As a result, it is perceived as a trustworthy and reliable partner and its financial results and business strategy are seen in a positive light.
THE BEST SPECIALISTS ON THE MARKET	
SUPER WEKTOR FOR ZBIGNIEW JAGIEŁŁO, THE PRESIDENT OF THE MANAGEMENT BOARD OF PKO BANK POLSKI SA	Zbigniew Jagiełło, President of the Management Board of PKO Bank Polski SA, won the Super Wektor 2018 award granted by Employers of the Republic of Poland. He was appreciated for creating an efficient and flexible organization focused on the execution of ambitious goals, prepared to compete with the biggest international rivals, and for building an outstanding team of co-workers. Super Wektor is granted for outstanding achievements, and the resulting benefits contribute to the development of the Polish business, economy and the Polish state as a whole.

Bulls and Bears	Zbigniew Jagiełło, President of the Management Board of PKO Bank Polski SA – for his achievements in the financial sector, successes of the bank managed by him and contribution to capital market development, received a special award in the 25th edition of the Bulls and Bears competition organized by the WSE journal *Parkiet*.
Awards received by the brokerage house and companies of the Bank's Group	
Bulls and Bears	Dom Maklerski PKO Banku Polskiego SA received a Bull and Bear for the best brokerage house. The factors that decided about its victory include the number and value of IPO and SPO transactions on the capital market and an extensive offer of services for all groups of Customers. The purpose of the competition is to honour the institutions and professionals who contribute to the development, popularization and extension of the capital market.
Dom Maklerski PKO Banku Polskiego SA - the Broker of the Year 2018	The WSE granted two awards to Dom Maklerski PKO Banku Polskiego SA. It received the main prize – Broker of the Year 2018 – for the biggest involvement on the WSE markets, the highest participation in stock trading on the Main Market among the local brokers in session and package transactions, the highest value of trading in non-Treasury and Treasury bonds on the Catalyst market, and for supporting liquidity on the biggest number of classes of assets listed on the WSE. An award was also granted for the biggest share in bond trading on the Catalyst market.
The Best Stock Market Analysts	The Brokerage House of PKO Bank Polski SA left all competitors behind in the seventeenth edition of the ranking of stock market analysts prepared by the WSE journal *Parkiet*. It took first place for the second time in a row. Furthermore, our experts in stock exchange analysis and recommendations for the individual industries were on the podium in 9 out of 13 categories. The winners were selected by TFI and OFE experts from 35 financial institutions.
"ALFA 2018" for PKO TFI SA and its funds	In the sixth edition of the competition, the "Alfa" awards were granted to: the PKO Obligacji Skarbowych (Treasury Bonds) subfund in the "best-selling fund 2018" category and the PKO Akcji Plus (Shares Plus) subfund in the "best Polish share fund 2018" category. At the same time, the following honourable mentions were given: to PKO TFI SA, in the "best TFI in 2018" category, and to the following subfunds: PKO Stabilnego Wzrostu (Stable Growth), PKO Akcji Małych i Średnich Spółek (Small and Medium Companies' Shares) and PKO Zrównoważony (Balanced) in the categories matching the funds' names. The Alfa awards are given by the company Analizy Online. Their aim is to draw attention to the products that give Customers above-average rates of return adjusted for the level of risk incurred (compared to the peer group).

5. Glossary

Interest-bearing assets – amounts due from banks, securities and loans and advances to Customers;

CPI (Consumer Price Index) – index of consumer prices;

Customer deposits – amounts due to Customers, excluding repo transactions and loans and advances received;

Financing granted to Customers – loans and advances to Customers (including finance lease receivables) less receivables in respect of reverse repo agreements and municipal and corporate bonds presented in securities (excluding bonds held for trading);

Borrowings – subordinated liabilities, own issues of debt securities measured at amortized cost, loans and advances received presented in amounts due to banks and loans and advances received presented in amounts due to Customers;

Other liabilities – derivative hedging instruments, other derivatives, liabilities in respect of insurance activities, other liabilities, current income tax liabilities, deferred income tax provisions, provisions, repo transactions recorded as amounts due to banks and Customers, amounts due to the Central Bank and other liabilities to banks (other than loans received);

Operating expenses – general administrative expenses and net regulatory charges;

Regulatory costs – net regulatory charges and taxes and fees from general administrative expenses;

Total Capital Ratio – ratio of own funds to the total capital requirement multiplied by 12.5;

Securities (banking portfolio) – securities less municipal and corporate bonds (excluding bonds held for trading);

Other assets – derivative hedging instruments, other derivatives, investments in associates and joint ventures, non-current assets held for sale, intangible assets, property, plant and equipment, current income tax receivables, deferred income tax assets, other assets and reverse repo agreements presented in loans and advances to Customers;

Risk-free rate – the average annual yield on 10-year Treasury bonds;

Average interest on loans – interest income on loans and advances to Customers on an annual basis / average balance of loans and advances to Customers from the last 5 quarters;

Average interest on deposits – interest expense on amounts due to Customers on an annual basis / average balance of amounts due to Customers from the last 5 quarters;

C/I ratio (costs to income ratio) – general administrative expenses and net tax on interest paid to non-residents / result on business activities on an annual basis;

Financing granted to Customers to deposits – financing granted to Customers (which includes loans and advances to Customers (including finance lease receivables) less reverse repo agreements and municipal and corporate bonds presented in securities (excluding bonds held for trading) / amounts due to Customers;

Financing granted to Customers to stable sources of financing – financing granted to Customers (which includes loans and advances to Customers (including finance lease receivables) less reverse repo agreements and municipal and corporate bonds presented in securities (excluding bonds held for trading) / stable sources of financing (amounts due to Customers and borrowings);

Tier 1 capital ratio – Tier 1 capital to the total capital requirement multiplied by 12.5;

Cost of risk – net credit loss allowances for the last 12 months / average balance of loans and advances to Customers, gross, as at the beginning and the end of the reporting period and interim quarterly periods;

Interest margin ratio – net interest income on an annual basis / average balance of interest-earning assets (including amounts due from banks, securities and loans and advances to customers) from the last 5 quarters;

Net ROA – net profit for the year / average balance of assets from the last 5 quarters;

Net ROE – net profit for the year / average balance of equity from the last 5 quarters;

Share of impaired loans – the portfolio with recognized impairment in the portfolio of exposures measured at amortized cost and in the portfolio of loans measured at fair value through other comprehensive income;

Result on business activities – operating profit excluding administrative expenses, tax on certain financial institutions, net credit losses and impairment of non-financial assets;

Net operating profit – operating profit excluding net credit losses and impairment of non-financial assets;

Net other income – dividend income + net gain/loss in financial instruments measured at fair value through profit or loss + net gain/loss on investment securities + net foreign exchange gains/losses + gains/losses on derecognition of financial assets or liabilities not measured at fair value through profit or loss + net other operating income/expense;

Result on financial transactions – net gain/loss on financial instruments measured at fair value through profit or loss + net gain/loss on investment securities + gains/losses on derecognition of financial instruments not measured at fair value through profit or loss;

Net write-downs and impairment – net credit losses + impairment of non-financial assets;

Net profit – net profit recognized in the consolidated income statement understood as the net profit attributable to the shareholders of the parent company.

Bank Polski

1919/2019

Condensed interim consolidated financial statements of the PKO Bank Polski SA Group for the three-month period ended 31 March 2019

Date of publication of the report:
15 May 2019

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CONSOLIDATED INCOME STATEMENT

CONSOLIDATED INCOME STATEMENT	Note	01.01-31.03.2019	01.01-31.03.2018
Interest and similar income	10	3 058	2 748
Interest income calculated under the effective interest rate method		2 944	2 632
interest income on financial instruments measured at amortized cost		2 615	2 359
interest income on instruments measured at fair value through OCI		329	273
Income similar to interest income on instruments measured at fair value through profit or loss		114	116
Interest expenses	10	(603)	(536)
Net interest income/(expense)		**2 455**	**2 212**
Fee and commission income	11	989	972
Fee and commission expense	11	(243)	(235)
Net fee and commission income/(expense)		**746**	**737**
Dividend income		-	-
Net gain/(loss) in financial instruments measured at fair value through profit or loss	12	24	17
Foreign exchange gains/(losses)	13	140	104
Net gains/(losses) on derecognition of financial instruments not measured at fair value through profit or loss	14	53	37
measured at fair value through OCI		50	29
measured at amortized cost		3	8
Net allowances for expected credit losses	15	(325)	(325)
Impairment of non-financial assets	16	(7)	(8)
Other operating income	17	131	157
Other operating expenses	17	(55)	(58)
Net other operating income and expense		**76**	**99**
Administrative expenses	18	(1 326)	(1 293)
Net regulatory charges	19	(359)	(282)
Tax on certain financial institutions	20	(248)	(228)
Operating profit/(loss)		**1 229**	**1 070**
Shares in profits (losses) of associates and joint ventures		5	6
Profit before tax		**1 234**	**1 076**
Income tax expense	21	(373)	(320)
Net profit (including non-controlling shareholders)		861	756
Profit (loss) attributable to non-controlling shareholders		(1)	(1)
Net profit attributable to equity holders of the parent company		**862**	**757**
Earnings per share	22		
– basic earnings per share for the period (PLN)		0,69	0,61
– diluted earnings per share for the period (PLN)		0,69	0,61
Weighted average number of ordinary shares during the period (in million)		1 250	1 250
Weighted average diluted number of ordinary shares during the period (in million)		1 250	1 250

The notes on pages 13 to 200 are an integral part of the condensed interim consolidated financial statements.

(IN PLN MILLION)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	Note	01.01-31.03.2019	01.01-31.03.2018
Net profit (including non-controlling shareholders)		**861**	**756**
Other comprehensive income		**(123)**	**190**
Items which may be reclassified to profit or loss		**(123)**	**190**
Cash flow hedges (gross)	25	149	(51)
Deferred income tax	21	(28)	10
Cash flow hedges (net)	25	121	(41)
Fair value of financial assets measured at fair value through other comprehensive income (gross)		(264)	299
Gains /losses transferred to the profit or loss (on disposal)		(50)	(29)
Deferred income tax	21	58	(51)
Fair value of financial assets measured at fair value through other comprehensive income (net)		(256)	219
Foreign exchange differences on translation of foreign branches		10	10
Share in other comprehensive income of associates and joint ventures		2	2
Total net comprehensive income		**738**	**946**
Total net comprehensive income, of which attributable to:		738	946
shareholders of the Parent Company		739	947
non-controlling shareholders		(1)	(1)

The notes on pages 13 to 200 are an integral part of the condensed interim consolidated financial statements.

(IN PLN MILLION)

Bank Polski

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	31.03.2019	31.12.2018
ASSETS			
Cash and balances with the Central Bank	23	15 420	22 925
Amounts due from banks	24	6 207	7 661
- measured at amortized cost		6 207	7 661
Hedging derivatives	25	707	658
Other derivative instruments	26	2 211	1 907
Securities	27	69 473	64 114
- held for trading		1 388	235
- not held for trading, measured at fair value through profit or loss		2 881	2 848
- at fair value through OCI		50 931	52 558
- measured at amortized cost		14 273	8 473
Loans and advances to customers	28	219 127	214 912
- not held for trading, measured at fair value through profit or loss		1 061	1 106
- measured at amortized cost		218 066	213 806
Investments in associates and joint ventures	43	326	344
Non-current assets held for sale	30	10	15
Intangible assets	31	3 143	3 195
Property, plant and equipment	31	3 681	2 931
Current income tax receivable		4	4
Deferred income tax assets	21	2 158	2 135
Other assets	32	3 366	3 454
TOTAL ASSETS		**325 833**	**324 255**

The notes on pages 13 to 200 are an integral part of the condensed interim consolidated financial statements.

	Note	31.03.2019	31.12.2018
LIABILITIES AND EQUITY			
Liabilities			
Amounts due to the Central Bank		6	7
Amounts due to banks	33	2 784	2 001
- measured at fair value through profit or loss		191	-
- measured at amortized cost		2 593	2 001
Hedging derivatives	25	508	471
Other derivative instruments	26	2 850	2 655
Amounts due to customers	34	239 576	242 816
- measured at fair value through profit or loss		69	-
- measured at amortized cost		239 507	242 816
Liabilities in respect of insurance activities	36	1 376	1 292
Debt securities in issue	37	29 788	28 627
- wyceniane do wartości godziwej przez rachunek zysków i strat		-	-
- measured at amortized cost		29 788	28 627
Subordinated liabilities	38	2 707	2 731
- measured at amortized cost		2 707	2 731
Other liabilities	39	5 382	3 685
Current income tax liabilities		600	371
Deferred income tax provision	21	57	52
Provisions	40	471	446
TOTAL LIABILITIES		**286 105**	**285 154**
Equity	41		
Share capital		1 250	1 250
Other capital		34 456	34 505
Retained earnings		3 171	(385)
Net profit or loss for the year		862	3 741
Capital and reserves attributable to equity holders of the parent company		39 739	39 111
Non-controlling interests		(11)	(10)
TOTAL EQUITY		**39 728**	**39 101**
TOTAL LIABILITIES AND EQUITY		**325 833**	**324 255**
Total capital adequacy ratio	64	18,36%	18,88%
Book value (in PLN million)		39 728	39 101
Number of shares (in million)		1 250	1 250
Book value per share (in PLN)		31,78	31,28
Diluted number of shares (in million)		1 250	1 250
Diluted book value per share (in PLN)		31,78	31,28

(IN PLN MILLION)

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

FOR 3 MONTHS ENDED 31 MARCH 2019	Share capital	Other capital					Retained earnings	Net profit or loss for the period	Capital and reserves attributable to equity holders of the parent company	Total non-controlling interests	Total equity
		Reserves			Accumulated other comprehensive income	Total other capital and reserves					
		Supplementary capital	General banking risk fund	Other reserves							
As at 31 December 2018	1 250	29 354	1 070	3 831	250	34 505	(385)	3 741	39 111	(10)	39 101
Changes due to IFRS 16 implementation	-	-	-	-	-	-	(111)	-	(111)	-	(111)
As at 1 January 2019 (restated)	1 250	29 354	1 070	3 831	250	34 505	(496)	3 741	39 000	(10)	38 990
Transfer from retained earnings	-	-	-	-	-	-	3 741	(3 741)	-	-	-
Total comprehensive income, of which:	-	-	-	-	(123)	(123)	-	862	739	(1)	738
Net profit for the year	-	-	-	-	-	-	-	862	862	(1)	861
Other comprehensive income	-	-	-	-	(123)	(123)	-	-	(123)	-	(123)
Transfer from retained earnings to equity	-	74	-	-	-	74	(74)	-	-	-	-
As at 31 March 2019	1 250	29 428	1 070	3 831	127	34 456	3 171	862	39 739	(11)	39 728

FOR 3 MONTHS ENDED 31 MARCH 2019	Accumulated other comprehensive income					
	Share in other comprehensive income of associates and joint ventures	Fair value of financial assets measured at fair value through other comprehensive income	Cash flow hedges	Actuarial gains and losses	Foreign exchange differences on translation of foreign branches	Total
As at 1 January 2019	(13)	492	22	(10)	(241)	250
Total comprehensive income, of which:	2	(256)	121	-	10	(123)
Other comprehensive income	2	(256)	121	-	10	(123)
As at 31 March 2019	(11)	236	143	(10)	(231)	127

The notes on pages 13 to 200 are an integral part of the condensed interim consolidated financial statements.

(IN PLN MILLION)

Bank Polski

FOR 3 MONTHS ENDED 31 MARCH 2018	Share capital	Other capital Reserves			Accumulated other comprehensive income	Total other capital and reserves	Retained earnings	Net profit or loss for the period	Capital and reserves attributable to equity holders of the parent company	Total non-controlling interests	Total equity
		Supplementary capital	General banking risk fund	Other reserves							
As at 01.01.2018	1 250	27 374	1 070	3 645	(188)	31 901	(633)	3 104	35 622	(11)	35 611
Transfer from retained earnings	-	-	-	-	-	-	3 104	(3 104)	-	-	-
Total comprehensive income, of which:	-	-	-	-	190	190	-	757	947	(1)	946
Net profit for the year	-	-	-	-	-	-	-	757	757	(1)	756
Other comprehensive income	-	-	-	-	190	190	-	-	190	-	190
Transfer from retained earnings to equity	-	51	-	-	-	51	(51)	-	-	-	-
Wypłacona dywidenda	-	-	-	-	-	-	-	-	-	-	-
As at 31 March 2018	1 250	27 425	1 070	3 645	2	32 142	2 420	757	36 569	(12)	36 557

FOR 3 MONTHS ENDED 31 MARCH 2018	Accumulated other comprehensive income					
	Share in other comprehensive income of associates and joint ventures	Fair value of financial assets measured at fair value through other comprehensive income	Cash flow hedges	Actuarial gains and losses	Foreign exchange differences on translation of foreign branches	Total
As at 01.01.2018	-	194	(116)	(9)	(257)	(188)
Total comprehensive income, of which:	2	219	(41)	-	10	190
Other comprehensive income	2	219	(41)	-	10	190
As at 31 March 2018	2	413	(157)	(9)	(247)	2

(IN PLN MILLION)

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	01.01-31.03.2019	01.01-31.03.2018
Cash flows from operating activities			
Profit before tax		**1 234**	**1 076**
Total adjustments:		**(5 811)**	**(6 937)**
Amortization and depreciation		240	206
(Gains)/losses on investing activities		(4)	(6)
Interest and dividends		(35)	(8)
Change in:			
amounts due from banks		21	2 609
- measured at amortized cost		21	2 609
hedging derivatives		(12)	150
other derivative instruments		(109)	(386)
debt securities		(1 636)	(1 308)
- held for trading		(1 153)	(3 142)
- financial instruments designated at fair value through profit or loss upon initial recognition		(33)	2 499
- measured at fair value through OCI		(379)	(75)
- measured at amortized cost		(71)	(590)
loans and advances to customers		(4 499)	(2 686)
- not held for trading, mandatorily measured at fair value through profit or loss		45	38
- measured at amortized cost		(4 544)	(2 724)
non-current assets held for sale		5	3
other assets		87	(569)
accumulated credit losses and impairment allowances		292	373
accumulated allowances on non-financial assets and other provisions		19	(25)
amounts due to the Central Bank		(1)	(1)
amounts due to banks		783	(2 692)
- measured at fair value through profit or loss		191	-
- measured at amortized cost		592	(2 692)
amounts due to customers		(1 742)	(1 798)
- measured at fair value through profit or loss		69	-
- measured at amortized cost		(1 811)	(1 798)
liabilities in respect of insurance activities		84	83
debt securities in issue		(94)	(13)
subordinated liabilities		(24)	(13)
other liabilities		834	(537)
Income tax paid		(132)	(283)
Other adjustments		112	(36)
Net cash from/used in operating activities		**(4 577)**	**(5 861)**

The notes on pages 13 to 200 are an integral part of the condensed interim consolidated financial statements.

(IN PLN MILLION)

	Note	01.01-31.03.2019	01.01-31.03.2018
Cash flows from investing activities			
Inflows from investing activities		**85 484**	**101 489**
Proceeds from sale of and interest on securities measured at fair value through other comprehensive income		85 148	100 986
Proceeds from sale of and interest on securities measured at amortized cost		269	447
Proceeds from sale of intangible assets, property, plant and equipment and assets held for sale		46	46
Other inflows from investing activities (dividends)		21	10
Outflows from investing activities		**(89 297)**	**(99 034)**
Purchase of securities measured at fair value through other comprehensive income		(83 172)	(98 409)
Purchase of securities measured at amortized cost		(5 960)	(515)
Purchase of intangible assets and property, plant and equipment		(165)	(110)
Net cash from/used in investing activities		**(3 813)**	**2 455**

	Note	01.01-31.03.2019	01.01-31.03.2018
Cash flows from financing activities			
Proceeds from debt securities in issue		4 239	3 844
Redemption of debt securities		(2 984)	(1 496)
Proceeds from issue of subordinated bonds		-	1 000
Repayment of loans and advances		(1 498)	(2 722)
Payment of lease liabilities		(55)	-
Repayment of interest on long-term borrowings		(252)	(233)
Net cash generated from/used in financing activities		**(550)**	**393**
Total net cash flows		**(8 940)**	**(3 013)**
of which foreign exchange differences on cash and cash equivalents		67	10
Cash equivalents at the beginning of the period		30 526	23 000
Cash equivalents at the end of the period	49	21 586	19 987

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION ABOUT THE GROUP AND THE BANK

BUSINESS ACTIVITIES OF THE GROUP AND THE BANK

Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna ("PKO Bank Polski SA" or "the Bank") was established by virtue of a decree signed on 7 February 1919 by the Head of State Józef Piłsudski, Prime Minister Ignacy Paderewski and the Minister of Postal and Telegraph Service Hubert Linde, the first founder and first president of Pocztowa Kasa Oszczędnościowa. In 1950, the Bank began operating as Powszechna Kasa Oszczędności Bank Państwowy (state-owned bank). Pursuant to the Decree of the Council of Ministers of 18 January 2000 (Journal of Laws of 2000 No. 5, item 55 as amended), Powszechna Kasa Oszczędności (a State-owned bank) was transformed into a State-owned joint-stock company, Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna with its registered office in Warsaw, ul. Puławska 15, 02-515 Warsaw, Poland.

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

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

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

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

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

The composition of the Group and scope of operations of its entities are presented in note 42 "Structure of the PKO Bank Polski SA Group and scope of activities of the Group entities".

(IN PLN MILLION)

INFORMATION ON THE COMPOSITION OF THE SUPERVISORY BOARD AND MANAGEMENT BOARD

As at 31 March 2019, the Supervisory Board consisted of:

No.	Name and surname	Function	Date of appointment
1.	Piotr Sadownik	Chairman of the Supervisory Board	reappointed to the Supervisory Board on 22 June 2017 for the current joint term, which commenced on the day of the Annual General Meeting convened for 22 June 2017. The entity authorized to exercise the rights carried by the shares held by the State Treasury, as the Authorized Shareholder, appointed Piotr Sadownik Chairman of the Supervisory Board.
2.	Grażyna Ciurzyńska	Vice-Chair of the Supervisory Board	reappointed to the Supervisory Board on 22 June 2017 for the current joint term, which commenced on the day of the Annual General Meeting convened for 22 June 2017. The entity authorized to exercise the rights carried by the shares held by the State Treasury, as the Authorized Shareholder, appointed Grażyna Ciurzyńska Vice-Chair of the Supervisory Board.
3.	Zbigniew Hajłasz	Secretary of the Supervisory Board	reappointed to the Supervisory Board on 22 June 2017 for the current joint term, which commenced on the day of the Annual General Meeting convened for 22 June 2017. On 24 August 2017, re-elected Secretary of the Supervisory Board.
4.	Mariusz Andrzejewski	Member of the Supervisory Board	appointed to the Supervisory Board on 22 June 2017 for the current joint term, which commenced on the day of the Annual General Meeting convened for 22 June 2017.
5.	Mirosław Barszcz	Member of the Supervisory Board	reappointed to the Supervisory Board on 22 June 2017 for the current joint term, which commenced on the day of the Annual General Meeting convened for 22 June 2017.
6.	Adam Budnikowski	Member of the Supervisory Board	reappointed to the Supervisory Board on 22 June 2017 for the current joint term, which commenced on the day of the Annual General Meeting convened for 22 June 2017.
7.	Wojciech Jasiński	Member of the Supervisory Board	reappointed to the Supervisory Board on 22 June 2017 for the current joint term, which commenced on the day of the Annual General Meeting convened for 22 June 2017.
8.	Andrzej Kisielewicz	Member of the Supervisory Board	reappointed to the Supervisory Board on 22 June 2017 for the current joint term, which commenced on the day of the Annual General Meeting convened for 22 June 2017.
9.	Elżbieta Mączyńska - Ziemacka	Member of the Supervisory Board	reappointed to the Supervisory Board on 22 June 2017 for the current joint term, which commenced on the day of the Annual General Meeting convened for 22 June 2017.
10.	Janusz Ostaszewski	Member of the Supervisory Board	reappointed to the Supervisory Board on 22 June 2017 for the current joint term, which commenced on the day of the Annual General Meeting convened for 22 June 2017.

On 6 May 2019, the Annual General Meeting of the Bank granted a vote of acceptance to the performance of duties by all members of the Supervisory Board and Management Board. As part of changes in the composition of the Supervisory Board, Mr Janusz Ostaszewski was dismissed, and Mr Dariusz Górski was appointed to the Supervisory Board.

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

Lp.	Imię i nazwisko	Function	Date of appointment
1.	Zbigniew Jagiełło	President of the Management Board	On 14 June 2017, he was reappointed President of the Management Board of PKO Bank Polski SA for the current joint term of the Management Board, which commenced on 2 July 2017.
2.	Rafał Antczak	Vice-President of the Management Board	On 14 June 2017, he was appointed Vice-President of the Management Board of PKO Bank Polski SA for the current joint term of the Management Board, which commenced on 2 July 2017.
3.	Rafał Kozłowski	Vice-President of the Management Board	On 21 December 2017, he was appointed Vice-President of the Management Board of PKO Bank Polski SA with effect from 1 January 2018, for the current joint term of the Management Board, which commenced on 2 July 2017.
4.	Maks Kraczkowski	Vice-President of the Management Board	On 14 June 2017, he was reappointed Vice-President of the Management Board of PKO Bank Polski SA for the current joint term of the Management Board, which commenced on 2 July 2017.
5.	Mieczysław Król	Vice-President of the Management Board	On 14 June 2017, he was reappointed Vice-President of the Management Board of PKO Bank Polski SA for the current joint term of the Management Board, which commenced on 2 July 2017.
6.	Adam Marciniak	Vice-President of the Management Board	On 21 September 2017, he was appointed Vice-President of the Management Board of PKO Bank Polski SA, with effect from 1 October 2017, for the current joint term of the Management Board, which commenced on 2 July 2017.
7.	Piotr Mazur	Vice-President of the Management Board	On 14 June 2017, he was reappointed Vice-President of the Management Board of PKO Bank Polski SA for the current joint term of the Management Board, which commenced on 2 July 2017.
8.	Jakub Papierski	Vice-President of the Management Board	On 14 June 2017, he was reappointed Vice-President of the Management Board of PKO Bank Polski SA for the current joint term of the Management Board, which commenced on 2 July 2017.
9.	Jan Emeryk Rościszewski	Vice-President of the Management Board	On 14 June 2017, he was reappointed Vice-President of the Management Board of PKO Bank Polski SA for the current joint term of the Management Board, which commenced on 2 July 2017.

Changes in the ownership structure of the PKO Bank Polski SA shares and the rights attached to them by members of the management and supervisory staff:

No.	Name and surname	Number of shares held as at 31.03.2019	Acquisition	Disposal	Number of shares held as at 31.12.2018
	Management Board of the Bank				
1.	Zbigniew Jagiełło, President of the Bank's Management Board	11 000	0	0	11 000
2.	Rafał Antczak, Vice-President of the Bank's Management Board	0	0	0	0
3.	Rafał Kozłowski, Vice-President of the Bank's Management Board	0	0	0	0
4.	Maks Kraczkowski, Vice-President of the Bank's Management Board	0	0	0	0
5.	Mieczysław Król, Vice-President of the Bank's Management Board	5 000	0	0	5 000
6.	Adam Marciniak, Vice-President of the Bank's Management Board	0	0	0	0
7.	Piotr Mazur, Vice-President of the Bank's Management Board	4 500	0	0	4 500
8.	Jakub Papierski, Vice-President of the Bank's Management Board	3 000	0	0	3 000
9.	Jan Emeryk Rościszewski, Vice-President of the Bank's Management Board	0	0	0	0

On 31 March 2019 and on 31 December 2018, Members of the Supervisory Board of PKO Bank Polski SA did not have any shares of PKO Bank Polski SA.

2. APPROVAL OF THE FINANCIAL STATEMENTS

These condensed interim consolidated financial statements reviewed by the Audit Committee of the Supervisory Board on 14 May 2019 were accepted for publication by the Bank's Management Board on 7 May 2019.

3. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The condensed interim consolidated financial statements of the Group cover the three-month period ended 31 March 2019, and contain comparative data for the three-month period ended 31 March 2018 (with regard to the consolidated income statement, consolidated statement of comprehensive income, statement of changes in consolidated equity, and consolidated cash flow statement), and comparative data as at 31 December 2018 (in respect of the consolidated statement of financial position). The financial data is presented in Polish zloty (PLN) in millions, unless otherwise indicated.

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

The accounting principles and calculation methods applied in the preparation of these condensed consolidated financial statements are consistent with the principles applicable in the financial year ended 31 December 2018, except changes resulting from the implementation of IFRS 16 "Leases" as of 1 January 2019, described accordingly in chapter 6.

The principles which have not been changed are described in the annual consolidated financial statements of the PKO Bank Polski SA Group for 2018.

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

4. IFRS 9 Financial instruments

IFRS 9 Financial Instruments was published in July 2014 and endorsed for application in the EU Member States on 22 November 2016 by Commission Regulation (EU) 2016/2067. It is mandatory for financial statements prepared for annual periods commencing on or after 1 January 2018 (with the exception of insurance companies, which may apply the standard from 1 January 2021). For the purposes of these financial statements, the data of the PKO Bank Polski SA insurance companies was prepared in accordance with IFRS 9. The standard replaces IAS 39 "Financial Instruments: Recognition and Measurement". The amendments cover the classification and measurement of financial instruments, recognition and calculation of impairment and hedge accounting.

Detailed disclosures in this respect were presented in the consolidated financial statements of the PKO Bank Polski SA Group for 2018.

The data in respect of the impact of the implementation of IFRS 9 has not changed.

5. IFRS 15 Revenue from contracts with customers

IFRS 15 "Revenue from contracts with customers" was adopted for use in all the Member States of the European Union on 22 September 2016 and applies to annual periods beginning on or after 1 January 2018.

IFRS 15 refers to fee and commission income and other fees generated by financial institutions, related – among other things – to servicing loans, asset management or fiduciary activities, which are not covered by IFRS 9 Financial Instruments.

Pursuant to this standard the Group recognizes revenue in such a manner so as to reflect the transfer of the goods or services promised to a customer in an amount reflecting the consideration to which – in accordance with the entity's expectations – it will be entitled in return for the goods or services. The Group applies this standard in consideration of the terms and conditions of the contract, and all material facts and circumstances.

The Group has not identified contracts in respect of which the implementation of IFRS 15 could materially impact the financial statements. The Group selected the simplified retrospective approach to the first-time application of IFRS 15. Broader disclosures in this respect were presented in the consolidated financial statements of the PKO Bank Polski SA Group for the year ended 31 December 2018.

6. IFRS 16 Leases

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

From the point of view of the lessee, IFRS 16 eliminates the classification of leases into operating leases and finance leases, introducing one model of recognition and measurement which is consistent with the recognition of financial leases under IAS 17. The lessee is required to recognize right-of-use of the leased asset in the statement of financial position and liabilities from lease payments, except for short-term lease contracts (up to 12 months) and lease contracts for non-significant assets.

The lessee is also required to recognize the costs of depreciation of the right-of-use of the leased asset and the interest expense on the lease liability in the income statement (according to IAS 17, expenditure related to the use of leased assets is included in general administrative expenses). The right of use of assets is subject to straight-line depreciation, while liabilities under lease contracts are measured using the amortized cost method.

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

LEASE LIABILITIES

The implementation of the standard resulted in the Group recognizing lease liabilities presented in Note 39 Other Liabilities in the amount of PLN 922 million at the present value of future lease payments which are to be paid up to the start of the application of IFRS 16, which consist of fixed lease payments and variable lease payments, which depend on market indicators. The value of the liability was adjusted for costs paid in advance as at 31 December 2018 at the level of PLN 4 million.

RIGHT-OF-USE ASSETS

The Group recognized right-of-use assets as at 1 January 2019 at the level of PLN 926 million, which include the amount of the initial valuation of the lease liability of PLN 922 million and lease payments of PLN 4 million paid in advance.

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

ESTIMATES USED

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

- Establishing the term of the lease for contracts concluded indefinitely

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

- Determining the interest rate used to discount future cash flows

The discount rates used by the Group to discount future lease payments (marginal lending rates) are within the range of 2.06% to 8.68% for PLN, from 0.6% to 4.0% for EUR and from 3.8% to 4.0% for USD and 18% for UAH and were calculated on the basis of curves reflecting the cost of financing in the given currency, encompassing the tenor of the longest lease contract which is to be valued and reflecting – for the given currency – a fixed market interest rate and the cost of the Group's financing. The tenors of lease contracts lie within the range of 1 to 99 years.

The total impact of the discount factor from the application of the above rates to the present value of lease liabilities was PLN 306 million.

IMPACT ON THE INCOME STATEMENT, THE CASH FLOW STATEMENT AND THE CAPITAL ADEQUACY RATIOS

The Group expects the application of the new standard to reduce the net result for 2019 by approximately PLN 11 million. There was a change in the presentation of repayments of lease instalments in the cash flow statement. Payments of lease instalments are recognized in the financing cash flows and not in operating cash flows, as to date.
The estimated annual cost of depreciation of right-of-use assets will amount to PLN 194 million, while the interest expense will be PLN 22 million.

(IN PLN MILLION)

The tax charged to financial institutions for the recognition of right-of-use assets will be approx. PLN 4 million per year.

CAPITAL ADEQUACY

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

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

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

Operating lease liabilities As at 31.12.2018 (not discounted)	**637**
Future payments in respect of rights to perpetual usufruct	370
Operating lease payments, together with future payments in respect of rights to perpetual usufruct As at 31.12.2018 (not discounted)	**1 007**
Short-term lease agreements	(6)
Impact of discounting at the incremental borrowing rate 2.62%	(306)
Adjusted for the difference in the recognition of the extension/termination option	227
Gwaranteed contractual residual value	-
Financial liabilities in respect of leases As at 01.01.2019	**922**

Impact of the implementation of IFRS 16 on the recognition of additional financial liabilities and the respective right-of-use assets:

Impact on the statement of financial position	As at 31.12.2018 under IAS 17	Write-off of the right to perpetual usufruct of land	Effect of recognizing lease agreements (with discount)		Total effect of recognizing lease agreements (with discount)	As at 01.01.2019 under IFRS 16
			right to perpetual usufruct	operating lease		
ASSETS						
Property, plant and equipment, of which:	2 931	(111)	124	802	926	3 746
right-of-use asset	X	-	124	802	926	926
land and buildings	1 537	(111)	-	-	-	1 426
Other assets, including:	3 454	-	-	(4)	(4)	3 450
prepayments	222	-	-	(4)	(4)	218
LIABILITIES AND EQUITY						
Other liabilities, including:	3 685	-	124	798	922	4 607
lease liabilities	X	-	124	798	922	922
EQUITY	39 101	(111)	-	-	-	38 990

As a result of the implementation of IFRS 16, in the first quarter of 2019, the administrative expenses were not charged with the net lease instalments in the amount of PLN 55 million. The costs of lease instalments were allocated to depreciation in the amount of PLN 49 million and to the interest expenses of PLN 6 million.

7. OTHER CHANGES IN THE ACCOUNTING POLICIES

The amendments to IAS 19 Employee Benefits apply to changes, restrictions or settlements of the defined benefit plans. The new regulations require entities to use current assumptions in the case of amendments, restrictions or settlements of the plan to determine the current employment costs and net interest for the remainder of the reporting period from the moment the plan is changed.

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

(IN PLN MILLION)

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

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

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

The Group is in the process of analysing the impact of IFRS 17 on the consolidated financial statements. The Group does not expect the impact of the amendments to IAS 19, IFRS 3, IAS 1, IAS 8, the Conceptual Framework for Financial Reporting and the improvements to IFRS 2015–2017 (IFRS 3, IFRS 11, IAS 12, IAS 23) to be significant.

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

The PKO Bank Polski SA Group made the following changes to the presentation of its condensed interim consolidated financial statements for the three-month period ended 31 March 2019, in order to better reflect the data connected with the separation of an item for the net regulatory charges.

INCOME STATEMENT	first quarter period from 01.01.2018 to 31.03.2018 before restatement	separate presentation of "net regulatory charges"	first quarter period from 01.01.2018 to 31.03.2018 restated
Interest expenses	(532)	(4)	(536)
Administrative expenses	(1 579)	286	(1 293)
Net regulatory charges	-	(282)	(282)
Total	**(2 111)**	**-**	**(2 111)**

(IN PLN MILLION)

CONSOLIDATED STATEMENT OF CASH FLOWS	period from 01.01.2018 to 31.03.2018 before restatement	reclassification to "change in accumulated credit losses and impairment allowances"	separate presentation of "change in accumulated allowances on non-financial assets and other provisions"	reclassification of a part of liabilities in respect of insurance activities to "change in amounts due to customers"	separate presentation of "proceeds from sale of and interest on securities measured at fair value through other comprehensive income" and "proceeds from sale of and interest on securities measured at amortized cost"	separate presentation of "purchase of securities measured at fair value through other comprehensive income" and "purchase of securities measured at amortized cost"	period from 01.01.2018 to 31.03.2018 restated
Cash flows from operating activities							
net expected credit losses, impairment allowances and provisions	348	(348)	-	-	-	-	-
change in accumulated credit losses and impairment allowances	-	348	25	-	-	-	373
change in accumulated allowances on non-financial assets and other provisions	-	-	(25)	-	-	-	(25)
change in amounts due to customers	(1 787)	-	-	(11)	-	-	(1 798)
change in liabilities in respect of insurance activities	72	-	-	11		-	83
Total	**(1 367)**	-	-	-	-	-	**(1 367)**
Cash flows from investing activities							
Inflows from investing activities							
proceeds from sale of and interest on investment securities	101 433	-	-	-	(101 433)	-	-
proceeds from sale of and interest on securities measured at fair value through other comprehensive income	-	-	-	-	100 986	-	100 986
proceeds from sale of and interest on securities measured at amortized cost	-	-	-	-	447	-	447
Total	**101 433**	-	-	-	-	-	101 433
Outflows from investing activities							-
purchase of investment securities	(98 924)	-	-	-	-	98 924	-
purchase of securities measured at fair value through other comprehensive income	-	-	-	-	-	(98 409)	(98 409)
purchase of securities measured at amortized cost	-	-	-	-	-	(515)	(515)
Total	**(98 924)**	-	-	-	-	-	**(98 924)**

9. INFORMATION ON BUSINESS SEGMENTS AND GEOGRAPHICAL AREAS

INFORMATION ON BUSINESS SEGMENTS

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

The PKO Bank Polski SA Group comprises three basic segments: retail, corporate and investment, and the transfer & other activities centre:

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

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

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

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

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

(IN PLN MILLION)

The following tables present data on revenues and results of individual operating segments of the PKO Bank Polski SA Group for the 3-month period ended 31 March 2019 and 31 March 2018, as well as assets and liabilities as at 31 March 2019 and 31 December 2018.

FOR 3 MONTHS ENDED 31 MARCH 2019	Continuing operations			
	Retail segment	Corporate and investment segment	Transfer centre and other	Total activity of the PKO Bank Polski SA Group
Net interest income/(expense)	1 957	368	130	2 455
Net fee and commission income/(expense)	612	138	(4)	746
Other net income	126	140	27	293
Net gain/(loss) on financial instruments measured at fair value through profit or loss	13	9	2	24
Foreign exchange gains/ (losses)	39	71	30	140
Gains/(losses) on derecognition of financial assets and financial liabilities not measured at fair value through profit or loss	4	49	-	53
Net other operating income and expense	64	17	(5)	76
Income/(expenses) relating to internal customers	6	(6)	-	-
Net allowances for expected credit losses	(250)	(75)	-	(325)
Impairment of non-financial assets	(1)	(6)	-	(7)
Administrative expenses, of which:	(1 100)	(226)	-	(1 326)
depreciation and amortization	(202)	(38)	-	(240)
Net regulatory charges	(335)	(110)	86	(359)
Tax on certain financial institutions	(168)	(76)	(4)	(248)
Shares in profits (losses) of associates and joint ventures	-	-	-	5
Segment profit/(loss) before tax	841	153	235	1 234
Income tax expense (tax burden)	-	-	-	(373)
Profit (loss) attributable to non-controlling shareholders	-	-	-	(1)
Net profit attributable to equity holders of the parent company	**841**	**153**	**235**	**862**

31.03.2019	Retail segment	Corporate and investment segment	Transfer centre and other	Total activity of the PKO Bank Polski SA Group
Assets	174 187	144 509	4 975	323 671
Unallocated assets	-	-	-	2 162
Total assets	174 187	144 509	4 975	325 833
Liabilities	190 979	59 329	35 140	285 448
Unallocated liabilities	-	-	-	657
Total liabilities	190 979	59 329	35 140	286 105

(IN PLN MILLION)

FOR 3 MONTHS ENDED 31 MARCH 2018	Continuing operations			
	Retail segment	Corporate and investment segment	Transfer centre and other	Total activity of the PKO Bank Polski SA Group
Net interest income/(expense)	1 761	341	110	2 212
Net fee and commission income/(expense)	610	131	(4)	737
Other net income	136	113	8	257
Net gain/(loss) on financial instruments measured at fair value through profit or loss	5	20	(8)	17
Foreign exchange gains/ (losses)	36	43	25	104
Gains/(losses) on derecognition of financial assets and financial liabilities not measured at fair value through profit or loss	8	29	-	37
Net other operating income and expense	80	28	(9)	99
Income/(expenses) relating to internal customers	7	(7)	-	-
Net allowances for expected credit losses	(309)	(16)	-	(325)
Impairment of non-financial assets	(3)	(5)	-	(8)
Administrative expenses, of which:	(1 101)	(198)	6	(1 293)
Amortization and depreciation	(178)	(28)	-	(206)
Net regulatory charges	(143)	(98)	(41)	(282)
Tax on certain financial institutions	(186)	(63)	21	(228)
Shares in profits (losses) of associates and joint ventures	-	-	-	6
Segment profit/(loss) before tax	765	205	100	1 076
Income tax expense (tax burden)	-	-	-	(320)
Profit (loss) attributable to non-controlling shareholders	-	-	-	(1)
Net profit attributable to equity holders of the parent company	**765**	**205**	**100**	**757**

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

INFORMATION ON GEOGRAPHICAL AREAS

Additionally, the PKO Bank Polski SA Group divides its operations into geographical areas. The PKO Bank Polski SA Group conducts activities in the Republic of Poland and in Ukraine through the KREDOBANK SA Group, "Inter-Risk Ukraina" spółka z dodatkową odpowiedzialnością (company with additional liability), and Finansowa Kompania "Prywatne Inwestycje" sp. z o.o., in Sweden through subsidiaries: PKO Finance AB and PKO Leasing Sverige AB, in Ireland through the subsidiary: ROOF Poland Leasing 2014 DAC in the Federal Republic of Germany, through a corporate branch of PKO Bank Polski SA, and through a corporate branch in the Czech Republic. For presentation purposes, the results of companies operating in Sweden and Ireland and the results of the branches operating in Germany and the Czech Republic, which from the point of view of the scale of operations of the PKO Bank Polski SA Group are not significant, are included in the segment of Poland. The results of the companies recognized in the "Ukraine" area include mutual transactions performed with other companies of the PKO Bank Polski SA Group operating in Ukraine. The mutual transactions with the other companies from the PKO Bank Polski SA Group and the consolidation adjustments have been presented in the results of the "Poland" area.

(IN PLN MILLION)

FOR 3 MONTHS ENDED 31 MARCH 2019	Poland	Ukraine	Total
Net interest income/(expense)	2 406	49	2 455
Net fee and commission income/(expense)	731	15	746
Other net income	291	2	293
Administrative expenses	(1 287)	(39)	(1 326)
Net regulatory charges	(359)	-	(359)
Net allowances for expected credit losses	(312)	(13)	(325)
Impairment of non-financial assets	(7)	-	(7)
Tax on certain financial institutions	(248)	-	(248)
Shares in profits (losses) of associates and joint ventures	-	-	5
Segment profit/(loss) before tax	**1 215**	**14**	**1 234**
Income tax expense (tax burden)	-	-	(373)
Profit (loss) attributable to non-controlling shareholders	-	-	(1)
Net profit attributable to equity holders of the parent company	**1 215**	**14**	**862**

AS AT 31 MARCH 2019	Poland	Ukraine	Total
Assets, of which:	323 486	2 347	325 833
non-financial non-current assets	6 694	140	6 834
investments in associates and joint ventures	326	-	326
deferred income tax assets and current income tax receivable	2 155	7	2 162
Liabilities	284 018	2 087	286 105

FOR 3 MONTHS ENDED 31 MARCH 2018	Poland	Ukraine	Total
Net interest income/(expense)	2 175	37	2 212
Net fee and commission income/(expense)	725	12	737
Other net income	254	3	257
Administrative expenses	(1 264)	(29)	(1 293)
Net regulatory charges	(282)	-	(282)
Net allowances for expected credit losses	(324)	(1)	(325)
Impairment of non-financial assets	(8)	-	(8)
Tax on certain financial institutions	(228)	-	(228)
Shares in profits (losses) of associates and joint ventures	-	-	6
Segment profit/(loss) before tax	1 048	22	1 076
Income tax expense (tax burden)	-	-	(320)
Profit (loss) attributable to non-controlling shareholders	-	-	(1)
Net profit attributable to equity holders of the parent company	**1 048**	**22**	**757**

AS AT 31 DECEMBER 2018	Poland	Ukraine	Total
Assets, of which:	321 984	2 271	324 255
non-financial non-current assets	6 021	120	6 141
investments in associates and joint ventures	344	-	344
deferred income tax assets and current income tax receivable	2 132	7	2 139
Liabilities	283 130	2 024	285 154

(IN PLN MILLION)

NOTES TO THE CONSOLIDATED INCOME STATEMENT

10. Interest income and expenses

NET INTEREST INCOME ON:	01.01-31.03.2019			
	Net interest income on financial instruments measured at amortized cost	Net interest income on instruments measured at fair value through OCI	Net income similar to interest income on instruments at fair value through profit or loss	Total
loans to and other receivables from banks	27	-	-	27
hedging derivatives	-	-	89	89
loans and advances received	(8)	-	-	(8)
leases	159	-	-	159
debt securities	66	307	10	383
debt securities in issue	(125)	-	-	(125)
amounts due to banks (excluding loans and advances received)	(7)	-	-	(7)
amounts due to customers (excluding loans and advances received)	(408)	-	-	(408)
subordinated liabilities	(22)	-	-	(22)
loans and advances to customers	2 356	-	11	2 367
Total	**2 038**	307	110	**2 455**
of which: interest income on impaired financial instruments	**61**	3	-	**64**

NET INTEREST INCOME ON:	01.01-31.03.2018			
	Net interest income on financial instruments measured at amortized cost	Net interest income on instruments measured at fair value through OCI	Net income similar to interest income on instruments at fair value through profit or loss	Total
loans to and other receivables from banks	25	-	-	25
hedging derivatives	-	-	91	91
loans and advances received	(13)	-	-	(13)
debt securities	46	263	14	323
debt securities in issue	(108)	-	-	(108)
amounts due to banks (excluding loans and advances received)	(9)	-	-	(9)
amounts due to customers (excluding loans and advances received)	(374)	-	-	(374)
subordinated liabilities	(17)	-	-	(17)
loans and advances to customers	2 288	-	6	2 294
Total	**1 838**	**263**	**111**	**2 212**
of which: interest income on impaired financial instruments	63	3	1	67

INTEREST INCOME ON:	01.01-31.03.2019			
	Interest income on financial instruments measured at amortized cost	Interest income on instruments measured at fair value through OCI	Income similar to interest income on instruments measured at fair value through profit or loss	Total
loans to and other receivables from banks	27	-	-	27
hedging derivatives	-	-	89	89
debt securities	67	329	14	410
loans and advances to customers	2 356	-	11	2 367
leases	165	-	-	165
Total	**2 615**	**329**	**114**	**3 058**
of which: interest income on impaired financial instruments	61	3	-	64

(IN PLN MILLION)

INTEREST INCOME ON:	01.01-31.03.2018			
	Interest income on financial instruments measured at amortized cost	Interest income on instruments measured at fair value through OCI	Income similar to interest income on instruments measured at fair value through profit or loss	Total
loans to and other receivables from banks	25	-	-	25
hedging derivatives	-	-	91	91
debt securities	46	273	19	338
loans and advances to customers	2 288	-	6	2 294
Total	**2 359**	**273**	**116**	**2 748**
of which: interest income on impaired financial instruments	63	3	1	67

INTEREST EXPENSES ON:	01.01-31.03.2019			
	Interest expense on financial instruments measured at amortized cost	Interest expense on instruments measured at fair value through OCI	Costs similar to interest expense on instruments at fair value through profit or loss	Total
amounts due to banks (excluding loans and advances received)	(7)	-	-	(7)
loans and advances received	(8)	-	-	(8)
leases	(6)			(6)
amounts due to customers (excluding loans and advances received)	(408)	-	-	(408)
debt securities	(1)	(22)	(4)	(27)
debt securities in issue	(125)	-	-	(125)
subordinated liabilities	(22)	-	-	(22)
Total	**(577)**	**(22)**	**(4)**	**(603)**

INTEREST EXPENSES ON:	01.01-31.03.2018			
	Interest expense on financial instruments measured at amortized cost	Interest expense on instruments measured at fair value through OCI	Costs similar to interest expense on instruments at fair value through profit or loss	Total
amounts due to banks (excluding loans and advances received)	(9)	-	-	(9)
loans and advances received	(13)	-	-	(13)
amounts due to customers (excluding loans and advances received)	(374)	-	-	(374)
debt securities	-	(10)	(5)	(15)
debt securities in issue	(108)	-	-	(108)
subordinated liabilities	(17)	-	-	(17)
Total	**(521)**	**(10)**	**(5)**	**(536)**

INTEREST INCOME BY SEGMENT:	01.01-31.03.2019			
	Retail segment	Corporate and investment segment	Transfer centre and other	Total
loans to and other receivables from banks	-	17	10	27
hedging derivatives	-	-	89	89
debt securities	5	401	4	410
loans and advances to customers	1 929	438	-	2 367
leases	117	48	-	165
Total	**1 934**	**856**	**103**	**3 058**

(IN PLN MILLION)

INTEREST INCOME BY SEGMENT:	01.01-31.03.2018			
	Retail segment	Corporate and investment	Transfer centre and other	Total
loans to and other receivables from banks	-	15	10	25
hedging derivatives	-	-	91	91
debt securities	4	330	4	338
loans and advances to customers	1 867	427	-	2 294
Total	1 871	772	105	2 748

11. FEE AND COMMISSION INCOME AND EXPENSES

Net fee and commission income/(expense)	01.01-31.03.2019	01.01-31.03.2018
Loans and insurance	204	168
Investment funds, pension funds and brokerage activities	188	215
Cards	126	123
Bank accounts and other	228	231
Total	**746**	**737**

FEE AND COMMISSION INCOME	01.01-31.03.2019	01.01-31.03.2018
Loans and insurance	**204**	**168**
lending	167	144
offering insurance products	37	24
Investment funds, pension funds and brokerage activities	**198**	**226**
servicing of investment funds and OFE (including management fees)	142	161
servicing and selling investment and insurance products	12	15
brokerage activities	44	50
Cards	**297**	**276**
Bank accounts and other	**290**	**302**
servicing bank accounts	210	209
cash transactions	19	24
servicing foreign mass transactions	23	25
customer orders	11	11
fiduciary services	1	2
other	26	31
Total	**989**	**972**

FEE AND COMMISSION EXPENSE	01.01-31.03.2019	01.01-31.03.2018
Investment funds, pension funds and brokerage activities	**(10)**	**(11)**
Cards	**(171)**	**(153)**
Bank accounts and other	**(62)**	**(71)**
commission paid to external entities for product sales	(10)	(15)
construction project supervision and property valuation	(10)	(11)
settlement services	(9)	(10)
commission for operating services provided by banks	(3)	(3)
sending short text messages (SMS)	(8)	(6)
other	(22)	(26)
Total	**(243)**	**(235)**

(IN PLN MILLION)

FEE AND COMMISSION INCOME BY SEGMENT	01.01-31.03.2019			
	Retail segment	Corporate and investment segment	Transfer centre and other	Total
Loans and insurance	133	71	-	204
lending	99	68	-	167
offering insurance products	34	3	-	37
Investment funds, pension funds and brokerage activities	163	35	-	198
servicing of investment funds and OFE (including management fees)	140	2	-	142
servicing and selling investment and insurance products	12	-	-	12
brokerage activities	11	33	-	44
Cards	286	11	-	297
Bank accounts and other	234	56	-	290
servicing bank accounts	186	24	-	210
cash transactions	12	7	-	19
servicing foreign mass transactions	12	11	-	23
customer orders	6	5	-	11
fiduciary services	-	1	-	1
other	18	8	-	26
Total	816	173	-	989

FEE AND COMMISSION INCOME BY SEGMENT	01.01-31.03.2018			
	Retail segment	Corporate and investment	Transfer centre and other	Total
Loans and insurance	122	46	-	168
lending	100	44	-	144
offering insurance products	22	2	-	24
Investment funds, pension funds and brokerage activities	185	41	-	226
servicing of investment funds and OFE (including management fees)	158	3	-	161
servicing and selling investment and insurance products	15	-	-	15
brokerage activities	12	38	-	50
Cards	270	6	-	276
Bank accounts and other	245	57	-	302
servicing bank accounts	190	19	-	209
cash transactions	17	7	-	24
servicing foreign mass transactions	15	10	-	25
customer orders	7	4	-	11
fiduciary services	-	2	-	2
other	16	15	-	31
Total	822	150	-	972

12. NET GAIN ON FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

NET GAIN ON FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS	01.01-31.03.2019	01.01-31.03.2018
Financial instruments held for trading	3	16
Financial assets not held for trading, measured at fair value through profit or loss on a mandatory basis	22	1
Derivative instruments (of which an ineffective portion of cash flow hedges)	(1)	-
Total	24	17

[1] In the first quarter of 2019 this item included net valuation of the shares of Visa Inc. of PLN 30 million (PLN 2 million in the first quarter of 2018).

13. FOREIGN EXCHANGE GAINS/ (LOSSES)

FOREIGN EXCHANGE GAINS/(LOSSES)	01.01-31.03.2019	01.01-31.03.2018
Net foreign exchange gains/(losses), of which:	140	104
ineffective portion of cash flow hedges recognized in foreign exchange gains/losses	4	3
Total	140	104

(IN PLN MILLION)

14. Net gains/(losses) on derecognition of financial instruments not measured at fair value through profit or loss

NET GAINS/(LOSSES) ON DERECOGNITION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	01.01-31.03.2019	01.01-31.03.2018
Measured at fair value through OCI	50	29
Measured at amortized cost	3	8
loans and advances to customers	-	8
debt securities	3	-
Total	**53**	**37**

15. Gain/(loss) on allowance for credit losses

NET ALLOWANCES FOR EXPECTED CREDIT LOSSES	01.01-31.03.2019	01.01-31.03.2018
Debt securities	2	4
measured at amortized cost	2	-
Loans and advances to customers	(319)	(335)
measured at amortized cost	(319)	(335)
housing	(10)	(59)
corporate	(138)	(160)
consumer	(156)	(100)
finance lease receivables	(15)	(16)
Provisions for financial liabilities and guarantees granted	(8)	6
Total	**(325)**	**(325)**

ACCUMULATED CREDIT LOSSES, IMPAIRMENT ALLOWANCES AND PROVISIONS	31.03.2019	31.12.2018
Amounts due from banks	1	1
measured at amortized cost	1	1
Debt securities	36	36
measured at fair value through OCI	13	10
measured at amortized cost	23	26
Loans and advances to customers	8 488	8 204
measured at amortized cost	8 488	8 204
Provisions for financial liabilities and guarantees granted	235	227
Other financial assets	97	97
Total	**8 857**	**8 565**

16. Impairment of non-financial assets

NET IMPAIRMENT ALLOWANCES ON NON-FINANCIAL ASSETS	01.01-31.03.2019	01.01-31.03.2018
Investments in associates and joint ventures	(4)	(2)
Other non-financial assets, including inventories	(3)	(6)
Total	**(7)**	**(8)**

(IN PLN MILLION)

NET IMPAIRMENT ALLOWANCES ON NON-FINANCIAL ASSETS	31.03.2019	31.12.2018
Property, plant and equipment	48	50
Intangible assets	220	221
Investments in associates and joint ventures	182	178
Other non-financial assets, including inventories	176	175
Total	**626**	**624**

17. Other operating income and expenses

OTHER OPERATING INCOME	01.01-31.03.2019	01.01-31.03.2018
Net sales of finished goods and services	94	85
Gains on sale or scrapping of property, plant and equipment, intangible assets and assets held for sale	9	13
Damages, compensation and penalties received	6	7
Ancillary income	4	6
Recovery of receivables expired, forgiven or written off	1	3
Release of provision for legal claims	4	-
Other	13	43
Total	**131**	**157**

OTHER OPERATING EXPENSE	01.01-31.03.2019	01.01-31.03.2018
Costs of products and services sold	(4)	(6)
Losses on sale or scrapping of property, plant and equipment, intangible assets and assets held for sale	(5)	(7)
Damages, penalties and fines paid	(9)	-
Donations made	(5)	(19)
Sundry expenses	(3)	(4)
Provisions for legal claims	(6)	(3)
Other	(23)	(19)
Total	**(55)**	**(58)**

18. Administrative expenses

ADMINISTRATIVE EXPENSES	01.01-31.03.2019	01.01-31.03.2018
Employee benefits[1]	(771)	(751)
Overheads, including:	(315)	(336)
rent	(21)	(67)
IT	(75)	(72)
Depreciation and amortization	(240)	(206)
property, plant and equipment, of which:	(146)	(88)
IT	(31)	(29)
right-of-use assets	(49)	-
intangible assets, of which:	(94)	(117)
IT	(86)	(110)
investment properties	-	(1)
Total	**(1 326)**	**(1 293)**

[1] The item Employee benefits in the 3-month period of 2019 shows costs relating to the restructuring of PLN 23 million (PLN 45 million in the three-month period of 2018).

(IN PLN MILLION)

EMPLOYEE BENEFITS[1]	01.01-31.03.2019	01.01-31.03.2018
Wages and salaries, of which:	(641)	(625)
costs of contributions to the employee pension plan	(16)	(6)
Social insurance, of which:	(109)	(106)
contributions for disability and retirement benefits	(96)	(95)
Other employee benefits	(21)	(20)
Total	**(771)**	**(751)**

[1] The item Employee benefits in the 3-month period of 2019 shows costs relating to the restructuring of PLN 23 million (PLN 45 million in the three-month period of 2018).

19. NET REGULATORY CHARGES

NET REGULATORY CHARGES	01.01-31.03.2019	01.01-31.03.2018
Contributions and fees to the Bank Guarantee Fund (BGF), of which:	(388)	(233)
to the Resolution Fund	(348)	(167)
to the Banks' Guarantee Fund	(40)	(66)
Payments to the PFSA	(40)	(23)
Flat-rate income tax, of which[1]:	86	(9)
withholding tax at 20%	138	(9)
flat rate income tax at 3%	(52)	-
Other taxes and fees	(17)	(17)
Total	**(359)**	**(282)**

[1] A decrease of PLN 95 million of WHT costs on the issue of foreign bonds connected with an adjustment of the grossing up of interest for 2017-2019 and recognizing 3% tax on interest paid for the period from 2014 to the first quarter of 2019.

The Act of 23 October 2018 on amendments to, among other things, Acts on income taxes (Journal of Laws of 2018, item 2193) introduced a possibility of an alternative to the taxation with WHT, namely a 3% tax on certain interest paid to non-residents. Therefore, on 29 March 2019, the Bank filed a notification on the election of the 3% taxation option with the tax office in respect of:

(i) interest on loans which are paid by the Bank to PKO Finance AB with its registered office in Sweden (pursuant to the Act, the election of the taxation option is related to the years 2014–2022); and

(ii) interest on Eurobonds issued by the Bank before 1 January 2019.

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

The correction of the 20% withholding tax by PLN 138 million and recognizing the 3% tax on interest assessed for 2014–2018 PLN (50) million are one-off events, and the amount of tax on interest assessed in the three-month period of 2019 amounts to PLN (2) million.

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

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

(IN PLN MILLION)

20. TAX ON CERTAIN FINANCIAL INSTITUTIONS

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

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

TAX ON CERTAIN FINANCIAL INSTITUTIONS	01.01-31.03.2019	01.01-31.03.2018
Tax on certain financial institutions, of which:		
PKO Bank Polski SA	(228)	(215)
PKO Bank Hipoteczny SA	(18)	(12)
PKO Towarzystwo Ubezpieczeń SA	(1)	-
PKO Życie Towarzystwo Ubezpieczeń SA	(1)	(1)
Total	**(248)**	**(228)**

21. INCOME TAX

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

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

PGK PKO Banku Polskiego SA was established for three tax years. The first tax year began on 1 January 2019. PKO Bank Polski SA is the parent of PGK PKO Banku Polskiego SA. PKO Bank Polski SA remits corporate income tax advances due from members of PGK, and the Companies transfer tax advances resulting from their activities to the Bank. In the first year of its operations, PGK remits tax advances to the tax office each quarter.

	01.01-31.03.2019	01.01-31.03.2018
Current income tax expense	(361)	(339)
Deferred income tax on temporary differences	(12)	19
Income tax expense recognized in the income statement	(373)	(320)
Income tax expense on temporary differences recognized in other comprehensive income	30	(41)
Total	**(343)**	**(361)**

(IN PLN MILLION)

RECONCILIATION OF THE EFFECTIVE TAX RATE

	01.01-31.03.2019	01.01-31.03.2018
Profit before tax	1 234	1 076
Tax calculated using the enacted rate in force in Poland 19%	(234)	(204)
Effect of different tax rates of foreign entities	(1)	-
Effect of permanent timing differences, of which:	(140)	(118)
non-tax deductible impairment allowances on credit exposures and securities	(7)	(13)
contribution and payments to the Bank Guarantee Fund	(69)	(43)
tax on certain financial institutions	(47)	(45)
other permanent differences	(17)	(17)
Effect of other timing differences, including new technologies tax relief and donations	2	2
Income tax expense recognized in the income statement	(373)	(320)
Effective tax rate	**30.23%**	**29.74%**

(IN PLN MILLION)

DEFERRED INCOME TAX ASSETS

DEFERRED TAX PROVISION	31.12.2018	INCOME STATEMENT	OTHER COMPREHENSIVE INCOME	31.03.2019
Interest accrued on receivables (loans)	244	6	-	250
Capitalized interest on performing housing loans	40	(2)	-	38
Interest on securities	80	31	-	111
Remeasurement of securities	100	(3)	(58)	39
Valuation of derivatives	23	(1)	-	22
Difference between carrying amount and tax value of property, plant and equipment and intangible assets	306	(8)	-	298
Taxable income on release of IBNR allowance which was tax deductible in the past due to the adoption of IFRS 9	78	(13)	-	65
Prepayments	165	9	-	174
Other taxable temporary differences	5	1	-	6
Gross deferred income tax provision	**1 041**	**20**	**(58)**	**1 003**
Deferred tax asset				
Interest accrued on liabilities	99	(36)	-	63
Valuation of derivatives	142	(6)	(28)	108
Remeasurement of securities	12	(9)	-	3
Provision for employee benefits	84	(1)	-	83
Allowances for expected credit losses	1 126	12	-	1 138
Fair value remeasurement of loans	17	-	-	17
Deferred commission to be settled under the straight-line method and the effective interest rate	800	22	-	822
Other deductible temporary differences	12	13	-	25
Provision for costs to be incurred	36	(1)	-	35
Tax loss carryforward	14	9	-	23
Difference between carrying amount and tax value of property, plant and equipment and intangible assets, including leased assets	782	5	-	787
Deferred tax asset, gross	**3 124**	**8**	**(28)**	**3 104**
Total effect of temporary differences	2 083	(12)	30	2 101
Deferred income tax provision (presented in the statement of financial position)	52	-	-	57
Deferred income tax asset (presented in the statement of financial position)	2 135	-	-	2 158

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

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

According to the ruling obtained on 14 March 2019, the company for which EUR is the reporting currency should tax the EUR/SEK exchange differences on the loans granted as at the maturity date, and at the same time it is not possible to recognize at the maturity date a tax cost related to foreign exchange differences on the company's liabilities in respect of the bond issue. The potential application of the Council to all loans granted by the company would mean recognizing a liability of EUR 31 million, and a provision of EUR 33 million, as at 31 March 2019.

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

22. EARNINGS PER SHARE

EARNINGS PER SHARE	01.01-31.03.2019	01.01-31.03.2018
Profit attributable to ordinary shareholders	862	757
Weighted average number of ordinary shares during the period (in million)	1 250	1 250
Earnings per share (in PLN per share)	0.69	0.61

In the first three months of 2019, as in the first three months of 2018, there were no dilutive instruments. Therefore, the amount of diluted earnings per share is the same as the amount of basic earnings per share.

(IN PLN MILLION)

NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

23. CASH AND BALANCES WITH THE CENTRAL BANK

CASH AND BALANCES WITH THE CENTRAL BANK	31.03.2019	31.12.2018
Current account with the Central Bank	10 570	17 391
Cash in hand	4 000	5 534
Deposits with the Central Bank	850	-
Total	**15 420**	**22 925**

24. AMOUNTS DUE FROM BANKS

AMOUNTS DUE FROM BANKS	31.03.2019	31.12.2018
Measured at amortized cost	**6 208**	**7 662**
Deposits with banks, of which:	5 040	6 437
restricted cash and cash equivalents	3	4
Current accounts, of which:	1 138	1 174
restricted cash and cash equivalents	177	191
Loans given	29	48
Cash in transit	1	3
Total, gross	**6 208**	**7 662**
Allowances for expected credit losses	(1)	(1)
Total	**6 207**	**7 661**

Information about exposure to credit risk in respect of receivables from banks is provided in more detail for the three-month period of 2019 in Note 29 “Expected credit losses”.

The whole balance of amounts due from banks as at 1 January 2019 and as at 31 March 2019 was classified to Stage 1. In the period ended 31 March 2019 and 31 December 2018 there were no transfers between stages with reference to amounts due from banks.

(IN PLN MILLION)

25. DERIVATIVE HEDGING INSTRUMENTS

ACCOUNTING POLICIES

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

TYPES OF HEDGING STRATEGIES APPLIED BY THE GROUP

STRATEGY 1	HEDGES AGAINST FLUCTUATIONS IN CASH FLOWS FROM MORTGAGE LOANS IN CHF AND NEGOTIATED TERM DEPOSITS IN PLN, RESULTING FROM THE RISK OF FLUCTUATIONS IN INTEREST RATES AND IN FOREIGN EXCHANGE RATES, USING CIRS TRANSACTIONS
DESCRIPTION OF THE HEDGING RELATIONSHIP	elimination of the risk of cash flow fluctuations generated by floating interest rate loans denominated in CHF and negotiated term deposits in PLN, resulting from fluctuations in reference interest rates in CHF and PLN, and changes in CHF/PLN foreign exchange rates using CIRS transactions during the hedged period
HEDGED RISK	foreign exchange risk and interest rate risk
HEDGING INSTRUMENT	CIRS transactions where the Group pays coupons based on 3M CHF LIBOR, and receives coupons based on 3M WIBOR on the nominal value defined in CHF and PLN respectively
HEDGED ITEM	the portfolio of floating interest mortgage loans in CHF and the portfolio of short-term negotiated deposits, including their future renewals (high probability of occurrence). In designating the hedged item the Group used the IAS39 AG MSR.39.WS.99C in the version adopted by the European Union
SOURCES OF HEDGE INEFFECTIVENESS	▪ margin on the hedging instrument ▪ differences in discount on the hedged item and the hedging instrument ▪ CVA/DVA adjustment of the hedging instrument
	The period in which cash flows are expected to occur and when they are expected to affect the financial results: April 2019 – October 2026

HEDGING DERIVATIVES	NOMINAL AMOUNT OF HEDGING DERIVATIVES		AVERAGE MARGIN WEIGHTED BY THE PRINCIPAL	CARRYING AMOUNT/FAIR VALUE OF HEDGING INSTRUMENTS		INEFFECTIVE PORTION OF CASH FLOW HEDGES RECOGNIZED IN THE INCOME STATEMENT	CHANGE IN THE FAIR VALUE OF THE HEDGING INSTRUMENT
				Assets	Liabilities		
31.03.2019							
CIRS CHF/PLN	float CHF	1 675	0,1530%	47	455	-	(407)
	float PLN	6 031	0,0000%				
31.12.2018							
CIRS CHF/PLN	float CHF	1 675	0,1530%	60	428	-	(377)
	float PLN	6 030	0,0000%				

The table above and subsequent tables present the change in the fair value of hedging instruments and hedged items from the moment of designation of hedging relationships for hedge accounting.

(IN PLN MILLION)

HEDGED ITEMS	NOMINAL AMOUNT OF HEDGED ITEMS	ITEM IN THE STATEMENT OF FINANCIAL POSITION	CHANGE IN THE FAIR VALUE OF THE HEDGED ITEM
31.03.2019			
Loans in CHF	1 675	Loans and advances to customers	462
Negotiated deposits in PLN	6 031	Amounts due to customers	
31.12.2018			
Loans in CHF	1 675	Loans and advances to customers	435
Negotiated deposits in PLN	6 030	Amounts due to customers	

STRATEGY 2	HEDGES AGAINST FLUCTUATIONS IN CASH FLOWS FROM FLOATING INTEREST RATE LOANS IN PLN, RESULTING FROM THE RISK OF FLUCTUATIONS IN INTEREST RATES, USING IRS TRANSACTIONS
DESCRIPTION OF THE HEDGING RELATIONSHIP	elimination of the risk of cash flow fluctuations generated by floating interest rate PLN loan portfolio resulting from the interest rate risk using IRS transactions in the period covered by the hedge
HEDGED RISK	interest rate risk
HEDGING INSTRUMENT	IRS transactions where the Group pays coupons based on the floating 3M WIBOR rate, and receives coupons based on a fixed rate on the nominal value for which they were concluded
HEDGED ITEM	the portfolio of loans in PLN indexed to the floating 3M WIBOR rate
SOURCES OF HEDGE INEFFECTIVENESS	▪ change in market parameters between the moment of determining the terms and conditions relating to the hedged item and the moment of concluding the hedge ▪ differences in discount on the hedged item and the hedging instrument ▪ CVA/DVA adjustment of the hedging instrument
	The period in which cash flows are expected to occur and when they are expected to affect the financial results: January 2019 – August 2028.

HEDGING DERIVATIVES	NOMINAL AMOUNT OF HEDGING DERIVATIVES		AVERAGE FIXED INTEREST RATE WEIGHTED BY THE PRINCIPAL	CARRYING AMOUNT/FAIR VALUE OF HEDGING INSTRUMENTS		INEFFECTIVE PORTION OF CASH FLOW HEDGES RECOGNIZED IN THE INCOME STATEMENT	CHANGE IN THE FAIR VALUE OF THE HEDGING INSTRUMENT
				Assets	Liabilities		
31.03.2019							
IRS PLN	PLN	15 780	2.3718%	143	1	1	71
31.12.2018							
IRS PLN	PLN	11 575	2.4386%	101	-	(1)	57

HEDGED ITEM	NOMINAL AMOUNT OF THE HEDGED ITEM	ITEM IN THE STATEMENT OF FINANCIAL POSITION	CHANGE IN THE FAIR VALUE OF THE HEDGED ITEM
31.03.2019			
Loans in PLN	15 780	Loans and advances to customers	(68)
31.12.2018			
Loans in PLN	11 575	Loans and advances to customers	(55)

STRATEGY 3	HEDGES AGAINST FLUCTUATIONS IN CASH FLOWS FROM FLOATING INTEREST RATE LOANS IN CHF, RESULTING FROM THE RISK OF FLUCTUATIONS IN INTEREST RATES, USING IRS TRANSACTIONS
DESCRIPTION OF THE HEDGING RELATIONSHIP	elimination of the risk of cash flow fluctuations generated by the floating interest rate CHF loan portfolio resulting from the interest rate risk using IRS transactions in the period covered by the hedge
HEDGED RISK	interest rate risk

HEDGING INSTRUMENT	IRS transactions where the Group pays coupons based on the floating 3M CHF LIBOR rate, and receives coupons based on a fixed rate on the nominal value for which they were concluded
HEDGED ITEM	the portfolio of loans in CHF indexed to the floating 3M CHF LIBOR rate
SOURCES OF HEDGE INEFFECTIVENESS	▪ change in market parameters between the moment of determining the terms and conditions relating to the hedged item and the moment of concluding the hedge ▪ differences in discount on the hedged item and the hedging instrument ▪ CVA/DVA adjustment of the hedging instrument
	The period in which cash flows are expected to occur and when they are expected to affect the financial results: January 2019 – November 2021.

HEDGING DERIVATIVES	NOMINAL AMOUNT OF HEDGING DERIVATIVES		AVERAGE FIXED INTEREST RATE WEIGHTED BY THE PRINCIPAL	CARRYING AMOUNT/FAIR VALUE OF HEDGING INSTRUMENTS		INEFFECTIVE PORTION OF CASH FLOW HEDGES RECOGNIZED IN THE INCOME STATEMENT	CHANGE IN THE FAIR VALUE OF THE HEDGING INSTRUMENT
				Assets	Liabilities		
31.03.2019							
IRS CHF	CHF	400	-0.4425%	8	-	-	3
31.12.2018							
IRS CHF	CHF	400	-0.4425%	7	-	-	2

HEDGED ITEM	NOMINAL AMOUNT OF THE HEDGED ITEM	ITEM IN THE STATEMENT OF FINANCIAL POSITION	CHANGE IN THE FAIR VALUE OF THE HEDGED ITEM
31.03.2019			
Loans in CHF	400	Loans and advances to customers	(2)
31.12.2018			
Loans in CHF	400	Loans and advances to customers	(2)

STRATEGY 4	HEDGES AGAINST FLUCTUATIONS IN CASH FLOWS FROM FLOATING INTEREST RATE LOANS IN EUR, RESULTING FROM THE RISK OF FLUCTUATIONS IN INTEREST RATES, USING IRS TRANSACTIONS
DESCRIPTION OF THE HEDGING RELATIONSHIP	elimination of the risk of cash flow fluctuations generated by the floating interest rate EUR loan portfolio resulting from the interest rate risk using IRS transactions in the period covered by the hedge
HEDGED RISK	interest rate risk
HEDGING INSTRUMENT	IRS transactions where the Group pays coupons based on the floating 3M EURIBOR rate, and receives coupons based on a fixed rate on the nominal value for which they were concluded
HEDGED ITEM	the portfolio of loans in EUR indexed to the floating 3M EURIBOR rate
SOURCES OF HEDGE INEFFECTIVENESS	▪ change in market parameters between the moment of determining the terms and conditions relating to the hedged item and the moment of concluding the hedge ▪ differences in discount on the hedged item and the hedging instrument ▪ CVA/DVA adjustment of the hedging instrument
	The period in which cash flows are expected to occur and when they are expected to affect the financial results: April 2019 – February 2024.

(IN PLN MILLION)

HEDGING DERIVATIVES	NOMINAL AMOUNT OF HEDGING DERIVATIVES		AVERAGE FIXED INTEREST RATE WEIGHTED BY THE PRINCIPAL	CARRYING AMOUNT/FAIR VALUE OF HEDGING INSTRUMENTS		INEFFECTIVE PORTION OF CASH FLOW HEDGES RECOGNIZED IN THE INCOME STATEMENT	CHANGE IN THE FAIR VALUE OF THE HEDGING INSTRUMENT
				Assets	Liabilities		
31.03.2019							
IRS EUR	EUR	524	0.2087%	8	-	-	2
31.12.2018							
IRS EUR	EUR	524	0.2087%	2	5	-	(3)

HEDGED ITEMS	NOMINAL AMOUNT OF HEDGED ITEMS	ITEM IN THE STATEMENT OF FINANCIAL POSITION	CHANGE IN THE FAIR VALUE OF THE HEDGED ITEM
31.03.2019			
Loans in EUR	524	Loans and advances to customers	(2)
31.12.2018			
Loans in EUR	524	Loans and advances to customers	3

STRATEGY 5	HEDGES AGAINST FLUCTUATIONS IN CASH FLOWS FROM FLOATING INTEREST RATE CONVERTIBLE CURRENCY LOANS ARISING FROM INTEREST RATE AND FOREIGN EXCHANGE RISK, AS WELL AS HEDGES AGAINST FLUCTUATIONS IN CASH FLOWS FROM FIXED INTEREST FOREIGN CURRENCY FINANCIAL LIABILITIES USING CIRS TRANSACTIONS
DESCRIPTION OF THE HEDGING RELATIONSHIP	elimination of the risk of fluctuations in cash flows from floating interest rate loans in foreign currencies, resulting from the risk of fluctuations in interest rates, and elimination of the risk of fluctuations in cash flows from fixed interest rate financial liability in a foreign currency, resulting from foreign exchange rate risk, using CIRS transactions in the hedged period
HEDGED RISK	foreign exchange risk and interest rate risk
HEDGING INSTRUMENT	CIRS transactions where the Group pays coupons based on the floating 3M CHF LIBOR rate, and receives coupons based on a USD or EUR fixed rate on the nominal value for which they were concluded
HEDGED ITEM	the portfolio of floating interest rate mortgage loans denominated in CHF and fixed interest rate financial liability denominated in USD or EUR
SOURCES OF HEDGE INEFFECTIVENESS	▪ differences in discount on the hedged item and the hedging instrument ▪ CVA/DVA adjustment of the hedging instrument
	The period in which cash flows are expected to occur and when they are expected to affect the financial results: April 2019 – August 2024.

HEDGING DERIVATIVES	NOMINAL AMOUNT OF HEDGING DERIVATIVES		AVERAGE MARGIN WEIGHTED BY THE PRINCIPAL	CARRYING AMOUNT/FAIR VALUE OF HEDGING INSTRUMENTS		INEFFECTIVE PORTION OF CASH FLOW HEDGES RECOGNIZED IN THE INCOME STATEMENT	CHANGE IN THE FAIR VALUE OF THE HEDGING INSTRUMENT
				Assets	Liabilities		
31.03.2019							
CIRS CHF/USD	float CHF	818		203	-	-	167
	fixed USD	875	2,4315%				
CIRS CHF/EUR	float CHF	2 567		202	45	-	259
	fixed EUR	2 301	0,2958%				
31.12.2018							
CIRS CHF/USD	float CHF	818		148	-	1	88
	fixed USD	875	2,4315%				
CIRS CHF/EUR	float CHF	2 000		240	37	3	284
	fixed EUR	1 802	0,3504%				

(IN PLN MILLION)

HEDGED ITEMS	NOMINAL AMOUNT OF HEDGED ITEMS	ITEM IN THE STATEMENT OF FINANCIAL POSITION	CHANGE IN THE FAIR VALUE OF THE HEDGED ITEM
31.03.2019			
Loans in CHF	3 385	Loans and advances to customers	
Financial liability in USD	875	Debt securities in issue	(366)
Financial liability in EUR	2 301	Debt securities in issue	
31.12.2018			
Loans in CHF	2 818	Loans and advances to customers	
Financial liability in USD	875	Debt securities in issue	(312)
Financial liability in EUR	1 802	Debt securities in issue	

STRATEGY 6	HEDGES AGAINST FLUCTUATIONS IN CASH FLOWS FROM MORTGAGE LOANS IN CONVERTIBLE CURRENCIES OTHER THAN CHF AND NEGOTIABLE TERM DEPOSITS IN PLN ARISING FROM THE RISK OF A CHANGE IN INTEREST RATE AND FOREIGN EXCHANGE RISK, USING CIRS TRANSACTIONS
DESCRIPTION OF THE HEDGING RELATIONSHIP	elimination of the risk of cash flow fluctuations generated by floating interest rate loans denominated in foreign currencies other than CHF and negotiated term deposits in PLN, resulting from fluctuations in reference interest rates and changes in foreign exchange rates using CIRS transactions during the hedged period
HEDGED RISK	foreign exchange risk and interest rate risk
HEDGING INSTRUMENT	CIRS transactions where the Group pays coupons based on 3M EURIBOR rate, and receives coupons based on the WIBOR 3M rate on the nominal value for which they were concluded
HEDGED ITEM	the portfolio of floating interest mortgage loans in EUR and the portfolio of short-term negotiated deposits, including their future renewals (high probability of occurrence). In designating the hedged item the Group used the IAS39 WS 99C in the version adopted by the European Union
SOURCES OF HEDGE INEFFECTIVENESS	▪ margin on the hedging instrument ▪ differences in discount on the hedged item and the hedging instrument ▪ CVA/DVA adjustment of the hedging instrument
	The period in which cash flows are expected to occur and when they are expected to affect the financial results: April 2019 – March 2021.

HEDGING DERIVATIVES	NOMINAL AMOUNT OF HEDGING DERIVATIVES		AVERAGE MARGIN WEIGHTED BY THE PRINCIPAL	CARRYING AMOUNT/FAIR VALUE OF HEDGING INSTRUMENTS		INEFFECTIVE PORTION OF CASH FLOW HEDGES RECOGNIZED IN THE INCOME STATEMENT	CHANGE IN THE FAIR VALUE OF THE HEDGING INSTRUMENT
				Assets	Liabilities		
31.03.2019							
CIRS EUR/PLN	float EUR	125	0.0000%	9	-	-	7
	float PLN	545	-0.0092%				
31.12.2018							
CIRS EUR/PLN	float EUR	125	0.0000%	7	-	-	6
	float PLN	545	-0.0092%				

(IN PLN MILLION)

HEDGED ITEMS	NOMINAL AMOUNT OF HEDGED ITEMS	ITEM IN THE STATEMENT OF FINANCIAL POSITION	CHANGE IN THE FAIR VALUE OF THE HEDGED ITEM
31.03.2019			
Loans in EUR	125	Loans and advances to customers	(7)
Negotiated deposits in PLN	545	Amounts due to customers	
31.12.2018			
Loans in EUR	125	Loans and advances to customers	(6)
Negotiated deposits in PLN	545	Amounts due to customers	

STRATEGY 7	HEDGES AGAINST FLUCTUATIONS IN CASH FLOWS FROM MORTGAGE LOANS IN FOREIGN CURRENCIES AND REGULAR SAVINGS PRODUCTS IN PLN, RESULTING FROM THE RISK OF FLUCTUATIONS IN INTEREST RATES AND IN FOREIGN EXCHANGE RATES, USING CIRS TRANSACTIONS
DESCRIPTION OF THE HEDGING RELATIONSHIP	elimination of the risk of cash flow fluctuations generated by floating interest rate loans denominated in CHF and floating interest rate regular savings products in PLN, resulting from fluctuations in reference interest rates in CHF and PLN, using CIRS transactions during the hedged period
HEDGED RISK	foreign exchange risk and interest rate risk
HEDGING INSTRUMENT	CIRS transactions where the Group pays coupons based on 3M CHF LIBOR, and receives coupons based on 3M WIBOR on the nominal value defined in CHF and PLN respectively
HEDGED ITEM	the portfolio of floating interest rate mortgage loans in CHF and the portfolio of floating interest rate regular savings products in PLN
SOURCES OF HEDGE INEFFECTIVENESS	▪ margin on the hedging instrument ▪ differences in discount on the hedged item and the hedging instrument ▪ CVA/DVA adjustment of the hedging instrument
	The period in which cash flows are expected to occur and when they are expected to affect the financial results: April 2019 – July 2023.

HEDGING DERIVATIVES	NOMINAL AMOUNT OF HEDGING DERIVATIVES		AVERAGE MARGIN WEIGHTED BY THE PRINCIPAL	CARRYING AMOUNT/FAIR VALUE OF HEDGING INSTRUMENTS		INEFFECTIVE PORTION OF CASH FLOW HEDGES RECOGNIZED IN THE INCOME STATEMENT	CHANGE IN THE FAIR VALUE OF THE HEDGING INSTRUMENT
				Assets	Liabilities		
31.03.2019							
CIRS CHF/PLN	float CHF	225	-0.2478%	17	-	-	14
	float PLN	872	0.0000%				
31.12.2018							
CIRS CHF/PLN	float CHF	225	-0.2478%	18	-	-	14
	float PLN	872	0.0000%				

HEDGED ITEMS	NOMINAL AMOUNT OF HEDGED ITEMS	ITEM IN THE STATEMENT OF FINANCIAL POSITION	CHANGE IN THE FAIR VALUE OF THE HEDGED ITEM
31.03.2019			
Loans in CHF	225	Loans and advances to customers	(16)
Regular savings products in PLN	872	Amounts due to customers	
31.12.2018			
Loans in CHF	225	Loans and advances to customers	(15)
Regular savings products in PLN	872	Amounts due to customers	

(IN PLN MILLION)

STRATEGY 8	HEDGES AGAINST FLUCTUATIONS IN THE FAIR VALUE OF FIXED INTEREST LOANS IN FOREIGN CURRENCIES, RESULTING FROM THE RISK OF FLUCTUATIONS IN INTEREST RATES, USING IRS TRANSACTIONS
DESCRIPTION OF THE HEDGING RELATIONSHIP	elimination of the risk of fluctuations in the fair value of fixed interest loans in foreign currencies, resulting from the risk of fluctuations in interest rates, during the hedged period
HEDGED RISK	interest rate risk
HEDGING INSTRUMENT	IRS (Interest Rate Swap) transactions in foreign currencies, where the Bank pays coupons based on a fixed rate (the market IRS rate) and receives coupons based on a floating reference rate without an additional margin
HEDGED ITEM	a component of the interest rate risk relating to a fixed interest rate loan in a foreign currency, which corresponds to the market IRS rate
SOURCES OF HEDGE INEFFECTIVENESS	▪ change in market parameters between the moment of determining the terms and conditions relating to the hedged item and the moment of concluding the hedge ▪ CVA/DVA adjustment of the hedging instrument

HEDGING DERIVATIVES	NOMINAL AMOUNT OF HEDGING DERIVATIVES		AVERAGE FIXED INTEREST RATE WEIGHTED BY THE PRINCIPAL	CARRYING AMOUNT/FAIR VALUE OF HEDGING INSTRUMENTS		INEFFECTIVE PORTION OF CASH FLOW HEDGES RECOGNIZED IN THE INCOME STATEMENT	CHANGE IN THE FAIR VALUE OF THE HEDGING INSTRUMENT
				Assets	Liabilities		
31.03.2019							
IRS EUR	EUR	103	-0,3091%	-	3	2	(1)
31.12.2018							
IRS EUR	EUR	103	-0,3090%	-	1	1	-

HEDGED ITEMS	CARRYING AMOUNT OF THE HEDGED ITEM	ITEM IN THE STATEMENT OF FINANCIAL POSITION	CHANGE IN THE FAIR VALUE OF THE HEDGED ITEM
31.03.2019			
Loans in EUR	103	Loans and advances to customers	1
31.12.2018			
Loans in EUR	103	Loans and advances to customers	-

STRATEGY 9	HEDGES AGAINST FLUCTUATIONS IN CASH FLOWS FROM FLOATING INTEREST RATE MORTGAGE LOANS IN PLN ARISING FROM INTEREST RATE RISK AND HEDGES AGAINST FLUCTUATIONS IN CASH FLOWS FROM FIXED INTEREST CONVERTIBLE CURRENCY FINANCIAL LIABILITIES ARISING FROM FOREIGN EXCHANGE RISK USING CIRS TRANSACTIONS
DESCRIPTION OF THE HEDGING RELATIONSHIP	elimination of the risk of fluctuations in cash flows from floating interest rate loans in foreign currencies, resulting from the risk of fluctuations in interest rates and from foreign exchange rate risk and elimination of the risk of fluctuations in cash flows from fixed interest rate financial liability in a foreign currency, resulting from foreign exchange rate risk, using CIRS transactions in the hedged period
HEDGED RISK	foreign exchange risk and interest rate risk
HEDGING INSTRUMENT	CIRS transactions in which the Group pays a coupon based on a floating 3M WIBOR rate and receives a coupon based on a fixed EUR rate on the nominal amount for which it was concluded
HEDGED ITEM	the portfolio of floating interest rate mortgage loans in PLN and a fixed interest financial liability in EUR

SOURCES OF HEDGE INEFFECTIVENESS	▪ margin on the hedging instrument ▪ differences in discount on the hedged item and the hedging instrument ▪ CVA/DVA adjustment of the hedging instrument
	The period in which cash flows are expected to occur and when they are expected to affect the financial results: April 2019 – January 2024.

HEDGING DERIVATIVES	NOMINAL AMOUNT OF HEDGING DERIVATIVES		AVERAGE FIXED INTEREST RATE WEIGHTED BY THE PRINCIPAL	CARRYING AMOUNT/FAIR VALUE OF HEDGING INSTRUMENTS		INEFFECTIVE PORTION OF CASH FLOW HEDGES RECOGNIZED IN THE INCOME STATEMENT	CHANGE IN THE FAIR VALUE OF THE HEDGING INSTRUMENT
				Assets	Liabilities		
31.03.2019							
CIRS PLN/EUR	float PLN	2 964		70	4	2	79
	fixed EUR	699	0,6177%				
31.12.2018							
CIRS PLN/EUR	float PLN	2 101		75	-	7	76
	fixed EUR	499	0,7690%				

HEDGED ITEMS	NOMINAL AMOUNT OF HEDGED ITEMS	ITEM IN THE STATEMENT OF FINANCIAL POSITION	CHANGE IN THE FAIR VALUE OF THE HEDGED ITEM
31.03.2019			
Loans in PLN	2 964	Loans and advances to customers	(68)
Financial liability in EUR	699	Amounts due to customers	
31.12.2018			
Loans in PLN	2 101	Loans and advances to customers	(69)
Financial liability in EUR	499	Amounts due to customers	

In the first quarter of 2019 the Bank did not introduce any new hedging strategies. In 2018, the Group introduced Strategy 9 which concerns cash flow hedging. These strategies are described above.

FINANCIAL INFORMATION

CARRYING AMOUNT OF HEDGING INSTRUMENTS	31.03.2019		31.12.2018	
	Assets	Liabilities	Assets	Liabilities
Cash flow hedges	707	505	658	470
Hedges of interest rate risk	159	1	110	5
IRS	159	1	110	5
Hedges of currency and interest rate risks	548	504	548	465
CIRS	548	504	548	465
Fair value hedges	-	3	-	1
Hedges of interest rate risk	-	3	-	1
IRS	-	3	-	1
Total	707	508	658	471

(IN PLN MILLION)

CHANGE IN OTHER COMPREHENSIVE INCOME RELATING TO CASH FLOW HEDGES AND THE INEFFECTIVE PORTION OF CASH FLOW HEDGES	01.01-31.03.2019	01.01-31.03.2018
Other comprehensive income at the beginning of the period, gross	**28**	**(142)**
Gains/losses recognized in other comprehensive income during the period	96	(5)
Amounts transferred from other comprehensive income to the cash flow statement, of which:	53	(46)
- interest income	(89)	(91)
- net foreign exchange gains/(losses)	142	45
Accumulated other comprehensive income at the end of the period, gross	**177**	**(193)**
Tax effect	(34)	36
Accumulated other comprehensive income at the end of the period, net	**143**	**(157)**
Impact on other comprehensive income during the period, gross	**149**	**(51)**
Tax effect	(28)	10
Impact on other comprehensive income during the period, net	**121**	**(41)**
Ineffective portion of cash flow hedges recognized in the income statements, including in:	**5**	**3**
Foreign exchange gains/ (losses)	4	3
Gain/(loss) on financial instruments measured at fair value	1	-

GAINS (LOSSES) LOSSES ON HEDGING INSTRUMENTS AND HEDGED ITEMS ATTRIBUTABLE TO HEDGED RISKS	31.03.2019	31.12.2018
Hedges of interest rate risk		
Fair value measurement of the hedging derivative instrument	(3)	**(1)**
IRS PLN fixed - float	(3)	(1)
Fair value adjustment of the hedged instrument attributable to the hedged risk	3	1
Loans in EUR fixed	3	1

26. Other derivative financial instruments

OTHER DERIVATIVE INSTRUMENTS - BY TYPE	31.03.2019		31.12.2018	
	Assets	Liabilities	Assets	Liabilities
IRS	1 359	1 950	1 178	1 832
CIRS	153	149	156	153
FX Swap	182	51	115	43
Options	260	268	262	268
Commodity swap	119	116	85	83
FRA	2	2	3	2
Forward	136	314	108	274
Total	**2 211**	**2 850**	**1 907**	**2 655**

27. Securities

SECURITIES	31.03.2019	31.12.2018
held for trading	1 388	235
not held for trading, measured at fair value through profit or loss	2 881	2 848
measured at fair value through OCI	50 931	52 558
measured at amortized cost	14 273	8 473
Total	**69 473**	**64 114**

As at 31 March 2019, the impairment allowance which did not reduce the fair value of securities measured at fair value through other comprehensive income amounted to PLN 22 million (PLN 25 million as at 31 December 2018).

(IN PLN MILLION)

SECURITIES 31.03.2019	held for trading	not held for trading, measured at fair value through profit or loss	measured at fair value through OCI	measured at amortized cost	Total
Debt securities	1 370	1 188	50 931	14 273	67 762
NBP money market bills	-	-	-	4 499	4 499
Treasury bonds (in PLN)	1 261	955	41 777	3 639	47 632
Treasury bonds (in foreign currencies)	2	-	479	108	589
municipal bonds (in PLN)	16	-	5 294	4 016	9 326
municipal bonds (in foreign currencies)	-	38	-	-	38
corporate bonds (in PLN)	90	195	3 381	2 011	5 677
corporate bonds (in foreign currencies)	1	-	-	-	1
Equity securities	18	1 693	-	-	1 711
Shares in other entities – not listed[1]	-	300	-	-	300
Shares in other entities – listed	16	181	-	-	197
Units in investment funds and investment certificates, rights to shares, pre-emptive rights	2	1 212	-	-	1 214
Total	**1 388**	**2 881**	**50 931**	**14 273**	**69 473**

[1] the item comprises, among other things, the interest in: Polski Standard Płatności sp. z o.o. of PLN 22 million and Visa Inc. of PLN 175 million.

The item "Treasury bonds in PLN and in foreign currencies" comprises Polish Treasury bonds. As at 31 March 2019 the item Treasury bonds in foreign currencies included Ukrainian Treasury bonds amounting to PLN 464 million.

In the period ended 31 March 2019 there were no transfers between stages in respect of securities.

(IN PLN MILLION)

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

[1] the item comprises, among other things, the interest in: Polski Standard Płatności sp. z o.o. of PLN 22 million and Visa Inc. of PLN 142 million.

The item “Treasury bonds in PLN and in foreign currencies” comprises Polish Treasury bonds. As at 31 December 2018 the item Treasury bonds in foreign currencies included Ukrainian Treasury bonds amounting to PLN 513 million.

Information about the exposure to credit risk for securities measured at amortized cost or at fair value through other comprehensive income is presented in Note 29 “Expected credit losses”.

In the period ended 31 December 2018, PLN 59 million in respect of corporate bonds in PLN were transferred between Stage 1 and Stage 2 and PLN 388 million in respect of communal bonds in PLN.

(IN PLN MILLION)

SECURITIES 31.03.2019	measured at fair value through OCI			measured at amortized cost		
	Gross amount	Allowances for expected credit losses	Net amount	Gross amount	Allowances for expected credit losses	Net amount
Debt securities	50 944	(13)	50 931	14 296	(23)	14 273
NBP money market bills	-	-	-	4 499	-	4 499
Treasury bonds (in PLN)	41 777	-	41 777	3 639	-	3 639
Treasury bonds (in foreign currencies)	479	-	479	110	(2)	108
municipal bonds (in PLN)	5 294	-	5 294	4 022	(6)	4 016
corporate bonds (in PLN)	3 394	(13)	3 381	2 023	(12)	2 011
corporate bonds (in foreign currencies)	-	-	-	3	(3)	-
Equity securities	-	-	-	-	-	-
Total	50 944	(13)	50 931	14 296	(23)	14 273

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

28. LOANS AND ADVANCES TO CUSTOMERS

LOANS AND ADVANCES TO CUSTOMERS	31.03.2019	31.12.2018
	Net amount	Net amount
Loans and advances to customers (excluding adjustments relating to fair value hedge accounting)	219 124	214 911
Adjustment relating to fair value hedge accounting	3	1
Total loans and advances to customers	**219 127**	**214 912**

LOANS AND ADVANCES TO CUSTOMERS (excluding adjustments relating to fair value hedge accounting)	31.03.2019	31.12.2018
measured at amortized cost, of which:	218 063	213 805
not held for trading, measured at fair value through profit or loss	1 061	1 106
Total	**219 124**	**214 911**

(IN PLN MILLION)

LOANS AND ADVANCES TO CUSTOMERS (excluding adjustments relating to fair value hedge accounting) 31.03.2019	not held for trading, measured at fair value through profit or loss	measured at amortized cost			Total
	Net amount	Gross amount	Allowances for expected credit losses	Net amount	Net amount
Loans	1 061	210 129	(7 992)	202 137	**203 198**
housing	24	115 968	(2 034)	113 934	**113 958**
corporate	141	66 407	(4 116)	62 291	**62 432**
consumer	896	27 754	(1 842)	25 912	**26 808**
Receivables in respect of reverse repurchase agreements	-	1 396	-	1 396	**1 396**
Finance lease receivables	-	15 026	(496)	14 530	**14 530**
Total	**1 061**	**226 551**	**(8 488)**	**218 063**	**219 124**

LOANS AND ADVANCES TO CUSTOMERS (excluding adjustments relating to fair value hedge accounting) 31.12.2018	not held for trading, measured at fair value through profit or loss	measured at amortized cost			Total
	Net amount	Gross amount	Allowances for expected credit losses	Net amount	Net amount
Loans	1 106	206 972	(7 715)	199 257	**200 363**
housing	27	114 781	(2 012)	112 769	**112 796**
corporate	148	64 910	(3 992)	60 918	**61 066**
consumer	931	27 281	(1 711)	25 570	**26 501**
Receivables in respect of reverse repurchase agreements	-	51	-	51	**51**
Finance lease receivables	-	14 986	(489)	14 497	**14 497**
Total	**1 106**	**222 009**	**(8 204)**	**213 805**	**214 911**

LOANS AND ADVANCES TO CUSTOMERS BY CUSTOMER SEGMENT (excluding adjustments relating to fair value hedge accounting)	31.03.2019	31.12.2018
Loans and advances to customers, gross, of which:	**227 612**	**223 115**
mortgage banking	109 753	108 508
corporate	55 836	55 217
retail and private banking	28 665	28 230
firms and undertakings	31 962	31 109
receivables in respect of reverse repurchase agreements	1 396	51
other receivables	-	-
Allowances for expected credit losses	(8 488)	(8 204)
Loans and advances to customers, net	**219 124**	**214 911**

Information about exposure to credit risk for loans and advances granted measured at amortized cost are described in more detail in Note 29 “Expected credit losses”.

(IN PLN MILLION)

LOANS AND ADVANCES TO CUSTOMERS – MOVEMENTS BETWEEN IMPAIRMENT STAGES (excluding adjustments relating to fair value hedge accounting) 31.03.2019	Carrying amount, gross							
	AMOUNTS NOT SUBJECT TO TRANSFER	Transfers between stage 1 and stage 2		Transfers between stage 2 and stage 3		Transfers between stage 1 and stage 3		TOTAL
		from stage 1 to stage 2	from stage 2 to stage 1	from stage 2 to stage 3	from stage 3 to stage 2	from stage 1 to stage 3	from stage 3 to stage 1	
Measured at amortized cost:	218 107	4 225	3 198	647	161	167	46	226 551
bank loans	202 926	3 456	2 881	535	134	152	45	210 129
housing	112 862	1 100	1 694	129	82	56	45	115 968
corporate	63 923	1 330	826	253	24	51	-	66 407
consumer	26 141	1 026	361	153	28	45	-	27 754
receivables in respect of reverse repurchase agreements	1 396	-	-	-	-	-	-	1 396
finance lease receivables	13 785	769	317	112	27	15	1	15 026
Total	218 107	4 225	3 198	647	161	167	46	226 551
of which: purchased or originated credit-impaired financial assets (POCI)	274	-	-	-	-	-	-	274

LOANS AND ADVANCES TO CUSTOMERS – MOVEMENTS BETWEEN IMPAIRMENT STAGES (excluding adjustments relating to fair value hedge accounting) 31.03.2019	Allowances for expected credit losses							
	AMOUNTS NOT SUBJECT TO TRANSFER	Transfers between stage 1 and stage 2		Transfers between stage 2 and stage 3		Transfers between stage 1 and stage 3		TOTAL
		from stage 1 to stage 2	from stage 2 to stage 1	from stage 2 to stage 3	from stage 3 to stage 2	from stage 1 to stage 3	from stage 3 to stage 1	
Measured at amortized cost:	(7 927)	(284)	(17)	(205)	(10)	(45)	-	(8 488)
bank loans	(7 492)	(259)	(16)	(177)	(9)	(39)	-	(7 992)
housing	(1 914)	(83)	(2)	(25)	(5)	(5)	-	(2 034)
corporate	(3 973)	(44)	(9)	(76)	(1)	(13)	-	(4 116)
consumer	(1 605)	(132)	(5)	(76)	(3)	(21)	-	(1 842)
finance lease receivables	(435)	(25)	(1)	(28)	(1)	(6)	-	(496)
Total	(7 927)	(284)	(17)	(205)	(10)	(45)	-	(8 488)
of which: purchased or originated credit-impaired financial assets (POCI)	(94)	-	-	-	-	-	-	(94)

Movements between impairment stages were presented in the gross balance sheet value and allowances as at 31 March 2019. With regard to loans and advances to customers which changed stages several times, the movement was presented as a transfer from the stage in which they were as at 1 January 2019 or upon their initial recognition (after 1 January 2019) to the impairment stage as at 31 March 2019.

(IN PLN MILLION)

LOANS AND ADVANCES TO CUSTOMERS – MOVEMENTS BETWEEN IMPAIRMENT STAGES (excluding adjustments relating to fair value hedge accounting) 31.03.2019	Carrying amount, net							
	AMOUNTS NOT SUBJECT TO TRANSFER	Transfers between stage 1 and stage 2		Transfers between stage 2 and stage 3		Transfers between stage 1 and stage 3		TOTAL
		from stage 1 to stage 2	from stage 2 to stage 1	from stage 2 to stage 3	from stage 3 to stage 2	from stage 1 to stage 3	from stage 3 to stage 1	
Measured at amortized cost:	210 180	3 941	3 181	442	151	122	46	218 063
bank loans	195 434	3 197	2 865	358	125	113	45	202 137
housing	110 948	1 017	1 692	104	77	51	45	113 934
corporate	59 950	1 286	817	177	23	38	-	62 291
consumer	24 536	894	356	77	25	24	-	25 912
receivables in respect of reverse repurchase agreements	1 396	-	-	-	-	-	-	1 396
finance lease receivables	13 350	744	316	84	26	9	1	14 530
Total	210 180	3 941	3 181	442	151	122	46	218 063
of which: purchased or originated credit-impaired financial assets (POCI)	180	-	-	-	-	-	-	180

LOANS AND ADVANCES TO CUSTOMERS – MOVEMENTS BETWEEN IMPAIRMENT STAGES (excluding adjustments relating to fair value hedge accounting) 31.12.2018	Carrying amount, gross							
	AMOUNTS NOT SUBJECT TO TRANSFER	Transfers between stage 1 and stage 2		Transfers between stage 2 and stage 3		Transfers between stage 1 and stage 3		TOTAL
		from stage 1 to stage 2	from stage 2 to stage 1	from stage 2 to stage 3	from stage 3 to stage 2	from stage 1 to stage 3	from stage 3 to stage 1	
Measured at amortized cost:	206 883	8 566	3 877	976	560	1 029	118	222 009
bank loans	194 983	6 560	3 128	832	507	867	95	206 972
housing	110 218	2 553	1 335	254	288	113	20	114 781
corporate	59 864	2 799	1 342	358	146	351	50	64 910
consumer	24 901	1 208	451	220	73	403	25	27 281
receivables in respect of reverse repurchase agreements	51	-	-	-	-	-	-	51
finance lease receivables	11 849	2 006	749	144	53	162	23	14 986
Total	206 883	8 566	3 877	976	560	1 029	118	222 009
of which: purchased or originated credit-impaired financial assets (POCI)	674	-	-	-	-	-	-	674

(IN PLN MILLION)

LOANS AND ADVANCES TO CUSTOMERS – MOVEMENTS BETWEEN IMPAIRMENT STAGES (excluding adjustments relating to fair value hedge accounting) 31.12.2018	Allowances for expected credit losses							
	AMOUNTS NOT SUBJECT TO TRANSFER	Transfers between stage 1 and stage 2		Transfers between stage 2 and stage 3		Transfers between stage 1 and stage 3		TOTAL
		from stage 1 to stage 2	from stage 2 to stage 1	from stage 2 to stage 3	from stage 3 to stage 2	from stage 1 to stage 3	from stage 3 to stage 1	
Measured at amortized cost:	(6 737)	(559)	(32)	(351)	(46)	(474)	(5)	(8 204)
bank loans	(6 417)	(502)	(30)	(299)	(44)	(418)	(5)	(7 715)
housing	(1 649)	(186)	(4)	(99)	(25)	(45)	(4)	(2 012)
corporate	(3 609)	(134)	(21)	(73)	(11)	(143)	(1)	(3 992)
consumer	(1 159)	(182)	(5)	(127)	(8)	(230)	-	(1 711)
finance lease receivables	(320)	(57)	(2)	(52)	(2)	(56)	-	(489)
Total	(6 737)	(559)	(32)	(351)	(46)	(474)	(5)	(8 204)
of which: purchased or originated credit-impaired financial assets (POCI)	(131)	-	-	-	-	-	-	(131)

LOANS AND ADVANCES TO CUSTOMERS – MOVEMENTS BETWEEN IMPAIRMENT STAGES (excluding adjustments relating to fair value hedge accounting) 31.12.2018	Carrying amount, net							
	AMOUNTS NOT SUBJECT TO TRANSFER	Transfers between stage 1 and stage 2		Transfers between stage 2 and stage 3		Transfers between stage 1 and stage 3		TOTAL
		from stage 1 to stage 2	from stage 2 to stage 1	from stage 2 to stage 3	from stage 3 to stage 2	from stage 1 to stage 3	from stage 3 to stage 1	
Measured at amortized cost:	200 146	8 007	3 845	625	514	555	113	213 805
bank loans	188 566	6 058	3 098	533	463	449	90	199 257
housing	108 569	2 367	1 331	155	263	68	16	112 769
corporate	56 255	2 665	1 321	285	135	208	49	60 918
consumer	23 742	1 026	446	93	65	173	25	25 570
receivables in respect of reverse repurchase agreements	51	-	-	-	-	-	-	51
finance lease receivables	11 529	1 949	747	92	51	106	23	14 497
Total	200 146	8 007	3 845	625	514	555	113	213 805
of which: purchased or originated credit-impaired financial assets (POCI)	543	-	-	-	-	-	-	543

Movements between impairment stages were presented in the gross balance sheet value and allowances as at 31 December 2018. With regard to loans and advances to customers which changed stages several times, the movement was presented as a transfer from the stage in which they were as at 1 January 2018 or upon their initial recognition to the impairment stage as at 31 December 2018.

(IN PLN MILLION)

29. Expected credit losses

Impairment of financial assets

The method for estimating allowances for expected credit losses is described in the consolidated financial statements of the PKO Bank Polski SA Group for the year ended 31 December 2018 in Note 4 "IFRS 9 Financial Instruments".

Financial assets

BY MEASUREMENT MODEL (excluding adjustments relating to fair value hedge accounting) 31.03.2019	Gross amount – assets with no significant increase in credit risk since initial recognition (stage 1)	Allowances for expected credit losses (stage 1)	Gross amount – assets with a significant increase in credit risk since initial recognition, but not credit-impaired (stage 2)	Allowances for expected credit losses (stage 2)	Gross amount – assets at risk of credit impairment (stage 3)	of which: impaired assets, gross	Allowances for expected credit losses (stage 3)	Total gross amount	Total allowances for expected credit losses	Total, net
Measured at fair value through OCI										
securities	50 101	-	369	-	474	474	(13)	50 944	(13)	50 931
Treasury bonds	42 256	-	-	-	-		-	42 256	-	**42 256**
other	7 845	-	369	-	474	474	(13)	8 688	(13)	**8 675**
Total	**50 101**	**-**	**369**	**-**	**474**	**474**	**(13)**	**50 944**	**(13)**	**50 931**
of which: purchased or originated credit-impaired off-balance sheet liabilities – POCI	-	-	-	-	474	474	(13)	474	(13)	**461**
Measured at amortized cost										
amounts due from banks	6 208	(1)	-	-	-	-	-	6 208	(1)	**6 207**
securities	14 247	(13)	46	(7)	3	-	(3)	14 296	(23)	**14 273**
NBP money market bills	4 499	-	-	-	-	-	-	4 499	-	**4 499**
Treasury bonds	3 749	(2)	-	-	-	-	-	3 749	(2)	**3 747**
other	5 999	(11)	46	(7)	3	-	(3)	6 048	(21)	**6 027**
loans and advances to customers	199 034	(592)	16 191	(1 311)	11 326	10 779	(6 585)	226 551	(8 488)	**218 063**
housing	108 480	(53)	5 214	(520)	2 274	2 215	(1 461)	115 968	(2 034)	**113 934**
corporate	53 884	(344)	6 204	(334)	6 319	5 958	(3 438)	66 407	(4 116)	**62 291**
consumer	23 575	(164)	2 249	(368)	1 930	1 925	(1 310)	27 754	(1 842)	**25 912**
receivables in respect of reverse repurchase agreements	1 396	-	-	-	-		-	1 396	-	**1 396**
finance lease receivables	11 699	(31)	2 524	(89)	803	681	(376)	15 026	(496)	**14 530**
other financial assets	2 542	-	-	-	97	97	(97)	2 639	(97)	**2 542**
										-
Total	**222 031**	**(606)**	**16 237**	**(1 318)**	**11 426**	**10 876**	**(6 685)**	**249 694**	**(8 609)**	**241 085**
of which: purchased or originated credit-impaired off-balance sheet liabilities – POCI	-	-	-	-	274	208	(94)	274	(94)	180
Total	**272 132**	**(606)**	**16 606**	**(1 318)**	**11 900**	**11 350**	**(6 698)**	**300 638**	**(8 622)**	**292 016**

(IN PLN MILLION)

BY TYPE OF FINANCIAL ASSET (excluding adjustments relating to fair value hedge accounting) 31.03.2019	Gross amount – assets with no significant increase in credit risk since initial recognition (stage 1)	Allowances for expected credit losses (stage 1)	Gross amount – assets with a significant increase in credit risk since initial recognition, but not credit-impaired (stage 2)	Allowances for expected credit losses (stage 2)	Gross amount – assets at risk of credit impairment (stage 3)	of which: impaired assets, gross	Allowances for expected credit losses (stage 3)	Total gross amount	Total allowances for expected credit losses	Total, net
amounts due from banks	6 208	(1)	-	-	-	-	-	6 208	(1)	**6 207**
securities	64 348	(13)	415	(7)	477	474	(16)	65 240	(36)	**65 204**
NBP money market bills	4 499	-	-	-	-	-	-	4 499	-	**4 499**
Treasury bonds	46 005	(2)	-	-	-	-	-	46 005	(2)	**46 003**
other	13 844	(11)	415	(7)	477	474	(16)	14 736	(34)	**14 702**
loans and advances to customers	199 034	(592)	16 191	(1 311)	11 326	10 779	(6 585)	226 551	(8 488)	**218 063**
housing	108 480	(53)	5 214	(520)	2 274	2 215	(1 461)	115 968	(2 034)	**113 934**
corporate	53 884	(344)	6 204	(334)	6 319	5 958	(3 438)	66 407	(4 116)	**62 291**
consumer	23 575	(164)	2 249	(368)	1 930	1 925	(1 310)	27 754	(1 842)	**25 912**
receivables in respect of reverse repurchase agreements	1 396	-	-	-	-	-	-	1 396	-	**1 396**
finance lease receivables	11 699	(31)	2 524	(89)	803	681	(376)	15 026	(496)	**14 530**
other financial assets	2 542	-	-	-	97	97	(97)	2 639	(97)	**2 542**
Total	**272 132**	**(606)**	**16 606**	**(1 318)**	**11 900**	**11 350**	**(6 698)**	**300 638**	**(8 622)**	**292 016**
of which: purchased or originated credit-impaired off-balance sheet liabilities – POCI	-	-	-	-	748	682	(107)	748	(107)	641

LOAN QUALITY RATIOS (excluding adjustments relating to fair value hedge accounting)	31.03.2019
Share of impaired exposures[1]	4.6%
Coverage ratio of impaired loans[2]	78.9%
Share of loans overdue for more than 90 days in gross loans and advances to customers	3.2%

[1] The share of impaired exposures was determined for loans and securities, excluding NBP bills and Treasury bonds, measured at amortized cost as the gross amount of impaired exposures to the total gross amount of loans and securities, excluding NBP bills and Treasury bonds measured at amortized cost and loans measured at amortized cost.

[2] The coverage ratio for impaired loans was determined as the ratio of total allowances for expected credit losses for loans and securities, excluding NBP bills and Treasury bonds measured at amortized cost to the gross amount of impaired exposures from this portfolio.

Total write-offs and sale of loan receivables in the first quarter of 2019 had impact on the decrease in the share of impaired exposures of 0.1 p.p.

(IN PLN MILLION)

BY MEASUREMENT MODEL (excluding adjustments relating to fair value hedge accounting) 31.12.2018	Gross amount – assets with no significant increase in credit risk since initial recognition (stage 1)	Allowances for expected credit losses (stage 1)	Gross amount – assets with a significant increase in credit risk since initial recognition, but not credit-impaired (stage 2)	Allowances for expected credit losses (stage 2)	Gross amount – assets at risk of credit impairment (stage 3)	of which: impaired assets, gross	Allowances for expected credit losses (stage 3)	Total gross amount	Total allowances for expected credit losses	Total, net
Measured at fair value through OCI										
securities	51 709	-	388	-	471	471	(10)	52 568	(10)	52 558
Treasury bonds	40 363	-	-	-	-		-	40 363	-	40 363
other	11 346	-	388	-	471	471	(10)	12 205	(10)	12 195
Total	**51 709**	**-**	**388**	**-**	**471**	**471**	**(10)**	**52 568**	**(10)**	**52 558**
of which: purchased or originated credit-impaired off-balance sheet liabilities – POCI	-	-	-	-	471	471	(10)	471	(10)	461
Measured at amortized cost										
amounts due from banks	7 662	(1)	-	-	-	-	-	7 662	(1)	7 661
securities	8 437	(15)	59	(8)	3	3	(3)	8 499	(26)	8 473
Treasury bonds	2 361	(3)	-	-	-	-	-	2 361	(3)	2 358
other	6 076	(12)	59	(8)	3	3	(3)	6 138	(23)	6 115
loans and advances to customers	194 391	(566)	16 168	(1 249)	11 450	11 111	(6 389)	222 009	(8 204)	213 805
housing	106 561	(54)	5 960	(538)	2 260	2 201	(1 420)	114 781	(2 012)	112 769
corporate	52 638	(318)	5 703	(320)	6 569	6 406	(3 354)	64 910	(3 992)	60 918
consumer	23 664	(160)	1 786	(311)	1 831	1 829	(1 240)	27 281	(1 711)	25 570
receivables in respect of reverse repurchase agreements	51	-	-	-	-		-	51	-	51
finance lease receivables	11 477	(34)	2 719	(80)	790	675	(375)	14 986	(489)	14 497
other financial assets	2 825	-	-	-	97	97	(97)	2 922	(97)	2 825
Total	**213 315**	**(582)**	**16 227**	**(1 257)**	**11 550**	**11 211**	**(6 489)**	**241 092**	**(8 328)**	**232 764**
of which: purchased or originated credit-impaired off-balance sheet liabilities – POCI	-	-	-	-	674	674	(131)	674	(131)	543
Total	**265 024**	**(582)**	**16 615**	**(1 257)**	**12 021**	**11 682**	**(6 499)**	**293 660**	**(8 338)**	**285 322**

(IN PLN MILLION)

BY TYPE OF FINANCIAL ASSET (excluding adjustments relating to fair value hedge accounting) 31.12.2018	Gross amount – assets with no significant increase in credit risk since initial recognition (stage 1)	Allowances for expected credit losses (stage 1)	Gross amount – assets with a significant increase in credit risk since initial recognition, but not credit-impaired (stage 2)	Allowances for expected credit losses (stage 2)	Gross amount – assets at risk of credit impairment (stage 3)	of which: impaired assets, gross	Allowances for expected credit losses (stage 3)	Total gross amount	Total allowances for expected credit losses	Total, net
amounts due from banks	7 662	(1)	-	-	-	-	-	7 662	(1)	**7 661**
securities	60 146	(15)	447	(8)	474	474	(13)	61 067	(36)	**61 031**
Treasury bonds	42 724	(3)	-	-	-	-	-	42 724	(3)	**42 721**
other	17 422	(12)	447	(8)	474	474	(13)	18 343	(33)	**18 310**
loans and advances to customers	194 391	(566)	16 168	(1 249)	11 450	11 111	(6 389)	222 009	(8 204)	**213 805**
housing	106 561	(54)	5 960	(538)	2 260	2 201	(1 420)	114 781	(2 012)	**112 769**
corporate	52 638	(318)	5 703	(320)	6 569	6 406	(3 354)	64 910	(3 992)	**60 918**
consumer	23 664	(160)	1 786	(311)	1 831	1 829	(1 240)	27 281	(1 711)	**25 570**
receivables in respect of reverse repurchase agreements	51	-	-	-	-	-	-	51	-	**51**
finance lease receivables	11 477	(34)	2 719	(80)	790	675	(375)	14 986	(489)	**14 497**
other financial assets	2 825	-	-	-	97	97	(97)	2 922	(97)	**2 825**
Total	**265 024**	**(582)**	**16 615**	**(1 257)**	**12 021**	**11 682**	**(6 499)**	**293 660**	**(8 338)**	**285 322**
of which: purchased or originated credit-impaired off-balance sheet liabilities – POCI	-	-	-	-	1 145	1 145	(141)	1 145	(141)	**1 004**

LOAN QUALITY RATIOS (excluding adjustments relating to fair value hedge accounting)	**31.12.2018**
Share of impaired exposures[1]	4.9%
Coverage ratio of impaired loans[2]	74.0%
Share of loans overdue for more than 90 days in gross loans and advances to customers	3.2%

[1] The share of impaired exposures was determined for loans and securities, excluding Treasury bonds, measured at amortized cost as the gross amount of impaired exposures to the total gross amount of loans and securities, excluding Treasury bonds measured at amortized cost and loans measured at amortized cost.

[2] The coverage ratio for impaired loans was determined as the ratio of total allowances for expected credit losses for loans and securities, excluding Treasury bonds measured at amortized cost to the gross amount of impaired exposures from this portfolio.

Total write-offs and sale of loan receivables in 2018 had an impact on the decrease in the share of impaired exposures of 0.7 p.p.

(IN PLN MILLION)

Bank Polski

IMPAIRMENT ALLOWANCES ON FINANCIAL ASSETS

CHANGES IN ALLOWANCES FOR EXPECTED CREDIT LOSSES ON FINANCIAL ASSETS BY MEASUREMENT MODEL	As at 31.12.2018	Increase due to recognition and purchase	Decrease due to derecognition	Changes due to changes in credit risk, net	Changes due to extending the loss recognition horizon from 12 months to period to maturity	Changes due to shortening the loss recognition horizon from period to maturity to 12 months	Changes due to modification without derecognition, net	Decrease in impairment allowances due to wholly or partly writing off	Foreign exchange differences on translation of foreign branches	Other changes, including foreign exchange differences	As at 31.03.2019
Measured at fair value through OCI											
amounts due from banks	-	-	-	-	-	-	-	-	-	-	-
securities	10	2	-	-	-	-	-	(4)	-	5	13
Total	**10**	**2**	-	-	-	-	-	(4)	-	**5**	13
					-	-		-			
Measured at amortized cost											
amounts due from banks	1	-	-	-	-	-	-	-	-	-	1
securities	26	-	-	(2)	-	-	-	-	-	(1)	23
loans and advances to customers	8 204	145	(121)	798	4	(515)	8	(178)	7	136	8 488
housing	2 012	3	(1)	98	(5)	(86)	1	(31)	1	42	2 034
corporate	3 992	53	(19)	465	(6)	(361)	6	(89)	4	71	4 116
consumer	1 711	34	(29)	221	(5)	(66)	1	(49)	2	22	1 842
receivables in respect of reverse repurchase agreements	-	-	-	-	-	-	-	-	-	-	-
finance lease receivables	489	55	(72)	14	20	(2)	-	(9)	-	1	496
other financial assets	97	-	-	-	-		-	-	-	-	97
											-
Total	8 328	145	(121)	796	4	(515)	8	(178)	7	135	8 609
Total allowances for expected credit losses on financial assets	8 338	147	(121)	796	4	(515)	8	(182)	7	140	8 622

CHANGES IN ALLOWANCES FOR EXPECTED CREDIT LOSSES ON FINANCIAL ASSETS BY ASSET TYPE	As at 31.12.2018	Increase due to recognition and purchase	Decrease due to derecognition	Changes due to changes in credit risk, net	Changes due to extending the loss recognition horizon from 12 months to period to maturity	Changes due to shortening the loss recognition horizon from period to maturity to 12 months	Changes due to modification without derecognition, net	Decrease in impairment allowances due to wholly or partly writing off	Foreign exchange differences on translation of foreign branches	Other changes, including foreign exchange differences	As at 31.03.2019
amounts due from banks	1	-	-	-	-	-	-	-	-	-	1
securities	36	2	-	(2)	-	-	-	(4)	-	4	36
loans and advances to customers	8 204	145	(121)	798	4	(515)	8	(178)	7	136	8 488
housing	2 012	3	(1)	98	(5)	(86)	1	(31)	1	42	2 034
corporate	3 992	53	(19)	465	(6)	(361)	6	(89)	4	71	4 116
consumer	1 711	34	(29)	221	(5)	(66)	1	(49)	2	22	1 842
receivables in respect of reverse repurchase agreements	-	-	-	-	-	-	-	-	-	-	-
finance lease receivables	489	55	(72)	14	20	(2)	-	(9)	-	1	496
other financial assets	97	-	-	-	-	-	-	-	-	-	97
Total allowances for expected credit losses on financial assets	8 338	147	(121)	796	4	(515)	8	(182)	7	140	8 622

(IN PLN MILLION)

CHANGES IN ALLOWANCES FOR EXPECTED CREDIT LOSSES ON FINANCIAL ASSETS BY MEASUREMENT MODEL	As at 31.12.2017	Changes due to IFRS 9 implementation[1]	Fair value as at 01.01.2018 (changed)	Increase due to recognition and purchase	Decrease due to derecognition	Changes due to changes in credit risk, net	Changes due to extending the loss recognition horizon from 12 months to period to maturity	Changes due to shortening the loss recognition horizon from period to maturity to 12 months	Changes due to modification without derecognition, net	Decrease in impairment allowances due to wholly or partly writing off	Foreign exchange differences on translation of foreign branches	Other changes, including foreign exchange differences	As at 31.03.2018
Investment securities available for sale:	326	(326)	-	-	-	-	-	-	-	-	-	-	-
							-	-		-			
Measured at fair value through OCI													
securities	-	15	15	-	(1)	(3)	-	-	-	-	-	3	14
							-						
Total	-	15	15	-	(1)	(3)	-	-	-	-	-	3	14
							-	-		-			
Measured at amortized cost													
amounts due from banks	-		-	2	-	-	-	-	-	-	-	-	2
securities	-	14	14	3	-	(2)	-	-	-	-	-	1	16
loans and advances to customers	7 823	2 830	10 653	163	(103)	226	217	(180)	12	(112)	10	130	11 016
housing	1 972	1 058	3 030	14	(16)	91	64	(96)	2	(54)	2	37	3 074
corporate	3 705	1 438	5 143	67	(19)	103	44	(45)	10	(15)	6	28	5 322
consumer	1 686	376	2 062	28	(11)	29	89	(36)	1	(43)	2	60	2 181
securities	10	(10)	-	-	-	-	-	-	-	-	-	-	-
finance lease receivables	450	(32)	418	54	(57)	3	20	(3)	(1)	-	-	5	439
other financial assets	100	-	100	-	-	-	-	-	-	-	-	-	100
Total	7 923	2 844	10 767	168	(103)	224	217	(180)	12	(112)	10	131	11 134
Total allowances for expected credit losses on financial assets	8 249	2 533	10 782	168	(104)	221	217	(180)	12	(112)	10	134	11 148

CHANGES IN ALLOWANCES FOR EXPECTED CREDIT LOSSES ON FINANCIAL ASSETS BY ASSET TYPE	As at 31.12.2017	Changes due to IFRS 9 implementation[1]	Fair value as at 01.01.2018 (changed)	Increase due to recognition and purchase	Decrease due to derecognition	Changes due to changes in credit risk, net	Changes due to extending the loss recognition horizon from 12 months to period to maturity	Changes due to shortening the loss recognition horizon from period to maturity to 12 months	Changes due to modification without derecognition, net	Decrease in impairment allowances due to wholly or partly writing off	Foreign exchange differences on translation of foreign branches	Other changes, including foreign exchange differences	As at 31.03.2018
amounts due from banks	-	-	-	2	-	-	-	-	-	-	-	-	2
securities	326	(297)	29	3	(1)	(5)	-	-	-	-	-	4	30
loans and advances to customers	7 823	2 830	10 653	163	(103)	226	217	(180)	12	(112)	10	130	11 016
housing	1 972	1 058	3 030	14	(16)	91	64	(96)	2	(54)	2	37	3 074
corporate	3 705	1 438	5 143	67	(19)	103	44	(45)	10	(15)	6	28	5 322
consumer	1 686	376	2 062	28	(11)	29	89	(36)	1	(43)	2	60	2 181
finance lease receivables	450	(32)	418	54	(57)	3	20	(3)	(1)	-	-	5	439
other financial assets	100	-	100	-	-	-	-	-	-	-	-	-	100
Total allowances for expected credit losses on financial assets	8 249	2 533	10 782	168	(104)	221	217	(180)	12	(112)	10	134	11 148

[1] in respect of impairment recognized for loans of PLN 777 million, in respect of non-performing interest recognized in the gross carrying amount of PLN 2 480 million, in respect of decreasing write-downs on initial loss for POCI loans of PLN 437 million, and in respect of releasing write-downs on securities of PLN 287 million.

(IN PLN MILLION)

CHANGES IN THE GROSS CARRYING AMOUNTS OF FINANCIAL INSTRUMENTS	Carrying amount, gross as at 31.12.2018	Changes on financial instruments originated or purchased	Increase due to utilization of a limit or disbursement of tranches	Decrease due to repayment	Changes on modification resulting from contractual cash flows from financial assets not resulting in derecognition of these financial instruments	Changes due to derecognition of financial instruments, including sale	Decrease due to fully writing off an asset	Decrease due to impairment in connection with a partial write-off	Changes for exposures whose loss recognition horizon was extended from 12 months to period to maturity	Changes for exposures whose loss recognition horizon was shortened from period to maturity to 12 months	Other changes, including foreign exchange differences	Carrying amount, gross as at 31.03.2019
Measured at fair value through OCI												
securities	52 568	8 101	-	(9 368)	-	(362)	-	(4)	-		9	50 944
Total	**52 568**	**8 101**	**-**	**(9 368)**	**-**	**(362)**	**-**	**(4)**	**-**	**-**	**9**	**50 944**
Measured at amortized cost												
amounts due from banks	7 662	7 573	15	(8 514)	-	(302)	-	-	-	-	(226)	6 208
securities	8 499	7 620	-	(1 857)	-	(19)	-	-	-	-	53	14 296
loans and advances to customers (excluding adjustments relating to fair value hedge accounting)	222 009	10 413	15 196	(20 972)	44	(439)	(60)	(119)	(80)	(513)	1 072	226 551
housing	114 781	3 021	2 227	(4 747)	12	(32)	-	(32)	(13)	(82)	833	115 968
corporate	64 910	1 411	12 022	(11 634)	32	(107)	(22)	(67)	(23)	(338)	223	66 407
consumer	27 281	2 783	947	(3 093)	-	(72)	(29)	(20)	(11)	(64)	32	27 754
receivables in respect of reverse repurchase agreements	51	1 396	-	(51)	-	-	-	-	-	-	-	1 396
finance lease receivables	14 986	1 802	-	(1 447)	-	(228)	(9)	-	(33)	(29)	(16)	15 026
other financial assets	2 922	-		-	-	-		-	-	-	-	-
												-
Total	**241 092**	**25 606**	**15 211**	**(31 343)**	**44**	**(760)**	**(60)**	**(119)**	**(80)**	**(513)**	**899**	**247 055**
Total changes in the gross carrying amount of financial instruments	**293 660**	**33 707**	**15 211**	**(40 711)**	**44**	**(1 122)**	**(60)**	**(123)**	**(80)**	**(513)**	**908**	**297 999**

(IN PLN MILLION)

CHANGES IN THE GROSS CARRYING AMOUNTS OF FINANCIAL INSTRUMENTS	Carrying amount, gross as at 31.12.2017	Changes due to IFRS 9 implementation at gross carrying amount	Carrying amount, gross as at 01.01.2018 (restated)	Changes on financial instruments originated or purchased	Increase due to utilization of a limit or disbursement of tranches	Decrease due to repayment	Changes on modification resulting from contractual cash flows from financial assets not resulting in derecognition of these financial instruments	Changes due to derecognition of financial instruments, including sale	Decrease due to fully writing off an asset	Decrease due to impairment in connection with a partial write-off	Changes for exposures whose loss recognition horizon was extended from 12 months to period to maturity	Changes for exposures whose loss recognition horizon was shortened from period to maturity to 12 months	Other changes, including foreign exchange differences	Carrying amount, gross as at 31.03.2018
Investment securities available for sale:	43 675	(43 675)	-	-		-	-	-	-	-	-	-	-	-
Measured at fair value through OCI														
securities	-	47 238	47 238	7 418	-	(9 596)	2	(132)	-	-	-		219	45 149
Total	-	47 238	47 238	7 418	-	(9 596)	2	(132)	-	-	-	-	219	45 149
Measured at amortized cost														
amounts due from banks	5 233	-	5 233	5 936	176	(7 618)	-	(32)	-	-	-	-	70	3 765
securities	-	6 194	6 194	1 124	-	(114)	-	(153)	-	-	-	-	18	7 069
loans and advances to customers (excluding adjustments relating to fair value hedge accounting)	213 452	(3 405)	210 047	8 381	13 993	(19 203)	(34)	(515)	(112)	-	(68)	(521)	817	212 785
housing	108 163	675	108 838	1 963	1 632	(2 965)	8	(92)	(54)	-	(13)	(79)	491	109 729
corporate	60 497	987	61 484	2 225	11 427	(11 436)	(42)	(129)	(15)	-	(9)	(362)	280	63 423
consumer	26 276	(616)	25 660	2 630	933	(3 000)	-	(85)	(43)	-	(11)	(64)	43	26 063
securities	4 378	(4 378)	-	-		-	-	-	-	-	-	-	-	-
receivables in respect of reverse repurchase agreements	902	-	902	26	-	(902)	-	-	-	-	-	-	-	26
finance lease receivables	13 236	(73)	13 163	1 537	1	(900)	-	(209)	-	-	(35)	(16)	3	13 544
other financial assets	2 377	100	2 477	2 260	4	(1 846)	-	(22)	-	-	-	-	2	2 875
Total	221 062	2 889	223 951	17 701	14 173	(28 781)	(34)	(722)	(112)	-	(68)	(521)	907	226 494
Total changes in the gross carrying amount of financial instruments	264 737	6 452	271 189	25 119	14 173	(38 377)	(32)	(854)	(112)	-	(68)	(521)	1 126	271 643

(IN PLN MILLION)

CREDIT-IMPAIRED FINANCIAL ASSETS UPON INITIAL RECOGNITION – POCI

The total amount of purchased or originated credit-impaired financial assets as at 31 March 2019 amounted to PLN 641 million (PLN 1 004 million as at 31 December 2018).

PURCHASED OR ORIGINATED CREDIT-IMPAIRED FINANCIAL ASSETS (POCI) -31.03.2019	Gross amount	Impairment allowances	Net amount
Securities	474	(13)	461
measured at fair value through OCI	474	(13)	461
Loans and advances to customers	274	(94)	180
measured at amortized cost	274	(94)	180
Total	**748**	**(107)**	**641**

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

CHANGES IN IMPAIRMENT ALLOWANCES FOR PURCHASED OR ORIGINATED CREDIT-IMPAIRED FINANCIAL ASSETS (POCI) IN THE FIRST HALF OF 2019	As at 31.12.2018	Increase due to recognition and purchase	Decrease due to derecognition	Changes due to changes in credit risk, net	Decrease in impairment allowances due to write-off	Other adjustments	As at 31.03.2019
Securities	10	-	-	2	(1)	2	13
measured at fair value through OCI	10	-	-	2	(1)	2	13
Loans and advances to customers	131	1	(38)	-	-	-	94
measured at amortized cost	131	1	(38)	-	-	-	94
Total	**141**	**1**	**(38)**	**2**	**(1)**	**2**	**107**

CHANGES IN IMPAIRMENT ALLOWANCES FOR PURCHASED OR ORIGINATED CREDIT-IMPAIRED FINANCIAL ASSETS (POCI) IN THE FIRST HALF OF 2018	As at 01.01.2018	Increase due to recognition and purchase	Decrease due to derecognition	Changes due to changes in credit risk, net	Decrease in impairment allowances due to write-off	Other adjustments	As at 31.03.2018
Securities	15	-	(1)	-	-	-	14
measured at fair value through OCI	15	-	(1)	-	-	-	14
Loans and advances to customers	117	2	(1)	(17)	(9)	6	98
measured at amortized cost	117	2	(1)	(17)	(9)	6	98
Total	**132**	**2**	**(2)**	**(17)**	**(9)**	**6**	**112**

30. NON-CURRENT ASSETS HELD FOR SALE

NON-CURRENT ASSETS HELD FOR SALE	31.03.2019	31.12.2018
Land and buildings	10	8
Other	-	7
Total, gross	**10**	**15**
Impairment allowances	-	-
Total	**10**	**15**

(IN PLN MILLION)

31. Intangible assets and property, plant and equipment

Intangible assets

INTANGIBLE ASSETS	31.03.2019	31.12.2018
Software	1 488	1 502
Goodwill	1 251	1 251
Future profit on concluded insurance contracts	49	51
Customer relationships	69	73
Other, including capital expenditure	286	318
of which on software	242	273
Total	**3 143**	**3 195**

Goodwill

Net goodwill	31.03.2019	31.12.2018
Nordea Bank Polska SA	863	863
PKO Życie Towarzystwo Ubezpieczeń SA	91	91
PKO Leasing Pro SA	31	31
Raiffeisen - Leasing Polska SA and its subsidiaries	57	57
PKO Towarzystwo Funduszy Inwestycyjnych SA	150	150
PKO BP BANKOWY PTE SA	51	51
Assets taken over from CFP Sp. z o.o.	8	8
Total	**1 251**	**1 251**

Property, plant and equipment

PROPERTY, PLANT AND EQUIPMENT	31.03.2019	31.12.2018
Land and buildings, of which:	2 318	1 537
right-of-use assets	902	-
Machinery and equipment, of which:	411	416
IT hardware	258	260
right-of-use assets	-	-
Assets under construction, of which:	125	162
IT hardware	44	70
right-of-use assets	-	-
Other, including:	827	816
right-of-use assets	-	-
Total	**3 681**	**2 931**

(IN PLN MILLION)

32. Other assets

OTHER ASSETS	31.03.2019	31.12.2018
Settlements in respect of card transactions	1 240	1 629
Settlement of financial instruments	100	82
Receivables in respect of cash settlements	151	189
Receivables and settlements in respect of trading in securities	44	32
Settlements relating to selling foreign currencies	38	-
Inventories	102	103
Assets for sale	82	82
Prepayments and deferred costs	241	222
Trade receivables	194	164
Receivables from settlements with KIR (National Clearing Chamber)	17	-
VAT receivable	169	148
Ceded technical reserves	728	672
Other	260	131
Total	**3 366**	**3 454**
of which: other financial assets	2 542	2 825

OTHER ASSETS – INVENTORIES	31.03.2019	31.12.2018
Goods for resale	103	102
Construction projects for sale	1	1
Materials	9	11
Impairment allowances on inventories	(11)	(11)
Total	**102**	**103**

33. Amounts due to banks

AMOUNTS DUE TO BANKS	31.03.2019	31.12.2018
Measured at fair value through profit or loss	191	-
liabilities in respect of the short-position in securities	191	-
Measured at amortized cost	**2 593**	**2 001**
Loans and borrowings received[1]	250	250
Bank deposits	949	729
Current accounts	1 251	872
Other monetary market deposits	143	150
Total	**2 784**	**2 001**

[1] The item “Loans and advances received” is presented in detail in Note 35 “Loans and advances received”

(IN PLN MILLION)

34. AMOUNTS DUE TO CUSTOMERS

AMOUNTS DUE TO CUSTOMERS	31.03.2019	31.12.2018
Measured at fair value through profit or loss	69	-
liabilities in respect of the short-position in securities	69	-
Measured at amortized cost	**239 507**	**242 816**
Amounts due to retail customers	170 291	165 182
Current accounts and overnight deposits	107 490	103 143
Term deposits	61 847	61 638
Other liabilities	954	401
Amounts due to corporate entities	49 515	55 302
Current accounts and overnight deposits	35 290	38 927
Term deposits	13 696	15 465
Other liabilities	529	910
Amounts due to public entities	15 377	16 459
Current accounts and overnight deposits	10 836	11 242
Term deposits	4 485	5 115
Other liabilities	56	102
Loans and borrowings received[1]	2 548	4 093
Liabilities in respect of insurance products	1 776	1 780
Unit-Linked	1 503	1 502
Saving insurance policies	2	2
“Safe Capital"	260	265
Structured products	11	11
Total	**239 576**	**242 816**

1 The item “Loans and advances received” is presented in detail in Note 35 “Loans and advances received”

AMOUNTS DUE TO CUSTOMERS BY SEGMENT	31.03.2019	31.12.2018
retail and private banking	161 040	155 079
corporate	48 522	55 051
firms and undertakings	25 681	26 805
loans and advances received	2 548	4 093
other liabilities (including liabilities in respect of insurance products)	1 785	1 788
Total	**239 576**	**242 816**

(IN PLN MILLION)

35. LOANS AND ADVANCES RECEIVED

LOANS AND ADVANCES RECEIVED	31.03.2019	31.12.2018
From banks	250	250
From international financial institutions	2 548	4 093
European Investment Bank	1 204	2 639
Council of Europe Development Bank	1 109	1 153
European Bank for Reconstruction and Development	60	85
International Financial Corporation	161	201
International financial institutions of Ukraine	14	15
Total	**2 798**	**4 343**

LOANS AND ADVANCES RECEIVED FROM BANKS

Date of receipt of a loan or advance by the Group	Nominal amount	Currency	Maturity	Carrying amount at 31.03.2019	Carrying amount at 31.12.2018
05.06.2017	150	PLN	10.06.2019	150	150
27.12.2018	100	PLN	28.12.2020	100	100
Total				**250**	**250**

In the three-month period of 2019, the Bank made earlier repayments of:

1. the loan facility of CHF 182 million (PLN 694 million) granted by the European Investment Bank. The loan facility was originally granted in the amount of CHF 182 million for a period of 10 years to 23.10.2019.
2. the 3rd tranche of a loan of CHF 185 million (PLN 705 million) granted by the European Investment Bank. The loan tranche was originally granted in the amount of CHF 185 million for a period of 10 years to 29.11.2023.

In 2018, the Bank made an early repayment of the facility granted by Nordea Bank AB (publ) on the basis of the agreement of 1 April 2014. The facility was originally granted for 7 years and therefore the Bank made an early repayment 3 years before the original date on which it was due, including: CHF 309 million (PLN 1 112 million) and EUR 359 million (PLN 1 499 million). The repayment of the facility meant that the collateral on the amount due in respect of the mortgage portfolio was released on the basis of a separate agreement.

In the three-month period of 2019, the Group did not incur any new loans or advances.

Furthermore, the Group made partial early repayments of loans and advances received from the Council of Europe Development Bank of EUR 7 million (PLN 33 million) and PLN 11 million, International Finance Corporation of EUR 9 million (PLN 40 million), European Investment Bank of EUR 6 million (PLN 27 million) and PLN 9 million, and European Bank for Reconstruction and Development of PLN 25 million.

In 2018, the Group made full repayments of the advances received from:

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

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

(IN PLN MILLION)

Bank Polski
1919/2019

LOANS AND ADVANCES FROM INTERNATIONAL FINANCIAL INSTITUTIONS

Date of receipt of a loan or advance by the Group	Nominal amount	Currency	Maturity	Carrying amount at 31.03.2019	Carrying amount at 31.12.2018
28.12.2006	5	EUR	30.04.2022	21	21
28.12.2006	97	PLN	30.04.2020	97	97
28.12.2006	7	CHF	30.04.2020	27	27
30.04.2009	76	CHF	30.04.2019	58	58
23.10.2009	182	CHF	23.10.2019	-	694
23.12.2009	50	EUR	23.12.2019	43	43
23.12.2010	75	EUR	23.12.2020	129	129
25.09.2013	75	EUR	25.09.2023	323	322
29.10.2013	9	PLN	30.04.2019	9	18
29.10.2013	4	EUR	31.08.2019	18	27
29.11.2013	185	CHF	29.11.2023	-	706
11.06.2015	66	PLN	31.07.2021	66	73
11.06.2015	13	PLN	30.09.2020	13	15
11.06.2015	16	EUR	30.04.2021	69	77
25.09.2015	22	EUR	30.09.2021	95	106
25.09.2015	18	PLN	30.11.2020	18	21
16.03.2016	17	PLN	01.03.2019	-	17
16.03.2016	60	PLN	01.09.2020	60	68
18.03.2016	38	EUR	31.12.2022	161	201
28.10.2016	23	EUR	31.01.2022	99	107
25.09.2017	97	EUR	30.11.2022	417	430
11.10.2017	100	UAH	10.10.2019	14	15
08.12.2017	38	EUR	31.01.2022	162	172
23.10.2018	646	PLN	23.10.2023	649	649
Total				**2 548**	**4 093**

In the three-month period of 2019, the Group partly repaid loans and advances received from international financial institutions totalling PLN 1 545 million. The Group did not incur any new loans or borrowings.

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

36. LIABILITIES IN RESPECT OF INSURANCE ACTIVITIES

LIABILITIES IN RESPECT OF INSURANCE ACTIVITIES	31.03.2019	31.12.2018
Technical reserves	1 376	1 292
Total	**1 376**	**1 292**

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

(IN PLN MILLION)

37. Debt securities in issue

DEBT SECURITIES IN ISSUE	31.03.2019	31.12.2018
Measured at amortized cost:	**29 788**	**28 627**
covered bonds issued by PKO Bank Hipoteczny SA	15 804	12 800
bonds issued by PKO Bank Hipoteczny SA	3 673	3 186
bonds issued by PKO Finance AB	4 052	6 238
bonds issued by PKO Bank Polski SA	5 392	5 367
bonds issued by the PKO Leasing SA Group[1]	824	995
Bonds issued by KREDOBANK SA	43	41
Total	**29 788**	**28 627**

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

DEBT SECURITIES IN ISSUE	31.03.2019	31.12.2018
covered bonds, of which	**15 804**	**12 800**
in PLN	3 865	3 852
in EUR, translated into PLN	11 939	8 948
bonds, of which:	**13 984**	**15 827**
in PLN	5 110	4 792
in EUR, translated into PLN	3 456	5 655
in USD, translated into PLN	3 833	3 812
in CHF, translated into PLN	1 542	1 527
in UAH, translated into PLN	43	41
Total	**29 788**	**28 627**

Information on the issue and redemption of securities

ADDITIONAL INFORMATION	01.01-31.03.2019	01.01-31.03.2018
issuance of debt securities during the period (nominal value)		
in PLN	1 716	1 737
in original currency (EUR)	700	2 121
redemption of debt securities during the period (nominal value)		
in PLN	1 275	1 502
in original currency (EUR)	500	-

Bonds issued by PKO Bank Polski SA

Issuance date	Interest rate type	Interest rate	Nominal amount	Currency	Maturity	Carrying amount at 31.03.2019	Carrying amount at 31.12.2018
25.07.2017	fixed	0.75	750	EUR	25.07.2021	3 237	3 229
02.11.2017	fixed	0.30	400	CHF	02.11.2021	1 542	1 527
16.11.2018	zero-coupon bonds	-	615	PLN	16.05.2019	613	611
Total						5 392	5 367

RELATING TO THE ISSUE OF BONDS BY COMPANIES IN THE PKO BANK POLSKI SA GROUP

In the first quarter of 2019:

- PKO Finance AB redeemed bonds of a total value of EUR 500 million.
- In the Bond Issue Programme Agreement concluded with PKO Bank Polski SA, PKO Bank Hipoteczny SA issued 12 306 bonds with an aggregate nominal value of PLN 1 2306.6 million and redeemed 8 402 bonds with an aggregate nominal value of PLN 840.2 million.
- In the Bond Issue Programme Agreement concluded with PKO Bank Polski SA, PKO Bank Leasing SA issued 484 700 bonds with an aggregate nominal value of PLN 484.7 million and redeemed 281 700 bonds with an aggregate nominal value of PLN 281.7 million.
- ROOF Poland Leasing 2014 DAC redeemed a total of 1 530 class A1 and A2 bonds of an aggregate nominal value of PLN 153 million for cancellation, which had been issued in a lease portfolio securitization programme.

In the first quarter of 2018:

- PKO Bank Hipoteczny SA issued 17 366 bonds with an aggregate nominal value of PLN 1 736.6 million and redeemed 14 620 bonds with an aggregate nominal value of PLN 1 462 million. Issues of the company's bonds are governed by the Bond Issue Programme Agreement concluded with PKO Bank Polski SA. At the same time, according to the Guarantee Agreement, PKO Bank Polski SA plays the role of guarantor of the issue of bonds up to a total amount of PLN 2 000 million.
- PKO Leasing SA issued 271 611 bonds with an aggregate nominal value of PLN 271.6 million and redeemed 230 609 bonds with an aggregate nominal value of PLN 230.6 million. Issues of the company's bonds are governed by the Bond Issue Agreement concluded with PKO Bank Polski SA.
- KREDOBANK SA issued 31 810 bonds with an aggregate nominal value of UAH 31.8 million. The issue of bonds was conducted on the basis of the prospectus approved by the Ukrainian Securities and Stock Exchange Commission.

(IN PLN MILLION)

BONDS ISSUED BY PKO BANK HIPOTECZNY SA

Issuance date	Interest rate type	Nominal amount	Currency	Maturity	Carrying amount at 31.03.2019	Carrying amount at 31.12.2018
09.02.2018	zero-coupon bonds	4	PLN	08.02.2019	-	4
23.07.2018	zero-coupon bonds	262	PLN	23.01.2019	-	262
08.08.2018	zero-coupon bonds	14	PLN	08.08.2019	14	14
21.09.2018	zero-coupon bonds	723	PLN	05.04.2019	723	719
21.09.2018	zero-coupon bonds	19	PLN	23.01.2019	-	19
01.10.2018	zero-coupon bonds	55	PLN	05.04.2019	55	55
05.10.2018	zero-coupon bonds	10	PLN	05.04.2019	10	10
16.10.2018	zero-coupon bonds	40	PLN	09.05.2019	40	40
22.10.2018	zero-coupon bonds	605	PLN	09.05.2019	604	600
22.10.2018	zero-coupon bonds	23	PLN	05.02.2019	-	23
26.10.2018	zero-coupon bonds	4	PLN	25.10.2019	4	4
26.10.2018	zero-coupon bonds	50	PLN	24.01.2019	-	50
13.11.2018	zero-coupon bonds	120	PLN	05.02.2019	-	119
15.11.2018	zero-coupon bonds	68	PLN	13.02.2019	-	68
21.11.2018	zero-coupon bonds	145	PLN	22.02.2019	-	145
21.11.2018	zero-coupon bonds	233	PLN	10.06.2019	232	231
17.12.2018	zero-coupon bonds	150	PLN	10.06.2019	149	149
29.12.2018	zero-coupon bonds	58	PLN	19.03.2019	-	58
21.12.2018	zero-coupon bonds	168	PLN	10.06.2019	167	167
28.12.2018	zero-coupon bonds	100	PLN	26.06.2019	99	99
21.12.2018	variable	350	PLN	21.02.2020	351	350
10.01.2019	zero-coupon bonds	250	PLN	10.06.2019	249	-
23.01.2019	zero-coupon bonds	228	PLN	23.07.2019	227	-
24.01.2019	zero-coupon bonds	186	PLN	24.04.2019	186	-
05.02.2019	zero-coupon bonds	87	PLN	07.05.2019	86	-
05.02.2019	zero-coupon bonds	102	PLN	05.02.2020	100	-
13.02.2019	zero-coupon bonds	68	PLN	24.05.2019	68	-
22.02.2019	zero-coupon bonds	250	PLN	10.07.2019	249	-
19.03.2019	zero-coupon bonds	60	PLN	10.07.2019	60	-
Total					3 673	3 186

BONDS ISSUED BY PKO FINANCE AB

Issuance date	Interest rate type	Interest rate	Nominal amount	Currency	Maturity	Carrying amount at 31.03.2019	Carrying amount at 31.12.2018
25.07.2012	fixed	4.00	50	EUR	25.07.2022	219	218
26.09.2012	fixed	4.63	1 000	USD	26.09.2022	3 833	3 812
23.01.2014	fixed	2.32	500	EUR	23.01.2019	-	2 208
Total						4 052	6 238

BONDS ISSUED BY THE PKO LEASING SA GROUP

Issuance date	Interest rate type	Nominal amount	Currency	Maturity	Carrying amount at 31.03.2019	Carrying amount at 31.12.2018
01.12.2014[1]	variable	637	PLN	02.10.2025	487	640
01.06.2016	variable	73	PLN	01.06.2019	73	73
09.08.2018	variable	30	PLN	14.02.2019	-	30
05.09.2018	variable	53	PLN	05.03.2019	-	53
13.09.2018	variable	34	PLN	08.01.2019	-	34
10.10.2018	variable	39	PLN	08.01.2019	-	38
19.10.2018	variable	37	PLN	18.01.2019	-	37
30.10.2018	variable	30	PLN	08.01.2019	-	30
07.12.2018	variable	60	PLN	06.03.2019	-	60
05.03.2019	variable	50	PLN	05.09.2019	50	-
08.01.2019	variable	104	PLN	08.04.2019	104	-
18.01.2019	variable	10	PLN	17.04.2019	10	-
06.03.2019	variable	100	PLN	03.06.2019	100	-
Total					824	995

[1] the bonds taken up by the PKO Leasing SA Group as part of the acquisition of Raiffeisen-Leasing Polska SA. Bonds are secured with securitized lease receivables (Note 66 "'Information on securitization of the lease portfolio and portfolio sale of receivables").

(IN PLN MILLION)

Bonds issued by Kredobank SA

Issuance date	Interest rate type	Nominal amount	Currency	Maturity	Carrying amount at 31.03.2019	Carrying amount at 31.12.2018
01.12.2017	fixed	45	UAH	26.11.2022	6	6
13.07.2018	fixed	250	UAH	28.12.2022	37	35
Total					43	41

Issue of mortgage-covered bonds by PKO Bank Hipoteczny SA

In the first quarter of 2019 PKO Bank Hipoteczny SA made one foreign issue of mortgage bonds denominated in EUR, addressed to institutional investors, with an aggregate value of EUR 700 million, including:

- benchmark issue of mortgage bonds series 5 with a nominal value of EUR 500 million;
- issue of the second tranche of mortgage bonds series 1 with a nominal value of EUR 100 million, which increased the value of the series to EUR 600 million;
- issue of the second tranche of mortgage bonds series 5 with a nominal value of EUR 100 million, which increased the value of the series to EUR 600 million.

The mortgage bonds are listed on securities exchanges in Luxembourg and Warsaw, whereas the second tranche of series 1 is still awaiting to be introduced and admitted to trading.

In the first quarter of 2018, PKO Bank Hipoteczny SA carried out one foreign issue of mortgage bonds denominated in EUR, addressed to institutional investors, with an aggregate nominal value of EUR 500 million; the mortgage bonds were acquired by investors at a lower price than the nominal value and are listed on the stock exchanges in Luxembourg and in Warsaw.

Issue of mortgage-covered bonds by PKO Bank Hipoteczny SA

Issuance date	Interest rate type	Interest rate (index + margin)	Nominal amount	Currency	Maturity	Carrying amount at 31.03.2019	Carrying amount at 31.12.2018
11.12.2015	variable	3M WIBOR + 0.75	18	PLN	11.12.2020	19	19
27.04.2016	variable	3M WIBOR + 0.65	484	PLN	28.04.2021	487	486
17.06.2016	variable	3M WIBOR + 0.59	500	PLN	18.06.2021	500	500
24.10.2016	fixed	0.125	500	EUR	24.06.2022	2 146	2 144
02.02.2017	fixed	0.820	25	EUR	02.02.2024	108	108
30.03.2017	fixed	0.625	500	EUR	24.01.2023	2 149	2 159
28.04.2017	variable	3M WIBOR + 0.69	500	PLN	18.05.2022	501	501
22.06.2017	fixed	2.69	264	PLN	10.09.2021	268	266
27.09.2017	fixed	0.75	500	EUR	27.08.2024	2 154	2 149
27.10.2017	variable	3M WIBOR + 0.60	500	PLN	27.06.2023	499	500
02.11.2017	fixed	0.47	54	EUR	03.11.2022	232	232
22.03.2018	fixed	0.75	500	EUR	24.01.2024	2 145	2 156
27.04.2018	variable	3M WIBOR + 0.49	690	PLN	25.04.2024	701	693
18.05.2018	variable	3M WIBOR + 0.32	100	PLN	29.04.2022	97	100
27.07.2018	variable	3M WIBOR + 0.62	496	PLN	25.07.2025	501	498
24.08.2018	fixed	3.49	60	PLN	24.08.2028	62	61
26.10.2018	variable	3M WIBOR + 0.66	228	PLN	28.04.2025	230	228
28.01.2019	fixed	0.25	500	EUR	23.11.2021	2 146	-
01.03.2019	fixed	0.25	100	EUR	23.11.2021	431	-
08.03.2019	fixed	0.125	100	EUR	24.06.2022	428	-
Total						15 804	12 800

38. Subordinated liabilities

	Nominal amount	Interest rate	Currency	Period	Special terms	Balance in PLN	
						31.03.2019	31.12.2018
Subordinated bonds	1 700	3.34	PLN	28.08.2017 - 28.08.2027	right to early redemption within 5 years from the issue date	1 705	1 720
Subordinated bonds	1 000	3.29	PLN	05.03.2018 - 06.03.2028	right to early redemption within 5 years from the issue date	1 002	1 011
Total						2 707	2 731

(IN PLN MILLION)

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

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

39. Other Liabilities

OTHER LIABILITIES	31.03.2019	31.12.2018
Expenses to be paid	614	626
Deferred income	426	395
Liability in respect of tax on certain financial institutions	82	83
Interbank settlements	474	481
Liabilities arising from investing activities and internal operations	94	247
Amounts due to suppliers	183	184
Liabilities and settlements in respect of trading in securities	455	364
Settlement of financial instruments	30	6
Liabilities in respect of contribution to the Bank Guarantee Fund, of which:	586	248
contribution calculated by BGF/to be paid to BGF (Resolution Fund)	326	-
maintained in the form of payment commitments, of which:	260	248
to the Resolution Fund	112	112
to the Banks' Guarantee Fund	148	136
Liabilities under the public law	230	163
Liabilities in respect of foreign exchange activities	417	298
Liabilities in respect of payment cards	427	15
Liabilities to insurance institutions	164	143
Lease liabilities	898	-
Other	302	432
Total	**5 382**	**3 685**
of which: other financial liabilities	3 756	2 364

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

The item "Liabilities in respect of contribution to the Bank Guarantee Fund" includes liabilities in respect of the Bank's contributions to the BGF.

40. Provisions

FOR 3 MONTHS ENDED 31 MARCH 2019	Provisions for legal claims	Provisions for pensions and other liabilities from defined-benefit post-employment plans	Restructuring	Provisions for financial liabilities and guarantees granted	Other provisions, including provisions for employee disputed claims	Total
As at 1 January 2019, of which:	**54**	**50**	**24**	**227**	**91**	**446**
Short-term provisions	54	8	24	177	91	354
Long-term provisions	-	42	-	50	-	92
Increase, of which increases of existing provisions	6	-	23	58	1	88
Utilized	-	(1)	(5)	-	(3)	(9)
Released during the period	(4)	-	-	(50)	-	(54)
As at 31 March 2019, of which:	**56**	**49**	**42**	**235**	**89**	**471**
Short-term provisions	56	8	42	182	89	377
Long-term provisions	-	41	-	53	-	94

(IN PLN MILLION)

FOR 3 MONTHS ENDED 31 MARCH 2018	Provisions for legal claims	Provisions for pensions and other liabilities from defined-benefit post-employment plans	Restructuring	Provisions for financial liabilities and guarantees granted	Other provisions, including provisions for employee disputed claims	Total
As at 01.01.2018	**21**	**61**	**21**	**157**	**26**	286
Short-term provisions	21	22	21	108	26	198
Long-term provisions	-	39	-	49	-	88
Increase, of which increases of existing provisions	3	-	45	64	-	112
Utilized	(5)	(13)	(6)	-	-	(24)
Released during the period	-	-	-	(70)	(14)	(84)
Other changes and reclassifications	-	(1)	-	-	-	(1)
As at 31 March 2018, of which:	**19**	**47**	**60**	**151**	**12**	**289**
Short-term provisions	19	8	60	114	12	213
Long-term provisions	-	39	-	37	-	76

41. EQUITY AND SHAREHOLDING STRUCTURE OF THE BANK

EQUITY	31.03.2019	31.12.2018
Share capital	1 250	1 250
Supplementary capital	29 428	29 354
General banking risk fund	1 070	1 070
Other reserves	3 831	3 831
Accumulated other comprehensive income	127	250
Retained earnings	3 171	(385)
Net profit or loss for the year	862	3 741
Non-controlling interests	(11)	(10)
Total	**39 728**	**39 101**

According to the knowledge of PKO Bank Polski SA as at the date of submitting the condensed interim consolidated financial statements, the following three entities hold directly or indirectly qualifying holdings (at least 5% of shares): the State Treasury, Nationale-Nederlanden Otwarty Fundusz Emerytalny and Aviva Otwarty Fundusz Emerytalny.

NAME OF SHAREHOLDER	number of shares	voting rights %	Nominal value of 1 share	Interest held (%)
As at 31 March 2019				
State Treasury	367 918 980	29.43%	PLN 1	29.43%
Nationale Nederlanden Open Pension Fund[1]	95 472 008	7.64%	PLN 1	7.64%
Aviva Open Pension Fund[1]	89 163 966	7.13%	PLN 1	7.13%
Other shareholders[2]	697 445 046	55.80%	PLN 1	55.80%
Total	**1 250 000 000**	**100.00%**	---	**100.00%**
As at 31 December 2018				
State Treasury	367 918 980	29.43%	PLN 1	29.43%
Nationale Nederlanden Open Pension Fund[1]	95 472 008	7.64%	PLN 1	7.64%
Aviva Open Pension Fund[1]	89 163 966	7.13%	PLN 1	7.13%
Other shareholders[2]	697 445 046	55.80%	PLN 1	55.80%
Total	**1 250 000 000**	**100.00%**	---	**100.00%**

[1] Calculation of shareholdings as at the end of 2018 and 2017 published by PTE in annual information about the structure of fund assets and quotations from the securities exchange official list (Ceduła Giełdowa). PTE publishes information about the structure of assets in yearly and half-yearly periods.
[2] Including Bank Gospodarstwa Krajowego which, as at 31 March 2019, held 24 487 297 shares, constituting a 1.96% share of the votes at the General Shareholders' Meeting.

All the shares of PKO Bank Polski SA carry the same rights and obligations. Shares are not preference shares, in relation to voting rights or in relation to dividends. However, the Articles of Association of PKO Bank Polski SA restricts the voting rights of shareholders holding more than 10% of the total number of votes at the General Shareholders' Meeting and forbids those shareholders to execute more than 10% of the total number of votes at the General Shareholders' Meeting.

(IN PLN MILLION)

The above does not apply to:

1) those shareholders who on 14 April 2011, the date of passing the resolution of the General Meeting introducing the limitation of the voting rights had rights from the shares representing more than 10% of the total number of votes existing at the Bank (i.e. the State Treasury and BGK),
2) shareholders who have the rights from A-series registered shares (the State Treasury), and
3) shareholders acting with the shareholders referred to in point (2) based on an agreement concluded concerning the joint execution of voting rights from shares.

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

In accordance with § 6 (3) of PKO Banku Polskiego SA's Articles of Association, with the reservation of Art. 28.2 of the Banking Law, the conversion of bearer shares into registered shares is forbidden.

Pursuant to Art. 13 of the Act dated 16 December 2016 on the rules for managing State property, the shares of PKO Bank Polski SA owned by the State Treasury may not be sold.

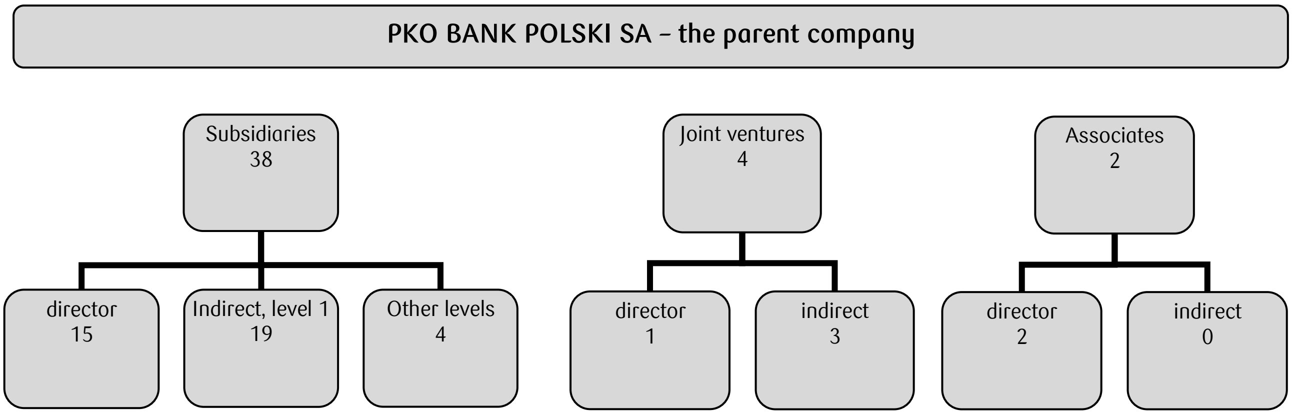
The Bank's shares are listed on the Warsaw Securities Exchange.

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

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

(IN PLN MILLION)

INFORMATION ABOUT MEMBERS OF THE PKO BANK POLSKI SA GROUP, JOINT VENTURES AND ASSOCIATES



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

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

No.	ENTITY NAME	REGISTERED OFFICE	% SHARE IN EQUITY	
	DIRECT SUBSIDIARIES		31.03.2019	31.12.2018
1	PKO Bank Hipoteczny SA	Gdynia	100	100
2	PKO Towarzystwo Funduszy Inwestycyjnych SA	Warsaw	100	100
3	PKO Leasing SA	Łódź	100	100
4	PKO BP BANKOWY PTE SA	Warsaw	100	100
5	PKO BP Finat sp. z o.o.	Warsaw	100	100
6	PKO Życie Towarzystwo Ubezpieczeń SA	Warsaw	100	100
7	PKO Towarzystwo Ubezpieczeń SA	Warsaw	100	100
8	PKO Finance AB	Stockholm, Sweden	100	100
9	KREDOBANK SA	Lviv, Ukraine	100	100
10	Qualia Development sp. z o.o.	Warsaw	100	100
11	ZenCard sp. z o.o.	Warsaw	100	100
12	Operator Chmury Krajowej sp. z o.o.	Warsaw	100	100
13	Merkury - fiz an[1]	Warsaw	100	100
14	NEPTUN - fizan[1]	Warsaw	100	100
15	PKO VC - fizan[1]	Warsaw	100	100

1) PKO Bank Polski SA has investment certificates of the Fund; the share in the Fund's investment certificates is presented in the item "Share in equity". Investment certificates of the fund.

(IN PLN MILLION)

No.	ENTITY NAME INDIRECT SUBSIDIARIES	REGISTERED OFFICE	% SHARE IN EQUITY* 31.03.2019	 31.12.2018
	The PKO Leasing SA Group			
1	PKO Leasing Nieruchomości sp. z o.o.	Warsaw	100	100
2	PKO Agencja Ubezpieczeniowa sp. z o.o.	Warsaw	100	100
	2.1 PKO Leasing Finanse sp. z o.o.	Warsaw	100	100
3	PKO Leasing Sverige AB	Stockholm, Sweden	100	100
4	ROOF Poland Leasing 2014 DAC[1]	Dublin, Ireland	-	-
5	PKO Faktoring SA	Warsaw	100	100
	The PKO Życie Towarzystwo Ubezpieczeń SA GROUP			
6	Ubezpieczeniowe Usługi Finansowe sp. z o.o.	Warsaw	100	100
	The KREDOBANK SA Group			
7	Finansowa Kompania “Idea Kapitał” sp. z o.o.	Lviv, Ukraine	100	100
	The Qualia Development sp. z o.o. GROUP			
8	Qualia sp. z o.o.	Warsaw	100	100
9	Sarnia Dolina Sp. z o.o.	Warsaw	100	100
	Qualia-Residence sp. z o.o.[2]	Warsaw	-	100
	Merkury - fiz an			
10	“Zarząd Majątkiem Górczewska” sp. z o.o.	Warsaw	100	100
11	Molina sp. z o.o.	Warsaw	100	100
12	Molina spółka z ograniczoną odpowiedzialnością 1 S.K.A.	Warsaw	100	100
13	Molina spółka z ograniczoną odpowiedzialnością 2 S.K.A.	Warsaw	100	100
14	Molina spółka z ograniczoną odpowiedzialnością 3 S.K.A. w likwidacji	Warsaw	100	100
15	Molina spółka z ograniczoną odpowiedzialnością 4 S.K.A.	Warsaw	100	100
16	Molina spółka z ograniczoną odpowiedzialnością 5 S.K.A.	Warsaw	100	100
17	Molina spółka z ograniczoną odpowiedzialnością 6 S.K.A.	Warsaw	100	100
	NEPTUN - fizan			
18	Bankowe Towarzystwo Kapitałowe SA	Warsaw	100	100
	18.1 “Inter-Risk Ukraina” additional liability company[3]	Kiev, Ukraine	99.90	99.90
	18.2 Finansowa Kompania “Prywatne Inwestycje” sp. z o.o.[4]	Kiev, Ukraine	95.4676	95.4676
19	“CENTRUM HAFFNERA” sp. z o.o.	Sopot	72.9766	72.9766
	19.1 “Sopot Zdrój” sp. z o.o.	Sopot	100	100

* share in equity of the direct parent

1) In accordance with IFRS 10, PKO Leasing SA exercises control over the company, although it does not have a capital share in it.
2) In January 2019 Qualia-Residence sp. z o.o. was combined (as the acquiring company) with Qualia sp. z o.o. (as the target company).
3) The second shareholder of the company is Finansowa Kompania “Prywatne Inwestycje” Sp. z o.o.
4) “Inter-Risk Ukraina” spółka (a company with additional liability) is the second shareholder of the company.

NAME OF THE SUBSIDIARY	CORE BUSINESS
PKO BANK HIPOTECZNY SA	The company specializes in granting mortgage housing loans to individual clients and it also purchases receivables relating to such loans from the Bank. The core purpose of the company is to issue mortgage bonds, both on the domestic and foreign market, which constitute the main source of long-term financing of loans secured with mortgages.
PKO TOWARZYSTWO FUNDUSZY INWESTYCYJNYCH SA	The core business of the company is the creation of investment funds (including intermediation in the purchase and sale of participation units), and representation vis-à-vis third parties and the management of the clients’ portfolios, which include one or more financial instruments. The company also offers specialized investment programs and conducts employee pension programs (PPE).
PKO LEASING SA	The company, together with its subsidiaries – PKO Leasing Sverige AB and PKO Leasing Nieruchomości sp. z o.o. provides lease services. The companies offer finance and operating leases: cars, vans, trucks, machinery and equipment, technological lines, medical equipment, real estate, IT hardware and software, ships, aircraft and railway equipment. The offer includes a fleet management service. Moreover, a subsidiary – PKO Leasing Finanse sp. z o.o. is involved in storing, preparing and selling post-debt-collection and post-contract items and PKO Agencja Ubezpieczeniowa sp. z o.o. provides specialist

	services within the scope of creating insurance products and programmes for the clients of financial institutions. This PKO Leasing SA Group also includes a special purpose vehicle with its registered office in Ireland, established for the securitization of lease receivables. The Group also includes PKO Faktoring SA, which provides services of domestic and export factoring, assuming the risk and without assuming the risk, reverse factoring and service of factoring program for the suppliers.
PKO BP BANKOWY PTE SA	The company's activities consist of managing an open and voluntary pension fund and representing it in contacts with third parties. The company manages PKO BP Bankowy Otwarty Fundusze Emerytalny (OFE) and PKO Dobrowolny Fundusz Emerytalny (DFE), within which the Individual Retirement Account (Indywidualne Konto Emerytalne – IKE) and Individual Retirement Security Account (Indywidualne Konto Zabezpieczenia Emerytalnego – IKZE) are offered.
PKO BP FINAT SP. Z O.O.	PKO Finat sp. z o.o. provides comprehensive services to companies in the financial sector, among other things, in respect of providing technical solutions, transfer agent, fund and company accounting and also manages group insurance dedicated to the products offered by the Bank. It also specializes in competency outsourcing of IT specialists, project teams and IT processes. On the basis of the authorization of the Polish Financial Supervision Authority, the Company also provides services as a national payment institution. Its clients are both companies of the Group, as well as companies outside the Group.
PKO ŻYCIE TOWARZYSTWO UBEZPIECZEŃ SA	The company's core business consists of insurance activities in respect of insurance sector I – life insurance. The scope of the company's activities comprises policies in all groups specified in the PFSA licence (1, 2, 3, 4, 5 Section I). The Company offers a wide range of insurance products. It focuses on life and health insurance for its clients. It has both separate products and products supplementing the banking products offered by the Bank.
PKO TOWARZYSTWO UBEZPIECZEŃ SA	The company's core business consists of insurance activities in respect of insurance sector II – other personal insurance and property insurance. The scope of the company's activities comprises policies in all groups specified in the PFSA licence (1, 2, 7, 8, 9, 13, 14, 15, 16, 17, 18 Section II). PKO TU SA focuses on insuring against loss of income, private third party liability insurance and sickness insurance as well as real property insurance for loan recipients and clients who draw mortgage loans. The company offers a wide range of insurance products addressed to customers of the Bank and other members of the Bank's Group.
PKO FINANCE AB	The company conducts financial activities, mainly by seeking financing from international markets by issue of bonds and by lending the funds obtained to other members of the Bank's Group, including PKO Bank Polski SA.
KREDOBANK SA	KREDOBANK SA is a universal bank, focused on the customer service of retail clients and small- and medium-sized enterprises running the business mainly in the western part of Ukraine and in Kiev. At the same time the Company strives to attract corporate customers with high creditworthiness. The company offers services including maintaining the bank accounts of individuals and businesses, collecting deposits, lending, issuing warranties and guarantees, checks and bills trading, operations on the currency market, as well as operations on the securities market. The core business of Finansowa Kompania "Idea Kapitał" Sp. z o.o. – a subsidiary of KREDOBANK SA – is providing services consisting in the acquisition of rights to the assignment of monetary claims under loan agreements.
QUALIA DEVELOPMENT SP. Z O.O.	The core activities of members of the Qualia Development sp. z o.o. Group consist of the sale of own real properties, companies and last living premises, as well as post-sale (statutory warranty) services in respect of developer products.

(IN PLN MILLION)

ZENCARD SP. Z O.O.	The company conducts activities in respect of information technology and computer services. It specializes in creating solutions connected with using payment cards in discount and loyalty programs. The company built a platform for sellers to create discount and loyalty programmes, which at the same time allows for the virtualization of loyalty cards. This platform is integrated with a payment terminal and allows resignation from numerous separate loyalty cards or separate applications installed on mobile phones in return for a customer payment card which at the same time is a virtual loyalty card of each vendor. The company's strategic partner is CEUP eService sp. z o.o. – one of the largest settlement agents in Poland.
OPERATOR CHMURY KRAJOWEJ SP. Z O.O.	The company was established in November 2018. It plans to provide comprehensive services in respect of data storage and remote processing based on a subscription model, including IaaS (Infrastructure as a Service), PaaS (Platform as a Service) and SaaS (Software as a Service).
MERKURY – FIZ AN	The fund's activities comprise investing money raised by non-public offer to purchase investment certificates. The Fund is managed by PKO TFI SA. The fund conducts investment activities through subsidiaries whose business is buying and selling real estate on its own account and property management
NEPTUN – FIZAN	The fund's activities comprise investing money raised by a non-public offer to purchase investment certificates. The Fund is managed by PKO TFI SA. PKO Bank Polski SA sells to the Fund shares of companies whose business is not complementary to the offer of financial services offered by the Bank.
PKO VC – FIZAN	The fund's activities comprise investing money raised by a non-public offer to purchase investment certificates. The Fund is managed by PKO TFI SA. It operates through separated sub-funds: financial and strategic. The Fund follows a policy appropriate for venture capital funds and invests in entities that offer technological financial innovations in the banking and banking-related areas, as well as other innovative solutions for enterprises.

43. INVESTMENT IN ASSOCIATES AND JOINT VENTURES

No.	ENTITY NAME	REGISTERED OFFICE	% SHARE IN EQUITY*	
			31.03.2019	31.12.2018
	Joint ventures of PKO Bank Polski SA			
1	Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	Warsaw	34	34
	1 EVO Payments International sp. z o.o.	Warsaw	100	100
	2 EVO Payments International s.r.o.	Prague, the Czech Republic	100	100
	Joint venture of NEPTUN - fizan			
	3 "Centrum Obsługi Biznesu" Sp. z o.o.	Poznań	41.4455	41.4455
	Associates of PKO Bank Polski SA			
1	Bank Pocztowy SA	Bydgoszcz	25.0001	25.0001
2	"Poznański Fundusz Poręczeń Kredytowych" Sp. z o.o.	Poznań	33.33	33.33

* share in equity of the direct parent / entity having significant impact

(IN PLN MILLION)

NAME OF JOINT VENTURES AND ASSOCIATES	CORE BUSINESS
CENTRUM ELEKTRONICZNYCH USŁUG PŁATNICZYCH ESERVICE SP. Z O.O.	The company offers services which consist of processing transactions involving payment instruments conducted both through POS terminals in Poland and abroad and on-line, lease of POS terminals, top-ups of mobile phone cards and servicing of gift cards. PKO Bank Polski SA, together with the company, offer comprehensive services which involve attracting and servicing entities which use POS terminals and settling transactions conducted with payment instruments using such terminals.
"CENTRUM OBSŁUGI BIZNESU" SP. Z O.O.	A joint project of PKO Bank Polski SA, Buildco Poznań SA and the City of Poznań which consists of building a hotel in Poznań. The Bank is a member of a syndicate of banks which granted the company an investment loan for the execution of the said project. The hotel was completed and began operating in 2007.
BANK POCZTOWY SA	Bank Pocztowy SA specializes in standard banking products offered to retail clients and a supplementary offer for micro-businesses and institutional clients. It also operates in the settlements and treasury segment. It makes use of the potential of the main shareholder – Poczta Polska SA and develops a range of products in collaboration with stakeholders across the Group.
"POZNAŃSKI FUNDUSZ PORĘCZEŃ KREDYTOWYCH" SP. Z O.O.	The company specializes in supporting the development of small- and medium-sized enterprises by providing guarantees and various types of services for business. The company grants guarantees for loans and advances extended by banks, including PKO Bank Polski SA, as well as bank guarantees, lease and factoring transactions, and bid bond guarantees. The entity cooperates with PKO Leasing SA. Since April 2018, the company has granted sureties as part of the JEREMIE 2 initiative.

FINANCIAL INFORMATION:

JOINT VENTURES	31.03.2019	31.12.2018
"Centrum Obsługi Biznesu" Sp. z o.o.	-	-
Acquisition price	17	17
Change in the share in net assets	(14)	(14)
Impairment allowances	(3)	(3)
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	238	256
Value of shares as at the date of obtaining joint control	197	197
Change in the share in net assets	41	59
Total	**238**	**256**

ASSOCIATES	31.03.2019	31.12.2018
Bank Pocztowy SA	88	88
Acquisition price	184	184
Change in the share in net assets	77	73
Impairment allowances	(173)	(169)
"Poznański Fundusz Poręczeń Kredytowych" Sp. z o.o.	-	-
Acquisition price	2	2
Change in the share in net assets	4	4
Impairment allowances	(6)	(6)
Total	**88**	**88**

(IN PLN MILLION)

CHANGE IN INVESTMENTS IN JOINT VENTURES	01.01-31.03.2019	01.01-31.03.2018
Investments in joint ventures as at the beginning of the period	256	244
Share in profits/ (losses)	3	5
Dividend	(21)	(10)
Investments in joint ventures as at the end of the period	**238**	**239**

CHANGE IN INVESTMENTS IN ASSOCIATES	01.01-31.03.2019	01.01-31.03.2018
Investments in associates as at the beginning of the period	88	149
Share in profits/ (losses)	2	1
Net impairment allowance	(4)	(2)
Share in the change in other equity components	2	1
Reclassification from associates to financial assets	-	(19)
Investments in associates as at the end of the period	**88**	**130**

IMPAIRMENT ALLOWANCES – RECONCILIATION OF MOVEMENTS	01.01-31.03.2019	01.01-31.03.2018
As at the beginning of the period	178	146
Recognized during the period	4	2
As at the end of the period	**182**	**148**
Net increase – impact on the income statement	(4)	(2)

44. Changes to companies comprising the Group

In the first quarter of 2019 there were no significant changes in the structure of the PKO Bank Polski SA Group. Business combination was registered in the National Court Register competent for the acquiring company in respect of Qualia sp. z o.o. as the acquiring company, and Qualia – Residence sp. z o.o. as the target company, work was performed in connection with the combination of PKO Leasing SA as the acquiring company with Qualia Development sp. z o.o. as the target company (on 2 April 2019, the plan of the combination of the aforesaid two companies was announced in *Monitor Sądowy i Gospodarczy*), and also work is conducted in respect of the sale of Qualia sp. z o.o. and Sarnia Dolina sp. z o.o. to NEPTUN – fizan (sales agreements, in this case Sarnia Dolina sp. z o.o. – a conditional sales agreement, were signed on 30 April 2019).

OTHER NOTES

45. Dividends per share

On 25 February 2019, the Bank received an individual recommendation from the Polish Financial Supervision Authority to increase its own funds by retaining at least 50% of the profit earned in the period from 1 January to 31 December 2018. At the same time, the PFSA confirmed that the Bank had met the requirements for the distribution of dividend at a level of up to 50% of the net profit for 2018.

The Polish Financial Supervision Authority also expected the Bank's Management Board and Supervisory Board to present their position in respect of the recommendation received by the Bank.

Both the Bank's Management and Supervisory Boards passed resolutions stating that they would implement the recommendation of the PFSA of 25 February 2019 within the scopes of their respective competencies.

On 28 March 2019, the Bank's Management Board passed a resolution on submitting the recommendation for the appropriation of profit earned in the period from 1 January to 31 December 2018 in the amount of PLN 3 335 302 049 to the Annual General Meeting of the Bank as follows:

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

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

The decision as to the recommended appropriation of the 2018 profit is consistent with the decision declared by the Bank to comply with the recommendation of the PFSA.

Moreover, on 4 April 2019, the Bank's Supervisory Board issued a positive opinion about the recommendation of the Bank's Management Board on the appropriation of the Bank's profit for 2018.

On 6 May 2019 the Annual General Meeting of PKO Bank Polski SA passed a resolution on the appropriation of the Bank's profit for 2018 (9/2019), pursuant to which the profit of PLN 3 335 million was earmarked as follows:

1) for the payment of dividend to the shareholders PLN 1 662.5 million;
2) for other reserves PLN 5 151 million.

This means that 49.8% of the profit was appropriated for distribution as dividend of PLN 1.33 per share, gross. Moreover, the General Meeting of PKO Bank Polski SA decided that 31 July 2019 will be the record date (the day of acquiring the right to dividend) and 14 August 2019 will be the date of dividend payment.

46. Information about leases

LEASES – LESSOR

The Group acts as a lessor in respect of lease contracts relating to the use of buildings, including office space.

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

A lease is classified as an operating lease if substantially all risks and benefits resulting from the ownership of the underlying asset are not transferred to the lessee. In such an instance, the Group recognizes lease payments as revenue on a straight-line basis.

A lease is classified as finance lease if substantially all risks and benefits resulting from the ownership of the underlying asset are transferred. The Group classifies its leases as finance leases if at least one or all the following conditions is met:

1) the ownership of the underlying asset is transferred to the lessee before the end of the lease term;
2) the lessee has an option to purchase the underlying asset at a price that is expected to be sufficiently lower than its fair value as at the date of exercising the option; therefore at the inception date the Group may reasonably expect that the lessee will exercise this option;

3) the lease term covers the majority of the economic life of the underlying asset, even if the legal title has not been transferred;

4) the present value of lease payments at the inception date is substantially nearly equal to the total fair value of the underlying asset which – in the case of sublease – is adopted as the value of the right-of-use asset resulting from the main lease contract; and

5) the nature of the underlying asset is sufficiently specific that only the lessee can use it without any major modification.

At the inception date of the finance lease the Group as the lessor in the finance lease contract presents receivables in an amount equal to the net investment in the lease, i.e. gross lease investment expense discounted by the lease interest rate.

The gross lease investment expense is understood as the total of:

1) lease payments due to the lessor under the finance lease; and

2) potential residual value attributed to the lessor, which is not guaranteed.

The lease interest rate applied by the Group is the rate as a result of which the present value of lease payments and the unguaranteed residual value are equal to the sum of the fair value of the underlying asset and all initial direct costs incurred by the Group.

LEASE – LESSEE

The Group classifies lease contracts and contracts containing a lease comprise contracts pursuant to which:

1) it obtains the right to use an identified asset, and the supplier's right to substitute it with an alternative asset is insignificant; and

2) it has the right to substantially all economic rewards from exercising the right over the entire period of use; and

3) it has the right to direct the use of an identified asset over the entire period of its use, where:

   a) the Group has the right to direct how and for what purpose the asset is used over the entire period of the lease; or

   b) appropriate previous decisions were taken as to how and for what purpose the asset is used.

The Group applies eliminations and does not recognize right-of-use assets or liabilities in respect of:

1) short-term leases to which the Group classifies contracts without a purchase option, concluded for a period no longer than 12 months from the inception of the lease, in particular contracts concluded for an unspecified period with a short (up to 12-month) notice period, without any significant penalties which are understood in particular as expenses incurred on leasehold improvements or costs of changing the location;

2) low-value leases (an asset with a value below PLN 20 000 determined based on the value of a new asset, irrespective of the age of the leased asset), with the exception of leases of space.

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

The value of lease liabilities is affected by:

1) fixed fees net of all lease incentives due;

2) variable lease payments which depend on an index or rate, initially measured using the index or rate applicable as at the inception date;

3) amounts expected to be paid by the lessee as the guaranteed residual value;

4) the price of exercising the purchase option, if there is a more than 50% probability that the Group will exercise the purchase option;
5) financial penalties for terminating the lease, if the lease contract provides for the termination of the lease by the Group as the lessee.

The Group does not classify variable fees depending on external factors as elements of lease payments.

After the initial recognition of a lease liability the Group measures it at amortized cost.

The remeasurement of a lease liability is recognized by the Group as an adjustment of a right-of-use. If as a result of the remeasurement the carrying amount of a right-of-use asset is reduced to nil and the measurement of the lease liability continues to decrease, the remaining amount of the remeasurement is recognized by the Group as profit or loss.

Right-of-use assets are initially measured by the Group at cost which comprises:

1) the initial value of the lease liability;
2) all lease payments made at or before the inception date, net of all lease incentives received;
3) all initial direct costs incurred by the Group.

After initial recognition the Group measures the right-of-use asset by reducing its initial value by depreciation (on a straight-line basis) and impairment, and adjusts lease liabilities in accordance with the remeasurement.

In order to discount future lease payments, the Group uses discount rates:

1) calculated based on profitability curves reflecting the cost of financing in the given currency;
2) covering the tenor of the longest lease contract measured and reflecting – for the given currency – a fixed market interest rate and the Group's cost of financing (lease tenors are from 1 year to 99 years);
3) obtained from the curve for maturity corresponding to half of the period to lease expiry.

The value of marginal lending rate for leases is updated by the Group on a quarterly basis.
The Group applies the same discount rates to the portfolio of lease contracts for cars and properties, including the right to perpetual usufruct of land, taking into account the impact of the security for the lease on the discount rate applied.

Lease payments in respect of short-term and low-value leases are recognized by the Group as costs on a straight-line basis over the term of the lease. Differences between the amounts paid and those resulting from the straight-line accounting for costs are recognized in prepayments of accruals.

AMOUNTS RECOGNIZED IN THE INCOME STATEMENT IN RESPECT OF LEASES - LESSEE	**01.01-31.03.2019**
Amortization of right-of-use assets, of which:	(49)
land and buildings	(49)
machinery and equipment	-
vehicles	-
Interest expense	(6)
Costs relating to short-term lease agreements	(5)
Costs relating to lease agreements for low-value assets which are not short-term, costs of non-recoverable VAT and costs of service charges	(16)
Total costs	(76)

(IN PLN MILLION)

RIGHT-OF-USE ASSETS	31.03.2019
Land and buildings	902
Machinery and equipment	-
Vehicles	-
Total	**902**

OTHER LIABILITIES	31.03.2019
Lease liabilities	898
Total	**898**

47. CONTINGENT LIABILITIES AND OFF-BALANCE LIABILITIES RECEIVED AND GRANTED

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

Issuer of underwritten securities	Type of underwritten securities	Maximum commitment to take up securities	Contract expiry date
As at 31 March 2019			
Company A	corporate bonds	1 359	31.12.2020
Company B	corporate bonds	1 055	31.07.2020
Company C	corporate bonds	44	31.12.2022
Total		**2 458**	

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

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

CONTRACTUAL COMMITMENTS

VALUE OF CONTRACTUAL COMMITMENTS CONCERNING:	31.03.2019	31.12.2018
intangible assets	29	43
property, plant and equipment	33	51
Total	**62**	**94**

(IN PLN MILLION)

LOAN AND GUARANTEE COMMITMENTS GRANTED

LOAN COMMITMENTS AND GUARANTEE COMMITMENTS GRANTED AS AT 31.03.2019	Commitments granted at nominal amount	Provisions for commitments granted under IFRS 9	Loan commitments and guarantee commitments granted, net
Loan commitments granted:			
Credit lines and limits			
housing	3 677	(32)	3 645
corporate	33 523	(98)	33 425
consumer	9 415	(41)	9 374
Other	3 857	(20)	3 837
Total	**50 472**	**(191)**	**50 281**
of which irrevocable loan commitments	23 311	(71)	23 240
Guarantees and pledges granted			
Guarantees granted in domestic and foreign trading	6 645	(34)	6 611
to financial entities	297	-	297
to non-financial entities	6 152	(34)	6 118
to public entities	196	-	196
Guarantees and pledges granted – domestic corporate bonds	2 514	(3)	2 511
to non-financial entities	2 514	(3)	2 511
Letters of credit issued	1 310	(6)	1 304
to non-financial entities	1 308	(6)	1 302
to public entities	2	-	2
Guarantees and warranties granted – payment guarantees for financial entities	151	-	151
Guarantees and pledges granted - domestic municipal bonds	314	(1)	313
Total	**10 934**	**(44)**	**10 890**
of which irrevocable loan commitments	4 785	(34)	4 751
of which performance guarantees granted	2 524	(19)	2 505

Information about the provisions recognized for loan and guarantee liabilities is presented in Note 40 “Provisions”.

(IN PLN MILLION)

LOAN COMMITMENTS AND GUARANTEE COMMITMENTS GRANTED AS AT 31.12.2018	Commitments granted at nominal amount	Provisions for commitments granted under IFRS 9	Loan commitments and guarantee commitments granted, net
Loan commitments granted:			
Credit lines and limits			
housing	4 275	(35)	4 240
corporate	32 618	(96)	32 522
consumer	8 974	(35)	8 939
Other	4 010	(11)	3 999
Total	**49 877**	**(177)**	**49 700**
of which irrevocable loan commitments	23 378	(67)	23 311
Guarantees and pledges granted			
Guarantees granted in domestic and foreign trading	6 151	(46)	6 105
to financial entities	69	(1)	68
to non-financial entities	6 069	(44)	6 025
to public entities	13	(1)	12
Guarantees and pledges granted – domestic corporate bonds	2 021	(2)	2 019
to non-financial entities	2 021	(2)	2 019
Letters of credit issued	1 207	(2)	1 205
to non-financial entities	1 205	(2)	1 203
to public entities	2	-	2
Guarantees and warranties granted – payment guarantees for financial entities	368	-	368
Guarantees and pledges granted - domestic municipal bonds	188	-	188
Total	**9 935**	**(50)**	**9 885**
of which irrevocable loan commitments	6 516	(46)	**6 470**
of which performance guarantees granted	2 418	(19)	2 399

COMMITMENTS GRANTED BY MATURITY AS AT 31.03.2019	up to 1 month, incl.	1 to 3 months, incl.	3 months to 1 year, incl.	1 to 5 years, incl.	over 5 years	Total
Commitments granted at nominal amount						
commitments granted - financing	14 742	3 671	12 691	12 602	6 766	50 472
commitments granted - guarantees and pledges	755	666	3 889	4 887	737	10 934
Total	15 497	4 337	16 580	17 489	7 503	61 406

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

(IN PLN MILLION)

LOAN COMMITMENTS AND GUARANTEE COMMITMENTS GRANTED AS AT 31.03.2019	Nominal amount of contingent liabilities with no significant increase in credit risk since initial recognition (stage 1)	Provision for expected credit losses (stage 1)	Nominal amount of contingent liabilities with a significant increase in credit risk since initial recognition, but not credit-impaired (stage 2)	Provision for expected credit losses (stage 2)	Nominal amount of contingent liabilities at risk of credit impairment (stage 3)	Provision for expected credit losses (stage 3)	Total nominal amount	Total provision	Total, net
Loan commitments granted:									
Credit lines and limits	43 445	(81)	2 971	(78)	199	(12)	46 615	(171)	46 444
housing	3 236	(12)	434	(18)	7	(2)	3 677	(32)	3 645
corporate	31 969	(57)	1 367	(34)	187	(7)	33 523	(98)	33 425
consumer	8 240	(12)	1 170	(26)	5	(3)	9 415	(41)	9 374
Other	3 842	(20)	15	-	-	-	3 857	(20)	3 837
Total	47 287	(101)	2 986	(78)	199	(12)	50 472	(191)	50 281
of which irrevocable loan commitments	21 546	(30)	1 672	(37)	93	(4)	23 311	(71)	23 240
of which: purchased or originated credit-impaired off-balance sheet liabilities – POCI	-	-	-	-	80		80	-	80
Guarantees and pledges granted									
Guarantees granted in domestic and foreign trading	5 970	(8)	557	(11)	118	(15)	6 645	(34)	6 611
to financial entities	297	-	-	-	-	-	297	-	297
to non-financial entities	5 477	(8)	557	(11)	118	(15)	6 152	(34)	6 118
to public entities	196	-	-	-	-	-	196	-	196
Guarantees and pledges granted – domestic corporate bonds	2 514	(3)	-	-	-	-	2 514	(3)	2 511
to non-financial entities	2 514	(3)	-	-	-		2 514	(3)	2 511
Letters of credit issued	1 293	(1)	5	-	12	(5)	1 310	(6)	1 304
to non-financial entities	1 291	(1)	5	-	12	(5)	1 308	(6)	1 302
to public entities	2	-	-	-	-	-	2	-	2
Guarantees and warranties granted – payment guarantees for financial entities	151	-	-	-	-	-	151	-	151
Guarantees and pledges granted - domestic municipal bonds	314	(1)	-	-	-	-	314	(1)	313
Total	**10 242**	**(13)**	**562**	**(11)**	**130**	**(20)**	10 934	(44)	10 890
of which irrevocable loan commitments	4 110	(8)	557	(11)	118	(15)	4 785	(34)	4 751
of which performance guarantees granted	2 056	(3)	395	(7)	73	(9)	2 524	(19)	2 505
of which: purchased or originated credit-impaired off-balance sheet liabilities – POCI	-	-	-	-	-	-	-	-	-

LOAN COMMITMENTS AND GUARANTEE COMMITMENTS GRANTED AS AT 31.12.2018	Nominal amount of contingent liabilities with no significant increase in credit risk since initial recognition (stage 1)	Provision for expected credit losses (stage 1)	Nominal amount of contingent liabilities with a significant increase in credit risk since initial recognition, but not credit-impaired (stage 2)	Provision for expected credit losses (stage 2)	Nominal amount of contingent liabilities at risk of credit impairment (stage 3)	Provision for expected credit losses (stage 3)	Total nominal amount	Total provision	Total, net
Loan commitments granted:									
Credit lines and limits	42 649	(75)	3 025	(77)	193	(14)	45 867	(166)	45 701
housing	3 813	(14)	454	(18)	8	(3)	4 275	(35)	4 240
corporate	31 019	(50)	1 422	(38)	177	(8)	32 618	(96)	32 522
consumer	7 817	(11)	1 149	(21)	8	(3)	8 974	(35)	8 939
Other	4 010	(11)	-	-	-	-	4 010	(11)	3 999
Total	**46 659**	**(86)**	**3 025**	**(77)**	**193**	**(14)**	**49 877**	**(177)**	**49 700**
of which irrevocable loan commitments	21 554	(28)	1 729	(35)	95	(4)	23 378	(67)	23 311
of which: purchased or originated credit-impaired off-balance sheet liabilities – POCI	-	-	-	-	80	-	80	-	80
Guarantees and pledges granted									
Guarantees granted in domestic and foreign trading	5 770	(10)	235	(9)	146	(27)	6 151	(46)	6 105
to financial entities	69	(1)	-	-	-	-	69	(1)	68
to non-financial entities	5 688	(8)	235	(9)	146	(27)	6 069	(44)	6 025
to public entities	13	(1)	-	-	-	-	13	(1)	12
Guarantees and pledges granted – domestic corporate bonds	2 021	(2)	-	-	-	-	2 021	(2)	2 019
to non-financial entities	2 021	(2)	-	-	-		2 021	(2)	2 019
Letters of credit issued	1 206	(1)	-	-	1	(1)	1 207	(2)	1 205
to non-financial entities	1 204	(1)			1	(1)	1 205	(2)	1 203
to public entities	2	-	-	-	-	-	2	-	2
Guarantees and warranties granted – payment guarantees for financial entities	368	-	-	-	-	-	368	-	368
Guarantees and pledges granted - domestic municipal bonds	188	-	-	-	-	-	188	-	188
Total	**9 553**	**(13)**	**235**	**(9)**	**147**	**(28)**	9 935	(50)	9 885
of which irrevocable loan commitments	6 135	(10)	235	(9)	146	(27)	6 516	(46)	6 470
of which performance guarantees granted	2 216	(5)	130	(5)	72	(9)	2 418	(19)	2 399
of which: purchased or originated credit-impaired off-balance sheet liabilities – POCI	-	-	-	-	-	-	-	-	-

(IN PLN MILLION)

LOAN COMMITMENTS AND GUARANTEE COMMITMENTS GRANTED - MOVEMENTS BETWEEN IMPAIRMENT STAGES 31.03.2019	Gross amount							
	AMOUNTS NOT SUBJECT TO TRANSFER	Transfers between stage 1 and stage 2		Transfers between stage 2 and stage 3		Transfers between stage 1 and stage 3		TOTAL
		from stage 1 to stage 2	from stage 2 to stage 1	from stage 2 to stage 3	from stage 3 to stage 2	from stage 1 to stage 3	from stage 3 to stage 1	
Loan commitments granted:								
Credit lines and limits	45 847	497	251	15	2	3	-	46 615
housing	3 578	95	4	-	-	-	-	3 677
corporate	33 036	307	163	14	1	2	-	33 523
consumer	9 233	95	84	1	1	1	-	9 415
Other	3 857	-	-	-	-	-	-	3 857
Total	**49 704**	**497**	**251**	**15**	**2**	**3**	**-**	**50 472**
Guarantees and pledges granted								
Guarantees granted in domestic and foreign trading	6 295	332	6	-	-	12	-	6 645
to financial entities	297	-	-	-	-	-	-	297
to non-financial entities	5 802	332	6	-	-	12	-	6 152
to public entities	196	-	-	-	-	-	-	196
Guarantees and pledges granted – domestic corporate bonds	2 514	-	-	-	-	-	-	2 514
to non-financial entities	2 514	-	-	-	-	-	-	2 514
Letters of credit issued	1 301	5	-	-	-	4	-	1 310
to non-financial entities	1 299	5	-	-	-	4	-	1 308
to public entities	2	-	-	-	-	-	-	2
Guarantees and warranties granted – payment guarantees for financial entities	151	-	-	-	-	-	-	151
Guarantees and pledges granted - domestic municipal bonds	314	-	-	-	-	-	-	314
Total	**10 575**	**337**	**6**	**-**	**-**	**16**	**-**	**10 934**

LOAN COMMITMENTS AND GUARANTEE COMMITMENTS GRANTED - MOVEMENTS BETWEEN IMPAIRMENT STAGES 31.03.2019	Provisions							
	AMOUNTS NOT SUBJECT TO TRANSFER	Transfers between stage 1 and stage 2		Transfers between stage 2 and stage 3		Transfers between stage 1 and stage 3		TOTAL
		from stage 1 to stage 2	from stage 2 to stage 1	from stage 2 to stage 3	from stage 3 to stage 2	from stage 1 to stage 3	from stage 3 to stage 1	
Loan commitments granted:								
Credit lines and limits	(156)	(13)	(1)	(1)	-	-	-	(171)
housing	(28)	(4)	-	-	-	-	-	(32)
corporate	(91)	(5)	(1)	(1)	-	-	-	(98)
consumer	(37)	(4)	-	-	-	-	-	(41)
Other	(20)	-	-	-	-	-	-	(20)
Total	**(176)**	**(13)**	**(1)**	**(1)**	**-**	**-**	**-**	**(191)**
Guarantees and pledges granted								
Guarantees granted in domestic and foreign trading	(32)	(2)	-	-	-	-	-	(34)
to non-financial entities	(32)	(2)	-	-	-	-	-	(34)
Guarantees and pledges granted – domestic corporate bonds	(3)	-	-	-	-	-	-	(3)
to non-financial entities	(3)	-	-	-	-	-	-	(3)
Letters of credit issued	(2)	-	-	-	-	(4)	-	(6)
to non-financial entities	(2)	-	-	-	-	(4)	-	(6)
Guarantees and pledges granted - domestic municipal bonds	(1)	-	-	-	-	-	-	(1)
Total	**(38)**	**(2)**	**-**	**-**	**-**	**(4)**	**-**	**(44)**

(IN PLN MILLION)

LOAN COMMITMENTS AND GUARANTEE COMMITMENTS GRANTED - MOVEMENTS BETWEEN IMPAIRMENT STAGES 31.03.2019	Net amount							TOTAL
	AMOUNTS NOT SUBJECT TO TRANSFER	Transfers between stage 1 and stage 2		Transfers between stage 2 and stage 3		Transfers between stage 1 and stage 3		
		from stage 1 to stage 2	from stage 2 to stage 1	from stage 2 to stage 3	from stage 3 to stage 2	from stage 1 to stage 3	from stage 3 to stage 1	
Loan commitments granted:								
Credit lines and limits	45 691	484	250	14	2	3	-	46 444
housing	3 550	91	4	-	-	-	-	3 645
corporate	32 945	302	162	13	1	2	-	33 425
consumer	9 196	91	84	1	1	1	-	9 374
Other	3 837	-	-	-	-	-	-	3 837
Total	**49 528**	**484**	**250**	**14**	**2**	**3**	**-**	**50 281**
Guarantees and pledges granted								
Guarantees granted in domestic and foreign trading	6 263	330	6	-	-	12	-	6 611
to financial entities	297	-	-	-	-	-	-	297
to non-financial entities	5 770	330	6	-	-	12	-	6 118
to public entities	196	-	-	-	-	-	-	196
Guarantees and pledges granted – domestic corporate bonds	2 511	-	-	-	-	-	-	2 511
to non-financial entities	2 511	-	-	-	-	-	-	2 511
Letters of credit issued	1 299	5	-	-	-	-	-	1 304
to non-financial entities	1 297	5	-	-	-	-	-	1 302
to public entities	2	-	-	-	-	-	-	2
Guarantees and warranties granted – payment guarantees for financial entities	151	-	-	-	-	-	-	151
Guarantees and pledges granted - domestic municipal bonds	313	-	-	-	-	-	-	313
Total	**10 537**	**335**	**6**	**-**	**-**	**12**	**-**	**10 890**

(IN PLN MILLION)

LOAN COMMITMENTS AND GUARANTEE COMMITMENTS GRANTED - MOVEMENTS BETWEEN IMPAIRMENT STAGES AS AT 31.12.2018	Gross amount							
	AMOUNTS NOT SUBJECT TO TRANSFER	Transfers between stage 1 and stage 2		Transfers between stage 2 and stage 3		Transfers between stage 1 and stage 3		TOTAL
		from stage 1 to stage 2	from stage 2 to stage 1	from stage 2 to stage 3	from stage 3 to stage 2	from stage 1 to stage 3	from stage 3 to stage 1	
Loan commitments granted:								
Credit lines and limits	43 389	1 820	585	6	4	60	3	45 867
housing	3 865	401	3	1	1	4	-	4 275
corporate	30 865	1 246	446	4	2	53	2	32 618
consumer	8 659	173	136	1	1	3	1	8 974
Other	4 010	-	-	-	-	-	-	4 010
Total	**47 399**	**1 820**	**585**	**6**	**4**	**60**	**3**	**49 877**
Guarantees and pledges granted								
Guarantees granted in domestic and foreign trading	5 777	180	163	3	-	28	-	6 151
to financial entities	69	-	-	-	-	-	-	69
to non-financial entities	5 695	180	163	3	-	28	-	6 069
to public entities	13	-	-	-	-	-	-	13
Guarantees and pledges granted – domestic corporate bonds	2 021	-	-	-	-	-	-	2 021
to non-financial entities	2 021	-	-	-	-	-	-	2 021
Letters of credit issued	1 204	1	1	1	-	-	-	1 207
to non-financial entities	1 202	1	1	1	-	-	-	1 205
to public entities	2	-	-	-	-	-	-	2
Guarantees and warranties granted – payment guarantees for financial entities	368	-	-	-	-	-	-	368
Guarantees and pledges granted - domestic municipal bonds	188	-	-	-	-	-	-	188
Total	**9 558**	**181**	**164**	**4**	**-**	**28**	**-**	**9 935**

(IN PLN MILLION)

LOAN COMMITMENTS AND GUARANTEE COMMITMENTS GRANTED - MOVEMENTS BETWEEN IMPAIRMENT STAGES AS AT 31.12.2018	Provisions							
	AMOUNTS NOT SUBJECT TO TRANSFER	Transfers between stage 1 and stage 2		Transfers between stage 2 and stage 3		Transfers between stage 1 and stage 3		TOTAL
		from stage 1 to stage 2	from stage 2 to stage 1	from stage 2 to stage 3	from stage 3 to stage 2	from stage 1 to stage 3	from stage 3 to stage 1	
Loan commitments granted:								
Credit lines and limits	(100)	(59)	(4)	-	-	(3)	-	(166)
housing	(18)	(16)	-	-	-	(1)	-	(35)
corporate	(58)	(33)	(4)	-	-	(1)	-	(96)
consumer	(24)	(10)	-	-	-	(1)	-	(35)
Other	(11)	-	-	-	-	-	-	(11)
Total	**(111)**	**(59)**	**(4)**	**-**	**-**	**(3)**	**-**	**(177)**
Guarantees and pledges granted								
Guarantees granted in domestic and foreign trading	(34)	(7)	-	-	-	(5)	-	(46)
to financial entities	(1)	-	-	-	-	-	-	(1)
to non-financial entities	(32)	(7)	-	-	-	(5)	-	(44)
to public entities	(1)	-	-	-		-	-	(1)
Letters of credit issued	(2)	-	-	-	-	-	-	(2)
to non-financial entities	(2)	-	-	-	-	-	-	(2)
Total	**(38)**	**(7)**	**-**	**-**	**-**	**(5)**	**-**	**(50)**

(IN PLN MILLION)

LOAN COMMITMENTS AND GUARANTEE COMMITMENTS GRANTED - MOVEMENTS BETWEEN IMPAIRMENT STAGES AS AT 31.12.2018	Net amount							
	AMOUNTS NOT SUBJECT TO TRANSFER	Transfers between stage 1 and stage 2		Transfers between stage 2 and stage 3		Transfers between stage 1 and stage 3		TOTAL
		from stage 1 to stage 2	from stage 2 to stage 1	from stage 2 to stage 3	from stage 3 to stage 2	from stage 1 to stage 3	from stage 3 to stage 1	
Loan commitments granted:								
Credit lines and limits	43 289	1 761	581	6	4	57	3	45 701
housing	3 847	385	3	1	1	3	-	4 240
corporate	30 807	1 213	442	4	2	52	2	32 522
consumer	8 635	163	136	1	1	2	1	8 939
Other	3 999	-	-	-	-	-	-	3 999
Total	**47 288**	**1 761**	**581**	**6**	**4**	**57**	**3**	**49 700**
Guarantees and pledges granted								
Guarantees granted in domestic and foreign trading	5 743	173	163	3	-	23	-	6 105
to financial entities	68	-	-	-	-	-	-	68
to non-financial entities	5 663	173	163	3	-	23	-	6 025
to public entities	12	-	-	-	-	-	-	12
Guarantees and pledges granted – domestic corporate bonds	2 019	-	-	-	-	-	-	2 019
to non-financial entities	2 019	-	-	-	-	-	-	2 019
Letters of credit issued	1 202	1	1	1	-	-	-	1 205
to non-financial entities	1 200	1	1	1	-	-	-	1 203
to public entities	2	-	-	-	-	-	-	2
Guarantees and warranties granted – payment guarantees for financial entities	368	-	-	-	-	-	-	368
Guarantees and pledges granted - domestic municipal bonds	188	-	-	-	-	-	-	188
Total	**9 520**	**174**	**164**	**4**	-	**23**	-	**9 885**

(IN PLN MILLION)

Off-Balance Sheet Liabilities Received

OFF-BALANCE SHEET LIABILITIES RECEIVED BY NOMINAL AMOUNT	31.03.2019	31.12.2018
Financing	99	90
Guarantees	2 272	1 825
Total	**2 371**	**1 915**

48. Legal claims

As at 31 March 2019, the total value of court cases (litigation), in which PKO Bank Polski SA Group companies (including the Bank) are the defendant was PLN 1 016 million, of which PLN 40 million applied to litigation in Ukraine (as at 31 December 2018, the aggregate value of such litigation was PLN 1 784 million), while the total value of court cases (litigation) in which PKO Bank Polski SA Group companies (including the Bank) are the claimant, as at 31 March 2019, was PLN 1 975 million, of which PLN 28 million applied to court cases in Ukraine (as at 31 December 2018, the total value of such litigation was PLN 1 838 million).

The most significant legal claims are described below. As at 31 March 2019 the Bank was a party to the following proceedings.

Proceedings relating to restrictive practices on the market of payments with payment cards in Poland

The Bank is a party to proceedings initiated by the President of the Competition and Consumer Protection Office (Urząd Ochrony Konkurencji i Konsumentów – UOKiK) on the basis of a decision dated 23 April 2001 upon the request of the Polish Trade and Distribution Organization – Employers Association (Polska Organizacja Handlu i Dystrybucji – Związek Pracodawców – POHiD) against operators of the Visa and Europay payment systems and banks issuing Visa and Europay/ Eurocard/ Mastercard banking cards. The claims under these proceedings relate to the use of practices limiting competition on the market of banking card payments in Poland, consisting of applying pre-agreed “interchange” fees for transactions made using the above cards as well as limiting access to this market for external entities. On 29 December 2006, UOKiK decided that the practices, consisting of joint determination of the ‘interchange’ fee, did limit market competition and ordered that any such practices should be discontinued, and imposed a fine on, among other things, PKO Bank Polski SA, in the amount of PLN 16.6 million. The Bank appealed against the decision of the President of UOKiK to CCCP (Court for Competition and Consumer Protection / Sąd Ochrony Konkurencji i Konsumentów – SOKiK). By judgment of 21 November 2013 SOKiK reduced the penalty imposed on the Bank to PLN 10.4 million. The parties to the proceedings appealed against the judgment. In its judgment of 6 October 2015, the Court of Appeal in Warsaw restored the original amount of the imposed penalties stipulated in the decision of the UOKiK, i.e. a fine amounting to PLN 16.6 million (fine imposed on PKO Bank Polski SA) and a fine amounting to PLN 4.8 million (fine imposed on Nordea Bank Polska SA). The fines were paid by the Bank in October 2015.

As a result of the cassation complaint made by the Bank, in its judgment dated 25 October 2017, the Supreme Court revoked the appealed judgment of the Court of Appeal in Warsaw and submitted the case for re-examination. The fines paid by the Bank were reimbursed to the Bank on 21 March 2018. Currently, the case is being examined by the Court of Appeal in Warsaw. After two hearings, the Court of Appeal adjourned the trial without setting a date. As at 31 March 2019 and as at 31 December 2018, the Bank had a provision for this litigation of PLN 21 million.

Proceedings concerning the use of prohibited contractual provisions in templates of consumer loan agreements, with the exclusion of credit card agreements

In a decision of 31 December 2013, the President of the UOKiK held that the Bank’s activities constituted practices breaching the collective interests of consumers and imposed a fine on the Bank of PLN 29 million. The Bank appealed against this decision to the CCCP. In a judgment of 9 July 2015, the CCCP overruled the decision of the President of the UOKiK in whole. The President of the UOKiK appealed against this decision on 21 August 2015. On 31 May 2017, the Court of Appeal in Warsaw upheld the decision of the Court for Competition and Consumer Protection (CCCP), which was advantageous for the Bank, overruling the decision in which the UOKiK acknowledged that the Bank had breached the collective interests of consumers by applying the so-called variable interest rate clause in whole and, consequently, cancelled the fine of PLN 17 million.

However, as for the second practice, of which the Bank was accused regarding the application of an information form, the Court of Appeal held that a part of the appeal was reasonable, whereby it simultaneously reduced the fine imposed on the Bank by the UOKiK from PLN 12 million to PLN 6 million. The fine was paid on 17 July 2017. On 23 October 2017, the Bank filed a cassation complaint against the judgment of the Court of Appeal. The President of UOKiK also filed a cassation complaint. By a decision of 10 April 2019, the Supreme Court refused to accept both cassation complaints for hearing which means that the case should be regarded as closed. As at 31 March 2019 and as at 31 December 2018, the Bank had not set up a provision for this litigation.

PROCEEDINGS CONDUCTED BEFORE THE PRESIDENT OF THE OFFICE OF COMPETITION AND CONSUMER PROTECTION (UOKIK)

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

1) proceedings opened ex officio on 28 June 2017 on the acknowledgement that the provisions of the model contract are inadmissible. The breach, of which the Bank is being accused, involves the use of contractual provisions in model mortgage loan agreements which are revalued/indexed/denominated in foreign currencies and their appendices, presenting the method of setting the foreign currency buy and sell rates, which, according to the President of the UOKiK, may be considered inadmissible in the light Article 385 § 1 of the Civil Code. On 31 July 2018 the Bank filed a motion to issue a consent decree. By a decision of 28 February 2019, the President of UOKiK extended the deadline for the closure of the proceedings to 30 June 2019. As at 31 March 2019 and as at 31 December 2018, the Bank had not set up a provision for this litigation.

2) proceedings initiated on 26 July 2017 ex officio about using practices which violate the collective interests of customers. The violation the Bank has been charged with consists of collecting higher instalments on loans and advances to customers denominated in foreign currencies than those following from the advice about interest rate risk provided to customers before they had concluded the contracts, and transferring possible currency risk to the customers. The Bank presented its position on the claims in its letter dated 23 September 2017. In its letter of 14 March 2019, the President of UOKiK requested the Bank to present answers to 16 detailed questions in order to determine circumstances necessary to settle the case. The answers must be provided by 10 May 2019. By a decision of 15 March 2019, the President of UOKiK extended the deadline for the closure of the proceedings to 30 June 2019. As at 31 March 2019 and as at 31 December 2018, the Bank had not set up a provision for this litigation.

3) proceedings initiated ex officio on 12 March 2019 on the acknowledgement that the provisions of the model contract are inadmissible. The proceedings are related to modification clauses which specify circumstances in which the Bank is entitled to unilaterally amend the terms and conditions of the agreement, including the amounts of fees and commissions. The President of UOKiK called for the Bank to comment on the charges contained in the decision on initiating the proceedings, by 23 April 2019. In its letter of 19 April 2019, the Bank filed a motion for extending the deadline for commenting on the charges by 31 May 2019.

OTHER PROCEEDINGS ON THE DISTORTION OF COMPETITION

The remaining companies of the Bank's Group are not handling any significant proceedings on the distortion of competition.

Moreover, there are three explanatory proceedings pending before the President of UOKiK and one position of the President of UOKiK presented without initiating proceedings (under Art. 49a of the Act of competition and consumers protection).

PROCEEDINGS BEFORE SOKIK BROUGHT BY INDIVIDUALS, CONCERNING:

acknowledging that the provisions included in the pro-forma contract covering a portion of the housing loan agreement Nordea-Habitat and the warranty agreement were illicit – on 5 December 2018 the Court of Appeal in Warsaw issued a final judgment dismissing the claim. The counter-party may file a cassation complaint with the Supreme Court.

OTHER SIGNIFICANT PROCEEDINGS AGAINST THE BANK

1) in October 2013 the Bank received a claim for the payment of PLN 31 million in respect of the losses incurred as a result of an unjustified refusal to grant disaster loans, due to an alleged lack of cooperation on the part of the Bank, which in consequence was to lead to the seizure of the claimants' family farm. The case is currently being examined by a first instance court. As at 31 March 2019 and as at 31 December 2018, the Bank had a provision for this litigation of PLN 1 million.

2) in November 2013 the Warsaw Municipal Consumer Rights Adviser lodged a claim on behalf of 66 persons (a developer's customers, owners of properties encumbered with a mortgage to the

benefit of the bank) to determine the non-existence of the regulation relating to the contractual ordinary collective mortgage of PLN 12 million disclosed in the land and mortgage registers regarding properties belonging to these people. The City Consumer Ombudsman filed a potential claim to obligate the Bank to file a declaration of intent, namely to agree to the deletion of these mortgage entries. On 30 September 2016 the District Court in Warsaw agreed to the claim and passed a judgment in which it determined the non-existence of the contractual mortgages set up on the apartments, referring to the absence of any contract concluded between the Bank and the developer for the division of the mortgage in the event that separate titles are established for particular apartments. The Bank appealed against the said judgment. In its judgment dated 3 December 2018 the Appeal Court largely dismissed the Bank's appeal. The Court shared the Bank's position only as to one person, which it considered not to be a consumer. The Bank applied for a copy of the judgment with the justification. After its analysis a decision will be taken as to a potential cassation complaint. In view of the nature of the claim, the matter did not require the establishment of provisions.

3) in August 2016 a claim for the payment of PLN 20 million was filed with the Bank in respect of a loss in the assets of the Bank's customer as a result of – in the Claimant's opinion – unfair tax information PIT 8C for 2007, 2008 and 2009 being issued by Dom Maklerski PKO BP; currently, the case is being examined by a Court of first instance. As at 31 March 2019 and as at 31 December 2018, the Bank had not set up a provision for this litigation.
4) in March 2016 a claim was lodged against the Bank by the Official Receiver of a joint stock company under bankruptcy liquidation for recognizing as ineffective a legal transaction consisting of setting up a contractual collective mortgage of PLN 53 million on real estate on behalf of the Bank to secure four investor loan contracts. On 20 September 2017 the District Court in Warsaw dismissed the claim against the Bank. The Claimant appealed against this judgment, which was accepted by the judgment dated 22 May 2018. On 1 October 2018 the Bank filed a cassation complaint. In view of the nature of the claim, the matter did not require the establishment of provisions.
5) in September 2016 the Bank received a claim for the payment of PLN 15 million in respect of compensation for a loss resulting from the fact that the Bank did not disburse the investment loan funds; in the claim the Claimant states that the purpose of the loan agreement was the consolidation of earlier liabilities and determining new terms and conditions for the repayment of the debt, and the fact that the Bank did not disburse the funds led to the liabilities becoming due and covered with the debt restructuring procedure. The said proceedings are currently being conducted before a first instance court. As at 31 March 2019 and as at 31 December 2018, the Bank had a provision for this litigation of PLN 15 million.
6) in November and December 2018 the Bank received two claims for finding a writ of execution ineffective, based on the same writ of execution concerning an amount of over PLN 13 million, which had been previously presented to SKOK Wesoła. In respect of both cases, the Bank responded questioning the claim. In view of the nature of the claim, the matter did not require the establishment of provisions.
7) as at 31 March 2019, 1030 court proceedings were initiated against the Bank by its customers in connection with loan agreements concluded and denominated in Swiss francs. The Bank's customers' claims concerned mainly the determination of the invalidity of all or part of the agreement or payment in respect of the refund of allegedly undue benefits in connection with the abusive nature of the foreign currency clauses. The final rulings to-date are favourable to the Bank. No final judgment has been passed in any of the cases which would confirm the validity of the customers' statements, and none of the provisions used by the Bank in the agreements was entered in the register of prohibited contractual provisions.

REPRIVATIZATION CLAIMS RELATING TO PROPERTIES USED BY THE GROUP

As at the date of the financial statements the following proceedings are being conducted:

- one proceeding conducted in respect of the Bank's properties, relating to reprivatization claims. This proceeding is suspended. (A second procedure regarding a property of the Bank, which was pending in 2018, ended with a final court judgment of the Regional Court in Kalisz of 8 November 2018. In a letter dated 10 January 2019, the opposing party lodged a cassation complaint against this judgment, which is currently awaiting the Supreme Court's decision on whether it will be accepted for determination);
- ten proceedings, of which one is suspended with respect to the real property of the other companies from the Bank's Group, the subject matter of which is to confirm that the administrative decisions are invalid or to return the property.

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

(IN PLN MILLION)

CLAIMS FOR DAMAGES IN RESPECT OF THE INTERCHANGE FEE

The Bank was served three summons to participate, as an intervening party on the defendant's side, in cases relating to the interchange fees. Other banks are on the defendant's side. Claims against the defendant banks amount to a total of nearly PLN 146 million and are pursued as compensation for differences in the interchange fees resulting from practices that restrict competition. If the courts accept the claims as justified, the defendants may be involved in a separate trial regarding recourse claims, among other things, against other banks, including PKO Bank Polski SA.

49. NOTES TO THE CASH FLOW STATEMENT

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

CASH AND CASH EQUIVALENTS	31.03.2019	31.12.2018	31.03.2018
Cash and balances with the Central Bank	14 570	22 925	15 528
Deposits with the Central Bank	850	-	740
Current amounts due from banks	5 978	7 396	3 431
Restricted cash and cash equivalents, of which:	188	205	288
restricted cash and cash equivalents - amounts due from banks	180	195	280
restricted cash and cash equivalents - loans and advances to customers	8	10	8
Total	**21 586**	**30 526**	**19 987**

RESTRICTED CASH AND CASH EQUIVALENTS

Cash and cash equivalents of PLN 188 million (as at 31 December 2018): PLN 205 million), including:

- PLN 8 million (as at 31 December 2018: PLN 10 million) pledged as collateral for securities' transactions conducted by the Dom Maklerski PKO BP SA brokerage house are deposited in the National Depository for Securities (KDPW_CCP), as part of the Guarantee Fund for the Settlement of Stock Exchange Transactions. Each direct participant who holds the status of a settlement-making participant is obliged to make payments to the settlement fund which guarantees proper settlement of the stock exchange transactions covered by that fund. The amount of the payments depends on the value of the transactions made by each participant and is updated by KDPW_CCP on a daily basis;
- PLN 3 million (as at 31 December 2018: PLN 4 million) paid in by participants in IKE, IKZE, PPE and PSO, which was not converted by the transfer agent into investment fund participation units by 31 March 2019 and 31 December 2018, respectively;
- PLN 177 million (as at 31 December 2018): PLN 191 million) pledged as collateral for securitization transactions.

50. TRANSACTIONS WITH THE STATE TREASURY AND RELATED PARTIES

TRANSACTIONS WITH THE STATE TREASURY

The State Treasury has control over the Bank as it holds a 29.43% interest in the Bank's share capital. The Bank's shareholding structure is described in detail in note 41 "Equity and shareholding structure of the Bank" to these financial statements.

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

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

(IN PLN MILLION)

INCOME FROM TEMPORARY REDEMPTION BY THE STATE TREASURY OF INTEREST ON HOUSING LOANS IN THE 'OLD' PORTFOLIO	01.01-31.03.2019	01.01-31.03.2018
Income recognized on the accruals basis	65	69
Income recognized on the cash basis	7	21
Difference – "Loans and advances to customers"	58	48

As of 1 January 2018 based on the provisions of the Act of 30 November 1995 on state support in the repayment of certain housing loans, and reimbursement of guarantee bonuses paid, the borrowers acquired the right to be forgiven the remaining debt by the State Treasury, which will result in gradual (until 2026) full settlement of the housing loan indebtedness from the so-called "old" portfolio. The Bank conducts settlements related to the partial purchase of interest on housing loans by the State Treasury and in the three month period of 2019 it did not receive commission and in the corresponding period of 2018 it received PLN 1 million in this respect.

As of 1 January 1996, the Bank is the general distributor of revenue stamps, and in this respect it receives commission from the State Budget – in the three-month period of 2019 and in the corresponding period of 2018, the Bank did not receive any commissions in this respect.

Dom Maklerski PKO Banku Polskiego SA brokerage house plays the role of an agent for the issue of retail treasury bonds under the agreement signed with the Ministry of Finance on 11 February 2003. Under this agreement, the Dom Maklerski PKO Banki Polskiego SA brokerage house receives a fee for providing the services of an agent for the issue of bonds, which in the first quarter of 2019 amounted to PLN 21 million and PLN 19 million in the corresponding period of 2018.

RELATED-PARTY TRANSACTIONS – CAPITAL LINKS

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

AS AT 31 MARCH 2019 / ENTITY	Receivables	of which loans	Liabilities	Off-balance sheet liabilities granted
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	37	36	23	10
"Centrum Obsługi Biznesu" Sp. z o.o.	17	17	8	-
Bank Pocztowy SA	-	-	-	1
"Poznański Fundusz Poręczeń Kredytowych" Sp. z o.o.	-	-	18	-
Total joint ventures and associates	**54**	**53**	**49**	**11**

FOR 3 MONTHS ENDED 31 MARCH 2019 / ENTITY	Total income	of which interest and commission income	Total expense	of which interest and commission income
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	82	81	19	19
"Centrum Obsługi Biznesu" Sp. z o.o.	1	1	-	-
Total joint ventures and associates	**83**	**82**	**19**	**19**

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

(IN PLN MILLION)

FOR 3 MONTHS ENDED 31 MARCH 2018 / ENTITY	Total income	of which interest and commission income	Total expense	of which interest and commission income
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	85	64	19	19
"Centrum Obsługi Biznesu" Sp. z o.o.	1	1	-	-
Total joint ventures and associates	**86**	**65**	**19**	**19**

51. Fair value hierarchy

The fair value is the price that would be received for the sale of an asset or paid for the transfer of a liability in a transaction carried out under regular conditions on the main (or most advantageous) market at the valuation date in the current market conditions (i.e. exit price), regardless of whether this price is directly observable or estimated using another valuation technique.

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

Level 1: Prices quoted on active markets

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

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

Level 2:

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

Financial assets and liabilities measured at fair value	Valuation method (technique)	Observable inputs
Derivative financial instruments – CIRS, IRS, FRA	The discounted future cash flows model based on yield curves.	Yield curves are built based on market rates, market data of the money market, market transactions of FRA, IRS, basis swap.
Derivative financial instruments – currency option, interest rate options, equity exotic options, FX forward, FX swap transactions	Valuation models specific for a particular type of currency option. The model of discounted future cash flows based on yield curves for FX forward and FX swap transactions. The prices of equity exotic options embedded in structured products are obtained from the market (market prices).	Yield curves built based on money market rates, market rate of swap points, volatility levels for specific currency pairs, NBP fixing exchange rates. For the purpose of valuation of equity exotic options embedded in structured products, market prices of these options are obtained.
NBP money market bills	Yield curve method	Yield curves are built based on money market data and OIS (overnight index swap) transactions market.

MUNICIPAL BONDS IN EUR	Accepted valuation model	Market rates, market data from the money market, IRS transactions market, CDS transactions market, volatility of interest rate options market.
MUNICIPAL BONDS IN PLN	Yield curve and a risk margin	Yield curves are built based on market rates, money market data, IRS transactions market.
CORPORATE BONDS	Yield curve and a risk margin model	Yield curves are built based on market rates, money market data, IRS transactions market.
COMMODITY SWAP TRANSACTIONS	Commodity price yield curve	Commodity price yield curves are built based on money market data, market rate SWAP points

LEVEL 3: OTHER VALUATION TECHNIQUES

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

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

(IN PLN MILLION)

Shares in Krajowa Izba Rozliczeniowa SA	Estimation of the fair value based on the present value of the forecast results of the company	Forecast results of the company
Shares in the Wałbrzych Special Economic Zone "Invest-Park" Sp. z o.o.	Establishment of the fair value by a property valuer using the adjusted net asset approach	Net asset value of the Fund
Shares in Wielkopolska Giełda Rolno-Ogrodnicza SA	Establishment of the fair value by a property valuer using the adjusted net asset approach	Net asset value of the Fund
Financial instruments measured at fair value through other comprehensive income		
Corporate bonds	Yield curve and risk margin model. Yield curves are built based on market rates, money market data and the IRS transactions market.	Credit spread (credit margins determined on the basis of initial margins modified by credit indices quotes ascribed to issuers based on their ratings and business sectors)

Financial information:

ASSETS MEASURED AT FAIR VALUE 31.03.2019	Carrying amount	Level 1 Prices quoted on active markets	Level 2 Valuation techniques based on observable market data	Level 3 Other valuation techniques
Hedging derivatives	707	-	707	-
Other derivative instruments	2 211	1	2 210	-
Securities	55 200	46 663	5 842	2 695
held for trading	1 388	1 388	-	-
debt securities	1 370	1 370	-	-
Shares in other entities - listed	16	16	-	-
Investment certificates, rights to shares, pre-emptive rights	2	2	-	-
not held for trading, measured at fair value through profit or loss	2 881	2 214	188	479
debt securities	1 188	955	53	180
Shares in other entities - listed	181	181	-	-
Shares in other entities - not listed	300	-	1	299
Investment certificates, rights to shares, pre-emptive rights	1 212	1 078	134	-
measured at fair value through OCI	50 931	43 061	5 654	2 216
debt securities	50 931	43 061	5 654	2 216
Loans and advances to customers	1 061	-	-	1 061
not held for trading, measured at fair value through profit or loss	1 061	-	-	1 061
housing loans	24	-	-	24
corporate loans	141	-	-	141
consumer loans	896	-	-	896
Total financial assets measured at fair value	**59 179**	**46 664**	**8 759**	**3 756**

LIABILITIES MEASURED AT FAIR VALUE 31.03.2019	Carrying amount	Level 1 Prices quoted on active markets	Level 2 Valuation techniques based on observable market data	Level 3 Other valuation techniques
Hedging derivatives	508	-	508	-
Other derivative instruments	2 850	-	2 850	-
Liabilities in respect of the short-position in securities	260	260	-	-
Total financial liabilities measured at fair value	**3 618**	**260**	**3 358**	-

(IN PLN MILLION)

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

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

In the three-month period of 2019 corporate bonds of one of the entities were transferred from level 2 to level 3 as a result of a change in the manner of calculating the risk margin. In the corresponding period of 2018 there were no transfers between the different levels of fair value hierarchy.

IMPACT OF ESTIMATES ON FAIR VALUE MEASUREMENT OF LEVEL 3 FINANCIAL INSTRUMENTS	31.03.2019		31.12.2018	
	Fair value acc. to		Fair value acc. to	
	positive scenario	negative scenario	positive scenario	negative scenario
Not held for trading, measured at fair value through profit or loss				
Loans and advances to customers[1]	1 092	1 031	1 138	1 075
Shares in Visa Inc.[2]	181	157	148	124
Equity investments[3]	130	117	132	119
Corporate bonds[4]	180	180	115	115
Measured at fair value through OCI				
Corporate bonds[4]	2 224	2 208	1 539	1 533

1 Scenario assuming a change in the discount rate of +/- 0.5 p.p.
2 Scenario assuming a discount rate in respect of the future conditions of converting C-series shares to ordinary shares at a level of 0%/100% respectively
3 Scenario assuming a change in the company's value of +/- 5%
4 Scenario assuming a change in credit spread of +/-10%

(IN PLN MILLION)

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

RECONCILIATION OF CHANGES DURING THE PERIOD AT LEVEL 3 OF FAIR VALUE HIERARCHY	01.01-31.03.2019	01.01-31.03.2018
Opening balance at the beginning of the period	3 025	2 166
First time adoption of IFRS 9	-	1 186
Loans and advances to customers not held for trading, measured at fair value through profit or loss	-	1 070
Equity instruments measured at fair value through profit or loss	-	116
Opening balance at the beginning of the period – restated	-	3 352
Foreign exchange differences	3	(2)
Other equity instruments	3	(2)
Issues and redemptions of corporate paper	(589)	(223)
Transfer of corporate bonds from level 2 to level 3	1 461	-
Reduction of equity exposure to a collective investment undertaking	-	(47)
Reclassification of credit exposures from measured at amortized cost to measured at fair value through profit or loss	3	-
Loans granted to customers during the reporting period	1	-
Not held for trading, mandatorily measured at fair value through profit or loss	1	-
Write-off/repayment of loans during the reporting period	(2)	(45)
Not held for trading, measured at fair value through profit or loss	(2)	(45)
Net gain/(loss) on financial instruments measured at fair value through profit or loss	(19)	(97)
Loans and advances to customers	(47)	(99)
Other equity instruments	28	2
Change in the valuation recognized in OCI	(127)	20
Corporate bonds	(127)	20
As at the end of the period	3 756	2 958

(IN PLN MILLION)

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

	level of fair value hierarchy	valuation method	31.03.2019	
			carrying amount	fair value
Cash and balances with the Central Bank	n/a	at amounts due	15 420	15 420
Amounts due from banks			6 207	6 207
measured at amortized cost	2	discounted cash flows	6 207	6 207
Securities			9 774	9 791
measured at amortized cost	3	discounted cash flows	9 774	9 791
debt securities (Treasury bonds)	1	market quotations	3 747	3 751
debt securities (corporate)	3	discounted cash flows	2 011	2 024
debt securities (municipal)	3	discounted cash flows	4 016	4 016
Loans and advances to customers			218 063	217 602
measured at amortized cost	3	discounted cash flows	218 063	217 602
Other financial assets	3	at amount due less impairment allowance	2 542	2 542
Amounts due to the Central Bank	2	at amounts due	6	6
Amounts due to banks			2 593	2 593
measured at amortized cost	2	discounted cash flows	2 593	2 593
Amounts due to customers			**239 507**	239 445
measured at amortized cost	3	discounted cash flows	239 507	239 445
amounts due to retail customers	3	discounted cash flows	170 291	170 230
amounts due to business entities	3	discounted cash flows	49 515	49 514
amounts due to public entities	3	discounted cash flows	15 377	15 377
loans and advances received	3	discounted cash flows	2 548	2 548
Liabilities in respect of insurance products	2	discounted cash flows	1 776	1 776
Debt securities in issue			29 788	30 092
measured at amortized cost	1, 2	market quotations/discounted cash flows	29 788	30 092
Subordinated liabilities			2 707	2 707
measured at amortized cost	2	discounted cash flows	2 707	2 707
Other financial liabilities	3	at amounts due	3 756	3 756

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

(IN PLN MILLION)

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

Receivables covered by securitization of lease receivables

As at 31 March 2019, securitized lease receivables amounted to PLN 547 million (as at 31 December 2018 securitized lease receivables amounted to PLN 688 million). They are pledged as collateral for liabilities in respect of debt securities issued by the special purpose vehicle ROOF Poland Leasing 2014 DAC. Securitized lease receivables are presented as the Group's assets because they do not meet derecognition criteria. In particular, the Group is not obliged to pay any amounts to final recipients – purchasers of debt securities, until it has received the corresponding amounts from lessees under the agreements in respect of which the receivables are securitized. Furthermore, the criterion of an immediate transfer of cash flows from the securitized assets is not met. In the period from originating the securitization transaction in December 2014 to 31 December 2017, the Group was able to sell lease receivables not yet due as at the date of their sale, up to PLN 1,475 million in correspondence with the lease receivables which were repaid. In addition, the Group settles its liabilities to buyers of securities on a quarterly basis, while the typical settlement period for securitized lease agreements is one month. As of January 2018 the amortization phase of the securitization programme began.

Liabilities from the negative valuation of derivative instruments

Cash deposits with banks include assets held as collateral for own liabilities, including settlements relating to the negative valuation of derivative instruments. As at 31 March 2019, such assets amounted to PLN 596 million (PLN 605 million as at 31 December 2018).

Preliminary settlement deposit of the National Depository for Securities (KDPW)

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

CARRYING AMOUNT / FAIR VALUE	31.03.2019	31.12.2018
Value of the deposit	10	10
Nominal value of the collateral	10	10
Type of collateral	Treasury bonds	Treasury bonds
Carrying amount of the collateral	8	10

Bank Deposit Guarantee Fund

	31.03.2019	31.12.2018
Value of the fund	1 013	1 088
Nominal value of the collateral	1 100	1 100
Type of collateral	Treasury bonds	Treasury bonds
Maturity of the collateral	25.01.2024	25.01.2024
Carrying amount of the collateral	1 093	1 103

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

(IN PLN MILLION)

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

	31.03.2019	31.12.2018
Value of the contribution made in the form of payables	260	247
Nominal value of the assets in which funds corresponding to payables were invested	339	324
Type of collateral	Treasury bonds	Treasury bonds
Maturity of the collateral	25.01.2024	25.01.2024
Carrying amount of the collateral	336	324

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

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

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

LEGAL LIMITATIONS RELATING TO THE GROUP'S TITLE

As at 31 March 2019 and as at 31 December 2018, there were no intangible assets or property, plant and equipment items to which the Group's legal title would be limited and pledged as collateral for its liabilities.

TRANSFERRED FINANCIAL ASSETS

As at 31 March 2019 and 31 December 2018, the Group had no transferred financial assets fully derecognized from the consolidated financial statements in respect of which the Group maintains an exposure.

54. OTHER INFORMATION

SEASONAL OR CYCLICAL NATURE OF OPERATIONS DURING THE REPORTING PERIOD

The activities of the Bank and other companies of the PKO Bank Polski SA Group do not show any significant features of a seasonal or cyclical nature.

RIGHT TO SELL OR PLEDGE A COLLATERAL ESTABLISHED FOR THE GROUP

As at 31 March 2019 and as at 31 December 2018 no collateral was established for the Bank's Group, which the Bank's Group would be entitled to sell or encumber with another pledge in the event of the fulfilment of all obligations by the owner of the collateral.

INFORMATION ABOUT SIGNIFICANT AGREEMENTS ON THE ISSUER OR ITS SUBSIDIARIES GRANTING GUARANTEES OR WARRANTIES FOR LOANS AND ADVANCES

In the first quarter of 2019, PKO Bank Polski SA and subsidiaries of PKO Bank Polski SA did not conclude any significant agreements on granting warranties for loans and advances or on granting guarantees.

LOANS DRAWN AND AGREEMENTS ON ADVANCES, GUARANTEES AND WARRANTIES NOT RELATED TO THE OPERATING ACTIVITIES

In the first quarter of 2019, PKO Bank Polski SA and subsidiaries of PKO Bank Polski SA did not draw any loans or advances and did not receive any guarantees or warranties not related to their operating activities.

SIGNIFICANT AGREEMENTS AND MATERIAL AGREEMENTS WITH THE CENTRAL BANK AND SUPERVISING AUTHORITIES

PKO Bank Polski SA and subsidiaries of PKO Bank Polski SA did not conclude in the first quarter of 2019 any significant agreements or material agreements with the central bank or supervising authorities.

POSITION OF THE MANAGEMENT BOARD OF PKO BANK POLSKI SA CONCERNING THE REALIZATION OF PREVIOUSLY PUBLISHED FORECASTS OF THE RESULTS FOR THE CURRENT YEAR

PKO Bank Polski SA did not make public any forecasts of its results for 2019.

OBJECTIVES AND PRINCIPLES OF RISK MANAGEMENT

55. Risk management within the Group

Risk management is one of the most important internal processes in the PKO Bank Polski SA Group. Risk management is aimed at ensuring the profitability of the business activities while maintaining adequate levels of capital adequacy, monitoring the risk level, keeping the risks within the risk tolerances and limits adopted by the Group, in a changing macroeconomic and legal environment. The level of risk is an important part of the planning processes.

The risk management objectives are achieved, in particular, by providing appropriate information on the risk, so that decisions are made in full awareness of the particular risks involved.

The Group identifies risks in its operations and analyses the impact of each type of risk on its business. All the risks are managed; some of them have a material effect on the profitability and capital needed to cover them. The following risks are considered material for the Bank: credit risk, currency risk, interest rate risk, liquidity risk (including financing risk), operating risk, business risk, risk of macroeconomic changes and model risk.

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

Risk management objective

The objective of risk management is to strive to maintain the level of risk within the accepted tolerances in order to:

- protect shareholder value;
- protect customer deposits;
- support the Group in conducting efficient operations.

Main principles of risk management

The Group's risk management is based, in particular, on the following principles:

1) the Group manages all the risks identified;
2) the risk management process supports the implementation of the Bank's strategy in compliance with the Risk Management Strategy, in particular with respect to the level of risk tolerance.
3) the risk management process is appropriate from the perspective of the scale of operations and materiality, scale and complexity of a given risk, and adjusted on an on-going basis to take account of the new risks and their sources;
4) methods of identifying, measuring and evaluating, monitoring and managing risks are adequate to the level of risk tolerance adopted by the Group. Material types of risk to which the Group is exposed are identified accordingly in the process of making business decisions;
5) risk management methods (especially models and their assumptions) and risk management measurement or assessment systems are tailored to the scale and complexity of individual risks, the current and planned operations of the Group and its operating environment, and are periodically verified and validated;
6) the Management Board defines the types of risk which are subject to management and organizational units at the headquarters as well as specialized organizational units responsible for managing these risks;
7) the Group allocates resources necessary to effectively manage the risk;
8) the Group develops emergency plans in the event of crisis situations which may significantly affect the functioning of the Group, and in particular emergency plans required under universally applicable provisions of law and internal Group regulations;
9) financial, capital and strategic plans are verified and assessed in respect of the level of risk generated;

10) the process of managing a given risk and capital adequacy is governed accordingly to the complexity level and materiality of such risk in the internal regulations on the principles of managing such risk and rules for managing capital adequacy and equity.

ORGANIZATION OF RISK MANAGEMENT WITHIN THE GROUP

The Bank supervises the functioning of individual entities in the PKO Bank Polski SA Group. As part of its supervisory role, the Bank monitors their risk management systems and supports their development. In addition, the Bank takes into account the level of risk in particular Group companies for the purposes of the risk monitoring and reporting system at Group level.

Risk management in the Bank takes place in all the Bank's organizational units.

The risk management system is supervised by the Supervisory Board of the Bank which controls and evaluates the adequacy and effectiveness of the system. The Supervisory Board evaluates whether or not individual elements of the risk management system support the proper execution of the process for setting and achieving specific objectives of the Bank. In particular, the Supervisory Board verifies whether the system applies formal rules to establish the size of the risk taken and risk management principles, as well as formal procedures to identify, measure or estimate and monitor the risks associated with the Bank's operations, taking into account the anticipated level of risk in the future. The Supervisory Board verifies if formal limits restricting the risk and the rules of conduct in the case when limits are exceeded are applied, and if the adopted management reporting system enables monitoring the risk levels. The Supervisory Board evaluates whether the risk management system is updated on an on-going basis to take into account new risk factors and sources. The Supervisory Board is supported by the following committees: the Supervisory Board Appointments and Remuneration Committee, the Supervisory Board Risk Committee and the Supervisory Board Audit Committee.

In respect of risk management, the Management Board of PKO Bank Polski SA is responsible for strategic risk management, including supervising and monitoring actions taken by the Bank in respect of risk management. The Management Board makes major decisions affecting the risk profile of the Bank and adopts internal regulations concerning risk management. In its risk management activities, the Management Board is supported by the following committees:

1) the Risk Committee (RC);
2) the Asset and Liability Committee (ALCO);
3) The Bank's Credit Committee (BCC);
4) the Operating Risk Committee (ORC).

The risk management process is carried out in three independent but complementary lines of defence:

THE FIRST LINE OF DEFENCE – is formed of organizational structures responsible for product management, executing sales of products and customer servicing, and of other structures which perform risk-generating operating tasks based on the internal regulations. The function is realized in all of the Bank's organizational units and in all organizational units of the Head Office, as well as in the Group entities. The organizational units of the Head Office implement appropriate risk controls, including in particular limits, designed by the second-level organizational units of the Head Office, and ensure that they are met by means of appropriate controls.

At the same time, the Group are obliged to have comparable and consistent systems for risk assessment and control, taking into account the specific characteristics of each entity and its market.

THE SECOND LINE OF DEFENCE – covers compliance units and involves the identification, measurement, evaluation or control, monitoring and reporting of significant types of risks, and of the threats and irregularities identified; the tasks are executed by dedicated organizational structures acting on the basis of the applicable internal regulations of the Bank; the objective of these structures is to ensure that the tasks performed as part of the first line of defence are properly governed in the internal regulations of the Bank and that they effectively limit the risk, support risk measurement, assessment and analysis and contribute to operational efficiency. The second line of defence supports actions undertaken in order to eliminate unfavourable deviations from the financial plan, to the extent applicable to figures which affect the quantitative strategic risk tolerance limits adopted in the financial plan. The function is performed, in particular. by the Risk Management Area, the Compliance Department and relevant committees. The second line of defence supports actions undertaken in order to eliminate unfavourable deviations from the financial plan, to the extent applicable to figures which affect the quantitative strategic risk tolerance limits adopted in the financial plan. These tasks are performed in particular in the organization units of the Head Office responsible for controlling.

THE THIRD LINE OF DEFENCE – consists of the internal audit function which performs independent audits of individual components of the Bank's management system, including the risk management system, and of the internal control system; the internal audit operates independently of the first and second lines of defence and may support their actions by way of consultations, but without participating in their decision-making. The function is performed in accordance with the Bank's internal regulations concerning the operation of the internal control system:

The independence of the lines of defence consists of preserving organizational independence in the following areas:

- the function of the second line of defence with regard to creating system solutions is independent of the function of the first line of defence;
- the function of the third line of defence is independent of the functions of the first and second lines of defence.

RISK MANAGEMENT WITHIN THE GROUP

Internal policies concerning the management of specific risk types in the Bank's Group entities are set out in their internal regulations, implemented after having consulted the Bank and taking into account the Bank's recommendations. The risk management policies of these entities are implemented in accordance with the principles of consistency and comparability of the assessments of individual types of risks in the Group's entities, taking into account the extent and type of relations between the Group entities, the specific characteristics and scale of their operations and the markets on which they operate.

The risk management function in the Group entities is executed, in particular, by:

- participation of the units from the Bank's Risk Management Area or of the relevant committees of the Bank in consulting large transactions in the Group entities;
- the internal regulations concerning risk management in individual Group entities being consulted and reviewed by units from the Bank's Risk Management Area;
- reporting of the Group risks to the relevant committees of the Bank or to the Management Board;
- monitoring the strategic limits of risk tolerance for the Group.

SPECIFIC ACTIVITIES IN THE AREA OF RISK MANAGEMENT UNDERTAKEN BY THE GROUP IN THE THREE MONTH PERIOD OF 2019

1) The Group increased its portfolio of short-term bonds (mainly 3-6 months) from approx. PLN 4.1 billion at the end of 2018 to PLN 4.8 billion at 31 March 2019.

2) On 23 January 2019, the Group repaid its maturing own issues under the EMTN programme of EUR 500 million;

3) On 23 January 2019, the Group made earlier repayment of the financing received from the European Investment Bank, which originally matured on 23 October 2019, in the amount of CHF 182 million;

4) PKO Bank Hipoteczny SA issued mortgage bonds on 28 January 2019 with a total nominal value of EUR 500 million, which mature on 23 November 2021. PKO Bank Hipoteczny SA issued the second tranche of the aforesaid mortgage bonds on 1 March 2019 with a total nominal value of EUR 100 million, with a corresponding maturity date.

5) On 28 February 2019, the Group made earlier repayment of the financing received from the European Investment Bank, which originally matured on 29 November 2023, in the amount of CHF 185 million;

6) PKO Bank Hipoteczny SA issued the second tranche of the first series of mortgage bonds on 8 March 2019 with a total nominal value of EUR 100 million, which mature on 24 June 2022.

(IN PLN MILLION)

56. Credit risk management

Maximum risk exposure – financial instruments to which the impairment requirements do not apply

MAXIMUM EXPOSURE TO CREDIT RISK - ON-BALANCE SHEET FINANCIAL INSTRUMENTS TO WHICH THE IMPAIRMENT REQUIREMENTS DO NOT APPLY:	31.03.2019	31.12.2018
Hedging derivatives	707	658
Other derivative instruments	2 211	1 907
Securities:	4 269	3 083
held for trading	1 388	235
not held for trading, measured at fair value through profit or loss	2 881	2 848
Loans and advances to customers not held for trading, measured at fair value through profit or loss	1 061	1 106
housing	24	27
corporate	141	148
consumer	896	931
Total	**8 248**	**6 754**

(IN PLN MILLION)

PAST DUE EXPOSURES - FINANCIAL ASSETS SUBJECT TO IMPAIRMENT, BEING PAST DUE OR IMPAIRED

EXPOSURES PAST DUE 31.03.2019	Assets with no significant increase in credit risk since initial recognition (stage 1)				Assets with a significant increase in credit risk since initial recognition, but not credit-impaired (stage 2)				Credit-impaired assets (stage 3)				TOTAL EXPOSURES PAST DUE
	up to 30 days	30 to 90 days	over 90 days	TOTAL	up to 30 days	30 to 90 days	over 90 days	TOTAL	up to 30 days	30 to 90 days	over 90 days	TOTAL	
Loans and advances to customers:	2 186	-	-	2 186	1 914	906	55	2 875	303	324	2 092	2 719	7 780
bank loans	1 086	-	-	1 086	1 038	461	55	1 554	253	221	1 943	2 417	5 057
housing	461	-	-	461	699	198	-	897	75	97	326	498	1 856
corporate	378	-	-	378	140	166	55	361	143	84	1 267	1 494	2 233
consumer	247	-	-	247	199	97	-	296	35	40	350	425	968
finance lease receivables	1 100	-	-	1 100	876	445	-	1 321	50	103	149	302	2 723
Total, net	2 186	-	-	2 186	1 914	906	55	2 875	303	324	2 092	2 719	7 780

EXPOSURES PAST DUE 31.12.2018	Assets with no significant increase in credit risk since initial recognition (stage 1)				Assets with a significant increase in credit risk since initial recognition, but not credit-impaired (stage 2)				Credit-impaired assets (stage 3)				TOTAL EXPOSURES PAST DUE
	up to 30 days	30 to 90 days	over 90 days	TOTAL	up to 30 days	30 to 90 days	over 90 days	TOTAL	up to 30 days	30 to 90 days	over 90 days	TOTAL	
Loans and advances to customers:	2 155	-	-	2 155	1 966	1 149	8	3 123	205	273	2 244	2 722	8 000
bank loans	989	-	-	989	1 062	726	8	1 796	160	174	2 114	2 448	5 233
housing	392	-	-	392	742	168	-	910	62	75	429	566	1 868
corporate	303	-	-	303	146	467	8	621	62	60	1 346	1 468	2 392
consumer	294	-	-	294	174	91	-	265	36	39	339	414	973
finance lease receivables	1 166	-	-	1 166	904	423	-	1 327	45	99	130	274	2 767
Total, net	2 155	-	-	2 155	1 966	1 149	8	3 123	205	273	2 244	2 722	8 000

(IN PLN MILLION)

MODIFICATIONS

The table below presents information on financial assets which were modified and for which the write-down on expected credit losses is calculated as the credit loss during the term of the exposure (Stage 2 and 3).

FINANCIAL ASSETS SUBJECT TO MODIFICATION	01.01-31.03.2019		01.01-31.03.2018	
Financial assets subject to modification during the period:	stage 2	stage 3	stage 2	stage 3
measurement at amortized cost before modification	141	101	94	42
gain/loss on modification	5	(5)	-	(1)

Financial assets subject to modification since initial recognition:	31.03.2019	31.12.2018
gross carrying amount of financial assets subject to modification for which modification loss was calculated over the lifetime and which are classified as stage 1 after modification	17	103

FINANCIAL ASSETS WRITTEN DOWN DURING THE DEBT RECOVERY PERIODS

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

FINANCIAL ASSETS WRITTEN OFF	01.01-31.03.2019	
	Partly written off	Fully written off
Securities		
measured at fair value through OCI	4	-
Loans and advances to customers		
measured at amortized cost	119	40
housing	32	-
corporate	67	17
consumer	20	23
finance lease receivables		9
Total	**123**	**49**

FINANCIAL ASSETS WRITTEN OFF	01.01-31.03.2018	
	Partly written off	Fully written off
Loans and advances to customers		
measured at amortized cost	-	66
housing	-	30
corporate	-	-
consumer	-	36
Total	-	**66**

CRITERIA FOR WRITE-DOWNS OF FINANCIAL ASSETS

The Group adopts the following criteria for writing down financial assets:

1) the receivable has fully matured and is in particular the consequence of a loan, advance, contractual overdraft, guarantee or warranty,
2) the allowance for expected credit losses:
   - covers 100% of the gross carrying amount, or
   - exceeds 90% of the gross carrying amount, and:
     - actions have been or still are taken in respect of the receivable which did not lead to its recovery, and the assessment of the probability of recovering the receivable which in particular accounts for the determinations of the bailiff or the receiver, transferability of collateral, category of satisfaction, mortgage register item indicate the inability to recover the whole receivable aspect; in particular there is no possibility to establish the residence or headquarters of debtor and its assets have not been disclosed, although the Bank has undertaken actions aiming to identify the residence or headquarters or assets, or
     - amounts received during the past 12 calendar months did not cover the interest accrued on a current basis.

The Group discontinues to undertake actions aiming to recover receivables, in particular when :

- the competent enforcement authority issued a decision on discontinuing the proceedings due to irrecoverability of the debt;
- the court issued a decision on dismissing an application for declaring bankruptcy or on discontinuing /terminating bankruptcy proceedings and it is impossible to effectively exercise the collaterals;
- enforcement proceedings are not initiated due to a protocol which states that the anticipated litigation and enforcement costs connected with recovery of a bad debt would exceed the amount in question;
- the debtor died and it is impossible to effectively pursue enforcement from collaterals;
- the debtor was deleted from the National Court Register and moreover there are no assets from which the receivables could be recovered, including assets owned by partners or shareholders or members of the management board who are responsible for the entity's liabilities;
- the liquidation proceedings have been completed and entered in a respective register, as a result of which the debtor was deleted from the respective register or was deleted from the register without liquidation proceedings;
- the receivable is time-expired.

57. Concentration of credit risk at the Group

The Group defines credit concentration risk as the risk arising from a considerable exposure to single entities or groups of entities whose repayment capacity depends on a common risk factor. The Group analyses the risk of concentration towards:

1) the largest entities;
2) the largest groups;
3) industry sectors
4) geographical regions
5) currencies;
6) exposures secured with a mortgage.

58. Collateral

Use of credit risk mitigation techniques – collateral

In the period ended 31 March 2019, the Bank did not make any changes in its collateral policies.
The Group takes into account the collateral held for credit exposures when estimating the expected credit loss. With respect to individually significant exposures that meet the conditions for impairment, future collateral recoveries are estimated individually and taken into account in determining the expected loss, with a weight corresponding to the assessment of the probability of implementation of the debt recovery scenario. The value of collateral recoveries estimated under the recovery scenario for impaired exposures at the balance sheet date was PLN 2 333 million (as at 31 December 2018: PLN 2 601 million).
The Group does not have any exposures for which, due to the value of the collateral, it has not recognized an allowance for expected credit loss.

59. Forbearance practices

Forbearance is defined by the group as actions aimed at amending the contractual terms agreed with a debtor or an issuer, forced by the debtor’s or issuer’s difficult financial situation (restructuring activities introducing concessions that otherwise would not have been granted). The aim of forbearance activities is to restore a debtor's or an issuer's ability to settle their liabilities towards the Group and to maximize the efficiency of managing non-performing loans, i.e. obtaining the highest possible recoveries while minimizing the costs incurred.

(IN PLN MILLION)

LOANS AND ADVANCES TO CUSTOMERS

31.03.2019	Performing exposures subject to forbearance					Non-performing exposures subject to forbearance					Exposures subject to forbearance, gross	Exposures subject to forbearance, net
	Instruments with modified terms and conditions	Refinancing	Total, gross	Impairment allowance	Total, net	Instruments with modified terms and conditions	Refinancing	Total, gross	Impairment allowance	Total, net		
Not held for trading, measured at fair value through profit or loss:	-	-	-	-	-	-	-	-	-	-	-	-
Measured at amortized cost:	1 051	1	1 052	(76)	976	2 703	181	2 884	(1 206)	1 678	3 936	2 654
Loans	1 041	1	1 042	(76)	966	2 612	181	2 793	(1 194)	1 599	3 835	2 565
housing	555	-	555	(38)	517	699	-	699	(347)	352	1 254	869
corporate	406	1	407	(32)	375	1 699	177	1 876	(755)	1 121	2 283	1 496
consumer	80	-	80	(6)	74	214	4	218	(92)	126	298	200
Finance lease receivables	10	-	10	-	10	91	-	91	(12)	79	101	89
Total	1 051	1	1 052	(76)	976	2 703	181	2 884	(1 206)	1 678	3 936	2 654

31.12.2018	Performing exposures subject to forbearance					Non-performing exposures subject to forbearance					Exposures subject to forbearance, gross	Exposures subject to forbearance, net
	Instruments with modified terms and conditions	Refinancing	Total, gross	Impairment allowance	Total, net	Instruments with modified terms and conditions	Refinancing	Total, gross	Impairment allowance	Total, net		
Not held for trading, measured at fair value through profit or loss:	-	-	-	-	-	1	-	1	-	1	1	1
Loans	-	-	-	-	-	1	-	1	-	1	1	1
consumer	-	-	-	-	-	1	-	1	-	1	1	1
Measured at amortized cost:	1 116	2	1 118	(79)	1 039	3 026	183	3 209	(1 205)	2 004	4 327	3 043
Loans	1 101	2	1 103	(79)	1 024	2 935	183	3 118	(1 193)	1 925	4 221	2 949
housing	556	-	556	(36)	520	689	-	689	(375)	314	1 245	834
corporate	462	2	464	(37)	427	2 050	180	2 230	(732)	1 498	2 694	1 925
consumer	83	-	83	(6)	77	196	3	199	(86)	113	282	190
Finance lease receivables	15	-	15	-	15	91	-	91	(12)	79	106	94
Total	1 116	2	1 118	(79)	1 039	3 027	183	3 210	(1 205)	2 005	4 328	3 044

(IN PLN MILLION)

LOANS AND ADVANCES TO CUSTOMERS SUBJECT TO FORBEARANCE BY TYPE OF CHANGES IN TERMS OF REPAYMENT, GROSS	31.03.2019	31.12.2018
Dividing the debt due into instalments	2 072	2 038
Change in the repayment scheme (fixed payments, degressive)	1 732	1 703
Extension of the loan period;	1 812	2 013
Change in interest rate	769	727
Change in margin	685	705
Debt reduction	127	122
Other terms	222	401

More than one change in the terms and condition of repayment may be applied to a forborne exposure.

(IN PLN MILLION)

SECURITIES SUBJECT TO FORBEARANCE

31.03.2019	Performing exposures subject to forbearance				Non-performing exposures subject to forbearance				Exposures subject to forbearance, gross	Exposures subject to forbearance, net
	Instruments with modified terms and conditions	Total, gross	Impairment allowance	Total, net	Instruments with modified terms and conditions	Total, gross	Impairment allowance	Total, net		
Not held for trading, measured at fair value through profit or loss	-	-	-	-	180	180	-	180	180	180
corporate bonds (in PLN)	-	-	-	-	180	180	-	180	180	180
Measured at fair value through OCI	-	-	-	-	474	474	(13)	461	474	461
corporate bonds (in PLN)	-	-	-	-	474	474	(13)	461	474	461
Total	-	-	-	-	654	654	(13)	641	654	641

31.12.2018	Performing exposures subject to forbearance				Non-performing exposures subject to forbearance				Exposures subject to forbearance, gross	Exposures subject to forbearance, net
	Instruments with modified terms and conditions	Total, gross	Impairment allowance	Total, net	Instruments with modified terms and conditions	Total, gross	Impairment allowance	Total, net		
Not held for trading, measured at fair value through profit or loss	-	-	-	-	115	115	-	115	115	115
corporate bonds (in PLN)	-	-	-	-	115	115	-	115	115	115
Measured at fair value through OCI	37	37	-	37	471	471	(10)	461	508	498
corporate bonds (in PLN)	12	12	-	12	471	471	(10)	461	483	473
corporate bonds (in foreign currencies)	25	25	-	25	-	-	-	-	25	25
Total	37	37	-	37	586	586	(10)	576	623	613

(IN PLN MILLION)

DEBT SECURITIES SUBJECT TO FORBEARANCE BY TYPE OF CHANGES IN TERMS OF REPAYMENT, GROSS	31.03.2019	31.12.2018
Dividing the debt due into instalments	589	622
Change in the repayment scheme (fixed payments, degressive)	589	622
Extension of the loan period;	654	622
Change in interest rate	589	585
Change in margin	589	585
Debt reduction	-	585

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

LOANS AND ADVANCES TO CUSTOMERS BY CURRENCY (excluding adjustments relating to fair value hedge accounting) 31.03.2019	PLN	CHF	EUR	USD	OTHER	Total
Not held for trading, measured at fair value through profit or loss						-
Loans and advances to customers	1 061	-	-	-	-	1 061
housing	24	-	-	-	-	24
corporate	141	-	-	-	-	141
consumer	896	-	-	-	-	896
Not held for trading, measured at fair value through profit or loss	1 061	-	-	-	-	1 061
Measured at amortized cost						
Gross loans	169 992	23 710	13 138	1 876	1 413	210 129
housing	89 684	22 988	3 083	57	156	115 968
corporate	53 322	486	10 032	1 817	750	66 407
consumer	26 986	236	23	2	507	27 754
Receivables in respect of reverse repurchase agreements	1 396	-	-	-	-	1 396
Finance lease receivables	10 975	11	3 713	254	73	15 026
Allowances for expected credit losses	(6 916)	(859)	(407)	(143)	(163)	(8 488)
Measured at amortized cost, net	175 447	22 862	16 444	1 987	1 323	218 063
Total	176 508	22 862	16 444	1 987	1 323	219 124

LOANS AND ADVANCES TO CUSTOMERS BY CURRENCY (excluding adjustments relating to fair value hedge accounting) 31.12.2018	PLN	CHF	EUR	USD	OTHER	Total
Not held for trading, measured at fair value through profit or loss						
Loans and advances to customers	1 106	-	-	-	-	1 106
housing	27	-	-	-	-	27
corporate	148	-	-	-	-	148
consumer	931	-	-	-	-	931
Not held for trading, measured at fair value through profit or loss	1 106	-	-	-	-	1 106
Measured at amortized cost						
Gross loans	166 902	24 015	12 807	1 995	1 253	206 972
housing	88 157	23 265	3 155	58	146	114 781
corporate	52 193	505	9 628	1 935	649	64 910
consumer	26 552	245	24	2	458	27 281
Receivables in respect of reverse repurchase agreements	51	-	-	-	-	51
Finance lease receivables	11 039	22	3 607	256	62	14 986
Allowances for expected credit losses	(6 724)	(826)	(372)	(139)	(143)	(8 204)
Measured at amortized cost, net	171 268	23 211	16 042	2 112	1 172	213 805
Total	172 374	23 211	16 042	2 112	1 172	214 911

(IN PLN MILLION)

RISK MANAGEMENT OF FOREIGN EXCHANGE RISK ASSOCIATED WITH MORTGAGE LOANS FOR HOUSEHOLDS

The Group analyses its portfolio of foreign currency mortgage loans to households in a specific manner. The Group monitors the quality of the portfolio on an on-going basis and reviews the risk of deterioration in the quality of the portfolio. Currently, the quality of the portfolio is at an acceptable level. The Group takes into consideration the risk of foreign currency mortgage loans for households in the capital adequacy and own fund management.

LOANS AND ADVANCES TO CUSTOMERS IN CHF BY METHOD OF CALCULATING IMPAIRMENT ALLOWANCES (TRANSLATED INTO PLN at the exchange rate of 1 CHF = 3.8513)	31.03.2019			Total
	Financial institutions	Corporates	Households	
Measured at amortized cost				
Gross amount	1	307	23 413	23 721
assets with no significant increase in credit risk since initial recognition (stage 1)	-	112	20 682	20 794
assets with a significant increase in credit risk since initial recognition, but not at risk of credit impairment (stage 2)	1	103	1 776	1 880
credit-impaired assets (stage 3)	-	92	955	1 047
Allowances for expected credit losses	-	(58)	(801)	(859)
allowances in respect of assets with no significant increase in credit risk since initial recognition	-	(1)	(12)	(13)
allowances for assets with a significant increase in credit risk since initial recognition, but not credit-impaired (stage 2)	-	(12)	(149)	(161)
allowances for credit-impaired assets (stage 3)	-	(45)	(640)	(685)
Measured at amortized cost, net	1	249	22 612	22 862
of which: purchased or originated credit-impaired financial assets (POCI)	-	-	53	53
Total	1	249	22 612	22 862

LOANS AND ADVANCES TO CUSTOMERS (excluding adjustments relating to fair value hedge accounting)	31.03.2019					Total
	PLN	CHF	EUR	USD	Other	
Not held for trading, measured at fair value through profit or loss	1 061	-	-	-	-	1 061
Measured at amortized cost:						
Gross amount	182 363	23 721	16 851	2 130	1 486	226 551
assets with no significant increase in credit risk since initial recognition (stage 1)	161 061	20 794	14 152	1 709	1 318	199 034
assets with a significant increase in credit risk since initial recognition, but not at risk of credit impairment (stage 2)	12 247	1 880	1 786	268	10	16 191
credit-impaired assets (stage 3)	9 055	1 047	913	153	158	11 326
Allowances for expected credit losses	(6 916)	(859)	(407)	(143)	(163)	(8 488)
allowances in respect of assets with no significant increase in credit risk since initial recognition	(465)	(13)	(86)	(3)	(25)	(592)
allowances for assets with a significant increase in credit risk since initial recognition, but not credit-impaired (stage 2)	(1 055)	(161)	(84)	(7)	(4)	(1 311)
allowances for credit-impaired assets (stage 3)	(5 396)	(685)	(237)	(133)	(134)	(6 585)
Measured at amortized cost, net	175 447	22 862	16 444	1 987	1 323	218 063
of which: purchased or originated credit-impaired financial assets (POCI)	50	53	76	-	1	180
Total	176 508	22 862	16 444	1 987	1 323	219 124

LOANS AND ADVANCES TO CUSTOMERS SUBJECT TO FORBEARANCE BY CURRENCY	31.03.2019					Total
	PLN	CHF	EUR	USD	Other	
Performing exposures subject to forbearance	625	317	33	1	-	976
Measured at amortized cost:	625	317	33	1	-	976
gross amount	680	336	35	1	-	1 052
allowances for expected credit losses	(55)	(19)	(2)	-	-	(76)
Non-performing exposures subject to forbearance	1 057	214	392	8	7	1 678
Not held for trading, measured at fair value through profit or loss	-	-	-	-	-	-
Measured at amortized cost:	1 057	214	392	8	7	1 678
gross amount	1 965	429	437	29	24	2 884
allowances for expected credit losses	(908)	(215)	(45)	(21)	(17)	(1 206)
Loans and advances to customers subject to forbearance, net	1 682	531	425	9	7	2 654

(IN PLN MILLION)

LOANS AND ADVANCES TO CUSTOMERS IN CHF BY METHOD OF CALCULATING IMPAIRMENT ALLOWANCES (TRANSLATED INTO PLN at the exchange rate of 1 CHF = 3.8166)	31.12.2018			
	Financial institutions	Corporates	Households	Total
Measured at amortized cost				
Gross amount	1	324	23 712	24 037
assets with no significant increase in credit risk since initial recognition (stage 1)	-	118	20 892	21 010
assets with a significant increase in credit risk since initial recognition, but not at risk of credit impairment (stage 2)	1	111	1 872	1 984
credit-impaired assets (stage 3)	-	95	948	1 043
Allowances for expected credit losses	-	**(59)**	**(767)**	**(826)**
allowances in respect of assets with no significant increase in credit risk since initial recognition	-	(1)	(12)	(13)
allowances for assets with a significant increase in credit risk since initial recognition, but not credit-impaired (stage 2)	-	(12)	(130)	(142)
allowances for credit-impaired assets (stage 3)	-	(46)	(625)	(671)
Measured at amortized cost, net	**1**	**265**	**22 945**	**23 211**
of which: purchased or originated credit-impaired financial assets (POCI)	-	-	55	55
Total	**1**	**265**	**22 945**	**23 211**

LOANS AND ADVANCES TO CUSTOMERS (excluding adjustments relating to fair value hedge accounting)	31.12.2018					
	PLN	CHF	EUR	USD	Other	Total
Not held for trading, measured at fair value through profit or loss	**1 106**	-	-	-	-	**1 106**
Measured at amortized cost:						
Gross amount	177 992	24 037	16 414	2 251	1 315	222 009
assets with no significant increase in credit risk since initial recognition (stage 1)	156 636	21 010	13 749	1 831	1 165	194 391
assets with a significant increase in credit risk since initial recognition, but not at risk of credit impairment (stage 2)	12 086	1 984	1 809	279	10	16 168
credit-impaired assets (stage 3)	9 270	1 043	856	141	140	11 450
Allowances for expected credit losses	(6 724)	(826)	(372)	(139)	(143)	(8 204)
allowances in respect of assets with no significant increase in credit risk since initial recognition	(451)	(13)	(78)	(3)	(21)	(566)
allowances for assets with a significant increase in credit risk since initial recognition, but not credit-impaired (stage 2)	(1 024)	(142)	(72)	(7)	(4)	(1 249)
allowances for credit-impaired assets (stage 3)	(5 249)	(671)	(222)	(129)	(118)	(6 389)
Measured at amortized cost, net	**171 268**	**23 211**	**16 042**	**2 112**	**1 172**	**213 805**
of which: purchased or originated credit-impaired financial assets (POCI)	409	55	78	-	1	543
Total	**172 374**	**23 211**	**16 042**	**2 112**	**1 172**	**214 911**

LOANS AND ADVANCES TO CUSTOMERS SUBJECT TO FORBEARANCE BY CURRENCY	31.12.2018					
	PLN	CHF	EUR	USD	Other	Total
Performing exposures subject to forbearance	**682**	**322**	**34**	**1**	**-**	**1 039**
Measured at amortized cost:	682	322	34	1	-	1 039
gross amount	741	340	36	1	-	1 118
allowances for expected credit losses	(59)	(18)	(2)	-	-	(79)
Non-performing exposures subject to forbearance	**1 390**	**200**	**401**	**5**	**9**	**2 005**
Not held for trading, measured at fair value through profit or loss	1	-	-	-	-	1
Measured at amortized cost:	1 389	200	401	5	9	2 004
gross amount	2 300	422	447	20	20	3 209
allowances for expected credit losses	(911)	(222)	(46)	(15)	(11)	(1 205)
Loans and advances to customers subject to forbearance, net	**2 072**	**522**	**435**	**6**	**9**	**3 044**

HOUSING LOANS TO HOUSEHOLDS BY CURRENCY	31.03.2019			31.12.2018		
	gross	- amortization charge	net	gross	- amortization charge	net
PLN	87 562	(1 039)	86 523	86 024	(1 060)	84 964
CHF	22 986	(718)	22 268	23 263	(683)	22 580
EUR	3 083	(57)	3 026	3 155	(53)	3 102
USD	57	(7)	50	58	(6)	52
OTHER	156	(20)	136	146	(19)	127
TOTAL	**113 844**	**(1 841)**	**112 003**	**112 646**	**(1 821)**	**110 825**

As at 31 March 2019, the average LTV for the portfolio of CHF-denominated loans amounted to 63.5% (64.4% as at 31 December 2018) compared with the average LTV for the entire loan portfolio of 58.4% (59.2% as at 31 December 2018).

61. INTEREST RATE RISK MANAGEMENT

REPRICING GAP

The repricing gap shows the difference between the present value of assets and liabilities exposed to interest rate risk which are repriced in a given time range, with the items recognized on the transaction date.

As at the end of 2019 and 2018, the group had a positive cumulative gap in PLN in all the time horizons.

SENSITIVITY MEASURES

The PKO Bank Polski SA Group's exposure to interest rate risk remained within the adopted limits as at 31 March 2019 and 31 December 2018. The Group was mainly exposed to the PLN interest rate risk. Among all the stress tests performed by the Group which involve a parallel shift of interest rate curves, the most unfavourable for the Group was the scenario of a parallel shift of interest rate curves in PLN.

The Bank's VaR and a stress-test analysis of the Group's exposure to interest rate risk are presented in the table below:

SENSITIVITY MEASURE	31.03.2019	31.12.2018
VaR for a 10-day time horizon at the confidence level of 99% (in PLN million)	280	241
Parallel movement of interest rate curves by 200 b.p. (in PLN million) (stress-test)[2]	1 137	1 611

[1] Taking into account the nature of the operation of the other Group companies which generate material interest rate risk and the specific characteristics of the market in which they operate, the Group does not determine the consolidated VaR sensitivity measure. Such companies use their own risk measures to manage their interest rate risk. KREDOBANK SA applies the 10-day VaR for interest rates in the main currencies; as at 31 March 2019 it amounted to approx. PLN 11.6 million and as at 31 December 2018, to approx. PLN 10 million.

[2] The table presents the value of the most adverse stress-test scenario for economic value: a movement of interest rate curves in particular currencies by 200 b.p. upwards and by 200 b.p. downwards.

As at 31 March 2019, the Bank's interest rate VaR for the 10-day time horizon (10-day VaR) amounted to PLN 280 million. As at 31 December 2018, the Bank's VaR amounted to PLN 225 million.

62. FOREIGN EXCHANGE RISK MANAGEMENT

SENSITIVITY MEASURES

The Bank's VaR and a stress-test analysis of the Bank's exposure to currency risk, presented cumulatively for all currencies, are presented in the table below:

SENSITIVITY MEASURE	31.03.2019	31.12.2018
VaR for a 10-day time horizon at the confidence level of 99% (in PLN million)	3	4
Change in CUR/PLN by 20% (in PLN million) (stress-test)*	314	256

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

[2] The table presents the value of the most adverse stress-test scenario: PLN appreciation by 20% and PLN depreciation by 20%.

FOREIGN CURRENCY POSITION

The Group's foreign currency positions are presented in the table below:

FOREIGN CURRENCY POSITION	31.03.2019	31.12.2018
EUR	(157)	(127)
USD	(81)	(49)
CHF	(19)	(34)
GBP	54	57
Other (Global, Net)	54	38

Currency positions (in addition to volatility of foreign exchange rates) are a key factor determining the level of currency risk to which the Group is exposed. The foreign currency positions is determined by all foreign currency transactions concluded, both in the statement of financial position and off-balance sheet transactions. The Group's exposure to currency risk is low.

63. LIQUIDITY RISK MANAGEMENT

LIQUIDITY GAP

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

	on demand	0-1 month	1-3 months	3-6 months	6-12 months	12-24 months	24-60 months	over 60 months
31.03.2019								
- adjusted periodic gap in real terms	15 727	32 693	(3 408)	3 039	11 859	11 988	12 427	(84 325)
The Group - adjusted cumulative periodic gap in real terms	15 727	48 420	45 012	48 051	59 910	71 898	84 325	-
31.12.2018								
- adjusted periodic gap in real terms	23 068	32 000	(2 665)	46	11 732	13 006	14 745	(91 932)
The Group - adjusted cumulative periodic gap in real terms	23 068	55 068	52 403	52 449	64 181	77 187	91 932	-

In all time horizons, the adjusted cumulative liquidity gap of the Group, determined as the sum of the adjusted liquidity gaps of the Bank, PKO Bank Hipoteczny, PKO Leasing SA, KREDOBANK and PKO Życie Towarzystwo Ubezpieczeń SA and the contractual liquidity gaps of the other Group companies, was positive both as at 31 March 2019 and 31 December 2018.

LIQUIDITY SURPLUS

The table below present the Bank's liquidity surplus as at 31 March 2019 and 31 December 2018:

SENSITIVITY MEASURE	31.03.2019	31.12.2018
Liquidity surplus of the Bank in the horizon of up to 30 days (in PLN billion)[1]	12	21

[1] Liquidity surplus – determines the Bank's ability to meet the liquidity needs in a given survival horizon if the scenarios defined in stress tests materialize.

(IN PLN MILLION)

SUPERVISORY LIQUIDITY MEASURES

SUPERVISORY LIQUIDITY MEASURES	31.03.2019	31.12.2018
M3 - coverage ratio of non-liquid assets to own funds	13.29	17.44
M4 - coverage ratio of non-liquid assets and liquidity-restricted assets with own funds and stable external funds	1.21	1.22
NSFR - net stable funding ratio	119.2%	117.7%
LCR - liquidity coverage ratio	147.6%	132.0%

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

CORE DEPOSIT BASE

As at 31 March 2019, the core deposit base constituted approx. 92.7% of all deposits placed with the Bank (excluding the interbank market), which represents an increase of approx. 1.1 p.p. compared with the end of 2018.

64. CAPITAL ADEQUACY

Capital adequacy is a process intended to ensure that the level of risk which the bank and the Group assumes in relation to the development of its business activities may be covered with its capital, taking into account a specific risk tolerance level and time horizon. The process of managing capital adequacy comprises, in particular, compliance with the applicable regulations of the supervisory and control authorities, as well as the risk tolerance level determined within the Bank's Group and the capital planning process, including the policy concerning the sources of acquisition of capital.

The objective of capital adequacy management is to maintain own funds at a level which is adequate to the scale and profile of the risk relating to the Group's activities at all times.

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

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

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

- a capital buffer which applies to all banks. From 1 January 2019, it amounts to 2.5% (final level of the buffer). As at 31 December 2018, the systemic risk buffer amounted to 1.875%.
- the countercyclical buffer imposed to mitigate the systemic risk arising from the credit cycle. The Group calculates the countercyclical buffer at the level specified by the relevant authority of the country where the Group has exposures. The countercyclical buffer is equal to 0% for credit exposures in the Republic of Poland.
- a systemic risk buffer – intended to prevent and mitigate long-term non-cyclical risk or prudential risk which may result in strong negative consequences for the financial system and the economy of a given country. As at 31 March 2019 and according to the state as at 31 December 2018, the systemic risk buffer was equal to 3%.
- the buffer relating to the fact that the Bank has been identified as a systemically important institution ('O-SII') – on 31 July 2018, on the basis of an assessment of the Bank's systemic importance in accordance with the Act on macroprudential supervision, the Group received an individual decision of the Polish Financial Supervision Authority imposing a buffer on the Bank of 1% of its total risk exposure calculated in accordance with the CRR Regulation.

In addition, the Group is obliged to maintain own funds to cover the capital requirement in order to hedge the risk resulting from mortgage-secured loans and advances to households denominated in foreign currencies ("a discretionary capital requirement"). On 29 November 2018, the Group received a letter from the Polish Financial Supervision Authority concerning an individual recommendation to meet an additional capital requirement (a discretionary capital requirement) for the consolidated capital ratios: the total capital ratio: 0.42 p.p.; Tier 1 capital ratio: 0.31 p.p.; and common equity Tier 1 ratio: 0.23 p.p.

On 15 January 2019, the Polish Financial Supervision Authority published an announcement regarding the assumptions for the mid-term dividend policy of commercial banks. According to the PFSA letter received on 18 January 2019, the additional charge due to the Bank's sensitivity to unfavourable macroeconomic scenario, required to meet the conditions for the distribution of up to 100% of profit amounted to 0.66 p.p (the additional charge determined by the PFSA in December 2017 amounted to 2.86 p.p.).

The Supervisory Board of PKO Bank Polski SA gave a positive opinion on the Bank's Management Board recommendation on the distribution of profit earned in 2018. The Management Board's recommendation provides for earmarking 49.8 percent of 2018 profit for dividends which gives PLN 1.33 per share. This is consistent with the individual recommendation of the PFSA which confirmed that PKO Bank Polski SA has met the criteria for the distribution of dividend in the amount of 50 percent of the profit for the last year. The proposed appropriation of 2018 profit is consistent with the Bank's dividend policy and at the same time allows for the further dynamic growth of PKO Bank Polski SA and maintaining very safe levels of capital adequacy measures. The final decision on the appropriation of the 2018 profit will be made by the General Meeting of Shareholders.

OWN FUNDS USED IN THE CALCULATION OF CAPITAL RATIOS

In 2018, the Group's capital adequacy level remained at a safe level, well above the supervisory limits.

The increase in the Group's Tier 1 capital before regulatory adjustments and reductions between 31 March 2019 and 31 December 2018 resulted, above all, from:

- a decrease in retained earnings (of PLN 232 million), mainly as a result of recognizing undistributed loss resulting from the implementation of IFRS 16 (PLN -111 million) and in respect of a change in the ratio (from 95% to 85%) for an adjustment resulting from the application of temporary solutions for the mitigating impact of the implementation of IFRS 9 on own funds (PLN -90 million);
- a decrease in accumulated other comprehensive income (OCI), mainly in respect of securities measured at fair value through OCI (of PLN 242 million);
- an increase in Tier 1 capital as a result of a decrease in the value of intangible assets reducing own funds (by PLN 42 million)
- PKO Bank Hipoteczny SA including in the Tier 1 capital the net profit of the company for 2018 (in the amount of PLN 74 million, whereas the amount of PLN 43 million had already been recognized in the Group's funds as at 31 December 2018 in connection with the consent of PFSA obtained by PKO Bank Hipoteczny SA for including the company's net profit for the first half of 2018 in the Tier 1 capital, after reducing it by anticipated charges).

(IN PLN MILLION)

	31.03.2019	31.12.2018
Total own funds	**37 492**	**37 850**
Tier 1 capital	**34 792**	**35 150**
Tier 1 capital before regulatory adjustments and reductions, of which:	37 644	37 802
Share capital	1 250	1 250
Supplementary capital and other reserves	33 108	33 034
General banking risk fund for unidentified risk of banking activities	1 070	1 070
Retained earnings, of which:	2 216	2 448
unappropriated profit / uncovered losses	(187)	(88)
current profit, included by permission from the PFSA	1 635	1 678
adjustment resulting from transitional solutions to mitigate the impact of IFRS 9 adoption on equity	768	858
(-) Goodwill	(1 160)	(1 160)
(-) Other intangible assets	(1 608)	(1 650)
Accumulated other comprehensive income	127	249
Adjustments in common equity Tier 1 capital due to prudential filters	(211)	(91)
Other transitional period adjustments to common equity Tier 1 capital	-	-
Tier 2 capital	**2 700**	**2 700**
Equity instruments and subordinated loans eligible as Tier 2 capital	2 700	2 700
Requirements for own funds	**16 340**	**16 035**
Credit risk	15 175	14 893
Operational risk	681	645
Market risk	458	472
Credit valuation adjustment risk	26	25
Total capital adequacy ratio	**18.36%**	**18.88%**
Tier 1 capital ratio	**17.03%**	**17.54%**

RISK WEIGHTED ASSETS

CRR reference		Risk weighted assets		Minimum capital requirements
		31.03.2019	31.12.2018	31.03.2019
	Credit risk (except counterparty credit risk)	187 741	184 709	15 020
Art. 438(c) and (d)	including standardized approach	187 741	184 709	15 020
Art. 107 Art. 438(c) and (d)	Counterparty credit risk	2 266	1 767	181
Art. 438(c) and (d)	including mark-to-market method	1 615	1 416	129
Art. 438(c) and (d)	including exposures arising from its contributions to the default fund of a CCP	327	43	26
Art. 438(c) and (d)	including updating credit valuation	324	308	26
Art. 438(e)	Settlement risk	-	-	-
Art. 438(e)	Market risk	5 728	5 900	458
	including standardized approach	5 728	5 900	458
Art. 438(f)	Operational risk	8 513	8 066	681
	including basic indicator approach	2 849	2 623	228
	including standardized approach	-	-	-
	including advanced measurement approach	5 664	5 443	453
Article 437.2, Article 48 and Article 60	Amounts below threshold exemptions (subject to 250% risk weight) - taken into account in the requirement for credit risk	7 941	7 893	635
	Total	204 248	200 442	16 340

(IN PLN MILLION)

Comparison of own funds and capital ratio, the Group's financial leverage ratio, taking into account and without taking into account the transitional solutions relating to IFRS 9 and the corresponding expected credit losses, as at 31 March 2019 and 31 December 2018

		31.03.2019	31.12.2018
Capital available (amounts)			
1	Common equity Tier 1 capital (CET1)	34 792	35 150
2	Common equity Tier 1 capital (CET1) without applying transitional solutions relating to IFRS 9 and similar in respect of expected credit losses	34 024	34 292
3	Tier 1	34 792	35 150
4	Tier 1 capital without applying transitional solutions relating to IFRS 9 and similar in respect of expected credit losses	34 024	34 292
5	Total capital	37 492	37 850
6	Total capital, without applying transitional solutions relating to IFRS 9 and similar in respect of expected credit losses	36 724	36 992
Risk weighted assets (amounts)			
7	Total risk weighted assets	204 248	200 442
8	Risk-weighted assets without applying transitional solutions relating to IFRS 9 and similar in respect of expected credit losses	203 525	199 624
	Capital ratios		
9	Common equity Tier 1 capital (as a percentage of exposure to risk)	17.03%	17.54%
10	Common equity Tier 1 capital (CET1) (as a percentage of exposure to risk) without applying transitional solutions relating to IFRS 9 and similar in respect of expected credit losses	16.72%	17.18%
11	Common equity Tier 1 capital (as a percentage of exposure to risk)	17.03%	17.54%
12	Tier 1 capital (as a percentage of exposure to risk)) without applying transitional solutions relating to IFRS 9 and similar in respect of expected credit losses	16.72%	17.18%
13	Total capital (as a percentage of exposure to risk)	18.36%	18.88%
14	Total capital (as a percentage of exposure to risk) without applying transitional solutions relating to IFRS 9 and similar in respect of expected credit losses	18.04%	18.53%
Leverage ratio			
15	Total exposure measure comprising the leverage ratio	338 990	336 797
16	Leverage ratio	10.26%	10.44%
17	Leverage ratio, without applying transitional solutions relating to IFRS 9 and similar in respect of expected credit losses	10.06%	10.21%

65. Leverage ratio

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

The objective of excessive leverage risk management is to ensure an appropriate relationship between the amount of the core capital (Tier 1) and the total of on-balance sheet assets and off-balance sheet liabilities granted by the Group. The way of managing the risk of excessive leverage has been specified in the internal capital adequacy regulations.

For the purpose of measuring the risk of excessive leverage, the Group calculates the leverage ratio as the Tier 1 measure divided by the total exposure measure and expressed as a percentage. The leverage ratio as at 31 March 2019 and 31 December 2018 was calculated in relation to Tier 1 capital and remained above internal and external limits, as well as above the minimum levels as recommended by the Polish Financial Supervision Authority.

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

The exposure for the calculation of the leverage ratio within the meaning assigned by the CRR Regulation.

	Leverage ratio exposures specified in CRR	
	31.03.2019	31.12.2018
Total capital and exposure measure		
Tier 1 capital	34 792	35 150
Total exposure measure comprising the leverage ratio	338 990	336 797
Leverage ratio		
Leverage ratio	10.26%	10.44%

INTERNAL CAPITAL (PILLAR II)

In 2018, the Group calculated internal capital in accordance with external regulations:

- the CRR Regulation;
- the Polish Banking Law;
- the Regulation of the Minister of Finance and Development of 6 March 2017 on the risk management and internal control systems, remuneration policy and the detailed procedure for estimating the internal capital in banks;
- the Act on Macro-prudential supervision;

and the internal regulations of the Bank and the Group.

Internal capital is the amount of capital estimated by the Group that is necessary to cover all of the identified significant risks characteristic of the Group's activities and the effect of changes in the business environment, taking account of the anticipated risk level.

The purpose of estimating the internal capital is to maintain own funds at a level consistent with the Strategy, ensuring operational safety, taking into account changes in the profile and scale of the activities conducted and adverse stress conditions, and enabling more effective management of the Bank and the Bank's Group aimed at improving the profitability of operations and profitability of the capital invested.

The internal capital for covering the individual risk types is determined using the methods specified in the internal regulations. In the event of performing internal capital estimates based on statistical models, the annual forecast horizon is adopted as well as a 99.9% confidence level. The total internal capital of the Group is the sum of the internal capital necessary to cover all significant types of risks to which the Bank and the Group are exposed, taking into account the entities included in prudential consolidation. The correlation coefficient for different types of risk and different Group entities used in the internal capital calculation is equal to 1.

In 2019 and 2018, the relation of the Group's own funds to its internal capital remained on a level exceeding both the threshold set by the law and the Group's internal limits.

DISCLOSURES (PILLAR III)

The Group announces, on a six monthly basis, information, in particular, about risk management and capital adequacy in accordance with: the CRR regulation and the implementing acts thereto, the Act of 5 August 2015 on macro-prudential supervision over the financial system and crisis management in the financial system, hereinafter referred to as "the Act on Macro-prudential supervision", as well as Recommendation M relating to operational risk management in banks and Recommendation P relating to liquidity risk management in banks, and Recommendation H relating to the internal control system in banks issued by the Polish Financial Supervision Authority (PFSA).

The disclosures also comply with the requirements specified in Commission Implementing Regulation (EU) No. 1423/2013 of 20 December 2013 laying down implementing technical standards with regard to disclosure of own funds requirements for institutions according to CRR Regulation (Regulation 1423/2013), in Commission Implementing Regulation (EU) No. 2016/200 of 15 February 2016 laying down implementing technical standards with regard to disclosure of the leverage ratio for institutions, according to CRR Regulation (Regulation 2016/200), EBA/GL/2016/11 Guidelines on disclosure requirements under part eight of the CRR Regulation (EBA/GL/2016/11 Guidelines), EBA/GL/2018/01 Guidelines on disclosure requirements under Art. 473 a of the CRR Regulation in respect of transitional arrangements for mitigating the effects of the implementation of IFRS 9 with regard to own funds (EBA/GL/2018/01 Guidelines) in connection with the application of IFRS 9 implementation transitional arrangements, and EBA/GL/2017/01 Guidelines in respect of the disclosure of the liquidity coverage ratio to complement the disclosure of liquidity risk management under Article 435 of the CRR Regulation.

Details of the scope of information disclosed, the method of its verification and publication are presented in PKO Bank Polski SA Capital Adequacy Information Policies and other information to be published, which are available on the Bank's website (www.pkobp.pl).

66. INFORMATION ON SECURITIZATION OF THE LEASE PORTFOLIO AND PORTFOLIO SALE OF RECEIVABLES

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

Redemption of debt securities in the period from 1 January to 31 March 2019 in the nominal value amounted to PLN 153 million.

In the three-month period of 2019 and in the three-month period of 2018, the Group did not carry out any package sales of receivables from retail or corporate customers.

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SEPARATE INCOME STATEMENT

INCOME STATEMENT	Note	01.01-31.03.2019	01.01-31.03.2018
Interest income	3	2 748	2 511
Interest income calculated under the effective interest rate method		2 587	2 364
interest income on financial instruments measured at amortized cost		2 207	2 027
interest income on instruments measured at fair value through OCI		380	337
Income similar to interest income on instruments measured at fair value through profit or loss		161	147
Interest expenses	3	(517)	(472)
Net interest income/(expense)		**2 231**	**2 039**
Fee and commission income	4	835	840
Fee and commission expense	4	(239)	(230)
Net fee and commission income/(expense)		**596**	**610**
Dividend income		21	10
Net gain/(loss) in financial instruments measured at fair value through profit or loss	5	25	20
Gain/(loss) on investment securities		-	-
Foreign exchange gains/(losses)	6	128	98
Net gains/(losses) on derecognition of financial instruments not measured at fair value through profit or loss	7	52	37
measured at fair value through OCI		49	29
measured at amortized cost		3	8
Net allowances for expected credit losses	8	(286)	(302)
Impairment of non-financial assets	9	(3)	(4)
Other operating income	10	29	51
Other operating expenses	10	(31)	(38)
Net other operating income and expense		**(2)**	**13**
Administrative expenses	11	(1 148)	(1 137)
Net regulatory charges	12	(329)	(276)
Tax on certain financial institutions		(228)	(215)
Operating profit/(loss)		**1 057**	**893**
Profit before income tax		**1 057**	**893**
Income tax expense	13	(320)	(279)
Net profit for the year		**737**	**614**
Earnings per share	14		
– basic earnings per share for the period (PLN)		0.59	0.49
– diluted earnings per share for the period (PLN)		0.59	0.49
Weighted average number of ordinary shares during the period (in million)		1 250	1 250
Weighted average diluted number of ordinary shares during the period (in million)		1 250	1 250

(IN PLN MILLION)

SEPARATE STATEMENT OF COMPREHENSIVE INCOME

STATEMENT OF COMPREHENSIVE INCOME	01.01-31.03.2019	01.01-31.03.2018
Net profit for the year	**737**	**614**
Other comprehensive income	**(140)**	**199**
Items which may be reclassified to profit or loss	**(140)**	**199**
Cash flow hedges (gross)	155	(59)
Deferred income tax	(29)	12
Net cash flow hedge	126	(47)
Unrealized net gains on available-for-sale financial assets (gross)	-	-
Deferred income tax	-	-
Unrealized net gains on available-for-sale financial assets (net)	-	-
Fair value of financial assets measures at fair value through other comprehensive income (gross)	(279)	333
Gains /losses transferred to the profit or loss (on disposal)	(49)	(29)
Deferred income tax	62	(58)
Fair value of financial assets measures at fair value through other comprehensive income (net)	(266)	246
Items which cannot be reclassified to profit or loss	-	-
Actuarial gains and losses (gross)	-	-
Deferred income tax	-	-
Actuarial gains and losses (net)	-	-
Total net comprehensive income	**597**	**813**

(IN PLN MILLION)

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SEPARATE STATEMENT OF FINANCIAL POSITION

	Note	31.03.2019	31.12.2018
ASSETS			
Cash and balances with the Central Bank	15	15 355	22 862
Amounts due from banks	16	8 318	11 213
- measured at amortized cost		8 318	11 213
Hedging derivatives	17	647	592
Other derivative instruments	18	2 213	1 909
Securities	19	65 535	60 439
- held for trading		1 427	282
- not held for trading, measured at fair value through profit or loss		1 288	1 280
- at fair value through OCI		48 689	50 562
- measured at amortized cost		14 131	8 315
loans and advances to customers	20	193 856	191 575
- not held for trading, measured at fair value through profit or loss		1 061	1 106
- at fair value through OCI		7 053	8 496
- measured at amortized cost		185 742	181 973
Investments in subsidiaries, associates and joint ventures		3 370	3 588
Non-current assets held for sale	22	326	8
Intangible assets	23	2 545	2 595
Property, plant and equipment	23	2 786	2 082
Deferred income tax assets	13	1 256	1 232
Other assets	24	2 196	2 318
TOTAL ASSETS		**298 403**	**300 413**

	Note	31.03.2019	31.12.2018
LIABILITIES AND EQUITY			
Liabilities			
Amounts due to the Central Bank		6	7
Amounts due to banks	25	2 416	1 591
- measured at fair value through profit or loss		191	-
- measured at amortized cost		2 225	1 591
Hedging derivatives	17	593	560
Other derivative instruments	18	2 852	2 657
Amounts due to customers	26	239 657	245 213
- measured at fair value through profit or loss		69	-
- measured at amortized cost		239 588	245 213
Debt securities in issue	28	5 392	5 367
- measured at amortized cost		5 392	5 367
Subordinated liabilities	29	2 707	2 731
- measured at amortized cost		2 707	2 731
Other liabilities	30	4 932	3 189
Current income tax liabilities	13	538	297
- the Bank		514	297
- subsidiaries forming part of the Tax Group		24	-
Provisions	31	464	441
TOTAL LIABILITIES		**259 557**	**262 053**
Equity	32		
Share capital		1 250	1 250
Other capital		34 170	34 310
Retained earnings		2 689	(535)
Net profit or loss for the year		737	3 335
TOTAL EQUITY		**38 846**	**38 360**
TOTAL LIABILITIES AND EQUITY		**298 403**	**300 413**
Total capital adequacy ratio	43	20.76%	21.33%
Book value (in PLN million)		38 846	38 360
Number of shares (in million)		1 250	1 250
Book value per share (in PLN)		31.08	30.69
Diluted number of shares (in million)		1 250	1 250
Diluted book value per share (in PLN)		31.08	30.69

(IN PLN MILLION)

SEPARATE STATEMENT OF CHANGES IN EQUITY

FOR 3 MONTHS ENDED 31 MARCH 2019	Share capital	Other capital					Retained earnings	Net profit or loss for the period	Total equity
		Reserves			Accumulated other comprehensive income	Total other capital and reserves			
		Supplementary capital	General banking risk fund	Other reserves					
As at 31 December 2018	1 250	29 168	1 070	3 629	443	34 310	(535)	3 335	38 360
Changes due to IFRS 16 implementation	-	-	-	-	-	-	(111)	-	(111)
As at 1 January 2019 (restated)	1 250	29 168	1 070	3 629	443	34 310	(646)	3 335	38 249
Transfer from retained earnings	-	-	-	-	-	-	3 335	(3 335)	-
Total comprehensive income, of which:	-	-	-	-	(140)	(140)	-	737	597
Net profit for the year	-	-	-	-	-	-	-	737	737
Other comprehensive income	-	-	-	-	(140)	(140)		-	(140)
As at 31 March 2019	1 250	29 168	1 070	3 629	303	34 170	2 689	737	38 846

FOR 3 MONTHS ENDED 31 MARCH 2019	Accumulated other comprehensive income			
	Fair value of financial assets measured at fair value through other comprehensive income	Cash flow hedges	Actuarial gains and losses	Total
As at 1 January 2019	471	(18)	(10)	443
Total comprehensive income, of which:	(266)	126	-	(140)
Other comprehensive income	(266)	126	-	(140)
As at 31 March 2019	205	108	(10)	303

(IN PLN MILLION)

FOR 3 MONTHS ENDED 31 MARCH 2018	Share capital	Other capital						Retained earnings	Net profit or loss for the period	Total equity
		Reserves			Accumulated other comprehensive income	Total other capital and reserves				
		Supplementary capital	General banking risk fund	Other reserves						
As at 01.01.2018	1 250	27 118	1 070	3 593	18	31 799		(535)	2 774	35 288
Transfer from retained earnings	-	-	-	-	-	-		2 774	(2 774)	-
Total comprehensive income, of which:	-	-	-	-	199	199		-	614	813
Net profit for the year	-	-	-	-	-	-		-	614	614
Other comprehensive income	-	-	-	-	199	199		-	-	199
As at 31 March 2018	1 250	27 118	1 070	3 593	217	31 998		2 239	614	36 101

FOR 3 MONTHS ENDED 31 MARCH 2018	Accumulated other comprehensive income			
	Fair value of financial assets measures at fair value through other comprehensive income	Cash flow hedges	Actuarial gains and losses	Total
As at 01.01.2018	102	(75)	(9)	18
Total comprehensive income, of which:	246	(47)	-	199
Other comprehensive income	246	(47)	-	199
As at 31 March 2018	348	(122)	(9)	217

(IN PLN MILLION)

SEPARATE STATEMENT OF CASH FLOWS

	Note	01.01-31.03.2019	01.01-31.03.2018
Cash flows from operating activities			
Profit before tax		**1 057**	**893**
Total adjustments:		**(2 487)**	**(4 610)**
Amortization and depreciation		200	175
(Gains)/losses on investing activities		(1)	(3)
Interest and dividends		(85)	(29)
Change in:			
amounts due from banks		1 472	1 634
- measured at amortized cost		1 472	1 634
hedging derivatives		(22)	220
other derivative instruments		(109)	(385)
debt securities		(1 502)	(1 334)
- held for trading		(1 145)	(1 156)
- financial instruments designated at fair value through profit or loss upon initial recognition		(8)	366
- measured at fair value through OCI		(285)	46
- measured at amortized cost		(64)	(590)
loans and advances to customers		(2 541)	(2 133)
- not held for trading, mandatorily measured at fair value through profit or loss		45	38
- measured at fair value through OCI		1 421	(315)
- measured at amortized cost		(4 007)	(1 856)
non-current assets held for sale		-	2
other assets		289	(563)
accumulated credit losses and impairment allowances		244	317
accumulated allowances on non-financial assets and other provisions		16	10
amounts due to the Central Bank		(1)	(1)
amounts due to banks		825	(71)
- measured at fair value through profit or loss		191	-
- measured at amortized cost		634	(71)
amounts due to customers		(2 061)	(1 680)
- measured at fair value through profit or loss		69	-
- measured at amortized cost		(2 130)	(1 680)
debt securities in issue		25	47
subordinated liabilities		(24)	(13)
other liabilities		911	(524)
Income tax paid		(94)	(239)
Other adjustments		(29)	(40)
Net cash from/used in operating activities		**(1 430)**	**(3 717)**

(IN PLN MILLION)

	Note	01.01-31.03.2019	01.01-31.03.2018
Cash flows from investing activities			
Inflows from investing activities		**84 855**	**100 945**
Proceeds from sale of and interest on securities measured at fair value through other comprehensive income		84 579	100 852
Proceeds from sale of and interest on securities measured at amortized cost		250	69
Proceeds from sale of intangible assets, property, plant and equipment and assets held for sale		5	14
Other inflows from investing activities (dividends)		21	10
Outflows from investing activities		**(88 622)**	**(98 515)**
Increase in equity of subsidiaries, associates and jointly controlled entities		(150)	(4)
Purchase of securities measured at fair value through other comprehensive income		(82 456)	(98 056)
Purchase of securities measured at amortized cost		(5 960)	(417)
Purchase of intangible assets and property, plant and equipment		(56)	(38)
Net cash from/used in investing activities		**(3 767)**	**2 430**

	Note	01.01-31.03.2019	01.01-31.03.2018
Cash flows from financing activities			
Proceeds from issue of subordinated bonds		-	1 000
Repayment of loans and advances		(3 495)	(2 602)
Payment of lease liabilities		(53)	-
Repayment of interest on long-term borrowings		(188)	(198)
Net cash generated from/used in financing activities		**(3 736)**	**(1 800)**
Total net cash flows		**(8 933)**	**(3 087)**
of which foreign exchange differences on cash and cash equivalents		66	6
Cash equivalents at the beginning of the period		30 024	22 541
Cash equivalents at the end of the period	36	21 091	19 454

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

1. IFRS 16 LEASES

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

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

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

LEASE LIABILITIES

The implementation of the standard resulted in the Bank recognizing lease liabilities presented in the note "Other Liabilities" in the amount of PLN 885 million at the present value of future lease payments which are to be paid up to the start of the application of IFRS 16, which consist of fixed lease payments and variable lease payments, which depend on market indicators. The value of the liability was adjusted for costs paid in advance as at 31 December 2018 at the level of PLN 4 million.

RIGHT-OF-USE ASSETS

The Bank recognized right-of-use assets as at 1 January 2019 at the level of PLN 889 million, which include the amount of the initial valuation of the lease liability of PLN 885 million and lease payments of PLN 4 million paid in advance.

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

ESTIMATES USED

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

- Establishing the term of the lease for contracts concluded indefinitely

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

(IN PLN MILLION)

- Determining the interest rate used to discount future cash flows

The discount rates used by the Bank to discount future lease payments (marginal lending rates) are within the range of 2.06% to 8.68% for PLN, from 0.6% to 4.0% for EUR and from 3.8% to 4.0% for USD and 18% for UAH and were calculated on the basis of curves reflecting the cost of financing in the given currency, encompassing the tenor of the longest lease contract which is to be valued and reflecting – for the given currency – a fixed market interest rate and the cost of the Bank's financing. The tenors of lease contracts lie within the range of 1 to 99 years.

The total impact of the discount factor from the application of the above rates to the present value of lease liabilities was PLN 299 million.

IMPACT ON THE INCOME STATEMENT, THE CASH FLOW STATEMENT AND THE CAPITAL ADEQUACY RATIOS

The Bank expects the application of the new standard to reduce the net result for 2019 by approximately PLN 10 million. There was a change in the presentation of repayments of lease instalments in the cash flow statement. Payments of lease instalments are recognized in the financing cash flows and not in operating cash flows, as to date.
The estimated annual cost of depreciation of right-of-use assets will amount to PLN 180 million, while the interest expense will be PLN 20 million.

The tax charged to financial institutions for the recognition of right-of-use assets will be approx. PLN 4 million per year.

CAPITAL ADEQUACY

The Bank estimates that the increase in assets arising from recognizing right-of-use assets under lease contracts resulted in an increase of PLN 75 million in capital requirements as at 1 January 2019. In addition, in view of the write-down of the right of perpetual usufruct of land of PLN 111 million, the Bank's own funds will decline by this same amount. This will contribute to a reduction in the Tier 1 capital ratio of approx. 17 b.p. and the total capital ratio of approx. 18 b.p.

THE TOTAL IMPACT OF ADJUSTMENTS FROM THE IMPLEMENTATION OF IFRS 16 ON THE BANK'S ASSETS AND LIABILITIES

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

Operating lease liabilities As at 31.12.2018 (not discounted)	592
Future payments in respect of rights to perpetual usufruct	370
Operating lease payments, together with future payments in respect of rights to perpetual usufruct As at 31.12.2018 (not discounted)	962
Short-term lease agreements	(5)
Impact of discounting at the incremental borrowing rate 2.56%	(299)
Adjusted for the difference in the recognition of the extension/termination option	227
Financial liabilities in respect of leases As at 01.01.2019	885

(IN PLN MILLION)

Impact of the implementation of IFRS 16 on the recognition of additional financial liabilities and the respective right-of-use assets:

Impact on the statement of financial position	As at 31.12.2018 under IAS 17	Write-off of the right to perpetual usufruct of land	Effect of recognizing lease agreements (with discount)		Total effect of recognizing lease agreements (with discount)	As at 01.01.2019 under IFRS 16
			right to perpetual usufruct	operating lease		
ASSETS						
Property, plant and equipment, of which:	2 082	(111)	124	765	889	2 860
right-of-use asset	X	-	124	765	889	889
land and buildings	1 383	(111)	-	-	-	1 272
Other assets, including:	2 318	-	-	(4)	(4)	2 314
prepayments	57	-	-	(4)	(4)	53
LIABILITIES AND EQUITY						
Other liabilities, including:	3 189	-	124	761	885	4 074
lease liabilities	X	-	124	761	885	885
EQUITY	38 360	(111)	-	-	-	38 249

As a result of the implementation of IFRS 16, the administrative expenses were not charged with the net lease instalments amounting to PLN 53 million. The costs of lease instalments were allocated to depreciation in the amount of PLN 47 million and to the interest expenses of PLN 5 million.

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

The PKO Bank Polski SA Group made the following changes to the presentation of its condensed interim consolidated financial statements for the three-month period ended 31 March 2019, in order to better reflect the data connected with the separation of an item for the net regulatory charges.

INCOME STATEMENT	first quarter period from 01.01.2018 to 31.03.2018 before restatement	separate presentation of "net regulatory charges"	first quarter period from 01.01.2018 to 31.03.2018 restated
Interest expenses	(487)	15	(472)
Administrative expenses	(1 398)	261	(1 137)
Net regulatory charges	-	(276)	(276)
Total	**(1 885)**	**-**	**(1 885)**

(IN PLN MILLION)

CONSOLIDATED STATEMENT OF CASH FLOWS	period from 01.01.2018 to 31.03.2018 before restatement	reclassification to "change in accumulated credit losses and impairment allowances"	separate presentation of "change in accumulated allowances on non-financial assets and other provisions"	separate presentation of "proceeds from sale of and interest on securities measured at fair value through other comprehensive income" and "proceeds from sale of and interest on securities measured at amortized cost"	separate presentation of "purchase of securities measured at fair value through other comprehensive income" and "purchase of securities measured at amortized cost"	period from 01.01.2018 to 31.03.2018 restated
Cash flows from operating activities						
net expected credit losses, impairment allowances and provisions	327	(327)	-	-	-	-
change in accumulated credit losses and impairment allowances	-	327	(10)	-	-	317
change in accumulated allowances on non-financial assets and other provisions	-	-	10	-	-	10
Total	**327**	-	-	-	-	**327**
Cash flows from investing activities						
Inflows from investing activities						
proceeds from sale of and interest on investment securities	100 921	-	-	(100 921)	-	-
proceeds from sale of and interest on securities measured at fair value through other comprehensive income	-	-	-	100 852	-	100 852
proceeds from sale of and interest on securities measured at amortized cost	-	-	-	69	-	69
Total	**100 921**	-	-	-	-	100 921
Outflows from investing activities						-
purchase of investment securities	(98 473)	-	-	-	98 473	-
purchase of securities measured at fair value through other comprehensive income	-	-	-	-	(98 056)	(98 056)
purchase of securities measured at amortized cost	-	-	-	-	(417)	(417)
Total	**(98 473)**	-	-	-	-	**(98 473)**

(IN PLN MILLION)

NOTES TO THE SEPARATE INCOME STATEMENT

3. INTEREST INCOME AND EXPENSES

NET INTEREST INCOME ON:	01.01-31.03.2019 Net interest income on financial instruments measured at amortized cost	Net interest income on instruments measured at fair value through OCI	Net income similar to interest income on instruments at fair value through profit or loss	Total
loans to and other receivables from banks	40	-	-	40
hedging derivatives	-	-	136	136
debt securities	64	291	10	365
loans and advances to customers	2 102	67	11	2 180
amounts due to banks (excluding loans and advances received)	(6)	-	-	(6)
loans and advances received	(54)	-	-	(54)
leases	(5)	-	-	(5)
amounts due to customers (excluding loans and advances received)	(392)	-	-	(392)
debt securities in issue	(11)	-	-	(11)
subordinated liabilities	(22)	-	-	(22)
Total	**1 716**	**358**	**157**	**2 231**
of which: interest income on impaired financial instruments	55	3	-	58

NET INTEREST INCOME ON:	01.01-31.03.2018 Net interest income on financial instruments measured at amortized cost	Net interest income on instruments measured at fair value through OCI	Net income similar to interest income on instruments at fair value through profit or loss	Total
loans to and other receivables from banks	40	-	-	40
hedging derivatives	-	-	122	122
debt securities	44	251	14	309
loans and advances to customers	1 943	76	6	2 025
amounts due to banks (excluding loans and advances received)	(8)	-	-	(8)
loans and advances received	(56)	-	-	(56)
amounts due to customers (excluding loans and advances received)	(364)	-	-	(364)
debt securities in issue	(12)	-	-	(12)
subordinated liabilities	(17)	-	-	(17)
Total	**1 570**	**327**	**142**	**2 039**
of which: interest income on impaired financial instruments	62	3	1	66

INTEREST INCOME ON:	01.01-31.03.2019 Interest income on financial instruments measured at amortized cost	Interest income on instruments measured at fair value through OCI	Income similar to interest income on instruments measured at fair value through profit or loss	Total
loans to and other receivables from banks	40	-	-	40
hedging derivatives	-	-	136	136
debt securities	65	313	14	392
loans and advances to customers	2 102	67	11	2 180
Total	**2 207**	**380**	**161**	**2 748**
of which: interest income on impaired financial instruments	55	3	-	58

(IN PLN MILLION)

INTEREST INCOME ON:	01.01-31.03.2018 Interest income on financial instruments measured at amortized cost	Interest income on instruments measured at fair value through OCI	Income similar to interest income on instruments measured at fair value through profit or loss	Total
loans to and other receivables from banks	40	-	-	40
hedging derivatives	-	-	122	122
debt securities	44	261	19	324
loans and advances to customers	1 943	76	6	2 025
Total	**2 027**	**337**	**147**	**2 511**
of which: interest income on impaired financial instruments	62	3	1	66

INTEREST EXPENSE ON:	01.01-31.03.2019 Interest expense on financial instruments measured at amortized cost	Interest expense on instruments measured at fair value through OCI	Costs similar to interest expense on instruments at fair value through profit or loss	Total
amounts due to banks (excluding loans and advances received)	(6)	-	-	(6)
loans and advances received	(54)	-	-	(54)
leases	(5)	-	-	(5)
amounts due to customers (excluding loans and advances received)	(392)	-	-	(392)
debt securities	(1)	(22)	(4)	(27)
debt securities in issue	(11)	-	-	(11)
subordinated liabilities	(22)	-	-	(22)
Total	**(491)**	**(22)**	**(4)**	**(517)**

INTEREST EXPENSES ON:	01.01-31.03.2018 Interest expense on financial instruments measured at amortized cost	Interest expense on instruments measured at fair value through OCI	Costs similar to interest expense on instruments at fair value through profit or loss	Total
amounts due to banks (excluding loans and advances received)	(8)	-	-	(8)
loans and advances received	(56)	-	-	(56)
amounts due to customers (excluding loans and advances received)	(364)	-	-	(364)
debt securities	-	(10)	(5)	(15)
debt securities in issue	(12)	-	-	(12)
subordinated liabilities	(17)	-	-	(17)
Total	**(457)**	**(10)**	**(5)**	**(472)**

INTEREST INCOME BY SEGMENT:	01.01-31.03.2019 Retail segment	Corporate and investment segment	Transfer centre and other	Total
loans to and other receivables from banks	-	30	10	40
hedging derivatives	-	-	136	136
debt securities	-	392	-	392
loans and advances to customers	1 725	455	-	2 180
Total	**1 725**	**877**	**146**	**2 748**

(IN PLN MILLION)

INTEREST INCOME BY SEGMENT:	01.01-31.03.2018			
	Retail segment	Corporate and investment segment	Transfer centre and other	Total
loans to and other receivables from banks	-	31	9	40
hedging derivatives	-	-	122	122
debt securities	-	324	-	324
loans and advances to customers	1 619	406	-	2 025
Total	1 619	761	131	2 511

4. Fee and commission income and expenses

Net fee and commission income/(expense)	01.01-31.03.2019	01.01-31.03.2018
Loans and insurance	208	180
Investment funds and brokerage activities	58	101
Cards	124	122
Bank accounts and other	206	207
Total	**596**	**610**

FEE AND COMMISSION INCOME	01.01-31.03.2019	01.01-31.03.2018
Loans and insurance	**208**	**180**
lending	165	148
offering insurance products	43	32
Investment funds and brokerage activities	**63**	**106**
servicing of investment funds and OFE (including management fees)	16	52
servicing and selling investment and insurance products	3	4
brokerage activities	44	50
Cards	**291**	**272**
Bank accounts and other	**273**	**282**
servicing bank accounts	204	203
cash transactions	16	22
servicing foreign mass transactions	23	25
customer orders	11	11
fiduciary services	1	2
other	18	19
Total	**835**	**840**

FEE AND COMMISSION EXPENSE	01.01-31.03.2019	01.01-31.03.2018
Investment funds and brokerage activities	**(5)**	**(5)**
Cards	**(167)**	**(150)**
Bank accounts and other	**(67)**	**(75)**
commission paid to external entities for product sales	(16)	(18)
cost of construction project supervision and property valuation	(10)	(11)
settlement services	(9)	(10)
commission for operating services provided by banks	(2)	(3)
sending short text messages (SMS)	(8)	(6)
oher[1]	(22)	(27)
Total	**(239)**	**(230)**

(IN PLN MILLION)

FEE AND COMMISSION INCOME BY SEGMENT	01.01 - 31.03.2019			
	Retail segment	Corporate and investment segment	Transfer centre and other	Total
Loans and insurance	143	65	-	208
lending	100	65	-	165
offering insurance products	43	-	-	43
Investment funds and brokerage activities	28	35	-	63
servicing of investment funds and OFE (including management fees)	14	2	-	16
servicing and selling investment and insurance products	3	-	-	3
brokerage activities	11	33	-	44
Cards	286	5	-	291
Bank accounts and other	230	43	-	273
servicing bank accounts	187	17	-	204
cash transactions	12	4	-	16
servicing foreign mass transactions	12	11	-	23
customer orders	6	5	-	11
fiduciary services	-	1	-	1
other	13	5	-	18
Total	687	148	-	835

FEE AND COMMISSION INCOME BY SEGMENT	01.01 - 31.03.2018			
	Retail segment	Corporate and investment segment	Transfer centre and other	Total
Loans and insurance	136	44	-	180
lending	104	44	-	148
offering insurance products	32	-	-	32
Investment funds and brokerage activities	66	40	-	106
servicing of investment funds and OFE (including management fees)	49	3	-	52
servicing and selling investment and insurance products	4	-	-	4
brokerage activities	13	37	-	50
Cards	271	1	-	272
Bank accounts and other	239	43	-	282
servicing bank accounts	189	14	-	203
cash transactions	18	4	-	22
servicing foreign mass transactions	15	10	-	25
customer orders	7	4	-	11
fiduciary services	-	2	-	2
other	10	9	-	19
Total	712	128	-	840

5. Net gain on financial instruments measured at fair value through profit or loss

NET GAIN ON FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS	01.01-31.03.2019	01.01-31.03.2018
Financial instruments held for trading	4	16
Financial assets not held for trading, measured at fair value through profit or loss on a mandatory basis	22	4
Derivative instruments (of which an ineffective portion of cash flow hedges)	(1)	-
Total	25	20

[1] In the first quarter of 2019 this item included the net valuation of the shares of Visa Inc. of PLN 30 million (PLN 2 million in the first quarter of 2018).

6. Foreign exchange gains/ (losses)

FOREIGN EXCHANGE GAINS/(LOSSES)	01.01-31.03.2019	01.01-31.03.2018
Net foreign exchange gains/(losses), of which:	128	98
ineffective portion of cash flow hedges recognized in foreign exchange gains/losses	(4)	(1)
Total	128	98

(IN PLN MILLION)

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

GAINS/(LOSSES) ON DERECOGNITION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	01.01-31.03.2019	01.01-31.03.2018
Measured at fair value through OCI	49	29
Measured at amortized cost	3	8
loans and advances to customers	-	8
debt securities	3	-
Total	**52**	**37**

8. GAIN/(LOSS) ON ALLOWANCE FOR CREDIT LOSSES

NET ALLOWANCES FOR EXPECTED CREDIT LOSSES	01.01-31.03.2019	01.01-31.03.2018
Amounts due from banks	1	-
measured at amortized cost	1	-
Debt securities	(1)	4
measured at fair value through OCI	(2)	3
measured at amortized cost	1	1
Loans and advances to customers	(278)	(312)
measured at fair value through OCI	-	(4)
housing	-	(4)
measured at amortized cost	(278)	(308)
housing	(9)	(54)
corporate	(119)	(155)
consumer	(150)	(99)
Provisions for financial liabilities and guarantees granted	(8)	6
Total	**(286)**	**(302)**

ACCUMULATED CREDIT LOSSES, IMPAIRMENT ALLOWANCES AND PROVISIONS	31.03.2019	31.12.2018
Amounts due from banks	3	4
measured at amortized cost	3	4
Debt securities	31	30
measured at fair value through OCI	13	10
measured at amortized cost	18	20
Loans and advances to customers	7 747	7 511
measured at amortized cost	7 747	7 511
Provisions for financial liabilities and guarantees granted	235	227
Other financial assets	95	95
Total	**8 111**	**7 867**

(IN PLN MILLION)

9. IMPAIRMENT OF NON-FINANCIAL ASSETS

NET IMPAIRMENT ALLOWANCES ON NON-FINANCIAL ASSETS	01.01-31.03.2019	01.01-31.03.2018
Other non-financial assets	(3)	(4)
Total	**(3)**	**(4)**

ACCUMULATED IMPAIRMENT ALLOWANCES ON NON-FINANCIAL ASSETS	31.03.2019	31.12.2018
Property, plant and equipment	33	35
Intangible assets	25	25
Investments in subsidiaries, associates and joint ventures	915	915
Other non-financial assets	116	113
Total	**1 089**	**1 088**

10. OTHER OPERATING INCOME AND EXPENSES

OTHER OPERATING INCOME	01.01-31.03.2019	01.01-31.03.2018
Gains on sale or scrapping of property, plant and equipment, intangible assets and assets held for sale	2	6
Ancillary income	6	6
Recovery of receivables expired, forgiven or written off	1	3
Release of provision for legal claims	4	-
Other	16	36
Total	**29**	**51**

OTHER OPERATING EXPENSE	01.01-31.03.2019	01.01-31.03.2018
Losses on sale or scrapping of property, plant and equipment, intangible assets and assets held for sale	(1)	(3)
Donations made	(5)	(19)
Sundry expenses	(3)	(4)
Provisions for legal claims	(4)	(3)
Other	(18)	(9)
Total	**(31)**	**(38)**

(IN PLN MILLION)

11. Administrative expenses

ADMINISTRATIVE EXPENSES	01.01-31.03.2019	01.01-31.03.2018
Employee benefits[1]	(678)	(665)
Overheads, including:	(270)	(297)
rent	(19)	(66)
IT	(64)	(63)
Depreciation and amortization	(200)	(175)
property, plant and equipment, of which:	(115)	(66)
IT	(27)	(26)
right-of-use assets	(47)	-
intangible assets, of which:	(85)	(109)
IT	(83)	(106)
Total	**(1 148)**	**(1 137)**

[1] The item Employee benefits in the three-month period of 2019 shows costs relating to the restructuring of PLN 23 million (PLN 45 million in the three-month period of 2018).

EMPLOYEE BENEFITS[1]	01.01-31.03.2019	01.01-31.03.2018
Wages and salaries, of which:	(562)	(553)
costs of contributions to the employee pension plan	(15)	(5)
Social insurance, of which:	(97)	(94)
contributions for disability and retirement benefits	(85)	(85)
Other employee benefits	(19)	(18)
Total	**(678)**	**(665)**

[1] The item Employee benefits in the three-month period of 2019 shows costs relating to the restructuring of PLN 23 million (PLN 45 million in the three-month period of 2018).

12. Net regulatory charges

NET REGULATORY CHARGES	01.01-31.03.2019	01.01-31.03.2018
Contributions and fees to the Bank Guarantee Fund (BGF), of which:	(366)	(228)
to the Resolution Fund	(326)	(162)
to the Banks' Guarantee Fund	(40)	(66)
Payments to the PFSA	(37)	(21)
Flat-rate income tax, of which[1]:	86	(15)
withholding tax at 20%	138	(15)
flat rate income tax at 3%	(52)	-
Other taxes and fees	(12)	(12)
Total	**(329)**	**(276)**

[1] A decrease of PLN 101 million of WHT costs on issue of foreign bonds connected with an adjustment of the grossing up of interest for 2017-2019 and recognizing 3% tax on interest paid for the period from 2014 to the first quarter of 2019.

13. Income tax

	01.01-31.03.2019	01.01-31.03.2018
Current income tax expense	(311)	(268)
Deferred income tax on temporary differences	(9)	(11)
Income tax expense recognized in the income statement	**(320)**	**(279)**
Income tax expense on temporary differences recognized in other comprehensive income	33	(46)
Total	**(287)**	**(325)**

(IN PLN MILLION)

RECONCILIATION OF THE EFFECTIVE TAX RATE

	01.01-31.03.2019	01.01-31.03.2018
Profit before tax	1 057	893
Tax calculated using the enacted rate in force in Poland 19%	(201)	(170)
Effect of permanent timing differences, of which:	(121)	(111)
non-tax deductible impairment allowances on credit exposures and securities	(7)	(11)
contribution and payments to the Bank Guarantee Fund	(69)	(44)
tax on certain financial institutions	(43)	(41)
other permanent differences	(6)	(17)
dividend income	4	2
Effect of other timing differences, including new technologies tax relief and donations	2	2
Income tax expense recognized in the income statement	(320)	(279)
Effective tax rate	**30.3%**	**31.2%**

CURRENT INCOME TAX LIABILITIES

	31.03.2019	31.12.2018
Current income tax liabilities of the Bank	514	297
Current income tax liabilities of the subsidiaries forming part of the Tax Group	24	-
Total	**538**	**297**

Current income tax liabilities of the Bank as at 31 March 2019 comprise:

- current income tax liabilities of the Bank for the first quarter of 2019 of PLN 311 million;
- current income tax liabilities for 2018 of PLN 203 million,[1] which were paid by the Bank on 1 April 2019.

[1] Liability as at 31 December 2018 of PLN 297 million, reduced by a flat rate advance for December 2018 which was paid by the Bank in January 2019 in the amount of PLN 94 million.

DEFERRED INCOME TAX ASSETS

DEFERRED TAX PROVISION	31.12.2018	INCOME STATEMENT	OTHER COMPREHENSIVE INCOME	31.03.2019
Interest accrued on receivables (loans)	236	4	-	240
Capitalized interest on performing housing loans	39	(1)	-	38
Interest on securities	79	31	-	110
Remeasurement of securities	99	(3)	(56)	40
Difference between carrying amount and tax value of property, plant and equipment and intangible assets	288	(8)	-	280
Taxable income on release of IBNR allowance which was tax deductible in the past due to the adoption of IFRS 9	78	(13)	-	65
Gross deferred income tax provision	**819**	**10**	**(56)**	**773**
Deferred tax asset				
Interest accrued on liabilities	87	(29)	-	58
Valuation of derivatives	135	(8)	(29)	98
Employee benefits	77	(1)	-	76
Allowances for expected credit losses	1 019	12	-	1 031
Fair value remeasurement of loans	17	-	6	23
Deferred commission to be settled under the straight-line method and the effective interest rate	683	18	-	701
Provision for costs to be incurred	29	(1)	-	28
Other deductible temporary differences	4	10	-	14
Deferred tax asset, gross	**2 051**	**1**	**(23)**	**2 029**
Deferred income tax asset (presented in the statement of financial position)	1 232	(9)	33	1 256

14. EARNINGS PER SHARE

EARNINGS PER SHARE	01.01-31.03.2019	01.01-31.03.2018
Profit attributable to ordinary shareholders	737	614
Weighted average number of ordinary shares during the period (in million)	1 250	1 250
Earnings per share (in PLN per share)	0.59	0.49

(IN PLN MILLION)

NOTES TO THE SEPARATE STATEMENT OF FINANCIAL POSITION

15. Cash and balances with the Central Bank

CASH AND BALANCES WITH THE CENTRAL BANK	31.03.2019	31.12.2018
Current account with the Central Bank	10 570	17 391
Cash in hand	3 935	5 471
Deposits with the Central Bank	850	-
Total	**15 355**	**22 862**

16. Amounts due from banks

AMOUNTS DUE FROM BANKS	31.03.2019	31.12.2018
Measured at amortized cost	**8 321**	**11 217**
Deposits with banks	5 036	6 395
Amount due from PKO Bank Hipoteczny SA in respect of the sale of mortgage-secured housing loans by the Bank	1 511	2 300
Current accounts	712	777
Loans given	1 062	1 745
Total, gross	**8 321**	**11 217**
Allowances for expected credit losses	(3)	(4)
Total, net	**8 318**	**11 213**

The whole balance of amounts due from banks as at 1 January 2019 and as at 31 March 2019 was classified to Stage 1. In the period ended 31 March 2019 and 31 December 2018 there were no transfers between stages with reference to amounts due from banks.

17. Derivative hedging instruments

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

Types of hedging strategies applied by the Bank

STRATEGY 1	HEDGES AGAINST FLUCTUATIONS IN CASH FLOWS FROM MORTGAGE LOANS IN CHF AND NEGOTIATED TERM DEPOSITS IN PLN, RESULTING FROM THE RISK OF FLUCTUATIONS IN INTEREST RATES AND IN FOREIGN EXCHANGE RATES, USING CIRS TRANSACTIONS
DESCRIPTION OF THE HEDGING RELATIONSHIP	elimination of the risk of cash flow fluctuations generated by floating interest rate loans denominated in CHF and negotiated term deposits in PLN, resulting from fluctuations in reference interest rates in CHF and PLN, and changes in CHF/PLN foreign exchange rates using CIRS transactions during the hedged period
HEDGED RISK	foreign exchange risk and interest rate risk
HEDGING INSTRUMENT	CIRS transactions where the Bank pays coupons based on 3M CHF LIBOR, and receives coupons based on 3M WIBOR on the nominal value defined in CHF and PLN respectively
HEDGED ITEM	the portfolio of floating interest mortgage loans in CHF and the portfolio of short-term negotiated deposits, including their future renewals (high probability of occurrence). In designating the hedged item the Bank used the IAS39 WS.99C in the version adopted by the European Union

(IN PLN MILLION)

SOURCES OF HEDGE INEFFECTIVENESS	▪ margin on the hedging instrument ▪ differences in discount on the hedged item and the hedging instrument ▪ CVA/DVA adjustment of the hedging instrument
	The period in which cash flows are expected to occur and when they are expected to affect the financial results: April 2019 – October 2026

HEDGING DERIVATIVES	NOMINAL AMOUNT OF HEDGING DERIVATIVES		AVERAGE MARGIN WEIGHTED BY THE PRINCIPAL	CARRYING AMOUNT/FAIR VALUE OF HEDGING INSTRUMENTS		INEFFECTIVE PORTION OF CASH FLOW HEDGES RECOGNIZED IN THE INCOME STATEMENT	CHANGE IN THE FAIR VALUE OF THE HEDGING INSTRUMENT
				Assets	Liabilities		
31.03.2019							
CIRS CHF/PLN	float CHF	1 675	0.1530%	47	454	-	(407)
	float PLN	6 031	0.0000%				
31.12.2018							
CIRS CHF/PLN	float CHF	1 675	0.1530%	60	428	-	(377)
	float PLN	6 030	0.0000%				

The table above and subsequent tables present the change in the fair value of hedging instruments and hedged items from the moment of designation of hedging relationships for hedge accounting.

HEDGED ITEMS	NOMINAL AMOUNT OF HEDGED ITEMS	ITEM IN THE STATEMENT OF FINANCIAL POSITION	CHANGE IN THE FAIR VALUE OF THE HEDGED ITEM
31.03.2019			
Loans in CHF	1 675	Loans and advances to customers	462
Negotiated deposits in PLN	6 031	Amounts due to customers	
31.12.2018			
Loans in CHF	1 675	Loans and advances to customers	435
Negotiated deposits in PLN	6 030	Amounts due to customers	

STRATEGY 2	**HEDGES AGAINST FLUCTUATIONS IN CASH FLOWS FROM FLOATING INTEREST RATE LOANS IN PLN, RESULTING FROM THE RISK OF FLUCTUATIONS IN INTEREST RATES, USING IRS TRANSACTIONS**
DESCRIPTION OF THE HEDGING RELATIONSHIP	elimination of the risk of cash flow fluctuations generated by the floating interest rate PLN loan portfolio resulting from the interest rate risk using IRS transactions in the period covered by the hedge
HEDGED RISK	interest rate risk
HEDGING INSTRUMENT	IRS transactions where the Bank pays coupons based on the floating 3M WIBOR rate, and receives coupons based on a fixed rate on the nominal value for which they were concluded
HEDGED ITEM	the portfolio of loans in PLN indexed to the floating 3M WIBOR rate
SOURCES OF HEDGE INEFFECTIVENESS	▪ change in market parameters between the moment of determining the terms and conditions relating to the hedged item and the moment of concluding the hedge ▪ differences in discount on the hedged item and the hedging instrument ▪ CVA/DVA adjustment of the hedging instrument
	The period in which cash flows are expected to occur and when they are expected to affect the financial results: April 2019 – December 2023

HEDGING DERIVATIVES	NOMINAL AMOUNT OF HEDGING DERIVATIVES		AVERAGE FIXED INTEREST RATE WEIGHTED BY THE PRINCIPAL	CARRYING AMOUNT/FAIR VALUE OF HEDGING INSTRUMENTS		INEFFECTIVE PORTION OF CASH FLOW HEDGES RECOGNIZED IN THE INCOME STATEMENT	CHANGE IN THE FAIR VALUE OF THE HEDGING INSTRUMENT
				Assets	Liabilities		
31.03.2019							
IRS PLN	PLN	15 454	1,9064%	133	1	1	65
31.12.2018							
IRS PLN	PLN	11 250	2,0400%	95	-	(1)	53

HEDGED ITEM	NOMINAL AMOUNT OF THE HEDGED ITEM	ITEM IN THE STATEMENT OF FINANCIAL POSITION	CHANGE IN THE FAIR VALUE OF THE HEDGED ITEM
31.03.2019			
Loans in PLN	15 454	Loans and advances to customers	(62)
31.12.2018			
Loans in PLN	11 250	Loans and advances to customers	(51)

STRATEGY 3	HEDGES AGAINST FLUCTUATIONS IN CASH FLOWS FROM FLOATING INTEREST RATE LOANS IN PLN, RESULTING FROM THE RISK OF FLUCTUATIONS IN INTEREST RATES, USING IRS TRANSACTIONS
DESCRIPTION OF THE HEDGING RELATIONSHIP	elimination of the risk of cash flow fluctuations generated by the floating interest rate CHF loan portfolio resulting from the interest rate risk using IRS transactions in the period covered by the hedge
HEDGED RISK	interest rate risk
HEDGING INSTRUMENT	IRS transactions where the Bank pays coupons based on the floating 3M CHF LIBOR rate, and receives coupons based on a fixed rate on the nominal value for which they were concluded
HEDGED ITEM	the portfolio of loans in CHF indexed to the floating 3M CHF LIBOR rate
SOURCES OF HEDGE INEFFECTIVENESS	▪ change in market parameters between the moment of determining the terms and conditions relating to the hedged item and the moment of concluding the hedge ▪ differences in discount on the hedged item and the hedging instrument ▪ CVA/DVA adjustment of the hedging instrument
	The period in which cash flows are expected to occur and when they are expected to affect the financial results: January 2019 – November 2021.

HEDGING DERIVATIVES	NOMINAL AMOUNT OF HEDGING DERIVATIVES		AVERAGE FIXED INTEREST RATE WEIGHTED BY THE PRINCIPAL	CARRYING AMOUNT/FAIR VALUE OF HEDGING INSTRUMENTS		INEFFECTIVE PORTION OF CASH FLOW HEDGES RECOGNIZED IN THE INCOME STATEMENT	CHANGE IN THE FAIR VALUE OF THE HEDGING INSTRUMENT
				Assets	Liabilities		
31.03.2019							
IRS CHF	CHF	400	-0.4425%	8	-	-	3
31.12.2018							
IRS CHF	CHF	400	-0.4425%	7	-	-	2

HEDGED ITEM	NOMINAL AMOUNT OF THE HEDGED ITEM	ITEM IN THE STATEMENT OF FINANCIAL POSITION	CHANGE IN THE FAIR VALUE OF THE HEDGED ITEM
31.03.2019			
Loans in CHF	400	Loans and advances to customers	(2)
31.12.2018			
Loans in CHF	400	Loans and advances to customers	(2)

(IN PLN MILLION)

STRATEGY 4	HEDGES AGAINST FLUCTUATIONS IN CASH FLOWS FROM FLOATING INTEREST RATE LOANS IN FOREIGN CURRENCIES, RESULTING FROM THE RISK OF FLUCTUATIONS IN INTEREST RATES AND FROM FOREIGN EXCHANGE RATE RISK AND HEDGES AGAINST FLUCTUATIONS IN CASH FLOWS FROM FIXED INTEREST RATE FINANCIAL LIABILITY IN A FOREIGN CURRENCY, RESULTING FROM FOREIGN EXCHANGE RATE RISK, USING CIRS TRANSACTIONS
DESCRIPTION OF THE HEDGING RELATIONSHIP	elimination of the risk of fluctuations in cash flows from floating interest rate loans in foreign currencies, resulting from the risk of fluctuations in interest rates and from foreign exchange rate risk and elimination of the risk of fluctuations in cash flows from fixed interest rate financial liability in a foreign currency resulting from foreign exchange rate risk, using CIRS transactions in the hedged period
HEDGED RISK	foreign exchange risk and interest rate risk
HEDGING INSTRUMENT	CIRS transactions where the Bank pays coupons based on the floating 3M CHF LIBOR rate, and receives coupons based on a USD or EUR fixed rate on the nominal value for which they were concluded
HEDGED ITEM	the portfolio of floating interest rate mortgage loans in PLN and a fixed interest financial liability in EUR
SOURCES OF HEDGE INEFFECTIVENESS	▪ differences in discount on the hedged item and the hedging instrument ▪ CVA/DVA adjustment of the hedging instrument
	The period in which cash flows are expected to occur and when they are expected to affect the financial results: April 2019 – September 2022.

HEDGING DERIVATIVES	NOMINAL AMOUNT OF HEDGING DERIVATIVES		AVERAGE FIXED INTEREST RATE WEIGHTED BY THE PRINCIPAL	CARRYING AMOUNT/FAIR VALUE OF HEDGING INSTRUMENTS		INEFFECTIVE PORTION OF CASH FLOW HEDGES RECOGNIZED IN THE INCOME STATEMENT	CHANGE IN THE FAIR VALUE OF THE HEDGING INSTRUMENT
				Assets	Liabilities		
31.03.2019							
CIRS CHF/USD	float CHF	818		204	-	-	167
	fixed USD	875	2.4315%				
CIRS CHF/EUR	float CHF	826		69	-	-	74
	fixed EUR	748	0.0367%				
31.12.2018							
CIRS CHF/USD	float CHF	818		148	-	1	88
	fixed USD	875	2.4315%				
CIRS CHF/EUR	float CHF	826		92	-	1	90
	fixed EUR	748	0.0367%				

HEDGED ITEMS	NOMINAL AMOUNT OF HEDGED ITEMS	ITEM IN THE STATEMENT OF FINANCIAL POSITION	CHANGE IN THE FAIR VALUE OF THE HEDGED ITEM
31.03.2019			
Loans in CHF	1 644	Loans and advances to customers	(238)
Financial liability in USD	875	Amounts due to customers	
Loans in CHF		Loans and advances to customers	
Financial liability in EUR	748	Amounts due to customers	
31.12.2018			
Loans in CHF	1 644	Loans and advances to customers	(174)
Financial liability in USD	875	Amounts due to customers	
Loans in CHF		Loans and advances to customers	
Financial liability in EUR	748	Amounts due to customers	

(IN PLN MILLION)

STRATEGY 5	HEDGES AGAINST FLUCTUATIONS IN CASH FLOWS FROM MORTGAGE LOANS IN CONVERTIBLE CURRENCIES OTHER THAN CHF AND NEGOTIABLE TERM DEPOSITS IN PLN ARISING FROM THE RISK OF A CHANGE IN INTEREST RATE AND FOREIGN EXCHANGE RISK, USING CIRS TRANSACTIONS
DESCRIPTION OF THE HEDGING RELATIONSHIP	elimination of the risk of cash flow fluctuations generated by floating interest rate loans denominated in foreign currencies other than CHF and negotiated term deposits in PLN, resulting from fluctuations in reference interest rates and changes in foreign exchange rates using CIRS transactions during the hedged period
HEDGED RISK	foreign exchange risk and interest rate risk
HEDGING INSTRUMENT	CIRS transactions where the Bank pays coupons based on 3M EURIBOR rate, and receives coupons based on WIBOR 3M rate on the nominal value for which they were concluded
HEDGED ITEM	the portfolio of floating interest mortgage loans in EUR and the portfolio of short-term negotiated deposits, including their future renewals (high probability of occurrence). In designating the hedged item the Bank used the IAS39 WS.99C in the version adopted by the European Union
SOURCES OF HEDGE INEFFECTIVENESS	▪ margin on the hedging instrument ▪ differences in discount on the hedged item and the hedging instrument ▪ CVA/DVA adjustment of the hedging instrument
	The period in which cash flows are expected to occur and when they are expected to affect the financial results: April 2019 – March 2021.

HEDGING DERIVATIVES	NOMINAL AMOUNT OF HEDGING DERIVATIVES		AVERAGE MARGIN WEIGHTED BY THE PRINCIPAL	CARRYING AMOUNT/FAIR VALUE OF HEDGING INSTRUMENTS		INEFFECTIVE PORTION OF CASH FLOW HEDGES RECOGNIZED IN THE INCOME STATEMENT	CHANGE IN THE FAIR VALUE OF THE HEDGING INSTRUMENT
				Assets	Liabilities		
31.03.2019							
CIRS EUR/PLN	float EUR	125	0.0000%	9	-	-	7
	float PLN	545	-0.0092%				
31.12.2018							
CIRS EUR/PLN	float EUR	125	0.0000%	7	-	-	6
	float PLN	545	-0.0092%				

HEDGED ITEMS	NOMINAL AMOUNT OF HEDGED ITEMS	ITEM IN THE STATEMENT OF FINANCIAL POSITION	CHANGE IN THE FAIR VALUE OF THE HEDGED ITEM
31.03.2019			
Loans in EUR	125	Loans and advances to customers	(7)
Negotiated deposits in PLN	545	Amounts due to customers	
31.12.2018			
Loans in EUR	125	Loans and advances to customers	(6)
Negotiated deposits in PLN	545	Amounts due to customers	

STRATEGY 6	HEDGES AGAINST FLUCTUATIONS IN CASH FLOWS ASSOCIATED WITH MORTGAGE LOANS IN FOREIGN CURRENCIES AND DEPOSITS NEGOTIATED IN PLN, RESULTING FROM INTEREST RATE AND FOREIGN EXCHANGE RISK, WITH THE USE OF TWO HEDGING INSTRUMENTS: IRS AND CIRS-EP
DESCRIPTION OF THE HEDGING RELATIONSHIP	elimination of the risk of changes in cash flows generated by mortgage loans denominated in foreign currencies and deposits negotiated in PLN, resulting from changes in reference interest rates and changes in foreign exchange rates, with the use of two hedging instruments: IRS and CIRS-EP, in the period covered by hedging
HEDGED RISK	foreign exchange risk and interest rate risk

HEDGING INSTRUMENT	-CIRS-EP (Cross-Currency Interest Rate Swap – Extension Period) transactions with extended maturities, where the Bank pays coupons based on a fixed rate in EUR and receives coupons based on a variable WIBOR 3M reference rate on the nominal amount, and IRS transactions, where the Bank pays coupons based on a variable EURIBOR 3M rate and receives coupons based on a fixed EUR rate on the nominal amount. The event of bankruptcy of the underlying entity (the entity whose bankruptcy is monitored as part of the transaction), the CIRS-EP transaction is extended automatically on the terms and conditions defined on the date of concluding the transaction
HEDGED ITEM	the portfolio of floating interest mortgage loans in EUR and the portfolio of short-term negotiated deposits, including their future renewals (high probability of occurrence). In designating the hedged item the Bank used the IAS39 WS.99C in the version adopted by the European Union
SOURCES OF HEDGE INEFFECTIVENESS	▪ margin on the hedging instrument ▪ differences in discount on the hedged item and the hedging instrument ▪ CVA/DVA adjustment of the hedging instrument ▪ EP component of the CIRS instrument
	The period in which cash flows are expected to occur and when they are expected to affect the financial results: April 2019 – February 2024.

HEDGING DERIVATIVES	NOMINAL AMOUNT OF HEDGING DERIVATIVES		AVERAGE FIXED INTEREST RATE WEIGHTED BY THE PRINCIPAL	CARRYING AMOUNT/FAIR VALUE OF HEDGING INSTRUMENTS		INEFFECTIVE PORTION OF CASH FLOW HEDGES RECOGNIZED IN THE INCOME STATEMENT	CHANGE IN THE FAIR VALUE OF THE HEDGING INSTRUMENT
				Assets	Liabilities		
31.03.2019							
CIRS-EP EUR/PLN	fixed EUR	524	0.0000%	16	-	-	14
	float PLN	2 263					
IRS EUR	EUR	524	0.2087%	8	-	-	5
31.12.2018							
CIRS-EP EUR/PLN	fixed EUR	523	0.2087%	15	-	-	14
	float PLN	2 262					
IRS EUR	EUR	524	0.2087%	2	4	-	(6)

HEDGED ITEMS	NOMINAL AMOUNT OF HEDGED ITEMS	ITEM IN THE STATEMENT OF FINANCIAL POSITION	CHANGE IN THE FAIR VALUE OF THE HEDGED ITEM
31.03.2019			
Loans in EUR	524	Loans and advances to customers	(26)
Negotiated deposits in PLN	2 263	Amounts due to customers	
31.12.2018			
Loans in EUR	524	Loans and advances to customers	(13)
Negotiated deposits in PLN	2 262	Amounts due to customers	

STRATEGY 7	**HEDGES AGAINST FLUCTUATIONS IN CASH FLOWS ASSOCIATED WITH MORTGAGE LOANS IN FOREIGN CURRENCIES AND DEPOSITS NEGOTIATED IN PLN, RESULTING FROM INTEREST RATE AND FOREIGN EXCHANGE RISK, WITH THE USE OF TWO HEDGING INSTRUMENTS: IRS AND CIRS-EP**
DESCRIPTION OF THE HEDGING RELATIONSHIP	elimination of the risk of changes in cash flows generated by mortgage loans denominated in foreign currencies and deposits negotiated in PLN, resulting from changes in reference interest rates and changes in foreign exchange rates, with the use of two hedging instruments: CIRS and CIRS-EP, in the period covered by hedging
HEDGED RISK	foreign exchange risk and interest rate risk
HEDGING INSTRUMENT	– CIRS-EP (Cross-Currency Interest Rate Swap – Extension Period) transactions with extended maturities, where the Bank pays coupons based on a fixed rate in EUR and receives coupons based on a variable WIBOR 3M reference rate on the nominal amount, and CIRS transactions, where the Bank pays coupons based on a variable LIBOR CHF 3M

(IN PLN MILLION)

	rate and receives coupons based on a fixed EUR rate on the nominal amount. The event of bankruptcy of the underlying entity (the entity whose bankruptcy is monitored as part of the transaction), the CIRS-EP transaction is extended automatically on the terms and conditions defined on the date of concluding the transaction
HEDGED ITEM	the portfolio of floating interest mortgage loans in CHF and the portfolio of short-term negotiated deposits, including their future renewals (high probability of occurrence). In designating the hedged item the Bank used the IAS39 WS.99C in the version adopted by the European Union
SOURCES OF HEDGE INEFFECTIVENESS	▪ margin on the hedging instrument ▪ differences in discount on the hedged item and the hedging instrument ▪ CVA/DVA adjustment of the hedging instrument ▪ EP component of the CIRS instrument
	The period in which cash flows are expected to occur and when they are expected to affect the financial results: April 2019 – January 2023.

HEDGING DERIVATIVES	NOMINAL AMOUNT OF HEDGING DERIVATIVES		AVERAGE FIXED INTEREST RATE WEIGHTED BY THE PRINCIPAL	CARRYING AMOUNT/FAIR VALUE OF HEDGING INSTRUMENTS		INEFFECTIVE PORTION OF CASH FLOW HEDGES RECOGNIZED IN THE INCOME STATEMENT	CHANGE IN THE FAIR VALUE OF THE HEDGING INSTRUMENT
				Assets	Liabilities		
31.03.2019							
CIRS-EP EUR/PLN	fixed EUR	500	0.0000%	-	28	-	(44)
	float PLN	2 131					
CIRS CHF/EUR	float CHF	535		133	-	-	133
	fixed EUR	500	0.0000%				
31.12.2018							
CIRS-EP EUR/PLN	fixed EUR	500	0.6300%	-	40	-	(44)
	float PLN	2 131					
CIRS CHF/EUR	float CHF	535		148	-	-	134
	fixed EUR	500	0.6300%				

HEDGED ITEMS	NOMINAL AMOUNT OF HEDGED ITEMS	ITEM IN THE STATEMENT OF FINANCIAL POSITION	CHANGE IN THE FAIR VALUE OF THE HEDGED ITEM
31.03.2019			
Loans in CHF	535	Loans in CHF	(102)
Negotiated deposits in PLN	2 131	Negotiated deposits in PLN	
31.12.2018			
Loans in CHF	535	Loans in CHF	(100)
Negotiated deposits in PLN	2 131	Negotiated deposits in PLN	

STRATEGY 8	**HEDGES AGAINST FLUCTUATIONS IN CASH FLOWS FROM MORTGAGE LOANS IN FOREIGN CURRENCIES AND REGULAR SAVINGS PRODUCTS IN PLN, RESULTING FROM THE RISK OF FLUCTUATIONS IN INTEREST RATES AND IN FOREIGN EXCHANGE RATES, USING CIRS TRANSACTIONS**
DESCRIPTION OF THE HEDGING RELATIONSHIP	elimination of the risk of cash flow fluctuations generated by floating interest rate loans denominated in CHF and floating interest rate regular savings products in PLN, resulting from fluctuations in reference interest rates in CHF and PLN, and changes in CHF/PLN foreign exchange rates using CIRS transactions during the hedged period
HEDGED RISK	foreign exchange risk and interest rate risk
HEDGING INSTRUMENT	CIRS transactions where the Bank pays coupons based on 3M CHF LIBOR, and receives coupons based on 3M WIBOR on the nominal value defined in CHF and PLN respectively
HEDGED ITEM	the portfolio of floating interest rate mortgage loans in CHF and the portfolio of floating interest rate regular savings products in PLN

SOURCES OF HEDGE INEFFECTIVENESS	▪ margin on the hedging instrument ▪ differences in discount on the hedged item and the hedging instrument ▪ CVA/DVA adjustment of the hedging instrument
	The period in which cash flows are expected to occur and when they are expected to affect the financial results: April 2019 – July 2023.

HEDGING DERIVATIVES	NOMINAL AMOUNT OF HEDGING DERIVATIVES		AVERAGE MARGIN WEIGHTED BY THE PRINCIPAL	CARRYING AMOUNT/FAIR VALUE OF HEDGING INSTRUMENTS		INEFFECTIVE PORTION OF CASH FLOW HEDGES RECOGNIZED IN THE INCOME STATEMENT	CHANGE IN THE FAIR VALUE OF THE HEDGING INSTRUMENT
				Assets	Liabilities		
31.03.2019							
CIRS CHF/PLN	float CHF	225	-0.2478%	17	-	-	14
	float PLN	872	0.0000%				
31.12.2018							
CIRS CHF/PLN	float CHF	225	-0.2478%	18	-	-	14
	float PLN	872	0.0000%				

HEDGED ITEMS	NOMINAL AMOUNT OF HEDGED ITEMS	ITEM IN THE STATEMENT OF FINANCIAL POSITION	CHANGE IN THE FAIR VALUE OF THE HEDGED ITEM
31.03.2019			
Loans in CHF	225	Loans and advances to customers	(16)
Regular savings products in PLN	872	Amounts due to customers	
31.12.2018			
Loans in CHF	225	Loans and advances to customers	(15)
Regular savings products in PLN	872	Amounts due to customers	

STRATEGY 9

HEDGES AGAINST FLUCTUATIONS IN CASH FLOWS FROM MORTGAGE LOANS IN FOREIGN CURRENCIES AND REGULAR SAVINGS PRODUCTS IN PLN, RESULTING FROM THE RISK OF FLUCTUATIONS IN INTEREST RATES AND IN FOREIGN EXCHANGE RATES, USING CIRS TRANSACTIONS IRS AND CIRS-EP

DESCRIPTION OF THE HEDGING RELATIONSHIP	elimination of the risk of changes in cash flows generated by floating interest rate mortgage loans denominated in foreign currencies and regular savings products in PLN, resulting from changes in reference interest rates and changes in foreign exchange rates, with the use of two hedging instruments: CIRS and CIRS-EP, in the period covered by hedging
HEDGED RISK	foreign exchange risk and interest rate risk
HEDGING INSTRUMENT	– CIRS-EP (Cross-Currency Interest Rate Swap – Extension Period) transactions with extended maturities, where the Bank pays coupons based on a fixed rate in EUR and receives coupons based on a variable WIBOR 3M reference rate on the nominal amount, and CIRS transactions, where the Bank pays coupons based on a variable LIBOR CHF 3M rate and receives coupons based on a fixed EUR rate on the nominal amount. The event of bankruptcy of the underlying entity (the entity whose bankruptcy is monitored as part of the transaction), the CIRS-EP transaction is extended automatically on the terms and conditions defined on the date of concluding the transaction
HEDGED ITEM	the portfolio of floating interest rate mortgage loans in CHF and the portfolio of floating interest rate regular savings products in PLN
SOURCES OF HEDGE INEFFECTIVENESS	▪ margin on the hedging instrument ▪ differences in discount on the hedged item and the hedging instrument ▪ CVA/DVA adjustment of the hedging instrument ▪ EP component of the CIRS instrument
	The period in which cash flows are expected to occur and when they are expected to affect the financial results: January 2019 – August 2024.

(IN PLN MILLION)

HEDGING DERIVATIVES	NOMINAL AMOUNT OF HEDGING DERIVATIVES		AVERAGE FIXED INTEREST RATE WEIGHTED BY THE PRINCIPAL	CARRYING AMOUNT/FAIR VALUE OF HEDGING INSTRUMENTS		INEFFECTIVE PORTION OF CASH FLOW HEDGES RECOGNIZED IN THE INCOME STATEMENT	CHANGE IN THE FAIR VALUE OF THE HEDGING INSTRUMENT
				Assets	Liabilities		
31.03.2019							
CIRS-EP EUR/PLN	fixed EUR	1 053	0,0000%	3	62	(3)	(65)
	float PLN	4 507					
CIRS CHF/EUR	float CHF	1 206		-	45	(1)	(40)
	fixed EUR	1 052	0,0000%				
31.12.2018							
CIRS-EP EUR/PLN	fixed EUR	554	0,7350%	-	49	(2)	(51)
	float PLN	2 364					
CIRS CHF/EUR	float CHF	640		-	37	(1)	(37)
	fixed EUR	553	0,7350%				

HEDGED ITEMS	NOMINAL AMOUNT OF HEDGED ITEMS	ITEM IN THE STATEMENT OF FINANCIAL POSITION	CHANGE IN THE FAIR VALUE OF THE HEDGED ITEM
31.03.2019			
Loans in CHF	1 206	Loans and advances to customers	97
Regular savings products in PLN	4 507	Amounts due to customers	
31.12.2018			
Loans in CHF	640	Loans and advances to customers	84
Regular savings products in PLN	2 364	Amounts due to customers	

STRATEGY 10	HEDGES AGAINST FLUCTUATIONS IN THE FAIR VALUE OF FIXED INTEREST LOANS IN FOREIGN CURRENCIES, RESULTING FROM THE RISK OF FLUCTUATIONS IN INTEREST RATES, USING IRS TRANSACTIONS
DESCRIPTION OF THE HEDGING RELATIONSHIP	elimination of the risk of fluctuations in the fair value of fixed interest loans in foreign currencies, resulting from the risk of fluctuations in interest rates, during the hedged period.
HEDGED RISK	interest rate risk
HEDGING INSTRUMENT	IRS (Interest Rate Swap) transactions in foreign currencies, where the Bank pays coupons based on a fixed rate (the market IRS rate) and receives coupons based on a floating reference rate without an additional margin.
HEDGED ITEM	a component of the interest rate risk relating to a fixed interest rate loan in a foreign currency, which corresponds to the market IRS rate.
SOURCES OF HEDGE INEFFECTIVENESS	▪ change in market parameters between the moment of determining the terms and conditions relating to the hedged item and the moment of concluding the hedge ▪ CVA/DVA adjustment of the hedging instrument

HEDGING DERIVATIVES	NOMINAL AMOUNT OF HEDGING DERIVATIVES		AVERAGE FIXED INTEREST RATE WEIGHTED BY THE PRINCIPAL	CARRYING AMOUNT/FAIR VALUE OF HEDGING INSTRUMENTS		REMEASUREMENT TO THE FAIR VALUE OF THE HEDGED ITEM	CHANGE IN THE FAIR VALUE OF THE HEDGING INSTRUMENT
				Assets	Liabilities		
31.03.2019							
IRS EUR	EUR	103	-0.3091%	-	3	3	(1)
31.12.2018							
IRS EUR	EUR	103	-0.3090%	-	1	1	-

HEDGED ITEM	CARRYING AMOUNT OF THE HEDGED ITEM	ITEM IN THE STATEMENT OF FINANCIAL POSITION	CHANGE IN THE FAIR VALUE OF THE HEDGED ITEM
31.03.2019			
Loans in EUR	103	Loans and advances to customers	2
31.12.2018			
Loans in EUR	103	Loans and advances to customers	-

In the first quarter of 2019 and in 2018 the Bank did not introduce any new hedging strategies.

(IN PLN MILLION)

FINANCIAL INFORMATION

CARRYING AMOUNT OF HEDGING INSTRUMENTS	31.03.2019		31.12.2018	
	Assets	Liabilities	Assets	Liabilities
Cash flow hedges	647	590	592	559
Hedges of interest rate risk	149	1	106	5
IRS	149	1	106	5
Hedges of currency and interest rate risks	498	589	486	554
CIRS	498	589	486	554
Fair value hedges	-	3	-	1
Hedges of interest rate risk	-	3	-	1
IRS	-	3	-	1
Total	647	593	592	560

CHANGE IN OTHER COMPREHENSIVE INCOME RELATING TO CASH FLOW HEDGES AND THE INEFFECTIVE PORTION OF CASH FLOW HEDGES	01.01-31.03.2019	01.01-31.03.2018
Other comprehensive income at the beginning of the period, gross	(21)	(91)
Gains/losses recognized in other comprehensive income during the period	145	(59)
Amounts transferred from other comprehensive income to the cash flow statement, of which:	10	-
- interest income	(136)	(122)
- net foreign exchange gains/(losses)	146	122
Accumulated other comprehensive income at the end of the period, gross	134	**(150)**
Tax effect	(25)	28
Accumulated other comprehensive income at the end of the period, net	**109**	**(122)**
Impact on other comprehensive income during the period, gross	**155**	**(59)**
Tax effect	(29)	12
Impact on other comprehensive income during the period, net	**126**	**(47)**
Ineffective portion of cash flow hedges recognized in the income statements, including in:	**(3)**	**(1)**
Foreign exchange gains/ (losses)	(4)	(1)
Gain/(loss) on financial instruments measured at fair value	1	-

GAINS (LOSSES) LOSSES ON HEDGING INSTRUMENTS AND HEDGED ITEMS ATTRIBUTABLE TO HEDGED RISKS	31.03.2019	31.12.2018
Hedges of interest rate risk		
Fair value measurement of the hedging derivative instrument	(3)	(1)
IRS PLN fixed - float	(3)	(1)
Fair value adjustment of the hedged instrument attributable to the hedged risk	3	1
Loans in EUR fixed	3	1

18. OTHER DERIVATIVE FINANCIAL INSTRUMENTS

OTHER DERIVATIVE INSTRUMENTS - BY TYPE	31.03.2019		31.12.2018	
	Assets	Liabilities	Assets	Liabilities
IRS	1 361	1 950	1 179	1 832
CIRS	153	151	156	155
FX Swap	182	51	115	43
Options	260	268	262	268
Commodity swap	119	116	85	83
FRA	2	2	3	2
Forward	136	314	109	274
Total	2 213	2 852	1 909	2 657

(IN PLN MILLION)

19. SECURITIES

SECURITIES	31.03.2019	31.12.2018
held for trading	1 427	282
not held for trading, measured at fair value through profit or loss	1 288	1 280
measured at fair value through OCI	48 689	50 562
measured at amortized cost	14 131	8 315
Total	**65 535**	**60 439**

As at 31 March 2019, the impairment allowance which did not reduce the fair value of securities measured at fair value through other comprehensive income amounted to PLN 17 million (PLN 18 million as at 31 December 2018).

(IN PLN MILLION)

SECURITIES 31.03.2019	held for trading	not held for trading, measured at fair value through profit or loss	measured at fair value through OCI	measured at amortized cost	Total
Debt securities	1 409	948	48 689	14 131	65 177
NBP money market bills	-	-	-	4 499	4 499
Treasury bonds (in PLN)	1 261	730	39 895	3 605	45 491
Treasury bonds (in foreign currencies)	2	-	119	-	121
municipal bonds (in PLN)	16	-	5 294	4 016	9 326
municipal bonds (in foreign currencies)	-	38	-	-	38
corporate bonds (in PLN)	90	180	3 381	2 011	5 662
corporate bonds (in foreign currencies)	1	-	-	-	1
covered bonds	39	-	-	-	39
Equity securities	18	340	-	-	356
Shares in other entities – not listed[1]	-	297	-	-	297
Shares in other entities – listed	16	43	-	-	59
Investment certificates, rights to shares, pre-emptive rights	2	-	-	-	2
Total	**1 427**	**1 288**	**48 689**	**14 131**	**65 535**

[1] the item comprises, among other things, the interest in: Polski Standard Płatności sp. z o.o. of PLN 22 million and Visa Inc. of PLN 175 million.

The item “Treasury bonds in PLN and in foreign currencies” comprises Polish Treasury bonds.

In the period ended 31 March 2019 there were no transfers between stages in respect of securities.

(IN PLN MILLION)

SECURITIES 31.12.2018	held for trading	not held for trading, measured at fair value through profit or loss	measured at fair value through OCI	measured at amortized cost	Total
Debt securities	264	972	50 562	8 315	60 113
NBP money market bills	-	-	2 900	-	2 900
Treasury bonds (in PLN)	94	820	38 276	2 200	41 390
Treasury bonds (in foreign currencies)	4	-	-	-	4
municipal bonds (in PLN)	16	-	5 301	4 007	9 324
municipal bonds (in foreign currencies)	-	37	-	-	37
corporate bonds (in PLN)	103	115	4 033	1 764	6 015
corporate bonds (in foreign currencies)	1	-	52	344	397
covered bonds	46	-	-	-	46
Equity securities	18	308	-	-	326
Shares in other entities – not listed[1]	-	266	-	-	266
Shares in other entities – listed	13	42	-	-	55
Investment certificates, rights to shares, pre-emptive rights	5	-	-	-	5
Total	**282**	**1 280**	**50 562**	**8 315**	**60 439**

[1] the item comprises, among other things, the interest in: Polski Standard Płatności sp. z o.o. of PLN 22 million and Visa Inc. of PLN 142 million.

The item “Treasury bonds in PLN and in foreign currencies” comprises Polish Treasury bonds.

Information about the exposure to credit risk for securities measured at amortized cost or at fair value through other comprehensive income is presented in Note 21 Expected credit losses.

In the period ended 31 December 2018, PLN 59 million in respect of corporate bonds in PLN were transferred between Stage 1 and Stage 2 and PLN 388 million in respect of communal bonds in PLN.

(IN PLN MILLION)

SECURITIES 31.03.2019	measured at fair value through OCI			measured at amortized cost		
	Gross amount	Allowances for expected credit losses	Net amount	Gross amount	Allowances for expected credit losses	Net amount
Debt securities	48 702	(13)	48 689	14 149	(18)	14 131
NBP money market bills	-	-	-	4 499	-	4 499
Treasury bonds (in PLN)	39 895	-	39 895	3 605	-	3 605
Treasury bonds (in foreign currencies)	119	-	119	-	-	-
municipal bonds (in PLN)	5 294	-	5 294	4 022	(6)	4 016
corporate bonds (in PLN)	3 394	(13)	3 381	2 023	(12)	2 011
Total	**48 702**	**(13)**	**48 689**	**14 149**	**(18)**	**14 131**

SECURITIES 31.12.2018	measured at fair value through OCI			measured at amortized cost		
	Gross amount	Allowances for expected credit losses	Net amount	Gross amount	Allowances for expected credit losses	Net amount
Debt securities	50 572	(10)	50 562	8 335	(20)	8 315
NBP money market bills	2 900	-	2 900	-	-	-
Treasury bonds (in PLN)	38 276	-	38 276	2 200	-	2 200
municipal bonds (in PLN)	5 301	-	5 301	4 013	(6)	4 007
corporate bonds (in PLN)	4 043	(10)	4 033	1 777	(13)	1 764
corporate bonds (in foreign currencies)	52	-	52	345	(1)	344
Total	**50 572**	**(10)**	**50 562**	**8 335**	**(20)**	**8 315**

(IN PLN MILLION)

20. LOANS AND ADVANCES TO CUSTOMERS

LOANS AND ADVANCES TO CUSTOMERS	31.03.2019	31.12.2018
	Net amount	Net amount
Loans and advances to customers (excluding adjustments relating to fair value hedge accounting)	193 853	**191 574**
Adjustment relating to fair value hedge accounting	3	1
Total loans and advances to customers	**193 856**	**191 575**

LOANS AND ADVANCES TO CUSTOMERS (excluding adjustments relating to fair value hedge accounting)	31.03.2019	31.12.2018
measured at amortized cost	185 739	181 972
measured at fair value through OCI	7 053	8 496
not held for trading, measured at fair value through profit or loss	1 061	1 106
Total	**193 853**	**191 574**

LOANS AND ADVANCES TO CUSTOMERS (excluding adjustments relating to fair value hedge accounting) 31.03.2019	not held for trading, measured at fair value through profit or loss	measured at fair value through OCI			measured at amortized cost			Total
	Net amount	Gross amount	Allowances for expected credit losses	Net amount	Gross amount	Allowances for expected credit losses	Net amount	Net amount
Loans	**1 061**	**7 053**	-	**7 053**	**192 090**	**(7 747)**	**184 343**	**192 457**
housing	24	7 048	-	7 048	85 857	(1 960)	83 897	**90 969**
corporate	141	-	-	-	78 992	(3 992)	75 000	**75 141**
consumer	896	5	-	5	27 241	(1 795)	25 446	**26 347**
Receivables in respect of reverse repurchase agreements	-	-	-	-	**1 396**	-	**1 396**	**1 396**
Total	**1 061**	**7 053**	-	**7 053**	**193 486**	**(7 747)**	**185 739**	**193 853**

LOANS AND ADVANCES TO CUSTOMERS (excluding adjustments relating to fair value hedge accounting) 31.12.2018	not held for trading, measured at fair value through profit or loss	measured at fair value through OCI			measured at amortized cost			Total
	Net amount	Gross amount	Allowances for expected credit losses	Net amount	Gross amount	Allowances for expected credit losses	Net amount	Net amount
Loans	**1 106**	**8 496**	-	**8 496**	**189 432**	**(7 511)**	**181 921**	**191 523**
housing	27	8 496	-	8 496	85 211	(1 940)	83 271	**91 794**
corporate	148	-	-	-	77 399	(3 897)	73 502	**73 650**
consumer	931	-	-	-	26 822	(1 674)	25 148	**26 079**
Receivables in respect of reverse repurchase agreements	-	-	-	-	**51**	-	**51**	**51**
Total	**1 106**	**8 496**	-	**8 496**	**189 483**	**(7 511)**	**181 972**	**191 574**

As at 31 March 2019, the allowances in respect of loans and advances to customers measured at fair value through other comprehensive income was PLN 22 million.

(IN PLN MILLION)

LOANS AND ADVANCES TO CUSTOMERS BY CUSTOMER SEGMENT (excluding adjustments relating to fair value hedge accounting)	31.03.2019	31.12.2018
Loans and advances to customers, gross, of which:	201 600	199 085
mortgage banking	86 690	87 434
corporate	65 334	64 187
retail and private banking	28 137	27 753
firms and undertakings	20 043	19 660
receivables in respect of reverse repurchase agreements	1 396	51
Net allowances for expected credit losses/impairment allowances on loans and advances	(7 747)	(7 511)
Total loans and advances to customers, net	**193 853**	**191 574**

Information about the exposure to credit risk for loans and advances granted measured at amortized cost or at fair value through other comprehensive income is presented in more detail in Note 21 “Expected credit losses”.

(IN PLN MILLION)

LOANS AND ADVANCES TO CUSTOMERS – MOVEMENTS BETWEEN IMPAIRMENT STAGES (excluding adjustments relating to fair value hedge accounting) 31.03.2019	Carrying amount, gross							
	AMOUNTS NOT SUBJECT TO TRANSFER	Transfers between stage 1 and stage 2		Transfers between stage 2 and stage 3		Transfers between stage 1 and stage 3		TOTAL
		from stage 1 to stage 2	from stage 2 to stage 1	from stage 2 to stage 3	from stage 3 to stage 2	from stage 1 to stage 3	from stage 3 to stage 1	
Measured at fair value through OCI:	6 934	51	66	2	-	-	-	7 053
bank loans	6 934	51	66	2	-	-	-	7 053
housing	6 929	51	66	2	-	-	-	7 048
consumer	5							5
Total	6 934	51	66	2	-	-	-	7 053
of which: purchased or originated credit-impaired off-balance sheet liabilities – POCI	-	-	-	-	-	-	-	-
Measured at amortized cost:	187 417	3 119	2 303	462	87	98	-	193 486
bank loans	186 021	3 119	2 303	462	87	98	-	192 090
housing	83 300	917	1 510	82	37	11	-	85 857
corporate	77 081	1 181	433	231	22	44	-	78 992
consumer	25 640	1 021	360	149	28	43	-	27 241
receivables in respect of reverse repurchase agreements	1 396	-	-	-	-	-	-	1 396
Total	187 417	3 119	2 303	462	87	98	-	193 486
of which: purchased or originated credit-impaired off-balance sheet liabilities – POCI	171	-	-	-	-	-	-	171

LOANS AND ADVANCES TO CUSTOMERS – MOVEMENTS BETWEEN IMPAIRMENT STAGES (excluding adjustments relating to fair value hedge accounting) 31.03.2019	Allowances for expected credit losses							
	AMOUNTS NOT SUBJECT TO TRANSFER	Transfers between stage 1 and stage 2		Transfers between stage 2 and stage 3		Transfers between stage 1 and stage 3		TOTAL
		from stage 1 to stage 2	from stage 2 to stage 1	from stage 2 to stage 3	from stage 3 to stage 2	from stage 1 to stage 3	from stage 3 to stage 1	
Measured at amortized cost:	(7 273)	(252)	(15)	(164)	(9)	(34)	-	(7 747)
bank loans	(7 273)	(252)	(15)	(164)	(9)	(34)	-	(7 747)
housing	(1 841)	(82)	(2)	(25)	(5)	(5)	-	(1 960)
corporate	(3 866)	(41)	(8)	(66)	(1)	(10)	-	(3 992)
consumer	(1 566)	(129)	(5)	(73)	(3)	(19)	-	(1 795)
Total	(7 273)	(252)	(15)	(164)	(9)	(34)	-	(7 747)
of which: purchased or originated credit-impaired off-balance sheet liabilities – POCI	(86)	-	-	-	-	-	-	(86)

(IN PLN MILLION)

LOANS AND ADVANCES TO CUSTOMERS – MOVEMENTS BETWEEN IMPAIRMENT STAGES (excluding adjustments relating to fair value hedge accounting) 31.03.2019	Carrying amount, net							
	AMOUNTS NOT SUBJECT TO TRANSFER	Transfers between stage 1 and stage 2		Transfers between stage 2 and stage 3		Transfers between stage 1 and stage 3		TOTAL
		from stage 1 to stage 2	from stage 2 to stage 1	from stage 2 to stage 3	from stage 3 to stage 2	from stage 1 to stage 3	from stage 3 to stage 1	
Measured at fair value through OCI:	**6 934**	**51**	**66**	**2**	-	-	-	**7 053**
bank loans	6 934	51	66	2	-	-	-	**7 053**
housing	6 929	51	66	2	-	-	-	**7 048**
consumer	5	-	-	-	-	-	-	**5**
Total	**6 934**	**51**	**66**	**2**	-	-	-	**7 053**
of which: purchased or originated credit-impaired off-balance sheet liabilities – POCI	-	-	-	-	-	-	-	-
Measured at amortized cost:	**180 144**	**2 867**	**2 288**	**298**	**78**	**64**	-	**185 739**
bank loans	178 748	2 867	2 288	298	78	64	-	**184 343**
housing	81 459	835	1 508	57	32	6	-	**83 897**
corporate	73 215	1 140	425	165	21	34	-	**75 000**
consumer	24 074	892	355	76	25	24	-	**25 446**
receivables in respect of reverse repurchase agreements	1 396	-	-	-	-	-	-	**1 396**
Total	**180 144**	**2 867**	**2 288**	**298**	**78**	**64**	-	**185 739**
of which: purchased or originated credit-impaired off-balance sheet liabilities – POCI	**85**	-	-	-	-	-	-	**85**

Movements between impairment stages were presented in the gross balance sheet value and allowances as at 31 March 2019. With regard to loans and advances to customers which changed stages several times, the movement was presented as a transfer from the stage in which they were as at 1 January 2019 or upon their initial recognition (after 1 January 2019) to the impairment stage as at 31 March 2019.

(IN PLN MILLION)

LOANS AND ADVANCES TO CUSTOMERS – MOVEMENTS BETWEEN IMPAIRMENT STAGES (excluding adjustments relating to fair value hedge accounting) 31.12.2018	Carrying amount, gross							
	AMOUNTS NOT SUBJECT TO TRANSFER	Transfers between stage 1 and stage 2		Transfers between stage 2 and stage 3		Transfers between stage 1 and stage 3		TOTAL
		from stage 1 to stage 2	from stage 2 to stage 1	from stage 2 to stage 3	from stage 3 to stage 2	from stage 1 to stage 3	from stage 3 to stage 1	
Measured at fair value through OCI:	8 340	125	28	1	-	2	-	8 496
bank loans	8 340	125	28	1	-	2	-	8 496
housing	8 340	125	28	1	-	2	-	8 496
Total	8 340	125	28	1	-	2	-	8 496
of which: purchased or originated credit-impaired off-balance sheet liabilities – POCI	-	-	-	-	-	-	-	-
Measured at amortized cost:	178 593	5 697	2 963	816	503	824	87	189 483
bank loans	178 542	5 697	2 963	816	503	824	87	189 432
housing	81 146	2 203	1 203	250	287	105	17	85 211
corporate	72 935	2 291	1 309	348	143	328	45	77 399
consumer	24 461	1 203	451	218	73	391	25	26 822
receivables in respect of reverse repurchase agreements	51	-	-	-	-	-	-	51
Total	178 593	5 697	2 963	816	503	824	87	189 483
of which: purchased or originated credit-impaired off-balance sheet liabilities – POCI	566	-	-	-	-	-	-	566

LOANS AND ADVANCES TO CUSTOMERS – MOVEMENTS BETWEEN IMPAIRMENT STAGES (excluding adjustments relating to fair value hedge accounting) 31.12.2018	Allowances for expected credit losses							
	AMOUNTS NOT SUBJECT TO TRANSFER	Transfers between stage 1 and stage 2		Transfers between stage 2 and stage 3		Transfers between stage 1 and stage 3		TOTAL
		from stage 1 to stage 2	from stage 2 to stage 1	from stage 2 to stage 3	from stage 3 to stage 2	from stage 1 to stage 3	from stage 3 to stage 1	
Measured at amortized cost:	(6 249)	(498)	(29)	(293)	(44)	(397)	(1)	(7 511)
bank loans	(6 249)	(498)	(29)	(293)	(44)	(397)	(1)	(7 511)
housing	(1 598)	(173)	(3)	(98)	(25)	(43)	-	(1 940)
corporate	(3 533)	(129)	(21)	(69)	(11)	(133)	(1)	(3 897)
consumer	(1 118)	(196)	(5)	(126)	(8)	(221)	-	(1 674)
Total	(6 249)	(498)	(29)	(293)	(44)	(397)	(1)	(7 511)
of which: purchased or originated credit-impaired off-balance sheet liabilities – POCI	(124)	-	-	-	-	-	-	(124)

(IN PLN MILLION)

LOANS AND ADVANCES TO CUSTOMERS – MOVEMENTS BETWEEN IMPAIRMENT STAGES (excluding adjustments relating to fair value hedge accounting) 31.12.2018	Carrying amount, net							
	AMOUNTS NOT SUBJECT TO TRANSFER	Transfers between stage 1 and stage 2		Transfers between stage 2 and stage 3		Transfers between stage 1 and stage 3		TOTAL
		from stage 1 to stage 2	from stage 2 to stage 1	from stage 2 to stage 3	from stage 3 to stage 2	from stage 1 to stage 3	from stage 3 to stage 1	
Measured at fair value through OCI:	**8 340**	**125**	**28**	**1**	**-**	**2**	**-**	**8 496**
bank loans	8 340	125	28	1	-	2	-	**8 496**
housing	8 340	125	28	1	-	2	-	**8 496**
Total	**8 340**	**125**	**28**	**1**	**-**	**2**	**-**	**8 496**
of which: purchased or originated credit-impaired off-balance sheet liabilities – POCI	-	-	-	-	-	-	-	-
Measured at amortized cost:	**172 344**	**5 199**	**2 934**	**523**	**459**	**427**	**86**	**181 972**
bank loans	172 293	5 199	2 934	523	459	427	86	**181 921**
housing	79 548	2 030	1 200	152	262	62	17	**83 271**
corporate	69 402	2 162	1 288	279	132	195	44	**73 502**
consumer	23 343	1 007	446	92	65	170	25	**25 148**
receivables in respect of reverse repurchase agreements	51	-	-	-	-	-	-	**51**
Total	**172 344**	**5 199**	**2 934**	**523**	**459**	**427**	**86**	**181 972**
of which: purchased or originated credit-impaired off-balance sheet liabilities – POCI	**442**	-	-	-	-	-	-	**442**

Movements between impairment stages were presented in the gross balance sheet value and allowances as at 31 December 2018. With regard to loans and advances to customers which changed stages several times, the movement was presented as a transfer from the stage in which they were as at 1 January 2018 or upon their initial recognition to the impairment stage as at 31 December 2018.

(IN PLN MILLION)

21. EXPECTED CREDIT LOSSES

FINANCIAL ASSETS

BY MEASUREMENT MODEL (excluding adjustments relating to fair value hedge accounting) 31.03.2019	Gross amount – assets with no significant increase in credit risk since initial recognition (stage 1)	Allowances for expected credit losses (stage 1)	Gross amount – assets with a significant increase in credit risk since initial recognition, but not credit-impaired (stage 2)	Allowances for expected credit losses (stage 2)	Gross amount – assets at risk of credit impairment (stage 3)	of which: impaired assets, gross	Allowances for expected credit losses (stage 3)	Total gross amount	Total allowances for expected credit losses	Total, net
Measured at fair value through OCI										
securities	47 859	-	369	-	474	474	(13)	48 702	(13)	48 689
Treasury bonds (in PLN)	39 895	-	-	-	-	-	-	39 895	-	39 895
Treasury bonds (in foreign currencies)	119	-	-	-	-	-	-	119	-	119
other	7 845	-	369	-	474	474	(13)	8 688	(13)	8 675
bank loans	6 912	-	135	-	6	6	-	7 053	-	7 053
housing	6 907	-	135	-	6	6	-	7 048	-	7 048
consumer	5	-	-	-	-	-	-	5	-	5
Total	54 771	-	504	-	480	480	(13)	55 755	(13)	55 742
of which: purchased or originated credit-impaired off-balance sheet liabilities - POCI	-	-	-	-	474	474	(13)	474	(13)	461
Measured at amortized cost										
amounts due from banks	8 321	(3)	-	-	-	-	-	8 321	(3)	8 318
securities	14 103	(11)	46	(7)	-	-	-	14 149	(18)	14 131
NBP money market bills	4 499	-	-	-	-	-	-	4 499	-	4 499
Treasury bonds (in PLN)	3 605	-	-	-	-	-	-	3 605	-	3 605
other	5 999	(11)	46	(7)	-	-	-	6 045	(18)	6 027
bank loans	170 413	(539)	12 668	(1 177)	10 405	9 996	(6 031)	193 486	(7 747)	185 739
housing	78 813	(40)	4 814	(486)	2 230	2 174	(1 434)	85 857	(1 960)	83 897
corporate	67 101	(350)	5 611	(327)	6 280	5 931	(3 315)	78 992	(3 992)	75 000
consumer	23 103	(149)	2 243	(364)	1 895	1 891	(1 282)	27 241	(1 795)	25 446
receivables in respect of reverse repurchase agreements	1 396	-	-	-	-	-	-	1 396	-	1 396
other financial assets	1 844	-	-	-	95	95	(95)	1 939	(95)	1 844
Total	194 681	(553)	12 714	(1 184)	10 500	10 091	(6 126)	217 895	(7 863)	210 032
of which: purchased or originated credit-impaired off-balance sheet liabilities - POCI	-	-	-	-	171	138	(86)	171	(86)	85
Total	249 452	(553)	13 218	(1 184)	10 980	10 571	(6 139)	273 650	(7 876)	265 774

(IN PLN MILLION)

BY TYPE OF FINANCIAL ASSET (excluding adjustments relating to fair value hedge accounting) 31.03.2019	Gross amount – assets with no significant increase in credit risk since initial recognition (stage 1)	Allowances for expected credit losses (stage 1)	Gross amount – assets with a significant increase in credit risk since initial recognition, but not credit-impaired (stage 2)	Allowances for expected credit losses (stage 2)	Gross amount – assets at risk of credit impairment (stage 3)	of which: impaired assets, gross	Allowances for expected credit losses (stage 3)	Total gross amount	Total allowances for expected credit losses	Total, net
amounts due from banks	8 321	(3)	-	-	-	-	-	8 321	(3)	8 318
securities	61 962	(11)	415	(7)	474	474	(13)	62 851	(31)	62 820
NBP money market bills	4 499	-	-	-	-	-	-	4 499	-	4 499
Treasury bonds (in PLN)	43 500	-	-	-	-	-	-	43 500	-	43 500
Treasury bonds (in foreign currencies)	119	-	-	-	-	-	-	119	-	119
other	13 844	(11)	415	(7)	474	474	(13)	14 733	(31)	14 702
bank loans	177 325	(539)	12 803	(1 177)	10 411	10 002	(6 031)	200 539	(7 747)	192 792
housing	85 720	(40)	4 949	(486)	2 236	2 180	(1 434)	92 905	(1 960)	90 945
corporate	67 101	(350)	5 611	(327)	6 280	5 931	(3 315)	78 992	(3 992)	75 000
consumer	23 108	(149)	2 243	(364)	1 895	1 891	(1 282)	27 246	(1 795)	25 451
receivables in respect of reverse repurchase agreements	1 396	-	-	-	-	-	-	1 396	-	1 396
other financial assets	1 844	-	-	-	95	95	(95)	1 939	(95)	1 844
Total	249 452	(553)	13 218	(1 184)	10 980	10 571	(6 139)	273 650	(7 876)	265 774
of which: purchased or originated credit-impaired off-balance sheet liabilities – POCI	-	-	-	-	645	612	(99)	645	(99)	546

LOAN QUALITY RATIOS (excluding adjustments relating to fair value hedge accounting)	31.03.2019
Share of impaired exposures[1]	4.8%
Coverage ratio of impaired loans[2]	77.6%
Share of loans overdue for more than 90 days in gross loans and advances to customers	3.3%

[1] The share of impaired exposures was determined for loans and securities, excluding NBP bills and Treasury bonds, measured at amortized cost and loans measured at fair value through other comprehensive income, as the gross amount of impaired exposures to the total gross amount of loans and securities, excluding NBP bills and Treasury bonds measured at amortized cost and loans measured at fair value through other comprehensive income.

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

Total write-offs and sale of loan receivables in the first quarter of 2019 had impact on the decrease in the share of impaired exposures of 0.1 p.p.

(IN PLN MILLION)

BY MEASUREMENT MODEL (excluding adjustments relating to fair value hedge accounting) 31.12.2018	Gross amount – assets with no significant increase in credit risk since initial recognition (stage 1)	Allowances for expected credit losses (stage 1)	Gross amount – assets with a significant increase in credit risk since initial recognition, but not credit-impaired (stage 2)	Allowances for expected credit losses (stage 2)	Gross amount – assets at risk of credit impairment (stage 3)	of which: impaired assets, gross	Allowances for expected credit losses (stage 3)	Total gross amount	Total allowances for expected credit losses	Total, net
Measured at fair value through OCI										
securities	49 713	-	388	-	471	471	(10)	50 572	(10)	50 562
Treasury bonds (in PLN)	38 276	-	-	-	-	-	-	38 276	-	38 276
other	11 437	-	388	-	471	471	(10)	12 296	(10)	12 286
bank loans	8 330	-	163	-	3	3	-	8 496	-	8 496
housing	8 330	-	163	-	3	3	-	8 496	-	8 496
								-		
Total	58 043	-	551	-	474	474	(10)	59 068	(10)	59 058
of which: purchased or originated credit-impaired off-balance sheet liabilities – POCI	-	-	-	-	471	471	(10)	471	(10)	461
Measured at amortized cost										
amounts due from banks	11 217	(4)	-	-	-	-	-	11 217	(4)	11 213
securities	8 276	(12)	59	(8)	-	-	-	8 335	(20)	8 315
Treasury bonds (in PLN)	2 200	-	-	-	-	-	-	2 200	-	2 200
other	6 076	(12)	59	(8)	-	-	-	6 135	(20)	6 115
bank loans	166 412	(521)	12 476	(1 124)	10 595	10 169	(5 866)	189 483	(7 511)	181 972
housing	77 459	(42)	5 529	(502)	2 223	2 164	(1 396)	85 211	(1 940)	83 271
corporate	65 666	(332)	5 166	(314)	6 567	6 203	(3 251)	77 399	(3 897)	73 502
consumer	23 236	(147)	1 781	(308)	1 805	1 802	(1 219)	26 822	(1 674)	25 148
receivables in respect of reverse repurchase agreements	51	-	-	-	-	-	-	51	-	51
other financial assets	2 149	-	-	-	95	95	(95)	2 244	(95)	2 149
Total	188 054	(537)	12 535	(1 132)	10 690	10 264	(5 961)	211 279	(7 630)	203 649
of which: purchased or originated credit-impaired off-balance sheet liabilities – POCI	-	-	-	-	566	566	(124)	566	(124)	442
Total	246 097	(537)	13 086	(1 132)	11 164	10 738	(5 971)	270 347	(7 640)	262 707

(IN PLN MILLION)

BY TYPE OF FINANCIAL ASSET (excluding adjustments relating to fair value hedge accounting) 31.12.2018	Gross amount – assets with no significant increase in credit risk since initial recognition (stage 1)	Allowances for expected credit losses (stage 1)	Gross amount – assets with a significant increase in credit risk since initial recognition, but not credit-impaired (stage 2)	Allowances for expected credit losses (stage 2)	Gross amount – assets at risk of credit impairment (stage 3)	of which: impaired assets, gross	Allowances for expected credit losses (stage 3)	Total gross amount	Total allowances for expected credit losses	Total, net
amounts due from banks	11 217	(4)	-	-	-	-	-	11 217	(4)	11 213
securities	57 989	(12)	447	(8)	471	471	(10)	58 907	(30)	58 877
Treasury bonds (in PLN)	40 476	-	-	-	-	-	-	40 476	-	40 476
other	17 513	(12)	447	(8)	471	471	(10)	18 431	(30)	18 401
bank loans	174 742	(521)	12 639	(1 124)	10 598	10 172	(5 866)	197 979	(7 511)	190 468
housing	85 789	(42)	5 692	(502)	2 226	2 167	(1 396)	93 707	(1 940)	91 767
corporate	65 666	(332)	5 166	(314)	6 567	6 203	(3 251)	77 399	(3 897)	73 502
consumer	23 236	(147)	1 781	(308)	1 805	1 802	(1 219)	26 822	(1 674)	25 148
receivables in respect of reverse repurchase agreements	51	-	-	-	-	-	-	51	-	51
other financial assets	2 149	-	-	-	95	95	(95)	2 244	(95)	2 149
Total	246 097	(537)	13 086	(1 132)	11 164	10 738	(5 971)	270 347	(7 640)	262 707
of which: purchased or originated credit-impaired off-balance sheet liabilities – POCI	-	-	-	-	1 037	1 037	(134)	1 037	(134)	903

LOAN QUALITY RATIOS (excluding adjustments relating to fair value hedge accounting)	31.12.2018
Share of impaired exposures[1]	5.0%
Coverage ratio of impaired loans[2]	74.0%
Share of loans overdue for more than 90 days in gross loans and advances to customers	3.3%

[1] The share of impaired exposures was determined for loans and securities, excluding Treasury bonds, measured at amortized cost and loans measured at fair value through other comprehensive income, as the ratio of the gross amount of impaired exposures to the total gross amount of loans and securities, excluding Treasury bonds measured at amortized cost and loans measured at fair value through other comprehensive income.

[2] The coverage ratio for impaired loans was determined as the ratio of total allowances for expected credit losses for loans and securities, excluding Treasury bonds measured at amortized cost and loans measured at fair value through other comprehensive income to the gross amount of impaired exposures from this portfolio.

Total write-offs and sale of loan receivables in 2018 had impact on the decrease in the share of impaired exposures of 0.5 p.p.

(IN PLN MILLION)

IMPAIRMENT OF FINANCIAL ASSETS

CHANGES IN ALLOWANCES FOR EXPECTED CREDIT LOSSES ON FINANCIAL ASSETS BY MEASUREMENT MODEL	As at 31.12.2018	Increase due to recognition and purchase	Decrease due to derecognition	Changes due to changes in credit risk, net	Changes due to extending the loss recognition horizon from 12 months to period to maturity	Changes due to shortening the loss recognition horizon from period to maturity to 12 months	Changes due to modification without derecognition, net	Decrease in impairment allowances due to wholly or partly writing off	Other changes, including foreign exchange differences	As at 31.03.2019
Measured at fair value through OCI										
securities	10	-	-	2	-	-	-	(4)	5	13
bank loans	-	-	-	1	-	(1)	-	-	-	-
housing	-	-	-	1	-	(1)	-	-	-	-
Total	**10**	**-**	**-**	**3**	**-**	**(1)**	**-**	**(4)**	**5**	**13**
Measured at amortized cost										
amounts due from banks	4	1	-	(2)	-	-	-	-	-	3
securities	20	-	-	(1)	-	-	-	-	(1)	18
bank loans	7 511	78	(41)	768	(32)	(502)	7	(170)	128	7 747
housing	1 940	2	(1)	96	(12)	(77)	1	(32)	43	1 960
corporate	3 897	45	(13)	452	(9)	(361)	5	(89)	65	3 992
consumer	1 674	31	(27)	220	(11)	(64)	1	(49)	20	1 795
other financial assets	95	-	-	-	-	-	-	-	-	95
Total	**7 630**	**79**	**(41)**	**765**	**(32)**	**(502)**	**7**	**(170)**	**127**	**7 863**
Total allowances for expected credit losses on financial assets	**7 640**	**79**	**(41)**	**768**	**(32)**	**(503)**	**7**	**(174)**	**132**	**7 876**

CHANGES IN ALLOWANCES FOR EXPECTED CREDIT LOSSES ON FINANCIAL ASSETS BY ASSET TYPE	As at 31.12.2018	Increase due to recognition and purchase	Decrease due to derecognition	Changes due to changes in credit risk, net	Changes due to extending the loss recognition horizon from 12 months to period to maturity	Changes due to shortening the loss recognition horizon from period to maturity to 12 months	Changes due to modification without derecognition, net	Decrease in impairment allowances due to wholly or partly writing off	Other changes, including foreign exchange differences	As at 31.03.2019
amounts due from banks	4	1	-	(2)	-	-	-	-	-	3
securities	30	-	-	1	-	-	-	(4)	4	31
bank loans	7 511	78	(41)	769	(32)	(503)	7	(170)	128	7 747
housing	1 940	2	(1)	97	(12)	(78)	1	(32)	43	1 960
corporate	3 897	45	(13)	452	(9)	(361)	5	(89)	65	3 992
consumer	1 674	31	(27)	220	(11)	(64)	1	(49)	20	1 795
other financial assets	95	-	-	-	-	-	-	-	-	95
Total allowances for expected credit losses on financial assets	**7 640**	**79**	**(41)**	**768**	**(32)**	**(503)**	**7**	**(174)**	**132**	**7 876**

(IN PLN MILLION)

CHANGES IN ALLOWANCES FOR EXPECTED CREDIT LOSSES ON FINANCIAL ASSETS BY MEASUREMENT MODEL	As at 31.12.2017	Changes due to IFRS 9 implementation[1]	Fair value as at 01.01.2018 (changed)	Increase due to recognition and purchase	Decrease due to derecognition	Changes due to changes in credit risk, net	Changes due to extending the loss recognition horizon from 12 months to period to maturity	Changes due to shortening the loss recognition horizon from period to maturity to 12 months	Changes due to modification without derecognition, net	Decrease in impairment allowances due to wholly or partly writing off	Other changes, including foreign exchange differences	As at 31.03.2018
Investment securities available for sale:	298	(298)	-	-	-	-	-	-	-	-	-	-
Measured at fair value through OCI												
securities	-	15	15	-	(1)	(2)	-	-	-	-	2	14
bank loans	-	-	-	-	-	1	5	(2)	-	-	(4)	-
housing	-	-	-	-	-	1	5	(2)	-	-	(4)	-
Total	-	15	15	-	(1)	(1)	5	(2)	-	-	(2)	14
Measured at amortized cost												
amounts due from banks	-	2	2	1	-	(1)	-	-	-	-	-	2
securities	-	11	11	1	-	(2)	-	-	-	-	1	11
bank loans	7 170	2 873	10 043	92	(33)	222	182	(168)	13	(111)	122	10 362
housing	1 925	1 035	2 960	13	(15)	89	54	(89)	2	(54)	39	2 999
corporate	3 580	1 473	5 053	56	(10)	102	41	(44)	10	(14)	24	5 218
consumer	1 655	375	2 030	23	(8)	31	87	(35)	1	(43)	59	2 145
securities	10	(10)	-	-	-	-	-	-	-	-		-
other financial assets	99	-	99	-	-	-	-	-	-	-	-	99
Total	7 269	2 886	10 155	94	(33)	219	182	(168)	13	(111)	123	10 474
Total allowances for expected credit losses on financial assets	7 567	2 603	10 170	94	(34)	218	187	(170)	13	(111)	121	10 488

CHANGES IN ALLOWANCES FOR EXPECTED CREDIT LOSSES ON FINANCIAL ASSETS BY ASSET TYPE	As at 31.12.2017	Changes due to IFRS 9 implementation[1]	Fair value as at 01.01.2018 (changed)	Increase due to recognition and purchase	Decrease due to derecognition	Changes due to changes in credit risk, net	Changes due to extending the loss recognition horizon from 12 months to period to maturity	Changes due to shortening the loss recognition horizon from period to maturity to 12 months	Changes due to modification without derecognition, net	Decrease in impairment allowances due to wholly or partly writing off	Other changes, including foreign exchange differences	As at 31.03.2018
amounts due from banks	-	2	2	1	-	(1)	-	-	-	-	-	2
securities	298	(272)	26	1	(1)	(4)	-	-	-	-	3	25
bank loans	7 170	2 873	10 043	92	(33)	223	187	(170)	13	(111)	118	10 362
housing	1 925	1 035	2 960	13	(15)	90	59	(91)	2	(54)	35	2 999
corporate	3 580	1 473	5 053	56	(10)	102	41	(44)	10	(14)	24	5 218
consumer	1 655	375	2 030	23	(8)	31	87	(35)	1	(43)	59	2 145
securities	10	(10)	-	-	-	-	-	-	-	-	-	-
other financial assets	99	-	99	-	-	-	-	-	-	-	-	99
Total allowances for expected credit losses on financial assets	7 567	2 603	10 170	94	(34)	218	187	(170)	13	(111)	121	10 488

[1] in respect of impairment recognized for loans of PLN 734 million, in respect of non-performing interest recognized in the gross carrying amount of PLN 2 480 million, in respect of decreasing write-downs on initial loss for POCI assets of PLN 346 million, and in respect of releasing allowances for securities of PLN 265 million.

(IN PLN MILLION)

CHANGES IN THE GROSS CARRYING AMOUNTS OF FINANCIAL INSTRUMENTS	Carrying amount, gross as at 31.12.2018	Changes on financial instruments originated or purchased	Increase due to utilization of a limit or disbursement of tranches	Decrease due to repayment / redemption	Changes on modification resulting from contractual cash flows from financial assets not resulting in derecognition of these financial instruments	Changes due to derecognition of financial instruments, including sale	Decrease due to fully writing off an asset	Decrease due to partly writing off an asset	Changes for exposures whose loss recognition horizon was extended from 12 months to period to maturity	Changes for exposures whose loss recognition horizon was shortened from period to maturity to 12 months	Other changes, including foreign exchange differences	Carrying amount, gross as at 31.03.2019
Measured at fair value through OCI												
securities	50 572	7 321	-	(9 179)	-	(11)	-	(4)	-	-	3	48 702
bank loans	8 496	5	219	(1 667)	2	(1)	-	-	-	(1)	-	7 053
housing	8 496		219	(1 667)	2	(1)	-	-	-	(1)	-	7 048
consumer	-	5	-	-	-	-	-	-	-	-	-	5
Total	**59 068**	**7 326**	**219**	**(10 846)**	**2**	**(12)**	**-**	**(4)**	**-**	**(1)**	**3**	**55 755**
Measured at amortized cost												
amounts due from banks	11 217	7 239	15	(10 150)	-	-	-	-	-	-	-	8 321
securities	8 335	7 400		(1 638)	-	-	-	-	-	-	52	14 149
loans (without adjustment relating to fair value hedge accounting)	189 483	6 518	14 460	(17 229)	38	(112)	(51)	(119)	(32)	(502)	1 032	193 486
housing	85 211	1 044	1 580	(2 665)	8	(25)	-	(32)	(12)	(77)	825	85 857
corporate	77 399	1 389	11 941	(11 467)	31	(35)	(22)	(67)	(9)	(361)	193	78 992
consumer	26 822	2 689	939	(3 046)	(1)	(52)	(29)	(20)	(11)	(64)	14	27 241
securities	-	-		-	-	-	-	-	-	-	-	-
receivables in respect of reverse repurchase agreements	51	1 396	-	(51)	-	-	-	-	-	-	-	1 396
other financial assets	2 244	1 939	-	(2 244)	-	-	-	-	-	-	-	1 939
Total	**211 279**	**23 096**	**14 475**	**(31 261)**	**38**	**(112)**	**(51)**	**(119)**	**(32)**	**(502)**	**1 084**	**217 895**
Total changes in the gross carrying amount of financial instruments	**270 347**	**30 422**	**14 694**	**(42 107)**	**40**	**(124)**	**(51)**	**12**	**(32)**	**(503)**	**1 087**	**273 650**

(IN PLN MILLION)

CHANGES IN THE GROSS CARRYING AMOUNTS OF FINANCIAL INSTRUMENTS	Carrying amount, gross as at 31.12.2017	Changes due to IFRS 9 implementation at gross carrying amount	Carrying amount, gross as at 01.01.2018 (restated)	Changes on financial instruments originated or purchased	Increase due to utilization of a limit or disbursement of tranches	Decrease due to repayment / sale	Changes on modification resulting from contractual cash flows from financial assets not resulting in derecognition of these financial instruments	Changes due to derecognition of financial instruments	Decrease due to fully writing off an asset	Decrease due to partly writing off an asset	Changes resulting from updating the applied measurement method (net)	Changes for exposures whose loss recognition horizon was extended from 12 months to period to maturity	Changes for exposures whose loss recognition horizon was shortened from period to maturity to 12 months	Other changes, including foreign exchange differences	Carrying amount, gross as at 31.03.2018
Investment securities available for sale:	42 307	(42 307)	-	-		-	-	-	-	-	-	-	-	-	-
Measured at fair value through OCI															-
securities	-	45 617	45 617	7 183	-	(9 517)	2	-	-	-	-	-	-	184	43 469
bank loans	-	8 235	8 235	321	114	(201)	1	(1)	-	-	45	-	(1)	45	8 558
housing	-	8 235	8 235	321	114	(201)	1	(1)	-		45	-	(1)	45	8 558
Total	-	**53 852**	**53 852**	**7 504**	**114**	**(9 718)**	**3**	**(1)**	-	-	**45**	-	**(1)**	**229**	52 027
of which: on assets measured on a group basis															-
of which: on assets measured individually															-
Measured at amortized cost															
amounts due from banks	8 769	-	8 769	2 666	22	(5 853)	-	-	-	-	-	-	-	-	5 604
securities	-	6 001	6 001	1 041	-	(108)	-	-	-	-	-	-	-	5	6 939
loans (without adjustment relating to fair value hedge accounting)	194 063	(11 661)	182 402	6 017	13 410	(17 427)	(37)	(172)	(111)	-	-	(32)	(502)	705	184 253
housing	92 134	(7 671)	84 463	785	1 151	(2 459)	5	(84)	(54)	-	-	(12)	(77)	479	84 197
corporate	70 719	1 004	71 723	2 625	11 331	(11 105)	(42)	(28)	(14)	-	-	(9)	(361)	218	74 338
consumer	25 930	(616)	25 314	2 581	928	(2 961)	-	(60)	(43)	-	-	(11)	(64)	8	25 692
securities	4 378	(4 378)	-	-		-	-	-	-	-	-	-	-	-	-
receivables in respect of reverse repurchase agreements	902	-	902	26	-	(902)	-	-	-	-	-	-	-	-	26
other financial assets	1 847	-	1 847	2 382	-	(1 847)	-	-	-	-	-	-	-	-	2 382
Total	**204 679**	**(5 660)**	**199 019**	**12 106**	**13 432**	**(25 235)**	**(37)**	**(172)**	**(111)**	-	-	**(32)**	**(502)**	**710**	199 178
Total changes in the gross carrying amount of financial instruments	**246 986**	**5 885**	**252 871**	**19 610**	**13 546**	**(34 953)**	**(34)**	**(173)**	**(111)**	-	**45**	**(32)**	**(503)**	**939**	**251 205**

(IN PLN MILLION)

CREDIT-IMPAIRED FINANCIAL ASSETS UPON INITIAL RECOGNITION – POCI

The total amount of purchased or originated credit-impaired financial assets as at 31 March 2019 amounted to PLN 546 million (PLN 903 million as at 31 December 2018).

PURCHASED OR ORIGINATED CREDIT-IMPAIRED FINANCIAL ASSETS (POCI) – 31.03.2019	Gross amount	Impairment allowances	Net amount
Securities	474	(13)	461
measured at fair value through OCI	474	(13)	461
Loans and advances to customers	171	(86)	85
measured at amortized cost	171	(86)	85
Total	**645**	**(99)**	**546**

PURCHASED OR ORIGINATED CREDIT-IMPAIRED FINANCIAL ASSETS (POCI) – 31.12.2018	Gross amount	Impairment allowances	Net amount
Securities	471	(10)	461
measured at fair value through OCI	471	(10)	461
Loans and advances to customers	566	(124)	442
measured at amortized cost	566	(124)	442
Total	**1 037**	**(134)**	**903**

CHANGES IN IMPAIRMENT ALLOWANCES FOR PURCHASED OR ORIGINATED CREDIT-IMPAIRED FINANCIAL ASSETS (POCI) IN THE FIRST QUARTER OF 2019	As at 31.12.2018	Decrease due to derecognition	Changes due to changes in credit risk, net	Decrease in impairment allowances due to write-off	Other adjustments	As at 31.03.2019
Securities	10	-	2	(1)	2	13
measured at fair value through OCI	10	-	2	(1)	2	13
Loans and advances to customers	124	(38)	-	-	-	86
measured at amortized cost	124	(38)	-	-	-	86
Total	134	(38)	2	(1)	2	99

CHANGES IN IMPAIRMENT ALLOWANCES FOR PURCHASED OR ORIGINATED CREDIT-IMPAIRED FINANCIAL ASSETS (POCI) IN THE FIRST QUARTER OF 2018	As at 01.01.2018	Decrease due to derecognition	Changes due to changes in credit risk, net	Decrease in impairment allowances due to write-off	Other adjustments	As at 31.03.2018
Securities	15	-	(1)	-	-	14
measured at fair value through OCI	15	-	(1)	-	-	14
Loans and advances to customers	107	(1)	(8)	(9)	5	94
measured at amortized cost	107	(1)	(8)	(9)	5	94
Total	122	(1)	(9)	(9)	5	108

(IN PLN MILLION)

22. Non-current assets held for sale

NON-CURRENT ASSETS HELD FOR SALE	31.03.2019	31.12.2018
Investments in subsidiaries	318	-
Finansowa Kompania "Prywatne Inwestycje" Sp. z o.o.	-	-
Qualia Development Sp. z o.o.	318	-
Land and buildings	8	8
Total, gross	**326**	**8**
Impairment allowances	-	-
Total, net	**326**	**8**

In the first quarter of 2019, the Bank reclassified shares in Qualia Development sp. z o.o. to non-current assets held for sale in connection with the planned merger of the company with PKO Leasing SA as the acquiring company. On 2 April 2019, the plan of the merger of the aforesaid companies was announced in *Monitor Sądowy i Gospodarczy*.

23. Intangible assets and property, plant and equipment

Intangible assets

INTANGIBLE ASSETS	31.03.2019	31.12.2018
Software	1 418	1 433
Goodwill	871	871
Customer relationships	15	17
Other, including capital expenditure	241	274
of which on software	233	266
Total	**2 545**	**2 595**

Goodwill

NET GOODWILL	31.03.2019	31.12.2018
Nordea Polska companies	863	863
Centrum Finansowe Puławska sp. z o.o.	8	8
Total	**871**	**871**

Property, plant and equipment

PROPERTY, PLANT AND EQUIPMENT	31.03.2019	31.12.2018
Land and buildings, of whcih:	2 116	1 383
right-of-use assets	845	-
Machinery and equipment, of which:	339	345
IT hardware	203	204
right-of-use assets	-	-
Assets under construction, of which:	130	166
IT hardware	44	70
right-of-use assets	-	-
Other, of which:	201	188
right-of-use assets - vehicles	20	-
Total	**2 786**	**2 082**

(IN PLN MILLION)

24. Other assets

OTHER ASSETS	31.03.2019	31.12.2018
Settlements in respect of card transactions	1 239	1 629
Settlement of financial instruments	100	82
Receivables in respect of cash settlements	151	189
Receivables and settlements in respect of trading in securities	44	32
Dividend receivables and contributions to subsidiaries[1]	150	132
Settlements relating to selling foreign currencies	38	-
Assets for sale	50	49
Prepayments and deferred costs	84	57
Receivables from settlements with KIR (National Clearing Chamber)	17	-
Trade receivables	110	76
Receivables from subsidiaries forming part of PGK	24	-
Other	189	72
Total	**2 196**	**2 318**
of which: other financial assets	1 844	2 149

[1] the item presents unregistered purchase of shares in PKO Bank Hipoteczny SA of PLN 150 million.

25. Amounts due to banks

AMOUNTS DUE TO BANKS	31.03.2019	31.12.2018
Measured at fair value through profit or loss	**191**	-
liabilities in respect of the short-position in securities	191	-
Measured at amortized cost	**2 225**	**1 591**
Bank deposits	900	728
Current accounts	1 182	713
Other monetary market deposits	143	150
Total	**2 416**	**1 591**

(IN PLN MILLION)

26. AMOUNTS DUE TO CUSTOMERS

AMOUNTS DUE TO CUSTOMERS	31.03.2019	31.12.2018
Measured at fair value through profit or loss	**69**	-
liabilities in respect of the short-position in securities	69	-
Measured at amortized cost	**239 588**	**245 213**
Amounts due to retail customers	169 429	164 385
Current accounts and overnight deposits	107 199	102 859
Term deposits	61 291	61 138
Other liabilities	939	388
Amounts due to corporate entities	49 528	55 530
Current accounts and overnight deposits	34 882	38 835
Term deposits	14 072	15 740
Other liabilities	529	910
Amounts due from repurchase agreements	45	45
Amounts due to public entities	15 377	16 459
Current accounts and overnight deposits	10 836	11 242
Term deposits	4 485	5 115
Other liabilities	56	102
Loans and borrowings received[1]	5 254	8 839
Total	**239 657**	**245 213**

1 The item “Loans and advances received” is presented in detail in Note 27 “Loans and advances received”

AMOUNTS DUE TO CUSTOMERS BY SEGMENT	31.03.2019	31.12.2018
retail and private banking	160 180	154 259
corporate	49 098	55 868
firms and undertakings	25 080	26 202
receivables in respect of repurchase agreements	45	45
loans and advances received	5 254	8 839
Total	**239 657**	**245 213**

27. LOANS AND ADVANCES RECEIVED

LOANS AND ADVANCES RECEIVED	31.03.2019	31.12.2018
From international financial institutions	1 202	2 601
European Investment Bank	650	2 049
Council of Europe Development Bank	552	552
From other entities	4 052	6 238
PKO Finance AB	4 052	6 238
Total	**5 254**	**8 839**

(IN PLN MILLION)

28. Debt securities in issue

DEBT SECURITIES IN ISSUE	31.03.2019	31.12.2018
bonds issued by banks, of which:	5 392	5 367
in PLN	613	611
in EUR, translated into PLN	3 237	3 229
in CHF, translated into PLN	1 542	1 527
Total	**5 392**	**5 367**

Information on the issue and redemption of securities

In the first quarter of 2019 and in the first quarter of 2018 the Bank did not issue or redeem any debt securities.

29. Subordinated liabilities

	Nominal amount	Interest rate	Currency	Period	Special terms	Balance in PLN 31.03.2019	Balance in PLN 31.12.2018
Subordinated bonds	1 700	3.34	PLN	28.08.2017 - 28.08.2027	right to early redemption within 5 years from the issue date	1 705	1 720
Subordinated bonds	1 000	3.29	PLN	05.03.2018 - 06.03.2028	right to early redemption within 5 years from the issue date	1 002	1 011
Total						2 707	2 731

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

On 28 February 2018, the Bank placed an issue of subordinated bonds totalling PLN 1 000 million. The issue was conducted in the 10NC5 formula. The nominal value of one bond was PLN 500 000, and the issue price of one bond was equal to its nominal value. The bonds bear interest in semi-annual interest periods, and interest on the bonds is assessed on the nominal value at a variable interest rate of WIBOR 6M increased by a margin of 150 pb. over the entire issue period. On 8 March 2018 the Polish Financial Supervision Authority gave its approval to designate the proceeds from the issue of subordinated loans to increase the Bank's Tier 2 capital.

(IN PLN MILLION)

30. Other Liabilities

OTHER LIABILITIES	31.03.2019	31.12.2018
Expenses to be paid	460	487
Deferred income	583	538
Liability in respect of tax on certain financial institutions	75	77
Interbank settlements	474	481
Liabilities arising from investing activities and internal operations	94	247
Amounts due to suppliers	141	161
Liabilities and settlements in respect of trading in securities	453	363
Settlement of financial instruments	30	6
Liabilities in respect of contribution to the Bank Guarantee Fund, of which:	585	247
contribution calculated by BGF/to be paid to BGF (Resolution Fund)	326	-
maintained in the form of payment commitments	259	247
to the Resolution Fund	111	111
to the Banks' Guarantee Fund	148	136
Liabilities under the public law	184	114
Liabilities in respect of foreign exchange activities	417	298
Liabilities in respect of payment cards	427	15
Liabilities to insurance institutions	39	38
Lease liabilities	859	-
Other	111	117
Total	**4 932**	**3 189**
of which: other financial liabilities	3 394	2 096

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

The item "Liabilities in respect of contribution to the Bank Guarantee Fund" includes liabilities in respect of the Bank's contributions to the BGF.

31. Provisions

FOR 3 MONTHS ENDED 31 MARCH 2019	Provisions for legal claims	Provisions for pensions and other liabilities from defined-benefit post-employment plans	Restructuring	Provisions for financial liabilities and guarantees granted	Other provisions, including provisions for employee disputed claims	Total
As at 1 January 2019, of which:	**51**	**48**	**24**	**227**	**91**	**441**
Short-term provisions	51	8	24	177	91	351
Long-term provisions	-	40	-	50	-	90
Increase, of which increases of existing provisions	4	-	23	57	1	85
Utilized	-	(1)	(5)	-	(3)	(9)
Released during the period	(4)	-	-	(49)	-	(53)
As at 31 March 2019, of which:	**51**	**47**	**42**	**235**	**89**	**464**
Short-term provisions	51	7	42	182	89	371
Long-term provisions	-	40	-	53	-	93

(IN PLN MILLION)

FOR 3 MONTHS ENDED 31 MARCH 2018	Provisions for legal claims	Provisions for pensions and other liabilities from defined-benefit post-employment plans	Restructuring	Provisions for financial liabilities and guarantees granted	Other provisions, including provisions for employee disputed claims	Total
As at 1 January 2018, of which:	18	59	21	155	26	279
Short-term provisions	18	21	21	106	26	192
Long-term provisions	-	38	-	49	-	87
Increase, of which increases of existing provisions	3	-	45	62	-	110
Utilized	(5)	(13)	(6)	-	-	(24)
Released during the period	-	-	-	(68)	(14)	(82)
Other changes and reclassifications	-	-	-	(1)	-	(1)
As at 31 March 2018, of which:	16	46	60	148	12	282
Short-term provisions	16	8	60	111	12	207
Long-term provisions	-	38	-	37	-	75

32. Equity and shareholding structure of the Bank

EQUITY	31.03.2019	31.12.2018
Share capital	1 250	1 250
Supplementary capital	29 168	29 168
General banking risk fund	1 070	1 070
Other reserves	3 629	3 629
Accumulated other comprehensive income	303	443
Retained earnings	2 689	(646)
Net profit or loss for the year	737	3 335
Total	38 846	38 249

33. Investments in subsidiaries, joint ventures and associates

AS AT 31 MARCH 2019	Gross amount	Impairment allowance	Carrying amount
SUBSIDIARIES			
PKO Bank Hipoteczny SA[1]	1 400	-	1 400
KREDOBANK SA	1 072	(793)	279
PKO Życie Towarzystwo Ubezpieczeń SA	241	-	241
PKO Towarzystwo Funduszy Inwestycyjnych SA	225	-	225
PKO VC - fizan[2]	200	-	200
PKO Leasing SA	178	-	178
PKO BP BANKOWY PTE SA	151	-	151
NEPTUN - fizan[2]	132	-	132
Merkury - fiz an[2]	120	-	120
PKO Towarzystwo Ubezpieczeń SA	110	-	110
PKO Finance AB	24	-	24
ZenCard sp. z o.o.	24	(23)	1
PKO BP Finat sp. z o.o.	21	-	21
Operator Chmury Krajowej sp. z o.o.	4	-	4
JOINT VENTURES			
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	197	-	197
ASSOCIATES			
Bank Pocztowy SA	184	(97)	87
"Poznański Fundusz Poręczeń Kredytowych" Sp. z o.o.	2	(2)	-
Total	4 285	(915)	3 370

1 The amount specified above does not include the new issue of shares paid up by PKO Bank Polski SA of PLN 149.9 million disclosed in the item "Other assets". The respective increase in the share capital as at 31 March 2019 has not been registered.
2 PKO Bank Polski SA holds investment certificates of the Fund which allow to control the Fund in accordance with IFRS.

(IN PLN MILLION)

AS AT 31 DECEMBER 2018	Gross amount	Impairment allowance	Carrying amount
SUBSIDIARIES			
PKO Bank Hipoteczny SA	1 300	-	1 300
KREDOBANK SA	1 072	(793)	279
Qualia Development Sp. z o.o.	318	-	318
PKO Życie Towarzystwo Ubezpieczeń SA	241	-	241
PKO Towarzystwo Funduszy Inwestycyjnych SA	225	-	225
PKO VC - fizan[1]	200	-	200
PKO Leasing SA	178	-	178
PKO BP BANKOWY PTE SA	151	-	151
NEPTUN - fizan[1]	132	-	132
Merkury - fiz an[1]	120	-	120
PKO Towarzystwo Ubezpieczeń SA	110	-	110
PKO Finance AB	24	-	24
ZenCard sp. z o.o.	24	(23)	1
PKO BP Finat sp. z o.o.	21	-	21
Operator Chmury Krajowej sp. z o.o.	4	-	4
JOINT VENTURES			
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	197	-	197
ASSOCIATES			
Bank Pocztowy SA	184	(97)	87
"Poznański Fundusz Poręczeń Kredytowych" Sp. z o.o.	2	(2)	-
Total	**4 503**	**(915)**	**3 588**

[1] PKO Bank Polski SA holds investment certificates of the Fund which allow to control the Fund in accordance with IFRS.

IMPAIRMENT ALLOWANCES – RECONCILIATION OF MOVEMENTS	01.01-31.03.2019	01.01-31.03.2018
As at the beginning of the period	915	849
Recognized during the period	-	-
As at the end of the period	915	849
Net increase – impact on the income statement	-	-

OTHER NOTES

34. INFORMATION ABOUT THE LEASE

LEASE – LESSOR

The Bank acts as a lessor in respect of lease agreements relating to the use of buildings, including office space.

The Bank as a lessor classifies leases as operating or financial ones.

A lease agreement is classified as an operating lease, if there is no transfer of substantially all risks and benefits resulting from the ownership of the base asset. In such case, the Bank recognizes lease payments as revenue on a straight-line basis.

A lease agreement is classified as a finance lease, if substantially all risks and benefits resulting from the ownership of the base asset are transferred. The Bank classifies its agreements as a finance lease if at least one or all the following conditions are met:

1) the ownership of the base asset is transferred to the lessee before the end of the lease period;
2) the lessee has an option to buy the base asset at a price which is expected to be sufficiently lower than the fair value as at the date of exercising the option, in order to reasonably expect at the initial date, that the lessee will exercise this option;
3) the lease period covers the majority of the economic life of the base asset, even if the legal title has not been transferred;
4) the present value of lease payments at the initial date amounts to substantially nearly the same amount as the sum of fair value of the base asset which – in the case of sublease – is adopted as the value of the asset under the right to use resulting from the main lease agreement; and
5) The base asset is of a sufficiently specialist nature so that only the lessee can use it without any major modification.

At the start date of the finance lease the Bank as the lessor in the finance lease arrangement presents receivables in an amount equal to the net lease investment outlay, i.e. gross investment lease investment outlay discounted by the lease interest rate.

The gross lease investment outlay is understood as the total of:

1) lease payments due to the lessor under the finance lease; and
2) potential, not guaranteed residual value attributed to the lessor.

The lease interest rate applied by the Bank is the rate as a result of which the present value of lease payments and not guaranteed residual value is equal to the sum of fair value of the base asset and all initial direct costs incurred by the Bank.

LEASE – LESSEE

Lease agreements and agreements containing lease comprise agreements according to which the Bank:

1) obtains the right to use an identified asset, and the supplier's right to substitute it with an alternative asset is insignificant; and
2) has the right to obtain substantially all economic benefits from exercising the right over the entire period of use; and
3) has the right to direct the use of an identified asset over the entire period of its use, where:
   a) the Bank has the right to direct how and for what purpose the asset is used over the entire period of use; or
   b) appropriate decisions were made earlier as to how and for what purpose the asset is used.

The Bank applies eliminations and does not recognize assets from the right of use or liabilities in respect of:

1) short-term leases to which the Bank classifies agreements without an option to buy the asset, concluded for a period not longer than 12 months from the moment of starting the agreement, in particular agreements concluded for an unspecified period with a short (up to 12-month) termination period, without any significant penalties which are understood in particular as outlays incurred on leasehold improvements or costs of changing the location;
2) low-value leases (an asset has a value below PLN 20 000 determined based on the value of a new asset, irrespective of the age of the leased asset), except agreements on the lease of space.

The Bank measures its liabilities in respect of leases initially at the amount of the present value of outstanding lease payments as at that date.

The value of lease liabilities is affected by:

1) fixed fees reduced by all lease incentives due;
2) fixed lease payments which depend on an index or rate, initially measured using the index or rate applicable as at the start date;
3) amounts expected to be paid by the lessee as the guaranteed residual value;
4) the price of exercising the purchase option, if there is more than 50% probability that the Bank will exercise the purchase option;
5) financial penalties for terminating the lease agreement, if the lease agreement provides for an option for the Bank as the lessee, to terminate the agreement.

The Bank does not classify variable fees depending on external factors as elements of lease payments.

After the initial recognition of a lease liability the Bank measures it at amortized cost.

The remeasurement of a lease liability is recognized by the Bank as an adjustment of an asset from the right of use. If, as a result of the remeasurement, the carrying amount of an asset from the right of use is reduced to null and the measurement of the lease liability continues to decrease, the remaining amount of remeasurement is recognized by the Group as profit or loss.

Assets from the right of use are initially measured by the Bank at cost, which comprises:

1) the amount of initial valuation of the lease liability;
2) all lease payments made at or before the start date, reduced by all lease incentives received;
3) all initial direct costs incurred by the Bank.

After initial recognition, the Bank measures the asset from the right of use by reducing its initial value by depreciation (using the straight-line method) and impairment, and adjusts lease liabilities in accordance with the revaluation.

In order to discount future lease payments, the Bank uses discount rates:

1) calculated based on profitability curves reflecting the cost of financing in the given currency;
2) covering the tenor of the longest lease agreement subject to the valuation, and reflecting – for the given currency – a fixed market interest rate and the cost of financing by the Bank (lease agreements' tenors are from 1 year to 99 years);
3) obtained from the curve for the maturity corresponding to half the period of the lease.

The value of marginal lending rate for lease agreements is updated by the Bank on a quarterly basis.

(IN PLN MILLION)

The Bank applies the same discount rates to the portfolio of lease agreements for cars and real properties, including the right of perpetual usufruct to the land, taking into account the impact of the security for the lease agreement on the discount rate applied.

Lease payments in respect of short-term and low-value lease agreements are recognized by the Bank as cost, using the straight-line method, during the lease period. Differences between amounts paid and resulting from straight-line settlement of costs are recognized as prepayments of accruals.

AMOUNTS RECOGNIZED IN THE INCOME STATEMENT IN RESPECT OF LEASES - LESSEE	01.01-31.03.2019
Amortization of right-of-use assets	(47)
Land and buildings	(45)
Machinery and equipment	-
Vehicles	(2)
Interest expense	(5)
Costs relating to short-term lease agreements	(3)
Costs relating to lease agreements for low-value assets which are not short-term, costs of non-recoverable VAT and costs of service charges	(16)
Total costs	(71)

RIGHT-OF-USE ASSETS	31.03.2019
Land and buildings	845
Machinery and equipment	-
Vehicles	20
Total	**865**

OTHER LIABILITIES	31.03.2019
Lease liabilities	859
Total	**859**

35. CONTINGENT LIABILITIES AND OFF-BALANCE SHEET COMMITMENTS RECEIVED AND GRANTED

Issuer of underwritten securities	Type of underwritten securities	Maximum commitment to take up securities	Contract expiry date
As at 31 March 2019			
Company A	corporate bonds	1 359	31.12.2020
Company B	corporate bonds	1 055	31.07.2020
Company C	corporate bonds	44	31.12.2022
Total		**2 458**	

(IN PLN MILLION)

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

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

LOAN AND GUARANTEE COMMITMENTS GRANTED

LOAN COMMITMENTS AND GUARANTEE COMMITMENTS GRANTED AS AT 31.03.2019	Commitments granted at nominal amount	Provisions for commitments granted under IFRS 9	Loan commitments and guarantee commitments granted, net
Loan commitments granted:			
Credit lines and limits	48 361	(169)	48 192
housing	4 980	(32)	4 948
corporate	34 118	(98)	34 020
consumer	9 263	(39)	9 224
Other	3 857	(20)	3 837
Total	**52 218**	**(189)**	**52 029**
of which irrevocable loan commitments	27 462	(71)	27 391
Guarantees and pledges granted			
Guarantees granted in domestic and foreign trading	9 166	(34)	9 132
to financial entities	2 848	-	2 848
to non-financial entities	6 122	(34)	6 088
to public entities	196	-	196
Guarantees and pledges granted – domestic corporate bonds	4 514	(5)	4 509
to financial entities	2 000	(2)	1 998
to non-financial entities	2 514	(3)	2 511
Letters of credit issued	1 320	(6)	1 314
to financial entities	10	-	10
to non-financial entities	1 308	(6)	1 302
to public entities	2	-	2
Guarantees and warranties granted – payment guarantees for financial entities	151	-	151
Guarantees and pledges granted - domestic municipal bonds	314	(1)	313
Total	**15 465**	**(46)**	**15 419**
of which irrevocable loan commitments	9 315	(34)	9 281
of which performance guarantees granted	2 524	(19)	2 505

Information about the provisions recognized for loan and guarantee liabilities is presented in Note 31 “Provisions”.

(IN PLN MILLION)

LOAN COMMITMENTS AND GUARANTEE COMMITMENTS GRANTED AS AT 31.12.2018	Commitments granted at nominal amount	Provisions for commitments granted under IFRS 9	Loan commitments and guarantee commitments granted, net
Loan commitments granted:			
Credit lines and limits	46 088	(164)	45 924
housing	4 727	(35)	4 692
corporate	32 441	(94)	32 347
consumer	8 920	(35)	8 885
Other	4 010	(11)	3 999
Total	**50 098**	**(175)**	**49 923**
of which irrevocable loan commitments	25 822	(67)	25 755
Guarantees and pledges granted			
Guarantees granted in domestic and foreign trading	8 919	(46)	8 873
to financial entities	2 850	(1)	2 849
to non-financial entities	6 056	(44)	6 012
to public entities	13	(1)	12
Guarantees and pledges granted – domestic corporate bonds	3 967	(4)	3 963
to financial entities	1 946	(2)	1 944
to non-financial entities	2 021	(2)	2 019
Letters of credit issued	1 217	(2)	1 215
to financial entities	10	-	10
to non-financial entities	1 205	(2)	1 203
to public entities	2	-	2
Guarantees and warranties granted – payment guarantees for financial entities	368	-	368
Guarantees and pledges granted - domestic municipal bonds	188	-	188
Total	**14 659**	**(52)**	**14 607**
of which irrevocable loan commitments	9 286	(46)	9 240
of which performance guarantees granted	2 418	(19)	2 399

RIGHT TO SELL OR PLEDGE COLLATERAL ESTABLISHED FOR THE BANK

As at 31 March 2019 and as at 31 December 2018 no collateral was established for the Bank, which the Bank would be entitled to sell or encumber with another pledge in the event of the fulfilment of all obligations by the owner of the collateral.

OFF-BALANCE SHEET LIABILITIES RECEIVED

OFF-BALANCE SHEET LIABILITIES RECEIVED BY NOMINAL AMOUNT	31.03.2019	31.12.2018
Financing	99	90
Guarantees	2 142	1 663
Total	**2 241**	**1 753**

(IN PLN MILLION)

36. NOTES TO THE CASH FLOW STATEMENT

CASH AND CASH EQUIVALENTS	31.03.2019	31.12.2018	31.03.2018
Cash and balances with the Central Bank	14 505	22 862	15 471
Deposits with the Central Bank	850	-	740
Current amounts due from banks	5 728	7 152	3 235
Restricted cash and cash equivalents	8	10	8
Total	**21 091**	**30 024**	**19 454**

RESTRICTED CASH AND CASH EQUIVALENTS

Cash and cash equivalents of PLN 8 million (as at 31 December 2018 PLN 10 million PLN) pledged as collateral for securities' transactions conducted by the Dom Maklerski PKO BP SA brokerage house are deposited in the National Depository for Securities (KDPW_CCP), as part of the Guarantee Fund for the Settlement of Stock Exchange Transactions. Each direct participant who holds the status of a settlement-making participant is obliged to make payments to the settlement fund which guarantees the proper settlement of the stock exchange transactions covered by that fund. The amount of the payments depends on the value of the transactions made by each participant and is updated by KDPW_CCP on a daily basis;

37. RELATED-PARTY TRANSACTIONS – CAPITAL LINKS

Transactions of the parent company with subsidiaries, associates and joint ventures valued using the equity method. All transactions with subsidiaries, joint ventures and associates referred to below were arm's length transactions. Repayment terms are within a range of from one month to fifteen years.

AS AT 31 MARCH 2019 / ENTITY	Receivables	of which loans	Liabilities	Off-balance sheet liabilities granted
KREDOBANK SA and its subsidiary	122	-	1	115
Merkury - fiz an and its subsidiaries	-	-	26	-
NEPTUN - fizan and its subsidiaries	154	154	44	-
PKO Bank Hipoteczny SA	2 910	1 509	135	3 968
PKO BP BANKOWY PTE SA	-	-	23	-
PKO BP Finat sp. z o.o.	-	-	50	1
PKO Finance AB	-	-	4 052	-
PKO Leasing SA and its subsidiaries	15 714	15 714	33	4 772
PKO Towarzystwo Funduszy Inwestycyjnych SA	2	-	267	-
PKO Towarzystwo Ubezpieczeń SA	-	-	24	-
PKO Życie Towarzystwo Ubezpieczeń SA	-	-	450	1
Qualia Development Sp. z o.o. and its subsidiaries	-	-	164	-
Operator Chmury Krajowej sp. z o.o.	-	-	2	-
Total subsidiaries	**18 902**	**17 377**	**5 271**	**8 857**

AS AT 31 MARCH 2019 / ENTITY	Receivables	of which loans	Liabilities	Off-balance sheet liabilities granted
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	37	36	23	10
"Centrum Obsługi Biznesu" Sp. z o.o.	17	17	8	-
Bank Pocztowy SA	-	-	-	1
"Poznański Fundusz Poręczeń Kredytowych" Sp. z o.o.	-	-	18	-
Total joint ventures and associates	**54**	**53**	**49**	**11**

(IN PLN MILLION)

AS AT 31 DECEMBER 2018 / ENTITY	Receivables	of which loans	Liabilities	Off-balance sheet liabilities granted
KREDOBANK SA and its subsidiary	123	-	1	113
Merkury - fiz an and its subsidiaries	-	-	22	-
NEPTUN - fizan and its subsidiaries	159	159	52	-
PKO Bank Hipoteczny SA	4 447	1 729	131	3 117
PKO BP BANKOWY PTE SA	-	-	14	-
PKO BP Finat sp. z o.o.	1	-	39	1
PKO Finance AB	-	-	6 238	-
PKO Leasing SA and its subsidiaries	15 121	15 120	36	4 304
PKO Towarzystwo Funduszy Inwestycyjnych SA	33	-	224	-
PKO Towarzystwo Ubezpieczeń SA	-	-	26	-
PKO Życie Towarzystwo Ubezpieczeń SA	-	-	472	1
Qualia Development Sp. z o.o. and its subsidiaries	-	-	384	-
ZenCard sp. z o.o.	-	-	1	-
Operator Chmury Krajowej sp. z o.o.	-	-	4	-
Total subsidiaries	**19 884**	**17 008**	**7 644**	**7 536**

AS AT 31 DECEMBER 2018 / ENTITY	Receivables	of which loans	Liabilities	Off-balance sheet liabilities granted
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	40	13	43	23
"Centrum Obsługi Biznesu" Sp. z o.o.	18	18	8	-
Bank Pocztowy SA	-	-	-	1
"Poznański Fundusz Poręczeń Kredytowych" Sp. z o.o.	-	-	5	-
Total joint ventures and associates	**58**	**31**	**56**	**24**

FOR THE PERIOD ENDED 31 MARCH 2019 / ENTITY	Total income	of which interest and commission income	Total expense	of which interest and commission income
NEPTUN - fizan and its subsidiaries	1	1	-	-
PKO Bank Hipoteczny SA	82	77	11	11
PKO BP Finat sp. z o.o.	1	-	1	-
PKO Finance AB	-	-	50	50
PKO Leasing SA and its subsidiaries	82	81	-	-
PKO Towarzystwo Funduszy Inwestycyjnych SA	3	3	1	1
PKO Towarzystwo Ubezpieczeń SA	18	18	-	-
PKO Życie Towarzystwo Ubezpieczeń SA	12	12	3	3
Qualia Development Sp. z o.o. and its subsidiaries	-	-	1	1
Total subsidiaries	**199**	**192**	**67**	**66**

FOR THE PERIOD ENDED 31 MARCH 2019 / ENTITY	Total income	of which interest and commission income	Total expense	of which interest and commission income
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	82	81	19	19
"Centrum Obsługi Biznesu" Sp. z o.o.	1	1	-	-
Total joint ventures and associates	**83**	**82**	**19**	**19**

FOR THE PERIOD ENDED 31 MARCH 2018 / ENTITY	Total income	of which interest and commission income	Total expense	of which interest and commission income
NEPTUN - fizan and its subsidiaries	1	1	-	-
PKO Bank Hipoteczny SA	59	55	-	-
PKO BP Finat sp. z o.o.	1	-	1	-
PKO Finance AB	-	-	68	68
PKO Leasing SA and its subsidiaries	70	68	4	-
PKO Towarzystwo Funduszy Inwestycyjnych SA	30	30	-	-
PKO Towarzystwo Ubezpieczeń SA	-	-	2	2
Total subsidiaries	**161**	**154**	**75**	**70**

FOR THE PERIOD ENDED 31 MARCH 2018 / ENTITY	Total income	of which interest and commission income	Total expense	of which interest and commission income
Centrum Elektronicznych Usług Płatniczych eService sp. z o.o.	85	64	19	19
"Centrum Obsługi Biznesu" Sp. z o.o.	1	1	-	-
Total joint ventures and associates	**86**	**65**	**19**	**19**

(IN PLN MILLION)

OBJECTIVES AND PRINCIPLES OF RISK MANAGEMENT

38. RISK MANAGEMENT AT PKO BANK POLSKI SA

Risk management is one of the most important internal processes in PKO Bank Polski SA. Risk management is aimed at ensuring the profitability of the business activities while maintaining adequate levels of capital adequacy, monitoring the risk level, keeping the risks within the risk tolerances and limits adopted by the Bank and the Group, in a changing macroeconomic and legal environment. The level of risk is an important part of the planning processes. The risk management objectives are achieved, in particular, by providing appropriate information on the risk, so that decisions are made in full awareness of the particular risks involved.

PKO Bank Polski S.A. identifies risks in its operations and analyses the impact of each type of risk on its business. All the risks are managed; some of them have a material effect on the profitability and capital needed to cover them. The following risks are considered material for the Bank: credit risk, currency risk, interest rate risk, liquidity risk (including financing risk), operating risk, business risk, risk of macroeconomic changes and model risk. The Bank assesses the materiality of all the identified risks on a regular basis, at least annually. When assessing the materiality of the risks, the Bank applies criteria for recognizing a given type of risk as material.

In the separate financial statements of PKO Bank Polski SA for 2018 and in the Report on Capital Adequacy and other information subject to publication in the Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna Group as at 31 December 2018, the following elements are described in detail: risk definition, objectives of managing the specific risk, identification of the risk, measurement and evaluation, control, forecasting and monitoring, reporting and management activities in respect of material types of risk identified by the Bank.

39. CREDIT RISK MANAGEMENT

MAXIMUM EXPOSURE TO CREDIT RISK - ON-BALANCE SHEET FINANCIAL INSTRUMENTS TO WHICH THE IMPAIRMENT REQUIREMENTS DO NOT APPLY:	31.03.2019	31.12.2018
Hedging derivatives	647	592
Other derivative instruments	2 213	1 909
Securities:	2 715	1 562
held for trading	1 427	282
not held for trading, measured at fair value through profit or loss	1 288	1 280
Loans and advances to customers not held for trading, measured at fair value through profit or loss:	1 061	1 106
housing	24	27
corporate	141	148
consumer	896	931
Total	**6 636**	**5 169**

(IN PLN MILLION)

PAST DUE EXPOSURES - FINANCIAL ASSETS SUBJECT TO IMPAIRMENT, BEING PAST DUE OR IMPAIRED

EXPOSURES PAST DUE 31.03.2019	Assets with no significant increase in credit risk since initial recognition (stage 1)				Assets with a significant increase in credit risk since initial recognition, but not at risk of credit impairment (stage 2)				Credit-impaired assets (stage 3)				TOTAL EXPOSURES PAST DUE
	up to 30 days	30 to 90 days	over 90 days	TOTAL	up to 30 days	30 to 90 days	over 90 days	TOTAL	up to 30 days	30 to 90 days	over 90 days	TOTAL	
Loans and advances to customers:	817	-	-	817	992	412	-	1 404	240	210	1 908	2 358	4 579
bank loans	817	-	-	817	992	412	-	1 404	240	210	1 908	2 358	4 579
housing	376	-	-	376	685	191	-	876	74	96	322	492	1 744
corporate	208	-	-	208	108	126	-	234	131	74	1 241	1 446	1 888
consumer	233	-	-	233	199	95	-	294	35	40	345	420	947
Total, net	817	-	-	817	992	412	-	1 404	240	210	1 908	2 358	4 579

EXPOSURES PAST DUE 31.12.2018	Assets with no significant increase in credit risk since initial recognition (stage 1)				Assets with a significant increase in credit risk since initial recognition, but not at risk of credit impairment (stage 2)				Credit-impaired assets (stage 3)				TOTAL EXPOSURES PAST DUE
	up to 30 days	30 to 90 days	over 90 days	TOTAL	up to 30 days	30 to 90 days	over 90 days	TOTAL	up to 30 days	30 to 90 days	over 90 days	TOTAL	
Loans and advances to customers:	778	-	-	778	1 015	299	-	1 314	157	164	2 077	2 398	4 490
bank loans	778	-	-	778	1 015	299	-	1 314	157	164	2 077	2 398	4 490
housing	329	-	-	329	722	163	-	885	62	74	425	561	1 775
corporate	166	-	-	166	119	47	-	166	59	52	1 317	1 428	1 760
consumer	283	-	-	283	174	89	-	263	36	38	335	409	955
Total, net	778	-	-	778	1 015	299	-	1 314	157	164	2 077	2 398	4 490

(IN PLN MILLION)

MODIFICATIONS

The table below presents information on financial assets which were modified and for which the write-down on expected credit losses is calculated as the credit loss during the term of the exposure (Phases 2 and 3).

FINANCIAL ASSETS SUBJECT TO MODIFICATION	01.01-31.03.2019		01.01-31.03.2018	
Financial assets subject to modification during the period:	Stage 2	Stage 3	Stage 2	Stage 3
measurement at amortized cost before modification	139	89	94	41
gain/loss on modification	5	(5)	-	(1)

Financial assets subject to modification since initial recognition:	31.03.2019	31.12.2018
gross carrying amount of financial assets subject to modification for which modification loss was calculated over the lifetime and which are classified as Stage 1 after modification	16	98

FINANCIAL ASSETS WRITTEN DOWN DURING THE DEBT RECOVERY PERIODS

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

FINANCIAL ASSETS WRITTEN OFF	01.01-31.03.2019	
	Partly written off	Fully written off
Securities		
measured at fair value through OCI	4	-
Loans and advances to customers		
measured at amortized cost	119	40
housing	32	-
corporate	67	17
consumer	20	23
Total	**123**	**40**

FINANCIAL ASSETS WRITTEN OFF	01.01-31.03.2018	
	Partly written off	Fully written off
Loans and advances to customers		
measured at amortized cost	-	66
housing	-	30
corporate	-	-
consumer	-	36
Total	-	**66**

CRITERIA FOR WRITE-DOWNS OF FINANCIAL ASSETS

The Bank adopts the following criteria for writing down financial assets:

1) the receivable has fully matured and is in particular the consequence of a loan, advance, contractual overdraft, guarantee or warranty,
2) the allowance for expected credit losses:
   - covers 100% of the gross carrying amount, or
   - exceeds 90% of the gross carrying amount, and:
     - actions have been or still are taken in respect of the receivable which did not lead to its recovery, and the assessment of the probability of recovering the receivable which in particular accounts for the determinations of the bailiff or the receiver, transferability of collateral, category of satisfaction, mortgage register item indicate the inability to recover the whole receivable aspect; in particular there is no possibility to establish the residence or headquarters of debtor and its assets have not been disclosed, although the Bank has undertaken actions aiming to identify the residence or headquarters or assets, or
     - amounts received during the past 12 calendar months did not cover the interest accrued on a current basis.

The Bank discontinues to undertake actions aiming to recover receivables, in particular when :

- the competent enforcement authority issued a decision on discontinuing the proceedings due to irrecoverability of the debt;
- the court issued a decision on dismissing an application for declaring bankruptcy or on discontinuing /terminating bankruptcy proceedings and it is impossible to effectively exercise the collaterals;
- enforcement proceedings are not initiated due to a protocol which states that the anticipated litigation and enforcement costs connected with recovery of a bad debt would exceed the amount in question;
- the debtor died and it is impossible to effectively pursue enforcement from collaterals;
- the debtor was deleted from the National Court Register and moreover there are no assets from which the receivables could be recovered, including assets owned by partners or shareholders or members of the management board who are responsible for the entity's liabilities;
- the liquidation proceedings have been completed and entered in a respective register, as a result of which the debtor was deleted from the respective register or was deleted from the register without liquidation proceedings;
- the receivable is time-expired.

40. Interest rate risk management

Sensitivity measures

The Bank's VaR and a stress-test analysis of the Bank's exposure to interest rate risk are presented in the table below:

SENSITIVITY MEASURE	31.03.2019	31.12.2018
VaR for a 10-day time horizon at the confidence level of 99% (in PLN million)	280	241
Parallel movement of interest rate curves by 200 b.p. (in PLN million) (stress-test)[1]	1 065	1 531

[1] The table presents the value of the most adverse stress-test scenario for economic value: a movement of interest rate curves in particular currencies by 200 b.p. upwards and by 200 b.p. downwards.

41. Currency risk management

The Bank's VaR and a stress-test analysis of the Bank's exposure to currency risk, presented cumulatively for all currencies, are presented in the table below:

SENSITIVITY MEASURE	31.03.2019	31.12.2018
VaR for a 10-day time horizon at the confidence level of 99% (in PLN million)	3	4
Change in CUR/PLN by 20% (in PLN million) (stress-test)[1]	285	229

[1] The table presents the value of the most adverse stress-test scenario: PLN appreciation of 20% and PLN depreciation of 20%.

42. Liquidity risk management

Liquidity gap

The liquidity gaps presented below include, among other things, the Bank's adjusted balance sheet items in respect of core deposits from non-financial entities and their maturities, core overdrafts of non-financial entities and their maturities, and liquid securities and their maturities.

	on demand	0-1 month	1-3 months	3-6 months	6-12 months	12-24 months	24-60 months	over 60 months
31.03.2019								
adjusted periodic gap	15 513	28 068	(3 527)	2 437	13 028	16 584	23 380	(95 483)
adjusted cumulative periodic gap	15 513	43 581	40 054	42 491	55 519	72 103	95 483	-
31.12.2018								
adjusted periodic gap	22 921	25 839	(1 358)	1 498	11 224	17 387	21 296	(98 807)
adjusted cumulative periodic gap	22 921	48 760	47 402	48 900	60 124	77 511	98 807	-

Liquidity surplus

The table below present the Bank's liquidity surplus as at 31 March 2019 and 31 December 2018:

SENSITIVITY MEASURE	31.03.2019	31.12.2018
Liquidity surplus in the horizon of up to 30 days (in PLN billion)[1]	12	21

[1] The liquidity surplus – determines the Bank's ability to meet the liquidity needs in a given survival horizon if the scenarios defined in stress tests materialize.

(IN PLN MILLION)

SUPERVISORY LIQUIDITY MEASURES

SUPERVISORY LIQUIDITY MEASURES	31.03.2019	31.12.2018
M3 - coverage ratio of non-liquid assets to own funds	13.29	17.44
M4 - coverage ratio of non-liquid assets and liquidity-restricted assets with own funds and stable external funds	1.21	1.22
NSFR - net stable funding ratio	120.2%	120.2%
LCR - liquidity coverage ratio	135.7%	127.3%

In the periods ended 31 March 2019 and 31 December 2018, liquidity measures remained above their respective supervisory limits.

43. CAPITAL ADEQUACY

	31.03.2019	31.12.2018
Total own funds	**37 349**	**37 770**
Tier 1 capital	**34 649**	**35 070**
Tier 1 capital before regulatory adjustments and reductions, of which:	36 861	37 061
Share capital	1 250	1 250
Supplementary capital and other reserves	32 797	32 797
General banking risk fund	1 070	1 070
Retained earnings, of which:	1 744	1 944
unappropriated profit / uncovered losses	(646)	(535)
current profit, included by permission from the PFSA	1 635	1 635
adjustment resulting from transitional solutions to mitigate the impact of IFRS 9 adoption on equity	755	844
(-) Goodwill	(871)	(871)
(-) Other intangible assets	(1 460)	(1 503)
Accumulated other comprehensive income	303	443
Adjustments in common equity Tier 1 capital due to prudential filters	(184)	(60)
Other transitional period adjustments to common equity Tier 1 capital	-	-
Tier 2 capital	**2 700**	**2 700**
Equity instruments and subordinated loans eligible as Tier 2 capital	2 700	2 700
Requirements for own funds	**14 393**	**14 169**
Credit risk	13 434	13 216
Operational risk	454	437
Market risk	479	491
Credit valuation adjustment risk	26	25
Total capital adequacy ratio	**20.76%**	**21.33%**
Tier 1 capital ratio	**19.26%**	**19.80%**

SUBSEQUENT EVENTS

44. EVENTS THAT TOOK PLACE AFTER THE BALANCE SHEET DATE

1. On 4 April 2019, the Bank's Supervisory Board issued a positive opinion on the recommendation of the Bank's Management Board on the appropriation of the Bank's profit for 2018.
2. In the period from 1 April 2019 to 5 May 2019, PKO Bank Polski SA sold a further portfolio of claims from housing loans secured with mortgages at a level of PLN 396 million within a Frame Agreement on the Sale of Claims signed in 2015 with PKO Bank Hipoteczny SA.
3. On 18 April 2019, PKO Leasing SA announced another conditional offer for shares in Prime Car Management SA. The conditional offer was announced for all shares in the above-mentioned company (i.e. 11 908 840 ordinary shares with a nominal value PLN 2 each). The price specified in the offer was PLN 23.75 per share. The date from which subscriptions are accepted was determined as 13 May 2019.
4. On 23 April 2019 the Polish Financial Supervision approved a change in the scope of activities of PKO Towarzystwa Ubezpieczeń SA by extending it to comprise insurance activities in group 3 (casco – comprehensive cover – in respect of land vehicles) and 10 (third-party liability of owners of mechanical vehicles, including shipper's liability) in Section II, in accordance with the appendix to the Act of 11 September 2015 on insurance and reinsurance activities.

(IN PLN MILLION)

5. On 6 May 2019, the Annual General Meeting of the Bank was held. The Meeting's agenda comprised the approval of the separate and consolidated financial statements for 2018, and the Directors' Report on the activities of the Bank's Group. In addition to the aforesaid decisions, the Meeting approved the report of the Supervisory Board and passed a resolution on the appropriation of profit earned in 2018 and coverage of prior years' losses, and on the determination of the amount of dividend. The Meeting granted a vote of acceptance to the performance of duties by all members of the Supervisory Board and Management Board. As part of the changes in the composition of the Supervisory Board, Mr Janusz Ostaszewski was dismissed, and Mr Dariusz Górski was appointed to the Supervisory Board.

Signatures of all Members of the Bank's Management Board

07.05.2019	Zbigniew Jagiełło	President of the Management Board	.... (signature)
07.05.2019	Rafał Antczak	Vice-President of the Management Board	.... (signature)
07.05.2019	Rafał Kozłowski	Vice-President of the Management Board	.... (signature)
07.05.2019	Maks Kraczkowski	Vice-President of the Management Board	.... (signature)
07.05.2019	Mieczysław Król	Vice-President of the Management Board	.... (signature)
07.05.2019	Adam Marciniak	Vice-President of the Management Board	.... (SIGNATURE)
07.05.2019	Piotr Mazur	Vice-President of the Management Board	.... (SIGNATURE)
07.05.2019	Jakub Papierski	Vice-President of the Management Board	.... (SIGNATURE)
07.05.2019	Jan Emeryk Rościszewski	Vice-President of the Management Board	.... (SIGNATURE)

Signature of the person responsible
for maintaining the books of account

Danuta Szymańska
Director of the Accounting Division

....
(signature)