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Bank Polski

1919/2019

Financial Statements of PKO Bank Polski SA for the year ended 31 December 2019

Report publication date:
12 February 2020

Bank Polski

SELECTED FINANCIAL DATA DERIVED FROM THE FINANCIAL STATEMENTS

SELECTED STAND-ALONE FINANCIAL DATA	PLN million		EUR million	
	period from 01.01.2019 to 31.12.2019	period from 01.01.2018 to 31.12.2018	period from 01.01.2019 to 31.12.2019	period from 01.01.2018 to 31.12.2018
Net interest income/(expense)	9 279	8 544	2 157	2 002
Net fee and commission income	2 470	2 482	574	582
Operating profit/(loss)	5 118	4 471	1 190	1 048
Profit before tax	**5 118**	**4 471**	**1 190**	**1 048**
Net profit	**3 835**	**3 335**	**891**	**782**
Earnings per share for the period - basic (in PLN/EUR)	**3,07**	**2,67**	**0,71**	**0,63**
Earnings per share for the period - diluted (in PLN/EUR)	**3,07**	**2,67**	**0,71**	**0,63**
Total net comprehensive income	3 826	3 760	889	881
Net cash from/used in operating activities	7 573	15 001	1 760	3 516
Net cash from/used in investing activities	(12 970)	(5 320)	(3 015)	(1 247)
Net cash from/used in financing activities	(6 634)	(2 198)	(1 542)	(515)
Total net cash flows	(12 031)	7 483	(2 797)	1 754

SELECTED STAND-ALONE FINANCIAL DATA	PLN million		EUR million	
	as at 31.12.2019	as at 31.12.2018	as at 31.12.2019	as at 31.12.2018
Total assets	317 125	300 413	74 469	69 863
Total equity	40 412	38 360	9 490	8 921
Share capital	1 250	1 250	294	291
Number of shares (in million)	1 250	1 250	1 250	1 250
Book value per share (in PLN/EUR)	32,33	30,69	7,59	7,14
Diluted number of shares (in million)	1 250	1 250	1 250	1 250
Diluted book value per share (in PLN/EUR)	32,33	30,69	7,59	7,14
Total capital adequacy ratio	20,66%	21,33%	20,66%	21,33%
Tier 1	35 890	35 070	8 428	8 156
Tier 2	2 700	2 700	634	628

SELECTED FINANCIAL STATEMENT ITEMS HAVE BEEN TRANSLATED INTO EUR AT THE FOLLOWING RATES	from 01.01.2019 to 31.12.2019	from 01.01.2018 to 31.12.2018
average of NBP exchange rates at the end of monthly periods (income statement, statement of comprehensive income and statement of cash flow items)	4,3018	4,2669
	31.12.2019	**31.12.2018**
mid NBP rate at the date (statement of financial position items)	4,2585	4,3000

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INCOME STATEMENT

INCOME STATEMENT	Note	2019	2018
Interest income	5	11 360	10 504
Interest income calculated under the effective interest rate method		9 827	9 884
interest income on financial instruments measured at amortized cost		8 238	8 528
interest income on instruments measured at fair value through OCI		1 589	1 356
Income similar to interest income on instruments measured at fair value through profit or loss		1 533	620
Interest expense	5	(2 081)	(1 960)
Net interest income		**9 279**	**8 544**
Fee and commission income	6	3 542	3 492
Fee and commission expense	6	(1 072)	(1 010)
Net fee and commission income		**2 470**	**2 482**
Dividend income	7	561	323
Net gain/(loss) in financial instruments measured at fair value through profit or loss	8	186	42
Net foreign exchange gains/(losses)	9	475	469
Gains/(losses) on derecognition of financial instruments not measured at fair value through profit or loss	10	143	133
Allowances for expected credit losses	11	(1 008)	(1 286)
Net impairment allowances on non-financial assets	12	(41)	(111)
Cost of legal risk of mortgage loans in convertible currencies	59	(451)	-
Other operating income	13	161	171
Other operating expenses	13	(489)	(226)
Net other operating income and expense		**(328)**	**(55)**
Administrative expenses	14	(4 745)	(4 635)
Net regulatory charges	15	(492)	(552)
Tax on certain financial institutions	16	(931)	(883)
Operating profit/(loss)		**5 118**	**4 471**
Profit before tax		**5 118**	**4 471**
Income tax expense	17	(1 283)	(1 136)
Net profit		**3 835**	**3 335**
Earnings per share			
– basic earnings per share for the period (PLN)		3,07	2,67
– diluted earnings per share for the period (PLN)		3,07	2,67
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)

STATEMENT OF COMPREHENSIVE INCOME

STATEMENT OF COMPREHENSIVE INCOME	Note	2019	2018
Net profit		**3 835**	**3 335**
Other comprehensive income		**(9)**	**425**
Items which may be reclassified to profit or loss		**(4)**	**426**
Cash flow hedges (gross)	20	139	70
Deferred tax	17	(26)	(13)
Cash flow hedges (net)	20	113	57
Revaluation of fair value of financial assets measured at fair value through other comprehensive income, gross		12	580
Gains /losses transferred to profit or loss (on disposal)		(155)	(129)
Deferred tax	17	26	(82)
Fair value of financial assets measured at fair value through other comprehensive income (net)		(117)	369
Items which cannot be reclassified to profit or loss		**(5)**	**(1)**
Actuarial gains and losses (gross)		(7)	(1)
Deferred tax		2	-
Actuarial gains and losses (net)		(5)	(1)
Total net comprehensive income		**3 826**	**3 760**

(IN PLN MILLION)

STATEMENT OF FINANCIAL POSITION

	Note	31.12.2019	31.12.2018
ASSETS			
Cash and balances with the Central Bank	18	14 602	22 862
Amounts due from banks	19	7 953	11 213
Hedging derivatives	20	594	592
Other derivative instruments	21	2 798	1 909
Securities	23	76 422	60 439
- held for trading		1 175	282
- not held for trading, measured at fair value through profit or loss		755	1 280
- measured at fair value through OCI		61 130	50 562
- measured at amortized cost		13 362	8 315
Loans and advances to customers	24	202 095	191 575
- not held for trading, measured at fair value through profit or loss		8 286	1 106
- measured at fair value through OCI		9 623	8 496
- measured at amortized cost		184 186	181 973
Investments in subsidiaries, associates and joint ventures	37	3 994	3 588
Non-current assets held for sale		9	8
Intangible assets	26	2 606	2 595
Property, plant and equipment	26	2 738	2 082
Deferred income tax assets	17	1 290	1 232
Other assets	27	2 024	2 318
TOTAL ASSETS		**317 125**	**300 413**

	Note	31.12.2019	31.12.2018
LIABILITIES AND EQUITY			
Liabilities			
Amounts due to the Central Bank		-	7
Amounts due to banks	28	1 976	1 591
- measured at fair value through profit or loss		317	-
- measured at amortized cost		1 659	1 591
Hedging derivatives	20	668	560
Other derivative instruments	21	2 927	2 657
Amounts due to customers	29	258 015	245 213
- measured at fair value through profit or loss		45	-
- measured at amortized cost		257 970	245 213
Debt securities in issue	31	4 769	5 367
Subordinated liabilities	32	2 730	2 731
Other liabilities	33	4 744	3 189
Current income tax liabilities		311	297
- of the Bank		282	297
- of the subsidiaries belonging to the Tax Group		29	-
Provisions	34	573	441
TOTAL LIABILITIES		**276 713**	**262 053**
Equity	35		
Share capital		1 250	1 250
Other capital		33 771	34 310
Retained earnings		1 556	(535)
Net profit or loss for the year		3 835	3 335
TOTAL EQUITY		**40 412**	**38 360**
TOTAL LIABILITIES AND EQUITY		**317 125**	**300 413**
Total capital ratio	63	20,66%	21,33%
Book value (in PLN million)		40 412	38 360
Number of shares (in million)		1 250	1 250
Book value per share (in PLN)		32,33	30,69
Diluted number of shares (in million)		1 250	1 250
Diluted book value per share (in PLN)		32,33	30,69

(IN PLN MILLION)

Bank Polski

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019	Share capital	Other capital						Retained earnings	Net profit for the period	Total equity
		Reserves								
		Supplementary capital	General banking risk fund	Other reserves	Accumulated other comprehensive income	Total other capital and reserves				
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 (Note 40)	-	-	-	-	-	-		(111)	-	(111)
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)	-
Dividend paid (Note 39)	-	-	-	-	-	-		(1 663)	-	(1 663)
Total comprehensive income, of which:	-	-	-	-	(9)	(9)		-	3 835	3 826
Net profit for the year	-	-	-	-	-	-		-	3 835	3 835
Other comprehensive income	-	-	-	-	(9)	(9)		-	-	(9)
Covering of prior year loss[1]	-	-	-	(535)	-	(535)		535	-	-
Transfer from retained earnings to equity	-	-	-	5	-	5		(5)	-	-
31 December 2019	1 250	29 168	1 070	3 099	434	33 771		1 556	3 835	40 412

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

FOR THE YEAR ENDED 31 DECEMBER 2019	Accumulated other comprehensive income			
	Fair value of financial assets measured at fair value through OCI	Cash flow hedges	Actuarial gains and losses	Total
1 January 2019	471	(18)	(10)	443
Total comprehensive income, of which:	(117)	113	(5)	(9)
Other comprehensive income	(117)	113	(5)	(9)
31 December 2019	354	95	(15)	434

(IN PLN MILLION)

FOR THE YEAR ENDED 31 DECEMBER 2018	Share capital	Other capital						Retained earnings	Net profit 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 2017	1 250	27 118	1 070	3 593		182	31 963	-	2 774	35 987
Changes due to IFRS 9 implementation	-	-	-	-		(164)	(164)	(535)	-	**(699)**
1 January 2018 (restated)	1 250	27 118	1 070	3 593		18	31 799	(535)	2 774	35 288
Transfer from retained earnings	-	-	-	-		-	-	2 774	(2 774)	-
Dividend paid	-	-	-	-		-	-	(688)	-	(688)
Total comprehensive income, of which:	-	-	-	-		425	425	-	3 335	3 760
Net profit for the year	-	-	-	-		-	-	-	3 335	3 335
Other comprehensive income	-	-	-	-		425	425	-	-	425
Transfer from retained earnings to equity	-	2 050	-	36		-	2 086	(2 086)	-	-
31 December 2018	1 250	29 168	1 070	3 629		443	34 310	(535)	3 335	38 360

FOR THE YEAR ENDED 31 DECEMBER 2018	Accumulated other comprehensive income			
	Fair value of financial assets measured at fair value through OCI	Cash flow hedges	Actuarial gains and losses	Total
As at 31 December 2017	266	(75)	(9)	182
Changes due to IFRS 9 implementation	(164)	-	-	(164)
1 January 2018 (restated)	102	(75)	(9)	18
Total comprehensive income, of which:	369	57	(1)	425
Other comprehensive income	369	57	(1)	425
31 December 2018	471	(18)	(10)	443

(IN PLN MILLION)

CASH FLOW STATEMENT

	Note	2019	2018
Cash flows from operating activities			
Profit before tax		**5 118**	**4 471**
Total adjustments:		**2 455**	**10 530**
Amortization and depreciation	14	820	680
(Gains)/losses on investing activities	43	(14)	(20)
Interest and dividends	43	(1 537)	(958)
Change in:			
amounts due from banks	43	(513)	(61)
hedging derivatives		106	868
other derivatives		(619)	(88)
securities	43	(2 191)	546
- held for trading		(893)	190
- not held for trading, measured at fair value through profit or loss		525	1 606
- measured at fair value through OCI		(1 472)	(1 057)
- measured at amortized cost		(351)	(193)
loans and advances to customers	43	(9 450)	(7 381)
- not held for trading, measured at fair value through profit or loss		(7 180)	(36)
- measured at fair value through OCI		(1 127)	(261)
- measured at amortized cost		(1 143)	(7 084)
non-current assets held for sale	43	(2)	285
other assets	43	189	(297)
accumulated allowances for expected credit losses	43	(1 042)	(2 458)
accumulated allowances for non-financial assets and other provisions	43	103	(85)
amounts due to banks	43	378	(105)
- measured at fair value through profit or loss		317	-
- measured at amortized cost		61	(105)
amounts due to customers	43	16 565	22 204
- measured at fair value through profit or loss		45	-
- measured at amortized cost		16 520	22 204
debt securities in issue	43	21	208
subordinated liabilities	43	(1)	11
other liabilities	43	872	(1 403)
Income tax paid		(1 354)	(1 547)
Other adjustments	43	124	131
Net cash from/used in operating activities		**7 573**	**15 001**

(IN PLN MILLION)

	Note	2019	2018
Cash flows from investing activities			
Inflows from investing activities		**216 142**	**266 674**
Proceeds from sale of a subsidiary classified as held for sale		-	10
Disposal of and interest on securities measured at fair value through other comprehensive income		207 620	265 519
Redemption and interest on securities measured at amortized cost		7 936	765
Proceeds from sale of intangible assets, property, plant and equipment and assets held for sale		61	89
Other inflows from investing activities (dividends)	43	525	291
Outflows from investing activities		**(229 112)**	**(271 994)**
Purchase of shares in subsidiaries, net of cash acquired		-	(244)
Capital increases in subsidiaries, associates and joint ventures		(306)	(206)
Purchase of securities measured at fair value through other comprehensive income		(215 678)	(268 033)
Purchase of securities measured at amortized cost		(12 378)	(2 906)
Purchase of intangible assets and property, plant and equipment		(750)	(605)
Net cash from/used in investing activities		**(12 970)**	**(5 320)**

	Note	2019	2018
Cash flows from financing activities			
Proceeds from debt securities in issue	43	596	1 255
Redemption of debt securities	43	(1 215)	(1 300)
Proceeds from issue of subordinated bonds	43	-	1 000
Taking up loans and advances	43	-	646
Payment of lease liabilities	43	(202)	
Repayment of loans and advances	43	(3 763)	(2 763)
Dividend paid to shareholders	39	(1 663)	(688)
Repayment of interest on long-term borrowings	43	(387)	(348)
Net cash from/used in financing activities		**(6 634)**	**(2 198)**
Total net cash flows		**(12 031)**	**7 483**
of which foreign exchange differences on cash and cash equivalents		(8)	197
Cash and cash equivalents at the beginning of the period		30 024	22 541
Cash and cash equivalents at the end of the period	43	17 993	30 024

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NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION ABOUT THE BANK

BUSINESS ACTIVITIES OF 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 Head of State Józef Piłsudski, Prime Minister Ignacy Paderewski and Hubert Linde, first founder and first president of Pocztowa Kasa Oszczędnościowa. In 1950, the Bank began operating as Powszechna Kasa Oszczędności bank państwowy (state-owned bank). Pursuant to the Decree of the Council of Ministers of 18 January 2000 (Journal of Laws of 2000 No. 5, item 55 as amended), Powszechna Kasa Oszczędności bank państwowy (state-owned bank) was transformed into a State-owned joint-stock company, Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna with its registered office in Warsaw, ul. Puławska 15, 02-515 Warsaw, Poland.

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

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

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

PKO Bank Polski SA is the parent entity of the PKO Bank Polski SA Group and a significant investor for associates and joint ventures of the Bank. Accordingly, PKO Bank Polski SA prepares consolidated financial statements of the Group, which include the financial data of these entities.

ORGANIZATIONAL ENTITIES OPERATING IN THE BANK'S STRUCTURE

The Bank's financial statements covering the financial data for the year ended 31 December 2019 and comparative financial data were prepared based on the financial data of all organizational entities comprising the Bank, through which the Bank conducts its operations. As at 31 December 2019, they comprised: the Bank's head office in Warsaw, Biuro Maklerskie PKO Banku Polskiego SA (the Brokerage House), 12 specialist organizational entities, 11 regional retail branches, 7 regional corporate branches, 33 corporate centres and 1 062 branches. The Bank also conducts operating activities in the Federal Republic of Germany in the form of a branch (the German Branch) and in the Czech Republic (the Czech Branch).

INFORMATION ON MEMBERS OF THE SUPERVISORY BOARD AND MANAGEMENT BOARD OF THE BANK

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

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

On 6 May 2019 due to the changes in the composition of the Supervisory Board, Janusz Ostaszewski was dismissed.
On 23 January 2020, Mr Dariusz Górski resigned from the position of Supervisory Board Member, with effect from 29 January 2020.

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

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

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

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

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

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

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

2.1. STATEMENT OF COMPLIANCE

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

2.2. GOING CONCERN

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

2.3. MANAGEMENT REPRESENTATION

The Management Board hereby represents that, to the best of their knowledge, the financial statements and the comparative data have been prepared in accordance with the applicable rules of accounting practice and give a true, fair and clear view of the Bank's financial position and results of operations.

2.4. APPROVAL OF THE FINANCIAL STATEMENTS

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

(IN PLN MILLION)

3. DESCRIPTION OF SIGNIFICANT ACCOUNTING POLICIES

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

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

INCOME STATEMENT	Note	Accounting policies	Major estimates and judgments
Interest income and expenses	5	Y	
Fee and commission income and expenses	6	Y	
Dividend income	7	Y	
Net gain/(loss) in financial instruments measured at fair value through profit or loss	8	Y	Y
Net foreign exchange gains/(losses)	9	Y	Y
Gains/(losses) on derecognition of financial instruments not measured at fair value through profit or loss	3	Y	
Allowances for expected credit losses	25	Y	Y
Net impairment allowances on non-current financial assets	26	Y	Y
Cost of legal risk of mortgage loans in convertible currencies	59		Y
Other operating income and expenses	13	Y	
Administrative expenses	14	Y	Y
Net regulatory charges	15	Y	
Tax on certain financial institutions	16		
Income tax	17	Y	

[1] The letter Y indicates that the given accounting policy or major estimates and judgements are described in the note.

STATEMENT OF FINANCIAL POSITION	Note	Accounting policies	Major estimates and judgments
Cash and balances with Central Bank	18	Y	
Amounts due from banks	3.19	Y	
Hedging derivatives	20	Y	Y
Other derivative instruments	21	Y	Y
Securities	3,23,25	Y	
Loans and advances to customers	3,24,25	Y	Y
Investments in subsidiaries, associates and joint ventures	37	Y	
Intangible assets	26	Y	Y
Property, plant and equipment	26	Y	Y
Deferred income tax assets	17	Y	
Other assets	27	Y	
Amounts due to banks	3.28	Y	
Amounts due to customers	3.29	Y	
Liabilities in respect of securities in issue	3	Y	
Subordinated liabilities	3	Y	
Other liabilities	33	Y	
Provisions	34	Y	Y
Equity	35	Y	

[1] The letter Y indicates that the given accounting policy or major estimates and judgements are described in the note.

3.1. FUNCTIONAL CURRENCY, PRESENTATION CURRENCY AND FOREIGN CURRENCIES

The financial statements are presented in Polish zlotys (PLN), which are the Bank's functional and presentation currency. Items of the statement of financial position of the German Branch are translated into the presentation currency from the functional currency (EUR) and items of the statement of financial position of the Czech Branch are translated into the presentation currency from the functional currency (CZK) using the average NBP exchange rate at the end of the reporting period. Items in the Branches' profit and loss are translated into the presentation currency using the average exchange rate from the end of each month of the reporting period. The resulting exchange differences are recognized in other comprehensive income.

- **TRANSACTIONS AND BALANCES IN FOREIGN CURRENCIES**

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

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

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

3.2. ACCOUNTING FOR TRANSACTIONS

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

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

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

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

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

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

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

The Bank derecognizes financial assets from its statement of financial position, among other things, when they are forgiven, their limitation period has expired or when they are irrecoverable. When the said assets are derecognized, they are charged to the respective credit loss allowances. In the event that no allowances have been recorded, or if the amount of the allowance is less than the amount of the financial asset, the amount of the impairment allowance is increased by the difference between the value of the asset and the amount of the allowance that has been recognized to date.

3.4. THE PRINCIPLES FOR CLASSIFICATION OF FINANCIAL INSTRUMENTS

The Bank classifies financial assets into the following categories:

- measured at amortized cost;
- measured at fair value through other comprehensive income (FVOCI);
- measured at fair value through profit or loss (FVP&L).

The Bank classifies financial liabilities into the following categories:

- measured at amortized cost;
- measured at fair value through profit or loss (FVP&L).

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

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

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

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

Financial liabilities	Classification and measurement
Amounts due to the Central Bank	measured at amortized cost
Amounts due to banks	measured at fair value through profit or loss
	measured at amortized cost
Hedging derivatives	measured at fair value through profit or loss or other comprehensive income
Other derivative instruments	measured at fair value through profit or loss
Amounts due to customers	measured at fair value through profit or loss
	measured at amortized cost
Securities in issue	measured at amortized cost
Subordinated liabilities	measured at amortized cost
Total financial liabilities	measured at amortized cost

- **BUSINESS MODEL**

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

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

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

- **ASSESSMENT OF CONTRACTUAL CASH FLOW CHARACTERISTICS**

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

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

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

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

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

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

3.5. FINANCIAL ASSETS MEASURED AT AMORTIZED COST

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3.8. EQUITY INSTRUMENTS

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

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

3.9. RECLASSIFICATION OF FINANCIAL ASSETS

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

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

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

No financial liabilities are reclassified.

3.10. MODIFICATIONS – CHANGES IN CONTRACTUAL CASH FLOWS

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

If the contractual cash flows associated with a financial asset are renegotiated or otherwise modified based on an annex to the agreement, and such renegotiation or modification does not lead to the derecognition of such a financial asset ("**INSIGNIFICANT MODIFICATION**"), the carrying amount of the financial asset is recalculated and gain or loss arising from such modification is recognized in the financial result. An adjustment of the carrying amount of a financial asset resulting from the modification is recognized in interest income/ expenses over time using the effective interest rate method. The carrying amount of a financial asset is calculated as the present value of renegotiated or modified contractual cash flows, discounted using the original effective interest rate on the financial asset (or, in the case of credit-impaired financial assets purchased or issued, the effective interest rate adjusted for credit risk) or, if applicable (e.g. with respect to gain or loss on a hedged item resulting from hedging), the updated effective interest rate. Any costs or fees incurred adjust the carrying amount of the modified financial asset and are amortized over the remaining part of the life of the modified financial asset.

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

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

The following QUALITATIVE CRITERIA have been adopted:

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

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

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

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

(IN PLN MILLION)

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

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

POCI comprise debt financial assets measured at amortized cost and at fair value through other comprehensive income, i.e. loans and debt securities. Such assets are initially recognized at the net carrying amount (net of write-downs), which corresponds to their fair value. Interest income on POCI assets is calculated based on the net carrying amount using the effective interest rate adjusted for credit risk recognized for the whole life of the asset.

The interest rate adjusted for credit risk is calculated taking into account future cash flows adjusted for the effect of credit risk recognized over the whole life of the asset. The change in estimates of future recoveries in further reporting periods is recognized as a gain or loss on expected credit losses.

3.12. MEASUREMENT OF FINANCIAL LIABILITIES

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

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

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

STANDARDS AND INTERPRETATIONS	DATE OF PUBLICATION / ISSUE	EFFECTIVE DATE / ENDORSEMENT BY EU	DESCRIPTION OF CHANGES AND IMPACT
IFRS 16 LEASES	13.01.2016	1.01.2019/ 31.10.2017	Detailed information disclosed in note “Leases”
IFRIC 23 UNCERTAINTY OVER INCOME TAX TREATMENTS	7.06.2017	1.01.2019/ 23.10.2018	The interpretation defines the method of determination of the taxable profit (tax loss), tax base, unsettled tax losses, unused tax allowances and tax rates (hereinafter collectively named “tax position”), when there is an uncertainty over tax income treatment applied by an entity in a tax return (“uncertain tax treatment”). The interpretation requires that the entity: - decides whether the uncertain tax treatment is subject to individual or collective judgement, - assesses the probability that tax authorities will accept the uncertain tax treatment of a given position, applied or proposed by the entity in a tax return: i) if it is probable, the entity should consistently apply to this position the tax treatment applied or planned in a tax return, ii) if not, the entity should consider the uncertainty’s results when determining its tax position for accounting purposes. The results should be assessed using an approach based on “most probable amount” or “expected value”, depending on which method provides better prediction of the resolution of the uncertainty. No material impact on the financial statement.

(IN PLN MILLION)

IAS 28 AMENDMENTS: LONG-TERM INTERESTS IN ASSOCIATES AND JOINT VENTURES	12.10.2017	1.01.2019/ 8.02.2019	Amendments to IAS 28 clarify that an entity shall apply IFRS 9 "Financial instruments" to other financial instruments in associates and joint ventures to which the equity method does not apply. These instruments include long term interests which, in their economic substance, represent a part of the net investment in associates or joint ventures. Amendments to IAS 28 clarified that the IFRS 9 requirements should be applied to long-term interests before the IAS 28 requirements relating to allocation of the loss are applied, and that when applying IFRS 9 requirements, the entity does not take into account any adjustments to the carrying value of long-term interests resulting from the application of IAS 28. No material impact on the financial statements.
IAS 19 AMENDMENTS: PLAN AMENDMENT, CURTAILMENT OR SETTLEMENT	7.02.2018	1.01.2019/ 13.03.2019	Amendments to IAS 19 specify how an entity should determine the cost of defined benefit plans if changes to such plans occur. The standard determines how an entity accounts for a defined benefit plan. If a plan amendment, curtailment or settlement occurs, the entity is required to remeasure the net defined benefit liability or asset. The amendment requires the entity to use updated assumptions of the remeasurement to determine the current service cost and the net interest for the remaining part of the reporting period after the plan amendment. No material impact on the financial statements.
IAS 9 AMENDMENTS: PREPAYMENT FEATURES WITH NEGATIVE COMPENSATION	12.10.2017	1.01.2019/ 22.03.2018	The amendments add a provision relating to contracts with a prepayment option where the lender may be required to accept the prepayments at an amount less than the unpaid principal and interest owed. Such a prepayment could represent a payment for the borrower from the lender, rather than compensation from the borrower to the lender. Such a financial asset will qualify to be measured at amortized cost or at fair value through other comprehensive income (depending on the business model), but the negative compensation must represent a justified compensation for the early repayment of a contract. No material impact on the financial statements.
ANNUAL IMPROVEMENTS TO IFRSS 2015-2017 CYCLE, COVERING: • IFRS 3 AND IFRS 11: PREVIOUSLY HELD INTERESTS IN JOINT ARRANGEMENTS	12.12.2017	1.01.2019/ 14.03.2019	The amendments relate to: - IFRS 3 - explanation that if an entity is taking over control over an operation which is a joint arrangement, it shall remeasure interest previously held in that entity; - IFRS 11 - explanation that an entity which gained joint control over an operation which is a joint arrangements, it shall not remeasure interest previously held in that entity;

(IN PLN MILLION)

• IAS 12: Income tax consequences of payments of dividend • IAS 23: Borrowing costs eligible for capitalization			- IFRS 12 - explanation that any income tax consequences of dividend (i.e. profit distribution) should be recognized in the income statement, regardless of how the income tax arises; - IAS 23 - amendments clarify that at the date of completing a capital expenditure project, special purpose financing "becomes" general purpose financing. No material impact on the financial statements.

3.14. New standards and interpretations and amendments thereto that have been published and endorsed by the European Union, but have not come into force yet and are not applied by the Bank

Standards and interpretations	Date of issue / publication	Effective date in EU / date of endorsement by EU	Description of changes and impact
Amendments to References to the Conceptual Framework in IFRS	29.03.2018	1.01.2020/ 29.11.2019	The purpose of the amendments is to replace references to the previous conceptual framework in a number of standards and interpretations with references to the amended Conceptual Framework. The Bank does not expect these amendments to have a material effect.
Amendments to IAS 1 and IAS 8: Definition of the term 'material'	31.10.2018	1.01.2020/ 29.11.2019	The amendments to IAS 1 and IAS 8 standardize and clarify the definition of 'material' and contain guidelines to increase the consistency of application of this concept in the International Financial Reporting Standards. The Bank does not expect these amendments to have a material effect.
Amendments to IFRS 9, IAS 39 and IFRS 7 – IBOR reform	26.09.2019	1.01.2020/ 15.01.2020	The amendments introduce certain temporary, narrow departures from the requirements of hedge accounting included in IAS 39 and IFRS 9 which will enable entities to continue to comply with the applicable requirements, provided that the existing interest rate benchmarks do not change as a result of the interbank offering rate reform. The Bank does not expect these amendments to have a material effect.

(IN PLN MILLION)

3.15. New standards and interpretations, as well as their amendments, which were published and have not yet been endorsed by the European Union

Standards and interpretations	Date of issue / publication	Effective date	Effective date in EU (date of endorsement by EU)	Description of changes and impact
IFRS 17 Insurance Contracts	18.05.2017	1.01.2021	No data	IFRS 17 "Insurance Contracts" will replace IFRS 4 "Insurance Contracts" which enabled entities to continue to recognize insurance contracts according to the accounting principles in force in the national standards, which, as a result, meant applying many different solutions. IFRS 17 introduces the requirements to recognize all insurance contracts in a consistent manner. Liabilities arising from contracts will be recognized at current prices, instead of historical cost. The application of the standard should follow the full retrospective approach (if not possible, the entity should use modified retrospective approach or the fair value approach). The Bank does not expect these amendments to have a material effect.
Amendments to IFRS 3 Business combinations	22.10.2018	1.01.2020	expected date of endorsement: Q1 2020	The amendments to IFRS 3 narrow down and clarify the definition of a venture. They also allow a simplified assessment of whether a set of assets and activities is a group of assets and not a venture. Prospective approach. The Bank does not expect these amendments to have a material effect.

4. Explanation of the differences between previously published financial statements and these financial statements

In order to ensure better reflection in the financial statements, the Bank made the following presentation changes.

INCOME STATEMENT	period from 01.01.2018 to 31.12.2018 before restatement	separate disclosure of "result on regulatory charges"	period from 01.01.2018 to 31.12.2018 after restatement
Interest expenses	(2 014)	54	(1 960)
Administrative expenses	(5 133)	498	(4 635)
Net regulatory charges	-	(552)	(552)
Total	**(7 147)**	-	**(7 147)**

NOTES TO THE INCOME STATEMENT AND THE STATEMENT OF FINANCIAL POSITION

5. INTEREST INCOME AND EXPENSES

ACCOUNTING POLICIES

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

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

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

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

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

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

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

Remuneration received and receivable by the Bank for offering insurance products for the products directly associated with the financial instruments is recognized using the effective interest rate method and recognized in interest income. Remuneration is recognized in commission income upon sale or renewal of an insurance product only in the part relating to the intermediation service provided.

Remuneration is divided into the commission portion and the interest portion based on the proportion of the fair value of the financial instrument and the fair value of the intermediation service to the sum of these two values.

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

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

(IN PLN MILLION)

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

The Bank makes periodical estimations of the remuneration amount that will be recoverable in the future due to the early termination of the insurance contract and reduces the recognized interest or commission income accordingly.

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

FINANCIAL INFORMATION

INTEREST INCOME ON:	2019	2018
loans to and other receivables from banks	175	173
hedging derivatives	536	503
debt securities	1 656	1 353
measured at amortized cost	306	196
measured at fair value through OCI	1 302	1 084
measured at fair value through profit or loss	48	73
loans and advances to customers	8 993	8 475
measured at amortized cost	7 757	8 159
measured at fair value through OCI	287	272
measured at fair value through profit or loss	949	44
Total	**11 360**	**10 504**
of which: interest income on impaired financial instruments	239	277
INTEREST INCOME		
Interest income calculated under the effective interest rate method	9 827	9 884
on financial instruments measured at amortised cost	8 238	8 528
on instruments measured at fair value through OCI	1 589	1 356
Income similar to interest income on instruments measured at fair value through profit or loss	1 533	620
Total	**11 360**	**10 504**

In 2019, the Bank reduced interest income on loans and advances to customers by PLN 178 million (the amount of PLN 31 relates to paid automatically before the balance sheet date reimbursement of costs and the amount of PLN 147 million relates to provisions for future reimbursement of costs) to reflect potential refunds to customers on early repayment of open consumer and mortgage loans recognized in the Bank's financial statements.

INTEREST EXPENSE ON:	2019	2018
amounts due to banks (excluding loans and advances received)	(12)	(14)
placements	(15)	(19)
loans and advances received	(211)	(239)
lease	(20)	
amounts due to customers (excluding loans and advances received)	(1 556)	(1 487)
debt securities	(136)	(77)
measured at amortized cost	(10)	(6)
measured at fair value through OCI	(115)	(53)
measured at fair value through profit or loss	(11)	(18)
debt securities in issue	(41)	(40)
subordinated liabilities	(90)	(84)
Total	**(2 081)**	**(1 960)**

(IN PLN MILLION)

INTEREST INCOME BY SEGMENT ON:	2019			
	Retail segment	Corporate and investment segment	Transfer centre and other	Total
loans to and other receivables from banks	-	136	39	175
hedging derivatives	-	-	536	536
debt securities	-	1 656	-	1 656
loans and advances to customers	7 134	1 859	-	8 993
Total	**7 134**	**3 651**	**575**	**11 360**

INTEREST INCOME BY SEGMENT ON:	2018			
	Retail segment	Corporate and investment segment	Transfer centre and other	Total
loans to and other receivables from banks	-	139	34	173
hedging derivatives	-	-	503	503
debt securities	-	1 353	-	1 353
loans and advances to customers	6 711	1 764	-	8 475
Total	**6 711**	**3 256**	**537**	**10 504**

6. FEE AND COMMISSION INCOME AND EXPENSES

ACCOUNTING POLICIES

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

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

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

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

(IN PLN MILLION)

FINANCIAL INFORMATION

FEE AND COMMISSION INCOME	2019	2018
Loans and insurance	**895**	**793**
granting of loans and advances	699	637
offering insurance products	196	156
Investment funds and brokerage activity	**216**	**345**
maintenance of investment funds and OFE (including management fees)	46	185
handling and sale of investment and insurance products	12	14
conducting brokerage activities	158	146
Cards	**1 313**	**1 221**
Bank accounts and other	**1 118**	**1 133**
maintenance of bank accounts	820	812
cash operations	64	79
servicing foreign mass transactions	99	104
sale and distribution of court fee stamps	-	1
customer orders	48	46
fiduciary services	6	6
other	81	85
Total	**3 542**	**3 492**

FEE AND COMMISSION EXPENSE	2019	2018
Investment funds and brokerage activity	**(18)**	**(19)**
Cards	**(757)**	**(698)**
Bank accounts and other	**(297)**	**(293)**
commission paid to external entities for product sales	(72)	(78)
cost of construction investment supervision and property valuation	(46)	(44)
clearing services	(35)	(31)
commissions for operating services provided by banks	(10)	(13)
sending short text messages (SMS)	(33)	(27)
other	(101)	(100)
Total	**(1 072)**	**(1 010)**

FEE AND COMMISSION INCOME BY SEGMENT	2019			
	Retail segment	Corporate and investment segment	Transfer centre and other	Total
Loans and insurance	**671**	**224**	-	**895**
granting of loans and advances	475	224	-	699
offering insurance products	196	-	-	196
Investment funds and brokerage activity	**99**	**117**	-	**216**
maintenance of investment funds and OFE (including management fees)	39	7	-	46
handling and sale of investment and insurance products	12	-	-	12
conducting brokerage activities	48	110	-	158
Cards	**1 286**	**27**	-	**1 313**
Bank accounts and other	**947**	**171**	-	**1 118**
maintenance of bank accounts	743	77	-	820
cash operations	46	18	-	64
servicing foreign mass transactions	64	35	-	99
customer orders	27	21	-	48
fiduciary services	-	6	-	6
other	67	14	-	81
Total	3 003	539	-	3 542

(IN PLN MILLION)

FEE AND COMMISSION INCOME BY SEGMENT	2018			
	Retail segment	Corporate and investment segment	Transfer centre and other	Total
Loans and insurance[1]	**613**	**180**	-	**793**
granting of loans and advances	457	180	-	637
offering insurance products	156	-	-	156
Investment funds and brokerage activity	**228**	**117**	-	**345**
maintenance of investment funds and OFE (including management fees)	176	9	-	185
handling and sale of investment and insurance products	14	-	-	14
conducting brokerage activities	38	108	-	146
Cards[1]	**1 178**	**43**	-	**1 221**
Bank accounts and other	**941**	**192**	-	**1 133**
maintenance of bank accounts	753	59	-	812
cash operations	60	19	-	79
servicing foreign mass transactions	61	43	-	104
sale and distribution of court fee stamps	-	1	-	1
customer orders	27	19	-	46
fiduciary services	-	6	-	6
other	40	45	-	85
Total	**2 960**	**532**	-	**3 492**

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

7. DIVIDEND INCOME

ACCOUNTING POLICIES

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

FINANCIAL INFORMATION

DIVIDEND INCOME	2019	2018
from issuers not related to the Bank, with respect to:	14	12
financial assets held for trading	1	1
financial instruments not held for trading, measured at fair value through profit or loss	13	11
from subsidiaries, associates and joint ventures of which	547	311
PKO Towarzystwa Funduszy Inwestycyjnych SA	280	156
CEUP eService sp. z o.o.	36	22
PKO BP BANKOWY PTE SA	13	8
PKO BP Finat sp. z o.o.	36	64
PKO Życie Towarzystwo Ubezpieczeń SA	24	-
PKO Leasing SA	158	61
Total	**561**	**323**

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

ACCOUNTING POLICIES

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

(IN PLN MILLION)

FINANCIAL INFORMATION

NET INCOME FROM FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS	2019	2018
Financial instruments held for trading of which:	96	(34)
derivatives	99	17
Financial instruments not held for trading, measured at fair value through profit or loss of which:	87	79
loans and advances to customers	(58)	(11)
Hedge accounting	3	(3)
Total	**186**	**42**

9. FOREIGN EXCHANGE GAINS/ (LOSSES)

ACCOUNTING POLICIES

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

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

FINANCIAL INFORMATION

NET FOREIGN EXCHANGE GAINS/(LOSSES)	2019	2018
Net foreign exchange gains/(losses), of which:	475	469
ineffective portion of cash flow hedge recognized in foreign exchange result	3	(1)
Total	**475**	**469**

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

GAINS/(LOSSES) ON DERECOGNITION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	2019	2018
Measured at fair value through OCI	155	129
Measured at amortized cost	(12)	4
Total	**143**	**133**

(IN PLN MILLION)

11. ALLOWANCES FOR EXPECTED CREDIT LOSSES

NET ALLOWANCES FOR EXPECTED CREDIT LOSSES	2019	2018
Debt securities	(7)	(4)
measured at fair value through OCI	(11)	4
measured at amortized cost	4	(8)
Loans and advances to customers	(962)	(1 209)
measured at fair value through OCI	(12)	(14)
housing	(12)	(14)
measured at amortized cost	(950)	(1 195)
housing	(79)	(144)
corporate	(332)	(498)
consumer	(539)	(553)
Other financial assets	2	(1)
Provisions for financial liabilities and guarantees granted	(41)	(72)
Total	**(1 008)**	**(1 286)**

ACCUMULATED ALLOWANCES FOR EXPECTED CREDIT LOSSES (BALANCE)	31.12.2019	31.12.2018
Amounts due from banks measured at amortized cost	4	4
Debt securities	20	30
measured at fair value through OCI	5	10
measured at amortized cost	15	20
Loans and advances to customers measured at amortized cost	6 443	7 511
Provisions for financial liabilities and guarantees granted	268	227
Other financial assets	90	95
Total	**6 825**	**7 867**

12. IMPAIRMENT OF NON-FINANCIAL ASSETS

NET IMPAIRMENT ALLOWANCES ON NON-CURRENT FINANCIAL ASSETS	2019	2018
Non-current assets held for sale	(1)	(11)
Property, plant and equipment	(14)	(9)
Intangible assets	2	(10)
Investments in subsidiaries, associates and joint ventures	-	(66)
Other non-financial assets	(28)	(15)
Total	**(41)**	**(111)**

ACCUMULATED IMPAIRMENT ALLOWANCES ON NON-FINANCIAL ASSETS	31.12.2019	31.12.2018
Non-current assets held for sale	1	-
Property, plant and equipment	42	35
Intangible assets	23	25
Investments in subsidiaries, associates and joint ventures	915	915
Other non-financial assets	119	113
Total	**1 100**	**1 088**

(IN PLN MILLION)

13. OTHER OPERATING INCOME AND EXPENSES

ACCOUNTING POLICIES

Other operating income and expenses comprise income and costs not directly related to banking activities. Other operating income mainly includes gains on sale/scrapping of fixed assets, intangible assets and foreclosed collateral, sale of shares in subsidiaries, irrecoverable receivables collected, legal damages, fines and penalties, income from lease/rental of properties. Other operating expenses mainly include provisions for refunds to customers on early repayment of consumer and mortgage loans, losses on sale /scrapping of fixed assets, intangible assets and foreclosed collateral, and donations made. Other operating income and expenses also include provisions recognized and released for legal claims, excluding legal claims relating to mortgage loans in foreign currencies and other provisions.

FINANCIAL INFORMATION

OTHER OPERATING INCOME	2019	2018
Gains on sale or scrapping of property, plant and equipment, intangible assets and assets held for sale	17	30
Damages, compensation and penalties received	2	1
Ancillary income	26	27
Recovery of receivables expired, forgiven or written off	4	7
Costs relating to a potential return of fees and commission to customers	58	-
Income from BGF in respect of guarantees	-	8
Release of provision for future payments	1	16
Release of provision for legal claims excluding legal claims related to mortgage loans in convertible currencies	6	4
Other	47	78
Total	**161**	**171**

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

OTHER OPERATING EXPENSES	2019	2018
Losses on sale or scrapping of property, plant and equipment, intangible assets and assets held for sale	(3)	(10)
Costs of donations made	(23)	(53)
Sundry expenses	(14)	(16)
Costs of financing to a subsidiary	(274)	-
Costs relating to a potential return of fees and commission to customers	(127)	(62)
Provision for future payments	(1)	(6)
Provision for legal claims excluding legal claims related to mortgage loans in convertible currencies	(6)	(43)
Other	(41)	(36)
Total	**(489)**	**(226)**

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

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

In 2019, the Bank recognized the cost of the provision for refunds to customers on early repayment of consumer and mortgage loans of PLN 127 million (see the note “Provisions” and “Legal claims”).

(IN PLN MILLION)

14. Administrative expenses

Accounting policies

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

Financial information

ADMINISTRATIVE EXPENSES	2019	2018
Employee benefits	(2 788)	(2 671)
Overheads, including:	(1 137)	(1 284)
rent	(80)	(265)
IT	(273)	(254)
Depreciation and amortization	(820)	(680)
property, plant and equipment, of which:	(464)	(266)
IT	(106)	(105)
right-of-use assets	(195)	-
intangible assets, of which:	(356)	(414)
IT	(348)	(403)
Total	**(4 745)**	**(4 635)**

The decrease in rent costs and increase in property, plant and equipment depreciation costs resulted from implementation of IFRS 16 “Leasing” (for details please see the note “Leasing”).

EMPLOYEE BENEFITS	2019	2018
Wages and salaries, including:	(2 329)	(2 235)
costs of contributions to the employee pension plan	(61)	(43)
restructuring costs	(32)	(26)
Social insurance, of which:	(380)	(363)
contributions for disability and retirement benefits	(320)	(307)
Other employee benefits	(79)	(73)
Total	**(2 788)**	**(2 671)**

(IN PLN MILLION)

15. NET REGULATORY CHARGES

ACCOUNTING POLICIES

CONTRIBUTIONS AND PAYMENTS TO THE BGF	According to IFRIC 21 “Levies”- fees paid by the Bank to the Bank Guarantee Fund are recognized in profit or loss upon the occurrence of the obligating event. The Bank makes contributions to the banks' guarantee fund (quarterly) and the banks' compulsory resolution (annually). Contributions to the guarantee fund and the compulsory resolution fund are not tax-deductible.
FEES TO PFSA	In accordance with IFRIC 21 "Levies", fees paid to the Polish Financial Supervision Authority are recognized in profit or loss upon the occurrence of the obligating event. Both fees (to cover the cost of banking supervision and to cover the costs of supervision of the capital market) are paid once a year. Fees paid to the Polish Financial Supervision Authority are tax deductible.
FLAT-RATE INCOME TAX	The Act of 23 October 2018 on amendments to, among other things, acts on income taxes, introduced a possibility of an alternative to taxation with WHT, namely a 3% tax on certain interest paid to non-residents. Therefore, on 29 March 2019, the Bank filed a notification on the election of the 3% taxation option with the tax office in respect of: • interest on loans which is paid by the Bank to PKO Finance AB with its registered office in Sweden (the election of the taxation, compliant with the act, relates to the years 2014–2022) and • interest on Eurobonds issued by the Bank before 1 January 2019.
OTHER TAXES AND FEES	Property tax, payments made to the State Fund for Rehabilitation of Disabled Persons, municipal and administration fees.

FINANCIAL INFORMATION

NET REGULATORY CHARGES	2019	2018
Contribution and payments to the Bank Guarantee Fund (BGF), including:	(487)	(422)
resolution fund	(326)	(162)
banks’ guarantee fund	(161)	(260)
Fees to the PFSA	(37)	(25)
Flat-rate income tax, of which:	81	(54)
withheld tax (20%)	138	(54)
flat-rate income tax (3%)	(57)	-
Other taxes and charges	(49)	(51)
Total	**(492)**	**(552)**

Due to the fact that the Bank collected 20% withholding tax on interest paid to PKO Finance AB for 2017–2018, on 12 February 2019, it filed a request to determine overpayment of tax together with corrected tax returns. The request was accepted without issuing a decision on this matter. The Bank was informed by the Tax Office that its application had been approved and requested for the instruction on the overpayment settlement approach.

The correction of the 20% withholding tax by PLN 138 million in plus and recognizing the 3% tax on interest assessed for 2014–2018 PLN 50 million are one-off events, however the amount of tax (3%) on interest assessed in 2019 amounts to PLN 7 million. The 3% tax option in respect of tax interest on loan paid to PKO Finance AB results from Article 21 of the Act of 23 October 2018 on amendments to the Act on personal income tax, the Act on corporate income tax, the Act on tax code and other acts (Journal of Laws of 2018, item 2193 with further amendments). The Group paid the tax in the mandatory statutory period, i.e. to 31 July 2019.

The Bank paid the tax in the mandatory statutory period, i.e. to 31 July 2019.

(IN PLN MILLION)

16. 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 an entity'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. 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 of a refinancing loan granted by the NBP.

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

TAX ON CERTAIN FINANCIAL INSTITUTIONS	2019	2018
Tax on certain financial institutions	(931)	(883)
Total	**(931)**	**(883)**

17. INCOME TAX

ACCOUNTING POLICIES

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

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

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

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

- **CURRENT INCOME TAX**

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

The Bank's liability in respect of current corporate income tax for 2019 will be paid according to the statutory periods.

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

Tax systems of countries in which the Bank has its registered office 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.

(IN PLN MILLION)

Therefore, interpretations of the tax law by the tax authorities differing from the practices implemented by the Bank cannot be eliminated and may have a significant unfavourable impact on the Bank's operations and financial condition, despite the various actions aimed at mitigating this risk, which are regularly undertaken and allowed by law.

- **DEFERRED INCOME TAX**

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

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

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

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

FINANCIAL INFORMATION

- **INCOME TAX EXPENSE**

	2019	2018
Income tax expense recognized in the income statement	**(1 283)**	**(1 136)**
Current income tax expense	(1 339)	(1 343)
Deferred income tax on temporary differences	56	207
Income tax expense on temporary differences recognized in other comprehensive income	2	(95)
Total	**(1 281)**	**(1 231)**

(IN PLN MILLION)

RECONCILIATION OF THE EFFECTIVE TAX RATE

	2019	2018
Profit / (loss) before income tax	5 118	4 471
Tax calculated using the enacted rate in force in Poland of 19%	(972)	(849)
Effect of permanent timing differences between profit before tax and net profit, of which:	(316)	(293)
non-tax-deductible impairment allowances on investments in subsidiaries, associates and joint ventures	-	(13)
non-tax-deductible allowances for expected credit losses on credit exposures and securities	(31)	(76)
contribution and payments to BGF	(92)	(80)
tax on financial institutions	(177)	(168)
cost of legal risk of mortgage loans in convertible currencies	(85)	-
3% flat-rate income tax on interest to non-residents	(11)	-
costs of financing to a subsidiary	(52)	
difference between tax and accounting depreciation of property, plant and equipment	48	
other permanent differences	(22)	(17)
dividend income	106	61
Effect of other differences between profit before tax and taxable income, including tax relief on new technologies and donations	5	6
Income tax expense recognized in the income statement	(1 283)	(1 136)
Effective tax rate	**25,1%**	**25,4%**

(IN PLN MILLION)

- **DEFERRED TAX ASSETS, NET**

DEFERRED TAX PROVISION	31.12.2018	INCOME STATEMENT	OTHER COMPREHENSIVE INCOME	31.12.2019
Interest accrued on receivables (loans)	236	(28)	-	208
Capitalized interest on performing housing loans	39	(15)	-	24
Interest on securities	79	35	-	114
Valuation of securities	99	13	(6)	106
Valuation of derivatives	-	(10)	22	12
Difference between carrying amount and tax value of property, plant and equipment and intangible assets	288	(91)	-	197
Taxable income on release of IBNR which constituted tax-deductible cost in the past, in connection with implementing IFRS 9	78	(13)	-	65
Gross deferred income tax provision	**819**	**(109)**	**16**	**726**
DEFERRED TAX ASSET				
Interest accrued on liabilities	87	(13)	-	74
Valuation of derivatives	135	(131)	(4)	-
Employee benefits	77	(3)	2	76
Allowances for expected credit losses	1 019	(117)	-	902
Fair value measurement of loans	17	101	20	138
Deferred commission to be accounted for under straight-line valuation method using effective interest rate	683	77	-	760
Provision for costs to be incurred	29	5	-	34
Other deductible temporary differences	4	28	-	32
Deferred tax asset, gross	**2 051**	**(53)**	**18**	**2 016**
Deferred tax asset (presented in the statement of financial position)	**1 232**	**56**	**2**	**1 290**

(IN PLN MILLION)

DEFERRED TAX PROVISION	31.12.2017	IMPACT ON OPENING BALANCE OF ADJUSTMENT ON ADOPTION OF IFRS 9 (retained earnings)	IMPACT ON OPENING BALANCE OF ADJUSTMENT ON ADOPTION OF IFRS 9 (other comprehensive income)	INCOME STATEMENT	OTHER COMPREHENSIVE INCOME	31.12.2018
Interest accrued on receivables (loans)[1]	217	471	-	(452)	-	236
Capitalized interest on performing housing loans	106	-	-	(67)	-	39
Interest on securities	61			18		79
Remeasurement of securities	7	33	(19)	15	63	99
Difference between carrying amount and tax value of property, plant and equipment and intangible assets	326	-	-	(38)	-	288
Taxable income on release of IBNR allowance which was tax deductible in the past due to the adoption of IFRS 9	-	-	-	78	-	78
Gross deferred income tax provision	**717**	**504**	**(19)**	**(446)**	**63**	**819**
DEFERRED TAX ASSET						
Interest accrued on liabilities	109	-	-	(22)	-	87
Valuation of derivatives	138	-	-	10	(13)	135
Remeasurement of securities	-	-	-	-	-	-
Provision for employee benefits	87	-	-	(10)	-	77
Allowances for credit losses[1]	655	629	-	(265)	-	1 019
Fair value remeasurement of loans	-	-	19	17	(19)	17
Deferred commission to be settled under the straight-line method and effective interest rate	621	-	-	62	-	683
Provision for costs to be incurred	29	-	-	-	-	29
Other deductible temporary differences	35	-	-	(31)	-	4
Deferred tax asset, gross	**1 674**	**629**	**19**	**(239)**	**(32)**	**2 051**
Deferred income tax asset (presented in the statement of financial position)	957	125	38	207	(95)	1 232

18. CASH AND BALANCES WITH THE CENTRAL BANK

ACCOUNTING POLICIES

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

FINANCIAL INFORMATION

CASH AND BALANCES WITH THE CENTRAL BANK	31.12.2019	31.12.2018
Current account with the Central Bank	10 777	17 391
Cash in hand	3 825	5 471
Total	**14 602**	**22 862**

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

	31.12.2019	31.12.2018
Interest on cash on mandatory reserve account	0,5%	0,5%

(IN PLN MILLION)

19. AMOUNTS DUE FROM BANKS

ACCOUNTING POLICIES

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

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

FINANCIAL INFORMATION

AMOUNTS DUE FROM BANKS	31.12.2019	31.12.2018
Measured at amortized cost	**7 957**	**11 217**
Deposits with banks	2 907	6 395
Amount due from PKO Bank Hipoteczny SA in respect of the sale of mortgage-secured housing loans by the Bank	2 279	2 300
Current accounts	472	777
Loans and advances given	2 299	1 745
Total, gross	**7 957**	**11 217**
Allowances for expected credit losses	(4)	(4)
Total, net	**7 953**	**11 213**

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

AMOUNTS DUE FROM BANKS BY MATURITY	31.12.2019	31.12.2018
Measured at amortized cost		
up to 1 month	3 339	7 277
from 1 to 3 months	77	-
from 3 months to 1 year	2 019	2 195
1 to 5 years	2 518	1 741
Total	**7 953**	**11 213**

20. HEDGE ACCOUNTING

RISK MANAGEMENT STRATEGY

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

The interest rate risk covers in particular:

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

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

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

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

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

ACCOUNTING POLICIES

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

- **CASH FLOW HEDGES**

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

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

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

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

- **FAIR VALUE HEDGES**

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

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

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

TYPES OF HEDGING STRATEGIES APPLIED BY THE BANK

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

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

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

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

The table below summarizes the types of strategies applied by the Bank.

<table>
<tr><td>TYPE OF HEDGING STRATEGY</td><td colspan="2">CASH FLOW HEDGES</td></tr>
<tr><td>HEDGED RISK</td><td>foreign exchange risk and interest rate risk</td><td>interest rate risk</td></tr>
<tr><td>HEDGING INSTRUMENT</td><td>CIRS float – float transactions
CIRS fixed – float transactions</td><td>transactions IRS fixed – float</td></tr>
<tr><td>HEDGED ITEM</td><td>• the portfolio of floating interest loans in foreign currencies, and
• the portfolio of current negotiated term deposits, in PLN including their future renewals. In designating the hedged item, the Bank used the IAS39 AG 99C in the version endorsed by the European Union, or
• fixed interest rate financial liability denominated in foreign currency, or
• the portfolio of floating interest rate regular savings products in PLN</td><td>the portfolio of loans in PLN or foreign currencies indexed to a floating interest rate</td></tr>
<tr><td>SOURCES OF HEDGE INEFFECTIVENESS</td><td>• margin on the hedging instrument
• differences in discount on the hedged item and the hedging instrument
• CVA/DVA adjustment of the hedging instrument</td><td>• 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</td></tr>
<tr><td></td><td>The period in which cash flows are expected to occur and affect the financial results: January 2020 – October 2026</td><td>The period in which cash flows are expected to occur and affect the financial results: January 2020 – September 2026</td></tr>
</table>

<table>
<tr><td>TYPE OF HEDGING STRATEGY</td><td>FAIR VALUE HEDGES</td></tr>
<tr><td>HEDGED RISK</td><td>interest rate risk</td></tr>
<tr><td>HEDGING INSTRUMENT</td><td>IRS fixed – float transactions</td></tr>
<tr><td>HEDGED ITEM</td><td>a component of the interest rate risk relating to a fixed interest rate loan or security in a convertible currency, which corresponds to the market IRS rate</td></tr>
<tr><td>SOURCES OF HEDGE INEFFECTIVENESS</td><td>• 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</td></tr>
</table>

(IN PLN MILLION)

	• difference between the present value of the floating leg of IRS and the present value of the nominal value of a security

FINANCIAL INFORMATION

Hedging derivative 31.12.2019		Nominal amount of hedging derivatives	Average margin weighted by the nominal/ average fixed interest rate weighted by the nominal	Carrying amount (fair value) of hedging instruments		Ineffective portion of cash flow hedges recognized in the income statement /adjustments of fair value measurement of the hedged item	Change in the fair value of a hedging instrument since designation	Strategy number
				Assets	Liabilities			
Cash flow hedges								
CIRS CHF/PLN	float CHF	1 250	0,0109%	14	378	1	(379)	1; 8
	float PLN	4 525	0,0000%					
IRS PLN	PLN	40 681	1,7652%	229	8	2	56	2
IRS CHF	CHF	400	-0,4425%	8	-	-	2	3
IRS EUR	EUR	1 224	-0,1699%	15	2	1	12	3; 6
CIRS CHF/ USD	float CHF	818	0,0000%	190	-	(2)	124	4
	fixed USD	875	2,4315%					
CIRS CHF/ EUR	float CHF	2 567	0,0000%	86	187	1	(123)	4; 7; 9
	fixed EUR	2 301	0,0119%					
CIRS EUR/PLN	float EUR	100	0,0000%	11	-	-	11	5
	float PLN	437	-0,0277%					
CIRS- EUR/PLN	fixed EUR	2 077	0,1443%	37	86	3	(54)	6; 7; 9
	float PLN	8 900	0,0000%					
Fair value hedges								
IRS EUR	EUR	257	-0,1874%	1	6	(4)	(1)	10; 11; 12
IRS USD	USD	134	1,5702%	3	1	2	1	12
TOTAL				594	668	4	(351)	

Hedging derivative 31.12.2018		Nominal amount of hedging derivatives	Average margin weighted by the nominal/ average fixed interest rate weighted by the nominal	Carrying amount (fair value) of hedging instruments		Ineffective portion of cash flow hedges recognized in the income statement /adjustments of fair value measurement of the hedged item	Change in the fair value of a hedging instrument since designation	Strategy number
				Assets	Liabilities			
Cash flow hedges								
CIRS CHF/PLN	float CHF	1 900	0,1055%	78	428	-	(363)	1; 8
	float PLN	6 902	0,0000%					
IRS PLN	PLN	11 250	2,0400%	95	-	(1)	53	2
IRS CHF	CHF	400	-0,4425%	7	-	-	2	3
IRS EUR	EUR	524	0,2087%	2	5	-	(6)	3; 6
CIRS CHF/ USD	float CHF	818	0,0000%	148	-	1	88	4
	fixed USD	875	0,0367%					
CIRS CHF/ EUR	float CHF	2 001	0,0000%	240	37	-	187	4; 7; 9
	fixed EUR	1 802	0,4158%					
CIRS EUR/PLN	float EUR	125	0,0000%	7	-	-	6	5
	float PLN	545	-0,0092%					
CIRS- EUR/PLN	fixed EUR	1 577	0,5272%	15	89	(2)	(81)	6; 7; 9
	float PLN	6 757	0,0000%					
Fair value hedges								
IRS EUR	EUR	103	-0,3090%	-	1	1	-	10
TOTAL				592	560	(1)	(114)	

(IN PLN MILLION)

HEDGED ITEM 31.12.2019	CARRYING AMOUNT OF THE HEDGED ITEM	ITEM IN THE STATEMENT OF FINANCIAL POSITION	CHANGE IN THE FAIR VALUE OF THE HEDGED ITEM	STRATEGY NO.
Cash flow hedges				
Loans in CHF	1 560	Loans and advances to customers	348	1; 7
Negotiated deposits in PLN	5 784	Amounts due to customers		
Loans in CHF	1 643	Loans and advances to customers	(97)	4
Financial liability in USD	875	Debt securities in issue		
Financial liability in EUR	748	Debt securities in issue		
Loans in CHF	1 431	Loans and advances to customers	220	8; 9
Regular savings products in PLN	5 378	Amounts due to customers		
Loans in CHF	400	Loans and advances to customers	(2)	3
Loans in PLN	40 681	Loans and advances to customers	(51)	2
Loans in EUR	624	Loans and advances to customers	(43)	5; 6
Negotiated deposits in PLN	2 700	Amounts due to customers		
Loans in EUR	700	Loans and advances to customers	-	3
Fair value hedges				
Security in EUR	74	Securities measured at fair value through other comprehensive income	-	11; 12
Security in USD	134		(1)	12
Loans in EUR	**183**	**Loans and advances to customers**	**1**	10
TOTAL			**375**	

HEDGED ITEM 31.12.2018	CARRYING AMOUNT OF THE HEDGED ITEM	ITEM IN THE STATEMENT OF FINANCIAL POSITION	CHANGE IN THE FAIR VALUE OF THE HEDGED ITEM	STRATEGY NO.
Cash flow hedges				
Loans in CHF	2 210	Loans and advances to customers	335	1; 7
Negotiated deposits in PLN	8 161	Amounts due to customers		
Loans in CHF	1 644	Loans and advances to customers	(174)	4
Financial liability in USD	875	Debt securities in issue		
Financial liability in EUR	748	Debt securities in issue		
Loans in CHF	865	Loans and advances to customers	69	8; 9
Regular savings products in PLN	3 236	Amounts due to customers		
Loans in CHF	400	Loans and advances to customers	(2)	3
Loans in PLN	11 250	Loans and advances to customers	(51)	2
Loans in EUR	649	Loans and advances to customers	(19)	5; 6
Negotiated deposits in PLN	2 807	Amounts due to customers		
Fair value hedges				
Loans in EUR	103	Loans and advances to customers	-	10
TOTAL			**158**	

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

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

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

(IN PLN MILLION)

FINANCIAL INFORMATION

CARRYING AMOUNT (FAIR VALUE) OF HEDGING INSTRUMENTS	31.12.2019		31.12.2018	
	Assets	Liabilities	Assets	Liabilities
Cash flow hedges	**590**	**661**	**592**	**559**
Hedges of interest rate risk - IRS	252	10	106	5
Hedges of currency and interest rate risks - CIRS	338	651	486	554
Fair value hedges	**4**	**7**	**-**	**1**
Hedges of interest rate risk - IRS	4	7	-	1
Total	**594**	**668**	**592**	**560**

CASH FLOW HEDGES

CHANGE IN OTHER COMPREHENSIVE INCOME RELATING TO CASH FLOW HEDGES AND THE INEFFECTIVE PORTION OF CASH FLOW HEDGES	2019	2018
Other comprehensive income at the beginning of the period, gross	**(21)**	**(91)**
Gains/losses recognized in other comprehensive income during the period	395	(281)
Amounts transferred from other comprehensive income to the cash flow statement, of which:	(256)	351
- interest income	(536)	(503)
- net foreign exchange gains/(losses)	280	854
Other comprehensive income at the end of the period, gross	**118**	**(21)**
Tax effect	(23)	3
Other comprehensive income at the end of the period, net	**95**	**(18)**
Impact on other comprehensive income during the period, gross	**139**	**70**
Tax effect	(26)	(13)
Impact on other comprehensive income during the period, net	**113**	**57**
Ineffective portion of cash flow hedges recognized in the income statement, including in:	**6**	**(2)**
Net foreign exchange gains / (losses)	3	(1)
Gain/(loss) on financial instruments measured at fair value	3	(1)

FAIR VALUE HEDGES

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

CALCULATION OF ESTIMATES

ESTIMATED CHANGE IN VALUATION FOLLOWING A PARALLEL MOVEMENT IN YIELD CURVES:	31.12.2019		31.12.2018	
	+50 bp scenario	-50 bp scenario	+50 bp scenario	-50 bp scenario
IRS	(192)	194	(146)	148
CIRS	(39)	40	(59)	60
Total	**(231)**	**234**	**(205)**	**208**

(IN PLN MILLION)

21. OTHER DERIVATIVE INSTRUMENTS

ACCOUNTING POLICIES

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

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

ESTIMATES AND JUDGEMENTS

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

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

FINANCIAL INFORMATION

OTHER DERIVATIVE INSTRUMENTS - TYPE OF CONTRACT	31.12.2019		31.12.2018	
	Assets	Liabilities	Assets	Liabilities
IRS	1 525	1 624	1 179	1 832
CIRS	151	148	156	155
FX Swap	217	186	115	43
Options	312	336	262	268
Commodity swap	287	283	85	83
FRA	1	1	3	2
Forward	305	348	109	274
Futures	-	1	-	-
Total	**2 798**	**2 927**	**1 909**	**2 657**

CALCULATION OF ESTIMATES

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

ESTIMATED CHANGE IN VALUATION FOLLOWING A PARALLEL MOVEMENT IN YIELD CURVES:	31.12.2019		31.12.2018	
	+50 bp scenario	-50 bp scenario	+50 bp scenario	-50 bp scenario
IRS	(184)	185	(141)	143
CIRS	(40)	40	(60)	61
other instruments	(2)	2	3	(3)
Total	**(226)**	**227**	**(198)**	**201**

	31.12.2019	31.12.2018
CVA and DVA adjustment	(9)	(1)

(IN PLN MILLION)

22. Nominal amounts of instruments underlying hedging instruments and other derivative instruments

NOMINAL VALUES OF BASIS INSTRUMENTS (TOTAL PURCHASE AND SALE) - hedging instruments and other derivatives

31.12.2019	up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	over 5 years	Total
IRS	**7 204**	**40 152**	**187 600**	**207 090**	**39 576**	**481 622**
Purchase	3 602	20 076	93 800	103 545	19 788	240 811
Sale	3 602	20 076	93 800	103 545	19 788	240 811
CIRS	**1 386**	**447**	**4 248**	**64 627**	**7 554**	**78 262**
Purchase	694	210	2 019	32 207	3 772	38 902
Sale	692	237	2 229	32 420	3 782	39 360
FX Swap	**21 409**	**8 336**	**13 663**	**5 211**	**-**	**48 619**
Purchase of currencies	10 700	4 161	6 846	2 639	-	24 346
Sale of currencies	10 709	4 175	6 817	2 572	-	24 273
Options	**6 263**	**12 743**	**37 545**	**11 845**	**1**	**68 397**
Purchase	3 108	6 432	18 576	5 849	-	33 965
Sale	3 155	6 311	18 969	5 996	1	34 432
FRA	**-**	**-**	**22 211**	**1 000**	**-**	**23 211**
Purchase	-	-	12 397	500	-	12 897
Sale	-	-	9 814	500	-	10 314
Forward	**7 601**	**13 160**	**24 653**	**12 650**	**-**	**58 064**
Purchase of currencies	3 795	6 588	12 319	6 309	-	29 011
Sale of currencies	3 806	6 572	12 334	6 341	-	29 053
Other, including Commodity swap and Futures (including stock index)	**824**	**1 348**	**1 924**	**614**	**-**	**4 710**
Purchase	518	683	962	307	-	2 470
Sale	306	665	962	307	-	2 240
Total	**44 687**	**76 186**	**291 844**	**303 037**	**47 131**	**762 885**

NOMINAL VALUES OF BASIS INSTRUMENTS (TOTAL PURCHASE AND SALE) - hedging instruments and other derivatives

31.12.2018	up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	over 5 years	Total
IRS	**21 512**	**13 904**	**94 288**	**193 130**	**35 480**	**358 314**
Purchase	10 756	6 952	47 144	96 565	17 740	179 157
Sale	10 756	6 952	47 144	96 565	17 740	179 157
CIRS	**-**	**-**	**9 540**	**41 308**	**22 625**	**73 473**
Purchase	-	-	4 717	20 699	11 276	36 692
Sale	-	-	4 823	20 609	11 349	36 781
FX Swap	**22 892**	**6 919**	**4 142**	**5 048**	**-**	**39 001**
Purchase of currencies	11 448	3 468	2 093	2 575	-	19 584
Sale of currencies	11 444	3 451	2 049	2 473	-	19 417
Options	**3 573**	**7 068**	**27 893**	**8 925**	**122**	**47 581**
Purchase	1 809	3 363	12 759	4 502	61	22 494
Sale	1 764	3 705	15 134	4 423	61	25 087
FRA	**-**	**-**	**20 853**	**2 700**	**-**	**23 553**
Purchase	-	-	11 120	1 200	-	12 320
Sale	-	-	9 733	1 500	-	11 233
Forward	**4 513**	**10 600**	**20 763**	**12 320**	**8**	**48 204**
Purchase of currencies	2 251	5 292	10 325	6 142	4	24 014
Sale of currencies	2 262	5 308	10 438	6 178	4	24 190
Other, including Commodity swap and Futures (including stock index)	**250**	**457**	**1 229**	**1 177**	**-**	**3 113**
Purchase	118	229	620	590	-	1 557
Sale	132	228	609	587	-	1 556
Total	**52 740**	**38 948**	**178 708**	**264 608**	**58 235**	**593 239**

(IN PLN MILLION)

NOMINAL VALUE OF DERIVATIVE HEDGING INSTRUMENTS BY MATURITY AS AT 31 DECEMBER 2019	up to 1 month	from 1 to 3 months	from 3 months to 1 year	from 1 to 5 years	over 5 years	Total
Cash flow hedges						
Hedges of interest rate risk						
IRS PLN fixed - float	500	4 700	25 492	9 922	67	**40 681**
IRS EUR fixed - float (original currency)	-	-	700	524	-	**1 224**
IRS CHF fixed - float (original currency)	-	-	-	400	-	**400**
Hedges of currency and interest rate risks						
CIRS float CHF/float PLN						
float CHF	-	50	425	750	25	**1 250**
float PLN	-	169	1 456	2 812	88	**4 525**
CIRS fixed USD/float CHF						
fixed USD	-	-	-	875	-	**875**
float CHF	-	-	-	817	-	**817**
CIRS float EUR/float PLN						
float EUR	25	-	-	75	-	**100**
float PLN	108	-	-	329	-	**437**
CIRS float PLN/fixed EUR						
float PLN	-	-	-	8 900	-	**8 900**
fixed EUR	-	-	-	2 077	-	**2 077**
CIRS fixed EUR/float CHF						
fixed EUR	-	-	-	2 301	-	**2 301**
float CHF	-	-	-	2 567	-	**2 567**
Fair value hedges						
Hedges of interest rate risk						
IRS USDR fixed - float (original currency)	-	-	-	134	-	**134**
IRS EUR fixed - float (original currency)	-	-	-	209	48	**257**

NOMINAL VALUE OF DERIVATIVE HEDGING INSTRUMENTS BY MATURITY AS AT 31 DECEMBER 2018	up to 1 month	from 1 to 3 months	from 3 months to 1 year	from 1 to 5 years	over 5 years	Total
Cash flow hedges						
Hedges of interest rate risk						
IRS PLN fixed - float	-	300	1 230	9 720	-	**11 250**
IRS EUR fixed - float (original currency)	-	-	-	499	25	**524**
IRS CHF fixed - float (original currency)	-	-	-	400	-	**400**
Hedges of currency and interest rate risks						
CIRS float CHF/float PLN						
float CHF	-	-	650	1 225	25	**1 900**
float PLN	-	-	2 378	4 436	88	**6 902**
CIRS fixed USD/float CHF						
fixed USD	-	-	-	875	-	**875**
float CHF	-	-	-	818	-	**818**
CIRS float EUR/float PLN						
float EUR	-	-	25	100	-	**125**
float PLN	-	-	109	436	-	**545**
CIRS float PLN/fixed EUR						
float PLN	-	-	-	4 515	2 242	**6 757**
fixed EUR	-	-	-	1 052	525	**1 577**
CIRS fixed EUR/float CHF						
fixed EUR	-	-	-	1 302	500	**1 802**
float CHF	-	-	-	1 424	577	**2 001**
Fair value hedges						
Hedges of interest rate risk						
IRS EUR fixed - float (original currency)	-	-	-	91	12	**103**

(IN PLN MILLION)

23. SECURITIES

ACCOUNTING POLICIES

Securities are classified and valued in accordance with the principles of selecting the business model and assessing the characteristics of contractual cash flows referred to in note “Description of significant accounting policies”.

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

FINANCIAL INFORMATION

SECURITIES	31.12.2019	31.12.2018
Securities (excluding adjustments relating to fair value hedge accounting)	76 421	60 439
Adjustment relating to fair value hedge accounting	1	-
Total	**76 422**	**60 439**

SECURITIES (excluding adjustments relating to fair value hedge accounting)	31.12.2019	31.12.2018
held for trading	1 175	282
not held for trading, measured at fair value through profit or loss	755	1 280
measured at fair value through OCI	61 130	50 562
measured at amortized cost	13 361	8 315
Total	**76 421**	**60 439**

SECURITIES (excluding adjustments relating to fair value hedge accounting) 31.12.2019	held for trading	not held for trading, measured at fair value through profit or loss	measured at fair value through OCI	measured at amortized cost	Total
Debt securities	1 158	298	61 130	13 361	75 947
NBP money market bills	-	-	1 000	-	1 000
Treasury bonds (in PLN)	982	118	49 299	7 373	57 772
Treasury bonds (in foreign currencies)	2	-	2 085	-	2 087
municipal bonds (in PLN)	15	-	5 232	4 563	9 810
corporate bonds (in PLN)	111	180	3 514	1 083	4 888
corporate bonds (in foreign currencies)	1	-	-	342	343
covered bonds	47	-	-	-	47
Equity securities	17	457	-	-	474
shares in other entities – not listed	-	433	-	-	433
shares in other entities - listed	15	24	-	-	39
investment certificates, rights to shares, pre-emptive rights	2	-	-	-	2
Total	**1 175**	**755**	**61 130**	**13 361**	**76 421**

(IN PLN MILLION)

SECURITIES (excluding adjustments relating to fair value hedge accounting) 31.12.2018	held for trading	not held for trading, measured at fair value through profit or loss	measured at fair value through OCI	measured at amortized cost	Total
Debt securities	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
corporate 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	-	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**

The item “Treasury bonds in PLN and in foreign currencies” comprises Polish Treasury bonds.

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

SECURITIES (excluding adjustments relating to fair value hedge accounting) 31.12.2019	measured at fair value through OCI			measured at amortized cost		
	Gross amount	Allowances for expected credit losses	Net amount	Gross amount	Allowances for expected credit losses	Net amount
Debt securities	61 135	(5)	61 130	13 376	(15)	13 361
NBP money market bills	1 000	-	1 000	-	-	-
Treasury bonds (in PLN)	49 299	-	49 299	7 373	-	7 373
Treasury bonds (in foreign currencies)	2 085	-	2 085	-	-	-
municipal bonds (in PLN)	5 232	-	5 232	4 574	(11)	4 563
corporate bonds (in PLN)	3 519	(5)	3 514	1 087	(4)	1 083
corporate bonds (in foreign currencies)	-	-	-	342	-	342
Total	**61 135**	**(5)**	**61 130**	**13 376**	**(15)**	**13 361**

SECURITIES (excluding adjustments relating to fair value hedge accounting) 31.12.2018	measured at fair value through OCI			measured at amortized cost		
	Gross amount	Allowances for expected credit losses	Net amount	Gross amount	Allowances for expected credit losses	Net amount
Debt securities	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**

	31.12.2019	31.12.2018
allowance which does not reduce fair value of securities measured at fair value through other comprehensive income	16	18

(IN PLN MILLION)

SECURITIES BY MATURITY (excluding adjustments relating to fair value hedge accounting) 31.12.2019	held for trading	not held for trading, mandatorily measured at fair value through profit or loss	measured at fair value through OCI	measured at amortized cost	Total
without a set date - equity securities	17	457	-	-	474
up to 1 month	114	-	1 002	-	1 116
from 1 to 3 months	3	-	45	9	57
from 3 months to 1 year	344	-	2 082	379	2 805
1 to 5 years	197	117	43 107	8 631	52 052
over 5 years	500	181	14 894	4 342	19 917
Total	1 175	755	61 130	13 361	76 421

SECURITIES BY MATURITY (excluding adjustments relating to fair value hedge accounting) 31.12.2018	held for trading	not held for trading, mandatorily measured at fair value through profit or loss	measured at fair value through OCI	measured at amortized cost	Total
without a set date - equity securities	18	308	-	-	326
up to 1 month	4	-	4 344	-	4 348
from 1 to 3 months	-	-	453	136	589
from 3 months to 1 year	30	273	2 682	670	3 655
1 to 5 years	167	584	20 991	4 058	25 800
over 5 years	63	115	22 092	3 451	25 721
Total	282	1 280	50 562	8 315	60 439

24. LOANS AND ADVANCES TO CUSTOMERS

ACCOUNTING POLICIES

Loans and advances to customers comprise receivables in respect of loans and advances, and receivables in respect of sell-buy-back transactions in securities where banks are not a counterparty to the transaction.

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

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

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

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

FINANCIAL INFORMATION

LOANS AND ADVANCES TO CUSTOMERS	31.12.2019	31.12.2018
	Net amount	Net amount
Loans and advances to customers (excluding adjustments relating to fair value hedge accounting)	202 091	191 574
Adjustment relating to fair value hedge accounting	4	1
Total loans and advances to customers	**202 095**	**191 575**

(IN PLN MILLION)

LOANS AND ADVANCES TO CUSTOMERS (excluding adjustments relating to fair value hedge accounting)	31.12.2019	31.12.2018
measured at amortized cost	184 182	181 972
measured at fair value through OCI	9 623	8 496
not held for trading, measured at fair value through profit or loss	8 286	1 106
Total	**202 091**	**191 574**

LOANS AND ADVANCES TO CUSTOMERS (excluding adjustments relating to fair value hedge accounting) 31.12.2019	not held for trading, measured at fair value through profit or loss	measured at fair value through OCI	measured at amortized cost			Total
	Net amount	Net amount	Gross amount	Allowances for expected credit losses	Net amount	Net amount
Loans	8 286	9 623	189 544	(6 443)	183 101	201 010
housing	15	9 623	84 843	(1 872)	82 971	92 609
corporate	148	-	82 548	(3 410)	79 138	79 286
consumer	8 123	-	22 153	(1 161)	20 992	29 115
Receivables in respect of reverse repurchase agreements	-	-	1 081	-	1 081	1 081
Total	8 286	9 623	190 625	(6 443)	184 182	202 091

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	Net amount	Gross amount	Allowances for expected credit losses	Net amount	Net amount
Loans	1 106	8 496	189 432	(7 511)	181 921	191 523
housing	27	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	189 483	(7 511)	181 972	191 574

LOANS AND ADVANCES TO CUSTOMERS (excluding adjustments relating to fair value hedge accounting) 31.12.2019	not held for trading, measured at fair value through profit or loss	measured at fair value through OCI	measured at amortized cost			Total
	Net amount	Net amount	Gross amount	Allowances for expected credit losses	Net amount	Net amount
Loans	8 286	9 623	189 544	(6 443)	183 101	201 010
mortgage banking	15	9 623	78 632	(1 712)	76 920	86 558
housing	15	9 623	78 632	(1 712)	76 920	86 558
corporate	94	-	68 986	(1 588)	67 398	67 492
housing	-	-	309	(26)	283	283
corporate	94	-	68 677	(1 562)	67 115	67 209
retail and private banking	8 123	-	22 153	(1 161)	20 992	29 115
consumer	8 123	-	22 153	(1 161)	20 992	29 115
firms and enterprises	54	-	19 773	(1 982)	17 791	17 845
housing	-	-	5 902	(134)	5 768	5 768
corporate	54	-	13 871	(1 848)	12 023	12 077
Reverse repo transactions	-	-	1 081	-	1 081	1 081
Total	8 286	9 623	190 625	(6 443)	184 182	202 091

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

(IN PLN MILLION)

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	Net amount	Gross amount	Allowances for expected credit losses	Net amount	Net amount
Loans	1 106	8 496	189 432	(7 511)	181 921	191 523
mortgage banking	27	8 496	78 911	(1 757)	77 154	85 677
housing	27	8 496	78 911	(1 757)	77 154	85 677
corporate	121	-	64 066	(1 870)	62 196	62 317
housing	-	-	319	(54)	265	265
corporate	121	-	63 747	(1 816)	61 931	62 052
retail and private banking	931	-	26 822	(1 674)	25 148	26 079
consumer	931	-	26 822	(1 674)	25 148	26 079
firms and enterprises	27	-	19 633	(2 210)	17 423	17 450
housing	-	-	5 981	(129)	5 852	5 852
corporate	27	-	13 652	(2 081)	11 571	11 598
Reverse repo transactions	-	-	51	-	51	51
Total	1 106	8 496	189 483	(7 511)	181 972	191 574

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

	31.12.2019	31.12.2018
allowance which does not reduce fair value of loans and advances to customers measured at fair value through other comprehensive income	29	22

LOANS AND ADVANCES TO CUSTOMERS BY MATURITY (excluding adjustments relating to fair value hedge accounting) 31.12.2019	not held for trading, measured at fair value through profit or loss	measured at fair value through OCI	measured at amortized cost	Total
up to 1 month	1 954	26	8 647	10 627
from 1 to 3 months	678	47	5 490	6 215
from 3 months to 1 year	2 829	227	25 969	29 025
from 1 to 5 years	2 467	1 402	69 961	73 830
over 5 years	358	7 921	74 115	82 394
Total	8 286	9 623	184 182	202 091

LOANS AND ADVANCES TO CUSTOMERS BY MATURITY (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
up to 1 month	225	23	8 650	8 898
from 1 to 3 months	34	48	6 725	6 807
from 3 months to 1 year	137	224	22 298	22 659
from 1 to 5 years	498	1 313	68 533	70 344
over 5 years	212	6 888	75 766	82 866
Total	1 106	8 496	181 972	191 574

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

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

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

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

ACCOUNTING POLICIES

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

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

ESTIMATES AND JUDGEMENTS

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

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

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

Expected credit losses are not recognized for equity instruments.

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

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

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

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

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

- **SIGNIFICANT INCREASE IN CREDIT RISK**

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

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

In this process the following probabilities are minimized:

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

According to data that is applicable at the end of 2019, an increase in the PD parameter by at least 2,6 compared to the value at the time of its recognition in the Bank's accounts in respect of mortgage exposures and an increase by at least 2.5 in respect of other retail exposures constitutes a premise of a significant deterioration in credit quality (unchanged compared to end of 2018).

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

The Bank uses a model based on Markov chains to assess material increases in credit risk for institutional customers. Historical data is used to build matrices of probabilities of customers migrating between individual classes of risk that are determined on the basis of the Bank’s rating and scoring models. These migrations are determined within homogeneous portfolios, classified using, inter alia, customer and customer segment assessment methodologies. An individual highest acceptable value of the probability of default is set for each class of risk and portfolio on the date of the initial recognition of the credit exposure, which, if exceeded, is identified as a material increase in credit risk. This value is set on the basis of the average probability of default for classes of risk worse than that at initial recognition of the exposure, weighted by the probability of transition to those classes of risk in the given time horizon.

(IN PLN MILLION)

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

Class of risk	PD range	minimum range of the risk category deterioration indicating a significant increase in credit risk[1]
A-B	0.0-0.90%	3 classes
C	0.90-1.78%	3 classes
D	1.78-3.55%	2 classes
E	3.55-7.07%	1 class
F	7.07-14.07%	1 class
G	14.07-99.99%	N/A[2]

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

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

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

- **IMPAIRED LOANS AND DEFINITION OF DEFAULT**

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

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

In accordance with Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms ("CRR Resolution"), the Bank defines a state of default if it assesses that the debtor is unable to repay the loan liability without resorting to exercising the collateral or if the exposure is overdue more than 90 days. The premises of default are identical to the premises of impairment of the exposure.

- **CALCULATION OF THE EXPECTED CREDIT LOSS**

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

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

The Bank uses the calculated expected credit losses on an individual and on a portfolio basis.

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

The portfolio method is applied to exposures that are not individually significant and that no premises of their impairment were identified.

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

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

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

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

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

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

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

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

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

(IN PLN MILLION)

FINANCIAL INFORMATION

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

ACCUMULATED INFORMATION ON FINANCIAL ASSETS BY IMPAIRMENT STAGES (excluding adjustments relating to fair value hedge accounting)	31.12.2019			31.12.2018		
	Gross amount	Allowances for expected credit losses	Net amount	Gross amount	Allowances for expected credit losses	Net amount
Measured at fair value through OCI						
securities	**61 135**	**(5)**	**61 130**	**50 572**	**(10)**	**50 562**
stage 1	60 613	-	60 613	49 713	-	49 713
stage 2	59	-	59	388	-	388
stage 3	463	(5)	458	471	(10)	461
loans and advances to customers	**9 623**	-	**9 623**	**8 496**	-	**8 496**
stage 1	9 438	-	9 438	8 330	-	8 330
stage 2	177	-	177	163	-	163
stage 3	8	-	8	3	-	3
Total	**70 758**	**(5)**	**70 753**	**59 068**	**(10)**	**59 058**
Measured at amortized cost:						
amounts due from banks	**7 957**	**(4)**	**7 953**	**11 217**	**(4)**	**11 213**
stage 1	7 957	(4)	7 953	11 217	(4)	11 213
securities	**13 376**	**(15)**	**13 361**	**8 335**	**(20)**	**8 315**
stage 1	13 356	(15)	13 341	8 276	(12)	8 264
stage 2	20	-	20	59	(8)	51
loans and advances to customers	**190 625**	**(6 443)**	**184 182**	**189 483**	**(7 511)**	**181 972**
stage 1	170 533	(557)	169 976	166 412	(521)	165 891
stage 2	11 409	(1 011)	10 398	12 476	(1 124)	11 352
stage 3	8 683	(4 875)	3 808	10 595	(5 866)	4 729
other financial assets	**1 781**	**(90)**	**1 691**	**2 244**	**(95)**	**2 149**
stage 1	1 691	-	1 691	2 149	-	2 149
stage 3	90	(90)	-	95	(95)	-
Total	**213 739**	**(6 552)**	**207 187**	**211 279**	**(7 630)**	**203 649**
Financial assets by impairment stages						
stage 1	263 588	(576)	263 012	246 097	(537)	245 560
stage 2	11 665	(1 011)	10 654	13 086	(1 132)	11 954
stage 3	9 244	(4 970)	4 274	11 164	(5 971)	5 193
Total	**284 497**	**(6 557)**	**277 940**	**270 347**	**(7 640)**	**262 707**

(IN PLN MILLION)

BY MEASUREMENT MODEL (excluding adjustments relating to fair value hedge accounting) 31.12.2019	Gross amount (stage 1)	Allowances for expected credit losses (stage 1)	Gross amount (stage 2)	Allowances for expected credit losses (stage 2)	Gross amount (stage 3)	Allowances for expected credit losses (stage 3)
Measured at fair value through OCI						
securities	60 613	-	59	-	463	(5)
NBP money market bills	1 000	-	-	-	-	-
Treasury bonds	51 384	-	-	-	-	-
other	8 229	-	59	-	463	(5)
loans and advances to customers	9 438	-	177	-	8	-
bank loans	9 438	-	177	-	8	-
housing	9 438	-	177	-	8	-
Total	**70 051**	**-**	**236**	**-**	**471**	**(5)**
of which: financial assets impaired upon initial recognition – POCI	-	-	-	-	**463**	**(5)**
Measured at amortized cost						
amounts due from banks	7 957	(4)	-	-	-	-
securities	13 356	(15)	20	-	-	-
Treasury bonds	7 373	-		-	-	-
other	5 983	(15)	20	-	-	-
loans and advances to customers	170 533	(557)	11 409	(1 011)	8 683	(4 875)
bank loans	169 452	(557)	11 409	(1 011)	8 683	(4 875)
housing	77 510	(41)	5 281	(479)	2 052	(1 352)
corporate	72 691	(369)	4 415	(306)	5 442	(2 735)
consumer	19 251	(147)	1 713	(226)	1 189	(788)
reverse repo transactions	1 081	-	-	-	-	-
other financial assets	1 691	-	-	-	90	(90)
Total	**193 537**	**(576)**	**11 429**	**(1 011)**	**8 773**	**(4 965)**
of which: financial assets impaired upon initial recognition – POCI	-	-	-	-	288	(55)
Total	**263 588**	**(576)**	**11 665**	**(1 011)**	**9 244**	**(4 970)**

(IN PLN MILLION)

BY MEASUREMENT MODEL (excluding adjustments relating to fair value hedge accounting) 31.12.2018	Gross amount (stage 1)	Allowances for expected credit losses (stage 1)	Gross amount (stage 2)	Allowances for expected credit losses (stage 2)	Gross amount (stage 3)	of which: impaired assets, gross	Allowances for expected credit losses (stage 3)
Measured at fair value through OCI							
securities	49 713	-	388	-	471	471	(10)
NBP money market bills	2 900	-	-	-	-	-	-
Treasury bonds	38 276	-	-	-	-	-	-
other	8 537	-	388	-	471	471	(10)
bank loans	8 330	-	163	-	3	3	-
housing	8 330	-	163	-	3	3	-
Total	**58 043**	**-**	**551**	**-**	**474**	**474**	**(10)**
of which: financial assets impaired upon initial recognition – POCI	-	-	-	-	**471**	**471**	**(10)**
Measured at amortized cost							
amounts due from banks	11 217	(4)	-	-	-	-	-
securities	8 276	(12)	59	(8)	-	-	-
Treasury bonds	2 200	-	-	-	-	-	-
other	6 076	(12)	59	(8)	-	-	-
loans and advances to customers	166 412	(521)	12 476	(1 124)	10 595	10 169	(5 866)
bank loans	166 361	(521)	12 476	(1 124)	10 595	10 169	(5 866)
housing	77 459	(42)	5 529	(502)	2 223	2 164	(1 396)
corporate	65 666	(332)	5 166	(314)	6 567	6 203	(3 251)
consumer	23 236	(147)	1 781	(308)	1 805	1 802	(1 219)
reverse repo transactions	51	-	-	-	-		-
other financial assets	2 149	-	-	-	95	95	(95)
Total	**188 054**	**(537)**	**12 535**	**(1 132)**	**10 690**	**10 264**	**(5 961)**
of which: financial assets impaired upon initial recognition – POCI	-	-	-	-	566	566	(124)
Total	**246 097**	**(537)**	**13 086**	**(1 132)**	**11 164**	**10 738**	**(5 971)**

(IN PLN MILLION)

LOAN QUALITY RATIOS (excluding adjustments relating to fair value hedge accounting)	31.12.2019	31.12.2018
Share of exposures with recognized impairment[1]	4,2%	5,0%
Coverage ratio of impaired loans[2]	74,3%	74,0%
Share of loans overdue for more than 90 days in gross loans and advances to customers	2,6%	3,3%

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

[2] The coverage ratio for impaired loans was determined as the ratio of total allowances for expected credit losses on loans and securities, excluding NBP bills and T-bonds, measured at amortized cost, and loans measured at fair value through other comprehensive income, to the gross amount of impaired exposures from this portfolio. Excluding the reclassification of part of amortised cost loans portfolio to portfolio measured at fair value through profit and loss (credit loss allowance in the amount of PLN 757 million and the gross value of impaired loans in the amount of PLN 822 million), the ratio would be higher by 1,5 percentage points than the presented one.

The total write-offs and sale of loan receivables in 2019 had an impact on the decrease in the share of impaired exposures of 0.6 p.p. (a decrease of 0.5 p.p. in the share of impaired exposures in 2018).

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

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

Securities measured at fair value through OCI	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 01.01.2019	49 713	388	471	50 572
Transfer from stage 2 and 3 to stage 1	295	(295)	-	-
Transfer from stage 1 and 3 to stage 2	(10)	10	-	-
Transfer from stage 1 and 2 to stage 3	-	(26)	26	-
Changes due to granting or purchase of financial instruments	215 341	22	-	215 363
Increases due to utilization of limit or payment of tranches	315	-	-	315
Decrease due to repayment	(207 587)	(22)	(11)	(207 620)
Changes due to derecognition of financial instruments, including sale	(196)	(17)	-	(213)
Change due to write-off	-	-	3	3
Other changes, including foreign exchange differences	2 742	(1)	(26)	2 715
Gross carrying amount as at 31.12.2019	60 613	59	463	61 135

Securities measured at fair value through OCI	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 01.01.2018	45 144	-	473	45 617
Transfer from stage 1 and 3 to stage 2	(384)	384	-	-
Changes due to granting or purchase of financial instruments	267 605	2	-	267 607
Increases due to utilization of limit or payment of tranches	426	-	-	426
Decrease due to repayment	(265 519)	-	-	(265 519)
Changes due to modification which does not lead to derecognition of these financial instruments	101	2	-	103
Other changes, including foreign exchange differences	2 340	-	(2)	2 338
Gross carrying amount as at 31.12.2018	49 713	388	471	50 572

(IN PLN MILLION)

Securities measured at amortized cost	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 01.01.2019	8 276	59	-	8 335
Transfer from stage 2 and 3 to stage 1	48	(48)	-	-
Transfer from stage 1 and 3 to stage 2	(18)	18	-	-
Changes due to granting or purchase of financial instruments	12 345	8	-	12 353
Increases due to utilization of limit or payment of tranches	25	-	-	25
Decrease due to repayment	(7 928)	(8)	-	(7 936)
Changes due to modification which does not lead to derecognition of these financial instruments	1	-	-	1
Changes due to derecognition of financial instruments, including sale	(116)	(8)	-	(124)
Other changes, including foreign exchange differences	723	(1)	-	722
Gross carrying amount as at 31.12.2019	13 356	20	-	13 376

Securities measured at amortized cost	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 01.01.2018	6 001	-	-	6 001
Transfer from stage 1 and 3 to stage 2	(21)	21		-
Changes due to granting or purchase of financial instruments	2 835	38	-	2 873
Increases due to utilization of limit or payment of tranches	33	-	-	33
Decrease due to repayment	(765)	-	-	(765)
Changes due to modification which does not lead to derecognition of these financial instruments	3	-	-	3
Other changes, including foreign exchange differences	190	-	-	190
Gross carrying amount as at 31.12.2018	8 276	59	-	8 335

Amounts due from banks	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 01.01.2019	11 217	-	-	11 217
Changes due to granting or purchase of financial instruments	2 112	-	-	2 112
Increases due to utilization of limit or payment of tranches	798	-	-	798
Decrease due to repayment	(6 167)	-	-	(6 167)
Other changes, including foreign exchange differences	(3)	-	-	(3)
Gross carrying amount as at 31.12.2019	7 957	-	-	7 957

Amounts due from banks	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 01.01.2018	8 769	-	-	8 769
Changes due to granting or purchase of financial instruments	7 339	-	-	7 339
Increases due to utilization of limit or payment of tranches	831	-	-	831
Decrease due to repayment	(5 727)	-	-	(5 727)
Other changes, including foreign exchange differences	5	-	-	5
Gross carrying amount as at 31.12.2018	11 217	-	-	11 217

Housing loans - measured at fair value through OCI	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 01.01.2019	8 330	163	3	8 496
Transfer from stage 2 and 3 to stage 1	66	(66)	-	-
Transfer from stage 1 and 3 to stage 2	(106)	106	-	-
Transfer from stage 1 and 2 to stage 3	(2)	(6)	8	-
Changes due to granting or purchase of financial instruments	2 990	1	-	2 991
Increases due to utilization of limit or payment of tranches	2 425	6	-	2 431
Decrease due to repayment	(3 161)	(28)	-	(3 189)
Changes due to modification which does not lead to derecognition of these financial instruments	15	-	-	15
Changes due to derecognition of financial instruments, including sale	(2 745)	(1)	-	(2 746)
Other changes, including foreign exchange differences	1 626	2	(3)	1 625
Gross carrying amount as at 31.12.2019	9 438	177	8	9 623

(IN PLN MILLION)

Housing loans - measured at fair value through OCI	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 01.01.2018	8 151	84	-	8 235
Transfer from stage 2 and 3 to stage 1	28	(28)	-	-
Transfer from stage 1 and 3 to stage 2	(119)	119	-	-
Transfer from stage 1 and 2 to stage 3	(4)	(2)	6	-
Changes due to granting or purchase of financial instruments	2 708	1	-	2 709
Increases due to utilization of limit or payment of tranches	1 415	3	-	1 418
Decrease due to repayment	(2 655)	(17)	-	(2 672)
Changes due to modification which does not lead to derecognition of these financial instruments	12	-	-	12
Changes due to derecognition of financial instruments, including sale	(2 524)	-	-	(2 524)
Change due to write-off	(3)	-	-	(3)
Other changes, including foreign exchange differences	1 321	3	(3)	1 321
Gross carrying amount as at 31.12.2018	8 330	163	3	8 496

Housing loans - at amortized cost	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 01.01.2019	77 459	5 529	2 223	85 211
Transfer from stage 2 and 3 to stage 1	1 676	(1 669)	(7)	-
Transfer from stage 1 and 3 to stage 2	(1 950)	2 044	(94)	-
Transfer from stage 1 and 2 to stage 3	(83)	(234)	317	-
Changes due to granting or purchase of financial instruments	720	20	3	743
Increases due to utilization of limit or payment of tranches	7 015	200	113	7 328
Decrease due to repayment	(7 544)	(641)	(205)	(8 390)
Changes due to modification which does not lead to derecognition of these financial instruments	63	(1)	(3)	59
Changes due to derecognition of financial instruments, including sale	(210)	(17)	(121)	(348)
Change due to write-off	-	(12)	(189)	(201)
Other changes, including foreign exchange differences	364	62	15	441
Gross carrying amount as at 31.12.2019	77 510	5 281	2 052	84 843

Housing loans - at amortized cost	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 01.01.2018	76 134	4 760	3 569	84 463
Transfer from stage 2 and 3 to stage 1	1 222	(1 205)	(17)	-
Transfer from stage 1 and 3 to stage 2	(2 143)	2 431	(288)	-
Transfer from stage 1 and 2 to stage 3	(102)	(253)	355	-
Changes due to granting or purchase of financial instruments	566	15	43	624
Increases due to utilization of limit or payment of tranches	8 081	62	121	8 264
Decrease due to repayment	(7 656)	(360)	(268)	(8 284)
Changes due to modification which does not lead to derecognition of these financial instruments	18	(2)	(4)	12
Changes due to derecognition of financial instruments, including sale	(237)	(20)	(334)	(591)
Change due to write-off	-	(4)	(1 053)	(1 057)
Other changes, including foreign exchange differences	1 576	105	99	1 780
Gross carrying amount as at 31.12.2018	77 459	5 529	2 223	85 211

(IN PLN MILLION)

Corporate loans - at amortized cost	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 01.01.2019	65 666	5 166	6 567	77 399
Transfer from stage 2 and 3 to stage 1	968	(954)	(14)	-
Transfer from stage 1 and 3 to stage 2	(1 490)	1 597	(107)	-
Transfer from stage 1 and 2 to stage 3	(256)	(302)	558	-
Changes due to granting or purchase of financial instruments	11 532	239	481	12 252
Increases due to utilization of limit or payment of tranches	13 386	440	292	14 118
Decrease due to repayment	(16 966)	(1 757)	(1 228)	(19 951)
Changes due to modification which does not lead to derecognition of these financial instruments	10	2	(2)	10
Changes due to derecognition of financial instruments, including sale	(135)	(9)	(401)	(545)
Change due to write-off	-	(7)	(700)	(707)
Other changes, including foreign exchange differences	(24)	-	(4)	(28)
Gross carrying amount as at 31.12.2019	72 691	4 415	5 442	82 548

Corporate loans - at amortized cost	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 01.01.2018	58 199	5 660	7 864	71 723
Transfer from stage 2 and 3 to stage 1	1 263	(1 218)	(45)	-
Transfer from stage 1 and 3 to stage 2	(2 052)	2 193	(141)	-
Transfer from stage 1 and 2 to stage 3	(263)	(300)	563	-
Changes due to granting or purchase of financial instruments	9 645	399	645	10 689
Increases due to utilization of limit or payment of tranches	13 422	242	817	14 481
Decrease due to repayment	(14 786)	(1 809)	(1 132)	(17 727)
Changes due to modification which does not lead to derecognition of these financial instruments	53	(7)	7	53
Changes due to derecognition of financial instruments, including sale	(140)	(58)	(337)	(535)
Change due to write-off	-	(2)	(1 732)	(1 734)
Other changes, including foreign exchange differences	325	66	58	449
Gross carrying amount as at 31.12.2018	65 666	5 166	6 567	77 399

Consumer loans - at amortized cost	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 01.01.2019	23 236	1 781	1 805	26 822
Transfer from stage 2 and 3 to stage 1	233	(225)	(8)	-
Transfer from stage 1 and 3 to stage 2	(877)	901	(24)	-
Transfer from stage 1 and 2 to stage 3	(268)	(167)	435	-
Changes due to granting or purchase of financial instruments	11 446	456	102	12 004
Increases due to utilization of limit or payment of tranches	1 551	95	113	1 759
Decrease due to repayment	(8 884)	(382)	(167)	(9 433)
Changes due to modification which does not lead to derecognition of these financial instruments	(6)	(2)	(7)	(15)
Changes due to derecognition of financial instruments, including sale	(47)	(65)	(122)	(234)
Change due to write-off	-	(10)	(369)	(379)
Reclassification from measured at amortized cost to measured at fair value through profit or loss	(7 296)	(835)	(822)	(8 953)
Other changes, including foreign exchange differences	163	166	253	582
Gross carrying amount as at 31.12.2019	19 251	1 713	1 189	22 153

(IN PLN MILLION)

Consumer loans - at amortized cost	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 01.01.2018	21 337	1 605	2 372	25 314
Transfer from stage 2 and 3 to stage 1	475	(450)	(25)	-
Transfer from stage 1 and 3 to stage 2	(917)	988	(71)	-
Transfer from stage 1 and 2 to stage 3	(328)	(219)	547	-
Changes due to granting or purchase of financial instruments	10 560	297	116	10 973
Increases due to utilization of limit or payment of tranches	1 556	158	131	1 845
Decrease due to repayment	(9 328)	(413)	(202)	(9 943)
Changes due to modification which does not lead to derecognition of these financial instruments	(6)	(2)	(1)	(9)
Changes due to derecognition of financial instruments, including sale	(45)	(19)	(199)	(263)
Change due to write-off	-	(3)	(818)	(821)
Other changes, including foreign exchange differences	(68)	(161)	(45)	(274)
Gross carrying amount as at 31.12.2018	23 236	1 781	1 805	26 822

Reverse repo transactions	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 01.01.2019	51	-	-	51
Changes due to granting or purchase of financial instruments	1 085	-	-	1 085
Increases due to utilization of limit or payment of tranches	(51)	-	-	(51)
Other changes, including foreign exchange differences	(4)	-	-	(4)
Gross carrying amount as at 31.12.2019	1 081	-	-	1 081

reverse repo transactions	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 01.01.2018	902	-	-	902
Changes due to granting or purchase of financial instruments	51	-	-	51
Decrease due to repayment	(902)	-	-	(902)
Gross carrying amount as at 31.12.2018	51	-	-	51

Other financial assets	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 01.01.2019	2 149	-	95	2 244
Decrease due to repayment / redemption	(2 149)	-	-	(2 149)
Changes due to granted or purchased financial instruments	1 691			1 691
Changes due to derecognition of financial instruments, including sale	-	-	(5)	(5)
Change due to write-off	-	-	(3)	(3)
Other changes, including foreign exchange differences	-	-	3	3
Gross carrying amount as at 31.12.2019	1 691	-	90	1 781

Other financial assets	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 01.01.2018	1 748	-	99	1 847
Changes due to granting or purchase of financial instruments	2 149	-	1	2 150
Decrease due to repayment / redemption	(1 748)	-		(1 748)
Change due to write-off	-	-	(5)	(5)
Gross carrying amount as at 31.12.2018	2 149	-	95	2 244

(IN PLN MILLION)

- **CHANGES IN ALLOWANCES FOR EXPECTED CREDIT LOSSES ASSETS**

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

Securities measured at fair value through OCI	Stage 1	Stage 2	Stage 3	Total
As at 01.01.2019	-	-	10	10
Changes due to changes in credit risk (net)	2	15	(6)	11
Change in allowances due to writing off	-	-	3	3
Other adjustments	(2)	(15)	(2)	(19)
As at 31.12.2019	-	-	5	5

Securities measured at fair value through OCI	Stage 1	Stage 2	Stage 3	Total
As at 01.01.2018	-	-	15	15
Changes due to changes in credit risk (net)	-	-	5	5
Decrease due to derecognition	-	-	(9)	(9)
Change in allowances due to writing off	-	-	(3)	(3)
Other adjustments	-	-	2	2
As at 31.12.2018	-	-	10	10

Securities measured at amortized cost	Stage 1	Stage 2	Stage 3	Total
As at 01.01.2019	12	8	-	20
Transfer from stage 2 and 3 to stage 1	8	(8)	-	-
Increase due to recognition and purchase	3	-	-	3
Changes due to changes in credit risk (net)	(7)	-	-	(7)
Other adjustments	(1)	-	-	(1)
As at 31.12.2019	15	-	-	15

Securities measured at amortized cost	Stage 1	Stage 2	Stage 3	Total
As at 01.01.2018	11	-	-	11
Increase due to recognition and purchase	2	4	-	6
Changes due to changes in credit risk (net)	(1)	3	-	2
Other adjustments	-	1	-	1
As at 31.12.2018	12	8	-	20

Amounts due from banks	Stage 1	Stage 2	Stage 3	Total
As at 01.01.2019	4	-	-	4
As at 31.12.2019	4	-	-	4

Amounts due from banks	Stage 1	Stage 2	Stage 3	Total
As at 01.01.2018	2	-	-	2
Increase due to recognition and purchase	2	-	-	2
Changes due to changes in credit risk (net)	(2)	-	-	(2)
Other adjustments	2	-	-	2
As at 31.12.2018	4	-	-	4

Housing loans - measured at fair value through OCI	Stage 1	Stage 2	Stage 3	Total
As at 01.01.2019	-	-	-	-
Changes due to changes in credit risk (net)	12	-	-	12
Other adjustments	(12)	-	-	(12)
As at 31.12.2019	-	-	-	-

Housing loans - measured at fair value through OCI	Stage 1	Stage 2	Stage 3	Total
As at 01.01.2018	-	-	-	-
Changes due to changes in credit risk (net)	(1)	13	2	14
Other adjustments	1	(13)	(2)	(14)
As at 31.12.2018	-	-	-	-

(IN PLN MILLION)

Housing loans - at amortized cost	Stage 1	Stage 2	Stage 3	Total
As at 01.01.2019	42	502	1 396	1 940
Transfer from stage 2 and 3 to stage 1	3	(3)	-	-
Transfer from stage 1 and 3 to stage 2	(161)	169	(8)	-
Transfer from stage 1 and 2 to stage 3	(33)	(87)	120	-
Increase due to recognition and purchase	1	-	1	2
Changes due to changes in credit risk (net)	137	(98)	39	78
Decrease due to derecognition	(2)	-	-	(2)
Changes due to modification without derecognition, net	-	1	-	1
Change in allowances due to writing off	-	(12)	(189)	(201)
Other adjustments	54	7	(7)	54
As at 31.12.2019	41	479	1 352	1 872

Housing loans - at amortized cost	Stage 1	Stage 2	Stage 3	Total
As at 01.01.2018	46	415	2 499	2 960
Transfer from stage 2 and 3 to stage 1	7	(7)	-	-
Transfer from stage 1 and 3 to stage 2	(68)	126	(58)	-
Transfer from stage 1 and 2 to stage 3	(39)	(97)	136	-
Increase due to recognition and purchase	1	1	27	29
Changes due to changes in credit risk (net)	103	79	(62)	120
Decrease due to derecognition	-	(13)	-	(13)
Changes due to modification without derecognition, net	1	1	6	8
Change in allowances due to writing off	-	(4)	(1 053)	(1 057)
Other adjustments	(9)	1	(99)	(107)
As at 31.12.2018	42	502	1 396	1 940

Corporate loans - at amortized cost	Stage 1	Stage 2	Stage 3	Total
As at 01.01.2019	332	314	3 251	3 897
Transfer from stage 2 and 3 to stage 1	12	(12)	-	-
Transfer from stage 1 and 3 to stage 2	(101)	106	(5)	-
Transfer from stage 1 and 2 to stage 3	(72)	(62)	134	-
Increase due to recognition and purchase	104	11	64	179
Changes due to changes in credit risk (net)	62	(57)	154	159
Decrease due to derecognition	(19)	-	(10)	(29)
Changes due to modification without derecognition, net	3	4	16	23
Change in allowances due to writing off	-	(7)	(700)	(707)
Other adjustments	48	9	(169)	(112)
As at 31.12.2019	369	306	2 735	3 410

Corporate loans - at amortized cost	Stage 1	Stage 2	Stage 3	Total
As at 01.01.2018	282	363	4 408	5 053
Transfer from stage 2 and 3 to stage 1	305	(112)	(193)	-
Transfer from stage 1 and 3 to stage 2	(18)	63	(45)	-
Transfer from stage 1 and 2 to stage 3	(5)	(24)	29	-
Increase due to recognition and purchase	143	28	134	305
Changes due to changes in credit risk (net)	(389)	(1)	537	147
Decrease due to derecognition	(8)	(4)	-	(12)
Changes due to modification without derecognition, net	23	3	32	58
Change in allowances due to writing off	-	(2)	(1 732)	(1 734)
Other adjustments	(1)	-	81	80
As at 31.12.2018	332	314	3 251	3 897

(IN PLN MILLION)

Consumer loans - at amortized cost	Stage 1	Stage 2	Stage 3	Total
As at 01.01.2019	147	308	1 219	1 674
Transfer from stage 2 and 3 to stage 1	2	(2)	-	-
Transfer from stage 1 and 3 to stage 2	(109)	112	(3)	-
Transfer from stage 1 and 2 to stage 3	(154)	(91)	245	-
Increase due to recognition and purchase	55	6	29	90
Changes due to changes in credit risk (net)	224	65	196	485
Decrease due to derecognition	(1)	(23)	(6)	(30)
Changes due to modification without derecognition, net	-	1	(5)	(4)
Changes resulting from updating the applied estimation method (net)	(2)	1	(1)	(2)
Change in allowances due to writing off	-	(10)	(369)	(379)
Reclassification from measured at amortized cost to measured at fair value through profit or loss	(45)	(106)	(599)	(750)
Other adjustments	30	(35)	82	77
As at 31.12.2019	147	226	788	1 161

Consumer loans - at amortized cost	Stage 1	Stage 2	Stage 3	Total
As at 01.01.2018	122	209	1 699	2 030
Transfer from stage 2 and 3 to stage 1	51	(51)	-	-
Transfer from stage 1 and 3 to stage 2	(10)	31	(21)	-
Transfer from stage 1 and 2 to stage 3	(8)	(48)	56	-
Increase due to recognition and purchase	45	2	42	89
Changes due to changes in credit risk (net)	(94)	179	386	471
Decrease due to derecognition	-	(11)	-	(11)
Changes due to modification without derecognition, net	-	2	2	4
Change in allowances due to writing off	-	(3)	(818)	(821)
Other adjustments	41	(2)	(127)	(88)
As at 31.12.2018	147	308	1 219	1 674

Other financial assets	Stage 1	Stage 2	Stage 3	Total
As at 01.01.2019	-	-	95	95
Decrease due to derecognition	-	-	(2)	(2)
Change in allowances due to writing off	-	-	(3)	(3)
As at 31.12.2019	-	-	90	90

Other financial assets	Stage 1	Stage 2	Stage 3	Total
As at 01.01.2018	-	-	99	99
Increase due to recognition and purchase	-	-	1	1
Change in allowances due to writing off	-	-	(5)	(5)
As at 31.12.2018	-	-	95	95

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

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

PURCHASED OR ORIGINATED CREDIT-IMPAIRED FINANCIAL ASSETS (POCI) – 31.12.2019	Gross amount	Impairment allowances	Net amount
Securities measured at fair value through OCI	463	(5)	458
Loans and advances to customers measured at amortized cost	288	(55)	233
Total	**751**	**(60)**	**691**

(IN PLN MILLION)

PURCHASED OR ORIGINATED PURCHASED OR ORIGINATED CREDIT- IMPAIRED FINANCIAL ASSETS (POCI) – 31.12.2018	Gross amount	Impairment allowances	Net amount
Securities measured at fair value through OCI	471	(10)	461
Loans and advances to customers measured at amortized cost	566	(124)	442
Total	**1 037**	**(134)**	**903**

CHANGES IN GROSS CARRYING AMOUNT OF PURCHASED OR ORIGINATED CREDIT- IMPAIRED FINANCIAL ASSETS (POCI) IN 2019	As at the beginning of the period	Changes due to granted or purchased financial instruments and limit utilisation or tranche payment	Decrease due to derecognition/repayment	Other adjustments	As at the end of the period
Securities	471	-	(8)	-	463
measured at fair value through other comprehensive income	471	-	(8)	-	463
Loans and advances to customers	566	159	(438)	1	288
measured at amortized cost	566	159	(438)	1	288
Total	1 037	156	(446)	1	751

CHANGES IN GROSS CARRYING AMOUNT OF PURCHASED OR ORIGINATED CREDIT- IMPAIRED FINANCIAL ASSETS (POCI) IN 2018	As at the beginning of the period	Changes due to granted or purchased financial instruments and limit utilisation or tranche payment	Decrease due to derecognition/repayment	Other adjustments	As at the end of the period
Securities	473	-	(2)	-	471
measured at fair value through other comprehensive income	473	-	(2)	-	471
Loans and advances to customers	221	400	(59)	4	566
measured at amortized cost	221	400	(59)	4	566
Total	694	400	(61)	4	1 037

CHANGES IN IMPAIRMENT ALLOWANCES FOR PURCHASED OR ORIGINATED CREDIT- IMPAIRED FINANCIAL ASSETS (POCI) IN 2019	As at the beginning of the period	Decrease due to derecognition	Changes due to changes in credit risk (net)	Decrease in impairment allowances due to write-off	Reclassification of exposures from measured at amortized cost to measured at fair value through profit or loss	Other adjustments	As at the end of the period
Securities	10	-	(5)	-	-	-	5
measured at fair value through other comprehensive income	10	-	(5)	-	-	-	5
Loans and advances to customers	124	(43)	(60)	2	(28)	60	55
measured at amortized cost	124	(43)	(60)	2	(28)	60	55
Total	134	(43)	(65)	2	(28)	60	60

(IN PLN MILLION)

CHANGES IN IMPAIRMENT ALLOWANCES FOR PURCHASED OR ORIGINATED CREDIT- IMPAIRED FINANCIAL ASSETS (POCI) IN 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 31.12.2018
Securities	15	-	(4)	-	(1)	10
measured at fair value through other comprehensive income	15	-	(4)	-	(1)	10
Loans and advances to customers	107	(48)	75	(25)	15	124
measured at amortized cost	107	(48)	75	(25)	15	124
Total	**122**	**(48)**	**71**	**(25)**	**14**	**134**

CALCULATION OF ESTIMATES

The impact of the increase/decrease in the estimated cash flows on the Bank's loan portfolio for which impairment was recognized on the basis of an individual analysis of future cash flows from repayments and recoveries from collateral, namely exposures analysed individually, and the impact of increases/decreases in the level of the portfolio parameters on the Bank's portfolio of loans and advances assessed using the portfolio method, is presented in the table below:

ESTIMATED CHANGE IN IMPAIRMENT ALLOWANCES FOR EXPECTED CREDIT LOSSES ON LOANS AND ADVANCES RESULTING FROM MATERIALIZATION OF SCENARIOS OF THE RISK PARAMETERS DETERIORATION OR IMPROVEMENT, OF WHICH:[1]	31.12.2019		31.12.2018	
	scenario +10%	scenario -10%	scenario +10%	scenario -10%
changes in the present value of estimated future cash flows for the Group's portfolio of individually impaired loans and advances assessed on an individual basis	(235)	308	(262)	360
changes in Probability of Default (PD)	153	(161)	153	(161)
changes in recovery rates	(415)	416	(481)	484

[1] (positive amount– increase in allowances, negative amount– decrease in allowances)

26. INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

ACCOUNTING POLICIES

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

GOODWILL – The Bank recognizes (since the legal merger with a subsidiary) goodwill related to the acquisition of this entity as intangible assets. Goodwill was recognized in the amount of excess of consideration paid over the value of the identifiable assets acquired and liabilities assumed, measured at fair value as at the acquisition date. Subsequent to the initial recognition goodwill is measured at the amount initially recognized less any cumulative impairment allowances.

CUSTOMER RELATIONS - As a result of the settlement of purchase transactions, customer relationships amortizable using the declining balance method based on the rate of consumption of economic benefits arising from their use, were identified.

OTHER INTANGIBLE ASSETS – Other intangible assets acquired by the Bank are recognized at acquisition cost or production cost, less accumulated amortization and impairment allowances.

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

Property, plant and equipment – are measured according to the purchase price or cost of production, less accumulated depreciation and impairment allowances.

Investment properties - are measured according to accounting principles applied to property, plant and equipment.

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

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

- **Depreciation / amortization**

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

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

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

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

- **Impairment allowances on non-financial non-current assets and right-of-use assets**

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

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

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

ESTIMATES AND JUDGEMENTS

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

In estimating the useful economic lives the following factors are considered:

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

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

Depreciation /amortization periods for basic groups applied by PKO Bank Polski SA:

Fixed assets	Useful lives
Buildings, premises, cooperative rights to premises (including investment properties)	from 40 to 60 years
Leasehold improvements (buildings, premises)	10 years (or the period of the lease, if shorter)
Machinery and equipment	from 3 to 15 years
Computer hardware	from 4 to 10 years
Vehicles	5 years
Intangible assets	**Useful lives**
Software	from 2 to 17 years
Other intangible assets	5 years

- **IMPAIRMENT ALLOWANCES**

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

(IN PLN MILLION)

FINANCIAL INFORMATION

- **INTANGIBLE ASSETS**

INTANGIBLE ASSETS 31.12.2019	Software	Goodwill	Customer relationships	Other, including capital expenditure	of which software	Total
Gross carrying amount as at 1 January 2019	5 055	871	86	330	276	6 342
Purchase	-	-	-	354	354	354
Transfers from capital expenditure	296	-	-	(296)	(296)	-
Other	15	-	-	(4)	(4)	11
Gross carrying amount as at 31 December 2019	5 366	871	86	384	330	6 707
Accumulated depreciation as at 1 January 2019	(3 607)	-	(69)	(46)	-	(3 722)
Amortization charge for the period	(348)	-	(5)	(3)	-	(356)
Accumulated depreciation as at 31 December 2019	(3 955)	-	(74)	(49)	-	(4 078)
Revaluation write-downs as at 1 January 2019	(15)	-	-	(10)	(10)	(25)
Recognized during the period	-	-	-	-	-	-
Reversed during the period	-	-	-	2	2	2
Other	-	-	-	-	-	-
Revaluation write-downs as at 31 December 2019	(15)	-	-	(8)	(8)	(23)
Net carrying amount as at 1 January 2019	1 433	871	17	274	266	2 595
Net carrying amount as at 31 December 2019	1 396	871	12	327	322	2 606

INTANGIBLE ASSETS 31.12.2018	Software	Goodwill	Customer relationships	Other, including capital expenditure	of which software	Total
Gross carrying amount as at 1 January 2018	4 704	871	86	284	230	5 945
Purchase	-	-	-	378	378	378
Transfers from capital expenditure	333	-	-	(333)	(333)	-
Other	18	-	-	1	1	19
Gross carrying amount as at 31 December 2018	5 055	871	86	330	276	6 342
Accumulated depreciation as at 1 January 2018	(3 204)	-	(62)	(42)	-	(3 308)
Amortization charge for the period	(403)	-	(7)	(4)	-	(414)
Accumulated depreciation as at 31 December 2018	(3 607)	-	(69)	(46)	-	(3 722)
Revaluation write-downs as at 1 January 2018	(15)	-	-	-	-	(15)
Recognized during the period	-	-	-	(10)	(10)	(10)
Revaluation write-downs as at 31 December 2018	(15)	-	-	(10)	(10)	(25)
Net carrying amount as at 1 January 2018	1 485	871	24	242	230	2 622
Net carrying amount as at 31 December 2018	1 433	871	17	274	266	2 595

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

• Goodwill

Net goodwill	31.12.2019	31.12.2018
Nordea Polska companies	863	863
Centrum Finansowe Puławska sp. z o.o.	8	8
Total	**871**	**871**

Goodwill	Impairment test - method
Nordea Bank Polska SA	The impairment test is conducted by comparing the carrying amounts of Cash Generating Units ('CGUs') with their recoverable amounts. Two CGUs were identified to which goodwill on acquisition of Nordea Bank Polska SA was allocated – the retail and corporate CGU. The residual value of a CGU has been calculated by extrapolating the cash flow projections beyond the period of the forecast, using the growth rate adopted at a level of 2.6%. Cash flow projections are based on the assumptions included in the financial plan of the Bank for 2019. For the discounting of the future cash flows a discount rate of 8.7% was used, taking into account the risk-free rate and risk premium. No goodwill impairment was recognized.

(IN PLN MILLION)

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• Property, plant and equipment

PROPERTY, PLANT AND EQUIPMENT 31.12.2019	Land and buildings	Machinery and equipment		Assets under construction		Other	Total		
			including IT equipment		including IT equipment			including right-of-use assets	*including right of perpetual usufruct of land written off*
Gross carrying amount as at 31 December 2018	2 457	1 480	871	166	70	595	4 698		
Changes due to IFRS 16 implementation	739	-	-	-	-	19	758	889	(131)
Gross carrying amount as at 1 January 2019	3 196	1 480	871	166	70	614	5 456	889	(131)
Purchase	108	-	-	269	99	19	396	127	
Transfers from capital expenditure	57	116	88	(211)	(88)	38	-		
Scrapping and sale	(54)	(139)	(117)	-	-	(30)	(223)	(8)	
Other	(32)	1	-	(3)	(1)	(7)	(41)		
Gross carrying amount as at 31 December 2019	3 275	1 458	842	221	80	634	5 588	1 008	(131)
Accumulated depreciation as at 31 December 2018	(1 041)	(1 135)	(667)	-	-	(405)	(2 581)		
Changes due to IFRS 16 implementation	19	-	-	-	-	-	19	-	19
Accumulated depreciation as at 1 January 2019	(1 022)	(1 135)	(667)	-	-	(405)	(2 562)	-	19
Amortization charge for the period	(266)	(149)	(106)	-	-	(49)	(464)	(195)	
Scrapping and sale	34	138	116	-	-	29	201		
Other	14	1	-	-	-	2	17		
Accumulated depreciation as at 31 December 2019	(1 240)	(1 145)	(657)	-	-	(423)	(2 808)	(195)	19
Revaluation write-downs as at 31 December 2018	(33)	-	-	-	-	(2)	(35)		
Changes due to IFRS 16 implementation	1	-	-	-	-	-	1	-	1
Revaluation write-downs as at 01 January 2019	(32)	-	-	-	-	(2)	(34)	-	1
Recognized during the period	(14)	-	-	-	-	-	(14)	(1)	
Other	5	-	-	-	-	1	6		
Revaluation write-downs as at 31 December 2019	(41)	-	-	-	-	(1)	(42)	(1)	1
Net carrying amount as at 01 January 2019	2 142	345	204	166	70	207	2 860	889	
Net carrying amount as at 31 December 2019	1 994	313	185	221	80	210	2 738	812	(111)

(IN PLN MILLION)

PROPERTY, PLANT AND EQUIPMENT 31.12.2018	Land and buildings	Machinery and equipment		Assets under construction		Other	Total
			including IT equipment		including IT equipment		
Gross carrying amount as at 01 January 2018	**2 519**	**1 494**	**878**	**128**	**68**	**594**	**4 735**
Purchase	-	-	-	227	99	-	227
Transfers from capital expenditure	30	118	94	(186)	(94)	38	-
Scrapping and sale	(52)	(115)	(95)	-	-	(34)	(201)
Other	(40)	(17)	(6)	(3)	(3)	(3)	(63)
Gross carrying amount as at 31 December 2018	**2 457**	**1 480**	**871**	**166**	**70**	**595**	**4 698**
Accumulated depreciation as at 1 January 2018	**(1 011)**	**(1 119)**	**(663)**	**-**	**-**	**(406)**	**(2 536)**
Amortization charge for the period	(84)	(146)	(104)	-	-	(36)	(266)
Scrapping and sale	33	114	95	-	-	34	181
Other	21	16	5	-	-	3	40
Accumulated depreciation as at 31 December 2018	**(1 041)**	**(1 135)**	**(667)**	**-**	**-**	**(405)**	**(2 581)**
Revaluation write-downs as at 1 January 2018	**(27)**	**-**	**-**	**-**	**-**	**(2)**	**(29)**
Recognized during the period	(9)	-	-	-	-	-	(9)
Other	3	-	-	-	-	-	3
Revaluation write-downs as at 31 December 2018	**(33)**	**-**	**-**	**-**	**-**	**(2)**	**(35)**
Net carrying amount as at 1 January 2018	**1 481**	**375**	**215**	**128**	**68**	**186**	**2 170**
Net carrying amount as at 31 December 2018	**1 383**	**345**	**204**	**166**	**70**	**188**	**2 082**

(IN PLN MILLION)

Calculation of estimates

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

CHANGE IN THE USEFUL LIVES OF DEPRECIATED ASSETS FROM THE CATEGORY OF LAND AND BUILDINGS	31.12.2019		31.12.2018	
	scenario +10 years	scenario -10 years	scenario +10 years	scenario -10 years
Depreciation cost	(36)	245	(37)	256

27. Other assets

Accounting policies

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

Financial information

OTHER ASSETS	31.12.2019	31.12.2018
Settlements in respect of card transactions	1 300	1 629
Settlement of financial instruments	73	82
Receivables in respect of cash settlements	193	189
Receivables and settlements in respect of trading in securities	3	32
Dividend receivables and contributions to subsidiaries	36	132
Assets for sale	40	49
Prepayments and deferred costs	59	57
Receivables from subsidiaries belonging to PGK	29	-
Trade receivables	78	76
Settlements with the state budget in respect of flat-rate income tax	115	-
Other	98	72
Total	**2 024**	**2 318**
of which: other financial assets	1 691	2 149

- **Management of foreclosed collateral– item "assets for sale"**

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

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

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

(IN PLN MILLION)

28. Amounts due to banks

Accounting policies

The principles of classification and measurement are discussed in the Note "Major accounting policies".

Financial information

AMOUNTS DUE TO BANKS	31.12.2019	31.12.2018
Measured at fair value through profit or loss	**317**	-
short position in securities	317	-
Measured at amortized cost	**1 659**	**1 591**
Bank deposits	786	728
Current accounts	756	713
Other monetary market deposits	117	150
Total	**1 976**	**1 591**

AMOUNTS DUE TO BANKS BY MATURITY	31.12.2019	31.12.2018
Measured at fair value through profit or loss:	**317**	-
up to 1 month	317	-
Measured at amortized cost:	**1 659**	**1 591**
up to 1 month	1 649	1 573
from 1 to 3 months	10	18
Total	**1 976**	**1 591**

29. Amounts due to customers

Accounting policies

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

(IN PLN MILLION)

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AMOUNTS DUE TO CUSTOMERS	31.12.2019	31.12.2018
Measured at fair value through profit or loss:	**45**	-
short position in securities	45	-
Measured at amortized cost	**257 970**	**245 213**
Amounts due to retail customers	185 633	164 385
Cash on current accounts and overnight deposits of which:	121 646	102 859
savings accounts	38 051	32 192
Term deposits	63 620	61 138
Other liabilities	367	388
Amounts due to corporate entities	55 957	55 530
Cash on current accounts and overnight deposits of which:	45 348	38 835
savings accounts	46	46
Term deposits	9 721	15 740
Other liabilities	842	910
Repo transactions	46	45
Amounts due to public entities	11 354	16 459
Current accounts and overnight deposits	10 997	11 242
Term deposits	331	5 115
Other liabilities	26	102
Loans and advances received[1]	5 026	8 839
Total	**258 015**	**245 213**

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

AMOUNTS DUE TO CUSTOMERS BY SEGMENT	31.12.2019	31.12.2018
retail and private banking	173 003	154 259
corporate	50 282	55 868
firms and enterprises	29 658	26 202
repo transactions	46	45
loans and advances received	5 026	8 839
Total	**258 015**	**245 213**

AMOUNTS DUE TO CUSTOMERS BY MATURITY	31.12.2019	31.12.2018
Measured at fair value through profit or loss:	45	-
up to 1 month	45	-
Measured at amortized cost:	**257 970**	**245 213**
up to 1 month	196 186	184 010
from 1 to 3 months	16 494	22 142
from 3 months to 1 year	28 488	24 804
from 1 to 5 years	9 184	7 565
over 5 years	7 618	6 692
Total	**258 015**	**245 213**

(IN PLN MILLION)

Bank Polski

30. Loans and advances received

LOANS AND ADVANCES RECEIVED	31.12.2019	31.12.2018
From international financial institutions	969	2 601
European Investment Bank	649	2 049
Council of Europe Development Bank	320	552
From other entities	4 057	6 238
PKO Finance AB	4 057	6 238
Total	5 026	8 839

- **Loans and advances from international financial institutions**

Date of the Bank receiving the loan	Nominal value	Currency	Maturity	Carrying amount at 31.12.2019	Carrying amount at 31.12.2018
30.04.2009	76	CHF	30.04.2019	-	58
23.12.2009	50	EUR	23.12.2019	-	43
23.10.2009	182	CHF	23.10.2019	-	694
23.12.2010	75	EUR	23.12.2020	64	129
25.09.2013	75	EUR	25.09.2023	256	322
29.11.2013	185	CHF	29.11.2023	-	706
23.10.2018	646	PLN	23.10.2023	649	649
Total				969	2 601

- **Loans and advances received from other entities**

Date of the Bank receiving the loan	Nominal value	Currency	Maturity	Carrying amount at 31.12.2019	Carrying amount at 31.12.2018
25.07.2012	50	EUR	25.07.2022	215	218
26.09.2012	1 000	USD	26.09.2022	3 842	3 812
23.01.2014	500	EUR	23.01.2019	-	2 208
Total				4 057	6 238

31. Debt securities in issue

DEBT SECURITIES IN ISSUE	31.12.2019	31.12.2018
bonds issued by banks, of which:	4 769	5 367
in PLN	-	611
in EUR, translated into PLN	3 200	3 229
in CHF, translated into PLN	1 569	1 527
Total	4 769	5 367

(IN PLN MILLION)

LIABILITIES IN RESPECT OF DEBT SECURITIES IN ISSUE - BY MATURITY	31.12.2019	31.12.2018
Measured at amortized cost:	4 769	5 367
from 3 months to 1 year	-	611
from 1 to 5 years	4 769	4 756
Total	4 769	5 367

ADDITIONAL INFORMATION	31.12.2019	31.12.2018
issuance of debt securities during the period (nominal value)		
in PLN	600	2 565
redemption of debt securities during the period (nominal value)		
in PLN	1 215	1 300

32. SUBORDINATED LIABILITIES

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

On approval of the Polish Financial Supervision Authority the subordinated bonds were designated 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 is PLN 500 000 and the issue price is equal to the nominal value. The bonds bear interest in semi-annual interest periods, calculated based on the nominal value at a floating interest rate of WIBOR 6M increased by a margin of 150 b.p. over the entire issue period. On 8 March 2018, the Polish Financial Supervision Authority agreed to designate proceeds from the issue of subordinated bonds for an increase in the Bank's Tier 2 capital.

33. OTHER LIABILITIES

ACCOUNTING POLICIES

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

(IN PLN MILLION)

FINANCIAL INFORMATION

OTHER LIABILITIES	31.12.2019	31.12.2018
Expenses to be paid	630	487
Costs of financing to a subsidiary	274	-
Deferred income	627	538
Liability in respect of tax on certain financial institutions	78	77
Interbank settlements	461	481
Liabilities arising from investing activities and internal operations	251	247
Amounts due to suppliers	114	161
Liabilities and settlements in respect of trading in securities	567	363
Settlement of financial instruments	22	6
Liabilities in respect of contribution to the Bank Guarantee Fund maintained in the form of payment commitments, of which:	386	247
to the Resolution Fund	209	111
to the Banks' Guarantee Fund	177	136
Liabilities under the public law	141	114
Liabilities in respect of foreign exchange activities	201	298
Liabilities in respect of payment cards	20	15
Liabilities to insurance institutions	35	38
Lease liabilities	819	-
Other	118	117
Total	**4 744**	**3 189**
of which: other financial Liabilities	3 394	2 096

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

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

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

34. PROVISIONS

ACCOUNTING POLICIES, ESTIMATES AND JUDGEMENTS

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

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

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

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

The provision for retirement and disability benefits resulting from the Labour Code is created individually for each employee on the basis of an actuarial valuation. Internal regulations, in particular the Collective Labour Agreement in force at the Bank comprise the basis for calculation of these provisions.

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

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

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

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

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

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

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

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

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

- **OTHER PROVISIONS**

Other provisions mainly include provisions for potential claims on sale of impaired loans portfolios, details on which has been presented in the note "Sale of impaired loan portfolios".

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

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

FINANCIAL INFORMATION

Provisions	2019	2018
Provisions for financial liabilities and guarantees granted	268	227
Other liabilities	305	214
Total	**573**	**441**

(IN PLN MILLION)

FOR THE YEAR ENDED 31 DECEMBER 2019	Provisions for legal claims excluding legal claims relating to mortgage loans in convertible currencies	Provisions for pensions and other defined post-employment benefits	Restructuring	Provisions for reimbursement of costs to customers for early repayment of consumer loans and mortgage loans	Provisions for potential legal claims against the bank related to repaid mortgage loans in convertible currency	Provisions for financial liabilities and guarantees granted	Other provisions, including provisions for employee disputed claims	Total
1 January 2019, of which:	51	48	24	-	-	227	91	441
Short-term provision	-	8	24	-	-	177	66	275
Long-term provision	51	40	-	-	-	50	25	166
Increases, including increases of existing provisions	6	4	33	127	29	287		486
Utilization	(1)	(1)	(15)	(23)	-	-	(4)	(44)
Amounts not utilized released during the period	(6)	(2)	(1)	-	-	(246)	(61)	(316)
Other changes and reclassifications	-	6	-	-	-	-	-	6
31 December 2019, of which:	50	55	41	104	29	268	26	573
Short-term provision	-	7	41	104		225	4	381
Long-term provision	50	48	-		29	43	22	192

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

FOR THE YEAR ENDED 31 DECEMBER 2018	Provisions for legal claims excluding legal claims relating to mortgage loans in convertible currencies	Provisions for pensions and other defined post-employment benefits	Restructuring	Provisions for reimbursement of costs to customers for early repayment of consumer loans and mortgage loans	Provisions for potential legal claims against the bank related to repaid mortgage loans in convertible currency	Provisions for financial liabilities and guarantees granted	Other provisions, including provisions for employee disputed claims	Total
31 January 2017, of which:	18	45	-	-	-	86	61	210
Short-term provision	18	7	-	-	-	61	61	147
Long-term provision	-	38	-	-	-	25	-	63
Changes due to reclassification, of which:	-	14	21	-	-	-	(35)	-
Short-term provision	-	14	21	-	-	-	(35)	-
Changes due to IFRS 9 implementation, of which	-	-	-	-	-	69	-	69
Short-term provision	-	-	-	-	-	45	-	45
Long-term provision	-	-	-	-	-	24	-	24
1 January 2018 (amended), of which:	18	59	21	-	-	155	26	279
Short-term provision	18	21	21	-	-	106	26	192
Long-term provision	-	38	-	-	-	49	-	87
Increases, including increases of existing provisions	43	4	45	-	-	227	93	412
Utilization	(6)	(3)	(23)	-	-	-	-	(32)
Amounts not utilized released during the period	(4)	(13)	(19)	-	-	(155)	(28)	(219)
Other changes and reclassifications	-	1	-	-	-	-	-	1
31 December 2018, of which:	51	48	24	-	-	227	91	441
Short-term provision	-	8	24	-	-	177	66	275
Long-term provision	51	40	-	-	-	50	25	166

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

CALCULATION OF ESTIMATES

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

FACTORS AFFECTING THE AMOUNT OF THE PROVISION:	2019	2 018
adopted financial discount rate	2,00%	3,00%
weighted average ratio of employee mobility	9,36%	8,48%
average remaining period of service in years	7,80	7,89
10-year average assumed annual increase in the basis of calculation of retirement benefits	2,26%	2,30%

(IN PLN MILLION)

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

ESTIMATED CHANGE IN PROVISION AS AT 31.12.2019	Discount rate		Planned increases in base amounts	
	scenario +1pp	scenario -1pp	scenario +1pp	scenario -1pp
Provisions for pensions and other liabilities in respect of defined post-employment benefits	(4)	5	6	(4)

ESTIMATED CHANGE IN PROVISION AS AT 31.12.2018	Discount rate		Planned increases in base amounts	
	scenario +1pp	scenario -1pp	scenario +1pp	scenario -1pp
Provisions for pensions and other liabilities in respect of defined post-employment benefits	(3)	5	6	(3)

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

35. EQUITY AND SHAREHOLDING STRUCTURE OF THE BANK

ACCOUNTING POLICIES

Equity components, with the exception of treasury shares, are measured at their nominal amounts. Treasury shares are measured at cost.

Equity constitutes capital and reserves created in accordance with the legal regulations. The classification to particular components discussed below results from the Polish Commercial Companies Code, the Banking Law and the requirements of IAS 1.7, IAS 1.78.e, IAS 1.54.q-r and IAS 1.79.b.

Equity components:

- Share capital is stated at nominal value in accordance with the Articles of Association and the Register of Businesses.
- Supplementary capital is created according to the Articles of Association of the Bank, from the appropriation of profits and from share premium less issue costs and it is to cover the potential losses which might result from the Bank's activities.
- General banking risk fund in PKO Bank Polski SA is created from profit after tax in accordance with the Banking Law, and it is to cover unidentified risks of the Bank's operations.
- Other reserves are created from the appropriation of net profit. Other reserves are only meant to cover any potential balance-sheet losses.
- Accumulated other comprehensive income includes the effects of the measurement of financial assets at fair value through other comprehensive income, allowances for expected credit losses on these assets, the effective portion of cash flow hedges in hedge accounting, as well as actuarial gains and losses. Deferred tax on those items is recognized in other comprehensive income. Moreover, the item includes foreign exchange differences on translation to Polish currency of the net result of the foreign operations (branches in Germany and the Czech Republic) at the rate constituting the arithmetic mean of foreign exchange rates for the currency as at the last day of each of the months in the financial year published by the National Bank of Poland.

(IN PLN MILLION)

FINANCIAL INFORMATION

EQUITY	31.12.2019	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	3 099	3 629
Accumulated other comprehensive income	434	443
Retained earnings	1 556	(535)
Net profit for the period	3 835	3 335
Total	**40 412**	**38 360**

SHAREHOLDING STRUCTURE OF THE BANK

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

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

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

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

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

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

In accordance with § 6 (2) of the PKO Bank Polski SA's Articles of Association, the conversion of A-series registered shares into bearer shares and the transfer of these shares requires the approval of the Council of Ministers in the form of a resolution. Conversion into bearer shares or transfer of A-series registered shares, after obtaining the aforementioned approval will result 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 is granted.

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

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

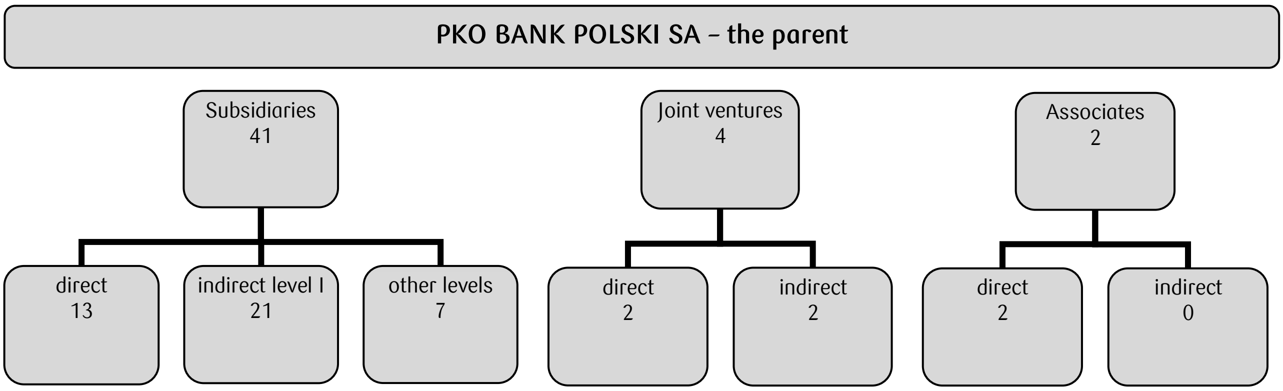
(IN PLN MILLION)

STRUCTURE OF PKO BANK POLSKI SA'S SHARE CAPITAL:

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

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

36. STRUCTURE AND SCOPE OF ACTIVITIES OF THE PKO BANK POLSKI SA GROUP



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

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

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

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

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

(IN PLN MILLION)

No.	ENTITY NAME INDIRECT SUBSIDIARIES	REGISTERED OFFICE	BUSINESS ACTIVITIES	% SHARE IN CAPITAL* 31.12.2019	 31.12.2018
	GRUPA PKO Leasing SA				
1	PKO Leasing Nieruchomości sp. z o.o.	Warsaw	Leasing	100	100
2	PKO Agencja Ubezpieczeniowa sp. z o.o.	Warsaw	intermediation in concluding insurance contracts	100	100
	2.1 PKO Leasing Finanse sp. z o.o.	Warsaw	sale of post-lease items	100	100
3	PKO Leasing Sverige AB	Stockholm, Sweden	Leasing	100	100
4	PKO Faktoring SA	Warsaw	Factoring activities	100	100
5	Prime Car Management SA[1]	Gdańsk	leasing and fleet management	100	-
	5.1 Futura Leasing SA	Gdańsk	leasing and selling post-lease items	100	-
	5.2 Masterlease sp. z o.o.	Gdańsk	Leasing	100	-
	5.3 MasterRent24 sp. z o.o.	Gdańsk	short-term car rent	100	-
6	ROOF Poland Leasing 2014 DAC[2]	Dublin, Ireland	SPV created for securitization of lease receivables	-	-
7	Polish Lease Prime 1 DAC[3]	Dublin, Ireland		-	-
	PKO Życie Towarzystwo Ubezpieczeń SA GROUP				
8	Ubezpieczeniowe Usługi Finansowe sp. z o.o.	Warsaw	Services	100	100
	KREDOBANK SA GROUP				
9	Finansowa Kompania „Idea Kapitał" sp. z o.o.	Lviv, Ukraine	Services	100	100
	Merkury - fiz an				
10	"Zarząd Majątkiem Górczewska" sp. z o.o.	Warsaw	Property management	100	100
11	Molina sp. z o.o.	Warsaw	general partner in the fund's companies	100	100
12	Molina spółka z ograniczoną odpowiedzialnością 1 S.K.A.	Warsaw	buying and selling real estate on own account, property management	100	100
13	Molina spółka z ograniczoną odpowiedzialnością 2 S.K.A.	Warsaw		100	100
14	Molina spółka z ograniczoną odpowiedzialnością 3 S.K.A. w likwidacji (*in liquidation*)	Warsaw		100	100
15	Molina spółka z ograniczoną odpowiedzialnością 4 S.K.A.	Warsaw		100	100
16	Molina spółka z ograniczoną odpowiedzialnością 5 S.K.A.	Warsaw		100	100
17	Molina spółka z ograniczoną odpowiedzialnością 6 S.K.A.	Warsaw		100	100
	NEPTUN - fizan				
18	Qualia sp. z o.o.[4]	Warsaw	post-sale services in respect of developer products	100	-
19	Sarnia Dolina sp. z o.o.[5]	Warsaw	Property development	100	-
20	Bankowe Towarzystwo Kapitałowe SA	Warsaw	Services	100	100
	20.1 „Inter-Risk Ukraina" additional liability company[6]	Kiev, Ukraine	Debt collection	99.90	99.90
	20.2 Finansowa Kompania "Prywatne Inwestycje" sp. z o.o.[7]	Kiev, Ukraine	Financial services	95.4676	95.4676
21	"CENTRUM HAFFNERA" sp. z o.o.	Sopot	managing a subsidiary	72.9766	72.9766
	21.1 "Sopot Zdrój" sp. z o.o.	Sopot	Property management	100	100

* share of the direct parent in equity

1 A subsidiary of PKO Leasing SA since 27 May 2019.

2 In accordance with IFRS 10, PKO Leasing SA exercises control over the company, although it does not have interest in it.

3 A subsidiary of PKO Leasing SA since 26 September 2019; in accordance with IFRS 10, PKO Leasing SA exercises control over the company, although it does not have interest in it.

4 On 31 January 2019, a merger took place between Qualia sp. z o.o. as the acquiring company and Qualia - Residence sp. z o.o. as the target company. Until 7 May 2019, Qualia sp. z o.o. was a subsidiary of Qualia Development sp. z o.o.

5 Until 18 June 2019, a subsidiary of Qualia Development sp. z o.o.

6 Finansowa Kompania "Prywatne Inwestycje" Sp. z o.o. is the second shareholder of the company.

7 "Inter-Risk Ukraina" – a company with additional liability – remains the second shareholder of the company.

(IN PLN MILLION)

37. INVESTMENT IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

ACCOUNTING POLICIES

Investments in subsidiaries, associates and joint ventures are measured at cost less impairment losses. In the case of sale of investments in subsidiaries, which results in a loss of control, the Bank measures the remaining investment to fair value and accepts this value as a new cost for the purpose of subsequent valuation. The excess of the fair value of the investment over the carrying amount is recognized by the Bank in other operating income.

At each balance sheet date, the Bank makes an assessment of whether there is any objective evidence of impairment of investments in subsidiaries, joint ventures and associates. If any such evidence exists, the Bank estimates the value in use of the investment or the fair value of the investment less costs to sell, depending on which of these values is higher, and in case the carrying amount of an asset exceeds its value in use, the Bank recognizes an impairment loss in the income statement. The above projection for the value in use requires making assumptions, i.a. about future cash flows that the Bank may receive from dividends or the cash inflows from a potential disposal of the investment, less costs to sell.

FINANCIAL INFORMATION

- **INVESTMENTS IN SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES**

AS AT 31 December 2019	Gross amount	Impairment allowance	Carrying amount
SUBSIDIARIES			
PKO Bank Hipoteczny SA	1 650	-	1 650
KREDOBANK SA	1 072	(793)	279
PKO Leasing SA	496	-	496
PKO Życie Towarzystwo Ubezpieczeń SA	241	-	241
PKO Towarzystwo Funduszy Inwestycyjnych SA	225	-	225
PKO VC - fizan[1]	200	-	200
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
JOINT VENTURES			
Centrum Elektronicznych Usług Płatniczych eService sp. z o.o.	197	-	197
Operator Chmury Krajowej sp. z o.o.	60		60
ASSOCIATES			
Bank Pocztowy SA	184	(97)	87
"Poznański Fundusz Poręczeń Kredytowych" sp. z o.o.	2	(2)	-
Total	**4 909**	**(915)**	**3 994**

[1] PKO Bank Polski SA holds investment certificates of the Fund which allow it 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]	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[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	**4 503**	**(915)**	**3 588**

1 The amount specified above does not include new issue of shares paid up by PKO Bank Polski SA of PLN 100 million disclosed in the item "Other assets". The respective increase in the share capital as at 31 December 2018 has not been registered.

2 PKO Bank Polski SA holds investment certificates of the Fund which allow it to control the Fund in accordance with IFRS.

IMPAIRMENT ALLOWANCES – RECONCILIATION OF MOVEMENTS	2019	2018
As at the beginning of the period	915	849
Recognized during the period	-	66
Value at the end of the period	915	915
Net increase - impact on the income statement	**-**	**(66)**

(IN PLN MILLION)

Bank Polski

• SELECTED INFORMATION ON ASSOCIATES AND JOINT VENTURES

The Bank holds the following associates and joint ventures. The table presents the Bank's direct investments and indirect investments, including through the Bank's subsidiaries.

No.	ENTITY NAME	REGISTERED OFFICE	BUSINESS ACTIVITIES	% SHARE IN CAPITAL* 31.12.2019	% SHARE IN CAPITAL* 31.12.2018
	Joint ventures of the PKO Bank Polski SA				
1	Operator Chmury Krajowej sp. z o.o.[1]	Warsaw	cloud computing services	50	-
2	Centrum Elektronicznych Usług Płatniczych eService sp. z o.o.	Warsaw	activities supporting financial services, including processing transactions concluded using payment instruments	34	34
	1 EVO Payments International s.r.o.	Prague, the Cze	activities supporting financial services	100	100
	EVO Payments International sp. z o.o.[2]	Warsaw	activities supporting financial services	-	100
	Joint venture of NEPTUN - fizan				
	2 "Centrum Obsługi Biznesu" sp. z o.o.	Poznań	Property management	41.4455	41.4455
	Associates of PKO Bank Polski SA				
1	Bank Pocztowy SA	Bydgoszcz	Banking activities	25.0001	25.0001
2	"Poznański Fundusz Poręczeń Kredytowych" Sp. z o.o.	Poznań	sureties	33.33	33.33

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

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

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

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

Centrum Elektronicznych Usług Płatniczych eService sp. z o.o. (in accordance with IFRS)	**31.12.2019**	**31.12.2018**
Current assets	291	270
Non-current assets	197	219
	202	207
Non-current liabilities	22	20
	01.01-31.12.2019	**01.01-31.03.2018**
Revenue	557	519
Profit/(loss) for the period	107	87
Other comprehensive income	2	2
Total comprehensive income	109	89
Dividend received from an entity classified as a joint venture	36	22

"Centrum Obsługi Biznesu" sp. z o.o. (in accordance with PAS)	**31.12.2019**	**31.12.2018**
Current assets	8	10
Non-current assets	77	79
Current liabilities	38	32
Non-current liabilities	39	51
	01.01-31.12.2019	**01.01-31.03.2018**
Revenue	26	25
Profit/(loss) for the period	-	(1)

Bank Pocztowy SA (in accordance with IFRS, data as published by the company)	30.06.2019	31.12.2018
Total assets	7 884	7 565
Total liabilities	7 280	6 963
	01.01-30.06.2019	01.01-31.03.2018
Revenue	220	439
Net profit/(loss) for the period	11	7
Other comprehensive income	(8)	12
Total comprehensive income	3	19

"Poznański Fundusz Poręczeń Kredytowych" sp. z o.o. (in accordance with PAS)	31.12.2019	31.12.2018
Current assets	31	28
Current liabilities	4	4
Non-current liabilities	8	5
	01.01-31.12.2019	01.01-31.03.2018
Revenue	2	1
Profit/(loss) for the period	-	-

"Operator Chmury Krajowej" sp. z o.o. (in accordance with IFRS)	31.12.2019	31.12.2018
Current assets	61	-
Non-current assets	65	-
Current liabilities	17	-
Non-current liabilities	12	-
	01.01-31.12.2019	01.01-31.03.2018
Revenue	11	-
Profit (loss) on continuing operations	(23)	-

38. Changes to companies comprising the Group

In 2019, the following selected events had an impact on the PKO Bank Polski SA Group's structure.

Acquisition of Prime Car Management SA by PKO Leasing SA

- **Description of the transaction**

PKO Leasing SA (the Bank's subsidiary) acquired a total of 100% of shares of the public company Prime Car Management SA (PCM), including:

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

Until 17 June 2019, the shares of PCM were traded on the Warsaw Stock Exchange (WSE). On 31 October 2019, they were withdrawn from stock exchange trading. The purchase of shares was financed with an overdraft facility granted to PKO Leasing SA by the Bank. The acquired company engages in lease operations (finance and operating leases) and in vehicle fleet management.

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

(IN PLN MILLION)

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

Company	Share capital	Number of shares	Nominal value of the shares
Masterlease sp. z o.o.	PLN 7 905 000	158 100	PLN 50
MasterRent24 sp. z o.o.	PLN 2 850 000	28 500	PLN 100
Futura Leasing SA	PLN 1 689 320	1 689 320	PLN 1

The subsidiaries of PCM engage primarily in passenger car rental, finance leases, sales of vehicles and servicing and repairs of vehicles.

Other changes in the PKO Leasing SA Group

On 28 June 2019 the merger between Qualia Development sp. z o.o (the Bank's subsidiary) as the acquiree and PKO Leasing SA as the acquirer was registered in the National Court Register with jurisdiction over the registered office of the acquirer. The merger took place in accordance with Article 492 § 1(1) of the Commercial Companies Code (merger by acquisition) by transferring all the assets of the acquiree to the acquirer, with a simultaneous increase in the share capital of the acquirer and conversion of the shares in the acquiree into the shares of the acquirer.

After the merger PKO Bank Polski SA held 34 785 566 shares of PKO Leasing SA with a total nominal value of PLN 347 855 660 constituting 100% of the share capital and carrying 100% of the votes at the General Shareholders' Meeting.

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

Reclassification of Operator Chmury Krajowej sp. z o.o.

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

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

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

OTHER NOTES

39. Dividends per share

On 25 February 2019, the Bank received an individual recommendation from the Polish Financial Supervision Authority to increase its own funds by retaining at least 50% of the profit earned in 2018. At the same time, the PFSA confirmed that the Bank had met the requirements for the distribution of dividend at 50% of the 2018 net profit. The PFSA also expected the Bank's Management Board and Supervisory Board to present their position in respect of the recommendation received by the Bank.

Both the Bank's Management and Supervisory Boards passed resolutions stating that each of the authorities would implement the recommendation within the scopes of their respective responsibilities.

On 28 March 2019, the Bank's Management Board passed a resolution on submitting the recommendation for the appropriation of profit earned in 2018 of PLN 3 335 302 049 to the General Shareholder's Meeting of the Bank as follows:

- dividend to the shareholders of PLN 1 662 500 000;
- reserves of PLN 5 151 025.

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

The above decision is consistent with the decision declared by the Bank to comply with the recommendation of the PFSA.

On 4 April 2019, the Bank's Supervisory Board issued a positive opinion about the recommendation of the Bank's Management Board.

On 6 May 2019 the Bank's Annual General Shareholders' Meeting passed a resolution on the appropriation of the Bank's profit for 2018 (resolution no. 6/2019), pursuant to the above recommendation put forward by the Management Board of the Bank.

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

40. Leases

Accounting policies

IFRS 16 "Leases" applies to annual periods starting on or after 1 January 2019. It replaced the previously binding IAS 17 "Leases". According to IFRS 16, a contract is a lease or contains a lease if it transfers the right to use an identified asset for a given period in exchange for consideration. A significant element of the new definition of the lease is the requirement to control the use of the asset and obtain economic benefits from the identified asset.

From the point of view of the lessee, IFRS 16 eliminates the classification of leases into operating and finance leases and introduces the recognition and measurement model convergent to the recognition of finance leases under IAS 17. The lessee is obliged to recognize the right-of-use assets in respect of the leased assets in the statement of financial position and lease liabilities, with the exception of short-term lease agreements (up to 12 months) and leases of assets of immaterial value. The lessee is also required to recognize the costs of depreciation of the right-of-use asset and the interest expense on the lease liability in the income statement (according to IAS 17, expenditure related to the use of leased assets is included in administrative expenses). The right-of-use assets are subject to straight-line depreciation, while lease liabilities are measured using the amortized cost method.

The Bank 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 agreements or agreements containing a lease according to the Bank's classification include agreements under which the Bank:

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

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

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

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

The amount of the lease liability is affected by:

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

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

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

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

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

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

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

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

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

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

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

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

IMPACT OF IMPLEMENTING IFRS 16:

- **LEASE LIABILITIES**

The implementation of the standard resulted in the Bank recognizing lease liabilities presented in "Other liabilities" 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 amount of the liability was adjusted by costs paid in advance of PLN 4 million as at 1 January 2019 (disclosed in "Other assets").

- **RIGHT-OF-USE ASSETS**

As at 1 January 2019 the Bank recognized right-of-use assets of PLN 889 million, which include the amount of the initial measurement of the lease liability of PLN 885 million and lease payments made of PLN 4 million paid in advance.

Furthermore, in connection with the implementation of the standard, the Bank classified the right of perpetual usufruct of land as a lease agreement. In consequence, the Bank has written off the right to perpetual usufruct of land disclosed in the books of account as at 31 December 2018, charging PLN 111 million to retained earnings.

- **ESTIMATES ADOPTED**

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 agreements concluded indefinitely

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

- Determining the interest rate used to discount future cash flows

The discount rates used by the Bank to discount future lease payments (incremental borrowing rates) were within the range from 2.06% to 8.68% for PLN, from 0.6% to 4.0% for EUR and from 3.8% to 4.0% for USD and were calculated on the basis of yield curves reflecting the cost of financing in the given currency, encompassing the tenor of the longest lease agreement which is to be measured. The tenors of lease agreements are within the range of 1 to 99 years. The discount rates adopted for the purpose of the estimate were the rates for maturity corresponding to one-half of the maturity of the lease agreement.

(IN PLN MILLION)

The total impact of the discount related to applying the above rates to the calculation of the present value of lease liabilities was PLN 299 million.

- **CAPITAL ADEQUACY**

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. Furthermore, in view of the write-off of the right of perpetual usufruct of land of PLN 111 million, the Bank's own funds declined by the same amount. This contributed to a reduction in the Tier 1 capital ratio of approx. 17 b.p. and in the total capital ratio of approx. 18 b.p. as at 1 January 2019.

- **THE TOTAL IMPACT OF THE ADJUSTMENTS ARISING FROM THE IMPLEMENTATION OF IFRS 16 ON THE BANK'S ASSETS AND LIABILITIES**

Reconciliation of the difference between the amounts of future lease payments from irrecoverable operating leases disclosed in accordance with IAS 17 as at 31 December 2018, and the lease liabilities recognized as at 1 January 2019 in accordance with IFRS 16 is shown in the table below:

Operating lease liabilities as at 31.12.2018 (without discount)	592
Future payments in respect of rights of perpetual usufruct	370
Operating lease liabilities, including future payments in respect of rights of perpetual usufruct, as at	962
Short-term lease agreements	(5)
Effect of discount using the incremental interest rate	(299)
Adjustment for the difference in recognition of lease agreement extension/termination option	227
Financial liabilities in respect of leases as at 01.01.2019	885

The impact of the implementation of IFRS 16 on the recognition of additional financial liabilities and the corresponding right-of-use of assets is shown below:

Impact on the statement of financial position	31.12.2018 under IAS 17	Right of perpetual usufruct of land written off	Effect of recognizing lease agreements (with discount)		Total effect of recognizing lease agreements (with discount)	01.01.2019 under IFRS 16
			in respect of rights of perpetual usufruct	in respect of operating leases		
ASSETS						
Property, plant and equipment, including:	2 082	(111)	124	765	889	2 860
right of perpetual usufruct of assets	X	-	124	765	889	889
land and buildings	1 383	(111)	-	-	-	1 272
Other assets, including:	2 318	-	-	(4)	(4)	2 314
prepayments and deferred costs	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 implementing IFRS 16, in 2019, administrative expenses were not charged with net lease instalments of PLN 202 million. The costs of lease instalments in the amount of PLN 195 million were allocated to depreciation and costs of PLN 20 million to interest expenses.

(IN PLN MILLION)

FINANCIAL INFORMATION:

LESSEE - LEASE AMOUNTS RECOGNIZED IN THE INCOME STATEMENT	2019
Amortyzacja aktywów z tytułu prawa do użytkowania	(195)
Interest expense on lease liabilities	(20)
Costs related to short-term lease agreements	(10)
Costs related to lease agreements in respect of low-value assets, which are not short-term agreements, non-deductible VAT expenses and costs of service charges	(70)
Total	(295)

LESSEE - AGGREGATE CASH OUTFLOW IN RESPECT OF LEASES	2019
Aggregate cash outflow in respect of leases	202

RIGHT-OF-USE ASSETS	31.12.2019
Property, plant and equipment	**812**
Land and buildings	784
Other, including:	28
investment properties	28
Non-current assets held for sale	**1**
Land and buildings	1
Total	**813**

OTHER LIABILITIES	31.12.2019
Lease liabilities	**819**

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

ACCOUNTING POLICIES

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

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

FINANCIAL INFORMATION

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

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

(IN PLN MILLION)

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

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

- **CONTRACTUAL COMMITMENTS**

VALUE OF CONTRACTUAL COMMITMENTS CONCERNING:	31.12.2019	31.12.2018
intangible assets	24	39
property, plant and equipment	24	29
Total	**48**	**68**

FINANCIAL LIABILITIES AND GUARANTEES GRANTED

FINANCIAL LIABILITIES AND GUARANTEE COMMITMENTS GRANTED AS AT 31.12.2019	Commitments granted at the nominal value	Provisions for commitments granted under IFRS 9	Net financial liabilities and guarantee commitments
Financial liabilities granted:			
Credit lines and limits	53 775	(194)	53 581
housing	5 077	(30)	5 047
corporate	39 000	(118)	38 882
consumer	9 698	(46)	9 652
Other	4 008	(13)	3 995
Total	**57 783**	**(207)**	**57 576**
of which irrevocable loan commitments	27 794	(87)	27 707
Guarantees and pledges granted			
Guarantees granted in domestic and foreign trading	12 839	(57)	12 782
to financial entities	3 337	-	3 337
to non-financial entities	9 343	(57)	9 286
to public entities	159	-	159
Guarantees and pledges granted – domestic corporate bonds	2 036	(1)	2 035
to financial entities	2 000	(1)	1 999
to non-financial entities	36	-	36
Letters of credit issued	1 201	(3)	1 198
to non-financial entities	1 201	(3)	1 198
Guarantees and pledges granted – payment guarantee to financial entities	125	-	125
Guarantees and pledges granted - domestic municipal bonds	101	-	101
Total	**16 302**	**(61)**	**16 241**
of which irrevocable loan commitments	12 941	(57)	12 884
of which performance guarantees granted	2 560	(14)	2 546
Total	**74 085**	**(268)**	**73 817**

(IN PLN MILLION)

FINANCIAL LIABILITIES AND GUARANTEE COMMITMENTS GRANTED AS AT 31.12.2018	Commitments granted at the nominal value	Provisions for commitments granted under IFRS 9	Net financial liabilities and guarantee commitments
Financial liabilities 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 pledges granted – payment guarantee to 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
Total	**64 757**	**(227)**	**64 530**

- **LIABILITIES GRANTED BY MATURITY**

COMMITMENTS GRANTED BY MATURITY 31.12.2019	up to 1 month inclusive	1 to 3 months inclusive	3 months to 1 year inclusive	1 to 5 years inclusive	over 5 years	Total
Liabilities granted at the nominal value						
liabilities granted - financing	13 944	5 844	15 141	14 121	8 733	57 783
liabilities granted - guarantees and pledges	159	1 651	5 161	7 133	2 198	16 302
Total	14 103	7 495	20 302	21 254	10 931	74 085

COMMITMENTS GRANTED BY MATURITY 31.12.2018	up to 1 month inclusive	1 to 3 months inclusive	3 months to 1 year inclusive	1 to 5 years inclusive	over 5 years	Total
Liabilities granted at the nominal value						
Liabilities granted - financing	11 227	3 704	12 939	13 170	9 058	50 098
liabilities granted - guarantees and pledges	289	897	4 820	6 561	2 092	14 659
Total	11 516	4 601	17 759	19 731	11 150	64 757

(IN PLN MILLION)

FINANCIAL LIABILITIES AND GUARANTEE COMMITMENTS GRANTED AS AT 31.12.2019	Nominal value of liabilities (stage 1)	Provision for expected credit losses (stage 1)	Nominal value of liabilities (stage 2)	Provision for expected credit losses (stage 2)	Nominal value of liabilities (stage 3)	Provision for expected credit losses (stage 3)	Total nominal amount	Total allowances	Total, net
Financial liabilities granted:									
Credit lines and limits	50 781	(89)	2 811	(77)	183	(28)	53 775	(194)	53 581
Other	4 005	(13)	3	-	-	-	4 008	(13)	3 995
Total	**54 786**	**(102)**	**2 814**	**(77)**	**183**	**(28)**	57 783	(207)	57 576
Guarantees and pledges granted							-	-	-
Guarantees granted in domestic and foreign trading	12 047	(6)	501	(11)	291	(40)	12 839	(57)	12 782
Guarantees and pledges granted – domestic corporate bonds	2 036	(1)	-	-	-	-	2 036	(1)	2 035
Letters of credit issued	1 188	(1)	-	-	13	(2)	1 201	(3)	1 198
Guarantees and pledges granted – payment guarantee to financial entities	125	-	-	-	-	-	125	-	125
Guarantees and pledges granted - domestic municipal bonds	101	-	-	-	-	-	101	-	101
Total	**15 497**	**(8)**	**501**	**(11)**	**304**	**(42)**	16 302	(61)	16 241

FINANCIAL LIABILITIES AND GUARANTEE COMMITMENTS GRANTED AS AT 31.12.2018	Nominal value of liabilities (stage 1)	Provision for expected credit losses (stage 1)	Nominal value of liabilities (stage 2)	Provision for expected credit losses (stage 2)	Nominal value of liabilities (stage 3)	Provision for expected credit losses (stage 3)	Total nominal amount	Total allowances	Total, net
Financial liabilities granted:									
Credit lines and limits	42 871	(73)	3 024	(77)	193	(14)	46 088	(164)	45 924
Other	4 010	(11)	-	-	-	-	4 010	(11)	3 999
Total	**46 881**	**(84)**	**3 024**	**(77)**	**193**	**(14)**	50 098	(175)	49 923
Guarantees and pledges granted									
Guarantees granted in domestic and foreign trading	8 538	(10)	235	(9)	146	(27)	8 919	(46)	8 873
Guarantees and pledges granted – domestic corporate bonds	3 967	(4)	-	-	-	-	3 967	(4)	3 963
Letters of credit issued	1 216	(1)	-	-	1	(1)	1 217	(2)	1 215
Guarantees and pledges granted – payment guarantee to financial entities	368	-	-	-	-	-	368	-	368
Guarantees and pledges granted - domestic municipal bonds	188	-	-	-	-	-	188	-	188
Total	**14 277**	**(15)**	**235**	**(9)**	**147**	**(28)**	14 659	(52)	14 607

(IN PLN MILLION)

FINANCIAL LIABILITIES AND GUARANTEE COMMITMENTS GRANTED - MOVEMENTS BETWEEN IMPAIRMENT STAGES 31.12.2019	Gross amount							
	AMOUNTS NOT TRANSFERABLE	Movement from stage 1 to stage 2		Movement from stage 2 to stage 3		Movement from stage 1 to 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	
Financial liabilities granted:								
Credit lines and limits	51 796	1 044	850	20	3	60	2	53 775
Other	4 008	-	-	-	-	-	-	4 008
Total	55 804	1 044	850	20	3	60	2	57 783
Guarantees and pledges granted								
Guarantees granted in domestic and foreign trading	12 368	309	21	3	-	138	-	12 839
Guarantees and pledges granted – domestic corporate bonds	2 036	-	-	-	-	-	-	2 036
Letters of credit issued	1 201	-	-	-	-	-	-	1 201
Guarantees and pledges granted – payment guarantee to financial entities	125	-	-	-	-	-	-	125
Guarantees and pledges granted - domestic municipal bonds	101	-	-	-	-	-	-	101
Total	**15 831**	**309**	**21**	**3**	**-**	**138**	**-**	**16 302**

FINANCIAL LIABILITIES AND GUARANTEE COMMITMENTS GRANTED - MOVEMENTS BETWEEN IMPAIRMENT STAGES 31.12.2019	Amount of provisions							
	AMOUNTS NOT TRANSFERABLE	Movement from stage 1 to stage 2		Movement from stage 2 to stage 3		Movement from stage 1 to 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	
Financial liabilities granted:								
Credit lines and limits	(144)	(29)	(1)	(4)	-	(16)	-	(194)
Other	(13)	-	-	-	-	-	-	(13)
Total	(157)	(29)	(1)	(4)	-	(16)	-	(207)
Guarantees and pledges granted								
Guarantees granted in domestic and foreign trading	(30)	(3)	-	-	-	(24)	-	(57)
Guarantees and pledges granted – domestic corporate bonds	(1)	-	-	-	-	-	-	(1)
Letters of credit issued	(3)	-	-	-	-	-	-	(3)
Total	**(34)**	**(3)**	**-**	**-**	**-**	**(24)**	**-**	**(61)**

(IN PLN MILLION)

FINANCIAL LIABILITIES AND GUARANTEE COMMITMENTS GRANTED - MOVEMENTS BETWEEN IMPAIRMENT STAGES 31.12.2018	Gross amount							
	AMOUNTS NOT TRANSFERABLE	Movement from stage 1 to stage 2		Movement from stage 2 to stage 3		Movement from stage 1 to 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	
Financial liabilities granted:								
Credit lines and limits	43 612	1 819	585	6	4	60	2	46 088
Other	4 010	-	-	-	-	-	-	4 010
Total	47 622	1 819	585	6	4	60	2	50 098
Guarantees and pledges granted								
Guarantees granted in domestic and foreign trading	8 545	180	163	3	-	28	-	8 919
Guarantees and pledges granted – domestic corporate bonds	3 967	-	-	-	-	-	-	3 967
Letters of credit issued	1 215	-	1	1	-	-	-	1 217
Guarantees and pledges granted – payment guarantee to financial entities	368	-	-	-	-	-	-	368
Guarantees and pledges granted - domestic municipal bonds	188	-	-	-	-	-	-	188
Total	14 283	180	164	4	-	28	-	14 659

FINANCIAL LIABILITIES AND GUARANTEE COMMITMENTS GRANTED - MOVEMENTS BETWEEN IMPAIRMENT STAGES 31.12.2018	Amount of provisions							
	AMOUNTS NOT TRANSFERABLE	Movement from stage 1 to stage 2		Movement from stage 2 to stage 3		Movement from stage 1 to 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	
Financial liabilities granted:								
Credit lines and limits	(98)	(59)	(4)	-	-	(3)	-	(164)
Other	(11)	-	-	-	-	-	-	(11)
Total	(109)	(59)	(4)	-	-	(3)	-	(175)
Guarantees and pledges granted								
Guarantees granted in domestic and foreign trading	(34)	(7)	-	-	-	(5)	-	(46)
Guarantees and pledges granted – domestic corporate bonds	(4)	-	-	-	-	-	-	(4)
Letters of credit issued	(2)	-	-	-	-	-	-	(2)
Total	(40)	(7)	-	-	-	(5)	-	(52)

(IN PLN MILLION)

- **OFF-BALANCE SHEET LIABILITIES RECEIVED**

OFF-BALANCE SHEET LIABILITIES RECEIVED BY NOMINAL VALUE	31.12.2019	31.12.2018
Financial	119	90
Guarantee-related	2 350	1 663
Total	**2 469**	**1 753**

The increase in off-balance sheet liabilities received as guarantees compared to 31 December 2018 was caused mainly by an increase in the limit for guarantees under the de minimis guarantee line portfolio agreement.

- **RIGHT TO SELL OR PLEDGE COLLATERAL ESTABLISHED FOR THE BANK**

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

42. LEGAL CLAIMS

As at 31 December 2019, the total value of court proceedings in which the Bank is a defendant was PLN 1 158 million (as at 31 December 2018 it amounted to PLN 1 711 million), while the total value of court proceedings in which the Bank is the plaintiff as at 31 December 2019 was PLN 2 327 million (as at 31 December 2018 it amounted to PLN 1 636 million).

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

LITIGATION AGAINST THE BANK RELATING TO FOREIGN CURRENCY LOANS GRANTED

As at 31 December 2019, 1645 court proceedings relating to foreign currency mortgage loans granted in previous years were pending against the Bank (870 court proceedings as at 31 December 2018) with a total disputed amount of PLN 392 million (PLN 210 million as at 31 December 2018), including two group proceedings regarding 75 loan agreements in the first, and 8 loan agreements in the second proceeding. The court proceedings were initiated against the Bank by its customers in connection with foreign currency loan mortgage agreements concluded. The Bank's customers' claims concerned mainly demands to determine the invalidity of all or part of the agreements or to receive refunds of allegedly undue benefits in connection with the abusive nature of the foreign currency clauses. None of the clauses used by the Bank in the agreements was entered in the register of prohibited contractual provisions. As at 31 December 2019 the provision for these proceedings is PLN 141 million and it offsets the gross carrying amount of mortgage loans. Taking a prudent approach to the protection against the legal risk relating to the court cases which were pending as at 31 December 2019, the Bank set up a provision for these pending litigations of PLN 141 million, which reduced the gross carrying amount of mortgage loans.

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

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

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

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

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

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

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

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

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

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

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

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

- Proceedings initiated ex officio on 28 June 2017 on the acknowledgement that the provisions of the template contract are inadmissible. The breach, of which the Bank is being accused, involves the use of contractual provisions in template mortgage loan agreements which are revalued/indexed/denominated in foreign currencies and their appendices, presenting the method of setting the foreign currency buy and sell rates, which, according to the President of the UOKiK, may be considered inadmissible in the light of Article 385 § 1 of the Civil Code. In the opinion of the UOKiK President, a part of the provisions included in the appendix to the annexe is imprecise, and the manner of determining exchange rates on this basis depends on factors randomly adopted by the Bank. In the opinion of the UOKiK President, such wording of the provisions may lead to the inability of consumers to verify whether the Bank accurately estimated the exchange rate at which it translates loan/mortgage loan instalments. In its letter dated 9 August 2017 the Bank presented its position on the charges formulated by the UOKiK President. On 31 July 2018 the Bank filed a motion for the issuance of a consent decree. In his letter dated 20 September 2019 the President of UOKiK extended the term to the conclusion of the proceedings until 31 December 2019. On 23 December 2019 the Bank submitted a letter in which it informed about its will to close the proceedings by issuance of a consent decree and asked for a meeting with the representatives of UOKiK to discuss the Bank's position concerning the obligations. As at 31 December 2019 the President of UOKiK did not undertake any further steps in this matter. As at 31 December 2019 the Bank did not set up a provision for the proceedings.
- Proceedings initiated on 26 July 2017 ex officio concerning using practices which violate the collective interests of customers. The violation with which the Bank has been charged consists of collecting higher instalments on loans and advances denominated in foreign currencies to customers than those following from the advice about interest rate risk provided to customers before they had concluded the contracts, and transferring possible currency risk to the customers. The Bank presented its position on the claims in its letter dated 23 September 2017. In its letter of 14 March 2019, the President of UOKiK requested that the Bank present answers to 16 detailed questions in order to determine the circumstances necessary to settle the case. The Bank provided answers in a letter dated 10 May 2019. As at 31 December 2019 the President of UOKiK did not undertake any further steps in this matter. As at 31 December 2019 the Bank did not set up a provision for the proceedings.
- Proceedings initiated ex officio on 12 March 2019 on the acknowledgement that the provisions of the template contract are inadmissible. The proceedings are related to modification clauses which specify the circumstances in which the Bank is entitled to amend the terms and conditions of the agreement, including the amount of fees and commission. In the opinion of the President of UOKiK the modification clauses applied by the Bank give the Bank unilateral unlimited and arbitrary possibilities of modifying the execution of the agreement. Consequently, the President of UOKiK is of the opinion that the clauses applied by the Bank shape the rights and obligations of the consumers in a way that is contrary to good practice and are a gross violation of their interests, which justifies the conclusion that they are abusive. In its letter of 31 May 2019, the Bank presented its position on the charges made by the President of UOKiK. By a letter dated 12 August 2019, the President of UOKiK, extended the deadline for the closure of the proceeding to 31 December 2019, and then by a letter dated 19 December 2019 - to 30 April 2020. As at 31 December 2019 the Bank did not set up a provision for the proceedings.

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

The Bank is party to proceedings initiated by the President of the Competition and Consumer Protection Office (Urząd Ochrony Konkurencji i Konsumentów - UOKiK) on the basis of a decision dated 23 April 2001 upon the request of the Polish Trade and Distribution Organization Employers Association (Polska Organizacja Handlu i Dystrybucji - Związek Pracodawców - POHiD) against operators of the Visa and Europay payment systems and banks issuing Visa and Europay/ Eurocard/ Mastercard banking cards.

The claims under these proceedings relate to the use of practices limiting competition on the market of banking card payments in Poland, consisting of applying pre-agreed "interchange" fees for transactions made using the above cards as well as limiting access to this market for external entities. On 29 December 2006, UOKiK decided that the practices, consisting of joint determination of the "interchange" fee, did limit market competition and ordered that any such practices should be discontinued, and imposed a fine on, among others, the Bank, in the amount of PLN 16.6 million. The Bank appealed against the decision of the President of UOKiK to CCCP (Court for Competition and Consumer Protection / Sąd Ochrony Konkurencji i Konsumentów - SOKiK). By judgement of 21 November 2013 SOKiK reduced the penalty imposed on the Bank to PLN 10.4 million. The parties to the proceedings appealed against the judgment. In its judgment of 6 October 2015, the Court of Appeal in Warsaw restored the original amount of the imposed penalties stipulated in the decision of the UOKiK, i.e. a fine amounting to PLN 16.6 million (fine imposed on PKO Bank Polski SA) and a fine amounting to PLN 4.8 million (fine imposed on Nordea Bank Polska SA; PKO Bank Polski SA is the legal successor of Nordea Bank Polska S.A. through a merger pursuant to Art. 492 § 1 point 1 of the Commercial Companies Code). The fine was paid by the Bank in October 2015. As a result of the cassation complaint made by the Bank, in its judgment dated 25 October 2017, the Supreme Court revoked the appealed judgment of the Court of Appeal in Warsaw and submitted the case for re-examination. The fine paid by the Bank was reimbursed to the Bank on 21 March 2018. Currently, the case is being examined by the Court of Appeal in Warsaw. After two hearings, the Court of Appeal adjourned the trial without setting a date. As at 31 December 2019 the Bank maintained a provision for this litigation of PLN 21 million.

CLAIMS FOR DAMAGES IN RESPECT OF THE INTERCHANGE FEE

The Bank was served three summons to participate, as an intervening party on the respondent's side, in cases relating to the interchange fees. Other banks are respondents in the case. The claims vis-à-vis the sued banks amount to almost PLN 146 million and are pursued as damages for differences in interchange fees resulting from applying practices that limit competition. If the courts find the claims justified, the respondents may claim recourse in separate court proceedings from other banks, including, among others, from PKO Bank Polski SA. The Bank entered the proceedings as a side intervener.

REPRIVATISATION CLAIMS RELATING TO PROPERTIES USED BY THE BANK

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

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

(IN PLN MILLION)

43. NOTES TO THE CASH FLOW STATEMENT

• CASH AND CASH EQUIVALENTS

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

CASH AND CASH EQUIVALENTS	31.12.2019	31.12.2018
Cash and balances with the Central Bank	14 602	22 862
Current amounts due from banks	3 379	7 152
Restricted cash and cash equivalents	12	10
Total	**17 993**	**30 024**

• RESTRICTED CASH AND CASH EQUIVALENTS

Cash and cash equivalents of PLN 12 million (as at 31 December 2018: PLN 10 million) pledged as collateral for securities' transactions conducted by Biuro Maklerskie PKO BP are deposited in the National Depository for Securities (KDPW_CCP), as part of the Guarantee Fund for the Settlement of Stock Exchange Transactions. Each direct participant who holds the status of 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.

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

INTEREST INCOME - RECEIVED FROM:	2019	2018
loans and advances to banks	183	106
hedging derivatives	418	524
debt securities:	1 450	1 108
loans and advances to customers	7 941	7 405
Total	**9 992**	**9 143**

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

INTEREST EXPENSES - PAID:	2019	2018
amounts due to banks	(31)	(42)
amounts due to customers	(1 860)	(1 653)
lease	(20)	-
debt securities	(91)	(50)
debt securities in issue	(40)	(41)
subordinated liabilities	(90)	(74)
Total	**(2 132)**	**(1 860)**

DIVIDEND INCOME - RECEIVED	2019	2018
from subsidiaries, associates and joint ventures	511	279
on financial assets held for trading	1	1
financial instruments not held for trading, measured at fair value through profit or loss	13	11
Total	**525**	291

(IN PLN MILLION)

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

OTHER ADJUSTMENTS	2019	2018
Cash flow hedges	113	70
Actuarial gains and losses	(5)	(1)
Measurement of shares in subsidiaries, associates and joint ventures, and other changes	-	107
Scrapping of property, plant and equipment and intangible assets and other	16	(45)
Total	**124**	131

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

(GAIN)/LOSS ON INVESTING ACTIVITIES RELATING TO SALE OR SCRAPPING OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS	2019	2018
Gains on sale or scrapping of property, plant and equipment, intangible assets and assets held for sale	(17)	(30)
Losses on sale or scrapping of property, plant and equipment, intangible assets and assets held for sale	3	10
Total	**(14)**	(20)

INTEREST AND DIVIDENDS	2019	2018
Shown in investment activities:	(1 924)	(1 306)
dividends received from subsidiaries, associates and joint ventures	(511)	(279)
dividends received on financial assets held for trading	(1)	(1)
dividends received on financial instruments not held for trading, mandatorily measured at fair value through profit or loss	(13)	(11)
interest received on securities measured at fair value through other comprehensive income	(1 150)	(974)
interest received on securities measured at amortized cost	(249)	(41)
Shown in financial activities:	387	348
interest paid on debt securities in issue	40	41
interest paid on subordinated loan	90	74
interest paid on loans and advances received	257	233
Total	**(1 537)**	**(958)**

CHANGES IN AMOUNTS DUE FROM BANKS	2019	2018
Change in the balance sheet	3 260	(2 446)
Changes in allowances for expected credit losses	-	(2)
Exclusion of the change in cash and cash equivalents	(3 773)	2 387
Total	**(513)**	**(61)**

(IN PLN MILLION)

CHANGE IN THE BALANCE OF SECURITIES	2019	2018
Change in the balance sheet	(15 983)	(9 927)
Changes due to IFRS 9 implementation	-	4 438
Changes in allowances for expected credit losses	10	(4)
Fair value of financial assets measured at fair value through other comprehensive income (net)	(117)	369
Recognition of acquisition / sale of securities measured at fair value through other comprehensive income in investment activities	9 208	3 488
Recognition of acquisition / sale of securities measured at amortized cost in investment activities	4 691	2 182
Total	**(2 191)**	**546**

CHANGE IN LOANS AND ADVANCES TO CUSTOMERS	2019	2018
Change in the balance sheet	(10 520)	(4 683)
Changes due to IFRS 9 implementation	-	(5 229)
Changes in allowances for expected credit losses	1 068	2 532
Exclusion of the change in cash and cash equivalents	2	(1)
Total	**(9 450)**	**(7 381)**

CHANGE IN NON-CURRENT ASSETS HELD FOR SALE	2019	2018
Change in the balance sheet	(1)	351
Reclassification to investments in subsidiaries	-	(318)
Sale of shares in a subsidiary classified as non-current assets held for sale	-	(10)
Changes in allowances for non current assets held for sale	(1)	262
Total	**(2)**	**285**

CHANGE IN OTHER ASSETS	2019	2018
Change in the balance sheet	294	(396)
Changes due to MSSF16 implementation	(4)	-
Increase in equity of a subsidiary	(100)	100
Changes in allowances for other assets	(1)	(1)
Total	**189**	**(297)**

CHANGE IN AMOUNTS DUE TO BANKS	2019	2018
Change in the balance sheet	378	(2 708)
Drawing / repayment of long-term loans and advances from banks under financing activities, including interest	-	2 603
Total	**378**	**(105)**

(IN PLN MILLION)

CHANGE IN AMOUNTS DUE TO CUSTOMERS	2019	2018
Change in the balance sheet	12 802	22 689
Drawing / repayment of long-term loans and advances from financial institutions other than banks under financing activities, including interest	3 763	(485)
Total	**16 565**	**22 204**

CHANGE IN LIABILITIES IN RESPECT OF DEBT SECURITIES IN ISSUE	2019	2018
Change in the balance sheet	(598)	163
Drawing / repayment of liabilities in respect of debt securities in issue under financing activities, including interest	619	45
Total	**21**	**208**

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

CHANGE IN OTHER LIABILITIES	2019	2018
Change in the balance sheet	1 555	(1 403)
Changes due to IFRS 16 implementation	(885)	-
Recognition of lease payments in financing activities	202	-
Total	**872**	**(1 403)**

CHANGE IN ACCUMULATED ALLOWANCES FOR EXPECTED CREDIT LOSSES AND IMPAIRMENT ALLOWANCES ON NON-FINANCIAL AND OTHER ASSETS	2019	2018
Change in accumulated allowances and provisions for expected credit losses	(1 042)	(2 458)
for amounts due from banks	-	2
for loans and advances to customers	(1 068)	(2 532)
for securities	(10)	4
for other financial assets	(5)	(4)
provisions for financial liabilities and guarantees granted	41	72
Change in accumulated allowances for non-financial assets and other provisions	103	(85)
for non-current assets held for sale	1	(262)
for property, plant and equipment	7	6
for intangible assets	(2)	10
for investments in subsidiaries, associates and joint ventures	-	66
for other non-financial non assets	6	5
other provisions	91	90
Total	**(939)**	**(2 543)**

(IN PLN MILLION)

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

	Note	31.12.2018	Recognized in financing activities in the cash flow statement		Recognized in operating activities in the cash flow statement	31.12.2019
			Incurred	Repaid	Other changes, including foreign	
Loans and advances received		8 839	-	(3 763)	(50)	5 026
from customers	29	8 839	-	(3 763)	(50)	5 026
Debt securities in issue	31	5 367	596	(1 215)	21	4 769
Subordinated liabilities - subordinated bonds	32	2 731	-	-	(1)	2 730
Payment of lease liabilities	40	-	-	(202)	-	(202)
Total		16 937	596	(5 180)	(30)	12 323

	Note	31.12.2017	Recognized in financing activities in the cash flow statement		Recognized in operating activities in the cash flow statement	31.12.2018
			Incurred	Repaid	Other changes, including foreign exchange differences	
Loans and borrowings received		10 478	646	(2 763)	478	8 839
from banks	28	2 596	-	(2 602)	6	-
from customers	29	7 882	646	(161)	472	8 839
Debt securities in issue	31	5 204	1 255	(1 300)	208	5 367
Subordinated liabilities - subordinated bonds	32	1 720	1 000	-	11	2 731
Total		17 402	2 901	(4 063)	697	16 937

44. TRANSACTIONS WITH THE STATE TREASURY AND RELATED PARTIES

- **TRANSACTIONS WITH THE STATE TREASURY**

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

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

INCOME DUE TO TEMPORARY REDEMPTION BY THE STATE TREASURY OF INTEREST ON HOUSING LOANS FROM THE "OLD" PORTFOLIO	2019	2018
Income recognized on the accruals basis	93	383
Income received on a cash basis	75	361
Difference – "Loans and advances to customers"	18	22

As of 1 January 2018 based on the provisions of the Act of 30 November 1995 on state support in the repayment of certain housing loans, and reimbursement of guarantee bonuses paid, the borrowers acquired the right to be forgiven the remaining debt by the State Treasury, which will result in gradual (until 2026) full settlement of the housing loan indebtedness from the so-called "old" portfolio. The Bank conducts settlements related to the partial purchase of interest on housing loans by the State Treasury and in 2019 it received commission of PLN xxx million, and in 2018 of PLN 1 million in this respect.

As of 1 January 1996 the Bank has been the general distributor of revenue stamps, and in this respect it receives commission from the State Budget - in 2019 the Bank received commission of PLN xxx million in this respect, and in 2018 it received PLN 1 million.

(IN PLN MILLION)

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

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

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

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

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

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

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

Transactions between the Bank as the parent and its subsidiaries, associates and joint ventures are presented in the table below. All the transactions with subsidiaries, joint ventures and associates referred to below were concluded on an arm's length basis. Repayment terms are within a range from one month to fifteen years.

AS AT 31 DECEMBER 2019 / ENTITY	Receivables	of which loans	Liabilities	Off-balance sheet liabilities granted
KREDOBANK SA and its subsidiary	82	-	16	115
Merkury - fiz an and its subsidiaries	-	-	36	-
NEPTUN - fizan and its subsidiaries	148	148	62	-
PKO Bank Hipoteczny SA	4 681	2 282	174	4 231
PKO BP BANKOWY PTE SA	-	-	21	-
PKO BP Finat sp. z o.o.	-	-	38	13
PKO Finance AB	-	-	4 331	-
PKO Leasing SA and its subsidiaries	17 172	17 172	9	5 541
PKO Towarzystwo Funduszy Inwestycyjnych SA	38	-	245	-
PKO Towarzystwo Ubezpieczeń SA	-	-	45	-
PKO Życie Towarzystwo Ubezpieczeń SA	-	-	501	-
Qualia Development sp. z o.o. and its subsidiaries	-	-	20	-
ZenCard sp. z o.o.	4	4	1	-
Total subsidiaries	**22 125**	**19 606**	**5 479**	**9 900**

(IN PLN MILLION)

AS AT 31 DECEMBER 2019 / ENTITY	Receivables	of which loans	Liabilities	Off-balance sheet liabilities granted
Centrum Elektronicznych Usług Płatniczych eService sp. z o.o.	80	26	43	32
„Centrum Obsługi Biznesu" sp. z o.o.	19	19	6	
Bank Pocztowy SA	-	-	-	1
„Poznański Fundusz Poręczeń Kredytowych" sp. z o.o.	-	-	1	-
Operator Chmury Krajowej sp. z o.o.	-	-	59	769
Total joint ventures and associates	**99**	**45**	**109**	**802**

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 YEAR ENDED 31 DECEMBER 2019 / ENTITY	Total income	of which interest and commission income	Total expense	of which interest and commission income
KREDOBANK SA and its subsidiary	2	2	-	-
NEPTUN - fizan and its subsidiaries	2	2	-	-
PKO Bank Hipoteczny SA	383	364	2	2
PKO BP BANKOWY PTE SA	14	1	-	-
PKO BP Finat sp. z o.o.	39	-	6	1
PKO Finance AB	-	-	192	192
PKO Leasing SA and its subsidiaries	530	369	-	-
PKO Towarzystwo Funduszy Inwestycyjnych SA	253	9	3	3
PKO Towarzystwo Ubezpieczeń SA	73	73	-	-
PKO Życie Towarzystwo Ubezpieczeń SA	70	46	11	11
Qualia Development sp. z o.o. and its subsidiaries	-	-	1	1
Operator Chmury Krajowej sp. z o.o.	1	1	-	-
Total subsidiaries	**1 367**	**867**	**215**	**210**

FOR THE YEAR ENDED 31 DECEMBER 2019 / ENTITY	Total income	of which interest and commission income	Total expense	of which interest and commission income
Centrum Elektronicznych Usług Płatniczych eService sp. z o.o.	508	468	125	125
„Centrum Obsługi Biznesu" sp z o.o.	1	1	-	-
Operator Chmury Krajowej sp. z o.o.	-	-	9	-
Total joint ventures and associates	**509**	**469**	**134**	**125**

(IN PLN MILLION)

FOR THE YEAR ENDED 31 December 2018 / ENTITY	Total income	of which interest and commission income	Total expense	of which interest and commission income
KREDOBANK SA and its subsidiary	2	2	-	-
NEPTUN - fizan and its subsidiaries	3	3	1	-
PKO Bank Hipoteczny SA	339	322	5	5
PKO BP BANKOWY PTE SA	9	-	-	-
PKO BP Finat sp. z o.o.	67	1	5	1
PKO Finance AB	-	-	286	286
PKO Leasing SA and its subsidiaries	360	292	17	-
PKO Towarzystwo Funduszy Inwestycyjnych SA	268	110	2	2
PKO Towarzystwo Ubezpieczeń SA	75	75	-	-
PKO Życie Towarzystwo Ubezpieczeń SA	47	47	11	11
Qualia Development sp. z o.o. and its subsidiaries	-	-	2	2
Total subsidiaries	**1 170**	**852**	**329**	**307**

FOR THE YEAR ENDED 31 December 2018 / ENTITY	Total income	of which interest and commission income	Total expense	of which interest and commission income
Centrum Elektronicznych Usług Płatniczych eService sp. z o.o.	463	457	137	137
„Centrum Obsługi Biznesu" sp z o.o.	1	1	-	-
Total joint ventures and associates	**464**	**458**	**137**	**137**

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

As at 31 December 2019, six entities were related to the Bank through the key management personnel of PKO Bank Polski SA or close family members of the key management personnel. As at 31 December 2018 it was six entities. In 2019 and in 2018, no transactions were conducted between the Bank and those entities.

45. BENEFITS FOR THE PKO BANK POLSKI SA KEY MANAGEMENT

ACCOUNTING POLICIES

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

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

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

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

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

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

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

FINANCIAL INFORMATION (IN PLN THOUSAND)

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

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

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

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

- VARIABLE REMUNERATION COMPONENTS

PROVISION FOR VARIABLE REMUNERATION COMPONENTS	31.12.2019 (for 2014-2019)	31.12.2018 (for 2013-2018)
Management Board of the Bank (including members who ceased to perform their functions)	18	22
Other Risk Takers (persons holding managerial positions other than members of the Bank's Management Board)	39	37
Total provision	**57**	**59**
Remuneration paid during the year	2019 (for 2014-2019)	2018 (for 2013-2018)
- granted in cash	**15**	**10**
Management Board of the Bank (including members who ceased to perform their functions)	6	1
Other Risk Takers (persons holding managerial positions other than members of the Bank's Management Board)	9	9
- granted in the form of financial instruments	**14**	**14**
Management Board of the Bank (including members who ceased to perform their functions)	4	4
Other Risk Takers (persons holding managerial positions other than members of the Bank's Management Board)	10	10
Total remuneration paid	**29**	**24**

46. FAIR VALUE HIERARCHY

ACCOUNTING POLICIES, AND ESTIMATES AND JUDGEMENTS

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

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

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

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

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

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

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

CORPORATE BONDS	Yield curve and risk margin model.	Yield curves are built based on market rates, money market data, IRS transactions market.
COMMODITY SWAP TRANSACTIONS	Commodity price yield curve.	Commodity price yield curves are built based on money market data, market rate SWAP points.

- **LEVEL 3: OTHER VALUATION TECHNIQUES**

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

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

(IN PLN MILLION)

FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME		
CORPORATE BONDS	Yield curve and risk margin model. Yield curves are built based on market rates, money market data and IRS transactions market.	Credit spread (credit margins determined on the basis of initial margins modified by credit indices quotes ascribed to issuers based on their ratings and business sectors)
LOANS AND ADVANCES TO CUSTOMERS	Discounted cash flow method	Effective margin on loans

FINANCIAL INFORMATION

ASSETS MEASURED AT FAIR VALUE 31.12.2019	Carrying amount	Level 1 Prices quoted on active markets	Level 2 Measurement techniques based on observable market data	Level 3 Other measurement techniques
Derivative hedging instruments	594	-	594	-
Other derivative instruments	2 798	1	2 797	-
Securities	63 060	54 008	6 232	2 820
held for trading	1 175	1 175	-	-
debt securities	1 158	1 158	-	-
shares in other entities - listed	15	15	-	-
investment certificates, rights to shares, pre-emptive rights	2	2	-	-
not held for trading, measured at fair value through profit or loss	755	142	-	613
debt securities	298	118	-	180
shares in other entities - listed	24	24	-	-
shares in other entities – not listed	433	-	-	433
measured at fair value through OCI	61 130	52 691	6 232	2 207
debt securities	61 130	52 691	6 232	2 207
Loans and advances to customers	17 909	-	-	17 909
not held for trading, measured at fair value through profit or loss	8 286	-	-	8 286
housing loans	15	-	-	15
corporate loans	148	-	-	148
consumer loans	8 123	-	-	8 123
measured at fair value through OCI	9 623	-	-	9 623
housing loans	9 623	-	-	9 623
Total financial assets measured at fair value	**84 361**	**54 009**	**9 623**	**20 729**

LIABILITIES MEASURED AT FAIR VALUE 31.12.2019	Carrying amount	Level 1 Prices quoted on active markets	Level 2 Measurement techniques based on observable market data	Level 3 Other measurement techniques
Derivative hedging instruments	668	-	668	-
Other derivative instruments	2 927	-	2 927	-
Short position in securities	362	362	-	-
Total financial liabilities measured at fair value	**3 957**	**362**	**3 595**	-

(IN PLN MILLION)

ASSETS MEASURED AT FAIR VALUE 31.12.2018	Carrying amount	Level 1 Prices quoted on active markets	Level 2 Measurement techniques based on observable market data	Level 3 Other measurement techniques
Derivative hedging instruments	592	-	592	-
Other derivative instruments	1 909	3	1 906	-
Securities	52 124	40 373	9 744	2 007
held for trading	282	282	-	-
debt securities	264	264	-	-
shares in other entities - listed	13	13	-	-
investment certificates, rights to shares, pre-emptive rights	5	5	-	-
not held for trading, measured at fair value through profit or loss	1 280	862	38	380
debt securities	972	820	37	115
shares in other entities - listed	42	42	-	-
shares in other entities – not listed	266	-	1	265
measured at fair value through OCI	50 562	39 229	9 706	1 627
debt securities	50 562	39 229	9 706	1 627
Loans and advances to customers	9 602	-	-	9 602
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
measured at fair value through OCI	8 496	-	-	8 496
housing loans	8 496	-	-	8 496
Total financial assets measured at fair value	**64 227**	**40 376**	**12 242**	**11 609**

LIABILITIES MEASURED AT FAIR VALUE 31.12.2018	Carrying amount	Level 1 Prices quoted on active markets	Level 2 Measurement techniques based on observable market data	Level 3 Other measurement techniques
Derivative hedging instruments	560	-	560	-
Other derivative instruments	2 657	-	2 657	-
Total financial liabilities measured at fair value	**3 217**	-	**3 217**	-

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

IMPACT OF ESTIMATES ON FAIR VALUE MEASUREMENT OF LEVEL 3 FINANCIAL INSTRUMENTS	31.12.2019		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]	8 526	8 054	1 138	1 075
Shares in Visa Inc.[2]	225	199	148	124
Corporate bonds[3]	180	180	115	115
Equity investments[4]	222	202	129	116
Measured at fair value through OCI				
Corporate bonds[3]	2 212	2 202	1 630	1 624
Housing loans[1]	9 902	9 354	8 742	8 258

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

(IN PLN MILLION)

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

RECONCILIATION OF CHANGES DURING THE PERIOD FOR INSTRUMENTS MEASURED AT FAIR VALUE AT LEVEL 3 OF FAIR VALUE HIERARCHY	2019	2018
Opening balance at the beginning of the period	**11 609**	**11 586**
Foreign exchange differences	2	18
Increased exposure in equity instruments	-	1
Issues and redemptions of corporate paper	(801)	(39)
Transfers from level 2 to level 3	1 469	-
Reduction of equity exposure to a collective investment undertaking	-	(47)
Sale of participation units in a collective investment undertaking	-	(217)
Reclassification of loan exposures from measured at amortized cost to measured at fair value through profit or loss	8 204	205
Loans granted to customers during the period	5 180	2 529
Sale / repayment of loans during the period	(4 915)	(2 566)
Net gain/(loss) in financial instruments measured at fair value through profit or loss	108	11
Change in the valuation recognized in OCI	(127)	128
As at the end of the period	**20 729**	**11 609**

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

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

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

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

Item	**Major methods and assumptions used when estimating fair values of financial instruments not measured at fair value**
Amounts due from and to banks	• interbank placements and deposits - the model based on expected cash flows discounted using the current interbank market rates • interbank deposits and placements with maturities of up to 7 days or with variable interest, loans or advances granted and received on the interbank market with variable interest (with interest rate changes occurring every 3 months or less) - fair value equals the carrying amount
Securities	• treasury bonds - market quotations • corporate and municipal bonds - discounted cash flow method
Loans and advances to customers	• not impaired: the model based on estimating the present value of future cash flows by discounting cash flows using current interest rates; the model takes into account the credit risk margin and adjusted maturities stemming from the loan agreements. The current level of margins was determined for transactions concluded in the last quarter ending on the balance sheet date involving instruments with the similar credit risk profile. The current margin for loans in PLN adjusted for the cost of foreign currency acquisition in basis-swap transactions was applied to loans in foreign currencies. Valuation excludes the risk of effect of the proposed potential systemic solutions which could result in the Bank's incurring losses on the portfolio of mortgage loans in CHF. • impaired - fair values are equal to carrying amounts • loans and advances to customers: a part of the housing loan portfolio (the “old” housing loan portfolio), loans with no specific repayment schedule, loans due as at the moment

	of valuation - fair values are equal to carrying amounts
Amounts due to customers	• deposits and other amounts due to customers other than banks, with fixed maturities the model of expected cash flows discounted using current interest rates appropriate for the individual deposit products. The fair value is calculated for each deposit and liability, and then the fair values for the entire deposit portfolio are grouped by product type and by customer segment. • amounts due to customers: liabilities with no specific repayment schedule, other specific products for which no active market exists - fair values are equal to carrying amounts
Liabilities in respect of securities in issue	The model of expected cash flows discounted using the current interbank market rates or market quotations.
Subordinated liabilities	The model of expected cash flows discounted based on yield curves
Cash and balances with the Central Bank and amounts due to the Central Bank	Fair values are equal to carrying amounts
Other financial assets and financial liabilities	Fair values are equal to carrying amounts

	level of fair value hierarchy	31.12.2019 carrying amount	31.12.2019 fair value
Cash and balances with Central Bank	n/a	14 602	14 602
Amounts due from banks	2	7 953	7 953
Securities	1, 3	13 361	13 425
Loans and advances to customers		184 182	183 838
housing loans	3	82 971	81 610
corporate loans	3	79 138	79 914
consumer loans	3	20 992	21 233
receivables in respect of repurchase agreements	2	1 081	1 081
Other financial assets	3	1 691	1 691
Amounts due to banks	2	1 659	1 659
Amounts due to customers		257 970	258 120
amounts due to retail customers	3	185 633	185 578
amounts due to business entities	3	55 957	55 957
amounts due to public entities	3	11 354	11 354
loans and advances received	3	5 026	5 231
Liabilities in respect of securities in issue	1,2	4 769	4 799
Subordinated liabilities	2	2 730	2 730
Other financial liabilities	3	3 394	3 394

(IN PLN MILLION)

	level of fair value hierarchy	31.12.2018 carrying amount	fair value
Cash and balances with Central Bank	n/a	22 862	22 862
Amounts due from banks	2	11 213	11 213
Securities	1,3	8 315	8 360
Loans and advances to customers		181 973	181 606
housing loans	3	83 271	82 305
corporate loans	3	73 502	73 870
consumer loans	3	25 148	25 379
receivables in respect of repurchase agreements	2	51	51
Other financial assets	3	2 149	2 149
Amounts due to Central Bank	2	7	7
Amounts due to banks	2	1 591	1 591
Amounts due to customers		245 213	245 235
amounts due to retail customers	3	164 385	164 324
amounts due to business entities	3	55 530	55 530
amounts due to public entities	3	16 459	16 459
loans and advances received	3	8 839	8 922
Liabilities in respect of securities in issue	1, 2	5 367	5 367
Subordinated liabilities	2	2 731	2 731
Other financial liabilities	3	2 096	2 096

48. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

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

OFFSET ASSETS 31.12.2019	Total financial assets	Derivatives	Repo transactions
Recognized financial assets, gross	4 473	3 392	1 081
Financial assets recognized in the statement of financial position, net	4 473	3 392	1 081
Financial instruments not subject to offsetting in the financial statements	2 486	2 486	-
Financial liabilities subject to enforceable framework agreement or similar agreement concerning offsetting (excluding financial collateral)	1 744	1 744	-
Cash or securities received as collateral	742	742	-
Net amount	**1 987**	**906**	**1 081**

(IN PLN MILLION)

OFFSET LIABILITIES 31.12.2019	Total financial liabilities	Derivatives	Repo transactions
Recognized financial liabilities, gross	3 641	3 595	46
Financial assets recognized in the statement of financial position, net	3 641	3 595	46
Financial instruments not subject to offsetting in the financial statements	2 540	2 540	-
Financial assets subject to enforceable framework agreement or similar agreement concerning offsetting (excluding financial collateral)	1 744	1 744	-
Cash or securities received as collateral	796	796	-
Net amount	**1 101**	**1 055**	**46**

OFFSET ASSETS 31.12.2018	Total financial assets	Derivatives	Repo transactions
Recognized financial assets, gross	2 553	2 502	51
Financial liabilities subject to offsetting, gross	(1)	(1)	-
Financial assets recognized in the statement of financial position, net	2 552	2 501	51
Financial instruments not subject to offsetting in the financial statements	1 889	1 874	15
Financial liabilities subject to enforceable framework agreement or similar agreement concerning offsetting (excluding financial collateral)	1 565	1 565	-
Cash or securities received as collateral	324	309	15
Net amount	**663**	**627**	**36**

OFFSET LIABILITIES 31.12.2018	Total financial liabilities	Derivatives	Repo transactions
Recognized financial liabilities, gross	3 263	3 218	45
Financial liabilities subject to offsetting, gross	(1)	(1)	-
Financial assets recognized in the statement of financial position, net	3 262	3 217	45
Financial instruments not subject to offsetting in the financial statements	2 171	2 170	1
Financial assets subject to enforceable framework agreement or similar agreement concerning offsetting (excluding financial collateral)	1 565	1 565	-
Cash or securities received as collateral	606	605	1
Net amount	**1 091**	**1 047**	**44**

(IN PLN MILLION)

Bank Polski

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

• Liabilities in respect of repurchase transactions

Financial assets which the Bank does not derecognize include assets pledged as collateral for liabilities in respect of repurchase transactions (Treasury bonds).

CARRYING AMOUNT	31.12.2019	31.12.2018
Debt securities	43	43
Repo transactions	46	45
Net position	(3)	(2)

• 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.

	31.12.2019	31.12.2018
Assets constituting collateral of own liabilities	796	605

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

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

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

• Fund for the Protection of Guaranteed Funds

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

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

• Funds securing liabilities in respect of contributions to the Bank Guarantee Fund (BGF)

	31.12.2019	31.12.2018
Value of the contribution made in the form of payables	386	247
Nominal value of the assets in which funds corresponding to payables were invested	490	324
Maturity of collateral	25.01.2024	25.01.2024
Carrying amount of collateral	492	324

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

Such 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 obligations relating to contributions to the BGF will be increased on payment dates of contributions to the Deposit Guarantee Fund (quarterly) and the Bank Resolution Fund (in the third quarter of a given year) representing not more than 30% of the contribution established by the BGF.

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

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

In the years ended 31 December 2019 and 31 December 2018, respectively, there were no intangible assets or property, plant and equipment items to which the Bank's legal title would be limited and pledged as collateral for the Bank's liabilities.

50. FIDUCIARY ACTIVITIES

The Bank is a direct participant in the Central Securities Depository of Poland (Krajowy Depozyt Papierów Wartościowych) and the Securities Register (at the National Bank of Poland). The Bank maintains securities accounts and handles transactions on the domestic and foreign markets, provides fiduciary services and performs depository role for pension and investment funds. Assets held by the Bank as part of providing fiduciary services have not been disclosed in these financial statements since they do not meet the definition of the Bank's assets.

51. INFORMATION ON THE ENTITY AUTHORIZED TO AUDIT THE FINANCIAL STATEMENTS

On 26 January 2017, SA based on § 15.1.4 of the Bank's Articles of Association, the Supervisory Board of PKO Bank Polski selected KPMG Audyt Spółka z ograniczoną odpowiedzialnością spółka komandytowa as the audit firm authorized to audit and review the financial statements of the Bank and consolidated financial statements of the PKO Bank Polski SA Group for the years 2017-2019. The same entity had audited the Bank's and the Group's financial statements for the years 2015-2016. KPMG Audyt Spółka z ograniczoną odpowiedzialnością spółka komandytowa with its registered office in Warsaw, ul. Inflancka 4A is entered in the list of audit companies maintained by the National Board of Registered Auditors with the number 3546. On 12 April 2017, the Bank concluded another agreement with KPMG for the audit and review of the financial statements of the Bank and of the Bank' Group for the years 2017-2019.

Based on the Supervisory Board's declaration, the Management Board states that the appointment of the audit firm, KPMG Audyt Spółka z ograniczoną odpowiedzialnoscią spółka komandytowa, to audit the Bank Group's consolidated financial statements for the year ended 31 December 2019 and the Bank's financial statements for the year ended 31 December 2019 (Audit) was made in accordance with the provisions of the law and the internal rules of the Bank accepted by the Supervisory Board on the appointment of the audit firm, which were in force as at the date on which the choice was made. Simultaneously, based on the Supervisory Board's declaration, the Management Board states that:

- the audit firm, KPMG, and the members of the team conducting the Audit satisfied the conditions for preparing an impartial and independent Audit report, in accordance with the generally applicable provisions of the law, standards of practising the profession and principles of professional ethics;
- the generally binding provisions of the law related to the rotation of audit firms and the key registered auditor auditing the Group's consolidated financial statements and the Bank's financial statements and the related periods of grace and procedure are observed at the Bank;
- the Bank has a policy on and a procedure for the selection of audit firms for auditing the Bank's and the Group's financial statements, as well as a policy on the provision of admissible non-audit services by the audit firm conducting the audit, affiliates of that audit firm and a member of the network of audit firms, to the Bank and companies from the Bank's Group, including services that are conditionally released from the prohibition of provision of services by the audit firm.

TOTAL AMOUNT OF NET FEE PAYABLE TO KPMG FOR: (in PLN thousand)	2019	2018
audits of the finacial statements of the Bank and consolidated financial statements of the Bank's Group	1 537	1 577
assurance services, including review of the financial statements	961	1 309

Moreover, on 13 December 2018, pursuant to § 15 clause 1 point 2 of the Bank's Articles of Association, the Bank's Supervisory Board selected PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp. k. (hereinafter PWC) as the audit firm to audit and review the financial statements of the Bank and of the Bank's Group for the years 2020-2021. PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp. k. with its registered office in Warsaw, ul. Polna 11 is entered in the list of audit companies maintained by the National Board of Registered Auditors with the number 144. On 24 January 2019, the Bank concluded an agreement with PWC for the audit and review of the financial statements of the Bank and of the Bank' Group for the years 2020-2021.

OBJECTIVES AND PRINCIPLES OF RISK MANAGEMENT

52. Risk management at the Bank

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

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 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 the criteria for recognizing a given type of risk as material. The following risks are considered material for the Bank: credit risk, risk of foreign currency mortgage loans for households, currency risk, interest rate risk, liquidity risk (including financing risk), operating risk, business risk, risk of macroeconomic changes and model risk.

A detailed description of the management policies for material risks is presented in the Report on Capital Adequacy and other information subject to publication in the PKO Bank Polski SA Group.

Risk management objective

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

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

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.

Main principles of risk management

Risk management at PKO Bank Polski SA is based, in particular, on the following principles:

- the Bank manages all the risks identified;
- the risk management process is appropriate from the perspective of the scale of operations and materiality, scale and complexity of a given risk, and adjusted on an on-going basis to take account of the new risks and their sources;
- risk management methods (especially models and their assumptions) and risk measurement or assessment systems are tailored to the scale and complexity of individual risks, the current and planned operations of the Bank and its operating environment, and are periodically verified and validated;
- the area of risk management remains organizationally independent from business activities;
- risk management is integrated into the planning and controlling systems;
- the level of risk is monitored and controlled on an on-going basis;
- the risk management process supports the implementation of the Bank's strategy in compliance with the Risk Management Strategy, in particular with respect to the level of risk tolerance.

THE RISK MANAGEMENT PROCESS

The process of risk management in PKO Bank Polski SA consists of the following stages:

- **RISK IDENTIFICATION:**

Risk identification consists of recognizing the existing and potential sources of risk and estimating the significance of its potential impact on the Bank's operations. As part of risk identification, the risks considered to be material in the Bank's operations are identified.

- **RISK MEASUREMENT AND ASSESSMENT:**

Risk measurement covers determining the risk assessment measures adequate to the type and significance of the risk, data availability and quantitative risk assessment by means of determined measures, as well as risk assessment aimed at identifying the scale or scope of risk, taking into account achieving the risk management objectives. As part of risk measurement, valuation of the risks for the purpose of the pricing policy and stress-tests is conducted based on assumptions which ensure a sound assessment of the risk. Stress-test scenarios include, among other things, the requirements stemming from Recommendations of the Polish Financial Supervision Authority. In addition, the Bank conducts comprehensive stress tests (CST) which are an integral element of the risk management and which supplement stress tests specific for individual risks. CST also cover an analysis of the impact of changes in the environment (in particular, the macroeconomic environment) and the Bank's functioning on the Bank's financial position.

- **RISK CONTROL:**

Risk control involves determination of the tools to be used for measuring or reducing the level of risk in specific areas of the Bank's activities. This includes establishing control mechanisms adjusted to the scale and complexity of the Bank's activities especially in the form of strategic tolerance limits for the individual types of risk, which are monitored; if they are exceeded, management actions are taken.

- **RISK FORECASTING AND MONITORING:**

Risk forecasting and monitoring involves preparing risk level forecasts and monitoring deviations from forecasts or the adopted benchmarks (e.g. limits, thresholds, plans, prior period measurements, recommendations and instructions issued by supervisory and regulatory authority), and performing (specific and comprehensive) stress tests and reverse stress tests. Risk level forecasts are verified. Risk monitoring frequency is adequate to the significance and variability of specific risks.

- **RISK REPORTING:**

Risk reporting consists in regularly providing information to the Bank's governing bodies on the results of the risk measurement or assessment, actions taken and follow-up recommendations. The scope, frequency and form of the reporting are adjusted to the managerial level of the recipients. If potential liquidity problems arise, the Supervisory Board is immediately informed about the level of the Bank's liquidity, threats and remedial actions taken, and of significant operational events or security incidents.

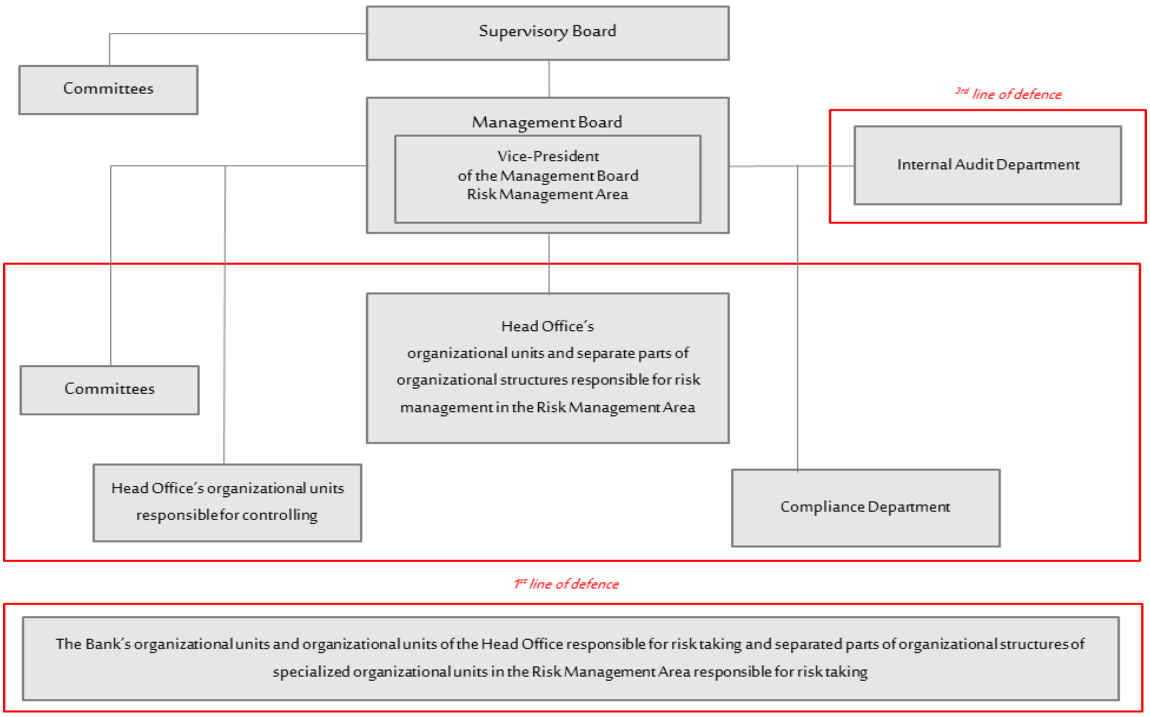
- **MANAGEMENT ACTIONS:**

Management actions consist particularly in issuing internal regulations affecting the management processes relating to different types of risk, establishing the level of risk tolerance, establishing limits and thresholds, issuing recommendations, and making decisions, including decisions to use tools supporting risk management. The objective of management actions is to shape the risk management process and the risk levels.

ORGANIZATION OF RISK MANAGEMENT IN THE BANK

Risk management in the Bank takes place in all of the organizational units of the Bank.

The organization of risk management in PKO Bank Polski SA is presented in the diagram below:



The risk management system is supervised by the Supervisory Board of the Bank which controls and evaluates the adequacy and effectiveness of the system. The Supervisory Board evaluates whether or not individual elements of the risk management system support the correct execution of the process for setting and achieving specific objectives of the Bank. In particular, the Supervisory Board verifies if the system applies formal rules to set out the size of the risk taken and risk management principles, as well as formal procedures to identify, measure or estimate and monitor the risks associated with the Bank's operations, taking into account the anticipated level of risk in the future. The Supervisory Board verifies 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 Nomination and Remuneration Committee, the Supervisory Board Risk Committee and the Supervisory Board Audit Committee.

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

- the Risk Committee;
- the Asset and Liability Committee (ALCO);
- The Bank's Credit Committee;
- the Operational Risk Committee.

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

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

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

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

The independence of the lines consists in ensuring organizational separation at the following levels:

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

- **SPECIFIC ACTIVITIES IN THE AREA OF RISK MANAGEMENT UNDERTAKEN IN 2019**

In 2019 exposure to risk the risk of mortgage loans to households denominated in foreign currencies was considered to be material.

In 2019 the Bank repaid renewed short-term treasury bonds and bonds maturing as part of the EMTN programme. The Bank also repaid an instalment of the loan from the Council of Europe Development Bank and made an early repayment of funding obtained from the European Investment Bank.

As part of monitoring of the credit losses measurement model, the Bank updated the assumptions for using LGD and PD parameters. Recoveries in the LGD parameter were adjusted at the long end of the curve and the series of historical data was shortened to better reflect the present economic and macroeconomic position. Also, the manner of calculating PD for retail portfolios and for the portfolio of Firms and Companies changed, putting more emphasis on the amount of exposures contributing to the amount of default.

53. Credit risk management

- **Definition**

Credit risk is defined as the risk of losses incurred as a result of a customer's default on its liabilities towards the Bank or the risk of a decrease in the economic value of amounts due to the Bank as a result of deterioration of a customer's ability to repay its liabilities.

- **Management objective**

The objective of credit risk management is to minimize losses on the loan portfolio as well as to minimize the risk of occurrence of loans at risk of impairment, while keeping the expected level of profitability and value of loan portfolio.

The Bank follows mainly the following principles of credit risk management:

- a loan transaction is subject to comprehensive credit risk assessment, which is reflected in an internal rating or credit scoring;
- credit risk relating to loan transactions is measured at the stage of examining a loan application and on a regular basis, as part of the monitoring process, taking into consideration changes in external conditions and in the financial standing of the borrowers;
- credit risk assessment of exposures is separated from the sales function by ensuring an appropriate organizational structure, independence in developing and validating tools supporting an assessment of credit risk and independence of decisions approving deviations from the suggestions resulting from using these tools;
- terms and conditions of a loan transactions offered to a customer depend on the assessment of credit risk level generated by the transaction;
- credit decisions may be taken solely by persons authorized to do so;
- credit risk is diversified, in particular, in terms of geographical areas, industries, products and customers;
- an expected credit risk level is mitigated by collateral received by the Bank, margins from customers and impairment allowances (provisions) for expected credit losses.

The above-mentioned principles are implemented by the Bank through the use of advanced credit risk management methods, both at the level of individual credit exposures and of the entire loan portfolio of the Bank. These methods are verified and developed to ensure compliance with the requirements of the internal rating-based method (IRB), i.e. an advanced credit risk measurement method which may be used to calculate the capital requirements for credit risk, subject to approval by the Polish Financial Supervision Authority.

Measurement and assessment of credit risk

- **Credit risk measurement and assessment methods**

In order to assess the level of credit risk and the profitability of its loan portfolios, the Bank uses different credit risk measurement and valuation methods, including:

- probability of default (PD);
- loss given default (LGD);
- credit conversion factor (CCF);
- expected loss (ECL);
- credit value at risk (CVaR);
- the share and structure of impaired credit exposures;
- coverage ratio of impaired loans;
- cost of credit risk;
- stress tests.

The Bank systematically expands the scope of credit risk measures used, taking into account the requirements of the IRB method, and extends the use of risk measures to cover the entire loan portfolio of the Bank.

The portfolio credit risk measurement methods allow, among other things, to reflect the credit risk in the price of products, determine the best conditions of financing availability and determine the level of impairment allowances.

The Bank performs analyses and stress-tests relating to the impact of the potential changes in the macroeconomic environment on the quality of the Bank's loan portfolio, and the results of such analyses and stress tests are presented in reports to the Bank's governing bodies. Such information enables identification and implementation of the measures mitigating the negative effects of the impact of unfavourable market conditions on the Bank's profit or loss.

The credit risk assessment process at the Bank takes into account the requirements of the Polish Financial Supervision Authority as laid down in the PFSA Recommendations.

- **RATING AND SCORING METHODS**

An assessment of the risk of individual loan transactions is performed by the Bank using the scoring and rating methods which are supported by dedicated IT applications. The risk assessment method is defined in the Bank's internal regulations whose main aim is to ensure a uniform and objective evaluation of the credit risk during the lending process.

The Bank evaluates the credit risk of retail customers in two dimensions: qualitative and quantitative borrowing capacity assessment. A quantitative creditworthiness assessment consists of examining a customer's financial position, and the qualitative risk assessment involves scoring and assessing a customer's credit history obtained from the Bank's internal records and external databases.

In the case of corporate customers in the small- and medium-sized enterprises segment who meet certain criteria, the Bank assesses credit risk using the scoring method. Such assessment refers to low-value, non-complex loan transactions and it is performed in two dimensions: a customer's borrowing capacity and his creditworthiness. An assessment of the borrowing capacity consists in examining a customer's economic and financial position, and the assessment of creditworthiness involves scoring and evaluating the customer's credit history obtained from the Bank's internal records and external databases.

In other cases, the rating method is used for institutional customers.

An assessment of the credit risk associated with financing institutional customers is performed by the Bank in two dimensions: the customer and the transaction. The measures involved include an evaluation of the customer's creditworthiness, i.e. the rating, and an assessment of the transaction risk, i.e. the customer's ability to repay the amounts due in the amounts and on the dates specified.

Rating models for institutional customers are developed using the Bank's internal data, thus ensuring that they are tailored to the risk profiles of the Bank's customers. Models are based on a statistical dependence analysis between the default and a customer's risk scoring. The scoring includes an evaluation of financial ratios, qualitative factors and behavioural factors. A customer's risk assessment depends on the size of the assessed enterprise. In addition, the Bank applies a model for the assessment of credited entrepreneurs in the formula of specialized lending, which allows an adequate credit risk assessment of large projects involving real estate financing (e.g. office space, retail space, industrial space) and infrastructure projects (e.g. telecommunication, industrial or public utility infrastructure).

The rating models are implemented in the IT tool supporting assessment of the credit risk related to financing of institutional customer by the Bank.

In order to examine the correctness of the operation of the methods applied by the Bank, credit risk assessment methodologies relating to individual loan exposures are subject to periodical reviews.

The credit risk assessment process in the Bank takes into account the requirements of the Polish Financial Supervision Authority as defined in Recommendation S concerning good practices for the management of mortgage-secured loan exposures and Recommendation T concerning good practices for the management of retail credit exposures.

Information on rating and scoring assessments is widely used in the Bank to manage credit risk, in the system of credit decision authorizations, to determine the amounts triggering the credit risk assessment services and in the credit risk measurement and reporting system.

- **CREDIT RISK FORECASTING AND MONITORING**

Credit risk forecasting and monitoring involves preparing risk level forecasts and monitoring deviations from the forecasts or the adopted benchmarks (e.g. limits, thresholds, plans, prior period measurements, recommendations and instructions issued by external supervisory and regulatory authority), and performing (specific and comprehensive) stress tests. Risk level forecasts are subject to backtesting.

Credit risk is monitored at the level of individual credit transactions and at portfolio level.

Credit risk monitoring at the individual loan transaction level is governed, in particular, by the Bank's internal regulations concerning:

- assessment of the credit risk related to customer financing;
- method of assessing customers;
- identification of groups of related entities;
- evaluation of collateral and inspection of investments;
- recognition of allowances for expected credit losses;
- Early Warning System;
- operating procedures.

In order to accelerate the response to the noted warning signals reflecting an increased credit risk level, the Bank uses and develops an IT application, Early Warning System (EWS).

Credit risk monitoring at the portfolio level consists of:

- supervising the level of the portfolio credit risk on the basis of the adopted tools used for measuring credit risk, taking into consideration the identified sources of credit risk and analysing the effects and actions taken as part of system management;
- recommending preventive measures in the event of identifying an increased level of credit risk.

- **CREDIT RISK REPORTING**

Credit risk reporting includes periodical reporting of the loan portfolio risk exposure.

Monthly and quarterly credit risk reports are prepared in the Bank. Credit risk reporting includes periodical reporting of the loan portfolio risk exposure.

- **MANAGEMENT ACTIONS RELATING TO CREDIT RISK**

The purpose of management actions is to shape and optimize the credit risk management system and credit risk level at the Bank.

The credit risk management actions include particularly:

- issuing internal regulations governing the credit risk management system at the Bank;
- issuing recommendations, guidelines for conduct, explanations and interpretations of internal regulations;
- taking decisions regarding the acceptable level of credit risk, including in particular lending decisions;
- developing and improving credit risk control tools and mechanisms which make it possible to maintain the credit risk level within the limits acceptable to the Bank;
- developing and monitoring the operation of credit risk management controls;
- developing and improving credit risk assessment methods and models;
- developing and improving IT tools used in credit risk management;
- planning actions and issuing recommendations.

The main credit risk management tools used in the Bank include:

- minimum transaction requirements (risk parameters) determined for a given type of transaction (e.g. minimum LTV value, maximum loan amount, required collateral);
- the principles of defining credit availability, including cut-offs - the minimum number of points awarded in the process of creditworthiness assessment with the use of a scoring system (for retail customers and SMEs) or the customer's rating class (for corporate clients), which a customer must obtain to receive a loan;
- industry-related limits – limits which reduce the risk level related to financing institutional customers conducting business activities in industries characterized by high levels of credit risk;
- the limits defining the appetite for credit risk resulting from, among other things, Recommendations S and T;
- credit limits defining the Bank’s maximum exposure to a customer or a country in respect of wholesale market transactions, settlement limits and limits for exposure duration;
- authorization limits - the limits defining the maximum level of credit decision-making powers with regard to the Bank’s customers; the limits depend primarily on the amount of the Bank's exposure to a given customer (or group of related customers) and the lending period; authorization limits depend on the level (in the Bank's organizational structure) at which credit decisions are made;
- minimum credit margins - credit risk margins relating to a given credit transaction concluded by the Bank with a given corporate customer, where the interest rate offered to the customer should be lower than the reference rate plus credit risk margin. If the reference rate achieves a value equal to or lower than zero, the zero value should be adopted to determine the interest rate.

- **USE OF CREDIT RISK MITIGATION TECHNIQUES - COLLATERAL**

The collateral management policy plays a significant role in establishing minimum transaction terms. The Bank’s collateral management policy is intended to properly protect it against credit risk to which the Bank is exposed, including above all by establishing collateral that is as liquid as possible. Collateral may be considered liquid if it may be sold without a significant decrease in its price and at a time which does not expose the Bank to a change in the collateral value due to price fluctuations typical for a given asset.

The Bank strives to diversify collateral in terms of its forms and assets used as collateral.

The Bank evaluates collateral from the perspective of the actual possibility of using it to satisfy its claims.

In addition, when assessing collateral, the Bank takes into account the following factors:

- the economic, financial and economic, or social and financial position of entities which provide personal guarantees;
- the condition and market value of the assets accepted as collateral and their vulnerability to depreciation in the period of maintaining the collateral (the impact of the technological wear and tear of a collateralized asset on its value);
- potential economic benefits to the Bank resulting from a specific method of securing receivables, including, in particular, the possibility of reducing impairment allowances;
- the method of establishing collateral, including the typical duration and complexity of formalities, as well as the necessary costs (the costs of maintaining collateral and enforcement against the collateral), using the Bank’s internal regulations concerning the assessment of collateral;
- the complexity, time-consuming nature and economic and legal conditions for the effective realization of collateral, in the context of enforcement restrictions and the applicable principles for the distribution of the sums obtained from individual enforcement or in the course of bankruptcy proceedings, the ranking of claims;
- The type of collateral depends on the level of risk of a given customer or transaction.

When granting loans intended to finance housing and commercial funding properties, a mortgage is an obligatory type of collateral.

Until effective protection is established (depending on the type and amount of a loan), the Bank may accept temporary collateral in different form.

(IN PLN MILLION)

With regard to consumer loans, usually personal guarantees (a civil law surety/guarantee, a bill of exchange) are used or collateral is established on the customer's bank account, car or securities.

The collateral for loans intended for the financing of small- and medium-sized enterprises as well as corporate customers is established, among other things: on receivables from business operations, bank accounts, movables, real estate or securities. The collateral management policy is set out in the Bank's internal regulations.

54. Credit risk - financial information

- **Exposure to credit risk**

MAXIMUM EXPOSURE TO CREDIT RISK - FINANCIAL INSTRUMENTS NOT SUBJECT TO IMPAIRMENT REQUIREMENTS	31.12.2019	31.12.2018
Hedging derivatives	594	592
Other derivative instruments	2 798	1 909
Securities:	1 930	1 562
held for trading	1 175	282
not held for trading, measured at fair value through profit or loss	755	1 280
Loans and advances to customers not held for trading, measured at fair value through profit or loss:	8 286	1 106
housing	15	27
corporate	148	148
consumer	8 123	931
Total	**13 608**	**5 169**

(IN PLN MILLION)

- **PAST DUE FINANCIAL ASSETS SUBJECT TO IMPAIRMENT OR IMPAIRED**

EXPOSURES PAST DUE 31.12.2019	stage 1		stage 2			stage 3				TOTAL
	up to 30 days	TOTAL	up to 30 days	over 30 to 90 days	TOTAL	up to 30 days	over 30 to 90 days	over 90 days	TOTAL	
Loans and advances to customers:	922	922	927	278	1 205	168	135	1 536	1 839	3 966
housing	303	303	691	167	858	76	76	290	442	1 603
corporate	405	405	86	41	127	65	31	1 035	1 131	1 663
consumer	214	214	150	70	220	27	28	211	266	700
Total, net	**922**	**922**	**927**	**278**	**1 205**	**168**	**135**	**1 536**	**1 839**	**3 966**

EXPOSURES PAST DUE 31.12.2018	stage 1		stage 2			stage 3				TOTAL
	up to 30 days	TOTAL	up to 30 days	over 30 to 90 days	TOTAL	up to 30 days	over 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
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**

The Bank takes into account the minimum levels of matured amounts in amount of PLN 500 for credit exposures to individuals and PLN 3 000 for other credit exposures to specify whether a loan is overdue.

Loans and advances to customers were secured by the following collateral established for the Bank: mortgages, registered pledges, transfer of ownership, restrictions on a deposit account, insurance of the credit exposure, as well as guarantees and sureties.

(IN PLN MILLION)

- **MODIFICATIONS**

FINANCIAL ASSETS SUBJECT TO MODIFICATION	2019	
Financial assets subject to modification during the period:	**Stage 2**	**Stage 3**
valuation amount at amortized cost before modification	427	354
gain/loss on modification	4	(14)
Financial assets subject to modification since initial recognition:	**31.12.2019**	
gross carrying amount of financial assets subject to modification for which the loss was cumulated over the life term and which are recognized in stage 1 after modification		226

FINANCIAL ASSETS SUBJECT TO MODIFICATION	2018	
Financial assets subject to modification during the period:	**Stage 2**	**Stage 3**
valuation amount at amortized cost before modification	348	328
gain/loss on modification	-	(7)
Financial assets subject to modification since initial recognition:	**31.12.2018**	
gross carrying amount of financial assets subject to modification for which the loss was cumulated over the life term and which are recognized in stage 1 after modification		98

- **RECEIVABLES WRITTEN OFF DURING THE DEBT RECOVERY PERIODS**

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

FINANCIAL ASSETS WRITTEN OFF	2019		2018	
	Partly written off	Fully written off	Partly written off	Fully written off
Securities				
measured at fair value through other comprehensive income	-	-	3	-
Loans and advances to customers				
measured at amortized cost	41	666	1 986	1 187
housing	14	103	515	504
corporate	8	418	1 160	496
consumer	19	145	311	187
not held for trading, mandatorily measured at fair value through profit or loss	3	-	-	-
Total	**44**	**666**	**1 989**	**1 187**

The Bank adopts the following criteria for writing off amounts due:

- the receivable has fully matured and is in particular the consequence of a loan, advance, contractual overdraft, guarantee or warranty of loan, advance or bond repayment;
- in accordance with IAS and IFRS the allowance for expected loan losses:
  - covers 100% of the gross carrying amount of the asset; or
  - exceeds 90% of the gross carrying amount of the asset and: actions have been or still are taken in respect of the receivable which did not lead to its recovery, and the assessment of the probability of recovering the receivable which in particular accounts for the determinations of the bailiff or the receiver, transferability of collateral, category of satisfaction, mortgage register item indicate inability to recover the whole receivable; or during the last 12 calendar months amounts paid towards the repayment of the receivable did not cover the interest accrued on a current basis.

(IN PLN MILLION)

Bank Polski

QUALITY OF THE PORTFOLIO COVERED BY THE RATING MODEL FOR COMMERCIAL, HOUSING AND CONSUMER LOANS

CREDIT RISK OF EXPOSURES BY PD PARAMETER 31.12.2019	Carrying amount, gross				
	Stage 1	Stage 2	Stage 3	POCI	TOTAL
HOUSING LOANS	86 948	5 458	1 971	89	94 466
0.00 - 0.02%	4 748	9	-	-	4 757
0.02 - 0.07%	22 927	75	-	1	23 003
0.07 - 0.11%	11 017	48	-	2	11 067
0.11 - 0.18%	13 761	106	-	-	13 867
0.18 - 0.45%	20 163	333	-	4	20 500
0.45 - 1.78%	9 579	875	-	8	10 462
1.78 - 99.99%	832	3 947	-	15	4 794
100%	-	-	1 971	59	2 030
no internal rating[1]	3 921	65	-	-	3 986
CORPORATE LOANS	72 691	4 415	5 285	157	82 548
0.00 - 0.45%	23 728	13	-	-	23 741
0.45 - 0.90%	8 395	59	-	-	8 454
0.90 - 1.78%	11 093	227	-	-	11 320
1.78 - 3.55%	8 037	650	-	-	8 687
3.55 - 7.07%	15 373	952	-	-	16 325
7.07 - 14.07%	5 275	1 391	-	5	6 671
14.07 - 99.99%	453	1 097	-	-	1 550
100%	-	-	5 285	152	5 437
no internal rating[1]	337	26	-	-	363
					-
CONSUMER LOANS	19 251	1 713	1 147	42	22 153
0.00 - 0.45%	4 591	24	-	-	4 615
0.45 - 0.90%	5 492	73	-	-	5 565
0.90 - 1.78%	4 393	162	-	-	4 555
1.78 - 3.55%	2 336	256	-	-	2 592
3.55 - 7.07%	1 113	283	-	-	1 396
7.07 - 14.07%	529	307	-	-	836
14.07 - 99.99%	121	565	-	-	686
100%	-	-	1 147	42	1 189
no internal rating[1]	676	43	-	-	719
Total	178 890	11 586	8 403	288	199 167

[1] This item refers mainly to Housing Communities and Cooperatives exposures.

(IN PLN MILLION)

CREDIT RISK OF EXPOSURES BY PD PARAMETER 31.12.2018	Carrying amount, gross				
	Stage 1	Stage 2	Stage 3	POCI	TOTAL
HOUSING LOANS	**85 789**	**5 692**	**2 124**	**102**	**93 707**
0.00 - 0.02%	6 000	14	-	-	6 014
0.02 - 0.07%	21 219	62	-	-	21 281
0.07 - 0.11%	10 595	51	-	1	10 647
0.11 - 0.18%	13 503	144	-	1	13 648
0.18 - 0.45%	18 792	306	-	5	19 103
0.45 - 1.78%	9 526	488	-	7	10 021
1.78 - 99.99%	1 928	4 607	-	18	6 553
100%	-	-	2 124	70	2 194
no internal rating[1]	4 226	20	-	-	4 246
CORPORATE LOANS	**65 666**	**5 166**	**6 155**	**412**	**77 399**
0.00 - 0.45%	7 515	1	-	-	7 516
0.45 - 0.90%	23 861	58	-	-	23 919
0.90 - 1.78%	7 216	95	-	-	7 311
1.78 - 3.55%	8 387	524	-	-	8 911
3.55 - 7.07%	10 618	732	-	-	11 350
7.07 - 14.07%	7 326	1 507	-	-	8 833
14.07 - 99.99%	484	2 072	-	-	2 556
100%	-	-	6 155	412	6 567
no internal rating[1]	259	177	-	-	436
CONSUMER LOANS	**23 236**	**1 781**	**1 753**	**52**	**26 822**
0.00 - 0.45%	4 012	25	-	-	4 037
0.45 - 0.90%	6 864	48	-	-	6 912
0.90 - 1.78%	5 828	64	-	-	5 892
1.78 - 3.55%	3 416	178	-	-	3 594
3.55 - 7.07%	1 537	293	-	-	1 830
7.07 - 14.07%	768	340	-	-	1 108
14.07 - 99.99%	302	741	-	-	1 043
100%	-	-	1 753	52	1 805
no internal rating[1]	509	92	-	-	601
Total	**174 691**	**12 639**	**10 032**	**566**	**197 928**

[1] This item refers mainly to Housing Communities and Cooperatives exposures.

• QUALITY OF THE PORTFOLIO ENCOMPASSED BY THE RATING MODEL FOR OFF-BALANCE SHEET LIABILITIES

CREDIT RISK OF EXPOSURES BY PD PARAMETER 31.12.2019	Carrying amount, gross				
	Stage 1	Stage 2	Stage 3	POCI	TOTAL
OFF-BALANCE SHEET LIABILITIES					
0.00 - 0.45%	19 198	74	-	-	19 272
0.45 - 0.90%	13 409	54	-	-	13 463
0.90 - 1.78%	8 428	211	-	-	8 639
1.78 - 3.55%	5 842	477	-	-	6 319
3.55 - 7.07%	6 066	676	-	-	6 742
7.07 - 14.07%	3 394	593	-	-	3 987
14.07 - 99.99%	116	118	-	-	234
100%	-	-	420	67	487
no internal rating[1]	13 830	1 112	-	-	14 942
Total	**70 283**	**3 315**	**420**	**67**	**74 085**

[1] This item refers mainly the State Treasury exposures and credit lines for derivative transactions.

(IN PLN MILLION)

CREDIT RISK OF EXPOSURES BY PD PARAMETER 31.12.2018	Carrying amount, gross				
	Stage 1	Stage 2	Stage 3	POCI	TOTAL
OFF-BALANCE SHEET LIABILITIES					
0.00 - 0.45%	11 205	21	-	-	11 226
0.45 - 0.90%	15 490	27	-	-	15 517
0.90 - 1.78%	8 973	69	-	-	9 042
1.78 - 3.55%	6 749	711	-	-	7 460
3.55 - 7.07%	3 421	489	-	-	3 910
7.07 - 14.07%	4 502	718	-	-	5 220
14.07 - 99.99%	195	113	-	-	308
100%	-	-	260	80	340
no internal rating[1]	10 623	1 111	-	-	11 734
Total	**61 158**	**3 259**	**260**	**80**	**64 757**

[1] This item refers mainly the State Treasury exposures and credit lines for derivative transactions.

- **QUALITY OF THE PORTFOLIO ENCOMPASSED BY THE RATING MODEL FOR AMOUNTS DUE FROM BANKS**

31.12.2019	Carrying amount, gross				
AMOUNTS DUE FROM BANKS	Stage 1	Stage 2	Stage 3	POCI	TOTAL
EXTERNAL RATINGS	7 875	-	-	-	7 875
AAA	462	-	-	-	462
AA	768	-	-	-	768
A	1 313	-	-	-	1 313
BBB	5 330	-	-	-	5 330
BB	1	-	-	-	1
B	1	-	-	-	1
INTERNAL RATINGS	82	-	-	-	82
0,95%	82	-	-	-	82
TOTAL	7 957	-	-	-	7 957

31.12.2018	Carrying amount, gross				
AMOUNTS DUE FROM BANKS	Stage 1	Stage 2	Stage 3	POCI	TOTAL
EXTERNAL RATINGS	11 088	-	-	-	11 088
AAA	985	-	-	-	985
AA	2 449	-	-	-	2 449
A	2 970	-	-	-	2 970
BBB	4 671	-	-	-	4 671
BB	10	-	-	-	10
B	2	-	-	-	2
CCC	1	-	-	-	1
INTERNAL RATINGS	129	-	-	-	129
0,06%	1	-	-	-	1
0,97%	128	-	-	-	128
TOTAL	11 217	-	-	-	11 217

(IN PLN MILLION)

- **Quality of the portfolio encompassed by the rating model for debt securities**

31.12.2019	Carrying amount, gross				
DEBT SECURITIES	Stage 1	Stage 2	Stage 3	POCI	TOTAL
EXTERNAL RATINGS	63 548	-	-	-	63 548
AAA	1 064	-	-	-	1 064
A	60 195	-	-	-	60 195
BBB	2 207	-	-	-	2 207
BB	82	-	-	-	82
INTERNAL RATINGS	9 878	79	-	463	10 420
0.00-0.45%	8 133	-	-	-	8 133
0.45-0.90%	764	77	-	-	841
0.90-1.78%	162	2	-	-	164
1.78-3.55%	542	-	-	-	542
3.55-7.07%	31	-	-	-	31
7.07-14.07%	246	-	-		246
100,00%	-	-	-	463	463
no internal rating	543	-	-	-	543
TOTAL	73 969	79	-	463	74 511

31.12.2018	Carrying amount, gross				
DEBT SECURITIES	Stage 1	Stage 2	Stage 3	POCI	TOTAL
EXTERNAL RATINGS	48 462	-	-	-	48 462
AAA	207	-	-	-	207
AA	91	-	-	-	91
A	44 171	-	-	-	44 171
BBB	3 920	-	-	-	3 920
BB	73	-	-	-	73
INTERNAL RATINGS	9 489	447	-	471	10 407
0.00-0.45%	7 670	-	-	-	7 670
0.45-0.90%	908	367	-	-	1 275
0.90-1.78%	221	16	-	-	237
1.78-3.55%	125	-	-	-	125
3.55-7.07%	315	-	-	-	315
7.07-14.07%	250	-	-	-	250
14.07-99.99%	-	64	-	-	64
100,00%	-	-	-	471	471
no internal rating	38	-	-	-	38
TOTAL	57 989	447	-	471	58 907

55. Managing concentration risk at the Bank

The Bank defines credit concentration risk as the risk arising from a considerable exposure to single customers or groups of related customers whose repayment capacity depends on a common risk factor. The Bank analyses the concentration risk, among other things towards:

- the largest entities (customers);
- the largest groups;
- industry sectors;
- geographical regions;
- currencies;
- exposures secured with a mortgage.

- **Management objective**

The objective of concentration risk management is to ensure a safe structure of the loan portfolio by mitigating threats arising from excessive concentrations relating to exposures characterized by a potential to generate significant losses at the Bank.

- **MEASUREMENT AND ASSESSMENT OF CONCENTRATION RISK**

The Bank measures and assesses concentration risk by examining the actual aggregate exposure to a customer or a group of related customers and the actual aggregate exposure in the individual groups of loan portfolios.

The Bank's actual exposure is exposure as defined in the CRR, which comprises all assets or off-balance sheet items, including exposures in the banking and trading book and indirect exposures arising from the hedges applied.

Concentration risk is identified by recognizing the factors due to which the risk may arise or the level of the Bank's exposure may change, including potential risk factors resulting, for example, from planned activities of the Bank. In the process of identifying concentration risk, the Bank:

- identifies and updates the structure of the group of related customers;
- aggregates the exposures towards a customer or a group of related customers;
- applies exemptions from the regulatory limits of large exposures in accordance with the CRR.

The Bank's tolerance to concentration risk is defined by:

- external regulatory limits arising from Art. 395 of the CRR and from Article 79a of the Banking Law;
- internal limits of the Bank:
  - strategic limits of concentration risk tolerance;
  - limits that define the appetite for concentration risk.

The Bank uses the following to measure concentration risk:

- the exposure concentration for a customer or a group of related customers to the Bank's eligible capital;
- ratios evaluating the diversification level (e.g. the Herfindahl Hirschmann index);
- Gini coefficient;
- graphic measures of portfolio concentration (Lorenz curve).

To measure concentration risk and evaluate the effect of internal and external factors on this risk, the Bank performs stress tests with respect to concentration risk for large exposures.

- **MONITORING AND FORECASTING CONCENTRATION RISK**

The Bank monitors concentration risk:

- on an individual level, by verifying the exposure concentration ratio for a customer or a group of related customers, each time before applying for a decision on granting financing or increasing the amount of the exposure, and before taking other actions resulting in increasing the Bank's exposure on other accounts;
- on a systemic level, by:
  - daily control over compliance with the external concentration limit and identifying large exposures;
  - monthly control over the limit arising from Art. 79a of the Banking Law;
  - monthly or quarterly control over compliance with the Bank's internal limits with respect to concentration risk;
  - monitoring early warning ratios with respect to concentration;

the Bank forecasts changes in the level of concentration risk as part of its analyses and reviews of internal limits and the concentration risk management policy and in the process of stress testing concentration risk.

The Bank performs stress tests to examine, for example, the effect of macroeconomic factors on individual concentrations, the impact of decisions of other financial market participants, decisions on customer mergers, dependency on other risks, for example, currency risk, which may contribute to materialization of concentration risk and the effect of other factors from the internal and external environment on the concentration risk.

Concentration risk is an element of comprehensive stress tests which enables evaluation of the forecasted effect of correlated credit, interest rate, currency, operating and liquidity risks and concentration risk on the expected credit loss of the Bank.

- **CONCENTRATION RISK REPORTING**

Reports on currency risk are prepared on a daily, monthly and quarterly basis.

Concentration risk reporting comprises periodic (monthly or quarterly) reporting to the Bank's relevant bodies on the scale of exposure to concentration risk, which may lead to a significant change in the Bank's risk profile, including in particular:

- utilization of limits defining risk appetite and exceeding those limits;
- early warning ratios;
- stress-test results;
- portfolio concentration risk and concentration of the Bank's largest exposures and compliance with concentration standards arising from the Banking Law Act.

- **MANAGEMENT ACTIONS RELATING TO CONCENTRATION RISK**

The purpose of management actions is to shape and optimize the concentration risk management process and concentration risk level at the Bank (preventing excessive concentrations).

Management actions comprise in particular:

- publishing the Bank's internal regulations on the process of concentration risk management, defining the tolerance level for concentration risk, determining limits and threshold amounts;
- issuing recommendations, guidelines for conduct, explanations and interpretations of internal regulations;
- taking decisions concerning an acceptable level of concentration risk, including in particular decisions determining the threshold values of limits reflecting concentration risk appetite;
- developing and improving concentration risk control tools which make it possible to maintain the concentration risk level within the limits acceptable to the Bank;
- developing and improving concentration risk assessment methods taking into account changeability of the macroeconomic situation, including crises on foreign and domestic markets and changeability of the regulatory environment;
- developing and improving IT tools to support concentration risk management;

- **CONCENTRATION BY THE LARGEST ENTITIES (CUSTOMERS)**

The Polish Banking Law Act sets maximum exposure limits for the Bank. The risk of concentration of exposures to individual customers and groups of related customers is monitored in accordance with CRR, according to which the Bank shall not assume an exposure to a customer or a group of related customers whose value exceeds 25% of the value of its eligible capital.

As at 31 December 2019 and 31 December 2018, concentration limits were not exceeded. As at 31 December 2019, the largest exposure to a single entity accounted for 51.72%[1] of the eligible capital (47.71% as at 31 December 2018[1]).

(IN PLN MILLION)

The Bank's exposure to 20 largest non-banking customers:

31.12.2019				31.12.2018			
	Credit exposure includes loans, advances, purchased debt, discounted bills of exchange, realized guarantees, interest receivables and off-balance sheet and capital exposures	Share in the loan portfolio, including off-balance sheet and capital exposures	Share in the eligible capital of the Bank	No.	Credit exposure includes loans, advances, purchased debt, discounted bills of exchange, realized guarantees, interest receivables and off-balance sheet and capital exposures	Share in the loan portfolio, including off-balance sheet and capital exposures	Share in the eligible capital of the Bank
1 [1]	19 960	6,65%	51,72%	1 [1]	18 021	6,45%	47,71%
2	3 792	1,26%	9,83%	2	2 859	1,02%	7,57%
3	3 752	1,25%	9,72%	3	2 774	0,99%	7,34%
4	2 899	0,97%	7,51%	4	2 710	0,97%	7,18%
5	2 717	0,90%	7,04%	5 [1]	2 450	0,88%	6,49%
6	2 679	0,89%	6,94%	6	2 274	0,81%	6,02%
7	2 583	0,86%	6,69%	7	2 169	0,78%	5,74%
8	2 453	0,82%	6,36%	8	1 899	0,68%	5,03%
9	2 270	0,76%	5,88%	9	1 898	0,68%	5,03%
10	1 792	0,60%	4,64%	10	1 669	0,60%	4,42%
11 [1]	1 612	0,54%	4,18%	11	1 539	0,55%	4,07%
12 [1]	1 570	0,52%	4,07%	12 [1]	1 500	0,54%	3,97%
13	1 547	0,52%	4,01%	13	958	0,34%	2,54%
14	1 279	0,43%	3,31%	14	775	0,28%	2,05%
15	961	0,32%	2,49%	15	747	0,27%	1,98%
16	961	0,32%	2,49%	16	743	0,27%	1,97%
17	897	0,30%	2,32%	17	721	0,26%	1,91%
18	819	0,27%	2,12%	18	708	0,25%	1,87%
19	817	0,27%	2,12%	19	705	0,25%	1,87%
20 [1]	766	0,26%	2,07%	20	686	0,25%	1,82%
Total	**56 126**	**18,69%**	**145,52%**	**Total**	**47 805**	**17,11%**	**126,57%**

[1] exposure excluded from exposure concentration limit under the CRR

[2] the note does not comprise exposure towards the Treasury and the National Bank of Poland

- **CONCENTRATION BY THE LARGEST GROUPS OF RELATED CUSTOMERS**

The largest concentration of the Bank's exposures to a group of related customers was 7.74%[1] of the Bank's loan portfolio (as at 31 December 2018 it was 7.03%[1]). As at 31 December 2019, the largest concentration of the Bank's exposure to a group of related customers amounted to: 60.21%[1] of the Bank's eligible capital (51,97%[1] as at 31 December 2018).

The Bank's exposure to 5 largest groups of related customers[2]:

31.12.2019				31.12.2018			
No.	Credit exposure includes loans, advances, purchased debt, discounted bills of exchange, realized guarantees, interest receivables and off-balance sheet and capital exposures	Share in the loan portfolio, including off-balance sheet and capital exposures	Share in the eligible capital of the Bank	No.	Credit exposure includes loans, advances, purchased debt, discounted bills of exchange, realized guarantees, interest receivables and off-balance sheet and capital exposures	Share in the loan portfolio, including off-balance sheet and capital exposures	Share in the eligible capital of the Bank
1 [1]	23 236	7,74%	60,21%	1 [1]	19 630	7,03%	51,97%
2	4 559	1,52%	11,81%	2	3 679	1,32%	9,74%
3	3 838	1,28%	9,95%	3	3 160	1,13%	8,37%
4	3 591	1,20%	9,31%	4	2 863	1,02%	7,58%
5	3 183	1,06%	8,25%	5	2 445	0,87%	6,47%
Total	**38 407**	**12,79%**	**99,53%**	**Total**	**31 777**	**11,37%**	**84,13%**

[1] exposure excluded from exposure concentration limit under the CRR

[2] the list does not include exposure to the State Treasury for the Group in which the State Treasury is the ultimate parent

(IN PLN MILLION)

Bank Polski

- **CONCENTRATION BY INDUSTRY**

The structure of the Bank's exposure by industry sector is dominated by entities operating in the "Financial and insurance activity" and "Industrial processing" sections. The Bank's exposure to these sectors represents approximately 35% of the industry portfolio.

Section s	Section name	31.12.2019		31.12.2018	
		Exposure	No. of entities	Exposure	No. of entities
K	Financial and insurance activities	19,86%	1,59%	19,42%	1,79%
C	Industrial processing	14,53%	10,62%	15,12%	10,57%
L.	Real estate administration	11,80%	23,24%	11,67%	22,65%
G	Wholesale and retail trade, repair of motor vehicles	10,33%	23,36%	10,41%	23,53%
O	Public administration and national defence, obligatory social security	14,54%	0,43%	15,06%	0,42%
Other exposures		28,94%	40,76%	28,32%	41,04%
Total		**100,00%**	**100,00%**	**100,00%**	**100,00%**

- **CONCENTRATION BY GEOGRAPHICAL REGIONS**

The Bank's loan portfolio is diversified in terms of geographical concentration.

The structure of the loan portfolio by geographical regions is identified by the Bank depending on the customer type – it is different for the Retail Market Area (ORD) and for the Corporate and Investment Banking Area (OKI).

In 2019, the largest concentration of the ORD loan portfolio was in the Warsaw region and Katowice region (these regions account for around 26% of the ORD portfolio) (26% as at 31 December 2018).

CONCENTRATION OF CREDIT RISK BY GEOGRAPHICAL REGION FOR RETAIL CUSTOMERS	31.12.2019	31.12.2018
Warsaw region	14,48%	14,35%
Katowice region	11,59%	11,32%
Poznań region	9,96%	10,02%
Kraków region	8,92%	9,00%
Łódź region	8,73%	8,83%
Wrocław region	9,75%	9,60%
Gdańsk region	8,50%	8,50%
Bydgoszcze region	7,34%	7,39%
Lublin region	7,01%	6,88%
Białystok region	6,66%	6,60%
Szczecin region	6,14%	6,20%
Head Office	0,67%	0,65%
other	0,25%	0,66%
Total	**100,00%**	**100,00%**

(IN PLN MILLION)

In 2019, as in 2018, the highest concentration of the OKI loan portfolio was in the central macro-region - 48% of the OKI portfolio.

CONCENTRATION OF CREDIT RISK BY GEOGRAPHICAL REGION FOR CORPORATE CUSTOMERS	31.12.2019	31.12.2018
central macroregion	48,06%	47,71%
northern macroregion	8,47%	10,29%
western macroregion	9,45%	9,05%
southern macroregion	10,19%	8,84%
north-eastern macroregion	4,67%	4,89%
south-western macroregion	6,79%	7,89%
south-eastern macroregion	7,31%	8,67%
Head Office	3,75%	1,68%
foreign countries	1,31%	0,98%
Total	**100,00%**	**100,00%**

- ### CONCENTRATION OF CREDIT RISK BY CURRENCY

As at 31 December 2019, the share of exposures in convertible currencies other than PLN in the entire Bank's portfolio amounted to 19% and it went down compared with 2018.

Exposures in CHF represent the largest part of the Bank's foreign currency exposure with a 53% share in the entire foreign currency portfolio of the Bank as at the end of 2019 (57% as at 31 December 2018). Loans in EUR went up, their share as at the end of 2019 increased to 41% of the foreign currency portfolio (from 37% as at the end of 2018).

CONCENTRATION OF CREDIT RISK BY CURRENCY	31.12.2019	31.12.2018
PLN	80,65%	79,68%
CHF	10,32%	11,67%
EUR	7,99%	7,51%
USD	0,81%	1,04%
GBP	0,04%	0,04%
other	0,19%	0,06%
Total	**100,00%**	**100,00%**

(IN PLN MILLION)

- **OTHER TYPES OF CONCENTRATION**

The Bank analyses the structure of its housing loan portfolio by LTV levels. Both in 2019 and in 2018, the largest concentration was in the LTV range of 61%-80%.

HOUSING LOAN PORTFOLIO STRUCTURE BY LTV	31.12.2019	31.12.2018
0% - 40%	24,36%	21,49%
41% -60%	30,46%	24,83%
61% - 80%	35,45%	37,46%
81% - 90%	6,56%	10,75%
91% - 100%	1,40%	2,36%
over 100%	1,77%	3,11%
Total	**100,00%**	**100,00%**

The average LTV of the portfolio of housing loans amounted to 55.22% as at 31 December 2019 and 59.50% as at 31 December 2018.

	31.12.2019	31.12.2018
average LTV for the portfolio of loans in CHF	58,68%	64,38%
average LTV for the entire portfolio	55,22%	59,50%

56. COLLATERAL

In the period ended 31 December 2019, the Bank did not make any changes in its collateral policies.

The Bank 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 2 117 million (as at 31 December 2018 PLN 2 382 million).

The Bank does not have any exposures for which, due to the value of the collateral, it has not recognized an allowance for expected credit loss.

57. FORBEARANCE PRACTICES

Forbearance is defined by the Bank 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 Bank and to maximize the efficiency of non-performing loans management, i.e. obtaining the highest possible recoveries while minimizing the costs incurred.

Forbearance changes in repayment terms may consist in:

- dividing the debt due into instalments;
- changing the repayment scheme (fixed payments, degressive payments);
- extending the loan period;
- changing the interest rate;
- changing the margin;
- reducing the debt.

As a result of signing and repaying the amounts due under a forbearance agreement on a timely basis, a non-performing loan becomes a performing loan.

The provision of facilities within the framework of forbearance, as a premise of impairment, results in the recognition of the premise of impairment and the classification of the credit exposure into the portfolio of exposures at risk of impairment.

The inclusion of such exposures in the portfolio of performing exposures (discontinuing recognition of the forbearance agreement as an impairment trigger) takes place at least 12 months after the introduction of forbearance, provided that all payments in arrears and at least six scheduled payments have been made by the customer and, in the Bank's opinion, the current situation of the customer does not pose a threat to their compliance with the terms of the restructuring agreement.

Exposures cease to meet the criteria of a forborne exposure when all of the following conditions are met:

- at least 24 months have passed from the date of including the exposure into the portfolio of performing exposures (conditional period);
- as at the end of the conditional period referred to above, the customer has no debt towards the Bank overdue for more than 30 days;
- at least 12 instalments have been repaid on a timely basis and in the amounts agreed.

Forborne exposures are monitored on an on-going basis. Throughout the whole period of their recognition allowances are recognized for these exposures in the amount of expected losses over the life horizon of the exposure.

(IN PLN MILLION)

31.12.2019	Performing exposures subject to forbearance					Non-performing exposures subject to forbearance					Exposures subject to forbearance, gross	Exposures subject to forbearance, net
	Instruments with modified terms and conditions	Refinancing	Total, gross	Impairment allowance	Total, net	Instruments with modified terms and conditions	Refinancing	Total, gross	Impairment allowance	Total, net		
Not held for trading, measured at fair value through profit or loss:	**19**	**-**	**19**	**-**	**19**	**216**	**-**	**216**	**-**	**216**	**235**	**235**
Consumer loans	19	-	19	-	19	37	-	37	-	37	56	56
Corporate bonds (in PLN)	-	-	-	-	-	179		179	-	179	179	179
											-	
Measured at fair value through OCI:	**1**	**-**	**1**	**-**	**1**	**466**	**-**	**466**	**(5)**	**461**	**467**	**462**
Housing loans	1	-	1	-	1	3	-	3	-	3	4	4
Corporate bonds (in PLN)	-	-	-	-	-	463	-	463	(5)	458	463	458
Measured at amortized cost:	**1 120**	**1**	**1 121**	**(70)**	**1 051**	**1 963**	**37**	**2 000**	**(786)**	**1 214**	**3 121**	**2 265**
Loans	1 120	1	1 121	(70)	1 051	1 963	37	2 000	(786)	1 214	3 121	2 265
housing	465	-	465	(27)	438	478	-	478	(224)	254	943	692
corporate	600	1	601	(39)	562	1 372	35	1 407	(527)	880	2 008	1 442
consumer	55	-	55	(4)	51	113	2	115	(35)	80	170	131
Total	**1 140**	**1**	**1 141**	**(70)**	**1 071**	**2 645**	**37**	**2 682**	**(791)**	**1 891**	**3 823**	**2 962**

31.12.2018	Performing exposures subject to forbearance					Non-performing exposures subject to forbearance					Exposures subject to forbearance, gross	Exposures subject to forbearance, net
	Instruments with modified terms and conditions	Refinancing	Total, gross	Impairment allowance	Total, net	Instruments with modified terms and conditions	Refinancing	Total, gross	Impairment allowance	Total, net		
Not held for trading, measured at fair value through profit or loss:	**-**	**-**	**-**	**-**	**-**	**116**	**-**	**116**	**-**	**116**	**116**	**116**
Consumer loans	-	-	-	-	-	1	-	1	-	1	1	1
Corporate bonds (in PLN)	-	-	-	-	-	115	-	115	-	115	115	115
Measured at fair value through OCI:	**37**	**-**	**37**	**-**	**37**	**472**	**-**	**472**	**(10)**	**462**	**509**	**499**
Housing loans	-	-	-	-	-	1	-	1	-	1	1	1
Debt securities	37	-	37	-	37	471	-	471	(10)	461	508	498
corporate bonds (in PLN)	12	-	12		12	471	-	471	(10)	461	483	473
corporate bonds (in foreign currencies)	25	-	25		25			-		-	25	25
Measured at amortized cost:	**1 100**	**2**	**1 102**	**(79)**	**1 023**	**2 899**	**173**	**3 072**	**(1 165)**	**1 907**	**4 174**	**2 930**
Loans	1 100	2	1 102	(79)	1 023	2 899	173	3 072	(1 165)	1 907	4 174	2 930
housing	556	-	556	(36)	520	685	-	685	(373)	312	1 241	832
corporate	461	2	463	(37)	426	2 019	170	2 189	(706)	1 483	2 652	1 909
consumer	83	-	83	(6)	77	195	3	198	(86)	112	281	189
Total	**1 137**	**2**	**1 139**	**(79)**	**1 060**	**3 487**	**173**	**3 660**	**(1 175)**	**2 485**	**4 799**	**3 545**

(IN PLN MILLION)

LOANS AND ADVANCES TO CUSTOMERS SUBJECT TO FORBEARANCE BY TYPE OF CHANGES IN TERMS OF REPAYMENT (GROSS)	31.12.2019	31.12.2018
Recognized interest income on loans and advances to customers subject to forbearance	134	123

58. Exposure to the counterparty credit risk

CONCENTRATION OF CREDIT RISK – INTERBANK and NON-WHOLESALE MARKET – EXPOSURE AS AT 31.12.2019[1]								
			Interbank - wholesale market			Non-wholesale		
Counterparty	Country	Rating	Deposit	Derivatives (market value, excluding collateral if positive)	Securities (nominal value)	Nominal balance sheet exposure	Nominal off-balance sheet exposure	Total
Counterparty 1	Poland	BBB	-	52	62	2 272	4 231	6 617
Counterparty 2	supranational institution	AAA	-	3	1 017	-	-	1 020
Counterparty 3	Austria	BBB	681	-	-	-	-	681
Counterparty 4	Switzerland	AAA	456	(11)	-	-	-	456
Counterparty 5	UK	A	341	-	-	-	-	341
Counterparty 6	the United States of America	AA	266	-	-	-	-	266
Counterparty 7	Austria	A	199	(5)	-	-	-	199
Counterparty 8	Ukraine	NONE	77	-	-	-	114	191
Counterparty 9	Poland	A	-	1	1	150	-	152
Counterparty 10	Finland	AA	-	(88)	-	20	123	144
Counterparty 11	the United States of America	AA	-	88	-	5	5	98
Counterparty 12	Denmark	A	74	(2)	-	-	-	74
Counterparty 13	UK	AA	-	70	-	-	-	70
Counterparty 14	Germany	BBB	-	67	-	-	-	67
Counterparty 15	Poland	BBB	-	39	-	-	-	39
Counterparty 16	UK	A	-	36	-	-	-	36
Counterparty 17	Poland	NONE	-	33	-	-	-	33
Counterparty 18	UK	A	-	32	-	-	-	32
Counterparty 19	Germany	AA	-	27	-	-	-	27
Counterparty 20	Germany	BBB	-	25	-	-	-	25

[1] Excluding exposure to the State Treasury and the National Bank of Poland.

CONCENTRATION OF CREDIT RISK – INTERBANK and NON-WHOLESALE MARKET – EXPOSURE AS AT 31.12.2018[1]								
			Interbank - wholesale market			Non-wholesale		
Counterparty	Country	Rating	Deposit	Derivatives (market value, excluding collateral if positive)	Securities (nominal value)	Nominal balance sheet exposure	Nominal off-balance sheet exposure	Total
Counterparty 1	Poland	BBB	-	(151)	91	1 729	3 171	4 991
Counterparty 4	Switzerland	AAA	985	(1)	-	-	-	985
Counterparty 10	Finland	AA	600	(24)	-	13	100	713
Counterparty 29	Belgium	A	700	1	-	-	-	701
Counterparty 7	Austria	A	581	-	-	-	-	581
Counterparty 36	Norway	A	515	-	-	-	-	515
Counterparty 70	Switzerland	AA	493	-	-	-	-	493
Counterparty 23	Austria	BBB	467	-	-	-	-	467
Counterparty 71	Poland	A	-	1	400	-	-	401
Counterparty 72	Switzerland	AA	400	-	-	-	-	400
Counterparty 73	Switzerland	AA	376	-	-	-	-	376
Counterparty 74	China	A	280	-	-	-	-	280
Counterparty 8	Ukraine	NONE	88	-	-	-	113	201
Counterparty 2	Supranational institution	AAA	-	(1)	200	-	-	200
Counterparty 75	Switzerland	AA	146	-	-	-	-	146
Counterparty 9	Poland	A	-	-	-	140	-	140
Counterparty 76	Italy	BBB	99	-	-	-	-	99
Counterparty 13	UK	AA	-	97	-	-	-	97
Counterparty 11	USA	AA	-	71	-	-	10	81
Counterparty 15	Poland	BBB	-	51	28	-	-	79

[1] Excluding exposure to the State Treasury and the National Bank of Poland.

As at 31 December 2019 and 31 December 2018, the Bank had access to two clearing houses (to one, as an indirect participant, and to the other - as a direct participant), through which it cleared interest rate derivative transactions specified in the EMIR Regulation and the related delegated and executive regulations, with selected domestic and foreign counterparties. In nominal terms, the share of transactions cleared centrally was 93% of the entire IRS/OIS portfolio, and in the case of FRA, all transactions were submitted for clearing to clearing houses.

(IN PLN MILLION)

59. MANAGEMENT OF CURRENCY RISK ASSOCIATED WITH MORTGAGE LOANS FOR HOUSEHOLDS

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

HOUSING LOANS TO HOUSEHOLDS BY CURRENCY 31.12.2019	Individuals			Individual entrepreneurs, non-commercial institutions acting for households			Total		
	gross	impairment allowance	net	gross	impairment allowance	net	gross	impairment allowance	net
PLN	63 983	(963)	63 020	4 081	(11)	4 070	68 064	(974)	67 090
CHF	21 410	(692)	20 718	4	-	4	21 414	(692)	20 722
EUR	2 825	(53)	2 772	-	-	-	2 825	(53)	2 772
USD	43	(4)	39	-	-	-	43	(4)	39
INNE	9	-	9	-	-	-	9	-	9
RAZEM	88 270	(1 712)	86 558	4 085	(11)	4 074	92 355	(1 723)	90 632

HOUSING LOANS TO HOUSEHOLDS BY CURRENCY 31.12.2018	Individuals			Individual entrepreneurs, non-commercial institutions acting for households			Total		
	gross	impairment allowance	net	gross	impairment allowance	net	gross	impairment allowance	net
PLN	60 961	(1 018)	59 943	3 964	(14)	3 950	64 925	(1 032)	63 893
CHF	23 259	(683)	22 576	4	-	4	23 263	(683)	22 580
EUR	3 154	(53)	3 101	-	-	-	3 154	(53)	3 101
USD	50	(3)	47	-	-	-	50	(3)	47
INNE	10	-	10	-	-	-	10	-	10
RAZEM	87 434	(1 757)	85 677	3 968	(14)	3 954	91 402	(1 771)	89 631

(IN PLN MILLION)

MORTGAGE LOANS AND ADVANCES IN FOREIGN CURRENCIES BY GRANTING DATE 31.12.2019		INDEXED	DENOMINATED	Total
up to 2002	Gross amount	-	98	**98**
	Allowances for credit losses	-	(2)	**(2)**
	Net amount	-	96	**96**
	Number of loans granted	-	6 704	**6 704**
from 2003 to 2006	Gross amount	-	4 974	**4 974**
	Allowances for credit losses	-	(107)	**(107)**
	Net amount	-	4 867	**4 867**
	Number of loans granted	-	47 821	**47 821**
from 2007 to 2009	Gross amount	-	12 753	**12 753**
	Allowances for credit losses	-	(542)	**(542)**
	Net amount	-	12 211	**12 211**
	Number of loans granted	-	54 056	**54 056**
from 2010 to 2012	Gross amount	3 362	3 085	**6 447**
	Allowances for credit losses	(39)	(57)	**(96)**
	Net amount	3 323	3 028	**6 351**
	Number of loans granted	11 115	12 709	**23 824**
from 2013 to 2016	Gross amount	5	14	**19**
	Allowances for credit losses	-	(2)	**(2)**
	Net amount	5	12	**17**
	Number of loans granted	18	47	**65**
Total	**Gross amount**	**3 367**	**20 924**	**24 291**
	Allowances for credit losses	**(39)**	**(710)**	**(749)**
	Net amount	**3 328**	**20 214**	**23 542**
	Number of loans granted	**11 133**	**121 337**	**132 470**

(IN PLN MILLION)

MORTGAGE LOANS AND ADVANCES IN FOREIGN CURRENCIES BY GRANTING DATE 31.12.2018		INDEXED	DENOMINATED	Total
up to 2002	Gross amount	-	130	**130**
	Allowances for credit losses	-	(3)	**(3)**
	Net amount	-	127	**127**
	Number of loans granted	-	7 850	**7 850**
from 2003 to 2006	Gross amount	-	5 491	**5 491**
	Allowances for credit losses	-	(120)	**(120)**
	Net amount	-	5 371	**5 371**
	Number of loans granted	-	51 943	**51 943**
from 2007 to 2009	Gross amount	-	13 899	**13 899**
	Allowances for credit losses	-	(527)	**(527)**
	Net amount	-	13 372	**13 372**
	Number of loans granted	-	56 045	**56 045**
from 2010 to 2012	Gross amount	3 562	3 373	**6 935**
	Allowances for credit losses	(33)	(52)	**(85)**
	Net amount	3 529	3 321	**6 850**
	Number of loans granted	11 527	13 353	**24 880**
from 2013 to 2016	Gross amount	5	17	**22**
	Allowances for credit losses	-	(4)	**(4)**
	Net amount	5	13	**18**
	Number of loans granted	18	53	**71**
Total	**Gross amount**	**3 567**	**22 910**	**26 477**
	Allowances for credit losses	**(33)**	**(706)**	**(739)**
	Net amount	**3 534**	**22 204**	**25 738**
	Number of loans granted	**11 545**	**129 244**	**140 789**

- **LEGAL RISK OF MORTGAGE LOANS IN CONVERTIBLE CURRENCIES**

As at 31 December 2019 the Bank recognized the impact of legal risk related to the portfolio of mortgage loans in convertible currencies granted to households in its financial statements. In accordance with IAS 37, the Bank recorded a provision for potential litigation of PLN 29 million for repaid loan agreements. For active agreements, the Bank adjusted the gross carrying amount of mortgage loans to reflect the modified estimated cash flows arising from the agreements, in accordance with IFRS 9, and reduced their value by PLN 281 million. At the same time, as at 31 December 2019 the Bank recorded a provision of PLN 141 million for pending litigation in its financial statements, and adjusted the gross carrying amount of mortgage loans by this amount. The aggregate impact of legal risk of PLN 451 million was recognized in the income statement in a separate line as the cost of legal risk related to mortgage loans in foreign currencies.

The Bank applied two independent models of predicting potential losses arising from the legal risk and obtained similar amounts of expected loss. These models take into account the forecasted increase in the number of suits in the three-year horizon and divide the portfolio of mortgage loans in convertible currencies into generations, among others, based on the following criteria: characteristics of the agreement, date of granting the loan, exchange rate as at the grant date, loan amount, type of product and entity granting the loan. The calculation of potential losses takes into account possible scenarios of how the litigation would be resolved and the probability of their occurrence, taking into account the history of former verdicts and assessments by independent law firms. The Bank calculated the legal risk-related loss using the statistical method in respect of the expected value being the sum of the products of the probabilities of specific litigation resolutions and the loss calculated for each scenario, taking into account alternative prediction methods with respect to the number of disputes within a three-year horizon. Additionally, the Banks model takes into account the effect of customer characteristics on the amount of expected loss.

The Bank applied simplifications in the calculation of expected loss in connection with legal risk arising from an analysis of a long row of historical data, including data of the acquired entities, and a number of scenarios of possible dispute resolutions. In the Bank's opinion, the simplifications adopted do not have a significant effect on the amount of potential loss.

Due to a short horizon of available historical data and significant uncertainty as to the direction of court decisions as well as the market conditions, the adopted methodology for estimating losses related to legal risk will be verified periodically in subsequent reporting periods.

The Bank conducted a sensitivity analysis of models under which a change in the following parameters would have the following effect on the amount of the estimated allowance for legal risk:

Parameter	Scenario	Effect on loss due to legal risk in respect of portfolio of mortgage loans to households in convertible currencies
Number of lawsuits	20%	62
	-20%	(62)
Time horizon of forecast	4 years	115
	2 years	(106)

If additionally 1% of the Bank's clients having mortgage loans in foreign currencies sued the Bank, the impact of mortgage loans in foreign currencies on legal risk loss would rise by PLN 100 million.

60. INTEREST RATE RISK MANAGEMENT

INTEREST RATE RISK MANAGEMENT

- **DEFINITION**

Interest rate risk is a risk of losses being incurred on the Bank's balance sheet and off-balance sheet items sensitive to interest rate fluctuations, as a result of changes in market interest rates.

- **MANAGEMENT OBJECTIVE**

To reduce the potential losses resulting from market interest rate fluctuations to an acceptable level by properly shaping the structure of balance sheet and off-balance sheet items.

- **RISK IDENTIFICATION AND MEASUREMENT**

The Bank uses the following measures of interest rate risk: interest income sensitivity, economic value sensitivity, value at risk (VaR), stress tests and repricing gaps.

- **CONTROL**

Control over interest rate risk consists in determining interest rate risk limits and thresholds tailored to the scale and complexity of the Bank's operations, in particular the strategic limit of tolerance to interest rate risk.

- **FORECASTING AND MONITORING**

The following are monitored by the Bank on a regular basis:

- the levels of interest rate risk measures;
- utilization of the strategic limit of tolerance to interest rate risk;
- utilization of internal limits and thresholds of interest rate risk.

- **REPORTING**

Reports on interest rate risk are prepared on a daily, weekly, monthly and quarterly basis.

- **MANAGEMENT ACTIONS**

The main tools for interest rate risk management used by the Bank are: interest rate risk management procedures, interest rate risk limits and thresholds.

The Bank established limits and thresholds for interest rate risk comprising i.a. the following: interest income sensitivity, sensitivity of the economic value and losses.

FINANCIAL INFORMATION

The Bank's exposure to interest rate risk remained within the adopted limits as at 31 December 2019 and 31 December 2018. The Bank was mainly exposed to PLN interest rate risk.

The Bank categorizes its portfolios from the perspective of interest rate risk management:

- the banking book - comprises balance sheet and off-balance sheet items not included in the trading book, in particular items resulting from the Bank's core activities, transactions concluded for investment and liquidity purposes and their hedging transactions;
- the trading book - comprises transactions concluded on financial instruments as part of activities conducted on own account and an behalf of the customers.

THE BANKING BOOK

In order to monitor interest rate risk the Bank applies interest rate risk measures that reflect the identified four main types of interest rate risk:

- the risk of revaluation date mismatch;
- the yield curve risk;
- the basis risk; and
- the customer option risk.

- **SENSITIVITY OF INTEREST INCOME**

The sensitivity of interest income to sudden shifts in the yield curve is determined by a potential financial effect of such a shift reflected in a changed amount of interest income in a given time horizon. The change results from the mismatch between revaluation dates of assets, liabilities and off-balance sheet liabilities granted and received (in particular derivative instruments) sensitive to interest rate fluctuations.

Sensitivity of interest income in the banking book of the Bank to the abrupt shift in the yield curve of 100 bp in a one-year horizon in all currencies is shown in the table below:

NAME OF SENSITIVITY MEASURE	31.12.2019	31.12.2018
Sensitivity of interest income (PLN million)	901	991

- **SENSITIVITY OF ECONOMIC VALUE**

Sensitivity of economic value reflects the fair value changes of items in the portfolio arising from the parallel shift of the yield curves up by one basis point.

The table below presents the economic value sensitivity measure (BPV) of the banking book of the Bank in all currencies as at 31 December 2019 and 31 December 2018:

NAME OF SENSITIVITY MEASURE	31.12.2019	31.12.2018
Sensitivity of economic value (PLN million)	3	8

THE TRADING BOOK

In order to monitor the interest rate risk in the trading book the Bank applies the value-at-risk (VaR) measure.

- **VALUE AT RISK**

The IR VaR measure is a potential amount of loss that may be incurred in normal market conditions in a specific time (i.e. horizon) and with an assumed level of probability related to changes in interest rate curves.

The IR VaR in the Bank's trading book is shown in the table below:

NAME OF SENSITIVITY MEASURE	31.12.2019	31.12.2018
IR VaR for a 10-day time horizon at the confidence level of 99% (in PLN million):		
Average value	5	6
Maximum value	10	11
Value at the end of the period	6	5

61. CURRENCY RISK MANAGEMENT

CURRENCY RISK MANAGEMENT

- **DEFINITION**

Currency risk is the risk of incurring losses due to unfavourable exchange rate fluctuations. The risk is generated by maintaining open currency positions in various foreign currencies.

- **RISK MANAGEMENT OBJECTIVE**

To reduce the potential losses resulting from exchange rate fluctuations to an acceptable level by properly shaping the currency structure of balance sheet and off-balance sheet items.

- **RISK IDENTIFICATION AND MEASUREMENT**

The Bank uses the following measures of the currency risk: value-at-risk (VaR) and stress tests.

- **CONTROL**

Control over currency risk consists in determining currency risk limits and thresholds tailored to the scale and complexity of the Bank's operations, in particular the strategic limit of tolerance to currency risk.

- **FORECASTING AND MONITORING**

The following are monitored by the Bank on a regular basis:

- the level of currency risk measures;
- utilization of the strategic limit of tolerance to currency risk;
- utilization of internal limits and thresholds of currency risk.

- **REPORTING**

Reports on currency risk are prepared on a daily, weekly, monthly and quarterly basis.

- **MANAGEMENT ACTIONS**

The main tools for currency risk management used by the Bank are:

- currency risk management procedures;
- currency risk limits and thresholds;
- defining allowable types of foreign currency transactions and the exchange rates used in such transactions.

The Bank has set limits and thresholds for currency risk for, among other things: currency positions, Value at Risk calculated for a 10-day time horizon and loss on the currency market.

FINANCIAL INFORMATION

• SENSITIVITY MEASURES

The FX VaR measure is a potential value of loss that may occur in normal market conditions at a specific time (i.e. horizon) and with an assumed level of probability related to changes in foreign exchange rates.

Stress tests are used to estimate loss in an event of abrupt changes on the currency market which are not described using statistical measures by default.

The Bank's FX VaR, in aggregate for all currencies, is presented in the table below:

NAME OF SENSITIVITY MEASURE	31.12.2019	31.12.2018
VaR for a 10-day time horizon at the confidence level of 99% (in PLN million)	9	4

• FOREIGN CURRENCY POSITION

The Bank's foreign currency positions are presented in the table below:

FOREIGN CURRENCY POSITION	31.12.2019	31.12.2018
EUR	(8)	24
CHF	(238)	(34)
Other (Global, Net)	28	35

Currency positions (in addition to volatility of foreign exchange rates) are a key factor determining the level of currency risk to which the Bank is exposed. The foreign currency positions are determined by all foreign currency transactions concluded, both in the statement of financial position and off-balance sheet transactions. The Bank's exposure to currency risk is low.

• FINANCIAL ASSETS AND LIABILITIES BY CURRENCY

CURRENCY STRUCTURE 31.12.2019	Currency translated to PLN					
	PLN	CHF	EUR	USD	Other	Total
Cash and balances with Central Bank	13 644	43	633	90	192	14 602
Amounts due from banks	4 917	53	1 803	874	306	7 953
Hedging derivatives	567	8	16	3	-	594
Other derivative instruments	2 502	-	231	64	1	2 798
Securities	73 769	-	1 886	767	-	76 422
- held for trading	1 172	-	3	-	-	1 175
- not held for trading, mandatorily measured at fair value through profit or loss	532	-	3	220	-	755
- measured at fair value through OCI	59 045	-	1 538	547	-	61 130
- measured at amortized cost	13 020	-	342	-	-	13 362
Loans and advances to customers	162 090	21 228	16 571	1 714	492	202 095
- not held for trading, mandatorily measured at fair value through profit or loss	8 286	-	-	-	-	8 286
- measured at fair value through OCI	9 623	-	-	-	-	9 623
- measured at amortized cost	144 181	21 228	16 571	1 714	492	184 186
Other financial assets	1 621	-	30	21	19	1 691
Total financial assets	**259 110**	**21 332**	**21 170**	**3 533**	**1 010**	**306 155**
Amounts due to Central Bank	-	-	-	-	-	-
Amounts due to banks	1 242	9	583	110	32	1 976
- measured at fair value through profit or loss	317	-	-	-	-	317
- measured at amortized cost	925	9	583	110	32	1 659
Hedging derivatives	660	-	7	1	-	668
Other derivative instruments	2 593	-	240	94	-	2 927
Amounts due to customers	226 134	513	17 845	11 245	2 278	258 015
- measured at fair value through profit or loss	45	-	-	-	-	45
- measured at amortized cost	226 089	513	17 845	11 245	2 278	257 970
Debt securities in issue	-	1 569	3 200	-	-	4 769
Subordinated liabilities	2 730	-	-	-	-	2 730
Other financial liabilities	2 864	1	408	77	44	3 394
Provisions for financial liabilities and guarantees granted	218	2	34	13	1	268
Total financial liabilities	**236 441**	**2 094**	**22 317**	**11 540**	**2 355**	**274 747**
Financial liabilities and guarantees granted	61 853	167	7 526	4 180	359	74 085

(IN PLN MILLION)

CURRENCY STRUCTURE 31.12.2018	Currency translated to PLN					
	PLN	CHF	EUR	USD	Other	Total
Cash and balances with Central Bank	21 650	68	719	158	267	22 862
Amounts due from banks	5 336	7	2 955	2 110	805	11 213
Hedging derivatives	583	7	2	-	-	592
Other derivative instruments	1 717	-	144	48	-	1 909
Securities	59 856	-	417	166	-	60 439
- held for trading	277	-	5	-	-	282
- not held for trading, mandatorily measured at fair value through profit or loss	1 098	-	40	142	-	1 280
- measured at fair value through OCI	50 510	-	28	24	-	50 562
- at amortized cost	7 971	-	344	-	-	8 315
Loans and advances to customers	151 372	23 200	14 812	1 998	193	191 575
- not held for trading, mandatorily measured at fair value through profit or loss	1 106	-	-	-	-	1 106
- measured at fair value through OCI	8 496	-	-	-	-	8 496
- measured at amortized cost	141 770	23 200	14 812	1 998	193	181 973
Other financial assets	2 057	-	65	12	15	2 149
Total financial assets	**242 571**	**23 282**	**19 114**	**4 492**	**1 280**	**290 739**
Amounts due to Central Bank	7	-	-	-	-	7
Amounts due to banks	899	7	552	129	4	1 591
Hedging derivatives	553	-	7	-	-	560
Other derivative instruments	2 460	-	163	33	1	2 657
Amounts due to customers	214 635	1 904	16 248	10 662	1 764	245 213
Debt securities in issue	611	1 527	3 229	-	-	5 367
Subordinated liabilities	2 731	-	-	-	-	2 731
Other financial liabilities	1 658	13	337	62	26	2 096
Provisions for financial liabilities and guarantees granted	169	2	54	1	1	227
Total financial liabilities	**223 723**	**3 453**	**20 590**	**10 887**	**1 796**	**260 449**
Financial liabilities and guarantees granted	53 333	180	8 266	2 756	222	64 757

62. LIQUIDITY RISK MANAGEMENT

LIQUIDITY RISK MANAGEMENT

- **DEFINITION**

Liquidity risk is the risk of inability to settle liabilities as they become due because of an absence of liquid assets. The lack of liquidity may be due to the inappropriate structure of assets and liabilities, including off-balance sheet, a mismatch of cash flows, customers' failing to settle their liabilities, a sudden withdrawal of funds by the customers or other market events.

The Bank also manages financing risk which takes into account the risk of losing the existing sources of financing and inability of renewing the matured funding or a loss of access to new sources of financing.

- **MANAGEMENT OBJECTIVE**

To ensure the necessary level of funds needed to settle current and future liabilities (also potential ones) as they become due, taking into account the nature of the activities conducted and the needs which may arise due to changes in the market environment, by appropriately establishing the structure of balance sheet and off-balance sheet assets and liabilities.

- **RISK IDENTIFICATION AND MEASUREMENT**

The Bank uses the following measures of the liquidity risk:

- contractual and adjusted liquidity gap;
- liquidity reserve;
- liquidity surplus;
- the ratio of stable funds to illiquid assets;
- liquidity coverage ratio (LCR);
- domestic supervisory liquidity measures (M3-M4);
- measures of stability of the deposit and loan portfolios;
- liquidity stress tests.

- **RISK CONTROL**

Control over the liquidity risk consists in determining liquidity risk limits and thresholds tailored to the scale and complexity of the Bank's operations, in particular the strategic limit of tolerance to liquidity risk.

- **FORECASTING AND MONITORING**

The Bank regularly monitors:

- utilization of the strategic limit of tolerance to liquidity risk;
- utilization of regulatory liquidity standards;
- utilization of internal limits and thresholds of liquidity risk;
- concentration of the sources of financing;
- early warning indicators – monitored in order to early detect unfavourable developments which may have a negative impact on the Bank's or the financial sector's liquidity position (when exceeded, early warning indicators trigger liquidity contingency plans).

The Bank also makes regular liquidity forecasts which take into account the current developments in the Bank's operations. Liquidity forecasts include primarily the levels of selected liquidity risk measures envisaged in the forecasts of the Bank's assets and liabilities and in selected stress test scenarios.

(IN PLN MILLION)

- **REPORTING**

Liquidity reports are developed on a daily, weekly, monthly and quarterly basis and once a year, an in-depth long-term liquidity analysis is performed. The reports contain information on liquidity risk exposure and on the risk limits utilization. The reports are addressed mainly to: ALCO, RC, the Management Board, the Risk Committee and the Supervisory Board.

- **MANAGEMENT ACTIONS / RISK MANAGEMENT TOOLS**

The main tools for liquidity risk management used by the Bank are:

- procedures for liquidity risk management, in particular contingency plans;
- limits and thresholds to mitigate short-term, medium-term and long-term liquidity risk;
- national and European supervisory liquidity standards;
- deposit, investment and securities transactions and well as derivatives, including structural currency transactions and transactions for the sale or purchase of securities;
- transactions ensuring long-term financing of the lending activities.

The Bank's policy concerning liquidity is based on keeping an appropriate level of liquidity surplus and supervisory and internal measures of liquidity risk and financing through an increase in the portfolio of liquid securities, and stable sources of financing (a stable deposit base, in particular). In liquidity risk management, money market instruments, including NBP open market operations, are also used.

FINANCIAL INFORMATION

- **LIQUIDITY GAP**

The adjusted liquidity gap comprises a set of particular balance sheet and off-balance sheet items in respect of their adjusted maturities. The liquidity gaps presented below include, among other things, the Bank's adjusted balance sheet and off-balance sheet items in respect of core deposits from non-financial entities and their maturities, overdrafts and credit cards and their maturities, as well as 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
31.12.2019								
adjusted periodic gap	13 368	25 861	(9 437)	(5 561)	(928)	8 177	30 644	(131 302)
adjusted cumulative periodic gap	13 368	39 229	29 792	24 231	23 303	31 480	62 124	(69 179)
31.12.2018 [1]								
adjusted periodic gap	22 430	22 576	(3 039)	(398)	8 871	14 112	18 632	(83 184)
adjusted cumulative periodic gap	22 430	45 006	41 967	41 569	50 440	64 552	83 184	

[1] Brought to comparability with the data as at 31 December 2019.

(IN PLN MILLION)

- **SUPERVISORY LIQUIDITY MEASURES**

The following supervisory liquidity measures are regularly set and monitored at the Bank:

- Liquidity Coverage Ratio (LCR) - defining the relation of high-quality liquid assets to net outflows in the 30-day horizon in stress conditions (supervisory measure specified in the CRR Regulation);
- Net Stable Funding Ratio (NSFR) - a measure defining the relationship of items providing stable funding to items requiring stable funding;
- M3 – non-liquid assets to own funds (national supervisory ratio);
- M4 – non-liquid assets and assets with limited liquidity to own funds and stable external funds (national supervisory ratio).

SUPERVISORY LIQUIDITY MEASURES	31.12.2019	31.12.2018
M3 - coverage ratio of non-liquid assets to own funds	14,92	17,44
M4 - coverage ratio of non-liquid assets and liquidity-restricted assets with own funds and stable external funds	1,25	1,22
NSFR - net stable funding ratio	124,9%	120,2%
LCR - liquidity coverage ratio	139,0%	127,3%

In the period ended 31 December 2019 and 31 December 2018, liquidity measures remained above their respective supervisory limits.

- **CORE DEPOSIT BASE**

As at 31 December 2019, the core deposit base constituted ca. 93.8% of all deposits placed with the Bank (excluding the interbank market), which represents a decrease of approx. 0.1 p.p. compared with the end of 2018.

- **STRUCTURE OF THE SOURCES OF FINANCING**

STRUCTURE OF THE BANK'S SOURCES OF FINANCING	31.12.2019	31.12.2018
Total deposits (excluding interbank market)	83,64%	81,51%
Interbank market deposits	0,42%	0,65%
Equity	12,74%	13,00%
Market financing	3,21%	4,84%
Total	**100,00%**	**100,00%**

(IN PLN MILLION)

- **CONTRACTUAL CASH FLOWS FROM THE BANK'S LIABILITIES, EXCLUDING DERIVATIVE FINANCIAL INSTRUMENTS**

The amounts disclosed comprise non-discounted future cash flows, both in respect of the principal and interest (if applicable), in accordance with the contract, for the entire period to the date of the liability's maturity. Where the party to whom the Bank has a liability is able to select the settlement deadline, it has been assumed that the earliest date on which the Bank is obliged to settle the liability shall be taken into account. Where the Bank is obliged to settle the liabilities in instalments, each instalment is allocated to the earliest period in which the Bank might be obligated to settle. In the case of liabilities where instalment amounts are not fixed, the terms binding as at the reporting date have been adopted.

BANK'S LIABILITIES AS AT 31 DECEMBER 2019, BY MATURITY	Up to 1 month inclusive	Over 1 month to 3 months inclusive	Over 3 months to 1 year inclusive	Over 1 year to 5 years inclusive	Over 5 years	Contractual amount	Carrying amount
Liabilities:							
Amounts due to banks	1 966	10	-	-	-	1 976	1 976
Amounts due to customers	196 706	16 891	28 979	9 487	9 143	261 206	258 015
Debt securities in issue	-	-	29	4 791	-	4 820	4 769
Subordinated liabilities	-	45	45	473	2 913	3 476	2 730
Lease liabilities	18	35	145	467	409	1 074	819
Other financial liabilities	2 575	-	-	-	-	2 575	2 575
Total financial liabilities	**201 265**	**16 981**	**29 198**	**15 264**	**12 465**	**275 173**	**270 884**
Off-balance sheet liabilities:							
financing, granted	13 944	5 844	15 141	14 121	8 733	57 783	-
guarantees, granted	159	1 651	5 161	7 133	2 198	16 302	-

BANK'S LIABILITIES AS AT 31 DECEMBER 2018, BY MATURITY	Up to 1 month inclusive	Over 1 month to 3 months inclusive	Over 3 months to 1 year inclusive	Over 1 year to 5 years inclusive	Over 5 years	Contractual amount	Carrying amount
Liabilities:							
Amounts due to Central Bank	7	-	-	-	-	7	7
Amounts due to banks	1 526	65	-	-	-		1 591
Amounts due to customers	181 522	21 135	26 503	10 245	8 036		245 213
Debt securities in issue	-	-	622	4 765	-	5 387	5 367
Subordinated liabilities	-	62	62	542	3 362	4 028	2 731
Other financial liabilities	2 096	-	-	-	-	2 096	2 096
Total financial liabilities	**185 151**	**21 262**	**27 187**	**15 552**	**11 397**	**11 518**	**257 005**
Off-balance sheet liabilities:							
financing, granted	11 227	3 704	12 939	13 170	9 058	50 098	-
guarantees, granted	289	897	4 820	6 561	2 092	14 659	-

- **CONTRACTUAL CASH FLOWS FROM LIABILITIES IN RESPECT OF DERIVATIVE FINANCIAL INSTRUMENTS FOR WHICH THE VALUATION AS AT THE BALANCE SHEET DATE WAS NEGATIVE (A LIABILITY) AND WHICH ARE SETTLED ON A NET BASIS**

In the case of IRS and NDF transactions, non-discounted future net cash flows in respect of interest and principal have been presented and in the case of the remaining derivative instruments settled on a net basis, the amount of the valuation as at 31 December 2019 and as at 31 December 2018 respectively was adopted as the cash flow amount.

31 December 2019	Up to 1 month inclusive	Over 1 month to 3 months inclusive	Over 3 months to 1 year inclusive	Over 1 year to 5 years inclusive	Over 5 years	Contractual amount
Derivative financial instruments - liabilities:						
- Interest rate swap (IRS)	(114)	(197)	(91)	2	61	(339)
- other derivatives (options, FRA, NDF)	(610)	(962)	(2 061)	(2 495)	-	(6 128)

31 December 2018	Up to 1 month inclusive	Over 1 month to 3 months inclusive	Over 3 months to 1 year inclusive	Over 1 year to 5 years inclusive	Over 5 years	Contractual amount
Derivative financial instruments - liabilities:						
- Interest rate swap (IRS)	(13)	5	234	(1 104)	(276)	(1 153)
- other derivatives (options, FRA, NDF)	(455)	(1 393)	(2 876)	(2 062)	-	(6 788)

(IN PLN MILLION)

- **CONTRACTUAL CASH FLOWS FROM LIABILITIES IN RESPECT OF DERIVATIVE FINANCIAL INSTRUMENTS FOR WHICH THE VALUATION AS AT THE BALANCE SHEET DATE WAS NEGATIVE (A LIABILITY) AND WHICH ARE SETTLED ON A GROSS BASIS**

The amounts disclosed comprise non-discounted future cash flows, both in respect of principal and interest (if applicable).

31 December 2019	Up to 1 month inclusive	Over 1 month to 3 months inclusive	Over 3 months to 1 year inclusive	Over 1 year to 5 years inclusive	Over 5 years	Contractual amount
- outflows	(8 673)	(3 825)	(6 282)	(7 450)	(369)	(26 599)
- inflows	8 941	3 882	7 539	13 136	838	34 336

31 December 2018	Up to 1 month inclusive	Over 1 month to 3 months inclusive	Over 3 months to 1 year inclusive	Over 1 year to 5 years inclusive	Over 5 years	Contractual amount
- outflows	(8 027)	(2 684)	(4 200)	(4 076)	(1 700)	(20 688)
- inflows	17 064	2 776	6 295	10 845	5 094	42 074

- **CURRENT AND NON-CURRENT ASSETS AND LIABILITIES**

FINANCIAL ASSETS 31.12.2019	Current	Non-current	Allowances for expected credit losses and impairment allowances	Total carrying amount
Cash and balances with Central Bank	14 602	-		14 602
Amounts due from banks	5 436	2 521	(4)	7 953
Hedging derivatives	160	434		594
Other derivative instruments	1 192	1 606		2 798
Securities	5 150	71 292	(20)	76 422
- held for trading	1 175	-		1 175
- not held for trading, mandatorily measured at fair value through profit or loss	457	298		755
- measured at fair value through OCI	3 129	58 006	(5)	61 130
- measured at amortized cost	389	12 988	(15)	13 362
Loans and advances to customers	48 400	160 138	(6 443)	202 095
- not held for trading, mandatorily measured at fair value through profit or loss	5 461	2 825		8 286
- measured at fair value through OCI	300	9 323		9 623
- measured at amortized cost	42 639	147 990	(6 443)	184 186
Other financial assets	1 781	-	(90)	1 691
Total financial assets	**76 721**	**235 991**	**(6 557)**	**306 155**

FINANCIAL LIABILITIES 31.12.2019	Current	Non-current	Total carrying amount
Amounts due to banks	1 976	-	1 976
- measured at fair value through profit or loss	317	-	317
- measured at amortized cost	1 659	-	1 659
Hedging derivatives	238	430	668
Other derivative instruments	1 275	1 652	2 927
Amounts due to customers	241 213	16 802	258 015
- measured at fair value through profit or loss	45	-	45
- measured at amortized cost	241 168	16 802	257 970
Debt securities in issue	-	4 769	4 769
Subordinated liabilities	-	2 730	2 730
Other financial liabilities	2 688	706	3 394
Provisions for financial liabilities and guarantees granted	225	43	268
Total financial liabilities	**247 615**	**27 132**	**274 747**

(IN PLN MILLION)

FINANCIAL ASSETS 31.12.2018	Current	Non-current	Allowances for expected credit losses and impairment allowances	Total carrying amount
Cash and balances with Central Bank	22 862	-	-	22 862
Amounts due from banks	9 474	1 743	(4)	11 213
Hedging derivatives	43	549	-	592
Other derivative instruments	700	1 209	-	1 909
Securities	9 148	51 321	(30)	60 439
- held for trading	282	-	-	282
- not held for trading, mandatorily measured at fair value through profit or loss	581	699	-	1 280
- measured at fair value through OCI	7 479	43 093	(10)	50 562
- at amortized cost	806	7 529	(20)	8 315
Loans and advances to customers	41 473	157 613	(7 511)	191 575
- not held for trading, mandatorily measured at fair value through profit or loss	396	710	-	1 106
- measured at fair value through OCI	296	8 200	-	8 496
- measured at amortized cost	40 781	148 703	(7 511)	181 973
Other financial assets	2 244	-	(95)	2 149
Total financial assets	**85 944**	**212 435**	**(7 640)**	**290 739**

FINANCIAL LIABILITIES 31.12.2018	Current	Non-current	Total carrying amount
Amounts due to the Central Bank	7	-	7
Amounts due to banks	1 591	-	1 591
Hedging derivatives	123	437	560
Other derivative instruments	1 335	1 322	2 657
Amounts due to customers	230 956	14 257	245 213
Debt securities in issue	611	4 756	5 367
Subordinated liabilities	-	2 731	2 731
Other financial liabilities	2 096	-	2 096
Provisions for financial liabilities and guarantees granted	177	50	227
Total financial liabilities	**236 896**	**23 553**	**260 449**

63. CAPITAL ADEQUACY

- ### CAPITAL ADEQUACY

Capital adequacy management is a process intended to ensure that the level of risk which the Bank assumes in relation to the development of its business activities may be covered with its capital, taking into account a specific risk tolerance level and time horizon. The process of managing capital adequacy comprises, in particular, compliance with the applicable regulations of the supervisory and control authorities, as well as the risk tolerance level determined within the Bank and the 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 Bank's activities at all times.

The process of managing the Bank's capital adequacy comprises:

- specifying and pursuing the Bank's capital targets;
- identifying and monitoring significant types of risk;
- measuring or estimating internal capital to cover individual risk types of risk and total internal capital;
- determining strategic tolerance limits and thresholds of capital adequacy measures;
- forecasting, monitoring and reporting the level and structure of equity and capital adequacy;
- managing the structure of the balance sheet to optimize the quality of the Bank's own funds;
- emergency measures with regard to capital;
- stress-tests;
- planning and allocating own funds and internal capital requirement to business areas and customer segments in the Bank;
- assessing the profitability of individual business areas and customer segments.

Capital adequacy measures include:

- total capital ratio (TCR);
- the ratio of own funds to internal capital;
- Tier 1 core capital ratio (CET1);
- Tier 1 capital ratio (T1);
- leverage ratio;
- MREL ratio in relation to total equity and liabilities

The objective of monitoring the level of capital adequacy measures is to determine the degree of compliance with supervisory standards and to identify cases which require emergency measures to be implemented or a capital protection plan to be prepared.

Major regulations applicable in the capital adequacy assessment process include:

- the Polish Banking Law;
- the CRR Regulation;
- the Act of 5 August 2015 on macroprudential supervision over the financial system and crisis management in the financial system (as amended), hereinafter referred to as "the Act on macroprudential supervision";
- the Regulation of the Minister of Finance of 6 March 2018 on the risk management and internal control systems, remuneration policy and the detailed procedure for estimating the internal capital in banks;
- the Act of 10 June 2016 on the Bank Guarantee Fund, Deposit Guarantee Scheme and Resolution.

In accordance with Article 92 of the CRR 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%;
- Tier 1 core capital ratio (CET1) – 4.5%.

In accordance with the Act on macroprudential supervision, the Bank is obliged to maintain a combined buffer above the minimum amounts specified in Article 92 of the CRR representing the sum of the applicable buffers, namely:

- the conservation buffer which applies to all banks. As at 31 December 2019, the conservation buffer amounted to 2.5%.
- the countercyclical buffer imposed to mitigate the systemic risk arising from the credit cycle. The Bank calculates the countercyclical buffer at the level specified by the relevant authority of the country where the Bank has exposures. The countercyclical buffer for loan exposures on the territory of Poland is equal to zero. Due to the fact that the Bank also conducts foreign activities, the level of the countercyclical buffer specific to the Bank is 0.01%
- the systemic risk buffer – intended to prevent and mitigate long-term non-cyclical risk or prudential risk which may cause strong negative consequences for the financial system and the economy of a given country. As at 31 December 2019, the systemic risk buffer was equal to 3%. Due to the fact that the Bank also conducts foreign activities, the systemic risk buffer specific to the Bank is 2.91%
- O-SII buffer related to the Bank being identified as a systemically important institution, which did not change in 2019 and amounts to 1% of the total exposure to risk calculated in accordance with the CRR Regulation.

Furthermore, the Bank is obliged to maintain own funds to cover an additional capital requirement in order to hedge the risk resulting from mortgage-secured loans and advances to households, denominated in foreign currencies ("a discretionary capital requirement"). As at 31 December 2019, the discretionary capital requirement for the capital ratios was: 0.40 p.p. for the total capital ratio; 0.30 p.p. for Tier 1 capital ratio; and 0.23 p.p. for Tier 1 core capital ratio.

Irrespective of the above buffers, to meet the requirements for distributing 100% of the profit, the Polish Financial Supervision Authority determined an add-on in respect of the Bank's sensitivity to an adverse macroeconomic scenario, of 0.10 p.p.

On 4 November 2019, the Bank received a letter from the Bank Guarantee Fund concerning the plan of achieving the required minimum requirement of own funds and eligible liabilities (MREL). The MREL set for the Bank based on stand-alone data amounted to 13.726% of the total liabilities and own funds ("TLOF"), which corresponds to 23.014% of the total risk exposure ("TRE"). This requirement should be achieved as at 1 January 2023. The BGF has set a path for reaching the target level of MREL according to which as at the end of 2019 the ratio of MREL to TLOF on the standalone level is 8.923%, which corresponds to 14.961% of TRE. On 31 December 2019 the value of MREL of the Bank on the standalone level was 12,443% in relation to TLOF and 20,655% in relation to TRE, significantly exceeding the transitional levels indicated by the Bank Guarantee Fund.

- **OWN FUNDS FOR CAPITAL ADEQUACY PURPOSES**

In 2019, the Bank's capital adequacy level remained at a safe level, well above the supervisory limits.

- **REQUIREMENTS RELATING TO OWN FUNDS (PILLAR I)**

The Bank calculates own funds requirements for the following types of risk:

CREDIT RISK	under the standard approach, using the following formulas with regard to: BALANCE SHEET EXPOSURES - a product of a carrying amount (accounting for adjustments for specific credit risk), a risk weight of the exposure calculated according to the standardized method of credit risk requirement as regards own funds and 8% (considering recognized collateral), OFF-BALANCE SHEET LIABILITIES GRANTED - a product of the amount of a liability (accounting for adjustments for specific credit risk), a risk weight of the product, a risk weight of off-balance sheet exposure calculated according to the standardized method of credit risk requirement for own funds and 8% (considering recognized collateral), OFF-BALANCE SHEET TRANSACTIONS (DERIVATIVE INSTRUMENTS) - a product of risk weight of an off-balance sheet transaction calculated according to the standardized method of credit risk requirement for own funds, the equivalent of the off-balance sheet transaction in the statement of financial position and 8% (the value of the equivalent in the statement of financial position is calculated in accordance with the mark-to-market method).
OPERATIONAL RISK	• in accordance with the AMA approach - with respect to the Bank's activities, taking into account the branch in Germany and excluding the branch in the Czech Republic; • in accordance with the BIA approach - with respect to the activities of the branch in the Czech Republic.
MARKET RISK	• currency risk - calculated under the core approach; • commodity risk - calculated under the simplified approach; • equity instruments risk - calculated under the simplified approach; • specific risk of debt instruments - calculated under the core approach; • general risk of debt instruments - calculated under the duration-based approach; • other types of risk, other than delta risk (non-delta risk) calculated under the scenario approach in the case of options for which the Bank uses its own valuation models and under the delta plus approach for other options.
OTHER RISKS	• settlement risk and delivery risk - calculated under the approach specified in Title V, 'Own funds requirements for settlement risk' of the CRR Regulation; • counterparty credit risk - calculated under the approach set out in Chapter 6, 'Counterparty credit risk' of Title II, 'Capital requirements for credit risk' of the CRR Regulation; • credit valuation adjustment risk - calculated under the approach specified in Title VI, 'Own funds requirements for credit valuation adjustment risk' of the CRR Regulation; • exceeding the large exposures limit – calculated under the approach set out in paragraphs 395-401 of the CRR Regulation; • for exposures to a central counterparty, a requirement for transactions and contributions made to the default fund of a qualifying central counterparty is calculated.

(IN PLN MILLION)

	31.12.2019	31.12.2018
Total own funds	**38 590**	**37 770**
Tier 1 capital	**35 890**	**35 070**
Share capital	1 250	1 250
Supplementary capital	29 168	29 168
Other reserves	3 099	3 629
General banking risk fund	1 070	1 070
Accumulated other comprehensive income (excluding cash flow hedges)	339	460
fair value of financial assets measured at fair value through OCI	354	470
actuarial gains and losses	(15)	(10)
Current period profit/loss (lowered by expected charges, included by permission from the PFSA)	1 042	1 635
Undivided profit/uncovered losses	1 556	(535)
Intangible assets	(2 411)	(2 374)
(-) Goodwill	(871)	(871)
(-) Other intangible assets	(1 540)	(1 503)
Adjustments in Tier 1	777	767
fair value gains and losses arising from the institution's own credit risk related to derivative liabilities (DVA)	(11)	(11)
additional value adjustments (AVA)	(91)	(66)
adjustment resulting from transitional solutions to mitigate the impact of IFRS 9 adoption on equity	884	844
(-) equity exposures deducted from own funds	(5)	-
Tier 2 capital	**2 700**	**2 700**
Equity instruments and subordinated loans eligible as Tier 2 capital	2 700	2 700
Requirements as regards own funds	**14 946**	**14 169**
Credit risk	13 900	13 216
Operational risk	582	437
Market risk	441	491
Credit valuation adjustment risk	23	25
Total capital adequacy ratio	**20,66%**	**21,33%**
Tier 1 capital ratio	**19,21%**	**19,80%**

(IN PLN MILLION)

The table below shows a reconciliation of items of the statement of financial position used to calculate own funds with the regulatory own funds as at 31.12.2019

31.12.2019	Statement of financial position under IFRS	Items not recognized in regulatory own funds	Items recognized in regulatory own funds
ASSETS			
Intangible assets	2 606	(195)	2 411
LIABILITIES			
Subordinated liabilities	2 730	(30)	2 700
EQUITY			
Share capital	1 250	-	1 250
Supplementary capital	29 168	-	29 168
Other reserves	3 099	-	3 099
General banking risk fund	1 070	-	1 070
Accumulated other comprehensive income	434	(95)	339
fair value of financial assets measured at fair value through other comprehensive income	354	-	354
cash flow hedges	95	(95)	-
actuarial gains and losses	(15)	-	(15)
Net profit or loss for the year	3 835	(2 793)	1 042
Retained earnings	1 556	-	1 556
TOTAL EQUITY	40 412	(2 888)	37 524
ADDITIONAL ADJUSTMENTS	-	-	777
fair value gains and losses arising from the institution's own credit risk related to derivative liabilities (DVA)	-	-	(11)
additional value adjustments (AVA)	-	-	(91)
adjustment resulting from transitional solutions to mitigate the impact of IFRS 9 adoption on equity	-	-	884
(-) equity exposures deducted from own funds	-	-	(5)
TOTAL OWN FUNDS ADOPTED FOR THE CALCULATION OF TOTAL CAPITAL RATIO			38 590

31.12.2018	Statement of financial position under IFRS	Items not recognized in regulatory own funds	Items recognized in regulatory own funds
ASSETS			
Intangible assets	2 595	(221)	2 374
LIABILITIES			
Subordinated liabilities	2 731	(31)	2 700
EQUITY			
Share capital	1 250	-	1 250
Supplementary capital	29 168	-	29 168
Other reserves	3 629	-	3 629
General banking risk fund	1 070	-	1 070
Accumulated other comprehensive income	443	17	460
fair value of financial assets measured at fair value through other comprehensive income	470	-	470
cash flow hedges	(17)	17	-
actuarial gains and losses	(10)	-	(10)
Net profit or loss for the year	3 335	(1 700)	1 635
Retained earnings	(535)	-	(535)
TOTAL EQUITY	38 360	(1 683)	36 677
ADDITIONAL ADJUSTMENTS	-	-	767
fair value gains and losses arising from the institution's own credit risk related to derivative liabilities (DVA)	-	-	(77)
additional value adjustments (AVA)			
adjustment resulting from transitional solutions to mitigate the impact of IFRS 9 adoption on equity	-	-	844
TOTAL OWN FUNDS ADOPTED FOR THE CALCULATION OF TOTAL CAPITAL RATIO			37 770

- **INTERNAL CAPITAL (PILLAR II)**

In 2019, PKO Bank Polski SA calculated internal capital in accordance with the commonly binding legal regulations:

- the CRR Regulation;
- the Polish Banking Law;
- the Regulation of the Minister of Development and Finance of 6 March 2017 on the risk management and internal control systems, remuneration policy and the detailed procedure for estimating the internal capital in banks;
- The Act on Macro-prudential supervision;

and the Bank's internal regulations.

Internal capital is the amount of capital that is necessary to cover all the significant risks characteristic of the Bank's activities and the effect of changes in the business environment, taking account of the anticipated risk level.

The estimation of internal capital is aimed at determining the minimum level of own funds which ensures the safety of operations, taking into account changes in the profile and scale of the operations as well as adverse stress conditions.

The internal capital for covering significant risk types is determined using the methods specified in 'the internal regulations.

The ratio of PKO Bank Polski SA's own funds to its internal capital remained at a level exceeding both the statutory limit and the Bank's internal limit.

- **DISCLOSURES (PILLAR III)**

The Bank publishes annual information in particular concerning risk management and capital adequacy in accordance with: the CRR Regulation and the executive acts to the CRR, guidelines of the European Banking Authority, including guidelines concerning disclosure requirements pursuant to section eight of the CRR Regulation ("EBA guidelines"), the Act on Macro-prudential supervision, the Polish Banking Law Act, the Recommendation H, M and P issued by the Polish Financial Supervision Authority as part of the Report, "Capital adequacy and other information to be published by the Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna Group".

Details of the scope of information disclosed, the method of its verification and publication are presented in PKO Bank Polski SA Capital Adequacy Information Policies and other information to be published, which are available on the Bank's website (www.pkobp.pl).

(IN PLN MILLION)

64. 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 capital Tier 1 and the total of balance sheet assets and off-balance sheet liabilities granted by the Bank. 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 leverage ratio is calculated as the Tier 1 measure divided by the total exposure measure and expressed as a percentage. The Bank calculated the leverage ratio as at the reporting date. The leverage ratio as at 31 December 2019 and 31 December 2018 was above internal and external limits, as well as above the minimum levels as recommended by the PFSA.

To maintain the leverage ratio at an acceptable level, a strategic tolerance limit and a threshold for the ratio are set and they are regularly monitored and verified periodically.

	Leverage ratio exposures specified in CRR	
	31.12.2019	31.12.2018
Total capital and exposure measure		
Tier 1 capital	35 890	35 070
Total exposure measure for the purpose of the leverage ratio	320 265	300 383
Leverage ratio		
Leverage ratio	11,21%	11,68%

65. Information on sale of receivables portfolios

In 2019, the Bank effected a sale of impaired loan portfolios (balance sheet and off-balance sheet receivables) of more than 1.7 thousand individual receivables from retail and business customers amounting to more than PLN 1 790 billion (PLN 1 380 billion in 2018). The total carrying amount of the provisions for potential claims on the sale of impaired loan portfolios as at 31 December 2019 amounted to PLN 2 million (as at 31 December 2018 it was PLN 2 million). As a result of the sale, all risks and rewards were transferred, hence the Bank derecognized these assets. The Bank did not receive any securities on account of the above-mentioned transactions.

In 2019, the Bank also sold a portfolio of claims from housing loans secured by mortgages of PLN 2 746 million to PKO Bank Hipoteczny SA (in 2018: PLN 2 524 million). The purchase price was determined on an arm's length basis, based on a valuation made by an independent expert. The sale of the claims meant that all the respective risks and rewards were transferred, as a result of which the Bank derecognized these assets in the statement of financial position. The amount due from PKO Bank Hipoteczny in respect of the deferred payment for the housing loan portfolio that was sold, of PLN 2 279 million as at 31 December 2019, is described in the Note "Amounts due from banks" (PLN 2 300 million as at 31 December 2018).

(IN PLN MILLION)

SUBSEQUENT EVENTS

66. SUBSEQUENT EVENTS

After the balance sheet date no events took place which could have a significant impact on future financial results.

SIGNATURES OF ALL MEMBERS OF THE BANK'S MANAGEMENT BOARD

11.02.2020	ZBIGNIEW JAGIEŁŁO	PRESIDENT OF THE MANAGEMENT BOARD
11.02.2020	RAFAŁ ANTCZAK	VICE-PRESIDENT OF THE MANAGEMENT BOARD
11.02.2020	RAFAŁ KOZŁOWSKI	VICE-PRESIDENT OF THE MANAGEMENT BOARD
11.02.2020	MAKS KRACZKOWSKI	VICE-PRESIDENT OF THE MANAGEMENT BOARD
11.02.2020	MIECZYSŁAW KRÓL	VICE-PRESIDENT OF THE MANAGEMENT BOARD
11.02.2020	ADAM MARCINIAK	VICE-PRESIDENT OF THE MANAGEMENT BOARD
11.02.2020	PIOTR MAZUR	VICE-PRESIDENT OF THE MANAGEMENT BOARD
11.02.2020	JAKUB PAPIERSKI	VICE-PRESIDENT OF THE MANAGEMENT BOARD
11.02.2020	JAN EMERYK ROŚCISZEWSKI	VICE-PRESIDENT OF THE MANAGEMENT BOARD

SIGNATURE OF THE PERSON RESPONSIBLE FOR MAINTAINING THE BOOKS OF ACCOUNT

DANUTA SZYMAŃSKA
DIRECTOR OF THE ACCOUNTING DIVISION