Financial statements of PKO Bank Polski SA for the year ended 31 December 2018

Date of publication of the report:
4 March 2019

Bank Polski

SELECTED FINANCIAL DATA DERIVED FROM THE FINANCIAL STATEMENTS

SELECTED STAND-ALONE FINANCIAL DATA	PLN million		EUR million	
	period from 01.01.2018 to 31.12.2018	period from 01.01.2017 to 31.12.2017	period from 01.01.2018 to 31.12.2018	period from 01.01.2017 to 31.12.2017
Net interest income	8 490	7 901	1 990	1 861
Net fee and commission income	2 482	2 687	582	633
Operating profit/(loss)	4 471	3 785	1 048	892
Profit before tax	**4 471**	**3 785**	**1 048**	**892**
Net profit	**3 335**	**2 774**	**782**	**654**
Earnings per share for the period - basic (in PLN/EUR)	**2,67**	**2,22**	**0,63**	**0,52**
Earnings per share for the period - diluted (in PLN/EUR)	**2,67**	**2,22**	**0,63**	**0,52**
Total net comprehensive income	3 760	3 397	881	800
Net cash from operating activities	15 001	22 871	3 516	5 388
Net cash flows from/used in investing activities	(5 320)	(6 502)	(1 247)	(1 532)
Net cash generated from/used in financing activities	(2 198)	(11 396)	(515)	(2 685)
Total net cash flows	7 483	4 973	1 754	1 172

SELECTED STAND-ALONE FINANCIAL DATA	PLN million		EUR million	
	as at 31.12.2018	as at 31.12.2017	as at 31.12.2018	As at 31.12.2017
Total assets	300 413	277 784	69 863	66 600
Total equity	38 360	35 987	8 921	8 628
Share capital	1 250	1 250	291	300
Number of shares (in million)	1 250	1 250	1 250	1 250
Book value per share (in PLN/EUR)	30.69	28.79	7.14	6.90
Diluted number of shares (in million)	1 250	1 250	1 250	1 250
Diluted book value per share (in PLN/EUR)	30.69	28.79	7.14	6.90
Total capital ratio	21.33%	19.59%	21.33%	19.59%
Tier 1 capital	35 070	32 597	8 156	7 815
Tier 2 capital	2 700	1 700	628	408

SELECTED CONSOLIDATED FINANCIAL STATEMENT ITEMS HAVE BEEN TRANSLATED INTO EUR AT THE FOLLOWING RATES	31.12.2018	31.12.2017
arithmetic mean of NBP exchange rates at the end of a month (income statement, statement of comprehensive income and cash flow statement items)	4,2669	4,2447
NBP mid exchange rates as at the date indicated (statement of financial position items)	4,3000	4,1709

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INCOME STATEMENT

INCOME STATEMENT	Note	2018	2017
Interest and similar income	8	10 504	10 075
Interest income recognized under the effective interest rate method		9 884	
interest income on financial instruments measured at amortized cost		8 528	
interest income on instruments measured at fair value through other comprehensive income		1 356	
Income similar to interest income on instruments measured at fair value through profit or loss		620	
Interest expenses and similar charges	8	(2 014)	(2 174)
Net interest income		**8 490**	**7 901**
Fee and commission income	9	3 492	3 611
Fee and commission expense	9	(1 010)	(924)
Net fee and commission income/(expense)		**2 482**	**2 687**
Dividend income	10	323	135
Net gain/(loss) on financial instruments measured at fair value through profit or loss		42	3
Gain/(loss) on investment securities			44
Net foreign exchange gains/(losses)	12	469	419
Gains/(losses) on derecognition of financial instruments not measured at fair value through profit or loss	13	133	
measured at fair value through OCI		129	
measured at amortized cost		4	
Net credit losses	14	(1 286)	(1 470)
Impairment of non-financial assets	15	(111)	(56)
Other operating income	16	171	164
Other operating expenses	16	(226)	(111)
Net other operating income and expense		**(55)**	**53**
Administrative expenses	17	(5 133)	(5 037)
Tax on certain financial institutions	18	(883)	(894)
Operating profit/(loss)		**4 471**	**3 785**
Profit before income tax		**4 471**	**3 785**
Income tax expense	19	(1 136)	(1 011)
Net profit for the year		**3 335**	**2 774**
Earnings per share	20		
– basic earnings per share for the period (PLN)		2,67	2,22
– diluted earnings per share for the period (PLN)		2,67	2,22
Weighted average number of ordinary shares during the period (in million)		1 250	1 250
Weighted average diluted number of ordinary shares during the period (in million)		1 250	1 250

The notes presented on pages 14 to 204 are an integral part of the financial statements

(IN PLN MILLION)

STATEMENT OF COMPREHENSIVE INCOME

STATEMENT OF COMPREHENSIVE INCOME	2018	2017
Net profit for the year	**3 335**	**2 774**
Other comprehensive income	**425**	**623**
Items which may be reclassified to profit or loss	**426**	**622**
Cash flow hedges (gross)	70	18
Deferred income tax	(13)	(4)
Cash flow hedges (net)	57	14
Unrealized net gains on available-for-sale financial assets (gross)		750
Deferred income tax		(142)
Unrealized net gains on available-for-sale financial assets (net)		608
Remeasurement of financial assets measured at fair value through other comprehensive income (gross)	580	
Gains /losses transferred to profit or loss (on disposal)	(129)	
Deferred income tax	(82)	
Fair value of financial assets measured at fair value through other comprehensive income (net)	369	
Items which cannot be reclassified to profit or loss	**(1)**	**1**
Actuarial gains and losses (gross)	(1)	1
Deferred income tax	-	-
Actuarial gains and losses (net)	(1)	1
Total net comprehensive income	**3 760**	**3 397**

(IN PLN MILLION)

STATEMENT OF FINANCIAL POSITION

	Note	31.12.2018	31.12.2017
ASSETS			
Cash and balances with the Central Bank	21	22 862	17 765
Amounts due from banks	22	11 213	8 769
- measured at amortized cost		11 213	8 769
Hedging derivatives	23	592	1 104
Other derivative instruments	24	1 909	1 701
Securities	26	60 439	50 512
- held for trading		282	472
- financial instruments designated at fair value through profit or loss upon initial recognition			6 409
- available-for-sale investment securities			42 009
- investment securities held to maturity			1 622
- not held for trading, measured at fair value through profit or loss		1 280	
- measured at fair value through OCI		50 562	
- measured at amortized cost		8 315	
Loans and advances to customers	27	191 575	186 892
- not held for trading, measured at fair value through profit or loss:		1 106	
- measured at fair value through OCI		8 496	
- measured at amortized cost		181 973	186 892
Investments in subsidiaries, associates and joint ventures	42	3 588	3 011
Non-current assets held for sale	30	8	359
Intangible assets	31	2 595	2 622
Property, plant and equipment	31	2 082	2 170
Deferred income tax asset	19	1 232	957
Other assets	32	2 318	1 922
TOTAL ASSETS		**300 413**	**277 784**

	Note	31.12.2018	31.12.2017
LIABILITIES AND EQUITY			
Liabilities			
Amounts due to the Central Bank		7	6
Amounts due to banks	33	1 591	4 299
- measured at amortized cost		1 591	4 299
Hedging derivatives	23	560	204
Other derivative instruments	24	2 657	2 537
Amounts due to customers	34	245 213	222 524
- measured at amortized cost		245 213	222 524
Debt securities in issue	36	5 367	5 204
- measured at amortized cost		5 367	5 204
Subordinated liabilities	37	2 731	1 720
- measured at amortized cost		2 731	1 720
Other liabilities	38	3 189	4 592
Current income tax liabilities		297	501
Provisions	39	441	210
TOTAL LIABILITIES		**262 053**	**241 797**
Equity	40		
Share capital		1 250	1 250
Other capital		34 310	31 963
Retained earnings		(535)	-
Net profit or loss for the year		3 335	2 774
TOTAL EQUITY		**38 360**	**35 987**
TOTAL LIABILITIES AND EQUITY		**300 413**	**277 784**
Total capital ratio	73	21.33%	19.59%
Book value (in PLN million)		38 360	35 987
Number of shares (in million)		1 250	1 250
Book value per share (in PLN)		30.69	28.79
Diluted number of shares (in million)		1 250	1 250
Diluted book value per share (in PLN)		30.69	28.79

(IN PLN MILLION)

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018	Share capital	Other capital: Reserves: Supplementary capital	Other capital: Reserves: General banking risk fund	Other capital: Reserves: Other reserves	Other capital: Accumulated other comprehensive income	Other capital: Total other capital	Retained earnings	Net profit or loss for the year	Total equity
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)
As at 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)	-	-
As at 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 other comprehensive income	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)
As at 1 January 2018 (restated)	102	(75)	(9)	18
Total comprehensive income, of which:	369	57	(1)	425
Other comprehensive income	369	57	(1)	425
As at 31 December 2018	471	(18)	(10)	443

(IN PLN MILLION)

FOR THE YEAR ENDED 31 DECEMBER 2017	Share capital	Other capital					Retained earnings	Net profit or loss for the year	Total equity
		Reserves			Accumulated other comprehensive income	Total other capital			
		Supplementary capital	General banking risk fund	Other reserves					
As at 1 January 2017	1 250	24 268	1 070	3 555	(441)	28 452	-	2 888	32 590
Appropriation of retained earnings	-	-	-	-	-	-	2 888	(2 888)	-
Total comprehensive income, of which:	-	-	-	-	623	623	-	2 774	3 397
Net profit for the year	-	-	-	-	-	-	-	2 774	2 774
Other comprehensive income	-	-	-	-	623	623	-	-	623
Transfer from retained earnings to equity	-	2 850	-	38	-	2 888	(2 888)	-	-
As at 31 December 2017	1 250	27 118	1 070	3 593	182	31 963	-	2 774	35 987

FOR THE YEAR ENDED 31 December 2017	Accumulated other comprehensive income			
	Available-for-sale financial assets	Cash flow hedges	Actuarial gains and losses	Total
As at 1 January 2017	(342)	(89)	(10)	(441)
Total comprehensive income, of which:	608	14	1	623
Other comprehensive income	608	14	1	623
As at 31 December 2017	266	(75)	(9)	182

(IN PLN MILLION)

STATEMENT OF CASH FLOWS

	Note	2018	2017
Cash flows from operating activities			
Profit before tax		**4 471**	**3 785**
Total adjustments:		**10 530**	**19 086**
Amortization and depreciation		680	727
(Gains)/losses on investing activities		(20)	(57)
Interest and dividends		(958)	(608)
Change in:			
amounts due from banks		(61)	189
- measured at amortized cost		(61)	189
hedging derivatives		868	(1 682)
other derivatives		(88)	283
securities		546	4 964
- held for trading		190	(114)
- financial instruments designated at fair value through profit or loss upon initial recognition			5 335
- investment securities available-for-sale			(226)
- investment securities held to maturity			(31)
- not held for trading, mandatorily measured at fair value through profit or loss		1 606	
- measured at fair value through OCI		(1 057)	
- measured at amortized cost		(193)	
loans and advances to customers		(7 381)	2 323
- not held for trading, mandatorily measured at fair value through profit or loss		(36)	
- measured at fair value through OCI		(261)	
- measured at amortized cost		(7 084)	2 323
non-current assets held for sale		285	(18)
other assets		(297)	221
amounts due to the Central Bank		1	2
amounts due to banks		(106)	(1 414)
- measured at amortized cost		(106)	(1 414)
amounts due to customers		22 204	13 842
accumulated allowances for credit losses and impairment allowances		(2 458)	(108)
accumulated allowances on non-financial assets and other provisions		(85)	9
debt securities in issue		208	(59)
- measured at amortized cost		208	(59)
subordinated liabilities		11	17
other liabilities		(1 403)	1 252
Income tax paid		(1 547)	(830)
Other adjustments		131	33
Net cash from/used in operating activities		**15 001**	**22 871**

(IN PLN MILLION)

	Note	2018	2017
Cash flows from investing activities			
Inflows from investing activities		**266 674**	**96 065**
Proceeds from sale of a subsidiary classified as held for sale		10	4
Proceeds from sale and interest on investment securities			95 816
Proceeds from sale of and interest on securities measured at fair value through other comprehensive income		265 519	
Proceeds from sale of and interest on securities measured at amortized cost		765	
Proceeds from sale of intangible assets, property, plant and equipment and assets held for sale		89	110
Other inflows from investing activities (dividends)		291	135
Outflows from investing activities		**(271 994)**	**(102 567)**
Purchase of subsidiaries, net of cash acquired		(244)	(14)
Increase in equity of subsidiaries , associates and joint ventures		(206)	(487)
Purchase of investment securities			(101 623)
Purchase of securities measured at fair value through other comprehensive income		(268 033)	
Purchase of securities measured at amortized cost		(2 906)	
Purchase of intangible assets and property, plant and equipment		(605)	(443)
Net cash used in investing activities		**(5 320)**	**(6 502)**

	Note	2018	2017
Cash flows from financing activities			
Proceeds from debt securities in issue		1 255	5 909
Redemption of debt securities		(1 300)	(2 339)
Proceeds from issue of subordinated bonds		1 000	1 700
Dividend paid to shareholders		(688)	-
Repayment of a subordinated loan		-	(880)
Taking up loans and advances		646	-
Repayment of liabilities arising from subordinated bonds		-	(1 656)
Repayment of loans and advances		(2 763)	(13 693)
Repayment of interest on long-term liabilities		(348)	(437)
Net cash from financing activities		**(2 198)**	**(11 396)**
Total net cash flows		**7 483**	**4 973**
of which foreign exchange differences on cash and cash equivalents		197	(332)
Cash equivalents at the beginning of the period		22 541	17 568
Cash equivalents at the end of the period	48	30 024	22 541

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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 (a State-owned bank) was transformed into a State-owned joint-stock company, Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna with its registered office in Warsaw, Puławska 15, 02-515 Warsaw, Poland.

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

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

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 cash in foreign currencies and trade in those currencies, as well as conduct foreign exchange and foreign currency transactions, open and maintain bank accounts in banks abroad and deposit foreign currency in those accounts.

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

ORGANIZATIONAL ENTITIES OPERATING IN THE BANK'S STRUCTURE

The Bank's financial statements covering the financial data for the year ended 31 December 2018 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 2018, they comprised: the Bank's head office in Warsaw, Dom Maklerski PKO BP SA (the Brokerage House), 13 specialist organizational entities, 11 regional retail branches, 7 regional corporate branches, 33 corporate centres and 1 091 branches. The Bank also conducts operating activities in the Federal Republic of Germany in the form of a branch (the German Branch) and the Czech Republic (the Czech Branch).

(IN PLN MILLION)

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

As at 31 December 2018, the Bank's Supervisory Board consisted of:

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

On 14 May 2018 Mr. Jerzy Paluchniak resigned as a member of the Supervisory Board with effect from 18 May 2018.

As at 31 December 2018, the Bank's Management Board consisted of:

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

2. Basis of preparation of the financial statements

The financial statements of the Bank cover the year ended 31 December 2018 and comprise the comparative data for the year ended 31 December 2017. The financial data is presented in Polish zloty (PLN) in millions, unless otherwise indicated.

2.1. Statement of compliance

These financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) as at 31 December 2018, 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 4 March 2019. 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. Basis of preparation of the financial statements

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.

(IN PLN MILLION)

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.

2.4. Management Representation

The Management Board hereby represents that, to the best of its 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.

2.5. 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 28 February 2019, were approved for publication by the Management Board on 28 February 2019.

3. Description of significant accounting policies

Major accounting policies and estimates and judgements applied in the preparation of these financial statements are presented in the notes and below. These policies were applied consistently in all the years presented, with the exception of the changes which followed from the implementation of IFRS 9 “Financial Instruments” and IFRS 15 “Revenue from Contracts with Customers” on 1 January 2018, which are described in Notes 4 and 5 and in the notes to the income statement and to the statement of financial position. 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 policy[1]
Interest income and expense	8	Y
Fee and commission income and expense	9	Y
Dividend income	10	Y
Net gain/(loss) on financial instruments measured at fair value financial instruments measured at fair value through profit or loss	11	Y
Net foreign exchange gains/(losses)	12	Y
Gains/(losses) on derecognition of financial instruments not measured at fair value through profit or loss	13	
Net credit losses	14	Y
Impairment of non-financial assets	15	
Other operating income and expenses	16	Y
Administrative expenses	17	Y
Tax on certain financial institutions	18	
Income tax expense	19	Y

[1] The letter Y indicates the presence of a particular accounting policy.

(IN PLN MILLION)

STATEMENT OF FINANCIAL POSITION	Note	Accounting policy[1]	Major estimates and judgments[1]
Cash and balances with the Central Bank	21	Y	
Amounts due from banks	22	Y	
Hedging derivatives	23	Y	Y
Other derivative instruments	24	Y	Y
Securities	26	Y	Y
Loans and advances to customers	27	Y	Y
Investments in subsidiaries, associates and joint ventures	42	Y	
Non-current assets held for sale	30	Y	
Intangible assets	31	Y	Y
Property, plant and equipment	31	Y	Y
Deferred income tax asset	19	Y	
Other assets	32	Y	
Amounts due to banks	33	Y	
Amounts due to customers	34	Y	
Debt securities in issue	36	Y	
Subordinated liabilities	37	Y	
Other liabilities	38	Y	
Provisions	39	Y	Y
Equity	40	Y	

[1] The letter Y indicates the presence of a particular accounting policy or major estimates and judgements.

3.1. FUNCTIONAL CURRENCY, PRESENTATION CURRENCY AND FOREIGN CURRENCIES

FUNCTIONAL AND PRESENTATION CURRENCY

The financial statements are presented in Polish zloty (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 currency are translated into the functional currency, i.e. into the currency of the basic economic environment in which the entity operates, using exchange rate prevailing at the dates of the transactions. At each balance sheet date, items are translated by the Bank using the following principles:

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

Foreign exchange gains and losses arising from the settlement of such transactions and from the valuation of monetary assets and liabilities expressed 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 in the future an agreed number of specified financial instruments at a fixed price, 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 of 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. STANDARDS AND INTERPRETATIONS APPLIED IN THE FINANCIAL STATEMENTS FOR THE FIRST TIME IN THE YEAR ENDED 31 DECEMBER 2018

The Bank applied IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* for the first time starting 1 January 2018. The detailed information on the application of the standards is disclosed in Note 4 and Note 5, respectively.

The Annual Improvements to IFRS Standards – 2014-2016 Cycle concerned the deletion of short-term exemptions for first-time adopters of IFRS (including, but not limited to, the transitional provisions of IFRS 7 Financial Instruments: Disclosures and IAS 19 Employee Benefits), the application guidance to IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investments in Associates and Joint Ventures.

The amendments to IFRS 4 *Insurance Contracts* address the concerns arising from the application of IFRS 9 before the effective date of the standard replacing IFRS 4 that the IASB has been working on. The amendments introduce two optional solutions. One solution allows for a temporary deferral of the application of IFRS 9 by some insurers. The other solution, i.e. the overlay approach, allows for a mitigation of the effects of the application of IFRS 9 until the effective date of the new standard on insurance contracts.

The amendments to IFRS 2 *Share-based Payment* clarifying the recognition of certain share-based payment transactions include the recognition requirements for:

- the effects of vesting and non-vesting conditions on the measurement of a cash-settled share-based payment transaction;
- share-based payment transactions with net settlement features, taking into account tax obligations; and

modification to the terms and conditions of share-based payment transactions which change their classification from cash-settled to equity-settled.

The amendments to IAS 40 *Investment Property* contain guidance on transfers to or from investment property:

- a transfer to or from investment property should take place only where there is a change of use of the property; and
- a change of use of the property should be accompanied by an assessment of whether the property qualifies as investment property.

IFRIC 22 *Foreign Currency Transactions and Advance Consideration* provides guidance on which exchange rate to use for the recognition of foreign exchange transactions that involve advance consideration paid or received and clarifies that the transaction date is the date of initial recognition of the prepayment or deferred income arising from the advance consideration. For transactions involving multiple payments or receipts, each payment or receipt gives rise to a separate transaction date.

The amendments to IFRS 4, IFRS 2, IAS 40, IFRIC 22, and IFRS Improvements 2014–2016 did not have a material effect on the Bank's financial statements.

3.5. 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

The Bank does not expect the adoption of the new standards, amendments thereto and interpretations to have a significant impact on the accounting policies applied by the Bank with the exception of IFRS 16. Detailed information concerning the application of the standard has been disclosed in Note 6. The Bank intends to apply them in the periods indicated in the relevant standards and interpretations (without early adoption).

The amendments to IFRS 9 *Financial Instruments* allow financial assets with a prepayment option, which under contractual terms are instruments with cash flows that are solely payments of the principal and interest on the principal amount outstanding, for the so called negative compensation, to be measured at amortized cost or at fair value through other comprehensive income, rather than at fair value through profit or loss, if such financial assets meet the other applicable requirements of IFRS 9.

The amendments to IAS 28 *Investments in Associates and Joint Ventures* endorsed by the European Union on 11 February 2019 relate to the application of IFRS 9 to long-term investments in associates or joint ventures that form part of the net investment in these entities, and the equity method of accounting is not used in their measurement.

IFRIC 23 clarifies the accounting for income taxes where the tax treatment has not yet been accepted by the tax authorities and is intended to improve transparency. What is of key importance from the perspective of IFRIC 23 is the entity's conclusion as to the probability of acceptance of the selected tax treatment by the tax authorities.

The amendments to IFRS 9, IAS 28 and IFRIC 23 will be binding for financial statements from 1 January 2019. The Bank does not expect these amendments to have a material effect.

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

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

IFRS 17 "Insurance Contracts" replaces the transitional standard IFRS 4 "Insurance Contracts", which was introduced in 2004. IFRS 4 enabled entities to continue to recognize insurance contracts according to the accounting principles in force in the national standards, which, as a result, meant the use of many different solutions. IFRS 17 resolves the problem of a lack of comparability under IFRS 4 by the requirement to consistently recognize all insurance contracts, which will be advantageous for both investors and insurers. Liabilities arising from contracts will be recognized at current prices, instead of historical cost. The new standard will be applicable from 1 January 2021.

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

(IN PLN MILLION)

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

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

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

4. IFRS 9 FINANCIAL INSTRUMENTS

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

FINANCIAL INSTRUMENTS

The total impact of the adjustments resulting from the implementation of IFRS 9 is presented in the table below:

	31.12.2017 (classification under IAS 39)	Classification and measurement: reclassification	Classification and measurement: remeasurement	Impairment allowance	01.01.2018 (classification under IFRS 9)
FINANCIAL ASSETS					
Cash and balances with the Central Bank	17 765	-	-	-	17 765
Amounts due from banks	8 769	-	-	(2)	8 767
Hedging derivatives	1 104	-	-	-	1 104
Other derivative instruments	1 701	-	-	-	1 701
Securities	**50 512**	**4 368**	**91**	**(21)**	**54 950**
- held for trading	472	-	-	-	472
- financial instruments designated at fair value through profit or loss upon initial recognition	6 409	(6 409)	-	-	-
- available-for-sale investment securities	42 009	(42 009)	-	-	-
- investment securities held to maturity	1 622	(1 622)	-	-	-
- not held for trading, measured at fair value through profit or loss:		2 774	91	21	2 886
- measured at fair value through OCI		45 644	-	(42)	45 602
- measured at amortized cost		5 990	-	-	5 990
Loans and advances to customers	**186 892**	**(4 368)**	**(102)**	**(759)**	**181 663**
- not held for trading, measured at fair value through profit or loss:		1 055	-	15	1 070
- measured at fair value through OCI		8 343	(102)	(6)	8 235
- measured at amortized cost	186 892	(13 766)	-	(768)	172 358
Other financial assets	1 748	-	-	-	1 748
TOTAL FINANCIAL ASSETS	**268 491**	**-**	**(11)**	**(782)**	**267 698**
Deferred income tax assets	957	-	2	161	1 120

(IN PLN MILLION)

	31.12.2017 (classification under IAS 39)	Classification and measurement: reclassification	Classification and measurement: remeasurement	Impairment allowance	01.01.2018 (classification under IFRS 9)
Amounts due to the Central Bank	6	-	-	-	6
Amounts due to banks	4 299	-	-	-	4 299
Hedging derivatives	204	-	-	-	204
Other derivative instruments	2 537	-	-	-	2 537
Amounts due to customers	222 524	-	-	-	222 524
Debt securities in issue	5 204	-	-	-	5 204
Subordinated liabilities	1 720	-	-	-	1 720
Total financial liabilities	3 812	-	-	-	3 812
Provisions for financial liabilities and guarantees granted	86	-	-	69	155
TOTAL FINANCIAL LIABILITIES AND PROVISIONS FOR FINANCING AND GUARANTEE LIABILITIES GRANTED	**240 392**	**-**	**-**	**69**	**240 461**

IFRS 9 impact as at 1 January 2018:	31.12.2017 (classification under IAS 39)	Classification and measurement: reclassification	Classification and measurement: remeasurement	Impairment allowance	01.01.2018 (classification under IFRS 9)
Accumulated other comprehensive income	182	-	(164)	-	18
Retained earnings	-	-	155	(690)	(535)
TOTAL impact on equity	**182**	**-**	**(9)**	**(690)**	**(517)**

Compared with the disclosure of the impact of the implementation of IFRS 9 in the financial statements as at and for the year ended 31 December 2017, impairment losses on loans and securities increased by PLN 55 million (by PLN 46 million net of tax) as a result of increased accuracy of impairment estimates. In order to better reflect the impact of the amendments to the Corporate Income Tax Act related to the implementation of IFRS 9, the effect of the tax liability arising on 1 January 2018 relating to the recognition in the tax account of the reversal of the IBNR write off and the settlement of the initial loss for purchased or originated credit-impaired (POCI) assets and changes to the corresponding deferred tax assets in the amount of PLN 52 million was recognized in Note 19 as an effect on the profit/loss for the year.

4.1 Classification and measurement

a) The principles for classification of financial instruments

In connection with the application of IFRS 9, as of 1 January 2018 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).

Classification as at the date of acquisition or origin 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 a 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 “held to collect” or the “hold to collect and sell” cash flows model.

Financial instruments are classified at the moment of the first-time application of IFRS 9, i.e. as at 1 January 2018, and at the moment of recognition or modification of the instrument. A change in the classification of financial assets may be caused by a change in the business model. Changes in the business model are caused by changes that occur within or outside the Bank or by discontinuation of a particular activity, and therefore they will occur very rarely.

BUSINESS MODEL

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

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

In the "hold to collect" business model, assets are sold occasionally, in the event of an increase in credit risk or a change in the laws or regulations. The purpose of selling the assets is to maintain the assumed level of regulatory capital. 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 qualitative test of contractual cash flows (hereinafter "SPPI") whether contractual cash flows are solely payments of principal and interest. 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 loans, 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, it is necessary to consider the potential impact of the contractual cash flow characteristics in each reporting period and throughout the whole life of the financial instrument.

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) and as at the date of change of the contractual cash flow characteristics.

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).

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).

FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (FVOCI)

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 on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding (the SPPI test is passed).

FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS (FVP&L)

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:

1) held for trading – financial assets which:
    - have been purchased mainly to sell or redeem in the close future; or
    - upon initial recognition they 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);
2) 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;
3) 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.

EQUITY INSTRUMENTS

Investments in equity instruments are measured at fair value through profit or loss. Upon initial recognition an irrevocable choice may be made to recognize subsequent changes in the fair value of investments in equity instruments which are not held for trading and are not a contingent payment recognized by the Bank under accounting for a business combination pursuant to IFRS 3 in other comprehensive income (measurement at fair value through other comprehensive income option). If the measurement at fair value through other comprehensive income option is applied, only the dividend resulting from the investment is included in the profit or loss. Gains or losses on measurement recognized in other comprehensive income are not subject to reclassification to the income statement.

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

b) RECLASSIFICATION OF FINANCIAL ASSETS

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

The following are not treated as changes in the business model:
1) changes in the intentions regarding specific financial assets (even in the event of significant changes in market conditions);
2) temporary discontinuation of a specific market for financial assets;
3) a transfer of financial assets between business areas that apply different business models.

No financial liabilities are reclassified.

In the event of reclassification of a financial asset from amortized cost to measurement at fair value through profit or loss, the fair value of this asset is determined as at the reclassification date. Any gains or losses arising from a difference between the previously recognized amortized cost of the financial asset and its fair value are recognized in the income statement.

In the event of reclassification of a financial asset from the fair value through profit or loss category to the amortized cost category, the fair value of the asset becomes its new gross carrying amount as at the reclassification date. The effective interest rate is determined based on the fair value of the asset as at the reclassification date.

In the event of reclassification of a financial asset from amortized cost to measurement at fair value through other comprehensive income, the fair value of the asset is determined as at the reclassification date. Any gains or losses arising from a difference between the previously recognized amortized cost of the financial asset and its fair value are recognized in other comprehensive income. The effective interest rate and expected credit losses are not adjusted as a result of such a reclassification.

In the event of reclassification of a financial asset from the measurement at fair value through other comprehensive income category to the amortized cost category, the asset is reclassified at the fair value as at the reclassification date. Accumulated gains or losses previously recognized in other comprehensive income are removed from equity and adjusted based on the fair value of the financial asset as at the reclassification date. As a result, the financial asset is measured as at the reclassification date in such a manner as if it has always been measured at amortized cost. This adjustment concerns other comprehensive income and it does not affect the financial result; therefore, it is not a reclassification adjustment in accordance with IAS 1. The effective interest rate and expected credit losses are not adjusted as a result of such a reclassification.

In the event of reclassification of a financial asset from the fair value through profit or loss category to the fair value through other comprehensive income category, this component is still measured at fair value. The effective interest rate is determined based on the fair value of the asset as at the date of reclassification.

In the event of reclassification of a financial asset from the fair value through other comprehensive income category to the fair value through profit or loss category, the Bank continues to measure the asset at fair value. Accumulated gains or losses previously recognized in other comprehensive income are reclassified from equity to profit or loss in the form of a reclassification adjustment in accordance with IAS 1 as at the reclassification date.

c) CHANGES IN THE ESTIMATED CONTRACTUAL CASH FLOWS – MODIFICATIONS

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

If the contractual cash flows associated with a financial asset are renegotiated or otherwise modified based on an annex to the agreement, and such renegotiation or modification does not lead to such a financial asset no longer being recognized ("AN INSIGNIFICANT MODIFICATION"), the carrying amount of the financial asset is recalculated and gain or loss arising from such modification is recognized in the financial result. An adjustment of the carrying amount of a financial asset resulting from the modification is recognized in the interest income/ expenses over time using the effective interest rate method.

The carrying amount of a financial asset is calculated as the present value of renegotiated or modified contractual cash flows, discounted using the original effective interest rate on the financial asset (or, in the case of credit-impaired purchased or issued financial assets, the effective interest rate adjusted for credit risk) or, if applicable (e.g. with respect to gain or loss on a hedged item resulting from hedging), the updated effective interest rate. Any costs or fees incurred adjust the carrying amount of the modified financial asset and are amortized over the remaining part of the life of the modified financial asset.

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

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

The following QUALITATIVE CRITERIA have been adopted:

- Currency translation;
- Change of debtor, other than caused by the debtor's death;
- Introducing or removing a contractual characteristic that adversely affects the test of cash flow characteristics (SSPI test) or removal of these features;
- Increased engagement of the debtor, which includes the amount of capital 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 QUALITATIVE 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.

The quantitative criterion is not applicable to loans that are subject to a restructuring process (i.e. their modification is treated as insignificant) as the settlement or restructuring agreement serves a recovery strategy and does not constitute a new transaction concluded on different terms.

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

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

POCI comprise debt financial assets measured at amortized cost and measured at fair value through other comprehensive income, i.e. loans and debt securities. Such assets are initially recognized at the net carrying amount (net of write-downs), which corresponds to their fair value. Interest income on POCI assets is calculated based on the net carrying amount using the effective interest rate adjusted for credit risk recognized for the whole life of the asset. The interest rate adjusted for credit risk is calculated taking into account future cash flows adjusted for the effect of credit risk recognized over the whole life of the asset. The change in estimates of future recoveries in further reporting periods is recognized as an impairment loss or revaluation gain in profit or loss.

e) ASSESSMENT OF IMPACT – CLASSIFICATION AND MEASUREMENT

As at 1 January 2018, the change in the classification and measurement of financial assets concerned:

- NBP bills amounting to PLN 4 199 million, which were measured at fair value through profit or loss on a portfolio basis in accordance with IAS 39. In accordance with IFRS 9, a portfolio of bills is measured at the fair value through other comprehensive income due to the fact that the “hold to collect and sell” model is applied;
- loan portfolios for which, due to the occurrence of the leverage component (an interest formula based on a multiple that is higher than 1) in the interest rate formula, the SPPI test has not been passed: ARiMR (the Agency for Restructuring and Modernization of Agriculture) investment loans, selected working capital loans, student loans, preferential housing loans with BGK financing, housing loans “Alicja”, selected loans granted to local government units. If the SPPI test has not been passed despite the application of the “held to collect” model, it is necessary to change the measurement category for such loan portfolios in the amount of PLN 1 070 million from amortized cost to fair value through profit or loss;
- housing loans, which may be sold to PKO Bank Hipoteczny SA as part of the pooling process, which are measured at amortized cost in accordance with IAS 39 and as of 1 January 2018 will be measured at fair value through other comprehensive income. Due to the application of the “hold to collect and sell” model, such classification are maintained for the purpose of preparing the Bank’s stand-alone financial statements. From the perspective of the consolidated financial statements, the adjustment will not apply, because the loans subject to pooling will meet the business model criterion of “held to collect” within the Group. The total value of the reclassified portfolios amounted to PLN 8 235 million.
- to selected tranches of corporate bonds acquired by the Bank (one entity), despite the application of the “hold to collect and sell” model, due to the SPPI test not being met, the fair value measurement through profit or loss was applied. The total amount of the reclassified bonds was PLN 137 million;
- corporate and municipal debt securities, which were previously presented under “Loans and advances granted to customers” and measured at amortized cost, are now recognized under securities measured at amortized cost amounting to PLN 4 368 million (this reclassification does not affect the measurement).
- reclassification of equity securities being minority interests in accordance with IAS 39, and classified as "available-for-sale" (measured at cost less impairment losses) and reclassified to the "not held for trading, mandatorily measured at fair value through profit or loss" category. The effect of the reclassification on the retained earnings financial result amounted to PLN 90 million.

The implementation of IFRS 9 as of 1 January 2018 has not affected the classification and measurement of the Bank’s financial liabilities

Furthermore, the Bank prospectively applied a method of recognition of modifications in cash flows from financial assets, which are recognized in profit or loss on a one-off basis as at the date of the modification, and the change in the measurement as at the balance sheet date is calculated using the original effective interest rate. Up to 31 December 2017, the effect of modifications was spread over time using the effective interest rate method throughout the remaining part of the product's life.

As at the moment of the first time application of IFRS 9, i.e. 1 January 2018, the Bank recognized POCI acquired as a result of mergers and acquisitions of impaired exposures (merger with Nordea Bank Polska and SKOK "Wesoła" in Mysłowice) and exposures which meet the POCI criteria in respect of corporate entities, with a carrying amount of PLN 572 million, net, as assets.

4.2 IMPAIRMENT

In the area of impairment the Bank has adopted IFRS 9 which is based on the concept of expected losses.

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

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

In accordance with IFRS 9, expected credit losses are not recognized for equity instruments. Impairment is. Impairment is measured as 12-month or perpetual expected losses on a given asset. The time horizon of an expected loss depends on whether a significant increase in credit risk occurred since the moment of initial recognition. Therefore, financial assets are allocated to 3 stages.

Stage 1 (assets whose credit risk has not increased materially since initial recognition)	12-month expected credit losses
Stage 2 (material increase in credit losses)	Lifetime expected credit losses
Stage 3 (loans at risk of impairment) including purchased or originated credit-impaired assets (POCI)	

Impairment allowances for expected credit losses is determined under the portfolio or individual approach.

In the portfolio approach, the impairment loss is determined as the product of the parameters of credit risk: the probability of default on a liability (PD), the loss given default (LGD) and the value of the exposure at default (EAD). In the case of exposures classified into Stage 1, the Bank applies a maximum 12-month horizon for estimating the expected loss. In the case of exposures classified into Stages 2, or 3, the expected loss is estimated up to the date of maturity or renewal of the exposure.

The expected loss, both throughout the period of exposure and over 12 months, is the sum of losses expected in the individual periods, discounted using the effective interest rate.
Under the individual approach, the expected credit losses are specified individually for each credit exposure – as the difference between the gross value of the credit exposure and the present value of expected future cash flows, established based on possible scenarios regarding contract performance and credit exposure management, weighted by the probability of their realization.

The methodology and assumptions used for recognizing and measuring impairment of financial assets are regularly reviewed to reduce the differences between the estimated and actual level of losses.

Detailed information on the methodology for calculating impairment allowances for expect credit losses has been included in Note 27.

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.

IMPACT ASSESSMENT – IMPAIRMENT

The Bank estimated that due to the implementation of IFRS 9 as at 1 January 2018 the total impact of the impairment adjustments on equity (unappropriated profit/loss) was PLN 851 million (after accounting for deferred tax of PLN 690 million).

4.3 HEDGE ACCOUNTING

IFRS 9 increases the range of items that can be designated as hedged items, as well as allows designating as a hedging instrument financial assets or liabilities measured at fair value through profit or loss. The obligation of retrospective measurement of hedge effectiveness together with the previously applicable threshold of 80%–125% were eliminated (the condition to the application of hedge accounting is the economic relationship between the hedging instrument and the hedged item). In addition, the scope of required disclosures regarding risk management strategies, cash flows arising from hedging transactions and the impact of hedge accounting on the financial statements were extended.

Due to the fact that the standard is still being worked on to introduce amendments relating to accounting for macro hedges, entities have a choice of applying hedge accounting provisions: they can either continue to apply IAS 39 or apply the new IFRS 9 standard with the exception of fair value macro hedges relating to interest rate risk.

Having completed an analysis of risks and benefits associated with adopting the hedge accounting solutions introduced in IFRS 9, the Bank decided to continue to apply IAS 39 with respect to hedge accounting and to continue the hedging relationships.

4.4 DISCLOSURES AND COMPARATIVE DATA

In the Bank's opinion, the application of IFRS 9 requires making considerable changes to the manner of presentation and the scope of disclosures concerning the area of financial instruments, in particular in the first year of its application, when extensive information about the opening balance and restatements made is required. The Bank used the IFRS 9 provisions which exempt entities from the obligation to restate the comparative data for the prior periods with regard to changes resulting from classification and measurement as well as impairment. Differences in the carrying amounts of financial assets and liabilities resulting from the application of IFRS 9 were recognized as an unappropriated profit in equity as at 1 January 2018.

4.5 THE IMPACT OF IFRS 9 ON EQUITY AND CAPITAL ADEQUACY MEASURES

The impact of IFRS 9 on equity and capital adequacy measures results from the following factors:

- a change in the classification and measurement of financial assets, which as at 1 January 2018 was recognized in equity under retained earnings/accumulated losses and other comprehensive income (impact of adjustments in respect of fair value measurement of loans measured at fair value through profit or loss) and other comprehensive income,
- a change in the impairment model as at 1 January 2018, whose effect was also recognized in equity under retained earnings/accumulated losses,
- changes in the value of deferred income tax assets (an adjustment to the value of deferred income tax assets in correspondence with unappropriated profit/(loss)). The value of the deferred tax asset is included in the calculation of the risk exposure in accordance with the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms ("CRR Regulation" or "CRR") (i.e. attribution of a risk weight of 250% or reducing own funds). As a standard, assets are treated as assets based on future returns and resulting from temporary differences.

The impact of the provisions of IFRS 9 concerning changes in the impairment model on equity and capital adequacy measures is regulated by Regulation (EU) 2017/2395 of the European Parliament and of the Council of 12 December 2017 amending the CRR requirements regarding transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds and for the large exposures treatment of certain public sector exposures denominated in the domestic currency of any Member State. In accordance with this regulation, banks may apply transitional provisions with respect to own funds and increase Tier 1 capital associated with the implementation of a new impairment model in the period of 5 consecutive years from 1 January 2018. The scaling factor shall decrease from one period to another.

The Bank has decided to apply the transitional provisions in full and to spread the impact of adjustments resulting from IFRS 9 implementation on own funds and capital adequacy measures over time.

At the same time, in accordance with the above-mentioned Regulation of the European Parliament and of the Council of 12 December 2017, in the event of applying the transitional provisions the Bank is additionally obliged to disclose the following values as they would be in the event that the transitional provisions were not applied (own funds, Common Equity Tier 1 capital, Tier 1 capital, total capital ratio, Common Equity Tier 1 capital ratio, Tier 1 capital ratio, and the leverage ratio).

As a result of adjusting the calculations of regulatory capital requirements that take into account the transitional solutions aimed at easing the impact of the IFRS 9 implementation as at 1 January 2018, the Bank's equity calculated for capital adequacy purposes increased by approx. PLN 10 million; at the same time, due to impairment adjustments resulting from the implementation of IFRS 9, equity decreased by approx. PLN 38 million, and due to adjustments relating to changes in classification and measurement methods it decreased by approx. PLN 22 million. At the same time, the Bank's equity increased by approx. PLN 70 million due to the fact that the transitional period provided for in the CRR for removing a specific percentage of unrealized gains on securities measured at fair value through other comprehensive income (as at 31 December 2017, 20% of such gains was removed).

Had the transitional solutions not been applied, the Bank’s equity would be PLN 642 million lower. This decrease would comprise a decrease of PLN 690 resulting from impairment adjustments, a decrease of PLN 22 million resulting from changes in classification and measurement methods, and a simultaneous increase of PLN 70 million resulting from the end of the transitional period provided for in the CRR.

As a result on using IFRS 9 for the first time, the total capital ratio of the decreased by 7 base points. If the transitional solutions relating to IFRS 9 were not applied and the total impact of the implementation of IFRS 9 was recognized, the total capital ratio would decrease by 37 base points.

(IN PLN MILLION)

4.6 CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES ACCORDING TO IFRS 9 AND IAS 39

The tables below show the reconciliation between items of the statement of financial position and categories of financial assets and financial liabilities according to IFRS 9 as at 1 January 2018 and according to IAS 39 as at 31 December 2017:

FINANCIAL ASSETS 01.01.2018 CLASSIFICATION UNDER IFRS 9	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 carrying amount
Cash and balances with the Central Bank	-	-	-	17 765	17 765
Amounts due from banks	-	-	-	8 767	8 767
Hedging derivatives	-	1 104	-	-	1 104
Other derivative instruments	1 701	-	-	-	1 701
Securities	472	2 886	45 602	5 990	54 950
Loans and advances to customers	-	1 070	8 235	172 358	181 663
Other financial assets	-	-	-	1 748	1 748
TOTAL financial assets	**2 173**	**5 060**	**53 837**	**206 628**	**267 698**

FINANCIAL ASSETS 01.01.2018 CLASSIFICATION UNDER IFRS 9	Measured at fair value through profit or loss	Measured at amortized cost	Total carrying amount
Amounts due to the Central Bank	-	6	6
Amounts due to banks	-	4 299	4 299
Hedging derivatives	204	-	204
Other derivative instruments	2 537	-	2 537
Amounts due to customers	-	222 524	222 524
Debt securities in issue	-	5 204	5 204
Subordinated liabilities	-	1 720	1 720
Total financial liabilities	-	3 812	3 812
TOTAL financial liabilities	**2 741**	**237 565**	**240 306**

(IN PLN MILLION)

FINANCIAL ASSETS 31.12.2017 CLASSIFICATION UNDER IAS 39	Held for trading	Designated at fair value through profit or loss upon initial recognition	Held to maturity	Loans and receivables	Available for sale	Total carrying amount
Cash and balances with the Central Bank	-	-	-	17 765	-	17 765
Amounts due from banks	-	-	-	8 769	-	8 769
Hedging derivatives	-	1 104	-	-	-	1 104
Other derivative instruments	1 701	-	-	-	-	1 701
Securities	472	6 409	1 622	-	42 009	50 512
Loans and advances to customers	-	-	-	186 892	-	186 892
Other financial assets	-	-	-	1 748	-	1 748
TOTAL financial assets	**2 173**	**7 513**	**1 622**	**215 174**	**42 009**	**268 491**

FINANCIAL ASSETS 31.12.2017 CLASSIFICATION UNDER IAS 39	Measured at fair value through profit or loss	Measured at amortized cost	Total carrying amount
Amounts due to the Central Bank	-	6	6
Amounts due to banks	-	4 299	4 299
Hedging derivatives	204	-	204
Other derivative instruments	2 537	-	2 537
Amounts due to customers	-	222 524	222 524
Debt securities in issue	-	5 204	5 204
Subordinated liabilities	-	1 720	1 720
Total financial liabilities	-	3 812	3 812
TOTAL financial liabilities	**2 741**	**237 565**	**240 306**

(IN PLN MILLION)

4.7 CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES ACCORDING TO IFRS ON FIRST-TIME APPLICATION OF IFRS 9

Categories of measurement of financial instruments pursuant to IAS 39 and new measurement categories pursuant to IFRS 9 for the Bank's financial assets and financial liabilities, taking into account changes in measurement and impairment allowances set up in accordance with IFRS 9 as at 1 January 2018 are presented in the table below.

As at 01.01.2018	Classification under IAS 39	Carrying amount under IAS 39	New classification under IFRS 9	New carrying amount under IFRS 9
Financial assets				
Cash and balances with the Central Bank	loans and receivables	17 765	measured at amortized cost	17 765
Amounts due from banks	loans and receivables	8 769	measured at amortized cost	8 767
Hedging derivatives	measured at fair value through profit or loss	1 104	measured at fair value through profit or loss (mandatory measurement)	1 104
Other derivative instruments	held for trading	1 701	held for trading	1 701
Financial assets held for trading	held for trading	472	held for trading	472
Financial instruments designated at fair value through profit or loss upon initial recognition – debt instruments	measured at fair value through profit or loss	6 409	measured at fair value through other comprehensive income	4 199
			not held for trading, measured at fair value through profit or loss	2 210
Available-for-sale investment securities – debt instruments	available for sale	41 560	measured at fair value through other comprehensive income	41 403
			not held for trading, measured at fair value through profit or loss	137
Available-for-sale investment securities – equity instruments	available for sale[1]	449	not held for trading, measured at fair value through profit or loss	539
Investment securities held to maturity - debt securities	held to maturity	1 622	measured at amortized cost	1 622
Loans and advances to customers	loans and receivables	182 524	measured at amortized cost	172 358
			not held for trading, measured at fair value through profit or loss	1 070
			measured at fair value through other comprehensive income	8 235
Loans and advances to customers - (securities, corporate and municipal bonds)	loans and receivables	4 368		
Investment securities – debt instruments			measured at amortized cost	4 368
Other financial assets	loans and receivables	1 748	measured at amortized cost	1 748
TOTAL financial assets		**268 491**	-	**267 698**

[1] In accordance with IAS 39 part of the portfolio referred to above, consisting of equity instruments not quoted on active markets were measured, after initial recognition, at cost net of impairment.

Corporate and communal bonds which in accordance with IAS 39 met the definition of loans and advances, as at 31 December 2017 had been presented in "Loans and advances to customers". After IFRS 9 became binding, due to the fact that the securities meet the SPPI test criterion and are classified to the business model "hold to collect and sell", they are qualified to the category of financial assets measured at amortized cost and presented in the item dedicated to securities measured at amortized cost.

(IN PLN MILLION)

As at 01.01.2018	Classification under IAS 39	Carrying amount under IAS 39	New classification under IFRS 9	New carrying amount under IFRS 9
Financial liabilities				
Amounts due to the Central Bank	measured at amortized cost	6	measured at amortized cost	6
Amounts due to banks	measured at amortized cost	4 299	measured at amortized cost	4 299
Hedging derivatives	measured at fair value through profit or loss	204	measured at fair value through profit or loss	204
Other derivative instruments	measured at fair value through profit or loss	2 537	measured at fair value through profit or loss	2 537
Amounts due to customers	measured at amortized cost	222 524	measured at amortized cost	222 524
Debt securities in issue	measured at amortized cost	5 204	measured at amortized cost	5 204
Subordinated liabilities	measured at amortized cost	1 720	measured at amortized cost	1 720
Total financial liabilities	measured at amortized cost	3 812	measured at amortized cost	3 812
TOTAL financial liabilities		**240 306**		**240 306**

(IN PLN MILLION)

4.8 Disclosures relating to the reconciliation of the balance of the provision for off-balance sheet liabilities in accordance with IAS 39 and IAS 37 with the opening balances of the allowances calculated in accordance with IFRS 9

Reconciliation of the provisions for off-balance sheet liabilities calculated in accordance with IAS 37 as at 31 December 2017 with the opening balances of the expected credit losses determined in accordance with the provisions of IFRS 9 as at 1 January 2018 is presented in the table below.

PROVISIONS OF OFF-BALANCE SHEET LIABILITIES	IAS 37 carrying amount 31.12.2017	Classification	Impairment allowance	IFRS 9 carrying amount 01.01.2018
Provisions for off-balance-sheet liabilities	86	86	69	155
Provisions for instruments with no significant increase in credit risk since initial recognition (stage 1)		47	56	103
Provisions for instruments with a significant increase in credit risk since initial recognition, but not credit-impaired (stage 2)		6	13	19
Provisions for credit-impaired instruments (stage 3)		33	-	33

4.9 Disclosures relating to the reconciliation of the balance of the impairment allowances for financial assets in accordance with IAS 39 with the opening balances of the allowances for expected credit losses calculated in accordance with IFRS 9

Disclosures relating to the reconciliation of the balance of the impairment allowances for financial assets in accordance with IAS 39 with the opening balances of the allowances for expected credit losses calculated in accordance with IFRS 9 are shown in detail in Note 28 “Expected Credit Losses”.

5. IFRS 15 Revenue from contracts with customers

IFRS 15 “Revenue from contracts with customers” was adopted for use in all the Member States of the European Union on 22 September 2016 and applies to annual periods beginning on or after 1 January 2018.
IFRS 15 refers to fee and commission income and other fees generated by financial institutions, related – among other things – to servicing loans, asset management or fiduciary activities, which are not covered by IFRS 9 “Financial Instruments”.
Pursuant to this standard the Bank recognizes revenue in such a manner so as to reflect the transfer of the goods or services promised to a customer in an amount reflecting the consideration to which – in accordance with the entity’s expectations – it will be entitled in return for the goods or services. The Bank applies this standard in consideration of the terms and conditions of the contract, and all material facts and circumstances.
IFRS 15 introduces a 5-step model for revenue recognition, which comprises:

Step I: Identification of the contract with the customer

In this step contracts with customers are identified by analysing whether all the following criteria have been met:

1. the parties to the contract have concluded the said contract (in written, oral or other customary form practiced in trading) and are required to perform their duties;
2. the Bank is able to identify the rights of each of the parties relating to the goods or services which are to be transferred;
3. the Bank is able to identify the terms of payment for the goods or services which are to be transferred;
4. the contract has economic substance (i.e. it may be expected that as a result of the contract risk, time schedule or amount of the future cash flows will change), and
5. it is probable that the Bank will receive the consideration to which it is entitled in exchange for the goods or services that will be provided to the Customer. When assessing whether it is probable that the fee will be received, the Bank takes into account the Customer’s ability and intention to pay the consideration on time, subject to all discounts.

STEP II: IDENTIFICATION OF SEPARATE PERFORMANCE OBLIGATIONS

A performance obligation is a promise (express or implicit) to transfer to the customer goods or services which are identified upon the conclusion of a contract according to the terms of the contract, and according to customary commercial practices. Upon the conclusion of a contract the Bank assesses the goods or services promised in the customer contract and identifies each promise to transfer on behalf of the customer as an obligation to perform:

1. goods or services (or bundles of goods or services), which may be isolated, or
2. groups of separate goods or services which are in principle the same and in respect of which the transfer to the customer is of an identical nature.

The goods or services promised to the customer are separate if both the following conditions are met:

1. the customer may obtain benefits from the goods or services directly or by bundling them with other goods or services which are readily available to the customer (i.e. the goods or services may be separate); and
2. the entity's obligation to transfer the goods or services to the customer may be identified as separate in respect of other obligations specified in the contract (i.e. the goods or services are separate under the same contract).

The Bank identifies the customer's purchase options for additional goods or services (loyalty points) as separate obligations to perform, if they give the customer material rights (material rights that the customer would not have obtained had it not been for the said contract).

In the event that in the process of providing selected services to the customer a third party is engaged, the Bank assesses whether it has the role of an agent or of a principal, taking into consideration mainly the possibility of controlling a given service before it is provided to the customer (control principle).

STEP III: DETERMINING THE TRANSACTION PRICE

As at the moment of concluding the contract, the Bank determines the transaction price of the separate good or separate service subject to each obligation to perform, taking into consideration the terms and conditions of the contract and the commercial practices in force.

The transaction price is the amount of consideration which in accordance with the Bank's expectations will be due in return for transferring the promised goods or services on behalf of the customer, with the exception of amounts collected on behalf of third parties.

When determining the transaction price, the following components are taken into account: variable consideration, time value of money, non-cash consideration and consideration payable to the customer. In respect of variable consideration (such as discounts from payment organizations) the Bank estimates the amount of the consideration to which it will be entitled in return for the transfer of the promised services.

STEP IV: ALLOCATING THE TRANSACTION PRICE TO PARTICULAR COMMITMENTS TO PERFORM

The Bank allocates a transaction price to each commitment to perform (or to provide a separate good or service) in an amount which reflects the amount of the consideration to which – according to the Bank's expectations – it is entitled in return for the transfer of the promised goods or services to the customer. The Bank allocates transaction prices based on the relative fair value model.

STEP V: RECOGNITION OF REVENUE UPON PERFORMANCE OF A COMMITMENT FOLLOWING FROM THE CONTRACT

The Bank recognizes revenue upon the completion (or during the process) of the performance of a commitment by transferring the promised goods or services to the customer. The goods are considered to be transferred and the service to be performed upon the customer taking control over them.

The Bank has applied IFRS 15 from 1 January 2018. The Bank analysed the main types of contracts in respect of which it receives consideration recognized in the category of fees and commissions, and other operating income. The analysis covered both contracts with customers relating to banking products, for which the Bank obtains fees and commissions which are not part of the effective interest rate, bancassurance contracts, contracts relating to distribution and investment fund management services, bond issue underwriting contracts, contracts with international payment organizations and contracts relating to the Bank's internal operations.
The Bank has not identified contracts in respect of which implementation of IFRS 15 could materially impact the financial statements. The Bank selected the simplified retrospective approach to the first-time application of IFRS 15.

6. IFRS 16 LEASES

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

From the point of view of the lessee, IFRS 16 eliminates the classification of leases into operating leases and finance leases, introducing one model of recognition and measurement which is consistent with the recognition of financial leases under IAS 17. The lessee is required to recognize assets derived from the right of use of the leased asset in the statement of financial position and liabilities from lease payments, except for short-term lease contracts (up to 12 months) and lease contracts for non-significant assets. The lessee is also required to recognize the costs of depreciation of the asset from the right to use the leased asset and the interest expense on the lease liability in the income statement (according to IAS 17, expenditure related to the use of leased assets is included in general administrative expenses). The right of use of assets is subject to straight-line depreciation, while liabilities under lease contracts are measured using the amortized cost method.

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

IMPACT OF IFRS 16 ON THE FINANCIAL STATEMENTS

The Bank completed the implementation of IFRS 16 in the fourth quarter of 2018, in which the following implementation work was conducted:

- an analysis of all contracts concluded by the Bank for the purchase of goods and services, including, in particular, operational lease, rental and lease contracts, which were active as at the date of the first application of the standard, for the presence of leases in accordance with the definition contained in the new standard;
- the development of a methodology for identifying lease contracts and organizing the process of measuring and collecting contract data;
- changes in the accounting policies and internal procedures, as well as the Bank's IT systems;
- the implementation of a tool for calculating the value of lease rights and obligations;

LEASE LIABILITIES

The implementation of the standard resulted in the Bank recognizing lease 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 value of the liability was adjusted for costs paid in advance as at 31 December 2018 at a level of PLN 4 million.

ASSETS FROM THE RIGHT OF USE

The Bank recognized assets from the right of use as at 1 January 2019 at a level of PLN 889 million, which include the amount of the initial valuation of the lease liability of PLN 885 million and lease payments of PLN 4 million paid in advance.

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

ESTIMATES USED

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

- Establishment of the term of the lease for contracts concluded indefinitely

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

(IN PLN MILLION)

- Determining the interest rate used to discount future cash flows

The discount rates used by the Bank to discount future lease payments (marginal lending rates) lie within the range of 2,06% to 4,09% for PLN, from 0,6% to 1,5% for EUR and from 3,8% to 4.0% for USD and were calculated on the basis of curves reflecting the cost of financing in the given currency, encompassing the tenor of the longest lease contract which is to be valued and reflecting – for the given currency – a fixed market interest rate and the cost of the Bank's financing. The tenors of lease contracts lie within the range of 1 to 99 years.

The total impact of the discount factor from the application of the above rates to the present value of lease liabilities was PLN 299 million.

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

The Bank expects the application of the new standard to reduce the net result for 2019 by approximately PLN 10 million. There will be a change in the presentation of repayments of lease instalments in the cash flow statement. Payments of lease instalments will be recognized in the financing cash flows and not in operating cash flows, as to date.
The estimated annual cost of depreciation of assets under the right of use will amount to PLN 180 million, while the interest expense will be PLN 20 million.
The additional tax charged to financial institutions for the new recognition of assets from the right of use will be approx. PLN 4 million per year.

CAPITAL ADEQUACY

The Bank estimates that the increase in assets arising from recognizing assets from the right of use under lease contracts will result in an increase of PLN 75 million in capital requirements. In addition, in view of the write-down of the right of perpetual usufruct of land of PLN 111 million, the Bank's own funds will decline by this same amount. This will contribute to a reduction of the Tier 1 capital ratio by approx. 17 b.p. and the total capital ratio by approx. 18 b.p.

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

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

Operating lease liabilities As at 31.12.2018 (not discounted)	592
Future payments in respect of rights to perpetual usufruct	370
Operating lease payments, together with future payments in respect of rights to perpetual usufruct 31.12.2018 (not discounted)	962
Short-term lease agreements	(5)
Impact of discounting at the incremental borrowing rate 2.56%	(299)
Adjusted for the difference in the recognition of the extension/termination option	227
Financial liabilities in respect of leases As at 01.01.2019	885

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

(IN PLN MILLION)

Impact on the statement of financial position	As at 31.12.2018 (under IAS 17)	Write-off of the right to perpetual usufruct of land	Effect of recognizing lease agreements(with discount)		Total effect of recognizing lease agreements(with discount)	As at 01.01.2019 under IFRS 16
			rights to perpetual usufruct	operating leases		
ASSETS						
Property, plant and equipment, of which:	2 082	(111)	124	765	889	2 860
right-of-use asset	X	-	124	765	889	889
Land and buildings	1 383	(111)	-	-	-	1 272
Other assets, including:	2 318	-	-	(4)	(4)	2 314
prepayments	57	-	-	(4)	(4)	53
LIABILITIES AND EQUITY						
Other liabilities, of which:	3 189	-	124	761	885	4 074
lease liabilities	X	-	124	761	885	885
EQUITY	38 360	(111)	-	-	-	38 249

To the best of our knowledge, the presented impact of the adjustments from the implementation of IFRS 16 on financial assets and liabilities, the net financial result and the tax burden on financial institutions is the best estimate at the time of publication of these financial statements

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

Apart from the changes resulting from the implementation of IFRS 9 in the financial statements of PKO Bank Polski SA for the year ended 31 December 2018, to better reflect said changes, the Bank made the following changes to the presentation:

INCOME STATEMENT	period from 01.01.2017 to 31.12.2017 before restatement	Separate presentation of net credit losses and impairment of non-financial assets	Reclassification of provisions for legal claims and other provisions	period from 01.01.2017 to 31.12.2017 restated
Net impairment allowances and write-downs	(1 530)	1 526	4	-
Net credit losses	-	(1 470)	-	(1 470)
Impairment of non-financial assets	-	(56)	-	(56)
Other operating income	154	-	10	164
Other operating expenses	(97)	-	(14)	(111)
Total	**(1 473)**	-	-	**(1 473)**

(IN PLN MILLION)

STATEMENT OF CASH FLOWS	period from 01.01.2017 to 31.12.2017 before restatement	separate presentation of the change in hedging derivatives and other derivatives	reclassification to change in "other assets"	separate presentation of the change in "non-current assets held for sale"	separate presentation of "accumulated allowances on financial assets and other provisions" and changes in accumulated allowances for credit losses and impairment allowances	separate presentation of the change in "liabilities in respect of debt securities in issue"	separate presentation of the change in "subordinated liabilities"	separate presentation of the change in "amounts due to the Central Bank"	reclassification to change in "securities"	reclassification of interest accrued, discount, premium on debt securities to the change in "securities"	period from 01.01.2017 to 31.12.2017 restated
Cash flows from operating activities											
change in derivative financial instruments	(1 399)	1 399	-	-	-	-	-	-	-	-	-
change in hedging derivatives	-	(1 682)	-	-	-	-	-	-	-	-	(1 682)
change in other derivative financial instruments	-	283	-	-	-	-	-	-	-	-	283
change in financial instruments designated at fair value through profit or loss upon initial recognition and financial assets held for trading	5 221	-	-	-	-	-	-	-	(5 221)	-	-
change in securities	-	-	-	-	-	-	-	-	5 221	(257)	4 964
change in other assets and non-current assets held for sale	220	-	(238)	18	-	-	-	-	-	-	-
change in non-current assets held for sale	-	-	-	(18)	-	-	-	-	-	-	(18)
change in other assets		-	238	-	(17)	-	-	-	-	-	221
change in provisions and impairment allowances	(116)	-	-	-	116	-	-	-	-	-	-
change in accumulated allowances for credit losses and impairment allowances	-	-	-	-	(108)	-	-	-	-	-	(108)
change in accumulated allowances on non-financial assets and other provisions	-	-	-	-	9	-	-	-	-	-	9
change in liabilities in respect of debt securities in issue	-	-	-	-	-	(59)	-	-	-	-	(59)
change in subordinated liabilities	-	-	-	-	-	-	17	-	-	-	17
change in amounts due to the Central Bank	-	-	-	-	-	-	-	2	-	-	2
change in amounts due to banks	(1 412)	-	-	-	-	-	-	(2)	-	-	(1 414)
Other adjustments	(266)	-	-	-	-	59	(17)	-	-	257	33
Total	**2 248**	-	-	-	-	-	-	-	-	-	**2 248**

(IN PLN MILLION)

AMOUNTS DUE TO CUSTOMERS	31.12.2017 before restatement	Separate presentation of loans and advances received	31.12.2017 restated
Measured at amortized cost:			
Amounts due to retail customers	150 537	-	150 537
Current accounts and overnight deposits	86 612	-	86 612
Term deposits	63 719	-	63 719
Other liabilities	206	-	206
Amounts due to corporate entities	60 578	(7 882)	52 696
Current accounts and overnight deposits	39 719	-	39 719
Term deposits	11 992	-	11 992
Loans and advances received	7 882	(7 882)	-
Amounts due from repurchase agreements	48	-	48
Other liabilities	937	-	937
Amounts due to public entities	11 409	-	11 409
Current accounts and overnight deposits	9 555	-	9 555
Term deposits	1 820	-	1 820
Other liabilities	34	-	34
Loans and advances received	-	7 882	7 882
Total	**222 524**	-	**222 524**

Provisions	31.12.2017 before restatement	Separate presentation provisions for pensions and restructuring provision	31.12.2017 restated
Provisions for unsettled legal claims	18	-	18
Provisions for pensions and other defines post-employment benefits	45	14	59
Restructuring provision	-	21	21
Provisions for financial liabilities and guarantees granted	86	-	86
Other provisions, including for disputes with employees	61	(35)	26
Total	**210**	-	**210**

NOTES TO THE INCOME STATEMENT

8. INTEREST INCOME AND EXPENSES

Accounting policies
- Interest and expenses resulting from sales of insurance products linked to loans and advances.

Financial information
- Interest income
- Interest 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 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 is 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 from the Bank an insurance product that is identical as to the legal form, conditions and economic content 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 settled 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.

Measurement of the fair value of a financial instrument is based on 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.

The fair value valuation of the insurance mediation service is based on a market approach consisting of using prices and other information generated by identical or comparable market transactions.

Costs directly related to the sale of insurance products are settled in a similar manner to the settlement of revenues, i.e. as part 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.

(IN PLN MILLION)

FINANCIAL INFORMATION

INTEREST INCOME ON:	2018				2017
	Interest income on financial instruments measured at amortized cost	Interest income on instruments measured at fair value through OCI	Income similar to interest income on instruments measured at fair value through profit or loss	Total	Total
loans to and other receivables from banks	173	-	-	173	202
hedging derivatives	-	-	503	503	408
debt securities[1]	196	1 084	73	1 353	1 219
loans and advances to customers[1]	8 159	272	44	8 475	8 246
Total	8 528	1 356	620	10 504	10 075
of which: interest income on impaired financial instruments	264	13	-	277	237

[1] the result on the non-significant modification of PLN (16) million is recognized in 'debt securities' and 'loans and advances to customers'

INTEREST EXPENSE ON:	2018				2017
	Interest expense on financial instruments measured at amortized cost	Interest expense on instruments measured at fair value through OCI	Costs similar to interest expense on instruments at fair value through profit or loss	Total	Total
amounts due to banks (excluding loans and advances)	(33)	-	-	(33)	(21)
loans and advances received	(293)	-	-	(293)	(413)
amounts due to customers (excluding loans and advances)	(1 487)	-	-	(1 487)	(1 556)
debt securities:	(6)	(53)	(18)	(77)	(90)
securities in issue	(40)	-	-	(40)	(28)
subordinated liabilities	(84)	-	-	(84)	(66)
Total	(1 943)	(53)	(18)	(2 014)	(2 174)

INTEREST INCOME BY SEGMENT:	2018			
	Retail segment	Corporate and investment segment	Transfer centre and other	Total
loans to and other receivables from banks	-	173	-	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	3 290	503	10 504

9. 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 income referred to in note 5 IFRS 15 "Revenue from contracts with customers".

(IN PLN MILLION)

Fee and commission income is generally recognized on an accruals basis when the service has been provided. 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 over a period exceeding 3 months, 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 for the provision of a performance, the Bank assesses whether it will be capable of meeting the obligation to make the performance gradually, or whether it will make the performance at a specific date.

The accounting policies for recognizing commission income on sales of insurance products linked to loans and advances are described in note 8 "Interest income and expenses".

FINANCIAL INFORMATION

NET FEE AND COMMISSION INCOME	2018	2017
Loans and insurance	793	742
Investment funds and brokerage activities	326	564
Cards	523	495
Bank accounts and other	840	886
Total	**2 482**	**2 687**

FEE AND COMMISSION INCOME	2018	2017
Loans and insurance	**793**	**742**
lending	637	637
offering insurance products	156	105
Investment funds and brokerage activities	**345**	**585**
servicing of investment funds and OFE (including management fees)	185	391
servicing and selling investment and insurance products	14	15
brokerage activities	146	179
Cards	**1 221**	**1 110**
Bank accounts and other	**1 133**	**1 174**
servicing bank accounts	812	835
cash transactions	79	87
servicing foreign mass transactions	104	101
sale and distribution of court fee stamps	1	5
customer orders	46	44
fiduciary services	6	6
other	85	96
Total	**3 492**	**3 611**

(IN PLN MILLION)

FEE AND COMMISSION EXPENSE	2018	2017
Investment funds and brokerage activities	**(19)**	**(21)**
Cards	**(698)**	**(615)**
Bank accounts and other	**(293)**	**(288)**
commission paid to external entities for product sales	(78)	(87)
cost of construction investment supervision and property valuation	(44)	(41)
settlement services	(31)	(29)
fee and commissions for operating services provided by banks	(13)	(17)
sending short text messages (SMS)	(27)	(21)
other[1]	(100)	(93)
Total	**(1 010)**	**(924)**

[1] among other things, on servicing loans, servicing foreign mass transactions, central settlement of derivative transactions, issue of Euro bonds and canvassing services).

FEE AND COMMISSION INCOME BY SEGMENT	2018			
	Retail segment	Corporate and investment segment	Transfer centre and other	Total
Loans and insurance	**648**	**145**	**-**	**793**
lending	492	145	-	637
offering insurance products	156	-	-	156
Investment funds and brokerage activities	**228**	**117**	**-**	**345**
servicing of investment funds and OFE (including management fees)	176	9	-	185
servicing and selling investment and insurance products	14	-	-	14
brokerage activities	38	108	-	146
Cards	**1 201**	**20**	**-**	**1 221**
Bank accounts and other	**941**	**192**	**-**	**1 133**
servicing bank accounts	753	59	-	812
cash transactions	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	**3 018**	**474**	**-**	**3 492**

10. 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, if it is likely that it will obtain economic benefits related to dividend and the amount of the dividend may be reliably determined.

Financial information

DIVIDEND INCOME	2018	2017
from issuers not related to the Bank, with respect to:	12	12
financial assets held for trading	1	1
financial instruments not held for trading, measured at fair value through profit or loss	11	
available-for-sale investment securities		11
from subsidiaries , associates and joint ventures, of which:	311	123
PKO Towarzystwa Funduszy Inwestycyjnych SA	156	60
CEUP eService Sp. z o.o.	22	13
PKO BP BANKOWY PTE SA	8	5
PKO BP Finat sp. z o.o.	64	45
PKO Leasing SA	61	-
Total	**323**	**135**

(IN PLN MILLION)

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

ACCOUNTING POLICIES AND CLASSIFICATION

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).

FINANCIAL INFORMATION

NET GAIN/(LOSS) ON FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS	2018
Financial instruments held for trading	(34)
Financial instruments not held for trading, measured at fair value through profit or loss	79
Derivative instruments (of which an ineffective portion of cash flow hedges)	(3)
Total	**42**

NET GAIN/(LOSS) ON FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS	2017
Debt instruments	3
Equity instruments	1
Derivative instruments (of which an ineffective portion of cash flow hedges)	-
Other, including gains and losses on the hedging instrument and the hedged item relating to the hedged risk (fair value hedges)	(1)
Total	**3**

12. FOREIGN EXCHANGE GAINS/ (LOSSES)

ACCOUNTING POLICIES AND CLASSIFICATION

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

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

NET FOREIGN EXCHANGE GAINS/(LOSSES)	2018	2017
Net foreign exchange gains/(losses), of which:	469	419
ineffective portion of cash flow hedges recognized in net foreign exchange gains/(losses)	(1)	3
Total	**469**	**419**

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

GAINS/(LOSSES) ON DERECOGNITION OF FINANCIAL INSTRUMENTS NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	2018	2017
Measured at fair value through OCI	129	
Measured at amortized cost	4	
loans and advances to customers	4	
Total	133	

(IN PLN MILLION)

14. Gain/(loss) on allowances for credit losses

Accounting Policies

The accounting principles regarding the recognition of net impairment allowances for expected credit losses and provisions for financial liabilities and guarantees granted are broken down by item in the individual notes. The net allowances consist of impairment allowances for expected credit losses and provisions set up and released.

Financial information

NET CREDIT LOSSES	2018	2017
Debt securities	(4)	(64)
available for sale		(64)
measured at fair value through other comprehensive income	4	
measured at amortized cost	(8)	
Loans and advances to customers	(1 209)	(1 389)
measured at fair value through other comprehensive income	(14)	
housing	(14)	
measured at amortized cost	(1 195)	-
housing	(144)	-
corporate	(498)	-
consumer	(553)	-
Other financial assets	(1)	3
Provisions for financial liabilities and guarantees granted	(72)	(20)
Total	**(1 286)**	**(1 470)**

ACCUMULATED ALLOWANCES FOR CREDIT LOSSES AND IMPAIRMENT ALLOWANCES (BALANCE)	31.12.2018	01.01.2018	31.12.2017
Amounts due from banks	4	2	-
measured at amortized cost	4	-	-
Equity securities			52
available for sale			52
Debt securities	30	26	246
available for sale			246
measured at fair value through other comprehensive income	10	15	
measured at amortized cost	20	11	-
Loans and advances to customers	7 511	10 043	7 170
measured at amortized cost	7 511	10 043	7 170
Provisions for financial liabilities and guarantees granted	227	155	86
Other financial assets	95	99	99
Total	**7 867**	**10 325**	**7 653**

15. Impairment of non-financial assets

NET IMPAIRMENT OF NON-FINANCIAL ASSETS	2018	2017
Non-current assets held for sale	(11)	(8)
Property, plant and equipment	(9)	(8)
Intangible assets	(10)	-
Investments in subsidiaries, associates and joint ventures	(66)	(25)
Other non-current assets	(15)	(15)
Total	**(111)**	**(56)**

(IN PLN MILLION)

ACCUMULATED IMPAIRMENT OF NON-FINANCIAL ASSETS	31.12.2018	01.01.2018	31.12.2017
Non-current assets held for sale	-	262	262
Property, plant and equipment	35	29	29
Intangible assets	25	15	15
Investments in subsidiaries, associates and joint ventures	915	849	849
Other non-current assets	113	108	108
Total	**1 088**	**1 263**	**1 263**

16. 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, unrecoverable receivables collected, legal damages, fines and penalties, income from lease/rental of properties. Other operating expenses mainly include losses on sale /scrapping of fixed assets, intangible assets and foreclosed collateral, and donations made.

FINANCIAL INFORMATION

OTHER OPERATING INCOME	2018	2017
Gains on sale or scrapping of property, plant and equipment, intangible assets and assets held for sale	30	74
Damages, compensation and penalties received	1	-
Ancillary income	27	27
Recovery of receivables expired, forgiven or written off	7	2
Income from BGF in respect of guarantees	8	-
Release of provision for future payments	16	2
Release of provision for legal claims	4	8
Other[1]	78	51
Total	**171**	**164**

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

OTHER OPERATING EXPENSE	2018	2017
Losses on sale or scrapping of property, plant and equipment, intangible assets and assets held for sale	(10)	(17)
Donations made	(53)	(23)
Sundry expenses	(16)	(16)
Provision for a potential return of fees and commissions to customers[1]	(62)	-
Provision for future payments	(6)	(4)
Provision for legal claims[2]	(43)	(10)
Other	(36)	(41)
Total	**(226)**	**(111)**

[1] A detailed description of the provision set up was provided in Note 47 “Legal claims”.
[2] The amount relating to the penalty imposed by UKOiK of PLN 21 million is shown in the item “Provisions for legal claims” in 2018.

17. ADMINISTRATIVE EXPENSES

Accounting policies and classification
Financial information:
Administrative expenses
Employee benefits
Operating lease / lessee

ACCOUNTING POLICIES AND CLASSIFICATION

EMPLOYEE BENEFITS	Employee benefits comprise wages and salaries and social insurance (including contributions for retirement and disability benefits, which are discussed in detail in the note "Provisions"), as well as costs of the employee pension scheme constituting a defined contribution scheme and the programme of variable remuneration components for persons occupying managerial positions, a part of which is recorded as a liability in respect of share-based payments settled in cash, in accordance with IFRS 2 Share-based payments (the programme of variable remuneration components has been discussed in detail in the note entitled "Remuneration of the PKO Bank Polski SA key management"). The Employee Pension Programme (EPP) has been in place at the Bank since 2013. As part of the EPP (for employees who joined the Programme), until 9 December 2018, the Bank accrued the basic contribution of 3% of the salary components on which social insurance contributions are accrued, from 10 December 2018, there was an increase in the basic contribution to 3.5%. Employees are entitled to declare additional contributions which are paid to the EPP by the Employer and deducted from the Employee's salary. EPP is managed by PKO Towarzystwo Funduszy Inwestycyjnych SA. 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 next period, including bonuses and holiday pay, taking account of all unused holiday.
OVERHEADS	Maintenance and lease of fixed assets, IT and telecommunications services, costs of administration, promotion and advertising, property protection and training. Lease payments under an operating lease and subsequent instalments are recognized as an expense in the income statement and are recognized on a straight-line basis over the lease term.
AMORTIZATION AND DEPRECIATION	Depreciation/amortization principles have been described in detail in the note "Intangible assets and property, plant and equipment".
CONTRIBUTION AND PAYMENTS TO THE BANK GUARANTEE FUND	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' forced restructuring fund (annually). Contributions to the guarantee fund and the forced restructuring fund are not tax-deductible.
TAXES AND FEES	Property tax, payments made to the State Fund for Rehabilitation of Disabled Persons, municipal and administration fees.

(IN PLN MILLION)

FINANCIAL INFORMATION

ADMINISTRATIVE EXPENSES	2018	2017
Employee benefits	(2 671)	(2 640)
Overheads, of which:	(1 284)	(1 200)
IT	(254)	(261)
Depreciation and amortization	(680)	(727)
property, plant and equipment, of which:	(266)	(279)
IT	(105)	(103)
intangible assets, of which:	(414)	(448)
IT	(403)	(434)
Contributions and fees to the Bank Guarantee Fund (BGF), of which:	(422)	(401)
to the Resolution Fund	(162)	(209)
to the Banks' Guarantee Fund	(260)	(192)
Payments to the PFSA	(25)	(18)
Taxes and fees	(51)	(51)
Total	**(5 133)**	**(5 037)**

EMPLOYEE BENEFITS	2018	2017
Wages and salaries, of which:	(2 235)	(2 214)
costs of contributions to the employee pension plan	(43)	(47)
Social insurance, of which:	(363)	(359)
contributions for disability and retirement benefits	(307)	(234)
Other employee benefits	(73)	(67)
Total	**(2 671)**	**(2 640)**

OPERATING LEASE – LESSEE

The costs of operating lease on the part of the lessee are recognized in administrative expenses under overheads. Rental and lease contracts concluded by the Bank as part of its normal operating activities meet, among other things, the definition of operating lease. All contracts are concluded on an arm's length basis.

The lease and sub-lease payments recognized in the costs of a current period in 2018 amounted to PLN 201 million (in 2017 they amounted to PLN 239 million).

TOTAL FUTURE LEASE PAYMENTS UNDER IRREVOCABLE OPERATING LEASES	31.12.2018	31.12.2017
For a period:		
up to 1 year	180	210
from 1 to 5 years	365	367
over 5 years	47	93
Total	**592**	**670**

18. 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.

(IN PLN MILLION)

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	2018	2017
Tax on certain financial institutions	(883)	(894)
Total	**(883)**	**(894)**

19. INCOME TAX

Accounting policies
Financial information:
- Income tax expense
- Reconciliation of the effective tax rate
- Deferred tax assets, net

ACCOUNTING POLICIES

Corporate income tax comprises current and deferred tax. The 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 the Podatkowa Grupa Kapitałowa Powszechnej Kasy Oszczędności Banku Polskiego Spółki Akcyjnej Tax Group ("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, impairment allowances on receivables and provisions for off-balance sheet liabilities.

The Bank's liability in respect of current corporate income tax for 2018 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.

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.

(IN PLN MILLION)

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 valued 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 it 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

	2018	2017
Current income tax expense	(1 343)	(1 080)
Deferred income tax on temporary differences	207	69
Income tax expense recognized in the income statement	**(1 136)**	**(1 011)**
Income tax reported in other comprehensive income in respect of temporary differences	(95)	(146)
Total	**(1 231)**	**(1 157)**

(IN PLN MILLION)

RECONCILIATION OF THE EFFECTIVE TAX RATE

	2018	2017
Profit or loss before tax	4 471	3 785
Tax calculated using the enacted rate in force in Poland 19%	(849)	(719)
Effect of permanent timing differences between profit before income tax and taxable income, of which:	(293)	(301)
non-tax deductible impairment allowance on investments in subsidiaries, associates and joint ventures	(13)	(5)
non-deductible impairment allowances on credit exposures and securities	(76)	(61)
contribution and payments to the Bank Guarantee Fund	(80)	(76)
tax on certain financial institutions	(168)	(170)
other permanent differences	(17)	(14)
dividend income	61	25
Effect of other timing differences between profit before income tax and taxable income, including new technologies tax relief and donations	6	9
Income tax expense recognized in the income statement	(1 136)	(1 011)
Effective tax rate	**25,4%**	**26,7%**

DEFERRED TAX ASSETS, NET

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	-	-	18	(13)	143
Provision for employee benefits	87	-	-	(10)	-	77
Allowances for credit losses[1]	655	629	-	(273)	-	1 011
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

[1] The decrease in the deferred tax asset in respect of the credit loss allowance and the provision for interest accrued on amounts receivable (loans) relates, among other things, to the partial write-off of the interest in the amount of PLN 1 989 million.

20. Earnings per share

EARNINGS PER SHARE	2018	2017
Profit attributable to ordinary shareholders	3 335	2 774
Weighted average number of ordinary shares during the period (in million)	1 250	1 250
Earnings per share (in PLN per share)	2,67	2,22

In the years 2018 and 2017, there were no dilutive instruments. Therefore, the amount of diluted earnings per share is the same as the amount of basic earnings per share.

(IN PLN MILLION)

NOTES TO THE STATEMENT OF FINANCIAL POSITION

21. Cash and balances with the Central Bank

Accounting Policies

The item "Cash and balances with the central bank" presents cash recognized at nominal value, and funds in the current account and deposits with the Central Bank measured at amounts due, including interest on those funds (if any).

FINANCIAL INFORMATION

CASH AND BALANCES WITH THE CENTRAL BANK	31.12.2018	31.12.2017
Current account with the Central Bank	17 391	11 171
Cash in hand	5 471	4 629
Deposits with the Central Bank	-	1 965
Total	**22 862**	**17 765**

During the course of the working day, the Bank may use funds from the obligatory 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 obligatory reserve declaration.

As at 31 December 2018 Funds on the obligatory reserve account bore interest of 0.5% (as 31 December 2017 this interest rate was 0.9% of the reference rate, i.e. 1.35%).

22. Amounts due from banks

Accounting Policies

Amounts due from banks comprise financial assets measured at amortized cost using the effective interest rate method, less allowances for expected loan losses, with the exception of cash in transit which is measured at nominal value. If no future cash flow schedule can be determined for a financial receivable, and thus the effective interest rate cannot be determined, the receivable is measured at the amount due.

FINANCIAL INFORMATION

AMOUNTS DUE FROM BANKS	31.12.2018	01.01.2018	31.12.2017
Measured at amortized cost	**11 217**	8 769	8 769
Deposits with banks	6 395	3 724	3 724
Amount due from PKO Bank Hipoteczny SA in respect of the sale of mortgage-secured housing loans by the Bank	2 300	2 498	2 498
Current accounts	777	1 041	1 041
Loans and advances granted	1 745	1 506	1 506
Total, gross	**11 217**	**8 769**	**8 769**
Allowances for expected credit losses/ Impairment allowances	(4)	(2)	-
Total, net	11 213	8 767	8 769

Detailed information relating to credit risk exposure in respect of amounts due from banks in respect of the year 2018 is provided in Note 28 "Expected Credit Losses" and for 2017 in Note 29 "Impairment of financial assets (comparable data in accordance with IAS 39)".

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

(IN PLN MILLION)

AMOUNTS DUE FROM BANKS BY MATURITY	31.12.2018	31.12.2017
Measured at amortized cost		
up to 1 month	7 277	7 218
1 to 3 months	-	57
3 months to 1 year	2 195	17
1 to 5 years	1 741	1 477
Total	**11 213**	**8 769**

23. HEDGE ACCOUNTING

Risk management strategy
Accounting policies
Types of hedging strategies used by the Bank
Financial information
Carrying amounts of hedging instruments
Nominal value of hedging instruments classified according to periods to maturity as at 31 December 2018
Nominal value of hedging instruments classified according to dates to maturity as at 31 December 2017
Change in the balance of other comprehensive income from cash flow hedges and the ineffective portion of the cash flow hedges
Gains or losses on the hedging instrument and on the hedged item related to the hedged risk
Calculations of estimates

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 currency exchange rates and interest rates. Cash flows related to the transactions performed and the fair value of assets held are hedged.

The interest rate risk covers in particular:

1) the risk related to the repricing (change in interest rates) frequency and dates mismatch of the assets and liabilities, and of off-balance sheet items (repricing date mismatch risk);
2) the risk following from the change in the angle of the inclination and shape of the yield curve (yield curve risk);
3) 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);
4) risks resulting from options, including embedded options, e.g. restrictions on interests on loans (option risk).

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

1) banking activities;
2) trading activities;
3) contracts concluded by the Bank which generate foreign exchange risk.

The Treasury Department manages foreign exchange risk based on the data received on open currency positions in the banking operations, by transferring the risk to the Bank's operations at its own risk.

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 in respect of hedge accounting.

THE USE OF HEDGE ACCOUNTING

The Bank applies hedge accounting when all the terms and conditions below have been met:

1) upon setting up the hedge, a hedge relationship, the hedging relationship, the purpose of risk management by the entity and the hedging strategy were officially established and documented;
2) the hedge is expected to be highly effective;
3) the planned hedged transaction must be highly probable and must be exposed to the variability of cash flows which may, as a result, have an impact on the income statement;
4) the effectiveness of the hedge may be reliably assessed;
5) the hedge is regularly assessed and its high effectiveness is confirmed in all the reporting periods for which the hedge had been designated.

As at 31 December 2018 as at 31 December 2017, the Bank applied fair value hedge accounting and cash flow hedges.

DISCONTINUATION OF HEDGE ACCOUNTING:

- A HEDGE INSTRUMENT EXPIRES, IS SOLD, RELEASED OR EXERCISED – accumulated gains or losses related to the hedging instrument which were recognized directly in other comprehensive income over the period in which the hedge was effective are recognized in a separate item in other comprehensive income until the planned transaction occurs;

- THE HEDGE CEASES TO MEET THE HEDGE ACCOUNTING CRITERIA – accumulated gains or losses related to the hedging instrument which were recognized directly in other comprehensive income over the period in which the hedge was effective are recognized in a separate item in other comprehensive income until the planned transaction occurs;

- THE PLANNED TRANSACTION IS NO LONGER CONSIDERED PROBABLE – accumulated gains or losses related to the hedging instrument which were recognized directly in other comprehensive income over the period in which the hedge was effective, are recognized in the income statement;

- THE HEDGING RELATIONSHIP CEASED TO BE VALID – accumulated gains or losses related to the hedging instrument which were recognized directly in other comprehensive income over the period in which the hedge was effective are recognized in a separate item in other comprehensive income until the planned transaction occurs.

CASH FLOW HEDGES

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

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

The effectiveness tests comprise the valuation 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.

(IN PLN MILLION)

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".

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

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

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

HEDGING DERIVATIVES	NOMINAL VALUE OF HEDGING DERIVATIVES		AVERAGE MARGIN WEIGHTED BY THE PRINCIPAL	CARRYING AMOUNT (FAIR VALUE) OF HEDGING INSTRUMENTS		INEFFECTIVE PORTION OF CASH FLOW HEDGES RECOGNIZED IN THE INCOME STATEMENT	CHANGE IN THE FAIR VALUE OF THE HEDGING INSTRUMENT
				Assets	Liabilities		
31.12.2018							
CIRS CHF/PLN	float CHF	1 675	0,1530%	60	428	-	(377)
	float PLN	6 030	0,0000%				
31.12.2017							
CIRS CHF/PLN	float CHF	1 770	0,1528%	186	169	3	43
	float PLN	6 355	0,0000%				

(IN PLN MILLION)

HEDGED ITEMS	NOMINAL AMOUNT OF HEDGED ITEMS	ITEM IN THE STATEMENT OF FINANCIAL POSITION	CHANGE IN THE FAIR VALUE THE HEDGED ITEMS
31.12.2018			
Loans in CHF	1 675	Loans and advances to customers	435
Negotiated deposits in PLN	6 030	Amounts due to customers	
31.12.2017			
Loans in CHF	1 770	Loans and advances to customers	2
Negotiated deposits in PLN	6 355	Amounts due to customers	

STRATEGY 2	HEDGES AGAINST FLUCTUATIONS IN CASH FLOWS FROM FLOATING INTEREST RATE LOANS IN PLN, RESULTING FROM THE RISK OF FLUCTUATIONS IN INTEREST RATES, USING IRS TRANSACTIONS
DESCRIPTION OF THE HEDGING RELATIONSHIP	elimination of the risk of cash flow fluctuations generated by floating interest rate PLN loan portfolio resulting from the interest rate risk using IRS transactions in the period covered by the hedge
HEDGED RISK	interest rate risk
HEDGING INSTRUMENT	IRS transactions where the Bank pays coupons based on floating 3M WIBOR rate, and receives coupons based on a fixed rate on the nominal value for which they were concluded
HEDGED ITEM	the portfolio of loans in PLN indexed to the floating 3M WIBOR rate
SOURCES OF HEDGE INEFFECTIVENESS	▪ change in market parameters between the moment of determining the terms and conditions relating to the hedged item and the moment of concluding the hedge ▪ differences in discount on the hedged item and the hedging instrument ▪ CVA/DVA adjustment of the hedging instrument
	The period in which cash flows are expected to occur and affect the financial results: January 2019 – December 2023.

HEDGING DERIVATIVES	NOMINAL VALUE OF HEDGING DERIVATIVES		AVERAGE FIXED INTEREST RATE WEIGHTED BY THE PRINCIPAL	CARRYING AMOUNT (FAIR VALUE) OF HEDGING INSTRUMENTS		INEFFECTIVE PORTION OF CASH FLOW HEDGES RECOGNIZED IN THE INCOME STATEMENT	CHANGE IN THE FAIR VALUE OF THE HEDGING INSTRUMENT
				Assets	Liabilities		
31.12.2018							
IRS PLN	PLN	11 250	2,0400%	95	-	(1)	53
31.12.2017							
IRS PLN	PLN	8 146	1,9735%	89	3	2	16

HEDGED ITEM	NOMINAL AMOUNT OF THE HEDGED ITEM	ITEM IN THE STATEMENT OF FINANCIAL POSITION	CHANGE IN THE FAIR VALUE THE HEDGED ITEM
31.12.2018			
Loans in PLN	11 250	Loans and advances to customers	(51)
31.12.2017			
Loans in PLN	8 146	Loans and advances to customers	(12)

(IN PLN MILLION)

STRATEGY 3	HEDGES AGAINST FLUCTUATIONS IN CASH FLOWS FROM FLOATING INTEREST RATE LOANS IN CHF, RESULTING FROM THE RISK OF FLUCTUATIONS IN INTEREST RATES, USING IRS TRANSACTIONS
DESCRIPTION OF THE HEDGING RELATIONSHIP	elimination of the risk of cash flow fluctuations generated by floating interest rate CHF loan portfolio resulting from the interest rate risk using IRS transactions in the period covered by the hedge
HEDGED RISK	interest rate risk
HEDGING INSTRUMENT	IRS transactions where the Bank pays coupons based on floating 3M CHF LIBOR rate, and receives coupons based on a fixed rate on the nominal value for which they were concluded
HEDGED ITEM	the portfolio of loans in CHF indexed to the floating 3M CHF LIBOR rate
SOURCES OF HEDGE INEFFECTIVENESS	▪ change in market parameters between the moment of determining the terms and conditions relating to the hedged item and the moment of concluding the hedge ▪ differences in discount on the hedged item and the hedging instrument ▪ CVA/DVA adjustment of the hedging instrument
	The period in which cash flows are expected to occur and affect the financial results: January 2019 – November 2021

HEDGING DERIVATIVES	NOMINAL VALUE OF HEDGING DERIVATIVES		AVERAGE FIXED INTEREST RATE WEIGHTED BY THE PRINCIPAL	CARRYING AMOUNT (FAIR VALUE) OF HEDGING INSTRUMENTS		INEFFECTIVE PORTION OF CASH FLOW HEDGES RECOGNIZED IN THE INCOME STATEMENT	CHANGE IN THE FAIR VALUE OF THE HEDGING INSTRUMENT
				Assets	Liabilities		
31.12.2018							
IRS CHF	CHF	400	-0.4425%	7	-	-	2
31.12.2017							
IRS CHF	CHF	400	-0.4425%	-	3	-	(1)

HEDGED ITEM	NOMINAL AMOUNT OF THE HEDGED ITEM	ITEM IN THE STATEMENT OF FINANCIAL POSITION	CHANGE IN THE FAIR VALUE THE HEDGED ITEM
31.12.2018			
Loans in CHF	400	Loans and advances to customers	(2)
31.12.2017			
Loans in CHF	400	Loans and advances to customers	1

STRATEGY 4	HEDGES AGAINST FLUCTUATIONS IN CASH FLOWS FROM FLOATING INTEREST RATE LOANS IN FOREIGN CURRENCIES, RESULTING FROM THE RISK OF FLUCTUATIONS IN INTEREST RATES AND FROM FOREIGN EXCHANGE RATE RISK AND HEDGES AGAINST FLUCTUATIONS IN CASH FLOWS FROM FIXED INTEREST RATE FINANCIAL LIABILITY IN A FOREIGN CURRENCY, RESULTING FROM FOREIGN EXCHANGE RATE RISK, USING CIRS TRANSACTIONS
DESCRIPTION OF THE HEDGING RELATIONSHIP	elimination of the risk of fluctuations in cash flows from floating interest rate loans in foreign currencies, resulting from the risk of fluctuations in interest rates and from foreign exchange rate risk and elimination of the risk of fluctuations in cash flows from fixed interest rate financial liability in a foreign currency, resulting from foreign exchange rate risk, using CIRS transactions in the hedged period
HEDGED RISK	foreign exchange risk and interest rate risk
HEDGING INSTRUMENT	CIRS transactions where the Bank pays coupons based on floating 3M CHF LIBOR rate, and receives coupons based on a USD or EUR fixed rate on the nominal value for which they were concluded
HEDGED ITEM	the portfolio of floating interest rate mortgage loans denominated in CHF and fixed interest rate financial liability denominated in USD or EUR

SOURCES OF HEDGE INEFFECTIVENESS	▪ differences in discount on the hedged item and the hedging instrument ▪ CVA/DVA adjustment of the hedging instrument
	The period in which cash flows are expected to occur and affect the financial results: January 2019 – September 2022

HEDGING DERIVATIVES	NOMINAL VALUE OF HEDGING DERIVATIVES		AVERAGE FIXED INTEREST RATE WEIGHTED BY THE PRINCIPAL	CARRYING AMOUNT (FAIR VALUE) OF HEDGING INSTRUMENTS		INEFFECTIVE PORTION OF CASH FLOW HEDGES RECOGNIZED IN THE INCOME STATEMENT	CHANGE IN THE FAIR VALUE OF THE HEDGING INSTRUMENT
				Assets	Liabilities		
31.12.2018							
CIRS CHF/USD	float CHF	818		148	-	1	88
	fixed USD	875	2,4315%				
CIRS CHF/EUR	float CHF	826		92	-	1	90
	fixed EUR	748	0,0367%				
31.12.2017							
CIRS CHF/USD	float CHF	818		116	-	(1)	62
	fixed USD	875	2,4315%				
CIRS CHF/EUR	float CHF	826		181	-	-	185
	fixed EUR	748	0,0367%				

HEDGED ITEMS	NOMINAL AMOUNT OF HEDGED ITEMS	ITEM IN THE STATEMENT OF FINANCIAL POSITION	CHANGE IN THE FAIR VALUE THE HEDGED ITEMS
31.12.2018			
Loans in CHF	1 644	Loans and advances to customers	
Financial liabilities in USD	875	Amounts due to customers	(174)
Financial liabilities in EUR	748	Amounts due to customers	
31.12.2017			
Loans in CHF	1 644	Loans and advances to customers	
Financial liabilities in USD	875	Amounts due to customers	(248)
Financial liabilities in EUR	748	Amounts due to customers	

STRATEGY 5	**HEDGES AGAINST FLUCTUATIONS IN CASH FLOWS FROM MORTGAGE LOANS IN CONVERTIBLE CURRENCIES OTHER THAN CHF AND NEGOTIABLE TERM DEPOSITS IN PLN ARISING FROM THE RISK OF A CHANGE IN INTEREST RATE AND FOREIGN EXCHANGE RISK, USING CIRS TRANSACTIONS**
DESCRIPTION OF THE HEDGING RELATIONSHIP	elimination of the risk of cash flow fluctuations generated by floating interest rate loans denominated in foreign currencies other than CHF and negotiated term deposits in PLN, resulting from fluctuations in reference interest rates and changes in foreign exchange rates using CIRS transactions during the hedged period
HEDGED RISK	foreign exchange risk and interest rate risk
HEDGING INSTRUMENT	CIRS transactions where the Bank pays coupons based on 3M EURIBOR rate, and receives coupons based on WIBOR 3M rate on the nominal value for which they were concluded
HEDGED ITEM	the portfolio of floating interest mortgage loans in EUR and the portfolio of current negotiated deposits, including their future renewals (high probability of occurrence). In designating the hedged item the Bank used the IAS39 AG 99C in the version adopted by the European Union
SOURCES OF HEDGE INEFFECTIVENESS	▪ margin on the hedging instrument ▪ differences in discount on the hedged item and the hedging instrument ▪ CVA/DVA adjustment of the hedging instrument

(IN PLN MILLION)

	The period in which cash flows are expected to occur and affect the financial results: January 2019 – March 2021

HEDGING DERIVATIVES	NOMINAL VALUE OF HEDGING DERIVATIVES		AVERAGE MARGIN WEIGHTED BY THE PRINCIPAL	CARRYING AMOUNT (FAIR VALUE) OF HEDGING INSTRUMENTS		INEFFECTIVE PORTION OF CASH FLOW HEDGES RECOGNIZED IN THE INCOME STATEMENT	CHANGE IN THE FAIR VALUE OF THE HEDGING INSTRUMENT
				Assets	Liabilities		
31.12.2018							
CIRS EUR/PLN	float EUR	125	0,0000%	7	-	-	6
	float PLN	545	-0,0092%				
31.12.2017							
CIRS EUR/PLN	float EUR	125	0,0000%	23	-	-	20
	float PLN	545	-0,0092%				

HEDGED ITEMS	NOMINAL AMOUNT OF HEDGED ITEMS	ITEM IN THE STATEMENT OF FINANCIAL POSITION	CHANGE IN THE FAIR VALUE THE HEDGED ITEMS
31.12.2018			
Loans in EUR	125	Loans and advances to customers	(6)
Negotiated deposits in PLN	545	Amounts due to customers	
31.12.2017			
Loans in EUR	125	Loans and advances to customers	(20)
Negotiated deposits in PLN	545	Amounts due to customers	

STRATEGY 6	HEDGES AGAINST FLUCTUATIONS IN CASH FLOWS ASSOCIATED WITH MORTGAGE LOANS IN FOREIGN CURRENCIES AND DEPOSITS NEGOTIATED IN PLN, RESULTING FROM INTEREST RATE AND FOREIGN EXCHANGE RISK, WITH THE USE OF TWO HEDGING INSTRUMENTS: IRS AND CIRS-EP
DESCRIPTION OF THE HEDGING RELATIONSHIP	elimination of the risk of changes in cash flows generated by mortgage loans denominated in foreign currencies and deposits negotiated in PLN, resulting from changes in reference interest rates and changes in foreign exchange rates, with the use of two hedging instruments: IRS and CIRS-EP, in the period covered by hedging
HEDGED RISK	foreign exchange risk and interest rate risk
HEDGING INSTRUMENT	CIRS-EP (Cross-Currency Interest Rate Swap – Extension Period) transactions with extended maturities, where the Bank pays coupons based on a fixed rate in EUR and receives coupons based on a variable WIBOR 3M reference rate on the nominal amount, and IRS transactions, where the Bank pays coupons based on a variable EURIBOR 3M rate and receives coupons based on a fixed EUR rate on the nominal amount. In the event of bankruptcy of the underlying entity (the entity whose bankruptcy is monitored as part of the transaction), the CIRS-EP transaction is extended automatically on the terms and conditions defined on the date of concluding the transaction
HEDGED ITEM	the portfolio of floating interest mortgage loans in EUR and the portfolio of current negotiated deposits, including their future renewals (high probability of occurrence). In designating the hedged item the Bank used the IAS39 AG 99C in the version adopted by the European Union
SOURCES OF HEDGE INEFFECTIVENESS	▪ margin on the hedging instrument ▪ differences in discount on the hedged item and the hedging instrument ▪ CVA/DVA adjustment of the hedging instrument ▪ EP component of the CIRS instrument

	The period in which cash flows are expected to occur and affect the financial results: January 2019 – February 2024

HEDGING DERIVATIVES	NOMINAL VALUE OF HEDGING DERIVATIVES		AVERAGE FIXED INTEREST RATE WEIGHTED BY THE PRINCIPAL	CARRYING AMOUNT (FAIR VALUE) OF HEDGING INSTRUMENTS		INEFFECTIVE PORTION OF CASH FLOW HEDGES RECOGNIZED IN THE INCOME STATEMENT	CHANGE IN THE FAIR VALUE OF THE HEDGING INSTRUMENT
				Assets	Liabilities		
31.12.2018							
CIRS-EP EUR/PLN	fixed EUR	523	0,2087%	15	-	-	14
	float PLN	2 262					
IRS EUR	EUR	524	0,2087%	2	4	-	(6)
31.12.2017							
CIRS-EP EUR/PLN	fixed EUR	523	0,2087%	109	-	1	103
	float PLN	2 262					
IRS EUR	EUR	524	0,2087%	1	29	1	(31)

HEDGED ITEMS	NOMINAL AMOUNT OF HEDGED ITEMS	ITEM IN THE STATEMENT OF FINANCIAL POSITION	CHANGE IN THE FAIR VALUE THE HEDGED ITEMS
31.12.2018			
Loans in EUR	524	Loans and advances to customers	(13)
Negotiated deposits in PLN	2 262	Amounts due to customers	
31.12.2017			
Loans in EUR	524	Loans and advances to customers	(73)
Negotiated deposits in PLN	2 262	Amounts due to customers	

STRATEGY 7	HEDGES AGAINST FLUCTUATIONS IN CASH FLOWS ASSOCIATED WITH MORTGAGE LOANS IN FOREIGN CURRENCIES AND DEPOSITS NEGOTIATED IN PLN, RESULTING FROM INTEREST RATE AND FOREIGN EXCHANGE RISK, WITH THE USE OF TWO HEDGING INSTRUMENTS: CIRS AND CIRS-EP
DESCRIPTION OF THE HEDGING RELATIONSHIP	elimination of the risk of changes in cash flows generated by mortgage loans denominated in foreign currencies and deposits negotiated in PLN, resulting from changes in reference interest rates and changes in foreign exchange rates, with the use of two hedging instruments: CIRS and CIRS-EP, in the period covered by hedging
HEDGED RISK	foreign exchange risk and interest rate risk
HEDGING INSTRUMENT	CIRS-EP (Cross-Currency Interest Rate Swap – Extension Period) transactions with extended maturities, where the Bank pays coupons based on a fixed rate in EUR and receives coupons based on a variable WIBOR 3M reference rate on the nominal amount, and CIRS transactions, where the Bank pays coupons based on a variable LIBOR CHF 3M rate and receives coupons based on a fixed EUR rate on the nominal amount. In the event of bankruptcy of the underlying entity (the entity whose bankruptcy is monitored as part of the transaction), the CIRS-EP transaction is extended automatically on the terms and conditions defined on the date of concluding the transaction
HEDGED ITEM	the portfolio of floating interest mortgage loans in CHF and the portfolio of current negotiated term deposits, including their future renewals (high probability of occurrence). In designating the hedged item the Bank used the IAS39 AG 99C in the version adopted by the European Union
SOURCES OF HEDGE INEFFECTIVENESS	▪ margin on the hedging instrument ▪ differences in discount on the hedged item and the hedging instrument

(IN PLN MILLION)

	▪ CVA/DVA adjustment of the hedging instrument ▪ EP component of the CIRS instrument
	The period in which cash flows are expected to occur and affect the financial results: January 2019 – January 2023

HEDGING DERIVATIVES	NOMINAL VALUE OF HEDGING DERIVATIVES		AVERAGE FIXED INTEREST RATE WEIGHTED BY THE PRINCIPAL	CARRYING AMOUNT (FAIR VALUE) OF HEDGING INSTRUMENTS		INEFFECTIVE PORTION OF CASH FLOW HEDGES RECOGNIZED IN THE INCOME STATEMENT	CHANGE IN THE FAIR VALUE OF THE HEDGING INSTRUMENT
				Assets	Liabilities		
31.12.2018							
CIRS-EP EUR/PLN	fixed EUR	500	0,6300%	-	40	-	(44)
	float PLN	2 131					
CIRS CHF/EUR	float CHF	535		148	-	-	134
	fixed EUR	500	0,6300%				
31.12.2017							
CIRS-EP EUR/PLN	fixed EUR	500	0,6300%	52	-	-	39
	float PLN	2 131					
CIRS CHF/EUR	float CHF	535		194	-	-	187
	fixed EUR	500	0,6300%				

HEDGED ITEMS	NOMINAL AMOUNT OF HEDGED ITEMS	ITEM IN THE STATEMENT OF FINANCIAL POSITION	CHANGE IN THE FAIR VALUE THE HEDGED ITEMS
31.12.2018			
Loans in CHF	535	Loans in CHF	(100)
Negotiated deposits in PLN	2 131	Negotiated deposits in PLN	
31.12.2017			
Loans in CHF	535	Loans in CHF	(231)
Negotiated deposits in PLN	2 131	Negotiated deposits in PLN	

STRATEGY 8	HEDGES AGAINST FLUCTUATIONS IN CASH FLOWS FROM MORTGAGE LOANS IN FOREIGN CURRENCIES AND REGULAR SAVINGS PRODUCTS IN PLN, RESULTING FROM THE RISK OF FLUCTUATIONS IN INTEREST RATES AND IN FOREIGN EXCHANGE RATES, USING CIRS TRANSACTIONS
DESCRIPTION OF THE HEDGING RELATIONSHIP	elimination of the risk of cash flow fluctuations generated by floating interest rate loans denominated in CHF and floating interest rate regular savings products in PLN, resulting from fluctuations in reference interest rates in CHF and PLN, and changes in CHF/PLN foreign exchange rates using CIRS transactions during the hedged period
HEDGED RISK	foreign exchange risk and interest rate risk
HEDGING INSTRUMENT	CIRS transactions where the Bank pays coupons based on 3M CHF LIBOR, and receives coupons based on 3M WIBOR on the nominal value defined in CHF and PLN respectively
HEDGED ITEM	the portfolio of floating interest rate mortgage loans in CHF and the portfolio of floating interest rate regular savings products in PLN
SOURCES OF HEDGE INEFFECTIVENESS	▪ margin on the hedging instrument ▪ differences in discount on the hedged item and the hedging instrument ▪ CVA/DVA adjustment of the hedging instrument
	The period in which cash flows are expected to occur and affect the financial results: January 2019 – July 2023

HEDGING DERIVATIVES	NOMINAL VALUE OF HEDGING DERIVATIVES		AVERAGE MARGIN WEIGHTED BY THE PRINCIPAL	CARRYING AMOUNT (FAIR VALUE) OF HEDGING INSTRUMENTS		INEFFECTIVE PORTION OF CASH FLOW HEDGES RECOGNIZED IN THE INCOME STATEMENT	CHANGE IN THE FAIR VALUE OF THE HEDGING INSTRUMENT
				Assets	Liabilities		
31.12.2018							
CIRS CHF/PLN	float CHF	225	-0,2478%	18	-	-	14
	float PLN	872	0,0000%				
31.12.2017							
CIRS CHF/PLN	float CHF	225	-0,2478%	75	-	-	69
	float PLN	872	0,0000%				

HEDGED ITEMS	NOMINAL AMOUNT OF HEDGED ITEMS	ITEM IN THE STATEMENT OF FINANCIAL POSITION	CHANGE IN THE FAIR VALUE THE HEDGED ITEMS
31.12.2018			
Loans in CHF	225	Loans and advances to customers	(15)
Regular saving products in PLN	872	Amounts due to customers	
31.12.2017			
Loans in CHF	225	Loans and advances to customers	(70)
Regular saving products in PLN	872	Amounts due to customers	

STRATEGY 9	HEDGES AGAINST FLUCTUATIONS IN CASH FLOWS FROM MORTGAGE LOANS IN FOREIGN CURRENCIES AND REGULAR SAVINGS PRODUCTS IN PLN, RESULTING FROM THE RISK OF FLUCTUATIONS IN INTEREST RATES AND IN FOREIGN EXCHANGE RATES, USING TWO HEDGING INSTRUMENTS: CIRS AND CIRS-EP
DESCRIPTION OF THE HEDGING RELATIONSHIP	elimination of the risk of changes in cash flows generated by floating interest rate mortgage loans denominated in foreign currencies and regular savings products in PLN, resulting from changes in reference interest rates and changes in foreign exchange rates, with the use of two hedging instruments: CIRS and CIRS-EP, in the period covered by hedging
HEDGED RISK	foreign exchange risk and interest rate risk
HEDGING INSTRUMENT	CIRS-EP (Cross-Currency Interest Rate Swap – Extension Period) transactions with extended maturities, where the Bank pays coupons based on a fixed rate in EUR and receives coupons based on a variable WIBOR 3M reference rate on the nominal amount, and CIRS transactions, where the Bank pays coupons based on a variable LIBOR CHF 3M rate and receives coupons based on a fixed EUR rate on the nominal amount. In the event of bankruptcy of the underlying entity (the entity whose bankruptcy is monitored as part of the transaction), the CIRS-EP transaction is extended automatically on the terms and conditions defined on the date of concluding the transaction
HEDGED ITEM	the portfolio of floating interest rate mortgage loans in CHF and the portfolio of floating interest rate regular savings products in PLN
SOURCES OF HEDGE INEFFECTIVENESS	▪ margin on the hedging instrument ▪ differences in discount on the hedged item and the hedging instrument ▪ CVA/DVA adjustment of the hedging instrument ▪ EP component of the CIRS instrument
	The period in which cash flows are expected to occur and affect the financial results: January 2019 – August 2024

(IN PLN MILLION)

HEDGING DERIVATIVES	NOMINAL VALUE OF HEDGING DERIVATIVES		AVERAGE FIXED INTEREST RATE WEIGHTED BY THE PRINCIPAL	CARRYING AMOUNT (FAIR VALUE) OF HEDGING INSTRUMENTS		INEFFECTIVE PORTION OF CASH FLOW HEDGES RECOGNIZED IN THE INCOME STATEMENT	CHANGE IN THE FAIR VALUE OF THE HEDGING INSTRUMENT
				Assets	Liabilities		
31.12.2018							
CIRS-EP EUR/PLN	fixed EUR	554	0,7350%	-	49	(2)	(51)
	float PLN	2 364					
CIRS CHF/EUR	float CHF	640		-	37	(1)	(37)
	fixed EUR	553	0,7350%				
31.12.2017							
CIRS-EP EUR/PLN	fixed EUR	554	0,7350%	56	-	-	45
	float PLN	2 364					
CIRS CHF/EUR	float CHF	640		22	-	-	27
	fixed EUR	553	0,7350%				

HEDGED ITEMS	NOMINAL AMOUNT OF HEDGED ITEMS	ITEM IN THE STATEMENT OF FINANCIAL POSITION	CHANGE IN THE FAIR VALUE THE HEDGED ITEMS
31.12.2018			
Loans in CHF	640	Loans and advances to customers	84
Regular saving products in PLN	2 364	Amounts due to customers	
31.12.2017			
Loans in CHF	640	Loans and advances to customers	(73)
Regular saving products in PLN	2 364	Amounts due to customers	

STRATEGY 10	HEDGES AGAINST FLUCTUATIONS IN THE FAIR VALUE OF FIXED INTEREST LOANS IN FOREIGN CURRENCIES, RESULTING FROM THE RISK OF FLUCTUATIONS IN INTEREST RATES, USING IRS TRANSACTIONS
DESCRIPTION OF THE HEDGING RELATIONSHIP	elimination of the risk of fluctuations in the fair value of fixed interest loans in foreign currencies, resulting from the risk of fluctuations in interest rates, during the hedged period.
HEDGED RISK	interest rate risk
HEDGING INSTRUMENT	IRS (Interest Rate Swap) transactions in foreign currencies, where the Bank pays coupons based on a fixed rate (the market IRS rate) and receives coupons based on a floating reference rate without an additional margin
HEDGED ITEM	a component of the interest rate risk relating to a fixed interest rate loan in a foreign currency, which corresponds to the market IRS rate
SOURCES OF HEDGE INEFFECTIVENESS	▪ change in market parameters between the moment of determining the terms and conditions relating to the hedged item and the moment of concluding the hedge ▪ CVA/DVA adjustment of the hedging instrument

HEDGING DERIVATIVES	NOMINAL VALUE OF HEDGING DERIVATIVES		AVERAGE FIXED INTEREST RATE WEIGHTED BY THE PRINCIPAL	CARRYING AMOUNT (FAIR VALUE) OF HEDGING INSTRUMENTS		FAIR VALUE ADJUSTMENT OF THE HEDGED ITEM	CHANGE IN THE FAIR VALUE OF THE HEDGING INSTRUMENT
				Assets	Liabilities		
31.12.2018							
IRS EUR	EUR	103	-0,3090%	-	1	1	-
31.12.2017							
IRS EUR	EUR	46	-0,3290%	-	-	-	-

HEDGED ITEM	CARRYING AMOUNT OF THE HEDGED ITEM	ITEM IN THE STATEMENT OF FINANCIAL POSITION	CHANGE IN THE FAIR VALUE THE HEDGED ITEM
31.12.2018			
Loans in EUR	103	Loans and advances to customers	-
31.12.2017			
Loans in EUR	46	Loans and advances to customers	-

(IN PLN MILLION)

In 2018 the Bank did not introduce any new hedging strategies. In 2017, the Bank introduced Strategies 7, 8 and 9, which concern cash flow hedging, and Strategy 10, which concerns fair value hedging. These strategies are described above.

In 2018 and 2017 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 2018 and 2017 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 2018 and 2017 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.

FINANCIAL INFORMATION

CARRYING AMOUNT OF HEDGING INSTRUMENTS	31.12.2018		31.12.2017	
	Assets	Liabilities	Assets	Liabilities
Cash flow hedges	592	559	1 104	204
Hedges of interest rate risk	106	5	90	35
IRS	106	5	90	35
Hedges of currency and interest rate risks	486	554	1 014	169
CIRS	486	554	1 014	169
Fair value hedges	-	1	-	-
Hedges of interest rate risk	-	1	-	-
IRS	-	1	-	-
Total	592	560	1 104	204

NOMINAL VALUE OF HEDGING INSTRUMENTS BY MATURITY AS AT 31 December 2018	up to 1 month	1 to 3 months	3 months to 1 year	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)

NOMINAL VALUE OF HEDGING INSTRUMENTS BY MATURITY AS AT 31 DECEMBER 2017	up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	over 5 years	Total
Cash flow hedges						
Hedges of interest rate risk						
IRS PLN fixed - float	700	1 610	3 030	2 806	-	**8 146**
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	-	-	95	1 750	150	**1 995**
float PLN	-	-	325	6 329	573	**7 227**
CIRS fixed USD/float CHF						
fixed USD	-	-	-	875	-	**875**
float CHF	-	-	-	818	-	**818**
CIRS float EUR/float PLN						
float EUR	-	-	-	125	-	**125**
float PLN	-	-	-	545	-	**545**
CIRS float PLN/fixed EUR						
float PLN	-	-	-	2 383	4 374	**6 757**
fixed EUR	-	-	-	553	1 024	**1 577**
CIRS fixed EUR/float CHF						
fixed EUR	-	-	-	802	999	**1 801**
float CHF	-	-	-	889	1 112	**2 001**
Fair value hedges						
Hedges of interest rate risk						
IRS EUR fixed - float (original currency)	-	-	-	46	-	**46**

CHANGE IN OTHER COMPREHENSIVE INCOME RELATING TO CASH FLOW HEDGES AND AN INEFFECTIVE PORTION OF CASH FLOW HEDGES	2018	2017
Other comprehensive income at the beginning of the period, gross	**(91)**	**(109)**
Gains/losses recognized in other comprehensive income during the period	(281)	2 162
Amounts transferred from other comprehensive income to the cash flow statement, of which:	351	(2 144)
- interest income	(503)	(408)
- net foreign exchange gains/(losses)	854	(1 736)
Accumulated other comprehensive income at the end of the period, gross	(21)	**(91)**
Tax effect	3	16
Accumulated other comprehensive income at the end of the period, net	**(18)**	**(75)**
Impact on other comprehensive income during the period, gross	70	**18**
Tax effect	(13)	(4)
Impact on other comprehensive income during the period, net	**57**	**14**
Ineffective portion of cash flow hedges recognized in the income statements, including in:	**(2)**	**6**
Net foreign exchange gains/(losses)	(1)	3
Net gain/(loss) on financial instruments measured at fair value	(1)	3

GAINS (LOSSES) LOSSES ON HEDGING INSTRUMENTS AND HEDGED ITEMS ATTRIBUTABLE TO HEDGED RISKS	31.12.2018	31.12.2017
Hedges of interest rate risk	-	**(1)**
Fair value measurement of the hedging derivative instrument	(1)	-
IRS PLN fixed - float	(1)	-
Fair value adjustment of the hedged instrument attributable to the hedged risk	1	(1)
Loans in EUR fixed	1	(1)

CALCULATION OF ESTIMATES

(IN PLN MILLION)

ESTIMATED CHANGE IN VALUATION FOLLOWING A PARALLEL MOVEMEBT IN YIELD CURVES:	31.12.2018		31.12.2017	
	+50 bp scenario	-50 bp scenario	+50 bp scenario	-50 bp scenario
IRS	(146)	148	(107)	109
CIRS	(59)	60	(74)	75
Total	**(205)**	**208**	**(181)**	**184**

24. OTHER DERIVATIVE FINANCIAL INSTRUMENTS

Accounting Policies
Estimates and judgements
Financial information
Calculation of estimates

ACCOUNTING POLICIES

In its operations 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 from the transaction date. Every derivative with positive fair value is shown under "Other derivative financial instruments" as assets, and if their fair value is negative – as liabilities.

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.

EMBEDDED DERIVATIVES

In respect of embedded derivatives the Bank assesses whether a given contract includes an embedded derivative as at the moment of concluding the contract. Reassessment is performed only when the contract is amended in a manner that materially impacts the resulting cash flows. Derivative instruments which may be separated from the host contract, which do not constitute financial assets, and separately recognized in books of account are measured at fair value. The measurement is presented in the statement of financial position under "Other derivative instruments". The Bank recognizes changes to the fair value measurement of derivative instruments in the income statement under "Gain/(loss) on financial instruments measured at fair value through profit or loss" or "Net foreign exchange gains/(losses)".

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 valued using option pricing models. The variables and assumptions used in a valuation include, where available, data derived from observable markets.

The fair value of derivative instruments accounts for DVA (debit value adjustment), and CVA (credit value adjustment). The process of calculating CVA and DVA adjustments covers methods of designating the counterparty's or the 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 implicated 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.

(IN PLN MILLION)

FINANCIAL INFORMATION

OTHER DERIVATIVE INSTRUMENTS - BY TYPE	31.12.2018		31.12.2017	
	Assets	Liabilities	Assets	Liabilities
IRS	1 179	1 832	876	1 385
CIRS	156	155	77	61
FX Swap	115	43	161	380
Options	262	268	243	250
Commodity swap	85	83	129	128
FRA	3	2	1	1
Forward	109	274	206	324
Futures	-	-	7	8
Other	-	-	1	-
Total	1 909	2 657	1 701	2 537

CALCULATION OF ESTIMATES

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

ESTIMATED CHANGE IN VALUATION FOLLOWING A PARALLEL MOVEMENT IN YIELD CURVES:	31.12.2018		31.12.2017	
	+50 bp scenario	-50 bp scenario	+50 bp scenario	-50 bp scenario
IRS	(141)	143	(84)	85
CIRS	(60)	61	(74)	76
other instruments	3	(3)	7	(7)
Total	(198)	201	(151)	154

As at 31 December 2018 the CVA and DVA adjustments amounted to PLN -1 million (as at 31 December 2017: PLN 2 million).

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

NOMINAL VALUES OF UNDERLYING INSTRUMENTS (BUY AND SELL TOGETHER)

31.12.2018	up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	over 5 years	Total
Fx transactions	**30 978**	**24 587**	**62 338**	**67 601**	**22 755**	**208 259**
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
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
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
Cross currency swap (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
Interest rate transactions	**21 512**	**13 904**	**115 141**	**195 830**	**35 480**	**381 867**
Interest rate swap (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
Forward Rate Agreement (FRA)	**-**	**-**	**20 853**	**2 700**	**-**	**23 553**
Purchase	-	-	11 120	1 200	-	12 320
Sale	-	-	9 733	1 500	-	11 233
Other transactions	**250**	**457**	**1 229**	**1 177**	**-**	**3 113**
Other (including on stock exchange indices)	**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)

31.12.2017	up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	over 5 years	Total
Fx transactions	**39 943**	**21 264**	**43 667**	**49 352**	**22 088**	**176 314**
FX Swap	**32 286**	**7 203**	**2 435**	**1 227**	**-**	**43 151**
Purchase of currencies	16 104	3 530	1 218	627	-	21 479
Sale of currencies	16 182	3 673	1 217	600	-	21 672
Forward	**5 557**	**5 482**	**9 860**	**6 304**	**6**	**27 209**
Purchase of currencies	2 776	2 742	4 905	3 102	3	13 528
Sale of currencies	2 781	2 740	4 955	3 202	3	13 681
Options	**2 100**	**8 579**	**29 007**	**3 620**	**-**	**43 306**
Purchase	973	4 381	15 380	1 839	-	22 573
Sale	1 127	4 198	13 627	1 781	-	20 733
Cross currency swap (CIRS)	**-**	**-**	**2 365**	**38 201**	**22 082**	**62 648**
Purchase	-	-	1 178	19 352	11 213	31 743
Sale	-	-	1 187	18 849	10 869	30 905
Interest rate transactions	**13 981**	**22 090**	**82 208**	**163 268**	**29 044**	**310 591**
Interest rate swap (IRS)	**12 318**	**21 090**	**73 808**	**162 768**	**29 044**	**299 028**
Purchase	6 159	10 545	36 904	81 384	14 522	149 514
Sale	6 159	10 545	36 904	81 384	14 522	149 514
Forward Rate Agreement (FRA)	**1 663**	**1 000**	**8 400**	**500**	**-**	**11 563**
Purchase	1 352		3 300	250	-	4 902
Sale	311	1 000	5 100	250	-	6 661
Other transactions	**2 182**	**1 415**	**1 746**	**1 193**	**131**	**6 667**
Other (including on stock exchange indices)	**2 182**	**1 415**	**1 746**	**1 193**	**131**	**6 667**
Purchase	623	708	841	598	65	2 835
Sale	1 559	707	905	595	66	3 832
Total	**56 106**	**44 769**	**127 621**	**213 813**	**51 263**	**493 572**

26. SECURITIES

ACCOUNTING POLICIES BINDING AS OF 1 JANUARY 2018

As of 1 January 2018 the Bank classified debt securities to the following categories:

- Financial assets at fair value through profit or loss:
  - financial instruments held for trading;
  - financial assets not held for trading, measured at fair value through profit or loss on a mandatory basis;
  - financial assets designated to be measured at fair value through profit or loss at initial recognition.
- Financial assets measured at fair value through other comprehensive income;
- Financial assets measured at amortized cost.

Securities are classified to the above categories in accordance with the principles for selection of business models and assessment of characteristics following from the cash flow contract referred to in note 4.

SECURITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

Gains or losses on financial assets measured at fair value through profit or loss are recognized in the income statement. Gains or losses on the measurement of the 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.

The Bank did not apply the measurement at fair value through other comprehensive income option in respect of capital expenditure projects and has measured them at fair value through profit or loss.

SECURITIES MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Securities 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.

(IN PLN MILLION)

If a financial asset is derecognized, the accumulated gains or losses previously recognized in other comprehensive income are reclassified from other comprehensive income to profit or loss in the form of a reclassification adjustment.

SECURITIES MEASURED AT AMORTIZED COST

Upon initial recognition those assets are measured at fair value. The initial value of an asset measured at amortized cost is adjusted by all commissions and fees with an impact on its effective return which constitute an integral part of the effective interest rate on the asset (commissions and fees arising as a result of the Bank conducting activities which lead to the origination of the asset). The present value of this category of assets is determined using the effective interest rate described in note 8 '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.

ACCOUNTING POLICIES BINDING UNTIL 31 DECEMBER 2017

Until 31 December 2017 the Bank classified debt securities to the following categories:

- financial instruments held for trading;
- financial instruments designated at fair value through profit or loss;
- investment securities available for sale;
- investment securities held to maturity.

In 2017 equity investments were classified as available for sale financial instruments or as instruments held for trading. As a rule, instruments held for trading were measured at fair value, and instruments available for sale the fair value of which could not be determined were measured at cost net of impairment.

FINANCIAL INFORMATION

SECURITIES	31.12.2018	01.01.2018	31.12.2017
held for trading	282	472	472
financial instruments designated at fair value through profit or loss upon initial recognition			6 409
available-for-sale investment securities			42 009
investment securities held to maturity			1 622
not held for trading, measured at fair value through profit or loss	1 280	2 886	
measured at fair value through other comprehensive income	50 562	45 602	
measured at amortized cost	8 315	5 990	
Total	**60 439**	**54 950**	**50 512**

As at 31 December 2018, the allowance which does not reduce the fair value of securities measured at fair value through other comprehensive income was PLN 18 million (PLN 17 million as at 1 January 2018).

(IN PLN MILLION)

SECURITIES 31.12.2018	held for trading	not held for trading, measured at fair value through profit or loss	measured at fair value through other comprehensive income	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.

In April 2018, PKO Bank Polski SA finalized its negotiations with Bank Gospodarstwa Krajowego relating to the sale of participation units in the 2020 European Fund for Energy, Climate Change and Infrastructure (Marguerite I Fund) and signed a sale’s agreement.

The said capital exposure was disclosed as participation units in a collective investment undertaking and classified in available-for-sale investment securities as at 31 December 2017 and in securities not held for trading, measured at fair value through profit or loss on a mandatory basis, as at 1 January 2018.

(IN PLN MILLION)

SECURITIES 01.01.2018	held for trading	not held for trading, measured at fair value through profit or loss	measured at fair value through other comprehensive income	measured at amortized cost	Total
Debt securities	446	2 347	45 602	5 990	54 385
NBP money market bills	-	-	4 199	-	4 199
Treasury bonds (in PLN)	151	1 134	32 095	1 622	35 002
Treasury bonds (in foreign currencies)	138	893	-	-	1 031
municipal bonds (in PLN)	23	106	4 921	2 513	7 563
corporate bonds (in foreign currencies)	-	77	-	-	77
corporate bonds (in PLN)	94	137	3 910	1 730	5 871
corporate bonds (in foreign currencies)	1	-	477	125	603
covered bonds	39	-	-	-	39
Equity securities	26	539	-	-	565
shares in other entities - not listed	-	238	-	-	238
shares in other entities - listed	19	49	-	-	68
participation units in a collective investment undertaking / investment certificates, rights to shares, pre-emptive rights	7	252	-	-	259
Total	**472**	**2 886**	**45 602**	**5 990**	**54 950**

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

(IN PLN MILLION)

SECURITIES 31.12.2017	**held for trading**	**financial instruments designated at fair value through profit or loss upon initial recognition**	**available-for-sale investment securities**	**investment securities held to maturity**	**Total**
Debt securities	446	6 409	41 560	1 622	50 037
NBP money market bills	-	4 199	-	-	4 199
Treasury bonds (in PLN)	151	1 134	32 095	1 622	35 002
Treasury bonds (in foreign currencies)	138	893	-	-	1 031
municipal bonds (in PLN)	23	106	4 928	-	5 057
corporate bonds (in foreign currencies)	-	77	-	-	77
corporate bonds (in PLN)	94	-	4 058	-	4 152
corporate bonds (in foreign currencies)	1	-	479	-	480
covered bonds	39	-	-	-	39
Equity securities	26	-	449	-	475
shares in other entities - not listed	-	-	148	-	148
shares in other entities - listed	19	-	49	-	68
participation units in a collective investment undertaking / investment certificates, rights to shares, pre-emptive rights	7	-	252	-	259
Total	**472**	**6 409**	**42 009**	**1 622**	**50 512**

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

Information relating to credit risk exposure in respect of securities measured at amortized cost and at fair value through other comprehensive income has been described in Note 28 “Expected credit losses” in 2018 and in Note 29 “Impairment of financial assets (comparative data in accordance with IAS 39)” in 2017.

As at 31 December 2018, securities amounting to PLN 471 million were classified to Stage 3 (PLN 458 million as at 1 January 2018). In the period ended 31 December 2018, PLN 59 million in respect of corporate bonds in PLN were transferred between Stage 1 and Stage 2 and PLN 388 million in respect of communal bonds in PLN.

(IN PLN MILLION)

SECURITIES BY MATURITY 31.12.2018	held for trading	not held for trading, mandatorily measured at fair value through profit or loss	designated at fair value through profit or loss (FVO)	measured at fair value through other comprehensive income	measured at amortized cost	Total
with unspecified maturity – equity securities	18	308	-	-	-	326
up to 1 month	4	-	-	4 344	-	4 348
1 to 3 months	-	-	-	453	136	589
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**

SECURITIES BY MATURITY 31.12.2017	held for trading	financial instruments designated at fair value through profit or loss upon initial recognition	available-for-sale investment securities	investment securities held to maturity	Total
with unspecified maturity – equity securities	26	-	449	-	475
up to 1 month	9	4 199	309	-	4 517
1 to 3 months	6	106	4	-	116
3 months to 1 year	48	1 065	4 072	-	5 185
1 to 5 years	290	1 039	21 956	533	23 818
over 5 years	93	-	15 219	1 089	16 401
Total	**472**	**6 409**	**42 009**	**1 622**	**50 512**

SECURITIES 31.12.2018	measured at fair value through other comprehensive income			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**

SECURITIES 01.01.2018	measured at fair value through other comprehensive income			measured at amortized cost		
	Gross amount	Allowances for expected credit losses	Net amount	Gross amount	Allowances for expected credit losses	Net amount
Debt securities	45 617	(15)	45 602	6 001	(11)	5 990
NBP money market bills	4 199	-	4 199	-	-	-
Treasury bonds (in PLN)	32 095	-	32 095	1 622	-	1 622
municipal bonds (in PLN)	4 921	-	4 921	2 516	(3)	2 513
corporate bonds (in PLN)	3 925	(15)	3 910	1 738	(8)	1 730
corporate bonds (in foreign currencies)	477	-	477	125	-	125
Total	**45 617**	**(15)**	**45 602**	**6 001**	**(11)**	**5 990**

SECURITIES 31.12.2017	available-for-sale investment securities			investment securities held to maturity		
	Gross amount	Impairment allowances	Net amount	Gross amount	Impairment allowances	Net amount
Debt securities	41 806	(246)	41 560	1 622	-	1 622
Treasury bonds (in PLN)	32 095	-	32 095	1 622	-	1 622
municipal bonds (in PLN)	4 928	-	4 928	-	-	-
corporate bonds (in PLN)	4 304	(246)	4 058	-	-	-
corporate bonds (in foreign currencies)	479	-	479	-	-	-
Equity securities	501	(52)	449	-	-	-
shares in other entities - not listed	148	-	148	-	-	-
shares in other entities - listed	101	(52)	49	-	-	-
participation units in investment funds and shares in collective investment undertakings	252	-	252	-	-	-
Total	**42 307**	**(298)**	**42 009**	**1 622**	**-**	**1 622**

FINANCIAL ASSETS RECLASSIFIED FROM CATEGORIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

As at 31 December 2017, the Bank held financial instruments measured at initial recognition at fair value through profit or loss and securities in the carrying amount of PLN 6 409 million. Of this, on 1 January 2018, the Bank reclassified debt securities – NBP bills of PLN 4 199 million – to the category of measured at fair value through other comprehensive income, as a result of classifying them to the business model 'hold to collect and sell' (reclassification required). The average effective interest rate for the NBP bills at the moment of reclassification was 1.5348%. Interest income from the discount on the NBP bills recognized in the Bank's financial result for 2018 was PLN 20 million.

27. LOANS AND ADVANCES TO CUSTOMERS

Accounting Policies
Estimates and judgements – impairment allowances
Financial information:
- Loans and advances to customers
- Loans and advances to customers by product
- Loans and advances to customers by customer segments
- Loans and advances to customers – transfers between stages
- Loans and advances to customers by maturity

Calculations of estimates – impairment allowances

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.

As of 1 January 2018, the Bank has classified loans and advances to customers in the following categories:

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

Loans and advances to customers are classified in the above categories in accordance with the principles of business model selection and an evaluation of the characteristics of contractual cash flows referred to in note 4.

LOANS AND ADVANCES TO CUSTOMERS MEASURED AT AMORTIZED COST

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 current value of this category of assets is determined using the effective interest rate discussed in Note 8 "Interest income and expenses", used to determine (assess) current interest income generated by the asset in the given period, by adjusting it by allowances on expected credit losses.

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

LOANS AND ADVANCES TO CUSTOMERS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Loans and advances measured at fair value through other comprehensive income are measured at fair value. The effects of changes in the fair value of such financial assets until they are derecognized or reclassified are charged to other comprehensive income, except interest income, the result on allowances for expected credit losses, and net foreign exchange differences, which are recognized in profit or loss. 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.

REVERSE REPO TRANSACTIONS

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.

Loans and advances to customers also include an adjustment for hedging accounting of fair value for loans disclosed in the hedged item in Strategy 10 "Hedging the fair value volatility of fixed-rate loans in convertible currencies resulting from the risk of changes in interest rates using IRS transactions" (Note "Hedge Accounting").

MATERIAL INCREASE IN CREDIT RISK

A material 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 αstatistics, 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 α statistics 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 the αstatistic), 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 αstatistics) for which an event of default occurred during the audited period (type II error).

According to data that is applicable at the end of 2018, 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.

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.

(IN PLN MILLION)

This value is set on the basis of the average probability of default for classes of risk worse than that at initial recognition of the exposure, weighted by the probability of transition to those classes of risk in the given time horizon. In accordance with the data as at the end of 2018, the minimum deterioration in the class of risk which constitutes a premise of a material improvement of the credit quality compared to the current class of risk are as follows:

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

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

The 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 a debtor in financial difficulties;
- extending the period for the repayment of a significant amount of principal or interest by more than 30 days;
- identified early warning signals as part of the monitoring process, suggesting a material increase in credit risk;
- a significant increase in the LTV ratio;
- an analyst's assessment according to an individual approach;
- quarantine for Stage 2 exposures, which have not shown premises for impairment in the previous 3 months.

In 2018, the Bank added the following events to the list of premises of a material increase in credit risk:

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

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

In accordance with the CRR Regulation, 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 for impairment of the exposure.

In 2018, the Bank added the declaration of consumer bankruptcy by any of the joint borrowers to the list of premises of impairment.

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

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

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

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

The 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 estimates of future macroeconomic conditions. In terms of portfolio analysis, the impact of macroeconomic scenarios is taken into account in the amount of the individual risk parameters. The methodology for calculating the risk parameters includes the study of the dependencies of these parameters on the macroeconomic conditions based on historical data. Three macroeconomic scenarios based on the Bank's own forecasts are used for calculating the expected loss – a baseline forecast with a probability of 80% and two alternative scenarios, each with a probability of 10%. The scope of the forecast indicators includes the GDP growth index, the rate of unemployment, the WIBOR 3M rate, the LIBOR CHF 3M rate, the CHF/PLN exchange rate, the property price index and the NBP reference rate. The final expected loss is the weighted average probability of scenarios from expected losses corresponding to individual scenarios. The 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 are defined.

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

1) 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);
2) 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);
3) the inflow of immigrants (only partly included in the official statistics).

(IN PLN MILLION)

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. They use a dedicated computing environment that allows for the distribution of the results to the Bank's internal units.

The impact of the increase/decrease in the estimated cash flows for 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 for the Bank's portfolio of loans and advances assessed using the portfolio method, is presented in the table below:

ESTIMATED CHANGE IN IMPAIRMENT ALLOWANCES ON LOANS AND ADVANCES RESULTING FROM MATERIALIZATION OF A SCENARIO OF THE RISK PARAMETERS DETERIORATION OR IMPROVEMENT, OF WHICH:[1]	31.12.2018		31.12.2017	
	scenario +10%	scenario -10%	scenario +10%	scenario -10%
changes in the present value of estimated future cash flows for the Bank's portfolio of individually impaired loans and advances assessed on an individual basis	(262)	360	(191)	290
changes in the probability of default	153	(161)	47	(48)
change in recovery rates	(481)	484	(312)	313

[1](in plus – increase in allowances, in minus – decrease in allowances)

FINANCIAL INFORMATION

LOANS AND ADVANCES TO CUSTOMERS	31.12.2018	01.01.2018	31.12.2017
	Wartość netto	Net amount	Net amount
Loans and advances to customers (excluding adjustments relating to fair value hedge accounting)	191 574	181 664	**186 893**
Adjustment relating to fair value hedge accounting	1	(1)	**(1)**
Total loans and advances to customers	**191 575**	**181 663**	**186 892**

LOANS AND ADVANCES TO CUSTOMERS (excluding adjustments relating to fair value hedge accounting)	31.12.2018	01.01.2018	31.12.2017
measured at amortized cost, of which:	181 972	172 359	186 893
debt securities			4 368
measured at fair value through other comprehensive income	8 496	8 235	
not held for trading, measured at fair value through profit or loss	1 106	1 070	
Total	**191 574**	**181 664**	**186 893**

(IN PLN MILLION)

Corporate and municipal bonds of PLN 4 368 million which met the definition of loans and advances according to IAS 39, were presented in “Loans and advances to customers”. After IFRS 9 came into effect, due to the fact that these securities meet the SPPI test and are classified in the “hold to collect” business model, they are allocated to financial assets measured at amortized cost and presented in the item dedicated to securities measured at amortized cost.

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 other comprehensive income			measured at amortized cost			Total
	Net amount	Gross amount	Allowances for expected credit losses	Net amount	Gross amount	Allowances for expected credit losses	Net amount	Net amount
Loans[1]	**1 106**	**8 496**	**-**	**8 496**	**189 432**	**(7 511)**	**181 921**	**191 523**
housing	27	8 496	-	8 496	85 211	(1 940)	83 271	**91 794**
corporate	148	-	-	-	77 399	(3 897)	73 502	**73 650**
consumer	931	-	-	-	26 822	(1 674)	25 148	**26 079**
Receivables in respect of repurchase agreements	-	-	-	-	**51**	-	**51**	**51**
Total	**1 106**	**8 496**	**-**	**8 496**	**189 483**	**(7 511)**	**181 972**	**191 574**

‘Loans’ include partial write-offs of suspended interest, as presented in note 58.

LOANS AND ADVANCES TO CUSTOMERS (excluding adjustments relating to fair value hedge accounting) 01.01.2018	not held for trading, measured at fair value through profit or loss	measured at fair value through other comprehensive income			measured at amortized cost			Total
	Net amount	Gross amount	Allowances for expected credit losses	Net amount	Gross amount[1]	Allowances for expected credit losses[1]	Net amount	Net amount
Loans	**1 070**	**8 235**	**-**	**8 235**	**181 500**	**(10 043)**	**171 457**	**180 762**
housing	37	8 235	-	8 235	84 463	(2 960)	81 503	**89 775**
corporate	182	-	-	-	71 723	(5 053)	66 670	**66 852**
consumer	851	-	-	-	25 314	(2 030)	23 284	**24 135**
Receivables in respect of repurchase agreements	-	-	-	-	**902**	-	**902**	**902**
								-
Total	**1 070**	**8 235**	**-**	**8 235**	**182 402**	**(10 043)**	**172 359**	**181 664**

The amount of suspended interest of PLN 2 480 million, including in respect of commercial loans of PLN 1 208 million, consumer loans of PLN 466 million and housing loans of PLN 806 million, is presented under “gross amount” and “allowances for expected credit losses”.

As at 31 December 2018, the allowances in respect of loans and advances to Customers measured at fair value through other comprehensive income was PLN 22 million (PLN 8 million as at 1 January 2018).

LOANS AND ADVANCES TO CUSTOMERS (excluding adjustments relating to fair value hedge accounting) 31.12.2017	measured at amortized cost		
	Gross amount	Impairment allowance	Net amount
Loans	**188 783**	**(7 160)**	**181 623**
housing	92 134	(1 925)	90 209
corporate	70 719	(3 580)	67 139
consumer	25 930	(1 655)	24 275
Debt securities	**4 378**	**(10)**	**4 368**
corporate bonds	1 859	(4)	1 855
municipal bonds	2 519	(6)	2 513
Receivables in respect of repurchase agreements	902	-	**902**
Total	**194 063**	**(7 170)**	**186 893**

(IN PLN MILLION)

LOANS AND ADVANCES TO CUSTOMERS BY CUSTOMER SEGMENT (excluding adjustments relating to fair value hedge accounting)	31.12.2018	01.01.2018	31.12.2017
Loans and advances to customers, gross, of which:	199 085	191 707	194 063
mortgage banking	87 434	85 952	85 515
corporate	64 187	58 164	61 597
retail and private banking	27 753	26 165	25 930
firms and undertakings	19 660	20 524	20 119
receivables in respect of repurchase agreements	51	902	902
Net allowances for expected credit losses /impairment allowances on loans and advances	(7 511)	(10 043)	(7 170)
Total loans and advances to customers, net	**191 574**	**181 664**	**186 893**

Information about credit risk exposure for loans and advances granted to customers, measured at amortized cost and at fair value through other comprehensive income is provided in more detail in Note 28 "Expected credit losses" for 2018, and for 2017 in Note 29 "Impairment of financial assets (comparable data in accordance with IAS 39)."

LOANS AND ADVANCES TO CUSTOMERS – MOVEMENTS BETWEEN IMPAIRMENT STAGES (excluding adjustments relating to fair value hedge accounting) 31.12.2018	Carrying amount, gross							
	AMOUNTS NOT SUBJECT TO TRANSFER IN A GIVEN PERIOD	Transfer from stage 1 to stage 2		Transfer from stage 2 to stage 3		Transfer 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	
Measured at fair value through OCI	8 340	125	28	1	-	2	-	8 496
loans	8 340	125	28	1	-	2	-	8 496
housing	8 340	125	28	1	-	2	-	8 496
Total	8 340	125	28	1	-	2	-	8 496
of which: purchased or originated credit-impaired assets (POCI)	-	-	-	-	-	-	-	-
Measured at amortized cost:	178 593	5 697	2 963	816	503	824	87	189 483
loans	178 542	5 697	2 963	816	503	824	87	189 432
housing	81 146	2 203	1 203	250	287	105	17	85 211
corporate	72 935	2 291	1 309	348	143	328	45	77 399
consumer	24 461	1 203	451	218	73	391	25	26 822
receivables in respect of repurchase agreements	51	-	-	-	-	-	-	51
Total	178 593	5 697	2 963	816	503	824	87	189 483
of which: purchased or originated credit-impaired assets (POCI)	566	-	-	-	-	-	-	566

LOANS AND ADVANCES TO CUSTOMERS – MOVEMENTS BETWEEN IMPAIRMENT STAGES (excluding adjustments relating to fair value hedge accounting) 31.12.2018	Allowances for expected credit losses							
	AMOUNTS NOT SUBJECT TO TRANSFER IN A GIVEN PERIOD	Transfer from stage 1 to stage 2		Transfer from stage 2 to stage 3		Transfer 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	
Measured at fair value through OCI	-	-	-	-	-	-	-	-
loans	-	-	-	-	-	-	-	-
housing	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-	-
of which: purchased or originated credit-impaired assets (POCI)	-	-	-	-	-	-	-	-
Measured at amortized cost:	(6 249)	(498)	(29)	(293)	(44)	(397)	(1)	(7 511)
loans	(6 249)	(498)	(29)	(293)	(44)	(397)	(1)	(7 511)
housing	(1 598)	(173)	(3)	(98)	(25)	(43)	-	(1 940)
corporate	(3 533)	(129)	(21)	(69)	(11)	(133)	(1)	(3 897)
consumer	(1 118)	(196)	(5)	(126)	(8)	(221)	-	(1 674)
receivables in respect of repurchase agreements	-	-	-	-	-	-	-	-
Total	(6 249)	(498)	(29)	(293)	(44)	(397)	(1)	(7 511)
of which: purchased or originated credit-impaired assets (POCI)	(124)	-	-	-	-	-	-	(124)

LOANS AND ADVANCES TO CUSTOMERS – MOVEMENTS BETWEEN IMPAIRMENT STAGES (excluding adjustments relating to fair value hedge accounting) 31.12.2018	Carrying amount, net							
	AMOUNTS NOT SUBJECT TO TRANSFER IN A GIVEN PERIOD	Transfer from stage 1 to stage 2		Transfer from stage 2 to stage 3		Transfer 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	
Measured at fair value through OCI	8 340	125	28	1	-	2	-	8 496
loans	8 340	125	28	1	-	2	-	8 496
housing	8 340	125	28	1	-	2	-	8 496
Total	8 340	125	28	1	-	2	-	8 496
of which: purchased or originated credit-impaired assets (POCI)	-	-	-	-	-	-	-	-
Measured at amortized cost:	172 344	5 199	2 934	523	459	427	86	181 972
loans	172 293	5 199	2 934	523	459	427	86	181 921
housing	79 548	2 030	1 200	152	262	62	17	83 271
corporate	69 402	2 162	1 288	279	132	195	44	73 502
consumer	23 343	1 007	446	92	65	170	25	25 148
receivables in respect of repurchase agreements	51	-	-	-	-	-	-	51
Total	172 344	5 199	2 934	523	459	427	86	181 972
of which: purchased or originated credit-impaired assets (POCI)	442	-	-	-	-	-	-	442

(IN PLN MILLION)

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

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 other comprehensive income	measured at amortized cost	Total
up to 1 month	225	23	8 650	8 898
1 to 3 months	34	48	6 725	6 807
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**

LOANS AND ADVANCES TO CUSTOMERS BY MATURITY (excluding adjustments relating to fair value hedge accounting) 31.12.2017	measured at amortized cost
up to 1 month	8 713
1 to 3 months	5 177
3 months to 1 year	23 187
from 1 to 5 years	68 383
over 5 years	81 433
Total	**186 893**

28. EXPECTED CREDIT LOSSES

ESTIMATES AND ASSESSMENTS – APPLICABLE AS OF 1 JANUARY 2018

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

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

ESTIMATES AND JUDGEMENTS – IMPAIRMENT ALLOWANCES

With regard to impairment, the Group applies IFRS 9 which is based on the concept of expected losses. Impairment allowances for exposure reflect 12-month or lifetime expected credit losses on such exposures for a given financial asset.

The Group reviews the exposure on a monthly basis in order to verify evidence of impairment or evidence of a significant increase in the credit risk, and allocates them to one of 3 stages, accordingly:

- 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).

(IN PLN MILLION)

IMPAIRMENT OF FINANCIAL ASSETS

With regard to impairment, the Bank applies IFRS 9 which is based on the concept of expected losses. The method for estimating allowances for expected credit losses is described in Note 4 "IFRS 9 Financial Instruments"

FINANCIAL ASSETS

BY MEASUREMENT MODEL (excluding adjustments relating to fair value hedge accounting) 31.12.2018	Gross amount – assets with no significant increase in credit risk since initial recognition (stage 1)	Allowances for expected credit losses (stage 1)	Gross amount – assets with a significant increase in credit risk since initial recognition, but not credit-impaired (stage 2)	Allowances for expected credit losses (stage 2)	Gross amount – credit-impaired assets (stage 3)	of which: gross assets with impairment	Allowances for expected credit losses (stage 3)	Total gross amount	Total allowances for expected credit losses	Total, net
Measured at fair value through OCI										
securities	49 713	-	388	-	471	471	(10)	50 572	(10)	50 562
Treasury bonds	38 276	-	-	-	-	-	-	38 276	-	38 276
other	11 437	-	388	-	471	471	(10)	12 296	(10)	12 286
loans	8 330	-	163	-	3	3	-	8 496	-	8 496
housing	8 330	-	163	-	3	3	-	8 496	-	8 496
								-		-
Total	58 043	-	551	-	474	474	(10)	59 068	(10)	59 058
of which: purchased or originated credit-impaired assets (POCI)	-	-	-	-	471	471	(10)	471	(10)	461
Measured at amortized cost										
amounts due from banks	11 217	(4)	-	-	-	-	-	11 217	(4)	11 213
securities	8 276	(12)	59	(8)	-	-	-	8 335	(20)	8 315
Treasury bonds	2 200	-	-	-	-	-	-	2 200	-	2 200
other	6 076	(12)	59	(8)	-	-	-	6 135	(20)	6 115
loans	166 412	(521)	12 476	(1 124)	10 595	10 169	(5 866)	189 483	(7 511)	181 972
housing	77 459	(42)	5 529	(502)	2 223	2 164	(1 396)	85 211	(1 940)	83 271
corporate	65 666	(332)	5 166	(314)	6 567	6 203	(3 251)	77 399	(3 897)	73 502
consumer	23 236	(147)	1 781	(308)	1 805	1 802	(1 219)	26 822	(1 674)	25 148
receivables in respect of repurchase agreements	51	-	-	-	-	-	-	51	-	51
other financial assets	2 149	-	-	-	95	95	(95)	2 244	(95)	2 149
										-
Total	188 054	(537)	12 535	(1 132)	10 690	10 264	(5 961)	211 279	(7 630)	203 649
of which: purchased or originated credit-impaired assets (POCI)	-	-	-	-	566	566	(124)	566	(124)	442
Total	246 097	(537)	13 086	(1 132)	11 164	10 738	(5 971)	270 347	(7 640)	262 707

(IN PLN MILLION)

BY TYPE OF FINANCIAL ASSETS (excluding adjustments relating to fair value hedge accounting) 31.12.2018	Gross amount – assets with no significant increase in credit risk since initial recognition (stage 1)	Allowances for expected credit losses (stage 1)	Gross amount – assets with a significant increase in credit risk since initial recognition, but not credit-impaired (stage 2)	Allowances for expected credit losses (stage 2)	Gross amount – credit-impaired assets (stage 3)	of which: gross assets with impairment	Allowances for expected credit losses (stage 3)	Total gross amount	Total allowances for expected credit losses	Total, net
amounts due from banks	11 217	(4)	-	-	-	-	-	11 217	(4)	11 213
securities	57 989	(12)	447	(8)	471	471	(10)	58 907	(30)	58 877
Treasury bonds	40 476	-	-	-	-	-	-	40 476	-	40 476
other	17 513	(12)	447	(8)	471	471	(10)	18 431	(30)	18 401
loans	174 742	(521)	12 639	(1 124)	10 598	10 172	(5 866)	197 979	(7 511)	190 468
housing	85 789	(42)	5 692	(502)	2 226	2 167	(1 396)	93 707	(1 940)	91 767
corporate	65 666	(332)	5 166	(314)	6 567	6 203	(3 251)	77 399	(3 897)	73 502
consumer	23 236	(147)	1 781	(308)	1 805	1 802	(1 219)	26 822	(1 674)	25 148
receivables in respect of repurchase agreements	51	-	-	-	-	-	-	51	-	51
other financial assets	2 149	-	-	-	95	95	(95)	2 244	(95)	2 149
								-	-	-
Total	246 097	(537)	13 086	(1 132)	11 164	10 738	(5 971)	270 347	(7 640)	262 707
of which: purchased or originated credit-impaired assets (POCI)	-	-	-	-	1 037	1 037	(134)	1 037	(134)	903

LOAN QUALITY RATIOS (excluding adjustments relating to fair value hedge accounting)	31.12.2018	01.01.2018
Share of impaired exposures[1]	5,0%	5,6%
Coverage ratio of impaired loans[2]	74,0%	72,8%
Share of loans overdue for more than 90 days in gross loans and advances to customers	3,3%	4,1%

[1] The share of impaired exposures was determined for loans and securities, excluding Treasury bonds, measured at amortized cost and loans measured at fair value through other comprehensive income, as the gross amount of impaired exposures to the total gross amount of loans and securities, excluding Treasury bonds measured at amortized cost and loans measured at fair value through other comprehensive income, less contractual (non-performing) interest as at 01.01.2018 covered by an impairment allowance for stage 3.

[2] The coverage ratio for impaired loans was determined as the ratio of total allowances for expected credit losses for loans and securities, excluding Treasury bonds measured at amortized cost and loans measured at fair value through other comprehensive income, less contractual (non-performing) interest as at 1 January 2018 covered by an impairment allowance for stage 3, to the gross amount of impaired exposures from these portfolios.

(IN PLN MILLION)

BY MEASUREMENT MODEL (excluding adjustments relating to fair value hedge accounting) 01.01.2018	Gross amount – assets with no significant increase in credit risk since initial recognition (stage 1)	Allowances for expected credit losses (stage 1)	Gross amount – assets with a significant increase in credit risk since initial recognition, but not credit-impaired (stage 2)	Allowances for expected credit losses (stage 2)	Gross amount – credit-impaired assets (stage 3)	of which: contractual (non-performing) interest subject to allowance	of which: assets with impairment, gross, net of contractual (non-working) interest covered by an allowance	Allowances for expected credit losses (stage 3)	Total gross amount	Total allowances for expected credit losses	Total, net
Measured at fair value through OCI											
securities	45 144	-	-	-	473	2	473	(15)	45 617	(15)	45 602
Treasury bonds	32 095		-	-	-	-	-	-	32 095	-	32 095
other	13 049	-	-	-	473	2	473	(15)	13 522	(15)	13 507
loans	8 152	-	83	-	-	-	-	-	8 235	-	8 235
housing	8 152	-	83	-	-	-	-	-	8 235	-	8 235
Total	53 296	-	83	-	473	2	473	(15)	53 852	(15)	53 837
of which: purchased or originated credit-impaired assets (POCI)	-	-	-	-	473	2	473	(15)	473	(15)	458
Measured at amortized cost											
amounts due from banks	8 769	(2)	-	-	-	-	-	-	8 769	(2)	8 767
securities	6 001	(11)	-	-	-	-	-	-	6 001	(11)	5 990
Treasury bonds	1 622	-	-	-	-	-	-	-	1 622	-	1 622
other	4 379	(11)	-	-	-	-	-	-	4 379	(11)	4 368
loans	156 575	(450)	12 025	(987)	13 802	2 250	10 717	(8 606)	182 402	(10 043)	172 359
housing	76 135	(46)	4 760	(415)	3 568	733	2 761	(2 499)	84 463	(2 960)	81 503
corporate	58 199	(282)	5 660	(363)	7 864	1 153	5 962	(4 408)	71 723	(5 053)	66 670
consumer	21 339	(122)	1 605	(209)	2 370	364	1 994	(1 699)	25 314	(2 030)	23 284
receivables in respect of repurchase agreements	902	-	-	-	-	-	-	-	902	-	902
other financial assets	1 748	-	-	-	99	-	99	(99)	1 847	(99)	1 748
										-	-
Total	173 093	(463)	12 025	(987)	13 901	2 250	10 816	(8 705)	199 019	(10 155)	188 864
of which: purchased or originated credit-impaired assets (POCI)	-	-	-	-	221	-	221	(107)	221	(107)	114
Total	226 389	(463)	12 108	(987)	14 374	2 252	11 289	(8 720)	252 871	(10 170)	242 701

(IN PLN MILLION)

BY TYPE OF FINANCIAL ASSETS (excluding adjustments relating to fair value hedge accounting) 01.01.2018	Gross amount – assets with no significant increase in credit risk since initial recognition (stage 1)	Allowances for expected credit losses (stage 1)	Gross amount – assets with a significant increase in credit risk since initial recognition, but not credit-impaired (stage 2)	Allowances for expected credit losses (stage 2)	Gross amount – credit-impaired assets (stage 3)	of which: contractual (non-performing) interest subject to allowance	of which: assets with impairment, gross, net of contractual (non-working) interest covered by an allowance	Allowances for expected credit losses (stage 3)	Total gross amount	Total allowances for expected credit losses	Total, net
amounts due from banks	8 769	(2)	-	-	-	-	-	-	8 769	(2)	8 767
securities	51 145	(11)	-	-	473	2	473	(15)	51 618	(26)	51 592
Treasury bonds	33 717	-	-	-	-	-	-	-	33 717	-	33 717
other	17 428	(11)	-	-	473	2	473	(15)	17 901	(26)	17 875
loans	164 727	(450)	12 108	(987)	13 802	2 250	10 717	(8 606)	190 637	(10 043)	180 594
housing	84 287	(46)	4 843	(415)	3 568	733	2 761	(2 499)	92 698	(2 960)	89 738
corporate	58 199	(282)	5 660	(363)	7 864	1 153	5 962	(4 408)	71 723	(5 053)	66 670
consumer	21 339	(122)	1 605	(209)	2 370	364	1 994	(1 699)	25 314	(2 030)	23 284
receivables in respect of repurchase agreements	902	-	-	-	-	-	-	-	902	-	902
other financial assets	1 748	-	-	-	99	-	99	(99)	1 847	(99)	1 748
											-
Total	226 389	(463)	12 108	(987)	14 374	2 252	11 289	(8 720)	252 871	(10 170)	242 701
of which: purchased or originated credit-impaired assets (POCI)	-	-	-	-	694	2	694	(122)	694	(122)	572

(IN PLN MILLION)

IMPAIRMENT ALLOWANCES ON FINANCIAL ASSETS

CHANGES IN ALLOWANCES FOR EXPECTED CREDIT LOSSES ON FINANCIAL ASSETS BY MEASUREMENT MODEL	As at 31.12.2017	Changes due to IFRS 9 implementation[1]	Fair value as at 01.01.2018 (changed)	Increase due to recognition and purchase	Decrease due to derecognition	Changes due to changes in credit risk, net	Changes due to lengthening the loss recognition horizon from 12 months to period to maturity	Changes due to shortening the loss recognition horizon from 12 months to period to maturity	Changes due to modification without derecognition, net	Decrease of impairment allowances due to write-off	Other changes, including foreign exchange differences	As at 31.12.2018
Available-for-sale investment securities	298	(298)	-	-	-	-	-	-	-	-	-	-
Measured at fair value through OCI												
securities	-	15	15	-	(9)	-	5	-	-	(3)	2	10
loans	-	-	-	-	-	2	14	(2)	-	-	(14)	-
housing	-	-	-	-	-	2	14	(2)	-	-	(14)	-
Total	-	**15**	**15**	-	**(9)**	**2**	**19**	**(2)**	-	**(3)**	**(12)**	**10**
Measured at amortized cost												
amounts due from banks	-	2	2	2	-	(2)	-	-	-	-	2	4
securities	-	11	11	8	-	-	-	-	-	-	1	20
loans	7 170	2 873	10 043	423	(1 398)	1 888	728	(516)	70	(3 612)	(115)	7 511
housing	1 925	1 035	2 960	29	(475)	523	199	(140)	8	(1 057)	(107)	1 940
corporate	3 580	1 473	5 053	305	(507)	734	204	(296)	58	(1 734)	80	3 897
consumer	1 655	375	2 030	89	(416)	631	325	(80)	4	(821)	(88)	1 674
securities	10	(10)	-	-	-	-	-	-	-	-		-
receivables in respect of repurchase agreements	-	-	-	-	-	-	-	-	-	-	-	-
other financial assets	99	-	99	1	-	-	-	-	-	(5)	-	95
												-
Total	**7 269**	**2 886**	**10 155**	**434**	**(1 398)**	**1 886**	**728**	**(516)**	**70**	**(3 617)**	**(112)**	**7 630**
Total allowances for expected credit losses on financial assets	**7 567**	**2 603**	**10 170**	**434**	**(1 407)**	**1 888**	**747**	**(518)**	**70**	**(3 620)**	**(124)**	**7 640**

CHANGES IN ALLOWANCES FOR EXPECTED CREDIT LOSSES ON FINANCIAL ASSETS BY ASSET TYPES	As at 31.12.2017	Changes due to IFRS 9 implementation[1]	Wartość na 01.01.2018 roku (zmieniony)	Increase due to recognition and purchase	Decrease due to derecognition	Changes due to changes in credit risk, net	Changes due to lengthening the loss recognition horizon from 12 months to period to maturity	Changes due to shortening the loss recognition horizon from 12 months to period to maturity	Changes due to modification without derecognition, net	Decrease of impairment allowances due to write-off	Other changes, including foreign exchange differences	Wartość na 31.12.2018
amounts due from banks	-	2	2	2	-	(2)	-	-	-	-	2	4
securities	298	(272)	26	8	(9)	-	5	-	-	(3)	3	30
loans	7 170	2 873	10 043	423	(1 398)	1 890	742	(518)	70	(3 612)	(129)	7 511
housing	1 925	1 035	2 960	29	(475)	525	213	(142)	8	(1 057)	(121)	1 940
corporate	3 580	1 473	5 053	305	(507)	734	204	(296)	58	(1 734)	80	3 897
consumer	1 655	375	2 030	89	(416)	631	325	(80)	4	(821)	(88)	1 674
securities	10	(10)	-	-	-	-	-	-	-	-	-	-
receivables in respect of repurchase agreements	-	-	-	-	-	-	-	-	-	-	-	-
other financial assets	99	-	99	1	-	-	-	-	-	(5)	-	95
Total allowances for expected credit losses on financial assets	**7 567**	**2 603**	**10 170**	**434**	**(1 407)**	**1 888**	**747**	**(518)**	**70**	**(3 620)**	**(124)**	**7 640**

[1] in respect of impairment recognized for loans of PLN 734 million, in respect of non-performing interest recognized in the gross carrying amount of PLN 2 480 million, in respect of decreasing write-downs on initial loss for POCI assets of PLN 346 million, and in respect of releasing allowances for securities of PLN 265 million.

(IN PLN MILLION)

CHANGES IN THE GROSS CARRYING AMOUNT OF FINANCIAL INSTRUMENTS

CHANGES IN GROSS CARRYING AMOUNTS OF FINANCIAL INSTRUMENTS	Carrying amount, gross as at 31.12.2017	Changes due to IFRS 9 implementation at gross carrying amount	Carrying amount, gross as at 01.01.2018 (restated)	Changes on financial instruments originated or purchased	Increase due to utilization of a limit or disbursement of tranches	Decrease due to repayment/ redemption	Changes on modification resulting from financial assets cash flows agreements nor resulting in derecognition of the financial instruments	Changes due to derecognition of financial instruments, including sale	Decrease due to write-off	Decrease due to write-down	Changes for exposures with the loss recognition horizon lengthened from 12 months to period to maturity	Changes for exposures with loss recognition horizon shortened from period to maturity to 12 months	Other changes, including foreign exchange differences	Carrying amount, gross as at 31.12.2018
Available-for-sale investment securities	42 307	(42 307)	-	-		-	-	-	-	-	-	-	-	-
Measured at fair value through OCI														
securities	-	45 617	45 617	268 033	-	(265 519)	-	-	-	(3)	(2)	-	2 446	50 572
loans	-	8 235	8 235	2 513	246	(119)	11	(2 524)	-	-	(1)	(3)	138	8 496
housing	-	8 235	8 235	2 513	246	(119)	11	(2 524)	-		(1)	(3)	138	8 496
Total	**-**	**53 852**	**53 852**	**270 546**	**246**	**(265 638)**	**11**	**(2 524)**	**-**	**(3)**	**(3)**	**(3)**	**2 584**	59 068
Measured at amortized cost														
amounts due from banks	8 769	-	8 769	5 815	831	(4 198)	-	-	-	-	-	-	-	11 217
securities	-	6 001	6 001	2 906	-	(765)	-	-	-	-	-	-	193	8 335
loans (excluding adjustments relating to fair value hedge accounting)	194 063	(11 661)	182 402	29 229	23 988	(45 489)	111	(2 584)	(1 627)	(1 986)	(206)	(2 508)	8 153	189 483
housing	92 134	(7 671)	84 463	6 089	3 720	(13 077)	47	(945)	(542)	(515)	(124)	(364)	6 459	85 211
corporate	70 719	1 004	71 723	13 803	17 762	(22 996)	51	(940)	(575)	(1 160)	(9)	(1 916)	1 656	77 399
consumer	25 930	(616)	25 314	9 286	2 506	(8 514)	13	(699)	(510)	(311)	(73)	(228)	38	26 822
securities	4 378	(4 378)	-	-		-	-	-	-	-	-	-	-	-
receivables in respect of repurchase agreements	902	-	902	51	-	(902)	-	-	-	-	-	-	-	51
other financial assets	1 847	-	1 847	2 244	-	(1 847)	-	-	-	-	-	-	-	2 244
Total	**204 679**	**(5 660)**	**199 019**	**40 194**	**24 819**	**(52 299)**	**111**	**(2 584)**	**(1 627)**	**(1 986)**	**(206)**	**(2 508)**	**8 346**	211 279
Total changes in gross carrying amounts of financial instruments	**246 986**	**5 885**	**252 871**	**310 740**	**25 065**	**(317 937)**	**122**	**(5 108)**	**(1 627)**	**(1 989)**	**(209)**	**(2 511)**	**10 930**	**270 347**

(IN PLN MILLION)

CREDIT-IMPAIRED FINANCIAL ASSETS UPON INITIAL RECOGNITION – POCI

The total amount of purchased or originated credit-impaired financial assets as at 31 December 2018 amounted to PLN 903 million (PLN 572 million as at 1 January 2018).
Principles of classifying financial assets in POCI categories are described in note 4.

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

PURCHASED OR ORIGINATED CREDIT-IMPAIRED FINANCIAL ASSETS (POCI) – 01.01.2018	Gross amount	impairment allowances	Net amount
Securities	473	(15)	458
measured at fair value through other comprehensive income	473	(15)	458
Loans and advances to customers	221	(107)	114
measured at amortized cost	221	(107)	114
Total	**694**	**(122)**	**572**

CHANGES IN IMPAIRMENT ALLOWANCES FOR PURCHASED OR ORIGINATED CREDIT-IMPAIRED FINANCIAL ASSETS (POCI) IN 2018	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	Other adjustments	As at the end of the period
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**

29. IMPAIRMENT OF FINANCIAL ASSETS (COMPARABLE DATA IN ACCORDANCE WITH IAS 39)

FINANCIAL INFORMATION – APPLICABLE UP TO 31 DECEMBER 2017

AMOUNTS DUE FROM BANKS

AMOUNTS DUE FROM BANKS - EXPOSURE TO CREDIT RISK	Exposure 31.12.2017
Amounts due from banks not impaired, not past due	8 769
Total gross/net	**8 769**

(IN PLN MILLION)

SECURITIES

AVAILABLE-FOR-SALE INVESTMENT DEBT SECURITIES – THE BANK'S EXPOSURE TO CREDIT RISK	Exposure 31.12.2017
impaired, assessed on an individual basis	819
not impaired, not past due	40 987
with an external rating	35 840
with an internal rating	5 147
Total, gross	**41 806**
Impairment allowances	(246)
Total, net	**41 560**

LOANS AND ADVANCES TO CUSTOMERS

LOANS AND ADVANCES TO CUSTOMERS BY METHOD OF CALCULATING IMPAIRMENT ALLOWANCES (excluding adjustments relating to fair value hedge accounting)	31.12.2017		
	Gross amount	Impairment allowances	Net amount
individual basis, of which:	4 793	(1 665)	3 128
impaired	3 757	(1 660)	2 097
not impaired	1 036	(5)	1 031
portfolio basis	7 118	(4 880)	2 238
group basis (IBNR)	182 152	(625)	181 527
Total	**194 063**	**(7 170)**	**186 893**

LOANS AND ADVANCES TO CUSTOMERS - EXPOSURE TO CREDIT RISK	31.12.2017		
	Gross amount	Impairment allowances	Net amount
impaired, of which:	10 875	(6 540)	4 335
assessed on an individual basis	3 757	(1 660)	2 097
not impaired, of which:	183 188	(630)	182 558
with a recognized individual impairment trigger	1 016	(5)	1 011
not past due	751	(4)	747
past due	265	(1)	264
without a recognized individual impairment trigger/IBNR	182 172	(625)	181 547
not past due	179 574	(477)	179 097
past due	2 598	(148)	2 450
Total	**194 063**	**(7 170)**	**186 893**

LOAN QUALITY RATIOS (IN %)	31.12.2017
Share of impaired loans	5,6%
Coverage ratio of impaired loans[1]	65,9%
Share of loans overdue for more than 90 days in gross loans and advances to customers	4,3%

[1] The coverage ratio of impaired loans is calculated as the ratio of total impairment allowances (both on impaired loans and advances to customers and IBNR) to the total gross exposure of impaired loans and advances to customers.

OTHER FINANCIAL ASSETS

OTHER FINANCIAL ASSETS	31.12.2017		
	not past due	past due	TOTAL
impaired	-	98	98
not impaired, not past due	1 739	10	1 749
Total, gross	**1 739**	**108**	**1 847**
Impairment allowances	-	(99)	(99)
Total at carrying amount (net)	**1 739**	**9**	**1 748**

(IN PLN MILLION)

IMPAIRMENT ALLOWANCES ON FINANCIAL ASSETS

IMPAIRMENT ALLOWANCES ON SECURITIES – RECONCILIATION OF MOVEMENTS IN 2017	As at the beginning of the period	Recognized during the period	Reversed during the period	Other	As at the end of the period	Net increase - impact on the income statement
Debt securities	274	79	(66)	(41)	246	(13)
Equity securities	1	51	-	-	52	(51)
Total	275	130	(66)	(41)	298	(64)

IMPAIRMENT ALLOWANCES ON LOANS AND ADVANCES TO CUSTOMERS - RECONCILIATION OF MOVEMENTS IN 2017	As at the beginning of the period	Recognized during the period	Reversed during the period	Derecognition of assets and settlements	Other	As at the end of the period	Recoveries of exposures written off	Net - impact on the income statement
housing loans	2 144	692	(516)	(263)	(132)	1 925	16	(160)
corporate loans	3 667	2 171	(1 351)	(755)	(152)	3 580	71	(749)
consumer loans	1 432	1 229	(734)	(214)	(58)	1 655	8	(487)
debt securities (corporate)	69	4	(9)	(60)	-	4	-	5
debt securities (municipal)	8	-	(2)	-	-	6	-	2
Total	7 320	4 096	(2 612)	(1 292)	(342)	7 170	95	(1 389)

30. NON-CURRENT ASSETS HELD FOR SALE

ACCOUNTING POLICIES

Only assets available for immediate sale in the current condition are classified by the Bank as non-current assets, when such sale is highly probable, i.e. the entity has determined to sell the asset, started to actively seek a buyer and finish the sale process. In addition, such assets are offered for sale at a price which is reasonable with respect to their current fair value and it is expected that the sale will be completed within one year from the date of classification of the asset into this category.

These assets are recognized at the lower of their carrying amount and fair value less costs to sell. Impairment allowances on non-current assets held for sale are recognized in the income statement for the period in which the allowances were made. Amortization is not charged on assets classified to this category.

When the respective classification criteria to this category are no longer met, the Bank reclassifies the assets from non-current assets held for sale to appropriate other asset categories. Non-current assets withdrawn from assets held for sale are measured at the lower of: 1) the carrying amount from before the moment of their classification to non-current assets held for sale, less amortization/depreciation that would have been recorded had the asset (or disposal group) not been classified as held for sale; 2) the recoverable amount as at the date of the decision to discontinue the sale.

FINANCIAL INFORMATION

NON-CURRENT ASSETS HELD FOR SALE	31.12.2018	31.12.2017
Investments in subsidiaries	-	601
Finansowa Kompania "Prywatne Inwestycje" Sp. z o.o.	-	283
Qualia Development Sp. z o.o.	-	318
Land and buildings	8	20
Total, gross	**8**	**621**
Impairment allowances	-	(262)
Total, net	**8**	**359**

The decrease in non-current assets held for sale in 2018 resulted from the sale of the Bank's shares in Finansowa Kompania "Prywatne Inwestycje" sp. z o.o. to Bankowe Towarzystwo Kapitałowe SA, and the reclassification of shares in Qualia Development sp. z o.o. into exposure to subsidiaries, associates and co-subsidiaries (in connection with the withdrawal from the sale of this company's shares to a member of the PKO Bank Polski SA Group).

31. INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

Accounting Policies
Estimates and judgements
Financial information:
- Intangible assets
- Goodwill
- Property, plant and equipment

Calculation of estimates

ACCOUNTING POLICIES

INTANGIBLE ASSETS

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 depreciable 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

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

INVESTMENT PROPERTIES – are valued according to accounting principles applied to property, plant and equipment.

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

DEPRECIATION / AMORTIZATION

Depreciation begins on the first day of the month following the month in which the asset has been brought into use, and ends no later than at the time when:

1) the amount of depreciation or amortization charges becomes equal to the initial cost of the asset, or
2) the asset is designated for liquidation, or
3) the asset is sold, or
4) the asset is found to be missing, or
5) 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 an obligation of a third party 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

Impairment allowance is recognized in the income statement under net impairment allowance if the carrying amount of an asset or a cash generating unit (CGU) exceeds the recoverable amount.

Impairment allowances in the case of CGU firstly reduce goodwill attributable to them, and then proportionately reduce the carrying amount of other assets in the CGU.

In respect of other assets, the impairment allowance may be reversed if there was a change in the estimates used to determine the recoverable amount.

If there are impairment triggers for a group of assets, which do not generate cash flows irrespective of other assets or asset groups, and the recoverable amount of a single asset included in common assets cannot be determined, the 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:

1) 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.;
2) technical or market obsolescence;
3) legal and other limitations on the use of the asset;
4) expected use of the asset assessed based on the expected production capacity or volume;
5) other factors affecting useful lives of such assets.

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

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

Fixed assets	Economic useful lives
Buildings, premises, cooperative rights to premises (including investment properties)	from 40 to 60 years
Leasehold improvements (buildings, premises)	from 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	**Economic 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 (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, among other things, 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 31.12.2018	Software	Goodwill	Customer relationships	Other, including capital expenditure		Total
					of which: on software	
Carrying amount as at the beginning of the period, gross	4 704	871	86	284	230	5 945
Purchase	-	-	-	378	378	378
Transfers from capital expenditure	333	-	-	(333)	(333)	-
Other	18	-	-	1	1	19
Carrying amount as at the end of the period, gross	5 055	871	86	330	276	6 342
Accumulated amortization as at the beginning of the period	(3 204)	-	(62)	(42)	-	(3 308)
Depreciation charge for the period	(403)	-	(7)	(4)	-	(414)
Accumulated amortization as at the end of the period	(3 607)	-	(69)	(46)	-	(3 722)
Impairment allowances as at the beginning of the period	(15)	-	-	-	-	(15)
Recognized during the period	-	-	-	(10)	(10)	(10)
Impairment allowances as at the end of the period	(15)	-	-	(10)	(10)	(25)
Carrying amount as at the beginning of the period, net	1 485	871	24	242	230	2 622
Net carrying amount as at the end of the period	1 433	871	17	274	266	2 595

INTANGIBLE ASSETS 31.12.2017	Software	Goodwill	Customer relationships	Other, including capital expenditure		Total
					of which: on software	
Carrying amount as at the beginning of the period, gross	4 367	871	86	368	319	5 692
Purchase	-	-	-	241	241	241
Transfers from capital expenditure	320	-	-	(320)	(326)	-
Other	17	-	-	(5)	(4)	12
Carrying amount as at the end of the period, gross	4 704	871	86	284	230	5 945
Accumulated amortization as at the beginning of the period	(2 769)	-	(52)	(39)	-	(2 860)
Amortization charge for the period	(435)	-	(10)	(3)	-	(448)
Accumulated amortization as at the end of the period	(3 204)	-	(62)	(42)	-	(3 308)
Impairment allowances as at the beginning of the period	(15)	-	-	-	-	(15)
Impairment allowances as at the end of the period	(15)	-	-	-	-	(15)
Carrying amount as at the beginning of the period, net	1 583	871	34	329	319	2 817
Net carrying amount as at the end of the period	1 485	871	24	242	230	2 622

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 2003–2018 amounted to PLN 1 495 million. The net carrying amount of the Integrated Information System (IIS) amounted to PLN 581 million as at 31 December 2018 (PLN 632 million as at 31 December 2017). The expected useful life of the IIS system is 17 years. As at 31 December 2018, the remaining useful life is 5 years.

GOODWILL

Net goodwill	31.12.2018	31.12.2017
Nordea Polska companies	863	863
Centrum Finansowe Puławska sp. z o.o.	8	8
Total	**871**	**871**

As at 31 December 2018, the Bank performed mandatory impairment tests in respect of goodwill on the acquisition of Nordea Bank Polska SA in accordance with the model compiled based on the guidelines included in IAS 36. The impairment test is conducted by comparing the carrying amounts of Cash Generating Units ('CGUs') with their recoverable amount. Two CGUs were identified to which goodwill on acquisition of Nordea Bank Polska SA was allocated – the retail and corporate CGU.

The recoverable amount is estimated based on the value in use of the CGUs. The value in use is the present estimated value of future cash flows in 5 years, taking into consideration the residual value of the CGUs. 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 2.5%.

(IN PLN MILLION)

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 8.3% was used, taking into account the risk-free rate and risk premium.

The impairment test performed as at 31 December 2018 showed a surplus of the recoverable amount over the carrying amount of each CGU and therefore no CGU impairment was recognized.

PROPERTY, PLANT AND EQUIPMENT

PROPERTY, PLANT AND EQUIPMENT 31.12.2018	Land and buildings	Machinery and equipment	of which: IT hardware	Assets under construction	of which: IT hardware	Other	Total
Carrying amount as at the beginning of the period, gross	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 or sale	(52)	(115)	(95)	-	-	(34)	(201)
Other	(40)	(17)	(6)	(3)	(3)	(3)	(63)
Carrying amount as at the end of the period, gross	2 457	1 480	871	166	70	595	4 698
Accumulated depreciation as at the beginning of the period	(1 011)	(1 119)	(663)	-	-	(406)	(2 536)
Depreciation 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 the end of the period	(1 041)	(1 135)	(667)	-	-	(405)	(2 581)
Impairment allowances as at the beginning of the period	(27)	-	-	-	-	(2)	(29)
Recognized during the period	(9)	-	-	-	-	-	(9)
Other	3	-	-	-	-	-	3
Impairment allowances as at the end of the period	(33)	-	-	-	-	(2)	(35)
Carrying amount as at the beginning of the period, net	1 481	375	215	128	68	186	2 170
Net carrying amount as at the end of the period	1 383	345	204	166	70	188	2 082

PROPERTY, PLANT AND EQUIPMENT 31.12.2017	Land and buildings	Machinery and equipment	of which: IT hardware	Assets under construction	of which: IT hardware	Other	Total
Carrying amount as at the beginning of the period, gross	2 639	1 486	875	104	51	611	4 840
Purchase	-	-		202	86	-	202
Transfers from capital expenditure	43	93	68	(176)	(68)	40	-
Scrapping or sale	(120)	(88)	(65)	-	-	(44)	(252)
Other	(43)	3	-	(2)	(1)	(13)	(55)
Gross book value as at the end of the period	2 519	1 494	878	128	68	594	4 735
Accumulated depreciation as at the beginning of the period	(1 015)	(1 058)	(624)	-	-	(414)	(2 487)
Depreciation charge for the period	(93)	(149)	(104)	-	-	(37)	(279)
Scrapping and sale	-	65	65	-	-	-	65
Other	97	23		-	-	45	165
Accumulated depreciation as at the end of the period	(1 011)	(1 119)	(663)	-	-	(406)	(2 536)
Impairment allowances as at the beginning of the period	(22)	-	-	-	-	(6)	(28)
Recognized during the period	(7)	-	-	-	-	(1)	(8)
Other	2	-	-	-	-	5	7
Impairment allowances as at the end of the period	(27)	-	-	-	-	(2)	(29)
Carrying amount as at the beginning of the period, net	1 602	428	251	104	51	191	2 325
Net carrying amount as at the end of the period	1 481	375	215	128	68	186	2 170

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 ECONOMIC USEFUL LIFE OF DEPRECIATED ASSETS CLASSIFIED AS LAND AND BUILDINGS	31.12.2018		31.12.2017	
	+10 years scenario	-10 years scenario	+10 years scenario	-10 years scenario
Depreciation expense	(37)	256	(39)	279

(IN PLN MILLION)

32. OTHER ASSETS

Accounting Policies
Financial information:
    Other assets
Management of foreclosed collateral – 'assets for sale'

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	31.12.2018	31.12.2017
Settlements in respect of card transactions	1 629	1 136
Settlement of financial instruments	82	284
Receivables in respect of cash settlements	189	158
Receivables and settlements in respect of trading in securities	32	63
Dividend receivables and contributions to subsidiaries[1]	132	-
Settlements relating to selling foreign currencies	-	2
Assets for sale	49	57
Prepayments	57	62
Trade receivables	76	94
Other	72	66
Total	**2 318**	**1 922**
of which: other financial assets	2 149	1 748

1 The item presents the unregistered taking up of shares in PKO Bank Hipoteczny SA of PLN 100 million, as well as amounts due in respect of dividend from PKO TFI SA in the amount of PLN 32 million.

MANAGEMENT OF FORECLOSED COLLATERAL– ITEM "ASSETS FOR SALE"

Foreclosed collaterals 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 2018 and 31 December 2017, 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.

33. AMOUNTS DUE TO BANKS

ACCOUNTING POLICIES

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

(IN PLN MILLION)

FINANCIAL INFORMATION

AMOUNTS DUE TO BANKS	31.12.2018	31.12.2017
Measured at amortized cost	**1 591**	**4 299**
Loans and advances received[1]	-	2 596
Bank deposits	728	1 077
Current accounts	713	583
Other monetary market deposits	150	43
Total	**1 591**	**4 299**

[1] The item "Loans and advances received" is presented in detail in Note 35 "Loans and advances received"."

In 2018, the Bank fully repaid the loan from Nordea Bank AB (publ) amounting to PLN 2 596 million. In 2017, the Bank partly repaid the loan from Nordea Bank AB (publ), including: CHF 3 339 million (PLN 12 535 million), USD 4 million (PLN 13 million) and EUR 107 million (PLN 456 million).

AMOUNTS DUE TO BANKS BY MATURITY	31.12.2018	31.12.2017
Measured at amortized cost:	1 591	4 299
up to 1 month	1 573	1 689
1 to 3 months	18	-
3 months to 1 year	-	20
from 1 to 5 years	-	2 590
Total	**1 591**	**4 299**

34. AMOUNTS DUE TO CUSTOMERS

Accounting Policies
Financial information:
- Amounts due to customers by product type
- Amounts due to customers by customer segment
- Amounts due to customers by maturity

ACCOUNTING POLICIES

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

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

FINANCIAL INFORMATION

(IN PLN MILLION)

AMOUNTS DUE TO CUSTOMERS	31.12.2018	31.12.2017
Measured at amortized cost	**245 213**	**222 524**
Amounts due to retail customers	164 385	150 537
Current accounts and overnight deposits	102 859	86 612
Term deposits	61 138	63 719
Other liabilities	388	206
Amounts due to corporate entities	55 530	52 696
Current accounts and overnight deposits	38 835	39 719
Term deposits	15 740	11 992
Other liabilities	910	937
Amounts due from repurchase agreements	45	48
Amounts due to public entities	16 459	11 409
Current accounts and overnight deposits	11 242	9 555
Term deposits	5 115	1 820
Other liabilities	102	34
Loans and advances received[1]	8 839	7 882
Total	**245 213**	**222 524**

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

AMOUNTS DUE TO CUSTOMERS BY SEGMENT	31.12.2018	31.12.2017
retail and private banking	154 259	141 870
corporate	55 868	49 140
firms and undertakings	26 202	23 584
amounts due from repurchase agreements	45	48
loans and advances received	8 839	7 882
Total	**245 213**	**222 524**

AMOUNTS DUE TO CUSTOMERS BY MATURITY	31.12.2018	31.12.2017
Measured at amortized cost:	245 213	222 524
up to 1 month	184 010	156 347
1 to 3 months	22 142	16 633
3 months to 1 year	24 804	29 981
from 1 to 5 years	7 565	12 643
over 5 years	6 692	6 920
Total	**245 213**	**222 524**

(IN PLN MILLION)

35. Loans and advances received

LOANS AND ADVANCES RECEIVED	31.12.2018	31.12.2017
From banks	-	2 596
Nordea Bank AB	-	2 596
From international financial institutions	2 601	2 000
European Investment Bank	2 049	1 308
Council of Europe Development Bank	552	692
On other liabilities	6 238	5 882
PKO Finance AB	6 238	5 882
Total	**8 839**	**10 478**

Loans and advances received from Banks

Date of receiving loan by the Bank	Nominal amount	Currency	Maturity	carrying amount at 31.12.2018	Carrying amount at 31.12.2017
09.04.2014	465	EUR	09.04.2021	-	1 496
09.04.2014	3 645	CHF	09.04.2021	-	1 100
Total				-	**2 596**

Loans and advances from international financial institutions

Date of receiving loan by the Bank	Nominal amount	Currency	Maturity	carrying amount at 31.12.2018	Carrying amount at 31.12.2017
30.04.2009	76	CHF	30.04.2019	58	108
23.12.2009	50	EUR	23.12.2019	43	83
23.10.2009	182	CHF	23.10.2019	694	649
23.12.2010	75	EUR	23.12.2020	129	188
25.09.2013	75	EUR	25.09.2023	322	313
29.11.2013	185	CHF	29.11.2023	706	659
23.10.2018	646	PLN	23.10.2023	649	-
Total				**2 601**	**2 000**

Loans and advances received from other entities

Date of receiving loan by the Bank	Nominal amount	Currency	Maturity	carrying amount at 31.12.2018	Carrying amount at 31.12.2017
25.07.2012	50	EUR	25.07.2022	218	211
26.09.2012	1 000	USD	26.09.2022	3 812	3 530
23.01.2014	500	EUR	23.01.2019	2 208	2 141
Total				**6 238**	**5 882**

In 2018, the Bank made a full and final early repayment of a loan facility granted by Nordea Bank AB (publ) based on an agreement dated 1 April 2014. Initially, the loan facility was granted for a period of 7 years, which means that the Bank repaid it 3 years before the original maturity including CHF 309 million (PLN 1 112 million) and EUR 359 million (PLN 1 499 million). As a result of the repayment of the facility, the collateral on the amounts due from the mortgage portfolio was released under a separate contract.

(IN PLN MILLION)

In 2017, the Bank made a partial repayment of the loan from Nordea Bank AB (publ) including CHF 3 339 million (PLN 12 535 million), USD 4 million (PLN 13 million) and EUR 107 million (PLN 456 million).

In 2018, the Bank drew a loan of PLN 646 million from international financial institutions. In 2017, the Bank partly repaid loans and advances received from international financial institutions amounting to PLN 689 million.

36. Debt securities in issue

Accounting Policies
Financial information:
Securities in issue
Securities in issue by maturity
Information on the issue, redemption and repayment of securities

Accounting Policies

Securities in issue are measured at amortized cost using the effective interest rate, or in respect of banking securities at fair value through profit or loss.

Financial information

DEBT SECURITIES IN ISSUE	31.12.2018	31.12.2017
bonds issued by banks, of which:	5 367	5 204
in PLN	611	645
in EUR, translated into PLN	3 229	3 132
in CHF, translated into PLN	1 527	1 427
Total	**5 367**	**5 204**

LIABILITIES IN RESPECT OF DEBT SECURITIES IN ISSUE - BY MATURITY	31.12.2018	31.12.2017
Measured at amortized cost:	**5 367**	**5 204**
3 months to 1 year	611	646
from 1 to 5 years	4 756	4 558
Total	**5 367**	**5 204**

Information on the issue, redemption and repayment of securities

ADDITIONAL INFORMATION	31.12.2018	31.12.2017
issuance of debt securities during the period (nominal value)		
in PLN	2 565	1 320
in original currency (EUR)	-	750
in original currency (CHF)	-	400
redemption of debt securities during the period (nominal value)		
in PLN	1 300	1 485
in original currency (EUR)	-	200

In 2018 the Bank issued and redeemed securities totaling PLN 1 300 million and issued banking bonds with a nominal value of PLN 1 265 million. In 2017, the Bank issued banking bonds with a nominal value of PLN 1,320 million, and Eurobonds with a nominal value of EUR 750 million, and Eurobonds with a nominal value of CHR 400 million, and at the same time, it repurchased EUR banking bonds of EUR 200 million and PLN banking bonds of PLN 1,485 million.

In 2017 the Bank held two issues of Eurobonds:

- On 18 July 2017, the Bank issued 4-year Eurobonds of EUR 750 million with a 0.75% coupon (Mid Swap+65 b.p.). The bonds are listed on the Luxembourg Securities Exchange and on the Warsaw Securities Exchange.

(IN PLN MILLION)

This issue was the first one to be held under the new EMTN programme opened in May 2017 for a total of EUR 3 billion. The programme provides for the issue of unsecured senior Eurobonds and subordinated bonds in EUR, USD, CHF and PLN.

- On 19 October 2017, the Bank placed its Eurobonds under the EMTN programme amounting to CHF 400 million, with 4-year maturity and a 0.30% coupon (Mid Swap + 58 b.p.). The bonds are listed on the Zurich Securities Exchange.

BONDS ISSUED BY PKO BANK POLSKI SA

Issue date	Interest rate type	Interest rate	Nominal amount	Currency	Maturity	Carrying amount at 31.12.2018	Carrying amount at 31.12.2017
25.07.2017	fixed	0,75	750	EUR	25.07.2021	3 229	3 132
02.11.2017	fixed	0,30	400	CHF	02.11.2021	1 527	1 427
17.11.2017	zero-coupon bonds	-	650	PLN	17.05.2018	-	645
16.11.2018	zero-coupon bonds	-	615	PLN	16.05.2019	611	-
Total						5 367	5 204

37. SUBORDINATED LIABILITIES

ACCOUNTING POLICIES

Subordinated liabilities are measured at amortized cost using the effective interest rate method.

FINANCIAL INFORMATION

	Nominal amount	Interest rate	Currency	Period	Special terms	Balance in PLN 31.12.2018	Balance in PLN 31.12.2017
Subordinated bonds	1 700	3,34	PLN	28.08.2017 - 28.08.2027	right to early redemption within 5 years from the issue date	1 720	1 720
Subordinated bonds	1 000	3,29	PLN	05.03.2018 - 06.03.2028	right to early redemption within 5 years from the issue date	1 011	-
Total						2 731	1 720

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

On 28 February 2018, the Bank placed an issue of subordinated bonds totalling PLN 1 000 million. The issue was conducted in the 10NC5 formula. The nominal value of one bond 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 variable 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.

(IN PLN MILLION)

38. Other liabilities

Accounting Policies

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

FINANCIAL INFORMATION

OTHER LIABILITIES	31.12.2018	31.12.2017
Expenses to be paid	487	514
Deferred income	538	495
Liability in respect of tax on certain financial institutions	77	75
Interbank settlements	481	1 313
Liabilities arising from investing activities and internal operations	247	295
Amounts due to suppliers	161	74
Liabilities and settlements in respect of trading in securities	363	502
Settlement of financial instruments	6	281
Liabilities in respect of contribution to the Bank Guarantee Fund, of which:	247	120
maintained in the form of payment commitments, of which:	247	120
to the Resolution Fund	111	63
to the Banks' Guarantee Fund	136	57
Liabilities under the public law	114	148
Liabilities in respect of foreign exchange activities	298	350
Liabilities in respect of payment cards	15	259
Liabilities to insurance institutions	38	29
Other	117	137
Total	**3 189**	**4 592**
of which: other financial liabilities	2 096	3 812

As at 31 December 2018, and as at 31 December 2017, the Bank did not have any liabilities in respect of which it did not meet its contractual obligations.

The item “Liabilities in respect of contribution to the Bank Guarantee Fund” includes liabilities in respect of the Bank’s contributions to the BGF.

39. PROVISIONS

Accounting Policies
Estimates and judgements
Financial information
Calculation of estimates

ACCOUNTING POLICIES

PROVISIONS FOR LEGAL CLAIMS

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. The basis for calculating these provisions are internal regulations, in particular the Collective Labour Agreement which is in force at the Bank.

PROVISION FOR LOAN LIABILITIES AND GUARANTEES GRANTED

The provision for financial liabilities and guarantees is established in accordance with IFRS 9 at the amount of the expected credit losses.

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

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

OTHER PROVISIONS

Other provisions include mainly provisions for potential refunds of commissions and fees to Customers, as well as provisions for potential claims in respect of the sale of dues, which have been described in the note 72 "Information on the package sale of claims".

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

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

ESTIMATES AND JUDGEMENTS

A valuation of the employee benefits provision is performed using actuarial techniques and assumptions. The calculation of the provision includes all retirement and pension benefits which it is expected will be paid in the future. The provision was created on the basis of a list of persons with all the 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.

FINANCIAL INFORMATION

(IN PLN MILLION)

FOR THE YEAR ENDED 31 DECEMBER 2018	Provisions for unsettled legal claims	Provisions for pension and other liabilities in respect of defined post-retirement benefits[1]	Restructuring[1]	Provisions for financial liabilities and guarantees granted	Other provisions including provisions for employee disputed claims[1]	Total
As at 31 December 2017, of which:	**18**	**45**	**-**	**86**	**61**	**210**
Short-term provisions	18	7	-	61	61	147
Long-term provisions	-	38	-	25	-	63
Changes due to reclassification, of which:	-	14	21	-	(35)	-
Short-term provisions	-	14	21	-	(35)	-
Changes due to IFRS 9 implementation	-	-	-	69	-	69
Short-term provisions	-	-	-	45	-	45
Long-term provisions	-	-	-	24	-	24
As at 1 January 2018 (restated), of which:	**18**	**59**	**21**	**155**	**26**	279
Short-term provisions	18	21	21	106	26	192
Long-term provisions	-	38	-	49	-	87
Increase, of which increases of existing provisions	43	4	45	227	93	412
Utilized	(6)	(3)	(23)	-	-	(32)
Released during the period	(4)	(13)	(19)	(155)	(28)	(219)
Other changes and reclassifications	-	1	-	-	-	1
As at 31 December 2018, of which:	**51**	**48**	**24**	**227**	**91**	**441**
Short-term provisions	51	8	24	177	91	351
Long-term provisions	-	40	-	50	-	90

[1] As at 31 December 2017, provisions were reclassified from “Other provisions, including provisions for employee disputes” to “Provisions for pension and other liabilities in respect of defined post-retirement benefits” in the amount of PLN 14 million, and to “Restructuring” in the amount of PLN 21 million.

The item “Other provisions, including provisions for employee disputes” specified in the line “Increases, including increases in existing provisions” a provision was recognized for potential returns to customers of commissions and fees as well as costs of meeting obligations resulting from the provision of free of charge services to customers of PLN 62 million.

FOR THE YEAR ENDED 31 DECEMBER 2017	Provisions for unsettled legal claims	Provisions for pensions and other defines post-employment benefits	Restructuring provision	Provisions for financial liabilities and guarantees granted	Other provisions, of which provisions for disputes with employees	Total
As at 1 January 2017, of which:	**20**	**59**	**59**	**67**	**18**	223
Short-term provisions	20	21	59	51	18	169
Long-term provisions	-	38	-	16	-	54
Increase, of which increases of existing provisions	10	4	-	256	5	275
Utilized	(4)	(3)	(38)	-	-	(45)
Released during the period	(8)	-	-	(236)	(3)	(247)
Other changes and reclassifications	-	(1)	-	(1)	6	4
As at 31 December 2017, of which:	**18**	**59**	**21**	**86**	**26**	**210**
Short-term provisions	18	21	21	61	26	147
Long-term provisions	-	38	-	25	-	63

CALCULATION OF ESTIMATES

The Bank updated its provisions for pensions and other liabilities from defined benefit post-employment plans as at 31 December 2018 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. The 3.00% rate of the financial discount, which the Bank adopted, is an important element affecting the amount of the provision. As at 31 December 2017, the rate of the financial discount was 3.25%.

The amount of the calculated provision was also affected by estimated factors other than the discount rate, which include the weighted average employee mobility ratio of 8.48%, the average remaining years of employment, amounting to 7.89 and the average assumed annual increase in the basis for calculating retirement and disability pay of 2.3% in 2019–2028.

The level of the provision calculated in 2017 was influenced by estimated factors, including the weighted average employee mobility ratio of 8.69%, the average remaining years of employment of 8.33 and the average assumed annual increase in the basis for calculating retirement and disability pay of 2.0% in 2018–2027.

(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 2018 and as at 31 December 2017 is presented in the tables below:

ESTIMATED CHANGE IN PROVISIONS 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 defined post-employment benefits	(3)	5	6	(3)

ESTIMATED CHANGE IN PROVISIONS AS AT 31.12.2017	Discount rate		Planned increases in base amounts	
	scenario +1pp	scenario -1pp	scenario +1pp	scenario -1pp
Provisions for pensions and other defined post-employment benefits	(4)	4	5	(3)

40. EQUITY AND SHAREHOLDING STRUCTURE OF THE BANK

Accounting Policies
Financial information:
Equity
Shareholding structure of the Bank
Structure of PKO Bank Polski SA's share capital

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.
- The 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 intended 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. 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.

FINANCIAL INFORMATION

(IN PLN MILLION)

EQUITY	31.12.2018	01.01.2018	31.12.2017
Share capital	1 250	1 250	1 250
Supplementary capital	29 168	27 118	27 118
General banking risk fund	1 070	1 070	1 070
Other reserves	3 629	3 593	3 593
Accumulated other comprehensive income	443	18	182
Retained earnings	(535)	(535)	-
Net profit or loss for the year	3 335	2 774	2 774
Total	38 360	35 288	35 987

SHAREHOLDING STRUCTURE OF THE BANK

According to the information available as at 31 December 2018 the Bank's shareholding structure is as follows:

NAME OF SHAREHOLDER	number of shares	voting rights %	Nominal value of 1 share	Interest held (%)
As at 31 December 2018				
State Treasury	367 918 980	29,43%	PLN 1	29,43%
Nationale Nederlanden Open Pension Fund (ING Open Pension Fund until 23.06.2015)[1]	95 472 008	7,64%	PLN 1	7,64%
Aviva Open Pension Fund[1]	89 163 966	7,13%	PLN 1	7,13%
Other shareholders[2]	697 445 046	55,80%	PLN 1	55,80%
Total	**1 250 000 000**	**100,00%**	---	**100,00%**
As at 31 December 2017				
State Treasury	367 918 980	29,43%	PLN 1	29,43%
Nationale Nederlanden Open Pension Fund (ING Open Pension Fund until 23.06.2015)[1]	103 388 120	8,27%	PLN 1	8,27%
Aviva Open Pension Fund[1]	95 163 966	7,61%	PLN 1	7,61%
Other shareholders[2]	683 528 934	54,68%	PLN 1	54,68%
Total	**1 250 000 000**	**100,00%**	---	**100,00%**

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

[2] Including Bank Gospodarstwa Krajowego which, as at 31 December 2018, held 24 487 297 shares, constituting a 1.96% share of the votes at the General Shareholders' Meeting.

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

1. 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 existing at the Bank (i.e. the State Treasury and BGK),
2. shareholders who have the rights from A-series registered shares (the State Treasury), and
3. shareholders acting with the shareholders referred to in point (2) based on an agreement concluded concerning the joint execution of voting rights from shares.

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

In accordance with § 6 (3) subject to the provisions of art. 28 (2) of the Banking Law, the conversion of bearer shares into registered shares is forbidden.

(IN PLN MILLION)

Pursuant to Art. 13 (20) of the Act dated 16 December 2016 on the rules for managing State property, the shares of PKO Bank Polski SA owned by the State Treasury may not be sold. Moreover, according to Art. 14 of the aforesaid Act, shares in PKO Bank Polski SA, (which – in line with the Regulation of the Chairman of the Council of Ministers on determining a list of companies of high importance for the State economy - was classified as a company of high importance for the State economy), owned by the State Treasury may not be donated to a local self-government unit or an association of local self-government units.

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

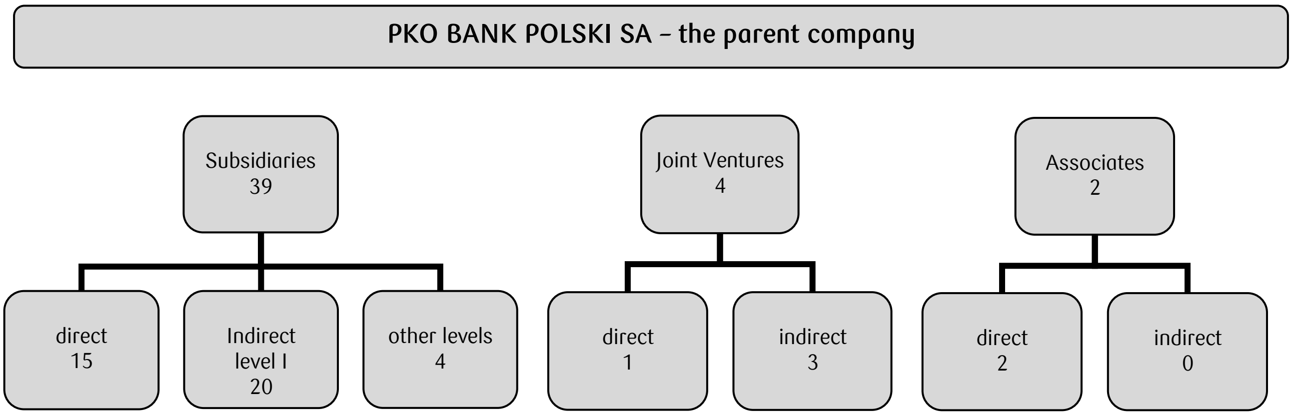
STRUCTURE OF PKO BANK POLSKI SA'S SHARE CAPITAL:

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

In 2018 and in 2017, there were no changes in the amount of the share capital of PKO Bank Polski SA. Shares of PKO Bank Polski SA issued are not preference shares and are fully paid up.

(IN PLN MILLION)

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



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

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

No.	NAME OF ENTITY	REGISTERED OFFICE	% SHARE IN EQUITY	
	DIRECT SUBSIDIARIES		31.12.2018	31.12.2017
1	PKO Bank Hipoteczny SA	Gdynia	100	100
2	PKO Towarzystwo Funduszy Inwestycyjnych SA	Warsaw	100	100
3	PKO Leasing SA	Łódź	100	100
4	PKO BP BANKOWY PTE SA	Warsaw	100	100
5	PKO BP Finat sp. z o.o.	Warsaw	100	100
6	PKO Życie Towarzystwo Ubezpieczeń SA	Warsaw	100	100
7	PKO Towarzystwo Ubezpieczeń SA	Warsaw	100	100
8	PKO Finance AB	Stockholm, Sweden	100	100
9	KREDOBANK SA	Lviv, Ukraine	100	99,6293
10	Qualia Development sp. z o.o.[1]	Warsaw	100	100
11	ZenCard sp. z o.o.	Warsaw	100	100
12	Merkury - fiz an[2]	Warsaw	100	100
13	NEPTUN - fizan[2]	Warsaw	100	100
14	PKO VC - fizan[2]	Warsaw	100	-
15	Operator Chmury Krajowej sp. z o.o. w organizacji (*in organization*)	Warsaw	100	-

1) As at 31 December 2017 the company was disclosed in non-current assets held for sale.

2) 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".

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(IN PLN MILLION)

No.	NAME OF ENTITY	REGISTERED OFFICE	% SHARE IN EQUITY*	
	INDIRECT SUBSIDIARIES		31.12.2018	31.12.2017
	The PKO Leasing SA Group			
1	PKO Leasing Nieruchomości sp. z o.o.	Warsaw	100	100
2	PKO Agencja Ubezpieczeniowa sp. z o.o.	Warsaw	100	100
	2.1 PKO Leasing Finanse sp. z o.o.	Warsaw	100	100
3	PKO Leasing Sverige AB	Stockholm, Sweden	100	100
4	ROOF Poland Leasing 2014 DAC[1]	Dublin, Ireland	-	-
5	PKO Faktoring SA	Warsaw	100	100
	The PKO BP Finat Sp. z o.o. Group			
	GAMMA Towarzystwo Funduszy Inwestycyjnych SA Group[2]	Warsaw	-	100
	Net Fund Administration Sp. z o.o.[3]	Warsaw	-	100
	The PKO Życie Towarzystwo Ubezpieczeń SA Group			
6	Ubezpieczeniowe Usługi Finansowe sp. z o.o.	Warsaw	100	100
	The KREDOBANK SA Group			
7	Finansowa Kompania "Prywatne Inwestycje" Sp. z o.o.	Lviv, Ukraine	100	100
	The Qualia Development Sp. z o.o. Group			
8	Qualia - Residence Sp. z o.o.	Warsaw	100	100
9	Sarnia Dolina sp. z o.o.	Warsaw	100	100
10	Qualia sp. z o.o.[4]	Warsaw	100	100
	Qualia 2 sp. z o.o.[4]	Warsaw	-	100
	Qualia 3 sp. z o.o.[4]	Warsaw	-	100
	Qualia spółka z ograniczoną odpowiedzialnością – Neptun Park sp. k.[4]	Warsaw	-	99,9975
	Qualia spółka z ograniczoną odpowiedzialnością – Nowy Wilanów sp. k.[4]	Warsaw	-	99,9750
	Residence Management sp. z o.o.[5]	Warsaw	-	100
	FORT MOKOTÓW sp. z o.o. w likwidacji[6]	Warsaw	-	51
	Qualia spółka z ograniczoną odpowiedzialnością – Zakopane sp. k.[7]	Warsaw	-	99,9123
	Merkury - fiz an			
11	"Zarząd Majątkiem Górczewska" Sp. z o.o.	Warsaw	100	100
12	Molina sp. z o.o.	Warsaw	100	100
13	Molina spółka z ograniczoną odpowiedzialnością 1 S.K.A.	Warsaw	100	100
14	Molina spółka z ograniczoną odpowiedzialnością 2 S.K.A.	Warsaw	100	100
15	Molina spółka z ograniczoną odpowiedzialnością 3 S.K.A. w likwidacji	Warsaw	100	100
16	Molina spółka z ograniczoną odpowiedzialnością 4 S.K.A.	Warsaw	100	100
17	Molina spółka z ograniczoną odpowiedzialnością 5 S.K.A.	Warsaw	100	100
18	Molina spółka z ograniczoną odpowiedzialnością 6 S.K.A.	Warsaw	100	100
	NEPTUN - FIZ AN			
19	Bankowe Towarzystwo Kapitałowe SA	Warsaw	100	100
	19.1 „Inter-Risk Ukraina" Spółka z dodatkową odpowiedzialnością[8]	Kiev, Ukraine	99,90	99,90
	19.2 Finansowa Kompania „Prywatne Inwestycje" Sp. z o.o.[9]	Kiev, Ukraine	95,4676	-
20	"CENTRUM HAFFNERA" Sp. z o.o.	Sopot	72,9766	72,9766
	20.1 "Sopot Zdrój" sp. z o.o.	Sopot	100	100
	"Promenada Sopocka" sp. z o.o.[10]	Sopot	-	100

* share in equity of the direct parent

1) In accordance with IFRS 10, PKO Leasing SA exercises control over the company, although it does not have a capital share in it.
2) Former name: KBC Towarzystwo Funduszy Inwestycyjnych SA; the company was combined with PKO Towarzystwo Funduszy Inwestycyjnych SA.
3) The company was combined with PKO BP Finat sp. z o.o.
4) In 2018 Qualia sp. z o.o. was combined (as the acquiring company) with the following companies: Qualia 2 sp. z o.o., Qualia 3 sp. z o.o., Qualia spółka z ograniczoną odpowiedzialnością - Neptun Park sp.k., and Qualia spółka z ograniczoną odpowiedzialnością - Nowy Wilanów sp. k. (as target companies).
5) The company was sold; former name: Qualia Hotel Management sp. z o.o.
6) The liquidation of the company was completed; the company was deleted from the Register of Businesses.
7) The company was sold.
8) The second shareholder of the company is Finansowa Kompania "Prywatne Inwestycje" Sp. z o.o.
9) The second shareholder of the company is "Inter-Risk Ukraina" additional liability company, which until 6 June 2018 was a direct subsidiary of PKO Bank Polski SA.
10) The company was sold.

NAME OF THE SUBSIDIARY	CORE BUSINESS
PKO BANK HIPOTECZNY SA	The company specializes in granting mortgage housing loans to individual clients and it also purchases receivables relating to such loans from PKO Bank Polski SA. The core purpose of the company is to issue mortgage bonds, both on the domestic and foreign market, which constitute the main source of long-term financing of loans secured with mortgages.
PKO TOWARZYSTWO FUNDUSZY INWESTYCYJNYCH SA	The core business of the company is the creation of investment funds (including intermediation in the purchase and sale of participation units), and representation vis-à-vis third parties and the management of the clients' portfolios, which include one or more financial instruments. The company also offers specialized investment programs and conducts employee pension programs (PPE).
PKO LEASING SA	The Company, together with its subsidiaries – PKO Leasing Sverige AB and PKO Leasing Nieruchomości sp. z o.o. provides lease services. The companies offer finance and operating leases: cars, vans, trucks, machinery and equipment, technological lines, medical equipment, real estate, IT hardware and software, ships, aircraft and railway equipment. The offer includes a fleet management service. Moreover, a subsidiary – PKO Leasing Finanse sp. z o.o. is involved in storing, preparing and selling post-debt-collection and post-contract items and PKO Agencja Ubezpieczeniowa sp. z o.o. provides specialist services within the scope of creating insurance products and programmes for the clients of financial institutions. The PKO SA Leasing Group also includes a special purpose vehicle with its registered office in Ireland, established for the securitization of lease receivables. The Group also includes PKO Faktoring SA, which provides services of domestic and export factoring with assuming the risk and without assuming the risk, reverse factoring and service of factoring program for the suppliers.
PKO BP BANKOWY PTE SA	The company's activities consist of creating and managing an open and voluntary pension fund and representing it in contacts with third parties. The company manages PKO BP Bankowy Otwarty Fundusze Emerytalny (OFE) and PKO Dobrowolny Fundusz Emerytalny (DFE), within which the Individual Retirement Account (*Indywidualne Konto Emerytalne* – IKE) and Individual Retirement Security Account (*Indywidualne Konto Zabezpieczenia Emerytalnego* – IKZE) are offered.
PKO BP FINAT SP. Z O.O.	PKO BP Finat sp. z o.o. provides comprehensive services to companies in the financial sector – including transfer agent, fund and company accounting. It also specializes in competency outsourcing of IT specialists, project teams and IT processes. On the basis of the authorization of the Polish Financial Supervision Authority, the Company also provides services as a national payment institution. Its clients are both companies of the Group, as well as companies outside the Group. In 2016, the Company began to handle group insurance dedicated to the products offered by the Bank.
PKO ŻYCIE TOWARZYSTWO UBEZPIECZEŃ SA	The company's core business consists of insurance activities in respect of insurance sector I – life insurance. The scope of the company's activities comprises policies in all groups specified in the PFSA licence (1, 2, 3, 4, 5 Section I). The Company offers a wide range of insurance products. It focuses on life and health insurance for its clients. It has both separate products and products supplementing the banking products offered by the Bank.
PKO TOWARZYSTWO UBEZPIECZEŃ SA	The company's core business consists of insurance activities in respect of insurance sector II – other personal insurance and property insurance. The scope of the company's activities comprises policies in all groups specified in the PFSA licence (1, 2, 7, 8, 9, 13, 14, 15, 16, 17, 18 Section II). PKO TU SA focuses on insuring against loss of income, private third party liability insurance and sickness insurance as well as real property insurance for loan recipients and clients who draw mortgage loans. The company offers a wide range of insurance

	products addressed to customers of the Bank and other members of the Bank's Group.
PKO FINANCE AB	The company conducts financial activities, mainly by seeking financing from international markets by issue of bonds and by lending the funds obtained to other members of the Bank's Group, including PKO Bank Polski SA.
KREDOBANK SA	KREDOBANK SA is a universal bank, focused on the customer service of retail clients and small- and medium-sized enterprises running the business mainly in the western part of Ukraine and in Kiev. At the same time the company strives to attract corporate customers with high creditworthiness. The company offers services including maintaining the bank accounts of individuals and businesses, collecting deposits, lending, issuing warranties and guarantees, checks and bills trading, operations on the currency market, as well as operations on the securities market. The core business of Finansowa Kompania "Idea Kapitał" Sp. z o.o. – a subsidiary of KREDOBANK SA – is providing services consisting in the acquisition of rights to the assignment of monetary claims under loan agreements.
QUALIA DEVELOPMENT SP. Z O.O.	The company's business consists of selling real properties and companies owned by the Qualia Development sp. z o.o. Group. The Group also offers post-sale services in respect of developer products during the statutory warranty period..
ZENCARD SP. Z O.O.	The company conducts activities in respect of information technology and computer services; it specializes in creating solutions connected with using payment cards in discount and loyalty programmes. The company built a platform for sellers to create discount and loyalty programmes, which at the same time allows for the virtualization of loyalty cards. This platform is integrated with a payment terminal and allows resignation from numerous separate loyalty cards or separate applications installed on mobile phones in return for a customer payment card which at the same time is a virtual loyalty card of each vendor. The company's strategic partner is CEUP eService sp. z o.o. – one of the largest settlement agents in Poland.
OPERATOR CHMURY KRAJOWEJ SP. Z O.O. W ORGANIZACJI	The company was established in November 2018. It plans to provide comprehensive services in respect of data storage and remote processing based on a subscription model, including IaaS (*Infrastructure as a Service*), PaaS (*Platform as a Service*) and SaaS (Software as a Service).
MERKURY – FIZ AN	The fund's activities comprise investing money raised by non-public offer to purchase investment certificates. The Fund is managed by PKO TFI SA. The fund conducts investment activities through subsidiaries whose business is buying and selling real estate on its own account and property management.
NEPTUN – FIZAN	The fund's activities comprise investing money raised by non-public offer to purchase investment certificates. The Fund is managed by PKO TFI SA. PKO Bank Polski SA sells to the Fund shares of companies whose business is not complementary to the offer of financial services offered by the Bank.
PKO VC – FIZAN	The fund's activities comprise investing money raised by the non-public offer to purchase investment certificates. The Fund is managed by PKO TFI SA. It operates through separated sub-funds: financial and strategic. The Fund follows a policy appropriate for venture capital funds and invests in entities that offer technological financial innovations in the banking and banking-related areas, as well as other innovative solutions for enterprises.

42. INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

Accounting Policies
Financial information:

(IN PLN MILLION)

Investments in subsidiaries, joint ventures and associates
Impairment allowances
Selected information on 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 performs a valuation to fair value of the remaining investment 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 the event of the carrying amount of an asset exceeding its value in use, the Bank recognizes an impairment loss in the income statement. The aforementioned projection for the value in use requires making assumptions, among other things, 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 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 to control the Fund in accordance with IFRS.

(IN PLN MILLION)

AS AT 31 December 2017	Gross amount	Impairment allowance	Carrying amount
SUBSIDIARIES			
PKO Bank Hipoteczny SA	1 200	-	1 200
KREDOBANK SA	1 070	(793)	277
PKO Życie Towarzystwo Ubezpieczeń SA	241	-	241
PKO Towarzystwo Funduszy Inwestycyjnych SA	187	-	187
PKO Leasing SA	178	-	178
PKO BP BANKOWY PTE SA	151	-	151
NEPTUN - fizan[1]	132	-	132
Merkury - fiz an[1]	120	-	120
PKO Towarzystwo Ubezpieczeń SA	110	-	110
PKO Finance AB	24	-	24
PKO BP Finat sp. z o.o.	21	-	21
ZenCard sp. z o.o.	18	-	18
JOINT VENTURES			
Centrum Elektronicznych Usług Płatniczych eService sp. z o.o.	197	-	197
ASSOCIATES			
Bank Pocztowy SA	184	(54)	130
FERRUM SA	25	-	25
“Poznański Fundusz Poręczeń Kredytowych” sp. z o.o.	2	(2)	-
Total	**3 860**	**(849)**	**3 011**

[1] PKO Bank Polski SA holds investment certificates of the Fund which allow to control the Fund in accordance with IFRS.

IMPAIRMENT ALLOWANCES

According to IAS 36 “Impairment of assets”, the recoverable amount of investments in subsidiaries, associates and joint ventures has been assessed.

In 2018, based on an analysis, the Bank recognized an impairment loss on investment in Bank Pocztowy SA of PLN 43 million (in 2017: PLN 25 million) and an impairment loss on investment in ZenCard sp. z o.o. of PLN 23 million.

The value of Bank Pocztowy SA’s stocks and ZenCard sp. z o.o.’s shares were determined on the basis of impairment tests prepared using the discounted dividends method / discounted cash flow method respectively, based on the updated financial projections of the companies.

IMPAIRMENT ALLOWANCES – RECONCILIATION OF MOVEMENTS	2018	2017
As at the beginning of the period	849	824
Recognized during the period	66	25
As at the end of the period	915	849
Net increase - impact on the income statement	**(66)**	**(25)**

(IN PLN MILLION)

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.	NAME OF ENTITY	REGISTERED OFFICE	% SHARE IN EQUITY*	
			31.12.2018	31.12.2017
	Joint venture of PKO Bank Polski SA			
1	Centrum Elektronicznych Usług Płatniczych eService sp. z o.o.	Warsaw	34	34
	1 EVO Payments International sp. z o.o.	Warsaw	100	100
	2 EVO Payments International s.r.o.	Prague, the Czech Republic	100	100
	Joint ventures of NEPTUN - fizan			
	3 "Centrum Obsługi Biznesu" sp. z o.o.	Poznań	41,4455	41,4455
	Associates of of PKO Bank Polski SA			
1	Bank Pocztowy SA	Bydgoszcz	25,0001	25,0001
	Spółka Dystrybucyjna Banku Pocztowego sp. z o.o. w likwidacji (*in liquidation*) [1]	Warsaw	-	100
	Centrum Operacyjne sp. z o.o. w likwidacji (*in liquidation*) [2]	Bydgoszcz	-	100
2	"Poznański Fundusz Poręczeń Kredytowych" sp. z o.o.	Poznań	33,33	33,33
	FERRUM SA[3]	Katowice	-	22,14
	FERRUM MARKETING sp. z o.o.	Katowice	-	100
	Zakład Konstrukcji Spawanych FERRUM SA	Katowice	-	100
	Walcownia Rur FERRUM sp. z o.o. w likwidacji (*in liquidation*)	Katowice	-	100

* share in equity of the direct parent / entity having a significant impact
1) In 2018, the company was deleted from the Register of Businesses (decision dated 31 December 2018).
2) In 2018, the company was deleted from the Register of Businesses (decision dated 16 May 2018).
3) On 27 February 2018, an increase in the share capital of FERRUM SA was registered in the National Court Register (KRS), as a result of which the share of PKO Bank Polski SA in the company's share capital and in the votes at the General Shareholders' Meeting went down from 22.14% to 9.38% – the company (with its subsidiaries) ceased to be an associate of the Bank, and the company's shares were reclassified to financial assets; in July 2018, the company's shares were sold.

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

(IN PLN MILLION)

A summary of the financial data separately for each joint venture and each associate (directly and indirectly through the subsidiary) of the Bank 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). The data for 2017 is derived from audited financial statements. In the case of companies which have subsidiaries, the presented data is derived from the consolidated financial statements of these companies

Centrum Elektronicznych Usług Płatniczych eService sp. z o.o. (in accordance with IFRS)	31.12.2018	31.12.2017
Current assets	264	198
Non-current assets	240	228
Current liabilities	204	160
Non-current liabilities	24	25
	01.01-31.12.2018	01.01-31.12.2017
Revenue	528	476
Profit (loss) on continuing operations	97	88
Profit/(loss) for the period	97	88
Other comprehensive income	2	1
Total comprehensive income	99	89
Dividend received from an entity classified as a joint venture	22	12

"Centrum Obsługi Biznesu" sp. z o.o. (in accordance with PAS)	31.12.2018	31.12.2017
Current assets	11	10
Non-current assets	79	82
Current liabilities	32	24
Non-current liabilities	51	60
	01.01-31.12.2018	01.01-31.12.2017
Revenue	25	28
Profit/(loss) for the period	(1)	4

Bank Pocztowy SA (in accordance with IFRS, data as published by the Company)	30.06.2018	31.12.2017
Total assets	7 526	7 461
Total liabilities	6 942	6 827
	01.01-30.06.2018	01.01-31.12.2017
Revenue	231	457
Profit (loss) on continuing operations	11	5
Profit (loss)	11	5
Other comprehensive income	1	16
Total comprehensive income	12	21

"Poznański Fundusz Poręczeń Kredytowych" sp. z o.o. (in accordance with PAS)	31.12.2018	31.12.2017
Current assets	28	24
Current liabilities	4	3
Non-current liabilities	5	2
	01.01-31.12.2018	01.01-31.12.2017
Revenue	1	2
Profit/(loss) for the period	-	1

43. OTHER CHANGES TO COMPANIES COMPRISING THE GROUP

In 2018, the following selected events had an impact on the PKO Bank Polski SA Group's structure:[1.]

MERGER BETWEEN NET FUND ADMINISTRATION SP. Z O.O. AND PKO BP FINAT SP. Z O.O.

On 1 March 2018 PKO BP Finat sp. z o.o. acquired 100% of shares in spółki Net Fund Administration sp. z o.o. from GAMMA Towarzystwo Funduszy Inwestycyjnych SA.[2] On 4 June 2018 the merger between Net Fund Administration Sp. z o.o. – as the acquiree – and PKO BP Finat Sp. z o.o. – as the acquirer – was registered with the National Court Register (KRS) competent for the acquirer. The merger took place in accordance with Article 492 § 1 item 1 of the Commercial Companies Code (merger by acquisition) by transferring all the assets of the acquiree to the acquirer, without a simultaneous increase in the share capital of the acquirer. After the merger PKO Bank Polski SA holds shares constituting 100% of PKO BP Finat sp. z o.o.'s share capital, which entitle it to 100% of votes at the General Meeting of Shareholders.

MERGER BETWEEN GAMMA TFI SA AND PKO TFI SA

On 4 June 2018 the merger between GAMMA Towarzystwo Funduszy Inwestycyjnych SA – as the acquiree – and PKO Towarzystwo Funduszy Inwestycyjnych SA – at the acquirer – was registered National Court Register (KRS). The merger took place in accordance with Article 492 § 1 item 1 of the Commercial Companies Code (merger by acquisition) by transferring all the assets of the acquiree to the acquirer, with a simultaneous increase in the share capital of the acquirer and conversion of the shares in the acquiree into the shares of the acquirer. After the merger PKO Bank Polski SA held shares constituting 97.506% of the share capital in PKO Towarzystwo Funduszy Inwestycyjnych SA, which entitled it to 97.506% votes at the General Meeting of Shareholders. The remaining shares were held by PKO BP Finat Sp. z o.o.

On 28 September 2018 PKO Bank Polski SA concluded an agreement for the purchase of all shares in PKO Towarzystwo Funduszy Inwestycyjnych SA held by PKO BP Finat sp. z o.o. and became their owner as at that date.

As at 31 December 2018 PKO Bank Polski SA holds shares constituting 100% of the share capital of PKO Towarzystwo Funduszy Inwestycyjnych SA, which entitle it to 100% votes at the General Meeting of Shareholders.

KREDOBANK SA

In 2018 PKO Bank Polski SA conducted a squeeze–out, i.e. mandatory repurchase of KREDOBANK SA shares from minority shareholders. In March 2018 the Bank sent an irrevocable request for the redemption of shares to KREDOBANK SA, pursuant to Article 65-2 of the Ukrainian Act on joint-stock companies.

On 17 April 2018 all shares of KREDOBANK SA repurchased under the squeeze-out were registered in an escrow account of PKO Bank Polski SA in the Ukraine - PKO Bank Polski SA became the shareholder of KREDOBANK SA shares comprising 100% interest in its share capital and entitling it to 100% votes at the General Meeting of Shareholders of the bank.

PKO VC – FIZAN

In August 2018 PKO Bank Polski SA purchased A-series and B-series investment certificates in the strategic subfund Subfundusz Strategiczny A-series and B-series investment certificates in the financial subfund Subfundusz Finansowy issued by PKO VC – a close-end investment fund of non-public assets (the Fund). The total amount of the investment was PLN 200 million.

On the date of entering the Bank into the register of the Fund's participants as the sole investor, i.e. on 9 August 2018 the Fund became the Bank's subsidiary.

[1] Information on all changes in the Group's structure, as well as the joint ventures and associated entities, has been presented respectively in the schedule of the composition of the Group presented in note 41 and in the schedule of associated entities and joint ventures in note 42.
[2] The Company used the name KBC Towarzystwo Funduszy Inwestycyjnych SA until 27 February 2018.

Finansowa Kompania “Prywatne Inwestycje” sp. z o.o.

On 28 May 2018 PKO Bank Polski SA concluded an agreement for the sale of Finansowa Kompania “Prywatne Inwestycje” Sp. z o.o., i.e. of the share constituting 95.4676% interest in the company’s share capital and votes in the General Meeting of Shareholders with Bankowe Towarzystwo Kapitałowe SA (a direct subsidiary of NEPTUN – fizan).

On 7 June 2018 the articles of association of Finansowa Kompania “Prywatne Inwestycje” Sp. z o.o. which accounted for the change of key shareholder was registered in the Uniform Register of Legal Persons, Individuals – Businesses and Organizations of the Ukraine. “Inter-Risk Ukraina” – a company with additional liability – remains the second shareholder of the company.

“Promenada Sopocka” sp. z o.o.

On 28 June 2018 “CENTRUM HAFFNERA” sp. z o.o. sold shares held in “Promenada Sopocka” sp. z o.o., which comprised 100% of the company’s share capital and entitled to 100% votes at the General Meeting of Shareholders. “Promenada Sopocka” sp. z o.o. ceased being a subsidiary of “CENTRUM HAFFNERA” sp. z o.o.

The Qualia Development sp. z o.o. Group

On 8 March 2018 Qualia Development sp. z o.o. sold all its rights and obligations of the general partner in Qualia spółka z ograniczoną odpowiedzialnością – Zakopane sp. k. (Zakopane) and Qualia sp. z o.o. sold all of its rights and obligations of the limited partner in Zakopane. Zakopane ceased being a subsidiary of Qualia Development sp. z o.o.

At the same time, Qualia - Residence sp. z o.o. sold its land located in Zakopane, at ul. Piłsudskiego 14 on 8 March 2018.

On 31 July 2018 the merger between Qualia sp. z o.o (as the acquirer) and the following entities: Qualia spółka z ograniczoną odpowiedzialnością – Nowy Wilanów sp. k., Qualia spółka z ograniczoną odpowiedzialnością – Neptun Park sp. k., Qualia 2 sp. z o.o. and Qualia 3 sp. z o.o. (as the acquirees) was registered in the National Court Register (KRS) competent for the acquirer.

On 26 October 2018 Qualia Development sp. z o.o. sold 100% shares in the share capital of Residence Management sp. z o.o., which was the owner of Golden Tulip Gdańsk Residence and Golden Tulip Międzyzdroje Residence. Residence Management sp. z o.o. ceased being a subsidiary of Qualia Development sp. z o.o.

Operator Chmury Krajowej sp. z o.o.

On 29 November 2018 the Notarial Deed establishing the limited liability company Operator Chmury Krajowej sp. z o.o. was signed. The Company’s share capital amounts to PLN 4 million and consists of 40 000 shares, each of PLN 100 par value. On 4 December 2018 PKO Bank Polski SA paid up the said shares, becoming the company’s sole shareholder. In accordance with the agreement signed by the Bank in October 2018, in 2019 another shareholder plans to accede to the company – Polski Fundusz Rozwoju SA.

The Company was registered with the National Court Register (KRS) on 4 February 2019; as at 31 December 2018 – it was a company under organization.

Events that may have an impact on a change in the Group’s structure in the subsequent period

On 7 November 2018 PKO Leasing SA announced a conditional offer for shares in Prime Car Management SA. The conditional offer was announced for all shares in the above-mentioned company, i.e. 11 908 840 ordinary shares with a nominal value PLN 2 each. The transaction is expected to be settled on 26 February 2019.

In November 2018 the merger process between Qualia sp. z o.o. (as the acquirer) and Qualia - Residence sp. z o.o. (as the acquiree) began. In December 2018 the announcement of the planned merger was published in Monitor Sądowy i Gospodarczy. On 31 January 2019 the above merger was entered in the National Court Register (KRS) with jurisdiction over the acquirer.

OTHER NOTES

44. Dividends per share

On 18 June 2018 the General Meeting of Shareholders of PKO Bank Polski SA passed a resolution on appropriating the Bank's profit for 2017 (8/2018), pursuant to which the profit of PLN 2 774 million was earmarked as follows:

- PLN 687.5 million to be distributed as dividend to the shareholders;
- PLN 2 050.0 million to be transferred to supplementary capital;
- PLN 36.5 million to be transferred to reserves.

Dividend amounted to 24.8% of the profit for 2017, which constitutes PLN 0.55, gross, per share. The General Meeting of Shareholders of PKO Bank Polski SA set the dividend date (date of vesting rights to dividend) at 8 August 2018, and the dividend payment date at 22 August 2018.

The Resolution of the General Meeting of Shareholders of the Bank on the appropriation of the Bank's profit for 2017 complies with the recommendation of the PFSA of 16 March 2018. The Bank received a recommendation from the PFSA to increase ow funds by retaining at least 75% of the earnings generated in 2017. At the same time, the PFSA confirmed that the Bank meets the requirements to pay dividend at a level of up to 25% of the net profit for 2017.

45. Contingent liabilities and off-balance liabilities received and granted

Accounting Policies
Financial information:
Security programmes covered with underwriting agreements
Contractual commitments
Financial and guarantee liabilities granted
Liabilities granted by maturity
Off-balance sheet liabilities received
Right to sell or pledge a collateral established for the Bank

Accounting Policies

As part of its operating activities, the Bank concludes transactions which, at the time of conclusion, are not recognized as assets or liabilities in the statement of financial position, but which give rise to contingent liabilities. A contingent liability is:

1) a potential obligation resulting from past events whose existence will be confirmed at the moment of occurrence or non-occurrence of one or more uncertain future events which are not fully under the Bank's control; or
2) a current obligation which arises as a result of past events but is not recognized in the statement of financial position because it is not probable that cash or other assets would have to be expended to meet the obligation or the amount of the liability could not be assessed reliably.

Upon initial recognition financial guarantees are stated at fair value. In subsequent periods, as at the reporting date, financial guarantees are stated at the higher of:

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

(IN PLN MILLION)

FINANCIAL INFORMATION

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

Issuer of underwritten securities	Type of underwritten securities	Maximum commitment to take up securities	Contract expiry date
As at 31 December 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**	

Issuer of underwritten securities	Type of underwritten securities	Maximum commitment to take up securities	Contract expiry date
As at 31 December 2017			
Company A	corporate bonds	1 453	31.12.2020
Company B	corporate bonds	769	31.07.2020
Company C	corporate bonds	58	31.12.2022
Total		**2 280**	

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

CONTRACTUAL COMMITMENTS

VALUE OF CONTRACTUAL COMMITMENTS CONCERNING:	31.12.2018	31.12.2017
intangible assets	39	17
property, plant and equipment	29	72
Total	**68**	**89**

(IN PLN MILLION)

FINANCIAL AND GUARANTEE LIABILITIES GRANTED

FINANCING AND GUARANTEE LIABILITIES GRANTED AS AT 31.12.2018	Liabilities granted at nominal amount	Provisions for liabilities granted under IFRS 9	Financing and guarantee liabilities granted, net
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 warranties granted – payment guarantee for financial entities	368	-	368
Guarantees and pledges granted - domestic municipal bonds	188	-	188
Total	**14 659**	**(52)**	**14 607**
of which: irrevocable loan commitments	9 286	(46)	9 240
of which: performance guarantees granted	2 418	(19)	2 399

FINANCING AND GUARANTEE LIABILITIES GRANTED AS AT 01.01.2018	Liabilities granted at nominal amount	Provisions for liabilities granted under IFRS 9	Financing and guarantee liabilities granted, net
Financial liabilities granted:			
Credit lines and limits	43 729	(111)	43 618
housing	4 512	(15)	4 497
corporate	30 914	(71)	30 843
consumer	8 303	(25)	8 278
Other	2 450	-	2 450
Total	**46 179**	**(111)**	**46 068**
of which: irrevocable loan commitments	**33 607**	**(70)**	**33 537**
Guarantees and pledges granted:			
Guarantees granted in domestic and foreign trading	8 404	(40)	8 364
to financial entities	2 917	(5)	2 912
to non-financial entities	5 456	(34)	5 422
to public entities	31	(1)	30
Guarantees and pledges granted – domestic corporate bonds	4 335	-	4 335
to financial entities	1 985	-	1 985
to non-financial entities	2 350	-	2 350
Letters of credit issued	1 430	(4)	1 426
to financial entities	21		21
to non-financial entities	1 409	(4)	1 405
Guarantees and warranties granted – payment guarantee for financial entities	205	-	205
Guarantees and pledges granted - domestic municipal bonds	316	-	316
Total	**14 690**	**(44)**	**14 646**
of which: performance guarantees granted	2 630	(14)	2 616

(IN PLN MILLION)

FINANCING AND GUARANTEE LIABILITIES GRANTED AS AT 31.12.2017	Liabilities granted at nominal amount	Provisions for liabilities granted under IFRS 37	Financing and guarantee liabilities granted, net
Financial liabilities granted:			
Credit lines and limits	43 729	(59)	43 670
housing	4 512	(6)	4 506
corporate	30 914	(43)	30 871
consumer	8 303	(10)	8 293
Other	2 450	-	2 450
Total	**46 179**	**(59)**	**46 120**
of which: irrevocable loan commitments	33 607	(51)	33 556
Guarantees and pledges granted:			
Guarantees granted in domestic and foreign trading	8 404	(25)	8 379
to financial entities	2 917	(3)	2 914
to non-financial entities	5 456	(21)	5 435
to public entities	31	(1)	30
Guarantees and pledges granted – domestic corporate bonds	4 335	-	4 335
to financial entities	1 985	-	1 985
to non-financial entities	2 350	-	2 350
Letters of credit issued	1 430	(2)	1 428
to financial entities	21	-	21
to non-financial entities	1 409	(2)	1 407
Guarantees and warranties granted – payment guarantee for financial entities	205	-	205
Guarantees and pledges granted - domestic municipal bonds	316	-	316
Total	**14 690**	**(27)**	**14 663**
of which: performance guarantees granted	2 630	(9)	2 621

Information about the provisions recognized for guarantee and financial liabilities is presented in the Note 39 “Provisions”.

LIABILITIES GRANTED BY MATURITY

LIABILITIES GRANTED BY MATURITY AS AT 31.12.2018	up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	over 5 years	Total
Liabilities granted at nominal amount						
liabilities granted - financial	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**

LIABILITIES GRANTED BY MATURITY AS AT 31.12.2017	up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	over 5 years	Total
Liabilities granted at nominal amount						
liabilities granted - financial	7 547	2 672	13 253	14 915	7 792	46 179
liabilities granted - guarantees and pledges	751	506	3 232	8 010	2 191	14 690
Total	**8 298**	**3 178**	**16 485**	**22 925**	**9 983**	**60 869**

(IN PLN MILLION)

FINANCING AND GUARANTEE LIABILITIES GRANTED AS AT 31.12.2018	Nominal amount of liabilities with no significant increase in credit risk since initial recognition (stage 1)	Allowances for expected credit losses (stage 1)	Nominal amount of liabilities with a significant increase in credit risk since initial recognition, but not credit-impaired, gross (stage 2)	Allowances for expected credit losses (stage 2)	Nominal amount of liabilities at risk of credit impairment (stage 3)	Allowances for expected credit losses (stage 3)	Total nominal amount	Total provisions	Total, net
Financial liabilities granted:									
Credit lines and limits	42 871	(73)	3 024	(77)	193	(14)	46 088	(164)	45 924
housing	4 266	(14)	453	(18)	8	(3)	4 727	(35)	4 692
corporate	30 842	(48)	1 422	(38)	177	(8)	32 441	(94)	32 347
consumer	7 763	(11)	1 149	(21)	8	(3)	8 920	(35)	8 885
Other	4 010	(11)	-	-	-	-	4 010	(11)	3 999
Total	**46 881**	**(84)**	**3 024**	**(77)**	**193**	**(14)**	50 098	(175)	49 923
of which: irrevocable loan commitments	23 998	(28)	1 729	(35)	95	(4)	25 822	(67)	25 755
of which: purchased or originated credit-impaired assets (POCI)	-	-	-	-	80	-	80	-	80
Guarantees and pledges granted:							-	-	-
Guarantees granted in domestic and foreign trading	8 538	(10)	235	(9)	146	(27)	8 919	(46)	8 873
to financial entities	2 850	(1)					2 850	(1)	2 849
to non-financial entities	5 675	(8)	235	(9)	146	(27)	6 056	(44)	6 012
to public entities	13	(1)	-	-	-	-	13	(1)	12
Guarantees and pledges granted – domestic corporate bonds	3 967	(4)	-	-	-	-	3 967	(4)	3 963
to financial entities	1 946	(2)	-	-	-	-	1 946	(2)	1 944
to non-financial entities	2 021	(2)	-	-	-	-	2 021	(2)	2 019
Letters of credit issued	1 216	(1)	-	-	1	(1)	1 217	(2)	1 215
to financial entities	10	-	-	-	-	-	10	-	10
to non-financial entities	1 204	(1)	-	-	1	(1)	1 205	(2)	1 203
to public entities	2	-	-	-	-	-	2	-	2
Guarantees and warranties granted – payment guarantee for 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
of which: performance guarantees granted	2 216	(5)	130	(5)	72	(9)	2 418	(19)	2 399
of which: irrevocable loan commitments	8 905	(10)	235	(9)	146	(27)	9 286	(46)	9 240
of which: purchased or originated credit-impaired assets (POCI)	-	-	-	-	-	-	-	-	-

FINANCING AND GUARANTEE LIABILITIES GRANTED AS AT 01.01.2018	Nominal amount of liabilities with no significant increase in credit risk since initial recognition (stage 1)	Allowances for expected credit losses (stage 1)	Nominal amount of liabilities with a significant increase in credit risk since initial recognition, but not credit-impaired, gross (stage 2)	Allowances for expected credit losses (stage 2)	Nominal amount of liabilities at risk of credit impairment (stage 3)	Allowances for expected credit losses (stage 3)	Total nominal amount	Total provisions	Total, net
Financial liabilities granted:									
Credit lines and limits	41 808	(71)	1 625	(17)	296	(23)	43 729	(111)	43 618
housing	4 481	(11)	26	(1)	5	(3)	4 512	(15)	4 497
corporate	30 137	(50)	494	(3)	283	(18)	30 914	(71)	30 843
consumer	7 190	(10)	1 105	(13)	8	(2)	8 303	(25)	8 278
Other	2 450	-	-	-	-	-	2 450	-	2 450
Total	**44 258**	**(71)**	**1 625**	**(17)**	**296**	**(23)**	**46 179**	**(111)**	**46 068**
of which: irrevocable loan commitments	31 722	(40)	1 589	(14)	296	(16)	33 607	(70)	33 537
of which: purchased or originated credit-impaired assets (POCI)	-	-	-	-	-	-	-	-	-
Guarantees and pledges granted:									
Guarantees granted in domestic and foreign trading	7 951	(29)	44	(1)	409	(10)	8 404	(40)	8 364
to financial entities	2 917	(5)	-	-	-	-	2 917	(5)	2 912
to non-financial entities	5 003	(23)	44	(1)	409	(10)	5 456	(34)	5 422
to public entities	31	(1)	-	-	-	-	31	(1)	30
Guarantees and pledges granted – domestic corporate bonds	4 335	-	-	-	-	-	4 335	-	4 335
to financial entities	1 985	-	-	-	-	-	1 985	-	1 985
to non-financial entities	2 350	-	-	-	-	-	2 350	-	2 350
Letters of credit issued	1 427	(3)	3	(1)	-	-	1 430	(4)	1 426
to financial entities	21	-	-	-	-	-	21	-	21
to non-financial entities	1 406	(3)	3	(1)	-	-	1 409	(4)	1 405
Guarantees and warranties granted – payment guarantee for financial entities	205	-	-	-	-	-	205	-	205
Guarantees and pledges granted - domestic municipal bonds	316	-	-	-	-	-	316	-	316
Total	**14 234**	**(32)**	**47**	**(2)**	**409**	**(10)**	**14 690**	**(44)**	**14 646**
of which: performance guarantees granted	2 283	(8)	31	-	316	(6)	2 630	(14)	2 616
of which: purchased or originated credit-impaired assets (POCI)	-	-	-	-	-	-	-	-	-

(IN PLN MILLION)

OFF-BALANCE SHEET LIABILITIES - MOVEMENTS BETWEEN IMPAIRMENT STAGES 31.12.2018	Gross amount AMOUNTS NOT SUBJECT TO TRANSFER IN A GIVEN PERIOD	Transfer from stage 1 to stage 2 from stage 1 to stage 2	from stage 2 to stage 1	Transfer from stage 2 to stage 3 from stage 2 to stage 3	from stage 3 to stage 2	Transfer from stage 1 to stage 3 from stage 1 to stage 3	from stage 3 to stage 1	TOTAL
Financial liabilities granted:								
Credit lines and limits	43 612	1 819	585	6	4	60	2	46 088
housing	4 318	400	3	1	1	4	-	4 727
corporate	30 689	1 246	446	4	2	53	1	32 441
consumer	8 605	173	136	1	1	3	1	8 920
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
to financial entities	2 850	-	-	-	-	-	-	2 850
to non-financial entities	5 682	180	163	3	-	28	-	6 056
to public entities	13	-	-	-	-	-	-	13
Guarantees and pledges granted - domestic corporate bonds	3 967	-	-	-	-	-	-	3 967
to financial entities	1 946	-	-	-	-	-	-	1 946
to non-financial entities	2 021	-	-	-	-	-	-	2 021
Letters of credit issued	1 215	-	1	1	-	-	-	1 217
to financial entities	10	-	-	-	-	-	-	10
to non-financial entities	1 203	-	1	1	-	-	-	1 205
to public entities	2	-	-	-	-	-	-	2
Guarantees and warranties granted - payment guarantee for financial entities	368	-	-	-	-	-	-	368
Guarantees and pledges granted - domestic municipal bonds	188	-	-	-	-	-	-	188
	-	-	-	-	-	-	-	-
Total	14 283	180	164	4	-	28	-	14 659

OFF-BALANCE SHEET LIABILITIES - MOVEMENTS BETWEEN IMPAIRMENT STAGES 31.12.2018	Provisions AMOUNTS NOT SUBJECT TO TRANSFER IN A GIVEN PERIOD	Transfer from stage 1 to stage 2 from stage 1 to stage 2	from stage 2 to stage 1	Transfer from stage 2 to stage 3 from stage 2 to stage 3	from stage 3 to stage 2	Transfer from stage 1 to stage 3 from stage 1 to stage 3	from stage 3 to stage 1	TOTAL
Financial liabilities granted:								
Credit lines and limits	(98)	(59)	(4)	-	-	(3)	-	(164)
housing	(18)	(16)	-	-	-	(1)	-	(35)
corporate	(56)	(33)	(4)	-	-	(1)	-	(94)
consumer	(24)	(10)	-	-	-	(1)	-	(35)
Other	(11)	-	-	-	-	-	-	(11)
Total	(109)	(59)	(4)	-	-	(3)	-	(175)
Guarantees and pledges granted:								
Guarantees granted in domestic and foreign trading	(34)	(7)	-	-	-	(5)	-	(46)
to financial entities	(1)	-	-	-	-	-	-	(1)
to non-financial entities	(32)	(7)	-	-	-	(5)	-	(44)
to public entities	(1)	-	-	-	-	-	-	(1)
Guarantees and pledges granted - domestic corporate bonds	(4)	-	-	-	-	-	-	(4)
to financial entities	(2)	-	-	-	-	-	-	(2)
to non-financial entities	(2)	-	-	-	-	-	-	(2)
Letters of credit issued	(2)	-	-	-	-	-	-	(2)
to financial entities	-	-	-	-	-	-	-	-
to non-financial entities	(2)	-	-	-	-	-	-	(2)
to public entities	-	-	-	-	-	-	-	-
Guarantees and warranties granted - payment guarantee for financial entities	-	-	-	-	-	-	-	-
Guarantees and pledges granted - domestic municipal bonds	-	-	-	-	-	-	-	-
Total	(40)	(7)	-	-	-	(5)	-	(52)

OFF-BALANCE SHEET LIABILITIES - MOVEMENTS BETWEEN IMPAIRMENT STAGES 31.12.2018	Net amount AMOUNTS NOT SUBJECT TO TRANSFER IN A GIVEN PERIOD	Transfer from stage 1 to stage 2 from stage 1 to stage 2	from stage 2 to stage 1	Transfer from stage 2 to stage 3 from stage 2 to stage 3	from stage 3 to stage 2	Transfer from stage 1 to stage 3 from stage 1 to stage 3	from stage 3 to stage 1	TOTAL
Financial liabilities granted:								
Credit lines and limits	43 514	1 760	581	6	4	57	2	45 924
housing	4 300	384	3	1	1	3	-	4 692
corporate	30 633	1 213	442	4	2	52	1	32 347
consumer	8 581	163	136	1	1	2	1	8 885
Other	3 999	-	-	-	-	-	-	3 999
Total	47 513	1 760	581	6	4	57	2	49 923
Guarantees and pledges granted:								
Guarantees granted in domestic and foreign trading	8 511	173	163	3	-	23	-	8 873
to financial entities	2 849	-	-	-	-	-	-	2 849
to non-financial entities	5 650	173	163	3	-	23	-	6 012
to public entities	12	-	-	-	-	-	-	12
Guarantees and pledges granted - domestic corporate bonds	3 963	-	-	-	-	-	-	3 963
to financial entities	1 944	-	-	-	-	-	-	1 944
to non-financial entities	2 019	-	-	-	-	-	-	2 019
Letters of credit issued	1 213	-	1	1	-	-	-	1 215
to financial entities	10	-	-	-	-	-	-	10
to non-financial entities	1 201	-	1	1	-	-	-	1 203
to public entities	2	-	-	-	-	-	-	2
Guarantees and warranties granted - payment guarantee for financial entities	368	-	-	-	-	-	-	368
Guarantees and pledges granted - domestic municipal bonds	188	-	-	-	-	-	-	188
Total	14 243	173	164	4	-	23	-	14 607

(IN PLN MILLION)

Off-balance sheet liabilities received

OFF-BALANCE SHEET LIABILITIES RECEIVED BY NOMINAL VALUE	31.12.2018	31.12.2017
Financial	90	95
Guarantees	1 663	14 066
Total	**1 753**	**14 161**

The decrease in off-balance sheet liabilities received as guarantees compared with 31 December 2017 resulted mainly from the termination of the guarantee agreement which ensured unfunded credit protection in respect of a portfolio of selected corporate loan receivables of the Bank, in the amount of PLN 4 505 million, and the expiry of the guarantee limit under the de minimis portfolio guarantee line of PLN 8 016.

As a result of the provisions of the Agreement which bound the Nordea Bank AB (publ) Group to participate in the impairment risk of the Mortgage Portfolio (in foreign currencies), on 1 April 2014 PKO Bank Polski SA and Nordea Bank AB (publ) concluded a credit risk sharing agreement ("Risk Sharing Agreement"), pursuant to which until 31 March 2018 Nordea Bank AB (publ) bore 50% of the costs of excess risk of the Mortgage Portfolio above the annual risk cost level determined at 40 base points for each year of the above four-year term of the Risk Sharing Agreement, the fair value of which was PLN 0 million as at 31 December 2017. No losses were recorded during the Agreement resulting in the need for Nordea AB to pay the Bank any funds. The guarantee expired in 2018.

On 21 December 2017, after obtaining the necessary corporate consents, the Bank concluded a guarantee agreement with the counterparty which ensured unfunded credit protection in respect of a portfolio of selected corporate loan receivables of the Bank, in accordance with the CRR Regulation ("Guarantee").

The total value of the Bank's portfolio of receivables covered by the Guarantee amounts to PLN 5,495 million, and the portfolio comprises a portfolio of bonds with a value of PLN 1,097 million ("Portfolio A") and a portfolio of other receivables of PLN 4,398 million ("Portfolio B"). The Guarantee coverage ratio amounts to 90% - in respect of Portfolio A and 80% - in respect of Portfolio B, therefore the total Guarantee amounted to PLN 4,505 million. The maximum period of the Guarantee amounts to 60 months, whereas the Bank is entitled to terminate the Guarantee before the end of the period.

Right to sell or pledge collateral established for the Bank

As at 31 December 2018 and as at 31 December 2017 no collateral was established for the Bank, which the Bank would be entitled to sell or encumber with another pledge in the event of the fulfilment of all obligations by the owner of the collateral.

46. Legal claims

As at 31 December 2018, the total value of court proceedings in which the Bank is a defendant was PLN 1 711 million (as at 31 December 2017 it amounted to PLN 1 659 million), while the total value of court proceedings in which the Bank is the plaintiff as at 31 December 2018 was PLN 1 636 million (as at 31 December 2017 it amounted to PLN 1 190 million).

The most significant legal claims are described below. As at 31 December 2018 the Bank was a party in the following proceedings.

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

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

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

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

In a decision of 31 December 2013, the President of the UOKiK held that the Bank's activities constituted practices breaching the collective interests of consumers and imposed a fine on the Bank at a level of PLN 29 million. The Bank appealed against this decision to the CCCP. In a judgment of 9 July 2015, the CCCP overruled the decision of the President of the UOKiK in whole. The President of the UOKiK appealed against this decision on 21 August 2015. On 31 May 2017, the Court of Appeal in Warsaw upheld the decision of the Court for Competition and Consumer Protection (CCCP), which was advantageous for the Bank, overruling the decision in which the UOKiK acknowledged that the Bank breached the collective interests of consumers by applying the so-called variable interest rate clause in whole and, consequently, cancelled the fine of PLN 17 million. However, as for the second practice, of which the Bank was accused regarding the application of an information form, the Court of Appeal held that a part of the appeal was reasonable, whereby it simultaneously reduced the fine imposed on the Bank by the UOKiK from PLN 12 million to PLN 6 million. The fine was paid on 17 July 2017. On 23 October 2017, the Bank filed a cassation complaint against the judgment of the Court of Appeal. The President of the UOKiK also filed a cassation complaint. The Bank is waiting for a decision of the Supreme Court on whether or not it will accept the cassation complaints for consideration. The Bank had not established a provision as at 31 December 2018.

Proceedings conducted before the President of the Office of Competition and Consumer Protection (UOKiK)

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

1) proceedings opened *ex officio* on 28 June 2017 on the acknowledgement that the provisions of the model contract are inadmissible. The breach, of which the Bank is being accused, involves the use of contractual provisions in model mortgage loan agreements which are revalued/indexed/denominated in foreign currencies and their appendices, presenting the method of setting the foreign currency buy and sell rates, which, according to the President of the UOKiK, may be considered inadmissible in the light of Article 385 § 1 of the Civil Code. On 31 July 2018 the Bank filed a motion for the issuance of a consent decree. The date of conclusion of the proceedings was set for 31 December 2018. Until 31 December 2018 the Bank had not received a notification of the President of UOKiK about extending the term of the proceedings. As at 31 December 2018 the Bank did not set up a provision for the proceedings.
2) proceedings initiated on 26 July 2017 *ex officio* about using practices which violate the collective interests of customers. The violation the Bank has been charged with consists of collecting higher instalments on loans and advances to customers denominated in foreign currencies than those following from the advice about interest rate risk provided to customers before they had concluded the contracts, and transferring possible foreign exchange risk to the customers. The Bank presented its position on the claims in its letter dated 23 September 2017. The date of the final conclusion of the proceedings was extended to 31 August 2018. Until 31 December 2018 the Bank had not received the notification of the President of UOKiK about extending the term to the conclusion of the proceedings. As at 31 December 2018 the Bank did not set up a provision for the proceedings.

Proceedings conducted before the Court of Competition and Consumer Protection (CCCP) brought by individuals regarding:

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

KEY PROCEEDINGS AGAINST THE BANK BROUGHT BY INDIVIDUALS

1) in October 2013 the Bank received a claim for the payment of PLN 31 million in respect of the losses incurred as a result of an unjustified refusal to grant disaster loans, due to an alleged lack of cooperation on the part of the Bank, which in consequence was to lead to the seizure of the claimants' family farm. The case is currently being examined by a first instance court. As at 31 December 2018 the Bank set up a provision for this litigation of PLN 1 million.
2) in November 2013 the Warsaw Municipal Consumer Rights Adviser lodged a claim on behalf of 66 persons (a developer's customers, owners of properties encumbered with a mortgage to the benefit of the Bank) for determining the non-existence of the regulation relating to the contractual ordinary collective mortgage of PLN 12 million disclosed in the land and mortgage registers regarding properties belonging to these people. The City Consumer Ombudsman filed a potential claim to obligate the Bank to file a declaration of intent, namely to agree to the deletion of these mortgage entries. On 30 September 2016 the District Court in Warsaw agreed to the claim and passed a judgement in which it determined the non-existence of the contractual mortgages set up on the apartments, referring to the absence of any contract concluded between the Bank and the developer for the division of the mortgage in the event that separate titles are established for particular apartments. The Bank appealed against the said judgment. In its judgment dated 3 December 2018 the Appeal Court largely dismissed the Bank's appeal. The Court shared the Bank's position only as to one person, which it considered was not a consumer. The Bank applied for a copy of the judgment with the justification. After its analysis a decision will be taken as to a potential cassation complaint. In view of the nature of the claim, the matter did not require the establishment of provisions;
3) in August 2016 a claim for the payment of PLN 20 million was filed with the Bank in respect of a loss in the assets of the Bank's customer as a result of– in the Claimant's opinion – unfair tax information PIT 8C for 2007, 2008 and 2009 being issued by Dom Maklerski PKO BP; currently, the case is being examined by a Court of first instance. As at 31 December 2018 the Bank had not set up a provision for the proceedings.
4) in March 2016 a claim was lodged against the Bank by the Official Receiver of a joint stock company under bankruptcy liquidation for recognizing as ineffective a legal transaction consisting of setting up a contractual collective mortgage of PLN 53 million on real estate on behalf of the Bank to secure four investor loan contracts. On 20 September 2017 the District Court in Warsaw dismissed the claim against the Bank. The Claimant appealed against this judgment, which was accepted by the judgment dated 22 May 2018. On 1 October 2018 the Bank filed a cassation complaint. In view of the nature of the claim, the matter did not require the establishment of provisions;
5) in September 2016 the Bank received a claim for the payment of PLN 15 million in respect of compensation for a loss resulting from the fact that the Bank did not disburse the investment loan funds. In the claim the Claimant states that the purpose of the loan agreement was the consolidation of earlier liabilities and determining new terms and conditions for the repayment of the debt, and the fact that the Bank did not disburse the funds led to the liabilities becoming due and included them in the bank restructuring proceedings; the said proceedings are currently being conducted before a first instance court. As at 31 December 2018 the Bank set up a provision for this litigation of PLN 15 million.
6) in November and December 2018 the Bank received two claims for finding a writ of execution ineffective, based on the same writ of execution concerning an amount of over PLN 13 million, which had been previously presented to SKOK Wesoła. In respect of both cases the Bank responded and is questioning the claim. In view of the nature of the claim, the matter did not require the establishment of provisions.
7) as at 31 December 2018, 870 court proceedings were initiated against the Bank by its customers in connection with the loan agreements concluded and denominated in Swiss francs. The Bank's customers' claims concerned mainly the determination of the invalidity of all or part of the agreement or payment in respect of the refund of allegedly undue benefits in connection with the abusive nature of the foreign currency clauses. The final rulings to-date are favourable to the Bank. No final judgment has been passed in any of the cases which would confirm the validity of the customers' statements, and none of the provisions used by the Bank in the agreements was entered in the register of prohibited contractual provisions.

REPRIVATIZATION CLAIMS RELATING TO PROPERTIES USED BY THE BANK

As at the date of preparation of the financial statements, one procedure was being conducted with respect to a property of the Bank, which applies to a restitution claim. This procedure is suspended. A second procedure regarding a property of the Bank, which was pending in 2018, ended with a final court judgment of the Regional Court in Kalisz of 8 November 2018. The counter-party is entitled to file a cassation complaint with the Supreme Court.

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

(IN PLN MILLION)

47. NOTES TO THE CASH FLOW STATEMENT

Cash and cash equivalents
Restricted cash and cash equivalents
Cash flows from interests and dividends, both received and paid
Cash flow from operating activities – other adjustments
Explanation of differences between the statement of financial position and changes in these items presented under operating activities in the cash flow statement
Reconciliation of items presented in the statement of financial position with financing activities in 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, as well as other cash equivalents with maturities up to 3 months from the date of acquisition.

CASH AND CASH EQUIVALENTS	31.12.2018	31.12.2017
Cash and balances with the Central Bank	22 862	15 800
Deposits with the Central Bank	-	1 965
Amounts due from banks (current)	7 152	4 765
Restricted cash and cash equivalents	10	11
Total	**30 024**	**22 541**

RESTRICTED CASH AND CASH EQUIVALENTS

Cash and cash equivalents of PLN 10 million (as at 31 December 2017: PLN 11 million) pledged as collateral for securities' transactions conducted by the Dom Maklerski PKO BP SA brokerage house are deposited in the National Depository for Securities (KDPW_CCP), as part of the Guarantee Fund for the Settlement of Stock Exchange Transactions. Each direct participant who holds the status of a settlement-making participant is obliged to make payments to the settlement fund which guarantees proper settlement of the stock exchange transactions covered by that fund. The amount of the payments depends on the value of the transactions made by each participant and is updated by KDPW_CCP on a daily basis.

CASH FLOWS FROM INTERESTS AND DIVIDENDS, BOTH RECEIVED AND PAID

INTEREST INCOME – RECEIVED:	2018	2017
loans to and other receivables from banks	106	163
hedging derivatives	524	391
debt securities:	1 108	1 123
loans and advances to customers	7 405	7 359
Total	**9 143**	**9 036**

INTEREST EXPENSE – PAID:	2018	2017
amounts due to banks	(42)	(142)
amounts due to customers	(1 653)	(1 804)
debt securities	(50)	(91)
debt securities issued	(41)	(16)
subordinated liabilities	(74)	(62)
Total	**(1 860)**	**(2 115)**

(IN PLN MILLION)

DIVIDEND INCOME RECEIVED	2018	2017
from subsidiaries , associates and joint ventures	279	135
from financial assets held for trading	1	-
from financial instruments not held for trading, mandatorily measured at fair value through profit or loss[1]	11	
Total	**291**	135

[1] This item relates to the dividend received from an entity measured under the equity method.

CASH FLOW FROM OPERATING ACTIVITIES – OTHER ADJUSTMENTS

OTHER ADJUSTMENTS	2018	2017
Cash flow hedges	70	14
Actuarial gains and losses	(1)	1
Remeasurement of shares in subsidiaries, associates and joint ventures, and other changes	107	5
Scrapping of property, plant and equipment and intangible assets	(45)	13
Total	**131**	33

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	2018	2017
Gains on sale or scrapping of property, plant and equipment, intangible assets and assets held for sale	(30)	(74)
Losses on sale or scrapping of property, plant and equipment, intangible assets and assets held for sale	10	17
Total	**(20)**	(57)

INTEREST AND DIVIDENDS	2018	2017
Presented in investing activities:	(1 306)	(1 045)
dividends received from associates and joint ventures	(279)	(135)
dividends received on financial assets held for trading	(1)	-
dividends received on financial instruments not held for trading, mandatorily measured at fair value through profit or loss	(11)	-
interest received on investment securities		(910)
interest received on securities measured at fair value through other comprehensive income	(1 015)	-
Presented in financing activities:	348	437
interest paid in respect of debt securities issued	41	16
interest paid on a subordinated loan	74	62
interest paid on loans and advances taken up	233	359
Total	**(958)**	**(608)**

(IN PLN MILLION)

CHANGES IN AMOUNTS DUE FROM BANKS	2018	2017
Change in the balance sheet	(2 446)	(298)
Changes in allowances for expected credit losses	(2)	-
Exclusion of the change in cash and cash equivalents	2 387	487
Total	**(61)**	**189**

CHANGES IN SECURITIES	2018	2017
Change in the balance sheet	(9 927)	(2 480)
Changes due to IFRS 9 implementation	4 438	-
Changes in allowances for expected credit losses	(4)	(23)
Fair value of financial assets measured at fair value through other comprehensive income (net)	369	
Unrealized net gains on available-for-sale financial assets		750
Presentation of the acquisition /disposal of investment securities under investing activities		6 717
Presentation of the acquisition disposal of securities measured at fair value through other comprehensive income under investing activities	3 529	-
Presentation of the acquisition / disposal of securities measured at amortized cost under investing activities	2 141	-
Total	**546**	**4 964**

CHANGE IN LOANS AND ADVANCES TO CUSTOMERS	2018	2017
Change in the balance sheet	(4 683)	2 175
Changes due to IFRS 9 implementation	(5 229)	-
Changes in allowances for expected credit losses	2 532	150
Exclusion of the change in cash and cash equivalents	(1)	(2)
Total	**(7 381)**	**2 323**

CHANGE IN NON-CURRENT ASSETS HELD FOR SALE	2018	2017
Change in the balance sheet	351	2
Reclassification to investments in subsidiaries	(318)	-
Disposal of a subsidiary classified to non-current assets held for sale	(10)	(4)
Changes in allowances for assets held for sale	262	(16)
Total	**285**	**(18)**

CHANGE IN OTHER ASSETS	2018	2017
Change in the balance sheet	(396)	222
Increase in equity of a subsidiary	100	-
Change in allowances for other assets	(1)	(1)
Total	**(297)**	**221**

(IN PLN MILLION)

CHANGE IN AMOUNTS DUE TO BANKS	2018	2017
Change in the balance sheet	(2 708)	(14 418)
Presentation of long-term loans from banks taken up from /repaid to banks, including interest, under financing activities	2 602	13 004
Total	**(106)**	**(1 414)**

CHANGE IN AMOUNTS DUE TO CUSTOMERS	2018	2017
Change in the balance sheet	22 689	13 153
Presentation of long-term loans taken up from/repaid to financial institutions other than banks, including interest, under financing activities	(485)	689
Total	**22 204**	**13 842**

CHANGE IN LIABILITIES IN RESPECT OF DEBT SECURITIES IN ISSUE	2018	2017
Change in the balance sheet	163	3 511
Presentation of long-term liabilities in respect of debt securities in issue incurred/repaid, including interest, under financing activities	45	(3 570)
Total	**208**	**(59)**

CHANGE IN SUBORDINATED LIABILITIES	2018	2017
Change in the balance sheet	1 011	(819)
Changes resulting from the acquisition of business entities	-	-
Presentation of subordinated liabilities incurred / repaid, including interest, under financing activities	(1 000)	836
Total	**11**	**17**

CHANGE IN ACCUMULATED ALLOWANCES FOR EXPECTED CREDIT LOSSES, IMPAIRMENT ALLOWANCES AND ALLOWANCES FOR OTHER NON-FINANCIAL ASSETS AND OTHER ASSETS	2018	2017
Change in accumulated allowances for credit losses and impairment allowances	(2 458)	(108)
on amounts due from banks	2	-
on loans and advances to customers	(2 532)	(150)
on securities	4	23
on other financial assets	(4)	-
provisions for financing liabilities and guarantees granted	72	19
Change in accumulated allowances on non-financial assets and other provisions	(85)	9
on assets held for sale	(262)	16
on property, plant and equipment	6	1
on intangible assets	10	-
on investments in subsidiaries, associates and joint ventures	66	25
on other non-financial assets	5	(1)
other provisions	90	(32)
Total	**(2 543)**	**(99)**

(IN PLN MILLION)

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

	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 advances received		10 478	646	(2 763)	478	8 839
from banks	33	2 596	-	(2 602)	6	-
from customers	34	7 882	646	(161)	472	8 839
Debt securities in issue	36	5 204	1 255	(1 300)	208	5 367
Subordinated liabilities	37	1 720	1 000	-	11	2 731
subordinated bonds		1 720	1 000	-	11	2 731
Total		**17 402**	**2 901**	**(4 063)**	**697**	**16 937**

	Note	31.12.2016	Recognized in financing activities in the cash flow statement		Recognized in operating activities in the cash flow statement	31.12.2017
			Incurred	Repaid	Other changes, including foreign exchange differences	
Loans and advances received		26 789	-	(13 693)	(2 618)	10 478
from banks	33	17 109	-	(13 004)	(1 509)	2 596
from customers	34	9 680	-	(689)	(1 109)	7 882
Debt securities in issue	36	1 693	5 909	(2 339)	(59)	5 204
Subordinated liabilities	37	2 539	1 700	(2 536)	17	1 720
subordinated loan		922	-	(880)	(42)	-
subordinated bonds		1 617	1 700	(1 656)	59	1 720
Total		**31 021**	**7 609**	**(18 568)**	**(2 660)**	**17 402**

48. TRANSACTIONS WITH THE STATE TREASURY AND RELATED PARTIES

Transactions with the State Treasury
Significant transactions with the State Treasury's related entities
Related-party transactions – capital links
Related-party transactions – personal links

TRANSACTIONS WITH THE STATE TREASURY

The State Treasury has control over the Bank as it holds a 29.43% interest in the Bank's share capital. The Bank's shareholding structure is described in detail in note 40 “Equity and shareholding structure of the Bank” to these financial statements.

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

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

(IN PLN MILLION)

INCOME FROM TEMPORARY REDEMPTION BY THE STATE TREASURY OF INTEREST ON HOUSING LOANS IN THE 'OLD' PORTFOLIO	2018	2017
Income recognized on an accruals basis	383	60
Income recognized on a cash basis	361	30
Difference – “Loans and advances to customers”	22	30

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 2018 it received commission of PLN 1 million, and in 2017 of PLN 3 million in this respect.

As of 1 January 1996 the Bank is the general distributor of revenue stamps, and in this respect it receives commission from the State Budget – in 2018 the Bank received commission of PLN 1 million in this respect, and in 2017 it received PLN 5 million.

Dom Maklerski PKO Banku Polskiego SA plays the role of an agent for the issue of retail treasury bonds under the agreement signed with the Ministry of Finance on 11 February 2003. Under this agreement, the Brokerage House of PKO Bank Polski SA receives a fee for providing the services of an agent for the issue of bonds, which in 2018 amounted to PLN 59 million and PLN 56 million in 2017.

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	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017
counterparty 1	-	-	2 450	2 450	-	-
counterparty 2	1 188	1 004	1 671	1 825	32	55
counterparty 3	2 774	2 936	-	-	153	-
counterparty 4	2 047	2 024	663	308	491	186
counterparty 5	895	284	1 378	1 463	317	290
counterparty 6	439	333	1 730	1 269	32	-
counterparty 7	347	286	1 552	815	1 397	-
counterparty 8	263	29	1 635	1 832	2 633	4 093
counterparty 9	617	215	922	351	284	208
counterparty 10	159	221	549	575	2	2

In 2018, interest and commission income on the transactions with the 10 counterparties referred to above amounted to PLN 158 million (PLN 79 million in 2017), and the respective interest expense amounted to PLN 33 million (PLN 10 million in 2017). As at 31 December 2018 and as at 31 December 2017, respectively, no impairment allowances were recognized on an individual basis for the above-mentioned receivables. In the Bank’s opinion, all transactions with entities related to the State Treasury are 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 at an arm’s length basis. Repayment terms are within a range of from one month to fifteen years.

(IN PLN MILLION)

AS AT 31 DECEMBER 2018 / ENTITY	Receivables	of which loans	Liabilities	Off-balance sheet liabilities granted
KREDOBANK SA and its subsidiary	123	-	1	113
Merkury - fiz an and its subsidiaries	-	-	22	-
NEPTUN - fizan and its subsidiaries	159	159	52	-
PKO Bank Hipoteczny SA	4 447	1 729	131	3 117
PKO BP BANKOWY PTE SA	-	-	14	-
PKO BP Finat sp. z o.o.	1	-	39	1
PKO Finance AB	-	-	6 238	-
PKO Leasing SA and its subsidiaries	15 121	15 120	36	4 304
PKO Towarzystwo Funduszy Inwestycyjnych SA	33	-	224	-
PKO Towarzystwo Ubezpieczeń SA	-	-	26	-
PKO Życie Towarzystwo Ubezpieczeń SA	-	-	472	1
Qualia Development Sp. z o.o. and its subsidiaries	-	-	384	-
ZenCard sp. z o.o.	-	-	1	-
Operator Chmury Krajowej sp. z o.o.	-	-	4	-
Total subsidiaries	**19 884**	**17 008**	**7 644**	**7 536**

AS AT 31 DECEMBER 2018 / ENTITY	Receivables	of which loans	Liabilities	Off-balance sheet liabilities granted
Centrum Elektronicznych Usług Płatniczych eService sp. z o.o.	40	13	43	23
“Centrum Obsługi Biznesu” sp. z o.o.	18	18	8	-
Bank Pocztowy SA	-	-	-	1
“Poznański Fundusz Poręczeń Kredytowych” sp. z o.o.	-	-	5	-
Total joint ventures and associates	**58**	**31**	**56**	**24**

AS AT 31 DECEMBER 2017 / ENTITY	Receivables	of which loans	Liabilities	Off-balance sheet liabilities granted
KREDOBANK SA and its subsidiary	93	-	9	105
Merkury - fiz an and its subsidiaries	-	-	10	-
NEPTUN - fizan and its subsidiaries	203	203	57	-
PKO Bank Hipoteczny SA	4 258	1 477	5	2 912
PKO BP BANKOWY PTE SA	-	-	12	-
PKO BP Finat sp. z o.o.	1	-	42	1
PKO Finance AB	-	-	5 882	-
PKO Leasing SA and its subsidiaries	12 550	12 546	66	5 332
PKO Towarzystwo Funduszy Inwestycyjnych SA	26	-	67	-
PKO Towarzystwo Ubezpieczeń SA	-	-	8	-
PKO Życie Towarzystwo Ubezpieczeń SA	-	-	441	1
Qualia Development Sp. z o.o. and its subsidiaries	-	-	238	-
Total subsidiaries	**17 131**	**14 226**	**6 837**	**8 351**

AS AT 31 DECEMBER 2017 / ENTITY	Receivables	of which loans	Liabilities	Off-balance sheet liabilities granted
Centrum Elektronicznych Usług Płatniczych eService sp. z o.o.	49	6	37	25
“Centrum Obsługi Biznesu” sp. z o.o.	13	13	9	-
Bank Pocztowy SA	-	-	-	1
“Poznański Fundusz Poręczeń Kredytowych” sp. z o.o.	-	-	16	-
Total joint ventures and associates	**62**	**19**	**62**	**26**

FOR THE YEAR ENDED 31 DECEMBER 2018 / ENTITY	Total income	of which interest and commission income	Total expense	of which interest and commission expense
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**

(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 expense
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**

FOR THE YEAR ENDED 31 DECEMBER 2017 / ENTITY	Total income	of which interest and commission income	Total expense	of which interest and commission expense
KREDOBANK SA and its subsidiary	5	4	-	-
NEPTUN - fizan and its subsidiaries	5	5	-	-
PKO Bank Hipoteczny SA	171	158	1	-
PKO BP BANKOWY PTE SA	6	-	-	-
PKO BP Finat sp. z o.o.	48	-	21	1
PKO Finance AB	-	-	305	305
PKO Leasing SA and its subsidiaries	272	265	19	-
PKO Towarzystwo Funduszy Inwestycyjnych SA	335	273	1	1
PKO Towarzystwo Ubezpieczeń SA	61	61	1	1
PKO Życie Towarzystwo Ubezpieczeń SA	40	40	3	3
Qualia Development Sp. z o.o. and its subsidiaries	-	-	5	2
Total subsidiaries	**943**	**806**	**356**	**313**

FOR THE YEAR ENDED 31 DECEMBER 2017 / ENTITY	Total income	of which interest and commission income	Total expense	of which interest and commission expense
Centrum Elektronicznych Usług Płatniczych eService sp. z o.o.	347	332	124	124
Total joint ventures and associates	**347**	**332**	**124**	**124**

RELATED-PARTY TRANSACTIONS – PERSONAL LINKS

As at 31 December 2018, 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 (three entities as at 31 December 2017). In 2018 and in 2017, no transactions were conducted between the Bank and those entities.

49. BENEFITS FOR PKO BANK POLSKI SA'S KEY MANAGEMENT

ACCOUNTING POLICIES

Short-term employee benefits are employee benefits which are settled in full within 12 months from the end of the annual reporting period in which the employees performed the respective work. Short-term employee benefits include, apart from basic 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 FOR KEY MANAGEMENT PERSONNEL IN THE BANK

The variable remuneration components are granted in the form of:

- non-deferred (in the first year after the calendar year constituting an appraisal period);
- deferred (for the following 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 remuneration component 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 Securities Exchange, published in the Thomson Reuters or Bloomberg information systems – in 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 in 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 a deterioration in the financial performance of the Bank, a loss incurred by the Bank or deterioration in 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

REMUNERATION RECEIVED BY MEMBERS OF THE SUPERVISORY BOARD FROM PKO BANK POLSKI SA (IN PLN THOUSAND)

REMUNERATION RECEIVED FROM PKO BANK POLSKI SA (in PLN '000)		
Name and surname	**2018**	**2017**
Supervisory Board of the Bank		
Piotr Sadownik	160	170
Grażyna Ciurzyńska	173	177
Zbigniew Hajłasz	137	134
Mariusz Andrzejewski	119	61
Mirosław Barszcz	119	120
Adam Budnikowski	121	119
Wojciech Jasiński	119	118
Andrzej Kisielewicz	119	118
Elżbieta Mączyńska - Ziemacka	120	119
Janusz Ostaszewski	117	117
Jerzy Paluchniak	47	62
Total	**1 351**	**1 315**

EMPLOYEE BENEFITS FOR MEMBERS OF THE MANAGEMENT BOARD DUE OR POTENTIALLY DUE FROM PKO BANK POLSKI SA (IN PLN THOUSAND)

	Short-term employee benefits, including variable remuneration paid in cash - not deferred		Other long-term benefits - deferred variable remuneration paid in cash		Share-based payments settled in cash		
	remuneration in 2018	other received in 2018 [1]	received in 2018	contingent, due as at 31.12.2018	received in 2018	due as at 31.12.2018	contingent, due as at 31.12.2018
Zbigniew Jagiełło	793	31	266	302	768	372	302
Rafał Antczak	687	-	-	-	-	-	-
Rafał Kozłowski	687	-	-	-	-	-	-
Maks Kraczkowski	687	-	32	64	193	49	64
Mieczysław Król	687	8	37	73	222	57	73
Adam Marciniak	687	-	-	-	-	-	-
Piotr Mazur	740	23	185	204	594	258	204
Jakub Papierski	687	24	192	204	604	266	204
Jan Emeryk Rościszewski	687	8	30	59	177	45	59
Management Board of the Bank	**6 342**	**94**	**742**	**906**	**2 558**	**1 047**	**906**
Piotr Alicki	-	21	178	179	529	245	179
Janusz Derda	-	-	2	5	16	4	5
Bartosz Drabikowski	-	26	214	238	655	298	238
Jarosław Myjak	-	10	106	73	239	139	73
Jacek Obłękowski	-	12	136	97	280	182	97
Members of the Management Board who ceased to perform their functions in 2017 and 2016	-	**69**	**636**	**592**	**1 719**	**868**	**592**
Total	**6 342**	**163**	**1 378**	**1 498**	**4 277**	**1 915**	**1 498**

[1] Includes additional benefits under employee pension programs (PPE).

	Short-term employee benefits, including variable remuneration paid in cash - not deferred		Other long-term benefits - deferred variable remuneration paid in cash		Share-based payments settled in cash		
Name and surname	remuneration in 2017[1]	other received in 2017	received in 2017	contingent, due as at 31.12.2017	received in 2017	due as at 31.12.2017	contingent, due as at 31.12.2017
Zbigniew Jagiełło	1 404	373	252	566	501	768	566
Rafał Antczak	342	-	-	-	-	-	-
Maks Kraczkowski	1 098	144	-	96	-	193	96
Mieczysław Król	1 104	165	-	110	-	222	110
Adam Marciniak	172	-	-	-	-	-	-
Piotr Mazur	1 149	305	175	387	355	594	387
Jakub Papierski	1 124	305	185	395	402	604	395
Jan Emeryk Rościszewski	1 077	132	-	88	-	177	88
Management Board of the Bank	**7 470**	**1 423**	**611**	**1 642**	**1 258**	**2 558**	**1 642**
						-	
Piotr Alicki	6	255	176	356	397	529	356
Janusz Derda	453	12	-	8	-	16	8
Bartosz Drabikowski	1 184	328	203	450	434	655	450
Jarosław Myjak	-	70	141	178	284	239	178
Jacek Obłękowski	4	69	178	232	395	280	232
Members of the Management Board who ceased to perform their functions in 2017 and 2016	**1 647**	**733**	**698**	**1 224**	**1 510**	**1 719**	**1 224**
Total	**9 117**	**2 156**	**1 310**	**2 865**	**2 768**	**4 277**	**2 865**

[1] Includes basic remuneration and additional benefits under employee pension programs (PPE), additional insurance, medical care and company social benefits fund (ZFŚS).

POST-EMPLOYMENT BENEFITS (IN PLN THOUSAND)

On 13 March 2017, the Extraordinary Shareholders' Meeting (ESM) adopted a resolution on the principles for determining the remuneration of members of the Management Board and Supervisory Board proposed by the State Treasury represented by the Minister of Development and Finance who exercised the rights from the Bank shares owned by the State Treasury. The Resolution concerned adapting the remuneration policy for members of the Management and Supervisory Boards of PKO Bank Polski SA to the provisions of the Act on principles of remunerating people who manage certain companies. On the basis of the resolution, the Supervisory Board introduced a new policy of employing and remunerating members of the Management Board which were defined in accordance with the provisions of the Act on principles of remunerating people who manage certain companies.

On 22 June 2017 the policies for remunerating members of the Management Board and Supervisory Board were implemented. Contracts for the provision of services have been signed with the member of the Management Board, which replaced the former employment contracts, and the benefits paid in respect of the change in employment are presented in the table below.

POST-EMPLOYMENT BENEFITS	2018	2017
Zbigniew Jagiełło	-	798
Maks Kraczkowski	-	108
Mieczysław Król	-	42
Piotr Mazur	-	246
Jakub Papierski	-	238
Jan Emeryk Rościszewski	-	109
Management Board of the Bank	-	**1 541**
Piotr Alicki	2	25
Jarosław Myjak	1	15
Jacek Obłękowski	5	19
Janusz Derda	-	29
Bartosz Drabikowski	-	224
Members of the Management Board who ceased to perform their functions in 2017 and 2016	**8**	**312**
Total benefits	**8**	**1 853**

Benefits paid for termination of employment contracts (in PLN thousand)

TERMINATION BENEFITS FOR MEMBERS OF THE MANAGEMENT BOARD WHO CEASED TO PERFORM THEIR FUNCTIONS IN 2017 AND 2016	2018	2017
Piotr Alicki	-	488
Bartosz Drabikowski	-	344
Members of the Management Board who ceased to perform their functions in 2017 and 2016	**-**	**832**

Remuneration of members of the Management Board received from related entities (other than the State Treasury and its related entities) (in PLN thousand)

REMUNERATION FROM SUBORDINATED ENTITIES (in PLN '000)	31.12.2018	31.12.2017
Rafał Kozłowski	3	-
Jan Emeryk Rościszewski	116	-
Total short-term benefits	**119**	**-**

Loans and advances granted by the Bank to the Management and Supervisory Boards (in PLN thousand)

LOANS AND ADVANCES GRANTED BY THE BANK TO MANAGEMENT		
	31.12.2018	31.12.2017
Supervisory Board of the Bank	416	666
Management Board of the Bank	1 344	1 355
Total	**1 760**	**2 021**

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 on an arm's length basis.

Variable remuneration components

PROVISION FOR VARIABLE REMUNERATION COMPONENTS	31.12.2018 (for 2013-2018)	31.12.2017 (for 2013-2017)
Management Board (including members who ceased to perform their functions in 2017 and 2016)	22	18
Other Risk Takers (persons holding managerial positions other than members of the Bank's Management Board)	37	30
Total provision	**59**	**48**
Remuneration paid during the year	2018 (for 2013-2018)	2017 (for 2013-2017)
- granted in cash	**10**	**11**
Management Board (including members who ceased to perform their functions in 2017 and 2016)	1	4
Other Risk Takers (persons holding managerial positions other than members of the Bank's Management Board)	9	7
- granted in the form of financial instruments	**14**	**12**
Management Board (including members who ceased to perform their functions in 2017 and 2016)	4	3
Other Risk Takers (persons holding managerial positions other than members of the Bank's Management Board)	10	9
Total remuneration paid	**24**	**23**

50. Fair value hierarchy

Accounting Policies and estimates and judgements

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

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

Level 1: Prices quoted on active markets

Financial assets and liabilities whose fair value is stated directly at prices quoted (not adjusted) on active markets for identical assets and liabilities. In this category, the 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 market, including in the Brokerage House 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 yield curves.	Yield curves are built based on market rates, market data of the money market, market transactions of FRA, IRS, basis swap.
Derivative financial instruments – currency option, interest rate options, equity exotic options, FX forward, FX swap transactions	Valuation models specific for a particular type of a currency option. The model of discounted future cash flows based on yield curves for FX forward and FX swap transactions. The prices of equity exotic options embedded in structured products are obtained from the market (market prices).	Yield curves built based on money market rates, market rate of swap points, volatility levels for specific currency pairs, NBP fixing exchange rates. For the purpose of valuation of equity exotic options embedded in structured products, market prices of these options are obtained.
NBP money market bills	Yield curve method	Yield curves are built based on money market data and OIS (overnight index swap) transactions market.
Municipal bonds in EUR	Accepted valuation model.	Market rates, market data from the money market, IRS transactions market, CDS transactions market, volatility of interest rate options market.
Municipal bonds in PLN	Yield curve and 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 classifies financial instruments, which are valued using internal valuation models

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

(IN PLN MILLION)

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

FINANCIAL INFORMATION

ASSETS MEASURED AT FAIR VALUE 31.12.2018	Carrying amount	Level 1 Prices quoted on active markets	Level 2 Valuation techniques based on observable market data	Level 3 Other valuation techniques
Hedging derivatives	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 other comprehensive income	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 other comprehensive income	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 Valuation techniques based on observable market data	Level 3 Other valuation techniques
Hedging derivatives	560	-	560	-
Other derivative instruments	2 657	-	2 657	-
Total financial liabilities measured at fair value	**3 217**	**-**	**3 217**	**-**

(IN PLN MILLION)

ASSETS AND LIABILITIES MEASURED AT FAIR VALUE AS AT 31.12.2017	Carrying amount	Level 1 Prices quoted on active markets	Level 2 Valuation techniques based on observable market data	Level 3 Other valuation techniques
Financial assets held for trading	472	470	2	-
Debt securities	446	444	2	-
Shares in other entities	19	19	-	-
Investment certificates, rights to shares	7	7	-	-
Derivative financial instruments	2 805	1	2 804	-
Hedging derivatives	1 104	-	1 104	-
Trading instruments	1 701	1	1 700	-
Financial instruments designated at fair value through profit or loss upon initial recognition	6 409	2 027	4 382	-
Available-for-sale investment securities	41 985	32 795	7 024	2 166
Debt securities	41 560	32 745	7 024	1 791
Equity securities	173	50	-	123
Participation units in a collective investment undertaking	252	-	-	252
Total financial assets measured at fair value	**51 671**	**35 293**	**14 212**	**2 166**
Derivative financial instruments	2 741	-	2 741	-
Hedging derivatives	204	-	204	-
Trading instruments	2 537	-	2 537	-
Total financial liabilities measured at fair value	**2 741**	-	**2 741**	-

In 2018 and in 2017 there were no transfers between the different levels of fair value hierarchy.

Starting from in the level 3 of the fair value hierarchy 2018, the Bank recognizes housing loans measured at fair value through other comprehensive income and loans and advances to customers not held for trading measured at fair value through profit or loss on a mandatory basis. In the prior periods those loans were measured at amortized cost.

As a result of the implementation of IFRS 9, the following equity instruments were also recognized at level 3 of the fair value hierarchy:

- Shares in Biuro Informacji Kredytowej SA
- Shares in Polski Standard Płatności Sp. z o.o.
- Shares in Society For Worldwide Interbank Financial Telecommunication
- Shares in Krajowa Izba Rozliczeniowa SA

IMPACT OF ESTIMATES ON FAIR VALUE MEASUREMENT OF LEVEL 3 FINANCIAL INSTRUMENTS	31.12.2018		31.12.2017	
	Fair value acc. to		Fair value acc. to	
	positive scenario	negative scenario	positive scenario	negative scenario
Not held for trading, measured at fair value through profit or loss				
Loans and advances to customers[1]	1 138	1 075		
Shares in Visa Inc.[2]	148	124		
Corporate bonds[3]	115	115		
Equity investments[4]	129	116		
Measured at fair value through OCI				
Corporate bonds[3]	1 630	1 624		
Housing loans[1]	8 742	8 258		
Available-for-sale investment securities				
Participation units in a collective investment undertaking[5]			264	239
Shares in Visa Inc.[2]			129	103
Corporate bonds[3]			1 799	1 783

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

(IN PLN MILLION)

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

RECONCILIATION OF CHANGES DURING THE PERIOD FOR INSTRUMENTS MEASURED AT FAIR VALUE AT LEVEL 3 OF FAIR VALUE HIERARCHY	2018	2017
Opening balance at the beginning of the period	**2 166**	**3 374**
First time adoption of IFRS 9	9 420	
Loans and advances to customers not held for trading, measured at fair value through profit or loss	1 070	
Loans and advances to customers measured at fair value through OCI	8 235	
Equity instruments at fair value through profit or loss	115	
Opening balance at the beginning of the period – restated	**11 586**	
Foreign exchange differences	18	(37)
Participation units in a collective investment undertaking	7	(18)
Other equity instruments	11	(19)
Increase in exposure to equity instruments	1	-
Taking up a new share issue a collective investment institution	-	58
Issuance and redemption of corporate bonds	(39)	(1 213)
Reduction of equity exposure to a collective investment institution	(47)	(93)
Sale of participation units in a collective investment institution	(217)	-
Reclassification of exposures from measured at amortized cost to measured at fair value through profit or loss	205	
Loans granted to customers during the period	2 529	
Loans and advances to customers not held for trading, mandatorily measured at fair value through profit or loss	7	
Measured at fair value through OCI	2 522	
Sale / repayment of loans during the period	(2 566)	
Not held for trading, measured at fair value through profit or loss	(167)	
Measured at fair value through OCI	(2 399)	
Net gain/(loss) on financial instruments measured at fair value financial instruments measured at fair value through profit or loss	11	-
Loans and advances to customers	(9)	
Participation units in a collective investment undertaking	6	-
Other equity instruments	14	-
Remeasurement recognized in other comprehensive income	128	77
Loans and advances to customers	138	
Corporate bonds	(10)	20
Participation units in a collective investment undertaking		7
Shares in Visa Inc.		50
As at the end of the period	**11 609**	**2 166**

51. 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 a range of measurement techniques. The fair value of financial instruments was measured using a model based on estimating the present value of future cash flows by discounting them using appropriate discount rates.

All model calculations include certain simplifications and are therefore sensitive to those assumptions. A summary of the major methods and assumptions used when estimating the fair values of financial instruments not measured at fair value is presented below.

For certain categories of financial instruments, it has been assumed that their carrying amount approximately equals their fair values, which is due to the 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, the unique nature of the instrument). This applies to the following groups of financial instruments:

- 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;
- amounts due to customers, liabilities with no specific repayment schedule, other specific products for which no active market exists;
- interbank deposits and placements with maturities of up to 7 days or with variable interest;
- variable interest loans or advances granted and received on the interbank market (with interest rate changes occurring every 3 months or less);
- cash and balances with the Central Bank and amounts due to the Central Bank;
- other financial assets and financial liabilities.

For non-impaired loans and advances to customers, the model based on estimating the present value of future cash flows by discounting cash flows using current interest rates is applied. 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 a 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 the effect of the proposed potential systemic solutions which could result in the Bank incurring losses on the portfolio of mortgage loans in CHF. For impaired loans, it is assumed that the fair values are equal to carrying amounts.

For deposits and other amounts due to customers other than banks with fixed maturities, the fair value was estimated based on expected cash flows discounted using the current interest rates appropriate for individual deposit products. The fair value is calculated for each deposit and each of the liabilities, and then the fair values for the entire deposit portfolio are grouped by product type and by customer segment. For demand deposits, it is assumed that their fair value equals the carrying value.

The fair value of the Bank's subordinated liabilities was estimated based on the expected cash flows discounted based on the yield curve.

The fair value of a liability in respect of securities issued by PKO Bank Polski SA was estimated based on the expected cash flows discounted using the current interbank market rates.

The fair value of interbank placements and deposits was estimated based on expected cash flows discounted using the current interbank market rates.

(IN PLN MILLION)

	level of fair value hierarchy	valuation method	31.12.2018 carrying amount	fair value
Cash and balances with the Central Bank	n/a	at amounts due	22 862	22 862
Amounts due from banks			11 213	11 213
measured at amortized cost	2	discounted cash flows	11 213	11 213
Securities			8 315	8 315
measured at amortized cost	3	discounted cash flows	8 315	8 315
debt securities (Treasury bonds)	1	market quotations	2 200	2 200
debt securities (corporate)	3	discounted cash flows	2 108	2 108
debt securities (municipal)	3	discounted cash flows	4 007	4 007
Loans and advances to customers			181 973	181 606
measured at amortized cost	3	discounted cash flows	181 973	181 606
housing loans	3	discounted cash flows	83 271	82 305
corporate loans	3	discounted cash flows	73 502	73 870
consumer loans	3	discounted cash flows	25 148	25 379
receivables in respect of repurchase agreements	2	discounted cash flows	51	51
Other financial assets	3	at amount due less impairment allowance	2 149	2 149
Amounts due to the Central Bank	2	at amounts due	7	7
Amounts due to banks			1 591	1 591
measured at amortized cost	2	discounted cash flows	1 591	1 591
Amounts due to customers			245 213	245 235
measured at amortized cost	3	discounted cash flows	245 213	245 235
amounts due to retail customers	3	discounted cash flows	164 385	164 324
amounts due to business entities	3	discounted cash flows	55 530	55 530
amounts due to public entities	3	discounted cash flows	16 459	16 459
loans and advances received	3	discounted cash flows	8 839	8 922
Debt securities in issue			5 367	5 367
measured at amortized cost	1, 2	market quotations/discounted cash flows	5 367	5 367
Subordinated liabilities			2 731	2 731
measured at amortized cost	2	discounted cash flows	2 731	2 731
Other financial liabilities	3	at amounts due	2 096	2 096

	level of fair value hierarchy	valuation method	31.12.2017 carrying amount	fair value
Cash and balances with the Central Bank	n/a	at amounts due	17 765	17 765
Amounts due from banks	2	discounted cash flows	8 769	8 769
Loans and advances to customers			**186 893**	**184 479**
housing loans	3	discounted cash flows	90 209	86 008
corporate loans	3	discounted cash flows	67 139	67 093
consumer loans	3	discounted cash flows	24 275	26 108
debt securities (corporate)	3	discounted cash flows	1 855	1 855
debt securities (municipal)	3	discounted cash flows	2 513	2 513
receivables in respect of repurchase agreements	3	discounted cash flows	902	902
Investment securities held to maturity	3	discounted cash flows	1 622	1 622
Other financial assets	3	at amount due less impairment allowance	1 748	1 748
Amounts due to the Central Bank	2	at amounts due	6	6
Amounts due to other banks	2	discounted cash flows	4 299	4 299
Amounts due to customers			**222 524**	**222 761**
to corporate entities	3	discounted cash flows	52 696	52 696
to public entities	3	discounted cash flows	11 409	11 409
to retail customers	3	discounted cash flows	150 537	150 473
loans and advances received	3	discounted cash flows	7 882	8 183
Debt securities in issue	1, 2	market quotations/discounted cash flows	5 204	5 204
Subordinated liabilities	2	discounted cash flows	1 720	1 720
Other financial liabilities	3	at amounts due	3 812	3 812

(IN PLN MILLION)

52. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

ACCOUNTING POLICIES

The Bank offsets financial assets and liabilities and presents them in the statement of financial position in net amounts if there is a legally enforceable right to offset the recognized amounts and an intention to settle them on a net basis or simultaneous realization of a given asset and settle meet of the liability. In order for offsetting to be possible, a legal right may not be contingent on the occurrence of a specific future event.

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 the 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).

FINANCIAL INFORMATION

OFFSETTING – ASSETS 31.12.2018	Total financial assets	Derivatives	Amounts due from repurchase agreements
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
Maximum potential amount subject to offsetting	1 889	1 874	15
Financial liabilities subject to enforceable framework agreement or a similar offsetting agreement (excluding financial collateral)	1 565	1 565	-
Collateral received in the form of cash and securities	324	309	15
Net amount	**663**	**627**	**36**

OFFSETTING – LIABILITIES 31.12.2018	Total financial liabilities	Derivatives	Amounts due from repurchase agreements
Recognized financial liabilities, gross	3 263	3 218	45
Financial assets subject to offsetting, gross	(1)	(1)	-
Financial liabilities recognized in the statement of financial position, net	3 262	3 217	45
Maximum potential amount subject to offsetting	2 171	2 170	1
Financial assets subject to enforceable framework agreement or a similar offsetting agreement (excluding financial collateral)	1 565	1 565	-
Collateral granted in the form of cash and securities	606	605	1
Net amount	**1 091**	**1 047**	**44**

(IN PLN MILLION)

OFFSETTING – ASSETS 31.12.2017	Total financial assets	Derivatives	Amounts due from repurchase agreements
Recognized financial assets, gross	3 710	2 808	902
Financial liabilities subject to offsetting, gross	(3)	(3)	-
Financial assets recognized in the statement of financial position, net	3 707	2 805	902
Maximum potential amount subject to offsetting	2 097	2 082	15
Financial liabilities subject to enforceable framework agreement or a similar offsetting agreement (excluding financial collateral)	1 337	1 337	-
Collateral received in the form of cash and securities	760	745	15
Net amount	**1 610**	**723**	**887**

OFFSETTING – LIABILITIES 31.12.2017	Total financial liabilities	Derivatives	Amounts due from repurchase agreements
Recognized financial liabilities, gross	2 792	2 744	48
Financial assets subject to offsetting, gross	(3)	(3)	-
Financial liabilities recognized in the statement of financial position, net	2 789	2 741	48
Maximum potential amount subject to offsetting	1 895	1 895	-
Financial assets subject to enforceable framework agreement or a similar offsetting agreement (excluding financial collateral)	1 337	1 337	-
Collateral granted in the form of cash and securities	558	558	-
Net amount	**894**	**846**	**48**

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

Liabilities in respect of repurchase transactions
Liabilities from the negative valuation of derivative instruments
Preliminary settlement deposit of the National Depository for Securities (KDPW)
Bank Deposit Guarantee Fund
Funds securing liabilities in respect of contributions to the Bank Guarantee Fund (BGF)
Legal limitations relating to the Bank's legal title
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	31.12.2018	31.12.2017
Debt securities	43	48
Amounts due from repurchase agreements	45	48
Net balance	(2)	-

Liabilities from the negative valuation of derivative instruments

Cash deposits in banks include assets held as collateral for own liabilities, including settlements relating to the negative valuation of derivative instruments. As at 31 December 2018, such assets amounted to PLN 605 million (PLN 558 million as at 31 December 2017).

(IN PLN MILLION)

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

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

CARRYING AMOUNT / FAIR VALUE	31.12.2018	31.12.2017
Value of the deposit	10	10
Nominal value of the pledge	10	10
Type of pledge	Treasury bonds	Treasury bonds
Carrying amount of the collateral	10	11

BANK DEPOSIT GUARANTEE FUND

	31.12.2018	31.12.2017
Value of the fund	1 088	1 133
Nominal value of the pledge	1 100	1 200
Type of pledge	Treasury bonds	Treasury bonds
Maturity of the pledge	25.01.2024	25.01.2024
Carrying amount of the pledge	1 103	1 193

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

	31.12.2018	31.12.2017
Value of the contribution made in the form of payables	247	120
Nominal value of the assets in which funds corresponding to payables were invested	324	175
Type of pledge	Treasury bonds	Treasury bonds
Maturity of the pledge	25.01.2024	25.01.2024
Carrying amount of the pledge	324	174

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 obligations include Treasury bonds pledged for BGF in an amount which ensures maintaining the ratio of the value of property rights securing payment obligations to the amount of payment obligations of no less than 110%. For the purposes of establishing the minimum ratio of assets to the amount of payment commitment, the value of property rights securing payment obligations is determined at the amount specified based on the last fixing rate of the day in the electronic market for Treasury securities organized by the minister responsible for budgetary matters, plus interest due as at the valuation date, unless interest has already been included in the fixing rate.

Such 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 in cash the amount corresponding to the value of payment commitments.

LEGAL LIMITATIONS RELATING TO THE BANK'S LEGAL TITLE

In the years ended 31 December 2018 and 31 December 2017, 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.

TRANSFERRED FINANCIAL ASSETS

As at 31 December 2018 and 31 December 2017, the Bank had no transferred financial assets fully derecognized in respect of which the Bank held an exposure.

54. 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 domestic and foreign markets, provides fiduciary services and is a depository of pension and investment funds. Assets held by the Bank in the provision of fiduciary services were not disclosed in these financial statements because they did not satisfy the definition of the Bank's assets.

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

On 26 January 2017, the Supervisory Board of PKO Bank Polski SA based on § 15.1.4 of the Bank's Articles of Association 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, Inflancka 4A, is entered in the list of audit firms maintained by the National Board of Registered Auditors with the number 3546. On 12 April 2017, the Supervisory Board of PKO Bank Polski SA concluded another agreement with KPMG Audyt Spółka z ograniczoną odpowiedzialnością spółka komandytowa for the audit and review of the financial statements of the Bank and consolidated financial statements of the PKO Bank Polski SA Group for the years 2017-2019.

Based on the Supervisory Board's declaration, the Management Board states that the appointment of the audit firm, KPMG Audyt Spółka z ograniczoną odpowiedzialnością spółka komandytowa, to audit the PKO Bank Polski SA Group's consolidated financial statements for the year ended 31 December 2018 and PKO Bank Polski SA's financial statements for the year ended 31 December 2018 (Audit) was made in accordance with the provisions of the law and the internal rules of PKO Bank Polski SA 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:

1) the audit firm, KPMG Audyt Spółka z ograniczoną odpowiedzialnością spółka komandytowa, 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 practicing the profession and principles of professional ethics;
2) the applicable provisions of the law related to the rotation of audit firms and the key registered auditor auditing PKO Bank Polski SA Group's consolidated financial statements and PKO Bank Polski SA's financial statements and the related periods of grace and procedureare observed at PKO Bank Polski SA;
3) PKO Bank Polski SA has a policy on the selection of audit firm for auditing PKO Bank Polski SA's and the PKO Bank Polski SA 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.

The total net remuneration of KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k. for the audit of the stand-alone financial statements of the Bank and consolidated financial statements of the Group for 2018 amounted to PLN 1 577 thousand (PLN 1 389 thousand for 2017) and for other assurance services, including a review of the financial statements, it amounted to PLN 1 309 thousand in 2018 (PLN 2 051 thousand in 2017). No remuneration was paid in respect of other services in 2018 (in 2017 the remuneration was PLN 68 thousand).

Furthermore, on 13 December 2018 the Supervisory Board of PKO Bank Polski SA, based on § 15.1.2 of the Bank's Articles of Association, appointed PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp. k. as the audit firm to audit and review the financial statements of PKO Bank Polski SA and the PKO Bank Polski SA Group for the years 2020–2021. PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp. k. with its registered office in Warsaw, 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 PKO Bank Polski SA and PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp. k. concluded an aggreement for the audit and review of the Bank's and the Bank Group's financial statements for the years 2020–2021.

(IN PLN MILLION)

OBJECTIVES AND PRINCIPLES OF RISK MANAGEMENT

56. 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 the 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 process.

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 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 table below and the further sections of this note present all the material risks of the Bank.

TYPE OF RISK	SECTION
CREDIT RISK	57, 58, 59
INTEREST RATE RISK	64
FOREIGN EXCHANGE RISK	65
LIQUIDITY RISK, INCLUDING FINANCING RISK	66
OPERATIONAL RISK	67
BUSINESS (STRATEGIC) RISK	68
MODELS RISK	68
RISK OF MACROECONOMIC CHANGES	68

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 the 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:

1) the Bank manages all the risks identified;
2) 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;
3) risk management methods (especially models and their assumptions) and risk management measurement or assessment systems are tailored to the scale and complexity of individual risks, the current and planned operations of the Bank and its operating environment, and are periodically verified and validated;
4) the area of risk management remains organizationally independent from business activities;
5) risk management is integrated into the planning and controlling systems;
6) the level of risk is monitored and controlled on an on-going basis;
7) 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 Bank's pricing policy and specific stress-testing are conducted for each type of riskbased 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 determining 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 and, 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. Risk level forecasts are verified. The frequency of risk monitoring is adequate to the significance and variability of specific risks.

- **RISK REPORTING:**

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

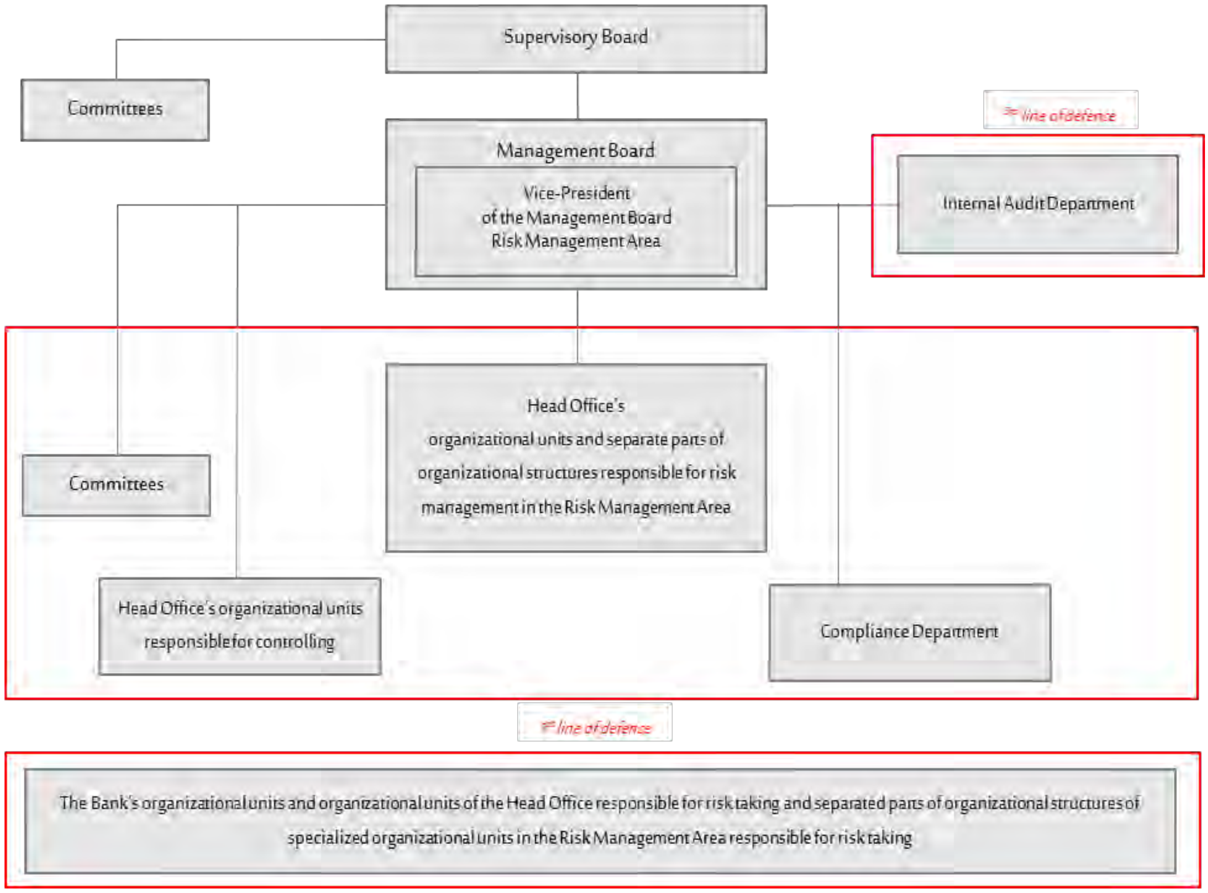
- **MANAGEMENT ACTIONS:**

Management actions consist particularly in issuing internal regulations affecting the management processes relating to 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 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 is presented in the diagram below:



The risk management system is supervised by the Supervisory Board 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 proper execution of the process for setting and achieving specific objectives of the Bank.

In particular, the Supervisory Board verifies whether the system applies formal rules to establish the size of the risk taken and risk management principles, as well as formal procedures to identify, measure or estimate and monitor the risks associated with the Bank's operations, taking into account the anticipated level of risk in the future. The Supervisory Board verifies if formal limits restricting the risk and the rules of conduct in the case when limits are exceeded are applied, and if the adopted management reporting system enables monitoring the risk levels. The Supervisory Board evaluates whether the risk management system is updated on an on-going basis to take into account new risk factors and sources.

The Supervisory Board is supported by the following committees: the Supervisory Board of the Appointments and Remuneration Committee, the Supervisory Board Risk Committee and the Supervisory Board Audit Committee.

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

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

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

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

THE SECOND LINE OF DEFENCE – covers compliance unit 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 PKO Bank Polski SA; the objective of these structures is to ensure that the tasks performed as part of the first line of defence are properly governed in the internal regulations of PKO Bank Polski SA and that they effectively limit the risk, support risk measurement, assessment and analysis and contribute to operational efficiency. 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 Head Office responsible for controlling.

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

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

- the function of the second line of defence with regards 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 2018

- On 8 February 2018, the Bank made a full early repayment of a credit line granted by Nordea Bank AB (publ) based on an agreement dated 1 April 2014. The Bank disclosed the execution of the agreement and its terms and conditions in its current report no 26/2014. Initially, the credit line was granted for a period of seven years, which means that the Bank repaid it three years before its original maturity.
- On 8 March 2018, the Polish Financial Supervision Authority approved the allocation of proceeds from the issue of subordinated bonds made on 5 March 2018 with a total par value of PLN 1,000,000,000 to increase the Bank's Tier 2 capital under Article 127(2)(2) of the Banking Act in conjunction with Article 63 of the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012.
- The Bank replaced its maturing own short-term bonds with an issue of new bonds amounting to PLN 650 million (in May) and PLN 615 million (in November).
- On 23 October 2018, the Bank obtained PLN 646 million of financing from the European Investment Bank, maturing in October 2023.

- The Bank participated in the new round of EU-wide stress tests managed by the European Banking Authority (EBA) with the participation of the Polish Financial Supervision Authority. The tests are designed to provide regulators and market participants with consistent and comparable data on the resilience of European banks to adverse market conditions. The results of the tests confirm that PKO Bank Polski is the most resilient bank in Europe to adverse macroeconomic scenarios.

57. 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.

RISK MANAGEMENT OBJECTIVE

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

The Bank follows the following principles of credit risk management:

- every loan transaction is subject to comprehensive credit risk assessment, which is reflected in an internal rating or credit scoring;
- credit risk relating to loan transactions is measured at the stage of examining a loan application and on a regular basis, as part of the monitoring process, taking into consideration changes in the 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 the assessment of credit risk and the independence of the decisions approving deviations from the suggestions resulting from the use of these tools;
- the 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 area, industry, 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 aforementioned principles are implemented by the Bank through the use of advanced credit risk management methods, both at the level of individual credit exposures and 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 the 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 institutional clients from the firms and enterprises segment which 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 the customer's risk scoring. A customer's risk assessment depends on the size of the enterprise assessed. 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 risk assessment models are monitored at least on a quarterly basis in accordance with the Bank's internal regulations concerning periodical verification of credit risk models.

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 PKO Bank Polski SA 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 Bank's credit risk related to customer financing;
- 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 within the lending system.

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 based on the 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 covers regular information on the scale of the risk exposure of the loan portfolio.

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:

1) issuing internal regulations governing the credit risk management system at the Bank;
2) issuing recommendations, guidelines for conduct, explanations and interpretation of the Bank's internal regulations;
3) taking decisions regarding the acceptable level of credit risk, including in particular lending decisions;
4) 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;
5) developing and monitoring the operation of credit risk management controls;
6) developing and improving credit risk assessment methods and models;
7) developing and improving IT tools used in credit risk management;
8) 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 client must obtain to receive a loan;

- concentration limits – limits defined in the Regulation of the European Parliament and the Council (EU) No. 575/2013 on prudential requirements for credit institutions and investment firms (CRR Regulation) and the Polish Banking Law, or internal limits defining the concentration risk appetite;
- industry-related limits – limits which reduce the risk level related to financing institutional customers conducting business activities in industries characterized by high level of credit risk;
- the limits defining the appetite for credit risk resulting from, among other things, Recommendations S and T;
- credit limits defining the 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 cannot be lower than the reference rate plus credit risk margin.

USE OF CREDIT RISK MITIGATION TECHNIQUES – COLLATERAL

The collateral management policy plays a significant role in establishing credit 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 is possible to 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 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.

With regard to consumer loans, usually personal guarantees 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.

(IN PLN MILLION)

58. CREDIT RISK – FINANCIAL INFORMATION

EXPOSURE TO CREDIT RISK

The table below presents the maximum exposure to credit risk for the individual classes of financial assets to which the impairment requirements do not apply.

MAXIMUM EXPOSURE TO CREDIT RISK – BALANCE SHEET FINANCIAL INSTRUMENTS NOT SUBJECT TO IMPAIRMENT REQUIREMENTS	31.12.2018	01.01.2018
Hedging derivatives	592	1 104
Other derivative instruments	1 909	1 701
Securities:	1 562	3 358
held for trading	282	472
not held for trading, measured at fair value through profit or loss	1 280	2 886
designated at fair value through profit or loss (FVO)	-	-
Loans and advances to customers not held for trading, measured at fair value through profit or loss	1 106	1 070
housing	27	37
corporate	148	182
consumer	931	851
Total	**5 169**	**7 233**

MAXIMUM EXPOSURE TO CREDIT RISK – BALANCE SHEET FINANCIAL INSTRUMENTS NOT SUBJECT TO IMPAIRMENT REQUIREMENTS	31.12.2017
Hedging derivatives	1 104
Other derivative instruments	1 701
Securities	6 881
held for trading	472
financial instruments designated at fair value through profit or loss upon initial recognition	6 409
Total	**9 686**

(IN PLN MILLION)

PAST DUE FINANCIAL ASSETS SUBJECT TO IMPAIRMENT OR IMPAIRED

EXPOSURES PAST DUE AS AT 31.12.2018	Assets with no significant increase in credit risk since initial recognition (stage 1)				Assets with a significant increase in credit risk since initial recognition, but not credit-impaired (stage 2)				Credit-impaired assets (stage 3)				TOTAL EXPOSURES PAST DUE
	up to 30 days	30 to 90 days	over 90 days	TOTAL	up to 30 days	30 to 90 days	over 90 days	TOTAL	up to 30 days	30 to 90 days	over 90 days	TOTAL	
Loans and advances to customers:	778	-	-	778	1 015	299	-	1 314	157	164	2 077	2 398	4 490
loans	778	-	-	778	1 015	299		1 314	157	164	2 077	2 398	4 490
housing	329	-	-	329	722	163		885	62	74	425	561	1 775
corporate	166	-	-	166	119	47		166	59	52	1 317	1 428	1 760
consumer	283	-	-	283	174	89	-	263	36	38	335	409	955
Total, net	778	-	-	778	1 015	299	-	1 314	157	164	2 077	2 398	4 490

EXPOSURES PAST DUE 31.12.2017	up to 30 days	30 to 90 days	over 90 days	TOTAL
Loans and advances to customers:	2 295	570	2 523	5 388
housing	1 221	319	567	2 107
corporate	605	121	1 484	2 210
consumer	469	130	472	1 071
Total, net	**2 295**	**570**	**2 523**	**5 388**

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 PKO Bank Polski SA: mortgages, registered pledges, debtor's promissory notes and transfers of receivables.

(IN PLN MILLION)

MODIFICATIONS

The table below presents information on financial assets which were modified and for which the allowance for expected credit losses was calculated as the credit loss during the term of the exposure (Stages 2 and 3).

FINANCIAL ASSETS SUBJECT TO MODIFICATION	2018	
Financial assets subject to modification during the period:	**Stage 2**	**Stage 3**
measurement 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 modification loss was calculated over the lifetime and which are classified as 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.

RECEIVABLES WRITTEN OFF	2018	
	Partially written off	**Wholly written off**
Securities		
measured at fair value through other comprehensive income	3	-
Loans and advances to customers		
measured at amortized cost	1 986	1 187
housing	515	504
corporate	1 160	496
consumer	311	187
Total	**1 989**	**1 187**

The Bank adopts the following criteria for writing off amounts due:

1) 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,
2) in accordance with IAS and IFRS the allowance for expected loan losses:
    a) covers 100% of the gross carrying amount of the asset; or
    b) exceeds 90% of the gross carrying amount of the asset, and:
    i) 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
    ii) 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)

QUALITY OF THE PORTFOLIO COVERED BY THE RATING MODEL FOR COMMERCIAL, HOUSING AND CONSUMER LOANS

EXPOSURE CREDIT RISK BY PD 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
without internal rating [1]	4 226	20	-	-	4 246
COMMERCIAL 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
without 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
without internal rating [1]	509	92	-	-	601
Total	**174 691**	**12 639**	**10 032**	**566**	**197 928**

[1] This item refers to the low credit risk exposures of Housing Communities and Cooperatives.

EXPOSURE TO CREDIT RISK BY PD 01.01.2018	Carrying amount, gross				
	Stage 1	Stage 2	Stage 3	POCI	TOTAL
HOUSING LOANS	**84 287**	**4 843**	**3 445**	**123**	**92 698**
0.00 - 0.02%	5 920	8	-	-	5 928
0.02 - 0.07%	20 777	39	-	-	20 816
0.07 - 0.11%	10 294	30	-	-	10 324
0.11 - 0.18%	13 264	45	-	2	13 311
0.18 - 0.45%	18 889	128	-	6	19 023
0.45 - 1.78%	8 821	280	-	9	9 110
1.78 - 99.99%	2 246	4 288	-	17	6 551
100%	-	-	3 445	89	3 534
without internal rating [1]	4 076	25	-	-	4 101
COMMERCIAL LOANS	**58 199**	**5 660**	**7 834**	**30**	**71 723**
0.00 - 0.45%	7 190	2	-	-	7 192
0.45 - 0.90%	19 598	52	-	-	19 650
0.90 - 1.78%	6 118	19	-	-	6 137
1.78 - 3.55%	7 753	433	-	-	8 186
3.55 - 7.07%	9 103	515	-	-	9 618
7.07 - 14.07%	7 235	1 585	-	-	8 820
14.07 - 99.99%	840	2 798	-	-	3 638
100%	-	-	7 834	30	7 864
without internal rating [1]	362	256	-	-	618
					-
CONSUMER LOANS	**21 339**	**1 605**	**2 302**	**68**	**25 314**
0.00 - 0.45%	3 923	10	-	-	3 933
0.45 - 0.90%	6 183	17	-	-	6 200
0.90 - 1.78%	5 210	31	-	-	5 241
1.78 - 3.55%	3 047	84	-	-	3 131
3.55 - 7.07%	1 401	237	-	-	1 638
7.07 - 14.07%	725	295	-	-	1 020
14.07 - 99.99%	316	652	-	-	968
100%	-	-	2 302	68	2 370
without internal rating [1]	534	279	-	-	813
Total	**163 825**	**12 108**	**13 581**	**221**	**189 735**

[1] This item refers to the low credit risk exposures of Housing Communities and Cooperatives.

(IN PLN MILLION)

QUALITY OF THE PORTFOLIO COVERED BY THE RATING MODEL FOR OFF-BALANCE SHEET LIABILITIES

EXPOSURE CREDIT RISK BY PD 31.12.2018	Carrying amount, gross				
	Stage 1	Stage 2	Stage 3	POCI	TOTAL
OFF-BALANCE SHEET LIABILITIES					
0.00 - 0.45%	11 205	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
without internal rating [1]	10 623	1 111	-	-	11 734
Total	**61 158**	**3 259**	**260**	**80**	**64 757**

EXPOSURE TO CREDIT RISK BY PD 01.01.2018	Carrying amount, gross				
	Stage 1	Stage 2	Stage 3	POCI	TOTAL
OFF-BALANCE SHEET LIABILITIES					
0.00 - 0.45%	10 226	22	-	-	10 248
0.45 - 0.90%	14 363	20	-	-	14 383
0.90 - 1.78%	7 058	10	-	-	7 068
1.78 - 3.55%	7 996	74	-	-	8 070
3.55 - 7.07%	4 488	165	-	-	4 653
7.07 - 14.07%	3 183	214	-	-	3 397
14.07 - 99.99%	650	52	-	-	702
100%	-	-	625	80	705
without internal rating [1]	10 528	1 115	-	-	11 643
Total	**58 492**	**1 672**	**625**	**80**	**60 869**

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

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
without internal rating	38	-	-	-	38
TOTAL	57 989	447	-	471	58 907

(IN PLN MILLION)

01.01.2018	Carrying amount, gross				
AMOUNTS DUE FROM BANKS	Stage 1	Stage 2	Stage 3	POCI	TOTAL
EXTERNAL RATINGS	3 578	-	-	-	3 578
AAA	7	-	-	-	7
AA	918	-	-	-	918
A	2 182	-	-	-	2 182
BBB	447	-	-	-	447
BB	21	-	-	-	21
B	3	-	-	-	3
INTERNAL RATINGS	5 191	-	-	-	5 191
0,01%	60	-	-	-	60
0,02%	9	-	-	-	9
0,06%	1 013	-	-	-	1 013
0,20%	3 975	-	-	-	3 975
0,97%	134	-	-	-	134
TOTAL	8 769	-	-	-	8 769

01.01.2018	Carrying amount, gross				
DEBT SECURITIES	Stage 1	Stage 2	Stage 3	POCI	TOTAL
EXTERNAL RATINGS	42 998	-	-	-	42 998
AAA	130	-	-	-	130
A	38 751	-	-	-	38 751
BBB	3 468	-	-	-	3 468
BB	599	-	-	-	599
B	50	-	-	-	50
INTERNAL RATINGS	8 137	-	-	473	8 610
0.00 - -0.45%	6 214	-	-	-	6 214
0.45 - -0.90%	752	-	-	-	752
0.90 - -1.78%	385	-	-	-	385
1.78 - -3.55%	198	-	-	-	198
3.55 - -7.07%	23	-	-	-	23
7.07 - -14.07%	420	-	-	-	420
14.07 - -99.99%	145	-	-	-	145
100,00%	-	-	-	473	473
without internal rating	10	-	-	-	10
TOTAL	51 145	-	-	473	51 618

Impaired exposures include balance sheet credit exposures that satisfy the premises of impairment, except for those for which according to the individual approach the differences between the gross carrying amount (or the balance sheet equivalent of its off-balance sheet portion) and the value of the expected cash flows are immaterial (do not exceed the level which may be explained by the potential error of expert estimates).

INTERNAL RATINGS (DATA FOR 2017 ACCORDING TO IAS 39)

Exposures to corporate customers which are not individually impaired are classified according to customer rating as part of the internal rating classes, from A to G (in respect of financial institutions from A to F).

The following portfolios are covered by the rating system:

- corporate market customers;
- firms and enterprises (excluding certain product groups assessed in a simplified manner).

Loans and advances which are not individually impaired and are not rated, are characterized with a satisfactory level of the credit risk. This applies in particular to retail loans (including housing loans) which do not have individually significant exposures and therefore do not give rise to significant credit risk.

(IN PLN MILLION)

FINANCIAL ASSETS NOT IMPAIRED, NOT PAST DUE	31.12.2017
Loans and advances to customers	**167 034**
corporate loans	63 165
A (first rate)	875
B (very good)	18 162
C (good)	9 575
D (satisfactory)	9 236
E (average)	11 205
F (acceptable)	10 576
G (poor)	3 536
consumer and housing loans	103 869
A (first rate)	90 236
B (very good)	8 728
C (good)	3 010
D (average)	1 210
E (acceptable)	685
without an internal rating - customers from the financial, non-financial and public sectors (consumer loans, housing loans and other)	13 291
Available-for-sale debt securities	**5 147**
A (first rate)	55
B (very good)	409
C (good)	1 061
D (satisfactory)	1 589
E (average)	1 131
F (acceptable)	795
G (poor)	74
G3 (low)	33
TOTAL	**185 472**

59. Concentration of credit risk at the Bank

Concentration by the largest entities
Concentration by the largest groups
Concentration by industry
Concentration by geographical regions
Concentration of credit risk
Other types of concentration

The Bank defines credit concentration risk as the risk of material losses or a significant change in the Bank's risk profile due to excessive concentration on account of exposures to single customers and groups of related customers, to customers operating in the same business sector or in the same geographical region, or due to excessive concentration on account of other reasons.

Concentration by the largest entities

The risk of concentration of exposures to individual customers and groups of related customers is monitored in accordance with Article 395 clause 1 of Regulation of the European Parliament and the Council (EU) No. 575/2013 on prudential requirements for credit institutions and investment firms (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.

(IN PLN MILLION)

As at 31 December 2018 and 31 December 2017, concentration limits were not exceeded. As at 31 December 2018, the Bank's concentration risk relating to the largest exposure to a single customer amounted to 47.7%[1] of the Bank's eligible capital (as at 31 December 2017 49.0%[1]).

The Bank's exposure to the 20 largest non-banking customers:

31.12.2018			31.12.2017		
	CREDIT EXPOSURES INCLUDE LOANS, ADVANCES, PURCHASED DEBT, DISCOUNTED BILL OF EXCHANGE, REALIZED GUARANTEES, INTEREST RECEIVABLES AND OFF-BALANCE SHEET AND CAPITAL EXPOSURES[2]	SHARE IN THE LOAN PORTFOLIO, INCLUDING OFF-BALANCE SHEET AND CAPITAL EXPOSURES	No.	CREDIT EXPOSURES INCLUDE LOANS, ADVANCES, PURCHASED DEBT, DISCOUNTED BILL OF EXCHANGE, REALIZED GUARANTEES, INTEREST RECEIVABLES AND OFF-BALANCE SHEET AND CAPITAL EXPOSURES[2]	SHARE IN THE LOAN PORTFOLIO, INCLUDING OFF-BALANCE SHEET AND CAPITAL EXPOSURES
1 [1]	18 021	6,45%	1 [1]	16 784	6,32%
2	2 859	1,02%	2 [1]	2 936	1,11%
3	2 774	0,99%	3	2 828	1,07%
4	2 710	0,97%	4	2 450	0,92%
5 [1]	2 450	0,88%	5	2 332	0,88%
6	2 274	0,81%	6	1 895	0,71%
7	2 169	0,78%	7	1 747	0,66%
8	1 899	0,68%	8	1 602	0,60%
9	1 898	0,68%	9	1 566	0,59%
10	1 669	0,60%	10	1 322	0,50%
11	1 539	0,55%	11	1 150	0,43%
12 [1]	1 500	0,54%	12 [1]	1 101	0,41%
13	958	0,34%	13	796	0,30%
14	775	0,28%	14	755	0,28%
15	747	0,27%	15	746	0,28%
16	743	0,27%	16	724	0,27%
17	721	0,26%	17	702	0,26%
18	708	0,25%	18	682	0,26%
19	705	0,25%	19	653	0,25%
20	686	0,25%	20	650	0,24%
Total	**47 805**	**17,11%**	**Total**	**43 421**	**16,36%**

[1] exposure eliminated from the exposure concentration limit in the CRR Regulation

[2] off-balance sheet exposure includes liabilities arising from derivative transactions at amounts equal to their balance sheet equivalent (in accordance with the provisions of the CRR Regulation).

CONCENTRATION BY THE LARGEST GROUPS

The largest concentration of PKO Bank Polski's exposures to a group of borrowers is 7.03%[1] of the Bank's loan portfolio (as at 31 December 2017 it was 6.80%[1]).

As at 31 December 2018 and 31 December 2017, the largest concentration of the Bank's exposures amounted to 52.0%[1] and 52.7%[1] of the Bank's recognized capital, respectively.

[1] exposure excluded from exposure concentration limit.

(IN PLN MILLION)

The Bank's exposure to the 5 largest groups:

31.12.2018			31.12.2017		
No.	CREDIT EXPOSURES INCLUDE LOANS, ADVANCES, PURCHASED DEBT, DISCOUNTED BILL OF EXCHANGE, REALIZED GUARANTEES, INTEREST RECEIVABLES AND OFF-BALANCE SHEET AND CAPITAL EXPOSURES[2]	SHARE IN THE LOAN PORTFOLIO, INCLUDING OFF-BALANCE SHEET AND CAPITAL EXPOSURES	No.	CREDIT EXPOSURES INCLUDE LOANS, ADVANCES, PURCHASED DEBT, DISCOUNTED BILL OF EXCHANGE, REALIZED GUARANTEES, INTEREST RECEIVABLES AND OFF-BALANCE SHEET AND CAPITAL EXPOSURES[2]	SHARE IN THE LOAN PORTFOLIO, INCLUDING OFF-BALANCE SHEET AND CAPITAL EXPOSURES
1 [1]	19 630	7,03%	1 [1]	18 063	6,80%
2	3 679	1,32%	2	3 094	1,17%
3	3 160	1,13%	3	3 063	1,15%
4	2 863	1,02%	4	2 336	0,88%
5	2 445	0,87%	5	2 169	0,82%
Total	**31 777**	**11,37%**	**Total**	**28 725**	**10,82%**

[1] commitment excluded from the limit of concentration of commitments in the CRR Regulation

[2] an off-balance sheet commitment includes a liability arising from derivative transactions at an amount equal to their balance sheet equivalent (in accordance with the provisions of the CRR Regulation).

CONCENTRATION BY INDUSTRY

The Bank applies limits intended to reduce the level of risk associated with financing institutional customers operating in certain industries characterized by a high level of credit risk, and to avoid excessive concentration in individual industry sectors.

As at 31 December 2018, the total exposure to the four largest industry groups, i.e. "Financial and insurance activities", "Manufacturing", "Public administration and national defence" and "Real estate administration" amounted to 61% (as at 31 December 2017: 58%).

An increase in the Bank's exposure to business entities is observed. The structure of the Bank's exposure by industry sector is dominated by entities operating in the "Financial and insurance activity" section.

The structure of exposure to industry sectors as at 31 December 2018 and 31 December 2017 is presented in the table below:

Section s	Section name	31.12.2018		31.12.2017	
		Exposure	No. of entities	Exposure	No. of entities
K	Financial and insurance activities	19,42%	1,79%	17,36%	1,90%
C	Industrial processing	15,12%	10,57%	13,78%	10,59%
L.	Real estate administration	11,67%	22,65%	11,76%	22,76%
G	Wholesale and retail trade, repair of motor vehicles	10,41%	23,53%	11,66%	23,65%
O	Public administration and national defence, obligatory social security	15,06%	0,42%	14,65%	0,45%
Other exposures		28,32%	41,04%	30,79%	40,65%
Total		**100,00%**	**100,00%**	**100,00%**	**100,00%**

(IN PLN MILLION)

CONCENTRATION BY GEOGRAPHICAL REGION

The Bank's loan portfolio is diversified in terms of geographical concentration.

The structure of the loan portfolio by geographical region is identified by the Bank depending on a customer type – it is different for the Retail Market Area (ORD) and for the Corporate and Investment Banking Area (OKI). There are 11 geographical regions and the Head Office within the ORD. As at 31 December 2018, the largest concentration of the ORD loan portfolio was in the Warsaw region and Katowice region (approx. 26% of the ORD loan portfolio) (as at 31 December 2017: 25%).

CONCENTRATION OF CREDIT RISK BY GEOGRAPHICAL REGION FOR RETAIL CUSTOMERS	31.12.2018	31.12.2017
Warsaw region	14,35%	14,20%
Katowice region	11,32%	11,03%
Poznań region	10,02%	9,99%
Kraków region	9,00%	9,07%
Łódź region	8,83%	8,84%
Wrocław region	9,60%	9,29%
Gdańsk region	8,50%	8,66%
Bydgoszcz region	7,39%	7,52%
Lublin region	6,88%	6,91%
Białystok region	6,60%	6,57%
Szczecin region	6,20%	6,16%
Head Office	0,65%	0,91%
other	0,66%	0,85%
Total	**100,00%**	**100,00%**

The Bank distinguishes 7 macroregions and the Head Office within the OKI. As at 31 December 2018, the largest concentration of the OKI loan portfolio was in the central macroregion, which accounted for 48% of the OKI portfolio (49% as at 31 December 2017).

CONCENTRATION OF CREDIT RISK BY GEOGRAPHICAL REGION FOR CORPORATE CUSTOMERS	31.12.2018	31.12.2017
central macroregion	47,71%	48,58%
northern macroregion	10,29%	10,60%
western macroregion	9,05%	8,70%
southern macroregion	8,84%	9,46%
north-eastern macroregion	4,89%	4,76%
south-western macroregion	7,89%	6,45%
south-eastern macroregion	8,67%	10,40%
Head Office	1,68%	0,35%
foreign countries	0,98%	0,70%
Total	**100,00%**	**100,00%**

CONCENTRATION OF CREDIT RISK BY CURRENCY

As at 31 December 2018, the share of exposures in convertible currencies other than PLN in the entire Bank's portfolio amounted to 20% (being the same as the share as at 31 December 2017). Exposures in CHF represent the largest part of the Bank's foreign currency loans, with the share in the entire foreign currency portfolio of the Bank of 57% as at the end of 2018 (as at 31 December 2017 approx. 64%). Loans in EUR are the second largest group of loans in foreign currencies; as at the end of 2018, the share of these loans in the total portfolio amounted to nearly 8%, thus it increased by more than 1% as compared with 2017.

(IN PLN MILLION)

CONCENTRATION OF CREDIT RISK BY CURRENCY	31.12.2018	31.12.2017
PLN	79,68%	80,19%
CHF	11,67%	12,75%
EUR	7,51%	6,14%
USD	1,04%	0,81%
GBP	0,04%	0,05%
other	0,06%	0,06%
Total	**100,00%**	**100,00%**

OTHER TYPES OF CONCENTRATION

Based on Recommendations S, T and C of the Polish Financial Supervision Authority, the Bank applies internal limits related to credit exposures of the Bank's customers, determining its appetite for credit risk and concentration. As at 31 December 2018 and 31 December 2017 these limits were not exceeded.

HOUSING LOAN PORTFOLIO STRUCTURE BY LTV	31.12.2018	31.12.2017
0% - 40%	21,49%	19,69%
41% -60%	24,83%	21,66%
61% - 80%	37,46%	31,96%
81% - 90%	10,75%	16,96%
91% - 100%	2,36%	4,76%
over 100%	3,11%	4,96%
Total	**100,00%**	**100,00%**

The average LTV of the portfolio of home loans amounted to 59.50% as at 31 December 2018 and 62.95% as at 31 December 2017.

60. COLLATERAL

USE OF CREDIT RISK MITIGATION TECHNIQUES – COLLATERAL

In the period ended 31 December 2018, 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 2 382 million (as at 31 December 2017 PLN 2 104 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.

61. 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 managing 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 of the loan period;
- changing interest rate;
- change 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 performing.

The provision of facilities within the framework of forbearance, as a premise of impairment, results in the recognition of the premise of impairment and the classification of the credit exposure into the portfolio of exposures at risk of impairment.

The inclusion of such exposures in the portfolio of performing exposures (discontinuation of recognition of the forbearance agreement as an impairment trigger) takes place at least 12 months after the introduction of forbearance, provided that all payments in arrears and at least six scheduled payments have been made by the customer and, in the 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 in 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. Due to the impairment trigger or a significant increase in credit risk identified in connection therewith, 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)

Bank Polski

LOANS AND ADVANCES TO CUSTOMERS

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 allowances	Total, net	Instruments with modified terms and conditions	Refinancing	Total, gross	Impairment allowances	Total, net		
Not held for trading, measured at fair value through profit or loss:	-	-	-	-	-	1	-	1	-	1	1	1
Loans	-	-	-	-	-	1	-	1	-	1	1	1
consumer	-	-	-	-	-	1	-	1	-	1	1	1
											-	
Measured at fair value through OCI:	-	-	-	-	-	1	-	1	-	1	1	1
Loans	-	-	-	-	-	1	-	1	-	1	1	1
housing			-		-	1		1		1	1	1
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	1 100	2	1 102	(79)	1 023	2 901	173	3 074	(1 165)	1 909	4 176	2 932

01.01.2018	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 allowances	Total, net	Instruments with modified terms and conditions	Refinancing	Total, gross	Impairment allowances	Total, net		
Not held for trading, measured at fair value through profit or loss:	-	-	-	-	-	1	-	1	-	1	1	1
Loans	-	-	-	-	-	1	-	1	-	1	1	1
housing	-	-	-	-	-	-	-	-	-	-	-	-
corporate	-	-	-	-	-	-	-	-	-	-	-	-
consumer	-	-	-	-	-	1	-	1	-	1	1	1
Measured at amortized cost:	1 503	3	1 506	(95)	1 411	2 358	200	2 558	(1 133)	1 425	4 064	2 836
Loans	1 503	3	1 506	(95)	1 411	2 358	200	2 558	(1 133)	1 425	4 064	2 836
housing	562		562	(32)	530	891	-	891	(430)	461	1 453	991
corporate	866	3	869	(57)	812	1 227	195	1 422	(594)	828	2 291	1 640
consumer	75	-	75	(6)	69	240	5	245	(109)	136	320	205
Total	1 503	3	1 506	(95)	1 411	2 359	200	2 559	(1 133)	1 426	4 065	2 837

31.12.2017	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 allowances	Total, net	Instruments with modified terms and conditions	Refinancing	Total, gross	Impairment allowances	Total, net		
Loans	1 432	2	1 434	(54)	1 380	2 257	190	2 447	(924)	1 523	3 881	2 903
housing	544	-	544	(13)	531	861	-	861	(428)	433	1 405	964
corporate	818	2	820	(39)	781	1 181	186	1 367	(400)	967	2 187	1 748
consumer	70	-	70	(2)	68	215	4	219	(96)	123	289	191
											-	
Total	1 432	2	1 434	(54)	1 380	2 257	190	2 447	(924)	1 523	3 881	2 903

(IN PLN MILLION)

LOANS AND ADVANCES TO CUSTOMERS SBJECT TO FORBEARANCE, GROSS BY GEOGRAPHICAL REGION	31.12.2018	31.12.2017
mazowiecki	1 549	1 013
śląsko-opolski	374	436
wielkopolski	216	266
zachodnio-pomorski	214	256
łódzki	260	296
dolnośląski	253	290
podlaski	165	194
małopolsko-świętokrzyski	234	255
pomorski	409	261
kujawsko-pomorski	351	382
lubelsko-podkarpacki	144	225
warmińsko-mazurski	7	7
Total	**4 176**	**3 881**

Change in carrying amounts of loans and advances to customers subject to forbearance at the beginning and end of the period are presented in the table below:

CHANGE IN CARRYING AMOUNTS OF LOANS AND ADVANCES TO CUSTOMERS SUBJECT TO FORBEARANCE AT THE BEGINNING AND END OF THE PERIOD, NET	2018	2017
As at the beginning of the period	**2 903**	**2 953**
Changes due to IFRS 9 implementation	(66)	-
As at the beginning of the period (restated)	**2 837**	**2 953**
Impairment allowance (change during the period)	(15)	(79)
Gross book value of loans and advances which ceased to meet the forbearance criteria during the period	(631)	(605)
New loans and advances recognized in the period, gross	1 454	1 261
Other changes/repayment	(713)	(627)
Carrying amount as at the end of the period, net	**2 932**	**2 903**

LOANS AND ADVANCES TO CUSTOMERS SUBJECT TO FORBEARANCE BY TYPE OF CHANGES IN TERMS OF REPAYMENT, GROSS	31.12.2018	31.12.2017
Dividing the debt due into instalments	2 014	2 334
Change in the repayment scheme (fixed payments, degressive)	1 701	1 577
Extension of the loan period	2 000	1 684
Change in interest rate	723	764
Change in margin	705	896
Debt reduction	122	150
Other terms	233	22

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

The amount of recognized interest income on forborne loans and advances to customers for the year ended 31 December 2018 amounted to PLN 123 million (PLN 141 million for the period ended 31 December 2017).

(IN PLN MILLION)

SECURITIES SUBJECT TO FORBEARANCE

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

01.01.2018	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 allowances	Total, net	Instruments with modified terms and conditions	Refinancing	Total, gross	Impairment allowances	Total, net		
Not held for trading, measured at fair value through profit or loss	-	-	-	-	-	137	-	137	-	137	137	137
corporate bonds (in PLN)	-	-	-	-	-	137	-	137	-	137	137	137
					-							
Measured at fair value through OCI	231	-	231	(3)	228	473	-	473	(15)	458	704	686
corporate bonds (in PLN)	81	-	81	(1)	80	473	-	473	(15)	458	554	538
corporate bonds (in foreign currencies)	150	-	150	(2)	148	-	-	-	-	-	150	148
Total	231	-	231	(3)	228	610	-	610	(15)	595	841	823

31.12.2017	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 allowances	Total, net	Instruments with modified terms and conditions	Refinancing	Total, gross	Impairment allowances	Total, net		
Available-for-sale investment securities												
corporate bonds (in PLN)	81	-	81	-	81	819	-	819	(246)	573	900	654
corporate bonds (in foreign currencies)	150	-	150	-	150	-	-	-	-	-	150	150
											-	
Total	231	-	231	-	231	819	-	819	(246)	573	1 050	804

(IN PLN MILLION)

Change in carrying amounts of debt securities subject to forbearance at the beginning and end of the period

CHANGE IN CARRYING AMOUNTS OF DEBT SECURITIES SUBJECT TO FORBEARANCE AT THE BEGINNING AND END OF THE PERIOD, NET	2018	2017
As at the beginning of the period	**804**	**1 019**
Changes due to IFRS 9 implementation	19	-
As at the beginning of the period (restated)	**823**	**1 019**
Impairment allowance (change during the period)	8	28
Other changes/repayment	(218)	(243)
Carrying amount as at the end of the period, net	**613**	**804**

DEBT SECURITIES SUBJECT TO FORBEARANCE BY TYPE OF CHANGES IN TERMS OF REPAYMENT, GROSS	31.12.2018	31.12.2017
Dividing the debt due into instalments	622	1 050
Change in the repayment scheme (fixed payments, degressive)	622	1 050
Extension of the loan period	622	1 050
Change in interest rate	585	819
Change in margin	585	819
Debt reduction	585	133

62. Exposure to the counterparty credit risk

Credit risk of financial institutions on the wholesale and non-wholesale market

CONCENTRATION OF CREDIT RISK – INTERBANK AND NON-WHOLSESALE MARKET – EXPOSURE AS AT 31.12.2018*								
			Interbank market - wholesale			Non-wholesale market		
Counterparty	Country	Rating	Deposit	Derivatives (market value, excluding collateral if positive)	Securities (nominal value)	Nominal amount of balance sheet exposure	Nominal amount of off-balance sheet exposure	Total
Counterparty 1	Poland	BBB	-	(151)	91	1 729	3 171	4 991
Counterparty 2	Switzerland	AAA	985	(1)	-	-	-	985
Counterparty 3	Finland	AA	600	(24)	-	13	100	713
Counterparty 4	Belgium	A	700	1	-	-	-	701
Counterparty 5	Austria	A	581	-	-	-	-	581
Counterparty 6	Norway	A	515	-	-	-	-	515
Counterparty 7	Switzerland	AA	493	-	-	-	-	493
Counterparty 8	Austria	BBB	467	-	-	-	-	467
Counterparty 9	Poland	A	-	1	400	-	-	401
Counterparty 10	Switzerland	AA	400	-	-	-	-	400
Counterparty 11	Switzerland	AA	376	-	-	-	-	376
Counterparty 12	China	A	280	-	-	-	-	280
Counterparty 13	Ukraine	NONE	88	-	-	-	113	201
Counterparty 14	Supranational institution	AAA	-	(1)	200	-	-	200
Counterparty 15	Switzerland	AA	146	-	-	-	-	146
Counterparty 16	Poland	A	-	-	-	140	-	140
Counterparty 17	Italy	BBB	99	-	-	-	-	99
Counterparty 18	UK	AA	-	97	-	-	-	97
Counterparty 19	USA	AA	-	71	-	-	10	81
Counterparty 20	Poland	BBB	-	51	28	-	-	79

[1] Excluding exposure to the State Treasury and the National Bank of Poland.

(IN PLN MILLION)

CONCENTRATION OF CREDIT RISK – INTERBANK AND NON-WHOLSESALE MARKET – EXPOSURE AS AT 31.12.2017*								
			Interbank market - wholesale			Non-wholesale market		
Counterparty	Country	Rating	Deposit	Derivatives (market value, excluding collateral if positive)	Securities (nominal value)	Nominal amount of balance sheet exposure	Nominal amount of off-balance sheet exposure	Total
Counterparty 1	Poland	BBB	-	200	23	1 473	2 927	4 622
Counterparty 4	Belgium	BBB	692	(6)	-	-	-	692
Counterparty 41	Germany	AA	592	-	-	-	-	592
Counterparty 71	Belgium	A	480	-	-	-	-	480
Counterparty 9	Poland	A	-	-	400	-	-	400
Counterparty 8	Austria	BBB	396	-	-	-	-	396
Counterparty 12	China	A	332	-	-	-	-	332
Counterparty 3	Sweden	AA	190	84	-	27	25	326
Counterparty 14	Supranational institution	AAA	170	16	130	-	-	316
Counterparty 5	Austria	A	209	-	-	-	-	209
Counterparty 13	Ukraine	NONE	80	-	-	-	104	185
Counterparty 23	France	A	-	171	-	-	-	171
Counterparty 19	USA	AA	-	103	-	-	60	163
Counterparty 16	Poland	A	-	-	-	150	-	150
Counterparty 18	UK	AA	-	120	-	-	-	120
Counterparty 72	USA	A	115	-	-	-	-	115
Counterparty 22	France	A	-	88	-	-	-	88
Counterparty 20	Poland	BBB	10	44	-	-	-	54
Counterparty 26	Denmark	A	50	(3)	-	-	-	50
Counterparty 69	Poland	B				50	-	50

[1] Excluding exposure to the State Treasury and the National Bank of Poland.

As at 31 December 2018 and 31 December 2017, the Bank had access to two clearing houses (as an indirect participant in one, and as a direct participant in the other) through which the Bank settled interest rate derivatives referred to in the EMIR Regulation (Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, including the related delegated and executive regulations) with selected domestic and foreign counterparties. In nominal terms, the share of transactions cleared centrally was 77% of the entire IRS/OIS portfolio, and in the case of FRA, all transactions were submitted for clearing to clearing houses.

As at 31 December 2018, the Bank had framework agreements under the ISDA/ZBP standard signed with 22 domestic banks and 67 foreign banks and credit institutions, and CSA/ZBP collateral agreements with 21 domestic banks and 65 foreign banks and credit institutions. In addition, the Bank was a party to 29 repo agreements (under the GMRA/ZBP standard).As at 31 December 2017, the Bank had framework agreements under the ISDA/ZBP standard signed with 22 domestic banks and 66 foreign banks and credit institutions, and CSA/ZBP collateral agreements with 21 domestic banks and 64 foreign banks and credit institutions. In addition, the Bank was a party to 27 repo agreements (under the GMRA/ZBP standard).

(IN PLN MILLION)

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

LOANS AND ADVANCES TO CUSTOMERS BY CURRENCY (excluding adjustments relating to fair value hedge accounting) 31.12.2018	PLN	CHF	EUR	USD	OTHER	Total
Not held for trading, measured at fair value through profit or loss						
Loans and advances to customers	**1 106**	-	-	-	-	**1 106**
housing	**27**	-	-	-	-	**27**
corporate	**148**	-	-	-	-	**148**
consumer	**931**	-	-	-	-	**931**
Not held for trading, measured at fair value through profit or loss	**1 106**	-	-	-	-	**1 106**
Measured at fair value through OCI						
Loans	8 496	-	-	-	-	**8 496**
housing	8 496	-	-	-	-	**8 496**
Measured at fair value through OCI	**8 496**	-	-	-	-	**8 496**
Measured at amortized cost						
Gross loans	147 975	24 015	15 103	2 145	194	**189 432**
housing	58 732	23 265	3 154	50	10	**85 211**
corporate	62 691	505	11 926	2 093	184	**77 399**
consumer	26 552	245	23	2	-	**26 822**
Receivables in respect of repurchase agreements	51	-	-	-	-	**51**
Allowances for expected credit losses	(6 256)	(815)	(292)	(147)	(1)	**(7 511)**
Measured at amortized cost, net	**141 770**	**23 200**	**14 811**	**1 998**	**193**	**181 972**
Total	**151 372**	**23 200**	**14 811**	**1 998**	**193**	**191 574**

LOANS AND ADVANCES TO CUSTOMERS BY CURRENCY (excluding adjustments relating to fair value hedge accounting) 01.01.2018	PLN	CHF	EUR	USD	OTHER	Total
Not held for trading, measured at fair value through profit or loss						
Loans and advances to customers	**1 070**	-	-	-	-	**1 070**
housing	**37**	-	-	-	-	**37**
corporate	**182**	-	-	-	-	**182**
consumer	**851**	-	-	-	-	**851**
Not held for trading, measured at fair value through profit or loss	**1 070**	-	-	-	-	**1 070**
Measured at fair value through OCI						
Loans	8 235	-	-	-	-	**8 235**
housing	8 235	-	-	-	-	**8 235**
Measured at fair value through OCI	**8 235**	-	-	-	-	**8 235**
Measured at amortized cost						
Gross loans	142 619	25 047	11 981	1 642	211	**181 500**
housing	56 911	24 115	3 366	59	12	**84 463**
corporate	60 736	621	8 587	1 580	199	**71 723**
consumer	24 972	311	28	3		**25 314**
Receivables in respect of repurchase agreements	902	-	-	-	-	**902**
Allowances for expected credit losses	(8 289)	(1 193)	(340)	(219)	(2)	**(10 043)**
Measured at amortized cost, net	**135 232**	**23 854**	**11 641**	**1 423**	**209**	**172 359**
Total	**144 537**	**23 854**	**11 641**	**1 423**	**209**	**181 664**

(IN PLN MILLION)

LOANS AND ADVANCES TO CUSTOMERS BY CURRENCY (excluding adjustments relating to fair value hedge accounting) 31.12.2017	PLN	CHF	EUR	USD	OTHER	Total
Measured at amortized cost						
Gross loans	150 226	24 786	11 940	1 591	240	188 783
housing	64 803	23 909	3 353	57	12	92 134
corporate	59 810	589	8 561	1 531	228	70 719
consumer	25 613	288	26	3	-	25 930
debt securities (corporate)	1 735	-	124	-	-	1 859
debt securities (municipal)	2 519	-	-	-	-	2 519
Receivables in respect of repurchase agreements	902	-	-	-	-	902
Impairment allowances	(5 861)	(891)	(230)	(187)	(1)	(7 170)
Total	**149 521**	**23 895**	**11 834**	**1 404**	**239**	186 893

LOANS AND ADVANCES TO CUSTOMERS IN CHF BY METHOD OF CALCULATING IMPAIRMENT ALLOWANCES (translated into PLN at the exchange rate of 1 CHF = 3.8166)	31.12.2018			Total
	Financial institutions	Corporates	Households	
Measured at amortized cost:				
Gross amount	1	302	23 712	24 015
assets with no significant increase in credit risk since initial recognition (stage 1)		118	20 892	21 010
assets with a significant increase in credit risk since initial recognition, but not credit-impaired (stage 2)	1	101	1 872	1 974
credit-impaired assets (stage 3)	-	83	948	1 031
Allowances for expected credit losses	-	(48)	(767)	(815)
allowances for assets with no significant increase in credit risk since initial recognition (stage 1)	-	(1)	(12)	(13)
allowances for assets with a significant increase in credit risk since initial recognition, but not credit-impaired (stage 2)	-	(12)	(130)	(142)
allowances for credit-impaired assets (stage 3)	-	(35)	(625)	(660)
Measured at amortized cost, net	**1**	**254**	**22 945**	**23 200**
of which: purchased or originated credit-impaired assets (POCI)	-	-	55	55
Total	**1**	**254**	**22 945**	**23 200**

LOANS AND ADVANCES TO CUSTOMERS IN CHF BY METHOD OF CALCULATING IMPAIRMENT ALLOWANCES (translated into PLN at the exchange rate of 1 CHF = 3.5672)	01.01.2018			Total
	Financial institutions	Corporates	Households	
Measured at amortized cost:				
Gross amount	2	387	24 658	25 047
assets with no significant increase in credit risk since initial recognition (stage 1)		118	21 658	21 776
assets with a significant increase in credit risk since initial recognition, but not credit-impaired (stage 2)	2	139	1 573	1 714
credit-impaired assets (stage 3)	-	130	1 427	1 557
Allowances for expected credit losses	-	(87)	(1 106)	(1 193)
allowances for assets with no significant increase in credit risk since initial recognition (stage 1)	-	(1)	(13)	(14)
allowances for assets with a significant increase in credit risk since initial recognition, but not credit-impaired (stage 2)	-	(16)	(95)	(111)
allowances for credit-impaired assets (stage 3)	-	(70)	(998)	(1 068)
Measured at amortized cost, net	**2**	**300**	**23 552**	**23 854**
of which: purchased or originated credit-impaired assets (POCI)	-	-	60	60
Total	**2**	**300**	**23 552**	**23 854**

(IN PLN MILLION)

LOANS AND ADVANCES TO CUSTOMERS (excluding adjustments relating to fair value hedge accounting)	31.12.2018					Total
	PLN	CHF	EUR	USD	OTHER	
Not held for trading, measured at fair value through profit or loss	1 106	-	-	-	-	1 106
Measured at fair value through OCI						
Gross amount	8 496	-	-	-	-	8 496
assets with no significant increase in credit risk since initial recognition (stage 1)	8 330	-	-	-	-	8 330
assets with a significant increase in credit risk since initial recognition, but not credit-impaired (stage 2)	163	-	-	-	-	163
credit-impaired assets (stage 3)	3	-	-	-	-	3
Measured at fair value through OCI, net	8 496	-	-	-	-	8 496
Measured at amortized cost:						
Gross amount	148 026	24 015	15 103	2 145	194	189 483
assets with no significant increase in credit risk since initial recognition (stage 1)	130 186	21 010	13 291	1 732	193	166 412
assets with a significant increase in credit risk since initial recognition, but not credit-impaired (stage 2)	9 216	1 974	1 018	267	1	12 476
credit-impaired assets (stage 3)	8 624	1 031	794	146	-	10 595
Allowances for expected credit losses	(6 256)	(815)	(292)	(147)	(1)	(7 511)
allowances for assets with no significant increase in credit risk since initial recognition (stage 1), gross	(431)	(13)	(74)	(2)	(1)	(521)
allowances for assets with a significant increase in credit risk since initial recognition, but not credit-impaired, gross (stage 2)	(924)	(142)	(51)	(7)	-	(1 124)
allowances for credit-impaired assets (stage 3)	(4 901)	(660)	(167)	(138)	-	(5 866)
Measured at amortized cost, net	141 770	23 200	14 811	1 998	193	181 972
of which: purchased or originated credit-impaired assets	384	55	3	-	-	442
Total	151 372	23 200	14 811	1 998	193	191 574

LOANS AND ADVANCES TO CUSTOMERS (excluding adjustments relating to fair value hedge accounting)	01.01.2018					Total
	PLN	CHF	EUR	USD	OTHER	
Not held for trading, measured at fair value through profit or loss	1 070	-	-	-	-	1 070
Measured at fair value through OCI						
Gross amount	8 235	-	-	-	-	8 235
assets with no significant increase in credit risk since initial recognition (stage 1)	8 152	-	-	-	-	8 152
assets with a significant increase in credit risk since initial recognition, but not credit-impaired (stage 2)	83	-	-	-	-	83
Measured at fair value through OCI, net	8 235	-	-	-	-	8 235
Measured at amortized cost:						
Gross amount	143 521	25 047	11 981	1 642	211	182 402
assets with no significant increase in credit risk since initial recognition (stage 1)	123 758	21 776	9 692	1 139	210	156 575
assets with a significant increase in credit risk since initial recognition, but not credit-impaired (stage 2)	8 563	1 714	1 412	335	1	12 025
credit-impaired assets (stage 3)	11 200	1 557	877	168	-	13 802
Allowances for expected credit losses	(8 289)	(1 193)	(340)	(219)	(2)	(10 043)
allowances for assets with no significant increase in credit risk since initial recognition (stage 1)	(384)	(14)	(48)	(2)	(2)	(450)
allowances for assets with a significant increase in credit risk since initial recognition, but not credit-impaired (stage 2)	(744)	(111)	(74)	(58)	-	(987)
allowances for credit-impaired assets (stage 3)	(7 161)	(1 068)	(218)	(159)	-	(8 606)
Measured at amortized cost, net	135 232	23 854	11 641	1 423	209	172 359
of which: purchased or originated credit-impaired assets (POCI)	51	60	3	-	-	114
Total	144 537	23 854	11 641	1 423	209	181 664

(IN PLN MILLION)

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

The Bank analyses its portfolio of foreign currency mortgage loans, including 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 in the quality of the portfolio. 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	31.12.2018			31.12.2017		
	gross	allowances	net	gross	allowances	net
CHF	23 263	(683)	22 580	23 895	(754)	23 141
EUR	3 154	(53)	3 101	3 354	(50)	3 304
USD	50	(3)	47	56	(5)	51
PLN	64 925	(1 032)	63 893	58 322	(911)	57 411
OTHER	10	-	10	12	-	12
TOTAL	**91 402**	**(1 771)**	**89 631**	**85 639**	**(1 720)**	**83 919**

LOANS AND ADVANCES TO CUSTOMERS SUBJECT TO FORBEARANCE BY CURRENCY	31.12.2018					Total
	PLN	CHF	EUR	USD	OTHER	
Performing exposures subject to forbearance	**669**	**322**	**31**	**1**	**-**	**1 023**
Measured at amortized cost:	669	322	31	1	-	1 023
gross amount	728	340	33	1	-	1 102
allowances for expected credit losses	(59)	(18)	(2)	-	-	(79)
Non-performing exposures subject to forbearance	**1 363**	**200**	**346**	**-**	**-**	**1 909**
Not held for trading, measured at fair value through profit or loss	1	-	-	-	-	1
Measured at fair value through OCI	1	-	-	-	-	1
gross amount	1	-	-	-	-	1
Measured at amortized cost:	1 361	200	346	-	-	1 907
gross amount	2 258	422	391	1	-	3 072
allowances for expected credit losses	(897)	(222)	(45)	(1)	-	(1 165)
Loans and advances to customers subject to forbearance, net	**2 032**	**522**	**377**	**1**	**-**	**2 932**

LOANS AND ADVANCES TO CUSTOMERS SUBJECT TO FORBEARANCE BY CURRENCY	01.01.2018					Total
	PLN	CHF	EUR	USD	OTHER	
Performing exposures subject to forbearance	**933**	**317**	**161**	**-**	**-**	**1 411**
Measured at amortized cost:	933	317	161	-	-	1 411
gross amount	1 008	330	168	-	-	1 506
allowances for expected credit losses	(75)	(13)	(7)	-	-	(95)
Non-performing exposures subject to forbearance	**981**	**305**	**138**	**2**	**-**	**1 426**
Not held for trading, measured at fair value through profit or loss	1	-	-	-	-	1
Measured at fair value through OCI	-	-	-	-	-	-
gross amount	-	-	-	-	-	-
Measured at amortized cost:	980	305	138	2	-	1 425
gross amount	1 855	540	160	3	-	2 558
allowances for expected credit losses	(875)	(235)	(22)	(1)	-	(1 133)
Loans and advances to customers subject to forbearance, net	**1 914**	**622**	**299**	**2**	**-**	**2 837**

(IN PLN MILLION)

LOANS AND ADVANCES TO CUSTOMERS IN CHF BY METHOD OF CALCULATING IMPAIRMENT ALLOWANCES (translated into PLN at the exchange rate of 1 CHF = 3.5672)	31.12.2017			Total
	Financial institutions	Corporates	Households	
Assessed on an individual basis, of which:	-	92	102	194
impaired	-	83	90	173
Assessed on a portfolio basis, impaired	-	15	1 041	1 056
Assessed on a group basis (IBNR)	2	257	23 277	23 536
			-	
Loans and advances to customers, gross	**2**	**364**	**24 420**	**24 786**
Impairment allowances on exposures assessed on an individual basis, of which:	-	(36)	(42)	(78)
impaired	-	(36)	(42)	(78)
Impairment allowances on exposures assessed on a portfolio basis	-	(12)	(749)	(761)
Impairment allowances on exposures assessed on a group basis (IBNR)	-	(3)	(49)	(52)
Total impairment allowances	-	**(51)**	**(840)**	**(891)**
Loans and advances to customers, net	**2**	**313**	**23 580**	**23 895**

LOANS AND ADVANCES TO CUSTOMERS SUBJECT TO FORBEARANCE BY CURRENCY	31.12.2017					Total
	PLN	CHF	EUR	USD	Other currencies	
Performing exposures subject to forbearance	890	325	165	-	-	1 380
Measured at amortized cost:	890	325	165	-	-	1 380
gross amount	936	332	166	-	-	1 434
allowances for expected credit losses	(46)	(7)	(1)	-	-	(54)
Non-performing exposures subject to forbearance	1 125	260	137	1	-	1 523
Measured at amortized cost:	1 125	260	137	1	-	1 523
gross amount	1 754	531	160	2	-	2 447
allowances for expected credit losses	(629)	(271)	(23)	(1)	-	(924)
Loans and advances to customers subject to forbearance, net	2 015	585	302	1	-	2 903

LOANS AND ADVANCES TO CUSTOMERS ASSESSED ON A GROUP BASIS (IBNR)	31.12.2017					Total
	PLN	CHF	EUR	USD	OTHER	
Loans and advances to customers, gross	145 696	23 536	11 230	1 479	211	182 152
past due	1 953	512	83	4	46	2 598
not past due	143 743	23 024	11 147	1 475	165	179 554
Impairment allowances on exposures assessed on a group basis (IBNR)	(467)	(52)	(48)	(57)	(1)	(625)
past due	(117)	(27)	(5)	-	-	(149)
not past due	(350)	(25)	(43)	(57)	(1)	(476)
Loans and advances to customers, net	**145 229**	**23 484**	**11 182**	**1 422**	**210**	**181 527**

LOANS AND ADVANCES TO CUSTOMERS ASSESSED ON A GROUP BASIS (IBNR) SUBJECT TO FORBEARANCE, BY CURRENCY	31.12.2017					Total
	PLN	CHF	EUR	USD	OTHER	
Loans and advances to customers assessed on a group basis (IBNR)	1 031	397	172	-	-	1 600
Impairment allowances on exposures assessed on a group basis (IBNR) subject to forbearance	(54)	(14)	(2)	-	-	(70)
Loans and advances to customers subject to forbearance, net	**977**	**383**	**170**	-	-	**1 530**

As at 31 December 2018, the average LTV for the portfolio of CHF-denominated loans amounted to 64,38% (67,00% as at 31 December 2017) compared with the average LTV for the entire loan portfolio of 59,50% (62,95% as at 31 December 2017).

64. INTEREST RATE RISK MANAGEMENT

Interest rate risk management
Financial information:
  Repricing gap
  Sensitivity measures

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 the market interest rates.

RISK MANAGEMENT OBJECTIVE

To reduce the potential losses resulting from market interest rate fluctuations to an acceptable level by properly shaping the structure of balance sheet and off-balance sheet items.

RISK IDENTIFICATION AND MEASUREMENT

The Bank uses the following measures of interest rate risk: interest income sensitivity, economic value sensitivity, value at risk (VaR), stress tests and repricing gaps.

RISK CONTROL

Control over interest rate risk consists in determining interest rate risk limits and thresholds tailored to the scale and complexity of the Bank's operations, in particular the strategic limit of tolerance to interest rate risk.

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 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 ACTIVITIES

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, among other things, the following: interest income sensitivity, sensitivity of the economic value and losses.

FINANCIAL INFORMATION

REPRICING GAP

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

Repricing gap	0-1 month	1-3 months	3-6 months	6-12 months	1-2 years	2-5 years	>5 years	Total
PLN (in PLN million)								**31.12.2018**
Periodic gap	36 321	31 150	(5 437)	(5 381)	(3 335)	(28 350)	4 909	29 877
Cumulative gap	36 321	67 471	62 034	56 653	53 318	24 968	29 877	
PLN (in PLN million)								**31.12.2017**
Periodic gap	49 532	38 793	(11 527)	(15 058)	(14 735)	(28 139)	4 130	22 996
Cumulative gap	49 532	88 325	76 798	61 740	47 005	18 866	22 996	

Repricing gap	0-1 month	1-3 months	3-6 months	6-12 months	1-2 years	2-5 years	>5 years	Total
USD (in USD million)								31.12.2018
Periodic gap	1 157	(779)	(166)	(235)	(113)	(101)	-	(237)
Cumulative gap	1 157	378	212	(23)	(136)	(237)	(237)	-
USD (in USD million)								31.12.2017
Periodic gap	924	(376)	(429)	(85)	(8)	(119)	-	(93)
Cumulative gap	924	548	119	34	26	(93)	(93)	-

Repricing gap	0-1 month	1-3 months	3-6 months	6-12 months	1-2 years	2-5 years	>5 years	Total
EUR (in EUR million)								31.12.2018
Periodic gap	2 111	(1 618)	(82)	(260)	(234)	(74)	(18)	(175)
Cumulative gap	2 111	493	411	151	(83)	(157)	(175)	-
EUR (in EUR million)								31.12.2017
Periodic gap	3 658	(1 607)	(736)	(551)	(900)	135	18	17
Cumulative gap	3 658	2 051	1 315	764	(136)	(1)	17	-

Repricing gap	0-1 month	1-3 months	3-6 months	6-12 months	1-2 years	2-5 years	>5 years	Total
CHF (in CHF million)								31.12.2018
Periodic gap	(731)	1 093	79	(15)	(3)	(125)	-	298
Cumulative gap	(731)	362	441	426	423	298	298	-
CHF (in CHF million)								31.12.2017
Periodic gap	284	874	75	(83)	(217)	(2)	(590)	341
Cumulative gap	284	1 158	1 233	1 150	933	931	341	-

As at the end of 2018 and 2018, PKO Bank Polski SA had a positive cumulative gap in PLN in all the time horizons.

The table below presents an analysis of securities issued by the State Treasury and NBP by period to repricing as at the end of 31 December 2018 and 31 December 2017.

Repricing gap	up to 1 year	1-5 years	>5 years	Total
(in PLN million)				
31.12.2018	25 949	14 701	4 151	44 801
31.12.2017	25 319	10 558	4 149	40 026

SENSITIVITY MEASURES

PKO Bank Polski SA's exposure to interest rate risk remained within the adopted limits as at 31 December 2018 and 31 December 2017. The Bank was mainly exposed to PLN interest rate risk. Among all the stress tests performed by the Bank involving a parallel shift of interest rate curves, the most unfavourable for the Bank was the scenario of a parallel shift of interest rate curves in PLN.

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

SENSITIVITY MEASURE	31.12.2018	31.12.2017
VaR for a 10-day time horizon at the confidence level of 99% (in PLN million)	241	301
Parallel shift of interest rate curves by 200 b.p. (in PLN million) (stress-test)[1]	1 531	2 097

[1] The table presents the value of the most adverse stress-test scenario: a shift of interest rate curves in particular currencies by 200 b.p. upwards and by 200 b.p. downwards.

65. FOREIGN EXCHANGE RISK MANAGEMENT

Foreign exchange risk management
Financial information:
- Sensitivity measures
- Foreign currency position
- Currency structure

FOREIGN EXCHANGE RISK MANAGEMENT

DEFINITION

Foreign exchange risk is the risk of incurring losses due to unfavourable fluctuations in the exchange rate. 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 foreign exchange risk: value-at-risk (VaR) and stress tests.

RISK CONTROL

Control over foreign exchange risk consists in determining foreign exchange risk limits and thresholds tailored to the scale and complexity of the Bank's operations, in particular the strategic limit of tolerance to foreign exchange risk.

RISK FORECASTING AND MONITORING

The following are monitored by the Bank on a regular basis:
- the level of foreign exchange risk measures,
- utilization of the strategic limit of tolerance to foreign exchange risk,
- utilization of internal limits and thresholds of foreign exchange risk.

REPORTING

Reports on foreign exchange risk are prepared on a daily, weekly, monthly and quarterly basis.

MANAGEMENT ACTIVITIES

The main tools for foreign exchange risk management used by the Bank are:
- foreign exchange risk management procedures;
- foreign exchange 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 foreign exchange risk for, among other things: currency positions, Value at Risk calculated for a 10-day time horizon and daily loss from transactions on the currency market.

FINANCIAL INFORMATION

SENSITIVITY MEASURES

The Bank's VaR and a stress-test analysis of the Bank's exposure to foreign exchange risk, presented cumulatively for all currencies, are presented in the table below:

SENSITIVITY MEASURE	31.12.2018	31.12.2017
VaR for a 10-day time horizon at the confidence level of 99% (in PLN million)	4	3
Change in CUR/PLN by 20% (in PLN million) (stress-test)[1]	229	184

[1] The table presents the value of the most adverse stress-test scenario: PLN appreciation by 20% and PLN depreciation by 20%.

(IN PLN MILLION)

FOREIGN CURRENCY POSITION

The Bank's foreign currency positions are presented in the table below:

FOREIGN CURRENCY POSITION	31.12.2018	31.12.2017
EUR	24	63
USD	(19)	14
CHF	(34)	8
GBP	57	11
Other (Global, Net)	(3)	22

Currency positions (in addition to volatility of foreign exchange rates) are a key factor determining the level of foreign exchange risk to which the Bank is exposed. The level of currency positions is determined by all foreign currency transactions concluded by the Bank, both those reported in the statement of financial position (e.g. loans) and off-balance sheet (e.g. derivative transactions, especially CIRS). In accordance with the foreign exchange risk management policy, a currency position opened by the Bank as part of its banking operations (e.g. repayment of foreign-currency loan by the customer in PLN, currency conversion of a loan) must be closed on the same day, including by using derivatives. This means that the Bank's foreign currency position as at the end of the day may consist solely of an unclosed position in banking operations generated on that date and the currency position generated in trading operations, maintained within the adopted limits, which means that the Bank's foreign exchange risk is limited.

FINANCIAL ASSETS AND LIABILITIES BY CURRENCY

CURRENCY STRUCTURE 31.12.2018	Foreign currencies translated into PLN					
	PLN	CHF	EUR	USD	Other	Total
Cash and balances with the Central Bank	21 650	68	719	158	267	22 862
Amounts due from banks	5 336	7	2 955	2 110	805	11 213
- measured at amortized cost	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
- at fair value through OCI	50 510	-	28	24	-	50 562
- measured 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
- 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 the Central Bank	7	-	-	-	-	7
Amounts due to banks	899	7	552	129	4	1 591
- measured at amortized cost	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
- measured at amortized cost	214 635	1 904	16 248	10 662	1 764	245 213
Debt securities in issue	611	1 527	3 229	-	-	5 367
- measured at amortized cost	611	1 527	3 229	-	-	5 367
Subordinated liabilities	2 731	-	-	-	-	2 731
- measured at amortized cost	2 731	-	-	-	-	2 731
Total 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**
Financing and guarantee liabilities granted	53 333	180	8 266	2 756	222	64 757

(IN PLN MILLION)

CURRENCY STRUCTURE 31.12.2017	Foreign currencies translated into PLN					
	PLN	CHF	EUR	USD	Other	Total
Cash and balances with the Central Bank	16 484	78	726	184	293	17 765
Amounts due from banks	4 821	16	2 190	945	797	8 769
Hedging derivatives	1 103	-	1	-	-	1 104
Other derivative instruments	1 545	3	116	37	-	1 701
Securities	48 547	893	797	273	2	50 512
- held for trading	333	-	137	-	2	472
- financial instruments designated at fair value through profit or loss upon initial recognition	5 439	893	77	-	-	6 409
- available-for-sale investment securities	41 153	-	583	273	-	42 009
- investment securities held to maturity	1 622	-	-	-	-	1 622
Loans and advances to customers	149 521	23 895	11 833	1 404	239	186 892
Other financial assets	1 618	-	99	21	10	1 748
Total financial assets	**223 639**	**24 885**	**15 762**	**2 864**	**1 341**	**268 491**
Amounts due to the Central Bank	6	-	-	-	-	6
Amounts due to banks	933	1 100	2 251	14	1	4 299
- measured at amortized cost	933	1 100	2 251	14	1	4 299
Hedging derivatives	172	3	29	-	-	204
Other derivative instruments	2 321	-	156	60	-	2 537
Amounts due to customers	190 625	1 889	17 115	11 114	1 781	222 524
- measured at amortized cost	190 625	1 889	17 115	11 114	1 781	222 524
Debt securities in issue	645	1 427	3 132	-	-	5 204
- measured at amortized cost	645	1 427	3 132	-	-	5 204
Subordinated liabilities	1 720	-	-	-	-	1 720
- measured at amortized cost	1 720	-	-	-	-	1 720
Total financial liabilities	3 323	1	372	91	25	3 812
Provisions for financial liabilities and guarantees granted	63	1	20	2	-	86
Total financial liabilities	**196 422**	**4 419**	**22 683**	**11 188**	**1 782**	**240 392**
Financing and guarantee liabilities granted	50 782	185	7 390	2 027	485	60 869

66. LIQUIDITY RISK MANAGEMENT

Liquidity risk management
Financial information:
- Liquidity gap
- Liquidity surplus
- Supervisory liquidity measures
- Core deposit base
- Structure of the sources of financing
- Contractual cash flows from the Bank's liabilities, excluding derivative financial instruments
- Contractual cash flows from liabilities in respect of derivative financial instruments
- Current and non-current assets and liabilities

LIQUIDITY RISK MANAGEMENT

DEFINITION

Liquidity risk is the risk of the inability to settle liabilities as they become due because of an absence of liquid assets. A situation of a lack of liquidity can arise from the incorrect structure of balance sheet and off-balance sheet assets and liabilities, a mismatch of cash flows, customers' failing to settle their liabilities, a sudden withdrawal of funds by the customers or other market developments.

The Bank also manages the financing risk which takes into account the risk of losing the existing sources of financing and the inability of renewing the required means of financing or a loss of access to new sources of financing.

RISK MANAGEMENT OBJECTIVE

To ensure the necessary level of funds needed to settle current and future liabilities (also potential ones) as they become due, taking into account the nature of the activities conducted and the needs which may arise due to changes in the market environment, by appropriately establishing the structure of balance sheet and off-balance sheet assets and liabilities.

RISK IDENTIFICATION AND MEASUREMENT

The 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.

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 for the early detection of 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.

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.

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 sale or purchase of securities;
- transactions ensuring long-term financing of the lending activities.

The Bank's policy concerning liquidity is based on keeping a portfolio of appropriate level of liquidity surplus 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.

LIQUIDITY GAP

The liquidity gaps presented below include, among other things, the Bank's adjusted balance sheet items in respect of core deposits from non-financial entities and their maturities, core overdrafts of non-financial entities and their maturities, and liquid securities and their maturities.

	on demand	0-1 month	1-3 months	3-6 months	6-12 months	12-24 months	24-60 months	over 60 months
31.12.2018								
adjusted periodic gap	22 921	25 839	(1 358)	1 498	11 224	17 387	21 296	(98 807)
adjusted cumulative periodic gap	22 921	48 760	47 402	48 900	60 124	77 511	98 807	-
31.12.2017								
adjusted periodic gap	15 256	22 934	(1 927)	1 912	12 096	10 242	34 258	(94 771)
adjusted cumulative periodic gap	15 256	38 190	36 263	38 175	50 271	60 513	94 771	-

LIQUIDITY SURPLUS

SENSITIVITY MEASURE	31.12.2018	31.12.2017
Liquidity surplus in the horizon of up to 30 days (in PLN billion)[1]	21	14

[1] Liquidity surplus – determines the Bank's ability to meet the liquidity needs in a given survival horizon if the scenarios defined in stress tests materialize.

SUPERVISORY LIQUIDITY MEASURES

SUPERVISORY LIQUIDITY MEASURES	31.12.2018	31.12.2017
M3 - coverage ratio of non-liquid assets to own funds	17,44	13,92
M4 - coverage ratio of non-liquid assets and liquidity-restricted assets with own funds and stable external funds	1,22	1,19
NSFR – net stable funding ratio	120,2%	114,6%
LCR - liquidity coverage ratio	127,3%	160,7%

In the periods ended 31 December 2018 and 31 December 2017, liquidity measures remained above their respective supervisory limits.

CORE DEPOSIT BASE

As at 31 December 2018, the core deposit base constituted approx. 93.9% of all deposits placed with the Bank (excluding the interbank market), which represents an increase of approx. 0.3 p.p. compared with the end of 2017.

STRUCTURE OF THE SOURCES OF FINANCING

STRUCTURE OF THE BANK'S SOURCES OF FINANCING	31.12.2018	31.12.2017
Total deposits (excluding interbank market)	81,51%	80,40%
Interbank market deposits	0,65%	0,50%
Equity	13,00%	13,30%
Market financing	4,84%	5,80%
Total	**100,00%**	**100,00%**

CONTRACTUAL CASH FLOWS FROM THE BANK'S LIABILITIES, EXCLUDING DERIVATIVE FINANCIAL INSTRUMENTS

(IN PLN MILLION)

The tables below show the contractual maturity analysis presenting the outstanding contractual maturity dates by individual categories of the statement of financial position and off-balance sheet liabilities, excluding derivative financial instruments.

The amounts denominated in foreign currencies have been translated using the average NBP exchange rate as at 31 December 2018 and as at 31 December 2017. The amounts disclosed comprise non-discounted future cash flows, both in respect of 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 will 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.

The Bank's contractual cash flows by maturity:

BANK'S LIABILITIES AS AT 31 DECEMBER 2018, BY MATURITY	Up to 1 month, inclusive	1 to 3 months, inclusive	3 months to 1 year, inclusive	1 to 5 years inclusive	Over 5 years	Contractual amount	Carrying amount
Liabilities:							
Amounts due to the Central Bank	7	-	-	-	-	7	**7**
Amounts due to banks	1 526	65	-	-	-	1 592	**1 591**
- measured at amortized cost	1 526	65	-	-	-	1 592	**1 591**
Amounts due to customers	181 522	21 135	26 503	10 245	8 036	247 439	**245 213**
- measured at amortized cost	181 522	21 135	26 503	10 245	8 036	247 439	**245 213**
Debt securities in issue	-	-	622	4 765	-	5 387	**5 367**
Subordinated liabilities	-	62	62	542	3 362	4 028	**2 731**
Total financial liabilities	2 651	11	141	183	205	3 189	**3 189**
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	-

BANK'S LIABILITIES AS AT 31 December 2017, BY MATURITY	Up to 1 month, inclusive	1 to 3 months, inclusive	3 months to 1 year, inclusive	1 to 5 years inclusive	Over 5 years	Contractual amount	Carrying amount
Liabilities:							
Amounts due to the Central Bank	6	-	-	-	-	6	**6**
Amounts due to banks	1 592	-	20	2 656	-	4 267	**4 299**
- measured at amortized cost	1 592	-	20	2 656	-	4 267	**4 299**
Amounts due to customers	157 600	16 577	29 526	13 637	7 752	225 092	**222 524**
- measured at amortized cost	157 600	16 577	29 526	13 637	7 752	225 092	**222 524**
Debt securities in issue	-	-	657	4 576	-	5 232	**5 204**
Subordinated liabilities	-	29	59	289	2 080	2 456	**1 720**
Total financial liabilities	3 943	10	287	168	184	4 592	**4 592**
Off-balance sheet liabilities:							
financing, granted	7 547	2 672	13 253	14 915	7 792	46 179	-
guarantees, granted	751	506	3 232	8 010	2 191	14 690	-

CONTRACTUAL CASH FLOWS FROM LIABILITIES IN RESPECT OF DERIVATIVE FINANCIAL INSTRUMENTS

DERIVATIVE FINANCIAL INSTRUMENTS SETTLED ON A NET BASIS

Derivative financial instruments settled by the Bank on a net basis include:

- interest rate swaps (IRS);
- Forward Rate Agreements (FRA);
- Non Deliverable Forwards (NDF);
- options.

The tables below show the contractual maturity analysis presenting the outstanding contractual maturity dates by individual categories of derivative financial instruments in respect of which the valuation as at the balance sheet date was negative (a liability), as at 31 December 2018 and 31 December 2017.

The amounts denominated in foreign currencies have been translated using the average NBP exchange rate as at 31 December 2018 and as at 31 December 2017. In the case of IRS transactions, non-discounted future net cash flows in respect of interest 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 2018 and as at 31 December 2017 respectively was adopted as the cash flow amount.

(IN PLN MILLION)

As at 31 December 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	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)

As at 31 December 2017	Up to 1 month, inclusive	1 to 3 months, inclusive	3 months to 1 year, inclusive	1 to 5 years, inclusive	over 5 years	Contractual amount
Derivative financial instruments - liabilities:						
- **Interest rate swap (IRS)**	(22)	(0)	94	(676)	(100)	(705)
- other derivatives (options, FRA, NDF)	(143)	(304)	(927)	(1 400)	-	(2 775)

DERIVATIVE FINANCIAL INSTRUMENTS SETTLED ON A GROSS BASIS

Derivative financial instruments settled by the Bank on a gross basis include:

- foreign currency swaps;
- foreign currency forwards;
- Cross Currency IRS (CIRS).

The tables below show the contractual maturity analysis, presenting the outstanding contractual maturity dates by individual categories of derivative financial instruments (inflows and outflows) in respect of which valuation the balance sheet date was negative (a liability).

The amounts denominated in foreign currencies have been translated using the average NBP exchange rate as at 31 December 2018 and as at 31 December 2017. The amounts disclosed comprise non-discounted future cash flows, both in respect of principal and interest (if applicable).

As at 31 December 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	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

As at 31 December 2017	Up to 1 month, inclusive	1 to 3 months, inclusive	3 months to 1 year, inclusive	1 to 5 years, inclusive	over 5 years	Contractual amount
- outflows	(7 347)	(2 196)	(4 812)	(2 946)	(238)	(17 539)
- inflows	7 238	2 072	5 008	6 745	250	21 313

CURRENT AND NON-CURRENT ASSETS AND LIABILITIES

The Bank classifies an asset as current when:

- it expects to realize the asset or intends to sell or consume it in the course of the normal operating cycle;
- it holds the asset primarily for the purpose of trading;
- it expects that the asset will be realized within twelve months after the reporting period, or
- the asset is cash or a cash equivalent (as defined in IAS 7) unless it is restricted from being exchanged or used to settle a liability for at least twelve months from the end of reporting period.

All other assets are classified as non-current.

The Bank classifies a liability as current when:

- it expects that the liability will be settled in the normal operating cycle;
- it holds the liability primarily for the purpose of trading;
- the liability matures within twelve months of the end of the reporting period, or

(IN PLN MILLION)

- the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period.

All other liabilities are classified as non-current.

FINANCIAL ASSETS 31.12.2018	Current	Non-current	Allowances for expected credit losses and impairment allowances	Total carrying amount
Cash and balances with the Central Bank	22 862	-		22 862
Amounts due from banks	9 474	1 743	(4)	11 213
- measured at amortized cost	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
- measured 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
- 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
- measured at amortized cost	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
- measured at amortized cost	230 956	14 257	245 213
Debt securities in issue	611	4 756	5 367
- measured at amortized cost	611	4 756	5 367
Subordinated liabilities	-	2 731	2 731
Total 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**

FINANCIAL ASSETS 31.12.2017	Current	Non-current	Impairment write-downs	Total carrying amount
Cash and balances with the Central Bank	17 765	-		17 765
Amounts due from banks	7 292	1 477	-	8 769
Hedging derivatives	46	1 058		1 104
Other derivative instruments	697	1 004		1 701
Securities	10 491	40 319	(298)	50 512
- held for trading	472	-		472
- financial instruments designated at fair value through profit or loss upon initial recognition	5 370	1 039		6 409
- available-for-sale investment securities	4 649	37 658	(298)	42 009
- investment securities held to maturity	-	1 622	-	1 622
Loans and advances to customers	40 304	153 758	(7 170)	186 892
Other financial assets	1 847	-	(99)	1 748
Total financial assets	**78 442**	**197 616**	**(7 567)**	**268 491**

(IN PLN MILLION)

FINANCIAL LIABILITIES 31.12.2017	Current	Non-current	Total carrying amount
Amounts due to the Central Bank	6	-	6
Amounts due to banks	1 709	2 590	4 299
Hedging derivatives	2	202	204
Other derivative instruments	1 463	1 074	2 537
Amounts due to customers	202 961	19 563	222 524
Debt securities in issue	646	4 558	5 204
- measured at amortized cost	646	4 558	5 204
Subordinated liabilities	-	1 720	1 720
Total financial liabilities	3 812	-	3 812
Provisions for financial liabilities and guarantees granted	61	25	86
Total financial liabilities	**210 660**	**29 732**	**240 392**

67. Operational risk management

Definition

Operational risk is defined as the risk of losses being incurred due to a failure or the unreliability of the internal processes, people and systems or due to external events. Operational risk includes legal risk and excludes reputation risk and business risk.

Risk management objective

The objective of operational risk management is to enhance the safety of the operational activities conducted by the Bank by improving the efficiency – tailored to the profile and the scale of operations – of the mechanisms for identifying, assessing and measuring, controlling, monitoring, mitigating and reporting operational risk.

IDENTIFICATION AND MEASUREMENT

Operational risk management comprises the identification of operational risk in particular through collecting data about the operational risk and the self-assessment of operational risk.

In order to manage the operational risk, the Bank gathers internal and external data about operational events and the causes and consequences of their occurrence, data on the factors of the business environment, results of operational risk self-assessment, data related to amount of operational risk factors and data related to the quality of internal controls.

The operational risk self-assessment comprises the identification and assessment of the operational risk for the Bank's products, processes and applications as well as organizational changes and it is conducted cyclically and before the introduction of new or changed Bank's products, processes and applications.

The measurement of operational risk comprises:

- calculating Key Risk Indicators (KRI) and Risk Indicators (RI);
- calculating the requirement for own funds to cover operational risk under the AMA approach (the Bank) and BIA approach (the German and Czech Branches);
- stress-tests;
- calculating the Bank's internal capital.

CONTROL

Control of operational risk includes setting up risk controls tailored to the scale and complexity of the Bank's activities, in the form of limits on operational risk, in particular the strategic limits of tolerance to operational risk, loss limits, KRIs with thresholds and critical values.

FORECASTING AND MONITORING

The Bank regularly monitors:

- utilization of the strategic tolerance and operational risk losses limits for the Bank;
- operational events and their consequences;
- results of the operational risk self-assessment;
- the requirement in respect of own funds to cover operational risk, in accordance with the BIA approach in the case of the German and Czech Branches and in accordance with the AMA approach in the case of the remaining activity of the Bank;
- the results of stress tests, including backtesting;
- values of operational risk indicators in relation to thresholds and critical values;
- risk level for the Bank, areas and tools of operational risk management at the Bank, such as self-assessment, operational risk indicators, loss limits;
- the effectiveness and timeliness of actions undertaken to reduce or transfer operational risk;
- management actions relating to the presence of elevated or high levels of operational risk and their effectiveness in reducing the level of operational risk.

REPORTING

Reporting of information concerning operational risk is performed for the needs of the senior management staff, the ORC, the RC, the Management Board and the Supervisory Board on a monthly and quarterly basis. Each month, information about operational risk is prepared and forwarded to the ORC, senior management staff, the organizational units of the Head Office and specialist organizational units responsible for system-based operational risk management. The scope of the information is diversified and tailored to the scope of responsibilities of the individual recipients of the information.

MANAGEMENT ACTIONS

Management actions are taken in the following cases:

- on an initiative of ORC or the Management Board
- on the initiative of organizational units and cells of the Bank managing operational risk,
- when operational risk has exceeded the levels determined by the Management Board or ORC.

In particular when the risk level is elevated or high, the Bank uses the following approach and instruments to manage the operational risk:

- risk reduction – mitigating the impact of risk factors or the consequences of its materialization by introducing or strengthening various types of instruments for managing operational risk such as: control instruments, human resources management instruments, determination or verification of thresholds and critical key risk indicators, determination or verification of operational risk levels, and contingency plans;
- risk transfer – transfer of responsibility for covering potential losses to a third-party: insurance and outsourcing;
- risk avoidance – resignation from the risk-generating activity or elimination of the probability of materialization risk factors.

68. OTHER MATERIAL RISKS

Business risk management Model risk management Macroeconomic changes risk management Management of the risk of excessive leverage

BUSINESS (STRATEGIC) RISK MANAGEMENT

DEFINITION	Business (strategic) risk is the risk of failing to achieve the adopted financial targets, including incurring losses, due to adverse changes in the business environment, taking bad decisions, incorrectly implementing the decisions made, or not taking appropriate actions in response to changes in the business environment.
RISK MANAGEMENT OBJECTIVE	Maintaining, on an acceptable level, the potential negative financial consequences resulting from adverse changes in the business environment, making adverse decisions, improper implementation of adopted decisions or lack of appropriate actions, which would be a response to changes in the business environment.
RISK IDENTIFICATION AND MEASUREMENT	Risk identification consist in recognition and determining both existing and potential factors arising from the current and planned activities of the Bank which may significantly affect the Bank's financial position and the level of the Bank's income and expenses. Business risk is identified through a qualitative assessment of business risk and identification and analysis of factors that contributed to significant deviations in the generation of revenues and expenses from their forecast values. The measurement of business risk is aimed at defining the scale of threats related to the existence of business risk using the adopted risk measures. The measurement of business risk includes: calculating internal capital, conducting stress-tests and backtesting.
CONTROL	Control of business risk is aimed at maintaining it at an acceptable level. It involves setting and periodic review of the risk controls in the form of tolerance limits on business risk along with its thresholds and critical values, adequate to the scale and complexity of the Bank.
FORECASTING AND MONITORING	Forecasting of the business risk is intended to determine the anticipated extent of achievement of the planned results by the Bank. Forecasts are prepared on a quarterly basis with a 1-year horizon and include a forecast of internal capital. Business risk forecasts are verified on a quarterly basis (backtesting). Business risk is monitored to identify areas which require management action. Business risk monitoring includes: • strategic limits of business risk tolerance; • the results of stress tests; • results of backtesting; • internal capital level; • deviations in business risk materialization from the forecast; • results of a qualitative assessment of the business risk.
REPORTING	Reporting is performed on a quarterly basis. The reports on the business risk level are addressed to the ALCO, the RC, the Management Board, the Risk Committee of the Supervisory Board and the Supervisory Board.
MANAGEMENT ACTIONS	Management actions involve, in particular: • verifying and updating quarterly financial forecasts, including actions aimed at lowering the business risk level in accordance with the limits; • monitoring the level of the strategic limit of tolerance to business risk.

MODEL RISK MANAGEMENT

DEFINITION	Model risk is the risk of incurring losses as a result of making incorrect business decisions based on the existing models.
MANAGEMENT OBJECTIVE	Mitigating the level of risk of incurring losses as a result of making incorrect business decisions on the basis of existing models through a well-defined and implemented process of models management. One of the elements of the model management process is to regularly perform independent validation of all significant models in the Bank.
RISK IDENTIFICATION, MEASUREMENT AND ASSESSMENT	Identification of the model risk consists of, in particular, collecting information about the existing models and models planned to be implemented as well as determining the materiality of the models on a periodical basis. Model risk evaluation is aimed at determining the scale of the threats associated with the occurrence of the model risk. The evaluation makes it possible to determine the risk profile and identify the models which generate the highest risk, putting the Bank at risk of potential losses. The evaluation is made at the level of each model as well as on an aggregate basis at the level of the Bank.
CONTROL	Control of the model risk is aimed at maintaining an aggregate evaluation of the model risk at a level which is acceptable to the Bank. Control of the model risk consists in determining the mechanisms used to diagnose the model risk level and tools for reducing the level of this risk. The tools used to diagnose the model risk includes: a strategic limit of tolerance to the model risk and the thresholds for the model risk.
MONITORING	Periodical monitoring of the model risk is aimed at diagnosing areas requiring management actions and includes: • updating the model risk level; • evaluating the utilization of the strategic limit of tolerance to the model risk and the thresholds of the model risk; • verifying the stage of implementation and evaluating the effectiveness of the implementation of actions intended to mitigate the model risk.
REPORTING	The results of monitoring are presented periodically in reports addressed to the RC, the Management Board, the Risk Committee of the Supervisory Board, and the Supervisory Board.
MANAGEMENT ACTIONS	The purpose of management actions is to shape the model risk management process and to affect the level of this risk by determining acceptable risk levels and making decisions about the use of tools supporting model risk management.

MACROECONOMIC CHANGES RISK MANAGEMENT

DEFINITION	Macroeconomic changes risk is the risk of a deterioration in the Bank's financial position as a result of the adverse impact of changes in macroeconomic conditions.
MANAGEMENT OBJECTIVE	The objective of macroeconomic changes risk management is to identify macroeconomic factors having a significant impact on the Bank's activities and taking actions to reduce the adverse impact of the potential changes in the macroeconomic situation on the financial position of the Bank.
RISK IDENTIFICATION, MEASUREMENT AND ASSESSMENT	Identification of the risk of macroeconomic changes consists in determining scenarios of the potential macroeconomic changes and determining those risk factors which have the greatest impact on the financial position of the Bank. Macroeconomic changes risk arises due to the impact of both factors which depend on the Bank's activities (in particular, the structure of the statement of financial position and response plans prepared for the purposes of stress test scenarios) and those which are independent of it (macroeconomic factors). The Bank identifies factors which contribute to the level of macroeconomic changes risk when conducting comprehensive stress tests. The risk of macroeconomic changes is measured in order to determine the scale of threats associated with the occurrence of macroeconomic changes. The measurement includes: • calculating the financial result and its components, and the risk measures, as part of the comprehensive stress tests, • backtesting, • calculating the internal capital. The risk of macroeconomic changes is assessed on a yearly basis, based on the results of periodical comprehensive stress tests. The level of macroeconomic changes risk is described as moderate, elevated or high.
CONTROL	Control of the risk of macroeconomic changes is intended to mitigate the adverse effect of the potential changes in the macroeconomic situation on the financial position of the Bank. Macroeconomic changes risk control consists of determining the acceptable level of the risk, tailored to the scale of the Bank's operations, and the impact of the risk of the Bank's operations and financial position. An acceptable level of the risk of macroeconomic changes means a situation where stress test results do not signal a need to take any corrective actions, or the corrective actions which need to be taken will be sufficient to improve the financial position of the Bank.
FORECASTING AND MONITORING	Forecasting the macroeconomic changes risk is intended to determine the anticipated impact of the future materialization of an adverse scenario on the Bank's results, including its capital. The forecast includes a forecast of the internal capital and is prepared on a quarterly basis with a 1-year horizon based on the results of comprehensive stress tests. Monitoring the macroeconomic risk consists in analyzing macroeconomic situation, the macroeconomic factors to which the Bank is sensitive, the level of the risk and the results of comprehensive stress tests.
REPORTING	Reports on the macroeconomic risk are prepared on a quarterly basis. The reports are addressed to the ALCO, the RC, the Management Board, the Risk Committee of the Supervisory Board and the Supervisory Board.
MANAGEMENT ACTIONS	Management actions involve, in particular: • determining acceptable levels of risk; • proposals of actions aimed at reducing the level of risk in the event of an elevated or high risk of macroeconomic changes.

69. COMPREHENSIVE STRESS-TESTS

Comprehensive stress-tests are an integral part of the Bank's risk management and are complementary to stress-tests specific to particular types of risks. They cover the risks which from the Bank's perspective are considered to be material. They include an analysis of the impact of changes in the environment and the functioning of the Bank on the Bank's financial position, in particular: the income statement, statement of financial position, own funds, capital adequacy and selected liquidity measures.

Comprehensive stress tests include periodical tests and supervisory tests. Periodical stress tests are conducted once a year, with a 3-yearly horizon. Supervisory tests are carried out at the request of the supervisory authorities in accordance with the assumptions provided by the supervisory authorities. Periodical and thematic comprehensive stress tests are conducted taking into account the changes in amounts and structure of the balance sheet and the income statement.

70. CAPITAL ADEQUACY

Capital adequacy
Own funds for capital adequacy purposes
Requirements as regard own funds (Pillar I)

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, permanently, own funds at a level which is adequate to the scale and profile of risk relating to the Bank's activities.

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 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 statement of financial position to optimize the quality of the Bank's own funds,
- emergency measures with regard to capital,
- stress-tests,
- planning and allocating the requirement of own funds and internal capital to business areas and customer segments in the Bank,
- assessing the profitability of the individual business areas and customer segments.

Capital adequacy measures include:

- total capital ratio,
- the ratio of own funds to internal capital,
- Tier 1 core capital ratio,
- Tier 1 capital ratio,
- leverage ratio.

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 that emergency actions be implemented.

Major regulations applicable in the capital adequacy assessment process include:

- the CRR Regulation,
- the Polish Banking Law,
- 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 and Development of 6 March 2017 on the risk management and internal control systems, remuneration policy and the detailed procedure for estimating internal capital in banks.

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 CRR Regulation and the Act on macroprudential supervision, the Bank is obliged to maintain a combined buffer representing the sum of the applicable buffers, namely:

- a conservation buffer which applies to all banks. Every year, the capital buffer will be increased to the target level of 2,5% (in 2019). As at 31 December 2018, the conservation risk buffer amounted to 1,875%.
- 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. Starting from 1 January 2017, the countercyclical buffer is equal to 0% for credit exposures in the Republic of Poland.
- a systemic risk buffer – intended to prevent and mitigate long-term non-cyclical risk or macroprudential risk which may cause strong negative consequences for the financial system and the economy of a given country. As at 31 December 2018, the systemic risk buffer was equal to 3%.
- the buffer relating to the fact that the Bank has been identified as a systemically important institution ('O-SII') – on 31 July 2018, on the basis of an assessment of the Bank's systemic importance in accordance with the Act on macroprudential supervision, the Bank received an individual decision of the Polish Financial Supervision Authority imposing a buffer on the Bank of 1% of its total risk exposure calculated in accordance with the CRR Regulation.

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"). On 22 October 2018, the Bank received the decision of the Polish Financial Supervision Authority concerning an individual recommendation to meet an additional capital requirement (a discretionary capital requirement) for stand-alone capital ratios: the total capital ratio: 0.47 p.p.; Tier 1 capital ratio: 0.35 p.p.; and Tier 1 core capital ratio: 0.26 p.p.

In 2018 the Bank received a response from the Polish Financial Supervision Authority allowing it to apply a 35% weight for risk to PLN-denominated loans which are fully and completely secured with a mortgage on residential property. The PFSA specified that the provisions of the CRR Regulation are binding on this matter. The Bank treats this position as the ability to more broadly apply a preferential weight to the risk, including with the use of an extended list of sources of data on property to estimate the value of collateral.

In 2018 and in 2017, PKO Bank Polski SA maintained a safe capital base in excess of the supervisory and regulatory limits

(IN PLN MILLION)

The increase in Tier 1 capital before regulatory adjustments and reductions between 31 December 2018 and 31 December 2017 resulted from:

- decision adopted on 18 June 2018 by the General Meeting of Shareholders on the appropriation of the Bank's net profit for 2017 by transferring PLN 2 086 million to supplementary and reserve capital (and, at the same time, allocating PLN 687,5 million for dividends). The resulting increase in the Bank's own funds amounted to PLN 264,5 million, as the balance of the net profit for 2017 (PLN 1 822 million) had already been included in own funds as at 31 December 2017 since the Bank had received the required permissions from the PFSA to include, in core Tier 1 capital, the net profit earned for the three quarters of 2017, less the anticipated charges,
- permission from the PFSA received by the Bank on 25 September 2018 to include, in Tier 1 core capital, the net profit of PKO Bank Polski SA for the first half of 2018, less the anticipated charges (of PLN 1 135 million),
- permission from the PFSA received by the Bank on 25 December 2018 to include, in Tier 1 core capital, the net profit of PKO Bank Polski SA for the third quarter of 2018, less the anticipated charges (of PLN 500 million).

Changes in Tier 2 capital between 31 December 2018 and 31 December 2017 were brought about by the PFSA's permission for the Bank to include a new issue of its subordinated bonds of PLN 1 000 million in own funds, obtained in March 2018.

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: STATEMENT OF FINANCIAL POSITION ITEMS – a product of a carrying amount (considering value of 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 value of liability (considering value of 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 the off-balance sheet transaction calculated according to the standardized method of credit risk requirement for own funds, equivalent in the statement of financial position of off-balance sheet transaction 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, excluding the Bank's branches in Germany and the Czech Republic, • in accordance with the BIA approach – with respect to the Bank's branches in Germany and the Czech Republic, •
MARKET RISK	• foreign exchange 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,

(IN PLN MILLION)

"Own funds requirements for credit valuation adjustment risk" of the CRR Regulation,
- exceeding the large exposures limit – calculated under the approach set out in Articles 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.

	31.12.2018	31.12.2017
Total own funds	**37 770**	**34 297**
Tier 1 capital	**35 070**	**32 597**
Tier 1 capital before regulatory adjustments and reductions, of which:	37 061	34 854
Share capital	1 250	1 250
Supplementary capital and other reserves	32 797	30 712
General banking risk fund	1 070	1 070
Retained earnings, of which:	1 944	1 822
undivided profit/uncovered losses	(535)	
current profit, included by permission from the PFSA	1 635	1 822
adjustment resulting from transitional solutions to mitigate impact of IFRS 9 on equity	844	-
(-) Goodwill	(871)	(871)
(-) Other intangible assets	(1 503)	(1 509)
Accumulated other comprehensive income	443	182
Adjustments in common equity Tier 1 capital due to prudential filters	(60)	12
Other transitional period adjustments to common equity Tier 1 capital	-	(71)
Tier 2 capital	**2 700**	**1 700**
Equity instruments and subordinated loans eligible as Tier 2 capital	2 700	1 700
Requirements for own funds	**14 169**	**14 008**
Credit risk	13 216	13 017
Operational risk	437	455
Market risk	491	495
Credit valuation adjustment risk	25	41
Total capital ratio	**21.33%**	**19.59%**
Tier 1 capital ratio	**19.80%**	**18.62%**

Without taking into account the transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds, as at 31 December 2018, the Bank's own funds would have amounted to PLN 36 927 million, its Tier 1 capital would have amounted to PLN 34 227 million, the total capital ratio would have amounted to 20,94%, and the Tier 1 capital ratio would have amounted to 19,41%.

(IN PLN MILLION)

71. LEVERAGE RATIO

The Bank calculates the leverage ratio as one of its capital adequacy measures.

The objective of excessive leverage risk management is to ensure an appropriate relationship between the amount of the core capital (Tier 1) and the total of on-balance sheet assets and off-balance sheet liabilities granted by the Bank. The way of managing the risk of excessive leverage has been specified in the Bank's 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 calculates the leverage ratio as at the reporting date. The leverage ratio as at 31 December 2018 and 31 December 2017 was calculated in relation to Tier 1 capital and remained above internal and external limits, as well as above the minimum levels as recommended by the Polish Financial Supervision Authority.

To maintain the leverage ratio at an acceptable level, a strategic tolerance limit and a threshold for the ratio are set, and monitored and verified at least once a year.

The exposure for the calculation of the leverage ratio within the meaning assigned by the CRR Regulation.

	Leverage ratio exposures specified in CRR	
	31.12.2018	31.12.2017
Total capital and exposure measure		
Tier 1 capital	35 070	32 597
Total exposure measure comprising the leverage ratio	300 383	286 331
Leverage ratio		
Leverage ratio	11,68%	11,38%

Without taking into account the transitional arrangements, the leverage ratio would have been 11,42%.

INTERNAL CAPITAL (PILLAR II)

In 2018, PKO Bank Polski SA calculated internal capital in accordance with legal regulations:

- the CRR Regulation;
- the Polish Banking Law;
- the Regulation of the Minister of Finance and Development of 6 March 2017 on the risk management and internal control systems, remuneration policy and the detailed procedure for estimating the internal capital in banks;
- the Act on Macroprudential supervision;

and the Bank's internal regulations.

Internal capital is the amount of capital estimated by the Bank 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. In the event of making internal capital estimates based on statistical models, the annual forecast horizon is adopted and a 99,9% confidence level. The total internal capital of the Bank is the sum of internal capital amount necessary to cover all of the risks significant for the Bank. Diversification effects between risks are not taken into account.

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)

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).

72. Sale of receivable portfolios

In 2018, the Bank effected a sale of impaired loan portfolios (balance sheet and off-balance sheet receivables) of more than 25,7 thousand individual receivables from retail and business customers amounting to more than PLN 1,4 billion (PLN 1,5 billion in 2017). The total carrying amount of the provision for potential claims on the sale of impaired loan portfolios as at 31 December 2018 amounted to PLN 2 million (as at 31 December 2017 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 2018, the Bank also sold a portfolio of claims from housing loans secured by mortgages of PLN 2 524 million to PKO Bank Hipoteczny SA (in 2017: PLN 5 554 million). The purchase price was set at the level of the market value based on a valuation prepared 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 2 300 million as at 31 December 2018, is described in Note 22 Amounts due from banks (PLN 2 498 million as at 31 December 2017).

Subsequent events

73. Events that took place after the balance sheet date

In the period from 1 January 2019 to the day preceding the signature of these financial statements, PKO Bank Polski SA sold a further portfolio of claims from housing loans secured with mortgages at a level of PLN 861 million within a Frame Agreement on the Sale of Claims signed in 2015 with PKO Bank Hipoteczny SA.

On 9 January 2019 the District Court for the capital city of Warsaw in Warsaw, 13th Business Department of the National Court register registered amendments to the Bank's Articles of Association passed by Resolution No. 33/2018 of the Ordinary General Meeting of Shareholders of the Bank of 18 June 2018.

(IN PLN MILLION)

On 22 January 2019, PKO Bank Polski SA repaid a loan granted by PKO Finance AB in the amount of EUR 500 million. On 23 January 2019, PKO Finance AB redeemed bonds with a nominal value of EUR 500 million.

On 25 February 2019, the Bank received an individual recommendation from the Polish Financial Supervision Authority to increase own funds by retaining at least 50% of the profit generated in the period from 1 January to 31 December 2018. The PFSA confirmed that the Bank meets the requirements for dividend payment of up to 50% of the net profit for 2018.

SIGNATURES OF ALL MEMBERS OF THE BANK'S MANAGEMENT BOARD

28.02.2019	ZBIGNIEW JAGIEŁŁO	PRESIDENT OF THE MANAGEMENT BOARD
28.02.2019	RAFAŁ ANTCZAK	VICE-PRESIDENT OF THE MANAGEMENT BOARD
28.02.2019	RAFAŁ KOZŁOWSKI	VICE-PRESIDENT OF THE MANAGEMENT BOARD
28.02.2019	MAKS KRACZKOWSKI	VICE-PRESIDENT OF THE MANAGEMENT BOARD
28.02.2019	MIECZYSŁAW KRÓL	VICE-PRESIDENT OF THE MANAGEMENT BOARD
28.02.2019	ADAM MARCINIAK	VICE-PRESIDENT OF THE MANAGEMENT BOARD
28.02.2019	PIOTR MAZUR	VICE-PRESIDENT OF THE MANAGEMENT BOARD
28.02.2019	JAKUB PAPIERSKI	VICE-PRESIDENT OF THE MANAGEMENT BOARD
28.02.2019	JAN EMERYK ROŚCISZEWSKI	VICE-PRESIDENT OF THE MANAGEMENT BOARD

SIGNATURE OF THE PERSON RESPONSIBLE
FOR MAINTAINING THE BOOKS OF ACCOUNT
28.02.2019

DANUTA SZYMAŃSKA
DIRECTOR OF THE ACCOUNTING DIVISION