Bank Polski

1919/2019

Consolidated financial statements of the PKO Bank Polski SA Group for the year ended 31 December 2018

Report Publication Date:
4 March 2019

Bank Polski

SELECTED FINANCIAL DATA DERIVED FROM THE FINANCIAL STATEMENTS

SELECTED CONSOLIDATED 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	9 353	8 606	2 192	2 027
Net fee and commission income	3 013	2 969	706	699
Operating profit/(loss)	5 041	4 227	1 181	996
Profit before tax	**5 078**	**4 249**	**1 190**	**1 001**
Net profit (including non-controlling shareholders)	**3 742**	**3 109**	**877**	**732**
Net profit attributable to equity holders of the parent company	**3 741**	**3 104**	**877**	**731**
Earnings per share for the period - basic (in PLN/EUR)	**2.99**	**2.48**	**0.70**	**0.59**
Earnings per share for the period - diluted (in PLN/EUR)	**2.99**	**2.48**	**0.70**	**0.59**
Total net comprehensive income	4 180	3 687	980	869
Net cash from operating activities	10 896	17 749	2 554	4 181
Net cash from/used in investing activities	(5 492)	(6 894)	(1 287)	(1 624)
Net cash generated from/used in financing activities	2 122	(5 821)	497	(1 371)
Total net cash flows	7 526	5 034	1 764	1 186

SELECTED CONSOLIDATED 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	324 255	296 912	75 408	71 187
Total equity	39 101	36 256	9 093	8 693
Capital and reserves attributable to equity holders of the parent company	39 111	36 267	9 096	8 695
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)	31.28	29.00	7.27	6.95
Diluted number of shares (in million)	1 250	1 250	1 250	1 250
Diluted book value per share (in PLN/EUR)	31.28	29.00	7.27	6.95
Total capital adequacy ratio	18.88%	17.37%	18.88%	17.37%
Tier 1 capital	35 150	32 326	8 174	7 750
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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CONSOLIDATED INCOME STATEMENT

CONSOLIDATED INCOME STATEMENT	Note	2018	2017
Interest and similar income	9	11 594	**10 919**
Interest income recognized under the effective interest rate method		11 121	
interest income on financial instruments measured at amortized cost		9 986	
interest income on instruments measured at fair value through other comprehensive income		1 135	
Income similar to interest income on instruments measured at fair value through profit or loss		473	
Interest expenses and similar charges	9	(2 241)	**(2 313)**
Net interest income		**9 353**	**8 606**
Fee and commission income	10	4 042	3 918
Fee and commission expense	10	(1 029)	(949)
Net fee and commission income/(expense)		**3 013**	**2 969**
Dividend income	11	12	12
Net gain/(loss) on financial instruments measured at fair value through profit or loss	12	28	8
Gain/(loss) on investment securities			46
Net foreign exchange gains/(losses)	13	489	452
Gains/(losses) on derecognition of financial instruments not measured at fair value through profit or loss	14	135	
wycenianych do wartości godziwej przez inne dochody całkowite		131	
wycenianych wg zamortyzowanego kosztu		4	
Net credit losses	15	(1 373)	(1 545)
Impairment of non-financial assets	16	(78)	(72)
Other operating income	17	630	733
Other operating expenses	17	(313)	(266)
Net other operating income and expense		**317**	**467**
Administrative expenses	18	(5 905)	(5 784)
Tax on certain financial institutions	19	(950)	(932)
Operating profit/(loss)		**5 041**	**4 227**
Shares in profits (losses) of associates and joint ventures		37	22
Profit before tax		**5 078**	**4 249**
Income tax expense	20	(1 336)	(1 140)
Net profit (including non-controlling shareholders)		3 742	3 109
Profit (loss) attributable to non-controlling shareholders		1	5
Net profit attributable to equity holders of the parent company		**3 741**	**3 104**
Earnings per share	21		
– basic earnings per share for the period (PLN)		2,99	2,48
– diluted earnings per share for the period (PLN)		2,99	2,48
Weighted average number of ordinary shares during the period (in million)		1 250	1 250
Weighted average diluted number of ordinary shares during the period (in million)		1 250	1 250

(IN PLN MILLION)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	Note	2018	2017
Net profit (including non-controlling shareholders)		**3 742**	**3 109**
Other comprehensive income		**438**	**578**
Items which may be reclassified to profit or loss		**439**	**577**
Cash flow hedges (gross)	24	170	(8)
Deferred income tax	20	(32)	1
Cash flow hedges (net)	24	138	(7)
Unrealized net gains on available-for-sale financial assets (gross)			761
Deferred income tax	20		(142)
Unrealized net gains on available-for-sale financial assets (net)			619
Remeasurement of financial assets measured at fair value through other comprehensive income (gross)		493	
Gains /losses transferred to profit or loss (on disposal)	14	(131)	
Deferred income tax	20	(64)	
Fair value of financial assets measured at fair value through other comprehensive income (net)		298	
Foreign exchange differences on translation of foreign branches		16	(36)
Share in other comprehensive income of associates and joint ventures		(13)	1
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		**4 180**	**3 687**
Total net comprehensive income, of which attributable to:		4 180	3 687
equity holders of the parent		4 179	3 682
non-controlling shareholders		1	5

(IN PLN MILLION)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	31.12.2018	31.12.2017
ASSETS			
Cash and balances with the Central Bank	22	22 925	17 810
Amounts due from banks	23	7 661	5 233
- measured at amortized cost		7 661	5 233
Hedging derivatives	24	658	887
Other derivative instruments	25	1 907	1 711
Securities	27	64 114	54 075
- held for trading		235	431
- financial instruments designated at fair value through profit or loss upon initial recognition			8 157
- available-for-sale investment securities			43 675
- investment securities held to maturity			1 812
- not held for trading, measured at fair value through profit or loss:		2 848	
- measured at fair value through OCI		52 558	
- measured at amortized cost		8 473	
Loans and advances to customers	28	214 912	205 628
- not held for trading, measured at fair value through profit or loss		1 106	
- measured at amortized cost		213 806	205 628
Investments in subsidiaries, associates and joint ventures	44	344	393
Non-current assets held for sale	31	15	138
Intangible assets	32	3 195	3 242
Property, plant and equipment	32	2 931	2 915
Current income tax receivable		4	2
Deferred income tax assets	20	2 135	1 767
Other assets	33	3 454	3 111
TOTAL ASSETS		**324 255**	**296 912**

	Note	31.12.2018	31.12.2017
LIABILITIES AND EQUITY			
Liabilities			
Amounts due to the Central Bank		7	6
Amounts due to banks	34	2 001	4 558
- measured at amortized cost		2 001	4 558
Hedging derivatives	24	471	204
Other derivative instruments	25	2 655	2 536
Amounts due to customers	35	242 816	220 917
- measured at amortized cost		242 816	220 917
Liabilities in respect of insurance activities	37	1 292	882
Debt securities in issue	38	28 627	23 932
- measured at amortized cost		28 627	23 932
Subordinated liabilities	39	2 731	1 720
- measured at amortized cost		2 731	1 720
Other liabilities	40	3 685	5 062
Current income tax liabilities		371	588
Deferred income tax provision	20	52	36
Provisions	41	446	215
TOTAL LIABILITIES		**285 154**	**260 656**
Equity	42		
Share capital		1 250	1 250
Other capital		34 505	31 979
Retained earnings		(385)	(66)
Net profit or loss for the year		3 741	3 104
Capital and reserves attributable to equity holders of the parent company		39 111	36 267
Non-controlling interests		(10)	(11)
TOTAL EQUITY		**39 101**	**36 256**
TOTAL LIABILITIES AND EQUITY		**324 255**	**296 912**
Total capital adequacy ratio	72	18,88%	17,37%
Book value (in PLN million)		39 101	36 256
Number of shares (in million)		1 250	1 250
Book value per share (in PLN)		31,28	29,00
Diluted number of shares (in million)		1 250	1 250
Diluted book value per share (in PLN)		31,28	29,00

(IN PLN MILLION)

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018	Share capital	Other capital					Retained earnings	Net profit or loss for the year	Capital and reserves attributable to equity holders of the parent company	Total non-controlling interests	Total equity
		Reserves			Accumulated other comprehensive income	Total other capital					
		Supplementary capital	General banking risk fund	Other reserves							
As at 31 December 2017	1 250	27 374	1 070	3 645	(110)	31 979	(66)	3 104	36 267	(11)	36 256
Changes due to IFRS 9 implementation	-	-	-	-	(78)	(78)	(567)	-	(645)	-	(645)
As at 1 January 2018 (restated)	1 250	27 374	1 070	3 645	(188)	31 901	(633)	3 104	35 622	(11)	35 611
Transfer from retained earnings	-	-	-	-	-	-	3 104	(3 104)	-	-	-
Dividend paid	-	-	-	-	-	-	(688)	-	(688)	-	(688)
Total comprehensive income, of which:	-	-	-	-	438	438	-	3 741	4 179	1	4 180
Net profit for the year	-	-	-	-	-	-	-	3 741	3 741	1	3 742
Other comprehensive income	-	-	-	-	438	438	-	-	438	-	438
Transfer from retained earnings to equity	-	2 101	-	65	-	2 166	(2 166)	-	-	-	-
Transfer from other capital	-	(121)	-	121	-	-	-	-	-	-	-
Mandatory buy-out of shares from non-controlling shareholders	-	-	-	-	-	-	(2)	-	(2)	-	(2)
As at 31 December 2018	1 250	29 354	1 070	3 831	250	34 505	(385)	3 741	39 111	(10)	39 101

FOR THE YEAR ENDED 31 DECEMBER 2018	Accumulated other comprehensive income					
	Share in other comprehensive income of subsidiaries, associates and joint ventures	Fair value of financial assets measured at fair value through other comprehensive income	Cash flow hedges	Actuarial gains and losses	Foreign exchange differences on translation of a foreign branch	Total
As at 31 December 2017	-	272	(116)	(9)	(257)	(110)
Changes due to IFRS 9 implementation	-	(78)	-	-	-	(78)
As at 1 January 2018 (restated)	-	194	(116)	(9)	(257)	(188)
Total comprehensive income, of which:	(13)	298	138	(1)	16	438
Other comprehensive income	(13)	298	138	(1)	16	438
As at 31 December 2018	(13)	492	22	(10)	(241)	250

The notes on pages 14 to 225 are an integral part of these consolidated financial statements

(IN PLN MILLION)

FOR THE YEAR ENDED 31 DECEMBER 2017	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	Capital and reserves attributable to equity holders of the parent company	Total non-controlling interests	Total equity
As at 1 January 2017	1 250	24 491	1 070	3 607	(688)	28 480	(19)	2 874	32 585	(16)	32 569
Appropriation of retained earnings	-	-	-	-	-	-	2 874	(2 874)	-	-	-
Total comprehensive income, of which:	-	-	-	-	578	578	-	3 104	3 682	5	3 687
Net profit for the year	-	-	-	-	-	-	-	3 104	3 104	5	3 109
Other comprehensive income	-	-	-	-	578	578	-	-	578	-	578
Transfer from retained earnings to equity	-	2 883	-	38	-	2 921	(2 921)	-	-	-	-
As at 31 December 2017	1 250	27 374	1 070	3 645	(110)	31 979	(66)	3 104	36 267	(11)	36 256

FOR THE YEAR ENDED 31 DECEMBER 2017	Accumulated other comprehensive income – Share in other comprehensive income of subsidiaries, associates and joint ventures	Available-for-sale financial assets	Cash flow hedges	Actuarial gains and losses	Foreign exchange differences on translation of a foreign branch	Total
As at 1 January 2017	(1)	(347)	(109)	(10)	(221)	(688)
Total comprehensive income, of which:	1	619	(7)	1	(36)	578
Other comprehensive income	1	619	(7)	1	(36)	578
As at 31 December 2017	-	272	(116)	(9)	(257)	(110)

(IN PLN MILLION)

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	2018	2017
Cash flows from operating activities			
Profit before tax		**5 078**	**4 249**
Total adjustments:		**5 818**	**13 500**
Amortization and depreciation		821	844
(Gains)/losses on investing activities		(57)	(117)
Interest and dividends		(582)	(465)
Change in:			
amounts due from banks		(17)	700
hedging derivatives		496	(1 436)
other derivatives		(89)	281
securities		687	5 350
- held for trading		196	(105)
- financial instruments designated at fair value through profit or loss upon initial recognition			5 780
- not held for trading, mandatorily measured at fair value through profit or loss		1 842	
- investment securities available-for-sale			(413)
- investment securities held to maturity			88
- measured at fair value through OCI		(1 163)	
- measured at amortized cost		(188)	
loans and advances to customers		(12 001)	(4 844)
- not held for trading, mandatorily measured at fair value through profit or loss		(36)	
- measured at amortized cost		(11 965)	(4 844)
non-current assets held for sale		142	(143)
other assets		(297)	188
accumulated allowances for credit losses and impairment allowances		(2 374)	(186)
accumulated allowances on non-financial assets and other provisions		86	84
amounts due to the Central Bank		1	2
amounts due to banks		(41)	(1 204)
amounts due to customers		21 519	15 053
liabilities in respect of insurance activities		410	339
debt securities in issue		238	(1 119)
subordinated liabilities		11	17
other liabilities		(1 377)	1 069
Income tax paid		(1 845)	(972)
Other adjustments		87	59
Net cash used in operating activities		**10 896**	**17 749**

(IN PLN MILLION)

	Note	2018	2017
Cash flows from investing activities			
Inflows from investing activities		**267 760**	**96 663**
Proceeds from sale of subsidiaries		177	-
Proceeds from sale and interest on investment securities			96 415
Proceeds from sale of and interest on securities measured at fair value through other comprehensive income		266 385	
Proceeds from sale of and interest on securities measured at amortized cost		925	
Proceeds from sale of intangible assets, property, plant and equipment and assets held for sale		239	224
Other inflows from investing activities (dividends)		34	24
Outflows from investing activities		**(273 252)**	**(103 557)**
Purchase of shares in subsidiaries, net of cash acquired		(2)	(47)
Increase in equity of an associate		-	(23)
Purchase of investment securities			(102 862)
Purchase of securities measured at fair value through other comprehensive income		(269 204)	
Purchase of securities measured at amortized cost		(3 033)	
Purchase of intangible assets and property, plant and equipment		(1 013)	(625)
Net cash used in investing activities		**(5 492)**	**(6 894)**

	Note	2018	2017
Cash flows from financing activities			
Proceeds from debt securities in issue		12 705	17 836
Redemption of debt securities		(8 248)	(7 278)
Proceeds from issue of subordinated bonds		1 000	1 700
Dividend paid to shareholders		(688)	-
Repayment of subordinated bonds issued		-	(1 656)
Repayment of a subordinated loan		-	(880)
Taking up loans and advances		1 128	311
Repayment of loans and advances		(3 264)	(15 360)
Repayment of interest on long-term liabilities		(511)	(494)
Net cash from financing activities		**2 122**	**(5 821)**
Total net cash flows		**7 526**	**5 034**
of which foreign exchange differences on cash and cash equivalents		217	(366)
Cash equivalents at the beginning of the period		23 000	17 966
Cash equivalents at the end of the period	49	30 526	23 000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION ABOUT THE GROUP

BUSINESS ACTIVITIES OF THE GROUP

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 competent for the Bank's affairs is the District Court in Warsaw, 13th Business Department of the National Court Register. The Bank was registered under the number KRS 0000026438 and was assigned the statistical number REGON 016298263.

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

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

PKO Bank Polski SA as the parent company is a universal deposit and credit bank which services individuals, legal entities and other entities, national 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.

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

The composition of the Group and scope of operations of its entities are presented in note 43 "Structure of the PKO Bank Polski SA Group and scope of activities of the Group entities".

(IN PLN MILLION)

INFORMATION ON MEMBERS OF THE SUPERVISORY BOARD AND MANAGEMENT BOARD

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

No.	Name and surname	Function	Date of appointment
1.	Piotr Sadownik	Chairman of the Supervisory Board	reappointed to the Supervisory Board on 22 June 2017 for the current joint term, which commenced on the day of the Annual General Meeting convened for 22 June 2017. The entity authorized to exercise the rights carried by the shares held by the State Treasury, as the Authorized Shareholder, appointed Piotr Sadownik Chairman of the Supervisory Board.
2.	Grażyna Ciurzyńska	Vice-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 Grażyna Ciurzyńska Vice-Chairman 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 Group's consolidated financial statements have been prepared for 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 consolidated 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 consolidated financial statements of the Group have been prepared on the basis that the Group 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 consolidated financial statements, the Bank's Management Board is not aware of any facts or circumstances that would indicate a threat to the Group'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 Group's existing operations.

2.3. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

These consolidated 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 credit 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 Group 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 Group in determining the value of assets and liabilities as well as revenues and costs, are made based on historical data and other factors which are available and considered appropriate in the given circumstances. Assumptions regarding the future and the available data are used for assessing the carrying amounts of assets and liabilities which cannot be clearly determined using other sources. In making estimates the Group 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.

(IN PLN MILLION)

Estimates and assumptions made by the Group 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 Group's consolidated financial statements and that comparative data have been prepared in accordance with the applicable rules of accounting practice and give a true, fair and clear view of the Group's economic and financial position its financial result.

2.5. Approval of the financial statements

These consolidated 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. Summary of significant accounting policies

Major accounting policies and estimates and judgements applied in the preparation of these consolidated 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" which are described in Notes 4 and 5 and in the notes to the consolidated income statement and to the consolidated statement of financial position. Below is a summary of accounting policies and major estimates and judgements for the individual items of the consolidated income statement and the consolidated statement of financial position.

CONSOLIDATED INCOME STATEMENT	Note	Accounting policy[1]
Interest income and expense	9	Y
Fee and commission income and expense	10	Y
Dividend income	11	Y
Net gain/(loss) on financial instruments measured at fair value financial instruments measured at fair value through profit or loss	12	Y
Net foreign exchange gains/(losses)	13	Y
Gains/(losses) on derecognition of financial instruments not measured at fair value through profit or loss	14	
Net credit losses	15	Y
Impairment of non-financial assets	16	
Other operating income and expenses	17	Y
Administrative expenses	18	Y
Tax on certain financial institutions	19	
Income tax expense	20	Y

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

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION	Note	Accounting policy[1]	Major estimates and judgments[1]
Cash and balances with the Central Bank	22	Y	
Amounts due from banks	23	Y	
Hedging derivatives	24	Y	Y
Other derivative instruments	25	Y	Y
Securities	27	Y	Y
Loans and advances to customers	28	Y	Y
Non-current assets held for sale	31	Y	
Intangible assets	32	Y	Y
Property, plant and equipment	32	Y	Y
Deferred income tax asset	20	Y	
Other assets	33	Y	
Amounts due to banks	34	Y	
Amounts due to customers	35	Y	
Liabilities in respect of insurance activities	37	Y	
Debt securities in issue	38	Y	
Subordinated liabilities	39	Y	
Other liabilities	40	Y	
Provisions	41	Y	Y
Equity	42	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

Items included in the financial statements of the individual Group companies operating outside the territory of Poland are measured in the functional currency, i.e. the currency of the primary economic environment in which a given entity operates. The functional currency of the parent company and other entities included in these financial statements, except for the German Branch, the Czech Branch and entities conducting their activities outside of the Republic of Poland, is the Polish zloty. The functional currency of the entities operating in Ukraine is the Ukrainian hryvnia, the functional currency of the German Branch and the entities operating in Sweden and Ireland is euro, and the functional currency of the Czech Branch is the Czech koruna.

TRANSACTIONS AND BALANCES IN FOREIGN CURRENCIES

Transactions expressed in foreign currencies are translated into the functional currency using the exchange rates prevailing at the date of the transaction. At each balance sheet date items are translated by the Group 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 and non-monetary assets and liabilities expressed in foreign currencies are recognized in the income statement.

UAH	2018	2017
Foreign exchange rates as at the end of the period	0,1357	0,1236
Arithmetic mean of exchange rates as at the last day of each month in the period	0,1330	0,1402
The highest exchange rate during the period	0,1424	0,1499
The lowest exchange rate during the period	0,1197	0,1236

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EUR	2018	2017
Foreign exchange rates as at the end of the period	4,3000	4,1709
Arithmetic mean of exchange rates as at the last day of each months in the period	4,2669	4,2447
The highest exchange rate during the period	4,3616	4,3308
The lowest exchange rate during the period	4,1488	4,1709

CZK	2018	2017
Foreign exchange rates as at the end of the period	0,1673	0,1632
Arithmetic mean of exchange rates as at the last day of each months in the period	0,1663	0,1614
The highest exchange rate during the period	0,1683	0,1657
The lowest exchange rate during the period	0,1640	0,1559

3.2. Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the parent company, which means that the parent company has a direct or indirect impact on the financial and operating policy of the given entity in order to gain economic benefits from its operations.

Acquisition accounting method

All entities of the PKO Bank Polski SA Group are consolidated using the acquisition accounting method.

The process of consolidation of financial statements of subsidiaries under the acquisition accounting method involves adding up the individual items of the income statements and statements of financial position of the parent company and the subsidiaries in the full amounts, and making appropriate consolidation adjustments and eliminations. The carrying amount of the Bank's investments in subsidiaries and the equity of these entities at the date of their acquisition are eliminated on consolidation. The following items are eliminated in full on consolidation:

1) intercompany receivables and payables and other settlements between consolidated entities of a similar nature;
2) revenues and costs resulting from business transactions between consolidated entities;
3) profits or losses resulting from business transactions between consolidated entities contained in the value of the consolidated entities" assets, except for losses that indicate inpeirment;
4) dividends accrued or paid by subsidiaries to the parent company and other consolidated entities;
5) inter-company cash flows in the statement of cash flows.

The consolidated statement of cash flows has been prepared on the basis of the consolidated statement of financial position, consolidated income statement and additional notes and explanations.

Financial statements of subsidiaries are prepared for the same reporting period as the financial statements of the parent company. Consolidation adjustments are made in order to eliminate any differences in the accounting policies applied by the Bank and its subsidiaries.

Acquisition method

The acquisition of subsidiaries by the Group is accounted for under the acquisition method.

In respect of mergers of the Group companies, i.e. the so-called transactions under common control, the predecessor accounting method is applied, i.e. the acquired subsidiary is recognized at the carrying amount of its assets and liabilities recognized in the Group's consolidated financial statements in respect of the given subsidiary, including the goodwill arising from the acquisition of that subsidiary.

ASSOCIATES AND JOINT VENTURES

Associates are entities on which the Group exerts significant influence but which it does not control, which usually accompanies having from 20% to 50% of the total number of votes in the decision-making bodies of the entities.

Joint ventures are commercial companies or other entities, which are jointly controlled by the Bank on the basis of the Memorandum or Articles of Association or an agreement concluded for a period longer than one year.

Investments in these entities are accounted for in accordance with the equity method and are initially stated at purchase cost. The investment includes goodwill determined as at the acquisition date, net of any accumulated impairment allowances.

The Group's share in the results of associates and joint ventures from the acquisition date is recorded in the income statement and its share in changes in the balance of other comprehensive income from the acquisition date is recorded in other comprehensive income. The carrying amount of investments is adjusted by the total movements in the individual equity items from the acquisition date. When the Group's share in the losses of these entities becomes equal or higher than the Group's interest in such entities, including unsecured receivables (if any), the Group discontinues recognizing further losses, unless it has assumed the obligation or made payments on behalf of the particular entity.

Unrealized gains on transactions between the Group and such entities are eliminated pro rata to the Group's interest in those entities. Unrealized losses are also eliminated, unless there is evidence of impairment of the transferred asset.

At each balance sheet date, the Group makes an assessment of whether there is any objective evidence of impairment in investments in associates and joint ventures. If any such evidence exists, the Group estimates the recoverable amount, i.e. the value in use of the investment or the fair value of the investment less costs to sell, whichever of these values is higher. If the carrying amount of an asset exceeds its recoverable amount, the Group recognizes an impairment allowance in the income statement.

3.3. 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 execution of the contract, irrespective of the settlement date provided in the contract.

3.4. 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 Group 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 Group to another entity. The financial asset is transferred when the Group:

- 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 Group.

When the Group transfers a financial asset, it evaluates the extent to which it retains the risks and rewards of ownership of the financial asset. In such case:

- if the Group transfers substantially all risks and benefits associated with holding a given financial asset, the financial asset is eliminated from the statement of financial position;
- if the Group 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 Group determines whether it has maintained control of that financial asset.

If the Group 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 Group 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 Group derecognizes financial assets from its consolidated 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 loan 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.

3.5. STANDARDS AND INTERPRETATIONS APPLIED IN THE FINANCIAL STATEMENTS FOR THE FIRST TIME IN 2018.

The Group 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 concerning 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 Group’s financial statements.

3.6. New standards and interpretations as well as their amendments 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 Group does not expect the adoption of the new standards, amendments thereto and interpretations as well as their amendments to have a significant impact on the accounting policies applied by the Group with the exception of IFRS 16 (detailed information concerning the application of the standard can be found in Note 6). The Group 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 rather than the equity method of accounting.

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 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 come into force for financial statements drawn up for periods from 1 January 2019. The Group does not expect these amendments to have a material effect.

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

The amendments to IAS 19 “Employee benefits” apply to amendments, 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 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. Liabilities arising from contracts will be recognized at current prices, instead of historical cost. The new standard will be applicable for period from 1 January 2021.

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

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

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

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

(IN PLN MILLION)

4. MSSF 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). For the purposes of these financial statements the data of the PKO Bank Polski SA insurance companies was prepared in accordance with IFRS 9. The standard replaces IAS 39 "Financial Instruments: Recognition and Measurement". The amendments cover the classification and measurement of financial instruments, recognition and calculation of impairment and hedge accounting.

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	17 810	-	-	-	17 810
Amounts due from banks	5 233	-	-	-	5 233
Hedging derivatives	887	-	-	-	887
Other derivative instruments	1 711	(12)	-	-	1 699
Securities	**54 075**	**4 380**	**66**	**3**	**58 524**
- held for trading	431	-	-	-	431
- financial instruments designated at fair value through profit or loss upon initial recognition	8 157	(8 157)	-	-	-
- available-for-sale investment securities	43 675	(43 675)	-	-	-
- investment securities held to maturity	1 812	(1 812)	-	-	-
- not held for trading, measured at fair value through profit or loss		4 578	66	46	4 690
- measured at fair value through OCI		47 266	-	(43)	47 223
- measured at amortized cost		6 180	-	-	6 180
Loans and advances to customers	**205 628**	**(4 368)**	**-**	**(797)**	**200 463**
- not held for trading, measured at fair value through profit or loss		1 055	-	15	1 070
- measured at amortized cost	205 628	(5 423)	-	(812)	199 393
Other financial assets	2 377	-	-	-	2 377
TOTAL FINANCIAL ASSETS	**287 721**	**-**	**66**	**(794)**	**286 993**
Deferred income tax assets	1 767	-	(12)	164	1 919

	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	4 558	-	-	-	4 558
Hedging derivatives	204	-	-	-	204
Other derivative instruments	2 536	-	-	-	2 536
Amounts due to customers	220 917	-	-	-	220 917
Debt securities in issue	23 932	-	-	-	23 932
Subordinated liabilities	1 720	-	-	-	1 720
Other financial liabilities	4 129	-	-	-	4 129
Deferred income tax provision	36	-	-	(3)	33
Provisions for financial liabilities and guarantees granted	86	-	-	71	157
TOTAL FINANCIAL LIABILITIES, PROVISIONS FOR LIABILITIES AND GUARANTEES GRANTED AND DEFERRED TAX PROVISION	**258 124**	**-**	**-**	**68**	**258 192**

(IN PLN MILLION)

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)	Total change
Accumulated other comprehensive income	(110)	-	(78)	-	(188)	(78)
Retained earnings	(66)	-	132	(699)	(633)	(567)
TOTAL impact on equity	**(176)**	**-**	**54**	**(699)**	**(821)**	**(645)**

Compared to the disclosure of the impact of the implementation of IFRS 9 on the annual consolidated financial statements for 2017, the impairment losses in respect of loan receivables increased by PLN 33 million (PLN 23 million after accounting for tax) in effect of more accurate estimations of impairment. To better reflect the impact of the amendments to the Corporate Income Tax Act related to the implementation of IFRS 9, the effect of a tax liability arising as of 1 January 2018 resulting from the disclosure of the release of the IBNR allowance in the tax calculation and of accounting for the initial loss on the purchased or originated credit-impaired financial assets (POCI) and the respective changes in the deferred tax asset reflecting this liability, of PLN 52 million, was recognized in Note 20 as an impact on the profit/(loss) for the period.

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 Group 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 Group 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 Group identifies the following business models:

- the “held 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 “held to collect cash flows and to sell” model, in which financial assets originated or acquired are held 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 cash flows” and “held to collect cash flows and to sell” 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 Group or by discontinuation of a particular activity, and therefore they 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 assessment and reporting the financial assets portfolio;
- the method for managing the risk associated with such assets and the principles of remuneration of persons managing such portfolios.

In the “held to collect cash flows” 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, execution of a contingency or recovery plan or another unforeseeable factor independent of the Group.

ASSESSMENT OF CONTRACTUAL CASH FLOW CHARACTERISTICS

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

Financial assets measured at fair value through profit or loss are presented in the consolidated financial statements of the Group in the following manner:

1) held for trading – financial assets which:
   - have been acquired mainly for the purpose of their sale or redemption in the short term;
   - upon initial recognition constitute a part of a portfolio of financial instruments, which are managed jointly and which actually generate short-term gains on an ongoing basis, or
   - are derivative instruments (other than financial guarantee contracts or designated and effective hedging instruments);
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 for measurement at fair value through profit or loss upon initial recognition (measurement at the fair value through profit or loss option).

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 Group 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 Group 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 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 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 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 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, the Group continues to measure the asset at fair value. 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 the fair value through other comprehensive income category to the fair value through profit or loss category, the Group 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 contract, 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. 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 granted 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 (SPPI test);
- 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 quantitative criterion consists of a 10% test analysing the change in the contractual terms of financial assets 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 "held to collect cash flows and to 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. Due to not passing the SPPI test, despite the application of the "held to collect cash flows" model, it was 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;

- to selected tranches of corporate bonds acquired by the Group (one entity), despite the application of the "held to collect and sell" model, due to the SPPI test not being met, the fair value measurement through profit or loss was applied. The classification of corporate bonds also changed (they had previously been recognized in available for sale ivestment securities) with an embedded option of conversion to shares (presented in derivative financial instruments), which in accordance with IFRS 9 are jointly measured at fair value through profit or loss. The total amount of reclassified bonds was 157 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 from the "available-for-sale" category (measured at cost less impairment losses) to the "not held for trading, mandatorily measured at fair value through profit or loss" category. The effect of the reclassification on the income statement amounted to PLN 92 million.

The implementation of IFRS 9 as of 1 January 2018 has not affected the classification and measurement of the Group's financial liabilities.

The Group has estimated that, in connection with the IFRS 9 implementation, the total effect of adjustments arising from changes in the measurement and classification on equity (retained earnings or other comprehensive income) as at 1 January 2018 will amount to PLN 66 million (PLN 54 million after tax).

Furthermore, the Group prospectively applied a method of recognition of modifications in cash flows from financial assets, which as of 1 January 2018 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 Raiffeisen-Leasing Polska SA) and exposures which meet the POCI criteria in respect of corporate entities and lease receivables with a carrying amount of PLN 706 million, net, as assets.

4.2 IMPAIRMENT

In the area of impairment the Group has adopted IAS 39 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 with respect to equity instruments.

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.

(IN PLN MILLION)

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 excepted credit losses has been included in Note 28.

The Group 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 Group estimated that due to the implementation of IFRS 9 as at 1 January 2018 the total impact of the impairment adjustments on equity (inappropriated profit/loss) was PLN 866 million (after accounting for deferred tax of PLN 699 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 Group 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 Group'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 Group intends to use 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);
- 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 Group 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 Group 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 Group's equity calculated for capital adequacy purposes increased by approx. PLN 84 million; at the same time, due to impairment adjustments resulting from the implementation of IFRS 9, equity decreased by approx. PLN 35 million, and due to adjustments relating to changes in classification and measurement methods it decreased by approx. PLN 47 million.

At the same time, the Group's equity increased by approx. PLN 72 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 from equity ended (as at 31 December 2017, 20% of such gains was removed).

Had the transitional solutions not been applied, the Group's equity would be PLN 580 million lower. This decrease would comprise a decrease of PLN 699 resulting from impairment adjustments, a decrease of PLN 47 million resulting from changes in classification and measurement methods, and a simultaneous increase of PLN 72 million resulting from the end of the transitional period provided for in the CRR.

As a result of using IFRS 9 for the first time the total capital ratio decreased by 1 base point. 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 29 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	-	-	-	17 810	17 810
Amounts due from banks	-	-	-	5 233	5 233
Hedging derivatives	-	887	-	-	887
Other derivative instruments	1 699	-	-	-	1 699
Securities	431	4 690	47 223	6 180	58 524
Loans and advances to customers	-	1 070	-	199 393	200 463
Other financial assets	-	-	-	2 377	2 377
					-
TOTAL financial assets	**2 130**	**6 647**	**47 223**	**230 993**	**286 993**

FINANCIAL LIABILITIES 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	-	4 558	4 558
Hedging derivatives	204	-	204
Other derivative instruments	2 536	-	2 536
Amounts due to customers	-	220 917	220 917
Debt securities in issue	-	23 932	23 932
Subordinated liabilities	-	1 720	1 720
Other financial liabilities	-	4 129	4 129
TOTAL financial liabilities	**2 740**	**255 262**	**258 002**

(IN PLN MILLION)

FINANCIAL ASSETS 31.12.2017 CLASSIFICATION UNDER IAS 39	Held for trading	Designated at fair value through profit or loss	Held to maturity	Loans and receivables	Available for sale	Total carrying amount
Cash and balances with the Central Bank	-	-	-	17 810	-	17 810
Amounts due from banks	-	-	-	5 233	-	5 233
Hedging derivatives	-	887	-	-	-	887
Other derivative instruments	1 711	-	-	-	-	1 711
Securities	431	8 157	1 812	-	43 675	54 075
Loans and advances to customers	-	-	-	205 628	-	205 628
Other financial assets	-	-	-	2 377	-	2 377
TOTAL financial assets	**2 142**	**9 044**	**1 812**	**231 048**	**43 675**	**287 721**

FINANCIAL LIABILITIES 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	-	4 558	4 558
Derivative hedging instruments	204	-	204
Other derivative instruments	2 536	-	2 536
Amounts due to customers	-	220 917	220 917
Debt securities in issue	-	23 932	23 932
Subordinated liabilities	-	1 720	1 720
Other financial liabilities	-	4 129	4 129
TOTAL financial liabilities	**2 740**	**255 262**	**258 002**

(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 Group'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 shown 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	17 810	measured at amortized cost	17 810
Amounts due from banks	loans and receivables	5 233	measured at amortized cost	5 233
Hedging derivatives	measured at fair value through profit or loss	887	not held for trading, measured at fair value through profit or loss	887
Other derivative instruments	held for trading	1 711	held for trading	1 699
Securities held for trading	held for trading	431	held for trading	431
Financial instruments designated at fair value through profit or loss upon initial recognition – debt instruments	measured at fair value through profit or loss	6 688	measured at fair value through other comprehensive income	4 199
			not held for trading, measured at fair value through profit or loss	2 489
Financial instruments designated at fair value through profit or loss upon initial recognition – equity instruments	measured at fair value through profit or loss	1 469	not held for trading, measured at fair value through profit or loss	1 469
Available-for-sale investment securities – debt instruments	available for sale	43 192	measured at fair value through other comprehensive income	43 024
			not held for trading, measured at fair value through profit or loss	157
Available-for-sale investment securities – equity instruments	available for sale[1]	483	not held for trading, measured at fair value through profit or loss	575
Investment securities held to maturity - debt securities	held to maturity	1 812	measured at amortized cost	1 812
Loans and advances to customers	loans and receivables	201 260	measured at amortized cost	199 393
			not held for trading, measured at fair value through profit or loss	1 070
Loans and advances to customers - (debt instruments, 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	2 377	measured at amortized cost	2 377
TOTAL financial assets		**287 721**	-	**286 993**

[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.

(IN PLN MILLION)

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 "hold to collect" model, 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.

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	4 558	measured at amortized cost	4 558
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	2 536	measured at fair value through profit or loss	2 536
Amounts due to customers	measured at amortized cost	220 917	measured at amortized cost	220 917
Debt securities in issue	measured at amortized cost	23 932	measured at amortized cost	23 932
Subordinated liabilities	measured at amortized cost	1 720	measured at amortized cost	1 720
Other financial liabilities	measured at amortized cost	4 129	measured at amortized cost	4 129
TOTAL financial liabilities		**258 002**		**258 002**

(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 FOR 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	71	157
Provisions for instruments with no significant increase in credit risk since initial recognition (stage 1)		46	58	104
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)		34	-	34

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 29 “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 Group recognizes revenue in such a manner so as to reflect the transfer of the goods or services promised to a customer in an amount reflecting the consideration to which – in accordance with the entity’s expectations – it will be entitled in return for the goods or services. The Group applies this standard in consideration of the terms and conditions of the contract, and all material facts and circumstances.
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 Group is able to identify the rights of each of the parties relating to the goods or services which are to be transferred;
3. the Group 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 Group 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 Group 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 Group 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 Group 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 Group 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 Group 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 Group'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 Group 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 OBLIGATIONS TO PERFORM

The Group allocates a transaction price to each obligation 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 Group's expectations – it is entitled in return for the transfer of the promised goods or services to the customer. The Group allocates transaction prices based on the relative fair value model.

STEP V: RECOGNITION OF REVENUE UPON PERFORMANCE OF AN OBLIGATION FOLLOWING FROM THE CONTRACT

The Group recognizes revenue upon the completion (or during the process) of the performance obligation 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 Group has applied IFRS 15 from 1 January 2018. The Group 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 Group 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 Group's internal operations.

The Group has not identified contracts in respect of which implementation of IFRS 15 could materially impact the financial statements. The Group selected the simplified retrospective approach to the first-time application of IFRS 15.

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 Group implemented the standard retrospectively, recognizing the cumulative effect of applying the standard to shareholders' equity as at 1 January, 2019 without transforming the comparative data, including 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 Group 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 valuing 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 922 million at the present value of future lease payments which are to be paid up to the start of the application of IFRS 16, which consist of fixed lease payments and variable lease payments, which depend on market indicators. The value of the liability was adjusted for costs paid in advance as at 31 December 2018 at a level of PLN 4 million.

Assets from the right of use

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

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

ESTIMATES USED

The implementation of IFRS 16 required the Group to adopt the following significant estimates affecting the measurement of lease liabilities and 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 branches, the Group 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.

- Determining the interest rate used to discount future cash flows

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

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

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

The Group expects the application of the new standard to reduce the net result for 2019 by approximately PLN 11 million. There 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 194 million, while the interest expense will be PLN 22 million.
The tax charged to financial institutions for the recognition of assets from the right of use will be approx. PLN 4 million per year.

CAPITAL ADEQUACY

The Group 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 78 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 Group's own funds will decline by this same amount. This will contribute to a reduction of the Tier 1 capital ratio by approx. 14 b.p. and the total capital ratio by approx. 15 b.p.

(IN PLN MILLION)

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

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

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

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

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

According 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 profit and the liability in respect of the tax on certain financial institutions is the best estimate at the time of publication of these consolidated 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 PKO Bank Polski SA Group's consolidated financial statements for the year ended 31 December 2018, to better reflect the changes the Group made the following changes to the presentation.

CONSOLIDATED 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	(1 620)	1 617	3	-
Net credit losses	-	(1 545)	-	(1 545)
Impairment of non-financial assets	-	(72)	-	(72)
Other operating income	710	-	23	733
Other operating expenses	(240)	-	(26)	(266)
Total	**(1 150)**	-	-	**(1 150)**

(IN PLN MILLION)

CONSOLIDATED 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"	reclassification to "accumulated allowances for credit losses and impairment allowances"	separate presentation of " accumulated allowances on non-financial assets and other provisions"	separate presentation of the change in "amounts due to the Central Bank"	reclassification to "change in other liabilities"	separate presentation of "liabilities in respect of insurance activities"	reclassification of liabilities in respect of insurance activities to "change in amounts due to customers"	separate presentation of the "change in subordinated liabilities"	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	(1 155)	1 155	-	-	-	-	-	-	-	-	-	-	-	-
change in hedging derivative instruments	-	(1 436)	-	-	-	-	-	-	-	-	-	-	-	(1 436)
change in other derivative financial instruments	-	281	-	-	-	-	-	-	-	-	-	-	-	281
change in financial instruments designated at fair value through profit or loss upon initial recognition and financial assets held for trading	5 675	-	-	-	-	-	-	-	-	-	-	(5 675)	-	-
change in securities	-	-	-	-	-	-	-	-	-	-	-	5 675	(325)	5 350
change in other assets, inventories and non-current assets held for sale	45		(45)	-	-	-	-	-	-	-	-	-	-	-
change in non-current assets held for sale	-	-	-	(143)		-	-	-	-	-	-	-	-	(143)
change in other assets	-	-	45	143		-	-	-	-	-	-	-	-	188
change in provisions and impairment allowances	(172)	-	-	-	172	-	-	-	-	-	-	-	-	-
change in accumulated allowances for credit losses and impairment allowances	-	-	-	-	(172)	(14)	-	-	-	-	-	-	-	(186)
change in accumulated allowances on non-financial assets and other provisions	-	-	-	-	-	84	-	-	-	-	-	-	-	84
change in amounts due to the Central Bank	-	-	-	-	-	-	2	-	-	-	-	-	-	2
change in amounts due to banks	(1 202)	-	-	-	-	-	(2)	-	-	-	-	-	-	(1 204)
change in amounts due to customers	15 337	-	-	-	-	-	-	-	-	(284)	-	-	-	15 053
change in liabilities in respect of insurance activities	-	-	-	-	-	-	-	-	339	-	-	-	-	339
change in subordinated liabilities	-	-	-	-	-	-	-	-	-	-	17	-	-	17
change in other liabilities and liabilities in respect of insurance activities	1 124	-	-	-	-	-	-	(1 124)	-	-	-	-	-	-
change in other liabilities	-	-	-	-	-	-	-	1 124	(339)	284	-	-	-	1 069
Other adjustments	(179)	-	-	-	-	(70)	-		-	-	(17)	-	325	59
Total	**19 473**	-	-	-	-	-	-	-	-	-	-	-	-	**19 473**

(IN PLN MILLION)

	31.12.2017 before restatement	reclassification of inventories to "Other assets"	31.12.2017 restated
Inventories	186	(186)	-
Other assets	2 925	186	3 111
TOTAL ASSETS	**296 912**	**-**	**296 912**

AMOUNTS DUE TO CUSTOMERS	31.12.2017 before restatement	change in the treatment of liabilities arising from insurance products	separate presentation of loans and advances	31.12.2017 restated
Measured at amortized cost:				
Amounts due to retail customers	151 161	-	-	151 161
Current accounts and overnight deposits	86 819	-	-	86 819
Term deposits	64 126	-	-	64 126
Other liabilities	216	-	-	216
Amounts due to corporate entities	56 230	-	(3 563)	52 667
Current accounts and overnight deposits	40 070	-	-	40 070
Term deposits	11 613	-	-	11 613
Loans and advances received	3 563	-	(3 563)	-
Amounts due from repurchase agreements	48	-	-	48
Other liabilities	936	-	-	936
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	-	-	3 563	3 563
Liabilities in respect of insurance products	-	2 117	-	2 117
Total	**218 800**	**2 117**	**-**	**220 917**

LIABILITIES IN RESPECT OF INSURANCE ACTIVITIES	31.12.2017 before restatement	change in treatment of liabilities arising from insurance products	31.12.2017 restated
Technical reserves	882	-	882
Liabilities in respect of insurer's investment contracts	2 117	(2 117)	-
Total	**2 999**	**(2 117)**	**882**

PROVISIONS	31.12.2017 before restatement	separation of provisions for pensions and restructuring from other provisions	31.12.2017 restated
Provisions for legal claims and tax proceedings	21	-	21
Provisions for pension and other liabilities in respect of defined post-retirement benefits	46	15	61
Restructuring provision	-	21	21
Provisions for financial liabilities and guarantees granted	86	-	86
Other provisions, including for disputes with employees	62	(36)	26
Total	**215**	**-**	**215**

8. INFORMATION ON BUSINESS SEGMENTS AND GEOGRAPHICAL AREAS

SEGMENT REPORTING

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

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

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

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

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

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

(IN PLN MILLION)

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

The following tables present data on revenues and results of individual operating segments of the PKO Bank Polski SA Group for the 12-month period ended 31 December 2018 and 31 December 2017, as well as assets and liabilities as at 31 December 2018 and as at 31 December 2017.

FOR THE YEAR ENDED 31 DECEMBER 2018	Continuing operations			
	Retail segment	Corporate and investment segment	Transfer centre and other	Total activity of the PKO Bank Polski SA Group
Net interest income	7 427	1 536	390	9 353
Net fee and commission income	2 523	508	(18)	3 013
Other net income	366	507	108	981
Net gain/(loss) on financial instruments measured at fair value through profit or loss	11	22	(5)	28
Net foreign exchange gains/(losses)	161	212	116	489
Gains/(losses) on derecognition of financial assets and financial liabilities not measured at fair value through profit or loss	6	129	-	135
Dividend income	-	12	-	12
Net other operating income and expense	161	159	(3)	317
Income/(expenses) relating to internal customers	27	(27)	-	-
Net credit losses	(1 050)	(323)	-	(1 373)
Impairment of non-financial assets	(23)	(55)	-	(78)
Administrative expenses, of which:	(4 881)	(940)	(84)	(5 905)
amortization and depreciation	(703)	(118)	-	(821)
Tax on certain financial institutions	(764)	(298)	112	(950)
Shares in profits (losses) of associates and joint ventures	-	-	-	37
Segment profit/(loss) before tax	3 598	935	508	5 078
Income tax expense	-	-	-	(1 336)
Profit (loss) attributable to non-controlling shareholders	-	-	-	1
Net profit attributable to equity holders of the parent company	**3 598**	**935**	**508**	**3 741**

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

(IN PLN MILLION)

FOR THE YEAR ENDED 31 DECEMBER 2017	Continuing operations			
	Retail segment	**Corporate and investment segment**	**Transfer centre and other**	**Total activity of the PKO Bank Polski SA Group**
Net interest income	6 975	1 403	228	8 606
Net fee and commission income	2 373	602	(6)	2 969
Other net income	447	447	91	985
Net gain/(loss) on financial instruments measured at fair value through profit or loss and net gain/(loss) on investment securities	5	46	3	54
Net foreign exchange gains/(losses)	213	197	42	452
Dividend income	-	12	-	12
Net other operating income and expense	203	218	46	467
Income/(expenses) relating to internal customers	26	(26)	-	-
Net credit losses	(1 055)	(490)	-	(1 545)
Impairment of non-financial assets	(28)	(44)	-	(72)
Administrative expenses, of which:	(4 767)	(881)	(136)	(5 784)
amortization and depreciation	(727)	(117)	-	(844)
Tax on certain financial institutions	(710)	(251)	29	(932)
Shares in profits (losses) of associates and joint ventures	-	-	-	22
Segment profit/(loss) before tax	3 235	786	206	4 249
Income tax expense	-	-	-	(1 140)
Profit (loss) attributable to non-controlling shareholders	-	-	-	5
Net profit attributable to equity holders of the parent company	**3 235**	**786**	**206**	**3 104**

AS AT 31 DECEMBER 2017	Retail segment	Corporate and investment segment	Transfer centre and other	Total activity of the PKO Bank Polski SA Group
Assets	161 380	128 151	5 612	295 143
Unallocated assets	-	-	-	1 769
Total assets	161 380	128 151	5 612	296 912
Liabilities	172 240	59 181	28 611	260 032
Unallocated liabilities	-	-	-	624
Total liabilities	172 240	59 181	28 611	260 656

INFORMATION ON GEOGRAPHICAL AREAS

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

(IN PLN MILLION)

FOR THE YEAR ENDED 31 DECEMBER 2018	Poland	Ukraine	Total
Net interest income	9 178	175	9 353
Net fee and commission income	2 955	58	3 013
Other net income	976	5	981
Administrative expenses	(5 760)	(145)	(5 905)
Net credit losses	(1 366)	(7)	(1 373)
Impairment of non-financial assets	(78)	-	(78)
Tax on certain financial institutions	(950)	-	(950)
Shares in profits (losses) of associates and joint ventures	-	-	37
Segment profit/(loss) before tax	**4 955**	**86**	**5 078**
Income tax expense	-	-	(1 336)
Profit (loss) attributable to non-controlling shareholders	-	-	1
Net profit attributable to equity holders of the parent company	**4 955**	**86**	**3 741**

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

FOR THE YEAR ENDED 31 DECEMBER 2017	Poland	Ukraine	Total
Net interest income	8 453	153	8 606
Net fee and commission income	2 915	54	2 969
Other net income	972	13	985
Administrative expenses	(5 660)	(124)	(5 784)
Net credit losses	(1 520)	(25)	(1 545)
Impairment of non-financial assets	(72)	-	(72)
Tax on certain financial institutions	(932)	-	(932)
Shares in profits (losses) of associates and joint ventures	-	-	22
Segment profit/(loss) before tax	4 156	71	4 249
Income tax expense	-	-	(1 140)
Profit (loss) attributable to non-controlling shareholders	-	-	5
Net profit attributable to equity holders of the parent company	**4 156**	**71**	**3 104**

AS AT 31 DECEMBER 2017	Poland	Ukraine	Total
Assets, of which:	295 133	1 779	296 912
non-financial non-current assets	6 202	93	6 295
investments in subsidiaries, associates and joint ventures	393	-	393
deferred income tax assets and current income tax receivable	1 764	5	1 769
Liabilities	259 048	1 608	260 656

NOTES TO THE CONSOLIDATED INCOME STATEMENT

9. INTEREST INCOME AND EXPENSES

ACCOUNTING POLICIES

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

Interest income and expense is recognized on an accruals basis using the effective interest rate which discounts the estimated future cash flows throughout the life of the financial asset or financial liability to the gross 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.

Calculation of the effective interest rate includes all commissions paid and received by parties to an agreement, transaction costs 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 Group offers insurance products along with loans, advances and lease products and there is no possibility of purchasing an insurance product from the Group that is identical as to the legal form, conditions and economic content without purchasing a loan, an advance or a lease product, the payments received by the Group 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 Group 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 and in the part corresponding to the performance of the agency service, if the insurer is a Group company, it is accounted for using the straight line method during the term of the insurance product and is recognized as commission income.

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, in accordance with the relative fair value model comprising a range of different parameters, including the average effective interest rate on the financial instrument, the average contractual and economic (actual) lending or lease period, the average insurance premium amount, the term of the insurance policy, the independent insurance agent's commission.

(IN PLN MILLION)

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.

On the other hand, the fair value of the insurance intermediation service is measured in accordance with the market approach, which is based on 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 Group makes periodical estimations of the remuneration amount that will be recoverable in the future due to the early termination of the insurance contract based on historical data on premiums collected and refunds made. The provision for future refunds is allocated to the financial instrument and insurance service in accordance with the relative fair value model.

The Group verifies the correctness of the parameters used in the relative fair value model and the ratio of the provision for refunds each time it learns about significant changes in this respect, not less frequently, however, than once a year.

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 at fair value through profit or loss	Total	
loans to and other receivables from banks	92	-	-	92	136
hedging derivatives	-	-	355	355	322
debt securities[1]	202	1 135	74	1 411	1 278
loans and advances to customers[1]	9 692	-	44	9 736	9 183
Total	**9 986**	**1 135**	**473**	**11 594**	**10 919**
of which: interest income on impaired financial instruments	294	13	-	307	270

[1] the result on the non-significant modification of PLN (17) million is recognized in 'debt secutities' 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	
amounts due to banks (excluding loans and advances received)	(36)	-	-	(36)	(22)
loans and advances received	(27)	-	-	(27)	(138)
amounts due to customers (excluding loans and advances)	(1 532)	-	-	(1 532)	(1 599)
debt securities:	(5)	(53)	(18)	(76)	(90)
debt securities issued	(486)	-	-	(486)	(398)
subordinated liabilities	(84)	-	-	(84)	(66)
Total	**(2 170)**	**(53)**	**(18)**	**(2 241)**	**(2 313)**

(IN PLN MILLION)

INTEREST INCOME BY SEGMENT:	2018			
	Retail segment	Corporate and investment segment	Transfer centre and other	Total
loans to and other receivables from banks	-	92	-	92
hedging derivatives	-	-	355	355
debt securities	15	1 380	16	1 411
loans and advances to customers	7 821	1 915	-	9 736
	-	-	-	-
Total	7 836	3 387	371	11 594

10. Fee and commission income and expenses

Accounting policies

The Group 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 Group'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 "Revenues from contracts with customers".

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

Upon concluding a contract for the provision of a performance, the Group 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 the note 9 "Interest income and expenses".

FINANCIAL INFORMATION

NET FEE AND COMMISSION INCOME	2018	2017
Loans and insurance	761	710
Investment funds, pension funds and brokerage activities	794	803
Cards	530	502
Bank accounts and other	928	954
Total	**3 013**	**2 969**

(IN PLN MILLION)

FEE AND COMMISSION INCOME	2018	2017
Loans and insurance	**761**	**710**
lending	636	616
offering insurance products	125	94
Investment funds, pension funds and brokerage activities	**833**	**839**
servicing of investment funds and OFE (including management fees)	640	590
servicing and selling investment and insurance products	51	73
brokerage activities	142	176
Cards	**1 243**	**1 126**
Bank accounts and other	**1 205**	**1 243**
servicing bank accounts	836	858
cash transactions	90	98
servicing foreign mass transactions	104	101
sale and distribution of court fee stamps	1	5
customer orders	46	44
fiduciary services	6	6
other	122	131
Total	**4 042**	**3 918**

FEE AND COMMISSION EXPENSE	2018	2017
Investment funds, pension funds and brokerage activities	**(39)**	**(36)**
Cards	**(713)**	**(624)**
Bank accounts and other	**(277)**	**(289)**
commission paid to external entities for product sales	(55)	(61)
cost of construction investment supervision and property valuation	(44)	(41)
settlement services	(31)	(29)
fee and commissions for operating services provided by banks	(15)	(19)
sending short text messages (SMS)	(27)	(21)
other[1]	(105)	(118)
Total	**(1 029)**	**(949)**

[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	**593**	**168**	-	**761**
lending	478	158	-	636
offering insurance products	115	10	-	125
Investment funds, pension funds and brokerage activities	**719**	**114**	-	**833**
servicing of investment funds and OFE (including management fees)	631	9	-	640
servicing and selling investment and insurance products	51	-	-	51
brokerage activities	37	105	-	142
Cards	**1 201**	**42**	-	1 243
Bank accounts and other	**961**	**244**	-	**1 205**
servicing bank accounts	752	84	-	836
cash transactions	61	29	-	90
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	60	62	-	122
Total	3 474	568	-	4 042

(IN PLN MILLION)

11. DIVIDEND INCOME

ACCOUNTING POLICIES

Dividend income is recognized on the date when the shareholders' rights to its receipt is determined, if the Group 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
In respect of:		
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
Total	**12**	**12**

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

ACCOUNTING POLICIES AND CLASSIFICATION

The result 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 ON FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS	2018
Financial instruments held for trading	(36)
Financial instruments not held for trading, measured at fair value through profit or loss	67
Derivative hedging instruments (including an ineffective portion of cash flow hedges)	(3)
Total	**28**

NET GAIN ON FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS	2017
Debt instruments	3
Equity instruments	2
Derivative instruments (of which an ineffective portion of cash flow hedges)	4
Other	(1)
Total	**8**

(IN PLN MILLION)

13. NET FOREIGN EXCHANGE / (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 allowances on expected loan losses 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:	489	452
Ineffective portion of cash flow hedges recognized in net foreign exchange	12	14
Total	**489**	**452**

14. 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	131	
Measured at amortized cost	4	
loans and advances to customers	4	
Total	135	

15. GAIN/(LOSS) ON ALLOWANCE 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 below. The net allowances consist of impairment allowances for expected credit losses and provisions set up and released.

(IN PLN MILLION)

FINANCIAL INFORMATION

NET CREDIT LOSSES	2018	2017
Equity securities		(11)
available for sale		(11)
Debt securities	(10)	(13)
available for sale		(13)
measured at fair value through other comprehensive income	-	
measured at amortized cost	(10)	-
Loans and advances to customers	(1 292)	(1 504)
measured at amortized cost	(1 292)	(1 511)
housing	(165)	(166)
business	(512)	(772)
consumer	(562)	(499)
finance lease receivables	(53)	(74)
debt securities (corporate)		5
debt securities (municipal)		2
Other financial assets	(1)	3
Provisions for financial liabilities and guarantees granted	(70)	(20)
Total	**(1 373)**	**(1 545)**

ACCUMULATED ALLOWANCES FOR CREDIT LOSSES AND IMPAIRMENT ALLOWANCES (BALANCE)	31.12.2018	01.01.2018	31.12.2017
Amounts due from banks	1	-	-
measured at amortized cost	1	-	-
Equity securities	-		77
available for sale			77
Debt securities	36	29	249
available for sale			249
measured at fair value through other comprehensive income	10	15	
measured at amortized cost	26	14	-
Loans and advances to customers	8 204	10 653	7 823
measured at amortized cost	8 204	10 653	7 823
Provisions for financial liabilities and guarantees granted	227	157	86
Other financial assets	97	100	100
Total	**8 565**	**10 939**	**8 335**

16. IMPAIRMENT OF NON-FINANCIAL ASSETS

NET IMPAIRMENT OF NON-FINANCIAL ASSETS	2018	2017
Non-current assets held for sale	(3)	-
Property, plant and equipment	(7)	(8)
Intangible assets	(22)	(1)
Investments in associates and joint ventures	(32)	(26)
Other non-financial assets, including inventories	(14)	(37)
Total	**(78)**	**(72)**

ACCUMULATED IMPAIRMENT OF NON-FINANCIAL ASSETS	31.12.2018	01.01.2018	31.12.2017
Non-current assets held for sale	-	19	19
Property, plant and equipment	50	46	46
Intangible assets	221	199	199
Investments in associates and joint ventures	178	146	146
Other non-financial assets, including inventories	175	218	218
Total	**624**	**628**	**628**

(IN PLN MILLION)

17. 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 of housing investments, sale or liquidation of non-current assets, intangible assets and foreclosed collateral, sale of shares in a subsidiary, legal damages, fines and penalties, income from lease/rental of properties. Other operating expenses mainly include losses on sale or liquidation of non-current assets, intangible assets and foreclosed collateral, and donations made.

Other operating income and expenses of the Group entities also include income from sale of finished goods, goods for resale and materials, and the corresponding costs of their production.

Income from construction services (real estate development activities) is recognized on a completed contract basis, which involves recognition of all costs related to the housing investments that are incurred during the period of construction as work-in-progress, and payments received on account of purchase of apartments – as deferred income.

FINANCIAL INFORMATION

OTHER OPERATING INCOME	2018	2017
Net sales of finished goods and services	392	472
Gains associated with loss of control over a subsidiary	25	-
Gains on sale or scrapping of property, plant and equipment, intangible assets and assets held for sale	57	95
Damages, compensation and penalties received	19	22
Ancillary income	19	27
Recovery of receivables expired, forgiven or written off	7	3
Income from BGF in respect of guarantees	8	-
Release of provision for future payments	16	2
Release of provision for legal claims	4	21
Other[1]	83	91
Total	**630**	**733**

[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
Costs of products and services sold	(32)	(118)
Losses on sale or scrapping of property, plant and equipment, intangible assets and assets held for sale	(25)	(21)
Donations made	(53)	(23)
Sundry expenses	(17)	(17)
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)	(22)
Other	(75)	(61)
Total	**(313)**	**(266)**

[1] A detailed description of the provision set up was provided in Note 48 "Legal claims.
[2] The amount relating to the refund of the penalty imposed by UKOiK of PLN 21 million is shown in the item "Provisions for legal claims" in 2018

18. ADMINISTRATIVE EXPENSES

ACCOUNTING POLICIES AND CLASSIFICATION

EMPLOYEE BENEFITS	Employee benefits comprise salaries and wages and social insurance (including contributions for retirement 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 Group accrued the basic contribution of 3% of the salary components on which social insurance contributions are accrued and 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. PPE is managed by PKO Towarzystwo Funduszy Inwestycyjnych SA. Moreover, as part of wages and salaries the Group 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	The balance includes the following items: 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 Group to the Bank Guarantee Fund are recognized in profit or loss upon the occurrence of the obligating event. The Group makes contributions to the banks' guarantee fund (quarterly) and the banks' forced restructuring fund (annually). Contributions to the guarantee fund and the forced restructuring fund are not tax-deductible.
TAXES AND FEES	The following items are recorded here: 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	(3 023)	(2 974)
Overheads, of which:	(1 478)	(1 391)
IT	(294)	(282)
Depreciation and amortization	(821)	(844)
property, plant and equipment, of which:	(370)	(365)
IT	(118)	(114)
investment properties	(2)	(3)
intangible assets, of which:	(451)	(476)
IT	(409)	(449)
Contributions and fees to the Bank Guarantee Fund (BGF)	(427)	(401)
to the Resolution Fund	(167)	(209)
to the Banks' Guarantee Fund	(260)	(192)
Payments to the PFSA	(28)	(20)
Taxes and charges	(128)	(154)
Total	**(5 905)**	**(5 784)**

EMPLOYEE BENEFITS	2018	2017
Wages and salaries, of which:	(2 537)	(2 497)
costs of contributions to the employee pension plan	(44)	(47)
Social insurance, of which:	(404)	(399)
contributions for disability and retirement benefits	(343)	(270)
Other employee benefits	(82)	(78)
Total	**(3 023)**	**(2 974)**

OPERATING LEASE – THE 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 Group as part of its normal operating activities also meet 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 209 million (in 2017 they amounted to PLN 277 million).

TOTAL FUTURE LEASE PAYMENTS UNDER IRREVOCABLE OPERATING LEASES – LESSEE	31.12.2018	31.12.2017
up to 1 year	192	228
from 1 to 5 years	395	424
over 5 years	50	98
Total	**637**	**750**

19. TAX ON CERTAIN FINANCIAL INSTITUTIONS

As of 1 February 2016, the Act of 15 January 2016 on tax on certain financial institutions came into force, which covered, among other things, banks and insurance companies. The tax is charged on the surplus of a Bank's total assets above PLN 4 billion; in the case of banks, the assessment is based on the trial balance as at the end of each month. The tax base of insurance companies within one Group is determined jointly as the surplus of total assets over PLN 2 billion. Banks are entitled to reduce the tax base by deducting such items as e.g. own funds or the value of Treasury securities.

(IN PLN MILLION)

Additionally, banks reduce the tax base by the value of assets acquired from the NBP, constituting collateral for a refinancing loan granted by the NBP. Insurance companies are entitled to reduce their tax base by the value of assets accumulated under the contracts for Employee Capital Plans that they service, as referred to in the Act on Employee Capital Plans of 4 October 2018.

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

TAX ON CERTAIN FINANCIAL INSTITUTIONS	2018	2017
Tax on certain financial institutions, of which:		
PKO Bank Polski SA	(883)	(894)
PKO Życie Towarzystwo Ubezpieczeń SA	(4)	(5)
PKO Bank Hipoteczny SA	(61)	(32)
PKO Towarzystwo Ubezpieczeń SA	(2)	(1)
Total	**(950)**	**(932)**

20. INCOME TAX

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

ACCOUNTING POLICIES

The income tax expense is classified into current and deferred income 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.

Group Companies are Corporate Income Tax payers. The value of the Companies' current tax liability is transferred to offices of the tax administration authorities competent for the Companies' location.

Corporate Income Tax liabilities of particular Group Companies for 2018 will be paid in accordance with the schedules stipulated by the relevant tax regulations.

(IN PLN MILLION)

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

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.

For deferred income tax calculation the Group uses the 19% tax rate for entities operating in the territory of Poland, 18% tax rate for entities operating in Ukraine and 22% tax rate for entities operating in Sweden.

Deferred tax assets are offset by the Group against deferred tax provisions only when it has an enforceable legal title to offset current income tax receivables against current income tax liabilities exists 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	(1 626)	(1 264)
Deferred income tax on temporary timing differences	290	124
Income tax expense recognized in the income statement	(1 336)	(1 140)
Income tax reported in other comprehensive income in respect of temporary differences	(96)	(141)
Total	**(1 432)**	**(1 281)**

(IN PLN MILLION)

RECONCILIATION OF THE EFFECTIVE TAX RATE

	2018	2017
Profit or loss before tax	5 078	4 249
Tax calculated using the enacted rate in force in Poland (19%)	(965)	(807)
Effect of different tax rates of foreign entities	-	1
Effect of permanent timing differences, of which:	(377)	(349)
non-tax deductible impairment allowance on investments in associates and joint ventures	(8)	(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	(179)	(177)
other permanent differences	(34)	(30)
Effect of other timing differences, including new technologies tax relief and donations	6	15
Income tax expense recognized in the income statement	(1 336)	(1 140)
Effective tax rate	**26.31%**	**26.83%**

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]	224	471	-	(451)	-	244
Capitalized interest on performing housing loans	106	-	-	(66)	-	40
Interest on securities	62	-	-	18	-	80
Valuation of securities	8	29	(19)	18	64	100
Valuation of derivative financial instruments	8	-	-	2	13	23
Difference between carrying amount and tax value of property, plant and equipment and intangible assets	333	-	-	(27)	-	306
Taxable income on release of IBNR allowance which was tax deductible in the past due to the adoption of IFRS 9	-	-	-	78	-	78
Prepayments	120	-	-	45	-	165
Foreign exchange gains	18	-	-	(18)	-	-
Other taxable temporary differences	4	-	-	1	-	5
Deferred income tax provision, gross	**883**	**500**	**(19)**	**(400)**	**77**	**1 041**
DEFERRED TAX ASSET						
Interest accrued on liabilities	116	-	-	(17)	-	99
Valuation of derivatives	156	-	-	13	(19)	150
Valuation of securities	-	-	-	12	-	12
Provision for employee benefits	94	-	-	(10)	-	84
Allowances for credit losses[1]	735	639	-	(256)	-	1 118
Fair value remeasurement of loans	-	-		17	-	17
Deferred commission to be settled under the straight-line method and effective interest rate	705	-	-	95	-	800
Other deductible temporary differences	27	-	-	(15)	-	12
Provision for costs to be incurred	41	-	-	(5)	-	36
Tax loss brought forward	16	-	-	(2)	-	14
Foreign exchange differences	1	-	-	(1)	-	-
Difference between carrying amount and tax value of property, plant and equipment and intangible assets, including leased assets	723	-	-	59	-	782
Deferred tax asset, gross	**2 614**	**639**	**-**	**(110)**	**(19)**	**3 124**
Total effect of temporary differences	1 731	139	19	290	(96)	2 083
Deferred income tax provision (presented in the statement of financial position)	36	-	-	-	-	52
Deferred income tax asset (presented in the statement of financial position)	1 767	-	-	-	-	2 135

[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 1 983 million.

21. EARNINGS PER SHARE

EARNINGS PER SHARE	2018	2017
Profit attributable to ordinary shareholders	3 741	3 104
Weighted average number of ordinary shares during the period (in million)	1 250	1 250
Earnings per share (in PLN per share)	2.99	2.48

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 CONSOLIDATED STATEMENT OF FINANCIAL POSITION

22. 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	11 172
Cash in hand	5 534	4 673
Deposits with the Central Bank	-	1 965
Total	**22 925**	**17 810**

During the course of the working day, the Group 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 Group 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%).

23. Amounts due from banks

Accounting policies

Amounts due from banks comprise financial assets measured at amortized cost using the effective interest rate method, less potential impairment allowances on 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	7 662	5 233	5 233
Deposits with banks, of which:	6 437	3 710	3 710
restricted cash and cash equivalents	4	9	9
Current accounts, of which:	1 174	1 470	1 470
restricted cash and cash equivalents	191	134	134
Loans and advances granted	48	51	51
Cash in transit	3	2	2
Total, gross	7 662	5 233	5 233
Allowances for expected credit losses/ Impairment allowances	(1)	-	-
Total	7 661	5 233	5 233

Detailed information relating to credit risk exposure in respect of amounts due from banks in respect of the year 2018 is provided in Note 29 "Expected Credit Losses" and for 2017 in Note 30 "Impairment allowances in respect 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	7 628	5 143
1 to 3 months	4	13
3 months to 1 year	17	58
1 to 5 years	12	19
Total	**7 661**	**5 233**

24. DERIVATIVE HEDGING INSTRUMENTS

RISK MANAGEMENT STRATEGY

The Group applies hedge accounting to hedge its interest rate risk and currency 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 concerning e.g. restrictions on interests on loans (option risk).

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

1) core business activities;
2) trading activities;
3) contracts concluded by the Group which generate foreign exchange risk.

Where necessary, foreign exchange risk arising in companies in respect of the Group's activities is managed by specialist units, within their own activities, on the basis of the data received on open foreign exchange positions.

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

ACCOUNTING POLICIES

The Group 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 Group 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 Group 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 HEDGE

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 shown 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.

FAIR VALUE HEDGES

Changes in the fair value of a derivative hedging instrument designated as fair value hedges 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 GROUP

The tables below present the change in the fair value of hedging instruments and hedged items from the moment of designation of 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 Group pays coupons based on 3M CHF LIBOR, and receives coupons based on 3M WIBOR on the nominal value defined in CHF and PLN respectively
HEDGED ITEM	the portfolio of floating interest mortgage loans in CHF and the portfolio of short-term negotiated term deposits, including their future renewals (high probability of occurrence. In designating the hedged item the Group 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

(IN PLN MILLION)

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%				

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 Group 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 – August 2028.

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	11 575	2,4386%	101	-	(1)	57
31.12.2017							
IRS PLN	PLN	8 411	2,3318%	89	4	2	14

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	11 575	Loans and advances to customers	(55)
31.12.2017			
Loans in PLN	8 411	Loans and advances to customers	(10)

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 Group 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)

(IN PLN MILLION)

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 EUR, RESULTING FROM THE RISK OF FLUCTUATIONS IN INTEREST RATES, USING IRS TRANSACTIONS
DESCRIPTION OF THE HEDGING RELATIONSHIP	elimination of the risk of cash flow fluctuations generated by floating interest rate EUR loan portfolio resulting from the interest rate risk using IRS transactions in the period covered by the hedge
HEDGED RISK	interest rate risk
HEDGING INSTRUMENT	IRS transactions where the Group pays coupons based on floating 3M EURIBOR rate, and receives coupons based on a fixed rate on the nominal value for which they were concluded
HEDGED ITEM	the portfolio of loans in EUR indexed to the floating 3M EURIBOR rate
SOURCES OF HEDGE INEFFECTIVENESS	▪ change in market parameters between the moment of determining the terms and conditions relating to the hedged item and the moment of concluding the hedge ▪ differences in discount on the hedged item and the hedging instrument ▪ CVA/DVA adjustment of the hedging instrument
	The period in which cash flows are expected to occur and 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							
IRS EUR	EUR	524	0,2087%	2	5	-	(3)
31.12.2017							
IRS EUR	EUR	524	0,2087%	1	28	-	(15)

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 EUR	524	Loans and advances to customers	3
31.12.2017			
Loans in EUR	524	Loans and advances to customers	15

(IN PLN MILLION)

STRATEGY 5	HEDGES AGAINST FLUCTUATIONS IN CASH FLOWS FROM FLOATING INTEREST RATE CONVERTIBLE CURRENCY LOANS ARISING FROM INTEREST RATE AND FOREIGN EXCHANGE RISK, AS WELL AS HEDGES AGAINST FLUCTUATIONS IN CASH FLOWS FROM FIXED INTEREST FOREIGN CURRENCY FINANCIAL LIABILITIES USING CIRS TRANSACTIONS
DESCRIPTION OF THE HEDGING RELATIONSHIP	elimination of the risk of fluctuations in cash flows from floating interest rate loans in foreign currencies, resulting from the risk of fluctuations in interest rates and 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 Group 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 – August 2024

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/USD	float CHF	818		148	-	1	88
	fixed USD	875	2,4315%				
CIRS CHF/EUR	float CHF	2 000		240	37	3	284
	fixed EUR	1 802	0,3504%				
31.12.2017							
CIRS CHF/USD	float CHF	818		116	-	(1)	62
	fixed USD	875	2,4315%				
CIRS CHF/EUR	float CHF	2 000		397	-	12	614
	fixed EUR	1 802	0,3504%				

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	2 818	Loans and advances to customers	(312)
Financial liabilities in USD	875	Debt securities in issue	
Financial liabilities in EUR	1 802	Debt securities in issue	
31.12.2017			
Loans in CHF	2 818	Loans and advances to customers	(652)
Financial liabilities in USD	875	Debt securities in issue	
Financial liabilities in EUR	1 802	Debt securities in issue	

(IN PLN MILLION)

STRATEGY 6	HEDGES AGAINST FLUCTUATIONS IN CASH FLOWS FROM MORTGAGE LOANS IN CONVERTIBLE CURRENCIES OTHER THAN CHF AND NEGOTIABLE TERM DEPOSITS IN PLN ARISING FROM THE RISK OF A CHANGE IN INTEREST RATE AND FOREIGN EXCHANGE RISK, USING CIRS TRANSACTIONS
DESCRIPTION OF THE HEDGING RELATIONSHIP	elimination of the risk of cash flow fluctuations generated by floating interest rate loans denominated in foreign currencies other than CHF and negotiated term deposits in PLN, resulting from fluctuations in reference interest rates and changes in foreign exchange rates using CIRS transactions during the hedged period
HEDGED RISK	foreign exchange risk and interest rate risk
HEDGING INSTRUMENT	CIRS transactions where the Group pays coupons based on 3M EURIBOR rate, and receives coupons based on WIBOR 3M rate on the nominal value for which they were concluded
HEDGED ITEM	the portfolio of floating interest mortgage loans in EUR and the portfolio of short-term negotiated deposits, including their future renewals (high probability of occurrence). In designating the hedged item the Group used the IAS39 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 – 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	

(IN PLN MILLION)

STRATEGY 7	HEDGES AGAINST FLUCTUATIONS IN CASH FLOWS FROM MORTGAGE LOANS IN FOREIGN CURRENCIES AND REGULAR SAVINGS PRODUCTS IN PLN, RESULTING FROM THE RISK OF FLUCTUATIONS IN INTEREST RATES AND IN FOREIGN EXCHANGE RATES, USING CIRS TRANSACTIONS
DESCRIPTION OF THE HEDGING RELATIONSHIP	elimination of the risk of cash flow fluctuations generated by floating interest rate loans denominated in CHF and floating interest rate regular savings products in PLN, resulting from fluctuations in reference interest rates in CHF and PLN, and changes in CHF/PLN foreign exchange rates using CIRS transactions during the hedged period
HEDGED RISK	foreign exchange risk and interest rate risk
HEDGING INSTRUMENT	CIRS transactions where the Group pays coupons based on 3M CHF LIBOR, and receives coupons based on 3M WIBOR on the nominal value defined in CHF and PLN respectively
HEDGED ITEM	the portfolio of floating interest 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	

(IN PLN MILLION)

STRATEGY 8	HEDGES AGAINST FLUCTUATIONS IN THE FAIR VALUE OF FIXED INTEREST LOANS IN FOREIGN CURRENCIES, RESULTING FROM THE RISK OF FLUCTUATIONS IN INTEREST RATES, USING IRS TRANSACTIONS
DESCRIPTION OF THE HEDGING RELATIONSHIP	elimination of the risk of fluctuations in the fair value of fixed interest loans in foreign currencies, resulting from the risk of fluctuations in interest rates, during the hedged period
HEDGED RISK	interest rate risk
HEDGING INSTRUMENT	IRS (Interest Rate Swap) transactions in foreign currencies, where the Group 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)

STRATEGY 9	HEDGES AGAINST FLUCTUATIONS IN CASH FLOWS FROM FLOATING INTEREST RATE MORTGAGE LOANS IN PLN ARISING FROM INTEREST RATE RISK AND HEDGES AGAINST FLUCTUATIONS IN CASH FLOWS FROM FIXED INTEREST CONVERTIBLE CURRENCY FINANCIAL LIABILITIES ARISING FROM FOREIGN EXCHANGE RISK USING CIRS TRANSACTIONS
DESCRIPTION OF THE HEDGING RELATIONSHIP	elimination of the risk of fluctuations in cash flows from floating interest rate mortgage loans in PLN arising from interest rate risk and elimination of the risk of fluctuations in cash flows from fixed interest convertible currency financial liabilities arising from foreign exchange risk using CIRS transactions in the period covered by the hedge
HEDGED RISK	foreign exchange risk and interest rate risk
HEDGING INSTRUMENT	CIRS transactions in which the Group pays a coupon based on a floating 3M WIBOR rate and receives a coupon based on a fixed EUR rate on the nominal amount for which it was concluded
HEDGED ITEM	the portfolio of floating interest rate mortgage loans in PLN and a fixed interest financial liability in EUR
SOURCES OF HEDGE INEFFECTIVENESS	▪ margin on the hedging instrument ▪ differences in discount on the hedged item and the hedging instrument ▪ CVA/DVA adjustment of the hedging instrument
	The period in which cash flows are expected to occur and affect the financial results: January 2019 - January 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 PLN/EUR	float PLN	2 101		75	-	7	76
	fixed EUR	499	0,7690%				
31.12.2017							
CIRS PLN/EUR	float PLN	-		-	-	-	-
	fixed EUR	-	-				

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 PLN	2 101	Loans and advances to customers	(69)
Financial liabilities in EUR	499	Debt securities in issue	

In 2018, the Group introduced Strategy 9 which concerns cash flow hedging. In 2017, the Group introduced Strategy 7, which concerns cash flow hedging, and Strategy 8, which concerns fair value hedging. These strategies are described above.

In 2018 and in 2017 the Group 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. 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 in 2017 the Group 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 PLN MILLION)

In 2018 and in 2017 the Group 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	658	470	887	204
Hedges of interest rate risk	110	5	90	35
IRS	110	5	90	35
Hedges of currency and interest rate risks	548	465	797	169
CIRS	548	465	797	169
Fair value hedges	-	1	-	-
Hedges of interest rate risk	-	1	-	-
IRS	-	1	-	-
Total	658	471	887	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	9 985	60	**11 575**
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	-	-	-	-	2 101	**2 101**
fixed EUR	-	-	-	-	499	**499**
CIRS fixed EUR/float CHF						
fixed EUR	-	-	-	1 302	500	**1 802**
float CHF	-	-	-	1 424	576	**2 000**
Fair value hedges						
Hedges of interest rate risk	-	-	-	-	-	**-**
IRS EUR fixed - float (original currency)	-	-	-	91	12	**103**

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	3 071	-	**8 411**
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 fixed EUR/float CHF						
fixed EUR	-	-	-	802	1 000	**1 802**
float CHF	-	-	-	889	1 111	**2 000**
Fair value hedges						
Hedges of interest rate risk	-	-	-	-	-	**-**
IRS EUR fixed - float (original currency)	-	-	-	46	-	**46**

(IN PLN MILLION)

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	**(142)**	**(134)**
Gains/losses recognized in other comprehensive income during the period	(62)	1 821
Amounts transferred from other comprehensive income to the cash flow statement, of which:	232	(1 829)
- interest income	(355)	(322)
- net foreign exchange gains/(losses)	587	(1 507)
Accumulated other comprehensive income at the end of the period, gross	**28**	**(142)**
Tax effect	(6)	26
Accumulated other comprehensive income at the end of the period, net	**22**	**(116)**
Impact on other comprehensive income during the period, gross	**170**	**(8)**
Tax effect	(32)	1
Impact on other comprehensive income during the period, net	**138**	**(7)**
Ineffective portion of cash flow hedges recognized in the income statements, including in:	**11**	**16**
Net foreign exchange gains/(losses)	12	14
Net gain/(loss) on financial instruments measured at fair value	(1)	2

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

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	(146)	148	(107)	109
CIRS	(200)	204	(117)	119
Total	**(346)**	**352**	**(224)**	**228**

25. OTHER DERIVATIVE FINANCIAL INSTRUMENTS

ACCOUNTING POLICIES

In the course of its activities, the Group uses derivative financial instruments designated for the purpose of managing the risks associated with its operations. The most frequently used derivative instruments include: IRS, CIRS, FX Swap, options, commodity swap, FRA, Forward and Futures. Derivative financial instruments are recognized at fair value from the transaction date. A derivative instrument is presented under "Derivative financial instruments" as an asset if its fair value is positive, and as a liability if its fair value is negative.
The Group recognizes changes in the fair values of derivative instruments not classified as cash flow hedges and the result on the settlement of those instruments in the result on financial instruments measured at fair value through profit or loss, or in net foreign exchange gains, depending on the type of derivative.

(IN PLN MILLION)

EMBEDDED DERIVATIVE INSTRUMENTS

With respect to embedded derivatives, the Group assesses whether a given contract contains an embedded derivative instrument as at the moment of concluding the contract. A reassessment can only be made when there is a change in the terms of the contract that significantly modifies the cash flows resulting from the contract. 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 Group 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 non-option derivatives is determined using valuation models based on discounted cash flows expected to be received from the given financial instrument. The valuation techniques used by the Group for non-option derivative instruments are based on yield curves based on available market data (deposit rates on interbank market, IRS quotations).

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 Group'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.

FINANCIAL INFORMATION

OTHER DERIVATIVE INSTRUMENTS - BY TYPE	31.12.2018		31.12.2017	
	Assets	Liabilities	Assets	Liabilities
IRS	1 178	1 832	875	1 385
CIRS	156	153	77	60
FX Swap	115	43	161	380
Options	262	268	254	250
Commodity swap	85	83	129	128
FRA	3	2	1	1
Forward	108	274	206	324
Futures	-	-	7	8
Other	-	-	1	-
Total	**1 907**	**2 655**	**1 711**	**2 536**

CALCULATION OF ESTIMATES

The Group conducted a simulation to assess the potential influence of changes in the yield curves on the transaction value.

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	(145)	147	(83)	84
CIRS	(253)	259	(117)	120
other instruments	3	(3)	7	(7)
Total	**(395)**	**403**	**(193)**	**197**

As at 31 December 2018, the amount of CVA and DVA adjustments amounted to PLN 0 million (as at 31 December 2017: PLN 2 million).

(IN PLN MILLION)

26. 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	30 897	24 573	62 337	63 036	22 654	203 497
FX Swap	22 811	6 905	4 142	5 048	-	38 906
Purchase of currencies	11 408	3 461	2 093	2 575	-	19 537
Sale of currencies	11 403	3 444	2 049	2 473	-	19 369
Forward	4 513	10 600	20 762	12 309	5	48 189
Purchase of currencies	2 251	5 292	10 324	6 137	4	24 008
Sale of currencies	2 262	5 308	10 438	6 172	1	24 181
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	36 754	22 527	68 821
Purchase	-	-	4 717	20 680	13 377	38 774
Sale	-	-	4 823	16 074	9 150	30 047
Interest rate transactions	21 512	13 904	115 141	195 374	35 386	381 317
Interest rate swap (IRS)	21 512	13 904	94 288	192 674	35 386	357 764
Purchase	10 756	6 952	47 144	96 337	17 693	178 882
Sale	10 756	6 952	47 144	96 337	17 693	178 882
Forward Rate Agreement (FRA)	-	-	20 853	2 700	-	23 553
Purchase	-	-	11 120	1 200	-	12 320
Sale	-	-	9 733	1 500	-	11 233
Interest rate futures	-	-	-	-	-	-
Purchase	-	-	-	-	-	-
Sale	-	-	-	-	-	-
Other transactions	265	457	1 229	1 177	-	3 128
Other (including on stock exchange indices)	265	457	1 229	1 177	-	3 128
Purchase	126	229	620	590	-	1 565
Sale	139	228	609	587	-	1 563
Total	52 674	38 934	178 707	259 587	58 040	587 942

NOMINAL VALUES OF UNDERLYING INSTRUMENTS (BUY AND SELL TOGETHER)

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	39 903	21 228	43 666	51 685	26 359	182 841
FX Swap	32 246	7 167	2 435	1 227	-	43 075
Purchase of currencies	16 102	3 512	1 218	627	-	21 459
Sale of currencies	16 144	3 655	1 217	600	-	21 616
Forward	5 557	5 482	9 859	6 294	4	27 196
Purchase of currencies	2 776	2 742	4 904	3 097	3	13 522
Sale of currencies	2 781	2 740	4 955	3 197	1	13 674
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	40 544	26 355	69 264
Purchase	-	-	1 178	21 676	15 486	38 340
Sale	-	-	1 187	18 868	10 869	30 924
Interest rate transactions	13 965	22 058	82 054	162 454	29 028	309 559
Interest rate swap (IRS)	12 302	21 058	73 654	161 954	29 028	297 996
Purchase	6 151	10 529	36 827	80 977	14 514	148 998
Sale	6 151	10 529	36 827	80 977	14 514	148 998
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	1 203	131	6 677
Other (including on stock exchange indices)	2 182	1 415	1 746	1 203	131	6 677
Purchase	623	708	841	608	65	2 845
Sale	1 559	707	905	595	66	3 832
Total	56 050	44 701	127 466	215 342	55 518	499 077

27. Securities

Accounting policies as of 1 January 2018

As of 1 January 2018 the Group 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. 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 Group 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 9 “Interest income and expenses” used to determine (accrue) interest income generated by the asset in the given period, on a current basis, adjusting it by allowances for expected credit losses.

Accounting policies binding until 31 December 2017

Until 31 December 2017 the Group 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.

(IN PLN MILLION)

FINANCIAL INFORMATION

SECURITIES	31.12.2018	01.01.2018	31.12.2017
held for trading	235	431	431
financial instruments designated at fair value through profit or loss upon initial recognition			8 157
available-for-sale investment securities			43 675
investment securities held to maturity			1 812
not held for trading, measured at fair value through profit or loss	2 848	4 690	
measured at fair value through other comprehensive income	52 558	47 223	
measured at amortized cost	8 473	6 180	
Total	**64 114**	**58 524**	**54 075**

As at 31 December 2018, the impairment allowance which did not reduce the fair value of securities measured at fair value through other comprehensive income amounted to PLN 25 million (PLN 20 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	217	1 201	52 558	8 473	62 449
NBP money market bills	-	-	2 900	-	2 900
Treasury bonds (in PLN)	94	1 034	39 970	2 234	43 332
Treasury bonds (in foreign currencies)	4	-	393	124	521
municipal bonds (in PLN)	16	-	5 301	4 007	9 324
corporate bonds (in foreign currencies)	-	37	-	-	37
corporate bonds (in PLN)	102	130	3 942	1 764	5 938
corporate bonds (in foreign currencies)	1	-	52	344	397
Equity securities	18	1 647	-	-	1 665
shares in other entities - not listed	-	269	-	-	269
shares in other entities - listed	13	180	-	-	193
participation units in investment funds, investment certificates, rights to shares, pre-emptive rights	5	1 198	-	-	1 203
Total	**235**	**2 848**	**52 558**	**8 473**	**64 114**

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

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	405	2 646	47 223	6 180	56 454
NBP money market bills	-	-	4 199	-	4 199
Treasury bonds (in PLN)	151	1 413	33 502	1 663	36 729
Treasury bonds (in foreign currencies)	138	893	238	149	1 418
municipal bonds (in PLN)	23	106	4 921	2 513	7 563
corporate bonds (in foreign currencies)	-	77	-	-	77
corporate bonds (in PLN)	92	157	3 886	1 730	5 865
corporate bonds (in foreign currencies)	1	-	477	125	603
Equity securities	26	2 044	-	-	2 070
shares in other entities - not listed	-	239	-	-	239
shares in other entities - listed	19	225	-	-	244
participation units in a collective investment undertaking, investment fund units, investment certificates, rights to shares, pre-emptive rights	7	1 580	-	-	1 587
Total	**431**	**4 690**	**47 223**	**6 180**	**58 524**

The item “Treasury bonds in PLN and in foreign currencies” comprises Polish Treasury bonds. As at 1 January 2018 the item Treasury bonds in foreign currencies included Ukrainian Treasury bonds amounting to PLN 384 million.

(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	405	6 688	43 192	1 812	52 097
NBP money market bills	-	4 199	-	-	4 199
Treasury bonds (in PLN)	151	1 413	33 502	1 663	36 729
Treasury bonds (in foreign currencies)	138	893	238	149	1 418
municipal bonds (in PLN)	23	106	4 928	-	5 057
corporate bonds (in foreign currencies)	-	77	-	-	77
corporate bonds (in PLN)	92	-	4 045	-	4 137
corporate bonds (in foreign currencies)	1	-	479	-	480
Equity securities	26	1 469	483	-	1 978
shares in other entities - not listed	-	-	150	-	150
shares in other entities - listed	19	-	77	-	96
investment fund units and participation units in a collective investment undertaking/investment certificates, rights to shares, pre-emptive rights	7	1 469	256	-	1 732
Total	**431**	**8 157**	**43 675**	**1 812**	**54 075**

The item “Treasury bonds in PLN and in foreign currencies” comprises Polish Treasury bonds. As at 31 December 2018 the item Treasury bonds in foreign currencies included Ukrainian Treasury bonds amounting to PLN 384 million.

Information relating to credit risk exposure in respect of securities measured at amortized cost or at fair value through other comprehensive income has been described in Note 29 “Expected credit losses” in 2018 and in Note 30 “Impairment allowances in respect of financial assets (comparative data in accordance with IAS 39)” in 2017.

As at 31 December 2018, securities amounting to PLN 474 million were classified to Stage 3 (PLN 473 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, measured at fair value through profit or loss	measured at fair value through other comprehensive income	measured at amortized cost	Total
with unspecified maturity – equity securities	18	1 647	-	-	1 665
up to 1 month	4	-	4 531	19	4 554
1 to 3 months	-	-	443	136	579
3 months to 1 year	30	362	2 972	755	4 119
1 to 5 years	120	682	22 300	4 109	27 211
over 5 years	63	157	22 312	3 454	25 986
Total	**235**	**2 848**	**52 558**	**8 473**	**64 114**

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	1 469	483	-	1 978
up to 1 month	9	4 203	411	95	4 718
1 to 3 months	4	106	5	53	168
3 months to 1 year	48	1 222	4 323	3	5 596
1 to 5 years	260	1 067	23 026	557	24 910
over 5 years	84	90	15 427	1 104	16 705
Total	**431**	**8 157**	**43 675**	**1 812**	**54 075**

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	52 568	(10)	52 558	8 499	(26)	8 473
NBP money market bills	2 900	-	2 900	-	-	-
Treasury bonds (in PLN)	39 970	-	39 970	2 234	-	2 234
Treasury bonds (in foreign currencies)	393	-	393	127	(3)	124
municipal bonds (in PLN)	5 301	-	5 301	4 013	(6)	4 007
corporate bonds (in PLN)	3 952	(10)	3 942	1 777	(13)	1 764
corporate bonds (in foreign currencies)	52	-	52	348	(4)	344
Total	52 568	(10)	52 558	8 499	(26)	8 473

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	47 238	(15)	47 223	6 194	(14)	6 180
NBP money market bills	4 199	-	4 199	-	-	-
Treasury bonds (in PLN)	33 502	-	33 502	1 663	-	1 663
Treasury bonds (in foreign currencies)	238	-	238	149	-	149
municipal bonds (in PLN)	4 921	-	4 921	2 516	(3)	2 513
corporate bonds (in PLN)	3 901	(15)	3 886	1 741	(11)	1 730
corporate bonds (in foreign currencies)	477	-	477	125	-	125
				-		
Total	47 238	(15)	47 223	6 194	(14)	6 180

(IN PLN MILLION)

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	43 441	(249)	43 192	1 812	-	1 812
Treasury bonds (in PLN)	33 502	-	33 502	1 663	-	1 663
Treasury bonds (in foreign currencies)	238	-	238	149	-	149
municipal bonds (in PLN)	4 928	-	4 928	-	-	-
corporate bonds (in PLN)	4 291	(246)	4 045	-	-	-
corporate bonds (in foreign currencies)	482	(3)	479	-	-	-
Equity securities	560	(77)	483	-	-	-
shares in other entities - not listed	150	-	150	-	-	-
shares in other entities - listed	154	(77)	77	-	-	-
participation units in investment funds and shares in collective investment undertakings	256	-	256	-	-	-
Total	44 001	(326)	43 675	1 812	-	1 812

Financial assets reclassified from categories measured at fair value through profit or loss

As at 31 December 2017, the Group had securities in the carrying amount of PLN 8 157 million in the financial instruments category, which were stated at initial recognition as measured at fair value through profit or loss. Of this, as at 1 January 2018, the Group reclassified securities – NBP bills with a value of PLN 4 199 million to the category of measured at fair value through other comprehensive income because they were classified as “hold to collect and sell” (reclassification required). The average effective interest rate on the NBP bills at the time of reclassification was 1.5348%. Interest income from the discount on the NBP bills recognized in the Group’s profit for 2018 was PLN 20 million.

28. Loans and advances to customers

Accounting policies

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

As of 1 January 2018, the Group 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 Group, 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 9 “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 a 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 the amount of payment due, which comprises interest on the amount receivable, net of any allowance for expected credit losses. Commissions and fees arising upon the origin of such assets or determining their financial characteristics are settled over the asset's life on a straight-line basis and recognized in interest 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.

Finance lease agreements are recognized as receivables in the amount equal to the current contractual value of the lease payments plus the potential unguaranteed residual value attributed to the lessor, determined as at the date of inception of the lease. Lease payments on finance leases are divided between interest income and a reduction in the balance of receivables in a manner enabling achieving a fixed interest rate on the remaining receivables.

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 8 “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 Group 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 Group identifies the premise of a material increase in 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.

(IN PLN MILLION)

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 αstatistics and the default arising. In this process the following probabilities are minimized:

- classification into a set of credit exposures with a significant increase in the level of credit risk (based on 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 Group'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 Group 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 Group's rating and scoring models. These migrations are determined within homogeneous portfolios, classified using, among other things, customer and customer segment assessment methodologies. An individual highest acceptable value of the probability of default is set for each class of risk and portfolio on the date of the initial recognition of the credit exposure, which, if exceeded, is identified as a material increase in credit risk. This value is set on the basis of the average probability of default for classes of risk worse than that at initial recognition of the exposure, weighted by the probability of transition to those classes of risk in the given time horizon.

In 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 risk compared to the current class of risk are as follows:

Risk category	PD range	the 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 Group 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 Group 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 Group'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 Group 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 Group 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 Group 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 Group'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 Group 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).

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 Group'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 Group'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 Group's portfolio of loans and advances assessed using the portfolio method, is presented in the table below:

(IN PLN MILLION)

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 Group's portfolio of individually impaired loans and advances assessed on an individual basis	(262)	360	(191)	290
changes in the probability of default	156	(165)	47	(48)
change in recovery rates	(490)	493	(314)	314

[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)	214 911	200 464	205 629
Adjustment relating to fair value hedge accounting	1	(1)	(1)
Total loans and advances to customers	**214 912**	**200 463**	**205 628**

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:	213 805	199 394	205 629
debt securities			4 368
not held for trading, measured at fair value through profit or loss	1 106	1 070	
Total	**214 911**	**200 464**	**205 629**

Corporate and municipal bonds of PLN 4 368 million, which met the definition of loans and credits in accordance with IAS 39, as at 31 December 2017, were presented under "Loans and advances to customers". After the IFRS 9 became binding, due to the fact that these securities meet the SPPI test criterion and are classified to the business model "held for cash flows", they are classified to the category of 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 amortized cost			Total
	Net amount	Gross amount	Allowances for expected credit losses	Net amount	Net amount
Loans[1]	1 106	206 972	(7 715)	199 257	**200 363**
housing	27	114 781	(2 012)	112 769	**112 796**
business	148	64 910	(3 992)	60 918	**61 066**
consumer	931	27 281	(1 711)	25 570	**26 501**
Receivables in respect of repurchase agreements	-	51	-	51	**51**
Finance lease receivables	-	14 986	(489)	14 497	**14 497**
Total	**1 106**	**222 009**	**(8 204)**	**213 805**	**214 911**

[1] The item “Loans” includes partial write-downs of suspended interest shown in Note 60.

(IN PLN MILLION)

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 amortized cost			Total
	Net amount	Gross amount[1]	Allowances for expected credit losses[1]	Net amount	Net amount
Loans[1]	1 070	195 982	(10 235)	185 747	**186 817**
housing	37	108 838	(3 030)	105 808	**105 845**
business	182	61 484	(5 143)	56 341	**56 523**
consumer	851	25 660	(2 062)	23 598	**24 449**
Receivables in respect of repurchase agreements	-	902	-	902	**902**
Finance lease receivables	-	13 163	(418)	12 745	**12 745**
					-
Total	**1 070**	**210 047**	**(10 653)**	**199 394**	**200 464**

[1] The item "Gross amount" and "Allowances for expected credit losses" includes suspended interest in the amount of PLN 2 480 million, including PLN 1 208 million for business loans, PLN 466 million for consumer loans, and PLN 806 million for housing loans.

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	**194 936**	**(7 363)**	**187 573**
housing	108 163	(1 972)	106 191
business	60 497	(3 705)	56 792
consumer	26 276	(1 686)	24 590
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**
Finance lease receivables	**13 236**	**(450)**	**12 786**
Total	**213 452**	**(7 823)**	**205 629**

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:	**223 115**	**211 117**	**213 452**
mortgage banking	108 508	102 093	101 544
corporate	55 217	51 678	55 154
retail and private banking	28 230	26 523	26 288
firms and undertakings	31 109	29 921	29 564
receivables in respect of repurchase agreements	51	902	902
Net allowances for expected credit losses /impairment allowances on loans and advances	(8 204)	(10 653)	(7 823)
Loans and advances to customers, net	**214 911**	**200 464**	**205 629**

Information about credit risk exposure for loans and advances granted, measured at amortized cost has been provided in more detail in Note 29 "Expected credit losses", and for 2017 in Note 30 "Impairment of financial assets (comparable data in accordance with IAS 39)."

(IN PLN MILLION)

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

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 amortized cost:	**(6 737)**	**(559)**	**(32)**	**(351)**	**(46)**	**(474)**	**(5)**	**(8 204)**
loans	(6 417)	(502)	(30)	(299)	(44)	(418)	(5)	**(7 715)**
housing	(1 649)	(186)	(4)	(99)	(25)	(45)	(4)	**(2 012)**
business	(3 609)	(134)	(21)	(73)	(11)	(143)	(1)	**(3 992)**
consumer	(1 159)	(182)	(5)	(127)	(8)	(230)	-	**(1 711)**
receivables in respect of repurchase agreements	-	-	-	-	-	-	-	**-**
finance lease receivables	(320)	(57)	(2)	(52)	(2)	(56)	-	**(489)**
Total	**(6 737)**	**(559)**	**(32)**	**(351)**	**(46)**	**(474)**	**(5)**	**(8 204)**
of which: purchased or originated credit-impaired assets	**(131)**	-	-	-	-	-	-	**(131)**

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

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

(IN PLN MILLION)

LOANS AND ADVANCES TO CUSTOMERS BY MATURITY (excluding adjustments relating to fair value hedge accounting) 31.12.2018	not held for trading, mandatorily measured at fair value through profit or loss	measured at amortized cost	Total
up to 1 month	225	9 478	**9 703**
1 to 3 months	34	6 120	**6 154**
3 months to 1 year	137	24 593	**24 730**
from 1 to 5 years	498	72 900	**73 398**
over 5 years	212	100 714	**100 926**
Total	**1 106**	**213 805**	**214 911**

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	9 405
1 to 3 months	5 817
3 months to 1 year	24 473
from 1 to 5 years	80 870
over 5 years	85 064
Total	**205 629**

FINANCE LEASE AGREEMENTS

The Group conducts lease activities through entities in the PKO Leasing SA Group.

GROSS INVESTMENT IN THE LEASE AND MINIMUM LEASE PAYMENTS RECEIVABLE AS AT 31.12.2018	Gross investment in the lease	Present value of minimum lease payments	Unrealized income
Lease receivables, gross			
up to 1 year	6 059	5 538	521
from 1 to 5 years	9 606	9 016	590
over 5 years	460	432	28
Total, gross	16 125	14 986	1 139
Allowances for expected losses	(489)	(489)	-
Total, net	**15 636**	**14 497**	**1 139**

GROSS INVESTMENT IN THE LEASE AND MINIMUM LEASE PAYMENTS RECEIVABLE AS AT 31.12.2017	Gross investment in the lease	Present value of minimum lease payments	Unrealized income
Lease receivables, gross			
up to 1 year	5 518	5 054	464
from 1 to 5 years	8 136	7 580	556
over 5 years	652	602	50
Total, gross	14 306	13 236	1 070
Impairment allowances	(450)	(450)	-
Total, net	**13 856**	**12 786**	**1 070**

As at 31 December 2018 and 31 December 2017, there were no unguaranteed residual values attributable to the lessor.

29. 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 in respect of loans 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 Group 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	51 709	-	388	-	471	471	(10)	52 568	(10)	52 558
Treasury bonds	40 363	-	-	-	-		-	40 363	-	**40 363**
other	11 346	-	388	-	471	471	(10)	12 205	(10)	**12 195**
Total	**51 709**	**-**	**388**	**-**	**471**	**471**	**(10)**	**52 568**	**(10)**	**52 558**
of which: purchased or originated credit-impaired assets (POCI)	-	-	-	-	471	471	(10)	471	(10)	**461**
Measured at amortized cost										
amounts due from banks	7 662	(1)	-	-	-	-	-	7 662	(1)	**7 661**
securities	8 437	(15)	59	(8)	3	3	(3)	8 499	(26)	**8 473**
Treasury bonds	2 361	(3)	-	-	-	-	-	2 361	(3)	**2 358**
other	6 076	(12)	59	(8)	3	3	(3)	6 138	(23)	**6 115**
loans and advances to customers	194 391	(566)	16 168	(1 249)	11 450	11 111	(6 389)	222 009	(8 204)	**213 805**
housing	106 561	(54)	5 960	(538)	2 260	2 201	(1 420)	114 781	(2 012)	**112 769**
business	52 638	(318)	5 703	(320)	6 569	6 406	(3 354)	64 910	(3 992)	**60 918**
consumer	23 664	(160)	1 786	(311)	1 831	1 829	(1 240)	27 281	(1 711)	**25 570**
receivables in respect of repurchase agreements	51	-	-	-	-		-	51	-	**51**
finance lease receivables	11 477	(34)	2 719	(80)	790	675	(375)	14 986	(489)	**14 497**
other financial assets	2 825	-	-	-	97	97	(97)	2 922	(97)	**2 825**
										-
Total	**213 315**	**(582)**	**16 227**	**(1 257)**	**11 550**	**11 211**	**(6 489)**	**241 092**	**(8 328)**	**232 764**
of which: purchased or originated credit-impaired assets (POCI)	-	-	-	-	674	674	(131)	674	(131)	543
Total	**265 024**	**(582)**	**16 615**	**(1 257)**	**12 021**	**11 682**	**(6 499)**	**293 660**	**(8 338)**	**285 322**

(IN PLN MILLION)

BY TYPE OF FINANCIAL 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	7 662	(1)	-	-	-	-	-	7 662	(1)	**7 661**
securities	60 146	(15)	447	(8)	474	474	(13)	61 067	(36)	**61 031**
Treasury bonds	42 724	(3)	-	-	-	-	-	42 724	(3)	**42 721**
other	17 422	(12)	447	(8)	474	474	(13)	18 343	(33)	**18 310**
loans and advances to customers	194 391	(566)	16 168	(1 249)	11 450	11 111	(6 389)	222 009	(8 204)	**213 805**
housing	106 561	(54)	5 960	(538)	2 260	2 201	(1 420)	114 781	(2 012)	**112 769**
business	52 638	(318)	5 703	(320)	6 569	6 406	(3 354)	64 910	(3 992)	**60 918**
consumer	23 664	(160)	1 786	(311)	1 831	1 829	(1 240)	27 281	(1 711)	**25 570**
receivables in respect of repurchase agreements	51	-	-	-	-	-	-	51	-	**51**
finance lease receivables	11 477	(34)	2 719	(80)	790	675	(375)	14 986	(489)	**14 497**
other financial assets	2 825	-	-	-	97	97	(97)	2 922	(97)	**2 825**
Total	**265 024**	**(582)**	**16 615**	**(1 257)**	**12 021**	**11 682**	**(6 499)**	**293 660**	**(8 338)**	**285 322**
of which: purchased or originated credit-impaired assets (POCI)	-	-	-	-	1 145	1 145	(141)	1 145	(141)	**1 004**

LOAN QUALITY RATIOS (excluding adjustments relating to fair value hedge accounting)	31.12.2018	01.01.2018
Share of impaired exposures[1]	4.9%	5.3%
Coverage ratio of impaired loans[2]	74.0%	74.2%
Share of loans overdue for more than 90 days in gross loans and advances to customers	3.2%	3.9%

[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 1 January 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	46 765	-	-	-	473	2	473	(15)	47 238	(15)	**47 223**
Treasury bonds	33 740	-	-	-	-	-	-	-	33 740	-	**33 740**
other	13 025	-	-	-	473	2	473	(15)	13 498	(15)	**13 483**
Total	**46 765**	**-**	**-**	**-**	**473**	**2**	**473**	**(15)**	**47 238**	**(15)**	**47 223**
of which: purchased or originated credit-impaired assets (POCI)	-	-	-	-	473	2	473	(15)	473	(15)	**458**
Measured at amortized cost											
amounts due from banks	5 233	-	-	-	-	-	-	-	5 233	-	**5 233**
securities	6 194	(14)	-	-	-	-		-	6 194	(14)	**6 180**
Treasury bonds	1 812	-	-	-	-	-	-	-	1 812	-	**1 812**
other	4 382	(14)	-	-	-	-	-	-	4 382	(14)	**4 368**
loans and advances to customers	180 561	(490)	14 830	(1 078)	14 656	2 250	11 341	(9 085)	210 047	(10 653)	**199 394**
housing	100 206	(55)	5 016	(435)	3 616	733	2 812	(2 540)	108 838	(3 030)	**105 808**
business	47 757	(278)	5 870	(369)	7 857	1 153	5 959	(4 496)	61 484	(5 143)	**56 341**
consumer	21 661	(135)	1 608	(210)	2 391	364	2 014	(1 717)	25 660	(2 062)	**23 598**
receivables in respect of repurchase agreements	902	-	-	-	-	-	-	-	902	-	**902**
finance lease receivables	10 035	(22)	2 336	(64)	792	-	556	(332)	13 163	(418)	**12 745**
other financial assets	2 378	(1)	-	-	99	-	99	(99)	2 477	(100)	**2 377**
Total	**194 366**	**(505)**	**14 830**	**(1 078)**	**14 755**	**2 250**	**11 440**	**(9 184)**	**223 951**	**(10 767)**	**213 184**
of which: purchased or originated credit-impaired assets (POCI)	-	-	-	-	363	-	363	(115)	363	(115)	**248**
Total	**241 131**	**(505)**	**14 830**	**(1 078)**	**15 228**	**2 252**	**11 913**	**(9 199)**	**271 189**	**(10 782)**	**260 407**

(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	5 233	-	-	-	-	-	-	-	5 233	-	**5 233**
securities	52 959	(14)	-	-	473	2	473	(15)	53 432	(29)	53 403
Treasury bonds	35 552	-	-	-	-	-	-	-	35 552	-	35 552
other	17 407	(14)	-	-	473	2	473	(15)	17 880	(29)	17 851
loans and advances to customers	180 561	(490)	14 830	(1 078)	14 656	2 250	11 341	(9 085)	210 047	(10 653)	**199 394**
housing	100 206	(55)	5 016	(435)	3 616	733	2 812	(2 540)	108 838	(3 030)	**105 808**
business	47 757	(278)	5 870	(369)	7 857	1 153	5 959	(4 496)	61 484	(5 143)	**56 341**
consumer	21 661	(135)	1 608	(210)	2 391	364	2 014	(1 717)	25 660	(2 062)	**23 598**
receivables in respect of repurchase agreements	902	-	-	-	-	-	-	-	902	-	**902**
finance lease receivables	10 035	(22)	2 336	(64)	792	-	556	(332)	13 163	(418)	**12 745**
other financial assets	2 378	(1)	-	-	99	-	99	(99)	2 477	(100)	**2 377**
Total	**241 131**	**(505)**	**14 830**	**(1 078)**	**15 228**	**2 252**	**11 913**	**(9 199)**	**271 189**	**(10 782)**	**260 407**
of which: purchased or originated credit-impaired assets (POCI)	-	-	-	-	836	2	836	(130)	836	(130)	**706**

(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	Changes due to in foreign exchange differences on translation of foreign entities	Other changes, including foreign exchange differences	As at 31.12.2018
Available-for-sale investment securities	326	(326)	-	-	-	-	-	-	-	-	-	-	-
							-	-		-			
Measured at fair value through OCI													
amounts due from banks	-	-	-	-	-	-	-	-	-	-	-	-	-
securities	-	15	15	4	(10)	1	5	-	-	(3)	-	(2)	10
Total	-	**15**	**15**	**4**	**(10)**	**1**	5	-	-	(3)	-	**(2)**	**10**
amounts due from banks	-		-	-	-	-	-	-	-	-	-	1	1
securities	-	14	14	10	-	-	-	-	-	-	1	1	26
loans and advances to customers	7 823	2 830	10 653	617	(1 563)	1 958	743	(535)	72	(3 674)	19	(86)	8 204
housing	1 972	1 058	3 030	35	(477)	534	212	(148)	9	(1 081)	4	(106)	2 012
business	3 705	1 438	5 143	331	(527)	744	202	(296)	58	(1 749)	11	75	3 992
consumer	1 686	376	2 062	106	(426)	640	312	(75)	5	(830)	3	(86)	1 711
securities	10	(10)	-	-	-	-	-	-	-	-	-	-	-
finance lease receivables	450	(32)	418	145	(133)	40	17	(16)	-	(14)	1	31	489
other financial assets	100	-	100	1	-	-	-		-	(5)	-	1	97
Total	**7 923**	**2 844**	**10 767**	**628**	**(1 563)**	**1 958**	**743**	**(535)**	**72**	**(3 679)**	**20**	**(83)**	**8 328**
Total allowances for expected credit losses on financial assets	**8 249**	**2 533**	**10 782**	**632**	**(1 573)**	**1 959**	**748**	**(535)**	**72**	**(3 682)**	**20**	**(85)**	**8 338**

(IN PLN MILLION)

CHANGES IN ALLOWANCES FOR EXPECTED CREDIT LOSSES ON FINANCIAL ASSETS BY ASSET TYPE	As at 31.12.2017	Changes due to IFRS 9 implementation[1]	Fair value as at 01.01.2018 (changed)	Increase due to recognition and purchase	Decrease due to derecognition	Changes due to changes in credit risk, net	Changes due to 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	Changes due to in foreign exchange differences on translation of foreign entities	Other changes, including foreign exchange differences	As at 31.12.2018
amounts due from banks	-	-	-	-	-	-	-	-	-	-	-	1	1
securities	326	(297)	29	14	(10)	1	5	-	-	(3)	1	(1)	36
loans and advances to customers	7 823	2 830	10 653	617	(1 563)	1 958	743	(535)	72	(3 674)	19	(86)	8 204
housing	1 972	1 058	3 030	35	(477)	534	212	(148)	9	(1 081)	4	(106)	2 012
business	3 705	1 438	5 143	331	(527)	744	202	(296)	58	(1 749)	11	75	3 992
consumer	1 686	376	2 062	106	(426)	640	312	(75)	5	(830)	3	(86)	1 711
securities	10	(10)	-	-	-	-	-	-	-	-	-	-	-
finance lease receivables	450	(32)	418	145	(133)	40	17	(16)	-	(14)	1	31	489
other financial assets	100	-	100	1	-	-	-	-	-	(5)	-	1	97
Total allowances for expected credit losses on financial assets	**8 249**	**2 533**	**10 782**	**632**	**(1 573)**	**1 959**	**748**	**(535)**	**72**	**(3 682)**	**20**	**(85)**	**8 338**

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

(IN PLN MILLION)

CHANGES IN THE GROSS CARRYING 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	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 impairment in connection with a 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	43 675	(43 675)	-	-		-	-	-	-	-	-	-	-	-
Measured at fair value through OCI														
securities	-	47 238	47 238	269 204	-	(266 385)	-	(445)	-	(3)	(2)		2 961	52 568
Total	**-**	**47 238**	**47 238**	**269 204**	**-**	**(266 385)**	**-**	**(445)**	**-**	**(3)**	**(2)**	**-**	**2 961**	**52 568**
Measured at amortized cost														
amounts due from banks	5 233	-	5 233	6 006	831	(4 230)	-	(185)	-	-	-	-	7	7 662
securities	-	6 194	6 194	3 033	-	(925)	-	(150)	-	-	-	-	347	8 499
loans and advances to customers (excluding adjustments relating to fair value hedge accounting)	213 452	(3 405)	210 047	45 364	21 340	(50 898)	(626)	(4 677)	(1 682)	(1 980)	(202)	(2 518)	7 841	222 009
housing	108 163	675	108 838	14 194	3 966	(16 233)	80	(960)	(566)	(515)	(120)	(374)	6 471	114 781
business	60 497	987	61 484	15 072	14 868	(22 572)	(19)	(1 554)	(583)	(1 154)	(9)	(1 916)	1 293	64 910
consumer	26 276	(616)	25 660	9 580	2 506	(8 636)	13	(785)	(519)	(311)	(73)	(228)	74	27 281
securities	4 378	(4 378)	-	-		-	-	-	-	-	-	-	-	-
receivables in respect of repurchase agreements	902	-	902	51		(902)	-	-	-	-	-	-	-	51
finance lease receivables	13 236	(73)	13 163	6 467		(2 555)	(700)	(1 378)	(14)				3	14 986
other financial assets	2 377	100	2 477	2 924		(2 477)	-	-		-	-	-	(2)	2 922
														-
Total	**221 062**	**2 889**	**223 951**	**57 327**	**22 171**	**(58 530)**	**(626)**	**(5 012)**	**(1 682)**	**(1 980)**	**(202)**	**(2 518)**	**8 193**	**241 092**
Total changes in gross carrying amounts of financial instruments	**264 737**	**6 452**	**271 189**	**326 531**	**22 171**	**(324 915)**	**(626)**	**(5 457)**	**(1 682)**	**(1 983)**	**(204)**	**(2 518)**	**11 154**	**293 660**

(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 1 004 million (PLN 706 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	674	(131)	543
measured at amortized cost	674	(131)	543
Total	**1 145**	**(141)**	**1 004**

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	363	(115)	248
measured at amortized cost	363	(115)	248
Total	**836**	**(130)**	**706**

CHANGES IN IMPAIRMENT ALLOWANCES FOR PURCHASED OR ORIGINATED CREDIT-IMPAIRED FINANCIAL ASSETS (POCI) IN 2018	As at 01.01.2018	Increase due to recognition and purchase	Decrease due to derecognition	Zmiany wynikające ze zmiany ryzyka kredytowego (netto)	Decrease in impairment allowances due to write-off	Other adjustments	As at 31.12.2018
Securities	15	-	-	(3)	-	(2)	10
measured at fair value through other comprehensive income	15	-	-	(3)	-	(2)	10
Loans and advances to customers	115	2	(50)	77	(26)	13	131
measured at amortized cost	115	2	(50)	77	(26)	13	131
Total	**130**	**2**	**(50)**	**74**	**(26)**	**11**	**141**

30. 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 - THE GROUP'S EXPOSURE TO CREDIT RISK	Exposure
	31.12.2017
Amounts due from banks not impaired, not past due	5 233
Total, net	**5 233**

(IN PLN MILLION)

SECURITIES

AVAILABLE-FOR-SALE INVESTMENT DEBT SECURITIES – THE GROUP'S EXPOSURE TO CREDIT RISK	Exposure 31.12.2017
impaired, assessed on an individual basis	822
not impaired, not past due	42 619
with an external rating	37 472
with an internal rating	5 147
Total, gross	**43 441**
Impairment allowances	(249)
Total, net	**43 192**

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:	5 420	(2 103)	3 317
impaired	4 346	(2 097)	2 249
not impaired	1 074	(6)	1 068
portfolio basis	7 354	(5 000)	2 354
impaired	7 332	(5 000)	2 332
not impaired	22	-	22
group basis (IBNR)	200 678	(720)	199 958
Total	**213 452**	**(7 823)**	**205 629**

LOANS AND ADVANCES TO CUSTOMERS - THE GROUP'S EXPOSURE TO CREDIT RISK	31.12.2017		
	Gross amount	Impairment allowances	Net amount
impaired, of which:	11 678	(7 097)	4 581
assessed on an individual basis	4 346	(2 097)	2 249
not impaired, of which:	201 774	(726)	201 048
with a recognized individual impairment trigger	1 074	(6)	1 068
not past due	763	(4)	759
past due	311	(2)	309
without a recognized individual impairment trigger/IBNR	200 700	(720)	199 980
not past due	195 643	(544)	195 099
past due	5 057	(176)	4 881
Total	**213 452**	**(7 823)**	**205 629**

LOAN QUALITY RATIOS (IN %)	31.12.2017
Share of impaired loans	5.5%
Coverage ratio of impaired loans[1]	67.0%
Share of loans overdue for more than 90 days in gross loans and advances to customers	4.2%

[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	-	99	99
not impaired, not past due	2 368	10	2 378
Total, gross	**2 368**	**109**	**2 477**
Impairment allowances	-	(100)	(100)
Total at carrying amount (net)	**2 368**	**9**	**2 377**

(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	277	79	(66)	(41)	249	(13)
Equity securities	67	51	(40)	(1)	77	(11)
Total	**344**	**130**	**(106)**	**(42)**	**326**	**(24)**

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	2 200	708	(526)	(268)	(142)	1 972	16	(166)
business loans	3 807	2 217	(1 374)	(770)	(175)	3 705	71	(772)
consumer loans	1 471	1 251	(744)	(226)	(66)	1 686	8	(499)
debt securities (corporate)	69	4	(9)	(60)	-	4	-	5
debt securities (municipal)	9	-	(2)	-	(1)	6	-	2
finance lease receivables	447	245	(171)	(68)	(3)	450	-	(74)
Total	**8 003**	**4 425**	**(2 826)**	**(1 392)**	**(387)**	**7 823**	**95**	**(1 504)**

31. NON-CURRENT ASSETS HELD FOR SALE

ACCOUNTING POLICIES

Only assets available for immediate sale in the current condition are classified 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 recognized as 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 Group reclassifies assets from non-current assets held for sale to appropriate other asset categories. 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
Land and buildings	8	148
Other	7	9
Total, gross	**15**	**157**
Impairment allowances	-	(19)
Total	**15**	**138**

In 2018 the decrease in the balance of held-for-sale non-current assets resulted from the sale of hotel investments relating to the sale of Residence Management Sp. z o.o. (Note 45)

32. INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

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 – Goodwill is recognized as the excess of consideration paid over the amount of identifiable assets acquired, liabilities assumed measured at fair value as at the acquisition date. Following the initial recognition, goodwill is measured at the initial value less any cumulative impairment allowances. Goodwill arising on acquisition of subsidiaries is recognized under "Intangible assets" and goodwill arising on acquisition of associates and joint ventures is recognized under "Investments in associates and joint ventures". The test for goodwill impairment is carried out at least at the end of each year. Impairment is calculated by estimating the recoverable amount of the cash-generating unit to which the given goodwill relates. If the recoverable amount of the cash-generating unit is lower than its carrying amount, an impairment allowance is recognized.

CUSTOMER RELATIONS AND VALUE IN FORCE – As a result of a settlement of the transaction, two components of intangible assets that are recognized separately from goodwill, i.e. customer relations and value in force, representing the present value of future profits from concluded insurance contracts, were identified. These components of intangible assets are amortized using the declining balance method based on the rate of consumption of the economic benefits arising from their use.

OTHER INTANGIBLE ASSETS – Other intangible assets acquired by the Group 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/amortization is charged on all non-current assets, whose value decreases due to the use or passage of time, using the straight-line method over the estimated useful life of the given asset. The adopted depreciation/amortization method and useful lives are reviewed at least on an annual basis.

Depreciation of property, plant and equipment, investment properties and amortization of intangible assets begins upon commissioning the asset for 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 Group 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 Group 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

An impairment allowance is recognized if the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognized in the income statement.

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

An impairment allowance in respect of goodwill cannot be reversed. 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. An impairment allowance may be reversed only to the level at which the book value of an asset does not exceed the book value – less depreciation/amortization – which would be determined should the impairment allowance not have been recorded.

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 Group determines the recoverable amount at the level of the cash-generating unit to which the asset belongs.

OPERATING LEASE – LESSOR

Initial direct costs incurred in the course of negotiating the operating lease agreements are added to the carrying amount of a leased asset and recognized over the period of the lease on the same basis as the rental income. Contingent lease payments are recognized as income in the period in which they become due. Lease payments receivable in respect of operating leases are recognized as revenue in the income statement on a straight-line basis over the period of the lease. The average agreement period is usually 36 months. The lessee bears service and insurance costs.

ESTIMATES AND JUDGEMENTS

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

In estimating the useful economic lives of particular types of property, plant and equipment, intangible assets and investment properties, 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 applied by the PKO Bank Polski SA Group:

Fixed assets	**Economic useful lives**
Buildings, premises, cooperative rights to premises (including investment properties)	from 25 to 60 years
Leasehold improvements (buildings, premises)	from 1 to 11 years (or the period of the lease, if shorter)
Machinery and equipment	from 2 to 15 years
Computer hardware	from 2 to 10 years
Vehicles	from 3 to 5 years
Intangible assets	**Economic useful lives**
Software	from 1 to 20 years
Other intangible assets	from 1 to 20 years

IMPAIRMENT ALLOWANCES

At each balance sheet date, the Group 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 and goodwill, the Group 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 Group 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 Group 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	Future profit on concluded insurance contracts	Customer relationships	Other, including capital expenditure		Total
						of which: on software	
Carrying amount as at the beginning of the period, gross	4 832	1 438	141	150	361	232	6 922
Purchase	23	-	-	-	384	384	407
Transfers from capital expenditure	332	-	-	-	(332)	(332)	-
Scrapping or sale	(1)	-	-	-	(3)	(2)	(4)
Foreign exchange differences on translation of foreign branches	3	-	-	-	-	-	3
Other, including loss of control over a subsidiary	17	-	-	-	-	1	17
Carrying amount as at the end of the period, gross	5 206	1 438	141	150	410	283	7 345
Accumulated amortization as at the beginning of the period	(3 272)	-	(75)	(62)	(72)	-	(3 481)
Amortization charge for the period	(415)	-	(15)	(13)	(8)	-	(451)
Scrapping and sale	1	-	-	-	1	-	2
Foreign exchange differences on translation of foreign branches	(1)	-	-	-	-	-	(1)
Other, including loss of control over a subsidiary	1	-	-	(2)	3	-	2
Accumulated amortization as at the end of the period	(3 686)	-	(90)	(77)	(76)	-	(3 929)
Impairment allowances as at the beginning of the period	(18)	(175)	-	-	(6)	-	(199)
Recognized during the period	-	(12)	-	-	(10)	(10)	(22)
Impairment allowances as at the end of the period	(18)	(187)	-	-	(16)	(10)	(221)
Carrying amount as at the beginning of the period, net	1 542	1 263	66	88	283	232	3 242
Net carrying amount as at the end of the period	1 502	1 251	51	73	318	273	3 195

INTANGIBLE ASSETS 31.12.2017	Software	Goodwill	Future profit on concluded insurance contracts	Customer relationships	Other, including capital expenditure		Total
						of which: on software	
Carrying amount as at the beginning of the period, gross	4 460	1 426	141	150	447	320	6 624
Purchase	17	12	-	-	256	246	285
Transfers from capital expenditure	338	-	-	-	(338)	(330)	-
Scrapping or sale	(2)	-	-	-	-	-	(2)
Other, including taking up control over subsidiaries	19	-	-	-	(4)	(4)	15
Carrying amount as at the end of the period, gross	4 832	1 438	141	150	361	232	6 922
Accumulated amortization as at the beginning of the period	(2 832)	-	(60)	(52)	(62)	-	(3 006)
Amortization charge for the period	(441)	-	(15)	(10)	(10)	-	(476)
Scrapping and sale	1	-	-	-	-	-	1
Accumulated amortization as at the end of the period	(3 272)	-	(75)	(62)	(72)	-	(3 481)
Impairment allowances as at the beginning of the period	(16)	(174)	-	-	(6)	-	(196)
Recognized during the period	-	(1)	-	-	-	-	(1)
Other, including taking up control over subsidiaries	(2)	-	-	-	-	-	(2)
Impairment allowances as at the end of the period	(18)	(175)	-	-	(6)	-	(199)
Carrying amount as at the beginning of the period, net	1 612	1 252	81	98	379	320	3 422
Net carrying amount as at the end of the period	1 542	1 263	66	88	283	232	3 242

With regard to the Group, a significant item of intangible assets relates to expenditure 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 Bank Polska SA	863	863
PKO Życie Towarzystwo Ubezpieczeń SA	91	91
PKO Leasing Pro SA	31	31
Raiffeisen - Leasing Polska SA i jej spółki zależne (PKO Leasing SA)	57	57
PKO Towarzystwo Funduszy Inwestycyjnych SA	150	150
PKO BP BANKOWY PTE SA	51	51
Assets taken over from CFP Sp. z o.o.	8	8
ZenCard sp. z o.o.	-	12
Total	**1 251**	**1 263**

As at 31 December 2018, the Group 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%. Cash flow projections are based on the assumptions included in the financial plan of the Bank for 2018. 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.

The impairment test of goodwill which arose on the acquisition of PKO Towarzystwo Funduszy Inwestycyjnych SA was conducted using the discounted dividend method on the basis of the 2-year financial forecast prepared by the company, taking into account the residual value.

The impairment test of goodwill of PKO Życie Towarzystwo Ubezpieczeń SA was conducted on the basis of the present value of the expected future cash flows for PKO Bank Polski SA taking into account the residual value. The cash flows were assessed on the basis of the 10-year financial forecast prepared by the company.

The goodwill that arose on the acquisition of Raiffeisen-Leasing Polska SA and its subsidiaries by PKO Leasing SA was allocated to the portion of the assets of the PKO Leasing SA Group that was separately recorded in the accounts as assets of the Raiffeisen-Leasing Polska SA Group that was acquired. The impairment test was conducted using the discounted dividend method on the basis of the 8-year financial forecast prepared by the company, taking into account the residual value.

The impairment test of goodwill of PKO BP BANKOWY PTE SA was conducted using the embedded value method, according to which the value in use of the company's shares was established. The test takes into account the changes introduced by the Act on the amendment to the Act on pensions from the Social Insurance Fund and certain other Acts which was enacted by the Polish Sejm on 16 November 2016 and which reduced the minimum retirement age, setting the right to retire at the age of 60 for women and 65 for men. The Act became effective on 1 October 2017.

The goodwill arising on the acquisition of PKO Leasing Pro SA by PKO Bank Polski SA was allocated to the whole of PKO Leasing SA as the immediate parent company, which acquired the assets of PKO Leasing Pro SA in the merger. The impairment test was prepared on the basis of the present value of the expected future cash flows generated by the company, estimated on the basis of the financial forecast prepared by the company for 5 years with the simultaneous fading out of activities thereafter.

The goodwill which arose on the acquisition of ZenCard sp. z o.o. was allocated to the whole of the investment project (i.e. the whole of the goodwill). The impairment test was conducted on the basis of the present value of the expected future cash flows generated by the company, which were estimated on the basis of a 3-year financial forecast, taking into account the residual value.

A discount rate of 7.84% which accounts for the risk-free rate on 10-year Treasury bond yields as at the date of the valuation and for market risk premium and risk ratio specified for PKO Bank Polski SA's projects were used for discounting future cash flows in the impairment tests described above, regarding PKO Bank Polski SA's subsidiaries.

The measurement methods and forecast periods were adapted to the specificity of the assets or companies measured.

Goodwill of ZenCard sp. z o.o. was fully written off as a result of the above impairment tests.

(IN PLN MILLION)

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	2 696	1 630	970	126	68	1 295	5 747
Purchase	8	24	22	231	99	343	606
Transfers from capital expenditure	31	118	94	(189)	(94)	40	-
Scrapping or sale	(54)	(117)	(96)	-	-	(201)	(372)
Other, including loss of control over a subsidiary	(36)	(11)	1	(3)	(3)	(57)	(107)
Carrying amount as at the end of the period, gross	2 645	1 644	991	165	70	1 420	5 874
Accumulated depreciation as at the beginning of the period	(1 034)	(1 192)	(712)	-	-	(560)	(2 786)
Depreciation charge for the period	(89)	(165)	(117)	-	-	(116)	(370)
Scrapping and sale	34	116	97	-	-	76	226
Other, including loss of control over a subsidiary	20	14	1	-	-	3	37
Accumulated depreciation as at the end of the period	(1 069)	(1 227)	(731)	-	-	(597)	(2 893)
Impairment allowances as at the beginning of the period	(33)	(1)	-	(3)	-	(9)	(46)
Recognized during the period	(9)	-	-	-	-	2	(7)
Other	3	-	-	-	-	-	3
Impairment allowances as at the end of the period	(39)	(1)	-	(3)	-	(7)	(50)
Carrying amount as at the beginning of the period, net	1 629	437	258	123	68	726	2 915
Net carrying amount as at the end of the period	1 537	416	260	162	70	816	2 931

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
Gross amount as at the beginning of the period	2 951	1 611	956	107	51	1 182	5 851
Purchase	5	27	22	203	86	211	446
Transfers from capital expenditure	45	93	69	(180)	(68)	42	-
Scrapping or sale	(121)	(91)	(67)	-	-	(99)	(311)
Other, including taking up control over subsidiaries	(184)	(10)	(10)	(4)	(1)	(41)	(239)
Gross book value as at the end of the period	2 696	1 630	970	126	68	1 295	5 747
Accumulated depreciation as at the beginning of the period	(1 037)	(1 122)	(668)	-	-	(540)	(2 699)
Depreciation charge for the period	(100)	(165)	(115)	-	-	(103)	(368)
Scrapping and sale	-	67	67	-	-	-	67
Other, including taking up control over subsidiaries	103	28	4	-	-	83	214
Accumulated depreciation as at the end of the period	(1 034)	(1 192)	(712)	-	-	(560)	(2 786)
Impairment allowances as at the beginning of the period	(50)	(1)	-	(4)	-	(11)	(66)
Recognized during the period	(7)	-	-	-	-	(3)	(10)
Reversed during the period	2	-	-	-	-	-	2
Other, including taking up control over subsidiaries	22	-	-	1	-	5	28
Impairment allowances as at the end of the period	(33)	(1)	-	(3)	-	(9)	(46)
Carrying amount as at the beginning of the period, net	1 864	488	288	103	51	631	3 086
Net carrying amount as at the end of the period	1 629	437	258	123	68	726	2 915

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	(38)	258	(40)	282

OPERATING LEASE – LESSOR

TOTAL FUTURE LEASE PAYMENTS UNDER IRREVOCABLE OPERATING LEASES – LESSOR	31.12.2018	31.12.2017
For a period:		
up to 1 year	73	63
from 1 to 5 years	75	64
over 5 years	6	-
Total	**154**	**127**

The average agreement period for operating lease agreements where the Group is a lessor is usually 36 months. The lessee bears service and insurance costs.

(IN PLN MILLION)

As at the balance sheet date the assets in lease under operating lease are presented in the table below:

ASSETS LEASED OUT 31.12.2018	Vehicles provided under operating leases	Properties provided under operating leases	Machinery and equipment provided under operating leases	Total
Gross amount as at the beginning of the period	392	78	9	479
Loss of control over subsidiaries	-	(55)	-	(55)
Changes during the period	185	4	-	189
Gross book value as at the end of the period	577	27	9	613
Accumulated depreciation as at the beginning of the period	(75)	(7)	(3)	(85)
Depreciation charge for the period	(57)	(1)	(2)	(60)
Loss of control over subsidiaries	-	6	-	6
Other changes/repayment	31	-	-	31
Accumulated depreciation as at the end of the period	(101)	(2)	(5)	(108)
Impairment allowances as at the beginning of the period	(4)	(1)	-	(5)
Impairment allowances as at the end of the period	(4)	(1)	-	(5)
Net amount	**472**	**24**	**4**	**500**

ASSETS LEASED OUT 31.12.2017	Vehicles provided under operating leases	Properties provided under operating leases	Machinery and equipment provided under operating leases	Total
Gross amount as at the beginning of the period	266	76	8	350
Changes during the period	126	2	1	129
Gross book value as at the end of the period	392	78	9	479
Accumulated depreciation as at the beginning of the period	(54)	(5)	(2)	(61)
Depreciation charge for the period	(41)	(2)	(1)	(44)
Other changes/repayment	20	-	-	20
Accumulated depreciation as at the end of the period	(75)	(7)	(3)	(85)
Impairment allowances as at the beginning of the period	(4)	(1)	-	(5)
Impairment allowances as at the end of the period	(4)	(1)	-	(5)
Net amount	**313**	**70**	**6**	**389**

(IN PLN MILLION)

33. OTHER ASSETS

ACCOUNTING POLICIES

Financial assets recognized in this item are stated at amounts due, comprising also potential interest on such assets, taking into consideration impairment allowances on 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[1]	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	94
Settlements relating to selling foreign currencies	-	2
Inventories	103	186
Assets for sale	82	107
Prepayments	222	286
Trade receivables	164	209
VAT receivable	148	114
Ceded technical reserves	672	472
Other	131	63
Total	**3 454**	**3 111**
of which: other financial assets	2 825	2 377

1 As at 31 December 2018 "Inventories" were described in the Note "Other assets" – comparative data as at 31 December 2017 was restated.

OTHER ASSETS – INVENTORIES	31.12.2018	31.12.2017
Goods for resale	102	190
Finished goods	-	10
Available for sale investments – construction projects	1	-
Materials	11	7
Impairment allowances on inventories	(11)	(21)
Total	**103**	**186**

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 the Group for internal purposes. Details of the foreclosed assets are analysed in order to determine whether they can be used by the Group for internal purposes.

(IN PLN MILLION)

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 Group 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.

34. 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.

FINANCIAL INFORMATION

AMOUNTS DUE TO BANKS	31.12.2018	31.12.2017
Measured at amortized cost	**2 001**	**4 558**
Loans and advances received[1]	250	2 785
Bank deposits	729	1 077
Current accounts	872	653
Other monetary market deposits	150	43
Total	**2 001**	**4 558**

1 The item "Loans and advances received" is presented in detail in Note 36 "Loans and advances received"

AMOUNTS DUE TO BANKS BY MATURITY	31.12.2018	31.12.2017
Measured at amortized cost:	2 001	4 558
up to 1 month	1 733	1 786
1 to 3 months	18	6
3 months to 1 year	150	176
from 1 to 5 years	100	2 590
Total	**2 001**	**4 558**

35. AMOUNTS DUE TO CUSTOMERS

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 securities subject to sell-buy-back transactions with a repurchase or resale clause specifying a contractual date and price. Securities subject to sell-buy-back transactions are not derecognized from the statement of financial position and are measured at the terms and conditions specified for particular categories of securities. The difference between the sale price and the repurchase price is an interest expense and it is settled over the term of the contract using the effective interest rate.

(IN PLN MILLION)

FINANCIAL INFORMATION

AMOUNTS DUE TO CUSTOMERS	31.12.2018	31.12.2017
Measured at amortized cost	**242 816**	**220 917**
Amounts due to retail customers	165 182	151 161
Current accounts and overnight deposits	103 143	86 819
Term deposits	61 638	64 126
Other liabilities	401	216
Amounts due to corporate entities	55 302	52 667
Current accounts and overnight deposits	38 927	40 070
Term deposits	15 465	11 613
Amounts due from repurchase agreements	-	48
Other liabilities	910	936
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]	4 093	3 563
Liabilities in respect of insurance products	1 780	2 117
Unit-Linked	1 502	1 811
Investment policy contracts	2	3
"Safe Capital"	265	292
Structured products	11	11
Total	**242 816**	**220 917**

[1] The item "Loans and advances received" is presented in detail in Note 36 "Loans and advances received".

AMOUNTS DUE TO CUSTOMERS BY SEGMENT	31.12.2018	31.12.2017
retail and private banking	155 079	142 484
corporate	55 051	48 570
firms and undertakings	26 805	24 127
loans and advances received	4 093	3 563
amounts due from repurchase agreements	-	48
other liabilities (including liabilities in respect of insurance products)	1 788	2 125
Total	**242 816**	**220 917**

AMOUNTS DUE TO CUSTOMERS BY MATURITY	31.12.2018	31.12.2017
Measured at amortized cost:	242 816	220 917
up to 1 month	179 874	156 520
1 to 3 months	22 449	16 887
3 months to 1 year	25 483	30 592
from 1 to 5 years	6 860	8 264
over 5 years	8 150	8 654
Total	**242 816**	**220 917**

(IN PLN MILLION)

36. Loans and advances received

LOANS AND ADVANCES RECEIVED	31.12.2018	31.12.2017
From banks	250	2 785
Nordea Bank AB	-	2 596
other	250	189
From international financial institutions	4 093	3 558
European Investment Bank	2 639	1 821
Council of Europe Development Bank	1 153	1 282
European Bank for Reconstruction and Development	85	169
International Financial Corporation	201	273
International financial institutions of Ukraine	15	13
From other financial institutions	-	5
Total	**4 343**	**6 348**

Loans and advances received from Banks

Date of receipt of a loan or advance by the Group	Nominal amount	Currency	Maturity	Carrying amount at 31.12.2018	Carrying amount at 31.12.2017
Nordea Bank AB					
09.04.2014	465	EUR	09.04.2021	-	1 496
09.04.2014	3 645	CHF	09.04.2021	-	1 100
Total				-	**2 596**
other					
05.06.2017	150	PLN	10.06.2019	150	150
27.12.2018	100	PLN	28.12.2020	100	-
12.12.2007	7	PLN	30.04.2018	-	7
12.12.2007	5	PLN	30.06.2018	-	5
12.12.2007	3	PLN	31.08.2018	-	3
29.12.2017	6	USD	23.02.2018	-	19
28.12.2017	39	UAH	04.01.2018	-	5
Total				**250**	**2 785**

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

Furthermore, in 2018, the Group made full repayments of the loans received from:

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

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

In 2017, the Group partially repaid loans:

- 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),
- domestic banks of PLN 442 million.

(IN PLN MILLION)

LOANS AND ADVANCES FROM INTERNATIONAL FINANCIAL INSTITUTIONS

Date of receipt of a loan or advance by the Group	Nominal amount	Currency	Maturity	Carrying amount at 31.12.2018	Carrying amount at 31.12.2017
28.12.2006	5	EUR	30.04.2022	21	21
28.12.2006	97	PLN	30.04.2020	97	97
28.12.2006	7	CHF	30.04.2020	27	25
30.04.2009	76	CHF	30.04.2019	58	108
23.10.2009	182	CHF	23.10.2019	694	649
23.12.2009	50	EUR	23.12.2019	43	83
23.12.2010	75	EUR	23.12.2020	129	188
11.07.2011	-	EUR	31.08.2018	-	92
25.09.2013	75	EUR	25.09.2023	322	313
29.10.2013	18	PLN	30.04.2019	18	53
29.10.2013	6	EUR	31.08.2019	27	61
29.11.2013	185	CHF	29.11.2023	706	659
11.06.2015	73	PLN	31.07.2021	73	100
11.06.2015	15	PLN	30.09.2020	15	23
11.06.2015	18	EUR	31.03.2021	77	108
25.09.2015	25	EUR	30.09.2021	106	145
25.09.2015	21	PLN	30.11.2020	21	32
16.03.2016	17	PLN	01.03.2019	17	84
16.03.2016	68	PLN	01.09.2020	68	85
18.03.2016	47	EUR	31.12.2022	201	273
28.10.2016	25	EUR	31.01.2022	107	138
25.09.2017	100	EUR	30.11.2022	430	208
11.10.2017	100	UAH	10.10.2019	15	13
08.12.2017	40	EUR	31.01.2022	172	-
23.10.2018	646	PLN	23.10.2023	649	-
other loans and advances[1]	5	PLN		-	5
Total				**4 093**	**3 563**

[1]short-term loan and advance agreements with various dates of execution and termination

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

In 2017, the Group partly repaid loans and advances received from international financial institutions totalling PLN 1 914 million, and at the same time it drew loans and advances amounting to PLN 311 million.

37. LIABILITIES IN RESPECT OF INSURANCE ACTIVITIES

ACCOUNTING POLICIES

The Group creates technical reserves to cover current and future claims and costs which may arise from the insurance agreements concluded.
The technical reserves comprise: unearned premium and unexpired risk reserves, outstanding claims and benefits reserve, reserve for bonuses and discounts for the insured, life insurance reserve, and other reserves.

FINANCIAL INFORMATION

LIABILITIES IN RESPECT OF INSURANCE ACTIVITIES	31.12.2018	31.12.2017
Technical reserves	1 292	882
Total	**1 292**	**882**

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

(IN PLN MILLION)

38. DEBT SECURITIES IN ISSUE

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
Measured at amortized cost:	**28 627**	**23 932**
bonds issued by PKO Bank Hipoteczny SA	3 186	2 406
bonds issued by PKO Finance AB	6 238	5 882
bonds issued by PKO Bank Polski SA	5 367	5 204
bonds issued by the PKO Leasing SA Group[1]	995	1 593
bonds issued by KREDOBANK SA	41	-
covered bonds issued by PKO Bank Hipoteczny SA	12 800	8 847
Total	**28 627**	**23 932**

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

DEBT SECURITIES IN ISSUE	31.12.2018	31.12.2017
bonds, of which:	**15 827**	**15 085**
in PLN	4 792	4 644
in EUR, translated into PLN	5 655	5 484
in USD, translated into PLN	3 812	3 530
in CHF, translated into PLN	1 527	1 427
in UAH, translated into PLN	41	-
covered bonds, of which	**12 800**	**8 847**
in PLN	3 852	2 261
in EUR, translated into PLN	8 948	6 586
Total	**28 627**	**23 932**

(IN PLN MILLION)

LIABILITIES IN RESPECT OF DEBT SECURITIES IN ISSUE - BY MATURITY	31.12.2018	31.12.2017
Measured at amortized cost:	**28 627**	**23 932**
up to 1 month	2 767	486
1 to 3 months	625	1 414
3 months to 1 year	3 080	2 167
from 1 to 5 years	16 261	15 087
over 5 years	5 894	4 778
Total	**28 627**	**23 932**

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	13 277	9 807
in original currency (EUR)	500	1 829
in original currency (CHF)	-	400
in original currency (UAH)	290	-
redemption of debt securities during the period (nominal value)		
in PLN	10 130	7 279
in original currency (EUR)	-	200

In 2018, there were the following issues, redemptions and repayments of securities in the PKO Bank Polski SA Group:

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

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.

The Bank held two issues of Eurobonds in 2017:

- On 18 July 2017, the Bank issued 4-year Eurobonds of EUR 750 million with the 0.75% coupon (Mid Swap+65 b.p.). The bonds are listed on the Luxembourg Securities Exchange and on the Warsaw Securities Exchange. This issue was the first one held under the new EMTN programme launched 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 0.30% coupon (Mid Swap + 58 p.b.). The bonds are listed on the Zurich Securities Exchange.

RELATING TO THE ISSUE OF BONDS IN 20018 BY MEMBERS OF THE PKO BANK POLSKI SA GROUP

- In the Bond Issue Programme Agreement concluded with PKO Bank Polski SA, PKO Bank Hipoteczny SA issued 74 864 bonds with an aggregate nominal value of PLN 7 486 million and redeemed 69 482 bonds with an aggregate nominal value of PLN 6 948 million. Furthermore, in December 2018, it conducted an issue of unsecured bonds with a nominal value of PLN 350 million with the redemption date on 21 February 2020.
- In the Bond Issue Agreement concluded with PKO Bank Polski SA, PKO Leasing SA issued 1 286 191 bonds with an aggregate nominal value of PLN 1 286 million and redeemed 1 265 100 bonds with an aggregate nominal value of PLN 1 265 million.
- ROOF Poland Leasing 2014 DAC redeemed a total of 6 172 class A1 and A2 bonds of an aggregate nominal value of PLN 617 million for cancellation, which had been issued in a lease portfolio securitization programme.
- KREDOBANK SA issued 250 000 bonds with an aggregate nominal value of UAH 250 million and placed an additional 39 822 bonds with an aggregate nominal value of UAH 40 million (which had been bought by the company in 2017) on the market. The issues of these bonds were conducted on the basis of the prospectus approved by the Ukrainian Securities and Stock Market Commission.

(IN PLN MILLION)

RELATING TO THE ISSUE OF MORTGAGE-COVERED BONDS BY PKO BANK HIPOTECZNY SA

Issue date	Interest rate type	Nominal amount	Currency	Maturity	Carrying amount at 31.12.2018	Carrying amount at 31.12.2017
07.08.2017	zero-coupon bonds	45	PLN	23.01.2018	-	41
15.09.2017	zero-coupon bonds	642	PLN	15.03.2018	-	639
29.09.2017	zero-coupon bonds	50	PLN	05.03.2018	-	50
29.09.2017	zero-coupon bonds	24	PLN	23.01.2018	-	23
02.10.2017	zero-coupon bonds	100	PLN	05.03.2018	-	100
12.10.2017	zero-coupon bonds	30	PLN	16.04.2018	-	30
16.10.2017	zero-coupon bonds	515	PLN	16.04.2018	-	512
16.10.2017	zero-coupon bonds	15	PLN	16.10.2018	-	15
20.10.2017	zero-coupon bonds	88	PLN	05.02.2018	-	88
20.10.2017	zero-coupon bonds	163	PLN	23.01.2018	-	160
25.10.2017	zero-coupon bonds	50	PLN	05.02.2018	-	50
26.10.2017	zero-coupon bonds	4	PLN	26.10.2018	-	4
02.11.2017	zero-coupon bonds	50	PLN	15.02.2018	-	50
02.11.2017	zero-coupon bonds	20	PLN	30.10.2018	-	20
15.11.2017	zero-coupon bonds	187	PLN	15.05.2018	-	185
01.12.2017	zero-coupon bonds	118	PLN	23.01.2018	-	117
15.12.2017	zero-coupon bonds	25	PLN	25.06.2018	-	25
20.12.2017	zero-coupon bonds	37	PLN	05.04.2018	-	37
20.12.2017	zero-coupon bonds	30	PLN	20.06.2018	-	30
20.12.2017	zero-coupon bonds	60	PLN	25.06.2017	-	59
27.12.2017	zero-coupon bonds	100	PLN	27.06.2018	-	99
29.12.2017	zero-coupon bonds	73	PLN	29.03.2018	-	72
09.02.2018	zero-coupon bonds	4	PLN	08.02.2019	4	-
23.07.2018	zero-coupon bonds	262	PLN	23.01.2019	262	-
08.08.2018	zero-coupon bonds	14	PLN	08.08.2019	14	-
21.09.2018	zero-coupon bonds	723	PLN	05.04.2019	719	-
21.09.2018	zero-coupon bonds	19	PLN	23.01.2019	19	-
01.10.2018	zero-coupon bonds	55	PLN	05.04.2019	55	-
05.10.2018	zero-coupon bonds	10	PLN	05.04.2019	10	-
16.10.2018	zero-coupon bonds	40	PLN	09.05.2019	40	-
22.10.2018	zero-coupon bonds	605	PLN	09.05.2019	600	-
22.10.2018	zero-coupon bonds	23	PLN	05.02.2019	23	-
26.10.2018	zero-coupon bonds	4	PLN	25.10.2019	4	-
26.10.2018	zero-coupon bonds	50	PLN	24.01.2019	50	-
13.11.2018	zero-coupon bonds	120	PLN	05.02.2019	119	-
15.11.2018	zero-coupon bonds	68	PLN	13.02.2019	68	-
21.11.2018	zero-coupon bonds	145	PLN	22.02.2019	145	-
21.11.2018	zero-coupon bonds	233	PLN	10.06.2019	231	-
17.12.2018	zero-coupon bonds	150	PLN	10.06.2019	149	-
17.12.2018	zero-coupon bonds	-	PLN	24.01.2019	-	-
29.12.2018	zero-coupon bonds	58	PLN	19.03.2019	58	-
21.12.2018	zero-coupon bonds	204	PLN	10.06.2019	167	-
28.12.2018	zero-coupon bonds	100	PLN	26.06.2019	99	-
21.12.2018	zero-coupon bonds	350	PLN	21.02.2020	350	-
Total					3 186	2 406

BONDS ISSUED BY PKO FINANCE AB

Issue date	Interest rate type	Interest rate	Nominal amount	Currency	Maturity	Carrying amount at 31.12.2018	Carrying amount at 31.12.2017
25.07.2012	fixed	4.00	50	EUR	25.07.2022	218	211
26.09.2012	fixed	4.63	1 000	USD	26.09.2022	3 812	3 530
23.01.2014	fixed	2.32	500	EUR	23.01.2019	2 208	2 141
Total						6 238	5 882

(IN PLN MILLION)

BONDS ISSUED BY THE PKO LEASING SA GROUP

Issue date	Interest rate type	Nominal amount	Currency	Maturity	Carrying amount at 31.12.2018	Carrying amount at 31.12.2017
01.12.2014[1]	variable	637	PLN	02.10.2025	640	1 262
01.06.2016	variable	73	PLN	01.06.2019	73	73
09.11.2017	zero-coupon bonds	28	PLN	09.05.2018	-	28
10.11.2017	zero-coupon bonds	101	PLN	12.02.2018	-	101
05.12.2017	zero-coupon bonds	90	PLN	08.03.2018	-	90
20.12.2017	zero-coupon bonds	39	PLN	21.03.2018	-	39
09.08.2018	variable	30	PLN	14.02.2019	30	-
05.09.2018	variable	53	PLN	05.03.2019	53	-
13.09.2018	variable	34	PLN	08.01.2019	34	-
10.10.2018	variable	39	PLN	08.01.2019	38	-
19.10.2018	variable	37	PLN	18.01.2019	37	-
30.10.2018	variable	30	PLN	08.01.2019	30	-
07.12.2018	variable	60	PLN	06.03.2019	60	-
Total					995	1 593

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

BONDS ISSUED BY KREDOBANK SA

Issue date	Interest rate type	Nominal amount	Currency	Maturity	Carrying amount at 31.12.2018	Carrying amount at 31.12.2017
01.12.2017	fixed	6	UAH	26.11.2022	6	-
13.07.2018	fixed	34	UAH	28.12.2022	35	-
Total					41	-

RELATING TO THE ISSUE OF MORTGAGE-COVERED BONDS BY PKO BANK HIPOTECZNY SA

- In 2018 PKO Bank Hipoteczny SA issued mortgage bonds, including:
- One foreign issue of mortgage bonds denominated in EUR, addressed to institutional investors, with an aggregate nominal value of EUR 500 million; the mortgage bonds were acquired by investors at a lower price than the nominal value (i.e. at a discount) and are listed on the stock exchanges in Luxembourg and in Warsaw,
- Five domestic issues of mortgage bonds in PLN, addressed to institutional investors, with an aggregate nominal value of PLN 1 590 million; the mortgage bonds were acquired by investors at a price equal to their nominal value and are listed on the Warsaw Stock Exchange and on BondSpot.

RELATING TO THE ISSUE OF MORTGAGE-COVERED BONDS BY PKO BANK HIPOTECZNY SA

Issue date	Interest rate type	Interest rate (index + margin)	Nominal amount	Currency	Maturity	Carrying amount at 31.12.2018	Carrying amount at 31.12.2017
11.12.2015	variable	WIBOR3M + 0.75	18	PLN	11.12.2020	19	18
27.04.2016	variable	WIBOR3M + 0.65	484	PLN	28.04.2021	486	487
17.06.2016	variable	WIBOR3M + 0.59	500	PLN	18.06.2021	500	498
24.10.2016	fixed	0.125	500	EUR	24.06.2022	2 144	2 079
02.02.2017	fixed	0.820	25	EUR	02.02.2024	108	105
30.03.2017	fixed	0.625	500	EUR	24.01.2023	2 159	2 093
28.04.2017	variable	WIBOR3M + 0.69	500	PLN	18.05.2022	501	497
22.06.2017	fixed	2.69	264	PLN	10.09.2021	266	263
27.09.2017	fixed	0.75	500	EUR	27.08.2024	2 149	2 084
27.10.2017	variable	WIBOR3M + 0.60	500	PLN	27.06.2023	500	498
02.11.2017	fixed	0.47	54	EUR	03.11.2022	232	225
22.03.2018	fixed	0.75	500	EUR	24.01.2024	2 156	-
27.04.2018	variable	WIBOR3M + 0.49	690	PLN	25.04.2024	693	-
18.05.2018	variable	WIBOR3M + 0.32	100	PLN	29.04.2022	100	-
27.07.2018	variable	WIBOR3M + 0.62	496	PLN	25.07.2025	498	-
24.08.2018	fixed	3.49	60	PLN	24.08.2028	61	-
26.10.2018	variable	WIBOR3M + 0.66	228	PLN	28.04.2025	228	
Total						12 800	8 847

(IN PLN MILLION)

39. 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	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 the approval of the Polish Financial Supervision Authority for increasing the Group's supplementary funds

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

(IN PLN MILLION)

40. 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	626	631
Deferred income	395	368
Liability in respect of tax on certain financial institutions	83	76
Interbank settlements	481	1 313
Liabilities arising from investing activities and internal operations	247	295
Amounts due to suppliers	184	211
Liabilities and settlements in respect of trading in securities	364	534
Settlement of financial instruments	6	281
Liabilities in respect of contribution to the Bank Guarantee Fund, of which:	248	120
maintained in the form of payment commitments, of which:	248	120
to the Resolution Fund	112	63
to the Banks' Guarantee Fund	136	57
Liabilities under the public law	163	165
Liabilities in respect of foreign exchange activities	298	350
Liabilities in respect of payment cards	15	259
Liabilities to insurance institutions	143	59
Other	432	400
Total	**3 685**	**5 062**
of which: other financial liabilities	2 364	4 129

The item "Liabilities in respect of contributions to the Bank Guarantee Fund" includes an obligation to pay contributions to the BGF (see Note 55 Assets pledged to secure liabilities and financial assets transferred).

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

41. PROVISIONS

ACCOUNTING POLICIES

PROVISIONS FOR UNRESOLVED 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, of the Group.

(IN PLN MILLION)

PROVISION FOR LOAN COMMITMENTS 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 74 “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

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 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

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:	21	46	-	86	62	215
Short-term provisions	21	7	-	61	62	151
Long-term provisions	-	39	-	25	-	64
Changes due to reclassification, of which:	-	15	21	-	(36)	-
Short-term provisions	-	15	21	-	(36)	-
Changes due to IFRS 9 implementation	-	-	-	71	-	71
Short-term provisions	-	-	-	47	-	47
Long-term provisions	-	-	-	24	-	24
As at 1 January 2018 (restated), of which:	**21**	**61**	**21**	**157**	**26**	**286**
Short-term provisions	21	22	21	108	26	198
Long-term provisions	-	39	-	49	-	88
Increase, of which increases of existing provisions	43	4	45	232	93	417
Utilized	(6)	(3)	(23)	-	-	(32)
Released during the period	(4)	(13)	(19)	(162)	(28)	(226)
Other changes and reclassifications	-	1	-	-	-	1
As at 31 December 2018, of which:	**54**	**50**	**24**	**227**	**91**	**446**
Short-term provisions	54	8	24	177	91	354
Long-term provisions	-	42	-	50	-	92

[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 15 million, and to “Restructuring” in the amount of PLN 21 million.

(IN PLN 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 (details of this issue can be found in note 48 "Legal Claims")

FOR THE YEAR ENDED 31 DECEMBER 2017	Provisions for unsettled legal claims	Provisions for pension and other liabilities in respect of defined post-retirement 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	**24**	**60**	**59**	**67**	**19**	**229**
Short-term provisions	24	21	59	51	19	174
Long-term provisions	-	39	-	16	-	55
Increase, of which increases of existing provisions	22	4	-	256	5	287
Utilized	(4)	(3)	(38)	-	-	(45)
Released during the period	(21)	-	-	(236)	(3)	(260)
Other changes and reclassifications	-	-	-	(1)	5	4
As at 31 December 2017, of which:	**21**	**61**	**21**	**86**	**26**	**215**
Short-term provisions	21	22	21	61	26	151
Long-term provisions	-	39	-	25	-	64

CALCULATION OF ESTIMATES

The Group 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.

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 pension and other liabilities in respect of defined post-retirement benefits	(3)	5	4	(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 pension and other liabilities in respect of defined post-retirement benefits	(4)	4	5	(3)

(IN PLN MILLION)

42. EQUITY AND SHAREHOLDING STRUCTURE OF THE BANK

ACCOUNTING POLICIES

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 of the subsidiaries, other than share capital, in a proportion equal to the interest in the subsidiary held by the parent company, are added to the respective equity components of the parent company. The Group's equity includes only those parts of the equity of the subsidiaries which arose after the acquisition of shares by the parent company. In accordance with the legislation in force in Poland, only the equity of the parent company and the equity of specific subsidiaries, determined on the basis of stand-alone financial statements, are distributable.

Equity components:

- Share capital comprises solely the share capital of the parent company and is stated at nominal value in accordance with the Articles of Association and entry in the Register of Entrepreneurs.
- Supplementary capital is created according to the Articles of Association of Companies in the Group, from the appropriation of profits and from share premium less issue costs and is to cover the potential losses which might result from the Group'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.
- Non-controlling interests represent the part of capital in a subsidiary, which cannot be directly or indirectly assigned to the parent company.
- Accumulated other comprehensive income includes the effects of the measurement of financial assets at fair value through other comprehensive income, allowances for expected credit losses on these assets, the effective portion of cash flow hedges in hedge accounting, as well as actuarial gains and losses. Deferred tax on those items is recognized in other comprehensive income. Moreover, the item includes the share of the parent company in total other comprehensive income of associates and joint ventures and foreign exchange differences on translation to Polish currency of the net result of the foreign operation at a rate constituting the arithmetic mean of foreign exchange rates for the currency as at the day ending each of the months in the financial year published by the National Bank of Poland.

FINANCIAL INFORMATION

EQUITY	31.12.2018	01.01.2018	31.12.2017
Share capital	1 250	1 250	1 250
Supplementary capital	29 354	27 374	27 374
General banking risk fund	1 070	1 070	1 070
Other reserves	3 831	3 645	3 645
Accumulated other comprehensive income	250	(188)	(110)
Retained earnings	(385)	(633)	(66)
Net profit or loss for the year	3 741	3 104	3 104
Non-controlling interests	(10)	(11)	(11)
Total	**39 101**	**35 611**	**36 256**

(IN PLN MILLION)

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	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 31.12.2018, held 24,487,297 shares, constituting a 1.96% share at the General Meeting of Shareholders.

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 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 Meeting of Shareholders and forbids those shareholders to execute more than 10% of the total number of votes at the General Meeting of Shareholders. The above does not apply to:

1 those shareholders who on the date of passing the resolution of the General Meeting of Shareholders introducing the limitation of the voting rights had rights from the shares representing more than 10% of the total number of votes at the Bank (i.e. the State Treasury and BGK),

2 shareholders who have the rights from A-series registered shares (the State Treasury), and

3 shareholders acting jointly with the shareholders referred to in point (2) based on an agreement concerning the joint execution of voting rights from shares.

Moreover, limitation of the voting rights shall expire when the share of the State Treasury in the Bank's share capital drops below 5%.

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

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 S.A. owned by the State Treasury may not be sold. Moreover, according to Art. 14 of the aforesaid Act, shares in PKO Bank Polski S.A., (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.

(IN PLN MILLION)

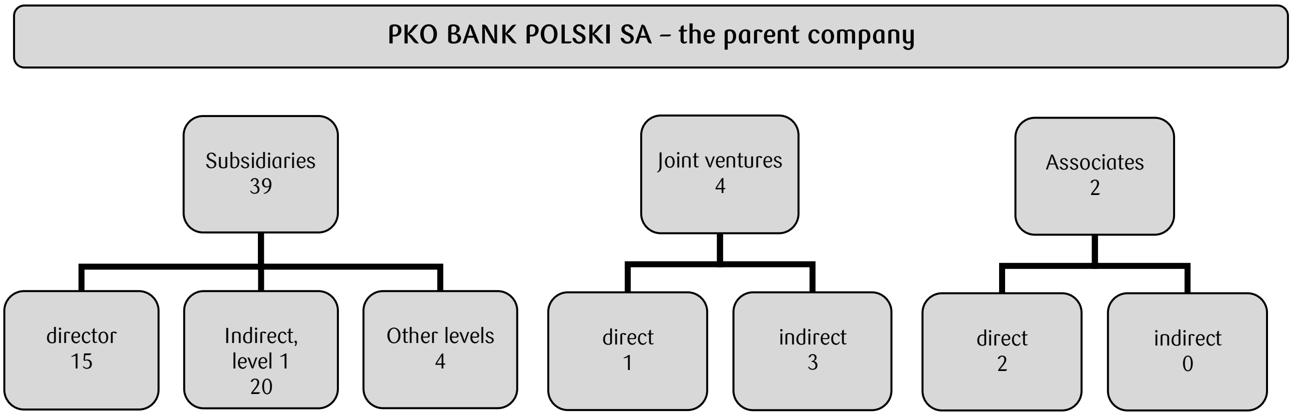
Structure of PKO Bank Polski SA's share capital:

Series	Type of shares	Number of shares	Nominal value of 1 share	Nominal value of the series
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



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

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

No.	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] PKO Bank Polski SA has investment certificates of the Fund; the share in the Fund's investment certificates of the Fund is presented in the item "Share in equity".

(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[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 - fizan			
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 the Bank. The core purpose of the company is to issue mortgage bonds, both on the domestic and foreign market, which constitute the main source of long-term financing of loans secured with mortgages.
PKO TOWARZYSTWO FUNDUSZY INWESTYCYJNYCH SA	The core business of the company is the creation of investment funds (including intermediation in the purchase and sale of participation units), and representation vis-à-vis third parties and the management of the clients' portfolios, which include one or more financial instruments. The company also offers specialized investment programs and conducts employee pension programs (PPE).
PKO LEASING SA	The Company, together with its subsidiaries – PKO Leasing Sverige AB and PKO Leasing Nieruchomości sp. z o.o. provides lease services. The companies offer finance and operating leases: cars, vans, trucks, machinery and equipment, technological lines, medical equipment, real estate, IT hardware and software, ships, aircraft and railway equipment. The offer includes a fleet management service. Moreover, a subsidiary – PKO Leasing Finanse sp. z o.o. is involved in storing, preparing and selling post-debt-collection and post-contract items and PKO Agencja Ubezpieczeniowa sp. z o.o. provides specialist services within the scope of creating insurance products and programmes for the clients of financial institutions. This PKO Leasing SA Group also includes a special purpose vehicle with its registered office in Ireland, established for the securitization of lease receivables. The Group also includes PKO Faktoring SA, which provides services of domestic and export factoring 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.	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.

(IN PLN MILLION)

44. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

SELECTED INFORMATION ON ASSOCIATES AND JOINT VENTURES

The Group holds the following associates and joint ventures.

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 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 Meeting of Shareholders 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.	A joint project of PKO Bank Polski SA, Buildco Poznań SA and the City of Poznań which consists of building a hotel in Poznań. The Bank is a member of a syndicate of banks which granted the company an investment loan for the execution of the said project. The hotel was completed and began operating in 2007.

Bank Pocztowy SA	Bank Pocztowy SA specializes in standard banking products offered to retail clients and a supplementary offer for micro-businesses and institutional clients. It also operates in the settlements and treasury segment. It makes use of the potential of the main shareholder – Poczta Polska SA and develops a range of products in collaboration with stakeholders across the Group.
"Poznański Fundusz Poręczeń Kredytowych" Sp. z o.o.	The company specializes in supporting the development of small- and medium-sized enterprises by providing guarantees and various types of services for business. The company grants guarantees for loans and advances extended by banks, including PKO Bank Polski SA, as well as bank guarantees, lease and factoring transactions, and bid bond guarantees. The entity cooperates with PKO Leasing SA. Since April 2018, the company has granted sureties as part of the JEREMIE 2 initiative.

A summary of the financial data separately for each joint venture and each associate of the Group was 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).[1] The data for 2017 has been derived from audited financial statements.

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	161
Non-current liabilities	24	26
	01.01-31.12.2018	**01.01-31.12.2017**
Revenue	528	477
Profit/(loss) for the period	97	88
Other comprehensive income	2	6
Total comprehensive income	99	94
Dividend received from an entity classified as a joint venture	22	12

"Centrum Obsługi Biznesu" sp. 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)	11	5
Other comprehensive income	1	16
Total comprehensive income	12	21

[1] In the case of entities which have subsidiaries, the data presented is derived from the consolidated financial statements of such entities.

(IN PLN MILLION)

"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	4
Non-current liabilities	5	2
	01.01-31.12.2018	01.01-31.12.2017
Revenue	1	2
Profit/(loss) for the period	-	1

FINANCIAL INFORMATION

JOINT VENTURES	31.12.2018	31.12.2017
"Centrum Obsługi Biznesu" sp. z o.o.	-	-
Acquisition price	17	17
Change in the share in net assets	(14)	(14)
Impairment allowances	(3)	(3)
The Centrum Elektronicznych Usług Płatniczych eService sp. z o.o. Group	256	244
Value of shares as at the date of obtaining joint control	197	197
Change in the share in net assets	59	47
Total	**256**	**244**

ASSOCIATES	31.12.2018	31.12.2017
Bank Pocztowy SA[1]	88	130
Acquisition price	184	184
Change in the share in net assets	73	83
Impairment allowances	(169)	(137)
"Poznański Fundusz Poręczeń Kredytowych" sp. z o.o.	-	-
Acquisition price	2	2
Change in the share in net assets	4	4
Impairment allowances	(6)	(6)
FERRUM SA Group	-	19
Acquisition price	-	25
Change in the share in net assets	-	(6)
Total	**88**	**149**

[1] Bank Pocztowy SA does not have any subsidiaries as at 31 December 2018; it constituted a Group in prior periods.

CHANGE IN INVESTMENTS IN JOINT VENTURES	2018	2017
Investments in joint ventures as at the beginning of the period	244	227
Share in profits/ (losses)	34	31
Net impairment allowance	-	(2)
Dividend	(22)	(12)
Investments in joint ventures as at the end of the period	**256**	**244**

CHANGE IN INVESTMENTS IN ASSOCIATES	2018	2017
Investments in associates as at the beginning of the period	149	159
Share in profits/ (losses)	3	(9)
Net impairment allowance	(32)	(24)
Share in the change of other equity components	(13)	1
Reclassification of shares from associates to financial assets	(19)	22
Investments in associates as at the end of the period	**88**	**149**

(IN PLN MILLION)

IMPAIRMENT ALLOWANCES

In 2018, the Group increased impairment allowance on the shares in Bank Pocztowy SA by PLN 32 million.

As at 31 December 2018, and as at 31 December 2017, the parent entity did not have any share in the contingent liabilities of associates acquired together with another investor.

IMPAIRMENT ALLOWANCES – RECONCILIATION OF MOVEMENTS	2018	2017
As at the beginning of the period	146	120
Recognized during the period	32	26
As at the end of the period	**178**	**146**
Net increase - impact on the income statement	(32)	(26)

45. 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 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. 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.

[2] 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.

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.

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 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.Development sp. z o.o.

OPERATOR CHMURY KRAJOWEJ SP. Z O.O. W ORGANIZACJI (IN THE PROCESS OF FORMATION)

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 on 4 February 2019; a company under organization.

EVENTS THAT MAY HAVE AN IMPACT ON A CHANGE IN THE GROUP'S STRUCTURE IN THE SUBSEQUENT PERIOD

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

46. 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.

47. Contingent liabilities and off-balance commitments received and granted

Accounting policies

As part of its operating activities the Group 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. Pursuant to IAS 37 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 Group'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 (THE GROUP'S MAXIMUM COMMITMENT TO TAKE UP SECURITIES)

Issuer of underwritten securities	Type of underwritten securities	Maximum commitment to take up securities	Contract expiry date
As at 31 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 Organization, Conducting and Servicing of the Bond Issuance Programme. All securities of the Group under the underwriting programme have unlimited transferability, are not listed on the stock exchange and are not traded on a regulated OTC market.

CONTRACTUAL COMMITMENTS

VALUE OF CONTRACTUAL COMMITMENTS CONCERNING:	31.12.2018	31.12.2017
intangible assets	43	21
property, plant and equipment	51	78
Total	**94**	**99**

(IN PLN MILLION)

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

(IN PLN MILLION)

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
Financing liabilities granted:			
Credit lines and limits			
housing	5 195	(15)	5 180
business	28 478	(71)	28 407
consumer	8 348	(25)	8 323
Other	2 450	-	2 450
Total	**44 471**	**(111)**	**44 360**
of which: irrevocable loan commitments	33 607	(70)	33 537
Guarantees and pledges granted:			
Guarantees granted in domestic and foreign trading	5 813	(42)	5 771
to financial entities	320	(5)	315
to non-financial entities	5 462	(36)	5 426
to public entities	31	(1)	30
Guarantees and pledges granted – domestic corporate bonds	2 350	-	2 350
to non-financial entities	2 350	-	2 350
Letters of credit issued	1 409	(4)	1 405
to financial entities	1 409	(4)	1 405
Guarantees and warranties granted – payment guarantee for financial entities	252	-	252
Guarantees and pledges granted - domestic municipal bonds	316	-	316
Total	**10 140**	**(46)**	**10 094**
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			
housing	5 195	(6)	5 189
business	28 478	(43)	28 435
consumer	8 348	(10)	8 338
Other	2 450	-	2 450
Total	**44 471**	**(59)**	**44 412**
of which: irrevocable loan commitments	33 607	(51)	33 556
Guarantees and pledges granted:			
Guarantees granted in domestic and foreign trading	5 813	(25)	5 788
to financial entities	320	(3)	317
to non-financial entities	5 462	(21)	5 441
to public entities	31	(1)	30
Guarantees and pledges granted – domestic corporate bonds	2 350	-	2 350
to non-financial entities	2 350	-	2 350
Letters of credit issued	1 409	(2)	1 407
to non-financial entities	1 409	(2)	1 407
Guarantees and warranties granted – payment guarantee for financial entities	252	-	252
Guarantees and pledges granted - domestic municipal bonds	316	-	316
Total	**10 140**	**(27)**	**10 113**
of which: performance guarantees granted	2 630	(9)	2 621

Information about the provisions recognized for financial and guarantee liabilities is presented in Note 41 “Provisions”.

LIABILITIES GRANTED BY MATURITY

LIABILITIES GRANTED BY MATURITY AS AT 31.12.2018	up to 1 month inclusive	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	12 626	2 874	13 293	12 026	9 058	49 877
liabilities granted - guarantees and pledges	290	693	4 823	3 313	816	9 935
Total	12 916	3 567	18 116	15 339	9 874	59 812

LIABILITIES GRANTED BY MATURITY AS AT 31.12.2017	up to 1 month inclusive	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	9 014	524	12 135	15 000	7 798	44 471
liabilities granted - guarantees and pledges	752	554	3 213	4 726	895	10 140
Total	9 766	1 078	15 348	19 726	8 693	54 611

(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 provision	Total, net
Financial liabilities granted:									
Credit lines and limits	42 649	(75)	3 025	(77)	193	(14)	45 867	(166)	45 701
housing	3 813	(14)	454	(18)	8	(3)	4 275	(35)	4 240
business	31 019	(50)	1 422	(38)	177	(8)	32 618	(96)	32 522
consumer	7 817	(11)	1 149	(21)	8	(3)	8 974	(35)	8 939
Other	4 010	(11)	-	-	-	-	4 010	(11)	3 999
Total	**46 659**	**(86)**	**3 025**	**(77)**	**193**	**(14)**	**49 877**	**(177)**	**49 700**
of which: irrevocable loan commitments	21 554	(28)	1 729	(35)	95	(4)	23 378	(67)	23 311
of which: purchased or originated credit-impaired assets (POCI)	-	-	-	-	80	-	80	-	80
Guarantees and pledges granted:									
Guarantees granted in domestic and foreign trading	5 770	(10)	235	(9)	146	(27)	6 151	(46)	6 105
to financial entities	69	(1)	-	-	-	-	69	(1)	68
to non-financial entities	5 688	(8)	235	(9)	146	(27)	6 069	(44)	6 025
to public entities	13	(1)	-	-	-	-	13	(1)	12
Guarantees and pledges granted – domestic corporate bonds	2 021	(2)	-	-	-	-	2 021	(2)	2 019
to financial entities	-	-	-		-		-	-	-
to non-financial entities	2 021	(2)	-	-	-		2 021	(2)	2 019
Letters of credit issued	1 206	(1)	-	-	1	(1)	1 207	(2)	1 205
to non-financial entities	1 204	(1)			1	(1)	1 205	(2)	1 203
to public entities	2	-	-	-	-	-	2	-	2
Guarantees and warranties granted – payment guarantee for financial entities	368	-	-	-	-	-	368	-	368
Guarantees and pledges granted - domestic municipal bonds	188	-	-	-	-	-	188	-	188
Total	**9 553**	**(13)**	**235**	**(9)**	**147**	**(28)**	9 935	(50)	9 885
of which: irrevocable loan commitments	6 135	(10)	235	(9)	146	(27)	6 516	(46)	6 470
of which: performance guarantees granted	2 216	(5)	130	(5)	72	(9)	2 418	(19)	2 399
of which: purchased or originated credit-impaired 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 provision	Total, net
Financial liabilities granted:									
Credit lines and limits	40 098	(70)	1 626	(17)	297	(24)	42 021	(111)	41 910
housing	5 163	(11)	27	(1)	5	(3)	5 195	(15)	5 180
business	27 700	(49)	494	(3)	284	(19)	28 478	(71)	28 407
consumer	7 235	(10)	1 105	(13)	8	(2)	8 348	(25)	8 323
Other	2 450	-	-	-	-	-	2 450	-	2 450
Total	**42 548**	**(70)**	**1 626**	**(17)**	**297**	**(24)**	**44 471**	**(111)**	**44 360**
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	5 360	(31)	44	(1)	409	(10)	5 813	(42)	5 771
to financial entities	320	(5)	-	-	-		320	(5)	315
to non-financial entities	5 009	(25)	44	(1)	409	(10)	5 462	(36)	5 426
to public entities	31	(1)	-	-	-	-	31	(1)	30
Guarantees and pledges granted – domestic corporate bonds	2 350	-	-	-	-	-	2 350	-	2 350
to non-financial entities	2 350	-	-		-		2 350	-	2 350
Letters of credit issued	1 406	(3)	3	(1)	-	-	1 409	(4)	1 405
to non-financial entities	1 406	(3)	3	(1)	-	-	1 409	(4)	1 405
Guarantees and warranties granted – payment guarantee for financial entities	252						252	-	252
Guarantees and pledges granted - domestic municipal bonds	316						316	-	316
Total	**9 684**	**(34)**	**47**	**(2)**	**409**	**(10)**	10 140	(46)	10 094
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							TOTAL
	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		
		from stage 1 to stage 2	from stage 2 to stage 1	from stage 2 to stage 3	from stage 3 to stage 2	from stage 1 to stage 3	from stage 3 to stage 1	
Financial liabilities granted:								
Credit lines and limits	43 389	1 820	585	6	4	60	3	45 867
housing	3 865	401	3	1	1	4	-	4 275
business	30 865	1 246	446	4	2	53	2	32 618
consumer	8 659	173	136	1	1	3	1	8 974
Other	4 010	-	-	-	-	-	-	4 010
Total	**47 399**	**1 820**	**585**	**6**	**4**	**60**	**3**	**49 877**
Guarantees and pledges granted:								
Guarantees granted in domestic and foreign trading	5 777	180	163	3	-	28	-	6 151
to financial entities	69	-	-	-	-	-	-	69
to non-financial entities	5 695	180	163	3	-	28	-	6 069
to public entities	13	-	-	-	-	-	-	13
Guarantees and pledges granted - domestic corporate bonds	2 021	-	-	-	-	-	-	2 021
to financial entities	-	-	-	-	-	-	-	-
to non-financial entities	2 021	-	-	-	-	-	-	2 021
Letters of credit issued	1 204	1	1	1	-	-	-	1 207
to non-financial entities	1 202	1	1	1	-	-	-	1 205
to public entities	2	-	-	-	-	-	-	2
Guarantees and warranties granted - payment guarantee for financial entities	368	-	-	-	-	-	-	368
Guarantees and pledges granted - domestic municipal bonds	188	-	-	-	-	-	-	188
Total	**9 558**	**181**	**164**	**4**	**-**	**28**	**-**	**9 935**

OFF-BALANCE SHEET LIABILITIES - MOVEMENTS BETWEEN IMPAIRMENT STAGES 31.12.2018	Provisions							TOTAL
	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		
		from stage 1 to stage 2	from stage 2 to stage 1	from stage 2 to stage 3	from stage 3 to stage 2	from stage 1 to stage 3	from stage 3 to stage 1	
Financial liabilities granted:								
Credit lines and limits	(100)	(59)	(4)	-	-	(3)	-	(166)
housing	(18)	(16)	-	-	-	(1)	-	(35)
business	(58)	(33)	(4)	-	-	(1)	-	(96)
consumer	(24)	(10)	-	-	-	(1)	-	(35)
Other	(11)	-	-	-	-	-	-	(11)
Total	**(111)**	**(59)**	**(4)**	**-**	**-**	**(3)**	**-**	**(177)**
Guarantees and pledges granted:								
Guarantees granted in domestic and foreign trading	(34)	(7)	-	-	-	(5)	-	(46)
to financial entities	(1)	-	-	-	-	-	-	(1)
to non-financial entities	(32)	(7)	-	-	-	(5)	-	(44)
to public entities	(1)	-	-	-		-	-	(1)
Letters of credit granted	(2)	-	-	-	-	-	-	(2)
to non-financial entities	(2)	-	-	-	-	-	-	(2)
Total	**(38)**	**(7)**	**-**	**-**	**-**	**(5)**	**-**	**(50)**

OFF-BALANCE SHEET LIABILITIES - MOVEMENTS BETWEEN IMPAIRMENT STAGES 31.12.2018	Net amount							TOTAL
	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		
		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	
Financing liabilities granted:								
Credit lines and limits	43 289	1 761	581	6	4	57	3	45 701
housing	3 847	385	3	1	1	3	-	4 240
business	30 807	1 213	442	4	2	52	2	32 522
consumer	8 635	163	136	1	1	2	1	8 939
Other	3 999	-	-	-	-	-	-	3 999
Total	**47 288**	**1 761**	**581**	**6**	**4**	**57**	**3**	**49 700**
Guarantees and pledges granted:								
Guarantees granted in domestic and foreign trading	5 743	173	163	3	-	23	-	6 105
to financial entities	68	-	-	-	-	-	-	68
to non-financial entities	5 663	173	163	3	-	23	-	6 025
to public entities	12	-	-	-	-	-	-	12
Guarantees and pledges granted - domestic corporate bonds	2 019	-	-	-	-	-	-	2 019
to financial entities	-	-	-	-	-	-	-	-
to non-financial entities	2 019	-	-	-	-	-	-	2 019
Letters of credit issued	1 202	1	1	1	-	-	-	1 205
to non-financial entities	1 200	1	1	1	-	-	-	1 203
to public entities	2	-	-	-	-	-	-	2
Guarantees and warranties granted - payment guarantee for financial entities	368	-	-	-	-	-	-	368
Guarantees and pledges granted - domestic municipal bonds	188	-	-	-	-	-	-	188
Total	**9 520**	**174**	**164**	**4**	**-**	**23**	**-**	**9 885**

(IN PLN MILLION)

OFF-BALANCE SHEET LIABILITIES RECEIVED

OFF-BALANCE SHEET LIABILITIES RECEIVED BY NOMINAL VALUE	31.12.2018	31.12.2017
Financial	90	95
Guarantees	1 825	14 227
Total	**1 915**	**14 322**

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 A COLLATERAL ESTABLISHED FOR THE GROUP

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

48. LEGAL CLAIMS

As at 31 December 2018, the total value of court cases (litigation), in which PKO Bank Polski SA Group companies (including the Bank) are the defendant was PLN 1 784 million, of which PLN 40 million applied to litigation in Ukraine (as at 31 December 2017, the aggregate value of such litigation was PLN 1 709 million), while the total value of court cases (litigation) in which PKO Bank Polski SA Group companies (including the Bank) are the claimant, as at 31 December 2018, was PLN 1 838 million, of which PLN 37 million applied to court cases in Ukraine (as at 31 December 2017, the total value of such litigation was PLN 1 363 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 had not established a provision for these 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 currency 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 had not established a provision for these proceedings.

OTHER PROCEEDINGS ON THE DISTORTION OF COMPETITION

The remaining companies of the Bank's Group are not handling any significant proceedings on the distortion of competition. The UOKiK proceedings on charges for premature withdrawal from insurance policies with an insurance capital fund, which were conducted with respect to PKO Życie Towarzystwo Ubezpieczeń SA, as described in the previous financial statements of the Bank's Group, have formally ended, whereby the actions taken by the company as a result of the order issued on the above by the President of the UOKiK in 2015 and the agreement concluded with the President of the UOKiK in 2016 are being continued.

BEFORE SOKIK BROUGHT BY INDIVIDUALS, CONCERNING:

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

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) 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 of the persons on whose behalf he lodged the claim for the Bank's potential liability to file a statement of intent to delete the said mortgage. 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 Court largely dismissed the Bank's appeal. The Court shared the Bank's position only as to one person, which it considered not to be a consumer. The Bank applied for a copy of the judgment with the justification. After its analysis a decision will be taken as to a potential cassation complaint. As at 31 December 2018 the Bank had not set up a provision for the proceedings.
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. As at 31 December 2018 the Bank had not set up a provision for the proceedings.
5) in September 2016 the Bank received a claim for the payment of PLN 15 million in respect of compensation for a loss resulting from the fact that the Bank did not disburse the investment loan funds. In the claim the Claimant states that the purpose of the loan agreement was the consolidation of earlier liabilities and determining new terms and conditions for the repayment of the debt, and the fact that the Bank did not disburse the funds led to the liabilities becoming due and covered with the debt restructuring procedure; the said proceedings are currently being conducted before a first instance court. As at 31 December 2018 the Bank set up a provision for this litigation of PLN 15 million for this proceeding.
6) in November and December 2018 the Bank received two claims for finding a writ of execution ineffective, based on the same writ of execution concerning an amount of over PLN 13 million, which had been previously presented to SKOK Wesoła. In respect of both cases the Bank responded questioning the claim. As at 31 December 2018 the Bank had not set up a provision for the proceedings.

(IN PLN MILLION)

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 for 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 in the agreements was entered in the register of prohibited contractual provisions.

REPRIVATIZATION CLAIMS RELATING TO PROPERTIES USED BY THE GROUP

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

- one proceeding is being conducted in respect of the Bank's properties, relating to reprivatization, including one suspended and one in which a final judgment was passed by the District Court in Kalisz on 8 November 2018;
- ten proceedings, of which one is suspended with respect to the real property of the other companies from the Bank's Group, the subject matter of which is to confirm that the administrative decisions are invalid or to return the property.

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

49. NOTES TO THE CONSOLIDATED 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 consolidated statement of financial position and changes in these items presented under operating activities in the consolidated cash flow statement
Reconciliation of items presented in the consolidated statement of financial position with financing activities in the consolidated 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	22 925	15 845
Deposits with the Central Bank	-	1 965
Current amounts due from banks	7 396	5 036
Restricted cash and cash equivalents, of which:	205	154
restricted cash and cash equivalents - amounts due from banks	195	143
restricted cash and cash equivalents - loans and advances to customers	10	11
Total	**30 526**	**23 000**

RESTRICTED CASH AND CASH EQUIVALENTS

Cash and cash equivalents of PLN 205 million (as at 31 December 2017: PLN 154 million), including:

- 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.

(IN PLN MILLION)

The amount of the payments depends on the value of the transactions made by each participant and is updated by KDPW_CCP on a daily basis;

- PLN 4 million (as at 31 December 2017: PLN 9 million) paid in by participants in IKE, IKZE, PPE and PSO, which was not converted by the transfer agent into investment fund participation units by 31 December 2018 and 31 December 2017, respectively;
- PLN 191 million (as at 31 December 2017: PLN 134 million) pledged as a collateral for securitization transactions.

CASH FLOWS FROM INTERESTS AND DIVIDENDS, BOTH RECEIVED AND PAID

INTEREST INCOME – RECEIVED:	2018	2017
loans to and other receivables from banks	29	168
hedging derivatives	524	391
debt securities	1 170	1 318
loans and advances to customers	8 943	8 193
Total	**10 666**	**10 070**

INTEREST EXPENSE – PAID:	2018	2017
amounts due to banks	(58)	(189)
amounts due to customers	(1 415)	(1 628)
debt securities	(50)	(91)
debt securities issued	(453)	(360)
subordinated liabilities	(74)	(62)
Total	**(2 050)**	**(2 330)**

DIVIDEND INCOME RECEIVED	2018	2017
from associates and joint ventures	22	24
from financial assets held for trading	1	-
financial instruments not held for trading, mandatorily measured at fair value through profit or loss	11	
Total	**34**	24

CASH FLOW FROM OPERATING ACTIVITIES – OTHER ADJUSTMENTS

OTHER ADJUSTMENTS	2018	2017
Changes resulting from the acquisition of business entities	-	(30)
Cash flow hedges	138	(7)
Actuarial gains and losses	(1)	1
Foreign exchange differences on translation of a foreign branch	16	(36)
Remeasurement of shares in associates and joint ventures, and other changes	(51)	134
Scrapping of property, plant and equipment and intangible assets	(15)	(3)
Total	**87**	**59**

(IN PLN MILLION)

EXPLANATION OF DIFFERENCES BETWEEN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION AND CHANGES IN THESE ITEMS PRESENTED UNDER OPERATING ACTIVITIES IN THE CONSOLIDATED 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	(57)	(95)
Losses on sale or scrapping of property, plant and equipment, intangible assets and assets held for sale	25	21
Gain associated with loss of control over a subsidiary	(25)	-
Gain on sale of shares and participation units	-	(43)
Total	**(57)**	**(117)**

INTEREST AND DIVIDENDS	2018	2017
Presented in investing activities:	(1 093)	(959)
dividends received from associates and joint ventures	(22)	(24)
interest received on investment securities		(935)
interest received on securities measured at fair value through other comprehensive income	(1 055)	
interest received on securities measured at amortized cost	(4)	
Presented in financing activities:	511	494
interest paid in respect of debt securities issued	413	244
interest paid on a subordinated loan	74	62
interest paid on loans and advances taken up	24	188
Total	**(582)**	**(465)**

CHANGES IN AMOUNTS DUE FROM BANKS	2018	2017
Change in the balance sheet	(2 428)	112
Changes resulting from the acquisition of business entities	-	37
Changes in allowances for expected credit losses	(1)	-
Exclusion of the change in cash and cash equivalents	2 412	551
Total	**(17)**	**700**

(IN PLN MILLION)

CHANGES IN SECURITIES	2018	2017
Change in the balance sheet	(10 039)	(2 670)
Changes due to IFRS 9 implementation	4 449	-
Changes in allowances for expected credit losses	(7)	18
Fair value of financial assets measured at fair value through other comprehensive income (net)	298	
Unrealized net gains on available-for-sale financial assets (net)		619
Presentation of the acquisition /disposal of investment securities under investing activities		7 383
Presentation of the acquisition disposal of securities measured at fair value through other comprehensive income under investing activities	3 875	-
Presentation of the acquisition / disposal of securities measured at amortized cost under investing activities	2 111	-
Total	**687**	**5 350**

CHANGE IN LOANS AND ADVANCES TO CUSTOMERS	2018	2017
Change in the balance sheet	(9 284)	(5 022)
Changes due to IFRS 9 implementation	(5 165)	-
Changes in allowances for expected credit losses	2 449	180
Exclusion of the change in cash and cash equivalents	(1)	(2)
Total	**(12 001)**	**(4 844)**

CHANGE IN NON-CURRENT ASSETS HELD FOR SALE	2018	2017
Change in the balance sheet	123	(124)
Changes in allowances for assets held for sale	19	(19)
Total	**142**	**(143)**

CHANGE IN OTHER ASSETS AND INVENTORIES	2018	2017
Change in the balance sheet	(343)	202
Change in allowances for other assets and inventories	46	(14)
Total	**(297)**	**188**

CHANGE IN AMOUNTS DUE TO BANKS	2018	2017
Change in the balance sheet	(2 557)	(14 648)
Presentation of long-term loans taken up from/repaid to banks, including interest, under financing activities	2 516	13 446
Total	**(41)**	**(1 202)**

CHANGE IN AMOUNTS DUE TO CUSTOMERS	2018	2017
Change in the balance sheet	21 899	13 450
Presentation of long-term loans taken up from/repaid to financial institutions other than banks, including interest, under financing activities	(380)	1 603
Total	**21 519**	**15 053**

(IN PLN MILLION)

CHANGE IN LIABILITIES IN RESPECT OF DEBT SECURITIES IN ISSUE	2018	2017
Change in the balance sheet	4 695	9 439
Presentation of long-term liabilities in respect of debt securities in issue incurred/repaid, including interest, under financing activities	(4 457)	(10 558)
Total	**238**	**(1 119)**

CHANGE IN SUBORDINATED LIABILITIES	2018	2017
Change in the balance sheet	1 011	(819)
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 PROVISIONS	2018	2017
Change in accumulated allowances for credit losses and impairment allowances	(2 374)	(186)
on amounts due from banks	1	-
on loans and advances to customers	(2 449)	(180)
on securities	7	(18)
on other financial assets	(3)	(7)
provisions for financing liabilities and guarantees granted	70	19
Change in accumulated allowances on non-financial assets and other provisions	86	84
on assets held for sale	(19)	19
on property, plant and equipment	4	(20)
on intangible assets	22	3
on investments in associates and joint ventures	32	26
on other non-financial assets, including inventories	(43)	17
other provisions	90	39
Total	**(2 288)**	**(102)**

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

	Note	31.12.2017	Recognized under financing activities in the consolidated cash flow statement		Recognized under operating activities in the consolidated cash flow statement	31.12.2018
			Incurred	Repaid	Other changes, including foreign exchange differences	
Loans and advances received		6 348	1 128	(3 264)	131	4 343
from banks	34	2 785	100	(2 616)	(19)	250
from customers	35	3 563	1 028	(648)	150	4 093
Debt securities in issue	38	23 932	12 705	(8 248)	238	28 627
Subordinated liabilities - subordinated bonds	39	1 720	1 000	-	11	2 731
Total		32 000	14 833	(11 512)	380	35 701

(IN PLN MILLION)

	Note	31.12.2016	Recognized under financing activities in the consolidated cash flow statement		Recognized under operating activities in the consolidated cash flow statement	31.12.2017
			Incurred	Repaid	Other changes, including foreign exchange differences	
Loans and advances received		22 229	311	(15 360)	(832)	6 348
from banks	34	17 567	-	(13 446)	(1 336)	2 785
from customers	35	4 662	311	(1 914)	504	3 563
Debt securities in issue	38	14 493	17 836	(7 278)	(1 119)	23 932
Subordinated liabilities	39	2 539	1 700	(2 536)	-	1 720
subordinated loan		922	-	(880)	(42)	-
subordinated bonds		1 617	1 700	(1 656)	59	1 720
Total		**39 261**	**19 847**	**(25 174)**	**(1 951)**	**32 000**

50. 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 Group as it holds a 29.43% interest in the Bank's share capital. The Bank's shareholding structure is described in detail in Note 42 "Equity and shareholding structure of the Bank' to these financial statements.

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

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

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.

(IN PLN MILLION)

SIGNIFICANT TRANSACTIONS WITH THE STATE TREASURY'S RELATED ENTITIES

The Group's exposure and the value of the Group'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 at arm's length.

RELATED-PARTY TRANSACTIONS – CAPITAL LINKS

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

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

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**

(IN PLN MILLION)

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.	19	19	9	-
Bank Pocztowy SA	-	-	-	1
“Poznański Fundusz Poręczeń Kredytowych” sp. z o.o.	-	-	16	-
Total joint ventures and associates	**68**	**25**	**62**	**26**

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 and 31 December 2017, six entities were related to the Group 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 Group and those entities.

51. BENEFITS FOR THE PKO BANK POLSKI SA 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 the base salary, also the part of the variable remuneration component paid in cash which is not deferred.

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

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

VARIABLE REMUNERATION COMPONENTS OF KEY MANAGEMENT PERSONNEL IN THE GROUP

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 or a Group Company, respectively, a loss incurred by the Bank / Company 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.

In 2018, variable remuneration components were also granted in selected PKO Bank Polski SA Group companies. The regulations on variable remuneration components for members of the Management Board applied in: PKO Bank Hipoteczny SA, PKO BP BANKOWY PTE SA, PKO TFI SA, PKO Leasing SA, PKO Towarzystwo Ubezpieczeń SA and PKO Życie Towarzystwo Ubezpieczeń SA. Simultaneously, employees in certain managerial positions at PKO Bank Hipoteczny SA, PKO Towarzystwo Ubezpieczeń SA and PKO Życie Towarzystwo Ubezpieczeń SA having a significant impact on the company's risk profile, and certain employees at PKO TFI SA, whose jobs include activities that materially affect the risk profile of the company or the fund management company, were also covered by variable remuneration policies.

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		
	2018	2017
Supervisory Board of the Bank	1 351	1 315
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
Management Board of the Bank	6 342	94	742	906	2 558	1 047	906
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		
	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
Management Board of the Bank	7 470	1 423	611	1 642	1 258	2 558	1 642
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 shown in the table below.

POST-EMPLOYMENT BENEFITS	2018	2017
Management Board	-	1 541
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'000)

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

REMUNERATION OF THE MEMBERS OF THE BANK'S MANAGEMENT BOARD RECEIVED FROM RELATED ENTITIES (OTHER THAN THE STATE TREASURY AND ENTITIES RELATED TO THE STATE TREASURY) (IN PLN THOUSAND)

REMUNERATION FROM SUBORDINATED ENTITIES (in PLN '000)	31.12.2018	31.12.2017
Total short-term benefits	119	-

REMUNERATION OF MEMBERS OF THE MANAGEMENT BOARDS AND SUPERVISORY BOARDS OF SUBSIDIARIES OF THE PKO BANK POLSKI SA GROUP (IN PLN THOUSAND)

REMUNERATION OF THE MANAGEMENT AND SUPERVISORY BOARD MEMBERS OF THE SUBSIDIARIES OF THE PKO BANK POLSKI SA GROUP	2018	2017
Supervisory Board	824	467
Management Board	24 578	25 095
Total	**25 402**	**25 562**

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	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.

(IN PLN MILLION)

VARIABLE REMUNERATION COMPONENTS

PROVISION FOR VARIABLE REMUNERATION COMPONENTS	31.12.2018 (for 2013-2018)	31.12.2017 (for 2012-2017)
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
Group entities	25	25
Total provision	**84**	**73**
Remuneration paid during the year	2018 (za lata 2013-2018)	2017 (za lata 2012-2017)
- granted in cash	**18**	**16**
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
Group entities	8	5
- granted in the form of financial instruments	**17**	**14**
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
Group entities	3	2
Total remuneration paid	**35**	**30**

52. 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 Group classifies financial 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 a 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 Group classifies financial instruments for which there is no active market:

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

LEVEL 3: OTHER VALUATION TECHNIQUES

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

FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE	VALUATION METHOD (TECHNIQUE)	UNOBSERVABLE INPUT
FINANCIAL ASSETS NOT HELD FOR TRADING, MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS ON A MANDATORY BASIS		
LOANS AND ADVANCES TO CUSTOMERS	Discounted cash flow method	Effective margin on loans
C-SERIES PREFERENCE SHARES OF VISA INC.	Estimating the fair value based on the current market value of the listed ordinary shares of Visa Inc., including a discount which takes into account the limited liquidity of C-series shares and the terms and conditions of the conversion of C-series shares into ordinary shares.	Discount taking into account the limited liquidity of C-series shares and the terms of converting the C-series shares into ordinary shares.
CORPORATE BONDS	Yield curve and risk margin model. Yield curves are built based on market rates, money market data and the IRS transactions market.	Credit spread (credit margins determined on the basis of initial margins modified by credit indices quotes ascribed to issuers based on their ratings and business sectors)
SHARES IN BIURO INFORMACJI KREDYTOWEJ SA	Estimation of the fair value based on the present value of the forecast results of the company	Forecast results of the company
SHARES IN POLSKI STANDARD PŁATNOŚCI SP. Z O.O.	Estimation of the fair value based on the present value of the forecast results of the company	Forecast results of the company
SHARES IN SOCIETY FOR WORLDWIDE INTERBANK FINANCIAL TELECOMMUNICATION	Market value of the shares estimated by the company	Market value estimated by the company
SHARES IN KRAJOWA IZBA ROZLICZENIOWA SA	Estimation of the fair value based on the present value of the forecast results of the company	Forecast results of the company
SHARES IN THE WAŁBRZYCH SPECIAL ECONOMIC ZONE "INVEST-PARK" SP. Z O.O.	Establishment of the fair value by a property valuer using the adjusted net asset approach	Net asset value of the Fund
SHARES IN WIELKOPOLSKA GIEŁDA ROLNO-OGRODNICZA SA	Establishment of the fair value by a property valuer using the adjusted net asset approach	Net asset value of the Fund
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 are subject to review or audit every six months by a statutory auditor.	Net asset value of the Fund

(IN PLN MILLION)

FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME		
CORPORATE BONDS	Yield curve and risk margin model. Yield curves are built based on market rates, money market data and the IRS transactions market.	Credit spread (credit margins determined on the basis of initial margins modified by credit indices quotes ascribed to issuers based on their ratings and business sectors)

FINANCIAL INFORMATION

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

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

(IN PLN MILLION)

ASSETS AND LIABILITIES MEASURED AT FAIR VALUE AS AT 31.12.2017	Carrying amount	Level 1	Level 2	Level 3
		Prices quoted on active markets	Valuation techniques based on observable market data	Other valuation techniques
Financial assets held for trading	431	429	2	-
Debt securities	405	403	2	-
Shares in other entities	19	19	-	-
Investment certificates	7	7	-	-
Derivative financial instruments	2 598	1	2 597	-
Hedging instruments	887	-	887	-
Trading instruments	1 711	1	1 710	-
Financial instruments designated at fair value through profit or loss upon initial recognition	8 157	3 775	4 382	-
Debt securities	6 688	2 306	4 382	-
Participation units	1 469	1 469	-	-
Available-for-sale investment securities	43 651	34 236	7 249	2 166
Debt securities	43 192	34 152	7 249	1 791
Equity securities	203	80	-	123
Participation units in investment funds and shares in collective investment undertakings	256	4	-	252
Total financial assets measured at fair value	**54 837**	**38 441**	**14 230**	**2 166**
Derivative financial instruments	2 740	-	2 740	-
Hedging instruments	204	-	204	-
Trading instruments	2 536	-	2 536	-
Total financial liabilities measured at fair value	**2 740**	**-**	**2 740**	**-**

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 Group 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 prior periods these 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		
Equity investments[3]	132	119		
Corporate bonds[4]	115	115		
Measured at fair value through OCI				
Corporate bonds[4]	1 539	1 533		
Available-for-sale investment securities				
Participation units in a collective investment undertaking[5]			264	239
Shares in Visa Inc.[2]			129	103
Corporate bonds[4]			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 the company's value of +/- 5%
4 a scenario assuming a change in credit spread of +/- 10%
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 shown in the table below.

RECONCILIATION OF CHANGES DURING THE PERIOD 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	1 186	
Loans and advances to customers not held for trading, measured at fair value through profit or loss	1 070	
Equity instruments measured at fair value through profit or loss	116	
Opening balance at the beginning of the period – restated	**3 352**	
Foreign exchange differences	18	(37)
Participation units in a collective investment undertaking	7	(18)
Other equity instruments	11	(19)
Increase in exposure to equity instruments	2	-
Taking up a new share issue a collective investment institution	-	58
Issuance and redemption of corporate bonds	(129)	(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	7	-
Not held for trading, mandatorily measured at fair value through profit or loss	7	-
Sale/repayment of loans during the period	(167)	
Not held for trading, measured at fair value through profit or loss	(167)	
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	(10)	77
Corporate bonds	(10)	20
Participation units in a collective investment undertaking		7
Shares in Visa Inc.		50
As at the end of the period	**3 025**	**2 166**

53. Financial assets and financial liabilities not presented at fair value in the consolidated statement of financial position

The Group 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 bearing 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 Group 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 Group'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 debt 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 a liability in respect of securities issued by PKO Finance AB was estimated based on Bloomberg quotations.

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

Finance lease receivables were estimated based on the expected cash flows discounted using the internal rate of return for lease transactions of the same type concluded by the Group during the period directly preceding the end of the reporting period.

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

	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	17 810	17 810
Amounts due from banks	2	discounted cash flows	5 233	5 233
Loans and advances to customers			**205 629**	**203 256**
housing loans	3	discounted cash flows	106 191	101 998
business loans	3	discounted cash flows	56 792	56 761
consumer loans	3	discounted cash flows	24 590	26 407
debt securities		discounted cash flows	4 368	4 368
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	2	discounted cash flows	902	902
finance lease receivables	3	discounted cash flows	12 786	12 820
Investment securities held to maturity	1	discounted cash flows	1 812	1 816
Other financial assets	3	at amount due less impairment allowance	2 377	2 377
Amounts due to the Central Bank	2	at amounts due	6	6
Amounts due to other banks	2	discounted cash flows	4 558	4 558
Amounts due to customers			**218 800**	**218 735**
to corporate entities	3	discounted cash flows	52 667	52 666
to public entities	3	discounted cash flows	11 409	11 409
to retail customers	3	discounted cash flows	151 161	151 097
loans and advances received	3	discounted cash flows	3 563	3 563
Debt securities in issue	1, 2	market quotations/discounted cash flows	23 932	24 226
Subordinated liabilities	2	discounted cash flows	1 720	1 720
Other financial liabilities	3	at amounts due	4 129	4 129

54. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

ACCOUNTING POLICIES

The Group 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 to realize a given asset and settle the liability simultaneously. In order for offsetting to be possible, a legal right may not be contingent on the occurrence of a specific future event.

The Group 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 (so-called close out netting) in the event of an infringement with respect to one of the parties to 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).

(IN PLN MILLION)

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	2 617	2 566	51
Financial liabilities offset based on the criteria of IAS 32 § 42, gross	(1)	(1)	-
Financial assets recognized in the statement of financial position, net	2 616	2 565	51
Financial instruments not subject to offsetting in the financial statements	1 889	1 874	15
Financial liabilities subject to enforceable framework agreement or similar agreement concerning offsetting (excluding financial collateral)	1 565	1 565	-
Collateral received in the form of cash and securities	324	309	15
Net amount	**727**	**691**	**36**

OFFSETTING – LIABILITIES 31.12.2018	Total financial liabilities	Derivatives	Amounts due from repurchase agreements
Recognized financial liabilities, gross	3 127	3 127	-
Financial assets offset based on the criteria of IAS 32 § 42, gross	(1)	(1)	-
Financial assets recognized in the statement of financial position, net	3 126	3 126	-
Financial instruments not subject to offsetting in the financial statements	2 171	2 170	1
Financial assets subject to enforceable framework agreement or similar agreement concerning offsetting (excluding financial collateral)	1 565	1 565	-
Cash or securities received as collateral	606	605	1
Net amount	**955**	**956**	**(1)**

OFFSETTING – ASSETS 31.12.2017	Total financial assets	Derivatives	Amounts due from repurchase agreements
Recognized financial assets, gross	3 503	2 601	902
Financial liabilities subject to offsetting, gross	(3)	(3)	-
Financial assets recognized in the consolidated statement of financial position, net	3 500	2 598	902
Financial instruments not subject to offsetting in the financial statements	2 097	2 082	15
Financial liabilities subject to enforceable framework agreement or similar agreement concerning offsetting (excluding financial collateral)	1 337	1 337	-
Collateral received in the form of cash and securities	760	745	**15**
Net amount	**1 403**	**516**	**887**

OFFSETTING – LIABILITIES 31.12.2017	Total financial liabilities	Derivatives	Amounts due from repurchase agreements
Recognized financial liabilities, gross	2 791	2 743	48
Financial liabilities subject to offsetting, gross	(3)	(3)	-
Financial assets recognized in the consolidated statement of financial position, net	2 788	2 740	48
Financial instruments not subject to offsetting in the financial statements	1 895	1 895	-
Financial assets subject to enforceable framework agreement or similar agreement concerning offsetting (excluding financial collateral)	1 337	1 337	-
Collateral granted in the form of cash and securities	558	558	-
Net amount	**893**	**845**	**48**

(IN PLN MILLION)

55. ASSETS PLEDGED AS COLLATERAL FOR LIABILITIES AND TRANSFERRED FINANCIAL ASSETS

RECEIVABLES COVERED BY SECURITIZATION OF LEASE RECEIVABLES

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

LIABILITIES IN RESPECT OF REPURCHASE TRANSACTIONS

Financial assets which the Group 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	-	48
Amounts due from repurchase agreements	-	48
Net balance	-	-

LIABILITIES FROM THE NEGATIVE VALUATION OF DERIVATIVE INSTRUMENTS

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

ASSETS CONSTITUTING COLLATERAL FOR MORTGAGE BONDS

The nominal value of loans entered to the register of collaterals for mortage bonds and constituting the Group's cover pool representing collateral for the covered bonds issued totalled PLN 16 948 million as at 31 December 2018, and the nominal value of the additional collateral in the form of securities issued by the State Treasury and denominated in PLN amounted to PLN 251 million. As at 31 December 2017 it amounted to PLN 11 104 million and PLN 251 million respectively. The Bank's mortgage bonds cover pool also included CIRS and FX-Forward transactions hedging the currency risk of issued mortgage bonds denominated in EUR and an IRS transaction securing the interest rate risk of fixed rate mortgage bonds issued in PLN.

(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 mandatory reserve deposits. These assets are treated as assets pledged as collateral for own liabilities

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

	31.12.2018	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	obligacje skarbowe	Treasury bonds
Maturity of the pledge	25.01.2024	25.01.2024
Carrying amount of the pledge	324	174

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

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

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

Legal limitations relating to the Group's title

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 Group's legal title would be limited and pledged as collateral for its liabilities.

Transferred financial assets

As at 31 December 2018 and 31 December 2017, the Group had no transferred financial assets fully derecognized from the consolidated financial statements in respect of which the Group maintains an exposure.

56. Fiduciary activities

The Parent Company 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 Parent Company 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 Parent Company as part of providing fiduciary services have not been disclosed in these financial statements since they do not meet the definition of the Parent Company's assets.

57. Information on the entity auditing 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

58. RISK MANAGEMENT WITHIN THE GROUP

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

The Group identifies risks which are to be managed in its activities and analyses the impact of particular types of risk on the business operations of the Bank and entities in the Group. All the risks are managed; some of them have a material effect on profitability and capital needed to cover them. The materiality of all the identified risks is assessed 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. All risks classified as material for the Bank are also material for the Group. The following risks are considered material for the Bank: credit risk, currency risk, interest rate risk, liquidity risk (including financing risk), operating risk, business risk, risk of macroeconomic changes and model risk. Group entities may consider types of risks other than those listed above to be material, taking into account the specific nature and scale of their operations and the markets on which they operate. The Bank verifies the materiality of these risks at Group level. Group entities participate in assessing the materiality of the risks initiated by the Parent Company and assessed at Group level.

TYPE OF RISK	SECTION
CREDIT RISK	59, 60
INTEREST RATE RISK	66
CURRENCY RISK	67
LIQUIDITY RISK, INCLUDING FINANCING RISK	68
OPERATING RISK	69
BUSINESS (STRATEGIC) RISK	70
MODELS RISK	70
RISK OF MACROECONOMIC CHANGES	70

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 Group 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

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

1) the Group manages all the risks identified;
2) the risk management process 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 Group 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 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 the Group 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 and the Group's operations. As part of risk identification, the risks considered to be material in the Bank's or the Group's operations are identified.

- **RISK MEASUREMENT AND ASSESSMENT:**

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

- **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 authorities), and performing (specific and comprehensive) stress tests. Risk level forecasts are verified. The frequency of risk monitoring frequency is adequate to the significance and variability of specific risks, 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 authorities), and performing (specific and comprehensive) stress tests. Risk level forecasts are verified. The frequency of risk monitoring frequency 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:**

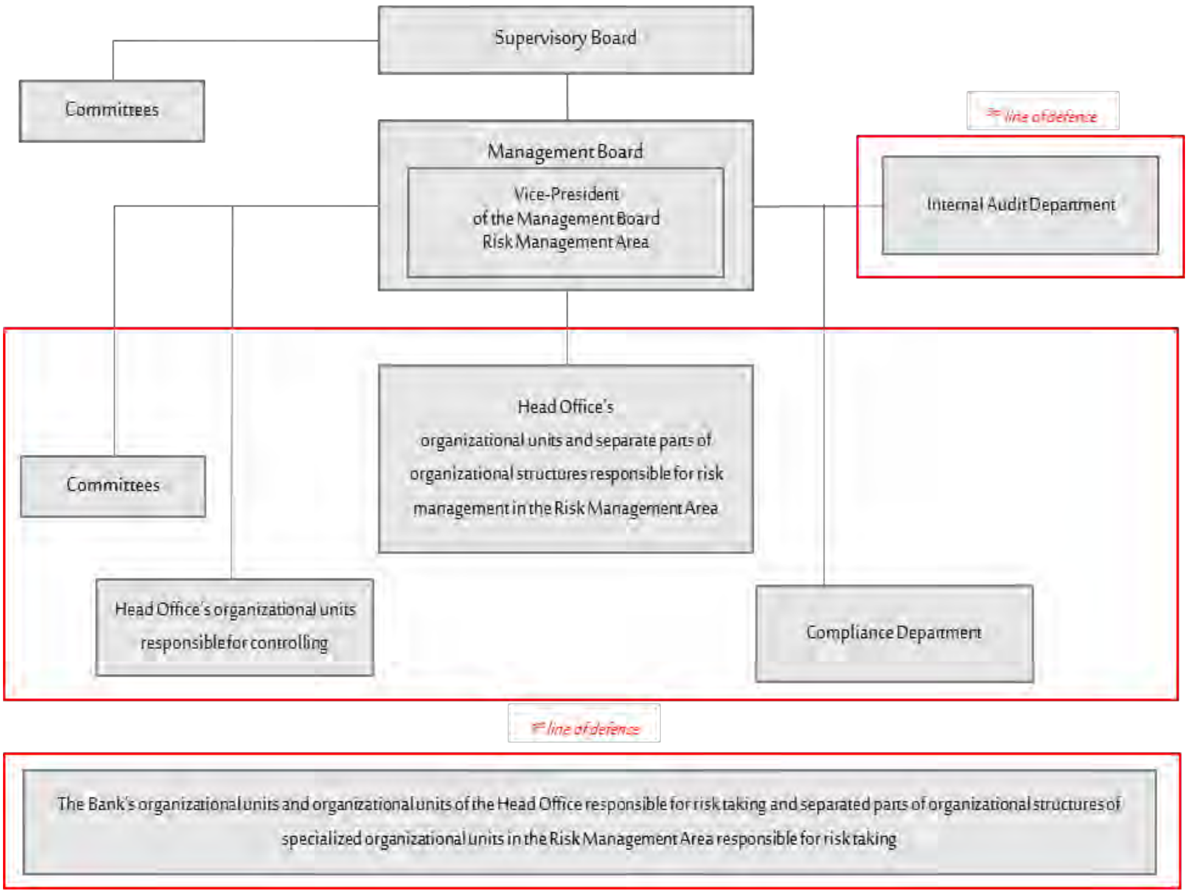
Management actions consist particularly in issuing internal regulations affecting the management processes relating to different types of risk, establishing the level of risk tolerance, establishing limits and thresholds, issuing recommendations, and making decisions, including decisions to use tools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

ORGANIZATION OF RISK MANAGEMENT WITHIN THE GROUP

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

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

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



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

Supervisory Board evaluates whether the risk management system is updated on an on-going basis to take into account new risk factors and sources. The Supervisory Board is supported by the following committees: the Supervisory Board Appointments and Remuneration Committee, the Supervisory Board Risk Committee and the Supervisory Board Audit Committee.

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

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

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

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

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

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

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

RISK MANAGEMENT WITHIN THE GROUP

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

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

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

SPECIFIC ACTIVITIES IN THE AREA OF RISK MANAGEMENT UNDERTAKEN BY THE GROUP IN 2018

The Group's top priority is to maintain a strong capital position, including effective management of capital adequacy, to retain stable sources of financing which form the basis for business development, to support Polish entrepreneurship, ensuring customer satisfaction, engagement in developing new market standards, preventing cyberthreats, without compromising priorities in terms of operational efficiency, effective cost control and an appropriate assessment of the risk level. To this end, in 2018, the Group increased its portfolio of short-term bonds amounting (mainly 3-6 months) from PLN 3.3 billion at the end of 2017 to PLN 4.1 billion at the end of 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.

On 21 December 2017, having obtained the necessary corporate consents, the Bank concluded a guarantee agreement with a counterparty ensuring unfunded credit protection with regard to the portfolio for selected corporate loan receivables of the Bank, in accordance with the CRR Regulation. The total value of the Bank's portfolio covered by the Guarantee is PLN 5 495 million, and the portfolio comprises the bond portfolio amounting to PLN 1 097 million and a portfolio of other receivables of PLN 4 398 million.

Within the Group, the portfolios of mortgage loans originally granted by PKO Bank Polski SA are successively transferred to PKO Bank Hipoteczny SA. The value of the portfolio transferred in 2018 amounted to approx. PLN 2.5 billion.

In 2018, PKO Bank Hipoteczny SA conducted five issues of mortgage bonds denominated in PLN addressed to institutional investors with a total nominal value of PLN 1 590 million and redemption period of 4 to approx. 10 years from the date of issue. Both domestic and international institutional investors acquired these mortgage bonds. PKO Bank Hipoteczny SA's mortgage bonds are among the safest debt instruments on the Polish financial market. This is reflected in the highest possible rating which can be obtained by Polish securities of Aa3 assigned by Moody's.

In 2018, PKO Bank Hipoteczny SA conducted one issue of mortgage bonds denominated in EUR addressed to institutional investors, with a nominal value of EUR 500 million and redemption period of approx. 6 years from the date of issue. Both domestic and international institutional investors acquired these mortgage bonds.

On 23 October 2018, the Bank obtained about PLN 646 million of financing from the European Investment Bank (EBI), maturing in October 2023. Furthermore in 2018, PKO Leasing obtained EUR 40 million of financing from the EBI and EUR 50 million of financing from the CEB maturing in March 2023 and November 2023 respectively.

As a result of the legal merger between PKO Leasing SA and Raiffeisen-Leasing Polska SA (on 28 April 2017), conceptual and implementation work was performed to integrate risk management in the combined PKO Leasing SA Group. In 2017, the works performed included, among other things, harmonizing parts of the internal risk management regulations governing the assumption of the material types of risk (in particular credit risk, market risk and operating risk), and the implementation of new tools for risk measurement and assessment, represented by IT systems also made available to the subsidiaries of PKO Leasing SA.

59. Credit risk management

Definition

Credit risk is defined as the risk losses incurred as a result of a customer's default on its liabilities vis-à-vis the Group or the risk of a decrease in the economic value of amounts due to the Group as a result of deterioration in a customer's ability to repay customers' 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 and the Group subsidiaries are guided mainly by the following credit risk management principles:

- 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 the 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) on loan exposures.

The above-mentioned principles are implemented by the Group through the use of advanced credit risk management methods, both at the level of individual credit exposures and the entire loan portfolio of the Group. 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.

The Group entities which have significant credit risk levels (the KREDOBANK SA Group, the PKO Leasing SA Group, PKO Bank Hipoteczny SA and Finansowa Kompania "Prywatne Inwestycje"' sp. z o.o.) manage their credit risk individually, but the methods used for credit risk assessment and measurement are adjusted to the methods used by PKO Bank Polski SA, taking into account the specific nature of the activities of these companies.

Any changes to the solutions used by the Group's subsidiaries must be agreed each time with the Bank's units responsible for risk management.

The PKO Leasing SA Group, the KREDOBANK SA and Finansowa Kompania "Prywatne Inwestycje" sp. z o.o. and PKO Bank Hipoteczny SA measure their credit risk regularly and the results of such measurements are submitted to the Bank.

Within the structures of PKO Bank Hipoteczny SA, the KREDOBANK SA Group and the PKO Leasing SA Group, there are organizational units in the risk management areas which are responsible, in particular, for:

- developing methodologies for credit risk assessment and recognition of provisions and allowances;
- control over and monitoring of credit risk in the lending process;
- quality and efficiency of the restructuring and debt collection processes.

In these companies, the credit decision limits depend primarily on: the amount of the exposure to a given customer; the amount of an individual credit transaction and the duration of the lending period.

The process of credit decision-making in PKO Bank Hipoteczny SA, the KREDOBANK SA Group, the PKO Leasing SA Group is supported by credit committees which are involved in the process for credit transactions which generate an increased credit risk level.

Relevant organizational units of the Risk Management Area participate in managing the credit risk in the Group entities by consulting projects and periodically reviewing the internal regulations of these entities relating to the assessment of credit risk, and by making recommendations for amendments to such internal regulations. The Bank supports the implementation of the recommended changes in credit risk assessment policies in the Group entities.

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 Group uses different credit risk measurement and valuation methods, including:

a. probability of default (PD);
b. loss given default (LGD;
c. credit conversion factor (CCF);
d. expected loss (EL);
e. credit value at risk (CVaR);
f. the share and structure of impaired credit exposures;
g. coverage ratio of impaired loans;
h. cost of credit risk;
i. stress tests

The Group 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 Group.

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 levels of impairment allowances.

The Group performs analyses and stress-tests relating to the impact of the potential changes in the macroeconomic environment on the quality of the Group'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 Group's profit or loss.

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

The Group 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 Group's internal records and external databases.

In the case of corporate customers in the small- and medium-sized enterprises segment who meet certain criteria, the Group 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 Group'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 Group's internal data, thus ensuring that they are tailored to the risk profiles of the Group's customers. Models are based on a statistical dependence analysis between the default and the customer's risk scoring. The scoring includes an evaluation of financial ratios, qualitative factors and behavioural factors. A customer's risk assessment depends on the size of the enterprise assessed. In addition, the Group 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).

Rating models are implemented within the IT tool which supports the assessment of the Group's credit risk associated with the financing of institutional customers.

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

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

Information on rating and scoring assessments is widely used in the Group 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 authorities), 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 Group's internal regulations concerning:

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

In order to accelerate the response to the warning signals noted reflecting an increased credit risk level, the Group 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 preventative 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 Group. Credit risk reporting covers regular information on the scale of the risk exposure of the loan portfolio. In addition to information for the Bank, the reports also include information on the level of credit risk in the Group entities where a material level of credit risk was identified (e.g. the KREDOBANK SA Group, the PKO Leasing SA Group, PKO Bank Hipoteczny SA).

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 Group.

The credit risk management actions include in the first instance:

1) issuing internal regulations governing the credit risk management system at the Group;
2) issuing recommendations, guidelines for conduct, explanations and interpretation of the Group'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 Group;
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 by the Group 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 a 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 Group'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 Group'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 Group with a given corporate customer, where the interest rate offered to the customer cannot be lower than the reference rate plus an appropriate credit risk margin.

USE OF CREDIT RISK MITIGATION TECHNIQUES – COLLATERAL

The collateral management policy plays a significant role in establishing minimum transaction terms. The Bank's and the Group's collateral management policy is intended to properly protect it against credit risk to which the Bank and the Group are 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 Group strives to diversify collateral in terms of its forms and assets used as collateral.

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

In addition, when assessing collateral, the Group 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 Group 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 Group'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 Group can accept temporary collateral in different form.

With regard to consumer loans, usually personal guarantees (a civil law surety/guarantee, a bill of exchange) are used or collateral is established on the customer's bank account, car or securities.

The collateral for loans intended for the financing of small- and medium-sized enterprises as well as corporate customers is established, among other things: on receivables from business operations, bank accounts, movables, real estate or securities. The collateral management policy is set out in the internal regulations of the Group's subsidiaries.

When concluding lease agreements, the PKO Leasing SA Group, as the owner of the assets leased, treats the assets leased as collateral.

(IN PLN MILLION)

60. CREDIT RISK – FINANCIAL INFORMATION

EXPOSURE TO CREDIT RISK

The table below presents the maximum exposure for credit risk – balance sheet financial instruments for 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	658	887
Other derivative instruments	1 907	1 699
Securities:	3 083	5 121
held for trading	235	431
not held for trading, measured at fair value through profit or loss	2 848	4 690
Loans and advances to customers not held for trading, measured at fair value through profit or loss	1 106	1 070
housing	27	37
business	148	182
consumer	931	851
Total	**6 754**	**8 777**

MAXIMUM EXPOSURE TO CREDIT RISK – BALANCE SHEET FINANCIAL INSTRUMENTS NOT SUBJECT TO IMPAIRMENT REQUIREMENTS	31.12.2017
Hedging derivatives	887
Other derivative instruments	1 711
Securities:	8 588
held for trading	431
financial instruments designated at fair value through profit or loss upon initial recognition	8 157
Total	**11 186**

(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:	2 155	-	-	2 155	1 966	1 149	8	3 123	205	273	2 244	2 722	8 000
loans	989	-	-	989	1 062	726	8	1 796	160	174	2 114	2 448	5 233
housing	392	-	-	392	742	168	-	910	62	75	429	566	1 868
business	303	-	-	303	146	467	8	621	62	60	1 346	1 468	2 392
consumer	294	-	-	294	174	91	-	265	36	39	339	414	973
finance lease receivables	1 166	-	-	1 166	904	423	-	1 327	45	99	130	274	2 767
Other financial assets	-	-	-	-	-	-	-	-	-	-	-	-	-
Total, net	2 155	-	-	2 155	1 966	1 149	8	3 123	205	273	2 244	2 722	8 000

EXPOSURES PAST DUE 31.12.2017	up to 30 days	30 to 90 days	over 90 days	TOTAL
Debt securities:	-	-	3	3
corporate bonds (in foreign currencies)	-	-	3	3
Amounts due from banks	-	-	1	1
Loans and advances to customers:	4 541	976	2 765	8 282
loans	2 762	606	2 639	6 007
housing	1 222	320	596	2 138
business	1 066	153	1 555	2 774
consumer	474	133	488	1 095
finance lease receivables	1 779	370	126	2 275
Other financial assets	1	-	1	2
Total, net	4 542	976	2 770	8 288

The Group takes into account PLN 500 of matured for credit exposures to individuals and PLN 3 000 of matured other credit exposures to specify whether a loan is overdue.

Loans and advances to customers were secured by the following collateral established for the PKO Bank Polski SA Group: mortgages, registered pledges, transfer of ownership, restrictions on a deposit account, insurance of the credit exposure, as well as guarantees and sureties.

In the evaluation performed, it was found that in respect of the above financial assets, the expected cash flows fully cover the carrying amount of these exposures.

(IN PLN MILLION)

MODIFICATIONS

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

FINANCIAL ASSETS SUBJECT TO MODIFICATION	31.12.2018	
Financial assets subject to modification during the period:	**Stage 2**	**Stage 3**
measurement at amortized cost before modification	350	349
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 expected losses were calculated over the lifetime and which are classified as Stage 1 after modification		103

RECEIVABLES WRITTEN OFF DURING THE DEBT RECOVERY PERIODS

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

RECEIVABLES WRITTEN OFF	2018	
	Partly written off	**Wholly written off**
Securities		
measured at fair value through OCI	3	-
Loans and advances to customers		
measured at amortized cost	1 980	1 217
housing	515	527
business	1 154	500
consumer	311	190
finance lease receivables	-	14
Total	**1 983**	**1 231**

The Group adopted the following criteria for writing down receivables:

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 TRADING 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	106 561	5 960	2 154	106	114 781
0,00 - 0,02%	7 729	15	-	-	7 744
0,02 - 0,07%	28 309	66	-	-	28 375
0,07 - 0,11%	13 546	52	-	1	13 599
0,11 - 0,18%	16 717	145	-	-	16 862
0,18 - 0,45%	22 513	321	-	5	22 839
0,45 - 1,78%	10 969	568	-	9	11 546
1,78 - 99,99%	2 442	4 773	-	19	7 234
100%	-	-	2 154	72	2 226
without internal rating [1]	4 336	20	-	-	4 356
BUSINESS LOANS (including finance lease receivables)	64 115	8 422	6 846	513	79 896
0,00 - 0,45%	7 515	1	-	-	7 516
0,45 - 0,90%	8 694	58	-	-	8 752
0,90 - 1,78%	7 709	95	-	-	7 804
1,78 - 3,55%	10 978	785	-	-	11 763
3,55 - 7,07%	20 671	2 252	-	18	22 941
7,07 - 14,07%	7 714	2 156	-	1	9 871
14,07 - 99,99%	545	2 898	-	3	3 446
100%	-	-	-	491	491
without internal rating [1]	289	177	6 846	-	7 312
					-
CONSUMER LOANS	23 664	1 786	1 776	55	27 281
0,00 - 0,45%	4 012	25	-	-	4 037
0,45 - 0,90%	6 864	48	-	-	6 912
0,90 - 1,78%	5 827	64	-	-	5 891
1,78 - 3,55%	3 742	178	-	-	3 920
3,55 - 7,07%	1 537	293	-	-	1 830
7,07 - 14,07%	871	340	-	-	1 211
14,07 - 99,99%	302	746	-	-	1 048
100%	-	-	1 776	55	1 831
without internal rating [1]	509	92	-	-	601
Total	194 340	16 168	10 776	674	221 958

[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	100 206	5 016	3 483	133	108 838
0,00 - 0,02%	7 360	8	-	-	7 368
0,02 - 0,07%	26 143	40	-	-	26 183
0,07 - 0,11%	12 668	30	-	-	12 698
0,11 - 0,18%	15 829	46	-	2	15 877
0,18 - 0,45%	21 622	134	-	6	21 762
0,45 - 1,78%	9 867	288	-	9	10 164
1,78 - 99,99%	2 590	4 443	-	26	7 059
100%	-	-	3 483	90	3 573
without internal rating [1]	4 127	27	-	-	4 154
BUSINESS LOANS (including finance lease receivables)	57 792	8 206	8 488	161	74 647
0,00 - 0,45%	7 194	2	-	-	7 196
0,45 - 0,90%	7 045	52	-	-	7 097
0,90 - 1,78%	6 262	26	-	-	6 288
1,78 - 3,55%	9 368	535	-	-	9 903
3,55 - 7,07%	18 749	1 866	-	-	20 615
7,07 - 14,07%	7 946	2 114	-	-	10 060
14,07 - 99,99%	866	3 366	-	-	4 232
100%	-	-	8 488	161	8 649
without internal rating [1]	362	245			607
					-
CONSUMER LOANS	21 661	1 608	2 322	69	25 660
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%	3 316	84	-	-	3 400
3,55 - 7,07%	1 401	237	-	-	1 638
7,07 - 14,07%	778	295	-	-	1 073
14,07 - 99,99%	316	655	-	-	971
100%	-	-	2 322	69	2 391
without internal rating [1]	534	279	-		813
Total	179 659	14 830	14 293	363	209 145

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

(IN PLN MILLION)

DISTRIBUTION OF THE PORTFOLIO ENCOMPASSED 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%	11 636	21	-	-	11 657
0,45 - 0,90%	11 214	28	-	-	11 242
0,90 - 1,78%	7 307	69	-	-	7 376
1,78 - 3,55%	6 838	711	-	-	7 549
3,55 - 7,07%	3 422	489	-	-	3 911
7,07 - 14,07%	4 510	718	-	-	5 228
14,07 - 99,99%	195	113	-	-	308
100%	-	-	260	80	340
without internal rating [1]	11 090	1 111	-	-	12 201
Total	56 212	3 260	260	80	59 812

[1] This item refers to the low credit risk exposures of the State Treasury.

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%	10 643	22	-	-	10 665
0,45 - 0,90%	9 054	20	-	-	9 074
0,90 - 1,78%	7 092	10	-	-	7 102
1,78 - 3,55%	8 225	74	-	-	8 299
3,55 - 7,07%	4 510	164	-	-	4 674
7,07 - 14,07%	3 190	214	-	-	3 404
14,07 - 99,99%	650	52	-	-	702
100%	-	-	706	-	706
without internal rating [1]	8 868	1 117	-	-	9 985
Total	52 232	1 673	706	-	54 611

[1] This item refers to the low credit risk exposures of the State Treasury.

31,12,2018	Carrying amount, gross				
AMOUNTS DUE FROM BANKS	Stage 1	Stage 2	Stage 3	POCI	TOTAL
EXTERNAL RATINGS	7 649	-	-	-	7 649
AAA	985	-	-	-	985
AA	2 651	-	-	-	2 651
A	3 263	-	-	-	3 263
BBB	638	-	-	-	638
BB	10	-	-	-	10
B	101	-	-	-	101
CCC	1	-	-	-	1
INTERNAL RATINGS	13	-	-	-	13
0,06%	4				4
0,97%	9	-	-	-	9
TOTAL	7 662	-	-	-	7 662

(IN PLN MILLION)

31,12,2018	Carrying amount, gross				
DEBT SECURITIES	Stage 1	Stage 2	Stage 3	POCI	TOTAL
EXTERNAL RATINGS	50 619	-	-	-	50 619
AAA	207	-	-	-	207
AA	91	-	-	-	91
A	45 902	-	-	-	45 902
BBB	3 829	-	-	-	3 829
BB	73	-	-	-	73
B	517	-	-	-	517
CCC	-	-	-	-	-
INTERNAL RATINGS	9 489	447	3	471	10 410
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%	-	-	3	471	474
without internal rating	38	-			38
					-
TOTAL	60 146	447	3	471	61 067

01,01,2018	Carrying amount, gross				
AMOUNTS DUE FROM BANKS	Stage 1	Stage 2	Stage 3	POCI	TOTAL
EXTERNAL RATINGS	4 066	-	-	-	4 066
AAA	7	-	-	-	7
AA	1 030	-	-	-	1 030
A	2 340	-	-	-	2 340
BBB	585	-	-	-	585
BB	21	-	-	-	21
B	4	-	-	-	4
CCC	79	-	-	-	79
INTERNAL RATINGS	1 167	-	-	-	1 167
0,01%	60	-	-	-	60
0,02%	9	-	-	-	9
0,06%	1 014	-	-	-	1 014
0,2%	33	-	-	-	33
0,97%	51	-	-	-	51
TOTAL	5 233	-	-	-	5 233

01,01,2018	Carrying amount, gross				
DEBT SECURITIES	Stage 1	Stage 2	Stage 3	POCI	TOTAL
EXTERNAL RATINGS	44 809	-	-	-	44 809
AAA	130	-	-	-	130
A	40 199	-	-	-	40 199
BBB	3 445	-	-	-	3 445
BB	599	-	-	-	599
B	436	-	-	-	436
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%	-	-	-	473	473
without internal rating	13	-	-	-	13
TOTAL	52 959	-	-	473	53 432

(IN PLN MILLION)

Impaired exposures include balance sheet credit exposures that satisfy the premises of impairment, except for those for which the differences that were found during the measurement of impairment using the individualized method between the gross carrying amount (or the balance sheet equivalent of its off-balance sheet part) and the value of the expected cash flows cash are immaterial (do not exceed the level explained by the potential error of expert estimates).

INTERNAL RATINGS (DATA FOR 2017 ACCORDING TO IAS 39)

Taking into account the nature of the Group's operations and the volume of credit and lease receivables, the most important portfolios are the ones managed by the Bank and PKO Leasing SA.

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 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.

FINANCIAL ASSETS NOT IMPAIRED, NOT PAST DUE	31.12.2017
Loans and advances to customers	**196 406**
business loans	50 584
A (first rate)	875
B (very good)	5 616
C (good)	9 575
D (satisfactory)	9 236
E (average)	11 205
F (acceptable)	10 541
G (poor)	3 536
consumer and housing loans	119 712
A (first rate)	105 780
B (very good)	8 976
C (good)	3 054
D (average)	1 216
E (acceptable)	686
PKO Leasing SA Group	**4 851**
A (good)	3 281
B (average)	1 365
C (risky)	205
without an internal rating - customers from the financial, non-financial and public sectors (consumer loans, housing loans and other)	**21 259**
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	**201 553**

(IN PLN MILLION)

61. CONCENTRATION OF CREDIT RISK AT THE GROUP

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

- the largest entities;
- the largest groups;
- industry sectors;
- geographical regions;
- currencies;
- exposures secured with a mortgage.

CONCENTRATION BY THE LARGEST ENTITIES

The Polish Banking Law sets the limits of the maximum exposure of the Bank which are translated to the Group. The risk of concentration of exposures to individual customers and groups of related customers is monitored in accordance with 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 Group shall not assume an exposure to a customer or a group of related customers whose value exceeds 25% of the value of its eligible capital.

As at 31 December 2018 and 31 December 2017, concentration limits were not exceeded. As at 31 December 2018, the largest exposure to a single entity accounted for 7,6% of the recognized consolidated capital (8,6% as at 31 December 2017).

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

31.12.2018			31.12.2017		
No.	CREDIT EXPOSURES INCLUDE LOANS, ADVANCES, PURCHASED DEBT, DISCOUNTED BILLS OF EXCHANGE, REALIZED GUARANTEES, INTEREST RECEIVABLE AND OFF-BALANCE SHEET AND CAPITAL EXPOSURES[1]	SHARE IN THE LOAN PORTFOLIO, INCLUDING OFF-BALANCE SHEET AND CAPITAL EXPOSURES	No.	CREDIT EXPOSURES INCLUDE LOANS, ADVANCES, PURCHASED DEBT, DISCOUNTED BILLS OF EXCHANGE, REALIZED GUARANTEES, INTEREST RECEIVABLE AND OFF-BALANCE SHEET AND CAPITAL EXPOSURES*	SHARE IN THE LOAN PORTFOLIO, INCLUDING OFF-BALANCE SHEET AND CAPITAL EXPOSURES
1.	2 859	0.96%	1.	2 936	1.06%
2.	2 777	0.93%	2.	2 856	1.03%
3.	2 710	0.91%	3.	2 450	0.88%
4.	2 450	0.82%	4.	2 332	0.84%
5.	2 274	0.76%	5.	1 895	0.68%
6.	2 169	0.73%	6.	1 747	0.63%
7.	1 899	0.64%	7.	1 602	0.58%
8.	1 898	0.64%	8.	1 566	0.56%
9.	1 669	0.56%	9.	1 322	0.48%
10.	1 539	0.52%	10.	1 101	0.40%
11.	958	0.32%	11.	819	0.30%
12.	783	0.26%	12.	796	0.29%
13.	776	0.26%	13.	746	0.27%
14.	747	0.25%	14.	724	0.26%
15.	746	0.25%	15.	708	0.26%
16.	743	0.25%	16.	682	0.25%
17.	740	0.25%	17.	655	0.24%
18.	721	0.24%	18.	650	0.23%
19.	708	0.24%	19.	636	0.23%
20.	705	0.24%	20.	566	0.20%
Total	**29 871**	**10.03%**	**Total**	**26 789**	**9.66%**

[1] Off-balance sheet exposure includes the liability arising from derivative transactions in the amount equal to their balance sheet equivalent.

(IN PLN MILLION)

CONCENTRATION BY THE LARGEST GROUPS

The largest concentration of the PKO Bank Polski SA's Group to a group of related borrowers amounted to 1,24 of the Group's loan portfolio (1,13% as at 31 December 2017). Only the clients of PKO Bank Polski SA are included in the five largest group.

As at 31 December 2018, the largest concentration of the Group's exposures to the group amounted to 9,7% of the eligible capital (9,2% as at 31 December 2017).

The Group's exposure to the 5 largest capital groups:

31.12.2018			31.12.2017		
No.	CREDIT EXPOSURES INCLUDE LOANS, ADVANCES, PURCHASED DEBT, DISCOUNTED BILLS OF EXCHANGE, REALIZED GUARANTEES, INTEREST RECEIVABLE AND OFF-BALANCE SHEET AND CAPITAL EXPOSURES[1]	SHARE IN THE LOAN PORTFOLIO, INCLUDING OFF-BALANCE SHEET AND CAPITAL EXPOSURES	No.	CREDIT EXPOSURES INCLUDE LOANS, ADVANCES, PURCHASED DEBT, DISCOUNTED BILLS OF EXCHANGE, REALIZED GUARANTEES, INTEREST RECEIVABLE AND OFF-BALANCE SHEET AND CAPITAL EXPOSURES*	SHARE IN THE LOAN PORTFOLIO, INCLUDING OFF-BALANCE SHEET AND CAPITAL EXPOSURES
1.	3 683	1,24%	1.	3 122	1,13%
2.	3 160	1,06%	2.	3 064	1,11%
3.	2 863	0,96%	3.	2 336	0,84%
4.	2 446	0,82%	4.	2 169	0,78%
5.	2 280	0,77%	5.	1 989	0,72%
Total	**14 432**	**4,85%**	**Total**	**12 680**	**4,57%**

[1] Off-balance sheet exposure includes the liability arising from derivative transaction in the amount equal to their balance sheet equivalent.

CONCENTRATION BY INDUSTRY

An increase in the Group's exposure to business entities has been observed. Entities operating in the "Financial and insurance activities" industry prevail in the Group's structure by industry.

The structure of exposure to industry sectors as at 31 December 2018 and 31 December 2017 is shown in the table below:

SECTION	SECTION NAME	31.12.2018		31.12.2017	
		EXPOSURE	NUMBER OF ENTITIES	EXPOSURE	NUMBER OF ENTITIES
K	Financial and insurance activities	16.77%	2.07%	15.01%	2.07%
C	Industrial processing	15.92%	11.40%	14.76%	11.31%
L.	Real estate administration	10.48%	14.45%	10.61%	16.61%
G	Wholesale and retail trade, repair of motor vehicles	11.61%	23.00%	12.82%	23.33%
O	Public administration and national defence, obligatory social security	12.93%	0.26%	12.56%	0.32%
Other exposures		32.29%	48.82%	34.24%	46.36%
Total		**100.00%**	**100.00%**	**100.00%**	**100.00%**

CONCENTRATION BY GEOGRAPHICAL REGIONS

The Group's loan portfolio is diversified in terms of geographical concentration.

The structure of the loan portfolio by geographical regions is identified by the Group depending on the customer type – it is different for the Retail Market Area (ORD) and for the Corporate and Investment Banking Area (OKI).

In 2018, the largest concentration of the ORD loan portfolio was in the Warsaw region and Katowice region (these two regions account for around 27% of the total ORD portfolio) (26% as at 31 December 2017).

(IN PLN MILLION)

CONCENTRATION OF CREDIT RISK BY GEOGRAPHICAL REGION FOR RETAIL CUSTOMERS	31.12.2018	31.12.2017
Warsaw region	15.55%	15.09%
Katowice region	11.22%	10.98%
Poznań region	9.84%	9.85%
Kraków region	8.82%	8.94%
Łódź region	8.20%	8.36%
Wrocław region	9.62%	9.30%
Gdańsk region	8.36%	8.50%
Bydgoszcz region	6.96%	7.17%
Lublin region	6.80%	6.90%
Białystok region	6.42%	6.45%
Szczecin region	6.14%	6.11%
Head Office	0.55%	0.81%
other	0.56%	0.76%
foreign countries	0.96%	0.78%
Total	**100.00%**	**100.00%**

Both in 2018 and 2017, the largest concentration of the OKI loan portfolio was in the central macroregion which accounted for 44% of the OKI portfolio.

CONCENTRATION OF CREDIT RISK BY GEOGRAPHICAL REGION FOR CORPORATE CUSTOMERS	31.12.2018	31.12.2017
Head Office	1.34%	0.28%
central macroregion	43.71%	44.09%
northern macroregion	10.33%	10.69%
western macroregion	11.18%	10.99%
southern macroregion	9.51%	10.08%
south-eastern macroregion	10.25%	11.60%
north-eastern macroregion	5.08%	4.99%
south-western macroregion	7.72%	6.59%
other	0.00%	0.00%
foreign countries	0.88%	0.69%
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 whole of the Group's portfolio amounted to 19% and was the same as in 2017.

Exposures in CHF relating to the Bank's loan portfolio represent the largest part of the Group's currency exposure. The share of loans in CHF accounted for approx. 52% of the Group's loan portfolio as at the end of 2018, which represents a decrease of approx. 5 p.p. compared with the end of 2017. Loans in EUR are the second largest group of loans denominated in foreign currencies. As at the end of 2018, their share in the entire loan portfolio was 8%, and 42% in the foreign currency portfolio.

CONCENTRATION OF CREDIT RISK BY CURRENCY	31.12.2018	31.12.2017
PLN	81.06%	80.77%
Foreign currencies, of which:	18.94%	19.23%
CHF	9.80%	10.94%
EUR	7.99%	6.92%
USD	1.05%	0.88%
UAH	0.02%	0.39%
GBP	0.04%	0.04%
Total	**100.00%**	**100.00%**

(IN PLN MILLION)

OTHER TYPES OF CONCENTRATION

The Group analyses the structure of its housing loan portfolio by LTV levels. Both in 2018 and in 2017, the largest concentration was in the LTV range of 61%-80%.

LOAN PORTFOLIO STRUCTURE BY LTV	31.12.2018	31.12.2017
0% - 40%	20.72%	19.07%
41% -60%	26.03%	22.72%
61% - 80%	38.55%	33.80%
81% - 90%	10.25%	16.21%
91% - 100%	1.95%	4.02%
over 100%	2.50%	4.18%
Total	**100.00%**	**100.00%**

The average LTV of the portfolio of home loans amounted to 59.22% as at 31 December 2018 and 62.38% as at 31 December 2017.

62. 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 Group takes into account the collateral held for credit exposures when estimating the expected credit loss. With respect to individually significant exposures, that meet the conditions for impairment, future collateral recoveries are estimated individually and taken into account in determining the expected loss, with a weight corresponding to the assessment of the probability of implementation of the debt recovery scenario. The value of collateral recoveries estimated under the recovery scenario for impaired exposures at the balance sheet date was PLN 2 601 million (as at 31 December 2017 PLN 2 801 million).
The Group does not have any exposures for which, due to the value of the collateral, it has not recognized an allowance for expected credit loss.

63. FORBEARANCE PRACTICES

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

Forbearance changes in repayment terms may consist in:

- dividing the debt due into instalments;
- changing the repayment scheme (fixed payments, degressive payments),
- extending the loan period,
- changing interest rate,
- changing the margin,
- reducing the debt.

As a result of signing and repaying the amounts due under the forbearance agreement on a timely basis, a non-performing loan becomes performing.

The granting of forbearance concessions recognized as impairment triggers results in the recognition of a default event and the classification of the credit exposure in the non-performing portfolio.

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 6 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 Group 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)

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 amortized cost:	1 116	2	1 118	(79)	1 039	3 026	183	3 209	(1 205)	2 004	4 327	3 043
Loans	1 101	2	1 103	(79)	1 024	2 935	183	3 118	(1 193)	1 925	4 221	2 949
housing	556	-	556	(36)	520	689	-	689	(375)	314	1 245	834
business	462	2	464	(37)	427	2 050	180	2 230	(732)	1 498	2 694	1 925
consumer	83	-	83	(6)	77	196	3	199	(86)	113	282	190
Receivables from finance lease agreements	15	-	15	-	15	91	-	91	(12)	79	106	94
Total	**1 116**	**2**	**1 118**	**(79)**	**1 039**	**3 027**	**183**	**3 210**	**(1 205)**	**2 005**	**4 328**	**3 044**

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
consumer	-	-	-	-	-	1	-	1	-	1	1	1
												-
Measured at amortized cost:	1 532	3	1 535	(95)	1 440	2 560	201	2 761	(1 215)	1 546	4 296	2 986
Loans	1 504	3	1 507	(95)	1 412	2 398	201	2 599	(1 160)	1 439	4 106	2 851
housing	562	-	562	(32)	530	894	-	894	(431)	463	1 456	993
business	867	3	870	(57)	813	1 263	196	1 459	(619)	840	2 329	1 653
consumer	75	-	75	(6)	69	241	5	246	(110)	136	321	205
Receivables in respect of repurchase agreements	-	-	-	-	-	-	-	-	-	-	-	-
Finance lease receivables	28	-	28	-	28	162	-	162	(55)	107	190	135
Total	**1 532**	**3**	**1 535**	**(95)**	**1 440**	**2 561**	**201**	**2 762**	**(1 215)**	**1 547**	**4 297**	**2 987**

(IN PLN MILLION)

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	1 433	2	1 435	(54)	1 381	2 298	213	2 511	(968)	1 543	3 946	2 924
housing	544	-	544	(13)	531	872	11	883	(439)	444	1 427	975
business	819	2	821	(39)	782	1 211	187	1 398	(433)	965	2 219	1 747
consumer	70	-	70	(2)	68	215	15	230	(96)	134	300	202
Receivables from finance lease agreements	31	-	31	(3)	28	160	-	160	(58)	102	191	130
Total	1 464	2	1 466	(57)	1 409	2 458	213	2 671	(1 026)	1 645	4 137	3 054

LOANS AND ADVANCES TO CUSTOMERS SUBJECT TO FORBEARANCE, GROSS BY GEOGRAPHICAL REGION	31.12.2018	31.12.2017
Poland	4 289	4 085
mazowiecki	1 573	1 040
wielkopolski	279	346
śląsko-opolski	377	441
małopolsko-świętokrzyski	239	289
pomorski	411	269
podlaski	165	197
łódzki	263	321
dolnośląski	258	299
kujawsko-pomorski	354	386
zachodnio-pomorski	217	257
lubelsko-podkarpacki	144	230
warmińsko-mazurski	9	9
Ukraine	**39**	**52**
Total	**4 328**	**4 137**

(IN PLN MILLION)

The change in carrying amounts of loans and advances to customers subject to forbearance at the beginning and end of the period is 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	3 054	3 144
Changes due to IFRS 9 implementation	(67)	-
As at the beginning of the period (restated)	**2 987**	3 144
impairment allowance	26	(95)
Gross book value of loans and advances which ceased to meet the forbearance criteria during the period	(693)	(700)
New loans and advances recognized in the period, gross	1 469	1 380
Other changes/repayment	(750)	(662)
Foreign exchange differences	5	(13)
Carrying amount as at the end of the period, net	**3 044**	**3 054**

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	2 038	2 365
Change in the repayment scheme (fixed payments, degressive)	1 703	1 671
Extension of the loan period	2 013	1 700
Change in interest rate	727	772
Change in margin	705	896
Debt reduction	122	150
Other terms	401	72

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 period ended 31 December 2018 amounted to PLN 141 million (PLN 161 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	Total, gross	Impairment allowances	Total, net	Instruments with modified terms and conditions	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	Total, gross	Impairment allowances	Total, net	Instruments with modified terms and conditions	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	-	-	-	-	81	80
corporate bonds (in foreign currencies)	150	150	(2)	148	473	473	(15)	458	623	606
Total	368	368	(3)	365	473	473	(15)	458	841	823

(IN PLN MILLION)

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	Total, gross	Total, net	Instruments with modified terms and conditions	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

Change in carrying amounts of loans and advances to customers 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**	**1 029**
Changes due to IFRS 9 implementation	19	-
As at the beginning of the period (restated)	**823**	**1 029**
Impairment allowance (change during the period)	8	28
Other changes/repayment	(218)	(253)
Net carrying amount as at the end of the period	**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

(IN PLN MILLION)

64. 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[1]

Counterparty	Country	Rating	Interbank market - wholesale			Non-wholesale market		Total
			Deposit	Derivatives (market value, excluding collateral if positive)	Securities (nominal value)	Nominal amount of balance sheet exposure	Nominal amount of off-balance sheet exposure	
Counterparty 1	Switzerland	AAA	985	(1)	-	-	-	985
Counterparty 2	Finland	AA	600	(24)	-	13	100	713
Counterparty 3	Belgium	A	700	1	-	-	-	701
Counterparty 4	Austria	A	581	-	-	-	-	581
Counterparty 5	Norway	A	515	-	-	-	-	515
Counterparty 6	Switzerland	AA	493	-	-	-	-	493
Counterparty 7	Austria	BBB	467	-	-	-	-	467
Counterparty 8	Poland	A	-	1	400	-	-	401
Counterparty 9	Switzerland	AA	400	-	-	-	-	400
Counterparty 10	Switzerland	AA	376	-	-	-	-	376
Counterparty 11	China	A	280	-	-	-	-	280
Counterparty 12	Supranational institution	AAA	-	(1)	200	-	-	200
Counterparty 13	Ireland	AA	194	-	-	-	-	194
Counterparty 14	Switzerland	AA	146	-	-	-	-	146
Counterparty 15	Poland	A	-	-	-	140	-	140
Counterparty 16	Italy	BBB	99	-	-	-	-	99
Counterparty 17	UK	AA	-	97	-	-	-	97
Counterparty 18	USA	AA	-	71	-	-	10	81
Counterparty 19	Poland	BBB	-	51	28	-	-	79
Counterparty 20	Germany	BBB	-	76	-	-	-	76

[1] Excluding exposures to the State Treasury and the National Bank of Poland

CONCENTRATION OF CREDIT RISK – INTERBANK AND NON-WHOLSESALE MARKET – EXPOSURE AS AT 31.12.2017[1]

Counterparty	Country	Rating	Interbank market - wholesale			Non-wholesale market		Total
			Deposit	Derivatives (market value, excluding collateral if positive)	Securities (nominal value)	Nominal amount of balance sheet exposure	Nominal amount of off-balance sheet exposure	
Counterparty 3	Belgium	BBB	692	(6)	-	-	-	692
Counterparty 40	Germany	AA	592	-	-	-	-	592
Counterparty 66	Belgium	A	480	-	-	-	-	480
Counterparty 8	Poland	A	-	-	400	-	-	400
Counterparty 7	Austria	BBB	396	-	-	-	-	396
Counterparty 11	China	A	332	-	-	-	-	332
Counterparty 2	Sweden	AA	190	84	-	27	25	326
Counterparty 12	Supranational institution	AAA	170	16	130	-	-	316
Counterparty 4	Austria	A	209	-	-	-	-	209
Counterparty 22	France	A	-	171	-	-	-	171
Counterparty 18	USA	AA	-	103	-	-	60	163
Counterparty 15	Poland	A	-	-	-	150	-	150
Counterparty 17	UK	AA	-	120	-	-	-	120
Counterparty 67	USA	A	115	-	-	-	-	115
Counterparty 21	France	A	-	88	-	-	-	88
Counterparty 19	Poland	BBB	10	44	-	-	-	54
Counterparty 25	Denmark	A	50	(3)	-	-	-	50
Counterparty 64	Poland	B				50	-	50
Counterparty 26	Poland	A	-	47	-	-	-	47
Counterparty 68	Poland	NONE				44	-	44

[1] Excluding exposures to the State Treasury and the National Bank of Poland

(IN PLN MILLION)

As at 31 December 2018 and 31 December 2017, the Group 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.

65. 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 amortized cost						
Gross loans	166 902	24 015	12 807	1 995	1 253	206 972
housing	88 157	23 265	3 155	58	146	114 781
business	52 193	505	9 628	1 935	649	64 910
consumer	26 552	245	24	2	458	27 281
Receivables in respect of repurchase agreements	51	-	-	-	-	51
Finance lease receivables	11 039	22	3 607	256	62	14 986
Allowances for expected credit losses	(6 724)	(826)	(372)	(139)	(143)	(8 204)
Measured at amortized cost, net	171 268	23 211	16 042	2 112	1 172	213 805
Total	172 374	23 211	16 042	2 112	1 172	214 911

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
business	182	-	-	-	-	182
consumer	851	-	-	-	-	851
Not held for trading, measured at fair value through profit or loss	1 070	-	-	-	-	1 070
Measured at amortized cost						
Gross loans	158 718	25 047	9 718	1 472	1 027	195 982
housing	81 168	24 115	3 366	87	102	108 838
business	52 578	621	6 324	1 380	581	61 484
consumer	24 972	311	28	5	344	25 660
Receivables in respect of repurchase agreements	902	-	-	-	-	902
Finance lease receivables	9 509	31	3 339	257	27	13 163
Allowances for expected credit losses	(8 671)	(1 205)	(399)	(232)	(146)	(10 653)
Measured at amortized cost, net	160 458	23 873	12 658	1 497	908	199 394
Total	161 528	23 873	12 658	1 497	908	200 464

(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	158 151	24 786	9 524	1 412	1 063	194 936
housing	80 712	23 909	3 353	83	106	108 163
business	51 826	589	6 145	1 324	613	60 497
consumer	25 613	288	26	5	344	26 276
Debt securities (corporate)	1 734	-	125	-	-	1 859
Debt securities (municipal)	2 519	-	-	-	-	2 519
Receivables in respect of repurchase agreements	902	-	-	-	-	902
Finance lease receivables	9 377	24	3 485	323	27	13 236
						-
Impairment allowances	(6 288)	(896)	(291)	(198)	(150)	(7 823)
Total	**166 395**	**23 914**	**12 843**	**1 537**	**940**	**205 629**

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**	**324**	**23 712**	**24 037**
assets with no significant increase in credit risk since initial recognition (stage 1)	-	118	20 892	21 010
assets with a significant increase in credit risk since initial recognition, but not credit-impaired (stage 2)	1	111	1 872	1 984
credit-impaired assets (Stage 3)	-	95	948	1 043
Allowances for expected credit losses	**-**	**(59)**	**(767)**	**(826)**
allowances 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)	-	(46)	(625)	(671)
Measured at amortized cost, net	**1**	**265**	**22 945**	**23 211**
of which: purchased or originated credit-impaired assets (POCI)	-	-	55	55
Total	**1**	**265**	**22 945**	**23 211**

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**	**418**	**24 658**	**25 078**
assets with no significant increase in credit risk since initial recognition (stage 1)	-	141	21 659	21 800
assets with a significant increase in credit risk since initial recognition, but not credit-impaired (stage 2)	2	145	1 572	1 719
credit-impaired assets (Stage 3)	-	132	1 427	1 559
Allowances for expected credit losses	**-**	**(99)**	**(1 106)**	**(1 205)**
allowances for assets with no significant increase in credit risk since initial recognition (stage 1)	-	(2)	(13)	(15)
allowances for assets with a significant increase in credit risk since initial recognition, but not credit-impaired (stage 2)	-	(18)	(95)	(113)
allowances for credit-impaired assets (stage 3)	-	(79)	(998)	(1 077)
Measured at amortized cost, net	**2**	**319**	**23 552**	**23 873**
of which: purchased or originated credit-impaired assets (POCI)	-	-	60	60
Total	**2**	**319**	**23 552**	**23 873**

(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 amortized cost:						
Gross amount	177 992	24 037	16 414	2 251	1 315	222 009
assets with no significant increase in credit risk since initial recognition (stage 1)	156 636	21 010	13 749	1 831	1 165	194 391
assets with a significant increase in credit risk since initial recognition, but not credit-impaired (stage 2)	12 086	1 984	1 809	279	10	16 168
credit-impaired assets (Stage 3)	9 270	1 043	856	141	140	11 450
Allowances for expected credit losses	(6 724)	(826)	(372)	(139)	(143)	(8 204)
allowances for assets with no significant increase in credit risk since initial recognition (stage 1)	(451)	(13)	(78)	(3)	(21)	(566)
allowances for assets with a significant increase in credit risk since initial recognition, but not credit-impaired (stage 2)	(1 024)	(142)	(72)	(7)	(4)	(1 249)
allowances for credit-impaired assets (stage 3)	(5 249)	(671)	(222)	(129)	(118)	(6 389)
Measured at amortized cost, net	171 268	23 211	16 042	2 112	1 172	213 805
of which: purchased or originated credit-impaired assets (POCI)	409	55	78	-	1	543
Total	172 374	23 211	16 042	2 112	1 172	214 911

LOANS AND ADVANCES TO CUSTOMERS (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 amortized cost:						
Gross amount	169 129	25 078	13 057	1 729	1 054	210 047
assets with no significant increase in credit risk since initial recognition (stage 1)	146 582	21 800	10 121	1 147	911	180 561
assets with a significant increase in credit risk since initial recognition, but not credit-impaired (stage 2)	10 696	1 719	2 031	380	4	14 830
credit-impaired assets (Stage 3)	11 851	1 559	905	202	139	14 656
Allowances for expected credit losses	(8 671)	(1 205)	(399)	(232)	(146)	(10 653)
allowances for assets with no significant increase in credit risk since initial recognition (stage 1)	(397)	(15)	(51)	(4)	(23)	(490)
allowances for assets with a significant increase in credit risk since initial recognition, but not credit-impaired (stage 2)	(820)	(113)	(86)	(58)	(1)	(1 078)
allowances for credit-impaired assets (stage 3)	(7 454)	(1 077)	(262)	(170)	(122)	(9 085)
Measured at amortized cost, net	160 458	23 873	12 658	1 497	908	199 394
of which: purchased or originated credit-impaired assets (POCI)	148	60	37	3	-	248
Total	161 528	23 873	12 658	1 497	908	200 464

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

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

HOUSING LOANS TO HOUSEHOLDS BY CURRENCY	31.12.2018			31.12.2017		
	gross	allowances	net	gross	allowances	net
PLN	86 024	(1 060)	84 964	74 369	(916)	73 453
CHF	23 263	(683)	22 580	23 895	(754)	23 141
EUR	3 155	(53)	3 102	3 359	(54)	3 305
USD	58	(6)	52	268	(171)	97
OTHER	146	(19)	127	111	(22)	89
TOTAL	112 646	(1 821)	110 825	102 002	(1 917)	100 085

(IN PLN MILLION)

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

LOANS AND ADVANCES TO CUSTOMERS SUBJECT TO FORBEARANCE BY CURRENCY	01.01.2018					
	PLN	CHF	EUR	USD	Other	Total
Performing exposures subject to forbearance	955	317	168	-	-	1 440
Not held for trading, mandatorily measured at fair value through profit or loss	-	-	-	-	-	-
Measured at amortized cost:	955	317	168	-	-	1 440
gross amount	1 030	330	175	-	-	1 535
allowances for expected credit losses	(75)	(13)	(7)	-	-	(95)
Non-performing exposures subject to forbearance	1 008	305	222	3	9	1 547
Not held for trading, measured at fair value through profit or loss	1	-	-	-	-	1
Measured at amortized cost:	1 007	305	222	3	9	1 546
gross amount	1 941	540	249	6	25	2 761
allowances for expected credit losses	(934)	(235)	(27)	(3)	(16)	(1 215)
Loans and advances to customers subject to forbearance, net	1 963	622	390	3	9	2 987

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			
	Financial institutions	Corporates	Households	Total
Assessed on an individual basis, of which:	-	113	102	215
impaired	-	104	90	194
Assessed on a portfolio basis, impaired	-	17	1 041	1 058
Assessed on a group basis (IBNR)	2	270	23 277	23 549
Loans and advances to customers, gross	2	400	24 420	24 822
Impairment allowances on exposures assessed on an individual basis, of which:	-	(51)	(42)	(93)
impaired	-	(51)	(42)	(93)
Impairment allowances on exposures assessed on a portfolio basis	-	(14)	(749)	(763)
Impairment allowances on exposures assessed on a group basis (IBNR)	-	(3)	(49)	(52)
Total impairment allowances	-	(68)	(840)	(908)
Loans and advances to customers, net	2	332	23 580	23 914

LOANS AND ADVANCES TO CUSTOMERS SUBJECT TO FORBEARANCE BY CURRENCY	31.12.2017					
	PLN	CHF	EUR	USD	Other	Total
Performing exposures subject to forbearance	911	325	173	-	-	1 409
Measured at amortized cost:	911	325	173	-	-	1 409
gross amount	960	332	174	-	-	1 466
Impairment allowances	(49)	(7)	(1)	-	-	(57)
Non-performing exposures subject to forbearance	1 177	260	194	6	8	1 645
Measured at amortized cost:	1 177	260	194	6	8	1 645
gross amount	1 837	532	250	27	25	2 671
Impairment allowances	(660)	(272)	(56)	(21)	(17)	(1 026)
Loans and advances to customers subject to forbearance, net	2 088	585	367	6	8	3 054

LOANS AND ADVANCES TO CUSTOMERS ASSESSED ON A GROUP BASIS (IBNR)	31.12.2017					
	PLN	CHF	EUR	USD	Other	Total
Loans and advances to customers, gross	162 281	23 549	12 375	1 538	935	200 678
past due	3 715	512	764	8	58	5 057
not past due	158 566	23 037	11 611	1 530	877	195 621
Impairment allowances on exposures assessed on a group basis (IBNR)	(518)	(52)	(63)	(60)	(27)	(720)
past due	(138)	(27)	(10)	-	(1)	(176)
not past due	(380)	(25)	(53)	(60)	(26)	(544)
Loans and advances to customers, net	161 763	23 497	12 312	1 478	908	199 958

(IN PLN MILLION)

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)	1 055	397	181	25	26	1 684
Impairment allowances on exposures assessed on a group basis (IBNR) subject to	(57)	(14)	(2)	(2)	(1)	(76)
Loans and advances to customers subject to forbearance, net	**998**	**383**	**179**	**23**	**25**	**1 608**

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 59,22% (62,38% as at 31 December 2017).

66. 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 Group's balance sheet and off-balance sheet items sensitive to interest rate fluctuations, as a result of changes in the market interest rates.

Management objective

To reduce the potential losses resulting from market interest rate fluctuations to an acceptable level by properly shaping the structure of balance sheet and off-balance sheet items.

Risk identification and measurement

The Group uses the following measures of interest rate risk: interest income sensitivity, economic value sensitivity, value at risk (VaR), stress tests and repricing gaps.

Control

Control over interest rate risk consists in determining the interest rate risk limits and thresholds tailored to the scale and complexity of the Group's operations, in particular the strategic limit of tolerance to interest rate risk.

Risk forecasting and monitoring

The following measures are monitored by the Group 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 actions

The main tools for interest rate risk management used by the Group are: interest rate risk management procedures, interest rate risk limits and thresholds.

The Group established limits and thresholds for interest rate risk comprising, among other things, of 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
The Group - Periodic gap	35 437	34 318	(7 192)	(5 271)	(2 920)	(27 607)	4 954	31 719
The Group - Cumulative gap	35 437	69 755	62 563	57 292	54 372	26 765	31 719	-
PLN (in PLN million)								31.12.2017
The Group - Periodic gap	53 418	37 380	(12 316)	(14 757)	(14 560)	(27 570)	4 247	25 842
The Group - Cumulative gap	53 418	90 798	78 482	63 725	49 165	21 595	25 842	-

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
The Group - Periodic gap	1 158	(780)	(168)	(235)	(104)	(98)	1	(226)
The Group - Cumulative gap	1 158	378	210	(25)	(129)	(227)	(226)	-
USD (in USD million)								31.12.2017
The Group - Periodic gap	841	(347)	(445)	(84)	12	(109)	1	(131)
The Group - Cumulative gap	841	494	49	(35)	(23)	(132)	(131)	-

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
The Group - Periodic gap	2 181	(1 664)	(86)	(251)	(228)	(70)	(17)	(135)
The Group - Cumulative gap	2 181	517	431	180	(48)	(118)	(135)	-
EUR (in EUR million)								31.12.2017
The Group - Periodic gap	3 866	(1 794)	(803)	(548)	(888)	141	18	(8)
The Group - Cumulative gap	3 866	2 072	1 269	721	(167)	(26)	(8)	-

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
The Group - Periodic gap	(730)	1 092	78	(15)	(3)	(124)	-	298
The Group - Cumulative gap	(730)	362	440	425	422	298	298	-
CHF (in CHF million)								31.12.2017
The Group - Periodic gap	289	866	75	(83)	(216)	(2)	(590)	339
The Group - Cumulative gap	289	1 155	1 230	1 147	931	929	339	-

As at the end of 2018 and 2017, the Group 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 (in PLN million)	up to 1 year	1-5 years	>5 years	Total
31.12.2018	26 076	15 320	4 185	45 581
31.12.2017	25 574	10 831	4 206	40 611

SENSITIVITY MEASURES

The PKO Bank Polski SA Group's exposure to interest rate risk remained within the adopted limits as at 31 December 2018 and 31 December 2017. The Group was mainly exposed to PLN interest rate risk. Among all the stress tests performed by the Group which involve a parallel shift of interest rate curves, the most unfavourable for the Group was the scenario of a parallel shift of interest rate curves in PLN.

Interest rate risk generated by the Group companies did not materially affect the interest rate risk of the entire Group and therefore did not change its risk profile significantly.

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

SENSITIVITY MEASURE	31.12.2018	31.12.2017
VaR for a 10-day time horizon at a confidence level of 99% (in PLN million)[1]	241	301
Parallel shift of interest rate curves by 200 b.p. (in PLN million) (stress-test)[2]	1 611	2 150

[1] Taking into account the nature of the operation of the other Group companies which generate material interest rate risk and the specific characteristics of the market in which they operate, the Group does not determine the consolidated VaR sensitivity measure. Such companies use their own risk measures to manage their interest rate risk. KREDOBANK SA applies the 10-day VaR for interest rates in the main currencies; as at 31 December 2018 it amounted to approx. PLN 12 million and as at 31 December 2017, to approx. PLN 10 million.

[2] 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.

67. CURRENCY RISK MANAGEMENT

Currency risk management
Financial information:
- Sensitivity measures
- Foreign currency position
- Currency structure

CURRENCY RISK MANAGEMENT

DEFINITION

Currency 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 Group uses the following measures of the currency risk: value-at-risk (VaR) and stress tests.

CONTROL

Control over currency risk consists in determining currency risk limits and thresholds tailored to the scale and complexity of the Group's operations, in particular the strategic limit of tolerance to currency risk.

RISK FORECASTING AND MONITORING

The following measures are monitored by the Group on a regular basis:

- the level of currency risk measures,
- utilization of the strategic limit of tolerance to currency risk,
- utilization of internal limits and thresholds of currency risk.

REPORTING

Reports on currency risk are prepared on a daily, weekly, monthly and quarterly basis.

MANAGEMENT ACTIONS

The main tools for currency risk management used by the Group are:

- currency risk management procedures,
- currency risk limits and thresholds,
- defining allowable types of foreign currency transactions and the exchange rates used in such transactions.

The Group has set limits and thresholds for currency risk for among other things: currency positions, Value at Risk calculated for a 10-day time horizon and 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 currency risk, 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)[1]	4	3
Change in CUR/PLN by 20% (in PLN million) (stress-test)[2]	256	48

[1] Taking into account the nature of the operation of the other Group companies which generate material currency risk and the specific characteristics of the market in which they operate, the Group does not determine the consolidated VaR sensitivity measure. Such companies use their own risk measures to manage their interest rate risk. KREDOBANK SA applies the 10-day VaR which amounted to PLN 0,2 million as at 31 December 2018 and to PLN 0,1 million as at 31 December 2017.

[2] The table presents the value of the most adverse stress-test scenario: PLN appreciation by 20% and PLN depreciation by 20%.

FOREIGN CURRENCY POSITION

The Group's foreign currency positions are presented in the table below:

FOREIGN CURRENCY POSITION	31.12.2018	31.12.2017
EUR	(127)	(157)
USD	(49)	(28)
CHF	(34)	8
GBP	57	11
Other (Global, Net)	38	61

Currency positions (in addition to volatility of foreign exchange rates) are a key factor determining the level of currency risk to which the Group is exposed. The foreign currency positions is determined by all foreign currency transactions concluded, both in the statement of financial position and off-balance sheet transactions. The Group's exposure to currency risk is low.

(IN PLN MILLION)

CURRENCY STRUCTURE OF FINANCIAL ASSETS AND LIABILITIES

CURRENCY STRUCTURE 31.12.2018	PLN	Foreign currencies translated into PLN				Total
		CHF	EUR	USD	Other	
Cash and balances with the Central Bank	21 663	68	726	166	302	22 925
Amounts due from banks	1 664	7	2 870	2 208	912	7 661
- measured at amortized cost	1 664	7	2 870	2 208	912	7 661
Hedging derivatives	649	7	2	-	-	658
Other derivative instruments	1 715	-	144	48	-	1 907
Securities	62 796	-	684	561	73	64 114
- held for trading	230	-	5	-	-	235
- not held for trading, mandatorily measured at fair value through profit or loss	2 448	-	188	212	-	2 848
- at fair value through OCI	52 113	-	63	309	73	52 558
- measured at amortized cost	8 005	-	428	40	-	8 473
Loans and advances to customers	172 374	23 211	16 043	2 112	1 172	214 912
- not held for trading, mandatorily measured at fair value through profit or loss	1 106	-	-	-	-	1 106
- measured at amortized cost	171 268	23 211	16 043	2 112	1 172	213 806
Other financial assets	2 729	-	66	14	16	2 825
Total financial assets	**263 590**	**23 293**	**36 512**	**7 207**	**2 475**	**315 002**
Amounts due to the Central Bank	7	-	-	-	-	7
Amounts due to banks	1 129	7	588	263	14	2 001
- measured at amortized cost	1 129	7	588	263	14	2 001
Hedging derivatives	464	-	7	-	-	471
Other derivative instruments	2 458	-	163	33	1	2 655
Amounts due to customers	215 720	1 919	15 127	7 262	2 788	242 816
- measured at amortized cost	215 720	1 919	15 127	7 262	2 788	242 816
Liabilities in respect of insurance activities	1 292	-	-	-	-	1 292
Debt securities in issue	8 644	1 527	14 603	3 812	41	28 627
- measured at amortized cost	8 644	1 527	14 603	3 812	41	28 627
Subordinated liabilities	2 731	-	-	-	-	2 731
Other financial liabilities	1 906	13	337	65	43	2 364
Provisions for financial liabilities and guarantees granted	169	2	54	1	1	227
Total financial liabilities	**234 520**	**3 468**	**30 879**	**11 436**	**2 888**	**283 191**
Financing and guarantee liabilities granted	50 798	150	5 804	2 601	459	59 812

CURRENCY STRUCTURE 31.12.2017	PLN	Foreign currencies translated into PLN				Total
		CHF	EUR	USD	Other	
Cash and balances with the Central Bank	16 491	78	733	191	317	17 810
Amounts due from banks	1 020	16	2 282	957	958	5 233
Hedging derivatives	886	-	1	-	-	887
Other derivative instruments	1 556	2	116	37	-	1 711
Securities	51 457	893	1 008	557	160	54 075
- held for trading	292		137	2	-	431
- financial instruments designated at fair value through profit or loss upon initial recognition	6 920	893	274	-	70	8 157
- available-for-sale investment securities	42 582	-	595	408	90	43 675
- investment securities held to maturity	1 663	-	2	147	-	1 812
Loans and advances to customers - at amortised cost	166 395	23 914	12 842	1 537	940	205 628
Other financial assets	2 242	-	99	21	15	2 377
Total financial assets	**240 047**	**24 903**	**17 081**	**3 300**	**2 390**	**287 721**
Amounts due to the Central Bank	6	-	-	-	-	6
Amounts due to banks	817	1 104	2 488	90	59	4 558
Hedging derivatives	172	3	29	-	-	204
Other derivative instruments	2 321	(1)	156	60	-	2 536
Amounts due to customers	192 457	1 872	16 005	7 583	3 000	220 917
Liabilities in respect of insurance activities	882	-	-	-	-	882
Debt securities in issue	6 905	1 427	12 070	3 530	-	23 932
- measured at amortized cost	6 905	1 427	12 070	3 530	-	23 932
Subordinated liabilities	1 720	-	-	-	-	1 720
Other financial liabilities	3 599	1	396	99	34	4 129
Provisions for financial liabilities and guarantees granted	63	1	20	2	-	86
Total financial liabilities	**208 942**	**4 407**	**31 164**	**11 364**	**3 093**	**258 970**
Financing and guarantee liabilities granted	47 475	157	4 386	1 922	671	54 611

68. LIQUIDITY RISK MANAGEMENT

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. The lack of liquidity may be due to the inappropriate structure of assets and liabilities, including off-balance sheet, a mismatch of cash flows, customers' failing to settle their liabilities, a sudden withdrawal of funds by the customers or other market events.

The Group 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 loss of access to new sources of financing.

MANAGEMENT OBJECTIVE

To ensure the necessary level of funds needed to settle current and future liabilities (also potential ones) as they become due, taking into account the nature of the activities conducted and the needs which may arise due to changes in the market environment, by appropriately shaping the structure of the assets, liabilities, including off-balance sheet liabilities.

RISK IDENTIFICATION AND MEASUREMENT

The Group 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.

CONTROL

Control over the liquidity risk consists in determining liquidity risk limits and thresholds tailored to the scale and complexity of the Group's operations, in particular the strategic limit of tolerance to liquidity risk.

FORECASTING AND MONITORING

The following measures are monitored by the Group on a regular basis:

- 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 for the early detection of unfavourable occurrences which may have a negative impact on the Group's or the financial sector's liquidity position (when exceeded, early warning indicators trigger liquidity contingency plans).

(IN PLN MILLION)

The Group 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 Group's statement of financial position and in selected stress test scenarios.

REPORTING

Liquidity reports are prepared 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 Group are:

- procedures for liquidity risk management, in particular contingency plans,
- limits and thresholds to mitigate short-term, medium-term and long-term liquidity risk,
- national and European supervisory liquidity standards,
- deposit, investment and securities transactions and well as derivatives, including structural currency transactions and transactions for the sale or purchase of securities,
- transactions ensuring long-term financing of the lending activities.

The Group'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.

FINANCIAL INFORMATION

LIQUIDITY GAP

The liquidity gaps presented below represent the sum of adjusted liquidity gaps of the Bank (adjustments relate to, among other things, the Bank's core deposits from non-financial entities and their maturities, core overdrafts of non-financial entities and their maturities, and liquid securities and their maturities), PKO Bank Hipoteczny, PKO Leasing SA, KREDOBANK SA and PKO Życie Towarzystwo Ubezpieczeń SA, and the contractual liquidity gaps of the other Group companies.

	on demand	0-1 month	1-3 months	3-6 months	6-12 months	12-24 months	24-60 months	over 60 months
31.12.2018								
The Group - adjusted periodic gap in real terms	23 068	32 000	(2 665)	46	11 732	13 006	14 745	(91 932)
The Group - adjusted cumulative periodic gap in real terms	23 068	55 068	52 403	52 449	64 181	77 187	91 932	-
31.12.2017								
The Group - adjusted periodic gap in real terms	16 011	27 220	(871)	(177)	6 091	10 150	30 400	(88 824)
The Group - adjusted cumulative periodic gap in real terms	16 011	43 231	42 360	42 183	48 274	58 424	88 824	-

In all time horizons, the adjusted cumulative liquidity gap of the Group, determined as the sum of the adjusted liquidity gaps of the Bank, PKO Bank Hipoteczny, PKO Leasing SA, KREDOBANK and PKO Życie Towarzystwo Ubezpieczeń SA and the contractual liquidity gaps of the other Group companies, was positive both as at 31 December 2018 and 31 December 2017. This means that the Group has a surplus of the assets receivable over the liabilities payable.

LIQUIDITY SURPLUS

SENSITIVITY MEASURE	31.12.2018	31.12.2017
Liquidity surplus of Bank in the horizon of up to 30 days (in PLN billion)[1]	21	14

[1] Liquidity surplus of Bank – 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	117.7%	113.9%
LCR - liquidity coverage ratio	132.0%	156.0%

In the periods ended 31 December 2018 and 31 December 2017, liquidity measures remained above their respective supervisory limits. The LCR and NSFR ratios in the table refer to the Group, while the M3–M4 indicators refer to the Bank

CORE DEPOSIT BASE

As at 31 December 2018, the core deposit base constituted approx. 93,9% of all deposits placed with the Bank (excluding the interbank market), which represents a decrease of approx. 0,3 p.p. compared with the end of 2017.

STRUCTURE OF THE SOURCES OF FINANCING

	31.12.2018	31.12.2017
Total deposits (excluding interbank market)	75.76%	76.80%
Interbank market deposits	0.63%	0.70%
Equity	12.05%	12.30%
Market financing	11.56%	10.20%
Total	**100.00%**	**100.00%**

CONTRACTUAL CASH FLOWS FROM THE GROUP'S LIABILITIES, EXCLUDING DERIVATIVE FINANCIAL INSTRUMENTS

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 Group has a liability is able to select the settlement deadline, it has been assumed that the earliest date on which the Group is obliged to settle the liability will be taken into account. Where the Group is obliged to settle the liabilities in instalments, each instalment is allocated to the earliest period in which the Group 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.

(IN PLN MILLION)

Contractual flows of the Group's liabilities as at 31 December 2018 and as at 31 December 2017 by maturity.

GROUP'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	1 722	67	152	103	-	2 043	2 001
- measured at amortized cost	1 722	67	152	103	-	2 043	**2 001**
Amounts due to customers	182 651	21 468	27 168	11 568	8 041	250 895	**242 816**
- measured at amortized cost	182 651	21 468	27 168	11 568	8 041	250 895	**242 816**
Liabilities in respect of insurance activities	110	51	225	1 009	1 711	3 107	**1 292**
Debt securities in issue	722	610	3 278	12 768	5 992	23 370	**28 627**
Subordinated liabilities	-	62	62	542	3 362	4 028	**2 731**
Other financial liabilities	3 102	17	163	195	208	3 685	**3 685**
Off-balance sheet liabilities:							
financing, granted	12 976	3 908	13 408	13 326	9 058	52 676	-
guarantees, granted	290	898	4 827	6 566	2 092	14 673	-

GROUP'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	1 703	6	176	2 656	-	4 541	**4 558**
- measured at amortized cost	1 703	6	176	2 656	-	4 541	**4 558**
Amounts due to customers	158 505	16 759	30 107	8 308	7 808	221 487	**220 917**
- measured at amortized cost	158 505	16 759	30 107	8 308	7 808	221 487	**220 917**
Liabilities in respect of insurance activities	89	32	140	823	1 943	3 028	**882**
Debt securities in issue	122	205	1 235	11 761	-	13 324	**23 932**
Subordinated liabilities	9	32	68	289	2 080	2 478	**1 720**
Other financial liabilities	4 336	15	347	179	185	5 062	**5 062**
Off-balance sheet liabilities:							
financing, granted	8 672	2 696	13 365	15 004	7 798	47 535	-
guarantees, granted	752	555	3 234	8 010	2 191	14 742	-

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 Group 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).

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.

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)	6	235	(1 104)	(276)	(1 153)
- other derivatives (options, FRA, NDF)	(455)	(1 393)	(2 876)	(2 062)	(0)	(6 788)

(IN PLN MILLION)

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)	(0)	(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
Derivative financial instruments:						
- outflows	(8 014)	(2 683)	(4 183)	(3 396)	(1 158)	(19 434)
- inflows	17 051	2 761	6 213	8 088	2 813	36 924

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:						
- outflows	(7 347)	(2 196)	(4 812)	(2 946)	(238)	(17 539)
- inflows	7 238	2 072	5 008	6 745	250	21 313

SHORT-TERM AND LONG-TERM ASSETS AND LIABILITIES

The Group classifies an asset as short-term 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, 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 long-term.

The Group classifies a liability as short-term when:

- it expect 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
- the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period.

(IN PLN MILLION)

All other liabilities are classified as non-current.

FINANCIAL ASSETS 31.12.2018	Current	Non-current	Allowances for expected credit losses/ Impairment allowances	Total carrying amount
Cash and balances with the Central Bank	22 925	-		22 925
Amounts due from banks	7 650	12	(1)	7 661
- measured at amortized cost	7 650	12	(1)	7 661
Hedging derivatives	43	615		658
Other derivative instruments	700	1 207		1 907
Securities	11 106	53 044	(36)	64 114
- held for trading	235	-		235
- not held for trading, mandatorily measured at fair value through profit or loss	2 009	839		2 848
- measured at fair value through OCI	7 946	44 622	(10)	52 558
- measured at amortized cost	916	7 583	(26)	8 473
Loans and advances to customers	43 785	179 331	(8 204)	214 912
- not held for trading, mandatorily measured at fair value through profit or loss	396	710		1 106
- measured at amortized cost	43 389	178 621	(8 204)	213 806
Other financial assets	2 498	424	(97)	2 825
Total financial assets	**88 707**	**234 633**	**(8 338)**	**315 002**

FINANCIAL LIABILITIES 31.12.2018	Current	Non-current	Total carrying amount
Amounts due to the Central Bank	7	-	7
Amounts due to banks	1 901	100	2 001
- measured at amortized cost	1 901	100	2 001
Hedging derivatives	123	348	471
Other derivative instruments	1 333	1 322	2 655
Amounts due to customers	227 806	15 010	242 816
- measured at amortized cost	227 806	15 010	242 816
Liabilities in respect of insurance activities	-	1 292	1 292
Debt securities in issue	6 472	22 155	28 627
- measured at amortized cost	6 472	22 155	28 627
Subordinated liabilities	-	2 731	2 731
Other financial liabilities	2 352	12	2 364
Provisions for financial liabilities and guarantees granted	177	50	227
Total financial liabilities	**240 171**	**43 020**	**283 191**

FINANCIAL ASSETS 31.12.2017	Current	Non-current	Impairment write-downs	Total carrying amount
Cash and balances with the Central Bank	17 810	-		17 810
Amounts due from banks	4 874	359	-	5 233
Hedging derivatives	46	841		887
Other derivative instruments	695	1 016		1 711
Securities	12 587	41 814	(326)	54 075
- held for trading	431	-		431
- financial instruments designated at fair value through profit or loss upon initial recognition	7 000	1 157		8 157
- available-for-sale investment securities	5 006	38 995	(326)	43 675
- investment securities held to maturity	150	1 662	-	1 812
Loans and advances to customers	46 848	166 603	(7 823)	205 628
Other financial assets	2 322	155	(100)	2 377
Total financial assets	**85 182**	**210 788**	**(8 249)**	**287 721**

(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	2 744	1 814	4 558
Hedging derivatives	2	202	204
Other derivative instruments	1 462	1 074	2 536
Amounts due to customers	203 823	17 094	220 917
Liabilities in respect of insurance activities	268	614	882
Debt securities in issue	4 067	19 865	23 932
- measured at amortized cost	4 067	19 865	23 932
Subordinated liabilities	-	1 720	1 720
Other financial liabilities	4 119	10	4 129
Provisions for financial liabilities and guarantees granted	61	25	86
			-
Total financial liabilities	**216 552**	**42 418**	**258 970**

69. 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.

MANAGEMENT OBJECTIVE

The objective of operational risk management is to enhance the safety of the operational activities conducted by the Group 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.

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 on KRI 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 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 and the Group companies covered by prudential consolidation):
- stress-tests;
- calculating the Group's internal capital.

CONTROL

Control of operational risk includes setting up risk controls tailored to the scale and complexity of the Bank's and Group's activities, in the form of limits on operational risk, in particular the strategic limits of tolerance to operational risk, loss limits, key risk indicators, with thresholds and critical values.

RISK FORECASTING AND MONITORING

The following measures are monitored by the Group on a regular basis:

- utilization of the strategic tolerance limits for the Group 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, and in accordance with the BIA approach in the case of Group companies included in prudential consolidation,
- the results of stress tests and backtesting,
- Key Risk Indicators (KRI) in relation to threshold and critical values,
- the risk level for the Bank and the Group, areas and tools of and for the operational risk management at the Bank such as self-assessment, key risk indicators and 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.

In 2018, the following entities had a decisive impact on the operational risk profile of the Group: PKO Bank Polski, and the PKO Leasing SA Group.

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 in monthly and quarterly cycles. 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 individual recipients of 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 occurrence of a risk factor..

70. OTHER RISKS

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.
MANAGEMENT OBJECTIVE	Maintaining, on an acceptable level, the potential negative financial consequences resulting from adverse changes in the business environment, making wrong decisions, improperly implementing the adopted decisions or not taking appropriate actions in response to changes in the business environment.
RISK IDENTIFICATION AND MEASUREMENT	Risk identification consists of recognizing and determining both existing and potential factors arising from the current and planned activities of the Group which may significantly affect the Group's financial position and creation or change of the level of the Group's income and expenses. Business risk identification is performed through a qualitative assessment of the business risk and by identifying and analysing the factors which contributed to significant deviations in the actual income and costs from their forecasted 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, tailored to the scale and complexity of the Group.
FORECASTING AND MONITORING	Forecasting of the business risk is intended to determine the anticipated extent of achievement of the planned results by the Group. 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; • 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. Within the Group, model risk is managed both at the level of a given Group entity (an owner of the model) and at the level of the Bank as the Group's parent company.
MANAGEMENT OBJECTIVE	The objective of model risk management is to mitigate the level of risk of incurring losses as a result of making incorrect business decisions on the basis of existing models in the Group 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 Group.
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 periodically determining the materiality of the model. 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 Group 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 Group.
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 Group. 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 include 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, in particular 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 Group'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 Group's activities and taking actions to reduce the adverse impact of the potential changes in the macroeconomic situation on the financial position of the Group.
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 Group. Macroeconomic changes risk arises due to the impact of both factors which depend on the Group's activities (in particular, the structure of the balance sheet 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 and includes: • calculating the financial result and its components, and the risk measures, as part of the comprehensive stress tests; • backtesting; • calculating the internal capital level; 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 Group. Macroeconomic changes risk control consists of determining the acceptable level of the risk, tailored to the scale of the Group's operations, and the impact of the risk of the Group'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 Group.
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 changes risk consists in analysing macroeconomic developments, the macroeconomic factors to which the Group is sensitive, the level of the risk and the results of comprehensive stress tests.
REPORTING	Reports on the macroeconomic changes 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.

71. COMPREHENSIVE STRESS TESTS

Comprehensive stress-tests are an integral part of the Group's risk management and are complementary to stress-tests specific to particular types of risks. They collectively include the types of risk considered by the Bank and the Bank's Group to be significant. They include an analysis of the impact of changes in the environment and the functioning of the Group on the Group's financial position, in particular: the income statement, statement of financial position, own funds, capital adequacy including capital requirements, internal capital, capital adequacy measures 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 statement of financial position and the income statement.

72. CAPITAL ADEQUACY

Capital adequacy Own funds for capital adequacy purposes Requirements as regard own funds (Pillar I) Internal capital (Pillar II) Disclosures (Pillar III)

Capital adequacy management is a process intended to ensure that the level of risk which the Bank and the Group assumes in relation to the development of its business activities may be covered with its capital, taking into account a specific risk tolerance level and time horizon. The process of managing capital adequacy comprises, in particular, compliance with the applicable regulations of the supervisory and control authorities, as well as the risk tolerance level determined within the Bank and the Bank's Group and the capital planning process, including the policy concerning the sources of acquisition of capital.

The objective of capital adequacy management is to maintain own funds at a level which is adequate to the scale and profile of the risk relating to the Group's activities at all times.

The process of managing the Group's capital adequacy comprises:

- specifying and pursuing the Group's capital targets;
- identifying and monitoring significant types of risk;
- measuring or estimating internal capital to cover individual risk types of risk and total internal capital;
- determining strategic tolerance limits and thresholds of capital adequacy measures;
- forecasting, monitoring and reporting the level and structure of equity and capital adequacy;
- managing the structure of the 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 requirements of own funds and internal capital to business areas and customer segments in the Bank as well as individual Group companies;
- assessing the profitability of individual business areas and customer segments.

Capital adequacy measures include:

- total capital ratio (TCR);
- the ratio of own funds to internal capital;
- Tier 1 core capital ratio (CET1);
- Tier 1 capital ratio (T1);
- leverage ratio.

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 Group 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 Group 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 cinservation buffer amounted to 1.875%.
- the countercyclical buffer imposed to mitigate the systemic risk arising from the credit cycle. The Group calculates the countercyclical buffer at the level specified by the relevant authority of the country where the Group has exposures. 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 Group received an individual decision of the Polish Financial Supervision Authority imposing a buffer on the Group of 1% of its total risk exposure calculated in accordance with the CRR Regulation.

In addition, the Group is obliged to maintain own funds to cover 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 29 November 2018, the Group received a letter from the Polish Financial Supervision Authority concerning an individual recommendation to meet an additional capital requirement (a discretionary capital requirement) for the consolidated capital ratios: the total capital ratio: 0.42 p.p.; Tier 1 capital ratio: 0.31 p.p.; and Tier 1 core capital ratio: 0.23 p.p.

In 2018 the Group received the Polish Financial Supervision Authority's response as to the possibility of applying the 35% risk weight to PLN loans fully and completely secured by mortgage on housing properties. The Office of the PFSA indicated that the provisions of CRR are binding in this respect. The Group treats this position of the PFSA as a possibility to apply the preferential risk weight on a wider basis, including using an extended catalogue of source data on properties for the purpose of assessing the value of the collateral.

In 2018 and in 2017, the Group maintained a safe capital base in excess of the supervisory and regulatory limits

OWN FUNDS FOR CAPITAL ADEQUACY PURPOSES

In 2018, the Group's capital adequacy level remained at a safe level, well above the supervisory limits.

The increase in the Group's Tier 1 capital before regulatory adjustments and reductions between 31 December 2018 and 31 December 2017 resulted from:

- a 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 for shareholders). 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 the net profit earned for the three quarters of 2017, less the anticipated charges, in core Tier 1 capital,

(IN PLN MILLION)

- permission from the PFSA received by the Bank on 27 September 2018 to include the net profit of PKO Bank Polski SA for the first half of 2018, less the anticipated charges (of PLN 1 135 million) in Tier 1 core capital;
- permission from the PFSA received by the Bank on 25 December 2018 to include the net profit of PKO Bank Polski SA for the third quarter of 2018, less the anticipated charges (of PLN 500 million) in Tier 1 core capital.
- permission from the PFSA obtained by PKO Bank Hipoteczny SA on 22 October 2018 to treat the company's net profit for the first half of 2018 as Tier 1 capital after reducing it by the expected charges (of PLN 43 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 Group 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 activities of the Bank's branches in Germany and the Czech Republic and with respect to the Group companies covered by prudential consolidation.
MARKET RISK	• currency risk – calculated under the core approach; • commodity risk – calculated under the simplified approach; • equity instruments risk – calculated under the simplified approach; • specific risk of debt instruments – calculated under the core approach; • general risk of debt instruments – calculated under the duration-based approach, • other types of risk, other than delta risk (non-delta risk) calculated under the scenario approach in the case of options for which the Bank uses its own valuation models and under the delta plus approach for other options.

OTHER RISKS	
	• settlement risk and delivery risk – calculated under the approach specified in Title V, "Own funds requirements for settlement risk" of the CRR Regulation; • counterparty credit risk – calculated under the approach set out in Chapter 6, "Counterparty credit risk" of Title II, "Capital requirements for credit risk" of the CRR Regulation; • credit valuation adjustment risk – calculated under the approach specified in Title VI, "Own funds requirements for credit valuation adjustment risk" of the CRR Regulation; • exceeding the large exposures limit – calculated under the approach set out in paragraphs 395-401 of the CRR Regulation; • for exposures to a central counterparty, a requirement for transactions and contributions made to the default fund of a qualifying central counterparty is calculated.

	31.12.2018	31.12.2017
Total own funds	**37 850**	**34 026**
Tier 1 capital	**35 150**	**32 326**
Tier 1 capital before regulatory adjustments and reductions, of which:	37 802	35 270
Share capital	1 250	1 250
Supplementary capital and other reserves	33 034	30 891
General banking risk fund for unidentified risk of banking activities	1 070	1 070
Retained earnings, of which:	2 448	2 060
undivided profit/uncovered losses	(88)	238
current profit, included by permission from the PFSA	1 678	1 822
adjustment resulting from transitional solutions to mitigate impact of IFRS 9 on equity	858	-
(-) Goodwill	(1 160)	(1 160)
(-) Other intangible assets	(1 650)	(1 654)
Accumulated other comprehensive income	249	(113)
Adjustments in common equity Tier 1 capital due to prudential filters	(91)	55
Other transitional period adjustments to common equity Tier 1 capital	-	(72)
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	**16 035**	**15 670**
Credit risk	14 893	14 499
Operational risk	645	656
Market risk	472	474
Credit valuation adjustment risk	25	41
Total capital ratio	**18.88%**	**17.37%**
Tier 1 capital ratio	**17.54%**	**16.50%**

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 Group's own funds would have amounted to PLN 36 992 million, its Tier 1 capital would have amounted to PLN 34 292 million, the total capital ratio would have amounted to 18.534%, and the Tier 1 capital ratio would have amounted to 17.18%.

INTERNAL CAPITAL (PILLAR II)

In 2018, the Group calculated internal capital in accordance with external regulations:

- the CRR Regulation
- the Polish Banking Law;
- the Regulation of the Minister of Finance and Development of 6 March 2017 on the risk management and internal control systems, remuneration policy and the detailed procedure for estimating the internal capital in banks;
- the Act on Macroprudential supervision;

and the internal regulations of the Bank and the Group.

Internal capital is the amount of capital estimated by the Group that is necessary to cover all of the identified significant risks characteristic of the Group's activities and the effect of changes in the business environment, taking account of the anticipated risk level.

The 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 the individual risk types is determined using the methods specified in the internal regulations. In the event of performing internal capital estimates based on statistical models, the annual forecast horizon is adopted and a 99.9% confidence level. The total internal capital of the Group is the sum of the internal capital necessary to cover all significant types of risks to which the Bank and the Group are exposed, taking into account the entities included in prudential consolidation. The correlation coefficient for different types of risk and different Group entities used in the internal capital calculation is equal to 1.

In 2018 and 2017, the relation of the Group's own funds to its internal capital remained on a level exceeding both the threshold set by the law and the Group's internal limits.

DISCLOSURES (PILLAR III)

The Group announces, on a six monthly basis, information, in particular, about risk management and capital adequacy in accordance with: the CRR regulation and the implementing acts thereto, Recommendation H, the Polish Banking Law, the Act on Macro-Prudential Supervision, Recommendation M relating to operational risk management in banks and Recommendation P relating to liquidity risk, issued by the Polish Financial Supervision Authority.

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).

73. LEVERAGE RATIO

The Group calculates the leverage ratio as one of its capital adequacy measures.

The objective of excessive leverage risk management is to ensure an appropriate relationship between the amount of the core capital (Tier 1) and the total of on-balance sheet assets and off-balance sheet liabilities granted by the Group. The way of managing the risk of excessive leverage has been specified in the internal capital adequacy regulations.

For the purpose of measuring the risk of excessive leverage, the Group calculates the leverage ratio as the Tier 1 measure divided by the total exposure measure and expressed as a percentage. The leverage ratio as at 31 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, the Group set up a strategic tolerance limit and a threshold for the ratio and they are regularly monitored and verified periodically.

The exposure for the calculation of the leverage ratio within the meaning assigned by the CRR Regulation.

(IN PLN MILLION)

	Leverage ratio exposures specified in CRR	
	31.12.2018	31.12.2017
Total capital and exposure measure		
Tier 1 capital	35 150	32 326
Total exposure measure comprising the leverage ratio	336 797	306 830
Leverage ratio		
Leverage ratio	10.44%	10.54%

74. Information on securitization of lease portfolio and portfolio sale of receivables

In connection with the acquisition of Raiffeisen-Leasing Polska SA and its subsidiaries, on 1 December 2016 the Group consolidated a special purpose vehicle ROOF Poland Leasing 2014 DAC with its registered office in Ireland. The SPV is buying securitized receivables resulting from lease agreements sold by Raiffeisen-Leasing Polska SA (now PKO Leasing SA) under the securitization plan which was initiated in December 2014. The receivables acquired by the SPV were financed by an issue of securities. The objective and benefit of selling these receivables to the SPV was to obtain and diversify sources of long-term financing.

The redemption of debt securities in the period from 1 January to 31 December 2018 according to their nominal values amounted to: PLN 70 million (redeemed on 2 January 2018), PLN 204 million (redeemed on 3 April 2018), PLN 178 million (redeemed on 2 July 2018) and PLN 165 million (redeemed on 2 October 2018).

Carrying amounts of the financial assets and financial liabilities covered by securitization are presented in the table below:

31.12.2018	Transaction value	Amount of risk remaining in the Group
Carrying amount of assets	688	688
Carrying amount of liabilities	643	643
Net balance	45	45

31.12.2017	Transaction value	Amount of risk remaining in the Group
Carrying amount of assets	1 381	1 381
Carrying amount of liabilities	1 261	1 261
Net balance	120	120

Moreover, in 2018 the Group performed sales 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 approximately PLN 1.4 billion (PLN 1.5 billion in 2017). The total carrying amount of the provision for potential claims on 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 of the receivables all risks and rewards were transferred as a result of which the Bank stopped recognizing these assets. The Bank did not receive any securities as a result of these transactions.

The Group did not receive any securities on account of the above-mentioned transactions.

Subsequent events

75. Events that took place after the balance sheet date

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).

On 22 January 2019 PKO Bank Polski SA repaid a loan of EUR 500 million which had been granted by PKO Finance AB. On 23 January 2019 PKO Finance AB redeemed bonds of a nominal value of EUR 500 million.

(IN PLN MILLION)

On 28 January 2019 PKO Bank Hipoteczny SA issued mortgage bonds with a total nominal value of EUR 500 million, which mature on 23 November 2021. The mortgage bonds that were issued are listed on the stock exchanges in Luxembourg and Warsaw. Next on 25 February 2019 PKO Bank Hipoteczny SA arranged the transaction to increase the value of issues (Tap) by issuing issuing the second tranche with a nominal value of of PLN 100 million EUR. The issue date of the second tranche was determined on 1 March 2019.

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