

**Condensed Consolidated
Interim Financial Statements
of Bank Pekao S.A. Group
for the period from
1 January 2019 to 30 June 2019**



Warsaw, August 2019

This document is a free translation of the Polish original. Terminology current in Anglo-Saxon countries has been used where practicable for the purposes of this translation in order to aid understanding. The binding Polish original should be referred to in matters of interpretation.

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Consolidated income statement

(in PLN thousand)

	NOTE	II QUARTER 2019 PERIOD FROM 01.04.2019 TO 30.06.2019	I HALF 2019 PERIOD FROM 01.01.2019 TO 30.06.2019	II QUARTER 2018 PERIOD FROM 01.04.2018 TO 30.06.2018	I HALF 2018 PERIOD FROM 01.01.2018 TO 30.06.2018
Interest income	9	1 668 660	3 266 642	1 515 910	2 994 474
Financial assets measured at amortized cost		1 436 541	2 814 046	1 299 482	2 559 363
Financial assets measured at fair value through other comprehensive income		167 013	326 857	176 523	365 174
Financial assets measured at fair value through other profit or loss		65 106	125 739	39 905	69 937
Interest expense	9	(311 112)	(608 698)	(280 373)	(553 247)
Net interest income		1 357 548	2 657 944	1 235 537	2 441 227
Fee and commission income	10	725 062	1 409 947	707 067	1 382 495
Fee and commission expense	10	(92 380)	(173 686)	(89 794)	(177 168)
Net fee and commission income		632 682	1 236 261	617 273	1 205 327
Dividend income	11	21 266	21 652	19 623	19 780
Result on financial assets and liabilities measured at fair value through profit or loss	12	31 063	48 726	16 539	35 664
Result on fair value hedge accounting	28	(728)	(1 704)	662	1 999
Result on derecognition of financial assets and liabilities not measured at fair value through profit or loss	13	8 430	19 862	27 245	51 077
OPERATING INCOME		2 050 261	3 982 741	1 916 879	3 755 074
Net impairment losses on financial assets and off-balance sheet commitments	14	(177 238)	(286 921)	(123 932)	(250 893)
NET RESULT ON FINANCIAL ACTIVITY		1 873 023	3 695 820	1 792 947	3 504 181
Administrative expenses	15	(993 200)	(2 265 261)	(980 579)	(2 056 893)
Personnel expenses		(586 428)	(1 065 852)	(554 827)	(1 055 173)
Other administrative expenses		(406 772)	(1 199 409)	(425 752)	(1 001 720)
Depreciation and amortization	16	(126 576)	(255 223)	(89 893)	(177 673)
Net result on other provisions		(3 467)	(8 196)	(13 768)	(14 067)
Net other operating income and expenses	17	17 132	34 050	12 095	25 720
OPERATING COSTS		(1 106 111)	(2 494 630)	(1 072 145)	(2 222 913)
Gains (losses) on subsidiaries and associates		-	-	-	-
Gains (losses) on disposal of property, plant and equipment and intangible assets	18	9 581	11 689	(6 863)	(3 940)
PROFIT BEFORE INCOME TAX		776 493	1 212 879	713 939	1 277 328
Income tax expense	19	(193 560)	(386 881)	(173 962)	(345 026)
NET PROFIT		582 933	825 998	539 977	932 302
1. Attributable to equity holders of the Bank		582 106	824 447	539 815	932 140
2. Attributable to non-controlling interests		827	1 551	162	162
Earnings per share (in PLN per share)					
basic for the period	20	2.22	3.14	2.06	3.55
diluted for the period	20	2.22	3.14	2.06	3.55

Notes to the financial statements presented on pages 11 - 106 constitute an integral part of the consolidated financial statements.

Consolidated statement of comprehensive income

(in PLN thousand)

	NOTE	II QUARTER 2019 PERIOD FROM 01.04.2019 TO 30.06.2019	I HALF 2019 PERIOD FROM 01.01.2019 TO 30.06.2019	II QUARTER 2018 PERIOD FROM 01.04.2018 TO 30.06.2018	I HALF 2018 PERIOD FROM 01.01.2018 TO 30.06.2018
Net profit		582 933	825 998	539 977	932 302
Other comprehensive income					
Item that are or may be reclassified subsequently to profit or loss:					
Change in fair value of financial assets measured at fair value through other comprehensive income:		123 334	113 584	(51 033)	58 259
Profit or loss on fair value measurement		130 615	132 421	(23 939)	109 207
Profit or loss reclassification to income statement after derecognition		(7 281)	(18 837)	(27 094)	(50 948)
Change in fair value of cash flow hedges	28	27 302	92 070	(3 531)	(20 854)
Tax on items that are or may be reclassified subsequently to profit or loss	19	(28 621)	(39 074)	10 367	(7 107)
Items that will never be reclassified to profit or loss:					
Effects of the revaluation or sale of investments in equity instruments designated at fair value through other comprehensive		16 556	17 358	(13 940)	(19 371)
Remeasurements of the defined benefit liabilities		-	-	-	-
Tax on items that will never be reclassified to profit or loss	19	(3 146)	(3 298)	2 649	3 681
Other comprehensive income (net of tax)		135 425	180 640	(55 488)	14 608
Total comprehensive income		718 358	1 006 638	484 489	946 910
1. Attributable to equity holders of the Bank		717 531	1 005 087	484 327	946 748
2. Attributable to non-controlling interests		827	1 551	162	162

Notes to the financial statements presented on pages 11 - 106 constitute an integral part of the consolidated financial statements.

Consolidated statement of financial position

(in PLN thousand)

	NOTE	30.06.2019	31.12.2018
ASSETS			
Cash and due from Central Bank	22	4 324 663	13 026 584
Loans and advances to banks	23	2 703 944	2 268 422
Financial assets held for trading	24	2 231 752	762 712
Derivative financial instruments (held for trading)	25	1 776 568	1 451 662
Loans and advances to customers	26	129 362 995	123 970 055
1. Measured at amortised cost		127 545 601	122 156 323
2. Measured at fair value through profit or loss		274 067	302 630
3. Measured at fair value through other comprehensive income		1 543 327	1 511 102
Receivables from finance leases	27	6 029 421	5 326 667
Hedging instruments	28	395 136	313 565
Investments (placement) securities	29	44 131 368	38 586 995
1. Measured at fair value through profit or loss		105 866	65 408
2. Designated at fair value through profit or loss		-	-
3. Measured at fair value through other comprehensive income (debt securities)		28 372 629	27 032 827
4. Designated at fair value through other comprehensive income (equity instruments)		250 131	232 861
5. Measured at amortised cost		15 402 742	11 255 899
Assets held for sale	30	45 881	11 550
Investments in associates		-	-
Intangible assets	31	1 497 894	1 526 746
Property, plant and equipment	32	1 924 651	1 419 942
Investment properties		11 022	11 168
Income tax assets		1 153 456	1 132 416
1. Current tax assets		1 546	1 345
2. Deferred tax assets		1 151 910	1 131 071
Other assets		1 322 107	1 281 321
TOTAL ASSETS		196 910 858	191 089 805
EQUITY AND LIABILITIES			
Liabilities			
Amounts due to Central Bank	22	5 019	5 067
Amounts due to other banks	34	6 578 800	5 615 631
Financial liabilities held for trading	24	540 620	102 429
Derivative financial instruments (held for trading)	25	2 277 344	1 913 046
Amounts due to customers	35	150 363 387	149 491 059
Hedging instruments	28	666 327	905 056
Debt securities issued	36	5 952 237	5 230 814
Subordinated liabilities	37	2 363 319	2 012 485
Income tax liabilities		173 783	244 534
1. Current tax liabilities		141 769	211 826
2. Deferred tax liabilities		32 014	32 708
Provisions	38	747 292	635 085
Other liabilities		5 161 875	2 126 382
TOTAL LIABILITIES		174 830 003	168 281 588
Equity			
Share capital		262 470	262 470
Other capital and reserves		20 688 871	20 865 916
Retained earnings and net profit for the period		1 117 787	1 668 340
Total equity attributable to equity holders of the Bank		22 069 128	22 796 726
Non-controlling interests		11 727	11 491
TOTAL EQUITY		22 080 855	22 808 217
TOTAL LIABILITIES AND EQUITY		196 910 858	191 089 805

Notes to the financial statements presented on pages 11 - 106 constitute an integral part of the consolidated financial statements.

Consolidated statement of changes in equity

(in PLN thousand)

For the period from 1 January 2019 to 30 June 2019

	EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK										
	SHARE CAPITAL	OTHER CAPITAL AND RESERVES						RETAINED EARNINGS AND NET PROFIT FOR THE PERIOD	TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK	NON-CONTROLLING INTERESTS	TOTAL EQUITY
		TOTAL OTHER CAPITAL AND RESERVES	SHARE PREMIUM	GENERAL BANKING RISK FUND	OTHER RESERVE CAPITAL	REVALUATION RESERVES	OTHER				
Equity as at 01.01.2019	262 470	20 865 916	9 137 221	1 982 459	9 137 113	202 663	406 460	1 668 340	22 796 726	11 491	22 808 217
Comprehensive income	-	180 640	-	-	24	180 616	-	824 447	1 005 087	1 551	1 006 638
Remeasurements of the defined benefit liabilities (net of tax)	-	-	-	-	-	-	-	-	-	-	-
Revaluation of debt financial instruments measured at fair value through other comprehensive income (net of tax)	-	92 003	-	-	-	92 003	-	-	92 003	-	92 003
Revaluation or sale of investments in equity instruments designated at fair value through other comprehensive income (net of tax)	-	14 060	-	-	24	14 036	-	-	14 060	-	14 060
Revaluation of hedging financial instruments (net of tax)	-	74 577	-	-	-	74 577	-	-	74 577	-	74 577
Net profit for the period	-	-	-	-	-	-	-	824 447	824 447	1 551	825 998
Appropriation of retained earnings	-	593 566	-	-	587 318	-	6 248	(2 325 868)	(1 732 302)	(1 214)	(1 733 516)
Dividend paid	-	-	-	-	-	-	-	(1 732 302)	(1 732 302)	(1 214)	(1 733 516)
Profit appropriation to other reserves	-	593 566	-	-	587 318	-	6 248	(593 566)	-	-	-
Other	-	(951 251)	-	-	(936 781)	-	(14 470)	950 868	(383)	(101)	(484)
Coverage of negative impact of IFRS 9 implementation	-	(951 218)	-	-	(936 748)	-	(14 470)	951 218	-	-	-
Other	-	(33)	-	-	(33)	-	-	(350)	(383)	(101)	(484)
Equity as at 30.06.2019	262 470	20 688 871	9 137 221	1 982 459	8 787 674	383 279	398 238	1 117 787	22 069 128	11 727	22 080 855

Notes to the financial statements presented on pages 11 - 106 constitute an integral part of the consolidated financial statements.

Consolidated statement of changes in equity (cont.)

(in PLN thousand)

For the period from 1 January 2018 to 31 December 2018

	EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK										
	SHARE CAPITAL	OTHER CAPITAL AND RESERVES						RETAINED EARNINGS AND NET PROFIT FOR THE PERIOD	TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK	NON-CONTROLLING INTERESTS	TOTAL EQUITY
		TOTAL OTHER CAPITAL AND RESERVES	SHARE PREMIUM	GENERAL BANKING RISK FUND	OTHER RESERVE CAPITAL	REVALUATION RESERVES	OTHER				
Equity as at 01.01.2018	262 470	20 561 177	9 137 221	1 982 459	9 099 775	(56 528)	398 250	2 444 167	23 267 814	-	23 267 814
Initial application of IFRS 9	-	236 085	-	-	-	236 085	-	(965 681)	(729 596)	-	(729 596)
Equity as at 01.01.2018 - restated	262 470	20 797 262	9 137 221	1 982 459	9 099 775	179 557	398 250	1 478 486	22 538 218	-	22 538 218
Comprehensive income	-	25 851	-	-	1 070	24 781	-	2 287 160	2 313 011	643	2 313 654
Remeasurements of the defined benefit liabilities (net of tax)	-	381	-	-	-	381	-	-	381	(7)	374
Revaluation of debt financial instruments measured at fair value through other comprehensive income (net of tax)	-	13 093	-	-	-	13 093	-	-	13 093	-	13 093
Revaluation or sale of investments in equity instruments designated at fair value through other comprehensive income (net of tax)	-	(24 040)	-	-	1 070	(25 110)	-	-	(24 040)	-	(24 040)
Revaluation of hedging financial instruments (net of tax)	-	36 417	-	-	-	36 417	-	-	36 417	-	36 417
Net profit for the period	-	-	-	-	-	-	-	2 287 160	2 287 160	650	2 287 810
Appropriation of retained earnings	-	23 793	-	-	15 583	-	8 210	(2 097 306)	(2 073 513)	-	(2 073 513)
Dividend paid	-	-	-	-	-	-	-	(2 073 513)	(2 073 513)	-	(2 073 513)
Profit appropriation to other reserves	-	23 793	-	-	15 583	-	8 210	(23 793)	-	-	-
Other	-	19 010	-	-	20 685	(1 675)	-	-	19 010	10 848	29 858
Changes in non-controlling interests	-	(3 491)	-	-	(3 513)	22	-	-	(3 491)	10 848	7 357
Transfer of management of Pekao OFE and DFE Pekao funds	-	22 680	-	-	22 680	-	-	-	22 680	-	22 680
Other	-	(179)	-	-	1 518	(1 697)	-	-	(179)	-	(179)
Equity as at 31.12.2018	262 470	20 865 916	9 137 221	1 982 459	9 137 113	202 663	406 460	1 668 340	22 796 726	11 491	22 808 217

Notes to the financial statements presented on pages 11 - 106 constitute an integral part of the consolidated financial statements.

Consolidated statement of changes in equity (cont.)

(in PLN thousand)

For the period from 1 January 2018 to 30 June 2018

	EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK										
	SHARE CAPITAL	OTHER CAPITAL AND RESERVES						RETAINED EARNINGS AND NET PROFIT FOR THE PERIOD	TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK	NON-CONTROLLING INTERESTS	TOTAL EQUITY
		TOTAL OTHER CAPITAL AND RESERVES	SHARE PREMIUM	GENERAL BANKING RISK FUND	OTHER RESERVE CAPITAL	REVALUATION RESERVES	OTHER				
Equity as at 01.01.2018	262 470	20 561 177	9 137 221	1 982 459	9 099 775	(56 528)	398 250	2 444 167	23 267 814	-	23 267 814
Initial application of IFRS 9	-	236 085	-	-	-	236 085	-	(956 518)	(720 433)	-	(720 433)
Equity as at 01.01.2018 - restated	262 470	20 797 262	9 137 221	1 982 459	9 099 775	179 557	398 250	1 487 649	22 547 381	-	22 547 381
Comprehensive income	-	15 448	-	-	840	14 608	-	932 140	947 588	162	947 750
Remeasurements of the defined benefit liabilities (net of tax)	-	-	-	-	-	-	-	-	-	-	-
Revaluation of debt financial instruments measured at fair value through other comprehensive income (net of tax)	-	47 189	-	-	-	47 189	-	-	47 189	-	47 189
Revaluation or sale of investments in equity instruments designated at fair value through other comprehensive income (net of tax)	-	(14 850)	-	-	840	(15 690)	-	-	(14 850)	-	(14 850)
Revaluation of hedging financial instruments (net of tax)	-	(16 891)	-	-	-	(16 891)	-	-	(16 891)	-	(16 891)
Net profit for the period	-	-	-	-	-	-	-	932 140	932 140	162	932 302
Appropriation of retained earnings	-	23 793	-	-	15 583	-	8 210	(2 097 306)	(2 073 513)	-	(2 073 513)
Dividend paid	-	-	-	-	-	-	-	(2 073 513)	(2 073 513)	-	(2 073 513)
Profit appropriation to other reserves	-	23 793	-	-	15 583	-	8 210	(23 793)	-	-	-
Other	-	18 989	-	-	20 664	(1 675)	-	-	18 989	10 848	29 837
Changes in non-controlling interests	-	(3 491)	-	-	(3 513)	22	-	-	(3 491)	10 848	7 357
Transfer of management of Pekao OFE and DFE Pekao funds	-	22 680	-	-	22 680	-	-	-	22 680	-	22 680
Other	-	(200)	-	-	1 497	(1 697)	-	-	(200)	-	(200)
Equity as at 30.06.2018	262 470	20 855 492	9 137 221	1 982 459	9 136 862	192 490	406 460	322 483	21 440 445	11 010	21 451 455

Notes to the financial statements presented on pages 11 – 106 constitute an integral part of the consolidated financial statements.

Consolidated cash flow statement

(in PLN thousand)

	NOTE	I HALF 2019 PERIOD FROM 01.01.2019 TO 30.06.2019	I HALF 2018 PERIOD FROM 01.01.2018 TO 30.06.2018
Cash flow from operating activities – indirect method			
Net profit for the period		824 447	932 140
Adjustments for:		(3 506 475)	(7 271 545)
Depreciation and amortization	16	255 223	177 673
(Gains) losses on investing activities		(30 502)	(37 521)
Net interest income	9	(2 657 944)	(2 441 227)
Dividend income	11	(21 652)	(19 780)
Interest received		3 413 919	3 095 511
Interest paid		(577 777)	(526 371)
Income tax		386 881	345 026
Income tax paid		(375 065)	(462 674)
Change in loans and advances to banks		(147 773)	968
Change in financial assets held for trading		(1 470 433)	398 355
Change in derivative financial instruments (assets)		(324 906)	112 964
Change in loans and advances to customers		(5 479 676)	(3 733 461)
Change in receivables from finance leases		(702 754)	(323 606)
Change in investment (placement) securities		(96 896)	(481 576)
Change in other assets		(637 841)	226 826
Change in amounts due to banks		2 057 028	393 619
Change in financial liabilities held for trading		438 191	(43 545)
Change in derivative financial instruments (liabilities)		364 298	(579 435)
Change in amounts due to customers		963 956	(3 261 095)
Change in debt securities issued		(643)	4 026
Change in subordinated liabilities		834	(175)
Payments for short-term leases and leases of low-value assets		(14 728)	X
Change in provisions		112 207	(3 797)
Change in other liabilities		1 039 578	(112 250)
Net cash flows from operating activities		(2 682 028)	(6 339 405)
Cash flow from investing activities			
Investing activity inflows		111 950 139	75 276 726
Sale of investment securities		111 915 677	74 794 295
Sale of intangible assets and property, plant and equipment		12 810	14 585
Dividend received	11	21 652	19 780
Transfer of management funds		-	22 680
Other investing inflows		-	425 386
Investing activity outflows		(117 552 861)	(66 476 229)
Acquisition of investment securities		(117 419 602)	(66 388 104)
Acquisition of intangible assets and property, plant and equipment		(133 259)	(88 125)
Net cash flows from investing activities		(5 602 722)	8 800 497

Notes to the financial statements presented on pages 11 - 106 constitute an integral part of the consolidated financial statements.

Consolidated cash flow statement (cont.)

(in PLN thousand)

	NOTE	I HALF 2019 PERIOD FROM 01.01.2019 TO 30.06.2019	I HALF 2018 PERIOD FROM 01.01.2018 TO 30.06.2018
Cash flows from financing activities	40		
Financing activity inflows		4 316 573	3 095 259
Due to loans and advances received from banks		727 817	1 261 076
Issue of debt securities		3 238 756	1 834 183
Issue of subordinated bonds		350 000	-
Financing activity outflows		(4 443 989)	(1 920 412)
Repayment of loans and advances received from banks		(1 817 574)	(1 179 198)
Redemption of debt securities		(2 537 303)	(741 214)
Payments for the principal portion of the lease liabilities		(89 112)	X
Net cash flows from financing activities		(127 416)	1 174 847
Total net cash flows		(8 412 166)	3 635 939
including effect of exchange rate fluctuations on cash and cash equivalents held		(16 889)	99 328
Net change in cash and cash equivalents		(8 412 166)	3 635 939
Cash and cash equivalents at the beginning of the period		15 239 266	7 345 040
Cash and cash equivalents at the end of the period	40	6 827 100	10 980 979

Notes to the financial statements presented on pages 11 – 106 constitute an integral part of the consolidated financial statements.

Notes to financial statements

(in PLN thousand)

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

1. General information

Bank Polska Kasa Opieki Spółka Akcyjna (hereafter 'Bank Pekao S.A.' or 'the Bank'), with its headquarters in Warsaw 00-950, Grzybowska Street 53/57, was incorporated on 29 October 1929 in the Commercial Register of the District Court in Warsaw and has been continuously operating since its incorporation.

Bank Pekao S.A. is registered in the National Court Registry – Enterprise Registry of the Warsaw District Court, XII Commercial Division of the National Court Registry in Warsaw under the reference number KRS 0000014843.

According to IFRS 10 'Consolidated financial statements', the parent entity of Bank Pekao S.A. is Powszechny Zakład Ubezpieczeń S.A. (hereinafter 'PZU S.A.') with its registered office in Warsaw at Al. Jana Pawła II 24.

The condensed consolidated interim financial statements of Bank Pekao S.A. Group for the period from 1 January 2019 to 30 June 2019 contain financial information of the Bank and its subsidiaries (together referred to as the 'Group'), and the associates accounted for using equity method.

The financial statements have been prepared on a going concern basis on the assumption that the Group will continue its business operations substantially unchanged in scope for a period of at least one year from the balance sheet date.

The share ownership structure of the Bank is presented in the Note 5.4 of the Report on the activities of Bank Pekao S.A. Group for the first half of 2019.

2. Group structure

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

NAME OF ENTITY	LOCATION	CORE ACTIVITY	PERCENTAGE OF THE GROUP'S OWNERSHIP RIGHTS IN SHARE CAPITAL/VOTING	
			30.06.2019	31.12.2018
Pekao Bank Hipoteczny S.A.	Warsaw	Banking	100.00	100.00
Centralny Dom Maklerski Pekao S.A.	Warsaw	Brokerage	100.00	100.00
Pekao Leasing Sp. z o.o.	Warsaw	Leasing services	100.00	100.00
Pekao Investment Banking S.A.	Warsaw	Brokerage	100.00	100.00
Pekao Faktoring Sp. z o.o.	Lublin	Factoring services	100.00	100.00
Pekao Powszechne Towarzystwo Emerytalne S.A. (in liquidation)	Warsaw	Pension fund management	100.00	100.00
Centrum Kart S.A.	Warsaw	Financial support	100.00	100.00
Pekao Financial Services Sp. z o.o.	Warsaw	Transferable agent	66.50	66.50
Centrum Bankowości Bezpośredniej Sp. z o.o.	Cracow	Call-center services	100.00	100.00
Pekao Property S.A. (in liquidation), including:	Warsaw	Real estate development	100.00	100.00
<i>FPB - Media Sp. z o.o. (in bankructcy)</i>	<i>Warsaw</i>	<i>Real estate development</i>	<i>100.00</i>	<i>100.00</i>
Pekao Fundusz Kapitałowy Sp. z o.o. (in liquidation)	Warsaw	Business consulting	100.00	100.00
Dom Inwestycyjny Xelion Sp. z o.o.	Warsaw	Financial intermediary	100.00	100.00
Pekao Investment Management S.A., including:	Warsaw	Holding	100.00	100.00
<i>Pekao TFI S.A.</i>	<i>Warsaw</i>	<i>Asset management</i>	<i>100.00</i>	<i>100.00</i>

As at 30 June 2019 and 31 December 2018 all subsidiaries of the Bank have been consolidated.

Notes to financial statements (cont.)

(in PLN thousand)

Associates

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

NAME OF ENTITY	LOCATION	CORE ACTIVITY	PERCENTAGE OF THE GROUP'S OWNERSHIP RIGHTS IN SHARE CAPITAL/VOTING	
			30.06.2019	31.12.2018
CPF Management	Tortola, British Virgin Islands	Financial brokerage – not operating	40.00	40.00

As at 30 June 2019, the Group held no shares in entities under joint control.

Planned division of Centralny Dom Maklerski S.A.

It is planned to divide Centralny Dom Maklerski Pekao S.A. (hereinafter 'CDM') through a transfer of a part of its assets and liabilities to the Bank and Centrum Bankowości Bezpośredniej Sp. z o.o. (hereinafter 'CBB'). The division of CDM will be effected in accordance with the procedure specified in Art. 529 § 1.1 of the Commercial Companies Code, i.e. through:

- a transfer to the Bank of a part of the assets and liabilities and the rights and obligations of CDM in the form of the organised part of the enterprise of CDM connected with the provision of brokerage services, and
- a transfer to CBB of a part of the assets and liabilities and the rights and obligations of CDM in the form of the organised part of the enterprise of CDM connected with the provision of call center services.

Pursuant to Art. 530 § 1 of the Commercial Companies Code, CDM will be wound up without liquidation proceeding on the date, on which it is struck off the register, which will occur immediately upon the registration of the share capital increase of CBB in connection with the CDM division.

Planned sale of the organised part of the enterprise of Pekao Investment Banking S.A.

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

3. Business combinations

In the first half of 2019 there were no business combinations in the Group.

4. Statement of compliance

The condensed consolidated interim financial statements of Bank Pekao S.A. Group, which have been prepared for the period from 1 January to 30 June 2019, have been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting' (IAS 34) as adopted by the European Union and other applicable regulations.

These financial statements do not include all information required for annual financial statements, and shall be read in conjunction with the consolidated financial statements of Bank Pekao S.A. Group for the year ended 31 December 2018, including changes caused by the implementation of International Financial Reporting Standard 16 'Leases' (IFRS 16) as of 1 January 2019 (described in Note 5.1).

The consolidated financial statements of Bank Pekao S.A. Group as at and for the year ended 31 December 2018 are available at the Bank's website www.pekao.com.pl

In accordance with the Decree of the Ministry of Finance dated 29 March 2018 on current and periodic information provided by issuers of securities and the conditions for recognition as equivalent information required by the law of a non-Member State (Official Journal from 2018, item 757) the Bank is required to publish the financial report for the six months period ended 30 June 2019, i.e. current interim period.

Notes to financial statements (cont.)

(in PLN thousand)

The condensed consolidated interim financial statements have been prepared in Polish Zloty, and all amounts are stated in PLN thousand, unless indicated otherwise.

These condensed consolidated interim financial statements were authorized for issue by the Management Board on 6 August 2019.

5. Significant accounting policies

5.1 Basis of preparation of Consolidated Financial Statements

General information

Condensed Consolidated Interim Financial Statements of the Group for the first half of 2019 have been prepared based on the following valuation methods:

- at fair value for derivatives, financial assets and liabilities held for trading, financial assets designated as measured at fair value through profit and loss at initial recognition, equity instruments, financial assets classified to business model whose objective is achieved by both collecting contractual cash flows and selling financial assets that do not meet SPPI criteria and financial assets that do not meet SPPI criteria,
- at amortized cost for financial assets, classified to business model whose objective is to hold financial assets in order to collect contractual cash and meeting SPPI criteria at the same time, for other financial liabilities,
- at historical cost for non-financial assets and liabilities,
- non-current assets (or disposal groups) classified as held for sale are measured at the lower of the carrying amount or the fair value less costs to sell.

In the first half of 2019 the Group did not amend its accounting policies in respect to valuation of assets and liabilities and profit measurement, except for the changes related to application of International Financial Reporting Standard 16 'Leases' (hereinafter 'IFRS 16') as described below. The accounting policies applied by the Group in these condensed consolidated interim financial statements, except for the changes resulting from IFRS 16, are the same as those applied in the Consolidated Financial Statements of Bank Pekao S.A. Group for the year ended on 31 December 2018. Those accounting policies have been applied uniformly to all presented reporting periods and by all entities of the Group.

IFRS 16

The application of IFRS 16 resulted in changes to the Group's accounting policy regarding the recognition, measurement and presentation of lease agreements. The Group decided to recognize right-of-use assets in the item of the statement of financial position 'Property, plant and equipment' and lease liabilities - in the item of the statement of financial position 'Amounts due to customers' or 'Amounts due to banks'.

The Group recognizes the lease contract as a component of the right-to-use assets and the corresponding lease liability on the date when the subject of the lease is available for use. Each lease payment is allocated between the liability and accrued interest on the liability. Interest expense is recognized in the income statement over the lease term to obtain a constant periodic interest rate on the remaining balance of the lease liability. The right-of-use asset is depreciated on a straight-line basis over the shorter of two periods: the useful life of the asset or the lease term.

On the date when the lease commences, the Group, as the lessee, measures the lease liability in the present value of lease payments outstanding as at that date. The leasing liability includes the current value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable,
- variable lease payments that depend on an index or a rate,
- amounts expected to be payable by the lessee under residual value guarantees,
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Notes to financial statements (cont.)

(in PLN thousand)

The lease payments are discounted using the interest rate implicit in the lease, if the rate can be readily determined, or the Group's incremental borrowing rate.

The right-to-use assets are measured at cost, including:

- the amount of the initial measurement of the lease liability,
- any lease payments made at or before the commencement date, less any lease incentives received,
- any initial direct costs incurred by the lessee, and
- an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located, whether the lessee incurs the obligation for those costs.

Short-term lease payments and payments for leases of low-value assets are recognized as an expense in the income statement on a straight-line basis. Short-term lease contracts are lease contracts that have a lease term of 12 months or less. Low-value assets include mainly lease of space (land) for ATMs.

In accordance with the transitional provisions included in IFRS 16, the Group decided to apply IFRS 16 retrospectively with the recognition of the potential, cumulative effect of the first application in the item 'Retained earnings' as at 1 January 2019.

The consolidated financial statements include the requirements of all the International Financial Reporting Standards and International Accounting Standards approved by the European Union and related interpretations. Changes in published standards and interpretations, which became effective on or after 1 January 2019, had no material impact on the Group's financial statements, with the exception of IFRS 16 (Note 5.2).

The financial statements does not take into consideration interpretations and amendments to Standards, pending approval by the European Union or approved by the European Union but came into force or shall come into force after the balance sheet date (Note 5.3 and Note 5.4). In the Group's opinion, amendments to Standards and interpretations will not have a significant influence on the consolidated financial statements of the Group,

5.2 New standards, interpretations and amendments to published standards that have been approved and published by the European Union and are effective on or after 1 January 2019

IFRS 16 'Leases'

As at the date of first application of IFRS 16, i.e as at 1 January 2019, the Group recognized new right-of-use assets of the Bank's Head Office, the Bank's branches buildings, perpetual usufruct rights and IT infrastructure. For these lease contracts, previously classified as operating leases in accordance with IAS 17, the Group recognized leases as leasing liabilities measured at the present value of remaining lease payments discounted using the Group's incremental borrowing rates and recognized the right-to-use assets in the amount equal to leasing liabilities, adjusted by the amount of any prepayments or accrued lease payments relating to these leases, recognized in the statement of financial position prior to the date of first application.

The impact of first application of IFRS 16 as at 1 January 2019 is presented the table below.

IMPACT OF FIRST APPLICATION OF IFRS 16 AS AT 01.01.2019	
Property, plant and equipment	613 854
Other assets	(35 807)
Amounts due to customers	578 047

Notes to financial statements (cont.)

(in PLN thousand)

The first application of IFRS 16 had no impact on the item 'Retained earnings'.

The incremental borrowing rates calculated by the Group and applied to the leasing liabilities on 1 January 2019 were in the range (depending on the duration of the contract):

- for contracts in PLN: from 2.03% to 4.20%,
- for contracts in EUR: from 0.16% to 2.39%,
- for contracts in USD: from 3.31% to 4.11%,
- for contracts in GBP: from 1.41% to 2.78%.

The reconciliation of operating lease liabilities disclosed in accordance with IAS 17 *Leases* and the lease liabilities recognized on the date of the first application of IFRS 16 is presented in the table below.

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

Applying IFRS 16 for the first time, the Group applied the following practical expedients permitted by the new standard:

- application of a single discount rate to a portfolio of leases with reasonably similar characteristics,
- exclusion the initial direct costs from the measurement of the right-of-use assets,
- a lessee may use hindsight in determining the lease term, if the contract contains options to extend or terminate the lease.

Notes to financial statements (cont.)

(in PLN thousand)

Other standards, interpretations and amendments to published standards that have been approved and published by the European Union and entered into force from or after 1 January 2019.

STANDARD/ INTERPRETATION	DESCRIPTION	IMPACT ASSESSMENT
IFRS 9 (amendment) 'Financial Instruments'	Amendments to IFRS 9 - Prepayment Features with Negative Compensation – modify the existing requirements regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments. Under the amendments, the sign of the prepayment amount is not relevant, i. e. depending on the interest rate prevailing at the time of termination, a payment may also be made in favour of the contracting party effecting the early repayment. The calculation of this compensation payment must be the same for both the case of an early repayment penalty and the case of an early repayment gain.	The standard's amendments did not have a material impact on the financial statements in the period of its first application.
IAS 28 (amendment) 'Investments in Associates and Joint Ventures'	Amendments to IAS 28 - Long-term Interests in Associates and Joint Ventures - were introduced to clarify that an entity applies IFRS 9 including its impairment requirements, to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied. Amendments also delete paragraph 41 because the Board felt that it merely reiterated requirements in IFRS 9 and had created confusion about the accounting for long-term interests.	The standard's amendments did not have a material impact on the financial statements in the period of its first application.
IFRIC 23 'Uncertainty over Income Tax Treatments'	It may be unclear how tax law applies to a particular transaction or circumstance, or whether a taxation authority will accept a company's tax treatment. IAS 12 Income Taxes specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. IFRIC 23 provides requirements that add to the requirements in IAS 12 by specifying how to reflect the effects of uncertainty in accounting for income taxes.	The interpretation did not have a material impact on the financial statements in the period of its first application.
IAS 19 (amendment) 'Employee Benefits'	Amendments to IAS 19 'Employee Benefits' - Plan Amendment, Curtailment or Settlement – require to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan.	The standard's amendments did not have a material impact on the financial statements in the period of its first application.
Improvements to IFRS 2015-2017	Amendments to various standards resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording. The amendments clarify that: a company remeasures its previously held interest in a joint operation when it obtains control of the business (IFRS 3), a company does not remeasure its previously held interest in a joint operation when it obtains joint control of the business (IFRS 11), a company accounts for all income tax consequences of dividend payments in the same way (IAS 12), and a company treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale (IAS 23).	The standards amendments did not have a material impact on the financial statements in the period of its first application.

5.3 New standards, interpretations and amendments to published standards that have been issued by the International Accounting Standards Board (IASB) and have been approved by the European Union but are not yet effective

There are no new standards, interpretations and amendments to published standards that have been issued by the International Accounting Standards Board (IASB) and have been approved by the European Union, but are not yet effective.

Notes to financial statements (cont.)

(in PLN thousand)

5.4 New standards, interpretations and amendments to published standards that have been published by the International Accounting Standards Board (IASB) and not yet approved by the European Union

STANDARD/ INTERPRETATION	DESCRIPTION	IMPACT ASSESSMENT
IFRS 17 'Insurance Contracts'	The new standard requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 'Insurance Contracts' and related interpretations while applied. Date of application: annual periods beginning on or after 1 January 2021.	The Group claims that the new standard will not have a material impact on the financial statements in the period of its first application.
IFRS 3 (amendment) 'Business combinations'	The amendments narrowed and clarified the definition of a business. They also permit a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business. Date of application: annual periods beginning on or after 1 January 2020.	The Group claims that the standard's amendments will not have a material impact on the financial statements in the period of its first application.
IAS 1 (amendment) 'Presentation of financial statements' and IAS 8 (amendment) 'Accounting policies, changes in accounting estimates and errors'	The amendments clarify and align the definition of 'material' and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards. Date of application: annual periods beginning on or after 1 January 2020.	The Group is currently analyzing the impact of those changes on the financial statements.

6. Accounting estimates

The preparation of interim financial statements in accordance with IFRS requires the Management Board of the Bank to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses.

The estimates at balance sheet day reflect market conditions on that date (e.g. market prices, interest rates, exchange rates).

Although the estimates are based on the best knowledge concerning current conditions and activities of the Group, the actual results may differ from those estimates.

During the six months period ended 30 June 2019 the most significant estimates are as follows:

- impairment of financial assets and off-balance sheet commitments,
- fair value measurement for derivative financial instruments and unquoted debt securities.

The principles of estimating fair value of derivative instruments and unquoted debt securities measured at fair value did not change in relation to 31 December 2018.

7. Risk management

7.1 Credit risk

The process of credit risk management, credit risk mitigation methods and rating models did not change significantly compared to those described in the consolidated financial statements of Bank Pekao S.A. Group for the year ended 31 December 2018. The selected quantitative data in these areas are presented below.

Rating models

The tables below present the loan portfolio quality for exposures encompassed by internal rating models.

Notes to the financial statements (cont.)

(in PLN thousand)

The distribution of rated portfolio for individual client segment (excluding impaired loans)

		30.06.2019											
RATING CLASS	RANGE OF PD	GROSS CARRYING AMOUNT OF ON-BALANCE EXPOSURES					NOMINAL AMOUNT OF OFF-BALANCE EXPOSURES					% PORTFOLIO	
		STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT- IMPAIRED)		PURCHASED OR ORIGINATED CREDIT-IMPAIRED (POCI)	TOTAL	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT- IMPAIRED)			TOTAL
				INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT					INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
MORTGAGE LOANS													
1	0.00% <= PD < 0.06%	9 181 304	1 575 392			-	10 756 696	320 352	203			320 555	19.1%
2	0.06% <= PD < 0.19%	4 147 554	1 304 692			-	5 452 246	354 689	309			354 998	10.0%
3	0.19% <= PD < 0.35%	21 474 197	4 469 465			30	25 943 692	363 174	24 545			387 719	45.4%
4	0.35% <= PD < 0.73%	8 170 120	2 853 359			-	11 023 479	220 932	31 812			252 744	19.5%
5	0.73% <= PD < 3.50%	661 670	1 315 675			-	1 977 345	107 378	33 399			140 777	3.7%
6	3.50% <= PD < 14.00%	32 998	579 347			-	612 345	8 378	62 664			71 042	1.2%
7	14.00% <= PD < 100.00%	129	633 288			-	633 417	98	7 121			7 219	1.1%
Total		43 667 972	12 731 218			30	56 399 220	1 375 001	160 053			1 535 054	100.0%
CONSUMER LOANS													
1	0.00% <= PD < 0.09%	719 851	133 827			-	853 678	5	-			5	7.2%
2	0.09% <= PD < 0.18%	1 543 294	163 530			-	1 706 824	24	-			24	14.4%
3	0.18% <= PD < 0.39%	2 755 540	155 914			77	2 911 531	78	-			78	24.5%
4	0.39% <= PD < 0.90%	2 635 369	99 635			45	2 735 049	26	-			26	23.1%
5	0.90% <= PD < 2.60%	1 782 040	119 420			84	1 901 544	58	195			253	16.0%
6	2.60% <= PD < 9.00%	864 551	202 844			95	1 067 490	29	3			32	9.0%
7	9.00% <= PD < 30.00%	214 609	221 176			67	435 852	1	208			209	3.7%
8	30.00% <= PD < 100.00%	15 269	235 381			109	250 759	-	11			11	2.1%
Total		10 530 523	1 331 727			477	11 862 727	221	417			638	100.0%
LIMITS													
1	0.00% <= PD < 0.02%	1 107	5 616			-	6 723	34 603	343 484			378 087	35.9%
2	0.02% <= PD < 0.11%	9 070	39 017			1	48 088	43 898	280 609			324 507	34.8%
3	0.11% <= PD < 0.35%	11 219	66 286			-	77 505	10 662	72 826			83 488	15.0%
4	0.35% <= PD < 0.89%	4 675	45 146			-	49 821	2 164	20 122			22 286	6.7%
5	0.89% <= PD < 2.00%	2 183	27 318			-	29 501	650	8 139			8 789	3.6%
6	2.00% <= PD < 4.80%	1 033	18 496			1	19 530	267	6 636			6 903	2.5%
7	4.80% <= PD < 100.00%	211	10 549			1	10 761	223	5 174			5 397	1.5%
Total		29 498	212 428			3	241 929	92 467	736 990			829 457	100.0%
Individual client segment - total		54 227 993	14 275 373			510	68 503 876	1 467 689	897 460			2 365 149	

Notes to the financial statements (cont.)

(in PLN thousand)

The distribution of rated portfolio for individual client segment (excluding impaired loans)

		31.12.2018											
RATING CLASS	RANGE OF PD	GROSS CARRYING AMOUNT OF ON-BALANCE EXPOSURES					NOMINAL AMOUNT OF OFF-BALANCE EXPOSURES					% PORTFOLIO	
		STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT- IMPAIRED)		PURCHASED OR ORIGINATED CREDIT-IMPAIRED (POCI)	TOTAL	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT- IMPAIRED)			TOTAL
				INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT					INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
MORTGAGE LOANS													
1	0.00% <= PD < 0.06%	8 666 275	1 780 996			-	10 447 271	287 264	2 208			289 472	19.4%
2	0.06% <= PD < 0.19%	3 938 029	1 370 048			-	5 308 077	309 139	2 864			312 003	10.2%
3	0.19% <= PD < 0.35%	19 489	4 889 979			33	24 379 866	303 131	27 983			331 114	44.7%
4	0.35% <= PD < 0.73%	7 122 393	3 187 017			-	10 309 410	179 126	29 801			208 927	19.0%
5	0.73% <= PD < 3.50%	687 410	1 546 084			-	2 233 494	100 814	29 487			130 301	4.3%
6	3.50% <= PD < 14.00%	34 579	586 560			-	621 139	9 470	60 148			69 618	1.2%
7	14.00% <= PD < 100.00%	554	668 569			-	669 123	19	5 094			5 113	1.2%
Total		39 939	14 029 253			33	53 968 380	1 188 963	157 585			1 346 548	100.0%
CONSUMER LOANS													
1	0.00% <= PD < 0.09%	655 592	142 190			-	797 782	194	-			194	7.1%
2	0.09% <= PD < 0.18%	1 453 915	189 229			-	1 643 144	335	-			335	14.7%
3	0.18% <= PD < 0.39%	2 531 257	208 958			15	2 740 230	53	-			53	24.5%
4	0.39% <= PD < 0.90%	2 440 988	126 235			94	2 567 317	42	-			42	23.0%
5	0.90% <= PD < 2.60%	1 676 831	124 991			39	1 801 861	209	-			209	16.1%
6	2.60% <= PD < 9.00%	818 889	182 305			207	1 001 401	339	-			339	9.0%
7	9.00% <= PD < 30.00%	204 291	194 604			112	399 007	-	201			201	3.6%
8	30.00% <= PD < 100.00%	19 002	205 128			75	224 205	-	7			7	2.0%
Total		9 800 765	1 373 640			542	11 174 947	1 172	208			1 380	100.0%
LIMITS													
1	0.00% <= PD < 0.02%	2 883	5 200			-	8 083	94 494	329 639			424 133	38.9%
2	0.02% <= PD < 0.11%	17 450	37 825			-	55 275	78 153	205 964			284 117	30.5%
3	0.11% <= PD < 0.35%	20 790	57 233			-	78 023	18 333	61 019			79 352	14.2%
4	0.35% <= PD < 0.89%	9 281	51 406			-	60 687	3 861	20 794			24 655	7.7%
5	0.89% <= PD < 2.00%	4 260	31 919			-	36 179	1 082	9 613			10 695	4.2%
6	2.00% <= PD < 4.80%	2 023	22 260			1	24 284	657	6 170			6 827	2.8%
7	4.80% <= PD < 100.00%	566	12 891			1	13 458	368	5 005			5 373	1.7%
Total		57 253	218 734			2	275 989	196 948	638 204			835 152	100.0%
Individual client segment - total		49 797	15 621 627			577	65 419 316	1 387 083	795 997			2 183 080	

Notes to the financial statements (cont.)

(in PLN thousand)

The distribution of rated portfolio for corporate client segment (excluding impaired loans)

		30.06.2019											
RATING CLASS	RANGE OF PD	GROSS CARRYING AMOUNT OF ON-BALANCE EXPOSURES					NOMINAL AMOUNT OF OFF-BALANCE EXPOSURES					% PORTFOLIO	
		STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT-IMPAIRED (POCI)	TOTAL	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT- IMPAIRED)			TOTAL
				INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT					INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
CORPORATES													
1	0.00% <= PD < 0.15%	300 284	7 583			-	307 867	769 795	183			769 978	2.1%
2	0.15% <= PD < 0.27%	1 674 660	10 843			-	1 685 503	3 445 969	54 325			3 500 294	10.1%
3	0.27% <= PD < 0.45%	3 926 228	53 531			-	3 979 759	4 488 327	197 828			4 686 155	16.8%
4	0.45% <= PD < 0.75%	5 610 685	164 146			-	5 774 831	5 351 608	155 422			5 507 030	22.0%
5	0.75% <= PD < 1.27%	4 913 918	334 677			-	5 248 595	4 018 635	394 464			4 413 099	18.8%
6	1.27% <= PD < 2.25%	3 549 594	253 842			-	3 803 436	3 240 619	698 813			3 939 432	15.0%
7	2.25% <= PD < 4.00%	690 873	440 591			-	1 131 464	1 557 717	376 786			1 934 503	6.0%
8	4.00% <= PD < 8.50%	1 175 033	1 280 210			-	2 455 243	831 309	389 066			1 220 375	7.1%
9	8.50% <= PD < 100.00%	71 422	782 192			-	853 614	99 645	138 622			238 267	2.1%
Total		21 912 697	3 327 615			-	25 240 312	23 803 624	2 405 509			26 209 133	100.0%
SMEs													
1	0.00% <= PD < 0.06%	41 151	363			-	41 514	61 991	-			61 991	2.1%
2	0.06% <= PD < 0.14%	251 325	7 330			-	258 655	237 593	4 999			242 592	10.3%
3	0.14% <= PD < 0.35%	842 891	54 963			-	897 854	342 317	18 627			360 944	26.0%
4	0.35% <= PD < 0.88%	905 230	76 774			86	982 090	239 725	35 613			275 338	26.1%
5	0.88% <= PD < 2.10%	641 369	82 228			-	723 597	121 357	16 288			137 645	17.8%
6	2.10% <= PD < 4.00%	285 844	62 117			-	347 961	49 435	6 616			56 051	8.3%
7	4.00% <= PD < 7.00%	120 074	47 674			15	167 763	14 132	3 975			18 107	3.8%
8	7.00% <= PD < 12.00%	57 771	43 681			-	101 452	6 836	2 066			8 902	2.3%
9	12.00% <= PD < 22.00%	36 583	40 286			-	76 869	6 228	7 707			13 935	1.9%
10	22.00% <= PD < 100.00%	20 334	48 565			-	68 899	704	389			1 093	1.4%
Total		3 202 572	463 981			101	3 666 654	1 080 318	96 280			1 176 598	100.0%
Corporate client segment - total		25 115 269	3 791 596			101	28 906 966	24 883 942	2 501 789			27 385 731	

Notes to the financial statements (cont.)

(in PLN thousand)

The distribution of rated portfolio for corporate client segment (excluding impaired loans)

		31.12.2018											
RATING CLASS	RANGE OF PD	GROSS CARRYING AMOUNT OF ON-BALANCE EXPOSURES					NOMINAL AMOUNT OF OFF-BALANCE EXPOSURES					% PORTFOLIO	
		STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT- IMPAIRED (POCI)	TOTAL	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT- IMPAIRED)			TOTAL
				INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT					INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
CORPORATES													
1	0.00% <= PD < 0.15%	502 738	8 300			-	511 038	2 225 560	13 187			2 238 747	5.2%
2	0.15% <= PD < 0.27%	1 953 673	47 758			-	2 001 431	2 827 794	27 452			2 855 246	9.3%
3	0.27% <= PD < 0.45%	3 651 157	56 875			-	3 708 032	3 237 748	81 099			3 318 847	13.4%
4	0.45% <= PD < 0.75%	4 942 251	128 214			-	5 070 465	6 380 043	431 920			6 811 963	22.6%
5	0.75% <= PD < 1.27%	3 632 780	810 592			-	4 443 372	5 656 673	1 212 310			6 868 983	21.6%
6	1.27% <= PD < 2.25%	3 559 709	393 069			-	3 952 778	2 938 157	395 343			3 333 500	13.9%
7	2.25% <= PD < 4.00%	1 008 324	503 834			-	1 512 158	925 159	206 145			1 131 304	5.0%
8	4.00% <= PD < 8.50%	1 028 128	893 421			-	1 921 549	1 955 801	355 943			2 311 744	8.1%
9	8.50% <= PD < 100.00%	82 765	132 909			-	215 674	187 655	67 344			254 999	0.9%
Total		20 361 525	2 974 972			-	23 336 497	26 334 590	2 790 743			29 125 333	100.0%
SMEs													
1	0.00% <= PD < 0.06%	18 000	1 438			-	19 438	47 119	1 561			48 680	1.1%
2	0.06% <= PD < 0.14%	276 547	14 475			-	291 022	327 770	3 449			331 219	10.4%
3	0.14% <= PD < 0.35%	862 656	50 491			-	913 147	509 977	23 439			533 416	24.3%
4	0.35% <= PD < 0.88%	976 510	106 473			5	1 082 988	359 443	47 227			406 670	25.1%
5	0.88% <= PD < 2.10%	758 679	115 372			-	874 051	185 520	24 774			210 294	18.2%
6	2.10% <= PD < 4.00%	354 590	74 735			10	429 335	83 199	19 184			102 383	8.9%
7	4.00% <= PD < 7.00%	198 485	57 209			-	255 694	43 733	9 355			53 088	5.2%
8	7.00% <= PD < 12.00%	119 256	49 008			-	168 264	15 205	5 952			21 157	3.2%
9	12.00% <= PD < 22.00%	48 522	43 415			-	91 937	5 936	4 039			9 975	1.7%
10	22.00% <= PD < 100.00%	29 227	75 943			18	105 188	6 365	2 439			8 804	1.9%
Total		3 642 472	588 559			33	4 231 064	1 584 267	141 419			1 725 686	100.0%
Corporate client segment - total		24 003 997	3 563 531			33	27 567 561	27 918 857	2 932 162			30 851 019	

Notes to the financial statements (cont.)

(in PLN thousand)

The distribution of rated portfolio for local government units segment (excluding impaired loans)

		30.06.2019											
RATING CLASS	RANGE OF PD	GROSS CARRYING AMOUNT OF ON-BALANCE EXPOSURES					NOMINAL AMOUNT OF OFF-BALANCE EXPOSURES					% PORTFOLIO	
		STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT-IMPAIRED (POCI)	TOTAL	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT- IMPAIRED)			TOTAL
				INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT					INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
LOCAL GOVERNMENT UNITS													
1	0.00% <= PD < 0.04%	872	-	-	-	-	872	60 012	-	-	-	60 012	2.3%
2	0.04% <= PD < 0.06%	315 792	-	-	-	-	315 792	19 869	-	-	-	19 869	12.7%
3	0.06% <= PD < 0.13%	244 242	-	-	-	-	244 242	76 071	-	-	-	76 071	12.1%
4	0.13% <= PD < 0.27%	332 960	-	-	-	-	332 960	177 761	1 000	-	-	178 761	19.3%
5	0.27% <= PD < 0.50%	653 399	3 742	-	-	-	657 141	19 564	-	-	-	19 564	25.5%
6	0.50% <= PD < 0.80%	642 601	-	-	-	-	642 601	28 580	-	-	-	28 580	25.3%
7	0.80% <= PD < 1.60%	40 073	-	-	-	-	40 073	21 521	-	-	-	21 521	2.3%
8	1.60% <= PD < 100.00%	11 423	-	-	-	-	11 423	1 025	-	-	-	1 025	0.5%
Total		2 241 362	3 742				2 245 104	404 403	1 000			405 403	100.0%

		31.12.2018											
RATING CLASS	RANGE OF PD	GROSS CARRYING AMOUNT OF ON-BALANCE EXPOSURES					NOMINAL AMOUNT OF OFF-BALANCE EXPOSURES					% PORTFOLIO	
		STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT-IMPAIRED (POCI)	TOTAL	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT- IMPAIRED)			TOTAL
				INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT					INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
LOCAL GOVERNMENT UNITS													
1	0.00% <= PD < 0.04%	650	-	-	-	-	650	10 032	-	-	-	10 032	0.4%
2	0.04% <= PD < 0.06%	344 709	-	-	-	-	344 709	55 820	-	-	-	55 820	14.8%
3	0.06% <= PD < 0.13%	337 260	-	-	-	-	337 260	15 505	-	-	-	15 505	13.0%
4	0.13% <= PD < 0.27%	347 994	-	-	-	-	347 994	162 257	-	-	-	162 257	18.8%
5	0.27% <= PD < 0.50%	636 686	-	-	-	-	636 686	45 007	-	-	-	45 007	25.1%
6	0.50% <= PD < 0.80%	686 002	-	-	-	-	686 002	8 875	-	-	-	8 875	25.6%
7	0.80% <= PD < 1.60%	33 108	-	-	-	-	33 108	11 000	-	-	-	11 000	1.6%
8	1.60% <= PD < 100.00%	17 730	-	-	-	-	17 730	25	-	-	-	25	0.7%
Total		2 404 139					2 404 139	308 521				308 521	100.0%

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

Notes to the financial statements (cont.)

(in PLN thousand)

The distribution of the portfolio exposure to specialized lending (excluding impaired loans)

SUPERVISORY CATEGORIES	30.06.2019											
	GROSS CARRYING AMOUNT OF ON-BALANCE EXPOSURES					NOMINAL AMOUNT OF OFF-BALANCE EXPOSURES					% PORTFOLIO	
	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT-IMPAIRED (POCI)	TOTAL	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT- IMPAIRED)			TOTAL
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT					INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
EXPOSURE TO SPECIALIZED LENDING												
High	1 501 261	52 837			-	1 554 098	112 247	-			112 247	22.4%
Good	3 198 158	-			-	3 198 158	1 379 811	-			1 379 811	61.4%
Satisfactory	439 446	639 881			-	1 079 327	75 598	-			75 598	15.5%
Low	-	52 225			-	52 225	-	-			-	0.7%
Total	5 138 865	744 943			-	5 883 808	1 567 656	-			1 567 656	100.0%

SUPERVISORY CATEGORIES	31.12.2018											
	GROSS CARRYING AMOUNT OF ON-BALANCE EXPOSURES					NOMINAL AMOUNT OF OFF-BALANCE EXPOSURES					% PORTFOLIO	
	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT-IMPAIRED (POCI)	TOTAL	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT- IMPAIRED)			TOTAL
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT					INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
EXPOSURE TO SPECIALIZED LENDING												
High	1 351 575	53 798			-	1 405 373	243 336	-			243 336	19.7%
Good	3 875 730	-			-	3 875 730	1 628 766	-			1 628 766	65.8%
Satisfactory	706 146	90 611			-	796 757	395 251	-			395 251	14.3%
Low	-	13 556			-	13 556	-	5 000			5 000	0.2%
Total	5 933 451	157 965			-	6 091 416	2 267 353	5 000			2 272 353	100.0%

Notes to the financial statements (cont.)

(in PLN thousand)

Portfolio of exposures not covered by the rating model (excluding impaired loans), broken down by delays in repayment

30.06.2019												
	GROSS CARRYING AMOUNT OF ON-BALANCE EXPOSURES					NOMINAL AMOUNT OF OFF-BALANCE EXPOSURES					% PORTFOLIO	
	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT- IMPAIRED)		PURCHASED OR ORIGINATED CREDIT-IMPAIRED (POCI)	TOTAL	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT- IMPAIRED)			TOTAL
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT					INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
EXPOSURES NOT COVERED BY THE RATING MODEL												
Not past due	26 017 476	683 928			235	26 701 639	15 004 714	198 742			15 203 456	96.9%
Past due, of which:	949 356	365 367			4	1 314 727	15 324	2 931			18 255	3.1%
- up to 1 month	943 295	74 903			4	1 018 202	15 286	972			16 258	2.4%
- between 1 month and 2 months	2 469	89 062			-	91 531	18	993			1 011	0.2%
- between 2 month and 3 months	3 592	201 402			-	204 994	20	966			986	0.5%
Total	26 966 832	1 049 295			239	28 016 366	15 020 038	201 673			15 221 711	100.0%

31.12.2018												
	GROSS CARRYING AMOUNT OF ON-BALANCE EXPOSURES					NOMINAL AMOUNT OF OFF-BALANCE EXPOSURES					% PORTFOLIO	
	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT- IMPAIRED)		PURCHASED OR ORIGINATED CREDIT- IMPAIRED (POCI)	TOTAL	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT- IMPAIRED)			TOTAL
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT					INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
EXPOSURES NOT COVERED BY THE RATING MODEL												
Not past due	24 351 772	614 705			252	24 966 729	7 649 566	215 018			7 864 584	97.1%
Past due, of which:	568 456	360 519			1	928 976	27 842	10 062			37 904	2.9%
- up to 1 month	568 454	68 050			1	636 505	27 822	8 042			35 864	2.1%
- between 1 month and 2 months	-	112 828			-	112 828	-	714			714	0.3%
- between 2 month and 3 months	2	179 641			-	179 643	20	1 306			1 326	0.5%
Total	24 920 228	975 224			253	25 895 705	7 677 408	225 080			7 902 488	100.0%

Notes to the financial statements (cont.)

(in PLN thousand)

Portfolio of impaired exposures, broken down by delays in repayment

30.06.2019												
	GROSS CARRYING AMOUNT OF ON-BALANCE EXPOSURES					NOMINAL AMOUNT OF OFF-BALANCE EXPOSURES						
	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT- IMPAIRED)		PURCHASED OR ORIGINATED CREDIT- IMPAIRED (POCI)	TOTAL	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT- IMPAIRED)		TOTAL	% PORTFOLIO
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT					INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
IMPAIRED EXPOSURES												
Not past due			1 262 024	289 227	8 376	1 559 627			195 888	6 035	201 923	21.2%
Past due, of which:			3 823 243	2 341 712	82 873	6 247 828			306 193	2 492	308 685	78.8%
- up to 1 month			51 105	156 409	13 067	220 581			614	293	907	2.7%
- between 1 month and 3 months			68 964	212 953	3 627	285 544			892	316	1 208	3.4%
- between 3 months and 1 year			429 315	401 828	146	831 289			299 997	827	300 824	13.6%
- between 1 year and 5 years			884 589	866 417	3 863	1 754 869			1 956	887	2 843	21.1%
- above 5 years			2 389 270	704 105	62 170	3 155 545			2 734	169	2 903	38.0%
Total			5 085 267	2 630 939	91 249	7 807 455			502 081	8 527	510 608	100.0%

31.12.2018												
	GROSS CARRYING AMOUNT OF ON-BALANCE EXPOSURES					NOMINAL AMOUNT OF OFF-BALANCE EXPOSURES						
	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT- IMPAIRED)		PURCHASED OR ORIGINATED CREDIT- IMPAIRED (POCI)	TOTAL	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT- IMPAIRED)		TOTAL	% PORTFOLIO
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT					INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
IMPAIRED EXPOSURES												
Not past due			1 308 260	242 608	15 026	1 565 894			274 600	6 713	281 313	22.1%
Past due, of which:			3 800 001	2 398 499	71 676	6 270 176			225 579	2 737	228 316	77.9%
- up to 1 month			87 771	188 345	7 596	283 712			200 912	671	201 583	5.8%
- between 1 month and 3 months			176 815	200 735	63	377 613			19 202	389	19 591	4.8%
- between 3 months and 1 year			334 112	374 010	362	708 484			355	709	1 064	8.5%
- between 1 year and 5 years			1 306 983	870 098	5 245	2 182 326			5 017	799	5 816	26.2%
- above 5 years			1 894 320	765 311	58 410	2 718 041			93	169	262	32.6%
Total			5 108 261	2 641 107	86 702	7 836 070			500 179	9 450	509 629	100.0%

Notes to the financial statements (cont.)

(in PLN thousand)

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

PORTFOLIO	30.06.2019		
	GROSS CARRYING AMOUNT	IMPAIRMENT ALLOWANCE	NET CARRYING AMOUNT
Exposures with no impairment	133 556 120	(1 037 337)	132 518 783
Rated portfolio for individual client segment	68 503 876	(514 841)	67 989 035
Mortgage loans	56 399 220	(246 892)	56 152 328
Consumer loans	11 862 727	(259 936)	11 602 791
Limits	241 929	(8 013)	233 916
Rated portfolio for corporate client segment	28 906 966	(199 100)	28 707 866
Corporates	25 240 312	(147 397)	25 092 915
SMEs	3 666 654	(51 703)	3 614 951
Rated portfolio for local government units segment	2 245 104	(3 070)	2 242 034
Specialized lending exposures	5 883 808	(73 200)	5 810 608
Exposures not covered by the rating model	28 016 366	(247 126)	27 769 240
Impaired exposures	7 807 455	(5 207 889)	2 599 566
Total loans and advances to customers (*)	141 363 575	(6 245 226)	135 118 349

PORTFOLIO	31.12.2018		
	GROSS CARRYING AMOUNT	IMPAIRMENT ALLOWANCE	NET CARRYING AMOUNT
Exposures with no impairment	127 378 137	(1 023 186)	126 354 951
Rated portfolio for individual client segment	65 419 316	(515 724)	64 903 592
Mortgage loans	53 968 380	(259 517)	53 708 863
Consumer loans	11 174 947	(247 538)	10 927 409
Limits	275 989	(8 669)	267 320
Rated portfolio for corporate client segment	27 567 561	(170 223)	27 397 338
Corporates	23 336 497	(106 569)	23 229 928
SMEs	4 231 064	(63 654)	4 167 410
Rated portfolio for local government units segment	2 404 139	(3 258)	2 400 881
Specialized lending exposures	6 091 416	(81 702)	6 009 714
Exposures not covered by the rating model	25 895 705	(252 279)	25 643 426
Impaired exposures	7 836 070	(5 197 270)	2 638 800
Total loans and advances to customers (*)	135 214 207	(6 220 456)	128 993 751

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

Notes to the financial statements (cont.)

(in PLN thousand)

Division of off-balance sheet exposures to customers (loan commitments and financial guarantee contracts) for covered and not covered by internal rating models

PORTFOLIO	30.06.2019	
	NOMINAL AMOUNT	IMPAIRMENT ALLOWANCE
Exposures with no impairment	46 945 650	(124 604)
Rated portfolio for individual client segment	2 365 149	(5 305)
Mortgage loans	1 535 054	(2 707)
Consumer loans	638	(73)
Limits	829 457	(2 525)
Rated portfolio for corporate client segment	27 385 731	(64 120)
Corporates	26 209 133	(61 047)
SMEs	1 176 598	(3 073)
Rated portfolio for local government units segment	405 403	(191)
Specialized lending exposures	1 567 656	(4 119)
Exposures not covered by the rating model	15 221 711	(50 869)
Impaired exposures	510 608	(156 642)
Total off- balance sheet exposures to customers	47 456 258	(281 246)

PORTFOLIO	31.12.2018	
	NOMINAL AMOUNT	IMPAIRMENT ALLOWANCE
Exposures with no impairment	43 517 461	(128 203)
Rated portfolio for individual client segment	2 183 080	(4 484)
Mortgage loans	1 346 548	(2 205)
Consumer loans	1 380	(58)
Limits	835 152	(2 221)
Rated portfolio for corporate client segment	30 851 019	(79 838)
Corporates	29 125 333	(75 629)
SMEs	1 725 686	(4 209)
Rated portfolio for local government units segment	308 521	(87)
Specialized lending exposures	2 272 353	(10 973)
Exposures not covered by the rating model	7 902 488	(32 821)
Impaired exposures	509 629	(112 495)
Total off- balance sheet exposures to customers	44 027 090	(240 698)

Notes to the financial statements (cont.)

(in PLN thousand)

Classification of loans and advances to banks according to Fitch ratings as at 30 June 2019

RATING	CARRYING AMOUNT					TOTAL	%PORTFOLIO
	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT- IMPAIRED)		PURCHASED OR ORIGINATED CREDIT-IMPAIRED (POCI)		
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT			
LOANS AND ADVANCES TO BANKS MEASURED AT AMORTISED COST							
AA+ to AA-	161 531	-	-	-	-	161 531	6.0%
A+ to A-	1 600 695	409	-	88	-	1 601 192	59.0%
BBB+ to BBB-	374 967	-	-	-	-	374 967	13.8%
BB+ to BB-	14 085	-	-	-	-	14 085	0.5%
No rating	553 285	-	8 936	-	-	562 221	20.7%
Total gross carrying amount	2 704 563	409	8 936	88	-	2 713 996	100.0%
Impairment allowance	(1 116)	-	(8 936)	-	-	(10 052)	
Total net carrying amount	2 703 447	409	-	88	-	2 703 944	

Classification of loans and advances to banks according to Fitch ratings as at 31 December 2018

RATING	CARRYING AMOUNT					TOTAL	%PORTFOLIO
	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT- IMPAIRED)		PURCHASED OR ORIGINATED CREDIT-IMPAIRED (POCI)		
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT			
LOANS AND ADVANCES TO BANKS MEASURED AT AMORTISED COST							
AA+ to AA-	89 431	-	-	-	-	89 431	3.9%
A+ to A-	1 141 105	614	-	108	-	1 141 827	50.1%
BBB+ to BBB-	733 081	-	-	-	-	733 081	32.2%
BB+ to BB-	2 150	-	-	-	-	2 150	0.1%
No rating	302 854	-	8 987	-	-	311 841	13.7%
Total gross carrying amount	2 268 621	614	8 987	108	-	2 278 330	100.0%
Impairment allowance	(921)	-	(8 987)	-	-	(9 908)	
Total net carrying amount	2 267 700	614	-	108	-	2 268 422	

Notes to the financial statements (cont.)

(in PLN thousand)

Classification of exposures to debt securities according to Fitch ratings as at 30 June 2019

RATING	CARRYING AMOUNT					TOTAL	%PORTFOLIO
	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT- IMPAIRED (POCI)		
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT			
DEBT SECURITIES MEASURED AT AMORTISED COST							
A+ to A-	9 813 945	-	-	-	-	9 813 945	63.4%
BBB+ do BBB-	234 377	-	-	-	-	234 377	1.5%
No rating	5 059 320	337 791	31 825	-	-	5 428 936	35.1%
Gross carrying amount	15 107 642	337 791	31 825	-	-	15 477 258	100.0%
Impairment allowance	(25 646)	(17 045)	(31 825)	-	-	(74 516)	
Carrying amount	15 081 996	320 746	-	-	-	15 402 742	
DEBT SECURITIES MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME							
AAA	310 615	-	-	-	-	310 615	1.1%
A+ to A-	18 756 133	-	-	-	-	18 756 133	66.1%
BBB+ to BBB-	1 584 900	-	-	-	-	1 584 900	5.6%
BB+ do BB-	83 534	-	-	-	-	83 534	0.3%
No rating	7 623 341	14 106	-	-	-	7 637 447	26.9%
Carrying amount	28 358 523	14 106	-	-	-	28 372 629	100.0%
Impairment allowance (*)	(27 201)	(678)	-	-	-	(27 879)	
DEBT SECURITIES HELD FOR TRADING							
A+ to A-						1 987 856	89.3%
BBB+ to BBB-						129 037	5.8%
No rating						110 082	4.9%
Carrying amount						2 226 975	100.0%

(*) The impairment allowance for debt securities measured at fair value through other comprehensive income is included in the 'Revaluation reserve' item and does not reduce the carrying amount.

Notes to the financial statements (cont.)

(in PLN thousand)

Classification of exposures to debt securities according to Fitch ratings as at 31 December 2018

RATING	CARRYING AMOUNT					TOTAL	%PORTFOLIO
	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT- IMPAIRED (POCI)		
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT			
DEBT SECURITIES MEASURED AT AMORTISED COST							
A+ to A-	5 362 693	-	-	-	-	5 362 693	47.4%
BBB+ do BBB-	676 434	-	-	-	-	676 434	6.0%
No rating	5 244 564	-	31 547	-	-	5 276 111	46.6%
Gross carrying amount	11 283 691	-	31 547	-	-	11 315 238	100.0%
Impairment allowance	(27 792)	-	(31 547)	-	-	(59 339)	
Carrying amount	11 255 899	-	-	-	-	11 255 899	
DEBT SECURITIES MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME							
AAA	952 874	-	-	-	-	952 874	3.5%
A+ to A-	14 392 599	-	-	-	-	14 392 599	53.2%
BBB+ to BBB-	693 351	-	-	-	-	693 351	2.6%
No rating	10 994 003	-	-	-	-	10 994 003	40.7%
Carrying amount	27 032 827	-	-	-	-	27 032 827	100.0%
Impairment allowance (*)	(28 307)	-	-	-	-	(28 307)	
DEBT SECURITIES HELD FOR TRADING							
A+ to A-						679 689	90.0%
BBB+ to BBB-						4 169	0.6%
No rating						71 355	9.4%
Carrying amount						755 213	100.0%

(*) The impairment allowance for debt securities measured at fair value through other comprehensive income is included in the 'Revaluation reserve' item and does not reduce the carrying amount.

Notes to the financial statements (cont.)

(in PLN thousand)

Classification of exposures to derivative financial instruments according to Fitch ratings as at 30 June 2019

RATING	DERIVATIVES HELD FOR TRADING			HEDGING DERIVATIVES			TOTAL	%PORTFOLIO
	BANKS	OTHER FINANCIAL INSTITUTIONS	NON-FINANCIAL ENTITIES	BANKS	OTHER FINANCIAL INSTITUTIONS	NON-FINANCIAL ENTITIES		
AAA	287 506	610 725	-	13 425	295 774	-	1 207 430	55.6%
AA+ to AA-	49 089	-	-	13 105	-	-	62 194	2.9%
A+ to A-	66 556	1 673	82	44 594	-	-	112 905	5.2%
BBB+ to BBB-	192 687	-	48 049	11 645	-	-	252 381	11.6%
BB+ to BB-	2 055	-	-	-	-	-	2 055	0.1%
B+ to B-	-	-	-	-	-	-	-	-
No rating	102 172	69 693	346 281	16 593	-	-	534 739	24.6%
Total	700 065	682 091	394 412	99 362	295 774	-	2 171 704	100.0%

Classification of exposures to derivative financial instruments according to Fitch ratings as at 31 December 2018

RATING	DERIVATIVES HELD FOR TRADING			HEDGING DERIVATIVES			TOTAL	%PORTFOLIO
	BANKS	OTHER FINANCIAL INSTITUTIONS	NON-FINANCIAL ENTITIES	BANKS	OTHER FINANCIAL INSTITUTIONS	NON-FINANCIAL ENTITIES		
AAA	251 167	297 401	-	27 308	244 370	-	820 246	46.5%
AA+ to AA-	47 748	-	-	-	-	-	47 748	2.7%
A+ to A-	163 280	540	-	14 170	-	-	177 990	10.1%
BBB+ to BBB-	184 064	-	17 060	11 791	-	-	212 915	12.1%
BB+ to BB-	117	-	-	-	-	-	117	-
B+ to B-	1 894	-	-	-	-	-	1 894	0.1%
No rating	126 081	116 021	246 289	15 926	-	-	504 317	28.5%
Total	774 351	413 962	263 349	69 195	244 370	-	1 765 227	100.0%

Notes to the financial statements (cont.)

(in PLN thousand)

The tables below present the changes in impairment allowances and gross carrying amount of financial assets not measured at fair value through profit or loss by class of financial assets:

	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT- IMPAIRED (POCI)	TOTAL
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
LOANS AND ADVANCES TO BANKS AND CENTRAL BANKS MEASURED AT AMORTISED COST (*)						
GROSS CARRYING AMOUNT						
GROSS CARRYING AMOUNT AS AT 01.01.2019	12 113 231	614	8 987	108	-	12 122 940
Transfer to Stage 1	115	(115)	-	-	-	-
Transfer to Stage 2	(73)	87	-	(14)	-	-
Transfer to Stage 3	(2)	(21)	-	23	-	-
New / Purchased / Granted financial assets	2 377 836	-	-	-	-	2 377 836
Financial assets derecognised, other than write-offs (repayments)	(10 101 435)	(126)	-	(31)	-	(10 101 592)
Financial assets written off (**)	-	-	(113)	-	-	(113)
Modifications not resulting in derecognition	-	-	-	-	-	-
Other, in this changes resulting from exchange rates	(6 047)	(30)	62	2	-	(6 013)
GROSS CARRYING AMOUNT AS AT 30.06.2019	4 383 625	409	8 936	88	-	4 393 058
IMPAIRMENT ALLOWANCE						
IMPAIRMENT ALLOWANCE AS AT 01.01.2019	1 834	-	8 987	-	-	10 821
Transfer to Stage 1	-	-	-	-	-	-
Transfer to Stage 2	-	11	-	(11)	-	-
Transfer to Stage 3	-	-	-	-	-	-
New / Purchased / Granted financial assets	1 876	-	-	-	-	1 876
Financial assets derecognised, other than write-offs (repayments)	(1 410)	(28)	-	-	-	(1 438)
Financial assets written off (**)	-	-	(113)	-	-	(113)
Changes in level of credit risk (excluding the transfers between the Stages)	(642)	(10)	-	12	-	(640)
Changes in models and risk parameters	-	-	-	-	-	-
Other, in this changes resulting from exchange rates	(408)	27	62	(1)	-	(320)
IMPAIRMENT ALLOWANCE AS AT 30.06.2019	1 250	-	8 936	-	-	10 186

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

(**) Including the value of contractual interest subject to partial write-off in the amount of PLN 113 thousand.

Notes to the financial statements (cont.)

(in PLN thousand)

	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT- IMPAIRED (POCI)	TOTAL
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
LOANS AND ADVANCES TO BANKS AND CENTRAL BANKS MEASURED AT AMORTISED COST (*)						
GROSS CARRYING AMOUNT						
GROSS CARRYING AMOUNT AS AT 01.01.2018	5 175 069	1 071	21 014	113	-	5 197 267
Transfer to Stage 1	161	(160)	-	(1)	-	-
Transfer to Stage 2	(187)	196	-	(9)	-	-
Transfer to Stage 3	(17)	(45)	-	62	-	-
New / Purchased / Granted financial assets	8 712 604	-	-	-	-	8 712 604
Financial assets derecognised, other than write-offs (repayments)	(1 750 421)	(414)	-	(46)	-	(1 750 881)
Financial assets written off (**)	-	-	(5 079)	-	-	(5 079)
Modifications not resulting in derecognition	-	-	-	-	-	-
Other, in this changes resulting from exchange rates	(23 978)	(34)	(6 948)	(11)	-	(30 971)
GROSS CARRYING AMOUNT AS AT 31.12.2018	12 113 231	614	8 987	108	-	12 122 940
IMPAIRMENT ALLOWANCE						
IMPAIRMENT ALLOWANCE AS AT 01.01.2018	425	-	21 127	-	-	21 552
Transfer to Stage 1	-	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
New / Purchased / Granted financial assets	1 633	-	-	-	-	1 633
Financial assets derecognised, other than write-offs (repayments)	(378)	-	-	-	-	(378)
Financial assets written off (**)	-	-	(5 079)	-	-	(5 079)
Changes in level of credit risk (excluding the transfers between the Stages)	(363)	2	-	-	-	(361)
Changes in models and risk parameters	-	-	-	-	-	-
Other, in this changes resulting from exchange rates	517	(2)	(7 061)	-	-	(6 546)
IMPAIRMENT ALLOWANCE AS AT 31.12.2018	1 834	-	8 987	-	-	10 821

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

(**) Including the value of contractual interest subject to partial write-off in the amount of PLN 5 079 thousand.

Notes to the financial statements (cont.)

(in PLN thousand)

	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT- IMPAIRED (POCI)	TOTAL
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
LOANS AND ADVANCES TO CUSTOMERS MEASURED AT AMORTISED COST						
GROSS CARRYING AMOUNT						
GROSS CARRYING AMOUNT AS AT 01.01.2019	100 388 050	20 213 176	5 063 110	2 542 099	87 565	128 294 000
Transfer to Stage 1	4 144 467	(4 128 637)	(1 832)	(13 998)	-	-
Transfer to Stage 2	(4 909 522)	5 020 445	(2 787)	(108 136)	-	-
Transfer to Stage 3	(196 630)	(337 594)	113 474	420 750	-	-
New / Purchased / Granted financial assets	23 220 509	-	-	-	7 449	23 227 958
Financial assets derecognised, other than write-offs (repayments)	(15 092 138)	(1 756 780)	(146 114)	(169 419)	(1 943)	(17 166 394)
Financial assets written off (*)	-	-	(171 064)	(151 955)	(19)	(323 038)
Modifications not resulting in derecognition	(1 665)	-	-	-	-	(1 665)
Other, in this changes resulting from exchange rates	(503 050)	11 114	152 477	9 403	(953)	(331 009)
GROSS CARRYING AMOUNT AS AT 30.06.2019	107 050 021	19 021 724	5 007 264	2 528 744	92 099	133 699 852
IMPAIRMENT ALLOWANCE						
IMPAIRMENT ALLOWANCE AS AT 01.01.2019	358 389	659 536	3 265 624	1 800 673	53 455	6 137 677
Transfer to Stage 1	103 236	(96 035)	(287)	(6 914)	-	-
Transfer to Stage 2	(34 086)	78 908	(882)	(43 940)	-	-
Transfer to Stage 3	(34 675)	(79 942)	9 991	104 626	-	-
New / Purchased / Granted financial assets	97 867	-	-	-	801	98 668
Financial assets derecognised, other than write-offs (repayments)	(36 175)	(17 522)	(17 115)	(27 187)	-	(97 999)
Financial assets written off (*)	-	-	(171 064)	(151 955)	(19)	(323 038)
Changes in level of credit risk (excluding the transfers between the Stages)	(93 284)	115 093	66 741	120 959	(7 092)	202 417
Changes in models and risk parameters	-	-	-	-	-	-
Other, in this changes resulting from exchange rates	6 075	4 882	108 788	8 728	8 053	136 526
IMPAIRMENT ALLOWANCE AS AT 30.06.2019	367 347	664 920	3 261 796	1 804 990	55 198	6 154 251

(*) Including the value of contractual interest subject to partial write-off in the amount of PLN 149 954 thousand.

The total value of undiscounted expected credit losses at the time of initial recognition of financial assets purchased or originated credit impaired in the period ended 30 June 2019 amounted to PLN 1 388 thousand.

Notes to the financial statements (cont.)

(in PLN thousand)

	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT- IMPAIRED (POCI)	TOTAL
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
LOANS AND ADVANCES TO CUSTOMERS MEASURED AT AMORTISED COST						
GROSS CARRYING AMOUNT						
GROSS CARRYING AMOUNT AS AT 01.01.2018	89 734 902	20 981 569	7 423 047	3 327 030	81 046	121 547 594
Transfer to Stage 1	3 294 387	(3 278 870)	(7 079)	(8 438)	-	-
Transfer to Stage 2	(6 143 253)	6 247 851	(34 349)	(70 249)	-	-
Transfer to Stage 3	(809 369)	(564 304)	693 622	680 051	-	-
New / Purchased / Granted financial assets	29 903 625	(1)	-	-	2 116	29 905 740
Financial assets derecognised, other than write-offs (repayments)	(16 531 169)	(3 211 797)	(725 496)	(297 910)	(2 692)	(20 769 064)
Financial assets written off (*)	-	-	(2 259 977)	(1 222 760)	(17)	(3 482 754)
Modifications not resulting in derecognition	-	-	(1 002)	-	1 002	-
Other, in this changes resulting from exchange rates	938 927	38 728	(25 656)	134 375	6 110	1 092 484
GROSS CARRYING AMOUNT AS AT 31.12.2018	100 388 050	20 213 176	5 063 110	2 542 099	87 565	128 294 000
IMPAIRMENT ALLOWANCE						
IMPAIRMENT ALLOWANCE AS AT 01.01.2018	353 983	648 652	5 441 071	2 793 536	37 157	9 274 399
Transfer to Stage 1	98 214	(93 714)	(808)	(3 692)	-	-
Transfer to Stage 2	(23 913)	59 078	(4 844)	(30 321)	-	-
Transfer to Stage 3	(22 079)	(71 886)	24 721	69 244	-	-
New / Purchased / Granted financial assets	147 555	-	-	-	-	147 555
Financial assets derecognised, other than write-offs (repayments)	(81 783)	(43 871)	(73 716)	(39 730)	-	(239 100)
Financial assets written off (*)	-	-	(2 259 977)	(1 222 760)	(17)	(3 482 754)
Changes in level of credit risk (excluding the transfers between the Stages)	(105 917)	165 377	269 352	220 270	2 569	551 651
Changes in models and risk parameters	-	-	-	-	-	-
Other, in this changes resulting from exchange rates	(7 671)	(4 100)	(130 175)	14 126	13 746	(114 074)
IMPAIRMENT ALLOWANCE AS AT 31.12.2018	358 389	659 536	3 265 624	1 800 673	53 455	6 137 677

(*) Including the value of contractual interest subject to partial write-off in the amount of PLN 3 072 340 thousand.

The total value of undiscounted expected credit losses at the time of initial recognition of financial assets purchased or originated credit impaired in the period ended 31 December 2018 amounted to PLN 11 863 thousand.

Notes to the financial statements (cont.)

(in PLN thousand)

	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT- IMPAIRED (POCI)	TOTAL
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
RECEIVABLES FROM FINANCE LEASES						
GROSS CARRYING AMOUNT						
GROSS CARRYING AMOUNT AS AT 01.01.2019	5 160 123	105 171	45 151	99 008	-	5 409 453
Transfer to Stage 1	2 481	(2 481)	-	-	-	-
Transfer to Stage 2	(187 104)	187 199	(63)	(32)	-	-
Transfer to Stage 3	(4 435)	(32 751)	33 651	3 535	-	-
New / Purchased / Granted financial assets	1 535 162	-	-	-	-	1 535 162
Financial assets derecognised, other than write-offs (repayments)	(803 159)	(19 739)	(736)	(316)	-	(823 950)
Financial assets written off	-	-	-	-	-	-
Modifications not resulting in derecognition	-	-	-	-	-	-
Other, in this changes resulting from exchange rates	(269)	-	-	-	-	(269)
GROSS CARRYING AMOUNT AS AT 30.06.2019	5 702 799	237 399	78 003	102 195	-	6 120 396
IMPAIRMENT ALLOWANCE						
IMPAIRMENT ALLOWANCE AS AT 01.01.2019	4 029	1 877	15 467	61 413	-	82 786
Transfer to Stage 1	43	(43)	-	-	-	-
Transfer to Stage 2	(1 564)	1 583	(6)	(13)	-	-
Transfer to Stage 3	(76)	(469)	298	247	-	-
New/Purchased/Granted financial assets	8 693	-	-	-	-	8 693
Financial assets derecognised, other than write-offs (repayments)	(6 420)	(379)	(404)	(202)	-	(7 405)
Financial assets written off	-	-	-	-	-	-
Changes in level of credit risk (excluding the transfers between the Stages)	(1 939)	(621)	4 899	4 562	-	6 901
Changes in models and risk parameters	-	-	-	-	-	-
Other, in this changes resulting from exchange rates	360	-	(292)	(68)	-	-
IMPAIRMENT ALLOWANCE AS AT 30.06.2019	3 126	1 948	19 962	65 939	-	90 975

Notes to the financial statements (cont.)

(in PLN thousand)

	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT- IMPAIRED (POCI)	TOTAL
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
RECEIVABLES FROM FINANCE LEASES						
GROSS CARRYING AMOUNT						
GROSS CARRYING AMOUNT AS AT 01.01.2018	4 090 628	208 808	51 859	173 772	-	4 525 067
Transfer to Stage 1	115 788	(114 500)	-	(1 288)	-	-
Transfer to Stage 2	(60 029)	61 582	(842)	(711)	-	-
Transfer to Stage 3	(22 808)	(28 999)	19 743	32 064	-	-
New / Purchased / Granted financial assets	1 797 962	33 545	2 377	2 114	-	1 835 998
Financial assets derecognised, other than write-offs (repayments)	(1 013 470)	(24 226)	(8 070)	(8 269)	-	(1 054 035)
Financial assets written off	-	-	-	-	-	-
Modifications not resulting in derecognition	-	-	-	-	-	-
Other, in this changes resulting from exchange rates	252 052	(31 039)	(19 916)	(98 674)	-	102 423
GROSS CARRYING AMOUNT AS AT 31.12.2018	5 160 123	105 171	45 151	99 008	-	5 409 453
IMPAIRMENT ALLOWANCE						
IMPAIRMENT ALLOWANCE AS AT 01.01.2018	4 343	3 125	26 965	142 779	-	177 212
Transfer to Stage 1	2 493	(1 858)	-	(635)	-	-
Transfer to Stage 2	(157)	268	(60)	(51)	-	-
Transfer to Stage 3	(34)	(421)	36	419	-	-
New / Purchased / Granted financial assets	2 436	1 544	8 223	11 392	-	23 595
Financial assets derecognised, other than write-offs (repayments)	(2 827)	(2 792)	(1 637)	(2 937)	-	(10 193)
Financial assets written off	-	-	-	-	-	-
Changes in level of credit risk (excluding the transfers between the Stages)	-	-	-	-	-	-
Changes in models and risk parameters	3	-	-	3 770	-	3 773
Other, in this changes resulting from exchange rates	(2 228)	2 011	(18 060)	(93 324)	-	(111 601)
IMPAIRMENT ALLOWANCE AS AT 31.12.2018	4 029	1 877	15 467	61 413	-	82 786

Notes to the financial statements (cont.)

(in PLN thousand)

	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT- IMPAIRED (POCI)	TOTAL
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
LOANS AND ADVANCES TO CUSTOMERS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME						
CARRYING AMOUNT						
CARRYING AMOUNT AS AT 01.01.2019	1 511 102	-	-	-	-	1 511 102
Transfer to Stage 1	-	-	-	-	-	-
Transfer to Stage 2	(623 665)	623 665	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
New / Purchased / Granted financial assets	119 797	-	-	-	-	119 797
Financial assets derecognised, other than write-offs (repayments)	(69 106)	-	-	-	-	(69 106)
Financial assets written off	-	-	-	-	-	-
Modifications not resulting in derecognition	-	-	-	-	-	-
Other, in this changes resulting from exchange rates	(627)	(17 839)	-	-	-	(18 466)
CARRYING AMOUNT AS AT 30.06.2019	937 501	605 826	-	-	-	1 543 327
IMPAIRMENT ALLOWANCE (*)						
IMPAIRMENT ALLOWANCE AS AT 01.01.2019	14 590	-	-	-	-	14 590
Transfer to Stage 1	-	-	-	-	-	-
Transfer to Stage 2	(7 798)	7 798	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
New / Purchased / Granted financial assets	486	-	-	-	-	486
Financial assets derecognised, other than write-offs (repayments)	-	-	-	-	-	-
Financial assets written off	-	-	-	-	-	-
Changes in level of credit risk (excluding the transfers between the Stages)	(507)	18 326	-	-	-	17 819
Changes in models and risk parameters	-	-	-	-	-	-
Other, in this changes resulting from exchange rates	(415)	-	-	-	-	(415)
IMPAIRMENT ALLOWANCE AS AT 30.06.2019	6 356	26 124	-	-	-	32 480

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

Notes to the financial statements (cont.)

(in PLN thousand)

	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT- IMPAIRED (POCI)	TOTAL
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
LOANS AND ADVANCES TO CUSTOMERS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME						
CARRYING AMOUNT						
CARRYING AMOUNT AS AT 01.01.2018	1 555 964	-	-	-	-	1 555 964
Transfer to Stage 1	-	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
New / Purchased / Granted financial assets	401 500	-	-	-	-	401 500
Financial assets derecognised, other than write-offs (repayments)	(489 874)	-	-	-	-	(489 874)
Financial assets written off	-	-	-	-	-	-
Modifications not resulting in derecognition	-	-	-	-	-	-
Other, in this changes resulting from exchange rates	43 512	-	-	-	-	43 512
CARRYING AMOUNT AS AT 31.12.2018	1 511 102	-	-	-	-	1 511 102
IMPAIRMENT ALLOWANCE (*)						
IMPAIRMENT ALLOWANCE AS AT 01.01.2018	18 159	-	-	-	-	18 159
Transfer to Stage 1	-	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
New / Purchased / Granted financial assets	1 457	-	-	-	-	1 457
Financial assets derecognised, other than write-offs (repayments)	(1 782)	-	-	-	-	(1 782)
Financial assets written off	-	-	-	-	-	-
Changes in level of credit risk (excluding the transfers between the Stages)	(3 244)	-	-	-	-	(3 244)
Changes in models and risk parameters	-	-	-	-	-	-
Other, in this changes resulting from exchange rates	-	-	-	-	-	-
IMPAIRMENT ALLOWANCE AS AT 31.12.2018	14 590	-	-	-	-	14 590

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

Notes to the financial statements (cont.)

(in PLN thousand)

	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT- IMPAIRED (POCI)	TOTAL
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
DEBT SECURITIES MEASURED AT AMORTISED COST						
GROSS CARRYING AMOUNT						
GROSS CARRYING AMOUNT AS AT 01.01.2019	11 283 691	-	31 547	-	-	11 315 238
Transfer to Stage 1	-	-	-	-	-	-
Transfer to Stage 2	(337 791)	337 791	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
New / Purchased / Granted financial assets	5 196 824	-	-	-	-	5 196 824
Financial assets derecognised, other than write-offs (repayments)	(1 092 353)	-	-	-	-	(1 092 353)
Financial assets written off	-	-	-	-	-	-
Modifications not resulting in derecognition	-	-	-	-	-	-
Other, in this changes resulting from exchange rates	57 271	-	278	-	-	57 549
GROSS CARRYING AMOUNT AS AT 30.06.2019	15 107 642	337 791	31 825	-	-	15 477 258
IMPAIRMENT ALLOWANCE						
IMPAIRMENT ALLOWANCE AS AT 01.01.2019	27 792	-	31 547	-	-	59 339
Transfer to Stage 1	-	-	-	-	-	-
Transfer to Stage 2	(9 449)	9 449	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
New / Purchased / Granted financial assets	3 485	-	-	-	-	3 485
Financial assets derecognised, other than write-offs (repayments)	(1 075)	-	-	-	-	(1 075)
Financial assets written off	-	-	-	-	-	-
Changes in level of credit risk (excluding the transfers between the Stages)	4 939	7 596	-	-	-	12 535
Changes in models and risk parameters	-	-	-	-	-	-
Other, in this changes resulting from exchange rates	(46)	-	278	-	-	232
IMPAIRMENT ALLOWANCE AS AT 30.06.2019	25 646	17 045	31 825	-	-	74 516

Notes to the financial statements (cont.)

(in PLN thousand)

	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT- IMPAIRED (POCI)	TOTAL
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
DEBT SECURITIES MEASURED AT AMORTISED COST						
GROSS CARRYING AMOUNT						
GROSS CARRYING AMOUNT AS AT 01.01.2018	11 527 804	-	30 031	-	-	11 557 835
Transfer to Stage 1	-	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
New / Purchased / Granted financial assets	2 904 447	-	-	-	-	2 904 447
Financial assets derecognised, other than write-offs (repayments)	(3 242 441)	-	-	-	-	(3 242 441)
Financial assets written off	-	-	-	-	-	-
Modifications not resulting in derecognition	-	-	-	-	-	-
Other, in this changes resulting from exchange rates	93 881	-	1 516	-	-	95 397
GROSS CARRYING AMOUNT AS AT 31.12.2018	11 283 691	-	31 547	-	-	11 315 238
IMPAIRMENT ALLOWANCE						
IMPAIRMENT ALLOWANCE AS AT 01.01.2018	27 667	-	30 031	-	-	57 698
Transfer to Stage 1	-	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
New / Purchased / Granted financial assets	2 155	-	-	-	-	2 155
Financial assets derecognised, other than write-offs (repayments)	(1 929)	-	-	-	-	(1 929)
Financial assets written off	-	-	-	-	-	-
Changes in level of credit risk (excluding the transfers between the Stages)	1 297	-	-	-	-	1 297
Changes in models and risk parameters	-	-	-	-	-	-
Other, in this changes resulting from exchange rates	(1 398)	-	1 516	-	-	118
IMPAIRMENT ALLOWANCE AS AT 31.12.2018	27 792	-	31 547	-	-	59 339

Notes to the financial statements (cont.)

(in PLN thousand)

	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT- IMPAIRED (POCI)	TOTAL
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
DEBT SECURITIES MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME						
CARRYING AMOUNT						
CARRYING AMOUNT AS AT 01.01.2019	27 032 827	-	-	-	-	27 032 827
Transfer to Stage 1	-	-	-	-	-	-
Transfer to Stage 2	(13 429)	13 429	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
New / Purchased / Granted financial assets	112 206 080	-	-	-	-	112 206 080
Financial assets derecognised, other than write-offs (repayments)	(111 256 731)	-	-	-	-	(111 256 731)
Financial assets written off	-	-	-	-	-	-
Modifications not resulting in derecognition	-	-	-	-	-	-
Other, in this changes resulting from exchange rates	390 453	-	-	-	-	390 453
CARRYING AMOUNT AS AT 30.06.2019	28 359 200	13 429	-	-	-	28 372 629
IMPAIRMENT ALLOWANCE (*)						
IMPAIRMENT ALLOWANCE AS AT 01.01.2019	28 307	-	-	-	-	28 307
Transfer to Stage 1	-	-	-	-	-	-
Transfer to Stage 2	(388)	388	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
New / Purchased / Granted financial assets	5 464	-	-	-	-	5 464
Financial assets derecognised, other than write-offs (repayments)	(1 201)	-	-	-	-	(1 201)
Financial assets written off	-	-	-	-	-	-
Changes in level of credit risk (excluding the transfers between the Stages)	(4 586)	292	-	-	-	(4 294)
Changes in models and risk parameters	-	-	-	-	-	-
Other, in this changes resulting from exchange rates	(395)	(2)	-	-	-	(397)
IMPAIRMENT ALLOWANCE AS AT 30.06.2019	27 201	678	-	-	-	27 879

(*) The impairment allowance for debt securities measured at fair value through other comprehensive income is included in the 'Revaluation reserve' item and does not reduce the carrying amount of the securities.

Notes to the financial statements (cont.)

(in PLN thousand)

	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT- IMPAIRED (POCI)	TOTAL
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
DEBT SECURITIES MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME						
CARRYING AMOUNT						
CARRYING AMOUNT AS AT 01.01.2018	38 031 871	-	-	-	-	38 031 871
Transfer to Stage 1	-	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
New / Purchased / Granted financial assets	131 261 992	-	-	-	-	131 261 992
Financial assets derecognised, other than write-offs (repayments)	(142 945 930)	-	-	-	-	(142 945 930)
Financial assets written off	-	-	-	-	-	-
Modifications not resulting in derecognition	-	-	-	-	-	-
Other, in this changes resulting from exchange rates	684 894	-	-	-	-	684 894
CARRYING AMOUNT AS AT 31.12.2018	27 032 827	-	-	-	-	27 032 827
IMPAIRMENT ALLOWANCE (*)						
IMPAIRMENT ALLOWANCE AS AT 01.01.2018	24 311	-	-	-	-	24 311
Transfer to Stage 1	-	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
New / Purchased / Granted financial assets	14 818	-	-	-	-	14 818
Financial assets derecognised, other than write-offs (repayments)	(7 049)	-	-	-	-	(7 049)
Financial assets written off	-	-	-	-	-	-
Changes in level of credit risk (excluding the transfers between the Stages)	(3 799)	-	-	-	-	(3 799)
Changes in models and risk parameters	-	-	-	-	-	-
Other, in this changes resulting from exchange rates	26	-	-	-	-	26
IMPAIRMENT ALLOWANCE AS AT 31.12.2018	28 307	-	-	-	-	28 307

(*) The impairment allowance for debt securities measured at fair value through other comprehensive income is included in the 'Revaluation reserve' item and does not reduce the carrying amount of the securities.

Notes to the financial statements (cont.)

(in PLN thousand)

Forbearance measures

The identifying process of forbore exposures has not changed in relation to the one described in the consolidated financial statements of Bank Pekao S.A. Group for the year ended 31 December 2018.

Share of forbore exposures in the Group's loan portfolio

	30.06.2019					TOTAL
	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT-IMPAIRED (POCI)	
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
Loans and advances measured at amortised cost, including:	106 682 674	18 356 804	1 745 468	723 754	36 901	127 545 601
Forborne exposures gross	388 004	118 354	2 508 393	444 308	22 325	3 481 384
Loss allowance	(4 794)	(9 669)	(1 409 773)	(248 957)	5	(1 673 188)
Forborne exposures net	383 210	108 685	1 098 620	195 351	22 330	1 808 196
Loans and advances measured at fair value through other comprehensive income, including:	937 501	605 826	-	-	-	1 543 327
Forborne exposures	-	-	-	-	-	-
Impairment allowance (*)	-	-	-	-	-	-
Loans and advances measured at fair value through profit or loss, including:						274 067
Forborne exposures						1 128
Leasing exposure measured at amortised cost, including:	5 699 673	235 451	58 041	36 256	-	6 029 421
Forborne exposures gross	1 690	5 626	22 751	6 205	-	36 272
Impairment allowance	-	(48)	(4 402)	(3 203)	-	(7 653)
Forborne exposures net	1 690	5 578	18 349	3 002	-	28 619

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

Notes to the financial statements (cont.)

(in PLN thousand)

Share of forbore exposures in the Group's loan portfolio

	31.12.2018					TOTAL
	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT-IMPAIRED (POCI)	
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
Loans and advances measured at amortised cost, including:	100 029 662	19 553 639	1 797 467	741 445	34 110	122 156 323
Forborne exposures gross	482 174	161 514	2 612 229	429 879	22 829	3 708 625
Loss allowance	(6 454)	(6 786)	(1 490 977)	(235 467)	(178)	(1 739 862)
Forborne exposures net	475 720	154 728	1 121 252	194 412	22 651	1 968 763
Loans and advances measured at fair value through other comprehensive income, including:	1 511 102	-	-	-	-	1 511 102
Forborne exposures	-	-	-	-	-	-
Impairment allowance (*)	-	-	-	-	-	-
Loans and advances measured at fair value through profit or loss, including:						302 630
Forborne exposures						2 063
Leasing exposure measured at amortised cost, including:	5 155 746	103 294	29 684	37 595	-	5 326 319
Forborne exposures gross	2 513	3 151	22 052	5 305	-	33 021
Impairment allowance	(3)	(34)	(4 622)	(2 488)	-	(7 147)
Forborne exposures net	2 510	3 117	17 430	2 817	-	25 874

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

Notes to financial statements (cont.)

(in PLN thousand)

CHF loans to individuals

Since 2003, Bank Pekao S.A. has not granted CHF loans for individuals. Almost the entire portfolio of CHF loans for individuals was granted before August 2006 by Bank BPH S.A. and then taken over by Bank Pekao S.A. as a result of the merger.

The Group analyzes the CHF credit risk profile on a current basis, taking into account in its analyzes the potential impact of court judgments on the expected cash flows from the portfolio of such loans, as well as emerging proposals for legislative solutions and rulings (including the expected ruling of TSUE). Taking into account the existing discrepancies in court judgments arising from CHF loans, and above all the relatively small share of these loans in assets and the insignificant market share, the Bank estimates that any adopted solutions should not have a material impact on the financial position of the Bank.

The table below presents the structure and quality of CHF loans for individuals.

Structure of CHF loans to individuals

	30.06.2019					TOTAL
	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT-IMPAIRED (POCI)	
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
Gross carrying amount, of which:	204 502	2 696 549	51 879	164 785	740	3 118 455
denominated in CHF	204 502	2 684 446	51 879	164 182	740	3 105 749
indexed to CHF	-	12 103	-	603	-	12 706
Impairment allowances, of which:	(202)	(28 823)	(22 407)	(84 873)	(295)	(136 600)
denominated in CHF	(202)	(28 703)	(22 407)	(84 631)	(295)	(136 238)
indexed to CHF	-	(120)	-	(242)	-	(362)
Carrying amount, of which:	204 300	2 667 726	29 472	79 912	445	2 981 855
denominated in CHF	204 300	2 655 743	29 472	79 551	445	2 969 511
indexed to CHF	-	11 983	-	361	-	12 344

	31.12.2018					TOTAL
	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT-IMPAIRED (POCI)	
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
Gross carrying amount, of which:	212 732	2 861 362	53 780	162 975	742	3 291 591
denominated in CHF	212 732	2 847 160	53 780	161 856	742	3 276 270
indexed to CHF	-	14 202	-	1 119	-	15 321
Impairment allowances, of which:	(218)	(31 655)	(19 054)	(81 343)	(292)	(132 562)
denominated in CHF	(218)	(31 613)	(19 054)	(80 950)	(292)	(132 127)
indexed to CHF	-	(42)	-	(393)	-	(435)
Carrying amount, of which:	212 514	2 829 707	34 726	81 632	450	3 159 029
denominated in CHF	212 514	2 815 547	34 726	80 906	450	3 144 143
indexed to CHF	-	14 160	-	726	-	14 886

As of 30 June 2019 the average LTV for CHF loans to individuals granted by the Group amounted to 42.5% (44.9% as at 31 December 2018), with an average LTV for the whole portfolio of 60.8% (62.8% as at 31 December 2018).

Notes to financial statements (cont.)

(in PLN thousand)

Offsetting financial assets and financial liabilities

The disclosures in the tables below include financial assets and financial liabilities that are subject to an enforceable master netting agreements or similar agreements, irrespective of whether they are offset in the statement of financial position.

The netting agreements concluded by the Group are:

- ISDA agreements and similar master netting agreements on derivatives,
- GMRA agreements on repo and reverse-repo transactions.

The netting agreements do not meet the criteria for offsetting in the statement of financial position. This is because they create for the parties to the agreement a right of set-off of recognized amounts that is enforceable only following an event of default, insolvency or bankruptcy of the one of the counterparty. At the balance day, there were no cases of offsetting financial assets and financial liabilities for these netting agreements.

The Group receives and gives collateral in the form of cash and marketable securities in respect of the following transactions:

- derivatives,
- repo and reverse-repo transactions.

Such collateral is subject to standard industry terms. The collateral in the form of cash stems from an ISDA Credit Support Annex (CSA).

The securities received/given as collateral on repo and reverse-repo transaction can be pledged or sold during the term of the transaction but have to be returned on maturity of the transaction. The terms also give each party the right to terminate the related transactions on the counterparty's failure to post collateral.

Financial assets and financial liabilities subject to enforceable master netting agreements and similar agreements and which may be potentially offset in the statement of financial position.

30.06.2019	CARRYING AMOUNT OF FINANCIAL ASSETS PRESENTED IN THE STATEMENT OF FINANCIAL POSITION	AMOUNT OF POTENTIAL OFFSETTING		NET AMOUNT
		FINANCIAL INSTRUMENTS (INCLUDING RECEIVED COLLATERAL IN THE FORM OF SECURITIES)	CASH COLLATERAL RECEIVED	
FINANCIAL ASSETS				
Derivatives	2 110 890	(1 606 509)	(272 352)	232 029
Total	2 110 890	(1 606 509)	(272 352)	232 029

30.06.2019	CARRYING AMOUNT OF FINANCIAL LIABILITIES PRESENTED IN THE STATEMENT OF FINANCIAL POSITION	AMOUNT OF POTENTIAL OFFSETTING		NET AMOUNT
		FINANCIAL INSTRUMENTS (INCLUDING PLEDGED COLLATERAL IN THE FORM OF SECURITIES)	CASH COLLATERAL PLEDGED	
FINANCIAL LIABILITIES				
Derivatives	2 862 930	(2 077 558)	(678 611)	106 761
Total	2 862 930	(2 077 558)	(678 611)	106 761

Notes to financial statements (cont.)

(in PLN thousand)

31.12.2018	CARRYING AMOUNT OF FINANCIAL ASSETS PRESENTED IN THE STATEMENT OF FINANCIAL POSITION	AMOUNT OF POTENTIAL OFFSETTING		NET AMOUNT
		FINANCIAL INSTRUMENTS (INCLUDING RECEIVED COLLATERAL IN THE FORM OF SECURITIES)	CASH COLLATERAL RECEIVED	
FINANCIAL ASSETS				
Derivatives	1 703 422	(1 358 792)	(163 164)	181 466
Total	1 703 422	(1 358 792)	(163 164)	181 466

31.12.2018	CARRYING AMOUNT OF FINANCIAL ASSETS PRESENTED IN THE STATEMENT OF FINANCIAL POSITION	AMOUNT OF POTENTIAL OFFSETTING		NET AMOUNT
		FINANCIAL INSTRUMENTS (INCLUDING RECEIVED COLLATERAL IN THE FORM OF SECURITIES)	CASH COLLATERAL RECEIVED	
FINANCIAL LIABILITIES				
Derivatives	2 772 953	(1 827 670)	(837 802)	107 481
Total	2 772 953	(1 827 670)	(837 802)	107 481

The carrying amount of financial assets and financial liabilities disclosed in the above tables have been measured in the statement of financial position on the following bases:

- derivatives – fair value,
- assets and liabilities resulting from repo and reverse-repo transactions – amortized cost.

Reconciliation of the carrying amount of financial assets and financial liabilities subject to enforceable master netting agreements and similar agreements to the amounts presented in the statement of financial position.

30.06.2019	NET CARRYING AMOUNT	ITEM IN STATEMENT OF FINANCIAL POSITION	CARRYING AMOUNT IN STATEMENT OF FINANCIAL POSITION	CARRYING AMOUNT OF TRANSACTIONS NOT IN SCOPE OF OFFSETTING DISCLOSURES	NOTE
FINANCIAL ASSETS					
Derivatives	1 715 754	Derivative financial instruments (held for trading)	1 776 568	60 814	25
	395 136	Hedging instruments	395 136	-	28
FINANCIAL LIABILITIES					
Derivatives	2 196 603	Derivative financial instruments (held for trading)	2 277 344	80 741	25
	666 327	Hedging instruments	666 327	-	28

Notes to financial statements (cont.)

(in PLN thousand)

31.12.2018	NET CARRYING AMOUNT	ITEM IN STATEMENT OF FINANCIAL POSITION	CARRYING AMOUNT IN STATEMENT OF FINANCIAL POSITION	CARRYING AMOUNT OF TRANSACTIONS NOT IN SCOPE OF OFFSETTING DISCLOSURES	NOTE
FINANCIAL ASSETS					
Derivatives	1 389 857	Derivative financial instruments (held for trading)	1 451 662	61 805	25
	313 565	Hedging instruments	313 565	-	28
FINANCIAL LIABILITIES					
Derivatives	1 867 897	Derivative financial instruments (held for trading)	1 913 046	45 149	25
	905 056	Hedging instruments	905 056	-	28

7.2 Market risk

Market risk of the trading book

The model of market risk measurement has not changed in relation to the one described in the consolidated financial statements of Bank Pekao S.A. Group for the year ended 31 December 2018.

The table below presents the market risk exposure of the trading portfolio of the Group measured by Value at Risk in the period from 1 January to 30 June 2019 and in 2018.

	30.06.2019	MINIMUM VALUE	AVERAGE VALUE	MAXIMUM VALUE
foreign currency exchange risk	25	7	336	1 161
interest rate risk	1 946	873	1 236	1 946
Trading portfolio	1 933	885	1 402	2 623

	31.12.2018	MINIMUM VALUE	AVERAGE VALUE	MAXIMUM VALUE
foreign currency exchange risk	117	9	171	1 232
interest rate risk	1 154	472	1 083	1 733
Trading portfolio	1 140	526	1 081	2 362

Interest rate risk of the banking book

The banking book interest rate risk management process has not changed significantly in relation to the one described in the consolidated financial statements of Bank Pekao S.A. Group for the year ended 31 December 2018. However, adjustments resulting from the implementation of the EBA 'Guidelines on the management of interest rate risk arising from non-trading activities' (EBA/GL/2018/02 of July 19, 2018) have been introduced. In the scenarios used for measuring the interest rate risk in the banking book, a maturity-dependent post-shock interest rate floor has been applied, starting with -100 basis points for short periods and increasing by 5 basis points per year to 0% for periods of 20 years and more. In case of EVE measurement, aggregation of the results for individual currencies have been adjusted: currently, total sensitivities on currencies on which Bank realizes loss in a given interest rate change scenario and half of sensitivities in currencies on which Bank realizes profit are summed up.

The table below presents the sensitivity levels of the contractual interest income (NII) to the interest rate change by 100 b.p. and of economic value of the Bank's equity (EVE) to the interest rate change by 200 b.p. (standard regulatory shock excluding the risk profile of own funds) as at 30 June 2019 and as at 31 December 2018.

SENSITIVITY IN %	30.06.2019	31.12.2018
NII	(7.19)	(8.64)
EVE1	(1.11)	(0.95)

Notes to financial statements (cont.)

(in PLN thousand)

Currency risk

The foreign currency exchange risk management process has not changed significantly in relation to the one described in the consolidated financial statements of Bank Pekao S.A. Group for the year ended 31 December 2018.

The tables below present the Group's foreign currency risk profile measured by Value at Risk and currency position.

Value at Risk

CURRENCY	30.06.2019	31.12.2018
Currencies total (*)	612	63

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

Currency position

30.06.2019	BALANCE SHEET OPERATIONS		OFF-BALANCE SHEET OPERATIONS- DERIVATIVES		NET POSITION
	ASSETS	LIABILITIES	LONG POSITION	SHORT POSITION	
EUR	22 986 678	22 681 371	12 955 098	13 207 901	52 504
USD	5 708 606	8 297 320	10 003 264	7 413 872	678
CHF	3 203 738	552 584	1 741 493	4 392 583	64
GBP	252 946	980 440	992 305	262 435	2 376
HUF	14 977	14 152	4 070	4 756	139
NOK	253 151	53 765	5 286	203 424	1 248
CZK	64 679	44 449	461 981	482 165	46
SEK	83 231	72 290	11 990	22 357	574
Other currencies	192 274	264 867	248 598	174 585	1 420
Total	32 760 280	32 961 238	26 424 085	26 164 078	59 049

31.12.2018	BALANCE SHEET OPERATIONS		OFF-BALANCE SHEET OPERATIONS DERIVATIVES		NET POSITION
	ASSETS	LIABILITIES	LONG POSITION	SHORT POSITION	
EUR	24 632 826	20 844 996	10 064 928	13 837 183	15 575
USD	5 489 616	8 284 208	11 109 318	8 301 417	13 309
CHF	3 416 822	575 102	2 966 698	5 813 214	(4 796)
GBP	275 460	975 366	827 920	126 347	1 667
HUF	3 219	190 119	243 818	57 151	(233)
NOK	209 725	46 549	190 749	353 895	30
CZK	53 790	71 006	246 324	229 050	58
SEK	89 258	45 553	9 862	53 484	83
Other currencies	95 077	174 994	183 285	99 929	3 439
Total	34 265 793	31 207 893	25 842 902	28 871 670	29 132

Notes to financial statements (cont.)

(in PLN thousand)

7.3 Liquidity risk

The liquidity risk management process has not changed significantly in relation to the one described in the consolidated financial statements of Bank Pekao S.A. Group for the year ended 31 December 2018.

The tables below present adjusted liquidity gap and structure of financial liabilities maturity.

Adjusted liquidity gap

30.06.2019	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
Assets	38 504 096	7 393 867	25 332 799	62 858 548	62 821 548	196 910 858
Equity and liabilities	13 936 970	6 746 105	19 915 664	17 711 878	138 600 241	196 910 858
Off-balance sheet assets/liabilities (net)	(6 090 407)	(722 305)	855 058	2 313 592	3 224 999	(419 063)
Periodic gap	18 476 719	(74 543)	6 272 193	47 460 262	(72 553 694)	(419 063)
Cumulated gap	-	18 402 176	24 674 369	72 134 631	(419 063)	-

31.12.2018	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
Assets	40 715 921	5 075 145	27 701 793	58 785 842	58 811 104	191 089 805
Equity and liabilities	15 151 534	6 926 374	21 669 415	19 301 852	128 040 630	191 089 805
Off-balance sheet assets/liabilities (net)	(5 208 969)	(726 064)	(289 272)	2 794 211	2 768 679	(661 415)
Periodic gap	20 355 418	(2 577 293)	5 743 106	42 278 201	(66 460 847)	(661 415)
Cumulated gap	-	17 778 125	23 521 231	65 799 432	(661 415)	-

Structure of financial liabilities by contractual maturity

30.06.2019	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
BALANCE SHEET LIABILITIES (*)						
Amounts due to banks (**)	2 674 928	90 151	463 263	2 962 498	439 449	6 630 289
Amounts due to customers	115 483 694	13 179 431	20 543 589	743 180	852 880	150 802 774
Debt securities issued	618 821	1 263 508	2 243 109	1 288 489	315 282	5 729 209
Subordinated liabilities	-	-	74 972	301 742	2 754 930	3 131 644
Financial liabilities held for trading	-	-	83 122	352 929	104 569	540 620
Total	118 777 443	14 533 090	23 408 055	5 648 838	4 467 110	166 834 536
OFF-BALANCE SHEET COMMITMENTS (*)						
Financial liabilities granted	37 543 334	-	-	-	-	37 543 334
Guarantees issued	12 149 731	-	-	-	-	12 149 731
Total	49 693 065	-	-	-	-	49 693 065

(*) Exposure amounts from balance liabilities, financing-related off-balance sheet commitments granted and guarantee liabilities granted have been allocated to earliest tenors, for which an outflow of assets from the Group is possible based on contracts entered into by the Group. However, outflows expected by the Group are actually significantly lower than those indicated by the specification presented above. The above is a consequence of considerable diversification of amounts due to customers and stages of life of individual contracts. Risk monitoring and management in relation to the outflow of assets are provided by the Group on continuous basis. The Group estimates also more probable flows that are reflected in Tables 'Adjusted liquidity gap'.

(**) Including Central Bank.

Notes to financial statements (cont.)

(in PLN thousand)

Structure of financial liabilities by contractual maturity

31.12.2018	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
BALANCE SHEET LIABILITIES (*)						
Amounts due to banks (**)	1 570 449	73 595	760 790	2 823 741	469 919	5 698 494
Amounts due to customers	116 699 233	11 421 810	20 661 983	523 031	603 951	149 910 008
Debt securities issued	377 147	1 042 779	1 730 684	1 868 403	258 681	5 277 694
Subordinated liabilities	-	-	67 102	294 264	2 429 522	2 790 888
Financial liabilities held for trading	-	-	-	57 421	45 008	102 429
Total	118 646 829	12 538 184	23 220 559	5 566 860	3 807 081	163 779 513
OFF-BALANCE SHEET COMMITMENTS (*)						
Financial liabilities granted	32 954 143	-	-	-	-	32 954 143
Guarantees issued	12 614 778	-	-	-	-	12 614 778
Total	45 568 921	-	-	-	-	45 568 921

(*) Exposure amounts from balance liabilities, financing-related off-balance sheet commitments granted and guarantee liabilities granted have been allocated to earliest tenors, for which an outflow of assets from the Group is possible based on contracts entered into by the Group. However, outflows expected by the Group are actually significantly lower than those indicated by the specification presented above. The above is a consequence of considerable diversification of amounts due to customers and stages of life of individual contracts. Risk monitoring and management in relation to the outflow of assets are provided by the Group on continuous basis. The Group estimates also more probable flows that are reflected in Tables 'Adjusted liquidity gap'.

(**) Including Central Bank.

The financial cash flows associated with off-balance sheet derivative transactions

The following are the liabilities and financial cash flows associated with off-balance sheet derivative transactions settled, respectively in net and gross amounts.

Off-balance sheet derivative transactions settled by the Group in net amounts include:

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

Off-balance sheet derivative transactions settled by the Group in gross amounts include:

- Cross-Currency Interest Rate Swaps (CIRS),
- Foreign currency forward contracts,
- Foreign currency swaps (FX-Swap),
- Forward contracts based on securities.

Liabilities from off-balance sheet derivatives transactions settled in net amounts

	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
30.06.2019	23 916	22 035	643 107	857 602	663 161	2 209 821
31.12.2018	93 469	49 950	566 715	783 578	402 470	1 896 182

Notes to financial statements (cont.)

(in PLN thousand)

Cash flows related to off-balance sheet derivative transactions settled in gross amounts

	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
30.06.2019						
Inflows	24 345 755	5 773 202	7 471 086	7 983 513	1 477 289	47 050 845
Outflows	23 984 192	5 928 330	7 458 540	8 064 478	1 649 596	47 085 136
31.12.2018						
Inflows	23 455 395	5 399 366	9 380 505	5 504 825	2 237 288	45 977 379
Outflows	24 236 650	5 401 374	9 801 035	5 567 894	2 422 687	47 429 640

7.4 Operational risk

There have been no significant changes in the operational risk management process in relation to the one described in consolidated financial statements of Bank Pekao S.A. Group for the year ended 31 December 2018.

7.5 Fair value of financial assets and liabilities

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

The measurement of fair value of financial instruments, for which market values from active markets are available, is based on market quotations of a given instrument (mark-to-market).

The measurement of fair value of Over-the-counter ('OTC') derivatives and instruments with limited liquidity (i.e. for which no market quotations are available), is made on the basis of other instruments quotations on active markets by replication thereof using a number of valuation techniques, including the estimation of present value of future cash flows (mark-to-model).

As of 30 June 2019 and 31 December 2018, the Group classified the financial assets and liabilities measured at fair value into the following hierarchy of three categories based on the following hierarchy:

- Level 1: mark-to-market, applies to securities quoted on active markets,
- Level 2: mark-to-model valuation with model parameterization, based on quotations from active markets for given type of instrument, applies to illiquid government, municipal, corporate and central bank debt securities, linear and non-linear derivative instruments of interest rate markets (including forward transactions on debt securities), equity, commodity and foreign currency exchange markets, except for those cases that meet the criteria of Level 3,
- Level 3: mark-to-model valuation with partial model parameterization, based on estimated risk factors, applicable to loans and advances, corporate and municipal debt securities and for linear and non-linear derivative instruments of interest rate, equity, commodity and foreign currency exchange markets for which unobservable parameters (e.g. credit risk factors) are recognized as significant.

The measurement at fair value is performed directly by an organizational unit within Risk Management Division, independent of front-office units. The methodology of fair value measurement, including the changes of its parameterization, is subject to approval of Assets and Liabilities Committee (ALCO). The adequacy of measurement methods is subject to on-going analysis and periodical reviews in the framework of model risk management. The same Risk Management Division unit performs the assessment of adequacy and significance of risk factors and assignment of valuation models to appropriate method class, according to established hierarchy of classification.

Notes to financial statements (cont.)

(in PLN thousand)

Assets and liabilities measured at fair value in breakdown by fair value hierarchy levels

30.06.2019	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Assets:	16 566 285	9 506 974	8 876 217	34 949 476
Financial assets held for trading	1 839 805	391 445	502	2 231 752
Derivative financial instruments, including:	11	1 774 486	2 071	1 776 568
Banks	-	697 994	2 071	700 065
Customers	11	1 076 492	-	1 076 503
Hedging instruments, including:	-	395 136	-	395 136
Banks	-	99 362	-	99 362
Customers	-	295 774	-	295 774
Securities measured at fair value through other comprehensive income	14 726 469	6 925 479	6 970 812	28 622 760
Securities measured at fair value through profit or loss	-	20 428	85 438	105 866
Loans and advances to customers measured at fair value through other comprehensive income	-	-	1 543 327	1 543 327
Loans and advances to customers measured at fair value through profit or loss	-	-	274 067	274 067
Liabilities:	540 620	2 943 671	-	3 484 291
Financial liabilities held for trading	540 620	-	-	540 620
Derivative financial instruments, including:	-	2 277 344	-	2 277 344
Banks	-	677 140	-	677 140
Customers	-	1 600 204	-	1 600 204
Hedging instruments, including:	-	666 327	-	666 327
Banks	-	631 555	-	631 555
Customers	-	34 772	-	34 772

31.12.2018	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Assets:	12 629 955	10 024 499	9 018 313	31 672 767
Financial assets held for trading	639 815	96 787	26 110	762 712
Derivative financial instruments, including:	1	1 450 431	1 230	1 451 662
Banks	-	773 121	1 230	774 351
Customers	1	677 310	-	677 311
Hedging instruments, including:	-	313 565	-	313 565
Banks	-	69 195	-	69 195
Customers	-	244 370	-	244 370
Securities measured at fair value through other comprehensive income	11 990 139	8 163 716	7 111 833	27 265 688
Securities measured at fair value through profit or loss	-	-	65 408	65 408
Loans and advances to customers measured at fair value through other comprehensive income	-	-	1 511 102	1 511 102
Loans and advances to customers measured at fair value through profit or loss	-	-	302 630	302 630
Liabilities:	102 429	2 818 102	-	2 920 531
Financial liabilities held for trading	102 429	-	-	102 429
Derivative financial instruments, including:	-	1 913 046	-	1 913 046
Banks	-	681 122	-	681 122
Customers	-	1 231 924	-	1 231 924
Hedging instruments, including:	-	905 056	-	905 056
Banks	-	882 460	-	882 460
Customers	-	22 596	-	22 596

Notes to financial statements (cont.)

(in PLN thousand)

Change in fair value of financial assets measured at fair value according to Level 3 by the Group

1 HALF 2019	FINANCIAL ASSETS HELD FOR TRADING	DERIVATIVE FINANCIAL INSTRUMENTS (ASSETS)	LOANS AND ADVANCES TO CUSTOMERS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	LOANS AND ADVANCES TO CUSTOMERS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	SECURITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	SECURITIES MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME
Opening balance	26 110	1 230	1 511 102	302 630	65 408	7 111 833
Increases, including:	309 997	2 538	122 929	-	20 737	969 025
Reclassification	-	2 379	-	-	-	575 075
Transactions made in 2019	-	-	119 797	-	-	-
Acquisition	309 687	-	-	-	-	267 580
Settlement/Redemption	-	-	-	-	-	-
Gains on financial instruments	310	159	3 132	-	20 737	126 370
recognized in the income statement	310	159	-	-	20 737	79 100
recognized in revaluation reserves	-	-	3 132	-	-	47 270
Decreases, including:	(335 605)	(1 697)	(90 704)	(28 563)	(707)	(1 110 046)
Reclassification	(7 880)	-	-	-	-	(644 803)
Settlement/Redemption	(232)	(10)	(88 694)	(25 840)	-	(148 057)
Sale	(327 493)	-	-	-	-	(306 115)
Losses on financial instruments	-	(1 687)	(2 010)	(2 723)	(707)	(11 071)
recognized in the income statement	-	(1 687)	(2 010)	(2 723)	(707)	(14)
recognized in revaluation reserves	-	-	-	-	-	(11 057)
Closing balance	502	2 071	1 543 327	274 067	85 438	6 970 812
Unrealized income from financial instruments held in portfolio at the end of the period, recognized in:	1	(308)	(14 634)	(3 653)	-	46 823
Income statement:	1	(308)	(17 766)	(3 653)	-	29 231
net interest income	-	-	355	203	-	29 231
net impairment losses on financial assets and off-balance sheet commitments	-	-	(18 121)	-	-	-
result on financial assets and liabilities held for trading	1	(308)	-	(3 856)	-	-
Other comprehensive income	-	-	3 132	-	-	17 592

Notes to financial statements (cont.)

(in PLN thousand)

Change in fair value of financial assets measured at fair value according to Level 3 by the Group

2018	FINANCIAL ASSETS HELD FOR TRADING	DERIVATIVE FINANCIAL INSTRUMENTS (ASSETS)	LOANS AND ADVANCES TO CUSTOMERS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	LOANS AND ADVANCES TO CUSTOMERS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	SECURITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	SECURITIES MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME
Opening balance	14 211	1 218	-	-	-	735 442
Initial application of IFRS 9	-	-	1 555 964	365 137	52 339	4 336 613
Opening balance - restated	14 211	1 218	1 555 964	365 137	52 339	5 072 055
Increases, including:	672 824	12	468 833	8 976	13 069	3 094 204
Reclassification	392	-	-	-	-	10 869
Transactions made in 2018	-	-	-	2 745	-	-
Acquisition	671 700	-	408 521	-	-	3 034 342
Gains on financial instruments	732	12	60 312	6 231	13 069	48 993
recognized in the income statement	732	12	28 805	6 231	13 069	48 993
recognized in revaluation reserves	-	-	31 507	-	-	-
Decreases, including:	(660 925)	-	(513 695)	(71 483)	-	(1 054 426)
Reclassification	(14 211)	-	-	-	-	(124 277)
Settlement/Redemption	(680)	-	(26 217)	(71 483)	-	(45 018)
Sale	(646 020)	-	(487 478)	-	-	(825 745)
Losses on financial instruments	(14)	-	-	-	-	(59 386)
recognized in the income statement	(14)	-	-	-	-	-
recognized in revaluation reserves	-	-	-	-	-	(59 386)
Closing balance	26 110	1 230	1 511 102	302 630	65 408	7 111 833
Unrealized income from financial instruments held in portfolio at the end of the period, recognized in:	29	12	57 554	6 095	-	28 486
Income statement:	29	12	25 179	6 095	-	40 133
net interest income	40	-	24 008	2 287	-	40 133
net impairment losses on financial assets and off-balance sheet commitments	-	-	1 171	-	-	-
result on financial assets and liabilities held for trading	(11)	12	-	3 808	-	-
Other comprehensive income	-	-	32 375	-	-	(11 647)

Notes to financial statements (cont.)

(in PLN thousand)

Transfers of instruments between fair value hierarchy levels are based on changes in availability of active market quotations as at the end of the reporting periods.

In the period from 1 January to 30 June 2019 the following transfers of financial instruments between the levels of the fair value hierarchy were made:

- from Level 3 to Level 2: municipal and corporate bonds which were valued based on information on the prices of comparable financial instruments, municipal and corporate bonds with immaterial impact of the estimated credit parameters on the valuation and capital market derivative instruments for which impact of the unobservable factor (correlation) on the valuation was immaterial,
- from Level 2 to Level 3: municipal and corporate bonds, for which impact of estimated credit parameters was material and capital market derivative instruments with material impact of the estimated factor (correlation) on the valuation.

The impact of estimated parameters on measurement of financial instruments for which the Group applies fair value valuation according to Level 3 as at 30 June 2019 and 31 December 2018 is as follows:

FINANCIAL ASSET/LIABILITY	FAIR VALUE AS AT 30.06.2019	VALUATION TECHNIQUE	UNOBSERVABLE FACTOR	ALTERNATIVE FACTOR RANGE (WEIGHTED AVERAGE)	IMPACT ON FAIR VALUE AS AT 30.06.2019	
					POSITIVE SCENARIO	NEGATIVE SCENARIO
Debt securities	6 762 285	Discounted cash flow	Credit spread	0.41%-0.92%	52 130	(69 167)
Derivatives	2 071	Black Scholes Model	Correlation	0-1	402	(1 411)
Loans and advances measured at fair value through profit or loss	274 067	Discounted cash flow	Credit spread	1.48%-2.10%	3 824	(3 745)
Loans and advances measured at fair value through other comprehensive income	1 543 327	Discounted cash flow	Credit spread	1.97% – 2.59%	6 188	(6 091)

FINANCIAL ASSET/LIABILITY	FAIR VALUE AS AT 31.12.2018	VALUATION TECHNIQUE	UNOBSERVABLE FACTOR	ALTERNATIVE FACTOR RANGE (WEIGHTED AVERAGE)	IMPACT ON FAIR VALUE AS AT 31.12.2018	
					POSITIVE SCENARIO	NEGATIVE SCENARIO
Debt securities	6 948 563	Discounted cash flow	Credit spread	0.35%-1.04%	87 509	(87 509)
Derivatives	1 230	Black Scholes Model	Correlation	0-1	558	(684)
Loans and advances measured at fair value through profit or loss	302 630	Discounted cash flow	Credit spread	0.43%-1.11%	3 066	(3 015)
Loans and advances measured at fair value through other comprehensive income	1 511 102	Discounted cash flow	Credit spread	2.07%-2.75%	11 524	(8 854)

Notes to financial statements (cont.)

(in PLN thousand)

Financial instruments that are not measured at fair value in the consolidated statement of financial position of the Group

The Group also holds financial instruments which are not presented at fair value in the financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

As of 30 June 2019 and 31 December 2018, the Group classified the financial assets and liabilities not measured at fair value in the consolidated statement of financial position into the following three categories based on the valuation level:

- Level 1: mark-to-market, applies to government securities quoted on the liquid market and cash,
- Level 2: mark-to-model valuation with model parameterization, based on quotations from active markets for given type of instrument, applies to interbank deposits, own issues, illiquid government, municipal, corporate and central bank debt securities,
- Level 3: mark-to-model valuation with partial model parameterization, based on estimated risk factors, is applicable to corporate and municipal debt securities and loans and deposits for which the applied credit risk factor (an unobservable parameter) is recognized significant.

In case of certain groups of financial assets, recognized at the amount to be received with impairment considered, the fair value was assumed to be equal to carrying amount. The above applies in particular to other financial assets and liabilities.

In the case of loans for which no quoted market values are available, the fair values presented are generally estimated using valuation techniques taking into consideration the assumption, that at the moment when the loan is granted its fair value is equal to its carrying amount. Fair value of non-impaired loans is equal to the sum of future expected cash flows, discounted at the balance sheet date, less expected credit loss. The discount rate is defined as the appropriate market risk-free rate plus the liquidity risk margin and current sales margin for the given loan products group. The margin is computed on loans granted broken down by loan product groups and maturity.

For the purpose of the fair value of foreign currency loans estimation, the margin on PLN loans adjusted by the cross-currency basis swap quotes and FX-Swap is used. The fair value of impaired loans is defined as equal to the sum of expected recoveries, discounted with the use of effective interest rate, since the average expected recovery values take the element of credit risk fully into consideration. In case of loans without repayment schedule (loans in current account, overdrafts and credit cards), the fair value was assumed as equal to the carrying amount.

Since no quoted market prices are available for deposits, their fair values have been generally estimated using valuation techniques with the assumption that the fair value of a deposit at the moment of its receipt is equal to its carrying amount. The fair value of term deposits is equal to the sum of future expected cash flows, discounted at the relevant balance sheet date. The cash flow discount rate is defined as the relevant market risk-free rate, increased by the sales margin. The margin is computed on deposits acquired during last three months broken down by deposit product groups and maturity. In case of short term deposits (current deposits, overnights, saving accounts), the fair value was assumed as equal to the carrying amount.

The fair value of deposits and loans, apart from cash and mortgage loans denominated in PLN and CHF for which prepayment model is used, is calculated based on contractual cash flows.

The mark-to-model valuation of own issue debt instruments is based on the method of discounting the future cash flows. Variable cash flows are estimated based upon rates adopted for specific markets (depending upon issue specifications). Both the fixed and implied cash flows are discounted using interbank money market rates.

Notes to the financial statements (cont.)

(in PLN thousand)

Assets and liabilities not measured at fair value in the financial statement in breakdown by fair value hierarchy levels

30.06.2019	CARRYING AMOUNT	FAIR VALUE	OF WHICH:		
			LEVEL 1	LEVEL 2	LEVEL 3
Assets					
Cash and due from Central Bank	4 324 663	4 324 267	2 645 736	1 678 531	-
Loans and advance to banks	2 703 944	2 703 579	-	1 707 192	996 387
Loans and advances to customers measured at amortised cost	127 545 601	128 226 916	-	-	128 226 916
Receivables from financial leases	6 029 421	6 055 077	-	-	6 055 077
Debt securities measured at amortised cost	15 402 742	15 630 133	9 800 596	1 135 305	4 694 232
Total Assets	156 006 371	156 939 972	12 446 332	4 521 028	139 972 612
Liabilities					
Amounts due to Central Bank	5 019	5 013	-	-	5 013
Amounts due to other banks	6 578 800	6 590 805	-	274 716	6 316 089
Amounts due to customers	150 363 387	150 578 082	-	39 997	150 538 085
Debt securities issued	5 952 237	5 967 786	-	5 967 786	-
Subordinated liabilities	2 363 319	2 364 865	-	2 364 865	-
Total Liabilities	165 262 762	165 506 551	-	8 647 364	156 859 187

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

Notes to financial statements (cont.)

(in PLN thousand)

8. Operating segments

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

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

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

Operating segments

The operating segments of the Group are as follows:

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

Notes to financial statements (cont.)

(in PLN thousand)

Operating segments reporting for the period from 1 January to 30 June 2019

	RETAIL BANKING	CORPORATE AND INVESTMENT BANKING	SME BANKING	ASSETS AND LIABILITIES MANAGEMENT AND OTHER	TOTAL
Total net interest income	1 516 494	673 264	93 872	374 314	2 657 944
Non-interest income	752 934	439 852	137 723	28 338	1 358 847
Operating income	2 269 428	1 113 116	231 595	402 652	4 016 791
Personnel expenses	(519 361)	(137 378)	(46 162)	(362 951)	(1 065 852)
Other administrative expenses	(686 202)	(191 156)	(53 563)	442 430	(488 491)
Depreciation and amortisation	(83 075)	(16 960)	(2 327)	(152 861)	(255 223)
Operating costs	(1 288 638)	(345 494)	(102 052)	(73 382)	(1 809 566)
Gross operating profit	980 790	767 622	129 543	329 270	2 207 225
Net impairment losses on financial assets and off-balance sheet commitments	(148 358)	(142 165)	(4 048)	7 650	(286 921)
Net operating profit	832 432	625 457	125 495	336 920	1 920 304
Net result on other provisions	(34)	(373)	-	(7 789)	(8 196)
Guarantee funds charges	(145 862)	(121 057)	(6 903)	(139 812)	(413 634)
Tax on certain financial institutions	-	-	-	(297 284)	(297 284)
Net result on investment activities	(113)	8	-	11 794	11 689
Profit before tax	686 423	504 035	118 592	(96 171)	1 212 879
Income tax expense					(386 881)
Net profit for the period					825 998
Attributable to equity holders of the Bank					824 447
Attributable to non-controlling interests					1 551
Allocated assets	77 619 486	109 628 730	3 570 819	(4 063 519)	186 755 516
Unallocated assets					10 155 342
Total assets					196 910 858
Allocated liabilities and equity	99 657 098	59 023 672	10 938 282	(2 587 158)	167 031 894
Unallocated liabilities and equity					29 878 964
Total liabilities and equity					196 910 858

Notes to financial statements (cont.)

(in PLN thousand)

Operating segments reporting for the period from 1 January to 30 June 2018

	RETAIL BANKING	CORPORATE AND INVESTMENT BANKING	SME BANKING	ASSETS AND LIABILITIES MANAGEMENT AND OTHER	TOTAL
Total net interest income	1 311 677	634 705	88 450	406 395	2 441 227
Non-interest income	720 183	452 556	125 869	40 959	1 339 567
Operating income	2 031 860	1 087 261	214 319	447 354	3 780 794
Personnel expenses	(603 206)	(137 553)	(43 805)	(270 609)	(1 055 173)
Other administrative expenses	(629 999)	(188 116)	(55 508)	353 822	(519 801)
Depreciation and amortisation	(77 481)	(11 322)	(2 231)	(86 639)	(177 673)
Operating costs	(1 310 686)	(336 991)	(101 544)	(3 426)	(1 752 647)
Gross operating profit	721 174	750 270	112 775	443 928	2 028 147
Net impairment losses on financial assets and off-balance sheet commitments	(151 741)	(64 412)	(21 647)	(13 093)	(250 893)
Net operating profit	569 433	685 858	91 128	430 835	1 777 254
Net result on other provisions	(2 077)	(359)	-	(11 631)	(14 067)
Guarantee funds charges	(81 940)	(74 468)	(4 140)	(44 477)	(205 025)
Tax on certain financial institutions	-	-	-	(276 894)	(276 894)
Net result on investment activities	18	41	-	(3 999)	(3 940)
Profit before tax	485 434	611 072	86 988	93 834	1 277 328
Income tax expense					(345 026)
Net profit for the period					932 302
Attributable to equity holders of the Bank					932 140
Attributable to non-controlling interests					162
Allocated assets	70 209 179	99 200 561	3 374 491	1 736 458	174 520 689
Unallocated assets					8 982 810
Total assets					183 503 499
Allocated liabilities and equity	88 162 553	59 774 026	10 318 837	(3 260 039)	154 995 377
Unallocated liabilities and equity					28 508 122
Total liabilities and equity					183 503 499

Reconciliations of operating income for reportable segments

	I HALF 2019	I HALF 2018
Total operating income for reportable segments	4 016 791	3 780 794
Net other operating income and expenses	(34 050)	(25 720)
Operating income	3 982 741	3 755 074

Geographical segment

The operating activity of Bank Pekao S.A. Group is concentrated in Poland through the network of branches and the subsidiaries.

Notes to financial statements (cont.)

(in PLN thousand)

9. Interest income and expense

Interest income

	II QUARTER 2019			TOTAL
	FINANCIAL ASSETS MEASURED AT AMORTISED COST	FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER PROFIT OR LOSS	
Loans and other receivables from customers	1 333 105	8 377	1 617	1 343 099
Interbank placements	12 491	-	-	12 491
Reverse repo transactions	12 231	-	-	12 231
Investment securities	78 714	158 636	-	237 350
Hedging derivatives	-	-	60 052	60 052
Financial assets held for trading	-	-	3 437	3 437
Total	1 436 541	167 013	65 106	1 668 660

	I HALF 2019			TOTAL
	FINANCIAL ASSETS MEASURED AT AMORTISED COST	FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER PROFIT OR LOSS	
Loans and other receivables from customers	2 617 204	16 295	3 305	2 636 804
Interbank placements	24 753	-	-	24 753
Reverse repo transactions	20 570	-	-	20 570
Investment securities	151 519	310 562	-	462 081
Hedging derivatives	-	-	115 729	115 729
Financial assets held for trading	-	-	6 705	6 705
Total	2 814 046	326 857	125 739	3 266 642

Notes to financial statements (cont.)

(in PLN thousand)

Interest income

	II QUARTER 2018			TOTAL
	FINANCIAL ASSETS MEASURED AT AMORTISED COST	FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER PROFIT OR LOSS	
Loans and other receivables from customers	1 205 686	7 094	1 951	1 214 731
Interbank placements	11 885	-	-	11 885
Reverse repo transactions	7 256	-	-	7 256
Investment securities	74 655	169 429	-	244 084
Hedging derivatives	-	-	34 332	34 332
Financial assets held for trading	-	-	3 622	3 622
Total	1 299 482	176 523	39 905	1 515 910

	I HALF 2018			TOTAL
	FINANCIAL ASSETS MEASURED AT AMORTISED COST	FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER PROFIT OR LOSS	
Loans and other receivables from customers	2 373 555	13 369	3 946	2 390 870
Interbank placements	22 880	-	-	22 880
Reverse repo transactions	12 076	-	-	12 076
Investment securities	150 852	351 805	-	502 657
Hedging derivatives	-	-	61 210	61 210
Financial assets held for trading	-	-	4 781	4 781
Total	2 559 363	365 174	69 937	2 994 474

Interest expense

	II QUARTER 2019	I HALF 2019	II QUARTER 2018	I HALF 2018
Deposits from customers	(240 605)	(473 359)	(232 621)	(466 248)
Interbank deposits	(4 106)	(7 604)	(4 467)	(7 789)
Repo transactions	(6 328)	(11 151)	(10 077)	(17 819)
Loans and advances received	(7 547)	(14 124)	(1 905)	(3 729)
Leasing	(3 397)	(6 964)	(394)	(817)
Debt securities issued	(49 129)	(95 496)	(30 909)	(56 845)
Total	(311 112)	(608 698)	(280 373)	(553 247)

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

Notes to financial statements (cont.)

(in PLN thousand)

10. Fee and commission income and expense

Fee and commission income

	II QUARTER 2019	I HALF 2019	II QUARTER 2018	I HALF 2018
Accounts maintenance, payment orders and cash transactions	155 919	306 249	155 306	305 840
Payment cards	153 160	295 098	145 540	280 999
Loans and advances	108 689	204 083	97 434	181 555
Margin on foreign exchange transactions with clients	128 051	243 631	119 761	224 190
Investment products sales intermediation	117 148	233 791	125 977	257 920
Securities operations	13 418	29 609	16 940	40 702
Custody activity	13 011	26 072	14 229	28 132
Pension and investment funds service fees	10 036	19 298	7 909	15 797
Guarantees, letters of credit and similar transactions	15 288	31 097	13 753	28 055
Other	10 342	21 019	10 218	19 305
Total	725 062	1 409 947	707 067	1 382 495

Fee and commission expense

	II QUARTER 2019	I HALF 2019	II QUARTER 2018	I HALF 2018
Payment cards	(65 972)	(120 279)	(61 878)	(121 720)
Money orders and transfers	(5 005)	(10 848)	(5 118)	(10 328)
Securities and derivatives operations	(7 238)	(14 694)	(6 998)	(13 736)
Accounts maintenance	(6 873)	(13 007)	(8 697)	(18 163)
Custody activity	(4 090)	(8 520)	(4 206)	(8 113)
Pension and investment funds management charges	(1 060)	(2 029)	(1 139)	(2 040)
Acquisition services	(131)	(263)	(875)	(1 219)
Other	(2 011)	(4 046)	(883)	(1 849)
Total	(92 380)	(173 686)	(89 794)	(177 168)

11. Dividend income

	II QUARTER 2019	I HALF 2019	II QUARTER 2018	I HALF 2018
Issuers of securities measured at fair value through profit or loss	16	402	7	164
Issuers of equity instruments designated at fair value through other comprehensive income	21 250	21 250	19 616	19 616
Total	21 266	21 652	19 623	19 780

Notes to financial statements (cont.)

(in PLN thousand)

12. Result on financial assets and liabilities measured at fair value through profit or loss

	II QUARTER 2019	I HALF 2019	II QUARTER 2018	I HALF 2018
Gains (losses) on loans and advances to customers measured mandatorily at fair value through profit or loss	2 475	(3 857)	(9)	(4 215)
Gains (losses) on securities measured mandatorily at fair value through profit or loss	8 716	20 983	6 075	8 485
Foreign currency exchange result	(5 083)	(8 388)	(12 694)	(15 448)
Gains (losses) on derivatives	18 538	31 592	17 355	35 612
Gains (losses) on securities held for trading	6 417	8 396	5 812	11 230
Total	31 063	48 726	16 539	35 664

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

Realized gains

	II QUARTER 2019	I HALF 2019	II QUARTER 2018	I HALF 2018
Financial assets measured at amortised cost	5 574	5 574	172	172
Financial assets measured at fair value through other comprehensive income	7 295	18 851	27 095	50 948
Total	12 869	24 425	27 267	51 120

Realized losses

	II QUARTER 2019	I HALF 2019	II QUARTER 2018	I HALF 2018
Financial assets measured at amortised cost	(4 360)	(4 360)	-	-
Financial assets measured at fair value through other comprehensive income	(14)	(14)	-	-
Financial liabilities not measured at fair value through profit or loss	(65)	(189)	(22)	(43)
Total	(4 439)	(4 563)	(22)	(43)

Net realized profit	8 430	19 862	27 245	51 077
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Notes to financial statements (cont.)

(in PLN thousand)

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

	II QUARTER 2019	I HALF 2019	II QUARTER 2018	I HALF 2018
Loans and other financial assets measured at amortized cost (*)(**)	(126 957)	(211 073)	(118 842)	(259 689)
Debt securities measured at amortized cost	(15 447)	(14 945)	(493)	(536)
Loans measured at fair value through other comprehensive income	1 646	(18 305)	(589)	4 326
Debt securities measured at fair value through other comprehensive income	(1 973)	31	(8 211)	(5 334)
Off-balance sheet commitments	(34 507)	(42 629)	4 203	10 340
Total	(177 238)	(286 921)	(123 932)	(250 893)

(*) Item includes impairment losses on loans and advances to banks and receivables from financial leases.

(**) In the first half of 2019 the Group sold loans with a total debt of PLN 231.4 million. The realized gross result on the transaction was PLN 19.6 million.

15. Administrative expenses

Personnel expenses

	II QUARTER 2019	I HALF 2019	II QUARTER 2018	I HALF 2018
Wages and salaries	(503 406)	(907 823)	(470 393)	(884 258)
Insurance and other charges related to employees	(78 002)	(152 564)	(78 863)	(156 000)
Share-based payments expenses	(5 020)	(5 465)	(5 571)	(14 915)
Total	(586 428)	(1 065 852)	(554 827)	(1 055 173)

Other administrative expenses

	II QUARTER 2019	I HALF 2019	II QUARTER 2018	I HALF 2018
General expenses	(228 874)	(446 226)	(247 065)	(486 871)
Taxes and charges	(8 725)	(17 248)	(9 721)	(20 401)
Bank Guarantee Fund fee	(20 472)	(413 634)	(29 983)	(205 025)
Financial supervision authority fee (KNF)	(278)	(25 017)	(390)	(12 529)
Tax on certain financial institutions	(148 423)	(297 284)	(138 593)	(276 894)
Total	(406 772)	(1 199 409)	(425 752)	(1 001 720)
Total	(993 200)	(2 265 261)	(980 579)	(2 056 893)

From 1 January 2017 new rules for making contributions to Bank Guarantee Fund (hereinafter 'BGF'), defined in the Act of 10 June 2016 on Bank Guarantee Fund, deposit guarantee schemes and resolution of banks (hereinafter 'BGF Act'), have to be applied.

In accordance with BGF Act, the banks are committed to make quarterly contributions to deposit guarantee fund of banks and annual contribution to resolution fund of banks. Such contributions are expenses not deductible for tax purposes. The obligation to make quarterly contribution to deposit guarantee fund of banks arises at the first day of each quarter, whereas the obligation to make annual contribution to resolution fund of banks arises at 1 January of the year concerned.

As a result of application of the Interpretation IFRIC 21 *Levies* for recognition of the above obligations, the costs of quarterly contribution to deposit guarantee fund of banks in the amount of PLN 41 195 thousand (PLN 60 689 thousand for the first half of 2018) and the costs of annual contribution to resolution fund of banks in the amount of PLN 372 439 thousand (PLN 144 336 thousand in 2018).

Notes to financial statements (cont.)

(in PLN thousand)

16. Depreciation and amortization

	II QUARTER 2019	I HALF 2019	II QUARTER 2018	I HALF 2018
Property, plant and equipment	(75 981)	(152 441)	(43 124)	(85 548)
Investment property	(73)	(146)	(173)	(395)
Intangible assets	(50 522)	(102 636)	(46 596)	(91 730)
Total	(126 576)	(255 223)	(89 893)	(177 673)

17. Net other operating income and expenses

Other operating income

	II QUARTER 2019	I HALF 2019	II QUARTER 2018	I HALF 2018
Rental income	6 273	12 358	5 761	11 221
Miscellaneous income	729	1 482	905	1 737
Recovery of debt collection costs	4 402	7 535	3 629	6 383
Revenues from sale of products, goods and services	20 903	40 533	19 797	53 158
Excess payments, repayments	234	3 992	710	5 011
Compensation, recoveries, penalty fees and fines received	5 428	11 053	6 116	12 322
Revenues from leasing activity	2 279	3 455	218	856
Income from written off liabilities	-	13	20	29
Releases of impairment allowances for litigation and other assets	85	566	218	472
Gains on sale of leasing assets for third person and other assets	354	983	114	140
Other	722	1 303	920	1 792
Total	41 409	83 273	38 408	93 121

Other operating expenses

	II QUARTER 2019	I HALF 2019	II QUARTER 2018	I HALF 2018
Costs related to leasing activity	(479)	(969)	(249)	(623)
Credit insurance expenses	(173)	(448)	(906)	(2 260)
Sundry expenses	(113)	(556)	(472)	(908)
Reimbursement and deficiencies	(227)	(665)	(256)	(2 793)
Costs from sale of products, goods and services	(19 462)	(37 724)	(19 108)	(51 156)
Customers complaints expenses	(420)	(945)	(152)	(376)
Impairment allowance for litigations and other assets	(119)	(444)	(675)	(900)
Costs of litigation and claims	(173)	(508)	(466)	(870)
Compensation, penalty fees and fines paid	(157)	(237)	(329)	(517)
Losses on disposal of leasing assets for third person and other assets	(19)	(19)	(47)	(260)
Other	(2 935)	(6 708)	(3 653)	(6 738)
Total	(24 277)	(49 223)	(26 313)	(67 401)

Net other operating income and expenses	17 132	34 050	12 095	25 720
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Notes to financial statements (cont.)

(in PLN thousand)

18. Gains (losses) on disposal of property, plant and equipment, and intangible assets

	II QUARTER 2019	I HALF 2019	II QUARTER 2018	I HALF 2018
Gains (losses) on disposal of property, plant and equipment classified as assets held for sale	5 419	6 271	968	3 820
Gains (losses) on disposal of property, plant and equipment and intangible assets other than classified as assets held for sale	4 162	5 418	(7 831)	(7 760)
Total gains (losses) on disposal of property, plant and equipment and intangible assets	9 581	11 689	(6 863)	(3 940)

19. Basic components of income tax charge in the income statement and equity

	II QUARTER 2019	I HALF 2019	II QUARTER 2018	I HALF 2018
INCOME STATEMENT				
Current tax	(207 249)	(450 785)	(250 524)	(391 081)
Current tax charge in the income statement	(207 037)	(446 027)	(250 400)	(391 503)
Adjustments related to the current tax from previous years	-	(4 425)	-	601
Other taxes (e.g. withholding tax)	(212)	(333)	(124)	(179)
Deferred tax	13 689	63 904	76 562	46 055
Occurrence and reversal of temporary differences	13 689	63 904	76 562	46 055
Tax charge in the consolidated income statement	(193 560)	(386 881)	(173 962)	(345 026)
EQUITY				
Deferred tax	(31 767)	(42 372)	13 016	(3 426)
Income and costs disclosed in other comprehensive income:				
revaluation of financial instruments - cash flows hedges	(5 187)	(17 493)	671	3 962
fair value revaluation through other comprehensive income	(23 434)	(21 581)	9 696	(11 069)
Tax charge on items that are or may be reclassified subsequently to profit or loss	(28 621)	(39 074)	10 367	(7 107)
Tax charge on items that never be reclassified to profit and loss	(3 146)	(3 298)	2 649	3 681
fair value revaluation through other comprehensive income – equity securities	(3 146)	(3 298)	2 649	3 681
remeasurements the defined benefit liabilities	-	-	-	-
Total charge	(225 327)	(429 253)	(160 946)	(348 452)

20. Earnings per share

Basic earnings per share

Basic earnings per share are calculated by dividing the net profit attributable to equity holders of the Bank by the weighted average number of the ordinary shares outstanding during the period.

	II QUARTER 2019	I HALF 2019	II QUARTER 2018	I HALF 2018
Net profit	582 106	824 447	539 815	932 140
Weighted average number of ordinary shares in the period	262 470 034	262 470 034	262 470 034	262 470 034
Earnings per share (in PLN per share)	2.22	3.14	2.06	3.55

Notes to financial statements (cont.)

(in PLN thousand)

Diluted earnings per share

Diluted earnings per share are calculated by dividing the net profit attributable to equity holders of the Bank by the weighted average number of the ordinary shares outstanding during the given period adjusted for all potential dilution of ordinary shares.

As at 30 June 2019 there were no diluting instruments in the form of convertible bonds in the Group.

	II QUARTER 2019	I HALF 2019	II QUARTER 2018	I HALF 2018
Net profit	582 106	824 447	539 815	932 140
Weighted average number of ordinary shares in the period	262 470 034	262 470 034	262 470 034	262 470 034
Weighted average number of ordinary shares for the purpose of calculation of diluted earnings per share	262 470 034	262 470 034	262 470 034	262 470 034
Diluted earnings per share (in PLN per share)	2.22	3.14	2.06	3.55

21. Dividends

The dividends and other payments to shareholders are recognized directly in equity. The dividend payable is not recognized until the entity has no obligation to pay dividends that is until the payment is approved by the General Meeting.

On 26 June 2019 the Ordinary General Meeting of Bank Pekao S.A. made the resolution regarding the dividend payment for year 2018. The dividend to the shareholders contributed an amount of PLN 1 732 302 224.40, wherein the amount of the dividend per one share was PLN 6.60. The dividend's day was fixed for 10 July 2019.

The payment of the dividend was on 30 July 2019.

22. Cash and balances with Central Bank

CASH AND DUE FROM CENTRAL BANK	30.06.2019	31.12.2018
Cash	2 645 724	3 182 875
Current account at Central Bank	1 405 797	9 790 609
Other	273 276	54 013
Gross carrying amount	4 324 797	13 027 497
Impairment allowances	(134)	(913)
Net carrying amount	4 324 663	13 026 584

AMOUNTS DUE TO CENTRAL BANK	30.06.2019	31.12.2018
Term deposits	5 019	5 067
Amounts due to Central Bank	5 019	5 067

Receivables and liabilities to the Central Bank are measured at amortized cost.

Notes to financial statements (cont.)

(in PLN thousand)

Cash and balances with Central Bank by currency

30.06.2019	ASSETS	LIABILITIES
PLN	3 331 998	5 019
EUR	420 586	-
USD	243 165	-
CHF	77 749	-
Other currencies	251 165	-
Total	4 324 663	5 019

31.12.2018	ASSETS	LIABILITIES
PLN	10 471 632	5 067
EUR	1 980 231	-
USD	211 636	-
CHF	78 688	-
Other currencies	284 397	-
Total	13 026 584	5 067

23. Loans and advances to banks

Loans and advances to banks by product type

	30.06.2019	31.12.2018
Current accounts	366 427	276 433
Interbank placements	790 930	843 804
Loans and advances	18 765	19 085
Cash collaterals	789 206	983 373
Reverse repo transactions	551 355	126 442
Cash in transit	197 313	29 193
Total gross amount	2 713 996	2 278 330
Impairment allowances	(10 052)	(9 908)
Total net amount	2 703 944	2 268 422

Loans and advances to banks are measured at amortised cost.

Notes to financial statements (cont.)

(in PLN thousand)

Loans and advances to banks by contractual maturity

	30.06.2019	31.12.2018
Loans and advances to banks, including:		
up to 1 month	2 680 076	2 245 192
between 1 and 3 months	22 541	9
between 3 months and 1 year	165	19 923
between 1 and 5 years	157	31
over 5 years	52	51
past due	11 005	13 124
Total gross amount	2 713 996	2 278 330
Impairment allowances	(10 052)	(9 908)
Total net amount	2 703 944	2 268 422

Loans and advances to banks by currency

	30.06.2019	31.12.2018
PLN	798 039	493 697
CHF	5 097	31 935
EUR	897 544	1 521 593
USD	819 850	159 804
Other currencies	183 414	61 393
Total	2 703 944	2 268 422

24. Financial assets and liabilities held for trading

Financial assets and liabilities held for trading by product type

	30.06.2019	31.12.2018
FINANCIAL ASSETS		
Debt securities	2 226 975	755 213
Equity securities	4 777	7 499
Total financial assets	2 231 752	762 712
FINANCIAL LIABILITIES		
Debt securities	540 620	102 429
Total financial liabilities	540 620	102 429

Financial assets and liabilities held for trading are measured at fair value through profit or loss.

Notes to financial statements (cont.)

(in PLN thousand)

Debt securities held for trading

	30.06.2019	31.12.2018
FINANCIAL ASSETS		
Debt securities issued by State Treasury	1 843 620	637 765
T- bills	-	-
T- bonds	1 843 620	637 765
Debt securities issued by banks	102 396	38 567
Debt securities issued by business entities	280 959	78 881
Total financial assets	2 226 975	755 213
FINANCIAL LIABILITIES		
Debt securities issued by State Treasury	540 620	102 429
T- bonds	540 620	102 429
Total financial liabilities	540 620	102 429

Equity securities held for trading

	30.06.2019	31.12.2018
Shares	3 510	2 446
Participation units	1 267	5 053
Total	4 777	7 499

Debt securities held for trading by maturity

	30.06.2019	31.12.2018
FINANCIAL ASSETS		
Debt securities, including:		
up to 1 month	37 270	1 720
between 1 and 3 months	19 631	-
between 3 months and 1 year	232 753	85 206
between 1 and 5 years	1 774 342	612 870
over 5 years	162 979	55 417
unspecified term	-	-
Total financial assets	2 226 975	755 213
FINANCIAL LIABILITIES		
Debt securities, including:		
up to 1 month	-	-
between 1 and 3 months	-	-
between 3 months and 1 year	83 122	-
between 1 and 5 years	352 929	57 421
over 5 years	104 569	45 008
Total financial liabilities	540 620	102 429

Notes to financial statements (cont.)

(in PLN thousand)

Debt securities held for trading by currency

	30.06.2019	31.12.2018
FINANCIAL ASSETS		
PLN	2 221 317	745 331
EUR	3 606	8 634
USD	2 052	1 248
Total financial assets	2 226 975	755 213
FINANCIAL LIABILITIES		
PLN	540 620	102 429
Total financial liabilities	540 620	102 429

25. Derivative financial instruments (held for trading)

Fair value of trading derivatives

30.06.2019	ASSETS	LIABILITIES
Interest rate transactions		
Interest Rate Swaps (IRS)	1 468 194	1 906 385
Forward Rate Agreements (FRA)	407	258
Options	6 218	2 516
Other	403	435
Foreign currency and gold transactions		
Cross-Currency Interest Rate Swaps (CIRS)	52 957	41 408
Currency Forward Agreements	118 377	136 590
Currency Swaps (FX-Swap)	15 333	71 728
Options for currency and gold	53 550	60 080
Transactions based on equity securities and stock indexes		
Options	2 097	2 078
Other	11	-
Transactions based on commodities and precious metals		
Options	32 582	29 880
Other	26 439	25 986
Total	1 776 568	2 277 344

Notes to financial statements (cont.)

(in PLN thousand)

Fair value of trading derivatives

31.12.2018	ASSETS	LIABILITIES
Interest rate transactions		
Interest Rate Swaps (IRS)	1 154 170	1 592 975
Forward Rate Agreements (FRA)	1 609	776
Options	6 822	2 122
Other	529	1 175
Foreign currency and gold transactions		
Cross-Currency Interest Rate Swaps (CIRS)	33 723	26 679
Currency Forward Agreements	56 153	114 042
Currency Swaps (FX-Swap)	55 528	34 253
Options for currency and for gold	39 434	39 699
Transactions based on equity securities and stock indexes		
Options	2 714	2 693
Other	1	-
Transactions based on commodities and precious metals		
Options	55 222	53 415
Other	45 757	45 217
Total	1 451 662	1 913 046

Derivative financial instruments are measured at fair value through profit or loss.

26. Loans and advances to customers

Loans and advances to customers by product type

	30.06.2019			TOTAL
	AMORTISED COST	FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	FAIR VALUE THROUGH PROFIT OR LOSS	
Mortgage loans	67 159 244	1 022 320	24 720	68 206 284
Current accounts	12 365 934	-	-	12 365 934
Operating loans	12 109 247	399 783	25 558	12 534 588
Investment loans	20 122 909	121 224	76 289	20 320 422
Cash loans	14 464 175	-	-	14 464 175
Payment cards receivables	1 158 215	-	-	1 158 215
Factoring	4 878 360	-	-	4 878 360
Other loans and advances	1 368 467	-	147 500	1 515 967
Debt securities	-	-	-	-
Reverse repo transactions	-	-	-	-
Cash in transit	73 301	-	-	73 301
Gross carrying amount	133 699 852	1 543 327	274 067	135 517 246
Impairment allowances (*)	(6 154 251)	-	-	(6 154 251)
Carrying amount	127 545 601	1 543 327	274 067	129 362 995

(*) The impairment allowance for loans and advances to customers measured at fair value through other comprehensive income in the amount of PLN 32 480 thousand is included in the 'Revaluation reserve' item and does not reduce the carrying amount of the loan.

Notes to financial statements (cont.)

(in PLN thousand)

Loans and advances to customers by product type

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

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

Loans and advances to customers by customer type

	30.06.2019			TOTAL
	AMORTISED COST	FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	FAIR VALUE THROUGH PROFIT OR LOSS	
Corporate	55 618 610	1 543 327	50 453	57 212 390
Individuals	74 448 202	-	147 501	74 595 703
Budget entities	3 633 040	-	76 113	3 709 153
Gross carrying amount	133 699 852	1 543 327	274 067	135 517 246
Impairment allowances (*)	(6 154 251)	-	-	(6 154 251)
Carrying amount	127 545 601	1 543 327	274 067	129 362 995

(*) The impairment allowance for loans and advances to customers measured at fair value through other comprehensive income in the amount of PLN 32 480 thousand is included in the 'Revaluation reserve' item and does not reduce the carrying amount of the loan.

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

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

Notes to financial statements (cont.)

(in PLN thousand)

Loans and advances to customers by contractual maturity

	30.06.2019			TOTAL
	AMORTISED COST	FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	FAIR VALUE THROUGH PROFIT OR LOSS	
Loans and advances to customers, including:				
up to 1 month	15 691 675	-	2 198	15 693 873
between 1 and 3 months	4 582 677	-	4 404	4 587 081
between 3 months and 1 year	12 359 795	14	54 022	12 413 831
between 1 and 5 years	40 897 997	416 733	158 908	41 473 638
over 5 years	54 970 104	1 126 580	51 916	56 148 600
past due	5 197 604	-	2 619	5 200 223
Gross carrying amount	133 699 852	1 543 327	274 067	135 517 246
Impairment allowances (*)	(6 154 251)	-	-	(6 154 251)
Carrying amount	127 545 601	1 543 327	274 067	129 362 995

(*) The impairment allowance for loans and advances to customers measured at fair value through other comprehensive income in the amount of PLN 32 480 thousand is included in the 'Revaluation reserve' item and does not reduce the carrying amount of the loan.

	31.12.2018			TOTAL
	AMORTISED COST	FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	FAIR VALUE THROUGH PROFIT OR LOSS	
Loans and advances to customers, including:				
up to 1 month	16 076 736	-	2 332	16 079 068
between 1 and 3 months	3 988 069	-	15 097	4 003 166
between 3 months and 1 year	13 201 050	72 224	52 597	13 325 871
between 1 and 5 years	37 046 831	413 713	168 618	37 629 162
over 5 years	53 029 499	1 025 165	61 070	54 115 734
past due	4 951 815	-	2 916	4 954 731
Gross carrying amount	128 294 000	1 511 102	302 630	130 107 732
Impairment allowances (*)	(6 137 677)	-	-	(6 137 677)
Carrying amount	122 156 323	1 511 102	302 630	123 970 055

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

Loans and advances to customers by currency

	30.06.2019			TOTAL
	AMORTISED COST	FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	FAIR VALUE THROUGH PROFIT OR LOSS	
PLN	107 649 684	47 397	274 067	107 971 148
CHF	3 118 911	-	-	3 118 911
EUR	14 945 646	1 495 930	-	16 441 576
USD	1 411 726	-	-	1 411 726
Other currencies	419 634	-	-	419 634
Total	127 545 601	1 543 327	274 067	129 362 995

Notes to financial statements (cont.)

(in PLN thousand)

Loans and advances to customers by currency

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

27. Receivables from financial leases

The Group conducts leasing operations through its subsidiary Pekao Leasing Sp. z o.o.

The value of gross lease investments and minimum lease payments are follows as:

30.06.2019	GROSS LEASING INVESTMENT	PRESENT VALUE OF MINIMUM LEASE PAYMENTS
Up to 1 year	2 323 167	2 148 650
Between 1 and 5 years	3 729 557	3 512 997
Over 5 years	486 450	458 749
Total	6 539 174	6 120 396
Unearned finance income	(418 778)	
Net leasing investment	6 120 396	
Unguaranteed residual values accruing to the benefit of the lessor	-	
Present value of minimum lease payments	6 120 396	
Impairment allowances	(90 975)	
Carrying amount	6 029 421	

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

The Group is acting as a lessor in financial leases mainly for transport vehicles, machines and equipment.

Moreover, when the Group is a lessee in a financial lease contract among the Group entities, the inter-company transactions relating to the financial leases are eliminated in the consolidated financial statements.

Notes to financial statements (cont.)

(in PLN thousand)

Receivables from financial leases by currency

	30.06.2019	31.12.2018
PLN	3 901 953	3 462 582
CHF	-	214
EUR	2 126 788	1 863 019
USD	680	852
Total	6 029 421	5 326 667

28. Hedge accounting

The Group decided to take advantage of the choice given by IFRS 9 and continues to apply hedge accounting procedures according to IAS 39. This decision concerns all hedging relationships, for which the Group applies and will apply hedge accounting in the future.

As of 30 June 2019 the Group applies fair value hedge accounting and cash flow hedge accounting:

FVH - fair value hedge accounting:

- Interest rate swaps (IRS) designated to hedge debt securities denominated in PLN, EUR and USD (hereafter: FVH IRS bonds),

CFH - cash flow hedge accounting:

- Interest rate swaps (IRS) designated to hedge floating rate loans and securities denominated in PLN (hereafter: **CFH IRS loans/bonds**),
- Interest rate swaps (IRS) designated to hedge deposits denominated in PLN and EUR, which economically reflect long-term variable-rate liability (hereafter: **CFH IRS deposits**),
- cross-currency interest rate swaps (basis swap) designated to hedge floating rate loans denominated in CHF and liabilities denominated in PLN, which economically reflect long-term variable-rate liability (hereafter: **CFH CIRS deposits/loans**),
- FX-Swaps designated to hedge floating rate loans denominated in EUR and term and negotiable deposits denominated in USD (two hedging relationships, jointly hereafter: **CFH FX-Swap deposits/loans**).

Fair value hedge accounting

The Group applies fair value hedge accounting for fixed coupon debt securities denominated in PLN, EUR and USD, hedged with interest rate swap (IRS) transactions in the same currencies. The Group hedges component of interest rate risk related to the fair value changes of the hedged item resulting exclusively from the volatility of market interest rates (WIBOR, EURIBOR, LIBOR USD). In the past, hedged risk component accounted for a significant portion of changes in fair value of the hedged item.

The approach of the Group to market risk management, including interest rate risk, is presented in Note 7.2. Details regarding exposure of the Group to interest rate risk is disclosed in Note 7.2.

The use of derivative instruments to hedge the exposure to changes in interest rates generates counterparty credit risk of derivative transactions. The Group mitigates this risk by requiring the counterparties to post collateral deposits and by settling derivative transactions through Central Counterparty Clearing Houses (CCPs) which apply a number of mechanisms allowing systemic reduction of the risk of default on obligations under concluded transactions.

The Group applies fair value hedge accounting to a hedging relationship if it is justified to expect that the hedge will be highly effective in achieving offsetting fair value changes attributable to the hedged risk in the future and if assessment of hedge effectiveness indicates high effectiveness in all financial reporting periods for which the hedge was designated.

Notes to financial statements (cont.)

(in PLN thousand)

According to the approach of the Group, hedge ratio is determined as ratio of fair value of the hedged item to fair value of the hedging instrument. A hedging relationship is considered effective if all of the following criteria are met:

- high effectiveness of the hedge can be expected on the basis of comparison of critical terms of the hedged item and the hedging instrument,
- in each reporting period, hedge ratio is within 80% - 125% range or relation of inefficiency amount to nominal value of the hedged item is less or equal than the threshold specified in documentation of the hedging relationship, where inefficiency amount is calculated as the sum of cumulative fair value changes of the hedged item and the hedging instrument,
- in each reporting period, simulation of hedge ratio in assumed evolution of market reference rates scenarios is within 80% - 125% range.

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

- impact of the counterparty credit risk and own credit risk of the Group on the fair value of the hedging transactions (IRS), which is not reflected in the fair value of the hedged item,
- differences in maturities of the interest rate swaps and debt securities,
- differences in coupon amounts generated by the hedged item and hedging instruments.

The tables below present interest rate swaps which are used by the Group as instruments hedging interest rate risk in fair value hedge accounting as of 30 June 2019 and 31 December 2018.

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

30.06.2019	FVH IRS BONDS – IRS HEDGING DEBT SECURITIES MEASURED AT		TOTAL
	AMORTISED COST	FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	
Hedging instruments			
Nominal value	200 000	2 846 099	3 046 099
Carrying amount – assets	-	1 446	1 446
Carrying amount – liabilities	14 215	141 703	155 918
Balance sheet item in which hedging instrument is reported	Hedging instruments	Hedging instruments	Hedging instruments
Amount of changes in fair value of the hedging instrument in the reporting period used for estimating hedge inefficiency	(4 630)	(56 395)	(61 025)
Amount of hedge ineffectiveness recognized in the income statement 'Result on fair value hedge accounting'	(248)	(1 456)	(1 704)
Hedged item			
Carrying amount – assets	212 749	3 082 108	3 294 857
Accumulated amount of the adjustment to the fair value of the hedged item included in the carrying amount of the hedged item recognized in the balance sheet - assets	13 082	194 834	207 916
Balance sheet item in which hedged item is reported	Hedging instruments	Hedging instruments	Hedging instruments
Change in the value of hedged item used for estimating hedge inefficiency in the reporting period	4 382	54 939	59 321
Accumulated amount of the adjustment to the fair value of the hedged item remaining in the balance sheet for those hedged items for which adjustments of the balance sheet item for adjustment to fair value has been discontinued	-	-	-

Notes to financial statements (cont.)

(in PLN thousand)

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

31.12.2018	FVH IRS BONDS – IRS HEDGING DEBT SECURITIES MEASURED AT		TOTAL
	AMORTISED COST	FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	
Hedging instruments			
Nominal value	200 000	3 133 649	3 333 649
Carrying amount – assets	-	21 166	21 166
Carrying amount – liabilities	9 592	134 080	143 672
Balance sheet item in which hedging instrument is reported	Hedging instruments	Hedging instruments	Hedging instruments
Amount of changes in fair value of the hedging instrument in the reporting period used for estimating hedge inefficiency	(7 560)	48 638	41 078
Amount of hedge ineffectiveness recognized in the income statement 'Result on fair value hedge accounting'	(78)	2 933	2 855
Hedged item			
Carrying amount – assets	208 402	3 335 538	3 543 940
Accumulated amount of the adjustment to the fair value of the hedged item included in the carrying amount of the hedged item recognized in the balance sheet - assets	8 700	124 954	133 654
Balance sheet item in which hedged item is reported	Hedging instruments	Hedging instruments	Hedging instruments
Change in the value of hedged item used for estimating hedge inefficiency in the reporting period	7 476	(45 707)	(38 231)
Accumulated amount of the adjustment to the fair value of the hedged item remaining in the balance sheet for those hedged items for which adjustments of the balance sheet item for adjustment to fair value has been discontinued	-	-	-

Cash flow hedge accounting

The Group applies:

- cross-currency interest rate swaps (basis swap) to hedge exposure to interest rate risk related to volatility of market reference rates (WIBOR, LIBOR CHF) and exposure to currency risk. Portfolios of variable-rate loans denominated in CHF and deposits in PLN (which economically reflects to long-term variable-rate liability) are hedged items in this hedging relationship. CIRS transactions are decomposed into the part hedging the portfolio of assets and the part hedging the portfolio of liabilities,
- interest rate swaps (IRS) to hedge the exposure to interest rate risk related to the volatility of market reference rates (WIBOR), generated by portfolios of variable-rate loans denominated in PLN,
- currency swaps (FX-Swap) to hedge the exposure to interest rate risk related to the volatility of market reference rates (EURIBOR, LIBOR USD), and the exposure to the currency risk, generated by both, portfolios of variable-rate of loans denominated in EUR and portfolios of term and negotiable deposits denominated in USD,
- currency swaps (FX-Swap) to hedge the exposure to the currency risk, generated by both, portfolios of loans denominated in EUR and portfolios of term and negotiable deposits denominated in USD (new hedging relationship),
- interest rate swaps (IRS) to hedge the exposure to interest rate risk related to the volatility of market reference rates (WIBOR, EURIBOR), generated by portfolio of deposits denominated in PLN and EUR, which economically reflect a long-term, variable-rate liability.

In the past half year the Group established new hedging relationship (FX-Swap), analogous to the existing one in terms of both hedging instruments and underlying position, but covering the currency risk only. The new relationship is to replace the existing one: while all FX-Swaps designated to hedge accounting after 31 March 2019 supply the new hedge, the previous relationship is expected to gradually expire till February 2020.

Notes to financial statements (cont.)

(in PLN thousand)

Compared with the relation existing so far, the assessment of ineffectiveness in the new hedging relationship differs (due to the alternative construction of the hypothetical derivative), however the difference remains immaterial in terms of amounts. Due to this fact, as well as to the identity of the hedged items and types of hedging transactions, both relationships are presented together.

Approach of the Group to hedging interest rate risk through cash flow hedge accounting is the same as the approach applied in the fair value hedge accounting as described above, i.e. only the component of interest rate risk related exclusively to volatility of market reference rates (in the case of cash flows hedge: WIBOR, EURIBOR, LIBOR USD, LIBOR CHF) is hedged.

Approach of the Group to market risk management, including interest rate risk and currency risk, is presented in Note 7.2. Details regarding the Group's interest rate risk and currency risk exposure are disclosed in Note 7.2.

As in the case of the fair value hedge, using derivative instruments to hedge the exposure to interest rate risk and currency risk generates counterparty credit risk of the derivative transactions, which is not compensated by the hedged item. The Bank manages this risk in a way similar to fair value hedge.

The Group applies cash flow hedge accounting to a hedging relationship if it is justified to expect that the hedge will be highly effective in achieving offsetting cash flow changes attributable to the hedged risk in the future and if assessment of hedge effectiveness indicates high effectiveness in all financial reporting periods for which the hedge was designated. The assessment is conducted using hypothetical derivative method.

According to the approach of the Group, a hedging relationship is considered effective if all of the following criteria are met:

- correlation coefficient between market reference rate of hedged items and market reference rate of hedging instrument is high,
- forecasted interest flows generated by hedged items are not lower than forecasted interest flows generated by hedging instruments,
- in each reporting period, ratio of the fair value of the hedged item to the fair value of the hedging instrument is within 80% - 125% range or relation of inefficiency amount to nominal value of the hedged item is less or equal to the threshold specified in documentation of the hedging relationship, where inefficiency amount is calculated as the sum of cumulative fair value changes of the hedged item and the hedging instrument,
- In each reporting period, ratio of fair value changes of the hedged item to the hedging instrument due to parallel fall or rise in yield curves by 100 basis point is within 80% - 125% range.

In the case of hedging interest rate and currency risk of portfolios of loans and deposits, the manner of managing these portfolios was adopted allowing for regular inclusion of new transactions in the hedging relationship and exclusion of transactions from the hedging relationship as a result of repayment or classification to non-performing category. As a result, the exposure of these portfolios to interest rate and currency risk is constantly changing. Because of frequent changes to term structure of the portfolio, the Group dynamically assigns the hedged items and allows for matching of hedging instruments to these changes.

As regards cash flow hedge relationships, the main sources of ineffectiveness are:

- impact of counterparty and the Group's own credit risk on the fair value of the hedging instruments, i.e. interest rate swap (IRS), cross-currency interest rate swap (basis swap), currency swap (FX Swap) which is not reflected in the fair value of the hedged item,
- differences in repricing frequency of the hedging instruments and hedged loans and deposits.

Notes to financial statements (cont.)

(in PLN thousand)

Impact of cash flow hedge on balance sheet and financial result

30.06.2019	INTEREST RATE RISK		INTEREST RATE RISK / CURRENCY RISK	
	CFH IRS loans	CFH IRS deposits	CFH CIRS deposits/ loans	CFH FX Swap deposits/loans
HEDGE IN RELATIONSHIP				
Hedging instruments				
Nominal value	8 750 000	1 202 406	6 724 131	13 331 806
Carrying amount – assets	306 476	1 276	-	85 938
Carrying amount – liabilities	-	26 720	460 297	23 392
Balance sheet item in which hedging instrument is reported	Hedging instruments	Hedging instruments	Hedging instruments	Hedging instruments
Change in the fair value of the hedging instrument used for estimating hedge ineffectiveness	64 607	(10 617)	37 459	394
Gains or losses resulting from hedging, recognized in other comprehensive income	-	-	-	-
Amount of hedge ineffectiveness recognized in the income statement in item 'Result on financial assets and liabilities measured at fair value through profit or loss'	-	-	(2)	-
Amount transferred from the revaluation reserves due to cash flow hedge accounting to the income statement as a reclassification adjustment	-	-	-	-
Income statement item in which reclassification adjustment is reported	Result on financial assets and liabilities measured at fair value through profit or loss	Result on financial assets and liabilities measured at fair value through profit or loss	Result on financial assets and liabilities measured at fair value through profit or loss	Result on financial assets and liabilities measured at fair value through profit or loss
Hedged item				
Amount of change in the fair value of a hypothetical derivative representing the hedged item used for estimating the hedge ineffectiveness in the reporting period	(64 607)	10 617	(50 824)	(372)
Revaluation reserve due to cash flow hedge accounting for relationships for which hedge accounting will be continued after the end of the reporting period	214 975	(22 337)	(48 989)	(38)
Revaluation reserve due to cash flow hedge accounting for relationships for which hedge accounting is no longer applied	-	-	-	-

Notes to financial statements (cont.)

(in PLN thousand)

Impact of cash flow hedge on balance sheet and financial result

31.12.2018	INTEREST RATE RISK		INTEREST RATE RISK / CURRENCY RISK	
	CFH IRS loans	CFH IRS deposits	CFH CIRS deposits/ loans	CFH FX Swap deposits/loans
HEDGE IN RELATIONSHIP				
Hedging instruments				
Nominal value	8 600 000	1 107 760	11 689 750	6 293 305
Carrying amount – assets	261 759	-	-	30 640
Carrying amount – liabilities	-	15 613	745 171	600
Balance sheet item in which hedging instrument is reported	Hedging instruments	Hedging instruments	Hedging instruments	Hedging instruments
Change in the fair value of the hedging instrument used for estimating hedge ineffectiveness	48 745	(10 856)	9 369	(175)
Gains or losses resulting from hedging, recognized in other comprehensive income	-	-	-	-
Amount of hedge ineffectiveness recognized in the income statement in item 'Result on financial assets and liabilities measured at fair value through profit or loss'	205	-	(23)	7
Amount transferred from the revaluation reserves due to cash flow hedge accounting to the income statement as a reclassification adjustment	-	-	-	-
Income statement item in which reclassification adjustment is reported	Result on financial assets and liabilities measured at fair value through profit or loss	Result on financial assets and liabilities measured at fair value through profit or loss	Result on financial assets and liabilities measured at fair value through profit or loss	Result on financial assets and liabilities measured at fair value through profit or loss
Hedged item				
Amount of change in the fair value of a hypothetical derivative representing the hedged item used for estimating the hedge ineffectiveness in the reporting period	(48 745)	10 856	(13 313)	185
Revaluation reserve due to cash flow hedge accounting for relationships for which hedge accounting will be continued after the end of the reporting period	150 374	(11 975)	(86 447)	(412)
Revaluation reserve due to cash flow hedge accounting for relationships for which hedge accounting is no longer applied	-	-	-	-

Changes in the revaluation reserve from the valuation of hedging derivatives in cash flow hedge accounting

	I HALF 2019	I HALF 2018
Opening balance	51 540	6 581
INTEREST RATE RISK		
Gains or losses resulting from hedging, recognized in other comprehensive income during the reporting period	54 239	(24 659)
Part of the loss transferred to the income statement due to the lack of expectation of materialization of the hedged item	-	-
INTEREST RATE RISK/CURRENCY RISK		
Gains or losses resulting from hedging, recognized in other comprehensive income during the reporting period	37 832	3 805
Part of the loss transferred to the income statement due to the lack of expectation of materialization of the hedged item	-	-
Closing balance	143 611	(14 273)

Notes to financial statements (cont.)

(in PLN thousand)

29. Investment (placement) securities

	30.06.2019	31.12.2018
Debt securities measured at amortised cost	15 402 742	11 255 899
Debt securities measured at fair value through other comprehensive income	28 372 629	27 032 827
Equity instruments designated at fair value through other comprehensive income	250 131	232 861
Equity instruments mandatorily measured at fair value through profit or loss	105 866	65 408
Total	44 131 368	38 586 995

Debt securities measured at amortised cost

	30.06.2019	31.12.2018
Securities issued by State Treasury	9 667 289	5 237 027
T-bills	-	-
T-bonds	9 667 289	5 237 027
Securities issued by Central Banks	-	13 798
Securities issued by business entities	2 703 607	3 426 605
Securities issued by local governments	3 031 846	2 578 469
Total	15 402 742	11 255 899
including impairment of assets	(74 516)	(59 339)

Debt securities measured at fair value through other comprehensive income

	30.06.2019	31.12.2018
Securities issued by State Treasury	18 575 165	15 575 633
T-bills	-	-
T-bonds	18 325 140	15 325 422
Other	250 025	250 211
Securities issued by Central Banks	599 924	2 985 696
Securities issued by banks	3 430 469	3 418 866
Securities issued by business entities	2 561 433	1 985 860
Securities issued by local governments	3 205 638	3 066 772
Total	28 372 629	27 032 827
including impairment of assets (*)	(27 879)	(28 307)

(*) The impairment allowance for debt securities measured at fair value through other comprehensive income is included in the 'Revaluation reserve' item and does not reduce the carrying amount.

Equity instruments designated at fair value through other comprehensive income

	30.06.2019	31.12.2018
Shares	250 131	232 861
Total	250 131	232 861

Notes to financial statements (cont.)

(in PLN thousand)

Equity instruments mandatorily measured at fair value through profit or loss

	30.06.2019	31.12.2018
Shares	85 438	65 408
Investment certificates	20 428	-
Total	105 866	65 408

Investment debt securities according to contractual maturity

	30.06.2019	31.12.2018
Debt securities, including:		
up to 1 month	888 805	3 784 220
between 1 and 3 months	60 300	134 911
between 3 months and 1 year	5 288 423	2 959 486
between 1 and 5 years	26 466 254	19 671 719
over 5 years	11 071 589	11 738 390
Total	43 775 371	38 288 726

Investment debt securities by currency

	30.06.2019	31.12.2018
PLN	38 057 798	32 180 082
EUR	2 688 670	2 967 951
USD	3 028 903	3 140 693
Total	43 775 371	38 288 726

30. Assets and liabilities held for sale

According to IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations' the Group identified non-current assets meeting requirements of IFRS 5 (concerning classification of non-current assets as held for sale) in the item 'Assets held for sale'.

As at 30 June 2019 non-current assets classified as held for sale are as follows:

- real estate,
- other property, plant and equipment.

Assets held for sale are presented below:

	30.06.2019	31.12.2018
ASSETS HELD FOR SALE		
Property, plant and equipment	45 881	11 550
Total assets	45 881	11 550

The effect of disposal of other assets is as follows:

	I HALF 2019	I HALF 2018
Sales revenues	11 369	7 146
Net carrying amount of disposed assets (including sale costs)	(5 098)	(3 326)
Profit/loss on sale before income tax	6 271	3 820

Notes to financial statements (cont.)

(in PLN thousand)

31. Intangible assets

	30.06.2019	31.12.2018
Intangible assets, including:	750 246	779 098
research and development expenditures	1	3
licenses and patents	450 594	461 255
other	162 854	168 827
assets under construction	136 797	149 013
Goodwill	747 648	747 648
Total	1 497 894	1 526 746

In the period from 1 January to 30 June 2019 the Group acquired intangible assets in the amount of PLN 65 025 thousand (in 2018 – PLN 181 373 thousand).

In the period from 1 January to 30 June 2019 and in 2018 there have been no intangible assets whose title is restricted and pledged as security for liabilities.

Contractual commitments

As at 30 June 2019 the contractual commitments for the acquisition of intangible assets amounted to PLN 78 302 thousand, whereas as at 31 December 2018 - PLN 43 136 thousand.

32. Property, plant and equipment

	30.06.2019	31.12.2018
Non-current assets, including:	1 844 773	1 277 774
land and buildings	1 357 423	919 785
machinery and equipment	310 426	232 069
transport vehicles	91 143	53 029
other	85 781	72 891
Non-current assets under construction and prepayments	79 878	142 168
Total	1 924 651	1 419 942

In the period from 1 January to 30 June 2019 the Group acquired property, plant and equipment in the amount of PLN 68 235 thousand (in 2018 - PLN 181 980 thousand), while the value of property, plant and equipment sold amounted to PLN 7 896 thousand (in 2018 - PLN 20 833 thousand).

In the period from 1 January to 30 June 2019 and in 2018 there have been no property, plant and equipment whose title is restricted and pledged as security for liabilities.

Contractual commitments

As at 30 June 2019 the contractual commitments for the acquisition of property, plant and equipment amounted to PLN 31 513 thousand, whereas as at 31 December 2018 - PLN 7 402 thousand.

Notes to financial statements (cont.)

(in PLN thousand)

33. Assets pledged as security for liabilities

The following tables presents financial assets pledged as security for liabilities

TYPE OF TRANSACTION AS AT 30 JUNE 2019	SECURITY	CARRYING VALUE OF ASSETS PLEDGED AS SECURITY FOR LIABILITIES	NOMINAL VALUE OF ASSETS PLEDGED AS SECURITY FOR LIABILITIES	VALUE OF LIABILITIES SUBJECT TO SECURITY
Repo transactions	bonds	290 264	275 965	290 545
Coverage of Fund for protection of guaranteed assets to the benefit of the Bank Guarantee Fund	bonds	746 496	690 000	-
Coverage of payment commitments to the guarantee fund for the Bank Guarantee Fund	bonds	78 431	78 000	69 610
Coverage of payment commitments to the resolution fund for the Bank Guarantee Fund	bonds	235 577	231 000	207 774
Lombard and technical loan	bonds	5 088 287	4 948 185	-
Other loans	bonds	384 827	368 200	191 722
Debt securities issued	loans, bonds	1 345 544	1 344 044	1 638 057
Coverage of the Guarantee Fund for the Settlement of Stock Exchange Transactions to Central Securities Depository (KDPW)	bonds, cash deposits	55 894	54 026	-
Derivatives	bonds	526 924	524 031	478 619

TYPE OF TRANSACTION AS AT 31 DECEMBER 2018	SECURITY	CARRYING VALUE OF ASSETS PLEDGED AS SECURITY FOR LIABILITIES	NOMINAL VALUE OF ASSETS PLEDGED AS SECURITY FOR LIABILITIES	VALUE OF LIABILITIES SUBJECT TO SECURITY
Repo transactions	bonds	417 979	352 714	415 119
Coverage of Fund for protection of guaranteed assets to the benefit of the Bank Guarantee Fund	bonds	738 238	690 200	-
Coverage of payment commitments to the guarantee fund for the Bank Guarantee Fund	bonds	71 227	70 000	63 415
Coverage of payment commitments to the resolution fund for the Bank Guarantee Fund	bonds	109 874	108 000	96 818
Lombard and technical loan	bonds	3 700 090	3 652 863	-
Other loans	bonds	236 083	221 100	206 151
Debt securities issued	loans, bonds	1 462 355	1 460 936	1 819 911
Coverage of the Guarantee Fund for the Settlement of Stock Exchange Transactions to Central Securities Depository (KDPW)	bonds, cash deposits	46 439	46 313	-
Derivatives	bonds	529 569	520 445	470 905

Notes to financial statements (cont.)

(in PLN thousand)

34. Amounts due to other banks

Amounts due to other banks by product type

	30.06.2019	31.12.2018
Current accounts	3 089 269	1 053 416
Interbank deposits and other liabilities	243 846	394 156
Loans and advances received	2 936 590	4 060 142
Repo transactions	250 543	67 447
Cash in transit	57 660	40 470
Lease liabilities	892	-
Total	6 578 800	5 615 631

Amounts due to other banks are measured at amortised cost.

Amounts due to other banks by currency

	30.06.2019	31.12.2018
PLN	3 170 541	1 799 447
CHF	205 078	226 207
EUR	3 153 125	3 494 632
USD	36 925	55 287
Other currencies	13 131	40 058
Total	6 578 800	5 615 631

35. Amounts due to customers

Amounts due to customers by entity and product type

	30.06.2019	31.12.2018
Amounts due to corporate, including:	50 855 069	53 468 205
current accounts	37 648 928	39 426 301
term deposits and other liabilities	13 206 141	14 041 904
Amounts due to budget entities, including:	10 062 257	10 946 907
current accounts	9 120 049	9 754 001
term deposits and other liabilities	942 208	1 192 906
Amounts due to individuals, including:	88 532 484	84 510 108
current accounts	53 413 876	49 773 217
term deposits and other liabilities	35 118 608	34 736 891
Repo transactions	40 002	347 672
Cash in transit	364 978	211 025
Lease liabilities	508 597	7 142
Total	150 363 387	149 491 059

Amounts due to customers are measured at amortised cost.

Notes to financial statements (cont.)

(in PLN thousand)

Amounts due to customers by currency

	30.06.2019	31.12.2018
PLN	121 835 788	123 029 852
CHF	346 493	350 419
EUR	18 654 225	16 552 992
USD	8 114 601	8 100 077
Other currencies	1 412 280	1 457 719
Total	150 363 387	149 491 059

36. Debt securities issued

Debt securities issued by type

	30.06.2019	31.12.2018
Liabilities from bonds	2 684 182	1 978 319
Certificates of deposit	1 913 611	1 732 596
Mortgage bonds	1 354 444	1 519 899
Total	5 952 237	5 230 814

Amounts debt securities issued are measured at amortised cost.

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

Debt securities issued by currency

	30.06.2019	31.12.2018
PLN	5 715 085	4 901 179
EUR	219 475	329 635
USD	17 677	-
Total	5 952 237	5 230 814

37. Subordinated liabilities

On 30 October 2017, the Bank issued 10 years subordinated bonds with a total nominal value of PLN 1.25 billion. The funds from the issue were designated – after receiving the approval of the Polish Financial Supervision Authority on 21 December 2017 – to increase the Bank's supplementary capital, pursuant to art. 127 para. 2 point 2 of the Banking Law and art. 63 of Regulation No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms. The bonds were introduced to trading on the ASO Catalyst market.

On 15 October 2018, the Bank issued 10 years subordinated bonds with a total nominal value of PLN 0.55 billion. The funds from the issue were designated – after receiving the approval of the Polish Financial Supervision Authority on 16 November 2018 – to increase the Bank's supplementary capital, pursuant to art. 127 para. 2 point 2 of the Banking Law and art. 63 of Regulation No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms. The bonds were introduced to trading on the ASO Catalyst market.

On 15 October 2018, the Bank issued 15 years subordinated bonds with a total nominal value of PLN 0.20 billion. The funds from the issue were designated – after receiving the approval of the Polish Financial Supervision Authority on 18 October 2018 – to increase the Bank's supplementary capital, pursuant to art. 127 para. 2 point 2 of the Banking Law and art. 63 of Regulation No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms. The bonds were introduced to trading on the ASO Catalyst market.

Notes to financial statements (cont.)

(in PLN thousand)

On 4 June 2019, the Bank issued 12 years subordinated bonds with a total nominal value of PLN 0.35 billion. The funds from the issue were designated – after receiving the approval of the Polish Financial Supervision Authority – to increase the Bank's supplementary capital, pursuant to art. 127 para. 2 point 2 of the Banking Law and art. 63 of Regulation No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms.

Subordinated liabilities by type

TYPE OF TRANSACTION	NOMINAL AMOUNT	CURRENCY	INTEREST RATE	ISSUE DATE	MATURITY DATE	SPECIAL TERMS	BALANCE SHEET VALUE AS AT 30.06.2019
Subordinated bonds	1 250 000	PLN	variable, WIBOR 6M + margin	30.10.2017	29.10.2027	Call option giving the Bank the right of early redemption within 5 years from the issue date, subject to the approval of the PFSA	1 257 025
Subordinated bonds	550 000	PLN	variable, WIBOR 6M + margin	15.10.2018	16.10.2028	Call option giving the Bank the right of early redemption within 5 years from the issue date, subject to the approval of the PFSA	553 875
Subordinated bonds	200 000	PLN	variable, WIBOR 6M + margin	15.10.2018	14.10.2033	Call option giving the Bank the right of early redemption within 10 years from the issue date, subject to the approval of the PFSA	201 515
Subordinated bonds	350 000	PLN	variable, WIBOR 6M + margin	04.06.2019	04.06.2031	Call option giving the Bank the right of early redemption within 12 years from the issue date, subject to the approval of the PFSA	350 904

TYPE OF TRANSACTION	NOMINAL AMOUNT	CURRENCY	INTEREST RATE	ISSUE DATE	MATURITY DATE	SPECIAL TERMS	BALANCE SHEET VALUE AS AT 31.12.2018
Subordinated bonds	1 250 000	PLN	variable, WIBOR 6M + margin	30.10.2017	29.10.2027	Call option giving the Bank the right of early redemption within 5 years from the issue date, subject to the approval of the PFSA	1 257 025
Subordinated bonds	550 000	PLN	variable, WIBOR 6M + margin	15.10.2018	16.10.2028	Call option giving the Bank the right of early redemption within 5 years from the issue date, subject to the approval of the PFSA	553 926
Subordinated bonds	200 000	PLN	variable, WIBOR 6M + margin	15.10.2018	14.10.2033	Call option giving the Bank the right of early redemption within 10 years from the issue date, subject to the approval of the PFSA	201 534

Notes to financial statements (cont.)

(in PLN thousand)

38. Provisions

Changes in provisions in the reporting period

I HALF 2019	PROVISIONS FOR LITIGATION AND CLAIMS	RESTRUCTURING PROVISION	PROVISIONS FOR DEFINED BENEFIT PLANS	PROVISIONS FOR UNDRAWN CREDIT FACILITIES AND GUARANTEES ISSUED	OTHER PROVISIONS	TOTAL
Opening balance	54 890	-	289 287	240 698	50 210	635 085
Provision charges/revaluation	8 266	85 000	14 028	147 588	5 465	260 347
Provision utilization	(4 449)	(20 434)	(17 260)	-	(967)	(43 110)
Provision releases	(70)	-	-	(104 959)	-	(105 029)
Foreign currency exchange differences	-	-	-	(217)	-	(217)
Other changes	-	-	182	-	34	216
Closing balance	58 637	64 566	286 237	283 110	54 742	747 292
Short term	3 553	64 566	11 055	35 467	1 035	115 676
Long term	55 084	-	275 182	247 643	53 707	631 616

2018	PROVISIONS FOR LITIGATION AND CLAIMS	RESTRUCTURING PROVISION	PROVISIONS FOR DEFINED BENEFIT PLANS	PROVISIONS FOR UNDRAWN CREDIT FACILITIES AND GUARANTEES ISSUED	OTHER PROVISIONS	TOTAL
Opening balance	17 132	-	300 248	236 909	48 333	602 622
Initial application of IFRS 9	-	-	-	36 266	-	36 266
Opening balance - restated	17 132	-	300 248	273 175	48 333	638 888
Provision charges/revaluation	15 101	-	27 920	203 941	17 825	264 787
Provision utilization	(3 739)	-	(38 567)	(24 808)	(15 899)	(83 013)
Provision releases	(1 143)	-	(5)	(169 241)	(49)	(170 438)
Foreign currency exchange differences	-	-	-	1 391	-	1 391
Other changes	27 539	-	(309)	(43 760)	-	(16 530)
Closing balance	54 890	-	289 287	240 698	50 210	635 085
Short term	3 559	-	12 740	50 987	1 968	69 254
Long term	51 331	-	276 547	189 711	48 242	565 831

Provisions for litigation and claims

Provisions for litigation and claims include court, administrative and other legal proceedings. The provisions were estimated in the amount of expected outflow of resources embodying economic benefits.

Restructuring provision

The Management Board of Bank Pekao S.A. informed that on 4 April 2019, in accordance with the Act of 13 March 2003 on special rules of terminating employment contracts for reasons not attributable to the employees (Journal of Laws, 2018, item 1969), adopted a resolution on the intended collective redundancies and the start of the consultation procedure for collective redundancies.

The intention of the Bank's Management Board is to terminate employment contracts with up to 900 employees and amend terms and conditions of employment with up to 620 employees, between 26 April 2019 and 31 October 2019.

The Bank estimated all the costs of termination of employment contracts and amendment of terms and conditions of employment the Bank's employees related to the collective redundancies for PLN 85 million and the restructuring provision in this amount was created in the Bank's accounting books.

Notes to financial statements (cont.)

(in PLN thousand)

Provisions for defined benefits plans

Provisions for defined benefits plans consist of provisions for retirement benefits and death-in-service benefits. The present value of such obligations is measured by an independent actuary using the projected unit credit method.

Other provisions

Other provisions include in particular provisions for other employee benefits.

39. Contingent commitments

Court cases

As of 30 June 2019 the following court cases for payment are pending with involvement of the Group, that are important in view of the value of the object of litigation:

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

- brought by a legal person – lawsuit for payment by virtue of improper performance of an agreement, value of the object of litigation 17 521 646 EUR (which as of 28 June 2019 at mid NBP rate was equivalent to 74 502 038.79 PLN), litigation initiation date – 19 July 2018, on 27 May 2019 the Arbitration Court passed a sentence dismissing the suit in its entirety, the sentence is legally valid but the plaintiff has the right to lodge a complaint with a court of general jurisdiction and demand the sentence to be repealed, in the present factual and legal circumstances the Bank assesses the funds outflow risk as possible,
- brought by the receiver for a joint stock company in liquidation bankruptcy – lawsuit for payment of compensation for a damage incurred as a result of the Bank's demanding immediate payment of the amounts due in virtue of payment of the price from the credit liabilities transfer agreement and conducting debt enforcement collection of the portion of the price remaining for payment by a court enforcement officer, value of the object of litigation 57 450 130 PLN, litigation initiation date – 30 April 2015, in the present factual and legal circumstances the Bank assesses the funds outflow risk as possible,
- brought by a natural person – lawsuit for payment by the Bank of an amount charged by virtue of settlement of financial future or forward transactions, value of the object of litigation 38 916 555.18 PLN, litigation initiation date – 2 October 2016, on 6 May 2019 the Circuit Court in Warsaw issued a sentence ordering the Bank to pay the amount of 3 392 349.18 PLN, and as to the remainder the Court dismissed the suit, the sentence is not legally valid, parties have the right to appeal against it, in the present factual and legal circumstances the Bank assesses the funds outflow risk as possible,
- brought by a beneficiary of warranty – lawsuit for payment of a claim by virtue of the warranty issued by the Bank, value of the object of litigation 32 750 000 PLN, litigation initiation date – 14 January 2014, in the present factual and legal circumstances the Bank assesses the funds outflow risk as minor,
- brought by a natural person – lawsuit for payment of damages by the Bank resulting from improper conduct of a Group entity – Pekao S.A. Central Brokerage House, the value of the object of litigation is 30 000 000 PLN, the date of the litigation initiation is 16 May 2019, in the present factual and legal circumstances the Bank assesses the funds outflow risk as minor,

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

- Bank's main intervention lawsuit against the parties of the main lawsuit – the object of the intervention is the demand for payment by virtue of the assignment of receivables securing Bank's liabilities, value of the object of litigation is 321 979 666.87 PLN, litigation initiation date – 26 October 2018,
- Bank's lawsuit for payment against limited debtor by virtue of mortgage collateralizing repayment of the granted loan, value of the object of litigation 132 877 901 PLN, litigation initiation date – 21 January 2016,
- Bank's main intervention lawsuit against the parties of the main lawsuit – the object of the intervention is the demand for payment by virtue of the assignment of receivables securing Bank's liabilities, value of the object of litigation 119 020 334 PLN, litigation initiation date – 26 October 2018,
- Bank's mutual lawsuit for payment of amounts due by virtue of the transfer of liabilities, value of the object of litigation 89 977 886 PLN, litigation initiation date – 28 February 2013,

Notes to financial statements (cont.)

(in PLN thousand)

- Bank's main intervention lawsuit against the parties of the main lawsuit – the object of the intervention is the demand to execute (pay) the liabilities purchased by the Bank from one of the defendants against the other defendant, value of the object of litigation 67 432 617.21 PLN, litigation initiation date – 23 January 2006.

None of the litigations pending in the first half of the year 2019 before the court, authority competent for arbitrary proceedings or a body of public administration posed a threat for financial liquidity of the Group.

The Group created provisions for litigations against the Group entities which, according to the legal opinion, are connected with a risk of the funds outflow resulting from the fulfillment of the obligation. The value of the provisions as at 30 June 2019 is PLN 58 637 thousand (PLN 54 890 thousand as at 31 December 2018).

Financial commitments granted

Financial commitments granted by entity

	30.06.2019	31.12.2018
Financial commitments granted to:		
banks	931 126	312 155
customers entities	35 757 651	31 979 434
budget entities	854 557	662 554
Total	37 543 334	32 954 143

Guarantees issued

Guarantees issued by entity

	30.06.2019	31.12.2018
Issued to banks:	1 305 681	1 229 675
guarantees	1 226 511	1 224 617
confirmed export letters of credit	79 170	5 058
Issued customers entities	9 967 864	11 222 563
guarantees	6 806 717	6 824 237
securities' underwriting guarantees	3 104 596	4 320 967
sureties	56 551	77 359
Issued to budget entities:	876 186	162 540
guarantees	23 980	13 192
securities' underwriting guarantees	852 206	149 348
Total	12 149 731	12 614 778

Off-balance sheet commitments received

Off-balance sheet commitments received by entity

	30.06.2019	31.12.2018
Financial received from:	1 570 724	1 085 713
banks	492 934	885 739
customers entities	75 190	199 974
budget entities	1 002 600	-
Guarantees received from:	18 735 066	20 181 274
banks	4 241 549	3 556 811
clients entities	13 468 114	15 621 321
budget entities	1 025 403	1 003 142
Total	20 305 790	21 266 987

Moreover, the Group has the ability to obtain financing from National Bank of Poland secured securities.

Notes to financial statements (cont.)

(in PLN thousand)

40. Additional information to the consolidated cash flow statement

Cash and cash equivalents

	30.06.2019	30.06.2018
Cash and amounts due from Central Bank	4 324 663	8 014 221
Loans and receivables from banks with maturity up to 3 months	2 502 437	2 966 758
Cash and Cash equivalents presented in the cash flow statement	6 827 100	10 980 979

Restricted availability cash and cash equivalents as at 30 June 2019 amounted to PLN 5 430 017 thousand (PLN 4 991 812 thousand as at 30 June 2018).

Changes in liabilities arising from financing activities

	BALANCE AS AT 1 JANUARY 2019	CHANGES FROM FINANCING CASH FLOWS	NON-CASH CHANGES			BALANCE AS AT 30 JUNE 2019	
			CHANGES ARISING FROM OBTAINING OR LOSING CONTROL OF SUBSIDIARIES OR OTHER BUSINESSES	THE EFFECT OF CHANGES IN FOREIGN EXCHANGE RATES	CHANGES IN FAIR VALUES		OTHER CHANGES
Debt securities issued	5 230 814	701 453	-	(3 968)	-	23 938	5 952 237
Subordinated liabilities	2 012 485	350 000	-	-	-	834	2 363 319
Loans and advances received	4 060 142	(1 089 757)	-	(34 334)	-	539	2 936 590
Lease liabilities	7 142	(89 112)	-	(1 725)	-	593 184	509 489
Total	11 310 583	(127 416)	-	(40 027)	-	618 495	11 761 635

	BALANCE AS AT 1 JANUARY 2018	CHANGES FROM FINANCING CASH FLOWS	NON-CASH CHANGES			BALANCE AS AT 30 JUNE 2018	
			CHANGES ARISING FROM OBTAINING OR LOSING CONTROL OF SUBSIDIARIES OR OTHER BUSINESSES	THE EFFECT OF CHANGES IN FOREIGN EXCHANGE RATES	CHANGES IN FAIR VALUES		OTHER CHANGES
Debt securities issued	2 771 399	1 092 969	-	-	-	17 936	3 882 304
Subordinated liabilities	1 257 188	-	-	-	-	(175)	1 257 013
Loans and advances received	3 006 353	81 878	-	172 205	-	(1 594)	3 258 842
Total	7 034 940	1 174 847	-	172 205	-	16 167	8 398 159

Notes to financial statements (cont.)

(in PLN thousand)

41. Related party transactions

The transactions between the Bank and related parties are typical transactions arising from current operating activities conducted by the Bank. Such transactions mainly include loans, deposits, foreign currency transactions and guarantees.

The credit granting process applicable to the Bank's management and entities related to the Bank

According to the Banking Act, credit transactions with Members of the Bank's Management Board and Supervisory Board, persons holding managerial positions at the Bank, with the entities related financially or organizationally therewith, shall be effected according to Regulation adopted by the Supervisory Board of the Bank.

The Regulation provides detailed decision-making procedures, applicable to transactions with such persons and entities, also defining the decision-making levels authorized to take decisions. In particular, the transactions with the Members of the Bank's Management Board or Supervisory Board or with an entity related therewith financially or organizationally, are subject to decisions taken by the Bank's Management Board and Supervisory Board.

Members of the Bank's Management Board and entities related therewith financially or organizationally may take advantage of credit products offered by the Bank on standard terms and conditions of the Bank. In particular, the Bank may not offer more advantageous credit interest rates to such persons or entities.

Credit risk assessment is performed using the methodology applied by the Bank, tailored to the client's segment and type of transaction.

In case of entities related to the Bank, the standard credit procedures are applied, with transaction-related decisions taken exclusively at level of the Bank's Head Office.

Notes to financial statements (cont.)

(in PLN thousand)

Related party transactions

Related party transactions as at 30 June 2019

NAME OF ENTITY	RECEIVABLES FROM LOANS AND PLACEMENTS	SECURITIES	RECEIVABLES FROM REVALUATION OF DERIVATIVES	OTHER RECEIVABLES	LIABILITIES FROM LOANS AND DEPOSITS	LIABILITIES FROM REVALUATION OF DERIVATIVES	OTHER LIABILITIES
PZU S.A. – the Bank's parent entity	39	-	542	4 206	38 178	104	346 674
Entities of PZU S.A. Group excluding of Bank Pekao S.A. Group entities	1 496	-	28	10 573	75 317	2 948	1 544
Key management personnel of the Bank Pekao S.A.	475	-	-	-	6 792	-	-
Total	2 010	-	570	14 779	120 287	3 052	348 218

Receivables from loans and placements by contractual maturity

30.06.2019	CURRENT (*)	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
PZU S.A. – the Bank's parent entity	39	-	-	-	39	-	39
Entities of PZU S.A. Group excluding of Bank Pekao S.A. Group entities	15	1 431	22	28	15	1 431	1 496
Key management personnel of the Bank Pekao S.A.	-	-	-	-	93	382	475
Total	54	1 431	22	28	147	1 813	2 010

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

Liabilities from loans and deposits by contractual maturity

30.06.2019	CURRENT (*)	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
PZU S.A. – the Bank's parent entity	37 317	861	-	-	-	-	38 178
Entities of PZU S.A. Group excluding of Bank Pekao S.A. Group entities	74 689	628	-	-	-	-	75 317
Key management personnel of the Bank Pekao S.A.	5 759	1	-	-	1 003	29	6 792
Total	117 765	1 490	-	-	1 003	29	120 287

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

Notes to financial statements (cont.)

(in PLN thousand)

Receivables from loans and placements by currency

30.06.2019	EUR	USD	CHF	PLN	OTHER	TOTAL
PZU S.A. – the Bank's parent entity	-	-	-	39	-	39
Entities of PZU S.A. Group excluding of Bank Pekao S.A. Group entities	-	-	-	1 496	-	1 496
Key management personnel of the Bank Pekao S.A.	-	-	382	93	-	475
Total	-	-	382	1 628	-	2 010

Liabilities from loans and deposits by currency

30.06.2019	EUR	USD	CHF	PLN	OTHER	TOTAL
PZU S.A. – the Bank's parent entity	35	-	-	38 143	-	38 178
Entities of PZU S.A. Group excluding of Bank Pekao S.A. Group entities	1 451	487	145	72 697	537	75 317
Key management personnel of the Bank Pekao S.A.	3 169	128	63	3 430	2	6 792
Total	4 655	615	208	114 270	539	120 287

Notes to financial statements (cont.)

(in PLN thousand)

Related party transactions as at 31 December 2018

NAME OF ENTITY	RECEIVABLES FROM LOANS, ADVANCES AND PLACEMENTS	SECURITIES	RECEIVABLES FROM REVALUATION OF DERIVATIVES	OTHER RECEIVABLES	LIABILITIES FROM LOANS AND DEPOSITS	LIABILITIES FROM REVALUATION OF DERIVATIVES	OTHER LIABILITIES
PZU S.A. – the Bank's parent entity	4	-	104	492	23 722	-	134
Entities of PZU S.A. Group excluding of Bank Pekao S.A. Group entities	421	-	2 663	6 727	54 158	547	1 891
Key management personnel of the Bank Pekao S.A.	440	-	-	-	6 609	-	-
Total	865	-	2 767	7 219	84 489	547	2 025

Receivables from loans and deposits by contractual maturity

31.12.2018	CURRENT (*)	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
PZU S.A. – the Bank's parent entity	-	4	-	-	-	-	4
Entities of PZU S.A. Group excluding of Bank Pekao S.A. Group entities	6	301	21	93	-	-	421
Key management personnel of the Bank Pekao S.A.	-	-	-	39	9	392	440
Total	6	305	21	132	9	392	865

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

Liabilities due to loans and deposits by contractual maturity

31.12.2018	CURRENT (*)	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
PZU S.A. – the Bank's parent entity	23 722	-	-	-	-	-	23 722
Entities of PZU S.A. Group excluding of Bank Pekao S.A. Group entities	49 406	4 752	-	-	-	-	54 158
Key management personnel of the Bank Pekao S.A.	6 499	3	1	106	-	-	6 609
Total	79 627	4 755	1	106	-	-	84 489

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

Notes to financial statements (cont.)

(in PLN thousand)

Receivables from loans and deposits by currency

31.12.2018	EUR	USD	CHF	PLN	OTHER	TOTAL
PZU S.A. – the Bank's parent entity	-	-	-	4	-	4
Entities of PZU S.A. Group excluding of Bank Pekao S.A. Group entities	-	-	-	421	-	421
Key management personnel of the Bank Pekao S.A.	-	-	392	48	-	440
Total	-	-	392	473	-	865

Liabilities due to loans and deposits by currency

31.12.2018	EUR	USD	CHF	PLN	OTHER	TOTAL
PZU S.A. – the Bank's parent entity	34	-	-	23 688	-	23 722
Entities of PZU S.A. Group excluding of Bank Pekao S.A. Group entities	743	1 356	232	50 319	1 508	54 158
Key management personnel of the Bank Pekao S.A.	3 207	130	16	3 254	2	6 609
Total	3 984	1 486	248	77 261	1 510	84 489

Notes to financial statements (cont.)

(in PLN thousand)

Income and expenses from transactions with related parties for the period from 1 January 2019 to 30 June 2019

NAME OF ENTITY	INTEREST INCOME	INTERES EXPENSE	FEE AND COMMISSION INCOME	FEE AND COMMISSION EXPENSE	POSITIVE VALUATION OF DERIVATIVES AND OTHER INCOME	NEGATIVE VALUATION OF DERIVATIVES AND OTHER EXPENSES
PZU S.A. – the Bank 's parent entity	2 967	(287)	1 513	-	78	(736)
Entities of PZU S.A. Group excluding of Bank Pekao S.A. Group entities	363	(345)	22 184	(61)	918	(10 321)
Key management personnel of the Bank Pekao S.A.	3	(23)	-	-	-	-
Total	3 333	(655)	23 697	(61)	996	(11 057)

Income and expenses from transactions with related parties for the period from 1 January to 30 June 2018

NAME OF ENTITY	INTEREST INCOME	INTERES EXPENSE	FEE AND COMMISSION INCOME	FEE AND COMMISSION EXPENSE	POSITIVE VALUATION OF DERIVATIVES AND OTHER INCOME	NEGATIVE VALUATION OF DERIVATIVES AND OTHER EXPENSES
PZU S.A. – the Bank 's parent entity	39	(88)	846	-	211	(3 661)
Entities of PZU S.A. Group excluding of Bank Pekao S.A. Group entities	170	(265)	8 438	(72)	2 227	(264)
Key management personnel of the Bank Pekao S.A.	1	(28)	-	-	-	-
Total	210	(381)	9 284	(72)	2 438	(3 925)

Notes to financial statements (cont.)

(in PLN thousand)

Off-balance sheet financial liabilities and guarantees as at 30 June 2019

NAME OF ENTITY	GRANTED		RECEIVED	
	FINANCIAL	GUARANTEES	FINANCIAL	GUARANTEE
PZU S.A. – the Bank's parent entity	2 835	15 000	-	488 980
Entities of PZU S.A. Group excluding of Bank Pekao S.A. Group entities	578	10 000	-	-
Key management personnel of the Bank Pekao S.A.	567	-	-	-
Total	3 980	25 000	-	488 980

Off-balance sheet financial commitments and guarantees by contractual maturity

30.06.2019	CURRENT	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
FINANCIAL COMMITMENTS GRANTED							
PZU S.A. – the Bank's parent entity	-	-	-	-	-	2 835	2 835
Entities of PZU S.A. Group excluding of Bank Pekao S.A. Group entities	-	25	-	-	-	553	578
Key management personnel of the Bank Pekao S.A.	-	-	15	-	148	404	567
Total	-	25	15	-	148	3 792	3 980
Guarantees issued							
PZU S.A. – the Bank's parent entity	-	-	15 000	-	-	-	15 000
Entities of PZU S.A. Group excluding of Bank Pekao S.A. Group entities	-	380	9 620	-	-	-	10 000
Total	-	380	24 620	-	-	-	25 000
Guarantees received							
Entities of PZU S.A. Group excluding of Bank Pekao S.A. Group entities	-	-	-	-	-	488 980	488 980
Total	-	-	-	-	-	488 980	488 980

Notes to financial statements (cont.)

(in PLN thousand)

Off-balance sheet financial commitments and guarantees by currency

30.06.2019	EUR	USD	CHF	PLN	OTHER	TOTAL
FINANCIAL COMMITMENTS GRANTED						
PZU S.A. – the Bank's parent entity	-	-	-	2 835	-	2 835
Entities of PZU S.A. Group excluding of Bank Pekao S.A. Group entities	-	-	-	578	-	578
Key management personnel of the Bank Pekao S.A.	-	-	-	567	-	567
Total	-	-	-	3 980	-	3 980
Guarantees issued						
PZU S.A. – the Bank's parent entity	-	-	-	15 000	-	15 000
Entities of PZU S.A. Group excluding of Bank Pekao S.A. Group entities	-	-	-	10 000	-	10 000
Total	-	-	-	25 000	-	25 000
Guarantees received						
Entities of PZU S.A. Group excluding of Bank Pekao S.A. Group entities	488 980	-	-	-	-	488 980
Total	488 980	-	-	-	-	488 980

Notes to financial statements (cont.)

(in PLN thousand)

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

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

Off-balance sheet financial commitments and guarantees by contractual maturity

31.12.2018	CURRENT	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
FINANCIAL COMMITMENTS GRANTED							
PZU S.A. – the Bank's parent entity	-	-	-	-	2 818	-	2 818
Entities of PZU S.A. Group excluding of Bank Pekao S.A. Group entities	-	20	-	-	597	-	617
Key management personnel of the Bank Pekao S.A.	-	-	-	75	412	1	488
Total	-	20	-	75	3 827	1	3 923
Guarantees issued							
PZU S.A. – the Bank's parent entity	-	49	11	14 940	-	-	15 000
Entities of PZU S.A. Group excluding of Bank Pekao S.A. Group entities	-	50	6 040	9 910	-	-	16 000
Total	-	99	6 051	24 850	-	-	31 000
Guarantees received							
PZU S.A. – the Bank's parent entity	-	-	-	-	-	494 500	494 500
Entities of PZU S.A. Group excluding of Bank Pekao S.A. Group entities	-	-	6 000	-	-	-	6 000
Total	-	-	6 000	-	-	494 500	500 500

Notes to financial statements (cont.)

(in PLN thousand)

Off-balance sheet financial commitments and guarantees by currency

31.12.2018	EUR	USD	CHF	PLN	OTHER	TOTAL
FINANCIAL COMMITMENTS GRANTED						
PZU S.A. – the Bank's parent entity	-	-	-	2 818	-	2 818
Entities of PZU S.A. Group excluding of Bank Pekao S.A. Group entities	-	-	-	617	-	617
Key management personnel of the Bank Pekao S.A.	-	-	-	488	-	488
Total	-	-	-	3 923	-	3 923
Guarantees issued						
PZU S.A. – the Bank's parent entity	-	-	-	15 000	-	15 000
Entities of PZU S.A. Group excluding of Bank Pekao S.A. Group entities	-	-	-	16 000	-	16 000
Total	-	-	-	31 000	-	31 000
Guarantees received						
PZU S.A. – the Bank's parent entity	494 500	-	-	-	-	494 500
Entities of PZU S.A. Group excluding of Bank Pekao S.A. Group entities	-	-	-	6 000	-	6 000
Total	494 500	-	-	6 000	-	500 500

Notes to financial statements (cont.)

(in PLN thousand)

Remuneration expenses of the Bank's Management Board and Supervisory Board Members

	VALUE OF BENEFITS	
	I HALF 2019	I HALF 2018
Management Board of the Bank		
Short-term employee benefits (*)	4 059	5 382
Post-employment benefits	-	845
Long-term benefits (**)	1 956	3 207
Share-based payments (***)	2 165	-
Total	8 180	9 434
Supervisory Board of the Bank		
Short-term employee benefits (*)	525	788
Total	525	788

(*) Short-term employee benefits include: base salary, bonuses and other benefits due in next 12 months from the date of the balance sheet.

(**) The item 'Other long-term benefit' includes: provisions for deferred bonus payments.

(***) The value of share-based payments is a part of Personnel Expenses, recognized according to IFRS 2 during the reporting period in the income statement, representing the settlement of fair value of share options and shares, including phantom shares, granted to the Members of the Bank's Management Board.

The Bank's Management Board and Supervisory Board Members did not receive any remuneration from subsidiaries and associates in the period from 1 January to 30 June 2019 and in the period from 1 January to 30 June 2018.

Remuneration expenses of Supervisory Boards and Management Boards of subsidiaries

	VALUE OF BENEFITS	
	I HALF 2019	I HALF 2018
Companies' Management Boards		
Short-term employee benefits	7 949	9 897
Post-employment benefits	1 014	138
Long-term benefits	241	1 723
Termination benefits	553	1 603
Total	9 757	13 361
Companies' Supervisory Boards		
Short-term employee benefits	416	480
Total	416	480

42. Subsequent events**Decision of the Polish Financial Supervision Authority on expressing consent to qualify series D subordinated bonds of Bank Pekao S.A. as Tier II capital instruments of the Bank**

On 9 July 2019, in the current report No. 23/2019, the Management Board of Bank Pekao S.A. informed in references to current report No. 12/2019 dated 9 May 2019 and current report No. 13/2019 dated 22 May 2019, informs that on 8 July 2019 it received the decision of the Polish Financial Supervision Authority on expressing consent to qualify by the Bank 700 series D subordinated bonds with a nominal value of each bond amounting to PLN 500 000 and a total nominal value of PLN 350 000 000 and maturity dated of 4 June 2031 ('Series D Bonds') as instruments in Tier II capital of the Bank, referred to in Article 63 of Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012, on terms specified in the documents submitted by the Bank to the Office of the Polish Financial Supervision Authority, i.e. inter alia in Terms and Conditions of Series D Bonds.

Inclusion of funds raised from the issue of Series D Bonds to the Bank's Tier II capital will result in an increase in the total capital ratio (TCR) for the Bank and the Bank's capital group by approximately 0.3 percentage point.

Signatures of the Management Board Members

06.08.2019 Date	Michał Krupiński Name/Surname	President of the Management Board Position/Function	Signature
06.08.2019 Date	Tomasz Kubiak Name/Surname	Vice President of the Management Board Position/Function	Signature
06.08.2019 Date	Michał Lehmann Name/Surname	Vice President of the Management Board Position/Function	Signature
06.08.2019 Date	Marek Lusztyn Name/Surname	Vice President of the Management Board Position/Function	Signature
06.08.2019 Date	Tomasz Styczyński Name/Surname	Vice President of the Management Board Position/Function	Signature
06.08.2019 Date	Marek Tomczuk Name/Surname	Vice President of the Management Board Position/Function	Signature
06.08.2019 Date	Magdalena Zmitrowicz Name/Surname	Vice President of the Management Board Position/Function	Signature
06.08.2019 Date	Grzegorz Olszewski Name/Surname	Member of the Management Board Position/Function	Signature
06.08.2019 Date	Piotr Wetmański Name/Surname	Member of the Management Board Position/Function	Signature

Glossary

Glossary

IFRS – International Financial Reporting Standards – the standards, interpretations and their structure adopted by the International Accounting Standards Board (IASB).

IAS – International Accounting Standards – previous name of the standards forming part of the current IFRS.

IFRIC – International Financial Reporting Interpretations Committee – the committee operating under the International Accounting Standards Board publishing interpretations of IFRS.

CIRS – Currency Interest Rate Swap – the transaction exchange of principal amounts and interest payments in different currencies between two counterparties.

IRS – Interest Rate Swap – the agreement between two counterparties, under which the counterparties pay each other (at specified intervals during the contract life) interest on contractual principal of the contract, charged at a different interest rate.

FRA – Forward Rate Agreement – the contract under which two counterparties fix the interest rate that will apply in the future for a specified amount expressed in currency of the transaction for a predetermined period.

CAP – the financial agreement, which limits the risk borne by lender on a variable interest rate, exposed to the potential loss as a result of increase in interest rates. Cap option is a series of call options on interest rates, in which the issuer guarantees the buyer the compensation of the additional interest costs, that the buyer must pay if the interest rate on loan increases above the fixed interest rate.

FLOOR – the financial agreement, which limits the risk of incurring losses resulting from decrease in interest rates by the lender providing the loan at a variable interest rate. Floor option is a series of put options on interest rates, in which the issuer guarantees the interest to be paid on the loan if the interest rate on the loan decreases below the fixed interest rate.

PD – Probability Default – the parameter used in Internal Ratings-Based Approach which determines the likelihood that the debtor will be unable to meet its obligation. PD is a financial term describing the likelihood of a default over an one year time horizon.

LGD – Loss Given Default – the percentage of loss over the total exposure when bank's counterparty goes to default.

EAD – Exposure at Default.

EL – Expected Loss.

Life-time ECL – Lifetime Expected Credit Loss.

CCF – Credit Conversion Factor.

VaR – Value at Risk – the risk measure by which the market value of an asset or portfolio may be reduced for a given assumptions, probability and time horizon.

ICAAP – Internal Capital Adequacy Assessment Process – the process of assessing internal capital adequacy.

FVH – fair value hedge accounting.

LTV – Loan to Value.

CFH – cash flow hedge accounting.