

**Condensed Unconsolidated Interim
Financial Statements of Bank
Pekao S.A. 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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Unconsolidated 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	7	1 604 572	3 144 517	1 474 176	2 915 657
Financial assets measured at amortized cost		1 370 776	2 688 991	1 256 661	2 478 291
Financial assets measured at fair value through other comprehensive income		167 313	327 735	177 328	366 857
Financial assets measured at fair value through other profit or loss		66 483	127 791	40 187	70 509
Interest expense	7	(283 220)	(555 763)	(269 251)	(535 524)
Net interest income		1 321 352	2 588 754	1 204 925	2 380 133
Fee and commission income	8	607 582	1 174 769	601 945	1 160 092
Fee and commission expense	8	(91 464)	(171 799)	(86 530)	(168 407)
Net fee and commission income		516 118	1 002 970	515 415	991 685
Dividend income	9	136 247	200 599	165 609	255 036
Result on financial assets and liabilities measured at fair value through profit or loss	10	27 306	40 829	14 043	32 315
Result on fair value hedge accounting	26	(728)	(1 704)	662	1 999
Result on derecognition of financial assets and liabilities not measured at fair value through profit or loss	11	8 259	19 470	26 774	50 606
OPERATING INCOME		2 008 554	3 850 918	1 927 428	3 711 774
Net impairment losses on financial assets and off-balance sheet commitments	12	(162 011)	(263 152)	(112 197)	(229 593)
NET RESULT ON FINANCIAL ACTIVITY		1 846 543	3 587 766	1 815 231	3 482 181
Administrative expenses	13	(917 704)	(2 111 970)	(908 643)	(1 913 894)
Personnel expenses		(521 312)	(935 157)	(492 377)	(930 444)
Other administrative expenses		(396 392)	(1 176 813)	(416 266)	(983 450)
Depreciation and amortization	14	(114 549)	(231 500)	(82 096)	(161 912)
Net result on other provisions		(3 442)	(8 161)	(13 655)	(14 397)
Net other operating income and expenses	15	12 632	26 210	11 394	22 146
OPERATING COSTS		(1 023 063)	(2 325 421)	(993 000)	(2 068 057)
Gains (losses) on subsidiaries and associates	16	-	-	(11 069)	(11 069)
Gains (losses) on disposal of property, plant and equipment and intangible assets	17	9 558	11 571	2 536	5 439
PROFIT BEFORE INCOME TAX		833 038	1 273 916	813 698	1 408 494
Income tax expense	18	(176 101)	(357 656)	(164 558)	(324 621)
NET PROFIT		656 937	916 260	649 140	1 083 873
Earnings per share (in PLN per share)	19				
basic for the period		2.50	3.49	2.47	4.13
diluted for the period		2.50	3.49	2.47	4.13

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

Unconsolidated 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		656 937	916 260	649 140	1 083 873
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:		122 947	113 624	(47 967)	53 671
Profit or loss on fair value measurement		130 057	132 069	(21 344)	104 148
Profit or loss reclassification to income statement after derecognition		(7 110)	(18 445)	(26 623)	(50 477)
Change in fair value of cash flow hedges	26	27 302	92 070	(3 531)	(20 854)
Tax on items that are or may be reclassified subsequently to profit or loss	18	(28 548)	(39 082)	9 785	(6 235)
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		16 540	17 342	(13 874)	(19 225)
Remeasurements of the defined benefit liabilities		-	-	-	-
Tax on items that will never be reclassified to profit or loss	18	(3 143)	(3 295)	2 636	3 653
Other comprehensive income (net of tax)		135 098	180 659	(52 951)	11 010
Total comprehensive income		792 035	1 096 919	596 189	1 094 883

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

Unconsolidated statement of financial position

(in PLN thousand)

	NOTE	30.06.2019	31.12.2018
ASSETS			
Cash and due from Central Bank	21	4 324 400	12 972 575
Loans and advances to banks	22	3 050 252	2 508 553
Financial assets held for trading	23	2 884 027	890 339
Derivative financial instruments (held for trading)	24	1 776 593	1 455 976
Loans and advances to customers	25	127 193 870	122 349 115
1. Measured at amortised cost		125 190 922	120 349 597
2. Measured at fair value through profit or loss		274 067	302 630
3. Measured at fair value through other comprehensive income		1 728 881	1 696 888
Hedging instruments	26	395 136	313 565
Investments (placement) securities	27	43 996 054	38 333 179
1. Measured at fair value through profit or loss		85 438	65 408
2. Designated at fair value through profit or loss		-	-
3. Measured at fair value through other comprehensive income (debt securities)		28 344 400	26 904 574
4. Designated at fair value through other comprehensive income (equity instruments)		250 131	232 830
5. Measured at amortised cost		15 316 085	11 130 367
Assets held for sale	28	45 881	11 550
Investments in subsidiaries		1 682 756	1 682 756
Investments in associates		-	-
Intangible assets	29	608 823	633 165
Property, plant and equipment	30	1 808 346	1 384 203
Investment properties		11 022	11 168
Income tax assets		841 295	840 988
1. Current tax assets		-	-
2. Deferred tax assets		841 295	840 988
Other assets		955 842	960 044
TOTAL ASSETS		189 574 297	184 347 176
EQUITY AND LIABILITIES			
Liabilities			
Amounts due to Central Bank	21	5 019	5 067
Amounts due to other banks	32	3 904 148	2 921 955
Financial liabilities held for trading	23	540 620	102 429
Derivative financial instruments (held for trading)	24	2 284 957	1 919 394
Amounts due to customers	33	150 850 211	150 132 028
Hedging instruments	26	666 327	905 056
Debt securities issued	34	1 913 611	1 732 596
Subordinated liabilities	35	2 363 319	2 012 485
Income tax liabilities		137 058	187 938
1. Current tax liabilities		137 058	187 938
2. Deferred tax liabilities		-	-
Provisions	36	763 187	654 960
Other liabilities		4 959 225	1 951 270
TOTAL LIABILITIES		168 387 682	162 525 178
Equity			
Share capital		262 470	262 470
Other capital and reserves		20 007 885	20 185 676
Retained earnings and net profit for the period		916 260	1 373 852
TOTAL EQUITY		21 186 615	21 821 998
TOTAL LIABILITIES AND EQUITY		189 574 297	184 347 176

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

Unconsolidated statement of changes in equity

(in PLN thousand)

For the period from 1 January 2019 to 30 June 2019

	SHARE CAPITAL	OTHER CAPITAL AND RESERVES					REVALUATION RESERVES	OTHER	RETAINED EARNINGS AND NET PROFIT FOR THE PERIOD	TOTAL EQUITY
		TOTAL OTHER CAPITAL AND RESERVES	SHARE PREMIUM	GENERAL BANKING RISK FUND	OTHER RESERVE CAPITAL					
Equity as at 01.01.2019	262 470	20 185 676	9 137 221	1 982 459	8 627 858	205 011	233 127	1 373 852	21 821 998	
Comprehensive income	-	180 659	-	-	-	180 659	-	916 260	1 096 919	
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)	-	92 035	-	-	-	92 035	-	-	92 035	
Revaluation or sale of investments in equity instruments designated at fair value through other comprehensive income (net of tax)	-	14 047	-	-	-	14 047	-	-	14 047	
Revaluation of hedging financial instruments (net of tax)	-	74 577	-	-	-	74 577	-	-	74 577	
Net profit for the period	-	-	-	-	-	-	-	916 260	916 260	
Appropriation of retained earnings	-	578 298	-	-	578 298	-	-	(2 310 600)	(1 732 302)	
Dividend paid	-	-	-	-	-	-	-	(1 732 302)	(1 732 302)	
Profit appropriation	-	578 298	-	-	578 298	-	-	(578 298)	-	
Other	-	(936 748)	-	-	(936 748)	-	-	936 748	-	
Coverage of negative impact of IFRS 9 implementation	-	(936 748)	-	-	(936 748)	-	-	936 748	-	
Equity as at 30.06.2019	262 470	20 007 885	9 137 221	1 982 459	8 269 408	385 670	233 127	916 260	21 186 615	

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

Unconsolidated statement of changes in equity (cont.)

(in PLN thousand)

For the period from 1 January 2018 to 31 December 2018

	SHARE CAPITAL	OTHER CAPITAL AND RESERVES					REVALUATION RESERVES	OTHER	RETAINED EARNINGS AND NET PROFIT FOR THE PERIOD	TOTAL EQUITY
		TOTAL OTHER CAPITAL AND RESERVES	SHARE PREMIUM	GENERAL BANKING RISK FUND	OTHER RESERVE CAPITAL					
Equity as at 01.01.2018	262 470	19 907 935	9 137 221	1 982 459	8 612 550	(57 422)	233 127	2 088 129	22 258 534	
Initial application of IFRS 9	-	240 203	-	-	-	240 203	-	(936 748)	(696 545)	
Equity as at 01.01.2018 - restated	262 470	20 148 138	9 137 221	1 982 459	8 612 550	182 781	233 127	1 151 381	21 561 989	
Comprehensive income	-	22 922	-	-	692	22 230	-	2 310 600	2 333 522	
Remeasurements of the defined benefit liabilities (net of tax)	-	327	-	-	-	327	-	-	327	
Revaluation of debt financial instruments measured at fair value through other comprehensive income (net of tax)	-	10 102	-	-	-	10 102	-	-	10 102	
Revaluation or sale of investments in equity instruments designated at fair value through other comprehensive income (net of tax)	-	(23 924)	-	-	692	(24 616)	-	-	(23 924)	
Revaluation of hedging financial instruments (net of tax)	-	36 417	-	-	-	36 417	-	-	36 417	
Net profit for the period	-	-	-	-	-	-	-	2 310 600	2 310 600	
Appropriation of retained earnings	-	14 616	-	-	14 616	-	-	(2 088 129)	(2 073 513)	
Dividend paid	-	-	-	-	-	-	-	(2 073 513)	(2 073 513)	
Profit appropriation	-	14 616	-	-	14 616	-	-	(14 616)	-	
Equity as at 31.12.2018	262 470	20 185 676	9 137 221	1 982 459	8 627 858	205 011	233 127	1 373 852	21 821 998	

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

Unconsolidated statement of changes in equity (cont.)

(in PLN thousand)

For the period from 1 January 2018 to 30 June 2018

	SHARE CAPITAL	OTHER CAPITAL AND RESERVES					REVALUATION RESERVES	OTHER	RETAINED EARNINGS AND NET PROFIT FOR THE PERIOD	TOTAL EQUITY
		TOTAL OTHER CAPITAL AND RESERVES	SHARE PREMIUM	GENERAL BANKING RISK FUND	OTHER RESERVE CAPITAL					
Equity as at 1.01.2018	262 470	19 907 935	9 137 221	1 982 459	8 612 550	(57 422)	233 127	2 088 129	22 258 534	
Initial application of IFRS 9	-	240 203	-	-	-	240 203	-	(936 748)	(696 545)	
Equity as at 1.01.2018 - restated	262 470	20 148 138	9 137 221	1 982 459	8 612 550	182 781	233 127	1 151 381	21 561 989	
Comprehensive income	-	11 850	-	-	840	11 010	-	1 083 873	1 095 723	
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)	-	43 473	-	-	-	43 473	-	-	43 473	
Revaluation or sale of investments in equity instruments designated at fair value through other comprehensive income (net of tax)	-	(14 732)	-	-	840	(15 572)	-	-	(14 732)	
Revaluation of hedging financial instruments (net of tax)	-	(16 891)	-	-	-	(16 891)	-	-	(16 891)	
Net profit for the period	-	-	-	-	-	-	-	1 083 873	1 083 873	
Appropriation of retained earnings	-	14 616	-	-	14 616	-	-	(2 088 129)	(2 073 513)	
Dividend paid	-	-	-	-	-	-	-	(2 073 513)	(2 073 513)	
Profit appropriation	-	14 616	-	-	14 616	-	-	(14 616)	-	
Equity as at 30.06.2018	262 470	20 174 604	9 137 221	1 982 459	8 628 006	193 791	233 127	147 125	20 584 199	

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

Unconsolidated 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		916 260	1 083 873
Adjustments for:		(3 857 103)	(6 218 891)
Depreciation and amortization	14	231 500	161 912
(Gains) losses on investing activities		(29 990)	(55 884)
Net interest income	7	(2 588 754)	(2 380 133)
Dividend income	9	(200 599)	(255 036)
Interest received		3 302 155	3 118 502
Interest paid		(540 809)	(515 957)
Income tax		357 656	324 621
Income tax paid		(305 243)	(421 515)
Change in loans and advances to banks		37 224	68 259
Change in financial assets held for trading		(1 995 081)	336 192
Change in derivative financial instruments (assets)		(320 617)	110 447
Change in loans and advances to customers		(4 941 536)	(2 716 661)
Change in investment (placement) securities		(80 448)	(481 418)
Change in other assets		(586 234)	229 738
Change in amounts due to banks		1 062 692	390 280
Change in financial liabilities held for trading		438 191	(43 545)
Change in derivative financial instruments (liabilities)		365 563	(581 597)
Change in amounts due to customers		799 189	(3 453 351)
Change in debt securities issued		(2 079)	(1 005)
Change in subordinated liabilities		834	(175)
Payments for short-term leases and leases of low-value assets		(6 575)	-
Change in provisions		108 227	1 627
Change in other liabilities		1 037 631	(54 192)
Net cash flows from operating activities		(2 940 843)	(5 135 018)
Cash flow from investing activities			
Investing activity inflows		112 038 609	75 431 252
Sale of investment securities		111 825 860	74 744 194
Sale of intangible assets and property, plant and equipment		12 150	7 254
Dividend received	9	200 599	255 036
Other investing inflows		-	424 768
Investing activity outflows		(117 530 414)	(66 424 822)
Acquisition of investment securities		(117 450 836)	(66 358 144)
Acquisition of intangible assets and property, plant and equipment		(79 578)	(66 678)
Net cash flows from investing activities		(5 491 805)	9 006 430

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

Unconsolidated 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	38		
Financing activity inflows		818 769	540 903
Due to loans and advances received from banks		33 875	-
Issue of debt securities		434 894	540 903
Issue of subordinated bonds		350 000	-
Financing activity outflows		(453 370)	(706 821)
Repayment of loans and advances received from banks		(107 041)	(109 206)
Redemption of debt securities		(260 971)	(597 615)
Payments for the principal portion of the lease liabilities		(85 358)	-
Net cash flows from financing activities		365 399	(165 918)
Total net cash flows		(8 067 249)	3 705 494
including effect of exchange rate fluctuations on cash and cash equivalents held		(16 458)	125 946
Net change in cash and cash equivalents		(8 067 249)	3 705 494
Cash and cash equivalents at the beginning of the period	38	15 232 770	7 293 707
Cash and cash equivalents at the end of the period	38	7 165 521	10 999 201

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

Notes to financial statements

(in PLN thousand)

The accompanying notes to the financial statements constitute an integral part of the condensed unconsolidated 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 unconsolidated interim financial statements of Bank Pekao S.A. for the period from 1 January 2019 to 30 June 2019 contain financial information of all the activities performed by the Bank.

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

The Bank also prepares Condensed Consolidated Interim Financial Statements of Bank Pekao S.A. Group.

2. Business combinations

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

3. Statement of compliance

The condensed unconsolidated interim financial statements of Bank Pekao S.A., 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 unconsolidated financial statements of Bank Pekao S.A. 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 4.1).

The unconsolidated financial statements of Bank Pekao S.A. 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.

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

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

Notes to financial statements (cont.)

(in PLN thousand)

4. Significant accounting policies

4.1 Basis of preparation of Unconsolidated Financial Statements

General information

Condensed Unconsolidated Interim Financial Statements of the Bank 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 Bank 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 Bank in these condensed unconsolidated interim financial statements, except for the changes resulting from IFRS 16, are the same as those applied in the Unconsolidated Financial Statements of Bank Pekao S.A. for the year ended on 31 December 2018.

IFRS 16

The application of IFRS 16 resulted in changes to the Bank's accounting policy regarding the recognition, measurement and presentation of lease agreements. The Bank 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 Bank 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 Bank, 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.

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

Notes to financial statements (cont.)

(in PLN thousand)

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 Bank 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 unconsolidated 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 Bank's financial statements, with the exception of IFRS 16 (Note 4.2).

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 4.3 and Note 4.4). In the Bank's opinion, amendments to Standards and interpretations will not have a significant influence on the unconsolidated financial statements of the Bank.

4.2 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 Bank 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 Bank recognized leases as leasing liabilities measured at the present value of remaining lease payments discounted using the Bank'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	572 267
Other assets	(35 807)
Amounts due to customers	536 460

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 Bank 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	357 255
Discount effect using the above disclosed incremental borrowing rates on the date of first application	(20 081)
Financial lease liabilities recognized as at 31 December 2018	38 014
Recognition of new assets in the form of perpetual usufruct rights and IT infrastructure	209 241
(Less): short-term leases recognized on a straight-line basis as expense	(9 684)
(Less): low-value leases recognized on a straight-line basis as expense	(271)
Leasing liabilities recognized as at 1 January 2019	574 474

Applying IFRS 16 for the first time, the Bank 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.

4.3 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)

4.4 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 Bank 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 Bank 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 Bank is currently analyzing the impact of those changes on the financial statements.

5. 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 Bank, 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.

6. Risk management

6.1 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 unconsolidated financial statements of Bank Pekao S.A. 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					% PORT-FOLIO	
		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					% PORT-FOLIO	
		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%	19 489 854	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		39 939 094	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		49 797 112	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					% PORT-FOLIO	
		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					% PORT-FOLIO	
		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					% PORT-FOLIO	
		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					% PORT-FOLIO	
		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 CATEGORICAL	30.06.2019										% PORT-FOLIO	
	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
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT					INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
EXPOSURE TO SPECIALIZED LENDING												
High	1 501 174	52 837			-	1 554 011	112 247	-			112 247	22.4%
Good	3 198 171	-			-	3 198 171	1 379 811	-			1 379 811	61.4%
Satisfactory	439 529	639 881			-	1 079 410	75 598	-			75 598	15.5%
Low	-	52 225			-	52 225	-	-			-	0.7%
Total	5 138 874	744 943			-	5 883 817	1 567 656	-			1 567 656	100.0%

SUPERVISORY CATEGORICAL	31.12.2018										% PORT-FOLIO	
	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
			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				% PORT-FOLIO		
	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)			
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT					INDIVIDUAL ASSESSMENT		GROUP ASSESSMENT	
EXPOSURES NOT COVERED BY THE RATING MODEL												
Not past due	19 150 288	435 982			11	19 586 281	22 741 887	162 283			22 904 170	98.7%
Past due, of which:	344 722	188 787			4	533 513	15 324	2 931			18 255	1.3%
- up to 1 month	344 720	19 037			4	363 761	15 286	972			16 258	0.9%
- between 1 month and 2 months	2	11 025			-	11 027	18	993			1 011	0.0%
- between 2 months and 3 months	-	158 725			-	158 725	20	966			986	0.4%
Total	19 495 010	624 769			15	20 119 794	22 757 211	165 214			22 922 425	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)			
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT					INDIVIDUAL ASSESSMENT		GROUP ASSESSMENT	
EXPOSURES NOT COVERED BY THE RATING MODEL												
Not past due	18 449 778	473 470			19	18 923 267	15 517 628	203 025			15 720 653	99.0%
Past due, of which:	110 119	202 863			1	312 983	27 842	10 062			37 904	1.0%
- up to 1 month	110 117	26 448			1	136 566	27 822	8 042			35 864	0.5%
- between 1 month and 2 months	-	12 112			-	12 112	-	714			714	0.0%
- between 2 months and 3 months	2	164 303			-	164 305	20	1 306			1 326	0.5%
Total	18 559 897	676 333			20	19 236 250	15 545 470	213 087			15 758 557	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					% PORT-FOLIO	
	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		
IMPAIRED EXPOSURES												
Not past due			1 194 593	281 488	3 455	1 479 536			195 888	6 035	201 923	21.4%
Past due, of which:			3 566 514	2 246 514	55 311	5 868 339			306 193	2 492	308 685	78.6%
- up to 1 month			35 720	154 833	132	190 685			614	293	907	2.4%
- between 1 month and 3 months			42 250	208 156	114	250 520			892	316	1 208	3.2%
- between 3 months and 1 year			394 783	385 591	146	780 520			299 997	827	300 824	13.8%
- between 1 year and 5 years			808 769	801 821	1 749	1 612 339			1 956	887	2 843	20.6%
- above 5 years			2 284 992	696 113	53 170	3 034 275			2 734	169	2 903	38.6%
Total			4 761 107	2 528 002	58 766	7 347 875			502 081	8 527	510 608	100.0%

31.12.2018												
	GROSS CARRYING AMOUNT OF ON-BALANCE EXPOSURES					NOMINAL AMOUNT OF OFF-BALANCE EXPOSURES					% PORT-FOLIO	
	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		
IMPAIRED EXPOSURES												
Not past due			1 247 059	231 711	531	1 479 301			274 600	6 713	281 313	22.2%
Past due, of which:			3 569 411	2 308 616	53 761	5 931 788			225 579	2 737	228 316	77.8%
- up to 1 month			76 656	186 353	308	263 317			200 912	671	201 583	5.9%
- between 1 month and 3 months			158 564	197 365	63	355 992			19 202	389	19 591	4.7%
- between 3 months and 1 year			293 838	358 077	362	652 277			355	709	1 064	8.2%
- between 1 year and 5 years			1 246 939	809 902	3 217	2 060 058			5 017	799	5 816	26.1%
- above 5 years			1 793 414	756 919	49 811	2 600 144			93	169	262	32.9%
Total			4 816 470	2 540 327	54 292	7 411 089			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	125 659 557	(1 038 903)	124 620 654
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	5 883 817	(73 200)	5 810 617
Exposures not covered by the rating model	20 119 794	(248 692)	19 871 102
Impaired exposures	7 347 875	(5 048 726)	2 299 149
Total loans and advances to customers (*)	133 007 432	(6 087 629)	126 919 803

PORTFOLIO	31.12.2018		
	GROSS CARRYING AMOUNT	IMPAIRMENT ALLOWANCE	NET CARRYING AMOUNT
Exposures with no impairment	120 718 682	(1 031 963)	119 686 719
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	19 236 250	(261 056)	18 975 194
Impaired exposures	7 411 089	(5 051 323)	2 359 766
Total loans and advances to customers (*)	128 129 771	(6 083 286)	122 046 485

(*) 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	54 646 364	(149 886)
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	22 922 425	(76 151)
Impaired exposures	510 608	(156 642)
Total off- balance sheet exposures to customers	55 156 972	(306 528)

PORTFOLIO	31.12.2018	
	NOMINAL AMOUNT	IMPAIRMENT ALLOWANCE
Exposures with no impairment	51 373 530	(156 587)
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	15 758 557	(61 205)
Impaired exposures	509 629	(112 495)
Total off- balance sheet exposures to customers	51 883 159	(269 082)

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	5.3%
A+ to A-	1 600 695	409	-	88	-	1 601 192	52.3%
BBB+ to BBB-	726 530	-	-	-	-	726 530	23.7%
BB+ to BB-	14 085	-	-	-	-	14 085	0.5%
No rating	548 936	-	8 936	-	-	557 872	18.2%
Total gross carrying amount	3 051 777	409	8 936	88	-	3 061 210	100.0%
Impairment allowance	(2 022)	-	(8 936)	-	-	(10 958)	
Total net carrying amount	3 049 755	409	-	88	-	3 050 252	

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	3.6%
A+ to A-	1 141 105	614	-	108	-	1 141 827	45.3%
BBB+ to BBB-	977 532	-	-	-	-	977 532	38.8%
BB+ to BB-	2 150	-	-	-	-	2 150	0.1%
No rating	299 056	-	8 987	-	-	308 043	12.2%
Total gross carrying amount	2 509 274	614	8 987	108	-	2 518 983	100.0%
Impairment allowance	(1 444)	-	(8 987)	-	-	(10 431)	
Total net carrying amount	2 507 830	614	-	108	-	2 508 552	

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-	9 727 251	-	-	-	-	9 727 251	63.2%
BBB+ do BBB-	234 377	-	-	-	-	234 377	1.5%
No rating	5 059 320	337 791	31 825	-	-	5 428 936	35.3%
Gross carrying amount	15 020 948	337 791	31 825	-	-	15 390 564	100.0%
Impairment allowance	(25 609)	(17 045)	(31 825)	-	-	(74 479)	
Carrying amount	14 995 339	320 746	-	-	-	15 316 085	
DEBT SECURITIES MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME							
AAA	310 615	-	-	-	-	310 615	1.1%
A+ to A-	18 635 760	-	-	-	-	18 635 760	65.8%
BBB+ to BBB-	1 677 044	-	-	-	-	1 677 044	5.9%
BB+ do BB-	83 534	-	-	-	-	83 534	0.3%
No rating	7 623 341	14 106	-	-	-	7 637 447	26.9%
Carrying amount	28 330 294	14 106	-	-	-	28 344 400	100.0%
Impairment allowance (*)	(27 489)	(678)	-	-	-	(28 167)	
DEBT SECURITIES HELD FOR TRADING							
A+ to A-						1 987 856	68.9%
BBB+ to BBB-						146 089	5.1%
No rating						750 082	26.0%
Carrying amount						2 884 027	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-	5 237 109	-	-	-	-	5 237 109	46.8%
BBB+ do BBB-	676 433	-	-	-	-	676 433	6.0%
No rating	5 244 567	-	31 547	-	-	5 276 114	47.2%
Gross carrying amount	11 158 109	-	31 547	-	-	11 189 656	100.0%
Impairment allowance	(27 742)	-	(31 547)	-	-	(59 289)	
Carrying amount	11 130 367	-	-	-	-	11 130 367	
DEBT SECURITIES MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME							
AAA	952 874	-	-	-	-	952 874	3.5%
A+ to A-	14 264 346	-	-	-	-	14 264 346	53.0%
BBB+ to BBB-	693 351	-	-	-	-	693 351	2.6%
No rating	10 994 003	-	-	-	-	10 994 003	40.9%
Carrying amount	26 904 574	-	-	-	-	26 904 574	100.0%
Impairment allowance (*)	(28 207)	-	-	-	-	(28 207)	
DEBT SECURITIES HELD FOR TRADING							
A+ to A-						679 691	76.3%
BBB+ to BBB-						14 184	1.6%
No rating						196 464	22.1%
Carrying amount						890 339	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-	192 504	-	48 049	11 645	-	-	252 198	11.6%
BB+ to BB-	2 055	-	-	-	-	-	2 055	0.1%
B+ to B-	-	-	-	-	-	-	-	-
No rating	102 172	69 908	346 274	16 593	-	-	534 947	24.6%
Total	699 882	682 306	394 405	99 362	295 774	-	2 171 729	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	46.4%
AA+ to AA-	47 748	-	-	-	-	-	47 748	2.7%
A+ to A-	163 280	540	-	14 170	-	-	177 990	10.1%
BBB+ to BBB-	188 186	-	17 060	11 791	-	-	217 037	12.3%
BB+ to BB-	117	-	-	-	-	-	117	-
B+ to B-	1 894	-	-	-	-	-	1 894	0.1%
No rating	126 081	116 219	246 283	15 926	-	-	504 509	28.4%
Total	778 473	414 160	263 343	69 195	244 370	-	1 769 541	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	12 299 883	614	8 987	108	-	12 309 592
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	2 643 205	-	-	-	-	2 643 205
Financial assets derecognised, other than write-offs (repayments)	(10 207 776)	(126)	-	(31)	-	(10 207 933)
Financial assets written off (**)	-	-	(113)	-	-	(113)
Modifications not resulting in derecognition	-	-	-	-	-	-
Other, in this changes resulting from exchange rates	(4 767)	(30)	62	2	-	(4 733)
GROSS CARRYING AMOUNT AS AT 30.06.2019	4 730 585	409	8 936	88	-	4 740 018
IMPAIRMENT ALLOWANCE						
IMPAIRMENT ALLOWANCE AS AT 01.01.2019	2 356	-	8 987	-	-	11 343
Transfer to Stage 1	-	-	-	-	-	-
Transfer to Stage 2	-	11	-	(11)	-	-
Transfer to Stage 3	-	-	-	-	-	-
New / Purchased / Granted financial assets	936	-	-	-	-	936
Financial assets derecognised, other than write-offs (repayments)	(852)	(28)	-	-	-	(880)
Financial assets written off (**)	-	-	(113)	-	-	(113)
Changes in level of credit risk (excluding the transfers between the Stages)	(259)	(10)	-	11	-	(258)
Changes in models and risk parameters	-	-	-	-	-	-
Other, in this changes resulting from exchange rates	(25)	27	62	-	-	64
IMPAIRMENT ALLOWANCE AS AT 30.06.2019	2 156	-	8 936	-	-	11 092

(*) 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	5 191 846	1 071	21 014	113	-	5 214 044
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	8 924 862	-	-	-	-	8 924 862
Financial assets derecognised, other than write-offs (repayments)	(1 815 360)	(414)	-	(46)	-	(1 815 820)
Financial assets written off (**)	-	-	(5 079)	-	-	(5 079)
Modifications not resulting in derecognition	-	-	-	-	-	-
Other, in this changes resulting from exchange rates	(1 422)	(34)	(6 948)	(11)	-	(8 415)
GROSS CARRYING AMOUNT AS AT 31.12.2018	12 299 863	614	8 987	108	-	12 309 592
IMPAIRMENT ALLOWANCE						
IMPAIRMENT ALLOWANCE AS AT 01.01.2018	506	-	21 127	-	-	21 633
Transfer to Stage 1	-	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
New / Purchased / Granted financial assets	1 114	-	-	-	-	1 114
Financial assets derecognised, other than write-offs (repayments)	(279)	-	-	-	-	(279)
Financial assets written off (**)	-	-	(5 079)	-	-	(5 079)
Changes in level of credit risk (excluding the transfers between the Stages)	102	2	-	-	-	104
Changes in models and risk parameters	-	-	-	-	-	-
Other, in this changes resulting from exchange rates	913	(2)	(7 061)	-	-	(6 150)
IMPAIRMENT ALLOWANCE AS AT 31.12.2018	2 356	-	8 987	-	-	11 343

(*) 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	99 001 708	20 019 456	4 816 470	2 540 327	54 922	126 432 883
Transfer to Stage 1	4 071 371	(4 056 059)	(1 314)	(13 998)	-	-
Transfer to Stage 2	(4 817 520)	4 926 651	(995)	(108 136)	-	-
Transfer to Stage 3	(196 389)	(329 354)	105 071	420 672	-	-
New / Purchased / Granted financial assets	23 379 478	-	-	-	7 449	23 386 927
Financial assets derecognised, other than write-offs (repayments)	(16 216 372)	(1 746 922)	(143 847)	(169 286)	(1 943)	(18 278 370)
Financial assets written off (*)	-	-	(168 337)	(151 955)	(19)	(320 311)
Modifications not resulting in derecognition	(1 665)	-	-	-	-	(1 665)
Other, in this changes resulting from exchange rates	(125 158)	20 825	154 059	10 378	(1 017)	59 087
GROSS CARRYING AMOUNT AS AT 30.06.2019	105 095 453	18 834 597	4 761 107	2 528 002	59 392	131 278 551
IMPAIRMENT ALLOWANCE						
IMPAIRMENT ALLOWANCE AS AT 01.01.2019	375 911	656 689	3 196 748	1 801 503	52 435	6 083 286
Transfer to Stage 1	101 771	(94 594)	(263)	(6 914)	-	-
Transfer to Stage 2	(34 052)	78 639	(647)	(43 940)	-	-
Transfer to Stage 3	(34 675)	(79 374)	9 424	104 625	-	-
New / Purchased / Granted financial assets	92 890	-	-	-	801	93 691
Financial assets derecognised, other than write-offs (repayments)	(33 531)	(17 504)	(16 840)	(27 186)	-	(95 061)
Financial assets written off (*)	-	-	(168 337)	(151 955)	(19)	(320 311)
Changes in level of credit risk (excluding the transfers between the Stages)	(98 204)	115 087	63 624	120 957	(7 364)	194 100
Changes in models and risk parameters	-	-	-	-	-	-
Other, in this changes resulting from exchange rates	6 743	3 107	105 022	9 256	7 796	131 924
IMPAIRMENT ALLOWANCE AS AT 30.06.2019	376 853	662 050	3 188 731	1 806 346	53 649	6 087 629

(*) Including the value of contractual interest subject to partial write-off in the amount of PLN 147 227 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	90 774 367	20 855 774	7 104 498	3 325 887	49 262	122 109 788
Transfer to Stage 1	3 235 606	(3 227 122)	(46)	(8 438)	-	-
Transfer to Stage 2	(6 039 736)	6 112 908	(2 923)	(70 249)	-	-
Transfer to Stage 3	(801 476)	(548 195)	669 620	680 051	-	-
New / Purchased / Granted financial assets	31 885 548	-	-	-	2 116	31 887 664
Financial assets derecognised, other than write-offs (repayments)	(20 141 281)	(3 205 159)	(719 613)	(297 845)	(2 692)	(24 366 590)
Financial assets written off (*)	-	-	(2 209 476)	(1 222 760)	(17)	(3 432 253)
Modifications not resulting in derecognition	-	-	-	-	-	-
Other, in this changes resulting from exchange rates	88 680	31 250	(25 590)	133 681	6 253	234 274
GROSS CARRYING AMOUNT AS AT 31.12.2018	99 001 708	20 019 456	4 816 470	2 540 327	54 922	126 432 883
IMPAIRMENT ALLOWANCE						
IMPAIRMENT ALLOWANCE AS AT 01.01.2018	375 984	646 291	5 335 611	2 792 920	37 157	9 187 963
Transfer to Stage 1	96 254	(91 944)	(618)	(3 692)	-	-
Transfer to Stage 2	(23 811)	57 845	(3 713)	(30 321)	-	-
Transfer to Stage 3	(22 076)	(70 811)	23 642	69 245	-	-
New / Purchased / Granted financial assets	146 784	-	-	-	-	146 784
Financial assets derecognised, other than write-offs (repayments)	(81 504)	(43 811)	(73 521)	(39 719)	-	(238 555)
Financial assets written off (*)	-	-	(2 209 476)	(1 222 760)	(17)	(3 432 253)
Changes in level of credit risk (excluding the transfers between the Stages)	(108 452)	163 109	260 895	220 672	1 549	537 773
Changes in models and risk parameters	-	-	-	-	-	-
Other, in this changes resulting from exchange rates	(7 268)	(3 990)	(136 072)	15 158	13 746	(118 426)
IMPAIRMENT ALLOWANCE AS AT 31.12.2018	375 911	656 689	3 196 748	1 801 503	52 435	6 083 286

(*) Including the value of contractual interest subject to partial write-off in the amount of PLN 3 023 332 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 11 552 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 FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME						
CARRYING AMOUNT						
CARRYING AMOUNT AS AT 01.01.2019	1 696 888	-	-	-	-	1 696 888
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	(859)	(17 839)	-	-	-	(18 698)
CARRYING AMOUNT AS AT 30.06.2019	1 123 055	605 826	-	-	-	1 728 881
IMPAIRMENT ALLOWANCE (*)						
IMPAIRMENT ALLOWANCE AS AT 01.01.2019	16 723	-	-	-	-	16 723
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)	(918)	18 326	-	-	-	17 408
Changes in models and risk parameters	-	-	-	-	-	-
Other, in this changes resulting from exchange rates	(435)	-	-	-	-	(435)
IMPAIRMENT ALLOWANCE AS AT 30.06.2019	8 058	26 124	-	-	-	34 182

(*) 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	1 841 682	-	-	-	-	1 841 682
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)	(590 674)	-	-	-	-	(590 674)
Financial assets written off	-	-	-	-	-	-
Modifications not resulting in derecognition	-	-	-	-	-	-
Other, in this changes resulting from exchange rates	44 380	-	-	-	-	44 380
CARRYING AMOUNT AS AT 31.12.2018	1 696 888	-	-	-	-	1 696 888
IMPAIRMENT ALLOWANCE (*)						
IMPAIRMENT ALLOWANCE AS AT 01.01.2018	26 065	-	-	-	-	26 065
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)	(2 629)	-	-	-	-	(2 629)
Financial assets written off	-	-	-	-	-	-
Changes in level of credit risk (excluding the transfers between the Stages)	(8 171)	-	-	-	-	(8 171)
Changes in models and risk parameters	-	-	-	-	-	-
Other, in this changes resulting from exchange rates	1	-	-	-	-	1
IMPAIRMENT ALLOWANCE AS AT 31.12.2018	16 723	-	-	-	-	16 723

(*) 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	11 158 109	-	31 547	-	-	11 189 656
Transfer to Stage 1	-	-	-	-	-	-
Transfer to Stage 2	(337 791)	337 791	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
New / Purchased / Granted financial assets	5 185 022	-	-	-	-	5 185 022
Financial assets derecognised, other than write-offs (repayments)	(1 040 877)	-	-	-	-	(1 040 877)
Financial assets written off	-	-	-	-	-	-
Modifications not resulting in derecognition	-	-	-	-	-	-
Other, in this changes resulting from exchange rates	56 485	-	278	-	-	56 763
GROSS CARRYING AMOUNT AS AT 30.06.2019	15 020 948	337 791	31 825	-	-	15 390 564
IMPAIRMENT ALLOWANCE						
IMPAIRMENT ALLOWANCE AS AT 01.01.2019	27 742	-	31 547	-	-	59 289
Transfer to Stage 1	-	-	-	-	-	-
Transfer to Stage 2	(9 448)	9 448	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
New / Purchased / Granted financial assets	3 484	-	-	-	-	3 484
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)	4 951	7 596	-	-	-	12 547
Changes in models and risk parameters	-	-	-	-	-	-
Other, in this changes resulting from exchange rates	(45)	-	278	-	-	233
IMPAIRMENT ALLOWANCE AS AT 30.06.2019	25 609	17 044	31 825	-	-	74 478

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	11 412 837	-	30 031	-	-	11 442 868
Transfer to Stage 1	-	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
New / purchased / granted financial assets	2 876 001	-	-	-	-	2 876 001
Financial assets derecognised, other than write-offs (repayments)	(3 223 033)	-	-	-	-	(3 223 033)
Financial assets written off	-	-	-	-	-	-
Modifications not resulting in derecognition	-	-	-	-	-	-
Other, in this changes resulting from exchange rates	92 304	-	1 516	-	-	93 820
GROSS CARRYING AMOUNT AS AT 31.12.2018	11 158 109	-	31 547	-	-	11 189 656
IMPAIRMENT ALLOWANCE						
IMPAIRMENT ALLOWANCE AS AT 01.01.2018	27 589	-	30 031	-	-	57 620
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)	1 325	-	-	-	-	1 325
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	27 742	-	31 547	-	-	59 289

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	26 904 574	-	-	-	-	26 904 574
Transfer to Stage 1	-	-	-	-	-	-
Transfer to Stage 2	(13 429)	13 429	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
New / purchased / granted financial assets	112 269 298	-	-	-	-	112 269 298
Financial assets derecognised, other than write-offs (repayments)	(111 217 322)	-	-	-	-	(111 217 322)
Financial assets written off	-	-	-	-	-	-
Modifications not resulting in derecognition	-	-	-	-	-	-
Other, in this changes resulting from exchange rates	387 850	-	-	-	-	387 850
CARRYING AMOUNT AS AT 30.06.2019	28 330 971	13 429	-	-	-	28 344 400
IMPAIRMENT ALLOWANCE (*)						
IMPAIRMENT ALLOWANCE AS AT 01.01.2019	28 207	-	-	-	-	28 207
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)	(4 593)	292	-	-	-	(4 301)
Changes in models and risk parameters	-	-	-	-	-	-
Other, in this changes resulting from exchange rates	-	(2)	-	-	-	(2)
IMPAIRMENT ALLOWANCE AS AT 30.06.2019	27 489	678	-	-	-	28 167

(*) 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	37 891 326	-	-	-	-	37 891 326
Transfer to Stage 1	-	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
New / purchased / granted financial assets	131 184 662	-	-	-	-	131 184 662
Financial assets derecognised, other than write-offs (repayments)	(142 855 233)	-	-	-	-	(142 855 233)
Financial assets written off	-	-	-	-	-	-
Modifications not resulting in derecognition	-	-	-	-	-	-
Other, in this changes resulting from exchange rates	683 819	-	-	-	-	683 819
CARRYING AMOUNT AS AT 31.12.2018	26 904 574	-	-	-	-	26 904 574
IMPAIRMENT ALLOWANCE (*)						
IMPAIRMENT ALLOWANCE AS AT 01.01.2018	24 213	-	-	-	-	24 213
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)	(3 774)	-	-	-	-	(3 774)
Changes in models and risk parameters	-	-	-	-	-	-
Other, in this changes resulting from exchange rates	(1)	-	-	-	-	(1)
IMPAIRMENT ALLOWANCE AS AT 31.12.2018	28 207	-	-	-	-	28 207

(*) 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 unconsolidated financial statements of Bank Pekao S.A. Group for the year ended 31 December 2018.

Share of forbore exposures in the Bank'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:	104 718 600	18 172 547	1 572 376	721 656	5 743	125 190 922
Forborne exposures gross	386 195	117 708	2 453 251	444 308	732	3 402 194
Loss allowance	(4 792)	(9 637)	(1 405 879)	(248 957)	(330)	(1 669 595)
Forborne exposures net	381 403	108 071	1 047 372	195 351	402	1 732 599
Loans and advances measured at fair value through other comprehensive income, including:	1 123 055	605 826	-	-	-	1 728 881
Forborne exposures	-	-	-	-	-	-
Impairment allowance (*)	-	-	-	-	-	-
Loans and advances measured at fair value through profit or loss, including:						274 067
Forborne exposures						1 128

	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:	98 624 992	19 362 767	1 619 701	739 650	2 487	120 349 597
Forborne exposures gross	479 885	161 514	2 551 359	429 879	813	3 623 450
Loss allowance	(6 444)	(6 786)	(1 485 700)	(235 467)	(509)	(1 734 906)
Forborne exposures net	473 441	154 728	1 065 659	194 412	304	1 888 544
Loans and advances measured at fair value through other comprehensive income, including:	1 696 888	-	-	-	-	1 696 888
Forborne exposures	-	-	-	-	-	-
Impairment allowance (*)	-	-	-	-	-	-
Loans and advances measured at fair value through profit or loss, including:						302 630
Forborne exposures						2 063

(*) 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 Bank 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:	3 462	2 660 404	29 387	164 785	-	2 858 038
denominated in CHF	3 462	2 648 301	29 387	164 182	-	2 845 332
indexed to CHF	-	12 103	-	603	-	12 706
Impairment allowances, of which:	(8)	(27 690)	(19 662)	(84 873)	-	(132 233)
denominated in CHF	(8)	(27 570)	(19 662)	(84 631)	-	(131 871)
indexed to CHF	-	(120)	-	(242)	-	(362)
Carrying amount, of which:	3 454	2 632 714	9 725	79 912	-	2 725 805
denominated in CHF	3 454	2 620 731	9 725	79 551	-	2 713 461
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:	372	2 821 284	30 125	162 975	-	3 014 756
denominated in CHF	372	2 807 082	30 125	161 856	-	2 999 435
indexed to CHF	-	14 202	-	1 119	-	15 321
Impairment allowances, of which:	(7)	(30 407)	(15 897)	(81 343)	-	(127 654)
denominated in CHF	(7)	(30 365)	(15 897)	(80 950)	-	(127 219)
indexed to CHF	-	(42)	-	(393)	-	(435)
Carrying amount, of which:	365	2 790 877	14 228	81 632	-	2 887 102
denominated in CHF	365	2 776 717	14 228	80 906	-	2 872 216
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 41.5% (44.2% as at 31 December 2018), with an average LTV for the whole portfolio of 60.7% (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 Bank 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 Bank 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	2 110 933	(1 606 552)	(272 352)	232 029
Total	2 110 933	(1 606 552)	(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	2 870 543	(2 085 171)	(679 571)	105 801
Total	2 870 543	(2 085 171)	(679 571)	105 801

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	1 707 743	(1 363 113)	(163 164)	181 465
Total	1 707 743	(1 363 113)	(163 164)	181 465

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	2 779 301	(1 834 018)	(838 090)	107 193
Total	2 779 301	(1 834 018)	(838 090)	107 193

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	1 715 797	Derivative financial instruments (held for trading)	1 776 593	60 796	24
	395 136	Hedging instruments	395 136	-	26
FINANCIAL LIABILITIES					
Derivatives	2 204 216	Derivative financial instruments (held for trading)	2 284 957	80 741	24
	666 327	Hedging instruments	666 327	-	26

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	1 394 178	Derivative financial instruments (held for trading)	1 455 976	61 798	24
	313 565	Hedging instruments	313 565	-	26
FINANCIAL LIABILITIES					
Derivatives	1 874 245	Derivative financial instruments (held for trading)	1 919 394	45 149	24
	905 056	Hedging instruments	905 056	-	26

Notes to financial statements (cont.)

(in PLN thousand)

6.2 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 unconsolidated financial statements of Bank Pekao S.A. for the year ended 31 December 2018.

The table below presents the market risk exposure of the trading portfolio of the Bank 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	1 919	874	1 357	2 581

	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	1 129	488	1 103	2 384

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 unconsolidated financial statements of Bank Pekao S.A. 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	(7.13)	(8.65)
EVE	(1.01)	(1.07)

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 unconsolidated financial statements of Bank Pekao S.A. for the year ended 31 December 2018.

The tables below present the Bank'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 (*)	608	54

(*) 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	20 562 387	20 527 716	13 225 126	13 207 901	51 896
USD	5 703 178	8 296 653	10 008 115	7 413 873	767
CHF	2 816 955	555 995	3 188 175	5 450 270	(1 135)
GBP	251 289	980 239	992 305	262 435	920
HUF	14 977	14 152	4 070	4 756	139
NOK	253 148	53 761	5 286	203 424	1 249
CZK	64 676	44 449	461 981	482 165	43
SEK	83 230	72 290	11 990	22 357	573
Other currencies	192 274	264 868	248 598	174 586	1 418
TOTAL	29 942 114	30 810 123	28 145 646	27 221 767	55 870

31.12.2018	BALANCE SHEET OPERATIONS		OFF-BALANCE SHEET OPERATIONS DERIVATIVES		NET POSITION
	ASSETS	LIABILITIES	LONG POSITION	SHORT POSITION	
EUR	22 455 421	18 387 092	10 131 578	14 181 183	18 724
USD	5 483 705	8 283 535	11 114 205	8 301 420	12 955
CHF	3 007 369	578 497	4 229 992	6 664 142	(5 278)
GBP	275 357	975 357	827 920	126 347	1 573
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	89 227	45 522	9 862	53 484	83
Other currencies	94 500	174 422	183 285	99 929	3 434
TOTAL	31 672 313	28 752 099	27 177 733	30 066 601	31 346

Notes to financial statements (cont.)

(in PLN thousand)

6.3 Liquidity risk

The liquidity risk management process has not changed significantly in relation to the one described in the unconsolidated financial statements of Bank Pekao S.A. 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	36 222 528	6 326 369	26 199 831	58 052 671	62 772 898	189 574 297
Liabilities and Equity	12 313 373	5 617 464	18 960 355	14 315 642	138 367 463	189 574 297
Off-balance sheet assets/liabilities (net)	(6 174 854)	(709 402)	895 472	2 318 044	3 251 229	(419 511)
Periodic gap	17 734 301	(497)	8 134 948	46 055 073	(72 343 336)	(419 511)
Cumulated gap	-	17 733 804	25 868 752	71 923 825	(419 511)	-

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	38 469 391	4 301 852	27 945 498	54 740 456	58 889 979	184 347 176
Liabilities and Equity	14 158 802	6 388 596	21 540 559	15 865 849	126 393 370	184 347 176
Off-balance sheet assets/liabilities (net)	(5 432 795)	(858 201)	40 105	2 806 125	2 794 283	(650 483)
Periodic gap	18 877 794	(2 944 945)	6 445 044	41 680 732	(64 709 108)	(650 483)
Cumulated gap	-	15 932 849	22 377 893	64 058 625	(650 483)	-

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 (**)	2 670 776	47 763	170 940	588 015	444 053	3 921 547
Amounts due to customers	115 846 109	13 360 455	20 630 148	1 200 671	1 445 786	152 483 169
Debt securities issued	320 395	337 399	1 099 939	170 687	-	1 928 420
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	118 837 280	13 745 617	22 059 121	2 614 044	4 749 338	162 005 400
OFF-BALANCE SHEET COMMITMENTS (*)						
Financial liabilities granted	38 277 366	-	-	-	-	38 277 366
Guarantees issued	19 823 640	-	-	-	-	19 823 640
Total	58 101 006	-	-	-	-	58 101 006

(*) 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 Bank is possible based on contracts entered into by the Bank. However, outflows expected by the Bank 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 Bank on continuous basis. The Bank 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 (**)	1 563 680	51 873	171 860	720 186	466 350	2 973 949
Amounts due to customers	117 580 349	11 606 641	20 838 450	888 355	653 782	151 567 577
Debt securities issued	-	102 056	1 061 429	584 671	-	1 748 156
Subordinated liabilities	-	-	67 102	294 264	2 429 522	2 790 888
Financial liabilities held for trading	-	-	-	57 421	45 008	102 429
Total	119 144 029	11 760 570	22 138 841	2 544 897	3 594 662	159 182 999
OFF-BALANCE SHEET COMMITMENTS (*)						
Financial liabilities granted	35 199 622	-	-	-	-	35 199 622
Guarantees issued	19 043 911	-	-	-	-	19 043 911
Total	54 243 533	-	-	-	-	54 243 533

(*) 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 Bank is possible based on contracts entered into by the Bank. However, outflows expected by the Bank 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 Bank on continuous basis. The Bank 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 Bank 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 Bank 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	859 485	663 161	2 211 704
31.12.2018	93 469	49 950	566 715	786 415	402 470	1 899 019

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	24 674 972	5 773 202	8 078 701	9 869 188	1 477 289	49 873 352
Outflows	24 315 208	5 928 330	8 060 144	9 956 420	1 649 596	49 909 698
31.12.2018						
Inflows	23 547 848	5 499 680	9 683 794	7 569 348	2 237 288	48 537 958
Outflows	24 336 212	5 496 469	10 102 035	7 633 251	2 422 687	49 990 654

6.4 Operational risk

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

6.5 Fair value of financial assets and liabilities

Financial instruments that are measured at fair value in the unconsolidated statement of financial position of the Bank

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 Bank 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:	16 441 124	10 135 765	9 161 784	35 738 673
Financial assets held for trading	1 835 028	948 484	100 515	2 884 027
Derivative financial instruments, including:	-	1 774 522	2 071	1 776 593
- Banks	-	697 811	2 071	699 882
- Customers	-	1 076 711	-	1 076 711
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	14 606 096	7 017 623	6 970 812	28 594 531
Securities measured at fair value through profit or loss	-	-	85 438	85 438
Loans and advances to customers measured at fair value through other comprehensive income	-	-	1 728 881	1 728 881
Loans and advances to customers measured at fair value through profit or loss	-	-	274 067	274 067
Liabilities:	540 620	2 951 284	-	3 491 904
Financial liabilities held for trading	540 620	-	-	540 620
Derivative financial instruments, including:	-	2 284 957	-	2 284 957
- Banks	-	684 758	-	684 758
- Customers	-	1 600 199	-	1 600 199
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:	12 494 171	10 091 049	9 276 990	31 862 210
Financial assets held for trading	632 316	159 022	99 001	890 339
Derivative financial instruments, including:	-	1 454 746	1 230	1 455 976
- Banks	-	777 243	1 230	778 473
- Customers	-	677 503	-	677 503
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	11 861 855	8 163 716	7 111 833	27 137 404
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	-	-	1 696 888	1 696 888
Loans and advances to customers measured at fair value through profit or loss	-	-	302 630	302 630
Liabilities:	102 429	2 824 450	-	2 926 879
Financial liabilities held for trading	102 429	-	-	102 429
Derivative financial instruments, including:	-	1 919 394	-	1 919 394
- Banks	-	686 757	-	686 757
- Customers	-	1 232 637	-	1 232 637
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 Bank

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	99 001	1 230	1 696 888	302 630	65 408	7 111 833
Increases, including:	1 098 696	2 538	124 053	-	20 737	969 025
Reclassification	-	2 379	-	-	-	575 075
Transactions made in 2019	-	-	119 797	-	-	-
Acquisition	1 097 707	-	-	-	-	267 580
Settlement/Redemption	-	-	-	-	-	-
Gains on financial instruments	989	159	4 256	-	20 737	126 370
recognized in the income statement	989	159	827	-	20 737	79 100
recognized in revaluation reserves	-	-	3 429	-	-	47 270
Decreases, including:	(1 097 182)	(1 697)	(92 060)	(28 563)	(707)	(1 110 046)
Reclassification	(7 880)	-	-	-	-	(644 803)
Settlement/Redemption	(30 259)	(10)	(92 060)	(25 840)	-	(148 057)
Sale	(1 059 026)	-	-	-	-	(306 115)
Losses on financial instruments	(17)	(1 687)	-	(2 723)	(707)	(11 071)
recognized in the income statement	(17)	(1 687)	-	(2 723)	(707)	(14)
recognized in revaluation reserves	-	-	-	-	-	(11 057)
Closing balance	100 515	2 071	1 728 881	274 067	85 438	6 970 812
Unrealized income from financial instruments held in portfolio at the end of the period, recognized in:	54	(308)	(14 027)	(2 855)	-	46 823
Income statement:	54	(308)	(17 542)	(2 855)	-	29 231
net interest income	1	-	561	1 001	-	29 231
net impairment losses on financial assets and off-balance sheet commitments	-	-	(18 103)	-	-	-
result on financial assets and liabilities held for trading	53	(308)	-	(3 856)	-	-
Other comprehensive income	-	-	3 515	-	-	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 Bank

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	-	-	-	711 823
Initial application of IFRS 9	-	-	1 841 682	365 137	52 339	4 360 232
Opening balance - restated	14 211	1 218	1 841 682	365 137	52 339	5 072 055
Increases, including:	1 511 412	12	480 016	8 976	13 069	3 094 204
Reclassification	392	-	-	-	-	10 869
Transactions made in 2018	-	-	-	2 745	-	-
Acquisition	1 510 007	-	408 520	-	-	3 034 342
Gains on financial instruments	1 013	12	71 496	6 231	13 069	48 993
recognized in the income statement	1 013	12	39 931	6 231	13 069	48 993
recognized in revaluation reserves	-	-	31 565	-	-	-
Decreases, including:	(1 426 622)	-	(624 810)	(71 483)	-	(1 054 426)
Reclassification	(14 211)	-	-	-	-	(124 275)
Settlement/Redemption	(738)	-	(36 789)	(71 483)	-	(45 018)
Sale	(1 411 659)	-	(588 021)	-	-	(825 745)
Losses on financial instruments	(14)	-	-	-	-	(59 388)
recognized in the income statement	(14)	-	-	-	-	-
recognized in revaluation reserves	-	-	-	-	-	(59 388)
Closing balance	99 001	1 230	1 696 888	302 630	65 408	7 111 833
Unrealized income from financial instruments held in portfolio at the end of the period, recognized in:	46	12	66 705	6 095	-	28 486
Income statement:	46	12	34 098	6 095	-	40 133
net interest income	40	-	28 479	2 287	-	40 133
net impairment losses on financial assets and off-balance sheet commitments	-	-	5 619	-	-	-
result on financial assets and liabilities held for trading	6	12	-	3 808	-	-
Other comprehensive income	-	-	32 607	-	-	(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 Bank 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	6 862 298	Discounted cash flow	Credit spread	0.41%-0.91%	52 146	(69 202)
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	1 728 881	Discounted cash flow	Credit spread	2.02%-2.64%	6 925	(6 822)

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	7 021 454	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	1 696 888	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 unconsolidated statement of financial position of the Bank

The Bank 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 Bank classified the financial assets and liabilities not measured at fair value in the unconsolidated 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	4 324 400	4 324 004	2 645 727	1 678 277	-
Loans and advance to banks	3 050 252	3 048 744	-	2 022 819	1 025 925
Loans and advances to customers measured at amortised cost	125 190 922	125 919 817	-	-	125 919 817
Debt securities measured at amortised cost	15 316 085	15 543 137	9 713 600	1 135 305	4 694 232
Total Assets	147 881 659	148 835 702	12 359 327	4 836 401	131 639 974
Liabilities					
Amounts due to Central Bank	5 019	5 013	-	-	5 013
Amounts due to other banks	3 904 148	3 932 783	-	274 716	3 658 067
Amounts due to customers	150 850 211	151 096 529	-	39 997	151 056 532
Debt securities issued	1 913 611	1 911 637	-	1 911 637	-
Subordinated liabilities	2 363 319	2 364 865	-	2 364 865	-
Total Liabilities	159 036 308	159 310 827	-	4 591 215	154 719 612

31.12.2018	CARRYING AMOUNT	FAIR VALUE	OF WHICH:		
			LEVEL 1	LEVEL 2	LEVEL 3
Assets					
Cash and due from Central Bank	12 972 575	12 970 021	3 182 868	9 787 153	-
Loans and advance to banks	2 508 553	2 509 509	-	1 241 170	1 268 339
Loans and advances to customers measured at amortised cost	120 349 597	120 878 815	-	-	120 878 815
Receivables from financial leases	11 130 367	11 225 335	5 136 636	1 188 734	4 899 965
Total Assets	146 961 092	147 583 680	8 319 504	12 217 057	127 047 119
Liabilities					
Amounts due to Central Bank	5 067	5 070	-	-	5 070
Amounts due to other banks	2 921 955	2 952 856	-	278 288	2 674 568
Amounts due to customers	150 132 028	150 134 795	-	347 902	149 786 893
Debt securities issued	1 732 596	1 729 580	-	1 729 580	-
Subordinated liabilities	2 012 485	2 013 376	-	2 013 376	-
Total Liabilities	156 804 131	156 835 677	-	4 369 146	152 466 531

Notes to financial statements (cont.)

(in PLN thousand)

7. 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	1 267 777	9 541	1 618	1 278 936
Interbank placements	12 442	-	-	12 442
Reverse repo transactions	12 231	-	-	12 231
Investment securities	78 326	157 772	-	236 098
Hedging derivatives	-	-	60 052	60 052
Financial assets held for trading	-	-	4 813	4 813
Total	1 370 776	167 313	66 483	1 604 572

	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	2 493 062	18 668	3 305	2 515 035
Interbank placements	24 658	-	-	24 658
Reverse repo transactions	20 570	-	-	20 570
Investment securities	150 701	309 067	-	459 768
Hedging derivatives	-	-	115 729	115 729
Financial assets held for trading	-	-	8 757	8 757
Total	2 688 991	327 735	127 791	3 144 517

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	1 163 414	8 540	1 952	1 173 906
Interbank placements	11 861	-	-	11 861
Reverse repo transactions	7 256	-	-	7 256
Investment securities	74 130	168 788	-	242 918
Hedging derivatives	-	-	34 332	34 332
Financial assets held for trading	-	-	3 903	3 903
Total	1 256 661	177 328	40 187	1 474 176

	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	2 293 572	16 346	3 946	2 313 864
Interbank placements	22 852	-	-	22 852
Reverse repo transactions	12 076	-	-	12 076
Investment securities	149 791	350 511	-	500 302
Hedging derivatives	-	-	61 210	61 210
Financial assets held for trading	-	-	5 353	5 353
Total	2 478 291	366 857	70 509	2 915 657

Interest expense

	II QUARTER 2019	I HALF 2019	II QUARTER 2018	I HALF 2018
Deposits from customers	(242 550)	(477 366)	(235 101)	(471 398)
Interbank deposits	(4 131)	(7 682)	(4 675)	(8 081)
Repo transactions	(6 328)	(11 151)	(10 077)	(17 819)
Loans and advances received	(327)	(657)	(180)	(356)
Leasing	(4 301)	(8 886)	(2 029)	(4 242)
Debt securities issued	(25 583)	(50 021)	(17 189)	(33 628)
Total	(283 220)	(555 763)	(269 251)	(535 524)

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

Notes to financial statements (cont.)

(in PLN thousand)

8. 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	156 268	306 940	155 676	306 671
Payment cards	153 166	295 110	145 546	281 012
Loans and advances	98 346	185 553	90 444	168 053
Margin on foreign exchange transactions with clients	128 051	243 631	119 761	224 190
Investment products sales intermediation	30 028	60 526	49 040	96 361
Securities operations	2 299	5 014	3 809	8 357
Custody activity	14 790	29 579	15 889	31 413
Guarantees, letters of credit and similar transactions	15 577	31 524	14 052	28 646
Other	9 057	16 892	7 728	15 389
Total	607 582	1 174 769	601 945	1 160 092

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)	(5 119)	(10 329)
Securities and derivatives operations	(5 662)	(11 293)	(7 272)	(11 895)
Accounts maintenance	(8 379)	(16 323)	(6 598)	(13 627)
Custody activity	(4 090)	(8 520)	(4 206)	(8 113)
Pension and investment funds management charges	(1 067)	(2 020)	(1 131)	(2 031)
Other	(1 289)	(2 516)	(326)	(692)
Total	(91 464)	(171 799)	(86 530)	(168 407)

9. Dividend income

	II QUARTER 2019	I HALF 2019	II QUARTER 2018	I HALF 2018
Subsidiaries	114 997	178 963	145 993	235 263
Issuers of securities measured at fair value through profit or loss	-	386	-	157
Issuers of equity instruments designated at fair value through profit or loss	21 250	21 250	19 616	19 616
Total	136 247	200 599	165 609	255 036

Notes to financial statements (cont.)

(in PLN thousand)

10. 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	8 602	20 737	6 075	8 484
Foreign currency exchange result	(6 986)	(9 046)	(13 582)	(17 429)
Gains (losses) on derivatives	16 677	24 598	15 451	32 920
Gains (losses) on securities held for trading	6 538	8 397	6 108	12 555
Total	27 306	40 829	14 043	32 315

11. 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	7 124	18 459	26 624	50 477
Total	12 698	24 033	26 796	50 649

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 and loss	(65)	(189)	(22)	(43)
Total	(4 439)	(4 563)	(22)	(43)

Net realized profit	8 259	19 470	26 774	50 606
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12. 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 (*)(**)	(117 174)	(192 528)	(113 817)	(242 732)
Debt securities measured at amortized cost	(15 446)	(14 957)	(506)	(533)
Loans measured at fair value through other comprehensive income	1 810	(17 894)	4 701	9 616
Debt securities measured at fair value through other comprehensive income	(2 018)	38	(8 218)	(5 346)
Off-balance sheet commitments	(29 183)	(37 811)	5 643	9 402
Total	(162 011)	(263 152)	(112 197)	(229 593)

(*) Item includes impairment losses on loans and advances to banks.

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

Notes to financial statements (cont.)

(in PLN thousand)

13. Administrative expenses

Personnel expenses

	II QUARTER 2019	I HALF 2019	II QUARTER 2018	I HALF 2018
Wages and salaries	(448 710)	(798 211)	(417 481)	(779 345)
Insurance and other charges related to employees	(67 582)	(131 481)	(69 372)	(136 231)
Share-based payments expenses	(5 020)	(5 465)	(5 524)	(14 868)
Total	(521 312)	(935 157)	(492 377)	(930 444)

Other administrative expenses

	II QUARTER 2019	I HALF 2019	II QUARTER 2018	I HALF 2018
General expenses	(220 335)	(430 169)	(239 006)	(472 583)
Taxes and charges	(7 090)	(14 103)	(8 289)	(18 457)
Bank Guarantee Fund fee	(20 544)	(411 049)	(30 378)	(203 931)
Financial supervision authority fee (KNF)	-	(24 208)	-	(11 585)
Tax on certain financial institutions	(148 423)	(297 284)	(138 593)	(276 894)
Total	(396 392)	(1 176 813)	(416 266)	(983 450)

Total administrative expenses	(917 704)	(2 111 970)	(908 643)	(1 913 894)
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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 369 854 thousand (PLN 143 242 thousand in 2018).

14. Depreciation and amortization

	II QUARTER 2019	I HALF 2019	II QUARTER 2018	I HALF 2018
Property, plant and equipment	(69 556)	(139 957)	(40 432)	(79 954)
Investment property	(73)	(146)	(73)	(146)
Intangible assets	(44 920)	(91 397)	(41 591)	(81 812)
Total	(114 549)	(231 500)	(82 096)	(161 912)

Notes to financial statements (cont.)

(in PLN thousand)

15. Net other operating income and expenses

Other operating income

	II QUARTER 2019	I HALF 2019	II QUARTER 2018	I HALF 2018
Rental income	5 897	11 288	6 723	12 095
Miscellaneous income	1 086	2 520	981	1 940
Recovery of debt collection costs	4 300	7 275	3 352	5 933
Excess payments, repayments	184	3 833	279	4 183
Compensation, recoveries, penalty fees and fines received	4 678	9 976	5 736	11 526
Income from written off liabilities	-	13	2	6
Releases of impairment allowances for litigation and other assets	39	165	46	93
Other	599	915	228	508
Total	16 783	35 985	17 347	36 284

Other operating expenses

	II QUARTER 2019	I HALF 2019	II QUARTER 2018	I HALF 2018
Credit insurance expenses	(173)	(448)	(906)	(2 260)
Sundry expenses	(111)	(555)	(471)	(908)
Reimbursement and deficiencies	(215)	(645)	(238)	(2 675)
Customers complaints expenses	(408)	(923)	(91)	(312)
Impairment allowance for litigations and other assets	(48)	(84)	(119)	(202)
Costs of litigation and claims	(172)	(506)	(466)	(870)
Compensation, penalty fees and fines paid	(133)	(192)	(289)	(474)
Other	(2 891)	(6 422)	(3 373)	(6 437)
Total	(4 151)	(9 775)	(5 953)	(14 138)

Net other operating income and expenses	12 632	26 210	11 394	22 146
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16. Total gains (losses) from subsidiaries and associates

	II QUARTER 2019	I HALF 2019	II QUARTER 2018	I HALF 2018
Impairment allowances for equity investments	-	-	(11 069)	(11 069)
Total gains (losses) from subsidiaries and associates	-	-	(11 069)	(11 069)

Notes to financial statements (cont.)

(in PLN thousand)

17. 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	4 139	5 300	1 568	1 619
Total gains (losses) on disposal of property, plant and equipment and intangible assets	9 558	11 571	2 536	5 439

18. 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	(184 269)	(400 340)	(235 959)	(356 496)
Current tax charge in the income statement	(184 057)	(395 582)	(235 840)	(356 905)
Adjustments related to the current tax from previous years	-	(4 425)	-	583
Other taxes (e.g. withholding tax)	(212)	(333)	(119)	(174)
Deferred tax	8 168	42 684	71 401	31 875
Occurrence and reversal of temporary differences	8 168	42 684	71 401	31 875
Tax charge in the unconsolidated income statement	(176 101)	(357 656)	(164 558)	(324 621)
EQUITY				
Deferred tax	(31 691)	(42 377)	12 421	(2 582)
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	(23 361)	(21 589)	9 114	(10 197)
Tax charge on items that are or may be reclassified subsequently to profit or loss	(28 548)	(39 082)	9 785	(6 235)
Tax charge on items that never be reclassified to profit and loss	(3 143)	(3 295)	2 636	3 653
fair value revaluation through other comprehensive income – equity securities	(3 143)	(3 295)	2 636	3 653
remeasurements of the defined benefit liabilities	-	-	-	-
Total charge	(207 792)	(400 033)	(152 137)	(327 203)

Notes to financial statements (cont.)

(in PLN thousand)

19. 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	656 937	916 260	649 140	1 083 873
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)	2.50	3.49	2.47	4.13

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 Bank.

	II QUARTER 2019	I HALF 2019	II QUARTER 2018	I HALF 2018
Net profit	656 937	916 260	649 140	1 083 873
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)	2.50	3.49	2.47	4.13

20. 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.

Notes to financial statements (cont.)

(in PLN thousand)

21. Cash and balances with Central Bank

CASH AND DUE FROM CENTRAL BANK	30.06.2019	31.12.2018
Cash	2 645 715	3 182 868
Current account at Central Bank	1 405 796	9 790 608
Other	273 023	11
Gross carrying amount	4 324 534	12 973 487
Impairment allowances	(134)	(912)
Net carrying amount	4 324 400	12 972 575

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.

Cash and balances with Central Bank by currency

30.06.2019	ASSETS	LIABILITIES
PLN	3 331 736	5 019
EUR	420 586	-
USD	243 165	-
CHF	77 749	-
Other currencies	251 164	-
Total	4 324 400	5 019

31.12.2018	ASSETS	LIABILITIES
PLN	10 417 622	5 067
EUR	1 980 231	-
USD	211 636	-
CHF	78 688	-
Other currencies	284 398	-
Total	12 972 575	5 067

Notes to financial statements (cont.)

(in PLN thousand)

22. Loans and advances to banks

Loans and advances to banks by product type

	30.06.2019	31.12.2018
Current accounts	684 170	272 635
Interbank placements	790 929	843 804
Loans and advances	47 277	262 067
Cash collaterals	790 166	984 843
Reverse repo transactions	551 355	126 442
Cash in transit	197 313	29 193
Total gross amount	3 061 210	2 518 984
Impairment allowances	(10 958)	(10 431)
Total net amount	3 050 252	2 508 553

Loans and advances to banks are measured at amortised cost.

Loans and advances to banks by contractual maturity

	30.06.2019	31.12.2018
Loans and advances to banks, including:		
up to 1 month	3 018 786	2 242 866
between 1 and 3 months	22 541	49 890
between 3 months and 1 year	8 669	125 022
between 1 and 5 years	157	88 031
over 5 years	52	51
past due	11 005	13 124
Total gross amount	3 061 210	2 518 984
Impairment allowances	(10 958)	(10 431)
Total net amount	3 050 252	2 508 553

Loans and advances to banks by currency

	30.06.2019	31.12.2018
PLN	1 135 901	614 043
CHF	5 085	31 935
EUR	906 011	1 641 379
USD	819 850	159 804
Other currencies	183 405	61 392
Total	3 050 252	2 508 553

Notes to financial statements (cont.)

(in PLN thousand)

23. 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	2 884 027	890 339
Total financial assets	2 884 027	890 339
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.

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	119 448	48 582
Debt securities issued by business entities	920 959	203 992
Total financial assets	2 884 027	890 339
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

Notes to financial statements (cont.)

(in PLN thousand)

Debt securities held for trading by maturity

	30.06.2019	31.12.2018
FINANCIAL ASSETS		
Debt securities, including:		
up to 1 month	83 921	1 720
between 1 and 3 months	226 643	63 434
between 3 months and 1 year	635 612	146 883
between 1 and 5 years	1 774 342	612 870
over 5 years	163 509	65 432
unspecified term	-	-
Total financial assets	2 884 027	890 339
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

Debt securities held for trading by currency

	30.06.2019	31.12.2018
FINANCIAL ASSETS		
PLN	2 878 369	880 457
EUR	3 606	8 634
USD	2 052	1 248
Total financial assets	2 884 027	890 339
FINANCIAL LIABILITIES		
PLN	540 620	102 429
Total financial liabilities	540 620	102 429

Notes to financial statements (cont.)

(in PLN thousand)

24. Derivative financial instruments (held for trading)

Fair value of trading derivatives

30.06.2019	ASSETS	LIABILITIES
Interest rate transactions		
Interest Rate Swaps (IRS)	1 468 381	1 908 268
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)	52 790	47 024
Currency Forward Agreements	118 410	136 587
Currency Swaps (FX-Swap)	15 316	71 845
Options for currency and gold	53 550	60 080
Transactions based on equity securities and stock indexes		
Options	2 097	2 078
Other	-	-
Transactions based on commodities and precious metals		
Options	32 582	29 880
Other	26 439	25 986
Total	1 776 593	2 284 957

Fair value of trading derivatives

31.12.2018	ASSETS	LIABILITIES
Interest rate transactions		
Interest Rate Swaps (IRS)	1 154 369	1 595 812
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)	37 859	29 475
Currency Forward Agreements	56 147	114 757
Currency Swaps (FX-Swap)	55 514	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	-	-
Transactions based on commodities and precious metals		
Options	55 222	53 415
Other	45 757	45 217
Total	1 455 976	1 919 394

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

Notes to financial statements (cont.)

(in PLN thousand)

25. 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	64 885 207	1 207 874	24 720	66 117 801
Current accounts	13 093 940	-	-	13 093 940
Operating loans	14 251 109	399 783	25 558	14 676 450
Investment loans	20 122 909	121 224	76 289	20 320 422
Cash loans	14 464 175	-	-	14 464 175
Payment cards receivables	1 158 231	-	-	1 158 231
Factoring	2 372 073	-	-	2 372 073
Other loans and advances	858 068	-	147 500	1 005 568
Debt securities	-	-	-	-
Reverse repo transactions	-	-	-	-
Cash in transit	72 839	-	-	72 839
Gross carrying amount	131 278 551	1 728 881	274 067	133 281 499
Impairment allowances (*)	(6 087 629)	-	-	(6 087 629)
Carrying amount	125 190 922	1 728 881	274 067	127 193 870

(*) The impairment allowance for loans and advances to customers measured at fair value through other comprehensive income in the amount of PLN 34 182 thousand is included in the 'Revaluation reserve' item and does not reduce the carrying amount of the loan.

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	62 442 290	1 295 388	26 826	63 764 504
Current accounts	12 154 351	-	-	12 154 351
Operating loans	14 685 725	401 500	27 750	15 114 975
Investment loans	19 009 562	-	95 669	19 105 231
Cash loans	13 681 398	-	-	13 681 398
Payment cards receivables	1 141 961	-	-	1 141 961
Factoring	2 459 439	-	-	2 459 439
Other loans and advances	794 079	-	152 385	946 464
Debt securities	-	-	-	-
Reverse repo transactions	-	-	-	-
Cash in transit	64 078	-	-	64 078
Gross carrying amount	126 432 883	1 696 888	302 630	128 432 401
Impairment allowances (*)	(6 083 286)	-	-	(6 083 286)
Carrying amount	120 349 597	1 696 888	302 630	122 349 115

(*) The impairment allowance for loans and advances to customers measured at fair value through other comprehensive income in the amount of PLN 16 723 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 customer type

	30.06.2019			TOTAL
	AMORTISED COST	FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	FAIR VALUE THROUGH PROFIT OR LOSS	
Corporate	54 674 274	1 728 881	50 453	56 453 608
Individuals	73 395 390	-	147 501	73 542 891
Budget entities	3 208 887	-	76 113	3 285 000
Gross carrying amount	131 278 551	1 728 881	274 067	133 281 499
Impairment allowances (*)	(6 087 629)	-	-	(6 087 629)
Carrying amount	125 190 922	1 728 881	274 067	127 193 870

(*) The impairment allowance for loans and advances to customers measured at fair value through other comprehensive income in the amount of PLN 34 182 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	52 738 662	1 696 888	56 407	54 491 957
Individuals	70 329 019	-	152 385	70 481 404
Budget entities	3 365 202	-	93 838	3 459 040
Gross carrying amount	126 432 883	1 696 888	302 630	128 432 401
Impairment allowances (*)	(6 083 286)	-	-	(6 083 286)
Carrying amount	120 349 597	1 696 888	302 630	122 349 115

(*) The impairment allowance for loans and advances to customers measured at fair value through other comprehensive income in the amount of PLN 16 723 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	14 802 723	-	2 198	14 804 921
between 1 and 3 months	4 079 899	-	4 404	4 084 303
between 3 months and 1 year	13 960 371	50 326	54 022	14 064 719
between 1 and 5 years	39 700 504	539 625	158 908	40 399 037
over 5 years	53 854 483	1 138 930	51 916	55 045 329
past due	4 880 571	-	2 619	4 883 190
Gross carrying amount	131 278 551	1 728 881	274 067	133 281 499
Impairment allowances (*)	(6 087 629)	-	-	(6 087 629)
Carrying amount	125 190 922	1 728 881	274 067	127 193 870

(*) The impairment allowance for loans and advances to customers measured at fair value through other comprehensive income in the amount of PLN 34 182 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	15 495 044	-	2 332	15 497 376
between 1 and 3 months	3 535 849	-	15 097	3 550 946
between 3 months and 1 year	14 602 154	122 967	52 597	14 777 718
between 1 and 5 years	36 129 694	536 191	168 618	36 834 503
over 5 years	51 956 261	1 037 730	61 071	53 055 062
past due	4 713 881	-	2 915	4 716 796
Gross carrying amount	126 432 883	1 696 888	302 630	128 432 401
Impairment allowances (*)	(6 083 286)	-	-	(6 083 286)
Carrying amount	120 349 597	1 696 888	302 630	122 349 115

(*) The impairment allowance for loans and advances to customers measured at fair value through other comprehensive income in the amount of PLN 16 723 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 currency

	30.06.2019			TOTAL
	AMORTISED COST	FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	FAIR VALUE THROUGH PROFIT OR LOSS	
PLN	106 342 132	47 397	274 067	106 663 596
CHF	2 733 054	-	-	2 733 054
EUR	14 288 368	1 681 484	-	15 969 852
USD	1 407 835	-	-	1 407 835
Other currencies	419 533	-	-	419 533
Total	125 190 922	1 728 881	274 067	127 193 870

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	101 521 368	48 039	302 630	101 872 037
CHF	2 895 803	-	-	2 895 803
EUR	13 803 852	1 648 849	-	15 452 701
USD	1 754 991	-	-	1 754 991
Other currencies	373 583	-	-	373 583
Total	120 349 597	1 696 888	302 630	122 349 115

Notes to financial statements (cont.)

(in PLN thousand)

26. Hedge accounting

The Bank 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 Bank applies and will apply hedge accounting in the future.

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

Fair value hedge accounting **FVH**:

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

Cash flow hedge accounting **CFH**:

- 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 Bank 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 Bank 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 Bank to market risk management, including interest rate risk, is presented in Note 6.2. Details regarding exposure of the Bank to interest rate risk is disclosed in Note 6.2.

The use of derivative instruments to hedge the exposure to changes in interest rates generates counterparty credit risk of derivative transactions. The Bank 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 Bank 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.

According to the approach of the Bank, 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.

Notes to financial statements (cont.)

(in PLN thousand)

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

- impact of the counterparty credit risk and own credit risk of the Bank 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 Bank 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 Bank 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 Bank 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.

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.

Notes to financial statements (cont.)

(in PLN thousand)

Approach of the Bank 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 Bank to market risk management, including interest rate risk and currency risk, is presented in Note 6.2. Details regarding the Bank's interest rate risk and currency risk exposure are disclosed in Note 6.2.

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 Bank 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 Bank, 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 Bank 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 Bank'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

HEDGE IN RELATIONSHIP c	INTEREST RATE RISK		INTEREST RATE RISK / CURRENCY RISK	
	CFH IRS loans	CFH IRS deposits	CFH CIRS deposits/ loans	CFH FX Swap deposits/loans
30.06.2019				
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

HEDGE IN RELATIONSHIP	INTEREST RATE RISK		INTEREST RATE RISK / CURRENCY RISK	
	CFH IRS loans	CFH IRS deposits	CFH CIRS deposits/ loans	CFH FX Swap deposits/loans
31.12.2018				
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)

27. Investment (placement) securities

	30.06.2019	31.12.2018
Debt securities measured at amortised cost	15 316 085	11 130 367
Debt securities measured at fair value through other comprehensive income	28 344 400	26 904 574
Equity instruments designated at fair value through other comprehensive income	250 131	232 830
Equity instruments mandatorily measured at fair value through profit or loss	85 438	65 408
Total	43 996 054	38 333 179

Debt securities measured at amortised cost

	30.06.2019	31.12.2018
Securities issued by State Treasury	9 580 632	5 111 495
T-bills	-	-
T-bonds	9 580 632	5 111 495
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	15 316 085	11 130 367
including impairment of assets	(74 479)	(59 289)

Debt securities measured at fair value through other comprehensive income

	30.06.2019	31.12.2018
Securities issued by State Treasury	18 454 792	15 447 380
T-bills	-	-
T-bonds	18 204 767	15 197 169
Other	250 025	250 211
Securities issued by Central Banks	599 924	2 985 696
Securities issued by banks	3 572 536	3 418 866
Securities issued by business entities	2 561 433	1 985 860
Securities issued by local governments	3 155 715	3 066 772
Total	28 344 400	26 904 574
including impairment of assets (*)	(28 167)	(28 207)

(*) 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	232 830
Total	250 131	232 830

Equity instruments mandatorily measured at fair value through profit or loss

	30.06.2019	31.12.2018
Shares	85 438	65 408
Total	85 438	65 408

Notes to financial statements (cont.)

(in PLN thousand)

Investment debt securities according to contractual maturity

	30.06.2019	31.12.2018
Debt securities, including:		
up to 1 month	871 279	3 724 720
between 1 and 3 months	60 300	134 911
between 3 months and 1 year	5 262 853	2 919 847
between 1 and 5 years	26 381 546	19 591 668
over 5 years	11 084 507	11 663 795
Total	43 660 485	38 034 941

Investment debt securities by currency

	30.06.2019	31.12.2018
PLN	37 800 845	31 926 297
EUR	2 830 737	2 967 951
USD	3 028 903	3 140 693
Total	43 660 485	38 034 941

28. Assets and liabilities held for sale

According to IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations' the Bank 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)

29. Intangible assets

	30.06.2019	31.12.2018
Intangible assets, including:	556 188	580 530
research and development expenditures	1	3
licenses and patents	419 078	428 767
other	5 296	5 434
assets under construction	131 813	146 326
Goodwill	52 635	52 635
Total	608 823	633 165

In the period from 1 January to 30 June 2019 the Bank acquired intangible assets in the amount of PLN 57 207 thousand (in 2018 – PLN 168 582 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 78 187 thousand, whereas as at 31 December 2018 - PLN 42 494 thousand.

30. Property, plant and equipment

	30.06.2019	31.12.2018
Non-current assets, including:	1 728 772	1 242 536
land and buildings	1 321 563	924 412
machinery and equipment	290 852	213 216
transport vehicles	32 556	33 584
other	83 801	71 324
Non-current assets under construction and prepayments	79 574	141 667
Total	1 808 346	1 384 203

In the period from 1 January to 30 June 2019 the Bank acquired property, plant and equipment in the amount of PLN 21 112 thousand (in 2018 - PLN 150 388 thousand), while the value of property, plant and equipment sold amounted to PLN 7 139 thousand (in 2018 - PLN 11 238 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 28 873 thousand, whereas as at 31 December 2018 - PLN 7 402 thousand.

Notes to financial statements (cont.)

(in PLN thousand)

31. 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	234 580	230 000	206 998
Lombard and technical loan	bonds	5 088 287	4 948 185	-
Other loans	bonds	384 827	368 200	191 722
Coverage of the Guarantee Fund for the Settlement of Stock Exchange Transactions to Central Securities Depository (KDPW)	cash deposits	12 058	12 058	-
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	738 038	690 000	-
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	108 876	107 000	96 042
Lombard and technical loan	bonds	3 700 090	3 652 863	-
Other loans	bonds	236 083	221 100	206 151
Coverage of the Guarantee Fund for the Settlement of Stock Exchange Transactions to Central Securities Depository (KDPW)	cash deposits	10 559	10 559	-
Derivatives	bonds	529 569	520 445	470 905

Notes to financial statements (cont.)

(in PLN thousand)

32. Amounts due to other banks

Amounts due to other banks by product type

	30.06.2019	31.12.2018
Current accounts	2 081 509	1 065 658
Interbank deposits and other liabilities	243 568	394 155
Loans and advances received	1 270 039	1 354 225
Repo transactions	250 543	67 447
Cash in transit	57 660	40 470
Lease liabilities	829	-
Total	3 904 148	2 921 955

Amounts due to other banks are measured at amortised cost.

Amounts due to other banks by currency

	30.06.2019	31.12.2018
PLN	2 388 892	1 269 471
CHF	209 323	227 132
EUR	1 255 528	1 329 859
USD	37 274	55 435
Other currencies	13 131	40 058
Total	3 904 148	2 921 955

Notes to financial statements (cont.)

(in PLN thousand)

33. Amounts due to customers

Amounts due to customers by entity and product type

	30.06.2019	31.12.2018
Amounts due to corporate, including:	52 048 760	54 815 040
current accounts	38 247 993	39 973 872
term deposits and other liabilities	13 800 767	14 879 182
Amounts due to budget entities, including:	10 062 202	10 946 851
current accounts	9 119 994	9 753 945
term deposits and other liabilities	942 208	1 192 906
Amounts due to individuals, including:	87 843 693	83 789 393
current accounts	52 877 329	49 259 984
term deposits and other liabilities	34 966 364	34 529 409
Repo transactions	40 002	347 672
Cash in transit	341 964	195 058
Lease liabilities	513 590	38 014
Total	150 850 211	150 132 028

Amounts due to customers are measured at amortised cost.

Amounts due to customers by currency

	30.06.2019	31.12.2018
PLN	122 379 703	123 652 417
CHF	346 465	350 391
EUR	18 597 730	16 572 028
USD	8 114 132	8 099 778
Other currencies	1 412 181	1 457 414
Total	150 850 211	150 132 028

34. Debt securities issued

Debt securities issued by type

	30.06.2019	31.12.2018
Liabilities from bonds	-	-
Certificates of deposit	1 913 611	1 732 596
Mortgage bonds	-	-
Total	1 913 611	1 732 596

Amounts debt securities issued are measured at amortised cost.

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

Debt securities issued by currency

	30.06.2019	31.12.2018
PLN	1 895 934	1 732 596
EUR	-	-
USD	17 677	-
Total	1 913 611	1 732 596

Notes to financial statements (cont.)

(in PLN thousand)

35. 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.

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.

Notes to financial statements (cont.)

(in PLN thousand)

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)

36. 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	53 988	-	284 634	271 608	44 729	654 959
Provision charges/revaluation	8 221	85 000	13 984	155 464	5 465	268 134
Provision utilization	(4 408)	(20 434)	(17 209)	-	-	(42 051)
Provision releases	(60)	-	-	(117 653)	-	(117 713)
Foreign currency exchange differences	-	-	-	(324)	-	(324)
Other changes	-	-	182	-	-	182
Closing balance	57 741	64 566	281 591	309 095	50 194	763 187
Short term	2 692	64 566	10 641	39 181	-	117 080
Long term	55 049	-	270 950	269 914	50 194	646 107

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	15 204	-	295 551	245 993	36 887	593 635
Initial application of IFRS 9	-	-	-	35 332	-	35 332
Opening balance - restated	15 204	-	295 551	281 325	36 887	628 967
Provision charges/revaluation	14 892	-	27 691	226 848	17 598	287 029
Provision utilization	(3 418)	-	(38 205)	(24 808)	(9 756)	(76 187)
Provision releases	(229)	-	-	(169 545)	-	(169 774)
Foreign currency exchange differences	-	-	-	1 549	-	1 549
Other changes	27 539	-	(403)	(43 760)	-	(16 624)
Closing balance	53 988	-	284 634	271 609	44 729	654 960
Short term	2 715	-	11 240	53 051	-	67 006
Long term	51 273	-	273 394	218 558	44 729	587 954

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.

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.

Notes to financial statements (cont.)

(in PLN thousand)

37. Contingent commitments

Court cases

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

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

- 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 Bank):

- 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,
- 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 Bank.

The Bank created provisions for litigations against the Bank 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 57 741 thousand (PLN 53 988 thousand as at 31 December 2018).

Notes to financial statements (cont.)

(in PLN thousand)

Financial commitments granted

Financial commitments granted by entity

	30.06.2019	31.12.2018
Financial commitments granted to:		
banks	1 330 603	819 358
customers entities	36 092 206	33 717 710
budget entities	854 557	662 554
Total	38 277 366	35 199 622

Guarantees issued

Guarantees issued by entity

	30.06.2019	31.12.2018
Issued to banks:	1 613 431	1 541 015
guarantees	1 226 761	1 535 957
sureties	307 500	-
confirmed export letters of credit	79 170	5 058
Issued customers entities	17 334 023	17 340 356
guarantees	10 712 001	10 341 630
securities' underwriting guarantees	3 104 596	4 320 967
sureties	3 517 426	2 677 759
Issued to budget entities:	876 186	162 540
guarantees	23 980	13 192
securities' underwriting guarantees	852 206	149 348
Total	19 823 640	19 043 911

Off-balance sheet commitments received

Off-balance sheet commitments received by entity

	30.06.2019	31.12.2018
Financial received from:	1 532 628	556 713
banks	454 838	356 739
customers entities	75 190	199 974
budget entities	1 002 600	-
Guarantees received from:	18 246 086	19 686 788
banks	3 752 569	3 556 825
clients entities	13 468 114	15 126 821
budget entities	1 025 403	1 003 142
Total	19 778 714	20 243 501

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

Notes to financial statements (cont.)

(in PLN thousand)

38. Additional information to the unconsolidated cash flow statement

Cash and cash equivalents

	30.06.2019	30.06.2018
Cash and amounts due from Central Bank	4 324 400	12 972 575
Loans and receivables from banks with maturity up to 3 months	2 841 121	2 260 195
Cash and Cash equivalents presented in the cash flow statement	7 165 521	15 232 770

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	1 732 596	173 923	-	(284)	-	7 376	1 913 611
Subordinated liabilities	2 012 485	350 000	-	-	-	834	2 363 319
Loans and advances	1 354 225	(73 166)	-	(11 034)	-	14	1 270 039
Lease liabilities	38 014	(85 358)	-	(1 615)	-	563 378	514 419
Total	5 137 320	365 399	-	(12 933)	-	571 602	6 061 388

	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	1 470 000	(56 712)	-	-	-	5 577	1 418 865
Subordinated liabilities	1 257 188	-	-	-	-	(175)	1 257 013
Loans and advances	1 507 313	(109 206)	-	68 432	-	(1)	1 466 538
Total	4 234 501	(165 918)	-	68 432	-	5 401	4 142 416

Notes to financial statements (cont.)

(in PLN thousand)

39. 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, 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	39	-	542	3 252	38 178	104	346 460
Entities of PZU S.A. Group excluding the Bank Pekao S.A.	1 435	-	28	5 887	75 317	2 948	-
Bank Pekao S.A. Group entities							
Subsidiaries							
Pekao Investment Banking S.A.	-	-	-	2	232 093	-	-
Pekao Leasing Sp. z o.o.	991 356	443 995	226	31 502	47 623	-	29 182
Pekao Faktoring Sp. z o.o.	1 869 634	196 006	-	6	5 362	-	-
Centralny Dom Maklerski Pekao S.A.	-	-	-	35	694 717	-	-
Pekao Fundusz Kapitałowy Sp. z o.o. (in liquidation)	-	-	-	-	52 697	-	-
Pekao Powszechne Towarzystwo Emerytalne S.A. (in liquidation)	-	-	-	-	60 562	-	-
Centrum Kart S.A.	-	-	-	33	16 217	-	9 103
Pekao Financial Services Sp. z o. o.	-	-	-	7	6 919	-	-
Pekao Bank Hipoteczny S.A.	351 558	159 119	-	7	33 849	8 044	-
Pekao Property S.A. (in liquidation)	6 230	-	-	-	26 105	-	-
Centrum Bankowości Bezpośredniej Sp. z o.o.	12	-	-	-	5 278	-	7 916
FPB – Media Sp. z o. o. (in bankruptcy)	8 871	-	-	-	-	-	-
Dom Inwestycyjny Xelion Sp. z o.o.	-	-	-	2	55 053	-	-
Pekao Investment Management S.A.	-	-	-	-	144 515	-	-
Pekao TFI S.A. (PIM S.A. subsidiary)	-	-	-	7 081	106 013	-	-
Total of Bank Pekao S.A. Group entities	3 227 661	799 120	226	38 675	1 487 003	8 044	46 201
Key management personnel of the Bank Pekao S.A.	475	-	-	-	6 787	-	-
Total	3 229 610	799 120	796	47 814	1 607 285	11 096	392 661

Notes to financial statements (cont.)

(in PLN thousand)

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
Entities of PZU S.A. Group excluding the Bank Pekao S.A. Group entities	14	1 421	-	-	-	-	1 435
Bank Pekao S.A. Group entities							
Subsidiaries	1 050 167	70 972	200 013	1 892 598	12	13 899	3 227 661
Key management personnel of the Bank Pekao S.A.	-	-	-	-	93	382	475
Total	1 050 220	72 393	200 013	1 892 598	105	14 281	3 229 610

(*) 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 the Bank Pekao S.A. Group entities	74 689	628	-	-	-	-	75 317
Bank Pekao S.A. Group entities							
Subsidiaries	948 346	332 301	180 172	8 061	18 123	-	1 487 003
Key management personnel of the Bank Pekao S.A.	5 754	1	-	-	1 003	29	6 787
Total	1 066 106	333 791	180 172	8 061	19 126	29	1 607 285

(*) 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 the Bank Pekao S.A. Group entities	-	-	-	1 435	-	1 435
Bank Pekao S.A. Group entities						
Subsidiaries	487 704	88 236	-	2 651 022	699	3 227 661
Key management personnel of the Bank Pekao S.A.	-	-	382	93	-	475
Total	487 704	88 236	382	2 652 589	699	3 229 610

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 the Bank Pekao S.A. Group entities	1 452	487	145	72 696	537	75 317
Bank Pekao S.A. Group entities						
Subsidiaries	60 954	50 033	5 536	1 367 420	3 260	1 487 003
Key management personnel of the Bank Pekao S.A.	3 164	128	63	3 430	2	6 787
Total	65 605	50 648	5 744	1 481 689	3 799	1 607 285

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	98	23 722	-	-
Entities of PZU S.A. Group excluding the Bank Pekao S.A. Group entities	294	-	2 663	2 076	54 158	547	-
Bank Pekao S.A. Group entities							
Subsidiaries							
Pekao Investment Banking S.A.	-	-	-	50	248 709	-	50
Pekao Leasing Sp. z o.o.	773 004	125 110	199	-	95 880	744	31 539
Pekao Faktoring Sp. z o.o.	2 163 824	-	-	-	6 499	-	-
Centralny Dom Maklerski Pekao S.A.	-	-	-	-	703 124	-	161
Pekao Fundusz Kapitałowy Sp. z o.o. (in liquidation)	-	-	-	-	52 511	-	-
Pekao Powszechnie Towarzystwo Emerytalne S.A. (in liquidation)	-	-	-	-	33 338	-	-
Centrum Kart S.A.	-	-	-	-	20 424	-	10 621
Pekao Financial Services Sp. z o. o.	-	-	-	-	8 655	-	-
Pekao Bank Hipoteczny S.A.	244 450	10 015	5 588	-	13 011	5 876	-
Pekao Property S.A.	6 230	-	-	-	26 203	-	-
Centrum Bankowości Bezpośredniej Sp. z o.o.	16	-	-	19	10 150	-	6 500
FPB – Media Sp. z o. o.	8 971	-	-	-	280	-	-
Dom Inwestycyjny Xelion Sp. z o.o.	-	-	-	2	64 061	-	-
Pekao Investment Management S.A.	-	-	-	-	136 211	-	-
Pekao TFI S.A. (PIM S.A. subsidiary)	-	-	-	7 471	132 599	-	-
Total of Bank Pekao S.A. Group entities	3 196 495	135 125	5 787	7 542	1 551 655	6 620	48 871
Key management personnel of the Bank Pekao S.A.	440	-	-	-	6 608	-	-
Total	3 197 233	135 125	8 554	9 716	1 636 143	7 167	48 871

Notes to financial statements (cont.)

(in PLN thousand)

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 the Bank Pekao S.A. Group entities	4	290	-	-	-	-	294
Bank Pekao S.A. Group entities							
Subsidiaries	728 240	407 815	62 469	1 793 829	194 343	9 799	3 196 495
Key management personnel of the Bank Pekao S.A.	-	-	-	39	9	392	440
Total	728 244	408 109	62 469	1 793 868	194 352	10 191	3 197 233

(*) Current receivables include Nostro account 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 the Bank Pekao S.A. Group entities	49 406	4 752	-	-	-	-	54 158
Bank Pekao S.A. Group entities							
Subsidiaries	1 017 020	204 804	189 318	122 113	18 400	-	1 551 655
Key management personnel of the Bank Pekao S.A.	6 498	3	1	106	-	-	6 608
Total	1 096 646	209 559	189 319	122 219	18 400	-	1 636 143

(*) Current receivables include Loro account 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 the Bank Pekao S.A. Group entities	-	-	-	294	-	294
Bank Pekao S.A. Group entities						
Subsidiaries	413 477	1 375	208	2 779 831	1 604	3 196 495
Key management personnel of the Bank Pekao S.A.	-	-	392	48	-	440
Total	413 477	1 375	600	2 780 177	1 604	3 197 233

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 the Bank Pekao S.A. Group entities	743	1 356	232	50 319	1 508	54 158
Bank Pekao S.A. Group entities						
Subsidiaries	102 622	36 635	1 557	1 406 937	3 904	1 551 655
Key management personnel of the Bank Pekao S.A.	3 207	130	16	3 253	2	6 608
Total	106 606	38 121	1 805	1 484 197	5 414	1 636 143

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	OTHER INCOME	OTHER EXPENSES
PZU S.A. – the Bank 's parent entity	2 967	(287)	791	-	78	(526)
Entities of PZU S.A. Group excluding the Bank Pekao S.A. Group entities	361	(345)	2 397	(61)	912	(5 346)
Bank Pekao S.A. Group entities						
Subsidiaries						
Pekao Investment Banking S.A.	3	(980)	85	(53)	34	-
Centralny Dom Maklerski Pekao S.A.	-	(497)	620	(14)	1 810	(1 514)
Pekao Leasing Sp. z o.o.	8 110	(2 354)	7 239	-	7 546	(417)
Pekao Faktoring Sp. z o.o.	15 759	(28)	715	-	179	-
Pekao Powszechne Towarzystwo Emerytalne S.A. (in liquidation)	-	(328)	5	-	1	-
Pekao Fundusz Kapitałowy Sp. z o.o. (in liquidation)	-	(274)	2	-	4	-
Centrum Kart S.A.	-	(85)	411	-	509	(24 469)
Pekao Financial Services Sp. z o.o.	-	(34)	35	-	33	-
Pekao Bank Hipoteczny S.A.	2 511	(78)	1 502	-	209	(10 028)
Centrum Bankowości Bezpośredniej Sp. z o.o.	-	(1)	1	(13 194)	837	(19 149)
Pekao Property S.A. (in liquidation)	-	(107)	2	-	19	-
FPB - Media Sp. z o.o. (in bankructcy)	69	-	1	-	-	-
Dom Inwestycyjny Xelion Sp. z o.o.	-	(375)	29	-	36	-
Pekao Investment Management S.A.	-	(787)	5	-	-	-
Pekao TFI S.A. (PIM S.A. subsidiary)	-	(880)	46 699	-	-	-
Total of Bank Pekao S.A. Group entities	26 452	(6 808)	57 351	(13 261)	11 217	(55 577)
Key management personnel of the Bank Pekao S.A.	3	(23)	-	-	-	-
Total	29 783	(7 463)	60 539	(13 322)	12 207	(61 449)

Notes to financial statements (cont.)

(in PLN thousand)

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

NAME OF ENTITY	INTEREST INCOME	INTERES EXPENSE	FEE AND COMMISSION INCOME	FEE AND COMMISSION EXPENSE	OTHER INCOME	OTHER EXPENSES
PZU S.A. – the Bank 's parent entity	39	(88)	261	-	211	(3 171)
Entities of PZU S.A. Group excluding the Bank Pekao S.A. Group entities	163	(265)	2 387	(72)	2 227	(5)
Bank Pekao S.A. Group entities						
Subsidiaries						
Pekao Investment Banking S.A.	-	(1 534)	104	(61)	34	-
Centralny Dom Maklerski Pekao S.A.	-	(1 395)	639	(2 070)	1 223	(1 115)
Pekao Leasing Sp. z o.o.	25 893	(3 452)	3 954	(2)	570	-
Pekao Faktoring Sp. z o.o.	10 601	-	551	-	156	-
Pekao Powszechne Towarzystwo Emerytalne S.A. (in liquidation)	-	(102)	549	-	2	-
Pekao Fundusz Kapitałowy Sp. z o.o. (in liquidation)	-	(292)	2	-	16	-
Centrum Kart S.A.	-	(86)	456	-	510	(23 957)
Pekao Financial Services Sp. z o.o.	-	(55)	32	-	22	-
Pekao Bank Hipoteczny S.A.	347	(291)	247	-	469	(2 819)
Centrum Bankowości Bezpośredniej Sp. z o.o.	-	(2)	3	(11 098)	797	(20 776)
Pekao Property S.A.	-	(151)	1	-	7	-
FPB - Media Sp. z o.o.	138	(3)	1	-	-	-
Dom Inwestycyjny Xelion Sp. z o.o.	-	(178)	23	-	11	-
Pekao Investment Management S.A.	-	(1 126)	4	-	-	-
Pekao TFI S.A. (PIM S.A. subsidiary)	-	(768)	83 450	-	-	-
Total of Bank Pekao S.A. Group entities	36 979	(9 435)	90 016	(13 231)	3 817	(48 667)
Key management personnel of the Bank Pekao S.A.	1	(28)	-	-	-	-
Total	37 182	(9 816)	92 664	(13 303)	6 255	(51 843)

Notes to financial statements (cont.)

(in PLN thousand)

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

NAME OF ENTITY	GRANTED		RECEIVED	
	FINANCIAL	GUARANTEES	FINANCIAL	GUARANTEES
PZU S.A. – the Bank 's parent entity	2 835	15 000	-	-
Entities of PZU S.A. Group excluding the Bank Pekao S.A. Group entities	578	10 000	-	-
Bank Pekao S.A. Group entities			-	-
Subsidiaries			-	-
Pekao Investment Banking S.A.	117	-	-	-
Pekao Leasing Sp. z o.o.	1 902 469	6 757 058	-	-
Pekao Faktoring Sp. z o.o.	1 060 593	605 000	-	-
Centralny Dom Maklerski Pekao S.A.	49	-	-	-
Centrum Kart S.A.	41	3 000	-	-
Pekao Financial Services Sp. z o. o.	65	1 101	-	-
Pekao Bank Hipoteczny S.A.	399 477	307 751	-	-
Centrum Bankowości Bezpośredniej Sp. z o.o.	54	-	-	-
Dom Inwestycyjny Xelion Sp. z o.o.	5	-	-	-
Pekao TFI S.A. (PIM S.A. subsidiary)	121	-	-	-
Total of Bank Pekao S.A. Group entities	3 362 991	7 673 910	-	-
Key management personnel of the Bank Pekao S.A.	567	-	-	-
Total	3 366 971	7 698 910	-	-

Notes to financial statements (cont.)

(in PLN thousand)

Off-balance sheet financial commitments and guarantees granted 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 the Bank Pekao S.A. Group entities	-	25	-	-	-	553	578
Bank Pekao S.A. Group entities							
Subsidiaries	-	-	-	3 362 429	562	-	3 362 991
Key management personnel of the Bank Pekao S.A.	-	-	15	-	148	404	567
Total	-	25	15	3 362 429	710	3 792	3 366 971
Guarantees issued							
PZU S.A. – the Bank 's parent entity	-	-	15 000	-	-	-	15 000
Entities of PZU S.A. Group excluding the Bank Pekao S.A. Group entities	-	380	9 620	-	-	-	10 000
Bank Pekao S.A. Group entities							
Subsidiaries	-	687 500	1 031 500	2 054 604	1 014 146	2 886 160	7 673 910
Total	-	687 880	1 056 120	2 054 604	1 014 146	2 886 160	7 698 910

Notes to financial statements (cont.)

(in PLN thousand)

Off-balance sheet financial commitments and guarantees granted by currency

30.06.2019	EUR	USD	CHF	PLN	INNE	TOTAL
Financial commitments granted						
PZU S.A. – the Bank 's parent entity	-	-	-	2 835	-	2 835
Entities of PZU S.A. Group excluding the Bank Pekao S.A. Group entities	-	-	-	578	-	578
Bank Pekao S.A. Group entities						
Subsidiaries	-	-	-	3 362 991	-	3 362 991
Key management personnel of the Bank Pekao S.A.	-	-	-	567	-	567
Total	-	-	-	3 366 971	-	3 366 971
Guarantees issued						
PZU S.A. – the Bank 's parent entity	-	-	-	15 000	-	15 000
Entities of PZU S.A. Group excluding the Bank Pekao S.A. Group entities	-	-	-	10 000	-	10 000
Bank Pekao S.A. Group entities						
Subsidiaries	2 968 674	-	-	4 705 236	-	7 673 910
Total	2 968 674	-	-	4 730 236	-	7 698 910

Notes to financial statements (cont.)

(in PLN thousand)

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

NAME OF ENTITY	GRANTED		RECEIVED	
	FINANCIAL	GUARANTEES	FINANCIAL	GUARANTEES
PZU S.A. – the Bank 's parent entity	2 818	15 000	-	-
Entities of PZU S.A. Group excluding the Bank Pekao S.A. Group entities	617	16 000	-	6 000
Bank Pekao S.A. Group entities				
Subsidiaries				
Pekao Investment Banking S.A.	124	-	-	-
Pekao Leasing Sp. z o.o.	2 375 537	6 114 794	-	-
Pekao Faktoring Sp. z o.o.	677 320	-	-	-
Centralny Dom Maklerski Pekao S.A.	60	-	-	-
Pekao Powszechne Towarzystwo Emerytalne S.A. (in liquidation)	60	-	-	-
Centrum Kart S.A.	83	3 000	-	-
Pekao Financial Services Sp. z o. o.	65	1 086	-	-
Pekao Bank Hipoteczny S.A.	507 203	310 253	-	-
Centrum Bankowości Bezpośredniej Sp. z o.o.	34	-	-	-
Dom Inwestycyjny Xelion Sp. z o.o.	5	-	-	-
Pekao TFI S.A. (PIM S.A. subsidiary)	89	-	-	-
Total of Bank Pekao S.A. Group entities	3 560 580	6 429 133	-	-
Key management personnel of the Bank Pekao S.A.	488	-	-	-
Total	3 564 503	6 460 133	-	6 000

Notes to financial statements (cont.)

(in PLN thousand)

Off-balance sheet financial commitments and guarantees granted 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 the Bank Pekao S.A. Group entities	-	20	-	-	597	-	617
Bank Pekao S.A. Group entities							
Subsidiaries	-	-	507 116	3 052 873	591	-	3 560 580
Key management personnel of the Bank Pekao S.A.	-	-	-	75	412	1	488
Total	-	20	507 116	3 052 948	4 418	1	3 564 503
Guarantees issued							
PZU S.A. – the Bank's parent entity	-	49	11	14 940	-	-	15 000
Entities of PZU S.A. Group excluding the Bank Pekao S.A. Group entities	-	50	6 040	9 910	-	-	16 000
Bank Pekao S.A. Group entities							
Subsidiaries	-	609 400	635 000	1 451 075	1 239 658	2 494 000	6 429 133
Total	-	609 499	641 051	1 475 925	1 239 658	2 494 000	6 460 133
Guarantees received							
Entities of PZU S.A. Group excluding the Bank Pekao S.A. Group entities	-	-	6 000	-	-	-	6 000
Total	-	-	6 000	-	-	-	6 000

Notes to financial statements (cont.)

(in PLN thousand)

Off-balance sheet financial commitments and guarantees granted by currency

31.12.2018	EUR	USD	CHF	PLN	INNE	TOTAL
Financial commitments granted						
PZU S.A. – the Bank 's parent entity	-	-	-	2 818	-	2 818
Entities of PZU S.A. Group excluding the Bank Pekao S.A. Group entities	-	-	-	617	-	617
Bank Pekao S.A. Group entities						
Subsidiaries	-	-	-	3 560 580	-	3 560 580
Key management personnel of the Bank Pekao S.A.	-	-	-	488	-	488
Total	-	-	-	3 564 503	-	3 564 503
Guarantees issued						
PZU S.A. – the Bank 's parent entity	-	-	-	15 000	-	15 000
Entities of PZU S.A. Group excluding the Bank Pekao S.A. Group entities	-	-	-	16 000	-	16 000
Bank Pekao S.A. Group entities						
Subsidiaries	3 002 009	-	-	3 427 124	-	6 429 133
Total	3 002 009	-	-	3 458 124	-	6 460 133
Guarantees received						
Entities of PZU S.A. Group excluding the Bank Pekao S.A. Group entities	-	-	-	6 000	-	6 000
Total	-	-	-	6 000	-	6 000

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.

40. 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.