

Condensed Interim Consolidated Financial Statements of Bank Pekao S.A. Group for the first half of 2020



Warsaw, August 2020

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

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Consolidated income statement

(in PLN thousand)

	NOTE	II QUARTER 2020 PERIOD FROM 01.04.2020 TO 30.06.2020	I HALF 2020 PERIOD FROM 01.01.2020 TO 30.06.2020	II QUARTER 2019 PERIOD FROM 01.04.2019 TO 30.06.2019 RESTATED	I HALF 2019 PERIOD FROM 01.01.2019 TO 30.06.2019 RESTATED
Interest income	9	1 547 044	3 264 484	1 668 660	3 266 642
Financial assets measured at amortized cost		1 314 397	2 814 207	1 436 541	2 814 046
Financial assets measured at fair value through other comprehensive income		164 408	322 657	167 013	326 857
Financial assets measured at fair value through profit or loss		68 239	127 620	65 106	125 739
Interest expense	9	(181 496)	(470 685)	(311 112)	(608 698)
Net interest income		1 365 548	2 793 799	1 357 548	2 657 944
Fee and commission income	10	676 929	1 396 195	725 062	1 409 947
Fee and commission expense	10	(109 082)	(213 954)	(92 380)	(173 686)
Net fee and commission income		567 847	1 182 241	632 682	1 236 261
Dividend income	11	25 748	26 003	21 266	21 652
Result on financial assets and liabilities measured at fair value through profit or loss	12	50 703	60 975	31 063	48 726
Result on fair value hedge accounting	27	992	(752)	(728)	(1 704)
Result on derecognition of financial assets and liabilities not measured at fair value through profit or loss	13	23 049	44 175	8 430	19 862
Net impairment losses on financial assets and off-balance sheet commitments	14	(474 010)	(804 920)	(177 238)	(286 921)
Net other operating income and expenses	15	(7 879)	(8 666)	23 246	37 543
Administrative expenses	16	(909 932)	(2 193 234)	(993 200)	(2 265 261)
Personnel expenses		(489 277)	(1 107 513)	(586 428)	(1 065 852)
Other administrative expenses		(420 655)	(1 085 721)	(406 772)	(1 199 409)
Depreciation and amortization	17	(134 704)	(258 239)	(126 576)	(255 223)
PROFIT BEFORE INCOME TAX		507 362	841 382	776 493	1 212 879
Income tax expense	18	(147 906)	(294 475)	(193 560)	(386 881)
NET PROFIT		359 456	546 907	582 933	825 998
1. Attributable to equity holders of the Bank		359 151	546 049	582 106	824 447
2. Attributable to non-controlling interests		305	858	827	1 551
Earnings per share (in PLN per share)					
basic for the period	19	1.37	2.08	2.22	3.14
diluted for the period	19	1.37	2.08	2.22	3.14

Notes to the financial statements presented on pages 11 – 81 constitute an integral part of the condensed interim consolidated financial statements.

Consolidated statement of comprehensive income

(in PLN thousand)

	NOTE	II QUARTER 2020 PERIOD FROM 01.04.2020 TO 30.06.2020	I HALF 2020 PERIOD FROM 01.01.2020 TO 30.06.2020	II QUARTER 2019 PERIOD FROM 01.04.2019 TO 30.06.2019	I HALF 2019 PERIOD FROM 01.01.2019 TO 30.06.2019
Net profit		359 456	546 907	582 933	825 998
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:		525 077	363 972	123 334	113 584
Profit or loss on fair value measurement		548 841	401 175	130 615	132 421
Profit or loss reclassification to income statement after derecognition		(23 764)	(37 203)	(7 281)	(18 837)
Change in fair value of cash flow hedges	27	118 954	533 889	27 302	92 070
Tax on items that are or may be reclassified subsequently to profit or loss	18	(122 366)	(170 594)	(28 621)	(39 074)
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		21 880	10 647	16 556	17 358
Remeasurements of the defined benefit liabilities		-	-	-	-
Tax on items that will never be reclassified to profit or loss	18	(4 157)	(2 023)	(3 146)	(3 298)
Other comprehensive income (net of tax)		539 388	735 891	135 425	180 640
Total comprehensive income		898 844	1 282 798	718 358	1 006 638
1. Attributable to equity holders of the Bank		898 539	1 281 940	717 531	1 005 087
2. Attributable to non-controlling interests		305	858	827	1 551

Notes to the financial statements presented on pages 11 – 81 constitute an integral part of the condensed interim consolidated financial statements.

Consolidated statement of financial position

(in PLN thousand)

	NOTE	30.06.2020	31.12.2019
ASSETS			
Cash and due from Central Bank	21	7 362 524	5 162 682
Loans and advances to banks	22	8 110 416	1 791 436
Financial assets held for trading	23	866 122	1 281 664
Derivative financial instruments (held for trading)	24	5 415 779	2 079 529
Loans and advances to customers	25	136 313 087	134 200 413
1. Measured at amortised cost		134 566 756	132 577 167
2. Measured at fair value through profit or loss		213 869	242 639
3. Measured at fair value through other comprehensive income		1 532 462	1 380 607
Receivables from finance leases	26	7 171 598	6 712 939
Hedging instruments	27	969 845	377 208
Investments (placement) securities	28	63 186 218	45 893 115
1. Measured at fair value through profit or loss		133 520	146 119
2. Designated at fair value through profit or loss		-	-
3. Measured at fair value through other comprehensive income (debt securities)		42 480 105	30 942 999
4. Designated at fair value through other comprehensive income (equity instruments)		236 165	225 332
5. Measured at amortised cost		20 336 428	14 578 665
Assets held for sale		17 175	17 175
Investments in associates		-	-
Intangible assets	29	1 747 447	1 617 531
Property, plant and equipment	30	1 939 251	1 920 252
Investment properties		-	-
Income tax assets		1 188 366	1 095 050
1. Current tax assets		10 840	420
2. Deferred tax assets		1 177 526	1 094 630
Other assets		1 015 853	1 173 925
TOTAL ASSETS		235 303 681	203 322 919
EQUITY AND LIABILITIES			
Liabilities			
Amounts due to Central Bank	21	-	4 550
Amounts due to other banks	32	7 719 577	6 539 539
Financial liabilities held for trading	23	302 405	184 799
Derivative financial instruments (held for trading)	24	5 233 047	2 034 113
Amounts due to customers	33	184 549 090	157 989 734
Hedging instruments	27	948 117	614 765
Debt securities issued	34	5 038 431	6 307 837
Subordinated liabilities	35	2 759 514	2 764 493
Income tax liabilities		257 135	216 920
1. Current tax liabilities		228 282	187 002
2. Deferred tax liabilities		28 853	29 918
Provisions	36	945 981	752 597
Other liabilities		2 871 461	2 515 546
TOTAL LIABILITIES		210 624 758	179 924 893
Equity			
Share capital		262 470	262 470
Other capital and reserves		21 983 200	20 665 430
Retained earnings and net profit for the period		2 422 226	2 458 387
Total equity attributable to equity holders of the Bank		24 667 896	23 386 287
Non-controlling interests		11 027	11 739
TOTAL EQUITY		24 678 923	23 398 026
TOTAL LIABILITIES AND EQUITY		235 303 681	203 322 919

Notes to the financial statements presented on pages 11 – 81 constitute an integral part of the condensed interim consolidated financial statements.

Consolidated statement of changes in equity

(in PLN thousand)

For the period from 1 January 2020 to 30 June 2020

	EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK										
	SHARE CAPITAL	OTHER CAPITAL AND RESERVES						RETAINED EARNINGS AND NET PROFIT FOR THE PERIOD	TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK	NON-CONTROLLING INTERESTS	TOTAL EQUITY
		TOTAL OTHER CAPITAL AND RESERVES	SHARE PREMIUM	GENERAL BANKING RISK FUND	OTHER RESERVE CAPITAL	REVALUATION RESERVES	OTHER				
Equity as at 1.01.2020	262 470	20 665 430	9 137 221	1 982 459	8 787 844	359 668	398 238	2 458 387	23 386 287	11 739	23 398 026
Comprehensive income	-	735 891	-	-	-	735 891	-	546 049	1 281 940	858	1 282 798
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)	-	294 817	-	-	-	294 817	-	-	294 817	-	294 817
Revaluation or sale of investments in equity instruments designated at fair value through other comprehensive income (net of tax)	-	8 624	-	-	-	8 624	-	-	8 624	-	8 624
Revaluation of hedging financial instruments (net of tax)	-	432 450	-	-	-	432 450	-	-	432 450	-	432 450
Net profit for the period	-	-	-	-	-	-	-	546 049	546 049	858	546 907
Appropriation of retained earnings	-	581 861	-	-	598 686	-	(16 825)	(581 861)	-	(1 469)	(1 469)
Dividend paid	-	-	-	-	-	-	-	-	-	(1 469)	(1 469)
Profit appropriation to other reserves	-	581 861	-	-	598 686	-	(16 825)	(581 861)	-	-	-
Other	-	18	-	-	18	-	-	(349)	(331)	(101)	(432)
Other	-	18	-	-	18	-	-	(349)	(331)	(101)	(432)
Equity as at 30.06.2020	262 470	21 983 200	9 137 221	1 982 459	9 386 548	1 095 559	381 413	2 422 226	24 667 896	11 027	24 678 923

Notes to the financial statements presented on pages 11 - 81 constitute an integral part of the condensed interim consolidated financial statements.

Consolidated statement of changes in equity (cont.)

(in PLN thousand)

For the period from 1 January 2019 to 31 December 2019

	EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK										
	SHARE CAPITAL	OTHER CAPITAL AND RESERVES						RETAINED EARNINGS AND NET PROFIT FOR THE PERIOD	TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK	NON-CONTROLLING INTERESTS	TOTAL EQUITY
		TOTAL OTHER CAPITAL AND RESERVES	SHARE PREMIUM	GENERAL BANKING RISK FUND	OTHER RESERVE CAPITAL	REVALUATION RESERVES	OTHER				
Equity as at 1.01.2019	262 470	20 865 916	9 137 221	1 982 459	9 137 113	202 663	406 460	1 668 340	22 796 726	11 491	22 808 217
Comprehensive income	-	157 200	-	-	195	157 005	-	2 165 047	2 322 247	1 562	2 323 809
Remeasurements of the defined benefit liabilities (net of tax)	-	(2 247)	-	-	171	(2 418)	-	-	(2 247)	(8)	(2 255)
Revaluation of debt financial instruments and loans measured at fair value through other comprehensive income (net of tax)	-	104 560	-	-	-	104 560	-	-	104 560	-	104 560
Revaluation or sale of investments in equity instruments designated at fair value through other comprehensive income (net of tax)	-	(6 044)	-	-	24	(6 068)	-	-	(6 044)	-	(6 044)
Revaluation of hedging financial instruments (net of tax)	-	60 931	-	-	-	60 931	-	-	60 931	-	60 931
Net profit for the period	-	-	-	-	-	-	-	2 165 047	2 165 047	1 570	2 166 617
Appropriation of retained earnings	-	593 566	-	-	587 318	-	6 248	(2 325 868)	(1 732 302)	(1 214)	(1 733 516)
Dividend paid	-	-	-	-	-	-	-	(1 732 302)	(1 732 302)	(1 214)	(1 733 516)
Profit appropriation to other reserves	-	593 566	-	-	587 318	-	6 248	(593 566)	-	-	-
Other	-	(951 252)	-	-	(936 782)	-	(14 470)	950 868	(384)	(100)	(484)
Coverage of negative impact of IFRS 9 implementation	-	(951 218)	-	-	(936 748)	-	(14 470)	951 218	-	-	-
Other	-	(34)	-	-	(34)	-	-	(350)	(384)	(100)	(484)
Equity as at 31.12.2019	262 470	20 665 430	9 137 221	1 982 459	8 787 844	359 668	398 238	2 458 387	23 386 287	11 739	23 398 026

Notes to the financial statements presented on pages 11 - 81 constitute an integral part of the condensed interim consolidated financial statements.

Consolidated statement of changes in equity (cont.)

(in PLN thousand)

For the period from 1 January 2019 to 30 June 2019

	EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK										
	SHARE CAPITAL	OTHER CAPITAL AND RESERVES						RETAINED EARNINGS AND NET PROFIT FOR THE PERIOD	TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK	NON-CONTROLLING INTERESTS	TOTAL EQUITY
		TOTAL OTHER CAPITAL AND RESERVES	SHARE PREMIUM	GENERAL BANKING RISK FUND	OTHER RESERVE CAPITAL	REVALUATION RESERVES	OTHER				
Equity as at 1.01.2019	262 470	20 865 916	9 137 221	1 982 459	9 137 113	202 663	406 460	1 668 340	22 796 726	11 491	22 808 217
Comprehensive income	-	180 640	-	-	24	180 616	-	824 447	1 005 087	1 551	1 006 638
Remeasurements of the defined benefit liabilities (net of tax)	-	-	-	-	-	-	-	-	-	-	-
Revaluation of debt financial instruments measured at fair value through other comprehensive income (net of tax)	-	92 003	-	-	-	92 003	-	-	92 003	-	92 003
Revaluation or sale of investments in equity instruments designated at fair value through other comprehensive income (net of tax)	-	14 060	-	-	24	14 036	-	-	14 060	-	14 060
Revaluation of hedging financial instruments (net of tax)	-	74 577	-	-	-	74 577	-	-	74 577	-	74 577
Net profit for the period	-	-	-	-	-	-	-	824 447	824 447	1 551	825 998
Appropriation of retained earnings	-	593 566	-	-	587 318	-	6 248	(2 325 868)	(1 732 302)	(1 214)	(1 733 516)
Dividend paid	-	-	-	-	-	-	-	(1 732 302)	(1 732 302)	(1 214)	(1 733 516)
Profit appropriation to other reserves including consolidation adjustments	-	593 566	-	-	587 318	-	6 248	(593 566)	-	-	-
Other	-	(951 251)	-	-	(936 781)	-	(14 470)	950 868	(383)	(101)	(484)
Coverage of negative impact of IFRS 9 implementation	-	(951 218)	-	-	(936 748)	-	(14 470)	951 218	-	-	-
Other	-	(33)	-	-	(33)	-	-	(350)	(383)	(101)	(484)
Equity as at 30.06.2019	262 470	20 688 871	9 137 221	1 982 459	8 787 674	383 279	398 238	1 117 787	22 069 128	11 727	22 080 855

Notes to the financial statements presented on pages 11 – 81 constitute an integral part of the condensed interim consolidated financial statements.

Consolidated cash flow statement

(in PLN thousand)

	NOTE	I HALF 2020 PERIOD FROM 01.01.2020 TO 30.06.2020	I HALF 2019 PERIOD FROM 01.01.2019 TO 30.06.2019
Cash flow from operating activities – indirect method			
Net profit for the period		546 049	824 447
Adjustments for:		25 716 856	(3 957 675)
Depreciation and amortization	17	258 239	255 223
(Gains) losses on investing activities		(33 646)	(30 502)
Net interest income	9	(2 793 799)	(2 657 944)
Dividend income	11	(26 003)	(21 652)
Interest received		3 153 202	3 413 919
Interest paid		(538 293)	(577 777)
Income tax		294 475	386 881
Income tax paid		(397 053)	(375 065)
Change in loans and advances to banks		525	(147 773)
Change in financial assets held for trading		407 378	(1 470 433)
Change in derivative financial instruments (assets)		(3 336 250)	(324 906)
Change in loans and advances to customers		(2 091 625)	(5 479 676)
Change in receivables from finance leases		(458 659)	(702 754)
Change in investment (placement) securities		(907 367)	(548 096)
Change in other assets		118 504	(637 841)
Change in amounts due to banks		970 478	2 057 028
Change in financial liabilities held for trading		117 606	438 191
Change in derivative financial instruments (liabilities)		3 198 934	364 298
Change in amounts due to customers		26 677 055	963 956
Change in debt securities issued		31 309	(643)
Change in subordinated liabilities		(4 979)	834
Payments for short-term leases and leases of low-value assets		(7 472)	(14 728)
Change in provisions		193 384	112 207
Change in other liabilities		890 913	1 039 578
Net cash flows from operating activities		26 262 905	(3 133 228)
Cash flow from investing activities			
Investing activity inflows		85 842 249	112 401 339
Sale of investment securities		85 324 031	111 915 677
Sale of intangible assets and property, plant and equipment		8 012	12 810
Dividend received	11	26 003	21 652
Other investing inflows		484 203	451 200
Investing activity outflows		(102 446 232)	(117 552 861)
Acquisition of investment securities		(102 093 819)	(117 419 602)
Acquisition of intangible assets and property, plant and equipment		(352 413)	(133 259)
Net cash flows from investing activities		(16 603 983)	(5 151 522)

Notes to the financial statements presented on pages 11 - 81 constitute an integral part of the condensed interim consolidated financial statements.

Consolidated cash flow statement (cont.)

(in PLN thousand)

	NOTE	I HALF 2020 PERIOD FROM 01.01.2020 TO 30.06.2020	I HALF 2019 PERIOD FROM 01.01.2019 TO 30.06.2019
Cash flows from financing activities			
Financing activity inflows		5 071 709	4 316 573
Due to loans and advances received from banks		968 471	727 817
Issue of debt securities		4 103 238	3 238 756
Issue of subordinated bonds		-	350 000
Financing activity outflows		(6 210 107)	(4 443 989)
Repayment of loans and advances received from banks		(747 862)	(1 817 574)
Redemption of debt securities		(5 405 292)	(2 537 303)
Payments for the principal portion of the lease liabilities		(56 953)	(89 112)
Net cash flows from financing activities		(1 138 398)	(127 416)
Total net cash flows		8 520 524	(8 412 166)
including effect of exchange rate fluctuations on cash and cash equivalents held		93 932	(16 889)
Net change in cash and cash equivalents		8 520 524	(8 412 166)
Cash and cash equivalents at the beginning of the period		6 950 972	15 239 266
Cash and cash equivalents at the end of the period	38	15 471 496	6 827 100

Notes to the financial statements presented on pages 11 – 81 constitute an integral part of the condensed interim consolidated financial statements.

Notes to financial statements

(in PLN thousand)

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

1. General information

Bank Polska Kasa Opieki Spółka Akcyjna (hereafter 'Bank Pekao S.A.' or 'the Bank'), with its headquarters in Warsaw 00-844, 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 Interim Consolidated Financial Statements of Bank Pekao S.A. Group for the period from 1 January 2020 to 30 June 2020 contain financial information of the Bank and its subsidiaries (together referred to as the 'Group'), and the associates accounted for using equity method.

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

The share ownership structure of the Bank is presented in the Note 5.4 of the Report on the activities of Bank Pekao S.A. Group for the first half of 2020.

2. Group structure

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

NAME OF ENTITY	LOCATION	CORE ACTIVITY	PERCENTAGE OF THE GROUP'S OWNERSHIP RIGHTS IN SHARE CAPITAL/VOTING	
			30.06.2020	31.12.2019
Pekao Bank Hipoteczny S.A.	Warsaw	Banking	100.00	100.00
Pekao Leasing Sp. z o.o.	Warsaw	Leasing services	100.00	100.00
Pekao Investment Banking S.A.	Warsaw	Brokerage	100.00	100.00
Pekao Faktoring Sp. z o.o.	Lublin	Factoring services	100.00	100.00
Pekao Powszechne Towarzystwo Emerytalne S.A. (in liquidation)	Warsaw	Pension fund management	100.00	100.00
Centrum Kart S.A.	Warsaw	Financial support	100.00	100.00
Pekao Financial Services Sp. z o.o.	Warsaw	Transferable agent	66.50	66.50
Pekao Direct Sp. z o.o. (ex. Centrum Bankowości Bezpośredniej Sp. z o.o.)	Cracow	Call-center services	100.00	100.00
Pekao Property S.A. (in liquidation), including:	Warsaw	Real estate development	100.00	100.00
<i>FPB - Media Sp. z o.o. (in bankructcy)</i>	<i>Warsaw</i>	<i>Real estate development</i>	<i>100.00</i>	<i>100.00</i>
Pekao Fundusz Kapitałowy Sp. z o.o. (in liquidation)	Warsaw	Business consulting	100.00	100.00
Dom Inwestycyjny Xelion Sp. z o.o.	Warsaw	Financial intermediary	100.00	100.00
Pekao Investment Management S.A., including:	Warsaw	Holding	100.00	100.00
<i>Pekao TFI S.A.</i>	<i>Warsaw</i>	<i>Asset management</i>	<i>100.00</i>	<i>100.00</i>

As at 30 June 2020 and 31 December 2019 all subsidiaries of the Bank have been consolidated.

Notes to financial statements (cont.)

(in PLN thousand)

Associates

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

NAME OF ENTITY	LOCATION	CORE ACTIVITY	PERCENTAGE OF THE GROUP'S OWNERSHIP RIGHTS IN SHARE CAPITAL/VOTING	
			30.06.2020	31.12.2019
CPF Management	Tortola, British Virgin Islands	Financial brokerage – not operating	40.00	40.00

As at 30 June 2020 and 31 December 2019 the Group held no shares in entities under joint control.

Acquisition of an organized part of the enterprise of Pekao Investment Banking S.A.

On 29 May 2020 the Bank acquired an organized part of the enterprise of Pekao Investment Banking S.A. related to the provision of brokerage services. Other activities of Pekao Investment Banking S.A. related to oferent investment banking services remained with the Company.

The transaction of acquisition of an organized part of the enterprise of Pekao Investment Banking S.A. has been recognized in accordance with the adopted accounting policy applied to business combinations under common control. The transaction had no impact on the Group.

3. Business combinations

In the first year of 2020 and in 2019 there were no business combinations in the Group.

4. Statement of compliance

The Condensed Interim Consolidated Financial Statements of Bank Pekao S.A. Group for the period of six months ended 30 June of 2020 have been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting' (IAS 34) as adopted by the European Union and other applicable regulations.

These financial statements do not include all information required for annual financial statements, and shall be read in conjunction with the consolidated financial statements of Bank Pekao S.A. Group for the year ended 31 December 2019.

The consolidated financial statements of Bank Pekao S.A. Group as at and for the year ended 31 December 2019 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 with further amendments) the Bank is required to publish the financial report for the six months period ended 30 June 2020, i.e. current interim period.

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

These condensed interim consolidated financial statements were authorized for issue by the Management Board on 4 August 2020.

Notes to financial statements (cont.)

(in PLN thousand)

5. Significant accounting policies

5.1 Basis of preparation of Consolidated Financial Statements

General information

Condensed Interim Consolidated Financial Statements of the Group for the period of six months ended on 30 June of 2020 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 period of six months ended on 30 June of 2020 the Group did not amend its accounting policies in respect to valuation of assets and liabilities and profit measurement, The accounting policies applied by the Group in these condensed interim consolidated financial statements, are the same as those applied in the Consolidated Financial Statements of Bank Pekao S.A. Group for the year ended on 31 December 2019. Those accounting policies have been applied uniformly to all presented reporting periods and by all entities of the Group.

The consolidated financial statements include the requirements of all the International Financial Reporting Standards and International Accounting Standards approved by the European Union and related interpretations. Changes in published standards and interpretations, which became effective on or after 1 January 2020, had no material impact on the Group's financial statements.

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

Comparability of financial data

In the Consolidated Financial Statements of Bank Pekao S.A. Group for the year ended on 31 December 2019 the Group made changes in the presentation of selected items of the income statement. The items: 'Net result on other provisions, and 'Gains (losses) on disposal of property, plant and equipment and intangible assets, are presented in the line 'Net other operating income and expenses'.

The above-mentioned changes resulted in restatement of comparable data for the period of six months ended 30 June 2019, but without impact on the net profit for the period.

Notes to financial statements (cont.)

(in PLN thousand)

A description of the changes and their impact on the comparative data of the income statement are presented in the table below.

CONSOLIDATED INCOME STATEMENT	DATA FOR II QUARTER 2019 BEFORE RESTATEMENT	RESTATEMENT	DATA FOR II QUARTER 2019 AFTER RESTATEMENT
Net result on other provisions	(3 467)	3 467	-
Gains (losses) on disposal of property plant and equipment and intangible assets	9 581	(9 581)	-
Net other operating income and expenses	17 132	6 114	23 246

CONSOLIDATED INCOME STATEMENT	DATA FOR I HALF 2019 BEFORE RESTATEMENT	RESTATEMENT	DATA FOR I HALF 2019 AFTER RESTATEMENT
Net result on other provisions	(8 196)	8 196	-
Gains (losses) on disposal of property plant and equipment and intangible assets	11 689	(11 689)	-
Net other operating income and expenses	34 050	3 493	37 543

5.2 New standards, interpretations and amendments to published standards that have been approved and published by the European Union and are effective on or after 1 January 2020

STANDARD/ INTERPRETATION	DESCRIPTION	IMPACT ASSESSMENT
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.	The standards amendments did not have a material impact on the financial statements in the period of its first application.
IFRS 9 (amendment) 'Financial instruments' and IFRS 7 (amendment) 'Financial instruments: disclosures'	The changes are mandatory and apply to all hedging relationships that are affected by uncertainty arising from the interest rate benchmark reform. The amendments introduce a temporary exemption from the application of specific hedge accounting requirements in such a way that the interest rate benchmark reform does not result in the termination of hedge accounting. The key exemptions resulting from the Changes relate to: <ul style="list-style-type: none"> the requirement that flows are 'highly likely', risk components, prospective assessment, retrospective effectiveness test (applies to IAS 39), reclassification of the provision for cash flow hedges. 	The Group decided to apply these changes in the standards earlier, i.e. the principles resulting from these changes were adopted as binding in 2019.
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.	The standard's amendment did not have a material impact on the financial statements in the period of its first application.

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

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

Notes to financial statements (cont.)

(in PLN thousand)

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

STANDARD/ INTERPRETATION	DESCRIPTION	IMPACT ASSESSMENT
IFRS 17 'Insurance Contracts'	The new standard requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 'Insurance Contracts' and related interpretations while applied. Date of application: annual periods beginning on or after 1 January 2021.	The Group claims that the new standard will not have a material impact on the financial statements in the period of its first application.
IAS 1 (amendment) 'Presentation of financial statements'	The amendments affect requirements in IAS 1 for the presentation of liabilities. In particular, these amendments clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. Date of application: annual periods beginning on or after 1 January 2023.	The Group claims that the standard's amendments will not have a material impact on the financial statements in the period of its first application.
IFRS 16 (amendment) 'Leases'	The amendments introduce an optional practical expedient that simplifies how a lessee accounts for rent concessions that are a direct consequence of COVID-19. A lessee that applies the practical expedient is not required to assess whether eligible rent concessions are lease modifications, and accounts for them in accordance with other applicable guidance. The resulting accounting will depend on the details of the rent concession. For example, if the concession is in the form of a one-off reduction in rent, it will be accounted for as a variable lease payment and be recognised in profit or loss. The practical expedient will only apply if: - the revised consideration is substantially the same or less than the original consideration, - the reduction in lease payments relates to payments due on or before 30 June 2021, and - no other substantive changes have been made to the terms of the lease. Date of application: periods beginning on or after 1 June 2020.	The Group claims that the standard's amendments will not have a material impact on the financial statements in the period of its first application.
IFRS 3 (amendment) 'Business combinations'	The amendments to IFRS 3 include: - Update IFRS 3 so that it refers to the 2018 Conceptual Framework instead of the 1989 Framework, - Add to IFRS 3 a requirement that, for transactions and other events within the scope of IAS 37 or IFRIC 21, an acquirer applies IAS 37 or IFRIC 21 (instead of the Conceptual Framework) to identify the liabilities it has assumed in a business combination, and - Add to IFRS 3 an explicit statement that an acquirer does not recognize contingent assets acquired in a business combination. Date of application: annual periods beginning on or after 1 January 2022.	The Group claims that the standard's amendments will not have a material impact on the financial statements in the period of its first application.
IAS 16 (amendment) 'Property, plant and equipment'	The amendments to IAS 16 prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the cost of producing those items, in profit or loss. Date of application: annual periods beginning on or after 1 January 2022.	The Group claims that the standard's amendments will not have a material impact on the financial statements in the period of its first application.
IAS 37 (amendment) 'Provisions, contingent liabilities and contingent assets'	The amendments to IAS 37 specify that the 'cost of fulfilling' an onerous contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract or an allocation of other costs that relate directly to fulfilling contracts. Date of application: annual periods beginning on or after 1 January 2022.	The Group claims that the standard's amendments will not have a material impact on the financial statements in the period of its first application.
IFRS 4 (amendment) 'Insurance contracts'	The main amendments include: - – deferral of the date of initial application of IFRS 17 by two years to annual reporting periods beginning on or after 1 January 2023, - – extension of the temporary exemption from applying IFRS 9 by two years. As a result, the qualifying entities will be required to apply IFRS 9 for annual period beginning on or after 1 January 2023. Date of application: annual periods beginning on or after 1 January 2021.	The Group claims that the standard's amendments will not have a material impact on the financial statements in the period of its first application.

Notes to financial statements (cont.)

(in PLN thousand)

6. Accounting estimates

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

Estimates and assumptions are reviewed on an ongoing basis by the Group and rely on historic data and other factors including expectation of the future events which seems justified in given circumstances. In particular, as at 30 June 2020, the Bank included in its estimates the impact of the COVID-19 epidemic on individual items of the Group's assets and liabilities. However, taking into account the significant uncertainty as to the further development of the economic situation, the estimates made may change in the future. The uncertainty of the estimates made by the Group as at 30 June 2020 concerns mainly:

- forecasts regarding macroeconomic assumptions, in particular those relating to key economic indicators (i.e. the level of the expected economic slowdown, GDP, employment, housing prices, possible disruptions in capital markets, etc.),
- possible business disruptions due to decisions made by public institutions, enterprises and consumers to help contain the spread of the virus,
- the effectiveness of the support programs that have been designed to support businesses and consumers.

Significant accounting estimates that are affected by the aforementioned forecasts and the related uncertainties relate primarily to expected credit losses and the determination of the recoverable amount of non-financial assets.

Information on the assumptions made and the uncertainty related to the estimates made, connected to a significant risk of material adjustments to the financial statements for the next reporting period, is presented below.

Impairment of loans and advances to customers, expected credit losses

At each balance sheet date the Group assesses whether there are any objective evidences ('triggers') that credit exposures are impaired. Impairment losses are incurred if, and only if at least one impairment trigger is identified, having a negative impact on the estimated future cash flows of the credit exposure.

In the process of impairment assessment the Group considers all credit exposures, irrespective of the level of risk of particular credit exposures or a group of credit exposures.

The Group splits the credit exposures into individually significant exposures and individually insignificant exposures. The individually significant exposures are in particular all credit exposures of the borrower, for whom total Group's exposure exceeds the threshold value as at balance sheet date and the restructuring credit exposures of debtors being the entrepreneurs within the meaning of the Article 43 of the Civil Code. The individually insignificant exposures are all credit exposures, which are not classified as individually significant exposures.

For all credit exposures, which are impaired, the Group measures the amount of impairment allowance as the difference between the credit exposure's carrying amount and the present value of estimated future cash flows, discounted at the credit exposure's effective interest rate.

For all individually significant exposures, which are impaired as at balance sheet date, the Group measures the impairment allowance (impairment loss) as part of individual assessment. The individual assessment is carrying out by the Group's employees and consists of individual verification of the impairment occurrence and projection of future cash flows from foreclosure less costs for obtaining and selling the collateral or other resources.

The Group compares the estimated future cash flows applied for measurement of individual impairment allowances with the actual cash flows on a regular basis.

For all individually insignificant exposures, for which impairment triggers have been identified and for all credit exposures, for which no impairment triggers have been identified, the Group measures the allowance according to IFRS 9 based on the expected credit losses and taking into account forecasts and expected future economic conditions in the context of credit risk exposure assessment in the period of 12 months or in the lifetime horizon (hereinafter referred to as 'ECL').

Notes to financial statements (cont.)

(in PLN thousand)

More information about the applied assumptions and the underlying uncertainty related to the estimates in respect to expected credit losses, as well as the sensitivity analysis concerning impairment of loans and advances estimates were presented in Note 7.1 'Credit risk'.

Impairment of non-current assets (including goodwill)

At each balance sheet date the Group reviews its non-current assets for indications of impairment. The Group performs an impairment test of goodwill on a yearly basis or more often if impairment triggers occur.

Where such indications exist, the Group makes a formal estimation of the recoverable value (of a given assets or – in the case of goodwill - all cash-generating units to which the goodwill relates). If the carrying amount of a given asset is in excess of its recoverable value, impairment is defined and a write-down is recorded to adjust the carrying amount to the level of its recoverable value. The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value-in-use.

Estimation of the value-in-use of an assets (or cash generating unit) requires assumptions to be made regarding, among other, future cash flows which the Group may obtain from the given asset (or cash generating unit), any changes in amount or timing of occurrence of these cash flows and other factors such as the lack of liquidity. The adoption of different measurement assumptions may affect the carrying amount of some of the Group's non-current assets.

As at 30 June 2020, the Bank assessed whether the current market conditions and the existing uncertainty regarding the macroeconomic situation caused by COVID -19 have an impact on the impairment of non-current assets. As a result of this analysis, no need was found to make impairment allowances of non-current assets, including goodwill. The main assumptions used in the goodwill impairment test are presented in Note 29 to these condensed interim consolidated financial statements.

Provisions for legal risk regarding foreign currency mortgage loans in CHF

As at 30 June 2020 the Group assessed the probability of the impact of legal risk regarding foreign currency mortgage loans in CHF on future expected cash flows from loan exposures and the probability of cash outflows.

Given the inconsistent judicial decisions regarding foreign currency mortgage loans in CHF and the short period of historical data regarding lawsuits related to the above-mentioned loans, the estimation of the provision required the Group to adopt expert assumptions and is associated with significant uncertainty.

Details on the main assumptions used to estimate the provisions for legal risk regarding foreign currency mortgage loans in CHF are presented in Note 7.1 to these condensed interim consolidated financial statements.

Provisions for commission refunds in the event of early repayment of loan

As at 30 June 2020 the Group assessed the legal risk arising from the judgment of the Court of Justice of the European Union (hereinafter the 'CJEU') on consumer loans and estimated the possible amount of cash outflow as a refund of commission to the customer in relation to early repayment of consumer loans (for loans prepaid before the judgment of the CJEU, i.e. before 11 September 2019).

In addition, with regard to balance sheet exposures as at 30 June 2020, the Group estimated the possible prepayments of these exposures in the future.

The estimates required the Group to adopt expert assumptions primarily regarding the scale of complaints and amounts reimbursed for prepaid loans before the CJEU judgment, as well as the expected scale of prepayments and future returns for balance sheet exposures, and are associated with significant uncertainty.

Details on the estimated provision for earlier repayments of consumer loans are presented in Note 36 to these condensed interim consolidated financial statements.

Fair value measurement

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 2019.

Notes to financial statements (cont.)

(in PLN thousand)

7. Risk management

7.1 Credit risk

The process of credit risk management, credit risk mitigation methods and rating models did not change substantially compared to those described in the consolidated financial statements of Bank Pekao S.A. for the year ended 31 December 2019.

In connection with the COVID-19 epidemic, the Group identifies the risk of disturbances in the economy as a result of suspending or limiting operations in certain sectors, disruption of supply chains, unavailability and dismissal of employees, changes in consumer behavior, economic slowdown in Poland's trading partners and others, being direct and indirect result of activities related to fighting the epidemic. In the Group's opinion, this may lead to a significant deterioration in the situation of some of the Group's borrowers. In order to reduce this risk, the Group has implemented a number of activities to mitigate credit risk and solutions supporting clients, including:

- increased monitoring of the loan portfolio with particular emphasis on high risk industries,
- strengthening the instruments used to mitigate credit risk, including legal collateral for claims, both at the financing and monitoring stages,
- increasing the frequency of portfolio quality reports and supplementing them, eg. with the results of monitoring of exposures and results of using the mitigate credit risk instruments,
- verifying procedures in the area of crediting individual business lines and adapting them to the existing situation,
- granting loans with de minimis guarantees of Bank Gospodarstwa Krajowego (National Holding Bank), with collaterals up to 80% of exposure,
- deferring the payment of principal and interest installments, at the customer's request, for a maximum period of 3-6 months,
- deferring the application of sanctions resulting from non-implementation of contractual clauses.

More details about programs supporting Bank's borrowers (descriptions and data concerning scale of use) are presented below.

In addition, due to the impact of the COVID-19 the Group has also adjusted approach in the calculation of expected credit losses.

Actions taken by the Group and assumptions concerning the calculation of impairment allowances are described below. The Bank's portfolio generates a large part of the credit costs. Subsidiaries applied solutions adequate to their specificity of operation.

Changes in the methodology of calculation an expected credit losses

Rapid spread of Covid-19 and an unprecedented scale of remedies till now taken by the polish government and banking sector in the scope of pandemic range limitation and stimulation of the economy, implicate a big uncertainty of future economic perspective and impact on Banks credit portfolio. Due to lack of similar, historical experience, the forecasting of future, which is the basis in the calculation of expected credit losses, in this situation is subject to additional degree of uncertainty and require some expert assumptions. The assumptions and selected credit risk quantitative data are presented in below paragraphs.

The Group in it's approach strived toward adequate reflection the potential, future deterioration in the credit risk quality in the expected credit losses for stage 1 and 2 and appropriate coverage ratio of nonperforming loans (stage 3), because of possible difficulty in the credit debt recovery (collection) in the situation of epidemic. In the current phase of downturn caused by COVID-19 increase in write-downs in the Group is mainly driven by forecasts of changes in the credit portfolio quality, taken into account in the calculation of expected credit losses according to IFRS9 requirements, not because of actual evolution of forecasting. So far the Group doesn't observe significant increase in the default rate, which would have an effect in the growth of nonperforming loans (share of NPL is stable i.e. 5.1%-5.3%).

Notes to financial statements (cont.)

(in PLN thousand)

Banks expectations of macroeconomic situation

Starting point in the calculation of expected credit losses is the Group's expectations of macroeconomic situation which assume strong economic slowdown in 2020 and bounce back in 2021. GDP growth is forecast to decline to minus 4.4% year over year in 2020 compared to 4.1% year over year in 2019 and then bounce above output level (pre-Covid level) next year. It is assumed that the unemployment rate will increase from 5.2% at the end of 2019 to 8% at the end 2020 and remain stable till next year. The decrease in GDP growth reflect the limitations in the business activities in times of epidemic and has direct and indirect influence on the limitations in economic activities in Poland and abroad. While moderate increase in the unemployment rate reflect observed situation which can be called 'saving the labor resources'. Maintenance of workplace is allowed by the anti-crisis protection mechanism ('anti-crisis shield') and on the other hand by large reduction of working time and pay cuts.

Expected deterioration of macroeconomic situation reflects changes in credit risk parameters (PD - probability of default, LGD - loss given default), which are used in the calculation of expected credit losses, based on historical data analysis and taking into account expert judgment which is necessary, because of uniqueness current situation. Based on historical analysis of changes in credit portfolio quality and economic parameters the most comparable period to the present is 1 quarter 2008 -1 quarter 2009 (the culmination of financial crisis when observed decrease of GDP growth was from 6.3% to 0.4%). Relative changes in default rate observed at that time in the Group are translated into changes in PD used in the calculation of expected credit losses, by imposing them on the projection of risk parameters estimated before epidemic outbreak. Such adjustment allowed to reflect the starting point for the structure of portfolio as well credit portfolio risk and expected scale of deterioration in the Group's credit portfolio quality. Additional expert judgement include specificity of actual situation (to a certain extent greater scale of present slowdown and unheard so far governments and national institutions support - especially for companies). As a result, average deterioration in PD parameter is about 50% in relation to output level projections assumed at the beginning (before pandemic outbreak) for retail portfolio and about 30% for the other portfolios. Regarding LGD parameter, the deterioration in recovery rate was reflected in individual analysis for nonperforming loans and additional assumption for statistical valuated loans. The lock-down in the economy caused by the epidemic would result in recovery delay an average time for a couple of months (the duration time of the most important restriction on functioning of the economy).

Approach presented above is used in baseline scenario as well downside (probability of materialization is 20%) and upside scenario (probability of materialization is 10%). Described estimations, with regard to character of current situation, are characterized by a significant level of uncertainty and will be revised in the subsequent periods. Section below presents sensitivity analysis in regard to expected credit losses value, which allow to asses expected volatility of outcomes.

Identification of significant increase in credit risk and stage allocation

The identification process of significant credit risk increase methods did not change. If increase in credit risk is significant then the loan is reclassified to stage 2. The Group use consistently methods taking into consideration current situation, especially in case of credit payment holidays and other actions taken to mitigate the effects of COVID-19 pandemic. The Group's methodology is consistent with regulatory guidelines in terms of current conditions as a result of COVID-19 (e.g. Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis). Granting payment holidays on credit loans or other measures which mitigate the effects of pandemic do not automatically reclassify exposure to stage 2. But such reclassification take place if other, additional factors show that debtor's troubles are observed and indicate an increase in credit risk. Additionally, in the scope of binding procedures Bank was made review and reclassification of the most exposed industry (high risk industry) at scope of negative effects of COVID-19 pandemic. Next the Group was made detail analysis of current situation for corporate clients operating in high risk industry and reclassify to stage 2 the exposures for which significant increase of credit risk was identified.

Notes to financial statements (cont.)

(in PLN thousand)

Estimated impact of COVID-19 on credit risk costs and costs sensitivity of the assumption changes.

Impairment losses in first half of 2020 for the Group is equal PLN 805 million. The Group assesses that essential amount of this value is COVID-19 impact. Below components of this impact:

1. increase in costs of risk in stage 1 and stage 2 resulting from deterioration in portfolio credit risk parameters PD and LGD (PLN 377 million),
2. increase in costs of risk in stage 2 due to industry review and reclassifications to stage 2 due to similar activities (PLN 124 million),
3. increase in coverage ratio for nonperforming loans as a result of decrease in future recovery rate (decrease in expected collection of credit debt) (PLN 129 million).

Above item 1 and 2 are tightly connected with outbreak of epidemic but partial materialization also would be observed without epidemic outbreak. Assumed that this affects 1/3 of these values, total approximate impact of COVID-19 is equal PLN 546 million and cost of risk in the Group, without these values, stand at PLN 259 million (PLN 287 million in first half 2019). Above values should be treated as approximation, because it is not possible to conclude, in every case, if the higher provision level is due to COVID-19 pandemic or situation which would exist despite of the epidemic. In such cases expert judgement was necessary.

The table below shows approximate sensitivity of provision balance on changes in chosen assumptions, separately for individual and statistical valuated portfolio (portfolio level valuation). Growth and decline scenarios for PD and recovery rate (1-LGD) correction are presented, additively by 1% and 5% vs. assumptions described above in section *Banks expectations of macroeconomic situation* (i.e. for retail portfolio PD correction equal about 50% is compared to PD correction equal about 45%, 49%, 51% and 55%). For exposures individually valuated sensitivity estimation is presented as impact of decrease by 10% in recovery rate from collaterals in workout scenario.

DELTA PARAMETER	SCENARIO		
	STATISTICAL ANALYSIS		INDIVIDUAL ANALYSIS
	PD CHANGE	RECOVERY RATE CHANGE (1-LGD)	DEBT COLLECTION CHANGE
-10.0%	na	na	75
-5.0%	(56)	257	na
-1.0%	(14)	51	na
1.0%	10	(51)	na
5.0%	53	(257)	na

Notes to 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 classes 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 CUSTOMERS MEASURED AT AMORTISED COST						
GROSS CARRYING AMOUNT						
GROSS CARRYING AMOUNT AS AT 1.01.2020	111 598 146	19 438 314	5 084 221	2 796 868	42 806	138 960 355
Transfer to Stage 1	3 019 805	(3 001 128)	(10)	(18 667)	-	-
Transfer to Stage 2	(9 557 092)	9 707 678	(13 630)	(136 956)	-	-
Transfer to Stage 3	(292 285)	(487 108)	253 562	525 831	-	-
New / Purchased / Granted financial assets	20 017 349	(6)	-	-	233	20 017 576
Financial assets derecognised, other than write-offs (repayments)	(16 421 218)	(1 515 297)	(179 490)	(115 355)	(3 319)	(18 234 679)
Financial assets written off (*)	-	-	(220 217)	(107 270)	(809)	(328 296)
Modifications not resulting in derecognition	(9 124)	-	-	-	-	(9 124)
Other, in this changes resulting from exchange rates	588 282	247 920	117 134	108 275	(928)	1 060 683
GROSS CARRYING AMOUNT AS AT 30.06.2020	108 943 863	24 390 373	5 041 570	3 052 726	37 983	141 466 515
IMPAIRMENT ALLOWANCE						
IMPAIRMENT ALLOWANCE AS AT 1.01.2020	301 078	710 549	3 445 577	1 914 540	11 444	6 383 188
Transfer to Stage 1	91 855	(84 931)	(8)	(6 916)	-	-
Transfer to Stage 2	(56 047)	97 150	(2 994)	(38 109)	-	-
Transfer to Stage 3	(40 827)	(91 980)	23 057	109 750	-	-
New / Purchased / Granted financial assets	89 527	-	-	-	184	89 711
Financial assets derecognised, other than write-offs (repayments)	(21 871)	(14 435)	(19 074)	(16 922)	(399)	(72 701)
Financial assets written off (*)	-	-	(220 217)	(107 270)	(809)	(328 296)
Changes in level of credit risk (excluding the transfers between the Stages) (**)	18 887	269 182	266 686	88 510	882	644 147
Other, in this changes resulting from exchange rates	6 340	21 163	90 118	64 771	1 318	183 710
IMPAIRMENT ALLOWANCE AS AT 30.06.2020	388 942	906 698	3 583 145	2 008 354	12 620	6 899 759

(*) Including the value of contractual interest subject to partial write-off in the amount of PLN 146 920 thousand.

(**) Including the provision for legal risk regarding foreign currency mortgage loans in the amount of PLN 47 994 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 2020 amounted to PLN 367 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 1.01.2019	100 388 050	20 213 176	5 063 110	2 542 099	87 565	128 294 000
Transfer to Stage 1	4 642 225	(4 617 247)	(7 562)	(17 416)	-	-
Transfer to Stage 2	(7 118 153)	7 239 409	(6 238)	(115 018)	-	-
Transfer to Stage 3	(739 724)	(737 339)	545 459	931 604	-	-
New / Purchased / Granted financial assets	38 405 396	-	-	-	5 145	38 410 541
Financial assets derecognised, other than write-offs (repayments)	(23 660 804)	(2 782 864)	(361 593)	(337 530)	(49 677)	(27 192 468)
Financial assets written off (*)	-	-	(321 500)	(270 429)	(126)	(592 055)
Modifications not resulting in derecognition	(2 223)	-	-	-	-	(2 223)
Other, in this changes resulting from exchange rates	(316 621)	123 179	172 545	63 558	(101)	42 560
GROSS CARRYING AMOUNT AS AT 31.12.2019	111 598 146	19 438 314	5 084 221	2 796 868	42 806	138 960 355
IMPAIRMENT ALLOWANCE						
IMPAIRMENT ALLOWANCE AS AT 1.01.2019	358 389	659 536	3 265 624	1 800 673	53 455	6 137 677
Transfer to Stage 1	134 108	(126 074)	(790)	(7 244)	-	-
Transfer to Stage 2	(36 836)	85 718	(1 440)	(47 442)	-	-
Transfer to Stage 3	(120 056)	(189 882)	38 272	271 666	-	-
New / Purchased / Granted financial assets	150 989	6	-	-	2 783	153 778
Financial assets derecognised, other than write-offs (repayments)	(68 125)	(33 594)	(43 861)	(53 249)	(5 551)	(204 380)
Financial assets written off (*)	-	-	(321 500)	(270 429)	(126)	(592 055)
Changes in level of credit risk (excluding the transfers between the Stages) (**)	(133 499)	300 874	281 639	201 483	(2 587)	647 910
Other, in this changes resulting from exchange rates	16 108	13 965	227 633	19 082	(36 530)	240 258
IMPAIRMENT ALLOWANCE AS AT 31.12.2019	301 078	710 549	3 445 577	1 914 540	11 444	6 383 188

(*) Including the value of contractual interest subject to partial write-off in the amount of PLN 301 658 thousand.

(**) Including the provision for legal risk regarding foreign currency mortgage loans in the amount of PLN 36 265 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 2019 amounted to PLN 3 249 thousand.

Notes to the financial statements (cont.)

(in PLN thousand)

	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT- IMPAIRED (POCI)	TOTAL
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
RECEIVABLES FROM FINANCE LEASES						
GROSS CARRYING AMOUNT						
GROSS CARRYING AMOUNT AS AT 1.01.2020	6 368 110	175 582	166 630	88 980	-	6 799 302
Transfer to Stage 1	80 166	(79 919)	-	(247)	-	-
Transfer to Stage 2	(325 050)	326 300	(737)	(513)	-	-
Transfer to Stage 3	(121 140)	(56 135)	127 012	50 263	-	-
New/Purchased/Granted financial assets	1 566 970	61 848	-	-	-	1 628 818
Financial assets derecognised, other than write-offs (repayments)	(981 438)	(121 264)	(14 881)	(19 249)	-	(1 136 832)
Financial assets written off	-	-	-	-	-	-
Other, in this changes resulting from exchange rates	(108)	-	-	-	-	(108)
GROSS CARRYING AMOUNT AS AT 30.06.2020	6 587 510	306 412	278 024	119 234	-	7 291 180
IMPAIRMENT ALLOWANCE						
IMPAIRMENT ALLOWANCE AS AT 1.01.2020	3 214	1 769	19 009	62 371	-	86 363
Transfer to Stage 1	835	(799)	-	(36)	-	-
Transfer to Stage 2	(261)	449	(131)	(57)	-	-
Transfer to Stage 3	(177)	(553)	(2 364)	3 094	-	-
New/Purchased/Granted financial assets	845	542	-	-	-	1 387
Financial assets derecognised, other than write-offs (repayments)	(1 869)	(1 729)	(2 232)	(11 164)	-	(16 994)
Financial assets written off	-	-	-	-	-	-
Changes in level of credit risk (excluding the transfers between the Stages)	-	2 905	27 307	19 949	-	50 161
Other, in this changes resulting from exchange rates	622	-	(6 168)	4 210	-	(1 336)
IMPAIRMENT ALLOWANCE AS AT 30.06.2020	3 209	2 584	35 421	78 367	-	119 581

Notes to the financial statements (cont.)

(in PLN thousand)

	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT- IMPAIRED (POCI)	TOTAL
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
RECEIVABLES FROM FINANCE LEASES						
GROSS CARRYING AMOUNT						
GROSS CARRYING AMOUNT AS AT 1.01.2019	5 160 123	105 171	45 151	99 008	-	5 409 453
Transfer to Stage 1	52 391	(48 401)	(2 945)	(1 045)	-	-
Transfer to Stage 2	(226 670)	233 357	(3 606)	(3 081)	-	-
Transfer to Stage 3	(58 798)	(124 655)	169 646	13 807	-	-
New/Purchased/Granted financial assets	3 321 107	-	-	-	-	3 321 107
Financial assets derecognised, other than write-offs (repayments)	(1 879 977)	(68 562)	(40 285)	(6 152)	-	(1 994 976)
Financial assets written off	-	-	(5 014)	(13 557)	-	(18 571)
Other, in this changes resulting from exchange rates	(66)	78 672	3 683	-	-	82 289
GROSS CARRYING AMOUNT AS AT 31.12.2019	6 368 110	175 582	166 630	88 980	-	6 799 302
IMPAIRMENT ALLOWANCE						
IMPAIRMENT ALLOWANCE AS AT 1.01.2019	4 029	1 877	15 467	61 413	-	82 786
Transfer to Stage 1	647	(560)	(51)	(36)	-	-
Transfer to Stage 2	(228)	640	(262)	(150)	-	-
Transfer to Stage 3	(47)	(142)	189	-	-	-
New/Purchased/Granted financial assets	1 941	-	-	-	-	1 941
Financial assets derecognised, other than write-offs (repayments)	(3 086)	(143)	(2 624)	-	-	(5 853)
Financial assets written off	-	-	(5 014)	(13 557)	-	(18 571)
Changes in level of credit risk (excluding the transfers between the Stages)	-	433	13 321	12 353	-	26 107
Other, in this changes resulting from exchange rates	(42)	(336)	(2 017)	2 348	-	(47)
IMPAIRMENT ALLOWANCE AS AT 31.12.2019	3 214	1 769	19 009	62 371	-	86 363

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 1.01.2020	771 987	608 620	-	-	-	1 380 607
Transfer to Stage 1	-	-	-	-	-	-
Transfer to Stage 2	(137 713)	137 713	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
New / Purchased / Granted financial assets	99 610	-	-	-	-	99 610
Financial assets derecognised, other than write-offs (repayments)	(2 426)	(8 143)	-	-	-	(10 569)
Financial assets written off	-	-	-	-	-	-
Modifications not resulting in derecognition	-	-	-	-	-	-
Other, in this changes resulting from exchange rates	(13 726)	76 540	-	-	-	62 814
CARRYING AMOUNT AS AT 30.06.2020	717 732	814 730	-	-	-	1 532 462
IMPAIRMENT ALLOWANCE (*)						
IMPAIRMENT ALLOWANCE AS AT 1.01.2020	3 407	17 401	-	-	-	20 808
Transfer to Stage 1	-	-	-	-	-	-
Transfer to Stage 2	(524)	524	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
New / Purchased / Granted financial assets	763	-	-	-	-	763
Financial assets derecognised, other than write-offs (repayments)	-	-	-	-	-	-
Financial assets written off	-	-	-	-	-	-
Changes in level of credit risk (excluding the transfers between the Stages)	2 276	1 729	-	-	-	4 005
Changes in models and risk parameters	-	-	-	-	-	-
Other, in this changes resulting from exchange rates	131	839	-	-	-	970
IMPAIRMENT ALLOWANCE AS AT 30.06.2020	6 053	20 493	-	-	-	26 546

(*) 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 1.01.2019	1 511 102	-	-	-	-	1 511 102
Transfer to Stage 1	-	-	-	-	-	-
Transfer to Stage 2	(623 665)	623 665	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
New / Purchased / Granted financial assets	571 101	-	-	-	-	571 101
Financial assets derecognised, other than write-offs (repayments)	(686 334)	(15 977)	-	-	-	(702 311)
Other, in this changes resulting from exchange rates	(217)	932	-	-	-	715
CARRYING AMOUNT AS AT 31.12.2019	771 987	608 620	-	-	-	1 380 607
IMPAIRMENT ALLOWANCE (*)						
IMPAIRMENT ALLOWANCE AS AT 1.01.2019	14 590	-	-	-	-	14 590
Transfer to Stage 1	-	-	-	-	-	-
Transfer to Stage 2	(7 955)	7 955	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
New / Purchased / Granted financial assets	2 307	-	-	-	-	2 307
Financial assets derecognised, other than write-offs (repayments)	(3 267)	-	-	-	-	(3 267)
Changes in level of credit risk (excluding the transfers between the Stages)	(2 049)	9 431	-	-	-	7 382
Other, in this changes resulting from exchange rates	(219)	15	-	-	-	(204)
IMPAIRMENT ALLOWANCE AS AT 31.12.2019	3 407	17 401	-	-	-	20 808

(*) 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 1.01.2020	14 289 472	331 816	32 370	-	-	14 653 658
Transfer to Stage 1	312 176	(312 176)	-	-	-	-
Transfer to Stage 2	-	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
New / purchased / granted financial assets	10 237 539	-	-	-	-	10 237 539
Financial assets derecognised, other than write-offs (repayments)	(4 635 549)	(13 595)	-	-	-	(4 649 144)
Other, in this changes resulting from exchange rates	163 597	(45)	883	-	-	164 435
GROSS CARRYING AMOUNT AS AT 30.06.2020	20 367 235	6 000	33 253	-	-	20 406 488
IMPAIRMENT ALLOWANCE						
IMPAIRMENT ALLOWANCE AS AT 1.01.2020	25 668	16 955	32 370	-	-	74 993
Transfer to Stage 1	16 654	(16 654)	-	-	-	-
Transfer to Stage 2	-	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
New / purchased / granted financial assets	9 753	-	-	-	-	9 753
Financial assets derecognised, other than write-offs (repayments)	(4 365)	-	-	-	-	(4 365)
Changes in level of credit risk (excluding the transfers between the Stages)	(11 405)	-	-	-	-	(11 405)
Other, in this changes resulting from exchange rates	203	(1)	882	-	-	1 084
IMPAIRMENT ALLOWANCE AS AT 30.06.2020	36 508	300	33 252	-	-	70 060

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 1.01.2019	11 283 691	-	31 547	-	-	11 315 238
Transfer to Stage 1	-	-	-	-	-	-
Transfer to Stage 2	(331 816)	331 816	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
New / purchased / granted financial assets	8 775 942	-	-	-	-	8 775 942
Financial assets derecognised, other than write-offs (repayments)	(5 610 765)	-	-	-	-	(5 610 765)
Other, in this changes resulting from exchange rates	172 420	-	823	-	-	173 243
GROSS CARRYING AMOUNT AS AT 31.12.2019	14 289 472	331 816	32 370	-	-	14 653 658
IMPAIRMENT ALLOWANCE						
IMPAIRMENT ALLOWANCE AS AT 1.01.2019	27 792	-	31 547	-	-	59 339
Transfer to Stage 1	-	-	-	-	-	-
Transfer to Stage 2	(9 448)	9 448	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
New / purchased / granted financial assets	4 470	-	-	-	-	4 470
Financial assets derecognised, other than write-offs (repayments)	(3 090)	-	-	-	-	(3 090)
Changes in level of credit risk (excluding the transfers between the Stages)	6 010	7 506	-	-	-	13 516
Other, in this changes resulting from exchange rates	(66)	1	823	-	-	758
IMPAIRMENT ALLOWANCE AS AT 31.12.2019	25 668	16 955	32 370	-	-	74 993

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 1.01.2020	30 930 139	12 860	-	-	-	30 942 999
Transfer to Stage 1	11 940	(11 940)	-	-	-	-
Transfer to Stage 2	-	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
New / purchased / granted financial assets	91 866 033	-	-	-	-	91 866 033
Financial assets derecognised, other than write-offs (repayments)	(81 098 585)	(729)	-	-	-	(81 099 314)
Other, in this changes resulting from exchange rates	770 578	(191)	-	-	-	770 387
CARRYING AMOUNT AS AT 30.06.2020	42 480 105	-	-	-	-	42 480 105
IMPAIRMENT ALLOWANCE (*)						
IMPAIRMENT ALLOWANCE AS AT 1.01.2020	32 000	671	-	-	-	32 671
Transfer to Stage 1	671	(671)	-	-	-	-
Transfer to Stage 2	-	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
New / purchased / granted financial assets	2 961	-	-	-	-	2 961
Financial assets derecognised, other than write-offs (repayments)	(3 159)	-	-	-	-	(3 159)
Changes in level of credit risk (excluding the transfers between the Stages)	16 522	-	-	-	-	16 522
Other, in this changes resulting from exchange rates	(1)	-	-	-	-	(1)
IMPAIRMENT ALLOWANCE AS AT 30.06.2020	48 994	-	-	-	-	48 994

(*) 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 1.01.2019	27 032 827	-	-	-	-	27 032 827
Transfer to Stage 1	-	-	-	-	-	-
Transfer to Stage 2	(12 860)	12 860	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
New / purchased / granted financial assets	135 254 183	-	-	-	-	135 254 183
Financial assets derecognised, other than write-offs (repayments)	(132 086 153)	-	-	-	-	(132 086 153)
Other, in this changes resulting from exchange rates	742 142	-	-	-	-	742 142
CARRYING AMOUNT AS AT 31.12.2019	30 930 139	12 860	-	-	-	30 942 999
IMPAIRMENT ALLOWANCE (*)						
IMPAIRMENT ALLOWANCE AS AT 1.01.2019	28 307	-	-	-	-	28 307
Transfer to Stage 1	-	-	-	-	-	-
Transfer to Stage 2	(388)	388	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
New / purchased / granted financial assets	10 398	-	-	-	-	10 398
Financial assets derecognised, other than write-offs (repayments)	(6 824)	-	-	-	-	(6 824)
Changes in level of credit risk (excluding the transfers between the Stages)	507	283	-	-	-	790
IMPAIRMENT ALLOWANCE AS AT 31.12.2019	32 000	671	-	-	-	32 671

(*) 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)

Moratoria implemented in the first half of 2020 due to COVID-19

In the first half of 2020, due to COVID-19, the Group introduced the following loan repayment programs:

- 1) moratoria developed at the initiative of the Group, i.e.:
 - for customers who are consumers within the meaning of Art. 221 of the Civil Code, the Group introduced the possibility of suspending the repayment of principal and interest installments for a period of up to 3 months or a prolongation consisting in suspending the payment of up to 6 principal installments with a simultaneous extension of the loan period,
 - for enterprises, the Group introduced the possibility of suspending principal or principal and interest installments for a period of 3 to 6 months and simplified extensions of credit limits.

Using the above-mentioned moratoria by clients depended on the timely servicing of loan repayments and the assessment of its financial situation.

- 2) moratoria developed by the Group in accordance with the EBA Guidelines, i.e.:

On 29 May 2020 the Polish Financial Supervision Authority notified the European Banking Authority of the position of banks developed under the patronage of the Polish Bank Association on the EBA/GL/2020/02 Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis, which was introduced by the Group for loan agreements concluded before 13 March 2020 on the following terms:

 - for individual clients, micro and small entrepreneurs, the Group introduced the option to defer repayments of principal or principal and interest installments for a period of up to 6 months indicated by the client (regardless of the number of applications submitted by a given client). The condition for using the above-mentioned moratorium is the timely service of the loan by an individual customer and having credit worthiness, taking into account COVID-19 (in the case of entrepreneurs),
 - for medium-sized enterprises (with a turnover of up to EUR 50 million), the Group introduced the possibility of deferring the repayments of principal or principal and interest installments, in accordance with the client's request, for the period indicated by the client, amounting to a maximum of 6 months (principal installments) and 3 months (principal and interest installments), provided that the client has credit worthiness at the end of 2019, and for large enterprises (with a turnover of over EUR 50 million), the Group introduced the possibility of deferring the repayment of principal installments in accordance with the client's request, for the period indicated by the client, amounting to a maximum of 6 months, provided the customer has credit worthiness at the end of 2019.
- 3) suspension of the performance of the contract under the provisions of Act of 2 March 2020 on special solutions related to the prevention, countermeasure and combating of COVID-19, other infectious diseases and emergencies caused by them, i.e.:
 - are available to customers who, as consumers, lost their job or other main source of income after 13 March 2020,
 - during the period of suspension of the performance of the contract, the customer is not obliged to make payments under the contract, including loan installments, except for insurance fees related to these contracts, and no interest is accrued.

All the above-mentioned moratoria were assessed by the Group in terms of meeting the modification criteria as defined in IFRS 9 in accordance with the principles defined in the Group's accounting policies. Given the nature of the above-mentioned moratoria, they were insignificant modifications in line with the policies adopted by the Group. Therefore, in relation to the loans covered by the above-mentioned moratoria, the Group each time determined the result on insignificant modifications. As at 30 June 2020, the gross carrying amount of the loan portfolio covered by the above-mentioned moratoria amounted to PLN 13 226 million (81 667 units), and the negative result on insignificant modifications recognized in the first half of 2020 related to these moratoria amounted to PLN minus 6.1 million.

Notes to the financial statements (cont.)

(in PLN thousand)

Additionally, the Bank signed two portfolio guarantee agreements with Bank Gospodarstwa Krajowego ('BGK'), limiting the effects of COVID-19:

1) De minimis guarantees

The annex to the existing agreement was signed on 19 March 2020 and introduced:

- increasing the guarantee to 80% of the loan principal,
- extension of the loan period to 39 months,
- reduction of the commission for the guarantee to PLN 0.

The guarantees are intended for working capital loans in PLN for the micro, small and medium-sized enterprises sector. The maximum amount of the guarantee is PLN 3.5 million.

Guarantees for the above the rules may be granted until 31 December 2020.

The guarantee may be granted for a new loan, renewal or increase in the loan amount.

Until 30 June 2020, 1 243 loans with de minimis guarantees were granted. As at 30 June 2020, the gross carrying amount of the loan portfolio covered by such guarantees was PLN 310 million.

2) Agreement under the Liquidity Guarantee Fund ('LGF')

The contract was signed on 10 April 2020 and introduced guarantees with the following parameters:

- guarantees for medium and large companies,
- for working capital loans up to PLN 250 million,
- the guarantee covers 80% of the loan principal,
- warranty period up to 27 months,
- commission for the guarantee from 0.25% to 1.15%, depending on the size of the enterprise and the length of the loan.

Guarantees for the above-mentioned parameters can be granted until 31 December 2020.

The guarantee may be granted for new credits and renewals.

Until 30 June 2020, 60 loans with FGP guarantees were granted. As at 30 June 2020, the gross carrying amount of the loan portfolio covered by such guarantees was PLN 394 million.

Notes to the financial statements (cont.)

(in PLN thousand)

Forbearance measures

The forbore exposure identifying process has not changed substantially in relation to the principles described in the consolidated financial statements of Bank Pekao S.A. Group for the year ended 31 December 2019. The Bank has not modified the identification rules for 'forborne' exposures. In the case of granting credit holidays or other measures mitigating the effects of the COVID-19 epidemic, the Bank applies an approach consistent with regulatory guidelines in this respect. Granting credit holidays or other mitigation measures for the COVID-19 epidemic does not identify forbore exposures automatically.

Share of forbore exposures in the Group's loan portfolio

	30.06.2020					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:	108 554 921	23 483 675	1 458 425	1 044 372	25 363	134 566 756
Forborne exposures gross	1 131 963	398 266	2 394 723	629 606	21 432	4 575 990
Loss allowance	(2 619)	(40 065)	(1 535 323)	(290 715)	(1 939)	(1 870 661)
Forborne exposures net	1 129 344	358 201	859 400	338 891	19 493	2 705 329
Loans and advances measured at fair value through other comprehensive income, including:	717 732	814 730	-	-	-	1 532 462
Forborne exposures	-	-	-	-	-	-
Impairment allowance (*)	-	-	-	-	-	-
Loans and advances measured at fair value through profit or loss, including:						213 869
Forborne exposures						1 093
Leasing exposures measured at amortised cost, including:	6 584 300	303 828	242 603	40 867	-	7 171 598
Forborne exposures gross	344	3 702	24 504	7 292	-	35 842
Impairment allowance	-	(38)	(5 125)	(5 573)	-	(10 736)
Forborne exposures net	344	3 664	19 379	1 719	-	25 106

(*) 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)

Share of forbore exposures in the Group's loan portfolio

	31.12.2019					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:	111 297 068	18 727 765	1 638 644	882 328	31 362	132 577 167
Forborne exposures gross	349 409	112 400	2 288 966	508 654	21 491	3 280 920
Loss allowance	(2 950)	(11 656)	(1 394 073)	(267 702)	(757)	(1 677 138)
Forborne exposures net	346 459	100 744	894 893	240 952	20 734	1 603 782
Loans and advances measured at fair value through other comprehensive income, including:	771 987	608 620	-	-	-	1 380 607
Forborne exposures	-	-	-	-	-	-
Impairment allowance (*)	-	-	-	-	-	-
Loans and advances measured at fair value through profit or loss, including:						242 639
Forborne exposures						998
Leasing exposures measured at amortised cost, including:	6 364 896	173 813	147 621	26 609	-	6 712 939
Forborne exposures gross	1 674	4 482	27 697	5 428	-	39 281
Impairment allowance	(3)	(42)	(6 639)	(4 165)	-	(10 849)
Forborne exposures net	1 671	4 440	21 058	1 263	-	28 432

(*) 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.

CHF loans to individuals

Since 2003 Bank Pekao S.A. has not granted CHF loans for individuals. Almost the entire current portfolio of CHF loans for individuals has been taken over by the Bank in the process of division by a spin-off of Bank BPH S.A. (loans granted before August 2006).

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

	30.06.2020					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:	196 729	2 586 346	42 944	197 911	796	3 024 726
denominated in CHF	196 729	2 578 715	42 944	197 122	796	3 016 306
indexed to CHF	-	7 631	-	789	-	8 420
Impairment allowances, of which: (*)	(130)	(62 786)	(25 827)	(87 934)	(337)	(177 014)
denominated in CHF	(130)	(62 722)	(25 827)	(87 651)	(337)	(176 667)
indexed to CHF	-	(64)	-	(283)	-	(347)
Carrying amount, of which:	196 599	2 523 560	17 117	109 977	459	2 847 712
denominated in CHF	196 599	2 515 993	17 117	109 471	459	2 839 639
indexed to CHF	-	7 567	-	506	-	8 073

(*) Including the provision for legal risk regarding foreign currency mortgage loans in the amount of PLN 47 994 thousand.

Notes to financial statements (cont.)

(in PLN thousand)

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

	31.12.2019					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:	192 721	2 595 740	38 245	175 961	752	3 003 419
denominated in CHF	192 721	2 586 325	38 245	175 150	752	2 993 193
indexed to CHF	-	9 415	-	811	-	10 226
Impairment allowances, of which: (*)	(194)	(57 680)	(21 617)	(82 240)	(303)	(162 034)
denominated in CHF	(194)	(57 623)	(21 617)	(81 932)	(303)	(161 669)
indexed to CHF	-	(57)	-	(308)	-	(365)
Carrying amount, of which:	192 527	2 538 060	16 628	93 721	449	2 841 385
denominated in CHF	192 527	2 528 702	16 628	93 218	449	2 831 524
indexed to CHF	-	9 358	-	503	-	9 861

(*) Including the provision for legal risk regarding foreign currency mortgage loans in the amount of PLN 36 265 thousand.

As of 30 June 2020 the average LTV for CHF loans to individuals granted by the Group amounted to 44.2% (39.9% as at 31 December 2019), with an average LTV for the whole portfolio of 58.6% (57.9% as at 31 December 2019).

Issue related to the ruling of the Court of Justice of the European Union regarding a loan indexed to CHF granted by another bank

In April 2018, the District Court in Warsaw submitted a request to the Court of Justice of the European Union (hereinafter the 'CJEU') for a preliminary ruling regarding the effects of any abusive provisions of the individual loan agreement indexed to CHF granted by one of the banks.

On 3 October 2019 the CJEU issued a ruling regarding the above-mentioned request. The CJEU interpreted the provisions of Council Directive 93/13/EEC of 5 April 1993 on unfair terms in consumer contracts based on the loan agreement indexed to CHF. The CJEU has indicated the effects of recognition of possible abusiveness of conversion clauses by the national court, without at the same time examining the possible abusiveness of contractual provisions. The CJEU did not prejudge that should the national court determine any abusiveness, the court should declare the entire contract invalid. The assessment in this respect remains to be decided by the national court, however, the CJEU did not rule out the possibility of filling the gap resulting from the abusiveness of conversion clauses by means of national disposable provisions.

The judgment of the CJEU is a general guideline for Polish courts. Final decisions taken by Polish courts will be made on the basis of EU regulations interpreted in accordance with the judgment of the CJEU, taking into account the provisions of national law and analysis of the individual circumstances of each case. At the same time, it is still difficult to talk about the shaped case law on mortgage loans in CHF, which is often confirmed by mutually exclusive rulings of common courts, as well as legal questions to the CJEU and the Supreme Court to resolve court doubts.

Considering the increase in the number of lawsuits regarding foreign currency mortgage loans in CHF observed in the banking sector and the heterogeneity in the ruling line regarding the above loans, as at 30 June 2020 the Group estimated the provision for the above legal risk related to foreign currency mortgage loan agreements in CHF in the total amount of PLN 74.3 million (58.7 as at 31 December 2019 - PLN 58.7 million).

The above amount of the provision includes the following elements:

1. PLN 48 million for current and future claims regarding balance sheet exposures recognized as impairment allowances for loan exposures in correspondence with 'Net impairment losses on financial assets and off-balance sheet commitments' (as at 31 December 2019 - PLN 36.3 million),
2. PLN 26.3 million for current and future claims regarding paid exposures recognized as provisions in correspondence with 'Other operating expenses' (as at 31 December 2019 - PLN 22.4 million),

Notes to financial statements (cont.)

(in PLN thousand)

As at 30 June 2020 lawsuits in number of 291 were pending against the Group regarding foreign currency mortgage loans in CHF, which were granted in previous years with a total amount in dispute of PLN 79 million (as at 31 December 2019 the number of cases was 195, corresponding to the total amount in dispute of PLN 59 million). In relation to the above lawsuits, the Group estimated the provision in the total amount of PLN 31.6 million (as at 31 December 2019 - PLN 19.9 million) based on an external legal opinion regarding the assessment of contractual patterns of foreign currency mortgage loans in CHF and on the individual assessment (for each lawsuit) of the risk of losing a given case in court, taking into account the nature of the claim, as well as possible financial consequences.

In addition, as at 30 June 2020, the Group estimated the portfolio provision in the total amount of PLN 42.7 million (as at 31 December 2019 - PLN 38.8 million), which was determined in relation to future possible lawsuits regarding the portfolio of foreign currency mortgage loans in CHF. The calculation of the provision was based on an assessment of the legal risk associated with the abovementioned agreements (performed by the Group with the involvement of an external legal company) and concerned mainly the determination of the following elements:

- a) estimating of the value of the portfolio, where in the future lawsuits will be brought by customers regarding the questioning of the loan agreement,
- b) estimating of the probability of losing the abovementioned future court cases,
- c) estimating of the possible financial consequences in the event of losing a court case, assuming as possible scenarios:
 - annulment of the entire foreign currency mortgage agreement in CHF as a result of considering the valorisation clause as illegal,
 - recognition that the clauses contained in the loan agreement constitute unlawful contractual provisions resulting in the determination of the loan balance in PLN and leaving the interest rate on the loan based on the LIBOR rate,
 - recognition of the valorisation clause as abusive and replacing it with the average exchange rate of the National Bank of Poland,
 - dismiss the action.

Taking into account the short – from the point of view of the course of court cases - period after the issuance of the CJEU ruling, and thus also a short history of data on the scale of lawsuits and the shapely direction of possible court decisions with respect to foreign currency mortgage loans in CHF, the estimates of the above provision required the Group to adopt many expert assumptions that are subject to significant uncertainty.

The Group carried out a sensitivity analysis in relation to significant provisioning parameters, where a change in the level of these parameters would have the following impact on the amount of the provision for legal risk of foreign currency mortgage loans in CHF.

PARAMETR	SCENARIO	IMPACT ON THE LEVEL OF PROVISION
Number of lawsuits	+20%	10
	-20%	(10)
Time horizon	4 years	3
	2 years	(2)

If an additional 1% of the Group's customers with foreign currency mortgage loans in CHF filed a lawsuit against the Group, then the impact on the loss from legal risk on mortgage loans in convertible currencies would increase by PLN 17 million.

The Group will monitor the impact of the CJEU ruling on the direction of decisions taken by Polish courts, as well as market practice and behavior of borrowers, and will update all assumptions adopted in the process of creating provisions for legal risk related to foreign currency mortgage loans in CHF. Accordingly, the amount of the provision may change in the future.

Notes to financial statements (cont.)

(in PLN thousand)

7.2 Market risk

Market risk of the trading book

The model of market risk measurement has not changed in relation to the one described in the consolidated financial statements of Bank Pekao S.A. Group for the year ended 31 December 2019.

The table below presents the market risk exposure of the trading portfolio of the Group measured by Value at Risk as at 30 June 2020 and as at 31 December 2019.

	30.06.2020	MINIMUM VALUE	AVERAGE VALUE	MAXIMUM VALUE
foreign currency exchange risk	79	6	48	1 153
interest rate risk	3 178	859	1 844	6 419
Trading portfolio	3 223	837	2 000	6 863

	31.12.2019	MINIMUM VALUE	AVERAGE VALUE	MAXIMUM VALUE
foreign currency exchange risk	237	6	190	1 161
interest rate risk	1 098	873	1 386	2 055
Trading portfolio	1 098	880	1 450	2 623

Interest rate risk of the banking book

The banking book interest rate risk management process has not changed significantly in relation to the one described in the consolidated financial statements of Bank Pekao S.A. Group for the year ended 31 December 2019.

The cycle of several significant cuts of the NBP interest rates in response to the developing pandemic COVID-19 had an important impact on the level of the Bank's exposure to interest rate risk and on the amount of realized interest income in the first half of 2020. In order to hedge current accounts, the Bank continues the implementation of the hedging strategy by concluding IRS transactions and purchasing fixed rate bonds.

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 2020 and as at 31 December 2019.

SENSITIVITY IN %	30.06.2020	31.12.2019
NII	(5.76)	(6.98)
EVE (*)	(5.61)	(3.04)

(*) EVE measurement accounts for the EBA guidelines 'Guidelines on the management of interest rate risk arising from non-trading activities' from 19 July 2018 (EBA/GL/2018/02).

Currency risk

The foreign currency exchange risk management process has not changed significantly in relation to the one described in the consolidated financial statements of Bank Pekao S.A. Group for the year ended 31 December 2019.

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

Value at Risk

CURRENCY	30.06.2020	31.12.2019
Currencies total (*)	2 814	117

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

Notes to financial statements (cont.)

(in PLN thousand)

Currency position

30.06.2020	BALANCE SHEET OPERATIONS		OFF-BALANCE SHEET OPERATIONS- DERIVATIVES		NET POSITION
	ASSETS	LIABILITIES	LONG POSITION	SHORT POSITION	
EUR	29 013 643	23 056 226	17 824 316	23 796 967	(15 234)
USD	13 071 054	15 766 056	12 225 518	9 563 279	(32 763)
CHF	3 099 137	630 567	1 638 765	4 113 348	(6 013)
GBP	421 346	1 032 131	929 645	316 696	2 164
CAD	33 836	44 039	222 888	212 026	659
CZK	71 884	143 915	493 021	420 794	196
SEK	159 230	71 720	112 838	200 200	148
DKK	201 340	35 129	2 542	168 642	111
CNY	32 526	20 987	275 246	286 838	(53)
NOK	447 151	96 463	19 757	370 456	(11)
Pozostale waluty	43 482	110 667	181 069	112 727	1 157
RAZEM	46 594 629	41 007 900	33 925 605	39 561 973	(49 639)

31.12.2019	BALANCE SHEET OPERATIONS		OFF-BALANCE SHEET OPERATIONS DERIVATIVES		NET POSITION
	ASSETS	LIABILITIES	LONG POSITION	SHORT POSITION	
EUR	25 522 777	21 461 513	14 617 411	18 597 989	80 686
USD	5 112 512	8 432 086	12 359 267	9 006 351	33 342
CHF	3 073 660	608 801	1 462 323	3 928 880	(1 698)
GBP	446 240	969 983	748 318	224 240	335
NOK	303 790	68 356	10 677	245 964	147
HUF	16 353	113 221	112 481	15 541	72
CZK	99 210	34 910	198 046	262 370	(24)
SEK	97 899	69 352	60 956	89 485	18
Other currencies	157 179	184 644	378 101	349 701	935
Total	34 829 620	31 942 866	29 947 580	32 720 521	113 813

7.3 Liquidity risk

The liquidity risk management process has not changed significantly in relation to the one described in the consolidated financial statements of Bank Pekao S.A. Group for the year ended 31 December 2019. Due to the COVID-19 pandemic expansion at the end of the first half of 2020, which indirectly contributed to the financial market turbulences, the Bank introduced the lowest liquidity contingency state - the state of attention, characterized by an increased frequency of management liquidity monitoring. At the beginning of June 2020, the state of attention was suspended due to very high and stable liquidity. The liquidity situation of both the Bank and the Bank Pekao S.A. Group remains fully stable at the moment and liquidity measures and ratios remain at high and safe level.

Notes to financial statements (cont.)

(in PLN thousand)

Regulatory liquidity norms and LCR (*)

SUPERVISORY LIQUIDTY NORMS		LIMIT	30.06.2020	31.12.2019
M3	Own funds to non-liquid assets cover ratio	1	7.59	7.63
M4 (**)	Own funds and stable external funds to non-liquid and limited liquidity assets cover ratio	1	1.29	1.18
LCR	Liquidity coverage ratio	1	3.47	1.52

(*) The values of regulatory liquidity norms have been determined in accordance with the principles set out by Resolution 386/2008 of UKNF of 17 December 2008 and the Commission Delegated Regulation (EU) 2015/61 of 10 October 2014 to supplement Regulation No. 575/2013 of the European Parliament and the Council with regard to liquidity coverage requirement for credit institutions.

(**) Ratio at the unconsolidated level.

The tables below present adjusted liquidity gap.

30.06.2020	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	71 117 088	6 685 813	24 802 002	74 090 535	58 608 243	235 303 681
Equity and liabilities	23 633 933	14 236 801	25 397 713	31 865 822	140 169 412	235 303 681
Off-balance sheet assets/liabilities (net)	(8 539 960)	980 775	711 471	2 507 871	3 894 873	(444 970)
Periodic gap	38 943 195	(6 570 213)	115 760	44 732 584	(77 666 296)	(444 970)
Cumulated gap	-	32 372 982	32 488 742	77 221 326	(444 970)	-

31.12.2019	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	39 979 611	7 183 432	27 270 488	67 711 772	61 177 616	203 322 919
Equity and liabilities	11 597 534	9 637 749	22 276 041	19 569 624	140 241 971	203 322 919
Off-balance sheet assets/liabilities (net)	(6 184 210)	(1 154 062)	1 039 085	2 976 635	3 008 982	(313 570)
Periodic gap	22 197 867	(3 608 379)	6 033 532	51 118 783	(76 055 373)	(313 570)
Cumulated gap	-	18 589 488	24 623 020	75 741 803	(313 570)	-

7.4 Operational risk

There have been no significant changes in the operational risk management process in relation to the one described in consolidated financial statements of Bank Pekao S.A. Group for the year ended 31 December 2019.

7.5 Fair value of financial assets and liabilities

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

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

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

Notes to financial statements (cont.)

(in PLN thousand)

As of 30 June 2020 and 31 December 2019, the Group classified the financial assets and liabilities measured at fair value into 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.

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

30.06.2020	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Assets:	15 107 918	27 519 471	9 220 478	51 847 867
Financial assets held for trading	782 587	32 912	50 623	866 122
Derivative financial instruments, including:	-	5 414 903	876	5 415 779
Banks	-	1 359 046	876	1 359 922
Customers	-	4 055 857	-	4 055 857
Hedging instruments, including:	-	969 845	-	969 845
Banks	-	129 447	-	129 447
Customers	-	840 398	-	840 398
Securities measured at fair value through other comprehensive income	14 325 331	21 101 811	7 289 128	42 716 270
Securities measured at fair value through profit or loss	-	-	133 520	133 520
Loans and advances to customers measured at fair value through other comprehensive income	-	-	1 532 462	1 532 462
Loans and advances to customers measured at fair value through profit or loss	-	-	213 869	213 869
Liabilities:	302 405	6 181 164	-	6 483 569
Financial liabilities held for trading	302 405	-	-	302 405
Derivative financial instruments, including:	-	5 233 047	-	5 233 047
Banks	-	1 273 061	-	1 273 061
Customers	-	3 959 986	-	3 959 986
Hedging instruments, including:	-	948 117	-	948 117
Banks	-	864 987	-	864 987
Customers	-	83 130	-	83 130

Notes to financial statements (cont.)

(in PLN thousand)

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

31.12.2019	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Assets:	15 586 725	12 388 299	8 701 073	36 676 097
Financial assets held for trading	1 127 955	145 674	8 035	1 281 664
Derivative financial instruments, including:	14	2 076 473	3 042	2 079 529
Banks	-	777 322	3 042	780 364
Customers	14	1 299 151	-	1 299 165
Hedging instruments, including:	-	377 208	-	377 208
Banks	-	91 677	-	91 677
Customers	-	285 531	-	285 531
Securities measured at fair value through other comprehensive income	14 458 756	9 768 279	6 941 296	31 168 331
Securities measured at fair value through profit or loss	-	20 665	125 454	146 119
Loans and advances to customers measured at fair value through other comprehensive income	-	-	1 380 607	1 380 607
Loans and advances to customers measured at fair value through profit or loss	-	-	242 639	242 639
Liabilities:	184 799	2 648 878	-	2 833 677
Financial liabilities held for trading	184 799	-	-	184 799
Derivative financial instruments, including:	-	2 034 113	-	2 034 113
Banks	-	707 435	-	707 435
Customers	-	1 326 678	-	1 326 678
Hedging instruments, including:	-	614 765	-	614 765
Banks	-	566 163	-	566 163
Customers	-	48 602	-	48 602

Notes to financial statements (cont.)

(in PLN thousand)

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

I HALF 2020	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	8 035	3 042	1 380 607	242 639	125 454	6 941 296
Increases, including:	479 158	-	155 068	18	8 066	997 061
Reclassification	36 368	-	-	-	-	766 308
Transactions made in 2020	-	-	99 328	18	-	-
Acquisition/Granting	442 102	-	-	-	-	151 441
Settlement/Redemption	-	-	44 478	-	-	-
Gains on financial instruments	688	-	11 262	-	8 066	79 312
recognized in the income statement	688	-	11 262	-	8 066	77 955
recognized in revaluation reserves	-	-	-	-	-	1 357
Decreases, including:	(436 570)	(2 166)	(3 213)	(28 788)	-	(649 229)
Reclassification	(2 306)	-	-	-	-	(249 426)
Settlement/Redemption	(29 664)	-	-	(25 705)	-	(141 416)
Sale/Repayment	(404 597)	-	-	-	-	(169 352)
Losses on financial instruments	(3)	(2 166)	(3 213)	(3 083)	-	(89 035)
recognized in the income statement	(3)	(2 166)	-	(3 083)	-	-
recognized in revaluation reserves	-	-	(3 213)	-	-	(89 035)
Closing balance	50 623	876	1 532 462	213 869	133 520	7 289 128
Unrealized income from financial instruments held in portfolio at the end of the period, recognized in:	1 481	(2 166)	(5 354)	(3 370)	-	(34 584)
Income statement:	1 481	(2 166)	(2 141)	(3 370)	-	2 599
net interest income	6	-	2 627	56	-	15 631
net impairment losses on financial assets and off-balance sheet commitments	-	-	(4 768)	-	-	(13 032)
result on financial assets and liabilities held for trading	1 475	(2 166)	-	(3 426)	-	-
Other comprehensive income	-	-	(3 213)	-	-	(37 183)

Notes to financial statements (cont.)

(in PLN thousand)

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

	FINANCIAL ASSETS HELD FOR TRADING	DERIVATIVE FINANCIAL INSTRUMENTS (ASSETS)	LOANS AND ADVANCES TO CUSTOMERS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	LOANS AND ADVANCES TO CUSTOMERS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	SECURITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	SECURITIES MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME
Opening balance	26 110	1 230	1 511 102	302 630	65 408	7 111 833
Increases, including:	559 472	3 032	212 096	-	60 046	1 770 090
Reclassification	-	1 486	-	-	-	544 884
Transactions made in 2019	-	-	-	-	-	-
Acquisition/Granting	558 474	-	166 522	-	-	997 151
Settlement/Redemption	-	363	-	-	-	-
Gains on financial instruments	998	1 183	45 574	-	60 046	228 055
recognized in the income statement	998	1 183	29 189	-	60 046	181 129
recognized in revaluation reserves	-	-	16 385	-	-	46 926
Decreases, including:	(577 547)	(1 220)	(342 591)	(59 991)	-	(1 940 627)
Reclassification	-	-	-	-	-	(83 209)
Settlement/Redemption	(101 455)	-	(50 451)	(58 649)	-	(366 689)
Sale/Repayment	(476 089)	-	(292 140)	-	-	(1 474 887)
Losses on financial instruments	(3)	(1 220)	-	(1 342)	-	(15 842)
recognized in the income statement	(3)	(1 220)	-	(1 342)	-	(16)
recognized in revaluation reserves	-	-	-	-	-	(15 826)
Closing balance	8 035	3 042	1 380 607	242 639	125 454	6 941 296
Unrealized income from financial instruments held in portfolio at the end of the period, recognized in:	20	1 183	7 510	(3 393)	-	66 673
Income statement:	20	1 183	(7 422)	(3 393)	-	32 556
net interest income	13	-	762	138	-	35 907
net impairment losses on financial assets and off-balance sheet commitments	-	-	(8 184)	-	-	(3 351)
result on financial assets and liabilities held for trading	7	1 183	-	(3 531)	-	-
Other comprehensive income	-	-	14 932	-	-	34 117

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 at the end of the reporting periods.

Due to COVID-19 pandemic developing at the end of March 2020, which indirectly contributed to the turmoil in financial markets, a significant decrease in liquidity was observed in many market segments, in particular in the corporate and municipal securities segments. As a result, some securities classified to Level 1 or Level 2 were reclassified to lower hierarchy levels.

In the period from 1 January to 30 June 2020 the following transfers of financial instruments between the levels of the fair value hierarchy were made:

- from Level 3 to Level 2: corporate bonds which were valued based on information on the prices of comparable financial instruments, corporate and municipal 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, government bonds with material impact of estimated spread to benchmark bond and capital market derivative instruments with material impact of the estimated factor (correlation) on the valuation,
- from Level 1 to Level 2: sovereign bonds which was valued based on the prices of comparable financial instruments,
- from Level 2 to Level 1: sovereign bonds that were valued with active market prices.

The impact of estimated parameters on measurement of financial instruments for which the Group applies fair value valuation according to Level 3 as at 30 June 2020 and 31 December 2019 is as follows:

FINANCIAL ASSET/LIABILITY	FAIR VALUE AS AT 30.06.2020	VALUATION TECHNIQUE	UNOBSERVABLE FACTOR	ALTERNATIVE FACTOR RANGE (WEIGHTED AVERAGE)	IMPACT ON FAIR VALUE AS AT 30.06.2020	
					POSITIVE SCENARIO	NEGATIVE SCENARIO
Corporate and municipal debt securities	7 117 113	Discounted cash flow	Credit spread	0.59% - 1.38%	91 518	(99 065)
Sovereign securities	26 911	Discounted cash flow	Spread to benchmark bond	0.03% - 0.73%	1 927	(1 927)
Derivatives	876	Black Scholes Model	Correlation	0-1	119	(827)
Loans and advances measured at fair value through profit or loss	213 869	Discounted cash flow	Credit spread	1.07% - 1.95%	3 782	(3 689)
Loans and advances measured at fair value through other comprehensive income	1 532 462	Discounted cash flow	Credit spread	2.45% - 3.33%	21 670	(21 290)

FINANCIAL ASSET	FAIR VALUE AS AT 30.06.2020	PARAMETR	SCENARIO	IMPACT ON FAIR VALUE AS AT 30.06.2020	
				POSITIVE SCENARIO	NEGATIVE SCENARIO
Equity instruments mandatorily measured at fair value through profit or loss	133 520	Conversion discount	+10% / -10%	16 690	(16 690)
Equity instrument in entity providing credit information designated for measurement at fair value through other comprehensive income	176 678	Discount rate	+1%/-1%	10 605	(22 623)

Notes to financial statements (cont.)

(in PLN thousand)

FINANCIAL ASSET/LIABILITY	FAIR VALUE AS AT 31.12.2019	VALUATION TECHNIQUE	UNOBSERVABLE FACTOR	ALTERNATIVE FACTOR RANGE (WEIGHTED AVERAGE)	IMPACT ON FAIR VALUE AS AT 31.12.2019	
					POSITIVE SCENARIO	NEGATIVE SCENARIO
Corporate and municipal debt securities	6 754 229	Discounted cash flow	Credit spread	0.37%-0.95%	65 792	(81 032)
Derivatives	3 042	Black Scholes Model	Correlation	0-1	410	(8)
Loans and advances measured at fair value through profit or loss	242 639	Discounted cash flow	Credit spread	1.40%-2.11%	3 260	(3 416)
Loans and advances measured at fair value through other comprehensive income	1 380 607	Discounted cash flow	Credit spread	2.64%-3.36%	13 671	(13 473)

FINANCIAL ASSET	FAIR VALUE AS AT 31.12.2019	PARAMETR	SCENARIO	IMPACT ON FAIR VALUE AS AT 31.12.2019	
				POSITIVE SCENARIO	NEGATIVE SCENARIO
Equity instruments mandatorily measured at fair value through profit or loss	125 454	Conversion discount	+10% / -10%	15 682	(15 682)
Equity instrument in entity providing credit information designated for measurement at fair value through other comprehensive income	176 965	Discount rate	+1% / -1%	19 905	(16 250)

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

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

As of 30 June 2020 and 31 December 2019, the Group classified the financial assets and liabilities not measured at fair value in the consolidated statement of financial position into the following three categories based on the valuation level:

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

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

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

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

Notes to financial statements (cont.)

(in PLN thousand)

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 are 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.

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

30.06.2020	CARRYING AMOUNT	FAIR VALUE	OF WHICH:		
			LEVEL 1	LEVEL 2	LEVEL 3
Assets					
Cash and due from Central Bank	7 362 524	7 362 011	5 583 894	1 778 117	-
Loans and advance to banks	8 110 416	8 110 554	-	6 904 750	1 205 804
Loans and advances to customers measured at amortised cost	134 566 756	133 679 467	-	950 209	132 729 258
Receivables from financial leases	7 171 598	7 184 543	-	-	7 184 543
Debt securities measured at amortised cost	20 336 428	21 082 808	15 300 370	1 169 697	4 612 741
Total Assets	177 547 722	177 419 383	20 884 264	10 802 773	145 732 346
Liabilities					
Amounts due to Central Bank	-	-	-	-	-
Amounts due to other banks	7 719 577	7 733 073	-	557 644	7 175 429
Amounts due to customers	184 549 090	184 754 449	-	-	184 754 449
Debt securities issued	5 038 431	5 039 437	-	5 039 437	-
Subordinated liabilities	2 759 514	2 766 014	-	2 766 014	-
Total Liabilities	200 066 612	200 292 973	-	8 363 095	191 929 878

31.12.2019	CARRYING AMOUNT	FAIR VALUE	OF WHICH:		
			LEVEL 1	LEVEL 2	LEVEL 3
Assets					
Cash and due from Central Bank	5 162 682	5 162 069	3 036 372	2 125 697	-
Loans and advance to banks	1 791 436	1 791 459	-	744 569	1 046 890
Loans and advances to customers measured at amortised cost	132 577 167	133 916 679	-	502 344	133 414 335
Receivables from financial leases	6 712 939	6 737 380	-	-	6 737 380
Debt securities measured at amortised cost	14 578 665	14 906 622	9 123 131	1 068 286	4 715 205
Total Assets	160 822 889	162 514 209	12 159 503	4 440 896	145 913 810
Liabilities					
Amounts due to Central Bank	4 550	4 602	-	-	4 602
Amounts due to other banks	6 539 539	6 559 562	-	678 799	5 880 763
Amounts due to customers	157 989 734	158 224 937	-	379 787	157 845 150
Debt securities issued	6 307 837	6 314 855	-	6 314 855	-
Subordinated liabilities	2 764 493	2 766 289	-	2 766 289	-
Total Liabilities	173 606 153	173 870 245	-	10 139 730	163 730 515

Notes to financial statements (cont.)

(in PLN thousand)

8. Operating segments

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

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

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

Operating segments

The operating segments of the Group are as follows:

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

Notes to financial statements (cont.)

(in PLN thousand)

Operating segments reporting for the period from 1 January to 30 June 2020

	RETAIL BANKING	CORPORATE AND INVESTMENT BANKING	SME BANKING	ASSETS AND LIABILITIES MANAGEMENT AND OTHER	TOTAL
External interest income	1 729 387	1 030 840	57 819	446 438	3 264 484
External interest expenses	(250 301)	(157 233)	(13 542)	(49 609)	(470 685)
Net external interest income	1 479 086	873 607	44 277	396 829	2 793 799
Internal interest income	936 800	239 161	64 327	(1 240 288)	-
Internal interest expenses	(843 539)	(488 488)	(25 871)	1 357 898	-
Net internal interest income	93 261	(249 327)	38 456	117 610	-
Total net interest income	1 572 347	624 280	82 733	514 439	2 793 799
Non-interest income	596 451	442 860	140 664	124 001	1 303 976
Operating income	2 168 798	1 067 140	223 397	638 440	4 097 775
Personnel expenses	(485 706)	(143 946)	(49 250)	(428 611)	(1 107 513)
Other administrative expenses	(663 458)	(145 026)	(51 377)	394 273	(465 588)
Depreciation and amortisation	(92 706)	(15 881)	(2 457)	(147 195)	(258 239)
Operating costs	(1 241 870)	(304 853)	(103 084)	(181 533)	(1 831 340)
Gross operating profit	926 928	762 287	120 313	456 907	2 266 435
Net impairment losses on financial assets and off-balance sheet commitments	(253 102)	(569 037)	(12 808)	30 027	(804 920)
Net operating profit	673 826	193 250	107 505	486 934	1 461 515
Guarantee funds charges	(145 201)	(119 068)	(6 419)	(23 096)	(293 784)
Tax on certain financial institutions	-	-	-	(326 349)	(326 349)
Profit before tax	528 625	74 182	101 086	137 489	841 382
Income tax expense					(294 475)
Net profit for the period					546 907
Attributable to equity holders of the Bank					546 049
Attributable to non-controlling interests					858
Allocated assets	79 837 987	83 027 732	3 221 329	51 006 527	217 093 575
Unallocated assets					18 210 106
Total assets					235 303 681
Allocated liabilities	112 504 516	63 633 117	14 252 282	10 254 240	200 644 155
Unallocated liabilities					9 980 603
Total liabilities					210 624 758

Notes to financial statements (cont.)

(in PLN thousand)

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

	RETAIL BANKING	CORPORATE AND INVESTMENT BANKING	SME BANKING	ASSETS AND LIABILITIES MANAGEMENT AND OTHER	TOTAL
External interest income	1 729 702	1 047 105	67 123	422 712	3 266 642
External interest expenses	(300 182)	(238 193)	(21 107)	(49 216)	(608 698)
Net external interest income	1 429 520	808 912	46 016	373 496	2 657 944
Internal interest income	949 829	404 383	71 072	(1 425 284)	-
Internal interest expenses	(860 861)	(652 067)	(33 522)	1 546 450	-
Net internal interest income	88 968	(247 684)	37 550	121 166	-
Total net interest income	1 518 488	561 228	83 566	494 662	2 657 944
Non-interest income	642 988	401 076	124 922	193 354	1 362 340
Operating income	2 161 476	962 304	208 488	688 016	4 020 284
Personnel expenses	(520 118)	(137 378)	(46 162)	(362 194)	(1 065 852)
Other administrative expenses	(689 208)	(157 075)	(51 031)	408 823	(488 491)
Depreciation and amortisation	(88 194)	(16 509)	(2 327)	(148 193)	(255 223)
Operating costs	(1 297 520)	(310 962)	(99 520)	(101 564)	(1 809 566)
Gross operating profit	863 956	651 342	108 968	586 452	2 210 718
Net impairment losses on financial assets and off-balance sheet commitments	(147 184)	(142 966)	(4 411)	7 640	(286 921)
Net operating profit	716 772	508 376	104 557	594 092	1 923 797
Guarantee funds charges	(135 300)	(109 435)	(6 133)	(162 766)	(413 634)
Tax on certain financial institutions	-	-	-	(297 284)	(297 284)
Profit before tax	581 472	398 941	98 424	134 042	1 212 879
Income tax expense					(386 881)
Net profit for the period					825 998
Attributable to equity holders of the Bank					824 447
Attributable to non-controlling interests					1 551
Allocated assets	75 962 395	72 413 161	3 457 061	34 922 899	186 755 516
Unallocated assets					10 155 342
Total assets					196 910 858
Allocated liabilities	98 008 699	54 156 174	10 692 043	4 174 978	167 031 894
Unallocated liabilities					7 798 108
Total liabilities					174 830 002

Notes to financial statements (cont.)

(in PLN thousand)

Reconciliations of operating income for reportable segments

	I HALF 2020	I HALF 2019
Net interest income	2 793 799	2 657 944
Net fee and commission income	1 182 241	1 236 261
Dividend income	26 003	21 652
Result on financial assets and liabilities measured at fair value through profit or loss	60 975	48 726
Result on fair value hedge accounting	(752)	(1 704)
Profit (loss) from derecognition of financial assets and financial liabilities not at fair value through profit or loss	44 175	19 862
Operating income	4 106 441	3 982 741
Net other operating income and expenses	(8 666)	37 543
Total operating income for reportable segments	4 097 775	4 020 284

9. Interest income and expense

Interest income

	II QUARTER 2020			TOTAL
	FINANCIAL ASSETS MEASURED AT AMORTISED COST	FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	
Loans and other receivables from customers	1 203 986	8 363	482	1 212 831
Interbank placements	2 803	-	-	2 803
Reverse repo transactions	2 983	-	-	2 983
Investment securities	104 625	156 045	-	260 670
Hedging derivatives	-	-	64 875	64 875
Financial assets held for trading	-	-	2 882	2 882
Total	1 314 397	164 408	68 239	1 547 044

	I HALF 2020			TOTAL
	FINANCIAL ASSETS MEASURED AT AMORTISED COST	FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	
Loans and other receivables from customers	2 587 202	16 030	1 794	2 605 026
Interbank placements	13 002	-	-	13 002
Reverse repo transactions	10 230	-	-	10 230
Investment securities	203 773	306 627	-	510 400
Hedging derivatives	-	-	120 579	120 579
Financial assets held for trading	-	-	5 247	5 247
Total	2 814 207	322 657	127 620	3 264 484

Notes to financial statements (cont.)

(in PLN thousand)

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 PROFIT OR LOSS	
Loans and other receivables from customers	1 333 105	8 377	1 617	1 343 099
Interbank placements	12 491	-	-	12 491
Reverse repo transactions	12 231	-	-	12 231
Investment securities	78 714	158 636	-	237 350
Hedging derivatives	-	-	60 052	60 052
Financial assets held for trading	-	-	3 437	3 437
Total	1 436 541	167 013	65 106	1 668 660

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

Interest expense

	II QUARTER 2020	I HALF 2020	II QUARTER 219	I HALF 2019
Deposits from customers	(123 957)	(333 890)	(240 605)	(473 359)
Interbank deposits	(2 340)	(5 735)	(4 106)	(7 604)
Repo transactions	(1 182)	(6 993)	(6 328)	(11 151)
Loans and advances received	(9 569)	(21 573)	(7 547)	(14 124)
Leasing	(2 735)	(5 415)	(3 397)	(6 964)
Debt securities issued	(41 713)	(97 079)	(49 129)	(95 496)
Total	(181 496)	(470 685)	(311 112)	(608 698)

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

Notes to financial statements (cont.)

(in PLN thousand)

10. Fee and commission income and expense

Fee and commission income

	II QUARTER 2020	I HALF 2020	II QUARTER 2019	I HALF 2019
Accounts maintenance, payment orders and cash transactions	145 802	294 258	155 919	306 249
Payment cards	141 441	287 543	153 160	295 098
Loans and advances	94 053	187 741	108 689	204 083
Margin on foreign exchange transactions with clients	115 709	250 028	128 051	243 631
Service and sell investment, insurance and retirement products	105 327	231 351	127 184	253 089
Securities operations	24 285	43 772	13 418	29 609
Custody activity	14 320	26 534	13 011	26 072
Guarantees, letters of credit and similar transactions	15 975	32 235	15 288	31 097
Other	20 017	42 733	10 342	21 019
Total	676 929	1 396 195	725 062	1 409 947

Fee and commission expense

	II QUARTER 2020	I HALF 2020	II QUARTER 2019	I HALF 2019
Payment cards	(75 049)	(150 105)	(65 972)	(120 279)
Money orders and transfers	(5 123)	(10 634)	(5 005)	(10 848)
Securities and derivatives operations	(8 723)	(17 178)	(7 238)	(14 694)
Accounts maintenance	(10 883)	(18 771)	(6 873)	(13 007)
Custody activity	(5 365)	(9 544)	(4 090)	(8 520)
Bank accounts services	(1 245)	(2 110)	(1 060)	(2 029)
Pension and investment funds management	(148)	(300)	(131)	(263)
Other	(2 546)	(5 312)	(2 011)	(4 046)
Total	(109 082)	(213 954)	(92 380)	(173 686)

Fee and commission income and expense (other than the amounts included in determining the effective interest rate) arising from financial assets and financial liabilities that are not at fair value through profit or loss.

11. Dividend income

	II QUARTER 2020	I HALF 2020	II QUARTER 2019	I HALF 2019
Issuers of securities measured at fair value through profit or loss	262	517	16	402
Issuers of equity instruments designated at fair value through other comprehensive income	25 486	25 486	21 250	21 250
Total	25 748	26 003	21 266	21 652

Notes to financial statements (cont.)

(in PLN thousand)

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

	II QUARTER 2020	I HALF 2020	II QUARTER 2019	I HALF 2019
Gains (losses) on loans and advances to customers measured mandatorily at fair value through profit or loss	(5 354)	(3 663)	2 475	(3 857)
Gains (losses) on securities measured mandatorily at fair value through profit or loss	21 490	2 931	8 716	20 983
Foreign currency exchange result	4 507	(23 991)	(5 083)	(8 388)
Gains (losses) on derivatives	13 470	58 348	18 538	31 592
Gains (losses) on securities held for trading	16 590	27 350	6 417	8 396
Total	50 703	60 975	31 063	48 726

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

Realized gains

	II QUARTER 2020	I HALF 2020	II QUARTER 2019	I HALF 2019
Financial assets measured at amortised cost	967	9 405	5 574	5 574
Financial assets measured at fair value through other comprehensive income	25 738	39 219	7 295	18 851
Financial liabilities not measured at fair value through profit or loss	-	1	-	-
Total	26 705	48 625	12 869	24 425

Realized losses

	II QUARTER 2020	I HALF 2020	II QUARTER 2019	I HALF 2019
Financial assets measured at amortised cost	(1 643)	(2 347)	(4 360)	(4 360)
Financial assets measured at fair value through other comprehensive income	(1 974)	(2 016)	(14)	(14)
Financial liabilities not measured at fair value through profit or loss	(39)	(87)	(65)	(189)
Total	(3 656)	(4 450)	(4 439)	(4 563)

Net realized profit	23 049	44 175	8 430	19 862
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Notes to financial statements (cont.)

(in PLN thousand)

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

	II QUARTER 2020	I HALF 2020	II QUARTER 2019	I HALF 2019
Loans and other financial assets measured at amortized cost (*) (**)	(421 612)	(685 515)	(126 957)	(211 073)
Debt securities measured at amortized cost	18 343	6 017	(15 447)	(14 945)
Loans measured at fair value through other comprehensive income	(3 263)	(4 768)	1 646	(18 305)
Debt securities measured at fair value through other comprehensive income	518	(16 324)	(1 973)	31
Off-balance sheet commitments	(58 094)	(92 601)	(34 507)	(42 629)
Provision for legal risk regarding foreign currency mortgage loans	(9 902)	(11 729)	-	-
Total	(474 010)	(804 920)	(177 238)	(286 921)

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

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

15. Net other operating income and expenses

Other operating income

	II QUARTER 2020	I HALF 2020	II QUARTER 2019 RESTATED	I HALF 2019 RESTATED
Gains on disposal of property, plant and equipment and intangible assets	103	179	9 886	12 262
Premises rental income	4 297	8 670	4 587	9 224
Leasing net income (*)	681	1 926	3 822	6 584
Compensation, recoveries, penalty fees and fines received	3 081	6 723	5 428	11 053
Miscellaneous income	4 991	10 187	1 011	5 576
Recovery of debt collection costs	1 891	4 202	4 402	7 535
Net revenues from sale of products, goods and services	1 093	2 599	1 441	2 809
Releases of impairment allowances for litigation and other assets	73	182	85	566
Write offs for liabilities disputable and other provisions	621	621	15	70
Other	353	1 196	673	1 214
Total	17 184	36 485	31 350	56 893

(*) Leasing net income

	II QUARTER 2020	I HALF 2020	II QUARTER 2019 RESTATED	I HALF 2019 RESTATED
Income from operating leases	2 038	3 851	1 679	3 020
Costs of depreciation of fixed assets provided under operating leases	(2 786)	(4 316)	-	-
Other income from financial lease	1 429	2 391	2 143	3 564
Total	681	1 926	3 822	6 584

Notes to financial statements (cont.)

(in PLN thousand)

Other operating expenses

	II QUARTER 2020	I HALF 2020	II QUARTER 2019 RESTATED	I HALF 2019 RESTATED
Write downs for liabilities disputable and other provisions	(10 791)	(11 475)	(3 482)	(8 266)
Net provision for legal risk regarding foreign currency mortgage loans	(5 982)	(4 435)	-	-
Loss on disposal of property, plant and equipment and intangible assets	(58)	(10 003)	(305)	(573)
Card transactions monitoring costs	(2 955)	(4 393)	(1 139)	(3 217)
Sundry expenses	(2 548)	(4 550)	(1 166)	(2 520)
Costs of litigation and claims	(408)	(1 359)	(593)	(1 453)
Impairment allowance for litigations and other assets	(1 059)	(1 381)	(119)	(444)
Compensation, penalty fees and fines	(170)	(401)	(157)	(237)
Credit insurance expenses	(1)	(5)	(173)	(448)
Other	(1 091)	(7 149)	(970)	(2 192)
Total	(25 063)	(45 151)	(8 104)	(19 350)
Net other operating income and expenses	(7 879)	(8 666)	23 246	37 543

16. Administrative expenses

Personnel expenses

	II QUARTER 2020	I HALF 2020	II QUARTER 2019	I HALF 2019
Wages and salaries	(405 804)	(939 928)	(503 406)	(907 823)
Insurance and other charges related to employees	(79 132)	(158 904)	(78 002)	(152 564)
Share-based payments expenses	(4 341)	(8 681)	(5 020)	(5 465)
Total	(489 277)	(1 107 513)	(586 428)	(1 065 852)

Other administrative expenses

	II QUARTER 2020	I HALF 2020	II QUARTER 2019	I HALF 2019
General expenses	(198 479)	(429 285)	(228 874)	(446 226)
Taxes and charges	(9 176)	(18 034)	(8 725)	(17 248)
Bank Guarantee Fund fee	(43 081)	(293 784)	(20 472)	(413 634)
Financial supervision authority fee (KNF)	(76)	(18 269)	(278)	(25 017)
Tax on certain financial institutions	(169 843)	(326 349)	(148 423)	(297 284)
Total	(420 655)	(1 085 721)	(406 772)	(1 199 409)
Total administrative expenses	(909 932)	(2 193 234)	(993 200)	(2 265 261)

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.

Notes to financial statements (cont.)

(in PLN thousand)

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 83 398 thousand for the first half 2020 (PLN 41 195 thousand for the first half of 2019) and the costs of annual contribution to resolution fund of banks in the amount of PLN 210 386 thousand (PLN 372 439 thousand in 2019).

17. Depreciation and amortization

	II QUARTER 2020	I HALF 2020	II QUARTER 2019	I HALF 2019
Property, plant and equipment	(78 390)	(151 643)	(75 981)	(152 441)
Investment property	-	-	(73)	(146)
Intangible assets	(56 314)	(106 596)	(50 522)	(102 636)
Total	(134 704)	(258 239)	(126 576)	(255 223)

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

	II QUARTER 2020	I HALF 2020	II QUARTER 2019	I HALF 2019
INCOME STATEMENT				
Current tax	(248 654)	(551 054)	(207 249)	(450 785)
Current tax charge in the income statement	(243 290)	(545 558)	(207 037)	(446 027)
Adjustments related to the current tax from previous years	(4 974)	(4 975)	-	(4 425)
Other taxes (e.g. withholding tax)	(390)	(521)	(212)	(333)
Deferred tax	100 748	256 579	13 689	63 904
Occurrence and reversal of temporary differences	100 748	256 579	13 689	63 904
Tax charge in the consolidated income statement	(147 906)	(294 475)	(193 560)	(386 881)
EQUITY				
Deferred tax	(126 523)	(172 617)	(31 767)	(42 372)
Income and costs disclosed in other comprehensive income:				
revaluation of financial instruments - cash flows hedges	(22 601)	(101 439)	(5 187)	(17 493)
fair value revaluation through other comprehensive income	(99 765)	(69 155)	(23 434)	(21 581)
Tax on items that are or may be reclassified subsequently to profit or loss	(122 366)	(170 594)	(28 621)	(39 074)
Tax charge on items that will never be reclassified to profit or loss	(4 157)	(2 023)	(3 146)	(3 298)
fair value revaluation through other comprehensive income –equity securities	(4 157)	(2 023)	(3 146)	(3 298)
remeasurements the defined benefit liabilities	-	-	-	-
Total charge	(274 429)	(467 092)	(225 327)	(429 253)

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 2020	I HALF 2020	II QUARTER 2019	I HALF 2019
Net profit	359 151	546 049	582 106	824 447
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)	1.37	2.08	2.22	3.14

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 2020 and 30 June 2019 there were no diluting instruments in the form of convertible bonds in the Group.

	II QUARTER 2020	I HALF 2020	II QUARTER 2019	I HALF 2019
Net profit	359 151	546 049	582 106	824 447
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)	1.37	2.08	2.22	3.14

20. Dividends

On 22 May 2020 the Ordinary General Meeting of Bank Pekao S.A. adopted a resolution on the distribution of the Bank's net profit for 2019, according to which the amount of PLN 562 409 thousand was allocated to reserve capital, and the remaining part of the net profit in the amount of PLN 1 685 058 thousand was left undistributed.

21. Cash and balances with Central Bank

CASH AND DUE FROM CENTRAL BANK	30.06.2020	31.12.2019
Cash	5 583 894	3 036 985
Current account at Central Bank	1 778 776	2 101 957
Deposits	-	23 914
Gross carrying amount	7 362 670	5 162 856
Impairment allowances	(146)	(174)
Net carrying amount	7 362 524	5 162 682

AMOUNTS DUE TO CENTRAL BANK	30.06.2020	31.12.2019
Term deposits	-	4 550
Total	-	4 550

Notes to financial statements (cont.)

(in PLN thousand)

22. Loans and advances to banks

Loans and advances to banks by product type

	30.06.2020	31.12.2019
Current accounts	6 653 500	325 704
Interbank placements	54 196	200 840
Loans and advances	11 295	11 536
Cash collaterals	1 076 386	733 093
Reverse repo transactions	198 460	219 153
Cash in transit	118 138	302 298
Total gross amount	8 111 975	1 792 624
Impairment allowances	(1 559)	(1 188)
Total net amount	8 110 416	1 791 436

Loans and advances to banks are measured at amortised cost.

23. Financial assets and liabilities held for trading

Financial assets and liabilities held for trading by product type

	30.06.2020	31.12.2019
FINANCIAL ASSETS		
Debt securities	861 168	1 276 711
Equity securities	4 954	4 953
Total financial assets	866 122	1 281 664
FINANCIAL LIABILITIES		
Debt securities	302 405	184 799
Total financial liabilities	302 405	184 799

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

Debt securities held for trading

	30.06.2020	31.12.2019
FINANCIAL ASSETS		
Debt securities issued by State Treasury	811 814	1 131 733
T- bills	51 430	-
T- bonds	760 384	1 131 733
Debt securities issued by banks	24 548	13 838
Debt securities issued by business entities	24 806	131 140
Total financial assets	861 168	1 276 711
FINANCIAL LIABILITIES		
Debt securities issued by State Treasury	302 405	184 799
T- bonds	302 405	184 799
Total financial liabilities	302 405	184 799

Notes to financial statements (cont.)

(in PLN thousand)

Equity securities held for trading

	30.06.2020	31.12.2019
Shares	3 427	2 620
Participation units	1 527	2 333
Total	4 954	4 953

24. Derivative financial instruments (held for trading)

Fair value of trading derivatives

30.06.2020	ASSETS	LIABILITIES
Interest rate transactions		
Interest Rate Swaps (IRS)	4 735 067	4 676 472
Forward Rate Agreements (FRA)	298	10 948
Options	8 697	1 662
Other	16	13
Foreign currency and gold transactions		
Cross-Currency Interest Rate Swaps (CIRS)	164 953	58 061
Currency Forward Agreements	123 217	162 841
Currency Swaps (FX-Swap)	123 905	59 865
Options for currency and gold	53 018	62 217
Transactions based on equity securities and stock indexes		
Options	911	908
Other	-	-
Transactions based on commodities and precious metals		
Options	166 639	161 729
Other	39 058	38 331
Total	5 415 779	5 233 047

Notes to financial statements (cont.)

(in PLN thousand)

Fair value of trading derivatives

31.12.2019	ASSETS	LIABILITIES
Interest rate transactions		
Interest Rate Swaps (IRS)	1 644 485	1 602 258
Forward Rate Agreements (FRA)	284	3
Options	8 463	2 003
Other	39	61
Foreign currency and gold transactions		
Cross-Currency Interest Rate Swaps (CIRS)	75 005	49 332
Currency Forward Agreements	153 953	157 608
Currency Swaps (FX-Swap)	80 308	109 396
Options for currency and for gold	73 950	72 799
Transactions based on equity securities and stock indexes		
Options	3 084	3 076
Other	14	-
Transactions based on commodities and precious metals		
Options	25 646	23 523
Other	14 298	14 054
Total	2 079 529	2 034 113

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

25. Loans and advances to customers

Loans and advances to customers by product type

	30.06.2020			TOTAL
	AMORTISED COST	FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	FAIR VALUE THROUGH PROFIT OR LOSS	
Mortgage loans	73 716 647	834 439	18 642	74 569 728
Current accounts	10 175 450	-	-	10 175 450
Operating loans	11 282 250	425 246	20 836	11 728 332
Investment loans	21 771 076	272 777	38 079	22 081 932
Cash loans	14 231 320	-	-	14 231 320
Payment cards receivables	1 040 210	-	-	1 040 210
Factoring	6 593 350	-	-	6 593 350
Other loans and advances	1 577 346	-	136 312	1 713 658
Debt securities	-	-	-	-
Reverse repo transactions	950 900	-	-	950 900
Cash in transit	127 966	-	-	127 966
Gross carrying amount	141 466 515	1 532 462	213 869	143 212 846
Impairment allowances (*) (**)	(6 899 759)	-	-	(6 899 759)
Carrying amount	134 566 756	1 532 462	213 869	136 313 087

(*) The impairment allowance for loans and advances to customers measured at fair value through other comprehensive income in the amount of PLN 26 546 thousand is included in the 'Revaluation reserve' item and does not reduce the carrying amount of the loan.

(**) Including the provision for legal risk regarding foreign currency mortgage loans in the amount of PLN 47 994 thousand.

Notes to financial statements (cont.)

(in PLN thousand)

Loans and advances to customers by product type

	31.12.2019			TOTAL
	AMORTISED COST	FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	FAIR VALUE THROUGH PROFIT OR LOSS	
Mortgage loans	70 892 003	807 770	21 600	71 721 373
Current accounts	11 473 778	-	-	11 473 778
Operating loans	12 008 401	404 374	22 518	12 435 293
Investment loans	20 562 225	168 463	57 226	20 787 914
Cash loans	14 674 372	-	-	14 674 372
Payment cards receivables	1 113 077	-	-	1 113 077
Factoring	6 206 770	-	-	6 206 770
Other loans and advances	1 493 039	-	141 295	1 634 334
Debt securities	-	-	-	-
Reverse repo transactions	502 300	-	-	502 300
Cash in transit	34 390	-	-	34 390
Gross carrying amount	138 960 355	1 380 607	242 639	140 583 601
Impairment allowances (*) (**)	(6 383 188)	-	-	(6 383 188)
Carrying amount	132 577 167	1 380 607	242 639	134 200 413

(*) The impairment allowance for loans and advances to customers measured at fair value through other comprehensive income in the amount of PLN 20 808 thousand is included in the 'Revaluation reserve' item and does not reduce the carrying amount of the loan.

(**) Including the provision for legal risk regarding foreign currency mortgage loans in the amount of PLN 36 265 thousand.

Loans and advances to customers by customer type

	30.06.2020			TOTAL
	AMORTISED COST	FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	FAIR VALUE THROUGH PROFIT OR LOSS	
Corporate	59 534 570	1 532 462	37 282	61 104 314
Individuals	78 751 541	-	136 314	78 887 855
Budget entities	3 180 404	-	40 273	3 220 677
Gross carrying amount	141 466 515	1 532 462	213 869	143 212 846
Impairment allowances (*) (**)	(6 899 759)	-	-	(6 899 759)
Carrying amount	134 566 756	1 532 462	213 869	136 313 087

(*) The impairment allowance for loans and advances to customers measured at fair value through other comprehensive income in the amount of PLN 26 546 thousand is included in the 'Revaluation reserve' item and does not reduce the carrying amount of the loan.

(**) Including the provision for legal risk regarding foreign currency mortgage loans in the amount of PLN 47 994 thousand.

	31.12.2019			TOTAL
	AMORTISED COST	FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	FAIR VALUE THROUGH PROFIT OR LOSS	
Corporate	58 501 431	1 380 607	44 128	59 926 166
Individuals	77 159 169	-	141 296	77 300 465
Budget entities	3 299 755	-	57 215	3 356 970
Gross carrying amount	138 960 355	1 380 607	242 639	140 583 601
Impairment allowances (*) (**)	(6 383 188)	-	-	(6 383 188)
Carrying amount	132 577 167	1 380 607	242 639	134 200 413

(*) The impairment allowance for loans and advances to customers measured at fair value through other comprehensive income in the amount of PLN 20 808 thousand is included in the 'Revaluation reserve' item and does not reduce the carrying amount of the loan.

(**) Including the provision for legal risk regarding foreign currency mortgage loans in the amount of PLN 36 265 thousand.

Notes to financial statements (cont.)

(in PLN thousand)

26. Receivables from financial leases

As a lessor, the Group concludes contracts classified as finance leases, the main subject of which are means of transport, machinery and technical equipment. The main lessor in the Group is Pekao Leasing Sp. z o.o.

The tables below present the maturity analysis of lease receivables, presenting the undiscounted lease payments to be received after the balance sheet date.

FINANCE LEASES UNDER IFRS 16	30.06.2020	31.12.2019
Up to 1 year	2 586 260	2 503 384
Between 1 and 2 years	1 970 539	1 757 776
Between 2 and 3 years	1 310 197	1 338 587
Between 3 and 4 years	787 597	732 174
Between 4 and 5 years	461 145	392 005
Over 5 years	555 886	532 296
Total undiscounted lease payments	7 671 624	7 256 222
Unearned interest income	(380 445)	(456 920)
Net investment in the lease	7 291 179	6 799 302
Impairment allowances	(119 581)	(86 363)
Carrying amount	7 171 598	6 712 939

Receivables from financial leases by entity

	30.06.2020	31.12.2019
Loans and advances to banks	10	117
Loans and advances to customers	7 291 169	6 799 185
Gross carrying amount	7 291 179	6 799 302
Impairment allowances	(119 581)	(86 363)
Carrying amount	7 171 598	6 712 939

27. Hedge accounting

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

As of 30 June 2020 the Group applies fair value hedge accounting and cash flow hedge accounting:

FVH - fair value hedge accounting:

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

CFH - cash flow hedge accounting:

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

Notes to financial statements (cont.)

(in PLN thousand)

Impact of the IBOR reform on hedge accounting

In relation to the amendments to IAS 39 and IFRS 9 published on 16 January 2020 as at 31 December 2019 the Bank took advantage of the possibility of earlier application of the above-mentioned changes to IAS 39 and IFRS 9 concerning the impact of the interest rate benchmark reform on hedge accounting (*Interbank Offer Rate* - 'IBOR reform') and as part of the prospective assessment of the effectiveness of hedging relationships did not take into account the impact of uncertainty regarding LIBOR benchmarks after 31 December 2021.

Below is the list of hedging relationships and the nominal amounts of hedging instruments designated thereto, which may be affected by the reform of the LIBOR interest rate benchmarks as at 30 June 2020:

- CFH CIRS deposits / loans (CHF 683 million transactions based on CHF LIBOR)
- FVH IRS bonds (USD 198 million transactions based on USD LIBOR)

Fair value hedge accounting

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

Risk management strategy regarding fair value hedge relationships, hedge accounting system and main sources of hedge ineffectiveness were described in consolidated financial statements of Bank Pekao S.A. Group for the year ended 31 December 2019 and have not changed substantially since then.

The approach of the Group to market risk management, including interest rate risk, and details regarding exposure of the Group to interest rate risk are disclosed in Note 7.2.

The tables below present interest rate swaps which are used by the Group as instruments hedging interest rate risk in fair value hedge accounting as of 30 June 2020 and 31 December 2019.

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

30.06.2020	FVH IRS BONDS – IRS HEDGING DEBT SECURITIES MEASURED AT		TOTAL
	AMORTISED COST	FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	
HEDGING INSTRUMENTS			
Nominal value	200 000	2 360 110	2 560 110
Carrying amount – assets	-	-	-
Carrying amount – liabilities	30 377	170 871	201 248
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	(14 834)	(51 400)	(66 234)
Amount of hedge ineffectiveness recognized in the income statement 'Result on fair value hedge accounting'	(417)	(335)	(752)
HEDGED ITEM			
Carrying amount – assets	228 664	2 582 959	2 811 623
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	28 706	190 476	219 182
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	14 417	51 066	65 483
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

31.12.2019	FVH IRS BONDS – IRS HEDGING DEBT SECURITIES MEASURED AT		TOTAL
	AMORTISED COST	FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	
HEDGING INSTRUMENTS			
Nominal value	200 000	2 734 433	2 934 433
Carrying amount – assets	-	637	637
Carrying amount – liabilities	15 469	145 897	161 366
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	(5 871)	(37 241)	(43 112)
Amount of hedge ineffectiveness recognized in the income statement 'Result on fair value hedge accounting'	(282)	(1 384)	(1 666)
HEDGED ITEM			
Carrying amount – assets	214 291	2 973 347	3 187 638
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	14 288	174 946	189 234
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	5 588	35 858	41 446
Accumulated amount of the adjustment to the fair value of the hedged item remaining in the balance sheet for those hedged items for which adjustments of the balance sheet item for adjustment to fair value has been discontinued	-	-	-

Cash flow hedge accounting

The Group applies:

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

The Group's risk management strategy regarding cash flow hedge relationships, hedge accounting system and main sources of hedge ineffectiveness were described in consolidated financial statements of Bank Pekao S.A. Group for the year ended 31 December 2019 and have not changed substantially since then.

Notes to financial statements (cont.)

(in PLN thousand)

Impact of cash flow hedge on balance sheet and financial result

HEDGE IN RELATIONSHIP AS AT 30.06.2020	INTEREST RATE RISK		INTEREST RATE RISK / CURRENCY RISK	
	CFH IRS loans	CFH IRS deposits	CFH CIRS deposits/ loans	CFH FX-Swap deposits/loans
HEDGING INSTRUMENTS				
Nominal value	12 775 000	1 225 192	5 193 306	25 499 855
Carrying amount – assets	854 919	8 133	-	106 793
Carrying amount – liabilities	478	54 982	560 698	130 711
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	538 646	(21 067)	11 875	7 631
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'	1 969	-	-	1
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	(536 944)	21 067	(12 684)	(7 635)
Revaluation reserve due to cash flow hedge accounting for relationships for which hedge accounting will be continued after the end of the reporting period	736 388	(43 400)	(41 761)	9 425
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 AS AT 31.12.2019	INTEREST RATE RISK		INTEREST RATE RISK / CURRENCY RISK	
	CFH IRS loans	CFH IRS deposits	CFH CIRS deposits/ loans	CFH FX--Swap deposits/loans
HEDGING INSTRUMENTS				
Nominal value	12 200 000	1 203 402	5 015 384	11 441 843
Carrying amount – assets	290 699	2 708	-	83 164
Carrying amount – liabilities	8 247	28 699	391 365	25 088
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	49 328	(10 521)	32 807	2 226
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'	(1 265)	-	(2)	(6)
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	(50 455)	10 521	(48 923)	(2 248)
Revaluation reserve due to cash flow hedge accounting for relationships for which hedge accounting will be continued after the end of the reporting period	200 961	(22 346)	(53 646)	1 794
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 2020	I HALF 2019
Opening balance	126 763	51 540
INTEREST RATE RISK		
Gains or losses resulting from hedging, recognized in other comprehensive income during the reporting period	514 373	54 239
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	19 516	37 832
Part of the loss transferred to the income statement due to the lack of expectation of materialization of the hedged item	-	-
Closing balance	660 652	143 611

Notes to financial statements (cont.)

(in PLN thousand)

28. Investment (placement) securities

	30.06.2020	31.12.2019
Debt securities measured at amortised cost	20 336 428	14 578 665
Debt securities measured at fair value through other comprehensive income	42 480 105	30 942 999
Equity instruments designated at fair value through other comprehensive income	236 165	225 332
Equity instruments mandatorily measured at fair value through profit or loss	133 520	146 119
Total	63 186 218	45 893 115

Debt securities measured at amortised cost

	30.06.2020	31.12.2019
Securities issued by State Treasury	14 580 133	8 901 451
T-bills	805 865	-
T-bonds	13 774 268	8 901 451
Securities issued by Central Banks	72 099	64 262
Securities issued by banks	442 190	-
Securities issued by business entities	2 101 628	2 416 388
Securities issued by local governments	3 140 378	3 196 564
Total	20 336 428	14 578 665
including impairment of assets	(70 060)	(74 993)

Debt securities measured at fair value through other comprehensive income

	30.06.2020	31.12.2019
Securities issued by State Treasury	18 752 527	18 639 761
T-bills	1 336 029	-
T-bonds	17 169 343	18 390 151
Other	247 155	249 610
Securities issued by Central Banks	7 999 929	3 000 508
Securities issued by banks	5 644 392	3 632 368
Securities issued by business entities	7 402 379	2 732 829
Securities issued by local governments	2 680 878	2 937 533
Total	42 480 105	30 942 999
including impairment of assets (*)	(48 994)	(32 671)

(*) 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

	30.06.2020	31.12.2019
Shares	236 165	225 332
Total	236 165	225 332

Equity instruments mandatorily measured at fair value through profit or loss

	30.06.2020	31.12.2019
Shares	133 520	125 454
Investment certificates	-	20 665
Total	133 520	146 119

Notes to financial statements (cont.)

(in PLN thousand)

29. Intangible assets

	30. 06.2020	31.12.2019
Intangible assets, including:	999 799	869 883
research and development expenditures	5 215	4 715
licenses and patents	584 444	467 147
other	150 401	156 963
assets under construction	259 739	241 058
Goodwill	747 648	747 648
Total	1 747 447	1 617 531

The item 'Goodwill' contains:

- goodwill recognized upon acquisition of Pekao Investment Management S.A. and indirectly Pekao TFI S.A. by Bank Pekao S.A. It is determined the smallest identifiable cash-generating units ('CGU'), to which the goodwill has been allocated in the amount of PLN 692 128 thousand,
- goodwill that was transferred to Bank Pekao S.A. on integration with Bank BPH S.A. It represents the goodwill recognized upon acquisition of Pierwszy Komercyjny Bank S.A. in Lublin ('PKBL') by Bank BPH S.A. and relates to those branches of the PKBL which were transferred to Bank Pekao S.A. as a result of integration with Bank BPH S.A. It is determined the smallest identifiable cash-generating units ('CGU'), to which the goodwill has been allocated in the amount of PLN 51 675 thousand,
- goodwill recognized upon acquisition of Spółdzielcza Kasa Oszczędnościowo – Kredytowa im. Mikołaja Kopernika by Bank Pekao S.A. It is determined the smallest identifiable cash-generating units ('CGU'), to which the goodwill has been allocated in the amount of PLN 960 thousand,
- goodwill recognized upon acquisition of Pekao Leasing i Finanse S.A. (formerly BPH Leasing S.A.) by Pekao Leasing Holding S.A. (formerly BPH PBK Leasing S.A.). It is determined the smallest identifiable cash-generating units ('CGU'), to which the goodwill has been allocated in the amount of PLN 2 885 thousand.

Due to the market situation caused by COVID-19, as at 30 June 2020 the Bank performed impairment tests with respect to goodwill.

The impairment tests are performed by comparing the carrying amount of the CGU, including the goodwill, with the recoverable amount of the CGU. The recoverable amount is estimated on the basis of value in use of the CGU. The value in use is the present, estimated value of the future cash flows for the period of 5 years, taking into account the residual value of the CGU. The residual value of the CGU is calculated based on an extrapolation of cash flows projections beyond the forecast period using the growth rate of 2.0%. The forecasts of the future cash flows are based on the assumptions included the budget for 2020 and financial plan for 2021-2025. To discount the future cash flows, it is applied the discount rate of 7.93%, which includes the risk-free rate and the risk premium.

The impairment tests performed as at 30 June 2020 showed the surplus of the recoverable amount over the carrying amount of the CGU, and therefore no CGU impairments were recognized.

Notes to financial statements (cont.)

(in PLN thousand)

30. Property, plant and equipment

	30.06.2020	31.12.2019
Non-current assets, including:	1 843 876	1 743 300
land and buildings	1 259 865	1 288 838
machinery and equipment	387 125	288 008
transport vehicles	93 650	73 528
other	103 236	92 926
Non-current assets under construction and prepayments	95 375	176 952
Total	1 939 251	1 920 252

In the period from 1 January to 30 June 2020 the Group acquired property, plant and equipment in the amount of PLN 137 505 thousand (in 2019 - PLN 282 607 thousand), while the value of property, plant and equipment sold amounted to PLN 3 247 thousand (in 2019 - PLN 12 149 thousand).

In the period from 1 January to 30 June 2020 and in 2019 there have been no property, plant and equipment whose title is restricted and pledged as security for liabilities.

Contractual commitments

As at 30 June 2020 the contractual commitments for the acquisition of property, plant and equipment amounted to PLN 21 917 thousand, (as at 31 December 2019 - PLN 39 481 thousand).

31. Assets pledged as security for liabilities

TYPE OF TRANSACTION AS AT 30.06.2020	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	104 617	94 317	104 773
Coverage of Fund for protection of guaranteed assets to the benefit of the Bank Guarantee Fund	bonds	708 782	660 000	-
Coverage of payment commitments to the guarantee fund for the Bank Guarantee Fund	bonds	112 779	112 000	104 143
Coverage of payment commitments to the resolution fund for the Bank Guarantee Fund	bonds	302 720	292 000	266 891
Lombard and technical loan	bonds	5 984 991	5 648 814	-
Other loans	bonds	368 838	354 900	310 266
Debt securities issued	loans, bonds	1 960 452	1 968 419	1 435 809
Coverage of the Guarantee Fund for the Settlement of Stock Exchange Transactions to Central Securities Depository (KDPW)	bonds, cash deposits	42 380	42 380	-
Derivatives	bonds	61 622	61 196	46 559

Notes to financial statements (cont.)

(in PLN thousand)

TYPE OF TRANSACTION AS AT 31.12.2019	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	597 540	584 833	598 241
Coverage of Fund for protection of guaranteed assets to the benefit of the Bank Guarantee Fund	bonds	652 929	615 000	-
Coverage of payment commitments to the guarantee fund for the Bank Guarantee Fund	bonds	82 529	81 000	79 123
Coverage of payment commitments to the resolution fund for the Bank Guarantee Fund	bonds	239 577	232 000	208 549
Lombard and technical loan	bonds	5 758 095	5 548 332	-
Other loans	bonds	373 537	360 100	314 430
Debt securities issued	loans, bonds	1 871 923	1 872 149	1 342 437
Coverage of the Guarantee Fund for the Settlement of Stock Exchange Transactions to Central Securities Depository (KDPW)	bonds, cash deposits	32 645	32 645	-
Derivatives	bonds	54 461	53 452	32 631

32. Amounts due to other banks

Amounts due to other banks by product type

	30.06.2020	31.12.2019
Current accounts	1 198 060	408 172
Interbank deposits and other liabilities	726 284	691 719
Loans and advances received	5 610 197	5 194 074
Repo transactions	150 704	218 449
Cash in transit	33 911	26 466
Lease liabilities	421	659
Total	7 719 577	6 539 539

Amounts due to other banks are measured at amortised cost.

Notes to financial statements (cont.)

(in PLN thousand)

33. Amounts due to customers

Amounts due to customers by entity and product type

	30.06.2020	31.12.2019
Amounts due to corporate, including:	67 254 745	54 146 677
current accounts	61 437 283	42 198 847
term deposits and other liabilities	5 817 462	11 947 830
Amounts due to budget entities, including:	16 449 087	10 915 849
current accounts	16 112 560	10 526 619
term deposits and other liabilities	336 527	389 230
Amounts due to individuals, including:	100 088 804	91 900 464
current accounts	73 424 924	57 013 373
term deposits and other liabilities	26 663 880	34 887 091
Repo transactions	-	379 792
Cash in transit	305 820	240 407
Lease liabilities	450 634	406 545
Total	184 549 090	157 989 734

Amounts due to customers are measured at amortised cost.

34. Debt securities issued

Debt securities issued by type

	30.06.2020	31.12.2019
Liabilities from bonds	2 202 887	3 361 056
Certificates of deposit	1 399 735	1 604 344
Mortgage bonds	1 435 809	1 342 437
Total	5 038 431	6 307 837

Amounts debt securities issued are measured at amortised cost.

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

Notes to financial statements (cont.)

(in PLN thousand)

35. Subordinated liabilities

Subordinated liabilities by type

TYPE OF TRANSACTION	NOMINAL AMOUNT	CURRENCY	INTEREST RATE	ISSUE DATE	MATURITY DATE	SPECIAL TERMS	BALANCE SHEET VALUE AS AT 30.06.2020
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	1 254 713
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	552 634
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	201 063
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	350 515
Subordinated bonds	400 000	PLN	variable, WIBOR 6M + margin	04.12.2019	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	400 589
TOTAL	2 750 000						2 759 514

TYPE OF TRANSACTION	NOMINAL AMOUNT	CURRENCY	INTEREST RATE	ISSUE DATE	MATURITY DATE	SPECIAL TERMS	BALANCE SHEET VALUE AS AT 31.12.2019
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	553 926
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
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	350 937
Subordinated bonds	400 000	PLN	variable, WIBOR 6M + margin	04.12.2019	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	401 071
TOTAL	2 750 000						2 764 493

Notes to financial statements (cont.)

(in PLN thousand)

36. Provisions

Changes in provisions in the reporting period

I HALF 2020	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	103 933	18 954	290 269	290 902	48 539	752 597
Provision charges/revaluation	18 750	144 430	10 781	184 852	8 681	367 494
Provision utilization	(11 764)	(52 458)	(14 708)	-	(1 187)	(80 117)
Provision releases	(3 462)	-	-	(92 251)	-	(95 713)
Foreign currency exchange differences	-	-	-	1 720	-	1 720
Other changes	-	-	-	-	-	-
Closing balance	107 457	110 926	286 342	385 223	56 033	945 981
Short term	17 722	110 926	13 684	56 127	495	198 954
Long term	89 735	-	272 658	329 096	55 538	747 027

(*) Including the provision for legal risk regarding foreign currency mortgage loans in CHF in the amount of PLN 26 306 thousand and a provision for early repayments of consumer loans in the amount of PLN 24 552 thousand as at 30 June 2020.

2019	PROVISIONS FOR LITIGATION AND CLAIMS (*)	RESTRUCTURING PROVISION	PROVISIONS FOR DEFINED BENEFIT PLANS	PROVISIONS FOR UNDRAWN CREDIT FACILITIES AND GUARANTEES ISSUED	OTHER PROVISIONS	TOTAL
Opening balance	54 890	-	289 287	240 698	50 210	635 085
Provision charges/revaluation	76 137	85 000	23 493	209 988	13 364	407 982
Provision utilization	(22 484)	(66 046)	(25 414)	-	(15 842)	(129 786)
Provision releases	(4 795)	-	(24)	(159 841)	-	(164 660)
Foreign currency exchange differences	-	-	-	57	-	57
Other changes	185	-	2 927	-	807	3 919
Closing balance	103 933	18 954	290 269	290 902	48 539	752 597
Short term	32 696	18 954	261	41 155	920	93 986
Long term	71 237	-	290 008	249 747	47 619	658 611

(*) Including the provision for legal risk regarding foreign currency mortgage loans in CHF in the amount of PLN 22 441 thousand and a provision for early repayments of consumer loans in the amount of PLN 26 279 thousand as at 31 December 2019.

Provisions for litigation and claims

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

Provisions for litigation and claims also include the part of total provision created for legal risk related to foreign currency mortgage loans in CHF, in part relating to exposures already repaid (fully or partially). Details about the above provisions are presented in Note 7.1 of these condensed interim consolidated financial statements.

An issue related to the judgment of the Court of Justice of the European Union regarding consumer credit agreements

On 11 September 2019, the Court of Justice of the European Union (hereinafter the 'CJEU') issued a judgment in Case C-383/18 concerning preliminary questions regarding the consumer's right to reduce the total cost of loan in the event of early repayment of consumer loan.

The Group analyzed the legal risk resulting from the above judgment and in accordance with IAS 37 'Provisions, contingent liabilities and contingent assets,' assessed the probability of cash outflow as a refund of commission in connection with early repayment of loans made by borrowers before the abovementioned judgment of the CJEU.

Notes to financial statements (cont.)

(in PLN thousand)

For the purpose of estimating the aforementioned provision, the Group performed an analysis of data on early repayment of loans and complaints. As a result of the above, the Group has determined a matrix of probability of repayment depending on the amount of commission to be repaid and the period when the earlier repayment was made.

As at 30 June 2020 the provision regarding early repayment of consumer loans made before the judgment of the CJEU (i.e. before 11 September 2019) amounts to PLN 24.6 million (the change during 2020 concerns the additional provision in the amount of PLN 10 million, which was compensated by the provision utilization of PLN 11.7 million).

The estimates required the Group to adopt expert assumptions and are associated with uncertainty. The Group monitors the validity of all assumptions adopted in the process of creating the above provision on an ongoing basis.

In relation to the above, the Group conducted a sensitivity analysis in relation to significant provisioning parameters, where a change in the level of these parameters would have the following impact on the amount of the provision:

PARAMETR	SCENARIO	IMPACT ON THE LEVEL OF PROVISION
Change in number of complaints	+10%	3.9
	-10%	(3.9)
Change in average refund amount	+10%	3.9
	-10%	(3.9)

In the case of early repayment of loans made by borrowers after the judgment of the CJEU (i.e. after 11 September 2019), the Group automatically reduces the borrower's total cost of loan and returns the funds to the customer.

In addition, with respect to balance sheet exposures as at 30 June 2020, the Group estimated possible future prepayments of these exposures. In accordance with the above, the Group recognized the amount of PLN 8.8 million in 'Other liabilities' (as at 31 December 2019 - PLN 9.5 million).

Restructuring provision

The Management Board of Bank Pekao S.A. informed that on 20 February 2020, 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 1 200 employees and amend terms and conditions of employment with up to 1 350 employees in the period from 13 March 2020 to 31 October 2020, whereby the Bank may take a unilateral decision to extend the process by no more than 5 months.

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, as well as of restructuring of branches network for the amount of PLN 144.4 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 of 30 June 2020 the following court cases for payment are pending with involvement of the Group, that are important in view of the value of the object of litigation:

- 1) in the group of liabilities (against the Group):
 - brought by a legal person – lawsuit for payment by virtue of improper performance of an agreement, value of the object of litigation EUR 17 521 646 (which as of 30 June 2020 at mid NBP rate was equivalent to PLN 78 251 671.04), litigation initiation date – 19 July 2018, on 27 May 2019 the Arbitration Court at the Polish Chamber of Commerce passed a sentence dismissing the suit in its entirety, the sentence is legally valid but the plaintiff lodged 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 receivables 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 PLN 57 450 130 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 PLN 38 916 555.18, litigation initiation date – 2 October 2016, on 6 May 2019 the Regional Court in Warsaw issued a sentence ordering the Bank to pay the amount of PLN 3 392 349.18 and as to the remainder the Court dismissed the suit, the sentence is not legally valid, the Bank and the plaintiff appealed against the judgment. In the present factual and legal circumstances regarding the amount awarded by the Circuit Court the Bank assesses the funds outflow risk as probable and in the remaining scope 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 PLN 32 750 000 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 – former Pekao S.A. Central Brokerage House, the value of the object of litigation is PLN 30 000 000 - the date of the litigation initiation is 16 May 2019. On 7 February 2020 the Regional Court in Warsaw issued a sentence dismissing the suit in its entirety, the sentence is not legally valid. In the present factual and legal circumstances the Bank assesses the funds outflow risk as minor,
- 2) in the group of receivables (brought by the Group):
 - Bank's main intervention lawsuit against the parties of the main lawsuit – the object of the intervention is the demand for payment by virtue of the assignment of receivables securing Bank's liabilities, value of the object of litigation is PLN 321 979 666.87, litigation initiation date – 26 October 2018,
 - Bank's lawsuit for payment against limited debtor by virtue of mortgage collateralizing repayment of the granted credit, value of the object of litigation PLN 132 877 901, 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 PLN 119 020 334, litigation initiation date – 26 October 2018,
 - Bank's mutual lawsuit for payment of amounts due by virtue of the transfer of receivables, value of the object of litigation PLN 89 977 886, 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 PLN 67 432 617.21, litigation initiation date – 23 January 2006.

None of the litigations pending in the first half of the year 2020 before the court, authority competent for arbitrary proceedings or a body of public administration posed a threat for financial liquidity of the Group.

Notes to financial statements (cont.)

(in PLN thousand)

The Group created provisions for litigations against the Group entities which, according to the legal opinion, are connected with a risk of the funds outflow resulting from the fulfillment of the obligation. The value of the provisions as at 30 June 2020 is PLN 81 151 thousand (PLN 81 492 thousand as at 31 December 2019). These amounts do not include provisions for legal risk regarding foreign currency mortgage loans in CHF.

In addition, as at 30 June 2020 the Group assessed the legal risk of foreign currency mortgage loans in CHF and created a provision related to this risk. Details are presented in Note 7.1 of these condensed Interim consolidated financial statements.

Financial commitments granted

Financial commitments granted by entity

	30.06.2020	31.12.2019
Financial commitments granted to:		
banks	866 192	377 742
customers	36 819 055	35 678 506
budget entities	819 892	657 679
Total	38 505 139	36 713 927

Guarantees issued

Guarantees issued by entity

	30.06.2020	31.12.2019
Issued to banks:	1 582 617	1 868 388
guarantees	1 532 082	1 822 039
confirmed export letters of credit	50 535	46 349
Issued to customers	10 403 400	10 087 707
guarantees	7 533 992	7 048 690
securities' underwriting guarantees	2 810 010	2 982 379
sureties	59 398	56 638
Issued to budget entities:	805 433	682 865
guarantees	46 102	29 070
securities' underwriting guarantees	759 331	653 795
Total	12 791 450	12 638 960

Off-balance sheet commitments received

Off-balance sheet commitments received by entity

	30.06.2020	31.12.2019
Financial received from:	1 328 446	1 297 658
banks	1 029 739	1 297 658
customers	-	-
budget entities	298 707	-
Guarantees received from:	17 593 282	18 071 470
banks	5 357 856	4 896 962
customers	11 154 563	12 159 551
budget entities	1 080 863	1 014 957
Total	18 921 728	19 369 128

Moreover, the Group 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 consolidated cash flow statement

Cash and cash equivalents

	30.06.2020	30.06.2019
Cash and amounts due from Central Bank	7 362 524	4 324 663
Loans and receivables from banks with maturity up to 3 months	8 108 972	2 502 437
Cash and Cash equivalents presented in the cash flow statement	15 471 496	6 827 100

Restricted availability cash and cash equivalents as at 30 June 2020 amounted to PLN 1 778 776 thousand (PLN 1 403 491 thousand as at 30 June 2019).

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 2020

NAME OF ENTITY	RECEIVABLES FROM LOANS AND PLACEMENTS	SECURITIES	RECEIVABLES FROM REVALUATION OF DERIVATIVES	OTHER RECEIVABLES	LIABILITIES FROM LOANS AND DEPOSITS	LIABILITIES FROM REVALUATION OF DERIVATIVES	OTHER LIABILITIES
PZU S.A. – the Bank's parent entity	2 567	-	-	2 684	119 778	339	2 203
Entities of PZU S.A. Group excluding of Bank Pekao S.A. Group entities	893	-	933	10 338	312 298	344	1 238
Key management personnel of the Bank Pekao S.A.	184	-	-	-	9 490	-	-
Total	3 644	-	933	13 022	441 566	683	3 441

Related party transactions as at 31 December 2019

NAME OF ENTITY	RECEIVABLES FROM LOANS AND PLACEMENTS	SECURITIES	RECEIVABLES FROM REVALUATION OF DERIVATIVES	OTHER RECEIVABLES	LIABILITIES FROM LOANS AND DEPOSITS	LIABILITIES FROM REVALUATION OF DERIVATIVES	OTHER LIABILITIES
PZU S.A. – the Bank's parent entity	255	-	-	7 751	53 255	637	151
Entities of PZU S.A. Group excluding of Bank Pekao S.A. Group entities	10 113	-	763	9 135	121 845	10 647	1 513
Key management personnel of the Bank Pekao S.A.	38	-	-	-	9 538	-	-
Total	10 406	-	763	16 886	184 638	11 284	1 664

Notes to financial statements (cont.)

(in PLN thousand)

Income and expenses from transactions with related parties for the period from 1 January 2020 to 30 June 2020

NAME OF ENTITY	INTEREST INCOME	INTERES EXPENSE	FEE AND COMMISSION INCOME	FEE AND COMMISSION EXPENSE	POSITIVE VALUATION OF DERIVATIVES AND OTHER INCOME	NEGATIVE VALUATION OF DERIVATIVES AND OTHER EXPENSES
PZU S.A. – the Bank 's parent entity	(763)	(278)	18 505	(222)	120	(3 070)
Entities of PZU S.A. Group excluding of Bank Pekao S.A. Group entities	176	(387)	21 602	(119)	313	(6 318)
Key management personnel of the Bank Pekao S.A.	1	(14)	-	-	-	-
Total	(586)	(679)	40 107	(341)	433	(9 388)

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

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

Notes to financial statements (cont.)

(in PLN thousand)

Off-balance sheet financial liabilities and guarantees as at 30 June 2020

NAME OF ENTITY	GRANTED		RECEIVED	
	FINANCIAL	GUARANTEES	FINANCIAL	GUARANTEE
PZU S.A. – the Bank's parent entity	2 805	15 000	-	513 590
Entities of PZU S.A. Group excluding of Bank Pekao S.A. Group entities	1 012	11 000	-	-
Key management personnel of the Bank Pekao S.A.	199	-	-	-
Total	4 016	26 000	-	513 590

Off-balance sheet financial liabilities and guarantees as at 31 December 2019

NAME OF ENTITY	GRANTED		RECEIVED	
	FINANCIAL	GUARANTEES	FINANCIAL	GUARANTEE
PZU S.A. – the Bank's parent entity	2 801	15 000	-	489 728
Entities of PZU S.A. Group excluding of Bank Pekao S.A. Group entities	665	10 000	-	-
Key management personnel of the Bank Pekao S.A.	172	-	-	-
Total	3 638	25 000	-	489 728

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 2020	I HALF 2019
Management Board of the Bank		
Short-term employee benefits (*)	4 102	4 059
Post-employment benefits	-	-
Long-term benefits (**)	1 812	1 956
Share-based payments (***)	1 719	2 165
Total	7 633	8 180
Supervisory Board of the Bank		
Short-term employee benefits (*)	575	525
Total	575	525

(*) 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 2020 and in the period from 1 January to 30 June 2019.

Remuneration expenses of Supervisory Boards and Management Boards of subsidiaries

	VALUE OF BENEFITS	
	I HALF 2020	I HALF 2019
Companies' Management Boards		
Short-term employee benefits	6 740	7 949
Post-employment benefits	1 051	1 014
Long-term benefits	749	241
Paid termination benefits	395	553
Total	8 935	9 757
Companies' Supervisory Boards		
Short-term employee benefits	344	416
Total	344	416

40. Subsequent events

No significant events occurred after the balance sheet date which were not reflected in the financial statements.

Signatures of the Management Board Members

04.08.2020 Date	Leszek Skiba Name/Surname	Vice President of the Management Board managing work of the Management Board Position/Function	Signature
04.08.2020 Date	Jarosław Fuchs Name/Surname	Vice President of the Management Board Position/Function	Signature
04.08.2020 Date	Marcin Gadomski Name/Surname	Vice President of the Management Board Position/Function	Signature
04.08.2020 Date	Krzysztof Kozłowski Name/Surname	Vice President of the Management Board Position/Function	Signature
04.08.2020 Date	Tomasz Kubiak Name/Surname	Vice President of the Management Board Position/Function	Signature
04.08.2020 Date	Grzegorz Olszewski Name/Surname	Vice President of the Management Board Position/Function	Signature
04.08.2020 Date	Tomasz Styczyński Name/Surname	Vice President of the Management Board Position/Function	Signature
04.08.2020 Date	Marek Tomczuk Name/Surname	Vice President of the Management Board Position/Function	Signature
04.08.2020 Date	Magdalena Zmitrowicz Name/Surname	Vice President 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.