

Condensed Interim Consolidated Financial Statements of Bank Pekao S.A. Group for the first half of 2021



Warsaw, August 2021

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

	NOTE	II QUARTER 2021 PERIOD FROM 01.04.2021 TO 30.06.2021	I HALF 2021 PERIOD FROM 01.01.2021 TO 30.06.2021	II QUARTER 2021 PERIOD FROM 01.04.2020 TO 30.06.2020 RESTATED	I HALF 2020 PERIOD FROM 01.01.2020 TO 30.06.2020 RESTATED
Interest income	9	1 364 910	2 769 689	1 547 044	3 264 484
Interest income calculated using the effective interest method		1 296 270	2 632 860	1 478 805	3 136 864
Financial assets measured at amortised cost		1 180 899	2 372 388	1 314 397	2 814 207
Financial assets measured at fair value through other comprehensive income		115 371	260 472	164 408	322 657
Other interest income related to financial assets measured at fair value through profit or loss		68 640	136 829	68 239	127 620
Interest expense	9	(25 458)	(96 638)	(181 496)	(470 685)
Net interest income		1 339 452	2 673 051	1 365 548	2 793 799
Fee and commission income	10	800 788	1 537 586	676 929	1 396 195
Fee and commission expense	10	(128 034)	(248 969)	(109 082)	(213 954)
Net fee and commission income		672 754	1 288 617	567 847	1 182 241
Dividend income	11	25 597	25 597	25 748	26 003
Result on financial assets and liabilities measured at fair value through profit or loss and foreign exchange result	12	64 559	93 166	50 703	60 975
Result on fair value hedge accounting	27	847	2 646	992	(752)
Result on derecognition of financial assets and liabilities not measured at fair value through profit or loss	13	23 194	34 007	23 049	44 175
Net allowances for expected credit losses	14	(191 900)	(367 933)	(474 010)	(804 920)
Operating income	15	27 944	46 681	16 490	35 682
Operating expenses	15	(21 905)	(31 089)	(24 369)	(44 348)
Administrative expenses	16	(985 347)	(2 250 916)	(909 932)	(2 193 234)
Personnel expenses		(532 478)	(1 179 009)	(489 277)	(1 107 513)
Other administrative expenses		(452 869)	(1 071 907)	(420 655)	(1 085 721)
Depreciation and amortization	17	(160 520)	(317 603)	(134 704)	(258 239)
Gains (losses) on associates	18	355	355	-	-
PROFIT BEFORE INCOME TAX		795 030	1 196 579	507 362	841 382
Income tax expense	19	(189 672)	(345 125)	(147 906)	(294 475)
NET PROFIT		605 358	851 454	359 456	546 907
1. Attributable to equity holders of the Bank		604 780	850 428	359 151	546 049
2. Attributable to non-controlling interests		578	1 026	305	858
Earnings per share (in PLN per share)					
basic for the period	20	2.30	3.24	1.37	2.08
diluted for the period	20	2.30	3.24	1.37	2.08

Notes to the financial statements presented on pages 11 – 82 constitute an integral part of the condensed interim consolidated financial statements.

Consolidated statement of comprehensive income

	NOTE	II QUARTER 2021 PERIOD FROM 01.04.2021 TO 30.06.2021	I HALF 2021 PERIOD FROM 01.01.2021 TO 30.06.2021	II QUARTER 2021 PERIOD FROM 01.04.2020 TO 30.06.2020	I HALF 2020 PERIOD FROM 01.01.2020 TO 30.06.2020
Net profit		605 358	851 454	359 456	546 907
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:					
Profit or loss on fair value measurement		(339 051)	(587 123)	525 077	363 972
Profit or loss reclassification to income statement after derecognition		(318 239)	(558 675)	548 841	401 175
Profit or loss reclassification to income statement after derecognition		(20 812)	(28 448)	(23 764)	(37 203)
Change in fair value of cash flow hedges	27	(123 581)	(459 101)	118 954	533 889
Tax on items that are or may be reclassified subsequently to profit or loss	19	87 900	198 783	(122 366)	(170 594)
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		38 595	82 980	21 880	10 647
Remeasurements of the defined benefit liabilities		-	-	-	-
Tax on items that will never be reclassified to profit or loss	19	(7 333)	(15 766)	(4 157)	(2 023)
Other comprehensive income (net of tax)		(343 470)	(780 227)	539 388	735 891
Total comprehensive income		261 888	71 227	898 844	1 282 798
1. Attributable to equity holders of the Bank		261 310	70 201	898 539	1 281 940
2. Attributable to non-controlling interests		578	1 026	305	858

Notes to the financial statements presented on pages 11 – 82 constitute an integral part of the condensed interim consolidated financial statements.

Consolidated statement of financial position

	NOTE	30.06.2021	31.12.2020
ASSETS			
Cash and due from Central Bank	22	7 606 790	4 456 279
Loans and advances to banks	23	2 209 301	2 578 339
Financial assets held for trading	24	485 541	1 317 709
Derivative financial instruments (held for trading)	25	3 566 159	4 812 231
Loans and advances to customers	26	154 439 521	142 487 797
1. Measured at amortised cost		154 002 547	140 825 741
2. Measured at fair value through profit or loss		178 989	187 001
3. Measured at fair value through other comprehensive income		257 985	1 475 055
Hedging instruments	27	604 189	779 063
Investments (placement) securities	28	67 497 810	70 491 227
1. Measured at fair value through profit or loss		173 403	160 486
2. Designated at fair value through profit or loss		-	-
3. Measured at fair value through other comprehensive income (debt securities)		30 185 242	42 737 500
4. Designated at fair value through other comprehensive income (equity instruments)		501 755	331 690
5. Measured at amortised cost		36 637 410	27 261 551
Assets held for sale		61 856	54 123
Investments in associates	2	42 548	-
Intangible assets	29	2 115 272	2 008 097
Property, plant and equipment	30	1 860 483	1 919 447
Income tax assets		1 440 181	1 253 578
1. Current tax assets		24 412	4 831
2. Deferred tax assets		1 415 769	1 248 747
Other assets		1 163 402	1 059 292
TOTAL ASSETS		243 093 053	233 217 182
EQUITY AND LIABILITIES			
Liabilities			
Amounts due to Central Bank	22	-	-
Amounts due to other banks	32	7 833 580	9 950 663
Financial liabilities held for trading	24	545 006	742 804
Derivative financial instruments (held for trading)	25	3 445 713	4 617 416
Amounts due to customers	33	192 462 141	178 303 984
Hedging instruments	27	850 601	1 072 959
Debt securities issued	34	5 113 551	6 146 708
Subordinated liabilities	35	2 757 773	2 757 876
Liabilities associated with assets held for sale		60 296	82 643
Income tax liabilities		30 239	339 798
1. Current tax liabilities		3 647	312 006
2. Deferred tax liabilities		26 592	27 792
Provisions	36	907 944	988 704
Other liabilities		3 521 544	2 718 650
TOTAL LIABILITIES		217 528 388	207 722 205
Equity			
Share capital		262 470	262 470
Other capital and reserves		21 738 951	22 243 269
Retained earnings and net profit for the period		3 552 059	2 977 889
Total equity attributable to equity holders of the Bank		25 553 480	25 483 628
Non-controlling interests		11 185	11 349
TOTAL EQUITY		25 564 665	25 494 977
TOTAL LIABILITIES AND EQUITY		243 093 053	233 217 182

Notes to the financial statements presented on pages 11 – 82 constitute an integral part of the condensed interim consolidated financial statements.

Consolidated statement of changes in equity

	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 1.01.2021	262 470	22 243 269	9 137 221	1 982 459	9 386 555	1 355 621	381 413	2 977 889	25 483 628	11 349	25 494 977
Comprehensive income	-	(780 227)	-	-	-	(780 227)	-	850 428	70 201	1 026	71 227
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)	-	(475 569)	-	-	-	(475 569)	-	-	(475 569)	-	(475 569)
Revaluation or sale of investments in equity instruments designated at fair value through other comprehensive income (net of tax)	-	67 214	-	-	-	67 214	-	-	67 214	-	67 214
Revaluation of hedging financial instruments (net of tax)	-	(371 872)	-	-	-	(371 872)	-	-	(371 872)	-	(371 872)
Net profit for the period	-	-	-	-	-	-	-	850 428	850 428	1 026	851 454
Appropriation of retained earnings	-	275 909	-	-	287 783	-	(11 874)	(275 909)	-	(1 088)	(1 088)
Dividend paid	-	-	-	-	-	-	-	-	-	(1 088)	(1 088)
Profit appropriation to other reserves	-	275 909	-	-	287 783	-	(11 874)	(275 909)	-	-	-
Other	-	-	-	-	-	-	-	(349)	(349)	(102)	(451)
Other	-	-	-	-	-	-	-	(349)	(349)	(102)	(451)
Equity as at 30.06.2021	262 470	21 738 951	9 137 221	1 982 459	9 674 338	575 394	369 539	3 552 059	25 553 480	11 185	25 564 665

Notes to the financial statements presented on pages 11 - 82 constitute an integral part of the condensed interim consolidated financial statements.

	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	-	995 953	-	-	-	995 953	-	1 101 712	2 097 665	1 180	2 098 845
Remeasurements of the defined benefit liabilities (net of tax)	-	(8 872)	-	-	-	(8 872)	-	-	(8 872)	(9)	(8 881)
Revaluation of debt financial instruments and loans measured at fair value through other comprehensive income (net of tax)	-	555 440	-	-	-	555 440	-	-	555 440	-	555 440
Revaluation or sale of investments in equity instruments designated at fair value through other comprehensive income (net of tax)	-	71 345	-	-	-	71 345	-	-	71 345	-	71 345
Revaluation of hedging financial instruments (net of tax)	-	378 040	-	-	-	378 040	-	-	378 040	-	378 040
Net profit for the period	-	-	-	-	-	-	-	1 101 712	1 101 712	1 189	1 102 901
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	-	25	-	-	25	-	-	(349)	(324)	(101)	(425)
Other	-	25	-	-	25	-	-	(349)	(324)	(101)	(425)
Equity as at 31.12.2020	262 470	22 243 269	9 137 221	1 982 459	9 386 555	1 355 621	381 413	2 977 889	25 483 628	11 349	25 494 977

Notes to the financial statements presented on pages 11 - 82 constitute an integral part of the condensed interim consolidated financial statements.

	EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK										
	SHARE CAPITAL	OTHER CAPITAL AND RESERVES					RETAINED EARNINGS AND NET PROFIT FOR THE PERIOD	TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK	NON - CONTROLLING INTERESTS	TOTAL EQUITY	
		TOTAL OTHER CAPITAL AND RESERVES	SHARE PREMIUM	GENERAL BANKING RISK FUND	OTHER RESERVE CAPITAL	REVALUATION RESERVES					OTHER
Equity as at 01.01.2020	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 – 82 constitute an integral part of the condensed interim consolidated financial statements.

Consolidated cash flow statement

	NOTE	I HALF 2021 PERIOD FROM 01.01.2021 TO 30.06.2021	I HALF 2020 PERIOD FROM 01.01.2020 TO 30.06.2020 RESTATED
Cash flow from operating activities – indirect method			
Profit before income tax		1 196 579	841 382
Adjustments for:		667 620	25 905 726
Depreciation and amortization	17	317 603	258 239
Share in gains (losses) from associates	18	(355)	-
(Gains) losses on investing activities		(36 920)	(33 646)
Net interest income	9	(2 673 051)	(2 793 799)
Dividend income	11	(25 597)	(26 003)
Interest received		2 595 203	3 153 202
Interest paid		(149 855)	(538 293)
Income tax paid		(401 950)	(397 053)
Change in loans and advances to banks	38	1 187 460	525
Change in financial assets held for trading	38	895 937	407 378
Change in derivative financial instruments (assets)	38	1 255 116	(3 336 250)
Change in loans and advances to customers (in this receivables from financial leases)	38	244 364	(2 550 284)
Change in investment (placement) securities	38	433 489	(423 164)
Change in other assets	38	(926 218)	117 646
Change in amounts due to banks	38	(1 040 239)	970 478
Change in financial liabilities held for trading		(197 798)	117 606
Change in derivative financial instruments (liabilities)	38	(1 335 879)	3 198 934
Change in amounts due to customers	38	689 531	26 677 055
Change in debt securities issued		(7 773)	31 309
Change in subordinated liabilities		(103)	(4 979)
Payments for short-term leases and leases of low-value assets		(1 141)	(7 472)
Change in provisions	38	(84 649)	193 384
Change in other liabilities	38	(69 555)	890 913
Net cash flows from operating activities		1 864 199	26 747 108
Cash flow from investing activities			
Investing activity inflows		141 657 513	85 358 046
Subsidy received for taking over the part of the activities of Idea Bank S.A.	3	193 904	-
Sale of investment securities		141 386 762	85 324 031
Sale of intangible assets and property, plant and equipment		51 250	8 012
Dividend received		25 597	26 003
Investing activity outflows		(138 567 990)	(102 446 232)
Acquisition of associates		(42 193)	-
Acquisition of investment securities		(138 316 739)	(102 093 819)
Acquisition of intangible assets and property, plant and equipment		(209 058)	(352 413)
Net cash flows from investing activities		3 089 523	(17 088 186)

Notes to the financial statements presented on pages 11 – 82 constitute an integral part of the condensed interim consolidated financial statements.

	NOTE	I HALF 2021 PERIOD FROM 01.01.2021 TO 30.06.2021	I HALF 2020 PERIOD FROM 01.01.2020 TO 30.06.2020 RESTATED
Cash flows from financing activities			
Financing activity inflows		2 871 414	5 071 709
Due to loans and advances received from banks		-	968 471
Issue of debt securities		2 871 414	4 103 238
Financing activity outflows		(5 151 698)	(6 210 107)
Repayment of loans and advances received from banks		(1 200 922)	(747 862)
Redemption of debt securities		(3 892 540)	(5 405 292)
Payments for the principal portion of the lease liabilities		(58 236)	(56 953)
Net cash flows from financing activities		(2 280 284)	(1 138 398)
Total net cash flows		2 673 438	8 520 524
including effect of exchange rate fluctuations on cash and cash equivalents held		(33 864)	93 932
Net change in cash and cash equivalents		2 673 438	8 520 524
Cash and cash equivalents at the beginning of the period		7 005 348	6 950 972
Cash and cash equivalents at the end of the period	38	9 678 786	15 471 496

Notes to the financial statements presented on pages 11 – 82 constitute an integral part of the condensed interim consolidated financial statements.

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 2021 to 30 June 2021 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 2021.

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	
			30.06.2021	31.12.2020
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
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.	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 bankruptcy)</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 2021 and 31 December 2020 all subsidiaries of the Bank have been consolidated.

As at 30 June 2021 and 31 December 2020 the Group held no shares in entities under joint control.

Investments in associates

NAME OF ENTITY	LOCATION	CORE ACTIVITY	PERCENTAGE OF THE GROUP'S OWNERSHIP RIGHTS IN SHARE CAPITAL/VOTING	
			30.06.2021	31.12.2020
Krajowy Integrator Płatności S.A.	Poznań	Monetary brokerage	38.33	-

Acquisition of the shares of Krajowy Integrator Płatności S.A.

On 31 March 2021, the purchase transaction was completed, as a result of which Bank became the owner of 210 641 shares constituting 38.33% of the capital and entitling to 38.33% of votes at the General Meeting of Krajowy Integrator Płatności S.A., the operator of the Tpay.com system. The purchase price was PLN 42 193 thousand. As a result of the transaction, the Bank will offer its business customers a fully comprehensive payment acceptance offer, supplemented with products for the dynamically growing online sales sector.

Planned sale of shares in the company Dom Inwestycyjny Xelion Sp. z o.o.

In December 2020, the Bank signed a preliminary agreement for the sale of 100% shares in Dom Inwestycyjny Xelion Sp. z o.o. Due to the planned sale of these shares, the Bank presented the assets and liabilities of Dom Inwestycyjny Xelion Sp. z o.o. as held for sale in these financial statements.

3. Business combinations

Takeover of Idea Bank S.A.*Description of the Transaction*

On 30 December 2020, the Bank Guarantee Fund (hereinafter 'BGF') decided to apply to Idea Bank S.A. the instrument of resolution due to the fulfillment of the following conditions:

- 1) the bankruptcy of Idea Bank S.A.,
- 2) there are no premises indicating that possible supervisory actions or actions of Idea Bank S.A. will allow to remove the risk of bankruptcy in due time,
- 3) initiation of resolution against Idea Bank S.A. was necessary in the public interest understood as the stability of the financial sector.

The resolution instrument applied by the BGF to Idea Bank S.A. consisted in the takeover by the Bank on 3 January 2021 with the effect specified in Art. 176 sec. 1 of the Act of 10 June 2016 on the Bank Guarantee Fund, the deposit guarantee system and forced restructuring (hereinafter the 'BGF Act') of Idea Bank SA, covering all its property rights and liabilities as at the end of the day of initiating the resolution, i.e. on 31 December 2020 (hereinafter referred to as 'Transaction'), excluding certain property rights and liabilities indicated in the BGF decision in question, including, inter alia:

- 1) property rights and liabilities related to actual, legal or tort related to:
 - a) trading in financial instruments and other activities relating to:
 - financial instruments issued by GetBack S.A. and related entities of GetBack S.A.,
 - investment certificates, in particular investment certificates issued by Lartiq (formerly Trigon) [Profit XXII NS FIZ, Profit XXIII, NS FIZ, Profit XXIV NS FIZ] represented by Lartiq TFI S.A. (formerly Trigon TFI S.A.), Universe NS FIZ, Universe 2 NS FIZ and other investment funds represented by Altus TFI S.A.,
 - b) providing insurance coverage, performing insurance intermediary activities or distribution of life insurances, if they are related to an insurance capital fund (also life insurance, where the insurance company's performance is determined based on specific indices or other base values),
 - c) providing services as an agent of an investment firm,
 - d) the activities of Idea Bank S.A., which are not covered by the Bank's statute,and claims arising from these rights and liabilities, including those covered by civil and administrative proceedings, regardless of the date when they were raised.
- 2) shares in subsidiaries and associates of Idea Bank S.A.,
- 3) corporate bonds issued by GetBack S.A.,

hereinafter referred to as 'Acquired Business'.

The takeover of the Acquired Business does not have a significant impact on the financial profile of the Bank, in particular on the capital and liquidity parameters of the Bank and the Group.

Transaction Justification

Idea Bank S.A. was a commercial bank offering banking services provided to individual and institutional clients, such as accepting cash deposits payable on demand or on a specified date and keeping accounts of these deposits, granting loans, granting bank guarantees, issuing securities. Idea Bank S.A. The capital adequacy ratio of Idea Bank S.A. according to the last available financial statements prepared as at 30 September 2020 was at the level of 2.51% (compared to 10.5% required by law) and was significantly below the regulatory requirements.

The initiation of the resolution process made it possible to reduce the effects of the bankruptcy risk of Idea Bank S.A., and the negative consequences for the banking sector related to this eventuality.

Price conditions

The takeover of Idea Bank S.A. was not related to the consideration payment by the Bank. As a result of the transaction, the Bank took over the assets and liabilities of Idea Bank S.A., the total estimated fair value of which was negative.

As indicated in the 'Description of the Transaction', the Bank did not acquire all the assets of Idea Bank S.A., in particular, the Bank did not take over shares in subsidiaries and associates.

Considering the above, the Bank received support from the BGF in the form of a subsidy in the amount of PLN 193 million in order to cover the difference between the value of the acquired liabilities and the value of the acquired property rights of Idea Bank S.A. The above funds were received by the Bank on 8 January 2021.

As an inseparable element of the entire Transaction, the Bank also received a guarantee from the BGF to cover losses resulting from the risk related to property rights or the entity's liabilities under the restructuring referred to in Art. 112 sec. 3 point 1 of the BGF Act ('Loss Coverage Guarantee'), which includes a loss coverage guarantee resulting from credit risk related to loan exposures ('CRM Guarantee') and a loss coverage guarantee (other than losses resulting from credit risk) related to the Acquired Business ('Guarantee for Residual Risks').

The takeover involves the takeover of the loan exposures included in the Acquired Business and could result in an increase in the risk-weighted exposure amount (it is calculated by multiplying the exposure amounts and the risk weight resulting from the provisions of the Regulation of the European Parliament and of the Council (EU) No.575/ 2013 of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 ('CRR')). An increase in such risk weighted exposure amounts could affect the Bank's capital requirements.

Therefore, the CRM Guarantee is used by the Bank as 'eligible unfunded credit protection' within the meaning of the CRR. This allowed, in terms of credit risk, to assign a risk weight appropriate to the entity providing protection - BGF, qualified as a public sector entity, to the acquired exposures, in accordance with the Polish Financial Supervision Authority opinion referred to in Art. 116 sec. 4 of CRR. As a consequence of obtaining the opinion referred to in Art. 116 sec. 4 of CRR and after the CRM Guarantee fulfills the remaining conditions for 'eligible unfunded credit protection', the exposures covered by the Loss Coverage Guarantee agreement are treated as exposures to the central government, resulting in a significant reduction of the capital requirement for credit risk on the part of the Bank.

Provisional settlement of the acquisition of the Acquired Business of Idea Bank S.A.

The Bank made a provisional settlement of the Transaction using the principles of International Financial Reporting Standard 3 'Business Combinations' (hereinafter 'IFRS 3') as at the date of taking control (i.e. 3 January 2021) based on the data as at 31 December 2020.

In accordance with IFRS 3.45, the Bank makes the final settlement of the acquisition within a maximum period of one year from the date of obtaining control. Application of IFRS 3 requires, inter alia, carrying out the process of identifying and measuring the acquired assets and liabilities at fair value as at the acquisition date, and recognizing and measuring goodwill or a bargain purchase profit. Accordingly, the values of the identifiable assets acquired and the liabilities assumed, measured at fair value, presented below, may change, which may affect the calculation of the settlement

Recognition and measurement of identifiable assets acquired and liabilities assumed, measured in accordance with IFRS

The recognized fair values of the identifiable assets acquired and liabilities assumed are presented in the table below.

ITEM NAME (*)	BBOOK VAULE (*)	FAIR VAULE
Cash and due from Central Bank	1 099 662	1 085 742
Loans and advances to banks	200 339	210 088
Financial assets held for trading	65 476	65 172
Derivative financial instruments (held for trading)	9 044	9 044
Loans and advances to customers (in this receivables from financial leases)	12 048 461	12 060 942
Investments (placement) securities	652 453	453 168
Assets held for sale	565	519
Intangible assets	143 825	40 435
Property, plant and equipment	36 496	28 969
Other assets	139 221	64 921
TOTAL ASSETS	14 395 542	14 019 000
Amounts due to other banks	125 484	125 488
Derivative financial instruments (held for trading)	164 176	164 176
Amounts due to customers	13 504 707	13 575 553
Provisions	8 389	3 889
Other liabilities	342 485	343 798
TOTAL LIABILITIES	14 145 241	14 212 904

(*) Data according to the statement of turnover and balances that the Bank received from the BFG on 3 January 2021

As a result of the above, the Bank recognized goodwill in the amount of PLN 904 thousand, calculated as the difference between the net amount of identifiable assets acquired and liabilities assumed (PLN -193 904 thousand) and the amount of subsidies from BGF (PLN 193 000 thousand). Goodwill will not be tax deductible.

Significant assumptions used for the fair value measurement

The determination of the fair value of the acquired assets and liabilities as well as the identification and recognition of intangible assets resulting from the acquisition were performed based on the available information and the best estimates as at the date of the financial statements. The basis for the valuation of individual components to their fair value were the book values as at 31 December 2020 received by the Bank from the BGF on 3 January 2021.

Cash and due from Central Bank and Loans and advances to banks

The balance of these items has been adjusted to reflect all economic events relating to 31 December 2020 which, for operational reasons, were not included in the statement of turnover and balances received by the Bank on 3 January 2021.

In addition, in the area of loans and advances to banks, a loan was measured at fair value (using the fair value methodology similar to that presented in the area of loans and advances to customers).

Loans and advances to customers

Loans and advances to customers were measured at fair value in accordance with the requirements of IFRS 3 and IFRS 13.

In the case of working loans, including purchased receivables, investment loans and operating loans, the fair value measurement was estimated on the basis of the income method, in which future expected capital and interest flows from the portfolio were discounted taking into account prepayments.

Moreover, the Bank decided that the CRM guarantee received from the BGF should be treated as integral with the taken over loan portfolio, which is covered by the guarantee, and therefore the effect of the guarantee was included in the fair value valuation of loans and advances by limiting the expected credit losses.

The future cash flows determined in accordance with the above approach were discounted with the discount rate, which included the following components: the risk-free rate estimated on the basis of IRS contract quotations based on WIBOR 1M, the mark-up on the cost of equity and a component representing the calibration margin.

Due to the recognition of the CRM guarantee in question as recognized unfunded protection (details in the *Price conditions* section), reduced risk weights for the cost of capital charge were used in the valuation of the loan portfolio.

Investments (placement) securities

The fair value adjustment of investment securities results from the revaluation of:

- the value of corporate bonds with the same rules as presented for loans and advances to customers, and

- the value of the shares of the financial entity, the value of which was estimated using the discounted dividend model.

Intangible assets

The adjustment of the fair value of intangible assets results mainly from the adoption of the perspective of an average market participant and taking into account plans for the continuation and further use of individual intangible assets.

As a result of the conducted analyzes, no premises for the recognition of relationships with customers holding savings and settlement accounts ('CDI') or relationships on loan products were identified, mainly due to the lack of a significant difference between the average interest rate of the taken over accounts, and at the cost of alternative financing of the Bank and a significant excess liquidity of the banking sector. In the case of loan products, no significant relationships were identified due to the low level of net interest and commission income in relation to the corresponding significant risk costs, as well as administrative costs.

Property, plant and equipment

The adjustment of the fair value of property, plant and equipment results mainly from the perspective of an average market participant adopted for valuation. In terms of lease agreements, the liquidation of the acquired facilities was assumed. The above approach results from the conducted market analysis, the attractiveness of the location of individual outlets and the comparison of the price conditions to currently concluded contracts of a similar size in similar locations.

Other assets

Adjustment of the fair value of other assets results mainly from the revaluation of significant receivables from corporate customers, applying the approach analogous to that applied to the valuation of loan exposures.

Amounts due to customers

In the case of current accounts, it was assumed that due to their nature (e.g. the possibility of withdrawing funds on demand, renewable with the possibility of changing conditions upon renewal, no maturity), the fair value does not differ from the book value.

The adjustment of the fair value of term deposits was estimated by discounting future values of term deposits including repayments of nominal values and interest accrued until repayment.

Provisions

The adjustment of the fair value of provisions results mainly from the write-off of a provision for restructuring.

Other liabilities

The adjustment of the fair value of other liabilities results from the revaluation of the provision for future liabilities. The value of liabilities was estimated on the basis of the expected future cash outflow and taking into account discount factors resulting from the current market conditions.

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 2021 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 2020.

The consolidated financial statements of Bank Pekao S.A. Group as at and for the year ended 31 December 2020 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 the Bank is required to publish the financial report for the six months period ended 30 June 2021, 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 3 August 2021.

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 2021 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 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 first half of 2021 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 2020. 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 2021, 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 for the year ended on 31 December 2020, the Group changed the presentation of selected items in the profit and loss account. The item 'Net other operating income and expenses' has been presented in two separate lines, i.e. as 'Other operating income' and 'Other operating expenses'.

The above-mentioned changes made it necessary to transform the comparable data for the 6-month period ended on 30 June 2020, but they did not affect the level of the presented financial result.

The impact of changes on the comparative data of the income statement is presented in the table below:

CONSOLIDATED INCOME STATEMENT	DATA FOR II QUARTER 2021 BEFORE RESTATEMENT	RESTATEMENT	DATA FOR II QUARTER 2021 AFTER RESTATEMENT
Net other operating income and expenses	(7 879)	7 879	-
Other operating income	-	16 490	16 490
Other operating expenses	-	(24 369)	(24 369)

CONSOLIDATED INCOME STATEMENT	DATA FOR I HALF 2021 BEFORE RESTATEMENT	RESTATEMENT	DATA FOR I HALF 2021 AFTER RESTATEMENT
Net other operating income and expenses	(8 666)	8 666	-
Other operating income	-	35 682	35 682
Other operating expenses	-	(44 348)	(44 348)

In the financial statements for the year ended on 31 December 2020 the Group changed presentation of selected items of the consolidated statement of cash flows:

- cash flows from operating activities determined using the indirect method have been presented as 'Gross profit' and adjustments (previously 'Net profit' and adjustments), therefore the item 'Income tax' has been rejected from the item 'Total adjustments',
- position 'Net Profit attributable to non-controlling interests' was presented in line 'Change in other assets',

- position 'Change only in receivables from financial leases' was presented in line 'Change in loans and advances from customers (in this receivables from financial leases),
- position 'Other investment inflows' was presented in line 'Changes in investment (placement) securities'.

The impact of changes on the comparative data of the consolidated cash flow statement is presented in the table below:

CONSOLIDATED CASH FLOW STATEMENT	DATA FOR I HALF 2020 BEFORE RESTATEMENT	RESTATEMENT	DATA FOR I HALF 2020 AFTER RESTATEMENT
Profit before income tax	-	841 382	841 382
Net profit for the period	546 049	(546 049)	-
Income tax	294 475	(294 475)	-
Change in other assets	118 504	(858)	117 646
Change in receivables from finance leases	(458 659)	458 659	-
Change in loans and advances to customers (in this receivables from financial leases)	(2 091 625)	(458 659)	(2 550 284)
Change in investment (placement) securities	(907 367)	484 203	(423 164)
Other investing inflows	484 203	(484 203)	-

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 2021

STANDARD / INTERPRETATION	DESCRIPTION	IMPACT ASSESSMENT
IFRS 4 (amendment) 'Insurance contracts'	<p>The main amendments include:</p> <ul style="list-style-type: none"> • 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. 	The standard's amendments did not have a material impact on the financial statements in the period of their first application.
IFRS 9 (amendment) 'Financial instruments' and IFRS 7 (amendment) 'Financial instruments: disclosures' and IFRS 17 (amendment) 'Insurance contracts' and IFRS 16 (amendment) 'Leasing'	<p>The main amendments include:</p> <ol style="list-style-type: none"> 1. accounting for modifications to financial assets, financial liabilities and lease liabilities required as a direct consequence of the interest rate benchmark reform and performed on an economically equivalent basis, by updating the effective interest rate. 2. hedge accounting is not discontinued solely because of the interest rate benchmark reform. Hedging relationships (and related documentation) must be amended to reflect modifications to the hedged item, hedging instrument and hedged risk. Amended hedging relationships should meet all qualifying criteria to apply hedge accounting, including effectiveness requirements. 3. in order to allow users to understand the nature and extent of risks arising from the interest rate benchmark reform to which the entity is exposed to and how the entity manages those risks as well as the entity's progress in transitioning from interest rate benchmarks to alternative benchmark rates, and how the entity is managing this transition, the amendments require that an entity discloses information about: <ul style="list-style-type: none"> • how the transition from interest rate benchmarks to alternative benchmark rates is managed, the progress made at the reporting date, and the risks arising from the transition, • quantitative information about non-derivative financial assets, non-derivative financial liabilities and derivatives that continue to reference interest rate benchmarks subject to the reform, disaggregated by significant interest rate benchmark, • to the extent that the interest rate benchmark reform has resulted in changes to an entity's risk management strategy, a description of these changes and how is the entity managing those risks. 	The amendments to the standards did not have a material impact on the financial statements in the period of their 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

STANDARD / INTERPRETATION	DESCRIPTION	IMPACT ASSESSMENT
IFRS 3 (amendment) 'Business combinations'	<p>The amendments to IFRS 3 include:</p> <ul style="list-style-type: none"> 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. <p>Date of application: annual periods beginning on or after 1 January 2022.</p>	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'	<p>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.</p> <p>Date of application: annual periods beginning on or after 1 January 2022.</p>	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'	<p>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.</p> <p>Date of application: annual periods beginning on or after 1 January 2022.</p>	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.

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'	<p>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.</p> <p>Date of application: annual periods beginning on or after 1 January 2023.</p>	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'	<p>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.</p> <p>Date of application: annual periods beginning on or after 1 January 2023.</p>	The Group claims that the standard's amendments will not have a material impact on the financial statements in the period of its first application.
IAS 1 (amendment) 'Presentation of financial statement'	<p>The amendments to IAS 1 include:</p> <ul style="list-style-type: none"> an entity is required to disclose its material accounting policy information instead of its significant accounting policies, clarification that accounting policy information may be material because of its nature, even if the related amounts are immaterial, clarification that accounting policy information is material if users of an entity's financial statements would need it to understand other material information in the financial statements, and clarification that if an entity discloses immaterial accounting policy information, such information shall not obscure material accounting policy information. <p>Date of application: annual period beginning on or after 1 January 2023.</p>	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.

STANDARD/ INTERPRETATION	DESCRIPTION	IMPACT ASSESSMENT
IAS 8 (amendment) 'Accounting policies, changes in accounting estimates and errors'	<p>The amendments to IAS 8 include:</p> <ul style="list-style-type: none"> the definition of a change in accounting estimates is replaced with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty, clarification that a change in accounting estimate that results from new information or new developments is not the correction of an error. In addition, the effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors, clarification that a change in an accounting estimate may affect only the current period's profit or loss, or the profit or loss of both the current period and future periods. The effect of the change relating to the current period is recognized as income or expense in the current period. The effect, if any, on future periods is recognized as income or expense in those future periods. <p>Date of application: annual periods beginning on or after 1 January 2023.</p>	<p>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.</p>
MSSF 16 (amendment) 'Leasing'	<p>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 recognized in profit or loss.</p> <p>The practical expedient will only apply if:</p> <ul style="list-style-type: none"> 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 2022, and no other substantive changes have been made to the terms of the lease <p>Date of application: periods beginning on or after 1 April 2021.</p>	<p>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.</p>
IAS 12 (amendment) 'Income taxes'	<p>The amendments introduce the requirement to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. The amendments will mainly apply to transactions such as leases for the lessee and decommissioning obligations.</p>	<p>The Group is currently analyzing the impact of the standard's amendment on the financial statements in the period of its first application.</p>

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 2021, 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 2021 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 is any objective evidence ('trigger') that credit exposures are impaired taking into consideration actual definition of Default. The definition of Default consistently considers all financial instruments. For financial instruments that are not impaired, the Group assesses if credit risk has increased significantly since initial recognition.

If at balance sheet date credit risk concerning the financial instrument has not increase significantly since initial recognition, the Group assesses impaired allowances for expected credit losses with regard to the financial instrument as an amount equal 12-month expected credit losses. Otherwise, the Group assesses impaired allowances for expected credit losses with regard to the financial instrument as an amount equal expected credit losses over the expected life (lifetime horizon) of that financial instrument (lifetime expected credit losses).

In order to determine the expected credit losses, Bank distinguishes individually significant exposures, in particular: all financial assets towards the borrower for which the Bank's total exposure as at the balance sheet date is at least PLN 4 million or PLN 1 million in the case of customers overdue more than 90 days or in the case of which the condition for restructuring has been met on at least one contract.

For all individually significant financial instruments, which are impaired as at balance sheet date, the Group measures the impairment allowance (impairment credit loss) as part of individual assessment. The individual assessment is carrying out by the Group's employees and consists of individual verification of the default occurrence and projection of future cash flows from foreclosure, less costs incurred for obtaining and selling the collateral or other repayment resources. The Group compares the estimated future cash flows applied for measurement of individual expected credit losses with the actual cash flows on a regular basis.

For all other financial instruments the Group measures the allowance for expected credit losses according to IFRS 9, taking into account forecasts and expected future economic conditions in the context of 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 an 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 2021, there was no need to make impairment allowances for non-current assets.

Provisions for legal risk regarding foreign currency mortgage loans in CHF

As at 30 June 2021 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.

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

As at 30 June 2021 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 2021, 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.

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 2020.

7. Risk management

7.1 Credit risk

The general framework for the risk management and credit risk mitigation methods did not change substantially compared to those described in the in the Consolidated Financial Statements of the Bank Pekao S.A. Group for the year ended on 31 December 2020.

Due to increased vaccination, a decreased number of new COVID-19 cases is observed, although many uncertainties around macroeconomic situation still persist such as: the risk of restricting activities for some sectors of the economy that are exposed to the effects of pandemic, the risk of the occurrence of new wave of COVID-19 including the emergence of new mutations and the hypothetical inefficiencies of currently used vaccines. The Group reflects these factors in the applied approach to credit risk management and calculation of expected credit losses.

In order to reduce the risk resulting from the Covid-19 pandemic, the Group continues the activities of mitigating credit risk and supporting customers, including :

- enhanced monitoring of the loan portfolio with particular emphasis on increased risk industries,
- strengthening the instruments used to limit credit risk, including legal collateral of claims, both at the financing and monitoring stages,
- current adaptation to the changing situation of procedures in the area of crediting individual business lines,
- granting loans with the use of dedicated guarantee programs.

Changes in the methodology of calculation an expected credit losses

In the first half of 2021 the Group did not change the methodology of identification significant credit risk deterioration as the basis for, classification to stage 2 and did not change the classification methodology to stage 3.

Compared to the assumption used in 2020, in the first half of 2021 changes were made in the impairment allowances calculation model in order to reflect the expected observed conditions in the expected credit loss calculation according to details presented below.

In the period of Covid19 pandemic unusual changes took place in the macroeconomic situation and quality of the credit portfolio.

On one hand unprecedented economic collapse was observed (for example GDP decreased by 4% in 2020) and on the other hand unheard before support actions were taken by polish government and banking sector.

Despite the uncertain macroeconomic situation the Group did not observe significant increase in the overall share of nonperforming exposures in the credit portfolio and the only essential growth was related to designation in 2020 the statutory credit holidays as premise of default. Above situation result in a disorder in previously assumed interdependencies between macroeconomic factors and portfolio loss ratio reflect in the participation rate of new exposures in the default state within one year horizon (Default Rate - DR).

In connection with the above in the first half of 2021 the Group withdrew from use the previous macroeconomic model to project changes of DR, taking as a base to project DR trend analysis based on medium term DR history for detail portfolio. For nonretail portfolio the Group decide using the historical information collected about average portfolio loss rate for this portfolio throughout the business cycle with additional expert correction for the next 2 years in order to reflect assumption that it will be return period from downturn phase to typical situation (observed in a stable macroeconomic situation).

Three scenarios are used by the Group in the applied approach for the DR projection - base, optimistic (assumed positive changes in the credit portfolio quality related to the base scenario in the following years), pessimistic (in which the DR forecast reflect the risk of the occurrence of another wave of the epidemic, for example as a result of the SARS-COV 2 virus mutation and potential ineffectiveness of current vaccines.

Additionally, for some clients, where deterioration in financial quality might take place in connection with Covid19, the Group took into consideration adequate probability of default in the expected credit loss calculation. For clients operating in the sector at risk and clients for which an increased risk has been identified the rating derived directly from internal models was downgraded by 2 levels (consistent with the standard monitoring process).

In the scope of LGD (Loss Given Default) the Group reflect potential deterioration in recovery rates in future periods by determination of recovery parameters over a shorter period of historical observations (from 5 years to 2 years) for loans subject to group analysis and the expected recoveries for other non-performing loans assessed on an individual basis.

Sensitivity analysis concerning the forecast of the macroeconomic situation

The Group determines expected credit losses taking into account three scenarios for the macroeconomic situation: base (assumed for the calculation as the most probable – 70%), optimistic (assuming positive changes in the quality of the portfolio in subsequent years as compared to the baseline scenario, with 10% probability of realization) and pessimistic (assuming negative changes in the situation in the following years compared to the baseline scenario, with a probability of 20%).

The changes in expected credit losses presented in the table below for exposures without impairment were designated as the difference between the expected credit losses calculated for a specific macroeconomic scenario and expected credit losses calculated taking into account all scenarios macroeconomic factors weighted with the probability of their realization (in accordance with IFRS 9).

30.06.2021	BASE SCENARIO	OPTIMISTIC SCENARIO	PESYMISTIC SCENARIO
Change in the level of expected credit losses for exposures without impairment (Stage1 and 2), assuming 100% realization of the scenario	(37 427)	(458 485)	360 522

The table below presents the results of the ECL sensitivity analysis for the assumed changes in PD and RR/LGD parameters carried out separately for exposures subject to individual and group analysis. For the exposures included in the group analysis, the PD and recovery rate (1-RR=LGD) increase and decrease by 1% and 5% scenario were presented compared to the values used to calculate the expected credit loss as of date 31.06.2021. For the exposures analyzed individually, the estimated impact is presented as a reduction of recoveries from collaterals included in the debt collection scenario by 10%.

Changes in impairment allowances level (ECL) in different scenarios of changing the influencing parameters for the calculation of write-offs (in millions of zlotys)

PARAMETER DELTA	SCENARIO		
	GROUP ANALYSIS		INDYWIDUAL ANALYSIS
	PD CHANGE	RECOVER RATE CHANGE (1-LGD)	RECOVER RATE CHANGE
-10,0%	n/a	n/a	68
-5,0%	(75)	243	n/a
-1,0%	(15)	49	n/a
1,0%	15	(49)	n/a
5,0%	75	(241)	n/a

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:

	LOANS AND ADVANCES TO BANKS AND CENTRAL BANKS MEASURED AT AMORTISED COST (*)				TOTAL
	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT	
GROSS CARRYING AMOUNT					
GROSS CARRYING AMOUNT AS AT 1.01.2021	2 729 506	168	-	86	2 729 760
Increase due to acquisition of part of Idea Bank S.A. activity	1 295 830	-	-	-	1 295 830
Transfer to Stage 1	12	(12)	-	-	-
Transfer to Stage 2	(34 132)	34 133	-	(1)	-
Transfer to Stage 3	(1)	(8)	-	9	-
New / purchased / granted financial assets	5 141 683	-	-	-	5 141 683
Financial assets derecognised, other than write-offs (repayments)	(2 923 228)	(787)	-	(11)	(2 924 026)
Financial assets written off (**)	-	-	-	-	-
Other, in this changes resulting from exchange rates	6 023	(411)	-	4	5 616
GROSS CARRYING AMOUNT AS AT 30.06.2021	6 215 693	33 083	-	87	6 248 863
IMPAIRMENT ALLOWANCE					
IMPAIRMENT ALLOWANCE AS AT 1.01.2021	1 232	-	-	4	1 236
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
New / purchased / granted financial assets	532	-	-	-	532
Financial assets derecognised, other than write-offs (repayments)	(86)	-	-	(14)	(100)
Financial assets written off (**)	-	-	-	-	-
Changes in level of credit risk (excluding the transfers between the Stages)	394	-	-	-	394
Other, in this changes resulting from exchange rates	(87)	-	-	11	(76)
IMPAIRMENT ALLOWANCE AS AT 30.06.2021	1 985	-	-	1	1 986

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

(**) Including the value of contractual interest subject to partial write-off in the amount of PLN 0 thousand.

LOANS AND ADVANCES TO BANKS AND CENTRAL BANKS MEASURED AT AMORTISED COST (*)					
	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		TOTAL
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT	
GROSS CARRYING AMOUNT					
GROSS CARRYING AMOUNT AS AT 1.01.2020	3 918 225	291	-	96	3 918 612
Transfer to Stage 1	23	(21)	-	(2)	-
Transfer to Stage 2	(34)	45	-	(11)	-
Transfer to Stage 3	(6)	(16)	-	22	-
New / purchased / granted financial assets	1 784 218	-	-	-	1 784 218
Financial assets derecognised, other than write-offs (repayments)	(3 033 953)	(96)	-	(27)	(3 034 076)
Financial assets written off (**)	-	-	-	(2)	(2)
Other, in this changes resulting from exchange rates	61 033	(35)	-	10	61 008
GROSS CARRYING AMOUNT AS AT 31.12.2020	2 729 506	168	-	86	2 729 760
IMPAIRMENT ALLOWANCE					
IMPAIRMENT ALLOWANCE AS AT 1.01.2020	1 361	-	-	1	1 362
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	(2)	-	-	2	-
New / purchased / granted financial assets	287	-	-	-	287
Financial assets derecognised, other than write-offs (repayments)	(178)	(54)	-	(22)	(254)
Financial assets written off (**)	-	-	-	(2)	(2)
Changes in level of credit risk (excluding the transfers between the Stages)	(144)	-	-	4	(140)
Other, in this changes resulting from exchange rates	(92)	54	-	21	(17)
IMPAIRMENT ALLOWANCE AS AT 31.12.2020	1 232	-	-	4	1 236

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

(**) Including the value of contractual interest subject to partial write-off in the amount of PLN 2 thousand.

TOTAL	LOANS AND ADVANCES TO CUSTOMERS MEASURED AT AMORTISED COST					LOANS AND ADVANCES TO CUSTOMERS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME			
	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT- IMPAIRED (POCI)	TOTAL	STAGE 1 (12M EC)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	TOTAL
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT					
GROSS CARRYING AMOUNT									
GROSS CARRYING AMOUNT AS AT 1.01.2021	113 515 763	25 978 924	5 236 011	3 292 482	39 572	148 062 752	720 770	754 285	1 475 055
Increase due to acquisition of part of Idea Bank S.A. activity	11 188 837	-	-	-	872 105	12 060 942	-	-	-
Transfer to Stage 1	4 860 745	(4 840 232)	(1 341)	(19 172)	-	-	-	-	-
Transfer to Stage 2	(9 530 464)	9 687 914	(32 609)	(124 841)	-	-	-	-	-
Transfer to Stage 3	(394 671)	(807 738)	5 805	1 196 604	-	-	-	-	-
New / purchased / granted financial assets	23 216 995	-	-	-	4 944	23 221 939	-	-	-
Financial assets derecognised, other than write-offs (repayments)	(18 003 024)	(2 511 732)	(189 908)	(157 381)	(87 326)	(20 949 371)	(589 056)	(618 704)	(1 207 760)
Financial assets written off (*)	-	-	(55 771)	(187 386)	-	(243 157)	-	-	-
Modifications not resulting in derecognition	(1 367)	(753)	(2)	(177)	-	(2 299)	-	-	-
Other, in this changes resulting from exchange rates	(460 757)	(225 848)	15 909	11 966	144 613	(514 117)	(5 176)	(4 134)	(9 310)
GROSS CARRYING AMOUNT AS AT 30.06.2021	124 392 057	27 280 535	4 978 094	4 012 095	973 908	161 636 689	126 538	131 447	257 985
Including gross carrying amount as at 30.06.2021 of loans and advances from acquisition of part of Idea Bank S.A. activity	7 465 007	1 213 532	41 035	121 948	922 420	9 763 942	-	-	-
IMPAIRMENT ALLOWANCE (**)									
IMPAIRMENT ALLOWANCE AS AT 1.01.2021	390 616	1 175 162	3 568 016	2 087 241	15 976	7 237 011	5 242	21 329	26 571
Transfer to Stage 1	131 199	(123 962)	(1 101)	(6 136)	-	-	-	-	-
Transfer to Stage 2	(30 994)	79 329	(11 619)	(36 716)	-	-	-	-	-
Transfer to Stage 3	(28 366)	(89 101)	(207 703)	325 170	-	-	-	-	-
New / purchased / granted financial assets	84 060	-	-	-	1 676	85 736	-	-	-
Financial assets derecognised, other than write-offs (repayments)	(26 426)	(30 974)	(26 579)	(20 823)	(17 189)	(121 991)	(3 916)	(19 259)	(23 175)
Financial assets written off (*)	-	-	(55 771)	(187 386)	-	(243 157)	-	-	-
Changes in level of credit risk (excluding the transfers between the Stages) (***)	(78 941)	186 577	175 437	200 741	28 517	512 331	731	436	1 167
Other, in this changes resulting from exchange rates	3 854	5 212	65 888	44 554	44 704	164 212	(264)	(397)	(661)
IMPAIRMENT ALLOWANCE AS AT 30.06.2021	445 002	1 202 243	3 506 568	2 406 645	73 684	7 634 142	1 793	2 109	3 902

(*) Including the value of contractual interest subject to partial write-off in the amount of PLN 129 476 thousand.

(**) 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.

(***) Including the provision for legal risk regarding foreign currency mortgage loans in the amount of PLN 350 460 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 2021 amounted to PLN 1 497 thousand.

TOTAL	LOANS AND ADVANCES TO CUSTOMERS MEASURED AT AMORTISED COST					LOANS AND ADVANCES TO CUSTOMERS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME			
	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT- IMPAIRED (POCI)	TOTAL	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	TOTAL
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT					
GROSS CARRYING AMOUNT									
GROSS CARRYING AMOUNT AS AT 1.01.2020	117 966 139	19 613 896	5 250 851	2 885 848	42 806	145 759 540	771 987	608 620	1 380 607
Transfer to Stage 1	3 791 397	(3 754 500)	(957)	(35 940)	-	-	-	-	-
Transfer to Stage 2	(13 385 880)	13 571 142	(16 750)	(168 512)	-	-	(131 894)	131 894	-
Transfer to Stage 3	(1 235 753)	(657 915)	874 987	1 018 681	-	-	-	-	-
New / purchased / granted financial assets	32 648 254	-	-	-	1 001	32 649 255	100 000	-	100 000
Financial assets derecognised, other than write-offs (repayments)	(27 105 941)	(3 030 513)	(356 344)	(362 176)	(5 550)	(30 860 524)	(75 782)	(51 141)	(126 923)
Financial assets written off (*)	-	-	(654 612)	(219 015)	(867)	(874 494)	-	-	-
Modifications not resulting in derecognition	(6 892)	(1 312)	18	(3 061)	-	(11 247)	-	-	-
Other, in this changes resulting from exchange rates	844 439	238 126	138 818	176 657	2 182	1 400 222	56 459	64 912	121 371
GROSS CARRYING AMOUNT AS AT 31.12.2020	113 515 763	25 978 924	5 236 011	3 292 482	39 572	148 062 752	720 770	754 285	1 475 055
IMPAIRMENT ALLOWANCE (**)									
IMPAIRMENT ALLOWANCE AS AT 1.01.2020	304 292	712 318	3 464 586	1 976 911	11 444	6 469 551	3 407	17 401	20 808
Transfer to Stage 1	149 897	(139 026)	(315)	(10 556)	-	-	-	-	-
Transfer to Stage 2	(63 837)	119 957	(3 093)	(53 027)	-	-	(503)	503	-
Transfer to Stage 3	(110 353)	(112 280)	44 239	178 394	-	-	-	-	-
New / purchased / granted financial assets	127 737	-	-	-	793	128 530	330	-	330
Financial assets derecognised, other than write-offs (repayments)	(37 256)	(27 914)	(45 828)	(33 623)	(465)	(145 086)	(655)	-	(655)
Financial assets written off (*)	-	-	(636 885)	(219 015)	(867)	(856 767)	-	-	-
Changes in level of credit risk (excluding the transfers between the Stages) (***)	(5 267)	604 571	606 162	266 802	1 313	1 473 581	2 462	1 739	4 201
Other, in this changes resulting from exchange rates	25 403	17 536	139 150	(18 645)	3 758	167 202	201	1 686	1 887
IMPAIRMENT ALLOWANCE AS AT 31.12.2020	390 616	1 175 162	3 568 016	2 087 241	15 976	7 237 011	5 242	21 329	26 571

(*) Including the value of contractual interest subject to partial write-off in the amount of PLN 255 319 thousand.

(**) 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.

(***) Including the provision for legal risk regarding foreign currency mortgage loans in the amount of PLN 345 131 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 2020 amounted to PLN 1 400 thousand.

CORPORATE	LOANS AND ADVANCES TO CUSTOMERS MEASURED AT AMORTISED COST						LOANS AND ADVANCES TO CUSTOMERS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME		
	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL – NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL – CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT- IMPAIRED (POCI)	TOTAL	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	TOTAL
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT					
GROSS CARRYING AMOUNT									
GROSS CARRYING AMOUNT AS AT 1.01.2021	49 845 330	10 386 311	4 957 895	609 049	31 859	65 830 444	720 770	754 285	1 475 055
Increase due to acquisition of part of Idea Bank S.A. activity	10 945 224	-	-	-	839 930	11 785 154	-	-	-
Transfer to Stage 1	2 694 480	(2 686 914)	(1 341)	(6 225)	-	-	-	-	-
Transfer to Stage 2	(6 676 917)	6 707 870	(18 349)	(12 604)	-	-	-	-	-
Transfer to Stage 3	(182 484)	(438 601)	22 394	598 691	-	-	-	-	-
New / purchased / granted financial assets	15 085 892	-	-	-	2 585	15 088 477	-	-	-
Financial assets derecognised, other than write-offs (repayments)	(12 789 700)	(1 415 577)	(201 896)	(41 245)	(64 432)	(14 512 850)	(589 056)	(618 704)	(1 207 760)
Financial assets written off	-	-	(51 744)	(28 862)	-	(80 606)	-	-	-
Modifications not resulting in derecognition	(34)	189	-	-	-	155	-	-	-
Other, in this changes resulting from exchange rates	(335 538)	(142 484)	11 335	3 369	140 203	(323 115)	(5 176)	(4 134)	(9 310)
GROSS CARRYING AMOUNT AS AT 30.06.2021	58 586 253	12 410 794	4 718 294	1 122 173	950 145	77 787 659	126 538	131 447	257 985
Including gross carrying amount as at 30.06.2021 of loans and advances from acquisition of part of Idea Bank S.A. activity	7 294 376	1 130 477	23 873	121 515	913 627	9 483 868	-	-	-
IMPAIRMENT ALLOWANCE (*)									
IMPAIRMENT ALLOWANCE AS AT 1.01.2021	253 166	256 267	3 360 851	531 917	12 773	4 414 974	5 242	21 329	26 571
Transfer to Stage 1	44 634	(41 057)	(1 100)	(2 477)	-	-	-	-	-
Transfer to Stage 2	(20 597)	30 113	(5 588)	(3 928)	-	-	-	-	-
Transfer to Stage 3	(7 924)	(12 406)	(188 418)	208 748	-	-	-	-	-
New / purchased / granted financial assets	61 087	-	-	-	348	61 435	-	-	-
Financial assets derecognised, other than write-offs (repayments)	(20 691)	(18 482)	(24 741)	(6 709)	(16 984)	(87 607)	(3 916)	(19 259)	(23 175)
Financial assets written off	-	-	(51 744)	(28 862)	-	(80 606)	-	-	-
Changes in level of credit risk (excluding the transfers between the Stages)	23 107	118 020	167 903	34 263	28 740	372 033	731	436	1 167
Other, in this changes resulting from exchange rates	3 013	(2 034)	52 509	38 676	45 416	137 580	(264)	(397)	(661)
IMPAIRMENT ALLOWANCE AS AT 30.06.2021	335 795	330 421	3 309 672	771 628	70 293	4 817 809	1 793	2 109	3 902

(*) The impairment allowance for loans and advances to customers measured at fair value through other comprehensive income is included in the Revaluation reserve¹ item and does not reduce the carrying amount of the loan.

CORPORATE	LOANS AND ADVANCES TO CUSTOMERS MEASURED AT AMORTISED COST					LOANS AND ADVANCES TO CUSTOMERS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME			
	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL – NOT CREDIT-IMPAIRED)	STAGE 3 (LIFETIME ECL – CREDIT-IMPAIRE)		PURCHASED OR ORIGINATED CREDIT-IMPAIRED (POCI)	TOTAL	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL – NOT CREDIT-IMPAIRED)	TOTAL
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT					
GROSS CARRYING AMOUNT									
GROSS CARRYING AMOUNT AS AT 1.01.2020	55 206 302	4 529 400	4 902 173	628 826	33 916	65 300 617	771 987	608 620	1 380 607
Transfer to Stage 1	1 823 809	(1 817 146)	(941)	(5 722)	-	-	-	-	-
Transfer to Stage 2	(9 012 687)	9 033 051	(15 894)	(4 470)	-	-	(131 894)	131 894	-
Transfer to Stage 3	(738 433)	(187 111)	850 222	75 322	-	-	-	-	-
New / purchased / granted financial assets	20 777 940	-	-	-	20	20 777 960	100 000	-	100 000
Financial assets derecognised, other than write-offs (repayments)	(19 134 534)	(1 188 698)	(354 168)	(52 517)	(4 425)	(20 734 342)	(75 782)	(51 141)	(126 923)
Financial assets written off	-	-	(642 508)	(53 941)	(3)	(696 452)	-	-	-
Modifications not resulting in write-offs	(2 135)	(44)	-	1	-	(2 178)	-	-	-
Other, in this changes resulting from exchange rates	925 068	16 859	219 011	21 550	2 351	1 184 839	56 459	64 912	121 371
GROSS CARRYING AMOUNT AS AT 31.12.2020	49 845 330	10 386 311	4 957 895	609 049	31 859	65 830 444	720 770	754 285	1 475 055
IMPAIRMENT ALLOWANCE (*)									
IMPAIRMENT ALLOWANCE AS AT 1.01.2020	191 429	102 522	3 229 499	551 444	7 925	4 082 819	3 407	17 401	20 808
Transfer to Stage 1	41 844	(38 512)	(312)	(3 020)	-	-	-	-	-
Transfer to Stage 2	(55 447)	60 654	(3 055)	(2 152)	-	-	(503)	503	-
Transfer to Stage 3	(28 310)	(10 532)	41 739	(2 897)	-	-	-	-	-
New / purchased / granted financial assets	80 903	-	-	-	200	81 103	330	-	330
Financial assets derecognised, other than write-offs (repayments)	(30 102)	(9 009)	(45 602)	(10 253)	(377)	(95 343)	(655)	-	(655)
Financial assets written off	-	-	(624 781)	(53 941)	(3)	(678 725)	-	-	-
Changes in level of credit risk (excluding the transfers between the Stages)	34 054	147 543	595 597	42 256	1 874	821 324	2 462	1 739	4 201
Other, in this changes resulting from exchange rates	18 795	3 601	167 766	10 480	3 154	203 796	201	1 686	1 887
IMPAIRMENT ALLOWANCE AS AT 31.12.2020	253 166	256 267	3 360 851	531 917	12 773	4 414 974	5 242	21 329	26 571

(*) 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.

LOANS AND ADVANCES TO CUSTOMERS MEASURED AT AMORTISED COST						
MORTGAGE LOANS TO INDIVIDUAL CLIENTS	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		
GROSS CARRYING AMOUNT						
GROSS CARRYING AMOUNT AS AT 1.01.2021	51 376 624	12 877 516	93 775	1 004 285	1 330	65 353 530
Increase due to acquisition of part of Idea Bank S.A. activity	43 943	-	-	-	9 521	53 464
Transfer to Stage 1	1 567 065	(1 561 558)	-	(5 507)	-	-
Transfer to Stage 2	(2 129 485)	2 220 912	(12 863)	(78 564)	-	-
Transfer to Stage 3	(104 908)	(190 063)	(13 139)	308 110	-	-
New / purchased / granted financial assets	5 562 670	-	-	-	72	5 562 742
Financial assets derecognised, other than write-offs (repayments)	(3 096 676)	(659 846)	(7 160)	(47 285)	(935)	(3 811 902)
Financial assets written off	-	-	(1 082)	(1 637)	-	(2 719)
Modifications not resulting in derecognition	(514)	(334)	(2)	(34)	-	(884)
Other, in this changes resulting from exchange rates	(12 940)	(82 469)	7 773	(9 756)	380	(97 012)
GROSS CARRYING AMOUNT AS AT 30.06.2021	53 205 779	12 604 158	67 302	1 169 612	10 368	67 057 219
IMPAIRMENT ALLOWANCE						
IMPAIRMENT ALLOWANCE AS AT 1.01.2021	20 648	528 449	55 782	365 269	173	970 321
Transfer to Stage 1	26 612	(26 083)	-	(529)	-	-
Transfer to Stage 2	(418)	21 803	(5 579)	(15 806)	-	-
Transfer to Stage 3	(1 877)	(18 918)	(13 256)	34 051	-	-
New / purchased / granted financial assets	3 664	-	-	-	12	3 676
Financial assets derecognised, other than write-offs (repayments)	(519)	(2 980)	(1 710)	(6 329)	(119)	(11 657)
Financial assets written off	-	-	(1 082)	(1 637)	-	(2 719)
Changes in level of credit risk (excluding the transfers between the Stages)	(25 702)	25 752	3 045	46 136	39	49 270
Other, in this changes resulting from exchange rates	(808)	4 287	6 695	(6 187)	(391)	3 596
IMPAIRMENT ALLOWANCE AS AT 30.06.2021	21 600	532 310	43 895	414 968	(286)	1 012 487

LOANS AND ADVANCES TO CUSTOMERS MEASURED AT AMORTISED COST						
MORTGAGE LOANS TO INDIVIDUAL CLIENTS	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		
GROSS CARRYING AMOUNT						
GROSS CARRYING AMOUNT AS AT 1.01.2020	48 106 749	12 715 023	133 400	738 917	1 345	61 695 434
Transfer to Stage 1	1 760 167	(1 742 092)	-	(18 075)	-	-
Transfer to Stage 2	(3 019 550)	3 145 487	(855)	(125 082)	-	-
Transfer to Stage 3	(199 113)	(256 366)	13 868	441 611	-	-
New / purchased / granted financial assets	8 565 756	-	-	-	548	8 566 304
Financial assets derecognised, other than write-offs (repayments)	(3 850 601)	(1 190 321)	(2 361)	(78 931)	(167)	(5 122 381)
Financial assets written off	-	-	(9 713)	(12 726)	-	(22 439)
Modifications not resulting in derecognition	(2 681)	(548)	18	(1 023)	-	(4 234)
Other, in this changes resulting from exchange rates	15 897	206 333	(40 582)	59 594	(396)	240 846
GROSS CARRYING AMOUNT AS AT 31.12.2020	51 376 624	12 877 516	93 775	1 004 285	1 330	65 353 530
IMPAIRMENT ALLOWANCE						
IMPAIRMENT ALLOWANCE AS AT 1.01.2020	22 446	278 011	68 340	286 938	127	655 862
Transfer to Stage 1	40 174	(38 573)	-	(1 601)	-	-
Transfer to Stage 2	(1 657)	31 115	(38)	(29 420)	-	-
Transfer to Stage 3	(8 524)	(26 827)	1 479	33 872	-	-
New / purchased / granted financial assets	4 958	-	-	-	280	5 238
Financial assets derecognised, other than write-offs (repayments)	(597)	(5 917)	(226)	(9 094)	(10)	(15 844)
Financial assets written off	-	-	(9 713)	(12 726)	-	(22 439)
Changes in level of credit risk (excluding the transfers between the Stages)	(37 914)	57 502	8 153	75 975	(124)	103 592
Other, in this changes resulting from exchange rates	1 762	6 250	(12 213)	21 325	(100)	17 024
IMPAIRMENT ALLOWANCE AS AT 31.12.2020	20 648	301 561	55 782	365 269	173	743 433

LOANS AND ADVANCES TO CUSTOMERS MEASURED AT AMORTISED COST						
OTHER LOANS AND ADVANCE TO INDIVIDUAL CLIENTS	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		
GROSS CARRYING AMOUNT						
GROSS CARRYING AMOUNT AS AT 1.01.2021	9 914 404	2 576 845	72 081	1 679 138	6 381	14 248 849
Increase due to acquisition of part of Idea Bank S.A. activity	13 985	-	-	-	4 889	18 874
Transfer to Stage 1	505 186	(497 746)	-	(7 440)	-	-
Transfer to Stage 2	(630 101)	665 172	(1 397)	(33 674)	-	-
Transfer to Stage 3	(107 280)	(179 073)	(3 433)	289 786	-	-
New / purchased / granted financial assets	2 401 683	-	-	-	2 287	2 403 970
Financial assets derecognised, other than write-offs (repayments)	(1 879 660)	(423 887)	926	(68 853)	(841)	(2 372 315)
Financial assets written off	-	-	(2 901)	(156 886)	-	(159 787)
Modifications not resulting in derecognition	(819)	(608)	-	(143)	-	(1 570)
Other, in this changes resulting from exchange rates	(79 554)	(248)	2 416	18 359	677	(58 350)
GROSS CARRYING AMOUNT AS AT 30.06.2021	10 137 844	2 140 455	67 692	1 720 287	13 393	14 079 671
IMPAIRMENT ALLOWANCE						
IMPAIRMENT ALLOWANCE AS AT 1.01.2021	113 302	383 954	39 344	1 190 054	3 031	1 729 685
Transfer to Stage 1	57 481	(54 350)	-	(3 131)	-	-
Transfer to Stage 2	(9 976)	27 411	(453)	(16 982)	-	-
Transfer to Stage 3	(18 564)	(57 777)	(6 025)	82 366	-	-
New / purchased / granted financial assets	19 233	-	-	-	1 316	20 549
Financial assets derecognised, other than write-offs (repayments)	(5 183)	(9 513)	(127)	(7 786)	(86)	(22 695)
Financial assets written off	-	-	(2 901)	(156 886)	-	(159 787)
Changes in level of credit risk (excluding the transfers between the Stages)	(75 017)	44 507	4 321	120 342	(264)	93 889
Other, in this changes resulting from exchange rates	1 636	2 958	5 393	12 066	(367)	21 686
IMPAIRMENT ALLOWANCE AS AT 30.06.2021	82 912	337 190	39 552	1 220 043	3 630	1 683 327

LOANS AND ADVANCES TO CUSTOMERS MEASURED AT AMORTISED COST						
OTHER LOANS AND ADVANCE TO INDIVIDUAL CLIENTS	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		
GROSS CARRYING AMOUNT						
GROSS CARRYING AMOUNT AS AT 1.01.2020	11 561 402	2 273 452	103 236	1 518 099	7 543	15 463 732
Transfer to Stage 1	204 409	(192 249)	(17)	(12 143)	-	-
Transfer to Stage 2	(1 294 973)	1 333 933	-	(38 960)	-	-
Transfer to Stage 3	(298 207)	(214 439)	10 898	501 748	-	-
New / purchased / granted financial assets	3 196 989	-	-	-	434	3 197 423
Financial assets derecognised, other than write-offs (repayments)	(3 394 645)	(638 285)	184	(230 730)	(958)	(4 264 434)
Financial assets written off	-	-	(2 297)	(152 348)	(864)	(155 509)
Modifications not resulting in derecognition	(2 076)	(720)	-	(2 039)	-	(4 835)
Other, in this changes resulting from exchange rates	(58 495)	15 153	(39 923)	95 511	226	12 472
GROSS CARRYING AMOUNT AS AT 31.12.2020	9 914 404	2 576 845	72 081	1 679 138	6 381	14 248 849
IMPAIRMENT ALLOWANCE						
IMPAIRMENT ALLOWANCE AS AT 1.01.2020	86 649	327 607	54 709	1 138 527	3 393	1 610 885
Transfer to Stage 1	67 812	(61 873)	(4)	(5 935)	-	-
Transfer to Stage 2	(6 034)	27 490	-	(21 456)	-	-
Transfer to Stage 3	(73 518)	(74 921)	1 021	147 418	-	-
New / purchased / granted financial assets	41 555	-	-	-	312	41 867
Financial assets derecognised, other than write-offs (repayments)	(6 407)	(12 987)	-	(14 275)	(78)	(33 747)
Financial assets written off	-	-	(2 297)	(152 348)	(864)	(155 509)
Changes in level of credit risk (excluding the transfers between the Stages)	(2 223)	397 843	2 412	143 699	(436)	541 295
Other, in this changes resulting from exchange rates	5 468	7 684	(16 497)	(45 576)	704	(48 217)
IMPAIRMENT ALLOWANCE AS AT 31.12.2020	113 302	610 843	39 344	1 190 054	3 031	1 956 574

	DEBT SECURITIES MEASURED AT AMORTISED COST					DEBT SECURITIES MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME		
	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)	PURCHASED OR ORIGINATED CREDIT- IMPAIRED (POCI)	TOTAL	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	TOTAL
			INDIVIDUAL ASSESSMENT					
GROSS CARRYING AMOUNT								
GROSS CARRYING AMOUNT AS AT 1.01.2021	27 263 713	38 433	32 971	-	27 335 117	42 593 115	144 385	42 737 500
Increase due to acquisition of part of Idea Bank S.A. activity	15 080	-	-	40 266	55 346	312 513	-	312 513
Transfer to Stage 1	-	-	-	-	-	-	-	-
Transfer to Stage 2	(140 647)	140 647	-	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-	-	-
New / purchased / granted financial assets	13 448 014	-	-	-	13 448 014	124 879 861	-	124 879 861
Financial assets derecognised, other than write-offs (repayments)	(4 292 211)	-	-	-	(4 292 211)	(137 734 039)	(30 161)	(137 764 200)
Modifications not resulting in derecognition	-	-	-	-	-	-	-	-
Other, in this changes resulting from exchange rates	154 706	4	483	(907)	154 286	18 807	761	19 568
GROSS CARRYING AMOUNT AS AT 30.06.2021	36 448 655	179 084	33 454	39 359	36 700 552	30 070 257	114 985	30 185 242
IMPAIRMENT ALLOWANCE (*)								
IMPAIRMENT ALLOWANCE AS AT 1.01.2021	40 018	582	32 971	(5)	73 566	60 041	3 102	63 143
Transfer to Stage 1	-	-	-	-	-	-	-	-
Transfer to Stage 2	(4 406)	4 406	-	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-	-	-
New / purchased / granted financial assets	11 137	-	-	-	11 137	5 737	-	5 737
Financial assets derecognised, other than write-offs (repayments)	(1 929)	-	-	-	(1 929)	(3 610)	(9)	(3 619)
Changes in level of credit risk (excluding the transfers between the Stages)	(16 603)	189	-	-	(16 414)	(26 942)	602	(26 340)
Other, in this changes resulting from exchange rates	(105)	-	483	(3 596)	(3 218)	-	-	-
GROSS CARRYING AMOUNT AS AT 30.06.2021	28 112	5 177	33 454	(3 601)	63 142	35 226	3 695	38 921

(*) 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

	DEBT SECURITIES MEASURED AT AMORTISED COST					DEBT SECURITIES MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME		
	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT-IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)	PURCHASED OR ORIGINATED CREDIT- IMPAIRED (POCI)	TOTAL	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT-IMPAIRED)	TOTAL
			INDIVIDUAL ASSESSMENT					
GROSS CARRYING AMOUNT								
GROSS CARRYING AMOUNT AS AT 1.01.2020	14 289 472	331 816	32 370	-	14 653 658	30 930 139	12 860	30 942 999
Transfer to Stage 1	298 600	(298 600)	-	-	-	11 799	(11 799)	-
Transfer to Stage 2	(38 434)	38 434	-	-	-	(144 385)	144 385	-
Transfer to Stage 3	-	-	-	-	-	-	-	-
New / purchased / granted financial assets	20 791 384	-	-	-	20 791 384	353 110 214	-	353 110 214
Financial assets derecognised, other than write-offs (repayments)	(8 365 499)	(33 191)	-	-	(8 398 690)	(342 236 427)	(1 376)	(342 237 803)
Modifications not resulting in derecognition	-	-	-	-	-	-	-	-
Other, in this changes resulting from exchange rates	288 190	(26)	601	-	288 765	921 775	315	922 090
GROSS CARRYING AMOUNT AS AT 31.12.2020	27 263 713	38 433	32 971	-	27 335 117	42 593 115	144 385	42 737 500
IMPAIRMENT ALLOWANCE (*)								
IMPAIRMENT ALLOWANCE AS AT 1.01.2020	25 668	16 955	32 370	-	74 993	32 000	671	32 671
Transfer to Stage 1	15 961	(15 961)	-	-	-	671	(671)	-
Transfer to Stage 2	(171)	171	-	-	-	(3 102)	3 102	-
Transfer to Stage 3	-	-	-	-	-	-	-	-
New / purchased / granted financial assets	15 591	-	-	-	15 591	29 843	-	29 843
Financial assets derecognised, other than write-offs (repayments)	(9 682)	(694)	-	-	(10 376)	(4 777)	-	(4 777)
Changes in level of credit risk (excluding the transfers between the Stages)	(7 763)	111	-	(5)	(7 657)	5 406	-	5 406
Other, in this changes resulting from exchange rates	414	-	601	-	1 015	-	-	-
GROSS CARRYING AMOUNT AS AT 31.12.2020	40 018	582	32 971	(5)	73 566	60 041	3 102	63 143

(*) 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

Moratoria implemented in the year of 2020 due to COVID-19

In 2021, the Group continued to use loan repayment programs and portfolio guarantee agreements with Bank Gospodarstwa Krajowego ('BGK'), limiting the effects of COVID-19, described in the financial statements of the Bank Pekao S.A. Group for the year ended on 31 December 2020.

As at 31 March the Group completed the application of the moratoria developed by the Group in line with the EBA Guidelines (non-statutory moratoria) for business entities. The term of portfolio guarantee agreements with Bank Gospodarstwa Krajowego ('BGK') was extended until 31 December 2021.

As at 30 June 2021, the gross carrying amount of the loan portfolio covered by the above-mentioned moratoria (active and expired) amounted to PLN 14 193 million (PLN 14 606 million as at 31 December 2020) and 71 973 customers were covered by moratoria (69 902 customers as at 31 December 2020). The negative result on insignificant modifications recognized in the first half of 2021 related to these moratoria amounted to PLN -2,2 million (in the first half of 2020 PLN -6.1 million) and was recognized in the net interest income.

As at 30 June 2021, the gross carrying amount of the loan portfolio covered by BGK's portfolio guarantees limiting the effects of COVID-19 was PLN 5 390 million (as at 31 December 2020 PLN 3 417 million) and guarantees covered 7 378 customers (4 560 customers as at 31 December 2020).

Forbearance measures

The forbome 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 2020. 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 did not identify forbome exposures automatically.

Share of forbome exposures in the Group's loan portfolio

	30.06.2021					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:	123 947 055	26 078 292	1 471 526	1 605 450	900 224	154 002 547
Forbome exposures gross	1 001 163	379 383	2 393 206	824 343	145 128	4 743 223
Loss allowance	(1 438)	(28 809)	(1 667 512)	(475 115)	(5 102)	(2 177 976)
Forbome exposures net	999 725	350 574	725 694	349 228	140 026	2 565 247
Loans and advances measured at fair value through other comprehensive income, including:	126 538	131 447	-	-	-	257 985
Forbome exposures	-	-	-	-	-	-
Impairment allowance (*)	-	-	-	-	-	-
Loans and advances measured at fair value through profit or loss, including:						178 989
Forbome exposures						750

	31.12.2020					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:	113 125 147	24 803 762	1 667 995	1 205 241	23 596	140 825 741
Forbome exposures gross	1 067 782	412 723	2 429 599	661 951	21 672	4 593 727
Loss allowance	(2 222)	(35 246)	(1 803 056)	(335 092)	(3 055)	(2 178 671)
Forbome exposures net	1 065 560	377 477	626 543	326 859	18 617	2 415 056
Loans and advances measured at fair value through other comprehensive income, including:	720 770	754 285	-	-	-	1 475 055
Forbome exposures	-	-	-	-	-	-
Impairment allowance (*)	-	-	-	-	-	-
Loans and advances measured at fair value through profit or loss, including:						187 001
Forbome exposures						1 068

(*) 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.

Issue related to the provision for legal risk regarding foreign currency mortgage loans in CHF
1) *Portfolio characteristics*

Bank Pekao S.A. has not granted loans in CHF to the public since 2003. Almost the entire current portfolio of loans in CHF for individuals was taken over by Bank Pekao S.A. in the process of partial division of Bank BPH S.A. (loans granted before August 2006).

As at 30 June 2021, the Group had a portfolio of foreign currency mortgage loans in CHF with a total gross carrying amount of PLN 2 636 million (i.e. CHF 639.7 million) compared to PLN 2 899 million (i.e. CHF 679.9 million) as at 31 December 2020.

The tables below present the structure and quality of the CHF loan portfolio for individuals:

	30.06.2021					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:	2 237	2 393 643	36 079	203 570	774	2 636 303
denominated in CHF	2 237	2 390 248	36 079	203 227	774	2 632 565
indexed to CHF	-	3 395	-	343	-	3 738
Impairment allowances, of which: (*)	-	(349 247)	(14 761)	(98 834)	(324)	(463 166)
denominated in CHF	-	(349 216)	(14 761)	(98 704)	(324)	(463 005)
indexed to CHF	-	(31)	-	(130)	-	(161)
Carrying amount, of which:	2 237	2 044 396	21 318	104 736	450	2 173 137
denominated in CHF	2 237	2 041 032	21 318	104 523	450	2 169 560
indexed to CHF	-	3 364	-	213	-	3 577

(*) Including the provision for legal risk regarding foreign currency mortgage loans in the amount of PLN 350 460 thousand.

	31.12.2020					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:	2 602	2 645 935	52 315	197 467	806	2 899 125
denominated in CHF	2 602	2 640 379	52 315	196 873	806	2 892 975
indexed to CHF	-	5 556	-	594	-	6 150
Impairment allowances, of which: (*)	(1)	(358 050)	(25 436)	(94 040)	(341)	(477 868)
denominated in CHF	(1)	(358 012)	(25 436)	(93 844)	(341)	(477 634)
indexed to CHF	-	(38)	-	(196)	-	(234)
Carrying amount, of which:	2 601	2 287 885	26 879	103 427	465	2 421 257
denominated in CHF	2 601	2 282 367	26 879	103 029	465	2 415 341
indexed to CHF	-	5 518	-	398	-	5 916

(*) Including the provision for legal risk regarding foreign currency mortgage loans in the amount of PLN 345 131 thousand.

As of 30 June 2021 the average LTV for CHF loans to individuals granted by the Group amounted to 34.7% (38.1% as at 31 December 2020), with an average LTV for the whole portfolio of mortgage loans of 54.0% (55.8% as at 31 December 2020).

2) Court proceedings related to foreign currency mortgage loans in CHF

On 3 October 2019, the Court of Justice of the European Union (hereinafter the 'CJEU') issued a ruling on a CHF-indexed loan granted by another bank, in which it interpreted the provisions of Council Directive 93/13 / EEC of 5 April 1993 on unfair terms in consumer loans based on the CHF indexed loan agreement. The CJEU indicated the consequences of recognizing the possible abusiveness of conversion clauses by the domestic court, without examining the possible abusiveness of contractual provisions at all. The CJEU did not prejudge that in the event that a domestic court finds possible abusiveness, the court should automatically declare the entire contract invalid. The assessment in this respect remains to be decided by the national court, but the CJEU has not ruled out the possibility of filling the gap resulting from the abusive nature of conversion clauses by means of domestic regulations.

The ruling of the CJEU constitutes general guidelines for Polish courts. Final decisions made by Polish courts are made on the basis of EU regulations interpreted in accordance with the CJEU judgment, taking into account the provisions of domestic law and the analysis of the individual circumstances of each case. At the same time, it is difficult to talk about a formed line of jurisprudence in cases of mortgage loans in CHF, which is often confirmed by mutually exclusive judgments of common courts, as well as legal inquiries to the CJEU and the Supreme Court to resolve doubts.

In particular, attention should be paid to the application submitted on 29 January 2021 by the First President of the Supreme Court to the full composition of the Civil Chamber of the Supreme Court to resolve legal issues related to FX mortgage loans in CHF, relating in particular to the following aspects:

- 1) whether the abusive provisions relating to the method of determining the currency rate in an indexed or denominated loan agreement can be replaced by provisions of civil or customary law,
- 2) if it is impossible to establish a binding exchange rate for a foreign currency in a denominated loan agreement, the agreement may bind the parties in the remaining scope,
- 3) if it is impossible to establish a binding exchange rate for a foreign currency in the loan agreement, the agreement may bind the parties in the remaining scope,
- 4) whether the balance theory or the theory of two conditions will apply in the event of cancellation of the loan agreement,
- 5) which is the moment to start the limitation period in the event that the bank makes a claim against the borrower for the repayment of the loan,
- 6) whether it is possible for banks and borrowers to receive remuneration for using the funds.

In the Bank's opinion, the expected ruling of the Supreme Court on the above-mentioned issues may have a significant impact on the further shaping of the line of judicial decisions in this regard. Until the date of approval of these financial statements, this ruling has not been issued.

In December 2020, the Chairman of the Polish Financial Supervision Authority presented a proposal to resolve the issue of loans in CHF. According to this proposal, the banks would offer their clients settlements under which the loan would be settled as if it had been granted in PLN from the beginning. The interest rate on the loan would depend on the WIBOR rate and the margin corresponding to the levels of margins in PLN offered on the market during the loan origination period. Historically repayments by the borrower would be counted towards the interest and principal repayment of such a notional loan in PLN, and its outstanding principal at the settlement date would be further repaid by the borrower.

As at 30 June 2021, 1 043 individual court cases were pending against the Group regarding FX mortgage loans in CHF, which were granted in previous years, with the total value of the claim in the amount of PLN 288.8 million (as at 31 December 2020, the number of cases was 592, and the corresponding value of the dispute is PLN 159.7 million). The main cause of the dispute, as indicated by the plaintiffs, concerns the questioning of the provisions of the loan agreement with regard to the Group's application of conversion rates and results in claims regarding the partial or complete invalidity of the loan agreements. In the first half of 2021, the Group received 37 unfavorable court judgments in cases brought by borrowers, including 6 final judgment and 5 favorable court judgments, including 1 judgment dismissing the claim to declare the loan agreement invalid and an action for payment in connection with the invalidity of the loan agreement (in 2020: 36 unfavorable court judgments in cases brought by borrowers, including 3 final judgments declaring the invalidity of the loan agreement and 13 favorable court judgments, including 2 final judgments dismissing the claim to declare the loan agreement invalid and an action for payment in connection with the invalidity of the loan agreement).

3) Provision related to foreign currency mortgage loans in CHF - assumptions and calculation methodology

As at 30 June 2021, the level of the provision for the above-mentioned legal risk related to foreign currency mortgage loans in CHF estimated by the Group amounted to PLN 438.1 million and increased by 2.1 million compared to the level of these provisions as at 31 December 2020.

The above amount includes the provision for individual pending litigation to which the Group is a party in the amount of PLN 127.6 million as at 30 June 2021 (PLN 76.1 million as at 31 December 2020) and the portfolio provision for other foreign currency mortgage loan agreements in CHF, which are subject to legal risk related to the nature of these agreements, in the amount of PLN 310.5 million as at 30 June 2021 (PLN 360.0 million as at 31 December 2020).

The principles for estimating these provisions by the Group as at 30 June 2021, including parameters adopted in individual scenarios, were consistent with the principles applied as at 31 December 2020 and were described in detail in the Consolidated Financial Statements of the Group for the year ended on 31 December 2020.

Taking into account the short history of data on the scale of lawsuits (in particular in the field of final judgments), the significant level of complexity of various legal aspects that may occur in relation to these loan agreements, and, as a result, the unshaped direction of possible court decisions, the estimates of the above provision required by the Group of many expert assumptions based on professional judgment.

Subsequent rulings, and above all the expected resolution of the full composition of the Civil Chamber of the Supreme Court and possible sectoral solutions that will appear on the Polish market with regard to FX mortgage loans in CHF, may have an impact on the amount of the provision determined by the Group and cause the need to change individual assumptions made in calculations. In connection with the above uncertainty, it is possible that the amount of the provision will change in the future.

The Group performed a sensitivity analysis in relation to the significant assumptions of the provision calculation, where a change in the level of individual parameters would have the following impact on the amount of the provision for the legal risk of FX mortgage loans in CHF.

Impact on the provision level in the event of changes to the assumptions in the base scenario (with other elements of the calculation unchanged):

PARAMETR	SCENARIO	IMPACT ON THE PROVISION LEVEL on 30.06.2021
Number of lawsuits	+20%	62 275
	-20%	(62 275)
Probability of failure	+10 p.p. (no more than 100%)	24 331
	-10 p.p.	(36 826)
Probability of a contract invalidity scenario	+10 p.p. (no more than 100%)	15 828
	-10 p.p.	(27 992)

4) *Provision related to foreign currency mortgage loans in CHF - accounting treatment and presentation*

As indicated in the section of the financial statements concerning accounting policies, the Group recognizes that the legal risk affects the expected cash flows from the credit exposure and the amount of the provision is the difference between the expected cash flows from a given exposure and the contractual flows as defined in IFRS 9.

Therefore, with regard to currency exposures of mortgage loans in CHF unpaid as at 30 June 2021, the Bank adopts the approach that the amount of the provision for credit exposures outstanding as at 30 June 2021 (including existing and possible future claims) is recognized in 'Expected credit losses for loan receivables' (in correspondence with the item 'Net allowances for expected credit losses') up to the amount of credit exposure. Thus, the Bank recognizes that with regard to the CHF portfolio, there has been a significant increase in credit risk since the initial recognition date and classifies these loans to Basket 2.

In the case of part of the provision relating to repaid foreign currency mortgage loans in CHF (including existing and possible future lawsuits), or when the amount of the provision exceeds the net carrying amount of the credit exposure, the provision amount is recorded as 'Provisions' in correspondence with 'Other operating expenses'.

A summary of the recognition of the provision for legal risk related to FX mortgage loans in CHF in the statement of financial position and profit and loss is presented in the tables below:

STATEMENT OF FINANCIAL POSITION	30.06.2021	31.12.2020
Impairment allowances for loan exposures, in this:	350 461	345 131
Individual provisions	108 525	65 420
Portfolio provisions	241 936	279 711
Provisions for litigation and claims, in this:	87 679	90 939
Individual provisions	19 120	10 668
Portfolio provisions	68 559	80 271
Total	438 140	436 070

INCOME STATEMENT	II QUARTER 2021	I HALF 2021	II QUARTER 2020	I HALF 2020
Net allowances for expected credit losses	(3 994)	(5 417)	(9 902)	(11 729)
Other operating expenses	1 674	3 097	(5 982)	(4 435)
Total	(2 320)	(2 320)	(15 884)	(16 164)

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 the Bank Pekao S.A. Group for the year ended on 31 December 2020.

The table below presents the market risk exposure of the trading portfolio of the Group measured by Value at Risk as at 30 June 2021 and as at 31 December 2020:

	30.06.2021	MINIMUM VALUE	AVERAGE VALUE	MAXIMUM VALUE
foreign currency exchange risk	29	14	71	413
interest rate risk	1 958	801	2 100	4 072
Trading portfolio	2 092	810	2 081	3 592

	31.12.2020	MINIMUM VALUE	AVERAGE VALUE	MAXIMUM VALUE
foreign currency exchange risk	23	6	67	1 153
interest rate risk	2 578	859	2 028	6 419
Trading portfolio	3 020	837	2 132	6 863

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 the Bank Pekao S.A. Group for the year ended on 31 December 2020.

Currently, very low NBP interest rates and high liquidity of the banking system exert a significant impact on the Bank's exposure to interest rate risk and Net Interest Income realised. Bank protects economic value of equity and the net interest income by concluding due amounts of IRS transactions and purchasing fixed-coupon bonds.

The table below presents the sensitivity of contractual interest income (NII) to the interest rate change by 100 b.p. and sensitivity 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 2021 and as at 31 December 2020:

SENSITIVITY IN %	30.06.2021	31.12.2020
NII	(6.68)	(6.31)
EVE	(5.36)	(7.10)

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 the Bank Pekao S.A. Group for the year ended on 31 December 2020.

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

Value at Risk

CURRENCY	30.06.2021	31.12.2020
Currencies total (*)	366	287

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

Currency position

30.06.2021	BALANCE SHEET OPERATIONS		OFF-BALANCE SHEET OPERATIONS- DERIVATIVES		NET POSITION
	ASSETS	LIABILITIES	LONG POSITION	SHORT POSITION	
EUR	29 228 442	26 342 379	22 278 956	25 231 621	(66 602)
USD	8 231 455	9 959 982	8 109 730	6 375 530	5 673
CHF	2 825 627	688 847	1 341 105	3 471 085	6 800
GBP	405 689	1 074 986	775 485	103 491	2 697
NOK	299 962	63 028	5 033	242 255	(288)
SEK	92 560	76 264	31 445	47 957	(216)
CZK	20 667	63 978	48 108	3 866	931
CNY	58 258	18 576	43 648	83 204	126
RON	36 398	20 705	502 636	522 122	(3 793)
CAD	45 608	10 542	175 397	210 945	(482)
DKK	6 215	40 925	809 647	774 846	91
HRK	149	6 136	150 493	144 170	336
Other currencies	49 193	84 802	237 897	200 740	1 548
Total	41 300 223	38 451 150	34 509 580	37 411 832	(53 179)

31.12.2020	BALANCE SHEET OPERATIONS		OFF-BALANCE SHEET OPERATIONS DERIVETIVES		NET POSITION
	ASSETS	LIABILITIES	LONG POSITION	SHORT POSITION	
EUR	27 375 809	22 418 332	26 660 237	31 724 567	(106 853)
USD	9 105 146	9 457 571	11 066 970	10 678 562	35 983
CHF	2 959 415	647 418	1 434 038	3 747 830	(1 795)
GBP	393 981	1 108 154	2 126 362	1 411 961	228
NOK	516 555	66 514	207 543	657 470	114
SEK	140 592	68 148	67 506	139 623	327
DKK	82 206	16 849	57 989	123 156	190
CZK	56 995	17 554	650 361	689 607	195
CAD	17 125	55 492	43 007	4 380	260
CNY	25 253	16 707	356 180	364 812	(86)
Other currencies	44 312	95 914	380 329	327 595	1 132
Total	40 717 389	33 968 653	43 050 522	49 869 563	(70 305)

7.3 Liquidity risk

The liquidity risk management process has not changed significantly in relation to that described in the Consolidated Financial Statements of the Bank Pekao S.A. Group for the year ended on 31 December 2020.

Regulatory liquidity long-term norms and LCR and NSFR(*)

SUPERVISORY LIQUIDTY NORMS		LIMIT	30.06.2021	31.12.2020
M3 (**)	Own funds to non-liquid assets cover ratio	1	7.01	8.45
M4 (**)	Own funds and stable external funds to non-liquid and limited liquidity assets cover ratio	1	1.31	1.38
LCR	Liquidity coverage ratio	100%	224%	251%
NSFR	Net Stable Funding Ratio	100%	149%	145%

(*) 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:

30.06.2021	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	66 570 231	8 156 520	30 848 910	75 730 030	61 787 362	243 093 053
Equity and liabilities	23 020 821	13 369 649	31 561 138	36 698 290	138 443 155	243 093 053
Off-balance sheet assets/liabilities (net)	(9 405 485)	298 889	1 538 973	1 752 711	5 428 065	(386 847)
Periodic gap	34 143 925	(4 914 240)	826 745	40 784 451	(71 227 728)	(386 847)
Cumulated gap	-	29 229 685	30 056 430	70 840 881	(386 847)	-

31.12.2020	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	69 513 131	7 196 796	25 085 033	72 392 852	59 029 370	233 217 182
Equity and liabilities	18 307 777	12 023 248	26 212 984	36 038 239	140 634 934	233 217 182
Off-balance sheet assets/liabilities (net)	(9 377 774)	(161 509)	2 726 628	2 231 163	3 874 654	(706 838)
Periodic gap	41 827 580	(4 987 961)	1 598 677	38 585 776	(77 730 910)	(706 838)
Cumulated gap	-	36 839 619	38 438 296	77 024 072	(706 838)	-

7.4 Operational risk

There have been no significant changes in the operational risk management process in relation to the one described in the Consolidated Financial Statements of the Bank Pekao S.A. Group for the year ended on 31 December 2020.

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

There have been no significant changes in the measurement process of the financial instruments that are measured at fair value in relation to the one described in the Consolidated Financial Statements of the Bank Pekao S.A. Group for the year ended on 31 December 2020.

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

30.06.2021	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Assets:	10 197 517	14 345 669	11 410 077	35 953 263
Financial assets held for trading	369 661	60 427	55 453	485 541
Derivative financial instruments, including:	-	3 554 462	11 697	3 566 159
Banks	-	884 350	11 697	896 047
Customers	-	2 670 112	-	2 670 112
Hedging instruments, including:	-	604 189	-	604 189
Banks	-	128 547	-	128 547
Customers	-	475 642	-	475 642
Securities measured at fair value through other comprehensive income	9 827 856	10 126 591	10 732 550	30 686 997
Securities measured at fair value through profit or loss	-	-	173 403	173 403
Loans and advances to customers measured at fair value through other comprehensive income	-	-	257 985	257 985
Loans and advances to customers measured at fair value through profit or loss	-	-	178 989	178 989
Liabilities:	545 006	4 291 440	4 874	4 841 320
Financial liabilities held for trading	545 006	-	-	545 006
Derivative financial instruments, including:	-	3 440 839	4 874	3 445 713
Banks	-	762 325	-	762 325
Customers	-	2 678 514	4 874	2 683 388
Hedging instruments, including:	-	850 601	-	850 601
Banks	-	675 188	-	675 188
Customers	-	175 413	-	175 413

31.12.2020	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Assets:	14 342 453	25 099 498	12 358 784	51 800 735
Financial assets held for trading	938 452	335 725	43 532	1 317 709
Derivative financial instruments, including:	-	4 810 519	1 712	4 812 231
Banks	-	1 223 864	1 712	1 225 576
Customers	-	3 586 655	-	3 586 655
Hedging instruments, including:	-	779 063	-	779 063
Banks	-	26 070	-	26 070
Customers	-	752 993	-	752 993
Securities measured at fair value through other comprehensive income	13 404 001	19 174 191	10 490 998	43 069 190
Securities measured at fair value through profit or loss	-	-	160 486	160 486
Loans and advances to customers measured at fair value through other comprehensive income	-	-	1 475 055	1 475 055
Loans and advances to customers measured at fair value through profit or loss	-	-	187 001	187 001
Liabilities:	742 804	5 690 375	-	6 433 179
Financial liabilities held for trading	742 804	-	-	742 804
Derivative financial instruments, including:	-	4 617 416	-	4 617 416
Banks	-	1 220 458	-	1 220 458
Customers	-	3 396 958	-	3 396 958
Hedging instruments, including:	-	1 072 959	-	1 072 959
Banks	-	995 230	-	995 230
Customers	-	77 729	-	77 729

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

I HALF 2021	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	DERIVATIVE FINANCIAL INSTRUMENTS (LIABILITIES)
Opening balance	43 532	1 712	1 475 055	187 001	160 486	10 490 998	-
Increases, including:	2 107 734	9 985	90 736	1 502	12 917	3 162 559	4 390
Increase due to acquisition of part of Idea Bank S.A. activity	-	4 453	-	-	-	85 309	4 390
Reclassification	84	-	-	-	-	429 745	-
Transactions made in 2021	-	-	52 830	363	-	-	-
Acquisition/Granting	2 106 193	-	-	-	-	2 496 606	-
Settlement/Redemption	-	-	-	-	-	-	-
Gains on financial instruments	1 457	5 532	37 906	1 139	12 917	150 899	-
recognized in the income statement	1 447	5 532	37 906	1 139	12 917	137 981	-
recognized in revaluation reserves	10	-	-	-	-	12 918	-
Decreases, including:	(2 095 813)	-	(1 307 806)	(9 514)	-	(2 921 007)	484
Reclassification	(6 015)	-	-	-	-	(393 824)	-
Settlement/Redemption	(21 329)	-	(1 090 168)	(9 514)	-	(1 548 112)	-
Sale/Repayment	(2 066 324)	-	(195 500)	-	-	(913 185)	-
Losses on financial instruments	(2 145)	-	(22 138)	-	-	(65 886)	484
recognized in the income statement	-	-	-	-	-	(298)	484
recognized in revaluation reserves	(2 145)	-	(22 138)	-	-	(65 588)	-
Closing balance	55 453	11 697	257 985	178 989	173 403	10 732 550	4 874
Unrealized income from financial instruments held in portfolio at the end of the period, recognized in:	(1 639)	5 532	(4 067)	1 126	-	(51 277)	(484)
Income statement:	(1 639)	5 532	209	1 126	-	35 441	(484)
net interest income	484	-	1 376	49	-	34 927	-
net allowances for expected credit losses	-	-	(1 167)	-	-	514	-
result on financial assets and liabilities held for trading	(2 123)	5 532	-	1 077	-	-	(484)
Other comprehensive income	-	-	(4 276)	-	-	(86 718)	-

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

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	DERIVATIVE FINANCIAL INSTRUMENTS (LIABILITIES)
Opening balance	8 035	3 042	1 380 607	242 639	125 454	6 941 296	-
Increases, including:	4 081 969	-	144 373	652	36 159	16 168 475	-
Reclassification	28 947	-	-	-	-	42 937	-
Transactions made in 2020	-	-	-	-	-	-	-
Acquisition/Granting	4 050 886	-	99 437	604	-	15 848 668	-
Settlement/Redemption	-	-	-	-	-	-	-
Gains on financial instruments recognized in the income statement	2 136	-	44 936	48	36 159	276 870	-
recognized in revaluation reserves	2 136	-	29 641	48	36 159	256 336	-
recognized in revaluation reserves	-	-	15 295	-	-	20 534	-
Decreases, including:	(4 046 472)	(1 330)	(49 925)	(56 290)	(1 127)	(12 618 773)	-
Reclassification	-	-	-	-	-	(58 832)	-
Settlement/Redemption	(1 953 732)	-	-	(56 290)	-	(513 027)	-
Sale/Repayment	(2 092 726)	-	(49 925)	-	-	(12 015 693)	-
Losses on financial instruments recognized in the income statement	(14)	(1 330)	-	-	(1 127)	(31 221)	-
recognized in the income statement	(14)	(1 330)	-	-	(1 127)	(76)	-
recognized in revaluation reserves	-	-	-	-	-	(31 145)	-
Closing balance	43 532	1 712	1 475 055	187 001	160 486	10 490 998	-
Unrealized income from financial instruments held in portfolio at the end of the period, recognized in:	2 310	(1 330)	11 538	(82)	-	120 087	-
Income statement:	2 310	(1 330)	(3 020)	(82)	-	37 473	-
net interest income	14	-	1 510	557	-	55 386	-
net allowances for expected credit losses	-	-	(4 530)	-	-	(17 913)	-
result on financial assets and liabilities held for trading	2 296	(1 330)	-	(639)	-	-	-
Other comprehensive income	-	-	14 558	-	-	82 614	-

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.

In the period from 1 January to 30 June 2021 the following transfers of financial instruments between the levels of the fair value hierarchy were made:

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

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 2021 is as follows:

FINANCIAL ASSET/LIABILITY	FAIR VALUE AS AT 30.06.2021	VALUATION TECHNIQUE	UNOBSERVABLE FACTOR	ALTERNATIVE FACTOR RANGE (WEIGHTED AVERAGE)	IMPACT ON FAIR VALUE AS AT 30.06.2021	
					POSITIVE SCENARIO	NEGATIVE SCENARIO
Corporate and municipal debt securities	10 305 272	Discounted cash flow	Credit spread	0.17%-1.11%	163 066	(204 165)
Sovereign securities	38 681	Discounted cash flow	Spread to benchmark bond	0.07%-0,69%	2 349	(2 349)
Derivatives	8 011	Black Scholes model	Correlation	0-1	422	(235)
Derivatives	4 023	Black Scholes model	Volatility	2.7-4.0	1 082	(1 004)
Loans and advances measured at fair value through profit or loss	178 989	Discounted cash flow	Credit spread	0.30%-1.39%	3 336	(3 243)
Loans and advances measured at fair value through other comprehensive income	257 985	Discounted cash flow	Credit spread	0.28%-0.37%	2 826	(2 784)

FINANCIAL ASSET	FAIR VALUE AS AT 30.06.2021	PARAMETR	SCENARIO	IMPACT ON FAIR VALUE AS AT 30.06.2021	
				POSITIVE SCENARIO	NEGATIVE SCENARIO
Equity instruments mandatorily measured at fair value through profit or loss	173 403	Conversion discount	+10% / -10%	9 614	(19 263)
Equity instrument in entity providing credit information designated for measurement at fair value through other comprehensive income	387 239	Discount rate	+1% / -1%	76 452	(53 800)

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

FINANCIAL ASSET/LIABILITY	FAIR VALUE AS AT 31.12.2020	VALUATION TECHNIQUE	UNOBSERVABLE FACTOR	ALTERNATIVE FACTOR RANGE (WEIGHTED AVERAGE)	IMPACT ON FAIR VALUE AS AT 31.12.2020	
					POSITIVE SCENARIO	NEGATIVE SCENARIO
Corporate and municipal debt securities	10 228 287	Discounted cash flow	Credit spread	0.21%-1.03%	130 290	(140 244)
Sovereign securities	28 116	Discounted cash flow	Spread to benchmark bond	0.04%-0.71%	1 878	(1 878)
Derivatives	1 712	Black Scholes model	Correlation	0-1	17	(1 099)
Loans and advances measured at fair value through profit or loss	187 001	Discounted cash flow	Credit spread	0.30%-1.19%	3 735	(3 641)
Loans and advances measured at fair value through other comprehensive income	1 475 055	Discounted cash flow	Credit spread	2.30%-3.20%	18 068	(17 799)

FINANCIAL ASSET	FAIR VALUE AS AT 31.12.2020	PARAMETR	SCENARIO	IMPACT ON FAIR VALUE AS AT 31.12.2020	
				POSITIVE SCENARIO	NEGATIVE SCENARIO
Equity instruments mandatorily measured at fair value through profit or loss	160 486	Conversion discount	+10% / -10%	8 911	(17 831)
Equity instrument in entity providing credit information designated for measurement at fair value through other comprehensive income	239 617	Discount rate	+1% / -1%	47 508	(33 966)

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

There have been no significant changes in the measurement process of the financial instruments which are not presented at fair value in the financial statements in relation to the one described in the Consolidated Financial Statements of the Bank Pekao S.A. Group for the year ended on 31 December 2020.

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

30.06.2021	CARRYING AMOUNT	FAIR VALUE	OF WHICH:		
			LEVEL 1	LEVEL 2	LEVEL 3
Assets					
Cash and due from Central Bank	7 606 790	7 607 069	3 569 214	4 037 855	-
Loans and advance to banks	2 209 301	2 215 390	-	1 184 468	1 030 922
Loans and advances to customers measured at amortised cost	154 002 547	153 607 726	-	990 007	152 617 719
Debt securities measured at amortised cost	36 637 410	37 067 427	22 642 985	7 089 655	7 334 787
Other assets	1 163 402	1 163 402	-	-	1 163 402
Total Assets	201 619 450	201 661 014	26 212 199	13 301 985	162 146 830
Liabilities					
Amounts due to Central Bank	-	-	-	-	-
Amounts due to other banks	7 833 580	7 870 424	-	1 241 555	6 628 869
Amounts due to customers	192 462 141	192 150 829	-	-	192 150 829
Debt securities issued	5 113 551	5 119 994	-	5 119 994	-
Subordinated liabilities	2 757 773	2 759 653	-	2 759 653	-
Other liabilities	3 521 544	3 521 544	-	-	3 521 544
Total Liabilities	211 688 589	211 422 444	-	9 121 202	202 301 242

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

31.12.2020	CARRYING AMOUNT	FAIR VALUE	OF WHICH:		
			LEVEL 1	LEVEL 2	LEVEL 3
Assets					
Cash and due from Central Bank	4 456 279	4 456 235	4 306 094	150 141	-
Loans and advance to banks	2 578 339	2 577 485	-	1 170 713	1 406 772
Loans and advances to customers measured at amortised cost	140 825 741	140 012 831	-	280 627	139 732 204
Debt securities measured at amortised cost	27 261 551	28 310 323	19 803 027	4 410 186	4 097 110
Other assets	1 059 292	1 059 292	-	-	1 059 292
Total Assets	176 181 202	176 416 166	24 109 121	6 011 667	146 295 378
Liabilities					
Amounts due to Central Bank	-	-	-	-	-
Amounts due to other banks	9 950 663	9 844 466	-	2 475 559	7 368 907
Amounts due to customers	178 303 984	177 489 039	-	-	177 489 039
Debt securities issued	6 146 708	6 130 664	-	6 130 664	-
Subordinated liabilities	2 757 876	2 761 026	-	2 761 026	-
Other liabilities	2 718 650	2 718 650	-	-	2 718 650
Total Liabilities	199 877 881	198 943 845	-	11 367 249	187 576 596

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 (excluding 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 100 million and below 5 million in the case of companies conducting full accounting,
- Enterprise banking – all banking activities related to the most affluent individual customers,
- Corporate and Investment banking – all banking activities related to large companies 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.

Operating segments reporting for the period from 1 January to 30 June 2021

	RETAIL BANKING	PRIVATE BANKING	CORPORATE AND INVESTMENT BANKING	ENTERPRISE BANKING	ASSETS AND LIABILITIES MANAGEMENT AND OTHER	TOTAL
External interest income	1 253 843	1 888	590 605	195 099	728 254	2 769 689
External interest expenses	(24 762)	(6 345)	(31 799)	(1 560)	(32 172)	(96 638)
Net external interest income	1 229 081	(4 457)	558 806	193 539	696 082	2 673 051
Internal interest income	258 623	20 700	7 157	16 344	(302 824)	-
Internal interest expenses	(389 176)	(1 409)	(168 782)	(67 528)	626 895	-
Net internal interest income	(130 553)	19 291	(161 625)	(51 184)	324 071	-
Total net interest income	1 098 528	14 834	397 181	142 355	1 020 153	2 673 051
Fee and commission income and expense	545 997	92 638	321 541	309 394	19 047	1 288 617
Other non-interest income	5 314	(518)	150 134	19 506	(3 428)	171 008
Operating income	1 649 839	106 954	868 856	471 255	1 035 772	4 132 676
Personnel expenses	(448 791)	(40 493)	(108 123)	(96 138)	(485 464)	(1 179 009)
Other administrative expenses	(613 125)	(14 791)	(89 838)	(131 461)	362 682	(486 533)
Depreciation and amortisation	(99 399)	(8 028)	(10 355)	(8 717)	(191 104)	(317 603)
Operating costs	(1 161 315)	(63 312)	(208 316)	(236 316)	(313 886)	(1 983 145)
Gross operating profit	488 524	43 642	660 540	234 939	721 886	2 149 531
Net allowances for expected credit losses	(158 773)	631	(95 947)	(84 121)	(29 723)	(367 933)
Net operating profit	329 751	44 273	564 593	150 818	692 163	1 781 598
Guarantee funds charges	(144 994)	(381)	(86 107)	(34 368)	33 632	(232 218)
Tax on certain financial institutions	-	-	-	-	(353 156)	(353 156)
Gains (losses) on associates	-	-	-	-	355	355
Profit before tax	184 757	43 892	478 486	116 450	372 994	1 196 579
Income tax expense						(345 125)
Net profit for the period						851 454
Attributable to equity holders of the Bank						850 428
Attributable to non-controlling interests						1 026
Allocated assets	79 535 474	1 344 727	63 533 544	18 907 874	65 071 927	228 393 546
Unallocated assets						14 699 507
Total assets						243 093 053
Allocated liabilities	108 960 359	16 115 306	47 855 009	26 384 335	9 331 896	208 646 905
Unallocated liabilities						8 881 483
Total liabilities						217 528 388

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

	RETAIL BANKING	PRIVATE BANKING	CORPORATE AND INVESTMENT BANKING	ENTERPRISE BANKING	ASSETS AND LIABILITIES MANAGEMENT AND OTHER	TOTAL
External interest income	1 724 945	3 795	840 381	246 053	449 310	3 264 484
External interest expenses	(178 145)	(72 742)	(146 284)	(23 877)	(49 637)	(470 685)
Net external interest income	1 546 800	(68 947)	694 097	222 176	399 673	2 793 799
Internal interest income	440 693	89 347	200 681	65 764	(796 485)	-
Internal interest expenses	(833 865)	(4 680)	(390 204)	(120 996)	1 349 745	-
Net internal interest income	(393 172)	84 667	(189 523)	(55 232)	553 260	-
Total net interest income	1 153 628	15 720	504 574	166 944	952 933	2 793 799
Fee and commission income and expense	549 507	75 533	246 135	267 099	43 967	1 182 241
Other non-interest income	7 770	(912)	42 407	24 178	48 292	121 735
Operating income	1 710 905	90 341	793 116	458 221	1 045 192	4 097 775
Personnel expenses	(446 385)	(36 652)	(109 942)	(83 254)	(431 280)	(1 107 513)
Other administrative expenses	(606 225)	(12 571)	(73 822)	(127 109)	354 139	(465 588)
Depreciation and amortisation	(86 997)	(5 666)	(14 478)	(3 859)	(147 239)	(258 239)
Operating costs	(1 139 607)	(54 889)	(198 242)	(214 222)	(224 380)	(1 831 340)
Gross operating profit	571 298	35 452	594 874	243 999	820 812	2 266 435
Net allowances for expected credit losses	(253 114)	11	(300 269)	(251 548)	-	(804 920)
Net operating profit	318 184	35 463	294 605	(7 549)	820 812	1 461 515
Guarantee funds charges	(144 821)	(370)	(92 584)	(32 689)	(23 320)	(293 784)
Tax on certain financial institutions	-	-	-	-	(326 349)	(326 349)
Profit before tax	173 363	35 093	202 021	(40 238)	471 143	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	79 087 275	907 249	68 940 864	17 045 805	51 112 382	217 093 575
Unallocated assets						18 210 106
Total assets						235 303 681
Allocated liabilities	97 248 830	16 443 008	48 131 332	28 547 321	10 273 664	200 644 155
Unallocated liabilities						9 980 603
Total liabilities						210 624 758

Reconciliations of operating income for reportable segments

	I HALF 2021	I HALF 2020
Net interest income	2 673 051	2 793 799
Net fee and commission income	1 288 617	1 182 241
Dividend income	25 597	26 003
Result on financial assets and liabilities measured at fair value through profit or loss and foreign exchange result	93 166	60 975
Result on fair value hedge accounting	2 646	(752)
Profit (loss) from derecognition of financial assets and financial liabilities not at fair value through profit or loss	34 007	44 175
Operating income	4 117 084	4 106 441
Other operating income	46 681	35 682
Other operating expenses	(31 089)	(44 348)
Total operating income for reportable segments	4 132 676	4 097 775

9. Interest income and expense

Interest income

	II QUARTER 2021			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	
Interest income calculated using the effective interest method	1 180 899	115 371	-	1 296 270
Loans and advances (in this receivables from financial leases)	1 056 000	7 554	-	1 063 554
Interbank placements	(286)	-	-	(286)
Reverse repo transactions	340	-	-	340
Investment securities	124 845	107 817	-	232 662
Other interest income related to financial assets measured at fair value through profit or loss	-	-	68 640	68 640
Loans and other receivables from customers	-	-	107	107
Hedging derivatives	-	-	68 618	68 618
Financial assets held for trading	-	-	(85)	(85)
Total	1 180 899	115 371	68 640	1 364 910

	I HALF 2021			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	
Interest income calculated using the effective interest method	2 372 388	260 472	-	2 632 860
Loans and advances (in this receivables from financial leases)	2 146 143	15 898	-	2 162 041
Interbank placements	(37)	-	-	(37)
Reverse repo transactions	361	-	-	361
Investment securities	225 921	244 574	-	470 495
Other interest income related to financial assets measured at fair value through profit or loss	-	-	136 829	136 829
Loans and other receivables from customers	-	-	214	214
Hedging derivatives	-	-	136 370	136 370
Financial assets held for trading	-	-	245	245
Total	2 372 388	260 472	136 829	2 769 689

	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	
Interest income calculated using the effective interest method	1 314 397	164 408	-	1 478 805
Loans and advances (in this receivables from financial leases)	1 203 986	8 363	-	1 212 349
Interbank placements	2 803	-	-	2 803
Reverse repo transactions	2 983	-	-	2 983
Investment securities	104 625	156 045	-	260 670
Other interest income related to financial assets measured at fair value through profit or loss	-	-	68 239	68 239
Loans and other receivables from customers	-	-	482	482
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	
Interest income calculated using the effective interest method	2 814 207	322 657	-	3 136 864
Loans and advances (in this receivables from financial leases)	2 587 202	16 030	-	2 603 232
Interbank placements	13 002	-	-	13 002
Reverse repo transactions	10 230	-	-	10 230
Investment securities	203 773	306 627	-	510 400
Other interest income related to financial assets measured at fair value through profit or loss	-	-	127 620	127 620
Loans and other receivables from customers	-	-	1 794	1 794
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

Interest expense

	II QUARTER 2021	I HALF 2021	II QUARTER 2020	I HALF 2020
Deposits from customers	8 486	(27 720)	(123 957)	(333 890)
Interbank deposits	(1 100)	(2 174)	(2 340)	(5 735)
Repo transactions	(8)	(26)	(1 182)	(6 993)
Loans and advances received	(6 406)	(12 851)	(9 569)	(21 573)
Leasing	(2 449)	(5 035)	(2 735)	(5 415)
Debt securities	(23 981)	(48 832)	(41 713)	(97 079)
Total	(25 458)	(96 638)	(181 496)	(470 685)

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

10. Fee and commission income and expense

Fee and commission income

	II QUARTER 2021	I HALF 2021	II QUARTER 2020	I HALF 2020
Accounts maintenance, payment orders and cash transactions	180 226	349 914	145 802	294 258
Payment cards	147 205	282 448	141 441	287 543
Loans and advances	124 102	218 272	94 053	187 741
Margin on foreign exchange transactions with clients	139 332	264 526	115 709	250 028
Service and sell investment and insurance products	119 757	236 627	105 327	231 351
Securities operations	30 637	68 539	24 285	43 772
Custody activity	17 250	33 285	14 320	26 534
Guarantees, letters of credit and similar transactions	18 914	36 780	15 975	32 235
Other	23 365	47 195	20 017	42 733
Total	800 788	1 537 586	676 929	1 396 195

Fee and commission expense

	II QUARTER 2021	I HALF 2021	II QUARTER 2020	I HALF 2020
Payment cards	(82 916)	(161 962)	(75 049)	(150 105)
Money orders and transfers	(5 337)	(10 630)	(5 123)	(10 634)
Securities and derivatives operations	(12 826)	(25 646)	(8 723)	(17 178)
Acquisition services	(13 574)	(26 117)	(10 883)	(18 771)
Custody activity	(6 394)	(12 186)	(5 365)	(9 544)
Accounts maintenance	(1 207)	(2 087)	(1 245)	(2 110)
Investment funds management	(278)	(487)	(148)	(300)
Other	(5 502)	(9 854)	(2 546)	(5 312)
Total	(128 034)	(248 969)	(109 082)	(213 954)

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 2021	I HALF 2021	II QUARTER 2020	I HALF 2020
Issuers of securities measured at fair value through profit or loss	20	20	262	517
Issuers of equity instruments designated at fair value through other comprehensive income	25 577	25 577	25 486	25 486
Total	25 597	25 597	25 748	26 003

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

	II QUARTER 2021	I HALF 2021	II QUARTER 2020	I HALF 2020
Gains (losses) on loans and advances to customers measured mandatorily at fair value through profit or loss	45	1 273	(5 354)	(3 663)
Gains (losses) on securities measured mandatorily at fair value through profit or loss	16 225	10 998	21 490	2 931
Foreign exchange result	72 727	73 181	4 507	(23 991)
Gains (losses) on derivatives	(29 880)	(5 107)	13 470	58 348
Gains (losses) on securities held for trading	5 442	12 821	16 590	27 350
Total	64 559	93 166	50 703	60 975

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

Realized gains

	II QUARTER 2021	I HALF 2021	II QUARTER 2020	I HALF 2020
Financial assets measured at amortised cost	2 897	6 582	967	9 405
Financial assets measured at fair value through other comprehensive income	21 111	28 747	25 738	39 219
Financial liabilities not measured at fair value through profit or loss	-	-	-	1
Total	24 008	35 329	26 705	48 625

Realized losses

	II QUARTER 2021	I HALF 2021	II QUARTER 2020	I HALF 2020
Financial assets measured at amortised cost	(499)	(996)	(1 643)	(2 347)
Financial assets measured at fair value through other comprehensive income	(298)	(298)	(1 974)	(2 016)
Financial liabilities not measured at fair value through profit or loss	(17)	(28)	(39)	(87)
Total	(814)	(1 322)	(3 656)	(4 450)

Net realized profit	23 194	34 007	23 049	44 175
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14. Net allowances for expected credit losses

	II QUARTER 2021	I HALF 2021	II QUARTER 2020	I HALF 2020
Loans and other financial assets measured at amortized cost (*)	(284 182)	(471 485)	(421 612)	(685 515)
Debt securities measured at amortized cost	12 370	7 206	18 343	6 017
Loans measured at fair value through other comprehensive income	21 827	22 008	(3 263)	(4 768)
Debt securities measured at fair value through other comprehensive income	24 073	24 222	518	(16 324)
Off-balance sheet commitments	38 006	55 533	(58 094)	(92 601)
Provision for legal risk regarding foreign currency mortgage loans	(3 994)	(5 417)	(9 902)	(11 729)
Total	(191 900)	(367 933)	(474 010)	(804 920)

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

15. Other operating income and expenses

Other operating income

	II QUARTER 2021	I HALF 2021	II QUARTER 2020	I HALF 2020
Gains on disposal of property, plant and equipment	9 195	9 673	103	179
Premises rental income, terminals and IT equipment	5 171	10 279	4 297	8 670
Operating leasing net income (*)	1 087	1 674	(748)	(465)
Compensation, recoveries, penalty fees and fines received	4 819	7 897	3 081	6 723
Miscellaneous income	2 799	6 394	4 991	10 187
Recovery of debt collection costs	2 391	3 683	1 891	4 202
Net revenues from sale of products, goods and services	1 265	2 763	1 093	2 599
Other	1 217	4 318	1 782	3 587
Total	27 944	46 681	16 490	35 682

(*) Operating leasing net income

	II QUARTER 2021	I HALF 2021	II QUARTER 2020	I HALF 2020
Income from operating leases	3 053	5 554	2 038	3 851
Costs of depreciation of fixed assets provided under operating leases	(1 966)	(3 880)	(2 786)	(4 316)
Total	1 087	1 674	(748)	(465)

Other operating expenses

	II QUARTER 2021	I HALF 2021	II QUARTER 2020	I HALF 2020
Provision for liabilities disputable and other provisions (*)	(13 526)	(13 932)	(10 169)	(10 853)
Provision for legal risk regarding foreign currency mortgage loans	1 674	3 097	(5 982)	(4 435)
Loss on disposal of property, plant and equipment and intangible assets	(1 058)	(2 241)	(58)	(10 003)
Card transactions monitoring costs	(3 471)	(5 417)	(2 955)	(4 393)
Sundry expenses	(974)	(2 570)	(2 548)	(4 550)
Costs of litigation and claims	(666)	(1 500)	(408)	(1 359)
Impairment allowance on fixed assets, litigations and other assets	86	(1 179)	(986)	(1 199)
Compensation, penalty fees and fines	(816)	(1 095)	(170)	(401)
Other	(3 154)	(6 252)	(1 093)	(7 155)
Total	(21 905)	(31 089)	(24 369)	(44 348)

(*) The item also includes the provision for commission reimbursements on previously repaid consumer loans.

16. Administrative expenses

Personnel expenses

	II QUARTER 2021	I HALF 2021	II QUARTER 2020	I HALF 2020
Wages and salaries	(446 527)	(1 008 579)	(405 804)	(939 928)
Insurance and other charges related to employees	(81 090)	(160 707)	(79 132)	(158 904)
Share-based payments expenses	(4 861)	(9 723)	(4 341)	(8 681)
Total	(532 478)	(1 179 009)	(489 277)	(1 107 513)

Other administrative expenses

	II QUARTER 2021	I HALF 2021	II QUARTER 2020	I HALF 2020
General expenses	(236 193)	(442 418)	(198 479)	(429 285)
Taxes and charges	(10 014)	(19 722)	(9 176)	(18 034)
Bank Guarantee Fund fee	(28 861)	(232 218)	(43 081)	(293 784)
Financial supervision authority fee (KNF)	(105)	(24 393)	(76)	(18 269)
Tax on certain financial institutions	(177 696)	(353 156)	(169 843)	(326 349)
Total	(452 869)	(1 071 907)	(420 655)	(1 085 721)

Total administrative expenses	(985 347)	(2 250 916)	(909 932)	(2 193 234)
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From 1 January 2017 new rules for making contributions to Bank Guarantee Fund (hereinafter 'BGF'), defined in the Act of 10 June 2016 on Bank Guarantee Fund, deposit guarantee schemes and resolution of banks (hereinafter 'BGF Act'), have to be applied.

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

As a result of application of the Interpretation IFRIC 21 *Levies* for recognition of the above obligations, the costs of quarterly contribution to deposit guarantee fund of banks in the amount of PLN 61 625 thousand for the first half of 2021 (for the first half of 2020 - PLN 83 398 thousand) and the costs of annual contribution to resolution fund of banks in the amount of PLN 170 593 thousand (PLN 210 386 thousand in 2020).

17. Depreciation and amortization

	II QUARTER 2021	I HALF 2021	II QUARTER 2020	I HALF 2020
Property, plant and equipment	(78 793)	(160 699)	(78 390)	(151 643)
Intangible assets	(81 727)	(156 904)	(56 314)	(106 596)
Total	(160 520)	(317 603)	(134 704)	(258 239)

18. Total gains (losses) from associates

Share in gains (losses) from associates

	II QUARTER 2021	I HALF 2021	II QUARTER 2020	I HALF 2020
Krajowy Integrator Płatności SA (*)	355	355	-	-
Total	355	355	-	-

(*) Group's share in net gains for the period from the date of acquisition of shares.

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

	II QUARTER 2021	I HALF 2021	II QUARTER 2020	I HALF 2020
INCOME STATEMENT				
Current tax	(148 862)	(330 332)	(248 654)	(551 054)
Current tax charge in the income statement	(142 488)	(323 951)	(243 290)	(545 558)
Adjustments related to the current tax from previous years	(5 994)	(5 994)	(4 974)	(4 975)
Other taxes (e.g. withholding tax)	(380)	(387)	(390)	(521)
Deferred tax	(40 810)	(14 793)	100 748	256 579
Occurrence and reversal of temporary differences	(40 810)	(14 793)	100 748	256 579
Tax charge in the consolidated income statement	(189 672)	(345 125)	(147 906)	(294 475)
EQUITY				
Deferred tax	80 567	183 017	(126 523)	(172 617)
Income and costs disclosed in other comprehensive income:				
revaluation of financial instruments - cash flows hedges	23 480	87 229	(22 601)	(101 439)
fair value revaluation through other comprehensive income	64 420	111 554	(99 765)	(69 155)
Tax on items that are or may be reclassified subsequently to profit or loss	87 900	198 783	(122 366)	(170 594)
Tax charge on items that will never be reclassified to profit or loss	(7 333)	(15 766)	(4 157)	(2 023)
fair value revaluation through other comprehensive income – equity securities	(7 333)	(15 766)	(4 157)	(2 023)
remeasurements the defined benefit liabilities	-	-	-	-
TOTAL CHARGE	(109 105)	(162 108)	(274 429)	(467 092)

20. Earnings per share

Basic earnings per share

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

	II QUARTER 2021	I HALF 2021	II QUARTER 2020	I HALF 2020
Net profit	604 780	850 428	359 151	546 049
Weighted average number of ordinary shares in the period	262 470 034	262 470 034	262 470 034	262 470 034
Earnings per share (in PLN per share)	2.30	3.24	1.37	2.08

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 2021 and 30 June 2020 here were no diluting instruments in the form of convertible bonds in the Group.

	II QUARTER 2021	I HALF 2021	II QUARTER 2020	I HALF 2020
Net profit	604 780	850 428	359 151	546 049
Weighted average number of ordinary shares in the period	262 470 034	262 470 034	262 470 034	262 470 034
Weighted average number of ordinary shares for the purpose of calculation of diluted earnings per share	262 470 034	262 470 034	262 470 034	262 470 034
Diluted earnings per share (in PLN per share)	2.30	3.24	1.37	2.08

21. Dividends

On 11 June 2021, the Bank's Ordinary General Meeting passed a Profit Distribution Resolution. The Profit Distribution Resolution provided that the distribution of the Bank's net profit for 2020 will take place in one of four manners, depending on the fulfilment or non-fulfilment of the Dividend Payment Conditions, making the payment of dividends dependent on Polish Financial Supervision Authority ('KNF') Position relating to the dividend policy of commercial banks in the second half of 2021 and KNF Recommendation relating to the Bank's dividend policy in the second half of 2021.

Profit Distribution Resolution defines three Dividend Payment Conditions:

1. 75% Dividend Payment Condition - the condition will be met when the KNF Position and KNF Recommendation allow to allocate for dividend - from the Bank's net profit for 2020 - at least the amount of PLN 842 528 809.14,
2. 50% Dividend Payment Condition - the condition will be met when the KNF Position and KNF Recommendation allow to allocate for the dividend - from the Bank's net profit for 2020 - at least the amount of PLN 561 685 872.76, but less than the amount of PLN 842 528 809.14,
3. 25% Dividend Payment Condition - the condition will be met when the KNF Position and KNF Recommendation would allow to allocate for the dividend - from the Bank's net profit for 2020 - at least the amount of PLN 280 842 936.38, but less than the amount of PLN 561 685 872.76.

In case:

1. the 75% Dividend Payment Condition is fulfilled - the amount of PLN 842 528 809.14 will be allocated to dividend;
2. if the Dividend Payment Condition of 50% is met - the amount of PLN 561 685 872.76 will be allocated to dividend;
3. if the Dividend Payment Condition of 25% is met - the amount of PLN 280 842 936.38 will be allocated to dividend;
4. if none of the Dividend Payment Conditions (i.e. 75% Dividend Payment Condition, 50% Dividend Payment Condition, 25% Dividend Payment Condition) is met, no dividend will be paid for the year 2020.

Paragraph 5 (1) of the Profit Distribution Resolution requires the Management Board of the Bank will adopt a resolution on the fulfilment or non-fulfilment of the individual Dividend Payment Conditions by 2 September 2021 at the latest, with the proviso that if no KNF Position or KNF Recommendation has been issued by 31 August 2021 (inclusive), none of the Dividend Payment Conditions are met.

The Management Board of the Bank on 16 July 2021, pursuant to § 5 (1) of the Profit Distribution Resolution, in connection with the KNF Position and KNF Recommendation, adopted a resolution on the Dividend Payment Conditions. It stated therein that: the Dividend Payment Condition of 75% set in the Profit Distribution Resolution was fulfilled, therefore the following conditions were not fulfilled: Dividend Payment Condition 50% and Dividend Payment Condition 25%. The above

means that: 74.8% of the Bank's net profit for 2020, i.e. the amount of PLN 842 528 809.14 was allocated to dividend. The dividend day is 10 September 2021 and the dividend payment date is 29 September 2021.

22. Cash and balances with Central Bank

CASH AND DUE FROM CENTRAL BANK	30.06.2021	31.12.2020
Cash	3 569 214	4 306 094
Current account at Central Bank	4 037 803	150 198
Deposits	51	-
Gross carrying amount	7 607 068	4 456 292
Impairment allowances	(278)	(13)
Net carrying amount	7 606 790	4 456 279

AMOUNTS DUE TO CENTRAL BANK	30.06.2021	31.12.2020
Term deposits	-	-
Total	-	-

23. Loans and advances to banks

Loans and advances to banks by product type

	30.06.2021	31.12.2020
Current accounts	666 906	273 795
Interbank placements	66 618	179 332
Loans and advances	98 778	35 282
Cash collaterals	899 645	1 173 087
Reverse repo transactions	450 952	719 015
Cash in transit	28 110	199 051
Total gross amount	2 211 009	2 579 562
Impairment allowances	(1 708)	(1 223)
Total net amount	2 209 301	2 578 339

Loans and advances to banks are measured at amortised cost.

24. Financial assets and liabilities held for trading

Financial assets and liabilities held for trading by product type

	30.06.2021	31.12.2020
FINANCIAL ASSETS		
Debt securities	483 464	1 312 316
Equity securities	2 077	5 393
Total financial assets	485 541	1 317 709
FINANCIAL LIABILITIES		
Debt securities	545 006	742 804
Total financial liabilities	545 006	742 804

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

Debt securities held for trading

	30.06.2021	31.12.2020
FINANCIAL ASSETS		
Debt securities issued by State Treasury	415 275	976 025
T- bills	-	100
T- bonds	415 275	975 925
Debt securities issued by banks	29 524	135 299
Debt securities issued by business entities	38 665	200 992
Total financial assets	483 464	1 312 316
FINANCIAL LIABILITIES		
Debt securities issued by State Treasury	545 006	742 804
T- bonds	545 006	742 804
Total financial liabilities	545 006	742 804

Equity securities held for trading

	30.06.2021	31.12.2020
Shares	2 077	5 393
Total	2 077	5 393

25. Derivative financial instruments (held for trading)

Fair value of trading derivatives

30.06.2021	ASSETS	LIABILITIES
Interest rate transactions		
Interest Rate Swaps (IRS)	2 905 657	2 878 881
Forward Rate Agreements (FRA)	-	827
Options	14 188	8 076
Other	900	982
Foreign currency and gold transactions		
Cross-Currency Interest Rate Swaps (CIRS)	105 602	51 914
Currency Forward Agreements	108 687	159 892
Currency Swaps (FX-Swap)	133 979	40 523
Options for currency and gold	44 156	54 634
Transactions based on equity securities and stock indexes		
Options	39 678	39 600
Other	-	-
Transactions based on commodities and precious metals		
Options	18 015	16 203
Other	195 297	194 181
Total	3 566 159	3 445 713

Fair value of trading derivatives

31.12.2020	ASSETS	LIABILITIES
Interest rate transactions		
Interest Rate Swaps (IRS)	4 070 059	4 026 201
Forward Rate Agreements (FRA)	605	586
Options	6 580	2 171
Other	831	847
Foreign currency and gold transactions		
Cross-Currency Interest Rate Swaps (CIRS)	91 071	61 376
Currency Forward Agreements	257 951	264 613
Currency Swaps (FX-Swap)	193 335	83 919
Options for currency and for gold	60 286	51 295
Transactions based on equity securities and stock indexes		
Options	1 712	1 712
Other	-	-
Transactions based on commodities and precious metals		
Options	56 268	52 659
Other	73 533	72 037
Total	4 812 231	4 617 416

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

26. Loans and advances to customers

Loans and advances to customers by product type

	30.06.2021			TOTAL
	AMORTISED COST	FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	FAIR VALUE THROUGH PROFIT OR LOSS	
Mortgage loans	78 181 612	131 446	14 202	78 327 260
Current accounts	9 882 757	-	-	9 882 757
Operating loans	11 548 362	-	17 561	11 565 923
Investment loans	23 052 301	126 539	18 318	23 197 158
Cash loans	13 699 689	-	-	13 699 689
Payment cards receivables	1 040 344	-	-	1 040 344
Financial leasing	8 090 281	-	-	8 090 281
Factoring	13 309 079	-	-	13 309 079
Other loans and advances	1 673 414	-	128 908	1 802 322
Reverse repo transactions	990 005	-	-	990 005
Cash in transit	168 845	-	-	168 845
Gross carrying amount	161 636 689	257 985	178 989	162 073 663
Impairment allowances (*) (**)	(7 634 142)	-	-	(7 634 142)
Carrying amount	154 002 547	257 985	178 989	154 439 521

(*) The impairment allowance for loans and advances to customers measured at fair value through other comprehensive income in the amount of PLN 3 902 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 350 460 thousand.

Loans and advances to customers by product type

	31.12.2020			TOTAL
	AMORTISED COST	FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	FAIR VALUE THROUGH PROFIT OR LOSS	
Mortgage loans	76 198 229	754 285	15 902	76 968 416
Current accounts	8 829 284	-	-	8 829 284
Operating loans	9 839 559	443 778	19 285	10 302 622
Investment loans	21 801 214	276 992	20 339	22 098 545
Cash loans	13 618 453	-	-	13 618 453
Payment cards receivables	1 013 454	-	-	1 013 454
Financial leasing	7 815 053	-	-	7 815 053
Factoring	6 861 923	-	-	6 861 923
Other loans and advances	1 655 638	-	131 475	1 787 113
Reverse repo transactions	280 620	-	-	280 620
Cash in transit	149 325	-	-	149 325
Gross carrying amount	148 062 752	1 475 055	187 001	149 724 808
Impairment allowances (*) (**)	(7 237 011)	-	-	(7 237 011)
Carrying amount	140 825 741	1 475 055	187 001	142 487 797

(*) The impairment allowance for loans and advances to customers measured at fair value through other comprehensive income in the amount of PLN 26 571 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 345 131 thousand.

Loans and advances to customers by customer type

	30.06.2021					TOTAL
	AMORTISED COST			FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (*)	FAIR VALUE THROUGH PROFIT OR LOSS	
	GROSS CARRYING AMOUNT	IMPAIRMENT ALLOWANCES (**)	CARRYING AMOUNT			
Corporate	77 787 659	(4 817 809)	72 969 850	257 985	28 864	73 256 699
Individuals	81 136 890	(2 695 814)	78 441 076	-	128 908	78 569 984
Budget entities	2 712 140	(120 519)	2 591 621	-	21 217	2 612 838
Loans and advances to customers	161 636 689	(7 634 142)	154 002 547	257 985	178 989	154 439 521

(*) The impairment allowance for loans and advances to customers measured at fair value through other comprehensive income in the amount of PLN 3 902 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 350 460 thousand.

	31.12.2020					TOTAL
	AMORTISED COST			FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (*)	FAIR VALUE THROUGH PROFIT OR LOSS	
	GROSS CARRYING AMOUNT	IMPAIRMENT ALLOWANCES (**)	CARRYING AMOUNT			
Corporate	65 830 444	(4 414 974)	61 415 470	1 475 055	32 234	62 922 759
Individuals	79 602 379	(2 700 007)	76 902 372	-	131 474	77 033 846
Budget entities	2 629 929	(122 030)	2 507 899	-	23 293	2 531 192
Loans and advances to customers	148 062 752	(7 237 011)	140 825 741	1 475 055	187 001	142 487 797

(*) The impairment allowance for loans and advances to customers measured at fair value through other comprehensive income in the amount of PLN 26 571 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 345 131 thousand.

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 2021 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**),
- Interest rate swaps (IRS) designated to hedge deposits denominated in PLN and EUR, which economically constitute a long-term variable-rate liability and own issues in PLN (hereafter: **CFH IRS deposits**),
- cross-currency interest rate swaps (basis swap) designated to hedge floating rate loans denominated in CHF and floating rate loans and leasing receivables denominated in EUR and liabilities denominated in PLN, which economically constitute a long-term variable-rate liability (relationship extended by current and future cash flows resulting from loans and lease receivables with a variable interest rate in EUR, hereafter: **CFH CIRS**),
- FX-Swaps designated to hedge floating rate loans denominated in EUR and current and term deposits denominated in USD (hereafter: **CFH FX-Swap**).

Impact of the IBOR reform on hedge accounting

In relation to the amendments to IAS 39 and IFRS 9 published on 16 January 2020, the Bank took advantage of the possibility of early adoption of the above-mentioned amendments to IAS 39 and IFRS 9 concerning the impact of the interest rate benchmark reform on hedge accounting (*Interbank Offer Rate* - 'IBOR reform').

As part of the established hedging relationships, the Bank identifies the following interest rate benchmarks: WIBOR, EURIBOR, LIBOR CHF, LIBOR USD. As of the reporting date, these benchmarks rates are quoted and available each day and resulting cash flows are exchanged with its counterparties as usual.

In the case of WIBOR and EURIBOR the Bank assessed that, there is currently no uncertainty about the timing or amounts of cash flows arising from the IBOR reform. Both indicators have been reformed and are being developed by Administrators authorized under the European Union Benchmark Regulation (BMR Regulation). The Bank not anticipate changing the hedged risk to a different benchmarks.

For LIBOR CHF and LIBOR USD, the established hedging relationships extend beyond the anticipated cessation dates for both benchmarks, i.e. December 31, 2021 for CHF LIBOR and June 20, 2023 for USD LIBOR. The bank expects that these benchmarks will be replaced by new benchmarks: CHF LIBOR by the SARON (Swiss Averaged Rate Overnight) administered by the SIX Swiss Exchange and LIBOR USD by the SOFR (Secured Overnight Financing Rate) administered by the Federal Reserve Bank of New York, but there is uncertainty about the timing and amounts of cash flows for the new rates. Such uncertainty may impact the assessment of: the effectiveness of the relationship and the high probability of the hedged item. For the purposes of these assessments, the Bank assumes that the hedged interest rates benchmarks on which the cash flows of the hedged item and / or the hedging instrument are based will not be altered as a result of IBOR reform.

Below is the list of hedging relationships and the nominal amounts of hedging instruments designated thereto, which may be affected by the cessation of the LIBOR interest rate benchmarks as at 30 June 2021,

- CFH CIRS deposits / loans (CHF 543 million transactions based on CHF LIBOR, maturing after 31 December 2021),
- FVH IRS bonds (USD 133 million transactions based on USD LIBOR, maturing after 30 June 2023).

The bank has developed an action plan in case of significant changes or the discontinuation of the benchmark. One of the activities of the above-mentioned plan is to introduce appropriate clauses in contracts with counterparties. Regarding the hedging instruments, the Bank actively cooperates with counterparties in order to implement rules of conduct in line with the ISDA methodology (ISDA Fallbacks Protocol).

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 2020 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 2021 and 31 December 2020.

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

30.06.2021	FVH IRS BONDS – IRS HEDGING DEBT SECURITIES MEASURED AT		TOTAL
	AMORTISED COST	FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	
HEDGING INSTRUMENTS			
Nominal value	200 000	2 060 952	2 260 952
Carrying amount – assets	-	-	-
Carrying amount – liabilities	16 099	111 337	127 436
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	10 830	40 939	51 769
Amount of hedge ineffectiveness recognized in the income statement 'Result on fair value hedge accounting'	518	2 128	2 646
HEDGED ITEM			
Carrying amount – assets	215 162	2 230 687	2 445 849
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	15 183	146 011	161 194
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	(10 311)	(38 811)	(49 122)
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	-	-	-

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

31.12.2020	FVH IRS BONDS – IRS HEDGING DEBT SECURITIES MEASURED AT		TOTAL
	AMORTISED COST	FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	
HEDGING INSTRUMENTS			
Nominal value	200 000	2 359 246	2 559 246
Carrying amount – assets	-	-	-
Carrying amount – liabilities	26 944	171 136	198 080
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	(11 384)	(34 162)	(45 546)
Amount of hedge ineffectiveness recognized in the income statement 'Result on fair value hedge accounting'	(179)	(668)	(847)
HEDGED ITEM			
Carrying amount – assets	225 471	2 595 811	2 821 282
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	25 494	187 793	213 287
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	11 205	33 496	44 701
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, EURIBOR) and exposure to currency risk. Portfolios of: variable-rate loans denominated in CHF, variable-rate loans and leasing receivables denominated in EUR and deposits in PLN (which economically constitute a 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 constitute a long-term, variable-rate liability and variable-rate PLN own issues.

In the last half-year, Bank extended the existing relationship (CFH CIRS deposits/loans) with the current and future cash flows resulting from floating interest rate loans and lease receivables in EUR, as well as EUR/PLN basis swap transactions hedging currency and interest rate risk.

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 2020 and have not changed substantially since then.

Impact of cash flow hedge on balance sheet and financial result

HEDGE IN RELATIONSHIP AS AT 30.06.2021	INTEREST RATE RISK		INTEREST RATE RISK / CURRENCY RISK	
	CFH IRS loans	CFH IRS deposits	CFH CIRS	CFH FX-Swap
HEDGING INSTRUMENTS				
Nominal value	17 824 000	1 097 328	9 297 916	20 330 017
Carrying amount – assets	487 545	3 665	930	112 049
Carrying amount – liabilities	136 793	28 117	549 880	8 375
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	(489 488)	15 700	9 486	(1 878)
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'	(8 871)	-	1 247	-
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
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	482 094	(15 700)	(3 489)	1 878
Revaluation reserve due to cash flow hedge accounting for relationships for which hedge accounting will be continued after the end of the reporting period	188 205	(21 040)	(31 622)	(1 165)
Revaluation reserve due to cash flow hedge accounting for relationships for which hedge accounting is no longer applied	-	-	-	-

Impact of cash flow hedge on balance sheet and financial result

HEDGE IN RELATIONSHIP AS AT 31.12.2020	INTEREST RATE RISK		INTEREST RATE RISK / CURRENCY RISK	
	CFH IRS loans	CFH IRS deposits	CFH CIRS	CFH FX-Swap
HEDGING INSTRUMENTS				
Nominal value	15 692 000	1 155 289	4 706 380	28 146 997
Carrying amount – assets	766 961	6 765	-	5 337
Carrying amount – liabilities	2 085	47 829	561 308	263 657
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	475 586	(14 395)	14 303	(1 080)
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'	7 742	-	-	4
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	(466 966)	14 395	(16 776)	1 077
Revaluation reserve due to cash flow hedge accounting for relationships for which hedge accounting will be continued after the end of the reporting period	668 822	(36 727)	(39 329)	713
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 2021	I HALF 2020
Opening balance	593 479	126 763
INTEREST RATE RISK		
Gains or losses resulting from hedging, recognized in other comprehensive income during the reporting period	(464 930)	514 373
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	5 829	19 516
Part of the loss transferred to the income statement due to the lack of expectation of materialization of the hedged item	-	-
Closing balance	134 378	660 652

28. Investment (placement) securities

	30.06.2021	31.12.2020
Debt securities measured at amortised cost	36 637 410	27 261 551
Debt securities measured at fair value through other comprehensive income	30 185 242	42 737 500
Equity instruments designated at fair value through other comprehensive income	501 755	331 690
Equity instruments mandatorily measured at fair value through profit or loss	173 403	160 486
Total	67 497 810	70 491 227

Debt securities measured at amortised cost

	30.06.2021	31.12.2020
Securities issued by State Treasury	22 277 756	19 759 086
T-bills	-	808 649
T-bonds	22 277 756	18 950 437
Securities issued by central banks	19 500	74 678
Securities issued by banks	6 397 946	2 229 516
Securities issued by business entities	4 880 611	2 037 279
Securities issued by local governments	3 061 597	3 160 992
Total	36 637 410	27 261 551
including impairment of assets	(63 142)	(73 566)

Debt securities measured at fair value through other comprehensive income

	30.06.2021	31.12.2020
Securities issued by State Treasury	15 550 625	21 378 138
T-bills	-	1 737 500
T-bonds	15 300 548	19 390 658
Other	250 077	249 980
Securities issued by central banks	999 995	1 000 000
Securities issued by banks	5 068 761	8 942 332
Securities issued by business entities	6 572 440	8 787 943
Securities issued by local governments	1 993 421	2 629 087
Total	30 185 242	42 737 500
including impairment of assets (*)	(38 921)	(63 143)

(*) 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

	30.06.2021	31.12.2020
Shares	501 755	331 690
Total	501 755	331 690

Equity instruments mandatorily measured at fair value through profit or loss

	30.06.2021	31.12.2020
Shares	173 403	160 486
Total	173 403	160 486

29. Intangible assets

	30.06.2021	31.12.2020
Intangible assets, including:	1 366 720	1 260 449
research and development expenditures	10 949	10 071
licenses and patents	909 774	760 462
other	137 363	144 155
assets under construction	308 634	345 761
Goodwill (*)	748 552	747 648
Total	2 115 272	2 008 097

(*) In this goodwill arose on the provisional settlement of the acquisition of Idea Bank S.A. in the amount of PLN 904 thousand, as described in Note 3.

30. Property, plant and equipment

	30.06.2021	31.12.2020
Non-current assets, including:	1 788 421	1 791 346
land and buildings	1 178 264	1 224 142
machinery and equipment	396 866	384 718
transport vehicles	100 064	73 407
other	113 227	109 079
Non-current assets under construction and prepayments	72 062	128 101
Total	1 860 483	1 919 447

In the period from 1 January to 30 June 2021 the Group acquired 'Property, plant and equipment' amounted PLN 62 404 thousand (including PLN 32 291 thousand 'Property, plant and equipment' arising from the acquisition of part of the activities of Idea Bank S.A.; in 2020 - PLN 352 641 thousand), while the value of property, plant and equipment sold amounted to PLN 8 667 thousand (in 2020 - PLN 5 254 thousand).

In the period from 1 January to 30 June 2021 and in 2020 there have been no property, plant and equipment whose title is restricted and pledged as security for liabilities.

Contractual commitments

As at 30 June 2021 the contractual commitments for the acquisition of property, plant and equipment amounted to PLN 20 223 thousand, (as at 31 December 2020 - PLN 45 043 thousand).

31. Assets pledged as security for liabilities

TYPE OF TRANSACTION AS AT 30.06.2021	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	113 850	109 806	113 700
Coverage of Fund for protection of guaranteed assets to the benefit of the Bank Guarantee Fund	bonds	722 074	674 000	-
Coverage of payment commitments to the guarantee fund for the Bank Guarantee Fund	bonds	168 608	165 000	147 362
Coverage of payment commitments to the resolution fund for the Bank Guarantee Fund	bonds	328 252	317 800	258 362
Lombard and technical loan	bonds	5 787 887	5 649 592	-
Other loans	bonds	355 286	343 200	286 549
Debt securities issued	loans, bonds	1 748 678	1 755 485	1 272 718
Coverage of the Guarantee Fund for the Settlement of Stock Exchange Transactions to Central Securities Depository (KDPW)	bonds, cash deposits	47 745	47 745	-
Derivatives	bonds	44 820	43 861	27 637
Uncommitted Collateralized Intraday Technical Overdraft Facility Agreement	bonds	38 733	31 646	-

TYPE OF TRANSACTION AS AT 31.12.2020	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	742 928	699 155	742 491
Coverage of Fund for protection of guaranteed assets to the benefit of the Bank Guarantee Fund	bonds	704 821	660 000	-
Coverage of payment commitments to the guarantee fund for the Bank Guarantee Fund	bonds	145 331	140 000	130 265
Coverage of payment commitments to the resolution fund for the Bank Guarantee Fund	bonds	306 999	292 800	267 598
Lombard and technical loan	bonds	5 852 305	5 628 888	-
Other loans	bonds	361 456	349 400	302 880
Debt securities issued	loans, bonds	1 837 586	1 846 458	1 319 273
Coverage of the Guarantee Fund for the Settlement of Stock Exchange Transactions to Central Securities Depository (KDPW)	bonds, cash deposits	43 034	43 034	-
Derivatives	bonds	34 389	33 128	11 252
Uncommitted Collateralized Intraday Technical Overdraft Facility Agreement	bonds	42 345	32 304	-

32. Amounts due to other banks

Amounts due to other banks by product type

	30.06.2021	31.12.2020
Current accounts	1 227 837	951 990
Interbank deposits and other liabilities	1 419 130	2 070 855
Loans and advances received	5 035 905	6 305 526
Repo transactions	113 700	589 928
Cash in transit	36 851	32 175
Lease liabilities	157	189
Total	7 833 580	9 950 663

Amounts due to other banks are measured at amortised cost.

33. Amounts due to customers

Amounts due to customers by entity and product type

	30.06.2021	31.12.2020
Amounts due to corporate, including:	59 719 435	59 387 184
current accounts	57 545 828	56 053 193
term deposits and other liabilities	2 173 607	3 333 991
Amounts due to budget entities, including:	17 123 667	12 281 660
current accounts	17 070 250	12 109 189
term deposits and other liabilities	53 417	172 471
Amounts due to individuals, including:	114 745 976	105 776 513
current accounts	100 879 848	88 796 952
term deposits and other liabilities	13 866 128	16 979 561
Repo transactions	-	152 563
Cash in transit	479 982	299 842
Lease liabilities	393 081	406 222
Total	192 462 141	178 303 984

Amounts due to customers are measured at amortised cost.

34. Debt securities issued

Debt securities issued by type

	30.06.2021	31.12.2020
Liabilities from bonds	3 792 399	4 304 447
Certificates of deposit	48 434	523 305
Mortgage bonds	1 272 718	1 318 956
Total	5 113 551	6 146 708

Amounts debt securities issued are measured at amortised cost.

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

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 30.06.2021
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	1 253 737
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	552 089
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	200 865
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	350 505
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	400 577
TOTAL	2 750 000						2 757 773

TYPE OF TRANSACTION	NOMINAL AMOUNT	CURRENCY	INTEREST RATE	ISSUE DATE	MATURITY DATE	SPECIAL TERMS	BALANCE SHEET VALUE AS AT 31.12.2020
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	1 253 762
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	552 116
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	200 876
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	350 524
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	400 598
TOTAL	2 750 000						2 757 876

36. Provisions

Changes in provisions in the reporting period

I HALF 2021	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	178 589	81 077	294 880	383 415	50 743	988 704
Increase due to acquisition of part of Idea Bank S.A. activity	392	-	-	1 608	-	2 000
Provision charges/revaluation	14 307	120 000	10 696	124 078	9 723	278 804
Provision utilization	(17 347)	(126 811)	(17 827)	-	(195)	(162 180)
Provision releases	(3 471)	(15 000)	-	(179 611)	-	(198 082)
Foreign currency exchange differences	81	-	-	(1 383)	-	(1 302)
Closing balance	172 551	59 266	287 749	328 107	60 271	907 944
Short term	35 542	59 266	14 329	69 472	255	178 864
Long term	137 009	-	273 420	258 635	60 016	729 080

(*) Including the provision for legal risk regarding foreign currency mortgage loans in CHF in the amount of PLN 87 680 thousand and a provision for early repayments of consumer loans in the amount of PLN 17 132 thousand as at 30 June 2021.

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	107 705	144 430	23 529	240 153	14 005	529 822
Provision utilization	(17 743)	(82 307)	(29 715)	-	(11 714)	(141 479)
Provision releases	(9 744)	-	-	(150 517)	(70)	(160 331)
Foreign currency exchange differences	(164)	-	-	2 877	-	2 713
Other changes	(5 398)	-	10 797	-	(17)	5 382
Closing balance	178 589	81 077	294 880	383 415	50 743	988 704
Short term	32 678	81 077	24 529	52 373	383	191 040
Long term	145 911	-	270 351	331 042	50 360	797 664

(*) Including the provision for legal risk regarding foreign currency mortgage loans in CHF in the amount of PLN 90 939 thousand and a provision for early repayments of consumer loans in the amount of PLN 19 661 thousand as at 31 December 2020.

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.

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.

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 2021 the provision regarding early repayment of consumer loans made before the judgment of the CJEU (i.e. before 11 September 2019) amounts to PLN 17.1 million (as at 31 December 2020 - PLN 19.7 million) and includes an increase in the provision in the amount of PLN 8.5 million during the first half of 2021.

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 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 2021, the Group estimated possible future prepayments of these exposures. In accordance with the above, the Group recognized the amount of PLN 11.7 million in 'Other liabilities' (as at 31 December 2020 - PLN 10 million).

Restructuring provision

The Management Board of Bank Pekao S.A. informed in the current report No. 8/2021 that on 3 March 2021, in accordance with the Act of 13 March 2003 on special rules of terminating employment contracts for reasons not attributable to the employees, 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 was to terminate employment contracts with up to 1 110 employees and amend terms and conditions of employment with up to 1 250 employees in the period from 24 March 2021 to 30 June 2021.

The Bank estimated all the costs of termination of employment contracts and amendment of terms and conditions of employment the Bank's employees related to the collective redundancies for the amount of PLN 120 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.

37. Contingent commitments

Court cases

As of 30 June 2021 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 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. On the 16 December 2020 the Court of Appeal quashed the sentence of the Regional Court in its entirety and remitted the case to that Court. The Bank maintains its current assessment of the risk of outflow of funds and, in terms of the amount awarded by the Regional 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 2021 before the court, authority competent for arbitrary proceedings or a body of public administration posed a threat for financial liquidity of the Group.

The Group created provisions for litigations against the Group entities which, according to the legal opinion, are connected with a risk of the funds outflow resulting from the fulfillment of the obligation. The value of the provisions as at 30 June 2021 is PLN 172 551 thousand (PLN 178 589 thousand as at 31 December 2020).

In addition, as at 30 June 2021 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.

Financial commitments granted

Financial commitments granted by entity

	30.06.2021	31.12.2020
Financial commitments granted to:		
Banks	706 236	551 503
Customers	39 772 994	39 930 464
budget entities	605 282	721 915
Total	41 084 512	41 203 882

Guarantees issued

Guarantees issued by entity

	30.06.2021	31.12.2020
Issued to banks:	1 328 046	1 647 148
guarantees	1 290 375	1 603 269
securities' underwriting guarantees	-	-
confirmed export letters of credit	37 671	43 879
Issued to customers	10 925 321	10 610 484
guarantees	7 961 588	7 443 561
securities' underwriting guarantees	2 819 481	3 013 647
sureties	144 252	153 276
Issued to budget entities:	1 356 717	1 360 653
guarantees	35 272	35 551
securities' underwriting guarantees	1 321 445	1 325 102
Total	13 610 084	13 618 285

Off-balance sheet commitments received

Off-balance sheet commitments received by entity

	30.06.2021	31.12.2020
Financial received from:	1 524 767	563 455
banks	1 524 767	563 455
customers	-	-
budget entities	-	-
Guarantees received from:	20 368 418	20 345 840
banks	9 424 065	8 596 465
customers	9 778 065	10 642 784
budget entities	1 166 288	1 106 591
Total	21 893 185	20 909 295

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

38. Additional information to the consolidated cash flow statement

Cash and cash equivalents

	30.06.2021	30.06.2020
Cash and amounts due from Central Bank	7 606 790	7 362 524
Loans and receivables from banks with maturity up to 3 months	2 071 996	8 108 972
Cash and Cash equivalents presented in the cash flow statement	9 678 786	15 471 496

Restricted availability cash and cash equivalents as at 30 June 2021 amounted to PLN 4 037 803 thousand (PLN 1 778 776 thousand as at 30 June 2020).

As at 3 January 2021, the value of acquired cash and cash equivalents related to the acquisition of the part of the activities of Idea Bank S.A. amounted to PLN 1 259 939 thousand.

Explanation of reasons for the differences between changes in the statement of financial position and changes in the status of these items in the operating activities of the cash flow statement
Change in loans and advances to banks

	I HALF 2021
Change in balance sheet	(108 370)
Change in business combination	1 295 830
Total	1 187 460

Change in financial assets held for trading

	I HALF 2021
Change in balance sheet	830 765
Change in business combination	65 172
Total	895 937

Change in derivative financial instruments (assets)

	I HALF 2021
Change in balance sheet	1 246 072
Change in business combination	9 044
Total	1 255 116

Change in loans and advances to customers (in this receivables from financial leases)

	I HALF 2021
Change in balance sheet	(11 816 578)
Change in business combination	12 060 942
Total	244 364

Change in investment (placement) securities

	I HALF 2021
Change in balance sheet	(19 679)
Change in business combination	453 168
Total	433 489

Change in other assets

	I HALF 2021
Change in balance sheet	(1 061 062)
Change in business combination	134 844
Total	(926 218)

Change in amounts due to banks

	I HALF 2021
Change in balance sheet	(914 751)
Change in business combination	(125 488)
Total	(1 040 239)

Change in derivative financial instruments (liabilities)

	I HALF 2021
Change in balance sheet	(1 171 703)
Change in business combination	(164 176)
Total	(1 335 879)

Change in amounts due to customers

	I HALF 2021
Change in balance sheet	14 265 084
Change in business combination	(13 575 553)
Total	689 531

Change in provisions

	I HALF 2021
Change in balance sheet	(80 760)
Change in business combination	(3 889)
Total	(84 649)

Change in other liabilities

	I HALF 2021
Change in balance sheet	274 243
Change in business combination	(343 798)
Total	(69 555)

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.

Related party transactions

Related party transactions as at 30 June 2021

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	8	-	1 200	9 710	98 477	-	218
Entities of PZU S.A. Group excluding of Bank Pekao S.A. Group entities	29	-	127	13 266	273 149	45	920
Subsidiaries of Bank Pekao S.A Group entities							
Krajowy Integrator Płatności S.A.	-	-	-	-	654	-	-
Key management personnel of the Bank Pekao S.A.	1 626	-	-	-	2 582	-	-
Total	1 663	-	1 327	22 976	374 862	45	1 138

Related party transactions as at 31 December 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	1	-	911	3 839	87 519	-	2 238
Entities of PZU S.A. Group excluding of Bank Pekao S.A. Group entities	1	-	9 517	12 498	308 929	322	1 109
Key management personnel of the Bank Pekao S.A.	1 640	-	-	-	2 943	-	-
Total	1 642	-	10 428	16 337	399 391	322	3 347

Income and expenses from transactions with related parties for the period from 1 January 2021 to 30 June 2021

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	(889)	-	24 155	(431)	455	(255)
Entities of PZU S.A. Group excluding of Bank Pekao S.A. Group entities	(1)	(2)	26 400	(106)	1 009	(11 641)
Subsidiaries of Bank Pekao S.A Group entities						
Krajowy Integrator Płatności S.A.	-	-	148	-	-	-
Key management personnel of the Bank Pekao S.A.	25	-	-	-	-	-
Total	(865)	(2)	50 703	(537)	1 464	(11 896)

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)

Off-balance sheet financial liabilities and guarantees as at 30 June 2021

NAME OF ENTITY	GRANTED		RECEIVED	
	FINANCIAL	GUARANTEES	FINANCIAL	GUARANTEE
PZU S.A. – the Bank's parent entity	2 729	107 159	-	519 892
Entities of PZU S.A. Group excluding of Bank Pekao S.A. Group entities	7 069	102 252	-	-
Key management personnel of the Bank Pekao S.A.	204	-	-	-
Total	10 002	209 411	-	519 892

Off-balance sheet financial liabilities and guarantees as at 31 December 2020

NAME OF ENTITY	GRANTED		RECEIVED	
	FINANCIAL	GUARANTEES	FINANCIAL	GUARANTEE
PZU S.A. – the Bank's parent entity	2 710	108 637	-	530 702
Entities of PZU S.A. Group excluding of Bank Pekao S.A. Group entities	1 085	103 730	-	-
Key management personnel of the Bank Pekao S.A.	255	-	-	-
Total	4 050	212 367	-	530 702

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

	VALUE OF BENEFITS	
	I HALF 2021	I HALF 2020
Management Board of the Bank		
Short-term employee benefits (*)	4 663	4 102
Post-employment benefits	410	-
Long-term benefits (**)	1 735	1 812
Share-based payments (***)	1 571	1 719
Total	8 379	7 633
Supervisory Board of the Bank		
Short-term employee benefits (*)	595	575
Total	595	575

(*) 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 2021 and in the period from 1 January to 30 June 2020.

Remuneration expenses of Supervisory Boards and Management Boards of subsidiaries

	VALUE OF BENEFITS	
	I HALF 2021	I HALF 2020
Companies' Management Boards		
Short-term employee benefits	6 255	6 740
Post-employment benefits	463	1 051
Long-term benefits	-	749
Paid termination benefits	-	395
Total	6 718	8 935
Companies' Supervisory Boards		
Short-term employee benefits	532	344
Total	532	344

40. Subsequent events

Significant subsequent events are presented in the Note 10.10 'Subsequent events' of the Report on the activities of Bank Pekao S.A. Group for the first half of 2021.

03.08.2021 Date	Leszek Skiba Name/Surname	President of the Management Board Position/Function	Signature
03.08.2021 Date	Jarosław Fuchs Name/Surname	Vice President of the Management Board Position/Function	Signature
03.08.2021 Date	Marcin Gadomski Name/Surname	Vice President of the Management Board Position/Function	Signature
03.08.2021 Date	Krzysztof Kozłowski Name/Surname	Vice President of the Management Board Position/Function	Signature
03.08.2021 Date	Tomasz Kubiak Name/Surname	Vice President of the Management Board Position/Function	Signature
03.08.2021 Date	Jerzy Kwieciński Name/Surname	Vice President of the Management Board Position/Function	Signature
03.08.2021 Date	Błażej Szczecki Name/Surname	Vice President of the Management Board Position/Function	Signature
03.08.2021 Date	Wojciech Werochowski Name/Surname	Vice President of the Management Board Position/Function	Signature
03.08.2021 Date	Magdalena Zmitrowicz Name/Surname	Vice President of the Management Board Position/Function	Signature

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.

CFH – cash flow hedge accounting.