

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



Warsaw, August 2020

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

Table of content

Separate income statement	3	18. Earnings per share	52
Separate statement of comprehensive income	4	19. Dividends	52
Separate statement of financial position	5	20. Cash and balances with Central Bank	52
Separate statement of changes in equity	6	21. Loans and advances to banks	53
Separate cash flow statement	9	22. Financial assets and liabilities held for trading	53
Notes to financial statements	11	23. Derivative financial instruments (held for trading)	54
1. General information	11	24. Loans and advances to customers	55
2. Business combinations	11	25. Hedge accounting	57
3. Statement of compliance	11	26. Investment (placement) securities	61
4. Significant accounting policies	12	27. Intangible assets	62
5. Accounting estimates	15	28. Property, plant and equipment	63
6. Risk management	18	29. Assets pledged as security for liabilities	63
7. Interest income and expense	45	30. Amounts due to other banks	64
8. Fee and commission income and expense	47	31. Amounts due to customers	65
9. Dividend income	47	32. Debt securities issued	65
10. Result on financial assets and liabilities measured at fair value through profit or loss	48	33. Subordinated liabilities	66
11. Result on derecognition of financial assets and liabilities not measured at fair value through profit or loss	48	34. Provisions	67
12. Net impairment losses on financial assets and off-balance sheet commitments	49	35. Contingent commitments	69
13. Net other operating income and expenses	49	36. Additional information to the separate cash flow statement	71
14. Administrative expenses	50	37. Related party transactions	71
15. Depreciation and amortization	51	38. Subsequent events	78
16. Total gains (losses) from subsidiaries and associates	51	Glossary	I
17. Basic components of income tax charge in the income statement and equity	51		

Separate income statement

(in PLN thousand)

	NOTE	II QUARTER 2020 PERIOD FROM 01.04.2020 TO 30.06.2020	I HALF 2020 PERIOD FROM 01.01.2020 TO 30.06.2020	II QUARTER 2019 PERIOD FROM 01.04.2019 TO 30.06.2019 RESTATED	I HALF 2019 PERIOD FROM 01.01.2019 TO 30.06.2019 RESTATED
Interest income	7	1 482 767	3 123 745	1 604 572	3 144 517
Financial assets measured at amortized cost		1 248 876	2 671 279	1 370 776	2 688 991
Financial assets measured at fair value through other comprehensive income		164 557	322 797	167 313	327 735
Financial assets measured at fair value through profit or loss		69 334	129 669	66 483	127 791
Interest expense	7	(155 095)	(409 314)	(283 220)	(555 763)
Net interest income		1 327 672	2 714 431	1 321 352	2 588 754
Fee and commission income	8	592 536	1 209 498	607 582	1 174 769
Fee and commission expense	8	(107 211)	(210 671)	(91 464)	(171 799)
Net fee and commission income		485 325	998 827	516 118	1 002 970
Dividend income	9	173 601	173 856	136 247	200 599
Result on financial assets and liabilities measured at fair value through profit or loss	10	49 085	51 618	27 306	40 829
Result on fair value hedge accounting	25	992	(752)	(728)	(1 704)
Result on derecognition of financial assets and liabilities not measured at fair value through profit or loss	11	22 901	43 586	8 259	19 470
Net impairment losses on financial assets and off-balance sheet commitments	12	(441 620)	(788 035)	(162 011)	(263 152)
Net other operating income and expenses	13	(5 998)	(7 996)	18 748	29 620
Administrative expenses	14	(851 599)	(2 071 048)	(917 704)	(2 111 970)
Personnel expenses		(430 072)	(988 918)	(521 312)	(935 157)
Other administrative expenses		(421 527)	(1 082 130)	(396 392)	(1 176 813)
Gains (losses) on disposal of property, plant and equipment and intangible assets	15	(124 142)	(237 289)	(114 549)	(231 500)
Gains (losses) on subsidiaries and associates	16	-	(365)	-	-
PROFIT BEFORE INCOME TAX		636 217	876 833	833 038	1 273 916
Income tax expense	17	(143 573)	(271 111)	(176 101)	(357 656)
NET PROFIT		492 644	605 722	656 937	916 260
Earnings per share (in PLN per share)	18				
basic for the period		1.88	2.31	2.50	3.49
diluted for the period		1.88	2.31	2.50	3.49

Notes to the financial statements presented on pages 11 – 78 constitute an integral part of the condensed interim separate financial statements.

Separate statement of comprehensive income

(in PLN thousand)

	NOTE	II QUARTER 2020 PERIOD FROM 01.04.2020 TO 30.06.2020	I HALF 2020 PERIOD FROM 01.01.2020 TO 30.06.2020	II QUARTER 2019 PERIOD FROM 01.04.2019 TO 30.06.2019	I HALF 2019 PERIOD FROM 01.01.2019 TO 30.06.2019
Net profit		492 644	605 722	656 937	916 260
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:		524 656	364 655	122 947	113 624
Profit or loss on fair value measurement		548 271	401 269	130 057	132 069
Profit or loss reclassification to income statement after derecognition		(23 615)	(36 614)	(7 110)	(18 445)
Change in fair value of cash flow hedges	25	118 954	533 889	27 302	92 070
Tax on items that are or may be reclassified subsequently to profit or loss	17	(122 285)	(170 723)	(28 548)	(39 082)
Items that will never be reclassified to profit or loss:					
Investment in equity instruments designated at fair value through other comprehensive income		21 880	10 647	16 540	17 342
Remeasurements of the defined benefit liabilities		-	-	-	-
Tax on items that will never be reclassified to profit or loss	17	(4 157)	(2 023)	(3 143)	(3 295)
Other comprehensive income (net of tax)		539 048	736 445	135 098	180 659
Total comprehensive income		1 031 692	1 342 167	792 035	1 096 919

Notes to the financial statements presented on pages 11 – 78 constitute an integral part of the condensed interim separate financial statements.

Separate statement of financial position

(in PLN thousand)

	NOTE	30.06.2020	31.12.2019
ASSETS			
Cash and due from Central Bank	20	7 362 096	5 138 758
Loans and advances to banks	21	8 563 564	2 243 908
Financial assets held for trading	22	1 026 260	1 279 495
Derivative financial instruments (held for trading)	23	5 438 848	2 085 989
Loans and advances to customers	24	134 361 395	131 675 384
1. Measured at amortised cost		132 501 201	129 886 963
2. Measured at fair value through profit or loss		213 869	242 639
3. Measured at fair value through other comprehensive income		1 646 325	1 545 782
Hedging instruments	25	969 845	377 208
Investments (placement) securities	26	63 459 636	45 873 297
1. Measured at fair value through profit or loss		133 520	125 454
2. Designated at fair value through profit or loss		-	-
3. Measured at fair value through other comprehensive income (debt securities)		42 490 336	30 964 680
4. Designated at fair value through other comprehensive income (equity instruments)		236 165	225 332
5. Measured at amortised cost		20 599 615	14 557 831
Assets held for sale		17 175	17 175
Investments in subsidiaries		1 626 084	1 626 449
Investments in associates		-	-
Intangible assets	27	874 701	739 777
Property, plant and equipment	28	1 830 474	1 842 378
Investment properties		-	-
Income tax assets		860 678	777 116
1. Current tax assets			
2. Deferred tax assets		860 678	777 116
Other assets		899 925	973 058
TOTAL ASSETS		227 290 681	194 649 992
EQUITY AND LIABILITIES			
Liabilities			
Amounts due to Central Bank	20	-	4 550
Amounts due to other banks	30	3 473 942	3 043 969
Financial liabilities held for trading	22	302 405	184 799
Derivative financial instruments (held for trading)	23	5 241 746	2 040 368
Amounts due to customers	31	185 343 863	158 544 670
Hedging instruments	25	948 117	614 765
Debt securities issued	32	1 399 735	1 604 344
Subordinated liabilities	33	2 759 514	2 764 493
Income tax liabilities		223 098	168 318
1. Current tax liabilities		223 098	168 318
2. Deferred tax liabilities		-	-
Provisions	34	984 907	773 057
Other liabilities		2 755 175	2 379 871
TOTAL LIABILITIES		203 432 502	172 123 204
Equity			
Share capital		262 470	262 470
Other capital and reserves		21 304 929	20 016 851
Retained earnings and net profit for the period		2 290 780	2 247 467
TOTAL EQUITY		23 858 179	22 526 788
TOTAL LIABILITIES AND EQUITY		227 290 681	194 649 992

Notes to the financial statements presented on pages 11 - 78 constitute an integral part of the condensed interim separate financial statements.

Separate statement of changes in equity

(in PLN thousand)

For the period from 1 January 2020 to 30 June 2020

	SHARE CAPITAL	OTHER CAPITAL AND RESERVES					REVALUATION RESERVES	OTHER	RETAINED EARNINGS AND NET PROFIT FOR THE PERIOD	TOTAL EQUITY
		TOTAL OTHER CAPITAL AND RESERVES	SHARE PREMIUM	GENERAL BANKING RISK FUND	OTHER RESERVE CAPITAL					
Equity as at 1.01.2020	262 470	20 016 851	9 137 221	1 982 459	8 300 933	363 111	233 127	2 247 467	22 526 788	
Comprehensive income	-	736 445	-	-	-	736 445	-	605 722	1 342 172	
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)	-	295 371	-	-	-	295 371	-	-	295 371	
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	
Revaluation of hedging financial instruments (net of tax)	-	432 450	-	-	-	432 450	-	-	432 450	
Net profit for the period	-	-	-	-	-	-	-	605 722	605 722	
Appropriation of retained earnings	-	562 409	-	-	562 409	-	-	(562 409)	-	
Dividend paid	-	-	-	-	-	-	-	-	-	
Profit appropriation	-	562 409	-	-	562 409	-	-	(562 409)	-	
Other	-	(10 776)	-	-	(10 776)	-	-	-	(10 776)	
Acquisition of the organised part of the enterprise of the Pekao Investment Banking S.A.	-	(10 776)	-	-	(10 776)	-	-	-	(10 776)	
Equity as at 30.06.2020	262 470	21 304 929	9 137 221	1 982 459	8 852 566	1 099 556	233 127	2 290 780	23 858 179	

Notes to the financial statements presented on pages 11 - 78 constitute an integral part of the condensed interim separate financial statements.

Separate statement of changes in equity (cont.)

(in PLN thousand)

For the period from 1 January 2019 to 31 December 2019

	SHARE CAPITAL	OTHER CAPITAL AND RESERVES					REVALUATION RESERVES	OTHER	RETAINED EARNINGS AND NET PROFIT FOR THE PERIOD	TOTAL EQUITY
		TOTAL OTHER CAPITAL AND RESERVES	SHARE PREMIUM	GENERAL BANKING RISK FUND	OTHER RESERVE CAPITAL					
Equity as at 1.01.2019	262 470	20 185 676	9 137 221	1 982 459	8 627 858	205 011	233 127	1 373 852	21 821 998	
Comprehensive income	-	158 100	-	-	-	158 100	-	2 247 467	2 405 567	
Remeasurements of the defined benefit liabilities (net of tax)	-	(2 159)	-	-	-	(2 159)	-	-	(2 159)	
Revaluation of debt financial instruments and loans measured at fair value through other comprehensive income (net of tax)	-	105 372	-	-	-	105 372	-	-	105 372	
Revaluation or sale of investments in equity instruments designated at fair value through other comprehensive income (net of tax)	-	(6 044)	-	-	-	(6 044)	-	-	(6 044)	
Revaluation of hedging financial instruments (net of tax)	-	60 931	-	-	-	60 931	-	-	60 931	
Net profit for the period	-	-	-	-	-	-	-	2 247 467	2 247 467	
Appropriation of retained earnings	-	578 298	-	-	578 298	-	-	(2 310 600)	(1 732 302)	
Dividend paid	-	-	-	-	-	-	-	(1 732 302)	(1 732 302)	
Profit appropriation	-	578 298	-	-	578 298	-	-	(578 298)	-	
Other	-	(905 223)	-	-	(905 223)	-	-	936 748	31 525	
Coverage of negative impact of IFRS 9 implementation	-	(936 748)	-	-	(936 748)	-	-	936 748	-	
Transfer of a part of CDM assets and liabilities to the Bank	-	31 525	-	-	31 525	-	-	-	31 525	
Equity as at 31.12.2019	262 470	20 016 851	9 137 221	1 982 459	8 300 933	363 111	233 127	2 247 467	22 526 788	

Notes to the financial statements presented on pages 11 - 78 constitute an integral part of the condensed interim separate financial statements.

Separate statement of changes in equity (cont.)

(in PLN thousand)

For the period from 1 January 2019 to 30 June 2019

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

Notes to the financial statements presented on pages 11 - 78 constitute an integral part of the condensed interim separate financial statements.

Separate cash flow statement

(in PLN thousand)

	NOTE	I HALF 2020 PERIOD FROM 01.01.2020 TO 30.06.2020	I HALF 2019 PERIOD FROM 01.01.2019 TO 30.06.2019
Cash flow from operating activities – indirect method			
Net profit for the period		605 722	916 260
Adjustments for:		25 093 013	(4 306 809)
Depreciation and amortization	15	237 289	231 500
(Gains) losses on investing activities		(32 907)	(29 990)
Net interest income	7	(2 714 431)	(2 588 754)
Dividend income	9	(173 856)	(200 599)
Interest received		3 010 014	3 302 155
Interest paid		(477 761)	(540 809)
Income tax		271 111	357 656
Income tax paid		(347 910)	(305 243)
Change in loans and advances to banks		65 798	37 224
Change in financial assets held for trading		245 071	(1 995 081)
Change in derivative financial instruments (assets)		(3 352 859)	(320 617)
Change in loans and advances to customers		(2 663 028)	(4 941 536)
Change in investment (placement) securities		(840 683)	(530 154)
Change in other assets		89 586	(586 234)
Change in amounts due to banks		560 801	1 062 692
Change in financial liabilities held for trading		117 606	438 191
Change in derivative financial instruments (liabilities)		3 201 378	365 563
Change in amounts due to customers		26 916 722	799 189
Change in debt securities issued		5 635	(2 079)
Change in subordinated liabilities		(4 979)	834
Payments for short-term leases and leases of low-value assets		(7 042)	(6 575)
Change in provisions		211 850	108 227
Change in other liabilities		775 608	1 037 631
Net cash flows from operating activities		25 698 735	(3 390 549)
Cash flow from investing activities			
Investing activity inflows		85 617 885	112 488 315
Sale of investment securities		84 959 826	111 825 860
Sale of intangible assets and property, plant and equipment		-	12 150
Dividend received	9	173 856	200 599
Other investing inflows		484 203	449 706
Investing activity outflows		(102 318 890)	(117 530 414)
Acquisition of investment securities		(102 023 935)	(117 450 836)
Acquisition of intangible assets and property, plant and equipment		(294 955)	(79 578)
Net cash flows from investing activities		(16 701 005)	(5 042 099)

Notes to the financial statements presented on pages 11 - 78 constitute an integral part of the condensed interim separate financial statements.

Separate cash flow statement (cont.)

(in PLN thousand)

	NOTE	I HALF 2020 PERIOD FROM 01.01.2020 TO 30.06.2020	I HALF 2019 PERIOD FROM 01.01.2019 TO 30.06.2019
Cash flows from financing activities			
Financing activity inflows		479 940	818 769
Due to loans and advances received from banks		-	33 875
Issue of debt securities		479 940	434 894
Issue of subordinated bonds		-	350 000
Financing activity outflows		(867 678)	(453 370)
Repayment of loans and advances received from banks		(122 599)	(107 041)
Redemption of debt securities		(688 176)	(260 971)
Payments for the principal portion of the lease liabilities		(56 903)	(85 358)
Net cash flows from financing activities		(387 738)	365 399
Total net cash flows		8 609 992	(8 067 249)
including effect of exchange rate fluctuations on cash and cash equivalents held		93 460	(16 458)
Net change in cash and cash equivalents		8 609 992	(8 067 249)
Cash and cash equivalents at the beginning of the period		7 220 182	15 232 770
Cash and cash equivalents at the end of the period	36	15 830 174	7 165 521

Notes to the financial statements presented on pages 11 - 78 constitute an integral part of the condensed interim separate financial statements.

Notes to financial statements

(in PLN thousand)

The accompanying notes to the financial statements constitute an integral part of the condensed interim separate 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 separate financial statements of Bank Pekao S.A. for the period from 1 January 2020 to 30 June 2020 contain financial information of the Bank and its subsidiaries (together referred to as the 'Bank'), and the associates accounted for using equity method.

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

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

2. Business combinations

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

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

The transaction of acquisition of an organized part of the enterprise of Pekao Investment Banking S.A. has been recognized in accordance with the adopted accounting policy applied to business combinations under common control. The Bank recognized the acquired assets and assumed liabilities at their current book value. As a result of this transaction, the Bank did not recognize any goodwill or profit on a bargain purchase. The difference in the amount of PLN 10 776 thousand between the value of the acquired assets and assumed liabilities and the payment made was recognized in the Bank's equity.

3. Statement of compliance

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

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

The separate financial statements of Bank Pekao S.A. as at and for the year ended 31 December 2019 are available at the Bank's website www.pekao.com.pl.

In accordance with the Decree of the Ministry of Finance dated 29 March 2018 on current and periodic information provided by issuers of securities and the conditions for recognition as equivalent information required by the law of a non-Member State (Official Journal from 2018, item 757 with further amendments) the Bank is required to publish the financial report for the six months period ended 30 June 2020, i.e. current interim period.

Notes to financial statements (cont.)

(in PLN thousand)

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

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

4. Significant accounting policies

4.1 Basis of preparation of Separate Financial Statements

General information

Condensed Interim Separate Financial Statements of the for the period of six months ended on 30 June of 2020 have been prepared based on the following valuation methods:

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

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

The separate financial statements include the requirements of all the International Financial Reporting Standards and International Accounting Standards approved by the European Union and related interpretations. Changes in published standards and interpretations, which became effective on or after 1 January 2020, had no material impact on the Bank'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 4.3 and Note 4.4). In the Bank's opinion, amendments to Standards and interpretations will not have a material impact on the separate financial statements of the Bank.

Comparability of financial data

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

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

Notes to financial statements (cont.)

(in PLN thousand)

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

SEPARATE INCOME STATEMENT	DATA FOR II QUARTER 2019 BEFORE RESTATEMENT	RESTATEMENT	DATA FOR II QUARTER 2019 AFTER RESTATEMENT
Net result on other provisions	(3 442)	3 442	-
Gains (losses) on disposal of property plant and equipment and intangible assets	9 558	(9 558)	-
Net other operating income and expenses	12 632	6 116	18 748

SEPARATE INCOME STATEMENT	DATA FOR I HALF 2019 BEFORE RESTATEMENT	RESTATEMENT	DATA FOR I HALF 2019 AFTER RESTATEMENT
Net result on other provisions	(8 161)	8 161	-
Gains (losses) on disposal of property plant and equipment and intangible assets	11 571	(11 571)	-
Net other operating income and expenses	26 210	3 410	29 620

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

STANDARD/ INTERPRETATION	DESCRIPTION	IMPACT ASSESSMENT
IAS 1 (amendment) 'Presentation of financial statements' and IAS 8 (amendment) 'Accounting policies, changes in accounting estimates and errors'	The amendments clarify and align the definition of 'material' and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards.	The standards amendments did not have a material impact on the financial statements in the period of its first application.
IFRS 9 (amendment) 'Financial instruments' and IFRS 7 (amendment) 'Financial instruments: disclosures'	The changes are mandatory and apply to all hedging relationships that are affected by uncertainty arising from the interest rate benchmark reform. The amendments introduce a temporary exemption from the application of specific hedge accounting requirements in such a way that the interest rate benchmark reform does not result in the termination of hedge accounting. The key exemptions resulting from the Changes relate to: <ul style="list-style-type: none"> the requirement that flows are 'highly likely', risk components, prospective assessment, retrospective effectiveness test (applies to IAS 39), reclassification of the provision for cash flow hedges. 	The Bank decided to apply these changes in the standards earlier, i.e. the principles resulting from these changes were adopted as binding in 2019.
IFRS 3 (amendment) 'Business combinations'	The amendments narrowed and clarified the definition of a business. They also permit a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business.	The standard's amendment did not have a material impact on the financial statements in the period of its first application.

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

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

Notes to financial statements (cont.)

(in PLN thousand)

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

STANDARD/ INTERPRETATION	DESCRIPTION	IMPACT ASSESSMENT
IFRS 17 'Insurance Contracts'	The new standard requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 'Insurance Contracts' and related interpretations while applied. Date of application: annual periods beginning on or after 1 January 2021.	The Bank claims that the new standard will not have a material impact on the financial statements in the period of its first application.
IAS 1 (amendment) 'Presentation of financial statements'	The amendments affect requirements in IAS 1 for the presentation of liabilities. In particular, these amendments clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. Date of application: annual periods beginning on or after 1 January 2023.	The Bank claims that the standard's amendments will not have a material impact on the financial statements in the period of its first application.
IFRS 16 (amendment) 'Leases'	The amendments introduce an optional practical expedient that simplifies how a lessee accounts for rent concessions that are a direct consequence of COVID-19. A lessee that applies the practical expedient is not required to assess whether eligible rent concessions are lease modifications, and accounts for them in accordance with other applicable guidance. The resulting accounting will depend on the details of the rent concession. For example, if the concession is in the form of a one-off reduction in rent, it will be accounted for as a variable lease payment and be recognised in profit or loss. The practical expedient will only apply if: <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 2021; and - no other substantive changes have been made to the terms of the lease. Date of application: periods beginning on or after 1 June 2020.	The Bank claims that the standard's amendments will not have a material impact on the financial statements in the period of its first application.
IFRS 3 (amendment) 'Business combinations'	The amendments to IFRS 3 include: <ul style="list-style-type: none"> - Update IFRS 3 so that it refers to the 2018 <i>Conceptual Framework</i> instead of the 1989 <i>Framework</i>; - 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 <i>Conceptual Framework</i>) to identify the liabilities it has assumed in a business combination; and - Add to IFRS 3 an explicit statement that an acquirer does not recognize contingent assets acquired in a business combination. Date of application: annual periods beginning on or after 1 January 2022.	The Bank claims that the standard's amendments will not have a material impact on the financial statements in the period of its first application.
IAS 16 (amendment) 'Property, plant and equipment'	The amendments to IAS 16 prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the cost of producing those items, in profit or loss. Date of application: annual periods beginning on or after 1 January 2022.	The Bank claims that the standard's amendments will not have a material impact on the financial statements in the period of its first application.

Notes to financial statements (cont.)

(in PLN thousand)

STANDARD/ INTERPRETATION	DESCRIPTION	IMPACT ASSESSMENT
IAS 37 (amendment) 'Provisions, contingent liabilities and contingent assets'	The amendments to IAS 37 specify that the 'cost of fulfilling' an onerous contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract or an allocation of other costs that relate directly to fulfilling contracts. Date of application: annual periods beginning on or after 1 January 2022.	The Bank claims that the standard's amendments will not have a material impact on the financial statements in the period of its first application.
IFRS 4 (amendment) 'Insurance contracts'	The main amendments include: – deferral of the date of initial application of IFRS 17 by two years to annual reporting periods beginning on or after 1 January 2023; – extension of the temporary exemption from applying IFRS 9 by two years. As a result, the qualifying entities will be required to apply IFRS 9 for annual period beginning on or after 1 January 2023. Date of application: annual periods beginning on or after 1 January 2021.	The Bank claims that the standard's amendments will not have a material impact on the financial statements in the period of its first application.

5. Accounting estimates

The preparation of interim separate 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 Bank and rely on historic data and other factors including expectation of the future events which seems justified in given circumstances. In particular, as at 30 June 2020, the Bank included in its estimates the impact of the COVID-19 epidemic on individual items of the Bank'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 Bank as at 30 June 2020 concerns mainly:

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

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

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

Impairment of loans and advances to customers, expected credit losses

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

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

Notes to financial statements (cont.)

(in PLN thousand)

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

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

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

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

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

More information about the applied assumptions and the underlying uncertainty related to the estimates in respect to expected credit losses, as well as the sensitivity analysis concerning impairment of loans and advances estimates were presented in Note 6.1 'Credit risk'.

Impairment of non-current assets (including goodwill)

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

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

Estimation of the value-in-use of an assets (or cash generating unit) requires assumptions to be made regarding, among other, future cash flows which the Bank 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 Bank's non-current assets.

As at 30 June 2020, the Bank assessed whether the current market conditions and the existing uncertainty regarding the macroeconomic situation caused by COVID -19 have an impact on the impairment of non-current assets. As a result of this analysis, no need was found to make impairment allowances of non-current assets, including goodwill. The main assumptions used in the goodwill impairment test are presented in Note 27 to these interim condensed consolidated financial statements.

Notes to financial statements (cont.)

(in PLN thousand)

Provisions for legal risk regarding foreign currency mortgage loans in CHF

As at 30 June 2020 the Bank 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 Bank 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 6.1 to these interim condensed consolidated financial statements.

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

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

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

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

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

Fair value measurement

The principles of estimating fair value of derivative instruments and unquoted debt securities measured at fair value did not change in relation to 31 December 2019.

Notes to financial statements (cont.)

(in PLN thousand)

6. Risk management

6.1 Credit risk

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

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

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

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

In addition, due to the impact of the COVID-19 the Bank has also adjusted approach in the calculation of expected credit losses. Actions taken by the Bank are described below.

Changes in the methodology of calculation an expected credit losses

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

The Bank in it' s approach strived toward adequate reflection the potential, future deterioration in the credit risk quality in the expected credit losses for stage 1 and 2 and appropriate coverage ratio of nonperforming loans (stage 3), because of possible difficulty in the credit debt recovery (collection) in the situation of epidemic. In the current phase of downturn caused by COVID-19 increase in write-downs in the Bank is mainly driven by forecasts of changes in the credit portfolio quality, taken into account in the calculation of expected credit losses according to IFRS9 requirements, not because of actual evolution of forecasting. So far the Bank doesn't observe significant increase in the default rate, which would have an effect in the growth of nonperforming loans (share of NPL is stable i.e. 5%-5.2%).

Notes to financial statements (cont.)

(in PLN thousand)

Banks expectations of macroeconomic situation

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

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

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

Identification of significant increase in credit risk and stage allocation

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

Notes to financial statements (cont.)

(in PLN thousand)

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

Impairment losses in first half of 2020 for the Bank is equal PLN 788 million. The Bank assesses that essential amount of this value is COVID-19 impact. Below components of this impact:

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

Above item 1 and 2 are tightly connected with outbreak of epidemic but partial materialization also would be observed without epidemic outbreak. Assumed that this affect 1/3 of these values, total approximate impact of COVID-19 is equal PLN 546 million and cost of risk in the Bank, without this values, stand at PLN 242 million (PLN 263 million in first half 2019). Above values should be treated as approximation, because it is not possible to conclude, in every case, if the higher provision level is due to COVID-19 pandemic or situation which would exist despite of the epidemic. In such cases expert judgement was necessary.

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

Changes in impairment allowances value in scenarios of changes risk parameters in the calculation of expected credit losses

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

Notes to financial statements (cont.)

(in PLN thousand)

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

	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT- IMPAIRED (POCI)	TOTAL
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
LOANS AND ADVANCES TO CUSTOMERS MEASURED AT AMORTISED COST						
GROSS CARRYING AMOUNT						
GROSS CARRYING AMOUNT AS AT 1.01.2020	109 352 812	19 170 005	4 836 208	2 795 007	10 049	136 164 081
Transfer to Stage 1	2 815 892	(2 799 726)	(10)	(16 156)	-	-
Transfer to Stage 2	(9 208 526)	9 357 215	(13 630)	(135 059)	-	-
Transfer to Stage 3	(267 358)	(479 586)	225 435	521 509	-	-
New / Purchased / Granted financial assets	21 353 017	-	-	-	233	21 353 250
Financial assets derecognised, other than write-offs (repayments)	(17 184 792)	(1 503 996)	(179 392)	(113 502)	(3 319)	(18 985 001)
Financial assets written off (*)	-	-	(213 083)	(106 667)	(809)	(320 559)
Modifications not resulting in derecognition	(9 124)	-	-	-	-	(9 124)
Other, in this changes resulting from exchange rates	669 165	201 758	112 318	108 520	(1 099)	1 090 662
GROSS CARRYING AMOUNT AS AT 30.06.2020	107 521 086	23 945 670	4 767 846	3 053 652	5 055	139 293 309
IMPAIRMENT ALLOWANCE						
IMPAIRMENT ALLOWANCE AS AT 1.01.2020	315 839	703 006	3 332 521	1 923 480	2 272	6 277 118
Transfer to Stage 1	88 543	(81 773)	(7)	(6 763)	-	-
Transfer to Stage 2	(55 269)	96 049	(2 994)	(37 786)	-	-
Transfer to Stage 3	(40 795)	(91 526)	22 968	109 353	-	-
New / Purchased / Granted financial assets	79 589	-	-	-	184	79 773
Financial assets derecognised, other than write-offs (repayments)	(20 009)	(14 371)	(19 070)	(16 543)	(399)	(70 392)
Financial assets written off (*)	-	-	(213 083)	(106 667)	(809)	(320 559)
Changes in level of credit risk (excluding the transfers between the Stages) (**)	36 611	263 440	262 079	86 552	(589)	648 093
Other, in this changes resulting from exchange rates	6 566	20 699	116 752	32 966	1 092	178 075
IMPAIRMENT ALLOWANCE AS AT 30.06.2020	411 075	895 524	3 499 166	1 984 592	1 751	6 792 108

(*) Including the value of contractual interest subject to partial write-off in the amount of PLN 139 151 thousand.

(**) Including the provision for legal risk regarding foreign currency mortgage loans in the amount of PLN 38 606 thousand.

The total value of undiscounted expected credit losses at the time of initial recognition of financial assets purchased or originated credit-impaired in the period ended 30 June 2020 amounted to PLN 367 thousand.

Notes to the financial statements (cont.)

(in PLN thousand)

	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT- IMPAIRED (POCI)	TOTAL
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
LOANS AND ADVANCES TO CUSTOMERS MEASURED AT AMORTISED COST						
GROSS CARRYING AMOUNT						
GROSS CARRYING AMOUNT AS AT 1.01.2019	99 001 708	20 019 456	4 816 470	2 540 327	54 922	126 432 883
Transfer to Stage 1	4 524 073	(4 504 629)	(2 028)	(17 416)	-	-
Transfer to Stage 2	(6 888 696)	7 003 804	(90)	(115 018)	-	-
Transfer to Stage 3	(725 383)	(706 620)	512 052	919 951	-	-
New / Purchased / Granted financial assets	37 697 546	-	-	-	5 145	37 702 691
Financial assets derecognised, other than write-offs (repayments)	(24 059 040)	(2 771 006)	(356 264)	(325 966)	(49 677)	(27 561 953)
Financial assets written off (*)	-	-	(311 111)	(270 429)	(126)	(581 666)
Modifications not resulting in derecognition	(2 223)	-	-	-	-	(2 223)
Other, in this changes resulting from exchange rates	(195 173)	129 000	177 179	63 558	(215)	174 349
GROSS CARRYING AMOUNT AS AT 31.12.2019	109 352 812	19 170 005	4 836 208	2 795 007	10 049	136 164 081
IMPAIRMENT ALLOWANCE						
IMPAIRMENT ALLOWANCE AS AT 1.01.2019	375 911	656 689	3 196 748	1 801 503	52 435	6 083 286
Transfer to Stage 1	131 217	(123 407)	(566)	(7 244)	-	-
Transfer to Stage 2	(36 721)	84 771	(608)	(47 442)	-	-
Transfer to Stage 3	(120 047)	(188 508)	36 889	271 666	-	-
New / Purchased / Granted financial assets	144 647	-	-	-	2 783	147 430
Financial assets derecognised, other than write-offs (repayments)	(65 324)	(33 564)	(43 350)	(53 096)	(5 551)	(200 885)
Financial assets written off (*)	-	-	(311 111)	(270 429)	(126)	(581 666)
Changes in level of credit risk (excluding the transfers between the Stages) (**)	(130 710)	296 320	241 300	201 291	(9 775)	598 426
Other, in this changes resulting from exchange rates	16 866	10 705	213 219	27 231	(37 494)	230 527
IMPAIRMENT ALLOWANCE AS AT 31.12.2019	315 839	703 006	3 332 521	1 923 480	2 272	6 277 118

(*) Including the value of contractual interest subject to partial write-off in the amount of PLN 291 269 thousand.

(**) Including the provision for legal risk regarding foreign currency mortgage loans in the amount of PLN 27 712 thousand.

The total value of undiscounted expected credit losses at the time of initial recognition of financial assets purchased or originated credit-impaired in the period ended 31 December 2019 amounted to PLN 3 249 thousand.

Notes to the financial statements (cont.)

(in PLN thousand)

	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT- IMPAIRED (POCI)	TOTAL
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
LOANS AND ADVANCES TO CUSTOMERS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME						
CARRYING AMOUNT						
CARRYING AMOUNT AS AT 1.01.2020	937 162	608 620	-	-	-	1 545 782
Transfer to Stage 1	-	-	-	-	-	-
Transfer to Stage 2	(189 279)	189 279	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
New / Purchased / Granted financial assets	99 610	-	-	-	-	99 610
Financial assets derecognised, other than write-offs (repayments)	(53 897)	(8 143)	-	-	-	(62 040)
Other, in this changes resulting from exchange rates	37 999	24 974	-	-	-	62 973
CARRYING AMOUNT AS AT 30.06.2020	831 595	814 730	-	-	-	1 646 325
IMPAIRMENT ALLOWANCE (*)						
IMPAIRMENT ALLOWANCE AS AT 1.01.2020	4 954	17 402	-	-	-	22 356
Transfer to Stage 1	-	-	-	-	-	-
Transfer to Stage 2	(1 001)	1 001	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
New / Purchased / Granted financial assets	763	-	-	-	-	763
Financial assets derecognised, other than write-offs (repayments)	-	-	-	-	-	-
Financial assets written off	-	-	-	-	-	-
Changes in level of credit risk (excluding the transfers between the Stages)	1 643	2 678	-	-	-	4 321
Other, in this changes resulting from exchange rates	183	839	-	-	-	1 022
IMPAIRMENT ALLOWANCE AS AT 30.06.2020	6 542	21 920	-	-	-	28 462

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

Notes to the financial statements (cont.)

(in PLN thousand)

	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT- IMPAIRED (POCI)	TOTAL
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
LOANS AND ADVANCES TO CUSTOMERS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME						
CARRYING AMOUNT						
CARRYING AMOUNT AS AT 1.01.2019	1 696 888	-	-	-	-	1 696 888
Transfer to Stage 1	-	-	-	-	-	-
Transfer to Stage 2	(623 665)	623 665	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
New / Purchased / Granted financial assets	571 101	-	-	-	-	571 101
Financial assets derecognised, other than write-offs (repayments)	(706 447)	(15 977)	-	-	-	(722 424)
Other, in this changes resulting from exchange rates	(715)	932	-	-	-	217
CARRYING AMOUNT AS AT 31.12.2019	937 162	608 620	-	-	-	1 545 782
IMPAIRMENT ALLOWANCE (*)						
IMPAIRMENT ALLOWANCE AS AT 1.01.2019	16 723	-	-	-	-	16 723
Transfer to Stage 1	-	-	-	-	-	-
Transfer to Stage 2	(7 955)	7 955	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
New / Purchased / Granted financial assets	2 307	-	-	-	-	2 307
Financial assets derecognised, other than write-offs (repayments)	(3 484)	-	-	-	-	(3 484)
Changes in level of credit risk (excluding the transfers between the Stages)	(2 404)	9 431	-	-	-	7 027
Other, in this changes resulting from exchange rates	(233)	16	-	-	-	(217)
IMPAIRMENT ALLOWANCE AS AT 31.12.2019	4 954	17 402	-	-	-	22 356

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

Notes to the financial statements (cont.)

(in PLN thousand)

	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT- IMPAIRED (POCI)	TOTAL
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
DEBT SECURITIES MEASURED AT AMORTISED COST						
GROSS CARRYING AMOUNT						
GROSS CARRYING AMOUNT AS AT 1.01.2020	14 268 631	331 816	32 370	-	-	14 632 817
Transfer to Stage 1	312 176	(312 176)	-	-	-	-
Transfer to Stage 2	-	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
New / purchased / granted financial assets	10 280 516	-	-	-	-	10 280 516
Financial assets derecognised, other than write-offs (repayments)	(4 390 620)	(13 595)	-	-	-	(4 404 215)
Other, in this changes resulting from exchange rates	163 420	(45)	883	-	-	164 258
GROSS CARRYING AMOUNT AS AT 30.06.2020	20 634 123	6 000	33 253	-	-	20 673 376
IMPAIRMENT ALLOWANCE						
IMPAIRMENT ALLOWANCE AS AT 1.01.2020	25 661	16 955	32 370	-	-	74 986
Transfer to Stage 1	16 654	(16 654)	-	-	-	-
Transfer to Stage 2	-	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
New / purchased / granted financial assets	9 753	-	-	-	-	9 753
Financial assets derecognised, other than write-offs (repayments)	(4 365)	-	-	-	-	(4 365)
Changes in level of credit risk (excluding the transfers between the Stages)	(7 696)	(1)	-	-	-	(7 697)
Other, in this changes resulting from exchange rates	201	-	883	-	-	1 084
IMPAIRMENT ALLOWANCE AS AT 30.06.2020	40 208	300	33 253	-	-	73 761

Notes to the financial statements (cont.)

(in PLN thousand)

	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT- IMPAIRED (POCI)	TOTAL
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
DEBT SECURITIES MEASURED AT AMORTISED COST						
GROSS CARRYING AMOUNT						
GROSS CARRYING AMOUNT AS AT 1.01.2019	11 158 109	-	31 547	-	-	11 189 656
Transfer to Stage 1	-	-	-	-	-	-
Transfer to Stage 2	(331 816)	331 816	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
New / purchased / granted financial assets	8 234 245	-	-	-	-	8 234 245
Financial assets derecognised, other than write-offs (repayments)	(4 964 041)	-	-	-	-	(4 964 041)
Other, in this changes resulting from exchange rates	172 134	-	823	-	-	172 957
GROSS CARRYING AMOUNT AS AT 31.12.2019	14 268 631	331 816	32 370	-	-	14 632 817
IMPAIRMENT ALLOWANCE						
IMPAIRMENT ALLOWANCE AS AT 1.01.2019	27 742	-	31 547	-	-	59 289
Transfer to Stage 1	-	-	-	-	-	-
Transfer to Stage 2	(9 448)	9 448	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
New / purchased / granted financial assets	4 470	-	-	-	-	4 470
Financial assets derecognised, other than write-offs (repayments)	(3 090)	-	-	-	-	(3 090)
Changes in level of credit risk (excluding the transfers between the Stages)	6 053	7 506	-	-	-	13 559
Other, in this changes resulting from exchange rates	(66)	1	823	-	-	758
IMPAIRMENT ALLOWANCE AS AT 31.12.2019	25 661	16 955	32 370	-	-	74 986

Notes to the financial statements (cont.)

(in PLN thousand)

	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT- IMPAIRED (POCI)	TOTAL
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
DEBT SECURITIES MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME						
CARRYING AMOUNT						
CARRYING AMOUNT AS AT 1.01.2020	30 951 820	12 860	-	-	-	30 964 680
Transfer to Stage 1	11 940	(11 940)	-	-	-	-
Transfer to Stage 2	-	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
New / purchased / granted financial assets	91 753 172	-	-	-	-	91 753 172
Financial assets derecognised, other than write-offs (repayments)	(81 000 565)	(729)	-	-	-	(81 001 294)
Other, in this changes resulting from exchange rates	773 969	(191)	-	-	-	773 778
CARRYING AMOUNT AS AT 30.06.2020	42 490 336	-	-	-	-	42 490 336
IMPAIRMENT ALLOWANCE (*)						
IMPAIRMENT ALLOWANCE AS AT 1.01.2020	32 425	671	-	-	-	33 096
Transfer to Stage 1	671	(671)	-	-	-	-
Transfer to Stage 2	-	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
New / purchased / granted financial assets	2 962	-	-	-	-	2 962
Financial assets derecognised, other than write-offs (repayments)	(3 160)	-	-	-	-	(3 160)
Changes in level of credit risk (excluding the transfers between the Stages)	16 893	-	-	-	-	16 893
Other, in this changes resulting from exchange rates	-	-	-	-	-	-
IMPAIRMENT ALLOWANCE AS AT 30.06.2020	49 791	-	-	-	-	49 791

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

Notes to the financial statements (cont.)

(in PLN thousand)

	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT- IMPAIRED (POCI)	TOTAL
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
DEBT SECURITIES MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME						
CARRYING AMOUNT						
CARRYING AMOUNT AS AT 1.01.2019	26 904 574	-	-	-	-	26 904 574
Transfer to Stage 1	-	-	-	-	-	-
Transfer to Stage 2	(12 860)	12 860	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
New / purchased / granted financial assets	135 290 310	-	-	-	-	135 290 310
Financial assets derecognised, other than write-offs (repayments)	(131 970 590)	-	-	-	-	(131 970 590)
Other, in this changes resulting from exchange rates	740 386	-	-	-	-	740 386
CARRYING AMOUNT AS AT 31.12.2019	30 951 820	12 860	-	-	-	30 964 680
IMPAIRMENT ALLOWANCE (*)						
IMPAIRMENT ALLOWANCE AS AT 1.01.2019	28 207	-	-	-	-	28 207
Transfer to Stage 1	-	-	-	-	-	-
Transfer to Stage 2	(388)	388	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
New / purchased / granted financial assets	10 398	-	-	-	-	10 398
Financial assets derecognised, other than write-offs (repayments)	(6 824)	-	-	-	-	(6 824)
Changes in level of credit risk (excluding the transfers between the Stages)	1 030	283	-	-	-	1 313
Other, in this changes resulting from exchange rates	2	-	-	-	-	2
IMPAIRMENT ALLOWANCE AS AT 31.12.2019	32 425	671	-	-	-	33 096

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

Notes to the financial statements (cont.)

(in PLN thousand)

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

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

1) moratoria developed at the initiative of the Bank, i.e.:

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

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

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

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

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

All the above-mentioned moratoria were assessed by the Bank in terms of meeting the modification criteria as defined in IFRS 9 in accordance with the principles defined in the Bank's accounting policies. Given the nature of the above-mentioned moratoria, they were insignificant modifications in line with the policies adopted by the Bank. Therefore, in relation to the loans covered by the above-mentioned moratoria, the Bank each time determined the result on insignificant modifications.

As at 30 June 2020, the gross carrying amount of the loan portfolio covered by the above-mentioned moratoria amounted to PLN 11 056 million (70 635 units), and the negative result on insignificant modifications recognized in the first half of 2020 related to these moratoria amounted to PLN 6.1 million.

Notes to the financial statements (cont.)

(in PLN thousand)

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

1) De minimis guarantees

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

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

The guarantees are intended for working capital loans in PLN for the micro, small and medium-sized enterprises sector. The maximum amount of the guarantee is PLN 3.5 million. Guarantees for the above the rules may be granted until 31 December 2020. The guarantee may be granted for a new loan, renewal or increase in the loan amount. Until 30 June 2020, 1 243 loans with de minimis guarantees were granted. As at 30 June 2020, the gross carrying amount of the loan portfolio covered by such guarantees was PLN 310 million.

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

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

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

Guarantees for the above-mentioned parameters can be granted until 31 December 2020. The guarantee may be granted for new credits and renewals. Until 30 June 2020, 60 loans with FGP guarantees were granted. As at 30 June 2020, the gross carrying amount of the loan portfolio covered by such guarantees was PLN 394 million

Forbearance measures

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

Notes to the financial statements (cont.)

(in PLN thousand)

Share of forborne exposures in the Bank's loan portfolio

	30.06.2020					TOTAL
	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT-IMPAIRED (POCI)	
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
Loans and advances measured at amortised cost, including:	107 110 011	23 050 146	1 268 680	1 069 060	3 304	132 501 201
Forborne exposures gross	1 130 676	398 108	2 374 882	609 526	850	4 514 042
Loss allowance	(2 612)	(40 051)	(1 535 073)	(287 747)	(207)	(1 865 690)
Forborne exposures net	1 128 064	358 057	839 809	321 779	643	2 648 352
Loans and advances measured at fair value through other comprehensive income, including:	831 595	814 730	-	-	-	1 646 325
Forborne exposures	-	-	-	-	-	-
Impairment allowance (*)	-	-	-	-	-	-
Loans and advances measured at fair value through profit or loss, including:						213 869
Forborne exposures						1 093

(*) 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.

	31.12.2019					TOTAL
	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT-IMPAIRED (POCI)	
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
Loans and advances measured at amortised cost, including:	109 036 973	18 466 999	1 503 687	871 527	7 777	129 886 963
Forborne exposures gross	347 639	112 208	2 261 037	485 121	577	3 206 582
Loss allowance	(2 938)	(11 647)	(1 389 932)	(264 347)	(258)	(1 669 122)
Forborne exposures net	344 701	100 561	871 105	220 774	319	1 537 460
Loans and advances measured at fair value through other comprehensive income, including:	937 162	608 620	-	-	-	1 545 782
Forborne exposures	-	-	-	-	-	-
Impairment allowance (*)	-	-	-	-	-	-
Loans and advances measured at fair value through profit or loss, including:						242 639
Forborne exposures						998

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

Notes to financial statements (cont.)

(in PLN thousand)

CHF loans to individuals

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

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

	30.06.2020					TOTAL
	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT-IMPAIRED (POCI)	
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
Gross carrying amount, of which:	2 508	2 549 228	35 103	187 994	-	2 774 833
denominated in CHF	2 508	2 541 597	35 103	187 205	-	2 766 413
indexed to CHF	-	7 631	-	789	-	8 420
Impairment allowances, of which: (*)	(1)	(61 554)	(23 735)	(85 757)	-	(171 047)
denominated in CHF	(1)	(61 490)	(23 735)	(85 474)	-	(170 700)
indexed to CHF	-	(64)	-	(283)	-	(347)
Carrying amount, of which:	2 507	2 487 674	11 368	102 237	-	2 603 786
denominated in CHF	2 507	2 480 107	11 368	101 731	-	2 595 713
indexed to CHF	-	7 567	-	506	-	8 073

(*) Including the provision for legal risk regarding foreign currency mortgage loans in the amount of PLN 38 606 thousand.

	31.12.2019					TOTAL
	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT-IMPAIRED (POCI)	
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
Gross carrying amount, of which:	3 372	2 555 642	30 843	163 352	-	2 753 209
denominated in CHF	3 372	2 546 227	30 843	162 541	-	2 742 983
indexed to CHF	-	9 415	-	811	-	10 226
Impairment allowances, of which: (*)	(3)	(55 939)	(20 053)	(79 988)	-	(155 983)
denominated in CHF	(3)	(55 882)	(20 053)	(79 680)	-	(155 618)
indexed to CHF	-	(57)	-	(308)	-	(365)
Carrying amount, of which:	3 369	2 499 703	10 790	83 364	-	2 597 226
denominated in CHF	3 369	2 490 345	10 790	82 861	-	2 587 365
indexed to CHF	-	9 358	-	503	-	9 861

(*) Including the provision for legal risk regarding foreign currency mortgage loans in the amount of PLN 27 712 thousand.

As of 30 June 2020 the average LTV for CHF loans to individuals granted by the Bank amounted to 43.4% (39.1% as at 31 December 2019), with an average LTV for the whole portfolio of 58.5% (57.7% as at 31 December 2019).

Notes to financial statements (cont.)

(in PLN thousand)

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

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

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

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

Considering the increase in the number of lawsuits regarding foreign currency mortgage loans in CHF observed in the banking sector and the heterogeneity in the ruling line regarding the above loans, as at 30 June 2020 the Bank estimated the provision for the above legal risk related to foreign currency mortgage loan agreements in CHF in the total amount of PLN 62 million (46.7 million as at 31 December 2019).

The above amount of the provision includes the following elements:

1. PLN 38.6 million for current and future claims regarding balance sheet exposures recognized as impairment allowances for loan exposures in correspondence with 'Net impairment losses on financial assets and off-balance sheet commitments (27.7 million as at 31 December 2019)',
2. PLN 23.4 million for current and future claims regarding paid exposures recognized as provisions in correspondence with 'Other operating expenses' (19 million as at 31 December 2019).

Notes to financial statements (cont.)

(in PLN thousand)

As at 30 June 2020 lawsuits in number of 241 were pending against the Bank regarding foreign currency mortgage loans in CHF, which were granted in previous years with a total amount in dispute of PLN 60.5 million (as at 31 December 2019 the number of cases was 158, corresponding to the total amount in dispute of PLN 43.7 million). In relation to the above lawsuits, the Bank estimated the provision in the total amount of PLN 24.5 million (14.2 million as at 31 December 2019) based on an external legal opinion regarding the assessment of contractual patterns of foreign currency mortgage loans in CHF and on the individual assessment (for each lawsuit) of the risk of losing a given case in court, taking into account the nature of the claim, as well as possible financial consequences.

In addition, as at 30 June 2020, the Bank estimated the portfolio provision in the total amount of PLN 37.5 million (32.5 million as at 31 December 2019), which was determined in relation to future possible lawsuits regarding the portfolio of foreign currency mortgage loans in CHF. The calculation of the provision was based on an assessment of the legal risk associated with the abovementioned agreements (performed by the Bank with the involvement of an external legal company) and concerned mainly the determination of the following elements:

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

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

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

PARAMETER	SCENARIO	IMPACT ON THE LEVEL OF PROVISION
Number of lawsuits	+20%	9
	-20%	(9)
Time horizon	4 years	3
	2 years	(2)

If an additional 1% of the Bank's customers with foreign currency mortgage loans in CHF filed a lawsuit against the Bank, then the impact on the loss from legal risk on mortgage loans in convertible currencies would increase by PLN 16 million.

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

Notes to financial statements (cont.)

(in PLN thousand)

6.2 Market risk**Market risk of the trading book**

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

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

	30.06.2020	MINIMUM VALUE	AVERAGE VALUE	MAXIMUM VALUE
foreign currency exchange risk	79	6	48	1 153
interest rate risk	3 178	859	1 844	6 419
Trading portfolio	3 223	844	1 893	6 863

	31.12.2019	MINIMUM VALUE	AVERAGE VALUE	MAXIMUM VALUE
foreign currency exchange risk	237	6	190	1 161
interest rate risk	1 098	873	1 386	2 055
Trading portfolio	1 100	874	1 447	2 581

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 separate financial statements of Bank Pekao S.A. for the year ended 31 December 2019. The cycle of several significant cuts of the NBP interest rates in response to the developing pandemic COVID - 19 had an important impact on the level of the Bank's exposure to interest rate risk and on the amount of realized interest income in the first half of 2020. In order to hedge current accounts, the Bank continues the implementation of the hedging strategy by concluding IRS transactions and purchasing fixed rate bonds.

The table below presents the sensitivity levels of the contractual interest income (NII) to the interest rate change by 100 b.p. and of economic value of the Bank's equity (EVE) to the interest rate change by 200 b.p. (standard regulatory shock excluding the risk profile of own funds) as at 30 June 2020 and as at 31 December 2019.

SENSITIVITY IN %	30.06.2020	31.12.2019
NII	(5.74)	(6.94)
EVE (*)	(5.55)	(2.94)

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

Currency risk

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

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

Value at Risk

CURRENCY	30.06.2020	31.12.2019
Currencies total (*)	118	122

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

Notes to financial statements (cont.)

(in PLN thousand)

Currency position

30.06.2020	BALANCE SHEET OPERATIONS		OFF-BALANCE SHEET OPERATIONS- DERIVATIVES		NET POSITION
	ASSETS	LIABILITIES	LONG POSITION	SHORT POSITION	
EUR	26 157 619	20 275 782	17 877 908	23 796 967	(37 222)
USD	13 073 041	15 765 244	12 225 518	9 563 279	(29 964)
CHF	2 821 110	637 135	2 876 578	5 066 746	(6 193)
CAD	33 836	44 039	222 888	212 026	659
GBP	418 579	1 031 184	929 645	316 696	344
CZK	71 884	143 915	493 021	420 794	196
SEK	159 230	71 720	112 838	200 200	148
DKK	201 340	35 129	2 542	168 642	111
CNY	32 526	20 987	275 246	286 838	(53)
NOK	447 151	96 463	19 757	370 456	(11)
Other currencies	43 482	110 668	181 069	112 727	1 156
Total	43 459 798	38 232 266	35 217 010	40 515 371	(70 829)

31.12.2019	BALANCE SHEET OPERATIONS		OFF-BALANCE SHEET OPERATIONS DERIVATIVES		NET POSITION
	ASSETS	LIABILITIES	LONG POSITION	SHORT POSITION	
EUR	23 018 008	19 107 106	14 770 726	18 597 989	83 639
USD	5 108 516	8 431 987	12 363 822	9 006 351	34 000
CHF	2 715 419	614 002	2 968 114	5 069 893	(362)
GBP	445 661	969 948	748 318	224 240	(209)
JPY	16 353	113 221	112 481	15 541	72
NOK	303 790	68 356	10 677	245 964	147
CZK	99 210	34 910	198 046	262 370	(24)
SEK	97 899	69 352	60 956	89 485	18
Other currencies	157 176	184 642	378 101	349 701	934
Total	31 962 032	29 593 524	31 611 241	33 861 534	118 215

Notes to financial statements (cont.)

(in PLN thousand)

6.3 Liquidity risk

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

Due to the COVID-19 pandemic expansion at the end of the first half of 2020, which indirectly contributed to the financial market turbulences, the Bank introduced the lowest liquidity contingency state - the state of attention, characterized by an increased frequency of management liquidity monitoring. At the beginning of June 2020, the state of attention was suspended due to very high and stable liquidity. The Bank's liquidity position remains fully stable at the moment and liquidity measures and ratios remain at high and safe level.

Regulatory liquidity norms and LCR (*)

SUPERVISORY LIQUIDITY NORMS		LIMIT	30.06.2020	31.12.2019.
M3 (*)	Own funds to non-liquid assets cover ratio	1	7.59	7.63
M4 (*)	Own funds and stable external funds to non-liquid and limited liquidity assets cover ratio	1	1.29	1.18
LCR	Liquidity coverage ratio	1	3.35	1.46

(*) 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.

The tables below present adjusted liquidity gap.

30.06.2020	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
Assets	68 577 656	4 637 296	26 818 079	68 935 112	58 322 538	227 290 681
Equity and liabilities	23 067 258	13 134 042	24 270 091	27 454 425	139 364 865	227 290 681
Off-balance sheet assets/liabilities (net)	(8 761 860)	1 011 882	840 490	2 556 076	3 929 667	(423 745)
Periodic gap	36 748 538	(7 484 864)	3 388 478	44 036 763	(77 112 660)	(423 745)
Cumulated gap	-	29 263 674	32 652 152	76 688 915	(423 745)	-

31.12.2019	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
Assets	37 289 235	5 749 275	27 614 844	62 970 209	61 026 429	194 649 992
Equity and liabilities	10 571 118	8 483 214	20 603 246	15 503 903	139 488 511	194 649 992
Off-balance sheet assets/liabilities (net)	(6 432 613)	(1 061 775)	1 149 837	2 998 797	3 038 425	(307 329)
Periodic gap	20 285 504	(3 795 714)	8 161 435	50 465 103	(75 423 657)	(307 329)
Cumulated gap	-	16 489 790	24 651 225	75 116 328	(307 329)	-

Notes to financial statements (cont.)

(in PLN thousand)

6.4 Operational risk

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

6.5 Fair value of financial assets and liabilities

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

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

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

As of 30 June 2020 and 31 December 2019, the Bank classified the financial assets and liabilities measured at fair value into three categories based on the following hierarchy:

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

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

Notes to financial statements (cont.)

(in PLN thousand)

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

30.06.2020	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Assets:	14 978 514	27 699 845	9 476 809	52 155 168
Financial assets held for trading	782 586	190 217	53 457	1 026 260
Derivative financial instruments, including:	-	5 437 972	876	5 438 848
Banks	-	1 380 055	876	1 380 931
Customers	-	4 057 917	-	4 057 917
Hedging instruments, including:	-	969 845	-	969 845
Banks	-	129 447	-	129 447
Customers	-	840 398	-	840 398
Securities measured at fair value through other comprehensive income	14 195 928	21 101 811	7 428 762	42 726 501
Securities measured at fair value through profit or loss	-	-	133 520	133 520
Loans and advances to customers measured at fair value through other comprehensive income	-	-	1 646 325	1 646 325
Loans and advances to customers measured at fair value through profit or loss	-	-	213 869	213 869
Liabilities:	302 405	6 189 863	-	6 492 268
Financial liabilities held for trading	302 405	-	-	302 405
Derivative financial instruments, including:	-	5 241 746	-	5 241 746
Banks	-	1 281 844	-	1 281 844
Customers	-	3 959 902	-	3 959 902
Hedging instruments, including:	-	948 117	-	948 117
Banks	-	864 987	-	864 987
Customers	-	83 130	-	83 130

31.12.2019	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Assets:	15 467 463	12 376 755	9 002 361	36 846 579
Financial assets held for trading	1 123 003	148 321	8 171	1 279 495
Derivative financial instruments, including:	-	2 082 947	3 042	2 085 989
Banks	-	783 664	3 042	786 706
Customers	-	1 299 283	-	1 299 283
Hedging instruments, including:	-	377 208	-	377 208
Banks	-	91 677	-	91 677
Customers	-	285 531	-	285 531
Securities measured at fair value through other comprehensive income	14 344 460	9 768 279	7 077 273	31 190 012
Securities measured at fair value through profit or loss	-	-	125 454	125 454
Loans and advances to customers measured at fair value through other comprehensive income	-	-	1 545 782	1 545 782
Loans and advances to customers measured at fair value through profit or loss	-	-	242 639	242 639
Liabilities:	184 799	2 655 133	-	2 839 932
Financial liabilities held for trading	184 799	-	-	184 799
Derivative financial instruments, including:	-	2 040 368	-	2 040 368
Banks	-	713 693	-	713 693
Customers	-	1 326 675	-	1 326 675
Hedging instruments, including:	-	614 765	-	614 765
Banks	-	566 163	-	566 163
Customers	-	48 602	-	48 602

Notes to financial statements (cont.)

(in PLN thousand)

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

I HALF 2020	FINANCIAL ASSETS HELD FOR TRADING	DERIVATIVE FINANCIAL INSTRUMENTS (ASSETS)	LOANS AND ADVANCES TO CUSTOMERS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	LOANS AND ADVANCES TO CUSTOMERS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	SECURITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	SECURITIES MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME
Opening balance	8 171	3 042	1 545 782	242 639	125 454	7 077 273
Increases, including:	1 986 892	-	155 636	18	8 066	1 003 888
Reclassification	37 270	-	-	-	-	766 308
Transactions made in 2020	-	-	99 328	18	-	-
Acquisition/Granting	1 946 870	-	-	-	-	151 441
Settlement/Redemption	-	-	43 854	-	-	-
Gains on financial instruments	2 752	-	12 454	-	8 066	86 139
recognized in the income statement	2 752	-	12 454	-	8 066	84 782
recognized in revaluation reserves	-	-	-	-	-	1 357
Decreases, including:	(1 941 606)	(2 166)	(55 093)	(28 788)	-	(652 399)
Reclassification	(2 306)	-	-	-	-	(249 426)
Settlement/Redemption	(29 665)	-	-	(25 705)	-	(141 564)
Sale/Repayment	(1 909 632)	-	(50 829)	-	-	(169 352)
Losses on financial instruments	(3)	(2 166)	(4 264)	(3 083)	-	(92 057)
recognized in the income statement	(3)	(2 166)	-	93 083)	-	-
recognized in revaluation reserves	-	-	(4 264)	-	-	(92 057)
Closing balance	53 457	876	1 646 325	213 869	133 520	7 428 762
Unrealized income from financial instruments held in portfolio at the end of the period, recognized in:	1 496	(2 166)	(6 307)	(3 370)	-	(37 891)
Income statement:	1 496	(2 166)	(2 702)	(3 370)	-	2 314
net interest income	6	-	2 829	56	-	15 732
net impairment losses on financial assets and off-balance sheet commitments	-	-	(5 531)	-	-	(13 418)
result on financial assets and liabilities held for trading	1 490	(2 166)	-	(3 426)	-	-
Other comprehensive income	-	-	(3 605)	-	-	(40 205)

Notes to financial statements (cont.)

(in PLN thousand)

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

2019	FINANCIAL ASSETS HELD FOR TRADING	DERIVATIVE FINANCIAL INSTRUMENTS (ASSETS)	LOANS AND ADVANCES TO CUSTOMERS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	LOANS AND ADVANCES TO CUSTOMERS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	SECURITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	SECURITIES MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME
Opening balance	99 001	1 230	1 696 888	302 630	65 408	7 111 833
Increases, including:	630 034	3 032	218 375	-	60 046	1 985 420
Reclassification	-	1 486	-	-	-	544 884
Transactions made in 2019	-	-	-	-	-	-
Acquisition/Granting	628 919	-	166 522	-	-	1 212 241
Settlement/Redemption	-	363	-	-	-	-
Gains on financial instruments	1 115	1 183	51 853	-	60 046	228 295
recognized in the income statement	1 115	1 183	34 347	-	60 046	181 369
recognized in revaluation reserves	-	-	17 506	-	-	46 926
Decreases, including:	(720 864)	(1 220)	(369 481)	(59 991)	-	(2 019 980)
Reclassification	-	-	-	-	-	(83 209)
Settlement/Redemption	(131 455)	-	(55 795)	(58 649)	-	(366 767)
Sale/Repayment	(589 388)	-	(313 686)	-	-	(1 552 779)
Losses on financial instruments	(21)	(1 220)	-	(1 342)	-	(17 225)
recognized in the income statement	(21)	(1 220)	-	(1 342)	-	(1 399)
recognized in revaluation reserves	-	-	-	-	-	(15 826)
Closing balance	8 171	3 042	1 545 782	242 639	125 454	7 077 273
Unrealized income from financial instruments held in portfolio at the end of the period, recognized in:	20	1 183	9 071	(3 393)	-	66 197
Income statement:	20	1 183	(6 920)	(3 393)	-	32 071
net interest income	13	-	968	138	-	35 952
net impairment losses on financial assets and off-balance sheet commitments	-	-	(7 888)	-	-	(3 881)
result on financial assets and liabilities held for trading	7	1 183	-	(3 531)	-	-
Other comprehensive income	-	-	15 991	-	-	34 126

Notes to financial statements (cont.)

(in PLN thousand)

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

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

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

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

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

FINANCIAL ASSET/LIABILITY	FAIR VALUE AS AT 30.06.2020	VALUATION TECHNIQUE	UNOBSERVABLE FACTOR	ALTERNATIVE FACTOR RANGE (WEIGHTED AVERAGE)	IMPACT ON FAIR VALUE AS AT 30.06.2020	
					POSITIVE SCENARIO	NEGATIVE SCENARIO
Corporate and municipal debt securities	7 259 581	Discounted cash flow	Credit spread	0.60% - 1.39%	94 332	(101 880)
Sovereign securities	26 911	Discounted cash flow	Spread to benchmark bond	0.03% - 0.73%	1 927	(1 927)
Derivatives	876	Black Scholes Model	Correlation	0-1	119	(827)
Loans and advances measured at fair value through profit or loss	213 869	Discounted cash flow	Credit spread	1.07% - 1.95%	3 782	(3 689)
Loans and advances measured at fair value through other comprehensive income	1 646 325	Discounted cash flow	Credit spread	2.46% - 3.34%	23 539	(23 135)

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

FINANCIAL ASSET/LIABILITY	FAIR VALUE AS AT 31.12.2019	VALUATION TECHNIQUE	UNOBSERVABLE FACTOR	ALTERNATIVE FACTOR RANGE (WEIGHTED AVERAGE)	IMPACT ON FAIR VALUE AS AT 31.12.2019	
					POSITIVE SCENARIO	NEGATIVE SCENARIO
Corporate and municipal debt securities	6 890 342	Discounted cash flow	Credit spread	0.37%-0.95%	68 220	(83 460)
Derivatives	3 042	Black Scholes Model	Correlation	0-1	410	(8)
Loans and advances measured at fair value through profit or loss	242 639	Discounted cash flow	Credit spread	1.40%-2.11%	3 260	(3 416)
Loans and advances measured at fair value through other comprehensive income	1 545 782	Discounted cash flow	Credit spread	2.59%-3.30%	15 522	(15 304)

Notes to financial statements (cont.)

(in PLN thousand)

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

Financial instruments that are not measured at fair value in the separate statement of financial position of the Bank

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

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

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

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

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

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

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

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

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

Notes to financial statements (cont.)

(in PLN thousand)

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

30.06.2020	CARRYING AMOUNT	FAIR VALUE	OF WHICH:		
			LEVEL 1	LEVEL 2	LEVEL 3
Assets					
Cash and due from Central Bank	7 362 096	7 361 583	5 583 379	1 778 204	-
Loans and advance to banks	8 563 564	8 560 610	-	7 257 580	1 303 030
Loans and advances to customers measured at amortised cost	132 501 201	131 627 793	-	950 209	130 677 584
Debt securities measured at amortised cost	20 599 615	21 362 009	15 279 290	1 169 697	4 913 022
Total Assets	169 026 476	168 911 995	20 862 669	11 155 690	136 893 636
Liabilities					
Amounts due to Central Bank	-	-	-	-	-
Amounts due to other banks	3 473 942	3 521 392	-	557 644	2 963 748
Amounts due to customers	185 343 863	185 643 102	-	-	185 643 102
Debt securities issued	1 399 735	1 404 514	-	1 404 514	-
Subordinated liabilities	2 759 514	2 766 014	-	2 766 014	-
Total Liabilities	192 977 054	193 335 022	-	4 728 172	188 606 850

31.12.2019	CARRYING AMOUNT	FAIR VALUE	OF WHICH:		
			LEVEL 1	LEVEL 2	LEVEL 3
Assets					
Cash and due from Central Bank	5 138 758	5 138 145	3 036 363	2 101 782	-
Loans and advance to banks	2 243 908	2 246 223	-	1 038 859	1 207 364
Loans and advances to customers measured at amortised cost	129 886 963	131 260 959	-	502 344	130 758 615
Debt securities measured at amortised cost	14 557 831	14 885 744	9 102 253	1 068 286	4 715 205
Total Assets	151 827 460	153 531 071	12 138 616	4 711 271	136 681 184
Liabilities					
Amounts due to Central Bank	4 550	4 602	-	-	4 602
Amounts due to other banks	3 043 969	3 083 744	-	678 799	2 404 945
Amounts due to customers	158 543 950	158 779 955	-	379 787	158 400 168
Debt securities issued	1 604 344	1 602 985	-	1 602 985	-
Subordinated liabilities	2 764 493	2 766 289	-	2 766 289	-
Total Liabilities	165 961 306	166 237 575	-	5 427 860	160 809 715

Notes to financial statements (cont.)

(in PLN thousand)

7. Interest income and expense

Interest income

	II QUARTER 2020			TOTAL
	FINANCIAL ASSETS MEASURED AT AMORTISED COST	FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	
Loans and other receivables from customers	1 137 009	9 122	482	1 146 613
Interbank placements	2 802	-	-	2 802
Reverse repo transactions	2 983	-	-	2 983
Investment securities	106 082	155 435	-	261 517
Hedging derivatives	-	-	64 875	64 875
Financial assets held for trading	-	-	3 977	3 977
Total	1 248 876	164 557	69 334	1 482 767

	I HALF 2020			TOTAL
	FINANCIAL ASSETS MEASURED AT AMORTISED COST	FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	
Loans and other receivables from customers	2 442 967	17 521	1 794	2 462 282
Interbank placements	12 993	-	-	12 993
Reverse repo transactions	10 230	-	-	10 230
Investment securities	205 089	305 276	-	510 365
Hedging derivatives	-	-	120 579	120 579
Financial assets held for trading	-	-	7 296	7 296
Total	2 671 279	322 797	129 669	3 123 745

Notes to financial statements (cont.)

(in PLN thousand)

Interest income

	II QUARTER 2019			TOTAL
	FINANCIAL ASSETS MEASURED AT AMORTISED COST	FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	
Loans and other receivables from customers	1 267 777	9 541	1 618	1 278 936
Interbank placements	12 442	-	-	12 442
Reverse repo transactions	12 231	-	-	12 231
Investment securities	78 326	157 772	-	236 098
Hedging derivatives	-	-	60 052	60 052
Financial assets held for trading	-	-	4 813	4 813
Total	1 370 776	167 313	66 483	1 604 572

	I HALF 2019			TOTAL
	FINANCIAL ASSETS MEASURED AT AMORTISED COST	FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	
Loans and other receivables from customers	2 493 062	18 668	3 305	2 515 035
Interbank placements	24 658	-	-	24 658
Reverse repo transactions	20 570	-	-	20 570
Investment securities	150 701	309 067	-	459 768
Hedging derivatives	-	-	115 729	115 729
Financial assets held for trading	-	-	8 757	8 757
Total	2 688 991	327 735	127 791	3 144 517

Interest expense

	II QUARTER 2020	I HALF 2020	II QUARTER 2019	I HALF 2019
Deposits from customers	(124 483)	(336 074)	(242 550)	(477 366)
Interbank deposits	(2 355)	(5 815)	(4 131)	(7 682)
Repo transactions	(1 182)	(6 993)	(6 328)	(11 151)
Loans and advances received	(690)	(1 560)	(327)	(657)
Leasing	(3 182)	(6 261)	(4 301)	(8 886)
Debt securities issued	(23 203)	(52 611)	(25 583)	(50 021)
Total	(155 095)	(409 314)	(283 220)	(555 763)

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

Notes to financial statements (cont.)

(in PLN thousand)

8. Fee and commission income and expense

Fee and commission income

	II QUARTER 2020	I HALF 2020	II QUARTER 2019	I HALF 2019
Accounts maintenance, payment orders and cash transactions	145 892	294 438	156 268	306 940
Payment cards	141 443	287 551	153 166	295 110
Loans and advances	83 439	164 440	98 346	185 553
Margin on foreign exchange transactions with clients	115 709	250 028	128 051	243 631
Service and sell investment, insurance and retirement products	35 612	76 649	30 028	60 526
Securities operations	21 623	37 584	2 299	5 014
Custody activity	16 106	30 259	14 790	29 579
Guarantees, letters of credit and similar transactions	16 339	33 023	15 577	31 524
Other	16 373	35 526	9 057	16 892
Total	592 536	1 209 498	607 582	1 174 769

Fee and commission expense

	II QUARTER 2020	I HALF 2020	II QUARTER 2019	I HALF 2019
Payment cards	(75 049)	(150 105)	(65 972)	(120 279)
Money orders and transfers	(5 123)	(10 634)	(5 005)	(10 848)
Securities and derivatives operations	(8 270)	(15 994)	(5 662)	(11 293)
Accounts maintenance	(10 437)	(18 956)	(8 379)	(16 323)
Custody activity	(5 365)	(9 544)	(4 090)	(8 520)
Bank accounts services	(1 239)	(2 102)	(1 067)	(2 020)
Other	(1 728)	(3 336)	(1 289)	(2 516)
Total	(107 211)	(210 671)	(91 464)	(171 799)

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.

9. Dividend income

	II QUARTER 2020	I HALF 2020	II QUARTER 2019	I HALF 2019
Subsidiaries	147 859	147 859	114 997	178 963
Issuers of securities measured at fair value through profit or loss	256	511	-	386
Issuers of equity instruments designated at fair value through other comprehensive income	25 486	25 486	21 250	21 250
Total	173 601	173 856	136 247	200 599

Notes to financial statements (cont.)

(in PLN thousand)

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

	II QUARTER 2020	I HALF 2020	II QUARTER 2019	I HALF 2019
Gains (losses) on loans and advances to customers measured mandatorily at fair value through profit or loss	(5 354)	(3 663)	2 475	(3 857)
Gains (losses) on securities measured mandatorily at fair value through profit or loss	21 488	2 928	8 602	20 737
Foreign currency exchange result	3 873	(27 174)	(6 986)	(9 046)
Gains (losses) on derivatives	12 633	49 247	16 677	24 598
Gains (losses) on securities held for trading	16 445	30 280	6 538	8 397
Total	49 085	51 618	27 306	40 829

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

Realized gains

	II QUARTER 2020	I HALF 2020	II QUARTER 2019	I HALF 2019
Financial assets measured at amortised cost	967	9 405	5 574	5 574
Financial assets measured at fair value through other comprehensive income	25 590	38 630	7 124	18 459
Financial liabilities not measured at fair value through profit or loss	-	1	-	-
Total	26 557	48 036	12 698	24 033

Realized losses

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

Net realized profit	22 901	43 586	8 259	19 470
----------------------------	---------------	---------------	--------------	---------------

Notes to financial statements (cont.)

(in PLN thousand)

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

	II QUARTER 2020	I HALF 2020	II QUARTER 2019	I HALF 2019
Loans and other financial assets measured at amortized cost (*) (**)	(385 244)	(648 104)	(117 174)	(192 528)
Debt securities measured at amortized cost	14 642	2 309	(15 446)	(14 957)
Loans measured at fair value through other comprehensive income	(4 001)	(5 084)	1 810	(17 894)
Debt securities measured at fair value through other comprehensive income	459	(16 695)	(2 018)	38
Off-balance sheet commitments	(58 427)	(109 567)	(29 183)	(37 811)
Provision for legal risk regarding foreign currency mortgage loans	(9 049)	(10 894)	-	-
Total	(441 620)	(788 035)	(162 011)	(263 152)

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

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

13. Net other operating income and expenses

Other operating income

	II QUARTER 2020	I HALF 2020	II QUARTER 2019 RESTATED	I HALF 2019 RESTATED
Gains on disposal of property, plant and equipment and intangible assets	-	-	9 793	12 064
Premises rental income	7 452	14 786	5 897	11 288
Compensation, recoveries, penalty fees and fines received	2 749	5 743	4 678	9 976
Miscellaneous income	2 970	7 160	1 318	6 455
Recovery of debt collection costs	1 864	4 073	4 300	7 275
Releases of impairment allowances for litigation and other assets	48	88	39	165
Write offs for liabilities disputable and other provisions	-	-	5	60
Other	88	662	551	826
Total	15 171	32 512	26 581	48 109

Other operating expenses

	II QUARTER 2020	I HALF 2020	II QUARTER 2019 RESTATED	I HALF 2019 RESTATED
Write downs for liabilities disputable and other provisions	(10 641)	(11 324)	(3 447)	(8 221)
Net provision for legal risk regarding foreign currency mortgage loans	(5 981)	(4 416)	-	-
Loss on disposal of property, plant and equipment and intangible assets	(39)	(9 974)	(235)	(493)
Card transactions monitoring costs	(2 616)	(4 054)	(1 139)	(3 217)
Sundry expenses	(562)	(2 400)	(1 150)	(2 497)
Costs of litigation and claims	(401)	(1 351)	(580)	(1 429)
Impairment allowance for litigations and other assets	(277)	(326)	(48)	(84)
Compensation, penalty fees and fines	(79)	(271)	(133)	(192)
Credit insurance expenses	(1)	(5)	(173)	(448)
Other	(572)	(6 387)	(928)	(1 908)
Total	(21 169)	(40 508)	(7 833)	(18 489)
Net other operating income and expenses	(5 998)	(7 996)	18 748	29 620

Notes to financial statements (cont.)

(in PLN thousand)

14. Administrative expenses

Personnel expenses

	II QUARTER 2020	I HALF 2020	II QUARTER 2019	I HALF 2019
Wages and salaries	(356 097)	(840 523)	(448 710)	(798 211)
Insurance and other charges related to employees	(69 634)	(139 714)	(67 582)	(131 481)
Share-based payments expenses	(4 341)	(8 681)	(5 020)	(5 465)
Total	(430 072)	(988 918)	(521 312)	(935 157)

Other administrative expenses

	II QUARTER 2020	I HALF 2020	II QUARTER 2019	I HALF 2019
General expenses	(201 009)	(431 534)	(220 335)	(430 169)
Taxes and charges	(7 595)	(14 935)	(7 090)	(14 103)
Bank Guarantee Fund fee	(43 080)	(291 428)	(20 544)	(411 049)
Financial supervision authority fee (KNF)	-	(17 884)	-	(24 208)
Tax on certain financial institutions	(169 843)	(326 349)	(148 423)	(297 284)
Total	(421 527)	(1 082 130)	(396 392)	(1 176 813)
Total administrative expenses	(851 599)	(2 071 048)	(917 704)	(2 111 970)

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 83 398 thousand for the first half 2020 (PLN 41 195 thousand for the first half of 2019) and the costs of annual contribution to resolution fund of banks in the amount of PLN 208 030 thousand (PLN 369 854 thousand in 2019).

Notes to financial statements (cont.)

(in PLN thousand)

15. Depreciation and amortization

	II QUARTER 2020	I HALF 2020	II QUARTER 2019	I HALF 2019
Property, plant and equipment	(73 041)	(141 078)	(69 556)	(139 957)
Investment property	-	-	(73)	(146)
Intangible assets	(51 101)	(96 211)	(44 920)	(91 397)
Total	(124 142)	(237 289)	(114 549)	(231 500)

16. Total gains (losses) from subsidiaries and associates

	II QUARTER 2020	I HALF 2020	II QUARTER 2019	I HALF 2019
Impairment allowances for equity investments	-	(365)	-	-
Total gains (losses) from subsidiaries and associates	-	(365)	-	-

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

	II QUARTER 2020	I HALF 2020	II QUARTER 2019	I HALF 2019
INCOME STATEMENT				
Current tax	(247 959)	(524 892)	(184 269)	(400 340)
Current tax charge in the income statement	(242 502)	(519 304)	(184 057)	(395 582)
Adjustments related to the current tax from previous years	(5 067)	(5 067)	-	(4 425)
Other taxes (e.g. withholding tax)	(390)	(521)	(212)	(333)
Deferred tax	104 386	253 781	8 168	42 684
Occurrence and reversal of temporary differences	104 386	253 781	8 168	42 684
Tax charge in the separate income statement	(143 573)	(271 111)	(176 101)	(357 656)
EQUITY				
Deferred tax	(126 442)	(172 746)	(31 691)	(42 377)
Income and costs disclosed in other comprehensive income:				
revaluation of financial instruments - cash flows hedges	(22 601)	(101 439)	(5 187)	(17 493)
fair value revaluation through other comprehensive income	(99 684)	(69 284)	(23 361)	(21 589)
Tax on items that are or may be reclassified subsequently to profit or loss	(122 285)	(170 723)	(28 548)	(39 082)
Tax charge on items that will never be reclassified to profit or loss	(4 157)	(2 023)	(3 143)	(3 295)
fair value revaluation through other comprehensive income – equity securities	(4 157)	(2 023)	(3 143)	(3 295)
remeasurements the defined benefit liabilities	-	-	-	-
Total charge	(270 015)	(443 857)	(207 792)	(400 033)

Notes to financial statements (cont.)

(in PLN thousand)

18. Earnings per share

Basic earnings per share

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

	II QUARTER 2020	I HALF 2020	II QUARTER 2019	I HALF 2019
Net profit	492 644	605 722	656 937	916 260
Weighted average number of ordinary shares in the period	262 470 034	262 470 034	262 470 034	262 470 034
Earnings per share (in PLN per share)	1.88	2.31	2.50	3.49

Diluted earnings per share

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

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

	II QUARTER 2020	I HALF 2020	II QUARTER 2020	I HALF 2019
Net profit	492 644	605 722	656 937	916 260
Weighted average number of ordinary shares in the period	262 470 034	262 470 034	262 470 034	262 470 034
Weighted average number of ordinary shares for the purpose of calculation of diluted earnings per share	262 470 034	262 470 034	262 470 034	262 470 034
Diluted earnings per share (in PLN per share)	1.88	2.31	2.50	3.49

19. Dividends

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

20. Cash and balances with Central Bank

CASH AND DUE FROM CENTRAL BANK	30.06.2020	31.12.2019
Cash	5 583 892	3 036 976
Current account at Central Bank	1 778 350	2 101 956
Deposits	-	-
Gross carrying amount	7 362 242	5 138 932
Impairment allowances	(146)	(174)
Net carrying amount	7 362 096	5 138 758

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

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

Notes to financial statements (cont.)

(in PLN thousand)

21. Loans and advances to banks

Loans and advances to banks by product type

	30.06.2020	31.12.2019
Current accounts	7 011 343	618 837
Interbank placements	54 177	200 843
Loans and advances	105 495	172 583
Cash collaterals	1 080 366	733 090
Reverse repo transactions	198 460	219 153
Cash in transit	118 138	302 298
Total gross amount	8 567 979	2 246 804
Impairment allowances	(4 415)	(2 896)
Total net amount	8 563 564	2 243 908

Loans and advances to banks are measured at amortised cost.

22. Financial assets and liabilities held for trading

Financial assets and liabilities held for trading by product type

	30.06.2020	31.12.2019
FINANCIAL ASSETS		
Debt securities	1 022 833	1 279 495
Equity securities held for trading	3 427	-
Total financial assets	1 026 260	1 279 495
FINANCIAL LIABILITIES		
Debt securities	302 405	184 799
Total financial liabilities	302 405	184 799

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

Debt securities held for trading

	30.06.2020	31.12.2019
FINANCIAL ASSETS		
Debt securities issued by State Treasury	811 813	1 131 734
T- bills	51 430	-
T- bonds	760 383	1 131 734
Debt securities issued by banks	29 950	13 974
Debt securities issued by business entities	181 070	133 787
Total financial assets	1 022 833	1 279 495
FINANCIAL LIABILITIES		
Debt securities issued by State Treasury	302 405	184 799
T- bonds	302 405	184 799
Total financial liabilities	302 405	184 799

Notes to financial statements (cont.)

(in PLN thousand)

Equity securities held for trading

	30.06.2020	31.12.2019
Shares	3 427	-
Total	3 427	-

23. Derivative financial instruments (held for trading)

Fair value of trading derivatives

30.06.2020	ASSETS	LIABILITIES
Interest rate transactions		
Interest Rate Swaps (IRS)	4 737 125	4 677 444
Forward Rate Agreements (FRA)	298	10 948
Options	8 697	1 662
Other	16	13
Foreign currency and gold transactions		
Cross-Currency Interest Rate Swaps (CIRS)	185 964	65 788
Currency Forward Agreements	123 217	162 841
Currency Swaps (FX-Swap)	123 905	59 865
Options for currency and gold	53 018	62 217
Transactions based on equity securities and stock indexes		
Options	911	908
Other	-	-
Transactions based on commodities and precious metals		
Options	166 639	161 729
Other	39 058	38 331
Total	5 438 848	5 241 746

31.12.2019	ASSETS	LIABILITIES
Interest rate transactions		
Interest Rate Swaps (IRS)	1 644 621	1 604 186
Forward Rate Agreements (FRA)	284	3
Options	8 463	2 003
Other	39	61
Foreign currency and gold transactions		
Cross-Currency Interest Rate Swaps (CIRS)	81 369	53 546
Currency Forward Agreements	153 950	157 608
Currency Swaps (FX-Swap)	80 285	109 509
Options for currency and for gold	73 950	72 799
Transactions based on equity securities and stock indexes		
Options	3 084	3 076
Other	-	-
Transactions based on commodities and precious metals		
Options	25 646	23 523
Other	14 298	14 054
Total	2 085 989	2 040 368

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

Notes to financial statements (cont.)

(in PLN thousand)

24. Loans and advances to customers

Loans and advances to customers by product type

	30.06.2020			TOTAL
	AMORTISED COST	FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	FAIR VALUE THROUGH PROFIT OR LOSS	
Mortgage loans	71 375 207	948 302	18 642	72 342 151
Current accounts	11 310 354	-	-	11 310 354
Operating loans	15 454 208	425 246	20 836	15 900 290
Investment loans	21 771 076	272 777	38 079	22 081 932
Cash loans	14 231 320	-	-	14 231 320
Payment cards receivables	1 040 221	-	-	1 040 221
Factoring	2 131 469	-	-	2 131 469
Other loans and advances	900 588	-	136 312	1 036 900
Debt securities	-	-	-	-
Reverse repo transactions	950 900	-	-	950 900
Cash in transit	127 966	-	-	127 966
Gross carrying amount	139 293 309	1 646 325	213 869	141 153 503
Impairment allowances (*) (**)	(6 792 108)	-	-	(6 792 108)
Carrying amount	132 501 201	1 646 325	213 869	134 361 395

(*) The impairment allowance for loans and advances to customers measured at fair value through other comprehensive income in the amount of PLN 28 462 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 38 606 thousand.

	31.12.2019			TOTAL
	AMORTISED COST	FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	FAIR VALUE THROUGH PROFIT OR LOSS	
Mortgage loans	68 557 662	972 945	21 600	69 552 207
Current accounts	12 224 536	-	-	12 224 536
Operating loans	15 075 523	404 374	22 518	15 502 415
Investment loans	20 562 225	168 463	57 226	20 787 914
Cash loans	14 674 372	-	-	14 674 372
Payment cards receivables	1 113 077	-	-	1 113 077
Factoring	2 582 870	-	-	2 582 870
Other loans and advances	837 126	-	141 295	978 421
Debt securities	-	-	-	-
Reverse repo transactions	502 300	-	-	502 300
Cash in transit	34 390	-	-	34 390
Gross carrying amount	136 164 081	1 545 782	242 639	137 952 502
Impairment allowances (*) (**)	(6 277 118)	-	-	(6 277 118)
Carrying amount	129 886 963	1 545 782	242 639	131 675 384

(*) The impairment allowance for loans and advances to customers measured at fair value through other comprehensive income in the amount of PLN 22 356 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 27 712 thousand.

Notes to financial statements (cont.)

(in PLN thousand)

Loans and advances to customers by customer type

	30.06.2020			TOTAL
	AMORTISED COST	FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	FAIR VALUE THROUGH PROFIT OR LOSS	
Corporate	58 980 919	1 646 325	37 282	60 664 526
Individuals	77 499 692	-	136 314	77 636 006
Budget entities	2 812 698	-	40 273	2 852 971
Gross carrying amount	139 293 309	1 646 325	213 869	141 153 503
Impairment allowances (*) (**)	(6 792 108)	-	-	(6 792 108)
Carrying amount	132 501 201	1 646 325	213 869	134 361 395

(*) The impairment allowance for loans and advances to customers measured at fair value through other comprehensive income in the amount of PLN 28 462 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 38 606 thousand.

	31.12.2019			TOTAL
	AMORTISED COST	FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	FAIR VALUE THROUGH PROFIT OR LOSS	
Corporate	57 266 692	1 545 782	44 128	58 856 602
Individuals	75 991 832	-	141 296	76 133 128
Budget entities	2 905 557	-	57 215	2 962 772
Gross carrying amount	136 164 081	1 545 782	242 639	137 952 502
Impairment allowances (*) (**)	(6 277 118)	-	-	(6 277 118)
Carrying amount	129 886 963	1 545 782	242 639	131 675 384

(*) The impairment allowance for loans and advances to customers measured at fair value other comprehensive income in the amount of PLN 22 356 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 27 712 thousand

Notes to financial statements (cont.)

(in PLN thousand)

25. Hedge accounting

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

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

FVH - fair value hedge accounting:

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

CFH - cash flow hedge accounting:

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

Impact of the IBOR reform on hedge accounting

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

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

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

Fair value hedge accounting

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

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

The approach of the Bank to market risk management, including interest rate risk, and details regarding exposure of the Bank to interest rate risk are disclosed in Note 6.2.

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

Notes to financial statements (cont.)

(in PLN thousand)

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

30.06.2020	FVH IRS BONDS – IRS HEDGING DEBT SECURITIES MEASURED AT		TOTAL
	AMORTISED COST	FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	
HEDGING INSTRUMENTS			
Nominal value	200 000	2 360 110	2 560 110
Carrying amount – assets	-	-	-
Carrying amount – liabilities	30 377	170 871	201 248
Balance sheet item in which hedging instrument is reported	Hedging instruments	Hedging instruments	Hedging instruments
Amount of changes in fair value of the hedging instrument in the reporting period used for estimating hedge inefficiency	(14 834)	(51 400)	(66 234)
Amount of hedge ineffectiveness recognized in the income statement 'Result on fair value hedge accounting'	(417)	(335)	(752)
HEDGED ITEM			
Carrying amount – assets	228 664	2 582 959	2 811 623
Accumulated amount of the adjustment to the fair value of the hedged item included in the carrying amount of the hedged item recognized in the balance sheet - assets	28 706	190 476	219 182
Balance sheet item in which hedged item is reported	Hedging instruments	Hedging instruments	Hedging instruments
Change in the value of hedged item used for estimating hedge inefficiency in the reporting period	14 417	51 066	65 483
Accumulated amount of the adjustment to the fair value of the hedged item remaining in the balance sheet for those hedged items for which adjustments of the balance sheet item for adjustment to fair value has been discontinued	-	-	-

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

Notes to financial statements (cont.)

(in PLN thousand)

Cash flow hedge accounting

The Bank applies:

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

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

Impact of cash flow hedge on balance sheet and financial result

HEDGE IN RELATIONSHIP AS AT 30.06.2020	INTEREST RATE RISK		INTEREST RATE RISK / CURRENCY RISK	
	CFH IRS loans	CFH IRS deposits	CFH CIRS deposits/ loans	CFH FX-Swap deposits/loans
HEDGING INSTRUMENTS				
Nominal value	12 775 000	1 225 192	5 193 306	25 499 855
Carrying amount – assets	854 919	8 133	-	106 793
Carrying amount – liabilities	478	54 982	560 698	130 711
Balance sheet item in which hedging instrument is reported	Hedging instruments	Hedging instruments	Hedging instruments	Hedging instruments
Change in the fair value of the hedging instrument used for estimating hedge ineffectiveness	538 646	(21 067)	11 875	7 631
Gains or losses resulting from hedging, recognized in other comprehensive income	-	-	-	-
Amount of hedge ineffectiveness recognized in the income statement in item 'Result on financial assets and liabilities measured at fair value through profit or loss'	1 969	-	-	1
Amount transferred from the revaluation reserves due to cash flow hedge accounting to the income statement as a reclassification adjustment	-	-	-	-
Income statement item in which reclassification adjustment is reported	Result on financial assets and liabilities measured at fair value through profit or loss	Result on financial assets and liabilities measured at fair value through profit or loss	Result on financial assets and liabilities measured at fair value through profit or loss	Result on financial assets and liabilities measured at fair value through profit or loss
HEDGED ITEM				
Amount of change in the fair value of a hypothetical derivative representing the hedged item used for estimating the hedge ineffectiveness in the reporting period	(536 944)	21 067	(12 684)	(7 635)
Revaluation reserve due to cash flow hedge accounting for relationships for which hedge accounting will be continued after the end of the reporting period	736 388	(43 400)	(41 761)	9 425
Revaluation reserve due to cash flow hedge accounting for relationships for which hedge accounting is no longer applied	-	-	-	-

Notes to financial statements (cont.)

(in PLN thousand)

Impact of cash flow hedge on balance sheet and financial result

HEDGE IN RELATIONSHIP AS AT 31.12.2019	INTEREST RATE RISK		INTEREST RATE RISK / CURRENCY RISK	
	CFH IRS loans	CFH IRS deposits	CFH CIRS deposits/ loans	CFH FX--Swap deposits/loans
HEDGING INSTRUMENTS				
Nominal value	12 200 000	1 203 402	5 015 384	11 441 843
Carrying amount – assets	290 699	2 708	-	83 164
Carrying amount – liabilities	8 247	28 699	391 365	25 088
Balance sheet item in which hedging instrument is reported	Hedging instruments	Hedging instruments	Hedging instruments	Hedging instruments
Change in the fair value of the hedging instrument used for estimating hedge ineffectiveness	49 328	(10 521)	32 807	2 226
Gains or losses resulting from hedging, recognized in other comprehensive income	-	-	-	-
Amount of hedge ineffectiveness recognized in the income statement in item 'Result on financial assets and liabilities measured at fair value through profit or loss'	(1 265)	-	(2)	(6)
Amount transferred from the revaluation reserves due to cash flow hedge accounting to the income statement as a reclassification adjustment	-	-	-	-
Income statement item in which reclassification adjustment is reported	Result on financial assets and liabilities measured at fair value through profit or loss	Result on financial assets and liabilities measured at fair value through profit or loss	Result on financial assets and liabilities measured at fair value through profit or loss	Result on financial assets and liabilities measured at fair value through profit or loss
HEDGED ITEM				
Amount of change in the fair value of a hypothetical derivative representing the hedged item used for estimating the hedge ineffectiveness in the reporting period	(50 455)	10 521	(48 923)	(2 248)
Revaluation reserve due to cash flow hedge accounting for relationships for which hedge accounting will be continued after the end of the reporting period	200 961	(22 346)	(53 646)	1 794
Revaluation reserve due to cash flow hedge accounting for relationships for which hedge accounting is no longer applied	-	-	-	-

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

	I HALF 2020	I HALF 2019
Opening balance	126 763	51 540
INTEREST RATE RISK		
Gains or losses resulting from hedging, recognized in other comprehensive income during the reporting period	514 373	54 239
Part of the loss transferred to the income statement due to the lack of expectation of materialization of the hedged item	-	-
INTEREST RATE RISK/CURRENCY RISK		
Gains or losses resulting from hedging, recognized in other comprehensive income during the reporting period	19 516	37 832
Part of the loss transferred to the income statement due to the lack of expectation of materialization of the hedged item	-	-
Closing balance	660 652	143 611

Notes to financial statements (cont.)

(in PLN thousand)

26. Investment (placement) securities

	30.06.2020	31.12.2019
Debt securities measured at amortised cost	20 599 615	14 557 831
Debt securities measured at fair value through other comprehensive income	42 490 336	30 964 680
Equity instruments designated at fair value through other comprehensive income	236 165	225 332
Equity instruments mandatorily measured at fair value through profit or loss	133 520	125 454
Total	63 459 636	45 873 297

Debt securities measured at amortised cost

	30.06.2020	31.12.2019
Securities issued by State Treasury	14 549 019	8 880 617
T-bills	805 865	-
T-bonds	13 743 154	8 880 617
Securities issued by Central Banks	72 099	64 262
Securities issued by banks	442 190	-
Securities issued by business entities	2 395 929	2 416 388
Securities issued by local governments	3 140 378	3 196 564
Total	20 599 615	14 557 831
including impairment of assets	(73 761)	(74 986)

Debt securities measured at fair value through other comprehensive income

	30.06.2020	31.12.2019
Securities issued by State Treasury	18 623 124	18 525 465
T-bills	1 336 029	-
T-bonds	17 039 940	18 275 855
Other	247 155	249 610
Securities issued by Central Banks	7 999 929	3 000 508
Securities issued by banks	5 784 026	3 768 345
Securities issued by business entities	7 402 379	2 732 829
Securities issued by local governments	2 680 878	2 937 533
Total	42 490 336	30 964 680
including impairment of assets (*)	(49 791)	(33 096)

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

Equity instruments designated at fair value through other comprehensive income

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

Equity instruments mandatorily measured at fair value through profit or loss

	30.06.2020	31.12.2019
Shares	133 520	125 454
Total	133 520	125 454

Notes to financial statements (cont.)

(in PLN thousand)

27. Intangible assets

	30.06.2020	31.12.2019
Intangible assets, including:	822 066	687 142
research and development expenditures	-	-
licenses and patents	562 306	445 205
other	4 514	5 240
assets under construction	255 246	236 697
Goodwill	52 635	52 635
Total	874 701	739 777

The item 'Goodwill' contains:

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

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

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

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

Notes to financial statements (cont.)

(in PLN thousand)

28. Property, plant and equipment

	30.06.2020	31.12.2019
Non-current assets, including:	1 735 941	1 667 277
land and buildings	1 250 349	1 282 742
machinery and equipment	363 182	267 508
transport vehicles	21 095	26 130
other	101 315	90 897
Non-current assets under construction and prepayments	94 533	175 101
Total	1 830 474	1 842 378

In the period from 1 January to 30 June 2020 the Bank acquired property, plant and equipment in the amount of PLN 88 918 thousand (in 2019 - PLN 204 823 thousand).

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

Contractual commitments

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

29. Assets pledged as security for liabilities

The following table presents financial assets pledged as security for liabilities

TYPE OF TRANSACTION AS AT 30.06.2020	SECURITY	CARRYING VALUE OF ASSETS PLEDGED AS SECURITY FOR LIABILITIES	NOMINAL VALUE OF ASSETS PLEDGED AS SECURITY FOR LIABILITIES	VALUE OF LIABILITIES SUBJECT TO SECURITY
Repo transactions	bonds	104 617	94 317	104 773
Coverage of Fund for protection of guaranteed assets to the benefit of the Bank Guarantee Fund	bonds	708 782	660 000	-
Coverage of payment commitments to the guarantee fund for the Bank Guarantee Fund	bonds	112 779	112 000	104 143
Coverage of payment commitments to the resolution fund for the Bank Guarantee Fund	bonds	300 732	290 000	265 370
Lombard and technical loan	bonds	5 984 991	5 648 814	-
Other loans	bonds	368 838	354 900	310 266
Coverage of the Guarantee Fund for the Settlement of Stock Exchange Transactions to Central Securities Depository (KDPW)	cash deposits	42 380	42 380	-
Derivatives	bonds	61 622	61 196	46 559

Notes to financial statements (cont.)

(in PLN thousand)

The following table presents financial assets pledged as security for liabilities

TYPE OF TRANSACTION AS AT 31.12.2019	SECURITY	CARRYING VALUE OF ASSETS PLEDGED AS SECURITY FOR LIABILITIES	NOMINAL VALUE OF ASSETS PLEDGED AS SECURITY FOR LIABILITIES	VALUE OF LIABILITIES SUBJECT TO SECURITY
Repo transactions	bonds	597 540	584 833	598 241
Coverage of Fund for protection of guaranteed assets to the benefit of the Bank Guarantee Fund	bonds	652 929	615 000	-
Coverage of payment commitments to the guarantee fund for the Bank Guarantee Fund	bonds	82 529	81 000	79 123
Coverage of payment commitments to the resolution fund for the Bank Guarantee Fund	bonds	237 583	230 000	206 998
Lombard and technical loan	bonds	5 758 095	5 548 332	-
Other loans	bonds	373 537	360 100	314 430
Coverage of the Guarantee Fund for the Settlement of Stock Exchange Transactions to Central Securities Depository (KDPW)	cash deposits	30 378	30 378	-
Derivatives	bonds	54 461	53 452	32 631

30. Amounts due to other banks

Amounts due to other banks by product type

	30.06.2020	31.12.2019
Current accounts	1 209 518	725 260
Interbank deposits and other liabilities	726 284	691 719
Loans and advances received	1 353 156	1 381 474
Repo transactions	150 704	218 449
Cash in transit	33 911	26 466
Lease liabilities	369	601
Total	3 473 942	3 043 969

Amounts due to other banks are measured at amortised cost.

Notes to financial statements (cont.)

(in PLN thousand)

31. Amounts due to customers

Amounts due to customers by entity and product type

	30.06.2020	31.12.2019
Amounts due to corporate, including:	68 159 028	54 719 433
current accounts	62 195 984	42 366 012
term deposits and other liabilities	5 963 044	12 353 421
Amounts due to budget entities, including:	16 449 087	10 915 849
current accounts	16 112 560	10 526 619
term deposits and other liabilities	336 527	389 230
Amounts due to individuals, including:	99 991 979	91 874 677
current accounts	73 328 480	56 987 681
term deposits and other liabilities	26 663 499	34 886 996
Repo transactions	-	379 792
Cash in transit	305 820	240 407
Lease liabilities	437 949	414 512
Total	185 343 863	158 544 670

Amounts due to customers are measured at amortised cost.

32. Debt securities issued

Debt securities issued by type

	30.06.2020	31.12.2019
Certificates of deposit	1 399 735	1 604 344
Total	1 399 735	1 604 344

Amounts debt securities issued are measured at amortised cost.

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

Notes to financial statements (cont.)

(in PLN thousand)

33. Subordinated liabilities

Subordinated liabilities by type

TYPE OF TRANSACTION	NOMINAL AMOUNT	CURRENCY	INTEREST RATE	ISSUE DATE	MATURITY DATE	SPECIAL TERMS	BALANCE SHEET VALUE AS AT 30.06.2020
Subordinated bonds	1 250 000	PLN	variable, WIBOR 6M + margin	30.10.2017	29.10.2027	Call option giving the Bank the right of early redemption within 5 years from the issue date, subject to the approval of the PFSA	1 254 713
Subordinated bonds	550 000	PLN	variable, WIBOR 6M + margin	15.10.2018	16.10.2028	Call option giving the Bank the right of early redemption within 5 years from the issue date, subject to the approval of the PFSA	552 634
Subordinated bonds	200 000	PLN	variable, WIBOR 6M + margin	15.10.2018	14.10.2033	Call option giving the Bank the right of early redemption within 10 years from the issue date, subject to the approval of the PFSA	201 063
Subordinated bonds	350 000	PLN	variable, WIBOR 6M + margin	04.06.2019	04.06.2031	Call option giving the Bank the right of early redemption within 12 years from the issue date, subject to the approval of the PFSA	350 515
Subordinated bonds	400 000	PLN	variable, WIBOR 6M + margin	04.12.2019	04.06.2031	Call option giving the Bank the right of early redemption within 12 years from the issue date, subject to the approval of the PFSA	400 589
TOTAL	2 750 000						2 759 514

TYPE OF TRANSACTION	NOMINAL AMOUNT	CURRENCY	INTEREST RATE	ISSUE DATE	MATURITY DATE	SPECIAL TERMS	BALANCE SHEET VALUE AS AT 31.12.2019
Subordinated bonds	1 250 000	PLN	variable, WIBOR 6M + margin	30.10.2017	29.10.2027	Call option giving the Bank the right of early redemption within 5 years from the issue date, subject to the approval of the PFSA	1 257 025
Subordinated bonds	550 000	PLN	variable, WIBOR 6M + margin	15.10.2018	16.10.2028	Call option giving the Bank the right of early redemption within 5 years from the issue date, subject to the approval of the PFSA	553 926
Subordinated bonds	200 000	PLN	variable, WIBOR 6M + margin	15.10.2018	14.10.2033	Call option giving the Bank the right of early redemption within 10 years from the issue date, subject to the approval of the PFSA	201 534
Subordinated bonds	350 000	PLN	variable, WIBOR 6M + margin	04.06.2019	04.06.2031	Call option giving the Bank the right of early redemption within 12 years from the issue date, subject to the approval of the PFSA	350 937
Subordinated bonds	400 000	PLN	variable, WIBOR 6M + margin	04.12.2019	04.06.2031	Call option giving the Bank the right of early redemption within 12 years from the issue date, subject to the approval of the PFSA	401 071
TOTAL	2 750 000						2 764 493

Notes to financial statements (cont.)

(in PLN thousand)

34. Provisions

Changes in provisions in the reporting period

I HALF 2020	PROVISIONS FOR LITIGATION AND CLAIMS (*)	RESTRUCTURING PROVISION	PROVISIONS FOR DEFINED BENEFIT PLANS	PROVISIONS FOR UNDRAWN CREDIT FACILITIES AND GUARANTEES ISSUED	OTHER PROVISIONS	TOTAL
Opening balance	99 335	18 954	285 987	324 288	44 493	773 057
Provision charges/revaluation	18 580	144 430	10 736	210 726	8 680	393 152
Provision utilization	(11 764)	(52 458)	(14 709)	-	(761)	(79 692)
Provision releases	(2 840)	-	-	(101 159)	-	(103 999)
Foreign currency exchange differences	-	-	-	2 160	-	2 160
Other changes	-	-	229	-	-	229
Closing balance	103 311	110 926	282 243	436 015	52 412	984 907
Short term	17 189	110 926	13 530	60 144	-	201 789
Long term	86 122	-	268 713	375 871	52 412	783 118

(*) Including the provision for legal risk regarding foreign currency mortgage loans in CHF in the amount of PLN 23 406 thousand and a provision for early repayments of consumer loans in the amount of PLN 24 552 thousand as at 30 June 2020.

2019	PROVISIONS FOR LITIGATION AND CLAIMS (*)	RESTRUCTURING PROVISION	PROVISIONS FOR DEFINED BENEFIT PLANS	PROVISIONS FOR UNDRAWN CREDIT FACILITIES AND GUARANTEES ISSUED	OTHER PROVISIONS	TOTAL
Opening balance	53 988	-	284 634	271 609	44 729	654 960
Provision charges/revaluation	72 346	85 000	23 063	223 079	13 190	416 678
Provision utilization	(22 433)	(66 046)	(25 310)	-	(14 204)	(127 993)
Provision releases	(4 752)	-	-	(170 363)	-	(175 115)
Foreign currency exchange differences	-	-	-	(37)	-	(37)
Other changes	186	-	3 600	-	778	4 564
Closing balance	99 335	18 954	285 987	324 288	44 493	773 057
Short term	28 970	18 954	142	44 509	-	92 575
Long term	70 365	-	285 845	279 779	44 493	680 482

(*) Including the provision for legal risk regarding foreign currency mortgage loans in CHF in the amount of PLN 18 990 thousand and a provision for early repayments of consumer loans in the amount of PLN 26 279 thousand as at 31 December 2019.

Provisions for litigation and claims

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

Provisions for litigation and claims also include the part of total provision created for legal risk related to foreign currency mortgage loans in CHF, in part relating to exposures already repaid (fully or partially). Details about the above provisions are presented in Note 5 of these interim separate financial statements.

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

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

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

Notes to financial statements (cont.)

(in PLN thousand)

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

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

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

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

PARAMETER	SCENARIO	IMPACT ON THE LEVEL OF PROVISION
Change in number of complaints	+10%	3,9
	-10%	(3,9)
Change in average refund amount	+10%	3,9
	-10%	(3,9)

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

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

Restructuring provision

The Management Board of Bank Pekao S.A. informed that on 20 February 2020, in accordance with the Act of 13 March 2003 on special rules of terminating employment contracts for reasons not attributable to the employees (Journal of Laws, 2018, item 1969), adopted a resolution on the intended collective redundancies and the start of the consultation procedure for collective redundancies.

The intention of the Bank's Management Board is to terminate employment contracts with up to 1 200 employees and amend terms and conditions of employment with up to 1 350 employees in the period from 13 March 2020 to 31 October 2020, whereby the Bank may take a unilateral decision to extend the process by no more than 5 months.

The Bank estimated all the costs of termination of employment contracts and amendment of terms and conditions of employment the Bank's employees related to the collective redundancies, as well as of restructuring of branches network for the amount of PLN 144.4 million and the restructuring provision in this amount was created in the Bank's accounting books.

Provisions for defined benefits plans

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

Other provisions

Other provisions include in particular provisions for other employee benefits.

Notes to financial statements (cont.)

(in PLN thousand)

35. Contingent commitments

Court cases

As of 30 June 2020 the following court cases for payment are pending with involvement of the Bank, that are important in view of the value of the object of litigation:

- 1) in the group of liabilities (against the Bank):
 - brought by a legal person – lawsuit for payment by virtue of improper performance of an agreement, value of the object of litigation EUR 17 521 646 (which as of 30 June 2020 at mid NBP rate was equivalent to PLN 78 251 671.04), litigation initiation date – 19 July 2018, on 27 May 2019 the Arbitration Court at the Polish Chamber of Commerce passed a sentence dismissing the suit in its entirety, the sentence is legally valid but the plaintiff lodged a complaint with a court of general jurisdiction and demand the sentence to be repealed, in the present factual and legal circumstances the Bank assesses the funds outflow risk as possible,
 - brought by the receiver for a joint stock company in liquidation bankruptcy – lawsuit for payment of compensation for a damage incurred as a result of the Bank's demanding immediate payment of the amounts due in virtue of payment of the price from the credit receivables transfer agreement and conducting debt enforcement collection of the portion of the price remaining for payment by a court enforcement officer, value of the object of litigation PLN 57 450 130 litigation initiation date – 30 April 2015, in the present factual and legal circumstances the Bank assesses the funds outflow risk as possible,
 - brought by a natural person – lawsuit for payment by the Bank of an amount charged by virtue of settlement of financial future or forward transactions, value of the object of litigation PLN 38 916 555.18, litigation initiation date – 2 October 2016, on 6 May 2019 the Regional Court in Warsaw issued a sentence ordering the Bank to pay the amount of PLN 3 392 349.18 and as to the remainder the Court dismissed the suit, the sentence is not legally valid, the Bank and the plaintiff appealed against the judgment. In the present factual and legal circumstances regarding the amount awarded by the Circuit Court the Bank assesses the funds outflow risk as probable and in the remaining scope as possible,
 - brought by a beneficiary of warranty – lawsuit for payment of a claim by virtue of the warranty issued by the Bank, value of the object of litigation PLN 32 750 000 litigation initiation date – 14 January 2014, in the present factual and legal circumstances the Bank assesses the funds outflow risk as minor,
 - brought by a natural person – lawsuit for payment of damages by the Bank resulting from improper conduct of a Bank 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 Bank):
 - Bank's main intervention lawsuit against the parties of the main lawsuit – the object of the intervention is the demand for payment by virtue of the assignment of receivables securing Bank's liabilities, value of the object of litigation is PLN 321 979 666.87, litigation initiation date – 26 October 2018,
 - Bank's lawsuit for payment against limited debtor by virtue of mortgage collateralizing repayment of the granted credit, value of the object of litigation PLN 132 877 901, litigation initiation date – 21 January 2016,
 - Bank's main intervention lawsuit against the parties of the main lawsuit – the object of the intervention is the demand for payment by virtue of the assignment of receivables securing Bank's liabilities, value of the object of litigation PLN 119 020 334, litigation initiation date – 26 October 2018,
 - Bank's mutual lawsuit for payment of amounts due by virtue of the transfer of receivables, value of the object of litigation PLN 89 977 886, litigation initiation date – 28 February 2013,
 - Bank's main intervention lawsuit against the parties of the main lawsuit – the object of the intervention is the demand to execute (pay) the liabilities purchased by the Bank from one of the defendants against the other defendant, value of the object of litigation PLN 67 432 617.21, litigation initiation date – 23 January 2006.

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

Notes to financial statements (cont.)

(in PLN thousand)

The Bank created provisions for litigations against the Bank entities which, according to the legal opinion, are connected with a risk of the funds outflow resulting from the fulfillment of the obligation. The value of the provisions as at 30 June 2020 is PLN 79 905 thousand (PLN 80 345 thousand as at 31 December 2019). These amounts do not include provisions for legal risk regarding foreign currency mortgage loans in CHF.

In addition, as at 30 June 2020 the Bank assessed the legal risk of foreign currency mortgage loans in CHF and created a provision related to this risk. Details are presented in Note 5 of these condensed interim separated financial statements.

Financial commitments granted

Financial commitments granted by entity

	30.06.2020	31.12.2019
Financial commitments granted to:		
banks	1 160 232	669 821
customers	35 670 459	35 908 132
budget entities	819 892	657 679
Total	37 650 583	37 235 632

Guarantees issued

Guarantees issued by entity

	30.06.2020	31.12.2019
Issued to banks:	2 082 880	2 368 639
guarantees	1 806 845	2 168 540
confirmed export letters of credit	225 500	153 750
50 535	46 349	
Issued to customers	19 199 486	18 741 322
guarantees	13 360 078	12 108 330
securities' underwriting guarantees	2 810 010	2 982 379
sureties	3 029 398	3 650 613
Issued to budget entities:	805 433	682 865
guarantees	46 102	29 070
securities' underwriting guarantees	759 331	653 795
Total	22 087 799	21 792 826

Off-balance sheet commitments received

Off-balance sheet commitments received by entity

	30.06.2020	31.12.2019
Financial received from:	881 846	233 370
banks	583 139	233 370
customers	-	-
budget entities	298 707	-
Guarantees received from:	17 079 692	17 581 742
banks	5 357 856	4 820 053
customers	10 640 973	11 746 732
budget entities	1 080 863	1 014 957
Total	17 961 538	17 815 112

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

Notes to financial statements (cont.)

(in PLN thousand)

36. Additional information to the separate cash flow statement

Cash and cash equivalents

	30.06.2020	30.06.2019
Cash and amounts due from Central Bank	7 362 096	5 138 758
Loans and receivables from banks with maturity up to 3 months	8 468 078	2 081 424
Cash and Cash equivalents presented in the cash flow statement	15 830 174	7 220 182

Restricted availability cash and cash equivalents as at 30 June 2020 amounted to PLN 1 778 350 thousand (PLN 1 403 490 thousand as at 30 June 2019).

37. Related party transactions

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

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

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

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

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

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

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

Notes to financial statements (cont.)

(in PLN thousand)

Related party transactions

Related party transactions as at 30 June 2020

NAME OF ENTITY	RECEIVABLES FROM LOANS, ADVANCES AND PLACEMENTS	SECURITIES	RECEIVABLES FROM REVALUATION OF DERIVATIVES	OTHER RECEIVABLES	LIABILITIES FROM LOANS AND DEPOSITS	LIABILITIES FROM REVALUATION OF DERIVATIVES	OTHER LIABILITIES
PZU S.A. – the Bank 's parent entity	2 567	-	-	1 412	119 778	339	2 044
Entities of PZU S.A. Group excluding the Bank Pekao S.A. Group entities	893	-	933	6 623	311 077	344	-
Bank Pekao S.A. Group entities							
Subsidiaries							
Pekao Investment Banking S.A.	-	-	-	1 837	235 568	-	-
Pekao Leasing Sp. z o.o.	1 662 647	368 006	2 060	22	219 912	-	-
Pekao Faktoring Sp. z o.o.	3 637 660	82 558	-	19 251	810	-	-
Pekao Fundusz Kapitałowy Sp. z o.o. (in liquidation)	15	-	-	-	52 980	-	-
Pekao Powszechne Towarzystwo Emerytalne S.A. (in liquidation)	-	-	-	-	63 470	-	-
Centrum Kart S.A.	-	-	-	-	21 039	-	4 522
Pekao Financial Services Sp. z o. o.	-	-	-	8	5 321	-	-
Pekao Bank Hipoteczny S.A.	460 232	145 036	21 223	-	11 458	9 007	-
Pekao Property S.A. (in liquidation)	64	-	-	6 230	25 980	-	-
Pekao Direct Sp. z o.o. ex. Centrum Bankowości Bezpośredniej Sp. z o.o.	11	-	-	-	14 692	-	5 040
FPB – Media Sp. z o. o. (in bankruptcy)	8 971	-	-	-	-	-	-
Dom Inwestycyjny Xelion Sp. z o.o.	-	-	-	1	102 042	-	-
Pekao Investment Management S.A.	-	-	-	45 000	125 748	-	-
Pekao TFI S.A. (PIM S.A. subsidiary)	-	-	-	42 875	127 936	-	-
Total of Bank Pekao S.A. Group entities	5 769 600	595 600	23 283	115 224	1 006 956	9 007	9 562
Key management personnel of the Bank Pekao S.A.	184	-	-	-	9 490	-	-
Total	5 773 244	595 600	24 216	123 259	1 447 301	9 690	11 606

Notes to financial statements (cont.)

(in PLN thousand)

Related party transactions as at 31 December 2019

NAME OF ENTITY	RECEIVABLES FROM LOANS, ADVANCES AND PLACEMENTS	SECURITIES	RECEIVABLES FROM REVALUATION OF DERIVATIVES	OTHER RECEIVABLES	LIABILITIES FROM LOANS AND DEPOSITS	LIABILITIES FROM REVALUATION OF DERIVATIVES	OTHER LIABILITIES
PZU S.A. – the Bank 's parent entity	255	-	-	3 948	53 255	637	-
Entities of PZU S.A. Group excluding the Bank Pekao S.A. Group entities	10 113	-	763	5 247	120 539	10 647	5
Bank Pekao S.A. Group entities							
Subsidiaries							
Pekao Investment Banking S.A.	-	-	-	-	201 551	-	-
Pekao Leasing Sp. z o.o.	1 299 459	2 016	135	58	24 453	-	-
Pekao Faktoring Sp. z o.o.	2 552 647	632	-	31	8 770	-	-
Pekao Fundusz Kapitałowy Sp. z o.o. (in liquidation)	-	-	-	-	52 910	-	-
Pekao Powszechne Towarzystwo Emerytalne S.A. (in liquidation)	-	-	-	-	63 486	-	-
Centrum Kart S.A.	57	-	-	197	20 422	-	10 700
Pekao Financial Services Sp. z o. o.	9	-	-	5	7 831	-	-
Pekao Bank Hipoteczny S.A.	458 122	136 113	6 389	-	20 148	7 096	-
Pekao Property S.A. (in liquidation)	-	-	-	6 231	26 091	-	-
Pekao Direct Sp. z o.o. ex. Centrum Bankowości Bezpośredniej Sp. z o.o.	-	-	-	42	12 096	-	4 477
FPB – Media Sp. z o. o. (in bankructcy)	8 971	-	-	-	-	-	-
Dom Inwestycyjny Xelion Sp. z o.o.	-	-	-	-	38 859	-	-
Pekao Investment Management S.A.	-	-	-	-	100 263	-	-
Pekao TFI S.A. (PIM S.A. subsidiary)	-	-	-	9 893	170 442	-	-
Total of Bank Pekao S.A. Group entities	4 319 265	138 761	6 524	16 457	747 322	7 096	15 177
Key management personnel of the Bank Pekao S.A.	38	-	-	-	9 538	-	-
Total	4 329 671	138 761	7 287	25 652	930 654	18 380	15 182

Notes to financial statements (cont.)

(in PLN thousand)

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

NAME OF ENTITY	INTEREST INCOME	INTERES EXPENSE	FEE AND COMMISSION INCOME	FEE AND COMMISSIO EXPENSE	INCOME FROM DERIVATIVES AND OTHER	EXPENSES FROM DERIVATIVES AND OTHER
PZU S.A. – the Bank 's parent entity	(763)	(278)	11 350	(83)	117	(2 812)
Entities of PZU S.A. Group excluding the Bank Pekao S.A. Group entities	176	(387)	6 010	(119)	269	(1 513)
Bank Pekao S.A. Group entities						
Subsidiaries						
Pekao Investment Banking S.A.	-	(471)	155	(55)	35	-
Pekao Leasing Sp. z o.o.	12 028	(1 189)	7 463	(12)	4 906	(265)
Pekao Faktoring Sp. z o.o.	21 053	(19)	1 579	-	216	-
Pekao Powszechne Towarzystwo Emerytalne S.A. (in liquidation)	-	(153)	5	-	18	-
Pekao Fundusz Kapitałowy Sp. z o.o. (in liquidation)	-	(183)	3	-	5	-
Centrum Kart S.A.	-	(41)	489	-	5 364	(24 442)
Pekao Financial Services Sp. z o.o.	-	(15)	44	-	38	-
Pekao Bank Hipoteczny S.A.	3 877	(80)	341	-	58	(6 074)
Pekao Direct Sp. z o.o. (ex. Centrum Bankowości Bezpośredniej Sp. z o.o.)	(79)	-	2	(11 728)	903	(25 154)
Pekao Property S.A. (in liquidation)	-	(78)	3	-	22	-
Dom Inwestycyjny Xelion Sp. z o.o.	-	(193)	43	-	39	-
Pekao Investment Management S.A.	-	(345)	7	-	-	-
Pekao TFI S.A. (PIM S.A. subsidiary)	-	(733)	45 346	-	-	-
Total of Bank Pekao S.A. Group entities	36 879	(3 500)	55 480	(11 795)	11 604	(55 935)
Key management personnel of the Bank Pekao S.A.	1	(14)	-	-	-	-
Total	36 293	(4 179)	72 840	(11 997)	11 990	(60 260)

Notes to financial statements (cont.)

(in PLN thousand)

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

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

Notes to financial statements (cont.)

(in PLN thousand)

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

Name of entity	GRANTED		RECEIVED	
	FINANCIAL	GUARANTEES	FINANCIAL	
PZU S.A. – the Bank 's parent entity	2 805	15 000	-	-
Entities of PZU S.A. Group excluding the Bank Pekao S.A. Group entities	1 012	11 000	-	-
Bank Pekao S.A. Group entities				
Subsidiaries				
Pekao Leasing Sp. z o.o.	1 331 394	8 010 832	-	-
Pekao Faktoring Sp. z o.o.	583 837	781 000	-	-
Centrum Kart S.A.	39	3 000	-	-
Pekao Financial Services Sp. z o. o.	65	1 253	-	-
Pekao Bank Hipoteczny S.A.	294 040	500 263	-	-
Pekao Direct Sp. z o.o. (ex. Centrum Bankowości Bezpośredniej Sp. z o.o.)	59	-	-	-
Dom Inwestycyjny Xelion Sp. z o.o.	3	-	-	-
Pekao TFI S.A. (PIM S.A. subsidiary)	106	-	-	-
Total of Bank Pekao S.A. Group entities	2 209 543	9 296 348	-	-
Key management personnel of the Bank Pekao S.A.	199	-	-	-
Total	2 213 559	9 322 348	-	-

Notes to financial statements (cont.)

(in PLN thousand)

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

Name of entity	GRANTED		RECEIVED	
	FINANCIAL	GUARANTEES	FINANCIAL	
PZU S.A. – the Bank 's parent entity	2 801	15 000	-	-
Entities of PZU S.A. Group excluding the Bank Pekao S.A. Group entities	665	10 000	-	-
Bank Pekao S.A. Group entities				
Subsidiaries				
Pekao Investment Banking S.A.	139	-	-	-
Pekao Leasing Sp. z o.o.	2 137 998	7 603 412	-	-
Pekao Faktoring Sp. z o.o.	936 069	1 046 100	-	-
Centrum Kart S.A.	43	3 000	-	-
Pekao Financial Services Sp. z o. o.	65	1 103	-	-
Pekao Bank Hipoteczny S.A.	292 079	500 251	-	-
Pekao Direct Sp. z o.o. (ex. Centrum Bankowości Bezpośredniej Sp. z o.o.)	66	-	-	-
Dom Inwestycyjny Xelion Sp. z o.o.	5	-	-	-
Pekao TFI S.A. (PIM S.A. subsidiary)	101	-	-	-
Total of Bank Pekao S.A. Group entities	3 366 565	9 153 866	-	-
Key management personnel of the Bank Pekao S.A.	172	-	-	-
Total	3 370 203	9 178 866	-	-

Notes to financial statements (cont.)

(in PLN thousand)

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

	VALUE OF BENEFITS	
	I HALF 2020	I HALF 2019
Management Board of the Bank		
Short-term employee benefits (*)	4 102	4 059
Long-term benefits (**)	1 812	1 956
Share-based payments (***)	1 719	2 165
Total	7 633	8 180
Supervisory Board of the Bank		
Short-term employee benefits (*)	575	525
Total	575	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 2020 and in the period from 1 January to 30 June 2019.

38. Subsequent events

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

Signatures of the Management Board Members

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

Glossary

Glossary

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

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

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

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

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

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

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

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

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

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

EAD – Exposure at Default.

EL – Expected Loss.

Life-time ECL – Lifetime Expected Credit Loss.

CCF – Credit Conversion Factor.

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

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

FVH – fair value hedge accounting.

LTV – Loan to Value.

CFH – cash flow hedge accounting.