2020 SEMI-ANNUAL REPORT

OF THE CAPITAL GROUP OF

BANK HANDLOWY W WARSZAWIE S.A.

AUGUST 2020

SELECTED FINANCIAL DATA	In PLN '000		In EUR '000***	
	First half of 2020	First half of 2019	First half of 2020	First half of 2019
	01.01. - 30.06. 2020	01.01. - 30.06. 2019	01.01. - 30.06. 2020	01.01. - 30.06. 2019
Condensed Interim Consolidated Financial Statements data				
Interest income and similar income	637,943	689,762	143,640	160,857
Fee and commission income	306,970	332,198	69,118	77,471
Profit before tax	167,481	273,186	37,710	63,709
Net profit	115,663	192,626	26,043	44,922
Comprehensive income	380,600	208,215	85,697	48,557
Changes in net cash	(1,464,254)	(6,927,749)	(329,694)	(1,615,601)
Total assets*	60,892,888	51,978,543	13,634,771	12,205,834
Amounts due to banks*	2,514,776	2,125,495	563,094	499,118
Amounts due to customers*	45,888,443	39,787,802	10,275,066	9,343,149
Equity*	7,455,255	7,074,655	1,669,336	1,661,302
Share capital *	522,638	522,638	117,026	122,728
Number of shares (in pcs)	130,659,600	130,659,600	130,659,600	130,659,600
Book value per share (PLN/EUR)	57.06	54.15	12.78	12.63
Total capital ratio (in %)*	19.9	17.2	19.9	17.2
Earnings per share (PLN/EUR)	0.89	1.47	0.20	0.34
Diluted earnings per share (PLN/EUR)	0.89	1.47	0.20	0.34
Condensed Interim Stand-alone Financial Statements data				
Interest income and similar income	637,619	689,312	143,567	160,752
Fee and commission income	284,569	314,710	64,074	73,393
Profit before tax	162,136	271,802	36,507	63,386
Net profit	111,874	191,545	25,190	44,670
Comprehensive income	376,574	207,191	84,790	48,318
Changes in net cash	(1,464,219)	(6,927,660)	(329,686)	(1,615,580)
Total assets*	60,776,629	51,897,712	13,608,739	12,186,853
Amounts due to banks*	2,514,664	2,125,383	563,069	499,092
Amounts due to customers*	45,958,383	39,849,772	10,290,726	9,357,702
Equity*	7,400,277	7,023,703	1,657,026	1,649,337
Share capital *	522,638	522,638	117,026	122,728
Number of shares (in pcs)	130,659,600	130,659,600	130,659,600	130,659,600
Book value per share (PLN/EUR)	56.64	53.76	12.68	12.62
Total capital ratio (in %)*	19.6	17.0	19.6	17.0
Earnings per share (PLN/EUR)	0.86	1.47	0.19	0.34
Diluted earnings per share (PLN/EUR)	0.86	1.47	0.19	0.34
Declared or paid dividends per share (PLN/EUR)**	-	3.74	-	0.87

**Comparative data according to balance sheet as at 31 December 2019. Additional information on TCR calculation in the supplementary note no. 5 in the section "Capital Adequacy". Calculation of TCR as of 30.06.2020 was not subject to a separate review or audit by an auditor.*

***The presented ratios relate respectively to dividend paid in 2019 from the distribution of 2018 profit.*

****The following exchange rates were applied to convert PLN to EUR: for the statement of financial position items - average NBP exchange rate as at 30 June 2020 EUR 1 = PLN 4.466 (as at 31 December 2019: PLN 3,9213); for the income statement, the statement of comprehensive income and the cash flow statement items – the rate is calculated as the arithmetic mean of NBP exchange rates prevailing as at the last day of each month of the first half of 2020: EUR 1 = PLN 4.44125 (in the first half of 2019: PLN 4.2880).*

This document is a translation from the original Polish version. In case of any discrepancies between the Polish and English versions, the Polish version shall prevail.

Condensed Interim Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the 6 month period ended 30 June 2020

August 2020

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Condensed consolidated income statement

For a period		II quarter	I half of the year	II quarter	I half of the year
		01.04. - 30.06. 2020	01.01. - 30.06. 2020	01.04. - 30.06. 2019	01.01. - 30.06. 2019
PLN '000	Note				
Interest income	6	267,635	595,265	324,851	641,125
Similar income	6	17,474	42,678	26,206	48,637
Interest expense and similar charges	6	(20,002)	(70,881)	(62,704)	(124,061)
Net interest income	**6**	**265,107**	**567,062**	**288,353**	**565,701**
Fee and commission income	7	145,147	306,970	176,467	332,198
Fee and commission expense	7	(21,364)	(42,200)	(23,185)	(45,052)
Net fee and commission income	**7**	**123,783**	**264,770**	**153,282**	**287,146**
Dividend income		**11,327**	**11,428**	**9,784**	**9,860**
Net income on trading financial instruments and revaluation	**8**	**101,621**	**94,342**	**96,460**	**187,642**
Net gain/(loss) on debt investment financial assets measured at fair value through other comprehensive income	**25**	**69,447**	**174,201**	**24,852**	**54,147**
Net gain/(loss) on equity and other instruments measured at fair value through income statement		**5,838**	**4,145**	**7,277**	**13,199**
Net gain/(loss) on hedge accounting		**1,291**	**(1,463)**	**(346)**	**(758)**
Other operating income	9	4,597	10,876	6,290	13,182
Other operating expense	9	(8,539)	(15,188)	(7,434)	(14,510)
Net other operating income and expense	**9**	**(3,942)**	**(4,312)**	**(1,144)**	**(1,328)**
General administrative expenses	**10**	**(268,516)**	**(621,172)**	**(257,843)**	**(620,845)**
Depreciation and amortization		**(30,450)**	**(54,025)**	**(21,613)**	**(42,580)**
Profit on sale of other assets		**(18)**	**(394)**	**(32)**	**(31)**
Provision for expected credit losses on financial assets and provisions for off–balance sheet commitments	**11**	**(110,032)**	**(203,499)**	**(106,484)**	**(134,762)**
Operating income		**165,456**	**231,083**	**192,546**	**317,391**
Tax on some financial institutions		**(32,613)**	**(63,602)**	**(22,314)**	**(44,205)**
Profit before tax		**132,843**	**167,481**	**170,232**	**273,186**
Income tax expense	**12**	**(43,539)**	**(51,818)**	**(37,105)**	**(80,560)**
Net profit		**89,304**	**115,663**	**133,127**	**192,626**
Including:					
Net profit attributable to Bank's shareholders (in PLN)			115,663		192,626
Weighted average number of ordinary shares (in pcs)			130,659,600		130,659,600
Earnings per share (in PLN)			0.89		1.47
Diluted net earnings per share (in PLN)			0.89		1.47

Explanatory notes are integral part of the condensed interim consolidated financial statements.

Financial data presented on quarterly basis for the period of 1 April 2020 to 30 June 2020 was not subject to a separate review or audit by an auditor.

Condensed consolidated statement of comprehensive income

For a period		II quarter	I half of the year	II quarter	I half of the year
		01.04. - 30.06. 2020	01.01. - 30.06. 2020	01.04. - 30.06. 2019	01.01. - 30.06. 2019
PLN '000	Note				
Net profit		**89,304**	**115,663**	**133,127**	**192,626**
Other comprehensive income, that might be subsequently reclassified to profit or loss					
Changes in value of financial assets measured at fair value through other comprehensive income	13	220,271	264,700	67,305	15,646
Currency translation differences		(88)	237	(58)	(57)
Other comprehensive income net of tax		**220,183**	**264,937**	**67,247**	**15,589**
Total comprehensive income		**309,487**	**380,600**	**200,374**	**208,215**
Including:					
Comprehensive income attributable to Bank's shareholders		309,487	380,600	200,374	208,215

Explanatory notes are integral part of the condensed interim consolidated financial statements.

Financial data presented on quarterly basis for the period of 1 April 2020 to 30 June 2020 was not subject to a separate review or audit by an auditor.

Condensed consolidated statement of financial position

PLN '000	Note	As at 30.06.2020	31.12.2019
ASSETS			
Cash and balances with the Central Bank		2,217,908	3,736,706
Amounts due from banks	14	812,505	1,165,684
Financial assets held-for-trading	15	6,687,115	5,446,511
Hedging derivatives		678	-
Debt financial assets measured at fair value through other comprehensive income	16	25,262,575	15,484,578
Equity and other instruments measured at fair value through income statement		66,782	62,638
Amounts due from customers	17	23,431,417	23,731,874
Tangible fixed assets		485,720	499,753
Intangible assets		1,456,636	1,443,139
Current income tax receivables		-	3,016
Deferred tax asset	18	247,649	238,065
Other assets	19	217,740	166,579
Non-current assets held for sale		6,163	-
Total assets		**60,892,888**	**51,978,543**
LIABILITIES			
Amounts due to banks	20	2,514,776	2,125,495
Financial liabilities held-for-trading	15	3,585,491	1,877,898
Hedging derivatives		52,868	19,226
Amounts due to customers	21	45,888,443	39,787,802
Provisions		85,778	65,199
Current income tax liabilities		29,798	41,725
Other liabilities	22	1,280,479	986,543
Total liabilities		**53,437,633**	**44,903,888**
EQUITY			
Ordinary shares		522,638	522,638
Share premium		3,002,265	3,003,290
Revaluation reserve		379,593	114,893
Other reserves		2,795,005	2,867,358
Retained earnings		755,754	566,476
Total equity		**7,455,255**	**7,074,655**
		-	-
Total liabilities and equity		**60,892,888**	**51,978,543**

Explanatory notes are integral part of the condensed interim consolidated financial statements.

Condensed consolidated statement of changes in equity

PLN '000	Ordinary shares	Supplementa -ry capital	Revaluation reserve	Other reserves	Retained earnings	Total equity
Balance as at 1 January 2020	**522,638**	**3,003,290**	**114,893**	**2,867,358**	**566,476**	**7,074,655**
Total comprehensive income, including:	-	-	264,700	237	115,663	380,600
Net profit	-	-	-	-	115,663	115,663
Currency translation differences from the foreign operations' conversion	-	-	-	237	-	237
Net valuation of financial assets measured at fair value through other comprehensive income	-	-	264,700	-	-	264,700
Transfer to capital	-	(1,025)	-	(72,590)	73,615	-
Balance as at 30 June 2020	**522,638**	**3,002,265**	**379,593**	**2,795,005**	**755,754**	**7,455,255**

PLN '000	Ordinary shares	Supplementa -ry capital	Revaluation reserve	Other reserves	Retained earnings	Total equity
Balance as at 1 January 2019	**522,638**	**3,003,290**	**84,372**	**2,883,838**	**562,612**	**7,056,750**
Total comprehensive income, including:	-	-	15,646	(57)	192,626	208,215
Net profit	-	-	-	-	192,626	192,626
Currency translation differences from the foreign operations' conversion	-	-	-	(57)	-	(57)
Net valuation of financial assets measured at fair value through other comprehensive income	-	-	15,646	-	-	15,646
Dividends	-	-	-	-	(488,667)	(488,667)
Transfer to capital	-	-	-	(12,407)	12,407	-
Balance as at 30 June 2019	**522,638**	**3,003,290**	**100,018**	**2,871,374**	**278,978**	**6,776,298**

PLN '000	Ordinary shares	Supplementa -ry capital	Revaluation reserve	Other reserves	Retained earnings	Total equity
Balance as at 1 January 2019	**522,638**	**3,003,290**	**84,372**	**2,883,838**	**562,612**	**7,056,750**
Total comprehensive income, including:	-	-	30,521	(4,073)	480,124	506,572
Net profit	-	-	-	-	480,124	480,124
Currency translation differences from the foreign operations' conversion	-	-	-	(47)	-	(47)
Net valuation of financial assets measured at fair value through other comprehensive income	-	-	30,521	-	-	30,521
Net actuarial losses on specific services program valuation	-	-	-	(4,026)	-	(4,026)
Dividends paid	-	-	-	-	(488,667)	(488,667)
Transfer to capital	-	-	-	(12,407)	12,407	-
As at 31 December 2019	**522,638**	**3,003,290**	**114,893**	**2,867,358**	**566,476**	**7,074,655**

Explanatory notes are integral part of the condensed interim consolidated financial statements.

Condensed consolidated statement of cash flows

PLN '000 For a period	01.01. - 30.06. 2020	01.01. - 30.06. 2019
A. Operating activities		
I. Net profit	**115,663**	**192,626**
II. Adjustments:	**(2,030,575)**	**(7,065,982)**
Current and deferred income tax recognized in income statement	51,818	80,560
Depreciation expense	54,025	42,580
Net impairment due to financial assets value loss	182,821	132,909
Net provisions (recoveries)	20,948	2,109
Net interest income	(567,062)	(565,701)
Dividend income	(11,428)	(9,860)
Profit/loss on sale of fixed assets	394	31
Net unrealized exchange differences	(1,789)	1,135
Equity and other investment measured at fair value though the income statement	(4,135)	(13,155)
Other adjustments	11,205	(4,964)
Change in amounts due from banks	407,520	341,731
Change in amounts due from customers	156,168	(252,724)
Change in debt securities measured at fair value through other comprehensive income	(9,482,121)	(5,667,397)
Change in financial assets held-for-trading	(1,297,517)	(3,397,432)
Change in derivative securities	(678)	(474)
Change in assets held for sale	(6,163)	-
Change in other assets	(37,574)	(63,937)
Change in amounts due to banks	389,523	2,936,688
Change in amounts due to customers	6,007,084	(1,313,059)
Change in liabilities held-for-trading	1,707,593	130,411
Change in amounts due to hedging derivatives	33,642	4,064
Change in other liabilities	355,151	549,361
Interest received	**728,672**	**718,667**
Interest paid	**(76,021)**	**(119,748)**
Income tax paid	**(135,413)**	**(147,191)**
III. Net cash flows from operating activities	**(1,397,674)**	**(6,422,770)**
B. Investing activities		
Inflows		
Disposal of tangible fixed assets	1,127	17
Disposal of capital shares	-	20,640
Disposal of fixed assets/liabilities held-for-sale	-	-
Received dividends	133	288
Outflows		
Purchase of tangible fixed assets	(15,568)	(10,308)
Purchase of intangible assets	(48,447)	(15,080)
Purchase of capital shares	-	(41)
Net cash flows from investing activities	**(62,755)**	**(4,484)**
C. Financing activities		
Outflows		
Paid dividends	-	(488,667)
Repayment of long-term loans from financial sector	-	(1,673)
Outflows from lease payments	(8,274)	(8,340)
Net cash flows from financing activities	**(8,274)**	**(498,680)**
D. Exchange rates differences resulting from cash and cash equivalent calculation	**4,449**	**(1,815)**
E. Net increase/(decrease) in cash and cash equivalent	**(1,464,254)**	**(6,927,749)**
F. Cash and cash equivalent at the beginning of reporting period	**3,796,861**	**7,474,978**
G. Cash and cash equivalent at the end of reporting period (see note 28)	**2,332,607**	**547,229**

Explanatory notes are integral part of the condensed interim consolidated financial statements.

Supplementary notes to the condensed interim consolidated financial statements

1. General information about the Bank and the Capital Group of Bank Handlowy w Warszawie S.A. ("The Group")

Bank Handlowy w Warszawie S.A. ("the Bank") Head Office is located in Warsaw at Senatorska 16, 00-923 Warsaw. The Bank was established on the basis of Notarial Deed of 13 April 1870 and was registered and entered into the Register of Companies by the District Court for the capital city of Warsaw, XII Economic Department of the National Court Register. The Bank was registered under entry No. KRS 0000001538 and was granted a statistical REGON No. 000013037 and tax identification No. (NIP) 526-030-02-91.

The Bank and its subsidiaries are expected to continue the business activity in the foreseeable future.

Share equity of the Bank equals PLN 522,638,400 and is divided into 130,659,600 common shares, with par value of PLN 4.00 per share. The Bank is a listed company on the Stock Exchange in Warsaw.

The Group is a member of Citigroup Inc. The Bank is a subsidiary of Citibank Overseas Investments Corporation, with headquarters in New Castle, USA a subsidiary of Citibank N.A, with headquarters in New York, USA, which is the ultimate parent company of the Bank.

The Bank is a universal commercial bank that offers a wide range of banking services for individuals and corporate clients on the domestic and foreign markets. Additionally, the Group conducts brokerage operations through its subsidiary.

This interim condensed consolidated financial statements present financial data of the Capital Group of Bank Handlowy w Warszawie S.A. ('the Group'), that is composed of Bank Handlowy w Warszawie S.A. ('the Bank') as the parent company and its subsidiaries entities.

The structure of the Group's entities in the first half of 2020 has not changed in comparison to the end of 2019.The Group consists of the Bank and the following subsidiaries:

Subsidiaries	Registered office	% of votes at the General Meeting of Shareholders	
		30.06.2020	31.12.2019
Entities fully consolidated			
Dom Maklerski Banku Handlowego S.A.	Warsaw	100.00	100.00
Handlowy-Leasing Sp. z o.o.	Warsaw	97.47	97.47
Handlowy Investments S.A.	Luxembourg	100.00	100.00
PPH Spomasz Sp. z o.o. in liquidation	Warsaw	100.00	100.00
Handlowy-Inwestycje Sp. z o.o.	Warsaw	100.00	100.00

2. Declaration of conformity

The condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard IAS 34 '*Interim Financial Reporting'*, adopted by European Union, and other applicable regulations.

The financial statements does not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group for the financial year ended 31 December 2019.

In accordance with the Decree of the Ministry of Finance dated 29 March 2018, regarding current and periodic information provided by issuers of securities, and the requirements for recognition of information required by the law of a non-Member State as equivalent (Official Journal from 2018, No. 757, as amended) the Bank is obliged to publish its financial results for the six-month period ended 30 June 2019 which is deemed to be the current interim financial reporting period.

These condensed consolidated interim financial statements were approved by the Management Board on 24 August 2020.

This interim condensed consolidated financial statement of the Group has been prepared with the assumption of going concern in the period of at least 12 months since the date of publication. As of the day of signing the consolidated financial statement, the Bank's Management does not establish the existence of facts and circumstances that would indicate threats to the Group's ability to go concern in the period of 12 months since the date of publication due to omission or significant limitation of the Group's current activities. Especially, the COVID-19 pandemic's influence has been examined with regard to the Group's financial situation – described in the note no. 38.

3. Significant accounting policies

The interim condensed consolidated financial statements of the Group for the first half of 2020 has been prepared in accordance with accounting principles adopted and described in the annual consolidated financial statements of the Group for the financial year ended 31 December 2019, except for the burden of income tax that was calculated according to the rules of IAS 34.

The interim condensed consolidated financial statements of the Group have been prepared for the period from 1 January 2020 to 30 June 2020 and for the consolidated statement of financial position as at 30 June 2020. Comparative financial data are presented for the period from 1 January 2019 to 30 June 2019 and for the consolidated statement of financial position as at 31 December 2019.

The interim condensed consolidated financial statements are presented in PLN (currency of presentation), rounded to the nearest thousand.

The preparation of interim condensed consolidated financial statements of the Group with accordance to International Financial Reporting Standards requires that the Management should make certain estimates and adopt related assumptions that affect the amounts reported in the financial statements. The financial statements are based on the same estimation rules which were used in the annual consolidated financial statements of the Group for the financial year ended 31 December 2019, with regard to information included in the note no. 38 The impact of COVID-19 on the Group's functioning.

The estimations and respective assumptions are made based on historical data available and multiple other factors which under given conditions are considered proper and which form the basis for estimation regarding balance sheet values of assets and liabilities whose value cannot be determined clearly based on other sources. However, actual values may differ from estimation values.

The estimations and respective assumptions are subject recurring to reviews. Changes of estimations are recognized in the period in which the estimation was modified if the adjustment concerns only this period or in the period of the change and future periods if the adjustment concerns both this period and the future periods.

Due to the pandemic situation and its influence on the economy, the estimations within particular balance sheet items were subject to special verification, which has been described in the note no. 38.

The key estimates were presented in the annual consolidated financial statements of the Group for 2019. Additionally, with respect to interim financial statements, the Group applies the principle of recognizing the financial result income tax charges based on the estimate of the annual effective income tax rate expected by the Group in the full financial year.

Standards and interpretations awaiting European Union's approval:

- IFRS 17 „Insurance" (including changes to IFRS 17 issued on 25 June 2020) replacing IFRS 4 „Insurance contracts" and introducing comprehensive regulations for accounting of insurance contracts, in particular the measurement of relevant liabilities. Standard eliminates differences in accounting of insurance contracts depending on local jurisdictions, allowed by IFRS 4,
- IAS 1 'Presentation of financial statements' amendment – in the area of classification of liabilities as current or non-current, clarifying criteria for classification a liability as long-term,
- Amendments to IFRS 3 updating reference to conceptual framework,
- Amendments to IAS 16 prohibiting from deduction from fixed assets production costs of any proceeds from selling items produced while the entity is preparing the assets for its intended use. Instead, an entity recognizes those proceeds, together with the costs of producing them, in profit and loss. Effective date - an annual period beginning on January 1, 2022 or after that date,
- Amendments to IAS 37 specifying that „costs of fulfilling" an onerous contract include „ costs that relate directly to the contract". Those costs can be both the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts. Effective date - an annual period beginning on January 1, 2022 or after that date,
- IFRS 16 'Leases' amendment introducing practical expedient from accounting treatment of rent concessions related to COVID-19 as lease modifications,
- IFRS 4 'Insurance contracts' amendment issued on 25 June 2020 in relation to deferral of effective date of IFRS 17, regarding obligation to adopt IFRS 9,

will not have significant impact on the financial statements.

Standards and interpretations applicable from 1 January 2020:

- IFRS 3 'Business combinations' amendment - introducing a clarification of the definition of a project that helps to distinguish between acquisitions as a group of assets or a project,
- Amendments in the Conceptual Framework introducing comprehensive clarifications in respect of financial reporting, among others regulating the area of measurement and its basis, presentation and disclosures, derecognition of assets and liabilities from balance sheet, and updates and explanations of specific terms - the amendment does not have a significant impact on the financial statements.
- IAS 1 'Presentation of financial statements' and IAS 8 'Accounting policies, changes in accounting estimates and errors' to clarify the definition of the term 'significant' and to align it with the definition used in the conceptual assumptions - the amendment does not have a significant impact on the financial statements.

- IFRS 9, IAS 39 and IFRS 7 applicable to all hedging relationships directly affected by interest rate benchmark reform and uncertainties it gives rise to. Amendments introduce temporary exceptions from applying specific hedge accounting requirements that allow not to discontinue hedging relationships. Changes require entities to disclose additional information on hedging relationships that are affected by the above mentioned uncertainties - the amendment does not have a significant impact on the financial statements.

Income tax in interim financial statements

Income tax in interim financial statements is accrued in accordance with IAS 34. Interim period tax expense is accrued using the tax rate that would be applicable to expected total annual result, that is, the estimated average annual effective income tax rate applied to the pre-tax result of the interim period. The calculation of the average annual effective income tax rate requires the use of a pre-tax income forecast for the entire fiscal year and permanent differences between the carrying amounts of assets and liabilities and their tax base.

Foreign currency

The statement of financial position and contingent liabilities received and granted items denominated in foreign currencies are converted to PLN equivalents using the average exchange rate of the currency determined by the Governor of the National Bank of Poland ("NBP") prevailing at the date of preparation of the condensed interim consolidated statement of financial position.

Foreign currency transactions are converted at initial recognition to the functional currency (PLN) using the exchange rates prevailing at the date of transactions.

Foreign exchange profits and losses resulting from revaluation of the statement of financial position items denominated in foreign currencies and settlement of transactions in foreign currencies are included in net profit on foreign exchange, within the trade financial instruments and revaluation income.

The exchange rates of the major currencies applied in the preparation of these financial statements are:

PLN		30 June 2020	31 December 2019	30 June 2019
1	USD	3,9806	3,7977	3,7336
1	CHF	4,1818	3,9213	3,8322
1	EUR	4,4660	4,2585	4,2520

4. Segment reporting

An operating segment is a separable component of the Group engaged in business activity, generating income and expenses (including those on intragroup transactions between segments), whose operating results are regularly reviewed by the Management Board of parent entity, the chief operating decision maker of the Group, in order to allocate resources and assess its performance.

The Group is managed in two main operating segments – Institutional Banking and Consumer Banking. The valuation of segment's assets and liabilities as well as calculation of its financial results is based on the Group's accounting policies, including intragroup transactions between segments.

The allocation of Group's assets, liabilities, income and expenses to operating segments was made on the basis of internal information prepared for management purposes. Transfer of funds between the Group segments is based on prices derived from market rates. Transfer prices are calculated using the same rules for both segments and any difference results solely from maturity and currency structure of assets and liabilities. The basis for assessment of the segment performance is gross profit or loss.

The Group conducts its operations solely on the territory of Poland.

Institutional Banking

Within the Institutional Banking segment, the Group offers products and provides services to commercial entities, municipalities and public sector. The offer in the Institutional Banking segment includes among others:

- Banking services covering credit and deposit activities,
- Cash management,
- Trade finance,
- Brokerage services,
- Leasing,
- Custody services,
- Treasury products on financial and commodity markets,
- Investment banking services on the local and international capital markets, including advisory services as well as obtaining and underwriting financing through public and non-public offerings.

The activities also comprise proprietary transactions in the equity, debt and derivative instruments' markets.

Consumer Banking

Within the Consumer Banking segment, the Group provides products and financial services to individual clients, micro enterprises and individual entrepreneurs that are within the framework of Citibusiness offer. The whole range of banking products in Consumer Banking segment includes:

- Bank accounts and providing extensive credit and deposit products,
- Cash loans,
- Mortgage loans,
- Credit cards,
- Asset management services,
- Acting as an agent in investment and insurance products sale.

Consolidated income statement by business segment

For the period	01.01 – 30.06.2020			01.01 – 30.06.2019		
PLN '000	Institutional Banking	Consumer Banking	Total	Institutional Banking	Consumer Banking	Total
Net interest income	302,783	264,279	567,062	248,955	316,746	565,701
Internal interest income, including:	(29,915)	29,915	-	(33,338)	33,338	-
Internal income	-	29,915	29,915	-	33,338	33,338
Internal expenses	(29,915)	-	(29,915)	(33,338)	-	(33,338)
Net fee and commission income	165,239	99,531	264,770	148,827	138,319	287,146
Dividend income	1,186	10,242	11,428	1,262	8,598	9,860
Net income on financial instruments and revaluation	77,932	16,410	94,342	174,103	13,539	187,642
Net gain/(loss) on debt investment financial assets measured at fair value through other comprehensive income	174,201	-	174,201	54,147	-	54,147
Net gain/(loss) on equity and other instruments measured at fair value through income statement	4,145	-	4,145	12,274	925	13,199
Net gain/(loss) on hedge accounting	(1,463)	-	(1,463)	(758)	-	(758)
Net other operating income	1,462	(5,774)	(4,312)	5,812	(7,140)	(1,328)
General administrative expenses	(310,958)	(310,214)	(621,172)	(310,942)	(309,903)	(620,845)
Depreciation and amortization	(11,179)	(42,846)	(54,025)	(9,944)	(32,636)	(42,580)
Profit on sale of other assets	(160)	(234)	(394)	1	(32)	(31)
Net impairment loss on financial assets and provisions for off-balance sheet commitments	(137,963)	(65,536)	(203,499)	(81,995)	(52,767)	(134,762)
Operating income	**265,225**	**(34,142)**	**231,083**	**241,742**	**75,649**	**317,391**
Share in net profits/(losses) of entities valued at equity method	-	-	-	-	-	-
Tax on some financial institutions	**(50,862)**	**(12,740)**	**(63,602)**	(32,264)	(11,941)	(44,205)
Profit before tax	**214,363**	**(46,882)**	**167,481**	**209,478**	**63,708**	**273,186**
Income tax expense	-	-	(51,818)			(80,560)
Net profit	-	-	**115,663**			**192,626**

As at:	30.06.2020			31.12.2019		
PLN '000	Institutional Banking	Consumer Banking	Total	Institutional Banking	Consumer Banking	Total
Total assets	**53,357,600**	**7,535,288**	**60,892,888**	**44,299,208**	**7,679,335**	**51,978,543**
Total liabilities and shareholders' equity, including:	**43,706,586**	**17,186,302**	**60,892,888**	**35,665,583**	**16,312,960**	**51,978,543**
Liabilities	37,758,688	15,678,945	53,437,633	30,254,827	14,649,061	44,903,888

5. Risk Management

Credit Risk

The main purpose of risk management in the Group is ensuring both high quality of credit portfolio and business activity stabilization through minimizing the risk of credit losses. Credit risk management is executed based on the policies and procedures that consistently and clearly define and communicate standards for risk identification, measurement, acceptance, control, monitoring and reporting.

In the current reporting period, the Group was performing activities related to credit risk management in a special way due to the external environment situation's development.The group has, among others, conducted a review of the institutional banking clients credit portfolio, conducted portfolio analyses reflecting significantly changing scenarios of the macroeconomic parameters' forecasts as well as clients' changing behavioural patterns (e.g. moratoriums). The details are presented in the note no. 38.

The Group manages its exposure by identifying and monitoring of limits, set within the capital limits and liquidity norms, taking into account the constraints of external regulations.

The Group monitors the concentration of credit exposures on an ongoing basis, trying to avoid a situation where the portfolio depends on a small number of clients. In the first half of 2020, the Group's credit exposure to non-bank entities did not exceed the limit of concentration required by law.

In the practice of credit risk management in the Group, grouping of financial assets takes place within groups representing the level of credit risk of a given instrument. For receivables without impairment, in the area of retail banking grouping takes place according to the periods of delinquent days, while in the area of institutional banking, the Bank groups financial assets into risk rating ranges.

Concentration of exposures – non-bank clients*

PLN '000	30 Jun 2020			31 Dec 2019		
	Balance sheet exposure**	Exposure due to granted financial commitments and guarantees	Total exposure	Balance sheet exposure**	Exposure due to granted financial commitments and guarantees	Total exposure
CLIENT 1	1,200,000	-	1,200,000	1,200,000	-	1,200,000
GROUP 2***	699,105	306,646	1,005,751	798,876	206,306	1,005,181
GROUP 3	674,737	284,339	959,077	907,844	134,518	1,042,362
GROUP 4	611,059	183,554	794,613	631,959	171,724	803,683
CLIENT 5	401,700	348,300	750,000	653,720	96,280	750,000
CLIENT 6	585,026	135,484	720,509	605,484	-	605,484
GROUP 7	483,129	232,791	715,920	361,258	268,830	630,089
GROUP 8	72,519	579,973	652,491	106,471	518,472	624,943
CLIENT 9	616,397	-	616,397	153,613	-	153,613
CLIENT 10	560,862	38,506	599,368	286,939	47,415	334,354
Total	**5,904,535**	**2,109,593**	**8,014,127**	**5,706,164**	**1,443,545**	**7,149,708**

* *As at 30.06.2020; data from 31.12.2019 are comparative and do not illustrate concentration of exposures as at 31.12.2019.*
** *Excludes exposures due to shares and other securities.*
*** *The Group is understood as a capital group composed of entities in relation to which the Capital Group of Bank Handlowy w Warszawie S.A. has involvement.*

Concentration of exposure to industries*

Industry according to PKD	30 Jun 2020		31 Dec 2019	
	PLN'000	%	PLN'000	%
Financial service activities, excluding insurance and pension funds	4,469,833	16.18%	4,672,631	17.45%
Wholesale trade, except motor vehicles	3,574,764	12.94%	3,912,715	14.62%
Production and supply of electricity, gas, steam, hot water and air for air conditioning systems	1,738,384	6.29%	1,919,053	7.17%
Activities of head offices; consulting related to the management	1,619,423	5.86%	689,813	2.58%
Activities auxiliary to financial services, insurance, and pension funds	1,588,223	5.75%	1,499,261	5.60%
Manufacture of food products	1,174,178	4.25%	1,141,985	4.27%
Retail trade, except motor vehicles retail trade	1,086,907	3.93%	946,640	3.54%

Industry according to PKD	30 Jun 2020		31 Dec 2019	
	PLN'000	%	PLN'000	%
Manufacture of electrical devices	1,085,019	3.93%	1,134,162	4.24%
Production and processing of coke and refined petroleum products	958,511	3.47%	937,344	3.50%
Manufacture of fabricated metal products, except machinery and equipment	852,919	3.09%	906,495	3.39%
„10" industries total	**18,148,160**	**65.68%**	**17,760,099**	**66.34%**
Other industries	**9,481,178**	**34.32%**	**9,011,187**	**33.66%**
Total	**27,629,339**	**100.00%**	**26,771,286**	**100.00%**

**Gross balance sheet and off-balance-sheet exposure to institutional customers (including banks as of the day 30.06.2020; data from 31.12.2019 are comparative and do not illustrate concentration of exposures as at 31.12.2019.*

The process of active portfolio quality management includes, depending on client type, assigning appropriate risk ratings and internal classification, monitoring days past due as well as application of the relevant remedial or debt collection actions. The Group has put in place a uniform internal system for classification of receivables based on predetermined criteria. Risk rating assignment and classification system are crucial in defining the level of impairment allowances.

The Group does not identify separate classes of financial instruments with low credit risk.

The Group creates provisions for expected credit losses, for all financial assets, according to developed internal rules and methodologies. Expected credit losses as per IFRS 9 are estimated based on exposure classification into one of the three Stages:

- Stage 1: Credit exposures that have not had a significant increase in credit risk since initial recognition
    - For these assets, a 12-months ECLs are recognized (representing the portion of lifetime expected credit losses that result from default events that are possible within 12 months after the reporting date),
- Stage 2: Credit exposures that have experienced a significant increase in credit risk since initial recognition, but for which the exposure is not yet defaulted
    - For these assets, a lifetime ECLs are recognized,
- Stage 3: Credit exposures with credit loss that has already been suffered on the assets
    - For these assets, ECL is established as for defaulted assets.

Assignment of the exposure to Stages takes place, depending on the approach to management over the client (individual vs. group approach), taking into account the wide range of information obtained as part of standard risk management processes (including the Early Warning process) regarding both current and future events, including macroeconomic factors (incorporated in the macroeconomic scenarios prepared cyclically by the Chief Economist) and the number of days past due.

The Group aggregates financial instruments for the purpose of measurement of expected credit losses on product level in consumer banking and on segment level for homogenous micro-entrepreneurships portfolio with minimal shareholding in the sum of gross receivables of the Group.

Overdue payments for more than 30 days for financial assets are taken into account by the Group in identifying the occurrence of a significant increase in credit risk. In case of credit exposures from the retail banking area, the overdue criterion of over 30 days is a direct trigger for identifying a significant increase in credit risk. For credit exposures in the area of institutional banking, overdue by more than 30 days is taken into account when assessing the potential occurrence of a significant increase in credit risk, while these are factors supporting the assessment and have an indirect character.

The Group applies the general principle that the creditor's default occurs when one or both of the following events occur:

a) delay in the debtor's repayment of any material loan obligations to the Group is 90 days or more,

b) it is unlikely that the debtor fully fulfills his credit obligations towards the Group, without the institution having to undertake activities such as collateral execution.

In order to assess if there has been an increase in credit risk, for Institutional Banking client, Group periodically, as per internal classification process and ongoing monitoring process, analyses changes in risk of default by comparing the current assessment of default with the assessment of default in the initial recognition.

Assessment of change in risk of default for given credit exposure is conducted during internal classification process and monitoring process and include:

- Qualitative indicators (including Early Warning System),
- Quantitative information (including among others),
- Expected exposure life period,
- Occurrence of economic or legal reasons related to the borrower's financial difficulties and granting to the borrower a concession to financial conditions that the lender would not otherwise consider, (assuming that those changes does not imply deterioration in future payment flows).

In order to assess whether there was a significant increase in credit risk for the Retail Banking portfolio, the Group periodically, as part of the analysis process changes the default risk for a given credit exposure, compares the current assessment of default risk for the credit exposure, with the risk of default assessment performed by at the time of initial recognition. In addition, quality-based premises are included on the current length of the credit product overdue period, the soft restructuring activities carried out and the fact that information about the probability of default is not available.

The expected credit loss, which is the basis for determining the level of the provision for impaired receivables and with a significant increase of credit risk since the initial recognitionis determined throughout the lifetime of the exposure. In the case of installment exposures, this is the period to the contractual maturity date. For revolving exposures, the contractual maturity is not specified, in replacement of the so-called behavioral maturity resulting from the empirical estimation of the life of the credit product.

Provisions for expected credit losses are calculated on the basis of statistical models for groups of assets combined in portfolios with common credit risk features. In the financial statements, the Group adjusts the value of credit exposures by provision for expected credit losses.

In the area of institutional banking, the main sources of parameters included in the methodology of expected credit losses ('ECL') are the results of internal customer assessment processes and the results of loan models.

- The rate of impairment is derived from the client's rating determined based on internal rating models. The ECL methodology describes the process of applying existing migration ratings, expected in a given macroeconomic scenario, to migration schedules. In this way, in the following forecast periods, the probability of migration to a given rating range is obtained.
- The value of the LGD parameter results directly from the dedicated model for impaired clients.
- The exposure value for subsequent forecast periods is based on available repayment schedules as well as (for renewable products) on the expected change in exposure described by the value of the CCF parameter. The basis for estimating this parameter was internal data on amounts used by customers before the Group identified impairment of value.
- The assignment to the stage is based on the customer assessment process used in the Group to manage the client. This process includes both quantitative factors (e.g. customer rating) and a number of qualitative factors (e.g. Early Warning Signals).
- The maturity dates adopted by the Group result directly from agreements with customers and periods in which the Group is exposed to possible risks.

In the area of retail banking, the basis of parameters included in the ECL methodology are the existing internal models of the client's creditworthiness assessment in the Group, information about the stage of debt collection proceedings and information from the Group's data warehouse.

- The rate of impairment is the submission of a number of models of customer creditworthiness assessment, connected to each other by process called integration logic. The ECL methodology, based on forecasts provided by the Chief Economist, transforms the results of integration logic so that the result reflects the expected changes in the economy. The parameters thus obtained are then applied to the loss vectors during the life of the product, estimated on the basis of historically observed loss rates. Recovery value vectors are the result of the analysis of the amount of historically collected receivables for homogeneous populations. The populations were segmented against similar features such as product type, time from default, amount of exposure left for repayment or historically observed repayments.
- The value of the EAD parameter is based on installment products on the expected repayment schedules generated based on the length of the contract and the interest rate on the product. For renewable products, EAD is based on the internally estimated CCF vector, which reflects changes in the exposure volume expected in subsequent periods.

In retail area of the Group is used, except from the 30 days criterion of arrears and forborne categories, the quantitative criterion is applied - analysis of the change in PD level since the exposure was created. In accordance with the standard, the Group does not use the fixed threshold above which an increase in risk would automatically be considered significant. It results from the fact that the same increase of PD in absolute terms would be more significant for exposures with lower initial risk than for those with the higher initial risk. So in Group there is used the designed model which target is to setting a threshold above which an increase in risk will be considered significant. In order to determine the relative growth, the Group uses a variable being the quotient of the probability of default on the current reporting date and the contingent probability calculated for the same period at the time of initial recognition. A threshold is defined as the cut-off point, where the probability of a default event occurring when the value of an explanatory variable increases is maximised. At each balance sheet date, the Group assesses whether there is objective evidence of impairment of a financial asset or a group of financial assets.

A financial asset or a group of financial assets lost their value and the impairment loss was incurred only when there is objective evidence of impairment resulting from one or more events taking place after the initial recognition of the asset (event causing the loss) and the event (or events) causing a loss has an impact on the expected future cash flows resulting from a financial asset or a group of financial assets whose reliable estimation is possible.

In the institutional banking area, materialization of credit exposure value loss takes place if there is an objective evidence of impairment, which can be a result of, among others, events as below:

- significant financial difficulties of the client, which are described in detail in ICG / CCB / Micro Credit Procedures;

- reduction of the client credit rating by an accepted by the Bank External Credit Assessment Institution[1];
- breach of contract conditions, e.g. delay in interest or principal payments;
- occurrence of economic or legal reasons related to the borrower's financial difficulties and granting to the borrower a concession to financial conditions that the lender would not otherwise consider, granting permission for emergency restructuring of credit exposure, if it might result in decreasing financial requirements, reduction of financial liabilities by redeeming a significant part of the principal, interest or, where applicable, fees or deferring their repayment or payment (forborne exposure);
- high likelihood of bankruptcy of the client or obtaining information about the opening of bankruptcy proceedings, appearance by the debtor for declaration of bankruptcy or for similar protection or putting the debtor in bankruptcy or granting him similar protection if it would allow him to avoid or delay repayment of credit obligations;
- request of the Bank to initiate enforcement proceedings against the client;
- severe domestic or local economic conditions that may be related to the default of exposures;
- delay in payment equal to 90 days or more.

and other events that may have an impact on the estimated future cash flows from the financial asset that can be reliably estimated.

Objective evidence of impairment of a financial asset or a group of assets in the Retail Banking area includes the fulfillment of even one of the following conditions by any of the customer's exposures:

- occurrence of delays in repayment of principal and interest, the minimum amount to be paid, commission or exceeding the permitted limit. For the purpose of recognizing impairment, it is assumed that the delay in repayment is equal to or exceeds 90 days at the moment of calculating the write-down (regardless of the amount of exposure and the amount of overdue);
- granting modifications to the terms of the agreement (restructuring), as a result of which the current value of cash flows falls below the book value before the modification;
- termination of the contract for reasons other than a delay in the repayment of mortgage products;
- occurrence of qualitative circumstances:
  - death,
  - bankruptcy,
  - permanent disability or serious illness,
  - fraud,
  - obtaining information about initiating bankruptcy proceedings of the client or announcing bankruptcy by the client,
  - impairment or threat of collateral impairment,
  - the client's stay in custody or prison,
  - partial capital write-off,
  - agreement termination,
  - the Group's request to initiate enforcement proceedings against the client.

In the case of clients who do not meet the restructuring criteria, and in particular, for which the legal path has been implemented (bankruptcy, enforcement, court dispute) without the prospects of returning the repayment formula from the client's core operations, the debt collection process is carried out and the receivables are written off. The main goal of this process is to maximize the amount of outstanding exposures recovered by the Bank. In the debt collection process, the Group will develop a cooperation formula with the client, in the course of which the Group's activity is not limited only to legal actions, but also, if possible, ongoing cooperation. In the event that the repayment of the exposure is jeopardized due to the poor financial standing of the debtor or by the transfer of assets beyond the scope of recovery, the exposures can be sold in exceptional cases.

The Group has established and applies a quarantine period for exposures that cease to be classified as Stage 3 assets. In the area of institutional banking, a change in status may take place when there are no arrears to the Bank within a period of 12 months and the principal amount and related additional claims under the contract are recoverable in full. The main premise for changing the status from impairment to no impairment is complete recovery of creditworthiness.

In the retail area, the quarantine mechanism consists in maintaining the customer in the status of impairment for the next 9 months from the disappearance of all indications of impairment.

The Group takes into account macroeconomic information about the future in determining the expected credit losses. Scenarios are prepared by the Chief Economist of the Group min. once a quarter in the three years horizon in division into quarters (based scenario with 60% weight and positive and negative variation from scenario with 20% weight).

In the area of institutional banking, the Group divided the loan portfolio into industries in terms of their sensitivity to macroeconomic conditions, identified macroeconomic variables that best explained the historical changes in credit quality and analyzed the dependence on macroeconomic factors using statistical methods. Finally, the Bank Group has built a model for each of the established industry sensitivity classes allowing for the dependence of the coefficient determining the level of client migration between ratings from these factors.

[1] Below risk level corresponding to internal 7- rating (i.e. to CCC- for Standard & Poors, Caa3 Moody's)

In the area of retail banking, at the level of homogeneous product portfolios, the Group, using statistical methods, built equations making the level of annual loss rates dependent on macroeconomic factors. The models allow for dynamic shaping of the provision for expected credit losses depending on the expected changes in the economy.

Macroeconomic scenarios in the area of institutional banking comprise the following variables:
- annual amendment of index WIG20,
- unemployment rate,
- inflation,
- GDP,
- unemployment rate „BAEL",
- WIBOR 3M rate.

However retail banking uses three variables in modeling the expected credit losses:
- unemployment rate,
- unemployment rate „BAEL",
- annual amendment of index WIG.

Scenarios and macroeconomic variables are updated on a quarterly basis.

As part of the assessment of the adequacy of the methodology used to determine expected credit losses and provision, the Group regularly, at least annually, carries out an analysis to verify to what extent the expected credit losses provisions were reflected in actual losses. In addition, the models used for determining reserves are subject to evaluation by an independent Model Validation Office.

The Group identifies and manages counterparty credit risk in financial instruments transactions based on internal limits for pre-settlement and settlement commitment. These exposures are also assigned credit ratings.

The maximum Group's credit risk exposure is presented below.

PLN '000	Note	30.06.2020	31.12.2019
Gross receivables due from the Central Bank		1,847,841	3,300,490
Gross receivables due from banks	14	815,881	1,168,278
Gross receivables due from institutional customers*	17	16,688,553	16,714,183
Gross receivables due from individual customers*	17	7,598,624	7,706,947
Debt securities held-for-trading	15	3,207,389	3,881,815
Derivative instruments	15	3,459,547	1,524,780
Debt investment financial assets measured at fair value though other comprehensive income	16	25,262,575	15,484,578
Other financial assets	19	145,109	106,183
Contingent liabilities granted	32	16,935,989	15,441,954
		75,961,508	**65,330,500**

** As at June 30, 2020, the value of collateral diminishing the maximum exposure to credit risk for receivables from institutional clients amounted to PLN 2,876,578 thousand (31 December 2019: PLN 3,289,249 thousand) and for receivables from individual clients amounted to PLN 2,067,880 thousand (31 December 2019: PLN 1,922,434 thousand).*

The Group's portfolio is presented below, grouped into receivables from customers with identified impairment (stage 3) and receivables without impairment (stages 1 and 2). The structure of the portfolio of exposures to banks and clients from the point of view of credit risk as at 30 June 2020:

PLN '000	30.06.2020				
	Receivables from institutional customers	Receivables from individual customers	Receivables from banks	Total	Total including interest accrued for Stage 3 exposure
Impaired receivables (Stage 3)					
Gross amount	**537,548**	**359,560**	**-**	**897,108**	**1,169,627**
Provision for expected for credit losses	(352,189)	(284,717)	-	(636,906)	(909,426)
Net amount	**185,359**	**74,843**	-	260,202	260,202
Not impaired receivables (Stage 2)					
By risk rating					
Risk rating 1-4-	289,482	-	-	289,482	289,482
Risk rating +5-6-	1,575,811	0	3	1,575,814	1,575,814

PLN '000	30.06.2020				
	Receivables from institutional customers	Receivables from individual customers	Receivables from banks	Total	Total including interest accrued for Stage 3 exposure
Risk rating +7 and greater	355,099	-	-	355,099	355,100
By delinquency					
No delinquency	-	733,970	-	733,970	733,970
1-30 days	-	65,317	-	65,317	65,317
31-90 days	-	23,157	-	23,157	23,157
Gross amount	**2,220,392**	**822,444**	**3**	**3,042,839**	**3,042,840**
Provision for expected for credit losses	(51,311)	(72,569)	(0)	(123,880)	(123,882)
Net amount	**2,169,081**	**749,875**	**3**	**2,918,958**	**2,918,958**
Not impaired receivables (Stage 1)					
By risk rating					
Risk rating 1-4-	10,145,696	-	374,497	10,520,193	10,520,194
Risk rating +5-6-	3,784,916	-	441,372	4,226,287	4,226,288
By delinquency					
No delinquency	2	6,305,407	9	6,305,418	6,305,418
1-30 days	-	111,212	-	111,212	111,212
31-90 days	-	-	-	-	-
Gross amount	**13,930,614**	**6,416,619**	**815,878**	**21,163,111**	**21,163,112**
Provision for expected for credit losses	(63,030)	(31,944)	(3,376)	(98,350)	(98,351)
Net amount	**13,867,584**	**6,384,675**	**812,501**	**21,064,761**	**21,064,761**
Total gross value	**16,688,553**	**7,598,624**	**815,880**	**25,103,057**	**25,375,579**
Provision for expected for credit losses	(466,530)	(389,230)	(3,376)	(859,137)	(1,131,659)
Total net value	**16,222,023**	**7,209,394**	**812,504**	**24,243,921**	**24,243,921**

As at June 30, 2020, the Group did not identify POCI assets (purchased or originated credit-impaired assets).

The structure of the portfolio of exposures to banks and clients from the point of view of credit risk as at 31 December 2019:

PLN '000	31.12.2019				
	Receivables from institutional customers	Receivables from individual customers	Receivables from banks	Total	Total including interest accrued for Stage 3 exposure
Impaired receivables (Stage 3)					
Gross amount	**526,651**	**315,109**	**-**	**841,760**	**1,153,104**
Provision for expected for credit losses	(316,380)	(242,829)	-	(559,209)	(870,553)
Net amount	**210,271**	**72,280**	**-**	**282,551**	**282,551**
Not impaired receivables (Stage 2)					
By risk rating					
Risk rating 1-4-	209,328		3	209,331	209,331
Risk rating +5-6-	1,062,988	-	-	1,062,988	1,062,993
Risk rating +7 and greater	103,981	-	-	103,981	103,981
By delinquency					
No delinquency	-	836,264	-	836,264	836,264
1-30 days	-	102,726	-	102,726	102,726
31-90 days	-	40,256	-	40,256	40,256
Gross amount	**1,376,297**	**979,246**	**3**	**2,355,545**	**2,355,550**
Provision for expected for credit losses	(18,896)	(61,054)	(0)	(79,950)	(79,954)
Net amount	**1,357,401**	**918,192**	**3**	**2,275,595**	**2,275,595**

PLN '000	31.12.2019				
	Receivables from institutional customers	Receivables from individual customers	Receivables from banks	Total	Total including interest accrued for Stage 3 exposure
Not impaired receivables (Stage 1)					
By risk rating					
Risk rating 1-4-	11,955,828	-	751,707	12,707,535	12,707,543
Risk rating +5-6-	2,856,700	433	416,556	3,273,690	3,273,690
By delinquency					
No delinquency	-	6,248,508	13	6,248,521	6,248,521
1-30 days	-	163,650	-	163,650	163,650
31-90 days	-	-	-	-	-
Gross amount	**14,812,528**	**6,412,591**	**1,168,276**	**22,393,396**	**22,393,404**
Provision for expected for credit losses	(28,174)	(23,216)	(2,594)	(53,984)	(53,991)
Net amount	**14,784,355**	**6,389,375**	**1,165,682**	**22,339,412**	**22,339,412**
Total gross value	**16,715,476**	**7,706,947**	**1,168,279**	**25,590,701**	**25,902,057**
Provision for expected for credit losses	(363,450)	(327,099)	(2,594)	(693,143)	(1,004,499)
Total net value	**16,352,026**	**7,379,848**	**1,165,685**	**24,897,559**	**24,897,559**

As at December 31, 2019, the Group did not identify POCI assets (purchased or originated credit-impaired assets).

Structure of derivatives in terms of credit risk:

PLN '000	30.06.2020			31.12.2019		
	Transactions with institutional customers	Transactions with individual customers	Transactions with banks	Transactions with institutional customers	Transactions with individual customers	Transactions with banks
Derivatives by risk rating						
Risk rating 1-4-	2,279,995	10,361	1,042,482	863,565	8,894	587,849
Risk rating+5-6-	61,056	-	58,814	40,085	-	24,320
Risk rating +7 and greater	6,839	-	-	67	-	-
Total	**2,347,891**	**10,361**	**1,101,295**	**903,718**	**8,894**	**612,169**

The breakdown of the exposures in the portfolio of debt securities held for trading in the portfolio of debt securities measured at fair value through other comprehensive income according to Fitch agency ratings is presented below.

PLN '000	30.06.2020		31.12.2019	
	Debt securities held-for-trading	Debt securities at fair value though other comprehensive income	Debt securities held-for-trading	Debt securities at fair value though other comprehensive income
Issuer rating by Fitch agency				
A (including: from A- to AAA)	3,207,389	25,262,575	3,881,815	15,484,578
Total	**3,207,389**	**25,262,575**	**3,881,815**	**15,484,578**

Structure of the granted contingent liabilities from the credit risk point of view as at June 30, 2020:

PLN '000	30.06.2020		
	Liabilities due to institutional customers	Liabilities due to individual customers	Liabilities due to banks
Contingent liabilities granted (Stage 3)	**30,787**	**1,170**	**-**
by risk rating			
Risk rating +7and greater	30,787	-	-

Contingent liabilities granted (Stage 2)	**1,170,886**	**1,250,719**	**580**
by risk rating			
Risk rating 1-4-	166,033	-	-
Risk rating+5-6-	887,091	-	580
Risk rating +7and greater	117,762	-	-
Contingent liabilities granted (Stage 1)	**8,980,609**	**5,169,751**	**331,486**
by risk rating			
Risk rating 1-4-	6,925,667	-	324,764
Risk rating+5-6-	2,054,942	-	6,722
Total	**10,182,283**	**6,421,640**	**332,067**

Structure of the granted contingent liabilities from the credit risk point of view as at December 31, 2019:

PLN '000	**31.12.2019**		
	Liabilities due to institutional customers	**Liabilities due to individual customers**	**Liabilities due to banks**
Contingent liabilities granted (Stage 3)	**67,574**	**1,306**	**-**
by risk rating			
Risk rating +7and greater	67,574	-	-
Contingent liabilities granted (Stage 2)	**639,821**	**1,219,855**	**3,323**
by risk rating			
Risk rating 1-4-	132,895	-	-
Risk rating+5-6-	426,514	-	3,323
Risk rating +7and greater	80,412	-	-
Contingent liabilities granted (Stage 1)	**8,177,658**	**4,964,158**	**368,259**
by risk rating			
Risk rating 1-4-	6,828,244	-	364,951
Risk rating+5-6-	1,349,414	-	3,308
Total	**8,885,053**	**6,185,319**	**371,582**

In addition to general principles of credit risk mitigation, the Group has defined specific rules for institutional and retail for acceptance, assessment, establishment and monitoring of various types of collaterals, including warranties, guarantees and similar instruments of support (hereinafter called jointly: collaterals). These principles are used to minimize residual risk associated with taking collaterals.

Forborne exposures are identified in the Group within the credit risk management. The Group takes into account "forborne" exposures according to the reporting requirements under the EBA/ITS/2013/03 Technical Standards and document 2012/852 issued by the ESMA. For non-performing and restructured exposures, the Group applies the EBA guidelines EBA/GL/2018/06

The Group considers exposures as "forborne" that are in the process of troubled debt restructuring. This is a situation when the debtor is experiencing financial difficulties and BHW grants preferential financing conditions to the debtor that it would not otherwise consider (i.e., off-market terms). Preferential financing conditions are considered situations in which for example the yield of the modified facility is lower than the contractual yield prior to the restructuring and/or the yield on the modified loan is below a market yield for the relevant tenor and credit risk.

The extent to which financing conditions are changed is set individually for each debtor affected by the situation. In particular, such activities include:

- repossessioning of assets,
- providing new, restructured commitment to partially or fully repay the existing exposure,
- modification of the conditions of the existing commitment, including changes to the repayment schedule (e.g. extension of the loan period), change in the interest rate on the receivable or repayment method, or reduction of the repayment amount (principal amount or accrued interest).

The process of assigning "forborne" status for exposures is closely related to the credit risk management process, including the impairment recognition process for exposures.

In the case of institutional clients, the Group assigns "forborne" status for exposures with identified impairment, which triggers the need to write off due to expected credit losses.

In the case of individual clients, the "forborne" status may refer to both the exposures from the impaired portfolio and the portfolio without impairment. The Group treats exposures as “forborne” without impairment when restructuring activities were carried out, while the change in financing conditions did not imply a deterioration of future payment streams. In such cases, the change in the status of the "forborne" exposure is not evidence of impairment.

Exposures with modified conditions subject to forbearance rules (forborne exposures) are subject to regulatory and internal reporting.

The Group assumes that the exposures remain in the "forborne" status until they are fully repaid.

Exposure values in the "forborne" status as at June 30, 2020:

PLN ‘000	As of	
	30.06.2020	31.12.2019
Receivables without recognized impairment	23,390,084	23,580,662
Receivables without recognized impairment (Stage 1), including	20,347,259	21,225,119
non-financial sector entities	16,324,845	18,072,331
Institutional customers	9,908,225	11,659,740
Individual customers	6,416,620	6,412,591
Receivables without recognized impairment (Stage 2), including:	3,042,825	2,355,543
non-financial sector entities	3,042,803	2,355,529
Institutional customers	2,220,360	1,376,283
Individual customers	822,443	979,246
Receivables with recognized impairment (Stage 3), including:	897,093	841,760
non-financial sector entities	897,093	841,760
Institutional customers, including:	537,532	526,651
„forborne”	187,939	169,297
Individual customers, including:	359,561	315,109
„forborne”	19,123	19,195
Total gross amount, including:	**24,287,177**	**24,422,422**
non-financial sector entities	20,264,741	21,269,620
Institutional customers, including:	12,666,117	13,562,674
„forborne”	187,939	169,297
Individual customers, including:	7,598,624	7,706,946
„forborne”	19,123	19,195
Provision for expected credit losses	**(855,760)**	**(690,548)**
On „forborne” receivables	(98,295)	(76,363)
Total net amounts due from customers, including:	**23,431,417**	**23,731,874**
„forborne” receivables	108,767	112,129

The “forborne” exposures identification process has not undergone significant changes relative to the rules described in the Group’s consolidated financial statement for the year 2019. In the case of granting credit holidays or other actions mitigating the effects of COVID-19 pandemic, the Group applies an approach that is consistent with the regulatory guidance in this regard. Especially, granting credit holidays or other actions mitigating the pandemic’s effects does not cause automatic identification of “forborne” exposures.

Liquidity Risk

Liquidity risk is defined as the risk of Group’s lack of ability to meet its financial commitments to customers or counterparties when due.

The objective of liquidity risk management is to ensure that the Group can meet all commitments to customers when due and to secure liquidity necessary to clear all money market transactions when due.

In the first half of 2020 the Bank has maintained the foregoing mechanisms of liquidity risk management in the Group, i.e., no significant changes in liquidity risk management processes, procedures, systems and policies have been implemented. At the same time, due to dynamic economic situation, the Bank has implemented intensified liquidity situation monitoring and increased the frequency of Assets and Liabilities Committee meetings held for the purpose of the current Bank's liquidity monitoring and managing liquidity risk.

The supervisory liquidity measures M1-M4 and LCR were as follows:

	30.06.2020	31.12.2019	Change
M1 - Short-term liquidity gap (PLN)	15,746,001	9,126,042	6,619,959
M2 - Short-term liquidity ratio	1,44	1,26	0,17
M3 - Coverage of illiquid assets with regulatory capital	5,03	4,98	0,05
M4 - Coverage of illiquid assets and assets of limited liquidity with regulatory capital and stable external funds	1,89	1,58	0,30
LCR	177,97%	163,05%	14,92%

The level of modified cash flow gap and the level of liquid assets as at 30 June 2020 and 31 December 2019 are shown below.

The cumulated liquidity gap as at 30 June 2020 in real terms:

PLN '000	Up to 1 month	More than 1 to 3 months	More than 3 months to 1 year	More than 1 year to 2 years	More than 2 years
Assets	27,812,677	64,823	736,975	-	32,278,413
Liabilities and equity	9,973,765	5,209,752	519,842	-	45,189,529
Balance-sheet gap in the period	**17,838,912**	**(5,144,929)**	**217,133**	**-**	**(12,911,116)**
Conditional derivative transactions – inflows	23,135,197	6,118,794	10,532,685	13,465,302	14,579,813
Conditional derivative transactions – outflows	23,215,025	5,928,011	10,676,731	13,198,138	14,630,580
Off-balance-sheet gap in the period	**(79,828)**	**190,783**	**(144,046)**	**267,164**	**(50,767)**
Potential utilization of credit lines granted	559,124	592,717	463,191	-	(1,615,032)
Cumulative gap	**17,199,960**	**11,653,097**	**11,262,993**	**11,530,157**	**183,306**

The cumulated liquidity gap as at 31 December 2019 in real terms:

PLN '000	Up to 1 month	More than 1 to 3 months	More than 3 months to 1 year	More than 1 year to 2 years	More than 2 years
Assets	20,760,753	391,612	778,774	235,278	29,819,109
Liabilities and equity	8,169,834	4,479,486	19,091	-	39,317,115
Balance sheet gap in the period	**12,590,919**	**(4,087,874)**	**759,683**	**235,278**	**(9,498,006)**
Conditional derivative transactions – inflows	22,718,553	5,726,397	14,890,210	12,000,485	16,165,204
Conditional derivative transactions –outflows	22,792,316	5,752,159	14,908,722	11,913,776	16,189,238
Off-balance-sheet gap in the period	**(73,763)**	**(25,762)**	**(18,512)**	**86,709**	**(24,034)**
Potential utilization of credit lines granted	566,316	477,866	415,396	-	(1,459,578)
Cumulative gap	**11,950,840**	**7,359,338**	**7,685,113**	**8,007,100**	**(55,362)**

Liquid assets and cumulated liquidity gap up to 1 year:

PLN '000	30.06.2020	31.12.2019	Change
Liquid assets, including:	22,885,816	22,875,757	10,059
nostro account in NBP and stable part of cash	3,519,423	3,509,364	10,059
debt securities held-for-trading	3,207,388	3,881,815	(674,427)
debt financial assets measured at fair value through other comprehensive income*	25,262,575	15,484,578	9,777,997
Cumulative liquidity gap up to 1 year	11,262,993	7,685,113	3,577,880
Coverage of the gap with liquid assets	Positive gap	Positive gap	

Market risk

Market risk is the risk of negative impact on the Group's earnings and equity resulting from changes in market interest rates, foreign exchange rates, equity and commodity prices, as well all volatilities of these rates and prices.

The objective of market risk management is to ensure that the extent of risk accepted within the Group corresponds to the level acceptable to the shareholders and banking supervision authorities and to ensure that all exposures to market risk are properly reflected in the calculated risk measures, communicated to relevant persons and bodies responsible for the management of the Group.

In the first half of 2020 the Group has not made any changes in market risk management processes, procedures, systems and policies.

In market risk management there are two types of portfolios: trading and bank portfolios.

The following risk measures are applied to bank portfolios:

- Interest rate gap analysis;
- Value-at-Close and Total Return methods;
- Interest Rate Exposure (IRE); and
- Stress testing.

Interest rate gap analysis uses the schedule of maturities or revaluations of balance-sheet positions, and of derivative instruments used in hedge accounting or qualified as economic hedge for the purpose of establishing the differences between positions whose maturity or interest rate revaluation fall within a given time frame.

The general rule in the interest rate gap analysis is that of classifying transactions to respective bank portfolio position revaluation bands by the contracted or assumed transaction interest rate revaluation dates.

It is assumed that:

- transactions with a fixed interest rate (such as term deposits, interbank deposits, portfolio of debt securities at fair value through other comprehensive income with a fixed interest rate, granted loans both repaid in full at maturity and repaid in installments) are classified into appropriate revaluation bands in accordance with their maturity dates;
- transactions with a floating interest rate, updated on the regular basis (primarily, loans granted with interest set based on a specific rate such as, e.g., WIBOR 1M) are classified into appropriate revaluation bands in accordance with the nearest interest rate revaluation date;
- transactions with an administrated floating interest rate (i.e., any changes in the interest rate and its revaluation date are reserved to sole decision of the Bank) or undefined maturity or interest rate revaluation date are classified into appropriate revaluation bands in accordance with historically observed or expert assessed shifts in the moment and scale of change in the interest rate of given positions in relation to change in the market interest rates (model of minimizing product margin variability). This group of transactions / balance-sheet positions includes among others: current accounts, card loans, overdraft facilities. Additionally, early loan repayments are taken into account based on analysis of actual repayments made by customers before the due date and product interest rate revaluation profiles are set on that basis. This pertains particularly to installment loans;
- transactions insensitive to changes of interest rates, including cash, fixed assets, equity, other assets/liabilities, are classified into the longest revaluation band;
- transactions executed directly by the Financial Markets Sub Sector for the purpose of management of interest rate risk and liquidity risk (Financial Markets Sub-Sector's own portfolio) are always classified into appropriate revaluation bands in accordance with the contracted dates.

The Value-at-Close method is an estimation of the economic or "fair" value of positions, equivalent to the market valuation of the trading portfolio. Total return on a portfolio is the sum total of the changes in the value of closing the interest rate gap, accrued interest and gains/losses on sale of assets or cancelling of obligations.

The Interest Rate Exposure (IRE) method is used for estimation of potential impact of a specific parallel shift in the interest rate curves on interest income from the bank portfolio before tax, which can be earned in a specific period of time. This is a prospective indicator, equivalent to Factor Sensitivity of trading portfolios. An assumption is made that under standard conditions interest rate shifts are identical for every currency and stand at 100 basis points upwards. IRE measures are calculated separately for positions in each currency in the time horizon of 10 years; however, for the purpose of current monitoring and limiting of interest rate risk positions in bank portfolios, the Bank normally applies IRE measures with one-year and five-year time horizons.

Group's IRE measures as at 30 June 2020 and 31 December 2019 are presented below. The list is shown in the main currencies, i.e. PLN, USD and EUR which jointly account to over 90% of Group's balance sheet.

PLN '000	30.06.2020		31.12.2019	
	IRE 12M	IRE 5L	IRE 12M	IRE 5L

PLN	49,464	324,886	27,103	78,293
USD	13,628	20,464	15,045	19,732
EUR	16,012	19,278	9,980	9,134

Stress tests measure the potential impact of material changes in the level or directionality of interest rate curves on open interest positions in the bank portfolio.

The Group runs stress tests of predefined interest rate movement scenarios, which represent combinations of market factor movements defined as large moves and stress moves occurring both in Poland and abroad. Values of the assumed market factor movements are revised at least once a year and adjusted as appropriate to changes in the market conditions of the Group's operation.

Within the implementation of EBA guidelines, the Bank has expanded the range of used scenarios for stress tests, implementing six new supervisory scenarios identified in mentioned guidelines.

Activities relating to securities at fair value through other comprehensive income are the responsibility of the Assets and Liabilities Management Department within the Financial Markets and Corporate Banking Sector. Three basic goals of activities in the portfolio of securities at fair value through other comprehensive income have been defined as follows:

- management of the liquidity;
- hedging against the risk transferred to the Financial Markets and Corporate Banking Sector from other organizational units of the Bank or the Group's entities;
- opening of own interest rate risk positions on the Group's books by the Financial Markets and Corporate Banking Sector.

In order to avoid excessive fluctuations in the Bank's capital funds, caused by the revaluation of assets held-for-sale, the maximum limits of DV01 (Dollar Value of 1 basis point), that specify potential change of risk position's value for specific curve of interest rate in its specific node (into which are brought all of cash flows in set time interval), caused by movement of market's interest rate up by one basic point for this kind of portfolio. The limits also concern the open positions in derivatives (i.e. interest rate swap transactions), carried out to hedge the fair value of the portfolio.

The table below presents the risk measured with DV01 for the portfolio of securities at fair value through other comprehensive income, including the economic collateral contained in the hedge program (Fair Value Hedge Accounting Program), broken down by currency:

PLN '000	**30.06.2020**			**Total in the period 01.01.2020 – 30.06.2020**		
	Total	**Securities**	**IRS**	**Average**	**Maximum**	**Minimum**
PLN	(1,699)	(5,541)	3,842	(2,988)	(1,505)	(3,856)
USD	(146)	(146)	-	(156)	(144)	(167)
EUR	(301)	(301)	-	(322)	(295)	(354)

PLN '000	**30.06.2019**			**Total in the period 01.01.2019 – 30.06.2019**		
	Total	**Securities**	**IRS**	**Average**	**Maximum**	**Minimum**
PLN	(3,079)	(3,468)	389	(3,143)	(2,528)	(3,412)
USD	(82)	(82)	-	(54)	-	(92)
EUR	(491)	(491)	-	(458)	(311)	(533)

Both base risk and option risk of Bank's portfolio were considered as immaterial.

The following methods are applicable in measurement of the risk of the trading portfolios:

- Factor Sensitivity;
- Value at Risk (VaR); and
- Stress testing.

Factor Sensitivity measures the change in the value of positions in an underlying instrument in the case of a specific change in a market risk factor (e.g., change of the interest rate by 1 basis point at a given point on the interest rate curve, change of the currency exchange rate or share price by 1%).

In the case of interest rates, the applicable sensitivity measure is DV01 (Dollar Value of 1 basis point), which determines the potential change in the value of risk positions on a given interest rate curve at a specific nodal point (which brings together all the cash flows in a given time horizon), caused by a shift in the market interest rate by 1 basis point upwards, is established for this kind of portfolio

In the case of exchange rate (FX) risk, the Factor Sensitivity value is equal to the value of the FX position in a given currency.

In the case of positions held in equities, the Factor Sensitivity value is equal to the net value of the positions held in the respective instruments (shares, indices, participation units).

Value at Risk (VaR) is the integrated measure of the market risk of trading portfolios which combines the impact of positions in respective risk factors and accounts for the effect of correlation between the fluctuations of different factors. VaR is applied for the purpose of measuring the potential decrease in the value of a position or portfolio under normal market conditions, at a specific confidence level and within a specific time period. In the case of positions opened in the Group's trading portfolio, VaR is calculated at a 99% confidence level and a one-day holding period.

DV01 as well as VaR for the trading portfolio are calculated net of the economic hedge of the portfolio of securities at fair value through other comprehensive income, i.e., net of derivative instruments intended to hedge the fair value of the portfolio. The exposures to the risk of such transactions are mitigated through the application of relevant risk measurement methods and by the bank portfolio risk limits.

Each day, the Group runs stress tests on the assumption that the risk factors change by more than expected in the Value at Risk scenario, ignoring historical correlations of these factors.

The Group keeps records of exposures of the bank portfolios to market risk in over twenty currencies both for currency positions and exposures to interest rates risk. These exposures are significant only for a few currencies. For a large group of currencies, the exposures are the consequence of a gap between transactions executed on the customer's orders and closing transactions with other wholesale market counterparties. Significant exposures to market risk are opened for PLN, currencies of well-developed markets (predominantly USD and EUR with a lesser focus on GBP, CHF and JPY) and Central European currencies.

The values of significant exposures of the bank portfolios to the interest rates risk in terms of DV01 in the first half of 2020 are listed in the table below:

PLN '000	30.06.2020	31.12.2019	in the period 01.01.2020 - 30.06.2020			in the period 01.01.2019 - 30.06.2019		
			Average	Maximum	Minimum	Average	Maximum	Minimum
PLN	461	(54)	211	834	(913)	72	587	(568)
EUR	(49)	(13)	(15)	121	(315)	(17)	105	(161)
USD	92	144	21	279	(71)	29	79	(37)

The currency structure of the positions in the first half of 2020 has not changed in comparison with the year 2019, as positions in domestic currency USD and EUR were still the majority. The average exposure to PLN, EUR, and USD interest rates risk remained on a similar level to 2019. The average risk level for instruments denominated in PLN amounted to PLN 211 thousand and in EUR it was PLN (15) thousand. The highest exposures were taken in PLN and USDand were respectively PLN 834 thousand and PLN 279 thousand.

The table below shows the level of risk measured using VaR (excluding resulting from securities at fair value through other comprehensive income portfolio's economic), divided into currency risk and interest rate risk positions in the first half of 2020:

PLN '000	30.06.2020	31.12.2019	In the period 1.01.2020 – 30.06.2020			In the period 1.01.2019 – 30.06.2019		
			Average	Maximum	Minimum	Average	Maximum	Minimum
FX risk	258	69	415	4,572	0	728	2,829	95
Interest rate risk	3,568	5,947	11,091	33,632	3,418	8,827	11,950	4,831
Spread risk	2,958	3,040	3,811	5,573	1,280	4,920	9,697	2,545
Overall risk	**4,698**	**6,678**	**12,016**	**34,130**	**4,649**	**10,424**	**13,775**	**5,861**

The overall average price risk (currency, interest rate, spread) of trade portfolios in the first half of 2020 increased by 21% comparing to the average price risk in the I half of 2019 and reached the level of PLN 12 million, mainly because of the interest rate risk exposure. Considering maximum risk levels, in case of interest rate risk and price risk of the whole trading portfolio they increased in comparison with the previous year. Maximum price risk amounted to PLN 34.1 million, while in the I half 2019 it settled at PLN 13.8 million.

Capital instruments risk

Dom Maklerski Banku Handlowego S.A. (DMBH) is the Group's key entity actively transacting capital instruments. In order to run its core business, DMBH has been authorized to run the price risk of trade portfolio of shares, share rights, traded or likely to be traded on Giełda Papierów Wartościowych w Warszawie S.A. (Warsaw Stock Exchange or WSE), BondSpot, WIG20 futures and the Indexed Participation Units, as well as shares on the international stock exchanges of companies listed on the WSE. DMBH portfolio's price risk has volume limits for each kind of financial instruments and concentration-warning thresholds for each issuer. For DMBH the potential loss warning thresholds are also applied to stress testing and cumulated loss on the trade portfolio.

Among the capital instruments measured at fair value through the income statement which are not subject to the Group's active trade are, i.a., Visa Inc. shares, the valuation method of which is presented in the note no. 24.

Currency exposure

Currency exposure of Group's assets and liabilities is presented in main currencies in the following table:

30 June 2020

PLN '000	Balance-sheet transactions		Contingent derivative transactions		Net position
	Assets	Liabilities	Assets	Liabilities	
EUR	3,091,503	6,610,083	21,032,227	17,478,836	34,811
USD	1,642,883	5,763,070	22,721,976	18,588,368	13,421
GBP	37,372	438,643	429,212	27,199	742
CHF	498,691	245,268	1,454,689	1,711,439	-3,327
Other currencies	138,453	93,957	1,295,372	1,332,213	7,655
	5,408,902	**13,151,021**	**46,933,476**	**39,138,055**	**53,302**

31 December 2019

PLN '000	Balance-sheet transactions		Contingent derivative transactions		Net position
	Assets	Liabilities	Assets	Liabilities	
EUR	4,338,630	5,529,553	21,386,884	20,185,257	10,704
USD	1,642,699	5,122,036	20,863,504	17,393,833	(9,666)
GBP	17,279	389,976	742,199	371,438	(1,936)
CHF	468,768	227,731	2,029,207	2,274,823	(4,579)
Other currencies	96,855	201,225	2,173,226	2,064,715	4,141
	6,564,231	**11,470,521**	**47,195,020**	**42,290,066**	**(1,336)**

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, technical systems or from external events.

Operational risk includes technological risk, also outsourcing, malpractice/embezzlement, money laundering, data security, external events (continuity principle), taxation and accounting risk. Moreover, operational risk embraces product, legal, model, staff, concentration, inadequate proceeding and reputation risk, related to operational risk incidents, business and market practice and involved in other types of risk (e.g. credit, counterparty, liquidity and compliance with ICAAP process).

Operational risk does not cover strategic risk or the risk of loss resulting solely from authorized judgments made with respect to taking credit, market, liquidity or insurance risk.

In the first half of 2020 the Group has not made any changes in control environment.

Capital adequacy

In the first half of 2020 the Group fulfilled the capital adequacy requirements. Total capital ratio is calculated according to respective regulations.

In the first half of current year the bank received a letter from the Polish Financial Supervision Authority (PFSA) specifying the required conditions in order to consider offsetting agreements in the capital adequacy account as limiting risk. The bank submitted the required documents to the PFSA and since March this year has included all its key contracts in the capital adequacy account as risk mitigation.

6. Net interest income

	II quarter	I half of the year	II quarter	I half of the year
PLN '000	01.04. - 30.06.2020	01.01. - 30.06.2020	01.04. - 30.06.2019	01.01. - 30.06.2019
Interest income from:	**267,635**	**595,265**	**324,851**	**641,125**
Financial assets measured at amortized cost	**182,425**	**431,553**	**245,573**	**491,823**
Balances with the Central Bank	747	2,747	1,773	3,587
Amounts due from banks	2,365	5,903	3,929	8,622

Amounts due from customers, in respect of:	179,313	422,903	239,871	479,614
financial sector	11,611	29,083	11,280	24,067
non-financial sector, including:	167,702	393,820	228,591	455,547
credit cards	31,864	97,934	69,558	140,079
Financial assets measured at fair value through comprehensive income	**85,210**	**163,712**	**79,278**	**149,302**
Debt investment financial assets measured at fair value through comprehensive income	85,210	163,712	79,278	149,302
Similar income from:	**17,474**	**42,678**	**26,206**	**48,637**
Financial assets measured at fair value through financial result	**10,154**	**30,228**	**23,400**	**42,615**
Debt securities held-for-trading	10,154	30,228	23,400	42,615
Liabilities with negative interest rate	**6,312**	**11,442**	**2,746**	**5,920**
Derivatives in hedge accounting	**1,008**	**1,008**	**60**	**102**
	285,109	**637,943**	**351,057**	**689,762**
Interest expense and similar charges for				
financial liabilities measured at amortized cost	**(18,867)**	**(68,777)**	**(62,272)**	**(123,347)**
Balances with the Central Bank	-	(8)	-	-
Amounts due to banks	(1,408)	(5,966)	(19,398)	(41,498)
Amounts due from customers, in respect of:	(16,413)	(60,678)	(41,809)	(79,370)
Amounts due to financial sector entities	(2,564)	(12,077)	(15,187)	(28,317)
Amounts due to non-financial sector entities	(13,849)	(48,601)	(26,622)	(51,053)
Loans and advances acquired	-	-	-	(345)
Leasing liabilities	(1,046)	(2,125)	(1,065)	(2,134)
Assets with negative interest rate	**(1,135)**	**(1,658)**	**(215)**	**(479)**
Derivatives in hedge accounting	**-**	**(446)**	**(217)**	**(235)**
	(20,002)	**(70,881)**	**(62,704)**	**(124,061)**
Net interest income	**265,107**	**567,062**	**288,353**	**565,701**

7. Net fee and commission income

PLN '000	**II quarter 01.04. - 30.06. 2020**	**I half of the year 01.01. - 30.06. 2020**	**II quarter 01.04. - 30.06. 2019**	**I half of the year 01.01. - 30.06. 2019**
Fee and commission income				
Insurance and investment products distribution	11,659	29,045	18,228	34,924
Payment and credit cards	22,147	57,091	42,154	81,016
Payment services	24,740	51,195	27,917	54,027
Custody services	27,775	52,579	25,224	47,862
Brokerage activity	11,690	23,500	9,166	19,024
Clients' cash on account management services	6,040	15,685	6,124	13,611
Guarantees granted	4,459	9,032	4,713	9,470
Financial liabilities granted	1,336	3,099	1,756	3,505
Other, including:	35,301	65,744	41,185	68,759
Installment products in credit card	6,972	14,211	7,188	14,380
	145,147	**306,970**	**176,467**	**332,198**
Fee and commission expense				
Payment and credit cards	(6,733)	(13,695)	(8,928)	(16,762)
Brokerage activity	(3,045)	(5,973)	(3,273)	(6,733)
Fees paid to the National Depository for Securities (KDPW)	(5,531)	(11,008)	(5,224)	(10,503)
Brokerage fees	(1,097)	(1,938)	(1,098)	(2,148)
Custody services	-	-	-	-
Other	(4,958)	(9,586)	(4,662)	(8,906)
	(21,364)	**(42,200)**	**(23,185)**	**(45,052)**

PLN '000	II quarter 01.04. - 30.06. 2020	I half of the year 01.01. - 30.06. 2020	II quarter 01.04. - 30.06. 2019	I half of the year 01.01. - 30.06. 2019
Net fee and commission expense	**123,783**	**264,770**	**153,282**	**287,146**

The net commission result for the first half of 2020 comprises commissions (other than included in the calculation of the effective interest rate), which are related to financial assets and liabilities not valued at fair value through profit or loss in the amount of PLN 83,884 thousand (for the first half of 2019: PLN 101,041 thousand) and commission expenses in the amount of PLN 16,521 thousand (for the first half of 2019: PLN 18,795 thousand).

8. Net income on financial instruments and revaluation

PLN '000	II quarter 01.04. - 30.06. 2020	I half of the year 01.01. - 30.06. 2020	II quarter 01.04. - 30.06. 2019	I half of the year 01.01. - 30.06. 2019
Net income on financial instruments valued at fair value through profit or loss				
Debt instruments	80,823	175,414	24,191	27,041
Equity instruments	1,938	(7,086)	(3,531)	(3,864)
Derivative instruments, including:	(30,020)	(232,318)	(60,230)	(78,703)
Interest rate derivatives	(30,754)	(245,172)	(65,322)	(85,005)
Equity	(126)	10,450	5,162	6,373
Commodities	860	2,404	(70)	(71)
	52,741	**(63,990)**	**(39,570)**	**(55,526)**
Net income on FX operations				
Operations on FX derivative instruments	(166,862)	353,053	(64,790)	196,750
FX gains and losses (revaluation)	215,742	(194,721)	200,820	46,418
	48,880	**158,332**	**136,030**	**243,168**
Net income on financial instruments and revaluation	**101,621**	**94,342**	**96,460**	**187,642**

Net income on financial instruments and revaluation for the first half of 2020 includes net change in the adjustment of the valuation of derivatives reflecting counterparty credit risk and in the adjustment of the valuation of derivatives reflecting own credit risk in the amount of PLN (13,311) thousand (for the first half of 2019: PLN (1,142) thousand).

Net income on debt instruments includes the net result on trading in: government securities, corporate debt securities and money market instruments held-for-trading.

Net income on derivative instruments comprises net income on transactions regarding interest rate swaps, options, futures and other derivatives.

Net profit on foreign exchange includes profit and losses on valuation of assets and liabilities denominated in foreign currency and foreign currency derivatives, such as: forward, CIRS and option contracts. It additionally contains a margin realized on spot and forward currency transactions.

9. Net other operating income and expense

PLN '000	II quarter 01.04. - 30.06. 2020	I half of the year 01.01. - 30.06. 2020	II quarter 01.04. - 30.06. 2019	I half of the year 01.01. - 30.06. 2019
Other operating income				
Income from provision of services for related parties outside the Group	1,434	4,127	1,700	4,387
Income from office rental	1,888	3,904	1,941	3,790
Other, including:	1,275	2,845	2,649	5,005
reimbursement of legal and enforcement costs	270	444	662	1,260
	4,597	**10,876**	**6,290**	**13,182**
Other operating expenses				
Amicable procedure and vindication expenses	(1,099)	(2,560)	(2,311)	(4,352)
Net provision for litigation	(125)	(250)	(240)	(256)

PLN '000	II quarter 01.04. - 30.06. 2020	I half of the year 01.01. - 30.06. 2020	II quarter 01.04. - 30.06. 2019	I half of the year 01.01. - 30.06. 2019
Other, including:	(7,315)	(12,378)	(4,883)	(9,902)
donations	(928)	(1,920)	(945)	(1,942)
	(8,539)	**(15,188)**	**(7,434)**	**(14,510)**
Net other operating income	**(3,942)**	**(4,312)**	**(1,144)**	**(1,328)**

10. General administrative expenses

PLN '000	II quarter 01.04. - 30.06. 2020	I half of the year 01.01. - 30.06. 2020	II quarter 01.04. - 30.06. 2019	I half of the year 01.01. - 30.06. 2020
Staff expenses				
Remuneration costs, including:	(106,027)	(206,099)	(95,954)	(196,814)
Costs of retirement benefits	(7,312)	(14,441)	(6,993)	(13,862)
Bonuses and rewards including:	(17,091)	(35,177)	(17,724)	(37,741)
Equity compensations	(1,085)	(1,727)	407	(1,861)
Rewards for multiannual work	-	(18)	-	(14)
Social security costs	(18,039)	(37,593)	(16,717)	(38,496)
	(141,157)	**(278,869)**	**(130,395)**	**(273,051)**
Administrative expenses				
Telecommunication costs and hardware purchase costs	(53,831)	(102,374)	(49,301)	(94,366)
Costs of external services, including advisory, audit, consulting services	(14,153)	(26,025)	(13,530)	(26,772)
Building maintenance and rent costs	(12,992)	(26,352)	(12,462)	(24,491)
Marketing costs	(6,994)	(16,566)	(11,413)	(23,849)
Costs of cash management services, costs of cleaning services and other transaction costs	(9,331)	(18,597)	(9,143)	(17,945)
Costs of external services related to distribution of banking products	(10,117)	(21,094)	(11,113)	(21,697)
Postal services, office supplies and printmaking costs	(1,581)	(3,496)	(2,413)	(4,152)
Training and education costs	(222)	(580)	(250)	(428)
Banking supervision costs	(34)	(4,810)	(83)	(5,834)
Costs paid to Bank Guarantee Fund	(4,933)	(93,905)	(2,282)	(97,693)
Other expenses	(13,171)	(28,504)	(15,458)	(30,567)
	(127,359)	**(342,303)**	**(127,448)**	**(347,794)**
General administrative expenses, total	**(268,516)**	**(621,172)**	**(257,843)**	**(620,845)**

Staff expenses include costs of the following benefits paid and payable to current and former members of the Bank's Management Board:

PLN '000	01.01 – 30.06. 2020	01.01 – 30.06. 2019
Short-term employee benefits (services)	6,872	6,935
Long-term employee benefits (services)	2,796	1,460
Equity compensations	2,760	307
	12,428	**8,702**

11. Provision for expected credit losses on financial assets and provisions for off–balance sheet commitments

PLN '000	II quarter 01.04. - 30.06. 2020	I half of the year 01.01. - 30.06. 2020	II quarter 01.04. - 30.06. 2019	I half of the year 01.01. - 30.06. 2019
Provision for expected credit losses on amounts due from banks				
Provision creation	(3,907)	(5,137)	(425)	(945)
Provision release	3,607	4,515	659	1,191
	(300)	**(622)**	**234**	**246**
Provision for expected credit losses on amounts due from customers				
Provision creation and reversals	**(89,107)**	**(179,154)**	**(101,500)**	**(131,645)**
Provision creation	(123,949)	(246,903)	(135,036)	(193,347)
Provision release	36,050	70,440	33,779	62,046
Other	(1,208)	(2,691)	(243)	(344)
Recoveries from debt sold (written-off)	**(102)**	**(99)**	**24**	**33**
	(89,209)	**(179,253)**	**(101,476)**	**(131,612)**
Provision for expected credit losses on debt investment financial assets measured at fair value through other comprehensive income				
Provision creation	(553)	(2,946)	(766)	(1,544)
Provision release	-	-	-	-
	(553)	**(2,946)**	**(766)**	**(1,544)**
Provision for expected credit losses on financial assets	**(90,062)**	**(182,821)**	**(102,008)**	**(132,910)**
Created provisions for granted financial and guarantee commitments	(32,004)	(41,416)	(9,891)	(15,755)
Release of provisions for granted financial and guarantee commitments	12,034	20,738	5,415	13,903
Provision for off-balance sheet commitments	**(19,970)**	**(20,678)**	**(4,476)**	**(1,852)**
Provision for expected credit losses on financial assets and provisions for off-balance sheet commitments	**(110,032)**	**(203,499)**	**(106,484)**	**(134,762)**

12. Income tax

Recognized in the income statement

PLN '000	II quarter 01.04. - 30.06. 2020	I half of the year 01.01. - 30.06. 2020	II quarter 01.04. - 30.06. 2019	I half of the year 01.01. - 30.06. 2019
Current tax				
Current year CIT	(52,669)	(122,291)	(67,816)	(126,966)
Adjustments for prior years	-	(1,202)	-	(392)
	(52,669)	**(123,493)**	**(67,816)**	**(127,358)**
Deferred tax				
Net changes on temporary differences	9,130	71,675	30,711	46,798
	9,130	**71,675**	**30,711**	**46,798**
Income tax expense	**(43,539)**	**(51,818)**	**(37,105)**	**(80,560)**

Reconciliation of the effective tax rate

PLN '000	II quarter 01.04. - 30.06. 2020	I half of the year 01.01. - 30.06. 2020	II quarter 01.04. - 30.06. 2019	I half of the year 01.01. - 30.06. 2019
Profit before tax	132,843	167,481	170,232	273,186
Income tax at the tax rate of 19%	(25,240)	(31,821)	(32,344)	(51,905)
Provisions for impairment losses not tax deductible	(2,887)	(3,065)	(397)	(882)
Taxable income not recognized in the income statement	(123)	(88)	196	(18)
Non-taxable income	2,153	2,229	1,800	2,005
Tax on some financial institutions	(6,196)	(12,084)	(4,240)	(8,399)
Costs paid for Bank Guarantee Fund	(937)	(17,842)	(434)	(18,562)
Asset from average tax rate	(8,448)	11,556	-	-
Other permanent differences, including other expenses not deductible for income	(1,861)	(703)	(1,686)	(2,799)
Income tax expense	**(43,539)**	**(51,818)**	**(37,105)**	**(80,560)**
Effective tax rate	**32.77%**	**30.94%**	**21.8%**	**29.49%**

Since 2020, to determine the tax burden, the Group applies the estimated average annual effective tax rate applied to profit before tax for a given interim period.

Deferred tax recognized directly in equity

Deferred tax recognized directly in equity as at 30 June 2020, related to financial assets measured at fair value through other comprehensive income and defined benefit program valuation amounted to PLN 62,091 thousand (30 June 2019: PLN 21,607 thousand).

13. Statement of changes in other comprehensive income

Deferred income tax recognized in other comprehensive income relates to the valuation of financial assets measured at fair value through revaluation reserve and the valuation of defined benefit program recognized in the other reserves.

PLN '000	Gross amount	Deferred income tax	Net amount
Balance as at 1 January 2020	**127,108**	**(24,151)**	**102,957**
Change in valuation of financial assets measured at fair value through other comprehensive income	500,992	(95,189)	405,803
Valuation of financial assets measured at fair value through other comprehensive income sold, recognized to income statement	(174,201)	33,098	(141,103)
Total comprehensive income connected with financial assets measured at fair value through other comprehensive income	**453,899**	**(86,242)**	**367,657**
Balance as at 30 June 2020	**453,899**	**(86,242)**	**367,657**

PLN '000	Gross amount	Deferred income tax	Net amount
Balance as at 1 January 2019	**94,399**	**(17,937)**	**76,462**
Change in valuation of financial assets measured at fair value through other comprehensive income	73,463	(13,958)	59,505
Valuation of financial assets measured at fair value through other comprehensive income sold, recognized to income statement	(54,147)	10,288	(43,859)
Total comprehensive income connected with financial assets measured at fair value through other comprehensive income	**113,715**	**(21,607)**	**92,108**
Balance as at 30 June 2019	**113,715**	**(21,607)**	**92,108**

14. Amounts due from banks

PLN '000	30.06.2020	31.12.2019
Current accounts	114,739	60,469
Deposits	-	379,788

PLN '000	30.06.2020	31.12.2019
Credits and loans	9	3,428
Receivables due to purchased securities with repurchase agreement	492,312	625,592
Deposits pledged as collateral for derivative transactions and stock exchange transactions	208,706	99,001
Other receivables	115	-
Total gross value	**815,881**	**1,168,278**
Provision for expected credit losses	(3,376)	(2,594)
Total net value	**812,505**	**1,165,684**

Movement in amounts due from banks presents as follows:

PLN '000	Stage 1	Stage 2	Stage 3	Total
Provision for expected credit losses - amounts due from banks				
Provision for expected credit losses as at 1 January 2020	**(2,594)**	**-**	**-**	**(2,594)**
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Creation/Releases in the period though the income statement	(622)	-	-	(622)
Foreign exchange and other movements	(160)	-	-	(160)
Loss allowance as at 30 June 2020	**(3,376)**	**-**	**-**	**(3,376)**

As at 30 June 2020 the Group did not identify POCI assets (purchased or originated credit-impaired assets).

PLN '000	Stage 1	Stage 2	Stage 3	Total
Provision for expected credit losses - amounts due from banks				
Provision for expected credit losses as at 1 January 2019	**(3,910)**	**-**	**-**	**(3,910)**
Transfer to Stage 1	-	-	-	-
Transfer to Stage 1	-	-	-	-
Transfer to Stage 3	-	-	-	-
Creation/Releases in the period though the income statement	246	-	-	246
Foreign exchange and other movements	(8)	-	-	(8)
Provision for expected credit losses as at 30 June 2019	**(3,672)**	**-**	**-**	**(3,672)**

As at 30 June 2019 the Group did not identify POCI assets (purchased or originated credit-impaired assets).

15. Financial assets and liabilities held-for-trading

Financial assets held-for-trading

PLN '000	30.06.2020	31.12.2019
Debt securities held-for-trading		
Bonds and notes issued by:		
Central Banks	2,999,980	999,917
Other financial units	7,102	7,125
Government	200,307	2,874,773
	3,207,389	**3,881,815**
Including:		
Listed on the active market	207,409	2,881,898
Equity instruments held-for-trading	**20,179**	**39,916**
Including:		
Listed on the active market	20,179	39,916

PLN '000	30.06.2020	31.12.2019
Derivatives	**3,459,547**	**1,524,780**
Financial assets held-for-trading, total	**6,687,115**	**5,446,511**

Financial liabilities held-for-trading

PLN '000	30.06.2020	31.12.2019
Liabilities related to short-sale of securities	52,115	248,406
Derivatives	3,533,376	1,629,492
Financial liabilities held-for-trading, total	**3,585,491**	**1,877,898**

As at 30 June 2020 and 31 December 2019 the Group did not hold any financial assets and liabilities designed at fair value through profit or loss initial recognition.

Derivative financial instruments as at 30 June 2020

PLN '000	Notional value of derivatives with remaining life of				Total	Fair value	
	less than three months	between three months and one year	between one year and five years	more than five years		Assets	Liabilities
Interest rate instruments	24,053,894	49,387,147	133,819,802	30,156,201	237,417,044	2,341,354	2,940,577
Currency instruments	30,742,313	13,495,353	22,315,349	7,693,929	74,246,944	995,176	469,649
Securities transactions	458,138	17,506	-	-	475,644	361	481
Commodity transactions	161,928	855,460	618,127	-	1,635,515	122,656	122,669
Derivative instruments total	**55,416,273**	**63,755,466**	**156,753,278**	**37,850,130**	**313,775,147**	**3,459,547**	**3,533,376**

Derivative financial instruments as at 31 December 2019

PLN '000	Notional value of derivatives with remaining life of				Total	Fair value	
	less than three months	between three months and one year	between one year and five years	more than five years		Assets	Liabilities
Interest rate instruments	43,827,433	37,840,304	127,617,389	27,456,990	236,742,116	872,786	1,112,966
Currency instruments	30,557,396	15,455,840	24,432,442	8,175,751	78,621,429	614,831	478,994
Securities transactions	164,724	14,097	-	-	178,821	293	618
Commodity transactions	55,783	237,429	141,962	-	435,174	36,870	36,914
Derivative instruments total	**74,605,336**	**53,547,670**	**152,191,793**	**35,632,741**	**315,977,540**	**1,524,780**	**1,629,492**

16. Debt investment financial assets measured at fair value through other comprehensive income

PLN '000	30.06.2020	31.12.2019
Bonds and notes issued by:		
Central governments, including:	24,068,900	14,787,461
Covered bonds in fair value hedge accounting	12,259,817	1,833,308
Other financial sector entities	1,193,675	697,117
Debt securities measured at fair value through other comprehensive income, total*	**25,262,575**	**15,484,578**
Including:		
Listed instruments on the active market	25,262,575	15,484,578
Unlisted instruments on the active market	-	-

17. Amounts due from customers

PLN '000	30.06.2020	31.12.2019
Amounts due from financial sector entities		
Loans, placements and advances	821,180	641,317
Debt financial assets unlisted	1,745,312	1,765,711
Receivables due to purchased securities with a repurchase agreement	34,768	30,217
Guarantee funds and deposits pledged as collateral	1,361,270	647,489
Other receivables	59,906	68,068
Total gross value	**4,022,436**	**3,152,802**
Provision for expected credit losses	(4,366)	(2,216)
Total net value	**4,018,070**	**3,150,586**
Amounts due from non-financial sector entities		
Loans and advances	18,518,024	19,176,989
Unlisted debt financial assets	290,879	305,928
Purchased receivables	1,412,250	1,751,320
Realized guarantees	25,302	24,941
Other receivables	18,286	10,442
Total gross value	**20,264,741**	**21,269,620**
Provision for expected credit losses	(851,394)	(688,332)
Total net value	**19,413,347**	**20,581,288**
Total net value of receivables from customers	**23,431,417**	**23,731,874**

In accordance with Transition Resource Group for Impairment of Financial Instruments the value of receivables in Stage 3 shall be presented increased by accrued contractual interest in total amount of PLN 272,522 thousand (at the end of 2019 of PLN 311,351 thousand). The result of this presentation of receivables is also the growth of loan provisions by the same amount. This change has no influence on total net value of receivables in Stage 3. The impact of including interest is illustrated below and in the “Risk Management” note.

PLN '000	30.06.2020	31.12.2019
Gross total value including contract interest in Stage 3	24,559,699	24,733,773
Provision for expected credit losses including contract interest in Stage 3	(1,128,282)	(1,001,899)
Net total value	**23,431,417**	**23,731,874**

Movement in amounts due from customers presents as follows:

PLN '000	Stage 1	Stage 2	Stage 3	Total
Provision for expected credit losses - amounts due from customers				
Provision for expected credit losses as at 1 January 2020	**(51,388)**	**(79,952)**	**(559,208)**	**(690,548)**
Transfer to Stage 1	(14,861)	14,668	193	-
Transfer to Stage 2	5,728	(6,503)	775	-
Transfer to Stage 3	463	13,299	(13,762)	-
Creation/Releases in the period though the income statement	(34,768)	(65,322)	(78,988)	(179,078)
Net changes due to modification derecognition	-	-	(76)	(76)
Amounts written off	-	-	13,473	13,473
Foreign exchange and other movements	(146)	(73)	688	469
Provision for expected credit losses as at 30 June 2020	**(94,972)**	**(123,883)**	**(636,905)**	**(855,760)**

As at 30 June 2020 the Group did not identify POCI assets (purchased or originated credit-impaired assets).

PLN '000	Stage 1	Stage 2	Stage 3	Total
Provision for expected credit losses - amounts due from customers				
Loss allowance as at 1 January 2019	**(56,110)**	**(74,776)**	**(535,674)**	**(666,560)**
Transfer to Stage 1	(304)	304	-	-
Transfer to Stage 2	804	(804)	-	-
Transfer to Stage 3	73	6,237	(6,310)	-
(Creation)/Releases in the period though the income statement	699	(11,795)	(119,382)	(130,478)
Decrease in provisions due to write-offs	-	-	(1,167)	(1,167)
Decrease in provisions in connection with the sale of receivables	-	-	5,756	5,756
Foreign exchange and other movements	68	31	(484)	(385)
Provision for expected credit losses as at 30 June 2019	**(54,770)**	**(80,803)**	**(657,261)**	**(792,834)**

As at 30 June2019 the Group did not identify POCI assets (purchased or originated credit-impaired assets).

18. Deferred income tax asset

PLN '000	30.06.2020	31.12.2019
Deferred income tax asset	1,281,158	710,452
Deferred income tax liability	(1,033,509)	(472,387)
Deferred income tax net asset	**247,649**	**238,065**

Deferred income tax asset and liabilities are presented in the statement of financial position on net basis.

19. Other assets

PLN '000	30.06.2020	31.12.2019
Interbank settlements	3,364	2,997
Settlements related to securities trade	26	55
Settlements related to brokerage activity	47,703	18,607
Income to receive	53,943	53,850
Staff loans out of the Social Fund	15,087	16,306
Sundry debtors	78,929	68,218
Prepayments	18,688	6,546
Other assets, total	**217,740**	**166,579**
Including financial assets*	145,109	106,183

** Financial assets include all the positions "Other assets", except the positions "Income to receive" and "Prepayments".*

20. Amounts due to banks

PLN '000	30.06.2020	31.12.2019
Current accounts	1,326,741	1,457,233
Time deposits	356,796	156,425
Liabilities due to sold securities under repurchase agreements	40,234	214,135
Other liabilities, including:	791,005	297,702
Margin deposits	784,216	297,669
Total amounts due to banks	**2,514,776**	**2,125,495**

21. Amounts due to customers

PLN '000	30.06.2020	31.12.2019
Deposits from financial sector entities		
Current accounts	1,431,786	797,540
Deposits	4,383,101	3,759,106
	5,814,887	**4,556,646**

PLN '000	30.06.2020	31.12.2019
Deposits from non-financial sector entities		
Current accounts, including:	34,157,767	27,714,669
institutional customers	18,409,419	13,990,381
individual customers	12,184,132	10,335,509
budgetary units	3,564,216	3,388,779
Time deposits, including:	5,639,189	7,248,176
institutional customers	3,503,566	4,055,101
individual customers	2,070,713	3,126,422
budgetary units	64,910	66,653
	39,796,956	**34,962,845**
Total deposits	**45,611,843**	**39,519,491**
Other liabilities		
Liabilities due to sold securities under repurchase agreements	-	-
Other liabilities, including:	276,600	268,311
cash collateral	164,648	159,986
hedging deposits	67,353	43,929
Total other liabilities	**276,600**	**268,311**
Total amounts due to customers	**45,888,443**	**39,787,802**

22. Other liabilities

PLN '000	30.06.2020	31.12.2019
Staff benefits	40,126	34,452
Interbank settlements	367,305	189,986
Inter-system settlements	267	914
Settlements related to securities trade	54,948	20
Settlements related to brokerage activity	108,756	71,765
Liabilities due to leasing assets	139,997	143,270
Sundry creditors	144,654	225,194
Accruals, including:	378,706	275,146
Provision for employee payments	78,668	85,292
Provision for employee retirement	70,343	68,325
IT services and bank operations support	69,891	55,784
Consultancy services and business support	10,083	7,359
Other	149,721	58,386
Deferred income	20,564	21,862
Settlements with Tax Office and National Insurance (ZUS)	25,156	23,934
Other liabilities, total	**1,280,479**	**986,543**
Including financial liabilities*	1,234,759	940,747

** Financial liabilities include all the positions "Other liabilities", except the positions "Settlements with Tax Office and National Insurance (ZUS)" and "Deferred income".*

23. Financial assets and liabilities by maturity date

As at 30 June 2020

PLN '000	Note	Total	Up to 1 month	1 to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years
Amounts due from banks (Gross)	14	**815,881**	**564,973**	**-**	**250,908**	**-**	**-**

PLN '000	Note	Total	Up to 1 month	1 to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years
Financial assets held-for-trading							
Debt securities held-for-trading	15	3,207,389	3,005,506	-	21,928	107,776	72,179
Financial assets measured at fair value through other comprehensive income							
Debt securities measured at fair value through other comprehensive income	16	25,262,575	-	-	187,733	22,572,666	2,502,176
Amounts due from customers (gross)							
Amounts due from financial sector entities	17	4,022,436	1,777,436	-	-	2,245,000	-
Amounts due from non-financial sector entities	17	20,264,741	6,257,845	1,082,930	3,388,811	7,199,863	2,335,292
Amounts due to banks	**20**	**2,514,776**	**2,497,617**	**2,050**	**15,000**	**34**	**75**
Amounts due to customers							
Amounts due to financial sector entities:	21	5,880,401	5,357,065	20,467	502,846	-	23
Amounts due to non-financial sector entities	21	40,008,042	38,198,449	1,125,990	655,667	27,883	53

As at 31 December 2019

PLN '000	Note	Total	Up to 1 month	1 to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years
Amounts due from banks (Gross)	14	**1,168,278**	**756,263**	**278**	**176,459**	**235,278**	**-**
Financial assets held-for-trading							
Debt securities held-for-trading	15	3,881,815	1,000,136	-	91,534	2,623,958	166,187
Financial assets measured at fair value through other comprehensive income							
Debt securities measured at fair value through other comprehensive income	16	15,484,578	-	-	1,289,153	11,422,752	2,772,673
Amounts due from customers (gross)							
Amounts due from financial sector entities	17	3,152,802	866,157	-	141,645	2,145,000	-
Amounts due from non-financial sector entities	17	21,269,620	7,344,510	1,314,465	2,564,481	8,123,589	1,922,575
Amounts due to banks	20	**2,125,495**	**2,108,386**	**2,000**	**15,007**	**45**	**57**
Amounts due to customers							
Amounts due to financial sector entities:	21	4,597,741	4,595,732	310	1,676	-	23
Amounts due to non-financial sector entities	21	35,190,061	32,633,125	1,233,492	1,289,776	33,615	53

24. Financial instruments disclosures

Fair value of financial assets and liabilities

The summary below provides statement of financial position (by category) and fair value information for each category of financial assets and liabilities.

PLN '000	Note	30.06.2020		31.12.2019	
		Balance value	Fair value	Balance value	Fair value
Assets					
Cash and balances with the Central Bank		2,217,908	2,217,908	3,736,706	3,736,706
Amounts due from banks	14	812,505	812,505	1,165,684	1,165,682
Amounts due from customers	17	23,431,417	23,360,974	23,731,874	23,661,886
Liabilities					
Amounts due to banks	20	2,514,776	2,514,725	2,125,495	2,125,592
Amounts due to customers	21	45,888,443	45,885,353	39,787,802	39,781,867

Valuation methods and assumptions used for the purposes of measurement at fair value

Fair value of assets and financial liabilities are calculated as follows:

- The fair value of financial instruments not quoted on active markets is determined using valuation techniques. If valuation techniques are used to determine the fair values, these methods are periodically assessed and verified. All the models are tested and approved before application. As far as possible, only observable data are used in the models, although in some areas, the Bank's management must use estimates. Changes in the assumptions relating to the estimated factors may affect the fair value of financial instruments disclosed.

The Group applies the following methods of measurement of particular types of derivative instruments:

- FX forwards: discounted cash flow model;
- options – option market-based valuation model;
- interest rate transactions – discounted cash flow model;
- futures – current quotations.

- For valuation of securities' transactions current quotations are used. In case of lack of quotations, adequate models based on discount and forward curves, including decrease of credit spread, if needed, are used for valuation.

- The fair value of other assets and financial liabilities (excluding described above) are estimated in accordance to commonly accepted models of valuation based on discounted cash flow analysis, taking into account fluctuations in market interest rates and changes in margins during the financial period.

Fair value included in consolidated statement of financial position

Depending on the method of determining fair value, individual financial assets or liabilities are classified into the following categories:

- Level I: financial assets / liabilities valued directly on the basis of prices from an active market where the regular quotations are available and turnover is sufficient.

  The active market includes stock and brokerage quotes and quotes in pricing services type systems, such as Reuters and Bloomberg, which represent the actual market transactions concluded on the market conditions. Level I mainly include debt securities held-for-trading or measured at fair value through other comprehensive income.
- Level II: financial assets / liabilities valued on the basis of models based on input data from the active market, presented in Reuters and Bloomberg systems. Depending on financial instruments, the following specific valuation techniques are used:
  - listed prices for a given instrument or listed prices for an alternative instrument,
  - fair value of interest rate swaps and forward foreign exchange contracts is calculated as the current value of future cash flows based on the market yield curves and current NBP fixing exchange rate in case of foreign currency instruments,
  - other techniques, such as yield curves based on alternative prices for a given financial instrument.
- Level III: financial assets / liabilities valued on the basis of valuation techniques using relevant, non-market parameters.

The tables below present values of financial instruments in the consolidated statement of financial position, in accordance with a fair value classified by above levels.

As at 30 June 2020

PLN '000	Note	Level I	Level II	Level III	Total
Financial assets					
Financial assets held-for-trading	15	227,587	6,459,528	-	6,687,115
Derivatives		-	3,459,547	-	3,459,547
Debt securities		207,408	2,999,981	-	3,207,389
Equity instruments		20,179	-	-	20,179
Hedging derivatives		-	678	-	678
Debt investment financial assets measured at fair value through other comprehensive income	16	25,262,575	-	-	25,262,575
Equity and other instruments measured at fair value through income statement		1,171	-	65,611	66,782
Financial liabilities					
Financial liabilities held-for-trading	15	53,131	3,532,360	-	3,585,491
Short sale of securities		52,115	-	-	52,115
Derivatives		1,016	3,532,360	-	3,533,376
Hedging derivatives		-	52,868	-	52,868

As at 31 December 2019

PLN '000	Note	Level I	Level II	Level III	Total

PLN '000	Note	Level I	Level II	Level III	Total
Financial assets					
Financial assets held-for-trading	15	2,921,813	2,524,698	-	5,446,511
Derivatives		-	1,524,780	-	1,524,780
Debt securities		2,881,897	999,918	-	3,881,815
Equity instruments		39,916	-	-	39,916
Debt investment financial assets measured at fair value through other comprehensive income	16	15,484,578	-	-	15,484,578
Equity and other instruments measured at fair value through income statement		1,108	-	61,530	62,638
Financial liabilities					
Financial liabilities held-for-trading	15	248,406	1,629,492	-	1,877,898
Short sale of securities		248,406	-	-	248,406
Derivatives		-	1,629,492	-	1,629,492
Hedging derivatives		-	19,226	-	19,226

On the 30th of June 2020 the amount of financial assets classified to the Level III includes the share of PLN 44,132 thousand in Visa Inc. (31 December 2019: the amount of financial assets as shares in Visa Inc. amounted to PLN 41,324 thousand).

The fair value valuation method for VISA shares takes into account the value of shares of Visa Inc. as well as corrections resulting from legal cases (actual and potential) a party of which could be Visa or the Bank. Minority shareholdings in partnerships of Biuro Informacji Kredytowej S.A. and Krajowa Izba Rozliczeniowa S.A. were measured to fair value based on book value of net assets based on audited, annual financial statements of the entities.

Changes in financial assets and liabilities, measured at a fair value that was estimated using relevant parameters not-market based are presented below:

	Equity and other investments measured at fair value through income statement	
PLN '000	01.01.-30.06. 2020	01.01.-31.12. 2019
As at the beginning of period	61,530	47,741
Sale	-	(600)
Revaluation	4,081	14,389
As at the end of period	**65,611**	**61,530**

Revaluation is included in equity and other investments' gain/(loss) measured at fair value through the income statement.

In the first half of 2020 the Group has made no transfers between levels of instruments' fair value due to established method of setting fair value.

In the first half of 2019, the Group has not made any changes in classification criteria of financial instruments (presented in the consolidated statement of financial position at fair value) to each category reflecting the fair value (level I, level II, level III).

During the same period, the Group has not made any changes in financial assets classification that could result from asset's purpose or usage change.

25. Net gain/(loss) on derecognition of asset from balance sheet

The net gain/(loss) on derecognition of financial assets in Group relates to the gain on debt investment financial assets measured at fair value through other comprehensive income and amounted to 174,201 thousand PLN in the first half of 2020 (in the first half of 2019: PLN 54,147 thousand).

PLN '000	II quarter 01.04. - 30.06. 2020	I half of the year 01.01. - 30.06. 2020	II quarter 01.04. - 30.06. 2019	I half of the year 01.01. - 30.06. 2019
Net gain/(loss) on debt investment financial assets measured at fair value through other comprehensive income				
Polish treasury bonds	68,213	172,967	24,852	54,147
Treasury bills	1,234	1,234	-	-
	69,447	**174,201**	**24,852**	**54,147**

Due to specific activity of the Group, changes in debt investment financial assets measured at fair value through other comprehensive income are presented in operating activities in the statement of cash-flows.

26. Hedge accounting

The Group hedges the risk of change in fair value of fixed interest rate debt securities measured at fair value though other comprehensive income. The hedged risk results from changes in interest rates.

IRS is the hedging instrument denominated in the same currency as hedged instruments (as at 30 June 2019 only in PLN) in which the Groups receives variable inflows and pays fixed.

The gain or loss on the hedged item attributable to the hedged risk is recognized in result on hedge accounting in the income statement. The remainder of the change in the fair value of debt securities measured at fair value through other comprehensive income is recognized in other comprehensive income. Interest income on debt securities are recognized in net interest income.

Changes in the fair value of derivatives designated as qualifying hedging instruments are recognized in result on hedge accounting in the income statement. Interest income and interest expenses related to the hedging derivatives under fair value hedge are presented in the net interest income.

As at 30 June 2020, the Group has active hedging relations, designated in this reporting period. Details of hedging instruments and effectiveness of designated hedging relationships are presented below.

PLN '000	Notional value	Balance sheet value		Item in the statement of financial position	Change in fair value used to measure hedge ineffectiveness
		Assets	Liabilities		
Fair value hedge accounting					
Interest rate risk					
IRS Transactions	11,107,174	678	52,868	Hedging derivatives	(44,046)

Details on hedged positions are presented below.

PLN '000	Balance sheet value		Cumulative adjustment due to hedge accounting in balance sheet value of hedged item	Item in the statement of financial position	Change in fair value used to measure hedge ineffectiveness
	Assets	Liabilities			
Fair value hedge accounting					
Interest rate risk					
State Treasury bonds	12,259,817	-	46,543	Debt investment securities measured at fair value through other comprehensive income	42,584

The cumulated amount of hedge accounting adjustments in the statement of financial position for all hedged items, for which hedge accounting was suspended as at 30 June 2020 amounts to PLN 12,510 thousand (as at 31 December 2019: PLN 23,949 thousand).

Information on effectiveness of hedging relationships is presented below.

	Hedge ineffectiveness recognized in the income statement	Item in the income statement
Fair value hedge accounting		
Interest rate risk	(1,463)	Net income on hedge accounting

27. Additional information to the statement of cash flows

PLN '000	30.06.2020	31.12.2019	30.06.2019
Cash related items:			
Cash in hand	370,067	436,216	364,964
Nostro current account in Central Bank	1,847,841	3,300,490	11,172
Current accounts in other banks (nostro, overdrafts on loro accounts)	114,699	60,155	171,093
	2,332,607	**3,796,861**	**547,229**

28. Seasonality or periodicity of business activity

The business activity of the Group does not involve significant events that would be subject to seasonal or cyclical variations.

29. Issue, redemption and repayment of debt and equity securities

In the first half of the year 2020 no issue, pay back or repurchase of debt or equity securities took place.

30. Paid or declared dividends

Dividends paid for 2018

The Ordinary General Meeting of Shareholders of Bank Handlowy w Warszawie S.A. (hereinafter GM) adopted a resolution on distribution of the net profit for 2018 on June 5, 2019. The Meeting resolved to appropriate the amount of PLN 488,666,904.00 for the dividend payment, which means that the dividend per one ordinary share is PLN 3.74. The dividend has cash character and the number of shares covered by the dividend equals to 130,659,600.

Simultaneously, the GM resolved to set the date of the right to the dividend for June 13, 2019 (the day of the dividend) and the day of the dividend payment for June 24, 2019 (the day of the dividend payment).

As at the day of approval of the financial statements by the Management Board, the dividend was paid.

Dividends paid for 2019

The Ordinary General Meeting of Shareholders of Bank Handlowy w Warszawie S.A. (hereinafter GM) adopted a resolution regarding the net profit for 2019 and for the previous years on June 4, 2020. The GM has decided to leave the profit entirely undistributed.

31. Changes in the Bank Capital Group's structure

In the first half of 2020, the structure of the Bank Capital Group's structure has not changed.

32. Changes in granted and received financial and guarantee commitments

The detailed specification of granted and received financial and guarantee commitments as at 30 June 2020 and changes in comparison with the end of 2019 are as follows:

PLN '000	State as at		Change	
	30.06.2020	**31.12.2019**	**PLN '000**	**%**
Contingent liabilities and guarantees granted				
Letters of credit	174,540	182,326	(7,786)	(4.27%)
Guarantees granted	2,234,430	2,273,926	(39,496)	(1.74%)
Credit lines granted	14,473,720	12,935,767	1,537,953	11.89%
Underwriting other issuers' securities issues	53,299	49,935	3,364	6.74%
	16,935,989	**15,441,954**	**1,494,035**	**9.68%**
Letters of credit				
Import letters of credit issued	173,960	174,555	(595)	(0.34%)
Export letters of credit confirmed	580	7,771	(7,191)	(92.54%)
	174,540	**182,326**	**(7,786)**	**(4.27%)**

The provisions of contingent liabilities and guarantees granted by the Bank are established. As at 30 June, 2019 the amount of provisions of granted contingent liabilities and guarantees was PLN 82,634 thousand (31 December 2019: PLN 61,703 thousand).
Guarantees granted include guarantees of credit repayment for payer, other guarantees of payment, guarantees on advance payments, guarantees on properly performance, tender guarantees and endorsements on bills.

PLN '000	State as at		Change	
	30.06.2020	**31.12.2019**	**PLN '000**	**%**

PLN '000	State as at		Change	
	30.06.2020	31.12.2019	PLN '000	%
Contingent liabilities and guarantees received				
Financial	-	-	-	-
Guarantees	20,235,408	20,106,687	128,721	0.6%
	20,235,408	**20,106,687**	**128,721**	0.6%

33. Information about shareholders

The table below present the list of shareholders that hold, at both 30 June 2020 and the day of publishing the consolidated financial statements for the first half of 2020, the list of shareholders who held directly or indirectly through subsidiaries at least 5% of the total number of votes at the General Meeting or at least 5% of the Bank's share capital is as follows:

	Value of shares ('000)	Number of shares	% shares	Number of votes at GM	% votes at GM
Citibank Overseas Investment Corporation, USA	391,979	97,994,700	75.0	97,994,700	75.0
Other shareholders	130,659	32,664,900	25.0	32,664,900	25.0
	522,638	**130,659,600**	**100.0**	**130,659,600**	**100.0**

In the first half of 2020 the structure of major shareholdings of the Bank has not undergone any changes comparing to the first half of 2019.

34. Ownership of issuer's shares by members of the Management Board and Supervisory Board

According to the best knowledge of the Bank – the dominant entity, the number of Bank's shares held by members of Management and Supervisory Board is presented below:

Name and surname	Function	Number of shares on the day of publishing the Semi-annual Financial Statements for the first half of 2020	Number of shares on the day of publishing the Consolidated Financial Report for the 2019	Number of shares on day of publishing the Semi-annual Financial Statements for the first half of 2019
Andrzej Olechowski	Chairman of Supervisory Board	2,200	2,200	2,200
Total		**2,200**	**2,200**	**2,200**

Managing and supervising officers have not declared any options for Bank's shares.

35. Information on pending proceedings

In the Group's opinion, no proceedings regarding receivables or liabilities of the Group conducted in the first half of 2020 in court, public administration authority or an arbitration authority is of significant value, except the cases described in the first point below, which value, in the Group's opinion, is unjustified.

- In January 2019, the Bank became aware of the filing of lawsuits by two previous agents, Rigall Arteria Management spółka z ograniczoną odpowiedzialnością sp. k. with registered office in Warsaw and Rotsa Sales Direct Sp. z o.o. with registered office in Katowice. The lawsuits concerned claims related to agency agreements which in the past merged agents with the Bank.

  On 27 May 2019 the Bank received a statement of claim submitted by Rigall Arteria Management spółka z ograniczoną odpowiedzialnością sp. k. for the payment of PLN 386,139,180.89 along with statutory interest for delay from the date of filing the claim to the payment date and the amount of PLN 50,017,463.89 including statutory interest for delay from the date of filing the claim to the date of payment. The statement of claim refers to the agency agreement, which covered intermediary services for the Bank's products and services, primarily in the segment of consumer banking, and was terminated in 2014.The Court has referred the matter to mediation proceedings, which have not resulted in a mutual agreement, so the Bank filed a response to the statement of claim on 20 February 2020.

  On 10 February 2020 the Bank received a statement of claim submitted by Rotsa Sales Direct sp. z o.o. for the payment of PLN 419,712.468.48 along with statutory interest for delay from the date of filing the claim to the payment date and the amount of PLN 33,047,245.20 including statutory interest for delay from the date of filing the claim to the date of payment. The statement of claim refers to the agency agreement, which covered intermediary services for the Bank's products and services, primarily in the segment of consumer banking, and was terminated in 2014. On 11 May 2020 the Bank filed a response to the suit. The court referred the matter to mediation that is pending.

In the Bank's opinion, the amount of claims filed by the companies is not justified. The Bank's position is confirmed by legally binding resolutions of legal actions taken by the companies against the Bank, which are beneficial for the Bank.

- As at 30 June 2020, the Bank was among others a party to 21 court proceedings associated with derivative transactions. Among these, 18 proceedings have not been terminated with a legally binding conclusion. One of them is pending in the Supreme Court cassation proceeding. In two of them, final termination of proceedings has taken place, yet the time for cassation appeals has still not lapsed. In 14 proceedings the Bank acted as a defendant and in 7 as a plaintiff. The claims and allegations in the individual cases against the Bank are based on various legal bases. The subject of the dispute refers mainly to the validity of the derivative transactions and clients' liabilities demanded by the Bank with respect to those derivative transactions, as well as potential claims regarding potential invalidation of such demands by court decisions. Clients try to prevent the Bank from seeking claims resulting from derivative transactions; they dispute their liabilities towards the Bank, question the validity of the agreements and, in some cases, demand payment from the Bank.

- The Bank was a party to proceedings initiated by the President of the Office of Competition and Consumer Protection (UOKiK) against the Visa and Europay payment system operators and banks - issuers of Visa cards and Europay/Eurocard/Mastercard cards. The Bank was one of the addressees of the President of UOKiK's decision in the case. The proceedings have concerned alleged practices limiting competition on the payment cards market in Poland consisting in the fixing of interchange fees for transactions made with Visa and Europay/Eurocard/Mastercard cards, as well as limiting access to the market for operators who do not belong to the unions of card issuers, against whom the proceedings were initiated. The President of UOKiK's decision was the subject of legal analyses in appeal proceedings. On April 22, 2010, the Appeal Court overturned the verdict of the Court of Competition and Consumer Protection (SOKiK) and referred the case back to the court of first instance. On 21 November 2013 SOKiK gave a judgment, under which a penalty imposed on the Bank was modified and set in the amount of PLN 1,775,720. On October 6, 2015 the Appeal Court modified the verdict of the Competition and Consumer Protection Court and denied all appeals from the decision of the President of the Competition and Consumer Protection Office, including the changes of amounts of the fines that were imposed upon banks. As a result, the fine in the amount of 10,228,470 PLN that was originally imposed upon the Bank has been reinstated. As the Bank submitted extraordinary appeal on the 25 October 2017 the Supreme Court has overturned the Appeal Court's verdict and the case has been returned to the Appeal Court for a second review. The appeals proceedings has begun again. In the first quarter of 2018, the Bank received the reimbursed of the fine which was recognized in the profit and loss. In the first half of 2020 the case did not develop.

- The Group is carefully following the changes of the legal environment arising out of the courts' case law regarding mortgage loans indexed to foreign currencies, including the judgment of the Court of Justice of the European Union (CJEU), case no. C 260/18, of 3 October 2019. The Group has identified a number of doubts as regards interpretation of the above-mentioned judgment. As at the day of these financial statements, these doubts prevent a reliable and rational assessment of the influence of the judgment on proceedings pending before national courts and necessitate a thorough analysis of the relevant case law. Given the marginal share of mortgage loans indexed to CHF in the entire loan portfolio, the Group finds that any court rulings on these loans that are unfavorable to the Bank should not significantly affect the Group's financial situation.

- On September 11, 2019, CJEU passed a ruling in the case C 383/18, indicating the following interpretation of Article 16(1) of Directive 2008/48/EC of the European Parliament and of the Council of 23 April 2008 on credit agreements for consumers (Directive): "the right of the consumer to a reduction in the total cost of the credit in the event of early repayment of the credit includes all the costs imposed on the consumer." Hence, according to the provisions of the Directive, the above-mentioned right of the consumer includes costs both related and not related to the duration of the contract. In performance of the banking activities falling under the definition of a consumer credit, the Bank charged commissions which were, in the light of the practice being in place during this time, structurally not related to the duration of the contract and thus not subject to reduction in the event of early repayment of a consumer credit. CJEU ruled on the interpretation of the provision of the Directive which is not directly binding upon domestic law entities and requires implementation into the national law, whose potential amendment, interpretation and application will be of significant importance in assessing customers' claims for the reimbursement of a part of commissions in the event of early repayment of a consumer credit.

  In its practice, the Bank has taken into account the influence of the judgment on the interpretation of the national law, whereby the total cost of credit specified for consumer credit agreements concluded after the date of delivery of the judgment, will be accordingly reduced; the reduction will apply to all the costs borne by the consumer. As a reaction to changes of the market standards and the regulatory environment, the Bank will adjust the way of reducing total credit cost through applying the so-called "linear method", suggested by UOKiK, the use of which has been declared by majority of banks.

  The Group is monitoring the risk of claims for the return of a part of commission. The Group, based on internal and external legal analysis, previous court rulings in the this case and the number of court cases received by the Group, did not create provisions for potential commission returns for customers who repaid consumer loans early as of 2019.

As of June 30, 2020, the Group is sued in 99 cases concerning the return of a part of commission for granting a consumer credit for the total amount of PLN 521,315.00 and in 18 cases concerning a credit indexed to CHF for the total amount of PLN 2,789,940.00 (most of the cases are in the first instance).

In accordance with applicable regulations, the Group recognizes impairment losses for receivables subject to legal proceedings.

In the case of legal proceedings involving the risk of cash outflow as a result of meeting the Bank's commitments, the appropriate provisions are created. The value of provisions for disputes as at 31 March 2020 is PLN 3,020 thousand. PLN (3,214 thousand PLN as at December 31, 2019).

In the first quarter of 2020 the Group did not make any significant settlement due to court ended with the final judgment.

36. Transactions with the key management personnel

PLN '000	30.06.2020		31.12.2019	
	Members of the Management Board	Members of the Supervisory Board	Members of the Management Board	Members of the Supervisory Board
Loans granted				
Current accounts	11,575	23,328	10,776	30,731
Term deposits	9,459	-	10,563	6,411
Deposits	**21,034**	**23,328**	**21,339**	**37,142**

As at 30 June 2020 and 31 December 2019, no loans or guarantees were granted to members of the Management Board and the Supervisory Board.

All transactions of the Group with members of the Management Board and the Supervisory Board are at arm's length.

Staff costs for the first half of 2020 include salaries and rewards costs of both current and former Members of the Management Board amounting to PLN 12,428 thousand (for the first half of 2019: PLN 8,702 thousand).

From the scope of work relationship, among contracts of employment between Bank and Members of Management Board, only in one case of one Member of Management Board the contract includes a provision on the financial compensation in case of its termination upon notice.

A separate non-competition agreement conducted with the Bank applies to each member of the Bank's Management Board. According to its provisions, in case of termination of employment in the Bank, in the period of 12 months (in case of one member of the Management Board – of 6 months) from the date of employment termination, the member of the Management Board is obligated to refrain from competitive activities against the Bank. Due to limitations mentioned above, the Bank will be obliged to pay the compensation to the member of the Management Board.

37. Related parties

Transactions with related parties

The Group is a member of Citigroup Inc. The Bank is a subsidiary of Citibank Overseas Investments Corporation, with headquarters in New Castle, USA a subsidiary of Citibank N.A, with headquarters in New York, USA, which is the ultimate parent company of the Bank.

Within its normal course of business activities, the Group enters into transactions with related entities, in particular with entities of Citigroup Inc.

The transactions with related entities result from current activity of the Group, and mainly include loans, deposits, guarantees and derivatives transactions.

Apart from the transactions described in this section, in the presented period neither the Bank nor the Bank's subsidiaries conducted any transactions with related entities, which would be individually or jointly significant. No transaction with related entities was concluded on terms other than market terms.

Transactions with Citigroup Inc. entities

The receivables and liabilities towards Citigroup Inc. companies are as follows:

PLN '000	30.06.2020	31.12.2019
Receivables, including:	**81,495**	**18,863**
Deposits	-	-
Liabilities, including:	**1,178,434**	**1,427,631**
Deposits*	571,553	384,825
Derivatives	-	-
Assets held-for-trading	937,173	500,799
Liabilities held-for-trading	366,848	285,043
Liabilities on hedge derivatives	-	-
Contingent liabilities granted	**317,213**	**429,279**
Contingent liabilities received	**76,702**	**62,529**
Contingent derivative transactions (liabilities granted/received), including:	**59,446,985**	**55,289,382**
Interest rate instruments	7,426,213	5,951,216
Currency instruments	50,914,167	49,102,998
Securities transactions	288,848	17,581
Commodity transactions	817,757	217,587

**Including deposits of parent undertaking in amount of PLN 12 thousand (31 December 2019: PLN 12 thousand).*

PLN '000	01.01. – 30.06. 2020	01.01. – 30.06. 2019
Interest and commission income*	17,545	18,456
Interest and commission expense*	5,115	35,588
General administrative expenses	82,857	86,678
Other operating income	4,127	4,387

**Interest and commission income in amount of PLN 458 thousand (for the first half of 2019: PLN 631 thousand) and interest and commission expense in amount of PLN 0 thousand (for the first half of 2019 PLN 2 thousand) refer to parent undertaking.*

The Group receives income and incurs costs on derivative transactions with entities of Citigroup Inc. in order to hedge market risk. These are back to back derivative transactions, opposite to transactions with Group's other clients and closing Bank's own position that is related to the risk of market parameter (exchange rate, FX), whereas the stable part e.g. the margin is not being closed due to no risk generated on these transactions. On 30 June 2020 net balance valuation of transactions on derivatives amounted to PLN (570,325) thousand (31 December 2019: PLN (215,756) thousand). The Group runs a compression of derivative transaction portfolios' periodically. It is one of the risk-mitigation techniques recommended by the "Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories" and the implementing regulations (EMIR Regulation). In accordance with the EMIR Regulation this in particular applies to the portfolios exceeding 500 derivative transactions.

Furthermore the Group incurs costs and receives income from agreements between Citigroup Inc. entities and the Bank, regarding the provision of mutual services.

In the first half of 2019 the costs incurred and accrued (including VAT reflected in the Group's costs) in the from the agreements were connected, in particular, with costs of services regarding the maintenance of Bank's information systems and advisory support and are presented in the General administrative expenses and other operating expenses; income was related to data processing and other services rendered by the Bank and is presented in the Other operating income.

In first half of 2020 there was a capitalization of investments regarding efforts over modification of functionality of IT Bank's systems'. Total value of payments to Citigroup Inc. units amounted to PLN 40,970 thousand (in 2019: PLN 55,708 thousand).

38. The impact of COVID-19 on the Group's functioning

The announcement of COVID-19 pandemic in Poland since March 2020 has had a significant influence upon the Group's functioning. On the one hand, the environment of the Group's functioning has changed under the influence of unprecedented activities undertaken by public institutions and regulators; on the other hand, a change in behavioural pattern and habits of customers, both institutional and retail, has been noted.

<u>Operating activities</u>

The group has focused on ensuring its employees' safety and operational agility. Around 80% of employees continued working remotely from home, which, taking into account the scale of it, enforced adjusting the Bank's ICT infrastructure and conducting investments improving safety.

The Group, supporting over 1300 employees that are potentially the most vulnerable to the fallout of the pandemic crisis, paid out one-off benefit to the workers coming to the offices during the time of limited movement. The Group has paid out one-off financial rewards. The Group has been focusing on regular communication with employees through the weekly

COVID News, “Take Care of Yourself during Covid-19” newsletter, Town Halls with the President of the Management Board and senior management.

The Group has developed a plan for return to the offices comprising division of workers into two groups and implementation of a weekly shift system; rules of safe office work have also been developed and solutions like hygiene measures, defining the maximum number of people allowed in common rooms, etc., implemented. As of the day of preparing the statement, no specific date of return to the offices has been established.

Additionally, the Bank has focused on maintaining high quality of customer service despite intensified communication within the remote channels in the early phase of the pandemic, in the new remote-office work environment. In terms of retail customer service, the Bank has noted an increase among CitiGold client’s calls of 9% in March 2020 relative to the annual average of 2019. At the same time, the NPS result for CitiPhone amounted to 58% and was the highest since 2017. During the second quarter of 2020, the situation has normalized and the number of calls decreased by 10% relative to the first quarter of 2020.

Financial activities

On 17 March, 8 April, and 28 May of 2020, the Monetary Policy Council decided to lower the interest rates (including reference interest rate, in total by 140 basis points), which negatively influence the Group’s interest income. According to the current report no. 18/2020 published on 8 June 2020, the Group estimates this negative influence of lower interest rates upon the Group’s interest income will amount to between PLN 150 and 180 million in total, in 2020.

Due to persistent economic uncertainty reflected in the depth of the recession, the length of it, and the level of its expected recovery, which has direct impact on the Group clients’ activity, the Group has decided to create additional provisions for the expected credit losses, dedicated to the effects of COVID-19 epidemic, in the amount of PLN 137 million in the first half of 2020 (PLN 114 million related to institutional banking and PLN 23 million related to retail banking). However, the main measures of credit risk (non-performing loans ratio – NPL, coverage ratio) remain at a stable level relative to the periods before the pandemic.

Equity ratios of the Group are at a significantly higher level than the regulatory minimum. Capital adequacy ratio amounted to 19.9% as at the end of the first half of 2020 and is by 9.22 percentage point above the regulator’s expectations. Relative to the end of 2020, the capital adequacy ratio increased by 2.8 percentage point, mostly due to profit retention for 2019. Retaining the profit for 2019 was in accordance with the Polish Financial Supervision Authority’s expectations.

Business activities

In the face of unprecedented situation caused by the epidemic, the Group has been focusing on supporting its own clients within institutional and retail banking. The main areas of the Group’s activities were concerned with supporting the clients liquidity, focusing on promoting and developing tools enabling safe contact with the Group and investing in the safety of using these tools.

In order to support corporate liquidity and retain jobs, the Bank has implemented solutions of the Polish Development Fund’s Anti-crisis Shield Programme. Through the electronic banking systems – CitiDirect BE or Citibank Online, microenterprises, small, medium, and big enterprises can apply for a grant. At the same time, the Bank has implemented de minimis guarantee and guarantees from the Liquidity Guarantees Fund of Bank Gospodarstwa Krajowego as additional support for enterprises. The Bank, in conjunction with the Union of Polish Banks, has made available a solution consisting in introducing a temporary deferral of repayment of loan instalments up to 3 months in case of institutional clients and 6 months in case of retail clients.

The Bank is also developing electronic channels of access to its products and solutions. For the clients of institutional banking, there has been implemented a qualified electronic signature for the whole documentation (i.a. for the agreements of a bank account, other product agreements or questions and forms). Additionally, there have been implemented new functionalities in the online banking system – CitiDirect BE, such as: MobilePASS (access to the system with the use of dynamic passwords generated on a smartphone), CitiDirect Be Mobile (everyday payments management directly from a smartphone or tablet), CitiDirect BE Administrator (other users’ permissions management), eWnioski (electronic platform for documentation exchange). Due to the above solutions and facilities, the number of clients using CitiDirect system amounted to 4,350 as at the end of the first half of 2020; the Bank has processed over 15 million transactions electronically. On the other hand, for the retail banking clients, the Bank has additionally improved the safety of electronic banking use through adding a mobile authorisation service – Citi Mobile Token. The bank has also conducted a dedicated educational campaign for safe methods of electronic banking contact.

Due to the introduced restrictions aiming at containing the spread of coronavirus, behaviour and activities of the clients have undergone a change. In terms of transactional parameters of retail clients’ credit cards, both the structure and volume of their expenditures have changed. In March 2020 after introducing the epidemic state in Poland, the Bank noted a decrease of 21% (year-to-year) in card expenditures. It was mainly related to the credit card’s overrepresentation in expenditures associated with traveling (e.g. hotels booking, buying plane tickets, etc.). On the other hand, the grocery shopping category has noted an increase. After a gradual defrosting of the economy in May 2020, the Bank has noted increasing card expenditures; in May +23% comparing with April. Since the beginning of June, a gradual improvement in expenditures related to apparel and grocery shopping can be seen.

The influence on credit risk

In the first half of 2020, due to COVID-19 outbreak, the Bank has undertaken a series of measures within credit risk management. Given significant dynamics of changes, high uncertainty regarding COVID-19-related incidents, especially in terms of the scale of slowdown, horizon or the effects of aid programmes, the Bank is analysing the market conditions and their influence upon credit portfolio quality on an ongoing basis as well as monitoring control guidelines in terms of the rules of including COVID-19’s influence upon calculating provisions for expected credit losses, undertaking proper measures.

The Bank is monitoring credit portfolio, with particular emphasis on the assessment of the scale of influence and sensitivity of particular industries and clients on the situation related to the effects of the pandemic. As a result of this monitoring, the Bank has discounted the current economic uncertainty and its potential effects in terms of the assessment of borrowers' creditworthiness and the classification change. Additionally, the Bank has included the observed and forecasted deterioration of the macroeconomic environment. The above factors contributed to an increase in the expected write-offs for credit losses.

In the case of institutional banking, the result on expected credit losses in the first half of 2020 amounted to PLN 139 million; the biggest change was related to exposures in Stage 2. This increase was mainly caused by the influence of scenarios of macroeconomic forecasts.

In the case of retail banking, in the first half of 2020, a decrease in the portfolio's value has been observed, resulting mostly from decreased credit cards' utilisation and reduced sale of cash loans. The credit costs' increase resulted mostly from changes in the PD parameter, caused by delays in repayment, decrease in the observed recoveries, and macroeconomic forecasts taking into account the pandemic.

Provision for expected credit losses with a breakdown to the segments of activities.

	II quarter	I half of the year	II quarter	I half of the year	I half of the year 2020 relative to I half of 2019
	01.04. - 30.06. 2020	01.01. - 30.06. 2020	01.04. - 30.06. 2019	01.01. - 30.06. 2019	
Retail banking	(28,115)	(64,498)	(28,639)	(52,643)	(11,856)
Institutional banking	(81,926)	(139,097)	(77,850)	(82,207)	(56,889)
Total	**(110,041)**	**(203,595)**	**(106,489)**	**(134,850)**	**(68,745)**

Further analyses of the costs of provision for expected credit losses are presented in the note no.11 The portfolio's characteristics are shown in the Risk Management section, where the breakdown of the credit portfolio into stages is shown in accordance with IFRS 9-based accounting policy of the Bank and according to days of delay or rating.

The Group analyses the expected credit losses' sensitivity in terms of the methods and assumptions of the expected credit losses model, especially the sensitivity to the forecasts of macroeconomic situation. The expected credit losses for expositions with no impairment's changes shown in the table below were determined as the difference between the expected credit losses obtained for a specific macroeconomic scenario and the expected credit losses obtained with taking into account all the macroeconomic scenarios weighed by the probability of their realization.

The growing uncertainty and volatility of conditions resulted in an increase of sensitivity and the scale of influence of the applied macroeconomic scenario upon the estimation of the expected credit losses.

The change of the level of the expected credit losses for expositions with no impairment (Stage 1 and 2), assuming 100% realization of the scenario as of 30.06.2020, *PLN '000*	Upside scenario	Downside scenario
Retail banking	(5,359)	7,984
Institutional banking	(36,861)	37,797
Total	**(42,220)**	**45,781**

The scenarios' details are presented in the Risk Management note.

The Bank grants and acts as an intermediary in granting aid tools for debtors as a part of statutory and non-statutory initiatives. The possibility of deferring repayments offered by the Bank is a part of non-statutory moratorium in the meaning of the guidelines of the European Banking Authority regarding statutory and non-statutory moratoriums for credit repayments, used by banks due to the crisis caused by COVID-19. This moratorium was finalized in May 2020 by banks being members of the Union of Polish Banks and notified to the EBA by the Polish Financial Supervision Authority. The moratorium comprises the aid instruments granted from 13 March to 30 June 2020, which was then extended to 30 September 2020. The non-statutory moratorium introduced by the members of the Union of Polish Banks was extended until the same date and notified by PFSA to EBA.

In June 2020, based on the introduced regulations, the Bank made possible for the consumers to suspend the loan repayment for the period of up to 3 months, with no interest charged for using the principal during this period (statutory moratorium). This moratorium was also notified to the EBA by the PFSA.

The table below shows the gross carrying amount of receivables subject to the moratoriums as at 30 June 2020.

PLN '000	Gross carrying amount				
		Residual term for moratoriums			
	Total	<= 3 months	> 3 months <= 6 months	> 6 months	expired

Institutional banking segment	**412,947**	**361,759**	**41,386**	**0**	**9,801**
Retail banking segment	**768,002**	**672,036**	**57,722**	**3,148**	**35,096**
Mortgage-secured loans	188,408	176,151	5,694	0	6,563
Cash loans	402,878	333,030	42,721	2,068	25,059
Credit cards	171,724	157,871	9,307	1,079	3,467
Other	4,992	4,985	0	0	7
Total	**1,180,948**	**1,033,796**	**99,108**	**3,148**	**44,897**

Deferred payment of receivables is treated by the Bank as a payment schedule change that is an insignificant contract change and the effect of this change is included in the interest income, in the income statement. The income from the insignificant change included in the income statement in the first half of 2020 was not material (below PLN 1 million). The occurrence of moratorium doest not automatically cause reclassification of credit exposure to assets with a significant credit risk increase since the initial recognition.

The influence on liquidity risk

Within the processes of liquidity management and the situation caused by COVID-19 pandemic, the Bank has implemented intensified monitoring of the liquidity situation of the Bank and increased the frequency of the Assets and Liabilities Committee meetings that are held for the purpose of current monitoring of the Bank's liquidity and managing liquidity risk.

At the same time, the Bank has noted a significant increase of the clients' funds and improvement of key liquidity measures such as LCR ratio, presented in the "Risk Management" section.

Goodwill impairment test

The Group annually conducts obligatory impairment tests for goodwill impairment accordingly to the model developed on the basis of IAS 36 guidelines. In the Group's opinion, the COVID-19 pandemic and its influence upon the economy, including the banking sector, is a premise to perform an impairment test, which has been performed on 30 June 2020.

The goodwill arisen due to acquisitions before 31 March 2004, i.e., the day of IFRS 3 "Business Combinations" enforcement, has been calculated accordingly to the previously used accounting standards as the difference between the cost of the entity's acquisition and the net value of the assets of the entity being acquired as of the day of acquisition.

Carrying amount of goodwill assigned to CGU

PLN '000	**30.06.2020**	**31.12.2019**
Institutional Banking Sector	851,206	851,206
Retail Banking Sector	394,770	394,770
	1,245,976	**1,245,976**

The basis of the recoverable value valuation of the centers is their value-in-use assessed based on the financial plan. The plan is based on rational and having factual support assumptions that reflect the Group Management's assessment regarding the future economic conditions and the expected results of the Group's activities. Even though the financial plan is, as a rule of thumb, being prepared in annual cycles, the 3-year financial projections updated as of 30 June 2020 reflect the current economic situation.

For the purpose of valuation, a discount rate at the level of 8.80% has been used. The method of determining it has not changed relative to 31 December 2019. The cashflows extrapolation that exceed the projection period is based on growth rates reflecting the long-term inflation target of NBP, which on 30 June 2020 amounts to 2.5 p.p.

For the purpose of conducting impairment tests, goodwill has been assigned to two cash generating units: the Institutional Banking Sector and the Retail Banking Sector. The assignment has been done on the basis of the discounted cash flows model, with the strategy from before the merger.

As a result of the test conducted on 30 June 2020, it has been determined that for both of the segments the value-in-use is higher than the carrying amount thus no impairment has been recognized.

39. Other significant information

Personal changes in the Bank's bodies.

On 31 March 2020, the Supervisory Board decided to appoint Dennis Hussey to perform the Vice-president of Management Board function for a three-year term. The term starts on 1 April 2020.

At the same time, the Supervisory Board appointed Maciej Kropidłowski and Barbara Sobala to perform the Vice-president of Management Board function for the next three-year term.

40. Significant events after the balance sheet date

After the balance sheet date there were no events that should be disclosed in the financial statements.

Members of
Management Board

24 August 2020	Sławomir S. Sikora	The President of Management Board
....	....	....
Date	Name	Position/Function
24 August 2020	Natalia Bożek	Vice-president of Management Board
....	....	....
Date	Name	Position/Function
24 August 2020	Maciej Kropidłowski	Vice-president of Management Board
....	....	....
Date	Name	Position/Function
24 August 2020	Dennis Hussey	Vice-president of Management Board
....	....	....
Date	Name	Position/Function
24 August 2020	Barbara Sobala	Vice-president of Management Board
....	....	....
Date	Name	Position/Function
24 August 2020	James Foley	Member of Management Board
....	....	....
Date	Name	Position/Function
24 August 2020	Katarzyna Majewska	Member of Management Board
....	....	....
Date	Name	Position/Function