

Report of Bank Pekao S.A. Group for the third quarter of 2020



Warsaw, November 2020

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

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Report on the activities of Bank Pekao S.A. Group for the third quarter of 2020

1. Highlights of Bank Pekao S.A. Group

	3 QUARTERS OF 2020	3 QUARTERS OF 2019	2019	2018
INCOME STATEMENT – SELECTED ITEMS				
<i>(in PLN million)</i>				
Operating income ^(*)	5,920.9	6,082.8	8,281.7	7,830.2
Operating costs	(2,637.2)	(2,672.3)	(3,537.1)	(3,444.7)
Gross operating profit ^(*)	3,283.7	3,410.5	4,744.7	4,386.6
Profit before income tax	1,369.6	2,070.1	3,002.5	3,047.3
Net profit for the period attributable to equity holders of the Bank	916.9	1,480.7	2,165.0	2,287.2
PROFITABILITY RATIOS				
Return on average equity (ROE) - nominally	5.0%	8.7%	9.5%	10.2%
Return on average equity (ROE) - linearly adjusted for BGF charges	5.3%	9.1%	9.5%	10.2%
Return on assets (ROA)	0.6%	1.0%	1.1%	1.3%
Net interest margin	2.6%	2.9%	2.9%	2.8%
Cost / income ^(*)	44.5%	43.9%	42.7%	44.0%
Cost / income excluding restructuring costs ^(*)	42.2%	42.5%	41.7%	43.3%
Costs of risk	0.91%	0.41%	0.46%	0.36%
STATEMENT OF FINANCIAL POSITION – SELECTED ITEMS				
<i>(in PLN million)</i>				
Total assets	232,113.9	198,804.4	203,322.9	191,089.8
Customers' financing ^(**)	150,149.0	149,298.4	151,383.8	140,032.3
Amounts due to customers ^(***)	181,343.5	152,691.8	157,203.4	149,143.4
Debt securities issued and subordinated liabilities	7,266.4	8,333.2	9,072.3	7,243.3
Equity	25,149.4	22,823.9	23,398.0	22,808.2
STATEMENT OF FINANCIAL POSITION STRUCTURE RATIOS				
Customers' financing ^(**) / total assets	64.7%	75.1%	74.5%	73.3%
Securities / total assets	25.7%	16.3%	17.8%	15.0%
Deposits ^(****) / total assets	81.3%	81.0%	81.8%	81.8%
Customers' financing ^(*) / deposits ^(****)	79.6%	92.7%	91.0%	89.5%
Equity / total assets	10.8%	11.5%	11.5%	11.9%
Total capital ratio	18.8%	17.2%	17.1%	17.4%
EMPLOYEES AND NETWORK				
Total number of employees	15,334	16,237	15,678	16,714
Number of outlets	733	809	805	818
Number of ATMs	1,616	1,663	1,648	1,708

(*) Starting from the first quarter of 2020 the Group made changes in the presentation of selected items of the income statement. The items: 'Net result on other provisions, and 'Gains (losses) on disposal of property, plant and equipment and intangible assets, are presented in the line 'Net other operating income and expenses' (and thus in operating income gross operating profit and relevant indicators). The above-mentioned changes resulted in restatement of comparable data, but without impact on the net profit for the period. In order to ensure comparability, data for the three quarters of 2019 and for the years 2018-2019 have been restated in comparison to those previously published.

(***) Including net investments in financial leases to customers, non-treasury debt securities and excluding reverse repo transactions.

(****) Excluding repo transactions and lease liabilities.

(*****) Deposits include amounts due to customers, debt securities issued and subordinated liabilities.

Note: Income statement data included in the table above and other notes to the Report on activities were presented according to income statement in a presentation form, which differs from the long form of the income statement presented in the Financial statements of the Group. Reconciliation of income statement in the presentation form and the long form is in the point 6.8 of the Report on activities.

Report on the activities of Bank Pekao S.A. Group for the third quarter of 2020

2. Highlights of Bank Pekao S.A.

	3 QUARTERS OF 2020	3 QUARTERS OF 2019	2019	2018
INCOME STATEMENT – SELECTED ITEMS (in PLN million)				
Operating income (*)	5,666.4	5,825.1	7,887.0	7,478.3
Operating costs	(2,428.3)	(2,413.4)	(3,203.6)	(3,119.0)
Gross operating profit (*)	3,238.2	3,411.7	4,683.4	4,359.4
Profit before income tax	1,349.4	2,111.3	3,015.8	3,020.8
Net profit	931.8	1,566.5	2,247.5	2,310.6
PROFITABILITY RATIOS				
Return on average equity (ROE) - nominally	5.3%	9.6%	10.2%	10.7%
Return on average equity (ROE) - linearly adjusted for BGF charges	5.6%	10.0%	10.2%	10.7%
Return on assets (ROA)	0.6%	1.1%	1.1%	1.3%
Net interest margin	2.6%	2.9%	2.9%	2.8%
Cost / income (*)	42.9%	41.4%	40.6%	41.7%
Cost / income excluding restructuring costs (*)	40.4%	40.0%	39.5%	41.1%
Costs of risk	0.94%	0.40%	0.43%	0.36%
STATEMENT OF FINANCIAL POSITION – SELECTED ITEMS (in PLN million)				
Total assets	223,433.7	191,648.3	194,650.0	184,347.2
Customers' financing (**)	140,449.0	141,373.3	142,146.0	133,085.1
Amounts due to customers (***)	181,817.3	153,258.8	157,750.4	149,784.4
Debt securities issued and subordinated liabilities	3,485.6	4,342.9	4,368.8	3,745.1
Equity	24,284.7	21,956.3	22,526.7	21,821.9
STATEMENT OF FINANCIAL POSITION STRUCTURE RATIOS				
Customers' financing (**) / total assets	62.9%	73.8%	73.0%	72.2%
Securities / total assets	26.8%	17.0%	18.6%	15.5%
Deposits (****) / total assets	82.9%	82.2%	83.3%	83.3%
Customers' financing (*) / deposits (****)	75.8%	89.7%	87.7%	86.7%
Equity / total assets	10.9%	11.5%	11.6%	11.8%
Total capital ratio	20.9%	18.8%	18.7%	18.7%
EMPLOYEES AND NETWORK				
Total number of employees	13,244	14,298	13,779	14,569
Total number of outlets	733	809	805	818
Number of ATMs	1,616	1,663	1,648	1,708

(*) Starting from the first quarter of 2020 the Group made changes in the presentation of selected items of the income statement. The items: 'Net result on other provisions, and 'Gains (losses) on disposal of property, plant and equipment and intangible assets, are presented in the line 'Net other operating income and expenses' (and thus in operating income gross operating profit and relevant indicators). The above-mentioned changes resulted in restatement of comparable data, but without impact on the net profit for the period. In order to ensure comparability, data for the three quarters of 2019 and for the years 2018-2019 have been restated in comparison to those previously published.

(**) Including debt securities eligible for rediscounting at Central Bank, non-treasury debt securities and excluding reverse repo transactions.

(***) Excluding repo transactions and lease liabilities.

(****) Deposits include amounts due to customers, debt securities issued and subordinated liabilities.

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3. Summary of Performance

Net profit of the Bank Pekao S.A. Group attributable to the Bank's holders for the three quarters of 2020 amounted to PLN 916.9 million and was lower by PLN 563.8 million i.e. 38.1% y/y, mainly due to higher write-offs for impairment of financial assets, related to the COVID-19 coronavirus pandemic (about PLN 562 million impact on net profit).

Despite the COVID-19 coronavirus pandemic, the Group increased the size of its commercial activities, actively supported clients' financial liquidity and focused on further improving cost-effectiveness and protecting the portfolio:

- In the third quarter of 2020, the Group recorded an improvement in its results on commercial activities, including a visible increase in the sales of consumer loans supported by remote channels, an increase in financing in the area of micro and SME segments, as well as in the area of leasing and factoring. There was an improvement in the sales of investment funds, both in net and gross terms. All activities translated into an increase in the balance sheet total by 16.8% y/y to the level of PLN 232 billion, including an increase in amounts due to customers by 18.8% y/y and an increase in key loan products, including mortgage loans by 6.6% y/y.
- The Group actively supported clients in maintaining financial liquidity during the COVID -19 pandemic, inter alia, by providing funds from government aid programs under the so-called "Anti-crisis shield" using the instruments of the Polish Development Fund - over 31 thousand customers took advantage of the subsidy through the Bank (applications for the amount of over PLN 7 billion were accepted), the government guarantee program (BGK de minimis and the Liquidity Guarantee Fund) and European guarantee programs for SMEs and micro enterprises. Customers were allowed to suspend loan installments payments for the duration of temporary liquidity problems during the pandemic.
- New tools and processes were implemented to facilitate remote operations and the seven golden rules of safe banking were promoted. Out of concern for the safety of employees, thanks to the developed technological possibilities and digitization of processes, conditions for remote work were organized for those employees whose daily work is not related to direct contact with the client. All branches have been equipped with special protective measures to ensure the safety of both customers and employees. Opening hours and working hours were also reorganized.
- Advanced digital solutions were implemented, as well as digitization and process automation (including receipt of documents in electronic form), aimed at providing remote customer service and the process of mass use of electronic qualified signatures. A number of promotional and information campaigns were conducted, in which customers were encouraged to use banking services through the use of mobile channels and internet banking. Customer relations were strengthened, facilitating the use of remote channels, which contributed to the increase in the number of new active customers of mobile banking by 305 thousand y/y and exceeding the 50% share of consumer loan sales in remote channels in the total sales of this product.
- The Group focused on improving cost-effectiveness, security and quality of the loan portfolio. Operating costs, including the contribution and payments to the Bank Guarantee Fund (BGF), were lower by 4.3% y/y. Portfolio guarantees were actively used under the Liquidity Guarantee Fund prepared by Bank Gospodarstwa Krajowego, the risk appetite was adjusted, especially in relation to the most risky assets, while at the same time applying a very conservative approach to recognizing impairment losses on financial assets.

The Group maintained the solid capital base (TCR amounted to 18.8% as at the end of September 2020) and the safe liquidity profile reflected by net loans to deposits ratio at 79.6%. This, together with high level of capital, enables for further solid and stable development of the Group's activities.

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Main P&L items

In the three quarters of 2020, the Group's operating income amounted to PLN 5,920.9 million and was lower by 2.7% in comparison with the three quarters of 2019, mainly due to the negative impact of the economic situation including interest rate cuts, and lower customer activity.

- Net interest income in the three quarters of 2020, amounted to PLN 3,996.9 million and was lower by PLN 52.5 million, i.e. 1.3% compared to three quarters of 2019, mainly due to the negative impact of interest rate cuts.
- The Group's net fee and commission income in the three quarters of 2020, amounted to PLN 1,777.3 million and was lower by PLN 101.7 million, i.e. 5.4% compared to the three quarters of 2019, mainly due to lower customer activity due to the pandemic, which translated into lower commissions on card operations, investment funds and loans.

In the three quarters of 2020 operating costs including contributions and payments to the Bank Guarantee Fund, amounted to PLN 2,974.1 million and were lower by PLN 132.4 million, i.e. 4.3% than in the three quarters of 2019.

- The operating costs excluding restructuring provision amounted to PLN 2,502.5 million and were lower by 3.3% y/y, below inflation and despite the costs of investments in operational transformation and digitization and additional costs associated with the coronavirus pandemic. Nominal costs were lower by PLN 35.1 million, i.e. 1.3% compared to the costs achieved in the three quarters of 2019.
- Bank Guarantee Fund fee in the three quarters of 2020 amounted to PLN 336.9 million, and were lower of PLN 97.3 million as compared the three quarters of 2019.

The Group's net impairment losses on financial assets and off-balance sheet commitments amounted to PLN 1,082.3 million in the three quarters of 2020, and was more than twice as compared the three quarters of 2019, due to the creation of impairment related to the COVID-19 virus pandemic in accordance with IFRS 9. Impairment losses for financial assets related to the COVID-19 coronavirus pandemic were created based on the forecasted deterioration of the risk parameters of the loan portfolio in the amount of ca. PLN 694 million and estimated based on macroeconomic scenarios assuming an economic recession in Poland in 2020.

Tax on certain financial institutions in the three quarters of 2020 amounted to PLN 494.9 million and was higher by PLN 52.0 million, i.e. 11.7% as compared the three quarters of 2019, due to an increase in Group's assets.

Volumes

As at the end of September 2020, loans and advances at nominal value amounted to PLN 156,246.2 million, an increase of PLN 1,729.8 million, i.e. 1.1% in comparison to the end of September 2019. The volume of retail loans grew by 3.8% y/y thanks to dynamic growth of PLN mortgage loans by 6.6% y/y. The volumes of corporate loans, including non-Treasury debt securities, were lower by 1.5% y/y, but with a visible increase in volumes in the medium-sized enterprises segment (1.7% y/y) and significantly increasing lease receivables.

As at the end of September 2020, amounts due to the Group's customers and debt securities issued amounted to PLN 188,609.9 million, an increase of PLN 27,584.9 million, i.e. 17.1% in comparison to the end of September 2019, with volume of corporate growing by 27.7% and retail deposits growing by 12.8% y/y, systematically increasing share in the financing structure.

The value of net assets of investment funds managed by Pekao TFI S.A. amounted to PLN 18,334.0 million as at the end of September 2020, an decrease of PLN 2,474.7 million, i.e. 11.9% in comparison to the end of September 2019. The decrease occurred mainly in March and was related with a pandemic situation in the country and abroad. Most of the funds from redemptions of funds were placed in bank deposits. Since April 2020, there has been a systematic change and a significant increase in sales by 11.7%.

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Impact of the COVID-19 pandemic on the functioning of the Group

In March 2020, as a consequence of the World Health Organization announcement of the COVID-19 coronavirus pandemic, the state of epidemic threat was introduced in Poland, followed by the state of epidemics, which resulted in the freezing of economy in Poland and in the world. The government reacted quickly to the threat and introduced changes in the law that limited the spread of the virus as well as assistance packages for banks, enterprises and individual clients. The Monetary Policy Council (MPC) has reduced interest rates as well as the mandatory reserve requirement and capital requirements for banks.

Despite the COVID-19 pandemic, the Group actively supported clients in maintaining financial liquidity, focused on further improving cost efficiency and protecting the portfolio, as well as ensuring the operational continuity of the Bank's operations.

The Group supported clients by making funds available from government aid programs under the so-called "anti-crisis shield" using the instruments of the Polish Development Fund (acceptance of applications for the amount of over PLN 7 billion), the government guarantee program (Bank Gospodarstwa Krajowego de minimis and the Liquidity Guarantee Fund) and European guarantee programs for SMEs and micro-companies. Customers were given the opportunity to suspend loan installments during the period of temporary liquidity problems during the pandemic. New tools and processes were implemented to facilitate remote operations and the seven golden rules of safe banking were promoted. In April 2020, the Bank was the first in Poland to enable entities from the SME and corporate segment to establish relationships and open a company account completely remotely, without the need to visit an advisor.

The Bank undertook initiatives aimed at ensuring the continuity of the Bank's operations, including the possibility of remote work for employees at the headquarter and has maintained the full functionality of most branches and outlets, ensuring security for both employees and customers. Digitization of processes was accelerated and customers were encouraged to use remote communication channels. The liquidity ratios remained at a safe level with a high level of capital, which proves the Bank's preparations for crisis situations, both in operational and financial aspects.

The Bank's activities were not only focused on business activities. The Bank, as a socially responsible institution, supported hospitals in fight against epidemic-with a donation of PLN 5 million. The Bank Foundation donated 23 thousand sanitary masks for doctors, firemen and seniors. Bank employees as volunteers supported the information campaign and participated in a specially launched 24-hour helpline of the National Health Fund in the scope of providing information on the COVID-19 epidemic. Employees of the Bank and other PZU group companies organized a fundraiser for the purchase of barrier tents for hospitals, which protect both medical staff and patients against coronavirus infection. The collected funds were doubled by the Bank and transferred to selected hospitals.

The decline in economic activity in Poland translated was into a worsening of macroeconomic forecasts, a deterioration in the quality of the loan portfolio, a decline in the sale of credit products and the redemption of investment fund participation units due to the difficult situation on the financial markets. The impact of the COVID-19 pandemic on the results of the Bank and the Group will be weakened with the defrosting of the economy that began in May.

Despite the COVID-19 coronavirus pandemic, the Group increased its commercial activities, played an active role in supporting clients' financial liquidity and continued to work on its cost-effectiveness and portfolio protection.

Strategy execution key financial ratios

Due to the impact of the COVID-19 epidemic and consequently, reduction of economic activity, which will result in an increase in cost of risk, lower demand for banking products in Poland and a decrease in interest rates - in 2020 the Bank is not able to achieve key financial indicators at the levels fixed in the Strategy. The Bank plans to review its strategic goals within the process of new strategy preparation. Despite the pandemic, the Bank continues to implement adopted strategic directions, in particular in the areas of digital transformation and digitization as well as operational efficiency and quality.

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4. External Activity Conditions

Epidemic environment

The spread of SARS-CoV-2 virus which causes COVID-19 disease forced authorities to introduce a wide array of containment measures that had serious impact on economic environment and functioning of enterprises, households and financial sector. To limit the spread of the new coronavirus and mitigate pressure on healthcare system, schools and kindergartens were closed on 13, March 2020. In mid-March cross-border passenger travel was banned and shopping centers closed. Free movement of people and gatherings were restricted. Substantial part of services sector was virtually frozen. Additional restrictions to retail trade were introduced from the beginning of April.

The government deployed several programs aimed at limiting negative economic impact of containment measures. Policies were focused on protecting employees and consumers (state paying part of wages, additional social transfers, exemptions from social security contributions), aiding particularly impacted sectors (tourism, transport, trade) and supporting enterprises (subsidies, credit guarantees). So-called "financial shield" is to provide PLN 100 billion (4.5% of GDP) to enterprises and up to PLN 60 billion could be non-returnable.

Support for the real economy was accompanied by monetary and regulatory actions targeted at aiding financial sector. The most important include:

- NBP operations aimed at improving the liquidity of the sector (REPO transactions, bond purchase and others),
- reduction of the systemic risk capital buffer from 3% to 0% (aimed at freeing up capital and thus providing credit support to the economy during the crisis),
- reduction of the mandatory reserve requirement from 3.5% to 0.5%,
- recommendations to retain all profits from previous years instead of paying out dividends,
- milder requirements for the credit assessment of banks required by the KNF (which is intended to provide more support for companies in financial difficulties),
- looser requirements in terms of IFRS9 (reducing the translation of a crisis situation into risk costs),
- deferred MREL requirements.

Moreover, both banks and supervisory institutions have introduced so-called "credit holidays" to help the most vulnerable borrowers by temporarily deferring instalments' payments.

On the basis of published results and current reports, the Bank expects that the financial results of banks in 2020 will be significantly lower compared to the previous year. Deterioration of the macroeconomic environment have had an impact on credit products' sales, while worse macro outlook results in write-downs and poorer portfolio quality. Negative consequences for banks stem also from lowering of interest rates to record-low, near-zero level.

In May authorities started gradually lifting containment measures of key importance for economic activity, while maintaining sanitary regime. Since May 4 shopping centers and hotels were re-opened and granted permissions to allow access to nursery and kindergarten care. In the next stage (since May 18) sit in restaurant services and personal care services were allowed to operate. Indoor sport activities were also permitted. The final stage (May 30 / June 6) lifted limits on the number of persons in shops and restaurants. Gyms, fitness clubs, swimming pools, theaters and cinemas were also opened. Still citizens are recommended to keep social distance and cover mouth and nose indoors, while in public places.

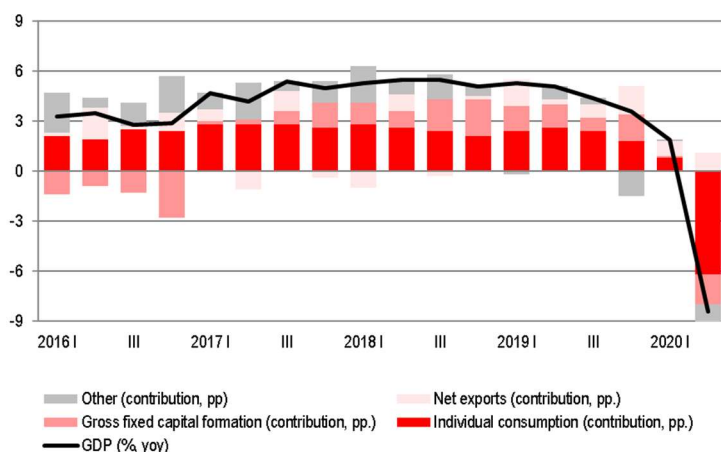
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Autumn brought a surge in the new COVID-19 cases (up to more than 10 thousand cases a day), number of deaths related to coronavirus infection and pressure on healthcare. In response authorities decided to restore some containment measures, mainly related to the use of retail and services floor space, remote teaching at university and high school levels as well as closing some types of services (fitness). Since October 24 the entire country was declared as a “red zone”, what introduced even more severe containment measures, including a ban on sit-in restaurants and limits on public gatherings. As a result, despite buoyant rebound following lifting national lockdown, recovery started losing momentum towards the end of the third quarter of 2020 and outlook for the final quarter of the year is subject to extremely high uncertainty.

Economic growth

In the second quarter of 2020 Gross Domestic Product (GDP) fell by 8.4% year on year as compared with 1.9% year on year increase in the first quarter. It was the sharpest annual decline in nearly two decades. Seasonally adjusted data point to GDP decline by 9.0% qoq after a drop of 0.3% qoq posted in the previous quarter. Therefore Poland experienced so-called “technical recession” (two consecutive quarters of output decline) Domestic demand went down by 9.9% year on year vs. 1.0% year on year increase in the previous quarter, while positive contribution of foreign trade to GDP amounted to 1.1 p.p. Household's consumption growth nose-dived 10.8% year over year amid COVID-19 epidemics containment measures. Investment dropped by 10.7% y/y as a result of rising uncertainty about the impact of pandemics on domestic and global economic growth prospects.

In 2020 Poland is expected to experience the first recession since 1991 as a result on containment measures triggered by COVID-19 epidemic. Many service business suffer sharp deterioration in economic activity and rebound (annual GDP growth) is to be visible only at the beginning of 2021. Most likely the tough of the current business cycle took place in the second quarter of this year. Economic activity bounced back robustly at the beginning of the third quarter, but started losing steam afterwards. New surge in COVID-19 cases in Poland and Europe is the main threat to further economic recovery in the final quarter of this year. The recovery is only partial and uneven across sectors and the pace of recovery in the coming quarters will be dependent on epidemic situation development.

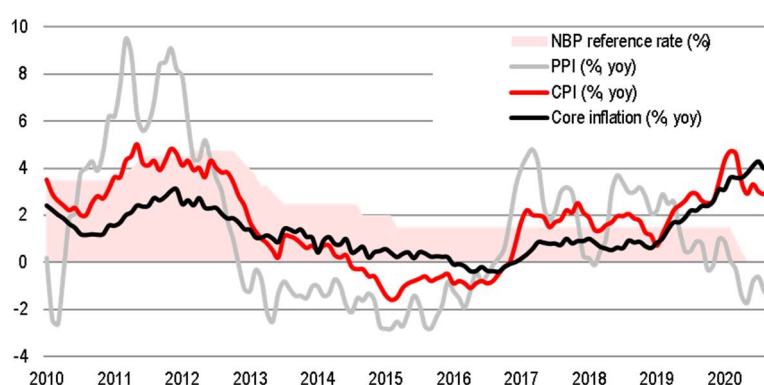


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Inflation and monetary policy

According to preliminary estimate in September 2020 CPI inflation increased to 3.2% year on year from 2.9% year on year in August. Slower annual growth of food prices was accompanied by higher core inflation and slower decline in fuel prices. Inflation is within the range of permissible deviations from the National Bank of Poland (NBP) target (2.5%, +/- 1 percentage point). In September annual price growth was mainly driven by higher costs of housing (5.9% year on year), increase in prices of food (2.9% year on year) and prices in restaurants and hotels (5.3% y/y) that contributed 1.43 p.p., 0.67 p.p. and 0.33 p.p. respectively to CPI growth. In the third quarter of 2020 consumer prices went up by 3.0% y/y after increasing by 3.2% y/y in the second quarter of the year.

In response to deteriorating economic outlook and the risk of recession linked to COVID-19 epidemic at the meeting on May 28 the Monetary Policy Council cut the reference rate by 0.40 b.p. to 0.10%. The central bank informed it will continue to purchase government securities and government-guaranteed debt securities on the secondary market as part of the structural operations. At the end of June 2020 the NBP reference rate stood at 0.10%, the deposit rate at 0.00% and the lombard rate at 0.50%.



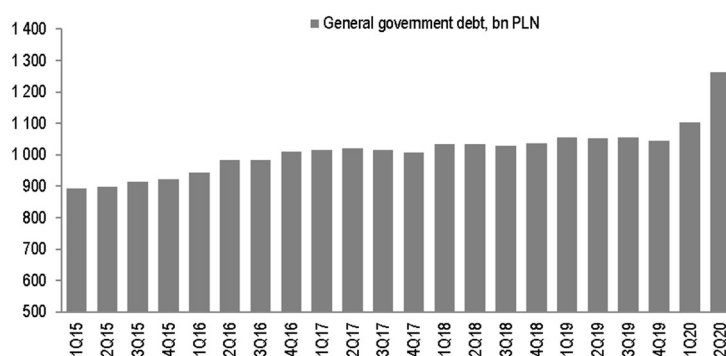
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Fiscal policy

According to the preliminary data of the Ministry of Finance after August the state budget (cash basis) posted a PLN 13.8 billion deficit, while the budget act assumes revenues and expenditures to be balanced in 2020. Budget revenues amounted to PLN 304.5 billion and were PLN 8.5 billion higher in the corresponding period of 2019, whereas budget expenditures totaled PLN 318.3 billion and were PLN 20.5 billion higher than in the first nine months of 2019. Tax revenues fell by PLN 5.4 bn. VAT tax collections were some 1.3% lower than in the first three quarters of 2019 and proceeds from excise duty went down by 1.8% year on year. Corporate income tax (CIT) receipts were broadly in line with the level observed after September 2019, while proceeds from personal income tax (PIT) dropped by 5.9% year on year. Substantial increase in budget spending was to a large extent a consequence of higher subsidies to the local governments, among others due to the expansion of Family 500+ child benefits scheme from July 2019. Due to budget revenues deterioration amid recession and high cost of COVID-19 pandemics combating authorities currently proceed 2020 budget act amendment that envisages deficit at PLN 109.3 billion.

At the end of the second quarter of 2020 the state public debt reached PLN 1,097.3 billion and was PLN 51.8 billion higher than at the end of the first quarter. Domestic debt rose by PLN 80.9 billion during the quarter, while foreign debt declined by PLN 29.1 billion. In relation to GDP the state public debt went up to 48.1% from 45.4% at the end of the previous quarter. The general government debt reached PLN 1,262.0 billion i.e. 55.3% of GDP at the end of the second quarter of 2020.

Some expenditures linked to taming consequences of COVID19 pandemics is financed by the issuance of Bank Gospodarswa Krajowego bonds (COVID-19 combating fund) and Polish Development Fund (financial shield for enterprises). So far the BGK and the PDF issued state-guaranteed bonds worth nearly PLN 150 billion.

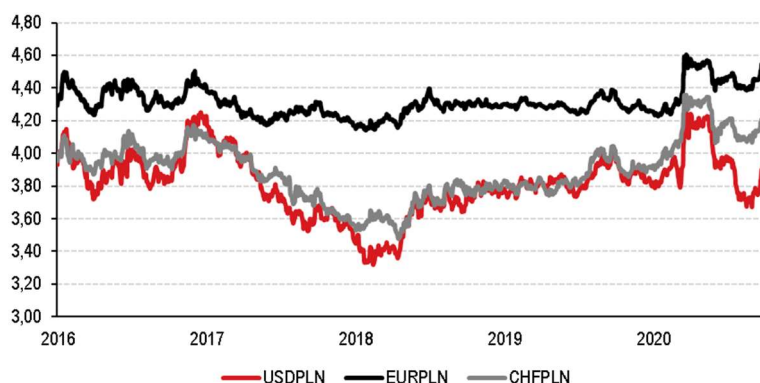


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The exchange rate

Optimism continued to rule on global markets at the beginning of the third quarter. Throughout the entire July major equity indices continued to climb upwards and the dollar was systematically weakening vis-à-vis major currencies, including the euro. This allowed the EUR/USD pair to reach levels unseen since 2018. Good sentiment was supported by positive surprises in macroeconomic data from major economies and by the results of the EU summit, where an agreement on the new expanded and partly debt-financed EU budget was reached. As the number of infections swelled again in August and September, fears of the epidemic's economic impact grew as well. The visible loss of momentum in many economic indicators (including European business sentiment) underscored the need to remain cautious and realistic with respect to the near-term trajectory of the economy. Nevertheless, the lightning never strikes twice and EUR/PLN ended the quarter in the vicinity of 1.17-1.18 far above the Q2 close, but below the summer peak of 1.21. Lack of more vigorous appreciation of the US dollar is associated with smaller economic costs of the second wave, unimpeded functioning of the markets and problems in the US economy (uncertainty regarding the course and the result of the elections and fading hopes for new stimulus).

Trends on global market had a measurable impact on the PLN as well. Until August, when optimism and risk appetite ruled on the markets, PLN remained relatively strong and oscillated close to 4.40 per euro, with minimum volatility. In September the PLN depreciated markedly and in the last decade EUR/PLN reached 4.60 as compared to 4.39 at the beginning of the month. Against the US dollar and the Swiss franc the PLN lost even more (as it grew from 3.66 to 3.93 and from 4.04 to 4.26, respectively). The September sell-off was part of a broader trend – capital was leaving emerging markets leading to depreciation in EM currencies. Within this asset class the PLN fared relatively well, as compared to e.g. Hungarian forint or Turkish lira. This relatively good performance can be attributed to strong economic data from the Polish economy and ongoing improvement in various metrics of external balance. Finally, one should note that this depreciation proved to be a short-lived one, since the PLN appreciated rapidly (to ca. 4.50 against the euro) in the final days of September.



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Banking sector

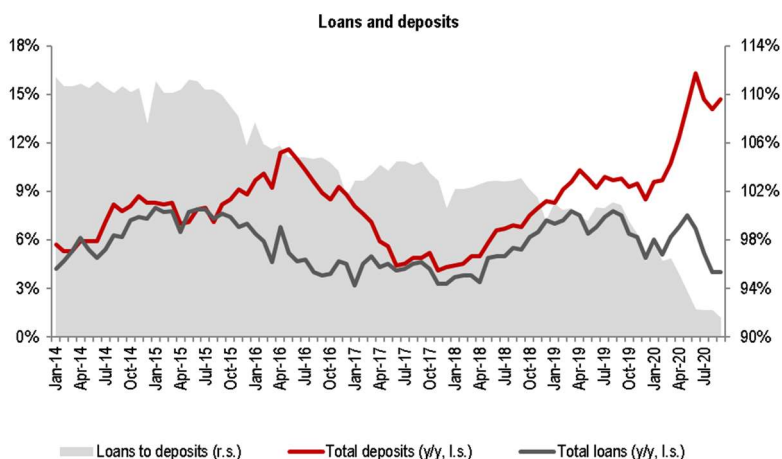
According to the Financial Supervision Authority (KNF) data, in the period of January-August 2020 net profit of the banking sector amounted to PLN 5.6 billion and fell by 47% in comparison to corresponding period of 2019. This significant drop was mainly due to unfavourable macroeconomic environment caused by COVID-19 pandemic and particularly its impact on risk costs of the sector.

Total net operating income of banks in described period decreased by 5.5% year on year. Poor macro environment and low interest rates negatively impact net interest income (-2.2% y/y), while at the same time other income lines fell strongly (-40% y/y), mainly due to lower dividends. In turn, net fees and commission income is growing (+7.8% y/y). Thanks to optimization banks were able to lower operating costs by 1.4% y/y. Costs of risk increased in described period by 47% y/y.

At the end of August 2020 total assets of the banking sector amounted to PLN 2,314 billion and increased by 15.3% compared to the end of August 2019. Total receivables from the non-financial sector stayed nearly the same (+0.1% y/y), while total deposits from this sector increased by 14.8% year on year.

According to the National Bank of Poland (NBP), at the end of September 2020 the nominal volume of households' loans increased by 2.7% compared to year before. The pace was visibly weaker vs. end of 2019 (6.0% y/y). Even stronger deterioration was noted in terms of enterprises, where the volume contracted by 4.2% y/y (vs. growth of 1.2% at the end of 2019)

The growth pace of deposits have accelerated further from already high levels. Such a situation was mainly influenced by the inflow of funds paid out to companies under the so-called anti-crisis shield, and additionally by the effect of savings' accumulation in anticipation of worsening environment. After September 2020 the pace reached 10.4% y/y in case of households (9.5% y/y at the end of 2019) and +29.6% y/y in enterprises (vs. +10.0% y/y after 2019).



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5. Important Events and Achievements

5.1 Description of the Group

The composition of Bank Pekao S.A. Group is presented in the Notes to the Condensed Interim Consolidated Financial Statements of Bank Pekao S.A. Group for the period of 9 months ended on 30 September 2020.

5.2 Changes in the Group's structure

Change of the name of the Bank's subsidiary

On the 17th of January 2020 the Registry Court entered into the Register of Entrepreneurs of the National Court Register the change to the founding act of Centrum Bankowości Bezpośredniej Sp. z o.o., resulting from the resolution of the Extraordinary General Meeting of Shareholders adopted on the 19th of December 2019, concerning the change of the company's name, which currently is Pekao Direct Sp. z o.o.

Acquisition of the organised part of the enterprise of the Pekao Investment Banking S.A.

On the 1st of June 2020, the last stage of the process was completed, which was aimed at integration of the brokerage activities within the Bank Pekao S.A. Group. As a result, the Bank Pekao S.A. acquired the organized part of the enterprise of the Pekao Investment Banking S.A. related to the provision of certain brokerage services. During the process, part of the team of the Pekao Investment Banking S.A. joined the structures of the Bank's organizational unit - Biuro Maklerskie Pekao (Pekao Brokerage House). The remaining activity related to offering investment banking services remains with the Company.

5.3 Changes in the Statutory Bodies of the Bank

Changes in the Supervisory Board

On 15 April 2020 Mr. Paweł Surówka resigned from the position of the Chairman of the Supervisory Board of the Bank and from the composition of the Supervisory Board of the Bank, with the effect from 20 April 2020. As the reason for the resignation, Mr. Paweł Surówka indicated his earlier resignation from the position of the President of the Management Board of Powszechny Zakład Ubezpieczeń S.A., the strategic shareholder of the Bank.

On 21 April 2020 the Supervisory Board of the Bank appointed, effective as of the date of adoption of a resolution, Mr. Grzegorz Janas, member of the Supervisory Board of the Bank, to the function of the Chairman of the Supervisory Board of the Bank during the current joint term of office.

On 19 May 2020 all members of the Supervisory Board of the Bank of the joint term of office ending in 2020, i.e. Chairman of the Supervisory Board Mr. Grzegorz Janas, Vice-Chairmen of the Supervisory Board Mrs. Joanna Dynysiuk and Mr. Stanisław Ryszard Kaczoruk, Secretary of the Supervisory Board Mr. Paweł Stopczyński, as well as members of the Supervisory Board Mrs. Sabina Bigos-Jaworowska, Mrs. Justyna Głębiowska-Michalak, Mr. Michał Kaszyński and Mr. Marian Majcher, resigned from their positions in the Supervisory Board of the Bank and from the mandates in the Supervisory Board of the Bank of the joint term of office ending in 2020, with the effect from the day of the Ordinary General Meeting of the Bank for the financial year 2019. The resignations were submitted for prudential reasons, i.e. due to doubts expressed in jurisprudence and court rulings regarding the counting of the mandate and term of office of a member of the supervisory board, in particular the understanding of "last full year of service".

Report on the activities of Bank Pekao S.A. Group for the third quarter of 2020

The Ordinary General Meeting of the Bank on 22 May 2020, taking into account the assessment of compliance with suitability requirements, appointed the members of the Supervisory Board of the Bank for a new joint term of three years, beginning on 23 May 2020. The following persons were appointed to the Supervisory Board of the Bank:

- Mrs. Beata Kozłowska-Chyła – member of the Supervisory Board,
- Mrs. Małgorzata Sadurska – member of the Supervisory Board,
- Mr. Marcin Eckert – member of the Supervisory Board,
- Mrs. Sabina Bigos-Jaworowska – member of the Supervisory Board,
- Mr. Michał Kaszyński – member of the Supervisory Board,
- Mrs. Joanna Dynysiuk – member of the Supervisory Board,
- Mr. Marian Majcher – member of the Supervisory Board,
- Mr. Stanisław Ryszard Kaczoruk – member of the Supervisory Board,
- Mrs. Justyna Głębiowska-Michalak – member of the Supervisory Board.

According to the submitted statements none of the members of the Supervisory Board of the Bank conduct any business competitive to that of the Bank and none of the members is involved in a competitive business as a shareholder or partner in a civil law company, a partnership or a corporation or a member of a corporate body of a legal person. According to the submitted statements none of the members of the Supervisory Board of the Bank is registered in the Register of Insolvent Debtors kept pursuant to the provisions of the KRS (National Court Register) Act of 20 August 1997.

On the meeting held on 29 May 2020, the Supervisory Board of the Bank appointed:

- Mrs. Beata Kozłowska-Chyła as the Chairwoman of the Supervisory Board of the Bank,
- Mrs. Joanna Dynysiuk as the Deputy Chairwoman of the Supervisory Board of the Bank,
- Mr. Marcin Eckert as the Deputy Chairman of the Supervisory Board of the Bank,
- Mr. Stanisław Ryszard Kaczoruk as the Secretary of the Supervisory Board of the Bank.

The abovementioned appointments are effective on 29 May 2020 and took place for the period of the current joint three-year term of office of the Supervisory Board of the Bank, commenced on 23 May 2020.

Supervisory Board

The composition of the Supervisory Board of Bank Pekao S.A. has as follows:

AS AT THE DATE OF SUBMITTING THE REPORT FOR THE THIRD QUARTER OF 2020	30 SEPTEMBER 2020	AS AT THE DATE OF SUBMITTING THE REPORT FOR THE FIRST HALF OF 2020
Beata Kozłowska-Chyła Chairman of the Supervisory Board	Beata Kozłowska-Chyła Chairman of the Supervisory Board	Beata Kozłowska-Chyła Chairman of the Supervisory Board
Joanna Dynysiuk Deputy Chairman of the Supervisory Board	Joanna Dynysiuk Deputy Chairman of the Supervisory Board	Joanna Dynysiuk Deputy Chairman of the Supervisory Board
Marcin Eckert Deputy Chairman of the Supervisory Board	Marcin Eckert Deputy Chairman of the Supervisory Board	Marcin Eckert Deputy Chairman of the Supervisory Board
Stanisław Ryszard Kaczoruk Secretary of the Supervisory Board	Stanisław Ryszard Kaczoruk Secretary of the Supervisory Board	Stanisław Ryszard Kaczoruk Secretary of the Supervisory Board
Sabina Bigos-Jaworowska Member of the Supervisory Board	Sabina Bigos-Jaworowska Member of the Supervisory Board	Sabina Bigos-Jaworowska Member of the Supervisory Board
Justyna Głębiowska-Michalak Member of the Supervisory Board	Justyna Głębiowska-Michalak Member of the Supervisory Board	Justyna Głębiowska-Michalak Member of the Supervisory Board
Michał Kaszyński Member of the Supervisory Board	Michał Kaszyński Member of the Supervisory Board	Michał Kaszyński Member of the Supervisory Board
Marian Majcher Member of the Supervisory Board	Marian Majcher Member of the Supervisory Board	Marian Majcher Member of the Supervisory Board
Małgorzata Sadurska Member of the Supervisory Board	Małgorzata Sadurska Member of the Supervisory Board	Małgorzata Sadurska Member of the Supervisory Board

Report on the activities of Bank Pekao S.A. Group for the third quarter of 2020

Changes in the Bank's Management Board

On 4 February 2020, the Supervisory Board of the Bank, after assessing suitability, appointed Mr. Jarosław Fuchs to the Management Board of the Bank for the current joint term of office as the Vice President of the Management Board of the Bank, with the effect from 15 February 2020.

On 14 April 2020, the Supervisory Board of the Bank, after assessing suitability, appointed Mr. Leszek Skiba to the Management Board of the Bank for the current joint term of office as the Vice President of the Management Board of the Bank, with the effect from 20 April 2020 and appointed Mr. Grzegorz Olszewski, who currently holds the position of the Member of the Management Board of the Bank, for the position of the Vice President of the Management Board of the Bank, effective from 15 April 2020.

In addition, on 21 April 2020, Mr. Marcin Gadomski resigned from the function of the Vice President of the Management Board of the Bank and from the composition of the Management Board of the Bank.

On 21 April 2020 Mr. Marek Lusztyn resigned, in an agreement with the Supervisory Board of the Bank, from the position of the President of the Management Board of the Bank, without resigning from the composition of the Management Board of the Bank. In the resignation there were no reasons for its submission. Simultaneously, the Supervisory Board of the Bank, after assessing suitability, entrusted Mr. Marek Lusztyn with the function of the Vice President of the Management Board of the Bank and, subject to obtaining the consent of the Polish Financial Supervision Authority and upon obtaining such consent, entrusted Mr. Marek Lusztyn with the function of the Vice President of the Management Board of the Bank supervising the management of material risk in the Bank's operations.

On 21 April 2020, the Supervisory Board of the Bank, after assessing suitability, appointed, effectively from 22 April 2020, Mr. Leszek Skiba, the current Vice President of the Management Board of the Bank, as the President of the Management Board of the Bank for the current joint term of office, subject to obtaining the consent of the Polish Financial Supervision Authority and upon obtaining such consent. Until the above condition is met, on which the appointment of Mr. Leszek Skiba as the President of the Management Board of the Bank depends, the Supervisory Board of the Bank entrusted him with managing the work of the Management Board of the Bank.

On 21 April 2020, the Supervisory Board of the Bank, after assessing suitability, appointed Mr. Krzysztof Kozłowski to the Management Board of the Bank for the current joint term of office as the Vice President of the Management Board of the Bank, effectively from 22 April 2020.

According to the submitted statement Mr. Jarosław Fuchs did not conduct any business competitive to that of the Bank and he was not involved in a competitive of a legal person. Mr. Jarosław Fuchs was not registered in the Register of Insolvent Debtors kept pursuant to the provisions of the KRS Act of 20 August 1997

According to the submitted statement Mr. Leszek Skiba did not conduct any business competitive to that of the Bank and he was not involved in a competitive business as a shareholder or partner in a civil law company, a partnership or a corporation or a member of a corporate body of a legal person. Mr. Leszek Skiba was not registered in the Register of Insolvent Debtors kept pursuant to the provisions of the KRS Act of 20 August 1997.

According to the submitted statement Mr. Grzegorz Olszewski did not conduct any business competitive to that of the Bank and he was not involved in a competitive business as a shareholder or partner in a civil law company, a partnership or a corporation or a member of a corporate body of a legal person. According to the submitted statement Mr. Grzegorz Olszewski was not registered in the Register of Insolvent Debtors kept pursuant to the provisions of the KRS Act of 20 August 1997.

According to the submitted statement Mr. Marek Lusztyn did not conduct any business competitive to that of the Bank and he was not involved in a competitive business as a shareholder or partner in a civil law company, a partnership or a corporation or a member of a corporate body of a legal person. Mr. Marek Lusztyn was not registered in the Register of Insolvent Debtors kept pursuant to the provisions of the KRS Act of 20 August 1997.

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According to the submitted statement Mr. Krzysztof Kozłowski does not conduct any business competitive to that of the Bank and he is not involved in a competitive of a legal person. Mr. Krzysztof Kozłowski was not registered in the Register of Insolvent Debtors kept pursuant to the provisions of the KRS Act of 20 August 1997.

On 1 June 2020 Mr. Marek Lusztyń resigned with the effect at a future date, i.e. on 30 June 2020 from the position of the Vice-President of the Management Board of the Bank supervising the activities of the Risks Management Division as well as from the composition of the Management Board of the Bank. Taking into consideration continuity of decision making, and in line with good practices, Mr. Marek Lusztyń resigned with the effect at a future date, i.e. on 30 June 2020, in order to enable the Supervisory Board of the Bank to make a selection for the abovementioned position. The resignation did not contain the reasons for its submission.

On 16 June 2020 the Supervisory Board of the Bank, after assessing suitability, appointed Mr. Marcin Gadomski to the Management Board of the Bank for the current joint term of office as the Vice President of the Management Board of the Bank with the effect from 1 July 2020. Additionally the Supervisory Board of the Bank, subject to obtaining the consent of the Polish Financial Supervision Authority and upon obtaining such consent, entrusted Mr. Marcin Gadomski with the function of the Vice President of the Management Board of the Bank supervising the management of material risk in the Bank's operations.

According to the submitted statement Mr. Marcin Gadomski does not conduct any business competitive to that of the Bank and he is not involved in a competitive business as a shareholder or partner in a civil law company or partnership or a member of a corporate body of a competitive corporation or legal person. Mr. Marcin Gadomski is not registered in the Register of Insolvent Debtors kept pursuant to the provisions of the KRS Act of 20 August 1997.

Management Board of the Bank

The composition of the Management Board of Bank Pekao S.A. has as follows:

AS AT THE DATE OF SUBMITTING THE REPORT FOR THE THIRD QUARTER OF 2020	30 SEPTEMBER 2020	AS AT THE DATE OF SUBMITTING THE REPORT FOR THE FIRST HALF OF 2020
Leszek Skiba Vice President of the Management Board managing the work of the Bank's Management Board	Leszek Skiba Vice President of the Management Board managing the work of the Bank's Management Board	Leszek Skiba Vice President of the Management Board managing the work of the Bank's Management Board
Jarosław Fuchs Vice President of the Management Board	Jarosław Fuchs Vice President of the Management Board	Jarosław Fuchs Vice President of the Management Board
Marcin Gadomski Vice President of the Management Board	Marcin Gadomski Vice President of the Management Board	Marcin Gadomski Vice President of the Management Board
Krzysztof Kozłowski Vice President of the Management Board	Krzysztof Kozłowski Vice President of the Management Board	Krzysztof Kozłowski Vice President of the Management Board
Tomasz Kubiak Vice President of the Management Board	Tomasz Kubiak Vice President of the Management Board	Tomasz Kubiak Vice President of the Management Board
Grzegorz Olszewski Vice President of the Management Board	Grzegorz Olszewski Vice President of the Management Board	Grzegorz Olszewski Vice President of the Management Board
Tomasz Styczyński Vice President of the Management Board	Tomasz Styczyński Vice President of the Management Board	Tomasz Styczyński Vice President of the Management Board
Marek Tomczuk Vice President of the Management Board	Marek Tomczuk Vice President of the Management Board	Marek Tomczuk Vice President of the Management Board
Magdalena Zmitrowicz Vice President of the Management Board	Magdalena Zmitrowicz Vice President of the Management Board	Magdalena Zmitrowicz Vice President of the Management Board

Report on the activities of Bank Pekao S.A. Group for the third quarter of 2020

The Management Board of Bank Pekao S.A. is composed of nine members. Members of the Management Board are appointed by the Supervisory Board for a joint three-year term of office. The Management Board ensures that the management system at the Bank is transparent and effective and runs the Bank's affairs in compliance with applicable laws and Best Practices. The core values underlying the management of the Bank are professionalism, reliability and confidentiality.



LESZEK SKIBA
Vice President of the Management Board managing work of the Management Board

From April 2020, Leszek Skiba is Vice President of the Management Board managing work of the Management Board.

In 2015, he was appointed Undersecretary of State in the Ministry of Finance, where he was responsible for the supervision over macroeconomic policy and tax legislation. He was also supporting legislative works connected with financial and capital markets, and prepared general outline of the budget system reform. Between March 2019 and April 2020 he served as the President of the Council of the Bank Guarantee Fund.

Between 2009 and 2015 Leszek Skiba worked at the National Bank of Poland, at the Economic Institute, where he worked on NBP's report devoted to the consequences of Poland's membership of the euro area and prepared analyses of the euro area economy. Since 2009, Leszek Skiba has been running public non-profit activities as the President of the Council and expert of the Sobieski Institute.

Leszek Skiba is a graduate of master's degree studies at the Warsaw School of Economics, in the faculty of International Economic and Political Relations. He's the author of numerous publications in the field of his professional work and public activities.

Leszek Skiba fulfills suitability requirements determined in art. 22aa of Banking Law Act.



JAROSŁAW FUCHS
Vice President of the Management Board supervising the Private Banking and Investment Products Division

Jarosław Fuchs received his Master degree with honors in Marketing and Management, in the Faculty of Management of AGH University of Science and Technology in Cracow, as well as he graduated from Banking and Finance studies in Cracow University of Economics.

He started his career in 1994, initially in Big Bank S.A. and AGH University of Science and Technology in Cracow, where he acted as a teaching assistant in Management Faculty. From 1996 to 1997, he worked for Raiffeisen Centrobank S.A. Branch in Cracow, where he was responsible for building relationships with corporate customers. From September 1997, Jarosław Fuchs worked for Societe Generale Warsaw Branch as a Senior Marketing Specialist in the Trade Office in Cracow. In October 2000, he moved to Fortis Bank Polska S.A., as a Senior Customer Advisor in Medium and Large Enterprises Center.

From March 2003, Jarosław Fuchs worked for Bank Millennium S.A. in the position of the Senior Expert and, subsequently – Director of Małopolskie Customer Cooperation Center (Medium and Large Enterprises). From August 2004, he was associated with Bank BPH S.A. in Cracow and next, from December 2007 with Bank Pekao S.A. in managerial positions responsible for corporate customer relations. From March 2011, Jarosław Fuchs was responsible for management of Private Banking Relationship Managers Team as a Regional Sales Office Director in Cracow. At the same time, from 2013, Jarosław Fuchs was working for Pekao Central Brokerage House as a Director in the Region in Strategic Customers Office, where he was responsible for investment product distribution for strategic customers.

Jarosław Fuchs fulfills suitability requirements determined in art. 22aa of Banking Law Act.

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MARCIN GADOMSKI
Vice President of the Management Board supervising the Risk Management Division

Marcin Gadomski graduated from the Warsaw School of Economics, majoring in Finance and Banking. He was also a scholarship holder studying at the University of Kiel (Germany) and completed doctoral studies at the Warsaw School of Economics. He passed a number of professional certification exams, including: Financial Risk Manager (FRM), Association of Chartered Certified Accountants (ACCA), Project Management Professional (PMP). He participated in the Leadership Development Program run by The John Maxwell Team as well as the Deloitte Leadership Program.

Marcin Gadomski began his professional career at the consulting company Ernst & Young (now EY) in 2002, where he conducted projects in the area of risk, finance and internal audit in financial institutions and non-financial enterprises. During this period, for several years he supported the Pekao Group in implementing among others requirements of IAS 39, Basel II and solutions regarding capital management as well as assets and liabilities management.

Then he continued his career with Deloitte Advisory, first in 2008-2012 as a Senior Manager, and, after a break, in 2016-2018 as a Director. As part of Deloitte Advisory, Marcin Gadomski provided solutions for the largest financial institutions in Poland and abroad (banks, insurers, leasing companies, brokerage houses), among others in the field of credit policy, risk models, improving the credit process for retail and corporate clients, market and liquidity risk management, regulatory requirements (e.g. IFRS 9, the PFSA recommendations, regulations regarding capital requirements, liquidity, information or reporting obligations), due diligences for takeover purposes.

In the years 2012 - 2016 Marcin Gadomski was the Director of Retail Credit Risk Unit at Bank Millennium. He was responsible for credit risk strategy, risk appetite, credit policy, credit assessment models, credit decision engines, risk reporting, credit product profitability assessment and credit process support for such business lines as unsecured consumer loans, mortgage loans and small business.

From August 2018 to November 2019 Marcin Gadomski was a Member of the Management Board of Pekao Bank Hipoteczny S.A., where on 20 November 2018 he obtained the consent of the Polish Financial Supervision Authority to entrust him the function of the Member of the Management Board supervising the management of material risks in the bank's operations. Between 29 November 2019 and 21 April 2020 Marcin Gadomski held position of the Vice President of the Management Board of Bank Pekao S.A. responsible for Risks Management Division. Later he was Credit Risk Director there.

Marcin Gadomski meets suitability requirements determined in art. 22aa of the Banking Law Act.

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Krzysztof Kozłowski
Vice President of the Management Board supervising the activities of the Strategy Division

Krzysztof Kozłowski has a Ph.D. degree awarded in 2010 at the Faculty of Law and Administration of the Jagiellonian University. Since 2011, an associate professor at the Department of Constitutional Law at the Faculty of Law and Administration of the Jagiellonian University. Author of several of scientific publications, as well as a participant of foreign stays, internships and scientific programs. In 2013, entered on the list of advocates (as a non-practicing advocate). He also passed the judge exam.

In the years 2013–2015 an assistant to a justice of the Constitutional Tribunal. In the years 2013–2015, he was a representative–substitute in the Group of Independent Experts of the European Local Government Charter of the Council of Europe in Strasbourg.

From April 2015 to December 2015 he was a member of the Supervisory Board of Tomaszowski Towarzystwo Budownictwa Społecznego sp.z o.o. From December 2015 to September 2016, Undersecretary of State in the Ministry of Maritime Economy and Inland Navigation. From September 2016 to January 2018 he was the West Pomeranian Voivode. In the period from January 2018 to April 2020, he was the Secretary of State in the Ministry of the Interior and Administration.

Krzysztof Kozłowski supervises the Bank's Strategy Division is responsible for the organization of projects of strategic importance for the Bank and the Group, preparation of the Strategy and services for the Bank's corporate bodies.

Krzysztof Kozłowski fulfills suitability requirements determined in art. 22aa of Banking Law Act.



TOMASZ KUBIAK
Vice President of the Management Board supervising the Financial Division

Tomasz Kubiak, since 2001 has been professionally associated with Bank Pekao S.A. In addition, since 2018 he has been the Chairman of the Supervisory Board of Pekao Bank Hipoteczny S.A., where in 2011 - 2015 he was a Member of the Supervisory Board, whereas from 2017 he has been a Member of the Supervisory Board of Pekao Investment Banking and the Supervisory Board of Pekao Investment Management.

He started his career in Finance Division in controlling area. In last years, he held the position of Managing Director of the Department of Capital Allocation and Asset and Liability Management, responsible for managing the balance sheet, liquidity and capital of the Bank.

Tomasz Kubiak supervises the Bank's Financial Division, he is responsible, among others, for the area of planning and controlling, accounting and reporting, taxes, capital and liquidity management, and data management.

He graduated of the Warsaw University of Technology, Faculty of Technical Physics and Applied Mathematics. He holds CFA and PRM (Professional Risk Manager) certificates, he was honored by Award of Merit by the international PRMIA organization, associating risk managers.

Tomasz Kubiak meets suitability requirements determined in art. 22aa of the Banking Law Act.

Report on the activities of Bank Pekao S.A. Group for the third quarter of 2020



**GRZEGORZ
OLSZEWSKI**

Vice President of the Management Board, supervising the Area of Technology and Corporate Services

Grzegorz Olszewski was appointed a Member of the Management Board in April 2019. As the Member of the Management Board, he was initially responsible for managing investment and insurance products, managing the work of the Investment and Insurance Product Management Division.

From April 2020, he is the Vice President of the Management Board and supervises the Area of Technology and Corporate Services. He is responsible for the robotization and automation of banking operations, the IT area and the digital transformation of the Bank, as well as property management, procurement processes, outsourcing and legal risk. He is the Chairman of the Supervisory Board of Pekao Financial Services and Pekao Investment Management.

He joined Bank Pekao from the PZU Group, where from October 2017 he was the director of Investment Products Sales Office and where he supervised the process of launching the first sales platform for passive investment funds in Poland.

He started his career in the financial sector in 2008 at Bank Millennium. From 2010, he worked in sales, and after that supported the implementation of new solutions in the area of investment funds, treasury products and the Forex market in Alior Bank. In Alior Brokerage House he acted as the director of Sales of Investment Products. From there, he moved to AgioFunds TFI SA, where he took the position of Director of Sales and Marketing Department.

Grzegorz Olszewski is a graduate of the Higher School of Management (The Vistula Academy of Finance and Business in Warsaw) in the Faculty of Financial Management and postgraduate Executive MBA (EMBA) studies organized at the Faculty of Management at the University of Warsaw. He holds a Bachelor of Arts (B.A.), Finance, from Oxford Brookes University.

Grzegorz Olszewski fulfills suitability requirements determined in art. 22aa of Banking Law Act.



**TOMASZ
STYCZYŃSKI**

Vice President of the Management Board supervising the Corporate Banking Division

Tomasz Styczyński, Vice President of the Management Board of Bank Pekao SA, since December 2018 supervising the Corporate Banking and MIB Division. From July 2017 to December 2018, he managed SME Banking Division at Bank Pekao S.A.

He started his professional career in 2001 in Bank Handlowy w Warszawie S.A. in Corporate Banking Division. He was the Director of Corporate Banking responsible for managing the sales structures. He was also the Director of Relations with Customers in Large Corporate Department and Director of Corporate Banking Development and Acquisition Department. He also worked in the European structures of the Citigroup Bank as a Director in the Management Development Program for CEEMEA. He is the Chairman of the Supervisory Board of Pekao Leasing, the Supervisory Board of Pekao Faktoring and the Supervisory Board of Pekao Investment Banking. In 2016-2017, he was a member of the Supervisory Board of Globe Trade Center.

A graduate of the Faculty of Finance and Banking and the Faculty of Management and Marketing at the University of Economics in Krakow and postgraduate Executive MBA studies (EMBA) organized at the Faculty of Management at the University of Warsaw. Participant of several dozen domestic and foreign training courses in the field of management, banking and finance.

Tomasz Styczyński meets suitability requirements determined in art. 22aa of the Banking Law Act.

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MAREK TOMCZUK
Vice President of
Management Board
supervising the Retail
Banking Division

Marek Tomczuk, Vice-President of the Management Board of Bank Pekao S.A., since August 2017 supervising the Retail Banking Division. He started his 20-year professional career in the banking sector in Bank Handlowy w Warszawie S.A. (Citigroup), where he was Regional Sales Director for Transactional and Investment Banking and later in the Retail Banking Division - Director of CitiBusiness Network. Then, as Director of the Small and Medium Enterprises Network Department at Kredyt Bank S.A. (KBC Group), he was responsible for building an independent business line and managing the sales network. He was one of the top managers preparing the merger of Kredyt Bank S.A. and Bank Zachodni WBK S.A. (Santander Group), where he took the position of Macroregion Director in the Retail Banking Division. In Raiffeisen Bank Polska S.A. (Raiffeisen Bank International AG Group) as Managing Director he was responsible for the Branch Network Management Department, the Franchise and Broker Network Department and the Tele Sales area. At the same time he was a Member of the Supervisory Board of Raiffeisen TFI and President of the Management Board of Raiffeisen Financial Services Polska Sp. z o.o. Awarded the title of "Leader of the Year of Raiffeisen Bank Polska" for 2016. He is a member of the Supervisory Board of Biuro Informacji Kredytowej S.A.

He participated in many national and foreign trainings regarding management, banking and finance as well as strategic projects. He completed the Leadership Academy program run by ICAN Institute and Harvard Business Review.

Marek Tomczuk is a graduate of the Faculty of Economics and International Relations of Cracow University of Economics.

Marek Tomczuk fulfills suitability requirements determined in art. 22aa of Banking Law Act.



**MAGDALENA
ZMITROWICZ**
Vice President of the
Management Board
supervising the SME
Banking Division

Magdalena Zmitrowicz, Vice President of the Management Board supervising the SME Banking Division. In 2018 she started working in Bank Pekao S.A. as Managing Director in Corporate Banking Department and from December 1st, 2018 she was appointed as the Vice President of the Management Board of the Bank. She started her professional career in 1999 in Bank Handlowy w Warszawie S.A. in Retail Banking Sector. She pursued her career in Corporate Banking Division, holding various leadership roles in regional structures of the Bank, including a position of Head of Sales for Northern Region and Head of Public Sector for Regions in the Public Sector Department. Having worked for almost twenty years in the banking industry, she has gained extensive experience both in general banking operations, including in particular the areas of sales, risk, operations and foreign-currency market, as well as in various customers segments, such as retail clients, small, medium and large companies, institutional clients, public sector and international corporations. In 2016-2017, she managed the Corporate Banking Department in the structures of the CEEMEA Commercial Banking Group - Citigroup. She managed the activities of the Strategy Champions Group at Bank Handlowy w Warszawie S.A.

She is a member of the Supervisory Boards of Pekao Leasing and Pekao Faktoring.

A graduate of the Faculty of Social Sciences at the University of Gdańsk, postgraduate studies at the Faculty of Management at the University of Gdańsk and postgraduate Executive MBA studies (EMBA) organized at the Faculty of Management at the University of Warsaw. She completed many local and foreign trainings, including those in credit risk management, financial analysis and sales. In 2013, she graduated from Commercial Credit College in the USA New York as part of Citigroup.

Magdalena Zmitrowicz meets suitability requirements determined in art. 22aa of the Banking Law Act.

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5.4 The Bank's share capital and share ownership structure

As at 30 September, 2020, the share capital of Bank Pekao S.A. amounted to PLN 262,470,034 and remained unchanged until the date of submitting the report. The Bank's share capital was divided into 262,470,034 shares in the following series:

- 137,650,000 Series A bearer shares with a par value of PLN 1.00 per share,
- 7,690,000 Series B bearer shares with a par value of PLN 1.00 per share,
- 10,630,632 Series C bearer shares with a par value of PLN 1.00 per share,
- 9,777,571 Series D bearer shares with a par value of PLN 1.00 per share,
- 373,644 Series E bearer shares with a par value of PLN 1.00 per share,
- 621,411 Series F bearer shares with a par value of PLN 1.00 per share,
- 603,377 Series G bearer shares with a par value of PLN 1.00 per share,
- 359,840 Series H bearer shares with a par value of PLN 1.00 per share,
- 94,763,559 Series I bearer shares with a par value of PLN 1.00 per share.

All the existing shares are ordinary bearer shares. There are no special preferences or limitations connected with the shares, or differences in the rights attached to them. The rights and obligations related to the shares are defined by the provisions of the Polish Commercial Companies Code and other applicable law.

Shareholders of Bank Pekao S.A., holding directly or indirectly, through subsidiaries, at least 5% of the total number of votes at the General Meeting of the Bank, are as follows:

SHAREHOLDER'S NAME	NUMBER OF SHARES AND VOTES AT THE GENERAL MEETING	SHARE IN SHARE CAPITAL AND TOTAL NUMBER OF VOTES AT THE GENERAL MEETING	NUMBER OF SHARES AND VOTES AT THE GENERAL MEETING	SHARE IN SHARE CAPITAL AND TOTAL NUMBER OF VOTES AT THE GENERAL MEETING
	AS AT THE DATE OF SUBMITTING THE REPORT FOR THE THIRD QUARTER OF 2020		AS AT THE DATE OF SUBMITTING THE REPORT FOR THE FIRST HALF OF 2020	
Powszechny Zakład Ubezpieczeń S.A.	52,494,007	20.00%	52,494,007	20.00%
Polski Fundusz Rozwoju S.A.	33,596,166	12.80%	33,596,166	12.80%
Aviva Powszechnie Towarzystwo Emerytalne Aviva Santander S.A.	13,281,544	5.06%	13,281,544	5.06%
Nationale-Nederlanden Powszechnie Towarzystwo Emerytalne S.A.	13,201,655	5.03%	13,201,655	5.03%
Other shareholders (below 5%)	149,896,662	57.11%	149,896,662	57.11%
Total	262,470,034	100.00%	262,470,034	100.00%

On 24 January, 2020, in the current Report No. 1/2020, Bank Pekao S.A. informed that on 23 January, 2020, it received a notification from BlackRock, Inc. on increasing its stake above 5% of the total number of votes at the General Meeting of the Bank, taking into account also securities lending and contracts for difference (CFD). The total sum of the number of votes was 13,129,549 votes from shares, representing 5.00% of the Bank's share capital and the total number of votes in the Bank.

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On 29 January, 2020, in the current Report No. 2/2020, Bank Pekao S.A. informed that on 29 January, 2020, it received a notification from Nationale-Nederlanden Powszechne Towarzystwo Emerytalne S.A. (NN PTE) regarding on the increase above 5% share in the total number of votes at the General Meeting of the Bank. According to the notification after the settlement of the transaction regarding acquisition of shares on 24 January 2020:

- OFE held 13,170,209 shares of the Bank, which constituted 5.02% of the Bank's share capital. These shares entitle to 13,170,209 votes at the General Meeting of the Bank, which constituted 5.02% of the total number of votes at the General Meeting of the Bank,
- OFE, DFE, FZD 2025, FZD 2030, FZD 2035, FZD 2040, FZD 2045, FZD 2050, FZD 2055, FZD 2060 held together 13,201,655 shares of the Bank, which constituted 5.03% of the Bank's share capital. These shares entitle to 13,201,655 votes at the General Meeting of the Bank, which constituted 5.03% of the total number of votes at the General Meeting of the Bank.

On 6 March, 2020, in the current Report No. 7/2020, Bank Pekao S.A. informed that on 6 March, 2020, it received a notification from BlackRock, Inc. on reducing the voting share below the threshold of 5% of the total number of votes in the Bank, taking into account also securities lending and contracts for difference (CFD).

On 27 March, 2020, in the current Report No. 11/2020, Bank Pekao S.A. informed that on 27 March, 2020, it received a notification from Aviva Powszechne Towarzystwo Emerytalne Aviva Santander S.A. (Aviva PTE) regarding the change in the ownership of Aviva Otwarty Fundusz Emerytalny Aviva Santander (Aviva OFE) in the total number of votes in the Bank. According to the information provided in the notification, after the settlement of the transaction regarding acquisition of Bank's shares, on March 23, 2020 Aviva OFE held 13,281,544 shares of the Bank, which constituted 5.06% of the Bank's share capital, and entitles Aviva OFE to 13,281,544 votes in the Bank, which constituted 5.06% of the total number of votes in the Bank.

Until the date of submitting the report the Bank has not received any other notifications regarding changes in the ownership structure in accordance with par. 69 of the Act of July 29, 2005 on Public Offerings and Conditions Governing the Introduction of Financial Instruments to an Organized System of Trading, and on Public Companies.

Report on the activities of Bank Pekao S.A. Group for the third quarter of 2020

5.5 Financial credibility ratings

5.5.1 Bank Pekao S.A. financial credibility ratings

Bank Pekao S.A. co-operates with three leading credit rating agencies: Fitch Ratings (the Fitch), S&P Global Ratings (S&P), and Moody's Investors Service. In the case of the first two agencies, the ratings are provided on a solicited basis under relevant agreements and with respect to Moody's Investors Service the ratings are unsolicited and they are based on publicly available information and review meetings.

As of 30 September, 2020, Bank Pekao S.A. had assigned following financial credibility ratings:

FITCH RATINGS	BANK PEKAO S.A.	POLAND
Long-term rating (IDR)	BBB+	A-
Short-term rating	F2	F2
Viability rating	bbb+	-
Support rating	5	-
Support rating factor	No floor	-
Outlook	Negative	Stable
National Long-Term Rating	AA(pol) (negative outlook)	-
National Short-Term Rating	F1+(pol)	-
S&P GLOBAL RATINGS	BANK PEKAO S.A.	POLAND
Long-term rating in foreign currencies	BBB+	A-
Long-term rating in domestic currency	BBB+	A
Short-term rating in foreign currencies	A-2	A-2
Short-term rating in domestic currency	A-2	A-1
Stand-alone credit profile	bbb+	-
Outlook	Stable	Stable
S&P GLOBAL RATINGS (RESOLUTION COUNTERPARTY RATING)	BANK PEKAO S.A.	POLAND
Long - term RCR in foreign currencies	A-	-
Short - term RCR in foreign currencies	A-2	-
Long - term RCR in domestic currency	A-	-
Short - term RCR in domestic currency	A-2	-
MOODY'S INVESTORS SERVICE (UNSOLICITED RATING)	BANK PEKAO S.A.	POLAND
Long-term foreign-currency deposit rating	A2	A2
Short-term deposit rating	Prime-1	Prime-1
Baseline Credit Assessment	baa1	-
Long-term counterparty risk assessment	A1(cr)	-
Short-term counterparty risk assessment	Prime-1(cr)	-
Outlook	Stable	Stable
Long-term Counterparty Risk Rating (CRR)	A1	-
Short-term Counterparty Risk Rating (CRR)	Prime-1	-

On 8 April, 2020 rating agency S&P informed the Bank that it has revised the outlook for the Bank from "Positive" to "Stable" and has affirmed the long-term and short-term ratings of the Bank at the current level.

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According to the rationale provided by S&P, the decision to change rating outlook for the Bank is a reflection of lowering of rating outlook for PZU S.A., the Bank's main shareholder. The change in rating outlook results from deterioration of financial and business conditions in Poland due to the outbreak of the COVID-19 pandemic. In the opinion of rating agency, this may pressure financial results of the Bank, however at the same time the Bank should maintain both profitability and capital position at a comfortable level and demonstrate general resilience in the face of more difficult financial and business conditions in Poland.

S&P highlights that strong deposit-focused funding profile and historically comfortable liquidity position are a source of stable position of the Bank amid turbulent market conditions. Additionally, the above position will be supported by sound franchise, well-balanced business profile and proximity to customers.

On 14 April, 2020 the Fitch agency informed the Bank, in the light of the outbreak of COVID-19 pandemic, that it has revised the outlook for the Bank's Long-term IDR and National Long-Term Rating from "Stable" to "Negative" and has affirmed the ratings of the Bank.

According to the rationale provided by the Fitch, in the light of the outbreak of COVID-19 pandemic, financial and business conditions in Poland have worsened. On March 30, 2020, as a result of revision of the outlook of the operating environment for Polish banks from "Stable" to "Negative", the Fitch revised the sector outlook for Polish banks from "Stable" to "Negative", affirming sector rating at "bbb+".

The Fitch highlights that Pekao enters the economic downturn from a position of relative strength, given its strong domestic retail and corporate franchise, well diversified credit exposures, solid capitalisation and strong deposit-driven funding and liquidity. Sizeable CET1 capital buffers above revised regulatory minimums provide sizeable loss absorption capacity of around 7% of total gross loans compared with an average cost of risk of around 40 b.p. over the last 5 years. The bank's loan book is well diversified and exposure to more vulnerable products/customer segments is low.

On 30 September 2020 rating agency the Fitch informed the Bank about maintaining all the Bank's ratings on unchanged level, including Long-Term Issuer Default Rating (IDR) at "BBB+" and Viability Ratings (VR) at "bbb+" and the Negative Outlook for the Long-Term IDR.

The affirmation of Bank's VR and IDRs reflects Fitch's view that the Bank's ratings have sufficient headroom under Fitch's updated assessment to absorb pressure on asset quality, earnings and capitalisation of the Bank, which Fitch expect in its baseline scenario for Poland.

The Negative Outlook on Bank's Long-term IDR reflects downside risk to Fitch's baseline scenario if the economic downturn is deeper or more prolonged than currently expected.

The Outlook for the operating environment for Polish banks remains Negative reflecting downside risks to the Fitch's base line economic scenario and related profitability pressures for the sector.

According to the Fitch, the IDRs of the Bank are driven by the Bank's intrinsic strength, as reflected in its VR.

Bank's VR of 'bbb+' reflects its well diversified business model as well as solid market share and franchise in both retail and corporate banking, conservative risk appetite, strong capitalization and liquidity. The Fitch believes that the economic fallout from the pandemic creates medium-term risks for Bank's credit profile, although the Bank entered the crisis from a position of strength. The Fitch highlights the Bank's moderate business risk, well-diversified credit risk (by industry and single name), strong coverage of bad debt by loan loss allowances and prudent underwriting resulting in the solid asset quality to date.

Report on the activities of Bank Pekao S.A. Group for the third quarter of 2020

5.5.2 Pekao Bank Hipoteczny S.A. financial credibility ratings

Fitch emphasizes that the rating of Pekao Bank Hipoteczny S.A. is related to the rating of Bank Pekao S.A., which holds 100% of the Bank's shares. In Fitch's opinion, the Bank's rating is influenced by the level of integration with the parent company, the scale of operations and the Bank's capital. Fitch believes that in light of the pandemic, the outlook for the assessment of the operating environment of banks in Poland remains negative, reflecting the risks in relation to the baseline economic scenario assumed by Fitch and the related pressure on the profitability of the sector.

At the end of September 2020, the mortgage bonds issued by Pekao Bank Hipoteczny S.A., a 100% subsidiary of Bank Pekao S.A., were rated "A-" by the international rating agency Fitch Ratings. The high rating of the letters means that Pekao Bank Hipoteczny S.A. has the ability to issue securities with a very high level of security and to obtain long-term funds for lending activities.

On September 30, 2020, the Fitch Ratings rating agency announced that all ratings were kept unchanged, including the long-term rating of Pekao Bank Hipoteczny S.A. at the BBB + level, with a "Negative" perspective.

Fitch Ratings emphasizes that the ratings of Pekao Bank Hipoteczny S.A. is associated with the COVID-19 pandemic, which affects the current financial and business conditions in Poland.

Report on the activities of Bank Pekao S.A. Group for the third quarter of 2020

5.6 Achievements of Bank and Bank Pekao S.A.

Bank Pekao S.A. is a universal commercial bank offering all financial services available in Poland for individual and institutional clients. A wide range of products, innovative solutions and individual approach ensure comprehensive financial support for clients and an integrated customer service model is a guarantee of the highest quality of services and optimal adjustment to changing customer needs. Since 2017, Bank Pekao S.A. is part of the PZU S.A. capital group, the largest financial institution in Central and Eastern Europe.

A wide product offer, innovative solutions and individual approach provide comprehensive financial service to clients and the integrated customer service model provides the highest quality of services and their optimal adaptation to changing needs. The Bank has measurable advantages that allow it to compete effectively on the market and strengthen its market position in the strategic areas of the Bank's operations. The Bank offers competitive products and services on the Polish market, and high level of customer service and a well-developed distribution network.

Distribution channels

The Bank offers to its clients a broad distribution network with ATMs and outlets conveniently located throughout Poland as well as a professional call center and a competitive online and mobile banking platform for individual, corporate and micro companies.

	30.09.2020	30.09.2019
Total number of outlets	733	809
own outlets	668	736
partner branches	65	73
Total number of own ATMs	1,616	1,663

The number of accounts

As at the end of September 2020, the Bank maintained 6,487.7 thousand PLN-denominated current accounts, 399.3 thousand mortgage loan accounts and 688.3 thousand "Pożyczka Ekspresowa" (Express Loan) loan accounts.

	30.09.2020	30.09.2019
(in thousand)		
Total number of PLN current accounts (*)	6,487.7	6,157.9
of which packages	4,656.7	4,479.1
Number of mortgage loans accounts (**)	399.3	391.1
of which PLN mortgage loans accounts	369.0	359.5
Number of Pożyczka Ekspresowa loan accounts (***)	688.3	709.1

(*) Number of accounts including accounts of prepaid cards.

(**) Retail customers accounts.

(***) Pożyczka Ekspresowa, Pożyczka Ekspresowa Biznes.

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Business model

The Bank's business model is based on customer segmentation with the following groups of customers:

- **Retail Banking and Private Banking** – serving individual clients, including affluent private banking clients and micro enterprises. Private banking clients are offered investment advisory through private banking centers and remote channels, while all individual clients and micro-enterprises are served through a wide network of branches and partner outlets supported by market-leading remote service channels, including digital channels,
- **Small and Medium Enterprises (SME)** – providing financial services to clients from the SME sector who are served by relationship managers with the support of product specialists. The service is carried out in specialized Business Customer Centers and universal retail branches. Customers are offered products and services tailored to their individual needs based on solutions proven in corporate banking and adapted to the needs of the SME segment,
- **Corporate and Investment Banking** – providing financial services to medium and large enterprises (segmentation by revenues of companies), public sector entities, financial institutions and entities from the commercial real estate financing sector. Corporate and investment banking clients are served by relationship managers with the support of product specialists.

Strong response to challenges during the COVID-19 pandemic

At the end of the first quarter of 2020, as a result of the COVID-19 pandemic, the Bank Pekao S.A. undertook activities supporting employees, clients and partners, adapting its activities to the new situation and challenges. The implemented solutions were aimed at maintaining business continuity and reducing epidemic risk towards employees, as well as ensuring safe use of banking services for customers using the branch network.

The Bank has prepared and promoted among its clients the principle of "7 golden rules of secure banking" encouraging clients to use Pekao24 electronic banking and the PeoPay mobile application or to choose remote contact via chat, video or telephone and limit visits to bank branches, as well as safety rules during a visit to the branch. The Bank promoted contactless payments by card or phone. With concern for the safety of its customers, the Bank was one of the first to increase the limit for contactless transactions to PLN 100, without the need for authorization for all customers of the Bank using credit and payment cards.

The Bank organized remote work conditions for 6 thousand employees whose work did not require direct contact with the client or the contact was maintained through the use of remote and ICT channels. Thanks to the developed technological possibilities and digitization of processes, a significant part of tasks is performed by employees remotely or in dispersed locations.

Bank Pekao S.A. supported financial liquidity of clients. Retail banking customers were given the option of suspending the payment of consumer and mortgage instalments due to problems related to managing the home budget during a pandemic. (6% of the retail loan portfolio and 4% of the loan portfolio of micro-enterprises and SMEs were covered by credit holidays). The application process can be carried out in a remote process at Pekao24. In the third quarter of the year, the share of customers covered by credit holidays decreased from 6% to 2% of the retail loan portfolio and from 4% to 1% of the loan portfolio of micro-enterprises and SMEs.

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Moreover, in connection with limiting the negative effects of the COVID-19 pandemic for enterprises, the Bank signed a portfolio agreement with Bank Gospodarstwa Krajowego (BGK) regarding the *de minimis* guarantee line, which allows introducing the possibility of securing loans for companies from the SME sector with a guarantee on special conditions: increased guarantee value to 80%, extending the warranty period from 27 months to 39 months, 0% commission fee until 31 December 2020. The Bank also signed a portfolio guarantee agreement with BGK as part of Fundusz Gwarancji Płynnościowych, under which the Bank may grant liquidity loans to medium and large companies up to the limit of PLN 15 billion. The Bank also introduces agreements with the Europejski Fundusz Inwestycyjny regarding free of charges guarantees for loans for micro-enterprises in the EaSI program and loans for micro, small and medium-sized enterprises in the COSME program.

Customers of Bank Pekao S.A. can also apply for a subsidy under the government program of the "financial shield" of the Polish Development Foundation for micro, small and medium-sized enterprises. Customers can submit applications via internet banking, as well as use the information contained on the website or the free hotline dedicated to the "PFR Financial Shield". At the end of July 2020, nearly 31.6 thousand customers benefited from the subsidy for a total amount of PLN 7.4 billion - the Bank's market share (both in the segment of micro, small and medium-sized enterprises) was 13%.

The Bank is monitoring the economic situation in the country and in the world on a current basis. Various scenarios of epidemic development and its impact on the economy are analyzed, as well as the most beneficial solutions that could be implemented by the Bank.

5.6.1 Retail Banking and Private Banking

Strong customer acquisition

In the third quarter of 2020, the Bank opened over 124 thousand accounts and thus recorded a high 53% increase compared to the second quarter of 2020. Since the beginning of the year 331 thousand accounts were opened, and the level of sales was similar to the corresponding period of 2019.

The increase in sales of accounts was driven by the introduced innovative solutions for customers, including, in particular, the opening of selfie accounts based on biometrics and the implementation of the PeoPay KIDS Package for children aged 6-13, which parents can also set up remotely without leaving home.

In the third quarter of 2020 was carried out, an advertising campaign for the account for families with the PeoPay KIDS Package - promotion on television, the Internet, social media and cinemas. During the campaign, attractive promotions were introduced for customers: PLN 100 for opening a selfie account, PLN 100 for an account recommendation and PLN 50 for opening an account for a child. Customers were also offered high interest rates on savings accounts of 2% for 120 days for both the parent and the child.

The bank accepted applications under the government program Dobry Start for co-financing the school layette 300+, occupying a leading position among the banks with the largest number of online applications. Together with PZU was prepared an offer to purchase school accident insurance with a 10% discount.

Customers had the opportunity to sign up for the loyalty program Bezcenne Chwile organized by MasterCard. A promotional campaign was conducted on the Allegro portal and in the Bank's internal channels. The Bank's customers participated in the third edition of the Polecam Przekorzystnie Program, under which they gained PLN 100 for each successful account recommendation.

Konto Przekorzystne consistently occupies a leading position in rankings prepared by independent experts in the category for young and adult clients. The wide package of benefits and attractive interest rates were appreciated. In September, Konto Oszczędnościowe Premium was ranked first in the bankier.pl ranking, Przekorzystne account for people under 26 was rated as one of the best for students in the Otopress ranking, and Konto Przekorzystne was ranked first in the Kontomaniak ranking.

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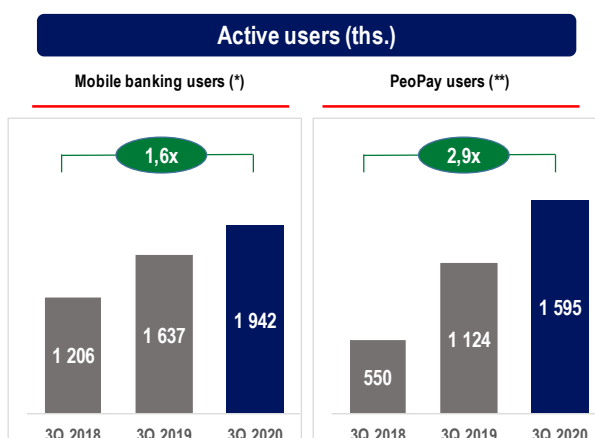
In the third quarter of 2020, Pekao Direct serving customers via remote communication channels (telephone, e-mail, SMS, chat, video) made nearly 3.4 million phone calls and over 108 thousand chat and video calls, i.e. over 2 times more chat and video calls than in the same period of the previous year.

Pekao Direct supported clients in opening Konto Przekorzystne in the selfie process, and in the sale of cash loans and mortgage loans. As a result, the purchase of the Bank's products is possible without leaving home, which is a significant convenience for customers during the pandemic constraints.

As part of the extension of remote solutions offered within the Pekao Direct hotline, employees also supported clients applying for a subsidy under the Tarcza finansowa PFR. Pekao Direct was honored with the main award in this year's European Customer Centricity Awards in the Best Omnichannel / Social Media Customer Experience category for handling the first selfie account opening process on the Polish banking market.

Digitization - a rapid increase in the number of active customers of mobile banking and PeoPay

An important goal of the Bank's strategy is to increase the number of customers actively using mobile banking and the PeoPay application. In the third quarter of 2020, the number of active mobile banking customers increased by 118 thousand and was about 305 thousand higher than at the end of the third quarter of 2019 (increase by +19% y/y) and 1.6 times higher than two years ago. The number of active mobile customers using PeoPay increased by another 82 thousand customers in the third quarter of 2020 and was 3 times larger than 2 years ago.



(*) Unique user actively using electronic banking is a user who logged in to the system and the mobile service m.pekao24.pl, at least once during the last quarter. (in case of using different mobile channels, the client is counted only once).

(**) Unique user using mobile banking application (PeoPay application), who logged in to the system PeoPay at least once during the last quarter.

The PeoPay application allows you to set up a selfie account for both individual and corporate customers, customers can switch between accounts and manage them from one PeoPay application, they can easily and conveniently order a transfer to any account, make payments, top up their phones, contactless payments by phone and open a deposit.

In the third quarter, based on customer comments and opinions, as part of UX (user experience) improvements, we introduced changes to the DESKTOP and MORE screens.

The most important new functionalities added include:

- receiving a loan as part of the "click" process, without leaving your home - within 30 seconds of accepting the contract,
- finger or face biometric approval of transfers and payments,

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- wide selection of payment methods: Apple Pay, BLIK, PeoPay payments, Garmin Pay, Fitbit Pay.
- paying for online purchases on your phone without logging into online banking,
- scanning account number from invoices without rewriting the account number to the application,
- executing transactions both in PLN and selected foreign currencies without currency conversion, due to the link to the relevant currency accounts,
- the ability to manage cards - from the application level the client can activate or block the card, as well as change card withdrawal and payment limits,
- the ability to deposit and withdraw cash to their accounts by holders of individual as well corporate accounts,
- possibility of contacting a consultant via text messages (chat) and the possibility using the Google Assistant in the PeoPay application.

The Bank consistently developed the new Pekao24 service in the third quarter of 2020, the most important new products include:

- new module of internal mail,
- new version of the direct debit service,
- presentation of personal advisor data,
- possibility of export a selected range of transactions history.

The new electronic banking service Pekao24 provides comfortable access and use of online and mobile banking to customers with special needs (people with disabilities, seniors).

In the third quarter of 2020, the Bank introduced the Autopay service to electronic, internet and mobile banking, thanks to which selected sections of motorways can be paid automatically, without having to queue at the gates. The service can be activated from the level of Pekao24 internet banking and the PeoPay application.

In September 2020, the Bank's customers with Visa Debit Gold and Visa Business debit cards were able to connect them to Apple Pay. The service enables quick contactless payments using Apple devices such as iPhone, Apple Watch or iPad. To use convenient payments, just enough activate Apple Pay in the PeoPay application or add the card directly to Apple Wallet.

PeoPay KIDS

The PeoPay Kids application introduced to the offer was very popular among customers, in the third quarter of 2020 was opened 30 thousand of PeoPay Kids packages. The application is dedicated to children aged 6-13 and allows to teach children how to manage their own funds and save money in an easy and accessible way. Along with the application, the child can also receive their own PeoPay KIDS payment card, thanks to which they will be able to pay in stores and withdraw cash - the limit of card transactions is set by the parent. In the application, it is also possible to order simple operations, such as a transfer from Konto Przekorzystne or top-up a pre-paid phone. The bank does not charge fees for issuing and servicing the card. PeoPay KIDS is associated with the parent's panel in the PeoPay application and Pekao24 online banking, all transactions require authorization from the parent.

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Lending activities: PEX Cash Loans and Mortgage Loans

In the third quarter of 2020, the Bank continued its activities aimed at increasing sales in the area of key retail loans, while being cautious and adapting the lending policy to the dynamically changing macroeconomic situation caused by the COVID-19 pandemic.

In the Pekao24 and PeoPay websites, the Bank improved and developed remote sales processes "by click", implemented new after-sales solutions enabling customers to remotely service their loans and developed a new omnichannel system for handling credit applications implemented in the network of the Bank's stationary outlets and in indirect sales channels.

Moreover, the sale of the loan limit in the account was introduced to the Bank's offer in the process "click limit", which can be activated both in a branch and in remote channels. The loan limit in the account can be used for any use by the customer.

In the third quarter of 2020, it was also possible to send documents regarding insurance and life policies and to conclude a contract for the transfer of rights under the real estate insurance contract (assignment) in the PeoPay mobile application

The net value of granted cash loans amounted to PLN 729 million in the third quarter, which means an increase by +26% compared to the second quarter.

The bank is one of the leaders in the sale of mortgage loans, in the third quarter of 2020 the sale of housing loans amounted to PLN 1.7 billion, which in total amounts almost to PLN 6 billion from the beginning of the year.

The bank adjusted its housing loan offer to the changing market conditions on an ongoing basis and consistently optimized the processes of granting and servicing housing loans, introducing further improvements. The most important ones include the introduction of a PLN home mortgage loan for individual clients with a fixed interest rate. Moreover, the Bank expanded the methods of notifying customers about the amount of the loan installment and information about the change in interest rates. In addition to the current traditional mail form, the customer can choose the option of notification via e-mail or via the Pekao24 service.

In September 2020, Bank Pekao S.A. transferred 1,025 mortgage loan receivables for the total amount of PLN 245.5 million to Pekao Bank Hipoteczny S.A. As a result of the transaction, Pekao Bank Hipoteczny S.A. may issue covered bonds, thanks to which it will obtain a long-term and stable source of financing.

Deposit and investment products

At the end of September 2020, the total volume of retail clients' deposits amounted to PLN 102.8 billion and was higher by 12.3% compared to the end of September 2019.

Reduction in interest rates on term deposits and savings accounts, as a result of three decisions of the Monetary Policy Council (of March 18, April 9 and May 29, 2020), made individual clients much more often choose to deposit free funds on savings accounts ensuring with comparable interest rates access to funds at any time.

In the third quarter of 2020, the Bank continued promotional offers attractive for new customers opening savings accounts (2% up to PLN 20 thousand, for a period of 4 months) and Mój Skarb accounts for children as part of the PeoPay Kids application (2% up to the amount PLN 3 thousand for a period of 4 months). The implemented promotions translated into the opening of over 50 thousands new savings accounts in the third quarter of 2020.

In cooperation with Pekao TFI, the offer of investment products has been extended by the following investment funds:

- Pekao Megatrendy - assuming long-term investments in companies that constantly create value regardless of the business cycle,
- Pekao Bazowy 15 Dywidendowy - focusing on looking for profits higher than bank deposits by investing in debt instruments with lower risk in conjunction with instruments with higher risk and potential growth,

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- Pekao Bazowy 15 High Yield Bonds - the portfolio includes foreign funds with a higher potential return on investment that provide exposure to foreign corporate bonds with a speculative rating, i.e. high-yield bonds mainly from the US market.

Special price offers related to investing were also introduced, among others: promotion of Mój Pierwszy Fundusz authorizing customers who do not have active Regular Accounts in the Pekao TFI funds for preferential pricing conditions, preferential price conditions related to investing in investment funds through the Bank's remote channels and the Brokerage House.

Cooperation with external issuers was continued with regard to the issue of structured certificates. In the third quarter of 2020, retail clients were offered 7 offers of public structured certificates with various risk levels (with a capital guarantee, a partial capital guarantee and without a capital guarantee), under which subscriptions were accepted for a total amount of over PLN 91 million.

Development in the area of insurance products

In the third quarter of 2020, the Bank developed and adapted its insurance product offer to the needs of customers and the market environment. Activities were focused on streamlining and digitizing sales and service processes.

The Bank continued activities aimed at maintaining the level of sales of insurance related to credit products. In the third quarter of 2020, the share of PEX cash loans sold with CPI reached 38% and was at a similar level to the corresponding period of 2019, while the share of mortgage loans sold with CPI was higher by 16 p.p. compared to the third quarter of 2019.

In the third quarter of 2020, the Bank consistently developed cooperation with the PZU Group in extending the insurance offer available at the Bank, including in particular stand-alone products that complement the insurance offer related to banking products. The Bank's customers could take advantage of a 10% discount on the purchase of a school accident insurance. As part of the assurbanking activities carried out, among others in PZU branches, 23% more clients were acquired compared to the same period of 2019.

Private Banking

Since the beginning of 2020, 247 new clients were acquired for servicing, and the value of investment product purchased amounted to PLN 1.2 billion, while the assets covered by the investment consulting service reached PLN 3.3 billion.

The Private Banking Account was implemented, which is an introduction to using the unique value package of products and services, dedicated exclusively for Private Banking customers. Thus, the process has been simplified for customers - currently one agreement provides access to the account and the Private Banking service. Private Banking Account and related services provide free cash withdrawals from ATMs around the world, standard transfer orders, orders and direct debits, issuing and renewing a debit card to the account, opening and maintaining payment accounts in 13 currencies. The card issued to the Account is the World Elite Debit Mastercard, a multi-currency card that, when paying in EUR, USD, GBP, CHF, recognizes currency transactions and charges the account without the obligation to convert currency, if the card is assigned the account in the payment currency and there are appropriate funds on it. The card provides access to airport lounges as part of a new service - Lounge Key (the first two entrances a year are free of charge as part of the promotion valid until recalled), you can join the Mastercard® Bezcenne® Chwile loyalty program, and by paying with the card you can take advantage of discounts from the partners at as part of the Discount Gallery (Galeria Rabatów).

The account is available via electronic banking: online (Pekao24 website) and mobile (PeoPay). The card issued to the Account can be registered in the Apple Pay wallet, for paying with the Apple phone. An efficient transaction can be made with the newly established Private Banking Infoline. The Private Banking account is free of charge for clients with assets exceeding PLN 1 million.

Private Banking customers were also the Private Banking Savings Account with an interest rate promotion – 1% per year for new customers up to the amount of PLN 500 thousand for the first 90 days or 0.2% annually for the entire assets on the account for all clients. Moreover the new Private Banking Account owners can profit from the free of charge brokerage account at the Biuro Maklerskie Pekao.

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As part of the investment offer, customers were offered a new structured autocall certificates with conditional capital protection based on the quotations of GlaxoSmithKline PLC. The product was denominated in EUR and PLN, the issuer is SG Issuer and the guarantor is Societe Generale. The offer was extended to structured products with capital protection based on the Pictet fund - Multi Asset Global Opportunities - R EUR (100% capital protection at the end of the investment period, denominated in PLN, issued by UniCredit Bank AG), and the Solactive Just Transition Select Index AR 5% (97% capital protection at the end of the investment period, denominated in PLN, issued by SG Issuer and guaranteed by Societe Generale).

Brokerage activity

In the third quarter of 2020, work continued on the consolidation of brokerage activities in the Bank Pekao S.A. Capital Group. As a result, the Group will strengthen its market position by building a strong, integrated center of investment competences and comprehensive services.

At the end of September 2020, the Pekao Brokerage House operated a total of 198.4 thousand investment accounts, servicing 142.0 thousand accounts with active access to services via remote channels. Direct service was provided within a nationwide network of 373 outlets providing brokerage services.

The value of the assets of Biuro Maklerskie Pekao and Dom Inwestycyjny Xelion S.A. as at 30 September 2020, it amounted to PLN 23.7 billion.

In the third quarter of 2020, Biuro Maklerskie Pekao provided services to:

- 7 public offers of structured certificates. Certificates with full capital guarantee, partial capital guarantee and conditional capital protection issued by Societe Generale Issuer or UniCredit Bank AG, in which subscriptions were accepted for a total amount of over PLN 91 million,
- 1 public offering of shares with subscriptions for a total amount of over PLN 220 million,

Moreover, the Brokerage House accepted subscriptions in ten calls for the sale of shares.

BM Pekao extended its offer with a new service of keeping the Share Register, which is a response to the recent changes to the Code of Commercial Companies and certain other acts.

Additionally, in cooperation with Generali Investments, due to the dynamic situation on the commodity markets, BM introduced to its offer the Subfund Generali Złota.

Due to the epidemic situation, BM Pekao promoted transactions in remote channels by introducing preferential price conditions related to investing in investment funds through them.

The Pekao Brokerage House remains active in the area of initiatives aimed at the development and optimization of the Polish capital market. In September 2020, it was a co-organizer of the 17th Annual Emerging Europe Investment Conference. This year's conference, attended by nearly 30 companies and over 90 Polish and foreign investors, was an excellent opportunity to discuss goals, strategies and, market challenges in the face of COVID-19.

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Business client (micro-entrepreneurs) - acquisition, credit activity and digitization

After the first three quarters of 2020, the acquisition of new business clients in the micro segment increased to 25 thousand customers, i.e. by + 42% compared to the same period last year. The bank continued the promotion of "PLN 1,000 bonuses for companies". An entrepreneur who set up an online business account and actively used banking products could receive up to 1,000. PLN return to the account.

Konto Przekorzystne Biznes Banku Pekao S.A. was recognized as the best company account in the August and September comepria.pl ranking "The best accounts for micro-companies". The convenience of using a multi-currency card, an attractive bonus of up to PLN 1,000, and the ability to open an account without leaving home were appreciated.

As part of the "Open e-shop with RedCart and Bank Pekao SA" promotion, business customers have the opportunity to set up an e-shop for PLN 1 net for the first 3 months. As part of the promotion, online training and technical support are available to help start and run an e-shop also free connection to one of the wholesalers.

In the period of 9 months of 2020, there was an increase in terminal sales by 8% compared to the corresponding period of the previous year and a 19% increase in transactions with payment cards in terminals.

In the third quarter of 2020, Bank Pekao S.A. launched the new NAPS BIZNES automatic credit application assessment system. It is a simple and fast process of granting the Przekorzystna Biznes loan to selected customers in the new Biznes Klik offer.

The Bank has introduced changes to credit regulations, including on simplifying and reducing the amount of the turnover clause in contracts and annexes to overdraft / debit limit agreements, limiting collateral, introducing a remote process of concluding contracts and annexes to overdraft loan agreements and loans for clients with Pekao24 for Companies.

The Bank signed an annex to the Agreement on cooperation with Bank Gospodarstwa Krajowego introducing changes in the scope of granting the BiznesMax guarantee (FG POIR), allowing for the guarantee of a revolving loan (including KRB), a non-revolving working capital loan not related to an investment, a loan, provided that it meets the conditions of a loan that may be covered by the Biznes Max guarantee as well as the possibility to repay the working capital loan taken out in another bank.

As part of Pekao24 electronic banking for companies, business clients have access to modern PeoPay mobile banking, whose scope of functionality and available services is as wide as for an individual customer. The PeoPay application offers innovative solutions on the market such as:

- approving finger and face biometrics for transfers and payments,
- paying for internet shopping on your phone without logging in to online banking,
- BLIK and Apple Pay payments,
- scanning invoice numbers from invoices without having to rewrite invoice numbers to the application,
- the possibility of paying by phone abroad (or in a foreign online store) directly from the currency account without any additional fees and commissions for currency conversion.

At the end of September 2020, 62.7 thousand clients actively used mobile banking. The number of users with access to electronic banking increased by 27 thousand compared to the end of September 2019 and 170 thousand actively used electronic banking customers.

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5.6.2 Small and medium enterprises (SME)

Acquisition, credit activity and digitization

After the third quarter of 2020, the Bank achieved commercial income similar to the previous year, despite the difficult external environment during the COVID-19 pandemic, the negative impact associated with the reduction of interest rates and the inflow of liquidity. In a demanding business environment, the Bank increased the acquisition of new clients with a turnover of over PLN 5 million by +16%. The new SME packages offer access to a wide range of products and services. In 57 dedicated Business Centers, clients receive the support of qualified Advisors and Product Specialists (in the field of FX, Leasing, Factoring, Cash Management, EU Funds, CRE). The product offer includes both transaction banking (accounts, transfers, cash deposits and withdrawals), corporate financing supported by EU programs, treasury products as well as factoring and leasing. After three quarters of 2020, sales of new POS payment terminals dynamically increased by +32% compared to 2019 and there was a strong increase in the deposit base in the SME segment +35% y/y, supported by liquidity programs for customers - the impact of PFR Shield of PLN 3.3 billion.

As part of the development of electronic channels, new functionalities have been added to the disposal of SME customers, supporting the scope of remote customer self-service and limiting the use of paper documentation (electronic conclusion and signing of contracts, Durable Medium).

In terms of the loan offer, the Bank focused on offering loans with BGK guarantees and on developing leasing and factoring sales. The bank extended its click-based financing offer with click-through leasing with a loan decision ready in 15 minutes.

At the beginning of September, the Bank signed an annex to the "Risk Participation" agreement with Bank Gospodarstwa Krajowego, which makes it possible to execute the transaction of confirmation or discount of export letters of credit received from higher-risk countries for which the Bank has not established transaction limits or the current limit is insufficient. This annex allows to include letters of credit with maturity of up to 1.5 years (so far only 1 year) in the program. Extending the maximum acceptable deadline of execution of the transaction is an additional support for Polish exporters expanding into markets that are considered risky.

In the area of transactional banking, the most important changes were the implementation of the Qlips service, thanks to which the customer receives information about the invoice issued and makes payments in electronic banking, as well as strengthening the security of online payments secured with the 3-D Secure service through strong authentication, additionally with the e-PIN code.

The SME clients were offered an alternative form of investing financial surpluses in the form of debt funds as part of participation in Pekao TFI fund units, with the lowest investment risk.

In September 2020, the Bank's customers with Visa Debit Gold and Visa Business debit cards were able to connect them to Apple Pay. The service enables quick contactless payments using Apple devices such as iPhone, Apple Watch or iPad. To use convenient payments, just enough activate Apple Pay in the PeoPay application or add the card directly to Apple Wallet.

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5.6.3 Corporate customers

Business growth and customer relationship development

Bank Pekao S.A. consistently focuses on building comprehensive customer relationships and provides customised solutions tailored to the business profile of its clients. This strengthens the market position of Bank Pekao as the first choice bank for the most demanding corporate clients. It professionally provides both the comprehensive services of a universal bank and the services from such areas as leasing, factoring, investment advisory services, advisory in M&A as well as highly advanced treasury and capital market products. A wide range of products and services, innovative solutions, customised approach and comprehensive financial services rendered to enterprises, institutions and public sector units are appreciated by clients and determine the strength of corporate banking of Bank Pekao S.A.

Bank Pekao S.A. ensures smooth customer service at every stage of clients' business activity. In order to meet the expectations resulting from the new economic situation both in Poland and in the world, the Bank is developing modern processes of customer service and financial management by implementing technological solutions, among others, in the areas of automation and digitalization of customer service (including the possibility of simple and secure signing of contracts in PekaoBiznes24 internet banking). The Bank actively supports clients in their business activities and supports the cooperation with State Treasury companies as part of the Anti-Crisis Shield. It finances current operations as well as it provides advice and funds for investments and international expansion. Customized approach and "tailor-made" corporate banking solutions of Bank Pekao S.A. are recognized both in Poland and internationally.

Specialized expertise and experience in arrangement and financing of investments, trading in Treasury securities, custodian business, trade finance or real estate finance are the areas of corporate banking appreciated by clients and a group of independent, national and international experts. Bank Pekao S.A. remains a leading financial partner for large and mid-sized enterprises as well as self-government units and financial institutions. The Bank's services are currently used by more than 13 thousand entities, including c.a. 3 thousand foreign clients and almost 3.4 thousand public sector clients. The significant market position is also reflected in the awards received from institutions that monitor the global banking market.

In order to meet market expectations, a web page dedicated entirely to economic analyses prepared by experts - containing periodic analytical documents, sector studies, as well as cross-sectional special reports - was launched on the website of Bank Pekao S.A.

The Bank also focused on providing solutions to clients whose activities have been or will be affected by the effects of the pandemic. The offered solutions were aimed at maintaining and improving clients' financial liquidity and thus ensuring the continuation of their operations in the current difficult conditions. Thanks to the commitment and good preparation for cooperation under the PFR Anti-Crisis Shield and guarantee schemes supported by Bank Gospodarstwa Krajowego (BGK), a program was introduced that allows the use of special credit solutions in financing of clients struggling with the effects of the pandemic, and providing them with the possibility to benefit from BGK subsidies to credit interest. In addition, the Bank introduced the Portfolio Guarantee Line from the Liquidity Guarantee Fund prepared by BGK to its offer.

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Transactional banking

The Bank is strengthening its leading market position in transactional banking. It offers corporate clients a wide range of products and financial services, including the modern PekaoBiznes24 Internet platform, which is the most commonly chosen electronic banking system for companies in Poland, and the Pekao Connect service – a high-tech and most modern solution allowing direct integration of financial-accounting system of the company with the Bank, which enables to automate the payment orders process and receive feedback information on transactions performed on bank accounts.

The marketing campaign “Pekao zda(o)lny bank dla firm!” (Pekao remote bank for companies”) - addressed to entrepreneurs from the SME and corporate sector - was launched in the third quarter of 2020. The campaign is informative and educational. The main goal is to present the possibilities offered by the Bank in the field of remote service to the existing customers and to encourage them to use the self-service zone in PekaoBiznes24 more widely - and also show the Bank's advantages in the field of remote banking to potential clients. As part of the remote service on the PekaoBiznes24 website, clients carried out, among others applications under the PFR Anti-Crisis Financial Shield, electronic product applications, applications related to user management and signed agreements and annexes.

Based on a survey carried out among 5,9 thousand clients, as many as 90% of PekaoBiznes24 users who use remote banking assess it in a positive or in a very positive way.

The key achievements in the area of the Bank's transactional banking in the third quarter of 2020 include:

- processing - within the framework of Pekao Collect service (identification of Clients' mass payments) - over 120 million transactions with the total volume of more than PLN 140 billion, i.e. an increase by +4,0% as compared to the data after three quarters of 2019 (in terms of the number of transactions),
- implementation of Qlips service - a service in which the invoice issuer sends data on due payments to KIR (National Clearing House) via the PekaoBiznes24 system, on the basis of which the payer receives information about the issued invoice and makes payment in electronic banking,
- strengthening the security of online payments with a business payment card secured with the 3-D Secure service by additionally introducing an e-PIN code for strong authentication.

Additionally, as part of the development of the PekaoBiznes24 internet banking system, new functionalities have been added to customers' disposal, enabling an even wider range of remote customer self-service and limiting the use of paper documentation:

- electronic conclusion and signing of contracts - enables the customer to submit an electronic proposal to conclude a contract for approval and authorization, which is then approved and signed by the Bank,
- Electronic Specimen Signature Card for Agreements and Instructions - a special Powers of Attorney module that allows the client to indicate persons authorized in PekaoBiznes24, who will be able to: sign product applications, contracts, annexes and other bank instructions made available in the system, as well as decide on the configuration of powers of attorney,
- Durable medium - allows you to provide customers with all regulations and documentation in a form that ensures authenticity and integrity and prevents unauthorized modification of the document after publication.

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Trade finance

In the third quarter of 2020, the amount of newly granted guarantees and sureties increased by 35% as compared to the same period of 2019. The Bank also recorded a double-digit growth dynamics in the area of documentary products. The amount of newly opened transactions increased by 30% as compared to the three quarters of 2019.

From the beginning of 2020, under the Open Financing Platform (OPF), the Bank financed invoices worth PLN 175 million more than in the same period of 2019.

In September 2020, Bank Pekao signed a factoring portfolio guarantee line agreement with Bank Gospodarstwa Krajowego (BGK). This agreement and the relevant changes in the Bank's internal regulations allow clients to use the BGK guarantee when applying for an eFinancing limit in any currency, as well as its extension or increase. The eFinancing product is based on purchasing short-term receivables or liabilities of the client. At the end of September, the Bank concluded the first eFinancing agreement with the use of BGK guarantee. Clients can use the BGK guarantee with each trade finance product offered by the Bank.

At the beginning of September, the Bank signed an annex to the "Risk Participation" agreement with Bank Gospodarstwa Krajowego, which makes it possible to execute the transaction of confirmation or discount of export letters of credit received from higher-risk countries for which the Bank has not established transaction limits or the current limit is insufficient. This annex allows to include letters of credit with maturity of up to 1.5 years (so far only 1 year) in the program. Extending the maximum acceptable deadline of execution of the transaction is an additional support for Polish exporters expanding into markets that are considered risky.

In the third quarter of 2020, the Bank continued its work on optimizing the processes of handling trade finance transactions. A new model for monitoring agreements financing car dealers was implemented, based on an automated analysis of current sales and stock levels. The documentation concerning trade finance products was also considerably simplified as a result of introduction of the regulations on provision of credit services.

Investment banking, structured finance and commercial real estate

The Bank supports the development of enterprises and infrastructure through long-term financing of investments in different segments of economy. It offers clients a wide range of services in the field of investment banking, structured financing and commercial real estate project financing, including financing of warehouses.

The key projects financed by the Bank in the third quarter of 2020 include:

- multi-currency financing for a leading company in the fuel-energy sector in total amount of EUR 1.75 billion,
- financing the construction of other private dormitories in major Polish university cities in the amount of PLN 150 million,
- financing the construction of a modern warehouse complex in the suburbs of the capital city of Warsaw in the amount of EUR 19 million.

Issuance of debt securities

In the area of arranging and servicing non-treasury debt securities, taking into account the outstanding debt as at 31 August 2020, Bank Pekao S.A. had nearly 29% market share (1st place), including:

- over 36% market share in arranging mid-term corporate bonds – 1st place,
- nearly 17% market share in the segment of bank debt securities (including pledge letters) – 3rd place,
- over 22% market share in arrangement of municipal bonds issues – 2nd place.

In the third quarter of 2020, the Bank participated in arranging the bond issues guaranteed by the State Treasury which were used to finance aid programs aimed at preventing the effects of the COVID-19 pandemic. The bonds were issued for the total amount of approximately PLN 39 billion with maturities of 5, 10 and 13 years.

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In addition, the non-treasury debt securities were placed through Bank Pekao S.A. for the total amount of nearly PLN 2,6 billion, of which the following transactions deserve special attention:

- issue of six series of bonds in PLN and EUR for a company from the factoring sector with maturity up to 1 year and for the total equivalent amount of PLN 1,28 billion,
- issue of three series of bonds for a company from the leasing industry with maturities up to 1 year for the total amount of PLN 700 million,
- issue of 3 series of bonds for a mortgage bank for the amount of PLN 340 million with maturity of up to 2 years,
- issue of 2-year bonds for a company from the leasing industry belonging to an international financial group for the amount of PLN 100 million.

In the third quarter of 2020, the Bank concluded new bond issue agreements, including:

- the agreement for the amount of PLN 2 billion with the companies from the leasing sector, belonging to an international financial group,
- the agreement for the amount of PLN 700 million concluded with a leading company on the Polish market operating in the receivables management industry,
- the agreement for the amount of EUR 100 million with a top Polish developer,
- the agreement for the total amount of ca. PLN 272 million with fifteen self-government units.

Cooperation with international and domestic financial institutions

As at the end of September 2020, the Bank maintained 75 nostro accounts with 47 banks in 26 countries; it ran 225 loro accounts for 206 foreign clients (banks and other financial institutions) from 48 countries and 48 current accounts for 42 foreign financial institutions.

The Bank also intermediated in the execution of transactions for clients of other domestic banks, running 34 loro accounts for 14 Polish banks and maintaining 6 nostro accounts with 1 Polish bank.

The subsidiary company, Pekao Leasing Sp. z o.o., launched a long-term loan in the amount of EUR 350 million granted by Bank Gospodarstwa Krajowego. The agreement is a part of the long-term strategy of cooperation between the Pekao Group and small and medium-sized enterprises - the loan will be used to finance this sector of enterprises. It is already the third agreement of this type concluded between Pekao Leasing and Bank Gospodarstwa Krajowego, and the total value of financing granted to Pekao Leasing exceeded PLN 1 billion. Bank Pekao S.A. was both the transaction arranger and loan guarantor.

Cooperation with international clients

The Bank supports the export plans of Polish companies present on foreign markets or planning international expansion. The Bank's clients can benefit from a package of the most advantageous financial solutions tailored to the business model. An attractive product offer for financing foreign contracts is a key element of support and at the same time a condition for strengthening the presence of domestic entities on foreign markets.

The Bank granted loans and prepared comprehensive offers for short and long-term financing of international transactions, supporting the expansion of Polish enterprises on both European markets and in developing countries. When carrying out transactions, the Bank cooperated, among others, with KUKE (Export Credit Insurance Corporation), taking advantage of the concluded framework agreement.

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The Bank also continued the cooperation with the UniCredit Group which provides for servicing UniCredit clients on the Polish market and Polish clients on foreign markets. The agreement allows supporting Polish clients in conducting business in the countries where the UniCredit Group operates. The agreement also strengthens the role of the Bank as an expert in cross-border solutions for international clients and it positions Bank Pekao S.A. as a Polish European bank.

Comprehensive service of public sector finances

The Bank still maintains its leading position in the area of structuring and financing municipal projects in Poland. In the current situation, the public sector has become an area stimulating the national economy. The Bank cooperates with the Foundation of the Polish Development Fund (PFR) on the PFR bond issue program which is a part of the government "anti-crisis shield" (the value of the bonds program is PLN 100 billion). The Bank acts as the Program Dealer and actively participates in the market of bonds issued by PFR. The Bank also participates in tenders announced by local government units. These activities support the development of Polish infrastructure and contribute to the improvement of life of local communities. The number of cities, counties and provinces, as well as universities acquired for service is systematically increasing. In the third quarter of 2020, the Bank won tenders for rendering comprehensive financial services to the University of Łódź and the University of Rzeszów for the next 4 years. The service for the City of Białystok and all municipal units was extended for the next three years. The involvement in financing provided to the Lublin and Małopolskie provinces increased by PLN 140 and 150 million, respectively. Participation in the bond issue program for MZK Toruń implemented in a consortium with BGK increased to PLN 175 million.

A campaign aimed at promoting the management of the "Employee Capital Plans" scheme among local government units was launched in cooperation with Pekao TFI.

The Bank cooperates with 11 out of 12 Polish metropolises and provides ongoing budget support for every third metropolis. The Bank cooperates with every fourth municipality in Poland (25% market share) and it also maintains business relations with 92% of cities with county rights, and it provides ongoing services for every fifth of them (21%). The Bank also cooperates with every third county (37%) and with almost all provinces (94%). Bank Pekao S.A. is specialised in financing infrastructure projects of the public sector using capital market instruments.

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5.7 Factors which will affect the results of the Group

The activity of Bank Pekao S.A. and the Group's companies is in majority conducted on the Polish territory, hence the Group's performance will be mainly affected by economic situation in the country and international events that have influence on domestic economy.

After several years of solid growth, the economic environment will deteriorate sharply in 2020 as a consequence of the measures taken in the context of the global COVID-19 pandemic. Economic activity in many sectors of the economy will be significantly reduced and companies and households will experience a substantial deterioration of their financial situation. The consequences of the whole situation are however to some extent mitigated by public help, especially funds from the so-called anti-crisis shield. According to current forecasts by Bank Pekao S.A., in 2020 the Polish economy may contract by 2.4% y/y. The main sources of risk remain the scale and duration of the epidemiological situation.

Monetary policy is an important factor influencing banks' performance. In the current economic situation, the MPC has decided to significantly reduce interest rates, including the main interest rate from 1.50% to 0.10%. Very low interest rates have a strong, adverse impact on the results of the banking sector (through the impact on the net interest result of banks).

In addition to the economic situation and monetary policy, banks are also directly affected by the coronavirus epidemic, which results from actions taken by the regulator and the strategic role of the banking sector for the economy. Most important actions are described in the section about external conditions ("Epidemic environment").

Independently from economic situation, tax and regulatory environment invariably plays major role for banks. In particular, this includes tax on certain financial institutions, high capital requirements, growing contributions to Bank Guarantee Fund (BGF), costs of further adjustment to a number of regulatory solutions (MIFID II, RODO, PSD II, MREL, among others), as well as introduction in Poland of cap on asset management fees. Maintained strict tax and regulatory environment coupled with unprecedented economic situation may constrain banks' credit expansion and impact their financial results.

Currently, the issue of foreign currency mortgages is one of the most important factors in the institutional environment. Considering no systemic solution in this matter, the banking system will be most affected by court decisions in individual cases. In this context, the ruling of the EU Court of Justice (CJEU) from 3 October 2019 is particularly important, as it leads to a higher number of borrowers seeking judicial resolution. This may have a strong negative impact on the performance of banks, especially those with a large portfolio of such loans. So far, the main channel of influence has been the reserves established by banks due the expected legal risk. According to most estimates, the total costs for the sector may reach several dozen billion zlotys, but they are difficult to estimate and will be spread over time. Much will depend on, among others, the actual number of lawsuits (how many borrowers will decide to take legal action), the interpretation of national courts in individual cases (in relation to the opinion of the CJEU), the reactions of national supervisory institutions or the actions of the banks themselves. Moreover, it cannot be ruled out that the issue of CHF loans will find a final solution by way of legislation. Bank Pekao S.A. will monitor the impact of the CJEU ruling on the direction of decisions made by Polish courts, as well as market practice and borrowers' behaviour, and will assess on an ongoing basis the probability of cash outflow with respect to the mortgage loans in question. However, the impact may be indirect in case of potential financial problems of some smaller institutions with a particularly large exposure to the discussed risk.

In the following months, the growth pace of all credit items in the banking sector is expected to decrease. Lower economic activity and worse financial situation of many households and enterprises will result in a significantly lower demand for credit, in particular for consumer loans and investment loans. Postponing of dwelling purchases will also affect the growth rate of mortgage loans (with a further diminishing of the foreign currency loan portfolio). The aforementioned dynamics will also be determined by the banks' lending policy, which is likely to remain tightened in the current economic conditions. A weaker money creation and worse situation on the labour market (higher unemployment, slower growth of wages) also means a corresponding decrease in the rate of deposits, although here the saving/holding of funds – including those incoming from the so-called anti-crisis shield (especially in enterprises' sector) – is having an opposite effect.

Report on the activities of Bank Pekao S.A. Group for the third quarter of 2020

6. Statement of Financial Position and Financial Results

Consolidated income statement containing cumulated items for the period from 1 January to 30 September, 2020 and 2019 respectively is presented in the Condensed Interim Consolidated Financial Statements of Bank Pekao S.A. Group for the period of 9 months ended on 30 September 2020.

The Report on activities of Bank Pekao S.A. Group for the third quarter of 2020 includes statement of financial position in a short form and income statement in a presentation form as well as the key, selected items from these statements are discussed.

6.1 The consolidated income statement – presentation form

The consolidated income statement – presentation form

Net profit of the Bank Pekao S.A. Group attributable to the Bank's holders for the three quarters of 2020 amounted to PLN 916.9 million and was lower by PLN 563.8 million i.e. 38.1% y/y, mainly due to higher write-offs for impairment of financial assets, related to the COVID-19 coronavirus pandemic (about PLN 562 million impact on net profit).

(in PLN million)

	3 QUARTERS OF 2020	3 QUARTERS OF 2019	CHANGE
Net interest income	3,996.9	4,049.4	(1.3%)
Net fee and commission income	1,777.3	1,879.0	(5.4%)
Dividend income	26.3	22.2	18.5%
Trading result	135.1	105.3	28.3%
Net other operating income and expenses (*)	(14.6)	27.0	x
Net non-interest income (*)	1,924.1	2,033.4	(5.4%)
Operating income (*)	5,920.9	6,082.8	(2.7%)
Operating costs	(2,637.2)	(2,672.3)	(1.3%)
Gross operating profit (*)	3,283.7	3,410.5	(3.7%)
Net impairment losses on financial assets and off-balance sheet commitments	(1,082.3)	(463.4)	>100%
Net operating profit	2,201.4	2,947.1	(25.3%)
Bank Guarantee Fund fee	(336.9)	(434.2)	(22.4%)
Tax on certain financial institutions	(494.9)	(442.9)	11.7%
Profit before tax	1,369.6	2,070.1	(33.8%)
Income tax expense	(451.6)	(587.2)	(23.1%)
Net profit	918.0	1,482.9	(38.1%)
Attributable to equity holders of the Bank	916.9	1,480.7	(38.1%)
Attributable to non-controlling interest	1.1	2.2	(50.0%)

(*) Starting from the first quarter of 2020 the Group made changes in the presentation of selected items of the income statement. The items: 'Net result on other provisions, and 'Gains (losses) on disposal of property, plant and equipment and intangible assets, are presented in the line 'Net other operating income and expenses' (and thus in net non-interest income, operating income, gross operating profit and net operating profit). The above-mentioned changes resulted in restatement of comparable data, but without impact on the net profit for the period. In order to ensure comparability, data for the three quarters of 2019 have been restated in comparison to those previously published.

Report on the activities of Bank Pekao S.A. Group for the third quarter of 2020

Operating income

In the three quarters of 2020, the Group's operating income amounted to PLN 5,920.9 million and was lower by 2.7% in comparison with the three quarters of 2019, mainly due to the negative impact of the economic situation including interest rate cuts, and lower customer activity.

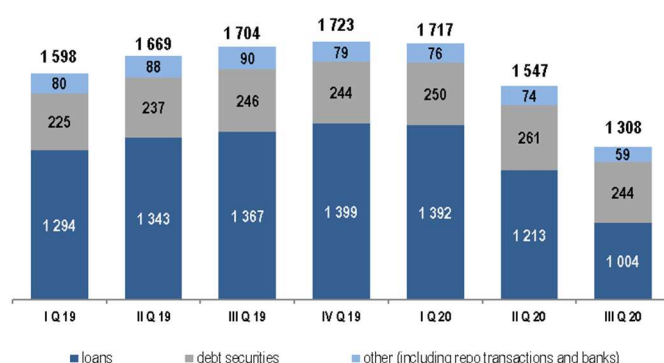
Total net interest income

(in PLN million)

	3 QUARTERS OF 2020	3 QUARTERS OF 2019	CHANGE
Interest income	4,572.2	4,970.3	(8.0%)
Interest expense	(575.3)	(920.9)	(37.5%)
of which on leasing	(7.9)	(10.3)	(23.3%)
Net interest income	3,996.9	4,049.4	(1.3%)

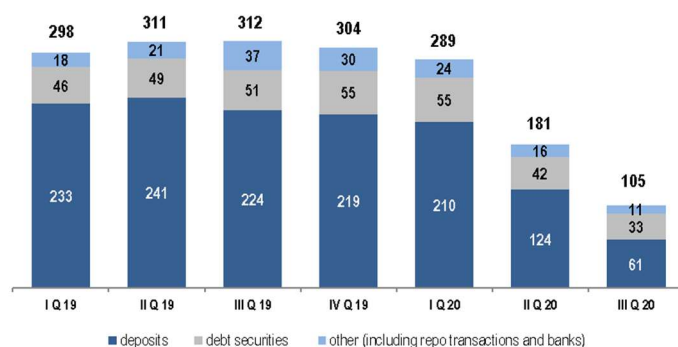
Net interest income in the three quarters of 2020, amounted to PLN 3,996.9 million and was lower by PLN 52.5 million, i.e. 1.3% compared to three quarters of 2019, mainly due to the negative impact of interest rate cuts.

Interest income



In the three quarters of 2020, the interest income amounted to PLN 4,572.2 million and was lower by PLN 398.1 million y/y due to the negative impact of interest rate cuts on the interest rate of assets.

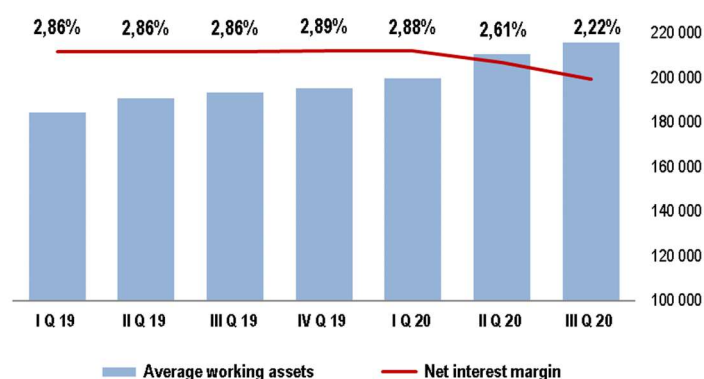
Interest expense



In the three quarters of 2020, the interest expense amounted to PLN 575.3 million and was lower by PLN 345.6 million y/y, mainly due to interest rate cuts, despite the strong increase in the volume of deposits.

Report on the activities of Bank Pekao S.A. Group for the third quarter of 2020

Interest margin



The interest margin achieved in the three quarters of 2020 amounted to 2.56% and was lower by 0.30 p.p., under the pressure of the negative impact of interest rate cuts and faster growth in deposits than in loans.

Net non-interest income

(in PLN million)

	3 QUARTERS OF 2020	3 QUARTERS OF 2019	CHANGE
Fee and commission income	2,111.1	2,153.6	(2.0%)
Fee and commission expense	(333.8)	(274.6)	21.6%
Net fee and commission income	1,777.3	1,879.0	(5.4%)
Dividend income	26.3	22.2	18.5%
Trading result	135.1	105.3	28.3%
of which gains on derecognition of financial assets and liabilities not measured at fair value through profit or loss	48.8	39.5	23.5%
Net other operating income and expense	(14.6)	27.0	x
Net non-interest income	1,924.1	2,033.5	(5.4%)

The Group's net fee and commission income in the three quarters of 2020, amounted to PLN 1,777.3 million and was lower by PLN 101.7 million, i.e. 5.4% compared to the three quarters of 2019, mainly due to lower customer activity due to the pandemic, which translated into lower commissions on card operations, investment funds and loans.

Report on the activities of Bank Pekao S.A. Group for the third quarter of 2020

The table below presents the Group's net fee and commission income divided according to the main areas of the activity.

(in PLN million)

	3 QUARTERS OF 2020	3 QUARTERS OF 2019	CHANGE
Net fee and commission income	1,777.3	1,879.0	(5.4%)
on loans	347.6	376.3	(7.6%)
on cards	204.4	265.4	(23.0%)
on mutual funds	291.5	325.6	(10.5%)
on brokerage activate	72.0	43.6	65.1%
on margins on foreign exchange transactions with clients	382.1	369.0	3.6%
other	479.7	499.1	(3.9%)

Operating costs

In the three quarters of 2020 operating costs including contributions and payments to the Bank Guarantee Fund, amounted to PLN 2,974.1 million and were lower by PLN 132.4 million, i.e. 4.3% than in the three quarters of 2019.

The operating costs excluding restructuring provision amounted to PLN 2,502.5 million and were lower by 3.3% y/y, below inflation and despite the costs of investments in operational transformation and digitization and additional costs associated with the coronavirus pandemic. Nominal costs were lower by PLN 35.1 million, i.e. 1.3% compared to the costs achieved in the three quarters of 2019.

(in PLN million)

	3 QUARTERS OF 2020	3 QUARTERS OF 2019	CHANGE
Personnel expenses (*)	(1,446.7)	(1,483.1)	(2.5%)
Other administrative expenses (**)	(658.2)	(725.4)	(9.3%)
of which Financial supervision authority fee (KNF)	(19.1)	(25.2)	(24.4%)
Depreciation and amortization	(397.6)	(378.8)	5.0%
Operating costs excluding restructuring provision	(2,502.5)	(2,587.3)	(3.3%)
Provisions for FTEs restructuring	(120.0)	(85.0)	41.2%
Network restructuring	(14.7)	-	x
Operating costs	(2,637.2)	(2,672.3)	(1.3%)

(*) Excluding restructuring provision.

(**) Excluding network restructuring.

In the three quarters of 2020, cost / income ratio excluding restructuring provision amounted to 42.2% and was lower by 0.3 p.p. y/y.

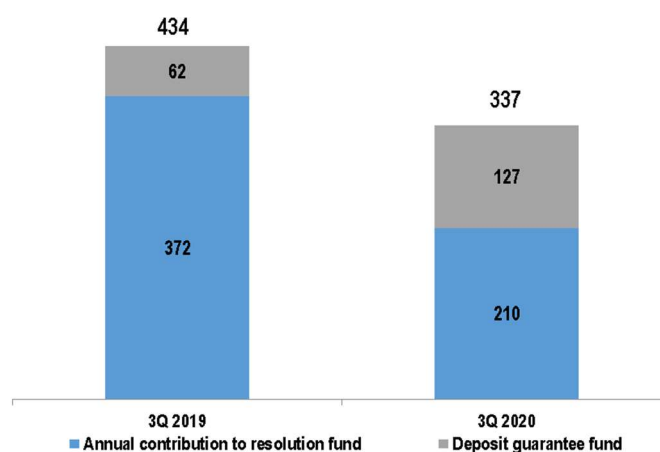
As of 30 September 2020, the Group employed 15,334 employees (in the Bank and the companies consolidated under full consolidation method) as compared to 16,237 employees as at the end of September 2019.

As of 30 September 2020, the Bank employed 13,244 employees as compared to 14,298 employees as at the end of September 2019.

Report on the activities of Bank Pekao S.A. Group for the third quarter of 2020

Bank Guarantee Fund fee

Bank Guarantee Fund fee in the three quarters of 2020 amounted to PLN 336.9 million, and were lower of PLN 97.3 million as compared the three quarters of 2019.



Tax on certain financial institutions

Tax on certain financial institutions in the three quarters of 2020 amounted to PLN 494.9 million and was higher by PLN 52.0 million, i.e. 11.7% as compared the three quarters of 2019, due to an increase in Group's assets.

6.2 Net impairment losses

(in PLN million)

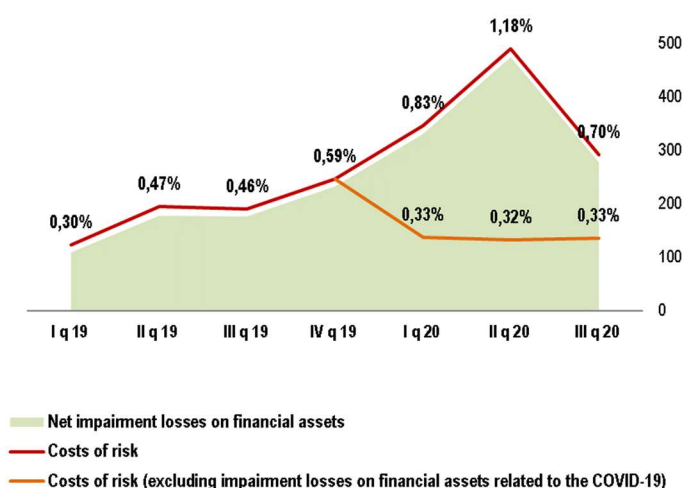
	GROUP		BANK PEKAO S.A.	
	3 QUARTERS OF 2020	3 QUARTERS OF 2019	3 QUARTERS OF 2020	3 QUARTERS OF 2019
financial assets measured at amortized cost	(961.2)	(406.3)	(912.5)	(379.8)
financial assets measured at fair value through other comprehensive income	(29.9)	(15.5)	(32.4)	(14.9)
financial liabilities measured at amortized cost	(91.2)	(41.6)	(115.5)	(31.2)
Net impairment losses on financial assets and off-balance sheet commitments	(1,082.3)	(463.4)	(1,060.4)	(425.9)

The Group's net impairment losses on financial assets and off-balance sheet commitments amounted to PLN 1,082.3 million in the three quarters of 2020, and was more than twice as compared the three quarters of 2019, due to the creation of impairment related to the COVID-19 virus pandemic in accordance with IFRS 9.

Impairment losses for financial assets related to the COVID-19 coronavirus pandemic were created based on the forecasted deterioration of the risk parameters of the loan portfolio in the amount of ca. PLN 694 million and estimated based on macroeconomic scenarios assuming an economic recession in Poland in 2020.

Report on the activities of Bank Pekao S.A. Group for the third quarter of 2020

Costs of risk



The costs of risk in the three quarters of 2020 amounted to 0.91% and was higher by 0.50 p.p. y/y, due to the creation of loan loss provisions related to the COVID-19 pandemic.

Report on the activities of Bank Pekao S.A. Group for the third quarter of 2020

6.3 The structure of the net profit

(in PLN million)

	3 QUARTERS OF 2020	3 QUARTERS OF 2019	CHANGE
Net profit of Bank Pekao S.A.	931.8	1,566.5	(40.5%)
Entities consolidated under full method			
Pekao Investment Management S.A.	78.2	93.3	(16.2%)
Pekao Leasing Sp. z o.o.	20.2	43.3	(53.3%)
Pekao Faktoring Sp. z o.o.	16.9	13.5	25.2%
Pekao Financial Services Sp. z o.o.	3.3	6.7	(50.7%)
Pekao Direct Sp. z o.o. (d. Centrum Bankowości Bezpośredniej Sp. z o.o.) ^(*)	2.9	0.9	>100%
Dom Inwestycyjny Xelion Sp. z o.o.	0.4	0.2	100.0%
Pekao Bank Hipoteczny S.A.	0.3	2.0	(85.0%)
Pekao Powszechne Towarzystwo Emerytalne S.A. w likwidacji	0.2	0.6	(66.7%)
Pekao Fundusz Kapitałowy Sp. z o.o. w likwidacji	0.1	0.3	(66.7%)
Centralny Dom Maklerski Pekao S.A. ^(**)	-	12.0	x
FPB "MEDIA" Sp. z o.o. w upadłości	0.0	0.0	x
Pekao Property S.A. w likwidacji	(0.2)	(0.1)	100.0%
Centrum Kart S.A.	(0.6)	(0.1)	>100%
Pekao Investment Banking S.A. ^(***)	(3.6)	(12.5)	(71.2%)
Exclusions and consolidation adjustments ^(****)	(133.0)	(245.9)	(45.9%)
Net profit of the Group attributable to equity holders of the Bank	916.9	1,480.7	(38.1%)

^(*) On January 17, 2020, the name of the Centrum Bankowości Bezpośredniej limited liability company changed to Pekao Direct limited liability company, due to the registration of the amendment to the founding act in the register of entrepreneurs of the National Court Register.

^(**) On 25 June, 2019, the Ordinary General Meeting of Centralny Dom Maklerski Pekao S.A. (CDM Pekao S.A.) and the Extraordinary General Meeting of CBB Sp. z o.o. and on 26 June, 2019, the Ordinary General Meeting of the Bank adopted resolutions accepting the division of (CDM Pekao S.A.).

The division plan was agreed by the management boards of the companies participating in the division on 27 February, 2019 and assumed that the division will be effected in accordance with art. 529 § 1 Section 1 of the Commercial Companies Code, i.e.:

- by transferring to the Bank part of the assets (assets and liabilities) and the rights and obligations of CDM Pekao S.A. in the form of an organized part of the company CDM Pekao S.A. related to the provision of brokerage services,
- by transferring to CBB Sp. z o.o. part of assets (assets and liabilities) and rights and obligations of CDM Pekao S.A. in the form of an organized part of the company CDM Pekao S.A. related to call center services.

^(***) On May 29, 2020, Pekao IB concluded a sales agreement with Bank Pekao S.A. as part of the consolidation and integration process of the brokerage activities in the Pekao Group. an organized part of the enterprise covering brokerage activities. This transaction was classified as an intra-group transaction and the result of this transaction was recognized in the Group's equity.

^(****) Includes, among others, transactions within the Group (including dividends from subsidiaries for the previous years), and net profit attributable to non-controlling interest.

Report on the activities of Bank Pekao S.A. Group for the third quarter of 2020

Results of the Bank's major related entities

Pekao Investment Management S.A. – Pekao IM

In the three quarters of 2020, consolidated net profit of Pekao IM amounted to **PLN 78.2 million** compared with PLN 93.3 million in the three quarters of 2019. Net assets of investment funds managed by Pekao TFI S.A. was lower by ca. 16.4% compared to the end of September 2019 due to the impact of the COVID-19 pandemic on the capital market in Poland and worldwide.

Pekao Leasing Sp. z o.o. – Pekao Leasing

In the three quarters of 2020, Pekao Leasing reported a net profit of **PLN 20.2 million** compared with PLN 43.3 million in the three quarters of 2019. The result was lower due to the increase in the risk costs of the pandemic, despite the increase in revenues and strict cost control. In the three quarters of 2020, Pekao Leasing concluded new contracts by 13.9% y/y, i.e. by 1.7 thousand. The value of leased assets was lower by 13.6% y/y and amounted to PLN 2,666.7 million.

Pekao Faktoring Sp. z o.o. – Pekao Faktoring

In the three quarters of 2020, Pekao Faktoring reported a net profit of **PLN 16.9 million**, compared to a profit of PLN 13.5 million in the three quarters of 2019. The result for the current period is higher due to the factoring exposure increased by nearly 40% y/y and limited by extraordinary events. Pekao Faktoring ranks first in turnover on the Polish factoring market.

Pekao Financial Services Sp. z o.o. – PFS

In the three quarters of 2020, Pekao FS reported a net profit of PLN 3.3 million (including the Bank's share of **PLN 2.2 million**), compared to a profit of PLN 6.7 million achieved in the three quarters of 2019. The net result was lower due to the fluctuation of revenues in the three quarters of 2019, taking into account the settlements of work carried out by Pekao FS, among others as part of the implementation of bancassurance products and an increase in costs caused by expanding the scope of activity primarily with services under the PPK program and preparation of PFS resources for its subsequent stages. The situation on the capital market related by COVID-19 also contributed to the decrease in revenues.

Pekao Direct Sp. z o.o. – Pekao Direct

In the three quarters of 2020, Pekao Direct generated a net profit of **PLN 2.9 million**, compared to a result of PLN 0.9 million in the three quarters of 2019. The result was influenced by the increase in services for the Bank using remote communication channels - including newly introduced: chat and video), while optimizing and improving the efficiency of Pekao Direct.

Dom Inwestycyjny Xelion Sp. z o.o. – DI Xelion

Net profit in the three quarters of 2020 amounted to **PLN 0.4 million**, compared to the profit of PLN 0.2 million achieved in the three quarters of 2019. The result was affected by the unfavorable situation on capital markets, resulting in a further shift in customer preferences towards a lower level of acceptable risk.

Pekao Bank Hipoteczny S.A. – Pekao Bank Hipoteczny

In the three quarters of 2020, Pekao Bank Hipoteczny reported a net loss of **PLN 0.3 million**, i.e. compared to a profit PLN 2.0 as in the three quarters of 2019. The lower net result is related to the increase in the level of credit risk in the light of the pandemic situation and the negative impact of the reduction in interest rates and customer activity on the Company's income.

Pekao Investment Banking S.A. – Pekao IB

In the three quarters of 2020, Pekao IB reported a net loss of **PLN 3.6 million**, compared to a loss of PLN 12.5 million in the three quarters of 2019. The loss in both periods result from the low number of consultancy transactions carried out and low income from brokerage activities rendered to institutional clients, also limited by the economic situation.

Report on the activities of Bank Pekao S.A. Group for the third quarter of 2020

The results of Bank Pekao S.A.

The main items from the Bank's income statement in presentation form are as follows:

(in PLN million)

	3 QUARTERS OF 2020	3 QUARTERS OF 2019	CHANGE
Net interest income	3,875.6	3,942.3	(1.7%)
Net non-interest income ^(*)	1,790.8	1,882.8	(4.9%)
Operating income ^(*)	5,666.4	5,825.1	(2.7%)
Operating costs	(2,428.3)	(2,413.4)	0.6%
Gross operating profit ^(*)	3,238.2	3,411.7	(5.1%)
Net impairment losses on financial assets and off-balance sheet	(1,060.4)	(425.9)	>100%
Net operating profit ^(*)	2,177.8	2,985.8	(27.1%)
Bank Guarantee Fund fee	(334.6)	(431.6)	(22.5%)
Tax on certain financial institutions	(494.9)	(442.9)	11.7%
Gains (losses) on subsidiaries and associates	1.2	0.0	x
Profit before tax	1,349.4	2,111.3	(36.1%)
Net profit	931.8	1,566.5	(40.5%)

(*) Starting from the first quarter of 2020 the Group made changes in the presentation of selected items of the income statement. The items: 'Net result on other provisions, and 'Gains (losses) on disposal of property, plant and equipment and intangible assets, are presented in the line 'Net other operating income and expenses' (and thus in net non-interest income, operating income, gross operating profit and net operating profit). The above-mentioned changes resulted in restatement of comparable data, but without impact on the net profit for the period. In order to ensure comparability, data for the three quarters of 2019 have been restated in comparison to those previously published.

Net profit of the Bank Pekao S.A. in the three quarters of 2020 amounted to PLN 931.8 million and was lower by 40.5%, mainly due to higher impairment losses on financial assets related to the coronavirus COVID-19 pandemic.

The main Bank's financial information are as follows:

	30.09.2020	30.09.2019	CHANGE
STATEMENT OF FINANCIAL POSITION – SELECTED ITEMS (in PLN million)			
Loans and advances at nominal value ^(*)	146,354.4	146,500.4	(0.1%)
Amounts due to customers	181,817.3	153,258.8	18.6%
Structured Certificates of Deposit	710.8	924.2	(23.1%)
Certificates of Deposit	-	1,027.0	x
Subordinated bonds	2,750.0	2,350.0	17.0%
Repo transactions	30.0	546.2	(94.5%)
Total assets	223,433.7	191,648.3	16.6%
Investment funds distributed through the Bank's network	17,150.0	19,496.4	(12.0%)
Total capital ratio in %	20.9%	18.8%	2.1 p.p.

(*) Including loans and non-treasury debt securities.

As at the end of September 2020, loans and advances at nominal value amounted to PLN 146,354.4 million, an decrease of PLN 146.0 million, i.e. 0.1% in comparison to the end of September 2019. As at the end of September 2020, the volume of retail loans amounted to PLN 77,201.0 million and the volume of corporate loans amounted to PLN 69,153.4 million.

As at the end of September 2020, the amounts due to customers, Structured Certificates of Deposit, Certificates of Deposit and subordinated bonds amounted to PLN 185,278.1 million, an increase of PLN 27,718.1 million, i.e. 17.6% in comparison to the end of September 2019.

The value of net assets of investment funds managed by Pekao TFI S.A. distributed through the Bank's network amounted to PLN 17,150.0 million as at the end of September 2020, were lower of PLN 2,346.4 million, i.e. 12.0% in comparison to the end of September 2019. The decrease occurred mainly in March and was related with a pandemic situation in the country and abroad.

Report on the activities of Bank Pekao S.A. Group for the third quarter of 2020

6.4 Structure of the consolidated statement of financial position – short form

The balance sheet of Bank Pekao S.A. determines the amount of total assets in balance sheet and the structure of the assets and liabilities of the Group. As at the end of September 2020, the total assets of Bank Pekao S.A. constitutes 96.3% of the total assets of the whole Group.

The table below presents the Group's statement of financial position – short form.

ASSETS	30.09.2020		30.09.2019		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Cash and due from Central Bank	5,898.8	2.5%	6,357.6	3.2%	(7.2%)
Loans and advances to banks ^(*)	2,362.9	1.0%	2,222.6	1.1%	6.3%
Loans and advances to customers ^(**)	150,149.0	64.7%	149,298.4	75.1%	0.6%
Reverse repo transactions	1,935.0	0.8%	-	-	x
Securities ^(***)	59,568.1	25.7%	32,320.0	16.3%	84.3%
Property, plant and equipment and intangible assets	3,750.8	1.6%	3,399.6	1.7%	10.3%
Other assets	8,449.3	3.6%	5,206.2	2.6%	62.3%
Total assets	232,113.9	100.0%	198,804.4	100.0%	16.8%

(*) Including net investments in financial leases to banks.

(**) Including net investments in financial leases to customers and non-treasury debt securities.

(***) Including financial assets held for trading, other financial instruments at fair value through profit and loss and excluding non-treasury debt securities.

EQUITY AND LIABILITIES	30.09.2020		30.09.2019		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Amounts due to Central Bank	0.0	0.0%	5.0	0.0%	x
Amounts due to other banks	7,399.7	3.2%	6,138.2	3.1%	20.6%
Amounts due to customers	181,343.5	78.1%	152,691.8	76.8%	18.8%
Debt securities issued	4,491.7	1.9%	5,949.9	3.0%	(24.5%)
Subordinated liabilities	2,774.7	1.2%	2,383.3	1.2%	16.4%
Repo transactions	30.0	0.0%	546.2	0.3%	x
Lease liabilities	423.6	0.2%	482.8	0.2%	(12.3%)
Other liabilities	10,501.3	4.5%	7,783.3	3.9%	34.9%
Total equity, including	25,149.4	10.8%	22,823.9	11.5%	10.2%
non-controlling interests	11.3	x	12.4	x	(8.9%)
Total equity and liabilities	232,113.9	100.0%	198,804.4	100.0%	16.8%

Report on the activities of Bank Pekao S.A. Group for the third quarter of 2020

Customers' Financing

Customer structure of loans and advances

(in PLN million)

	30.09.2020	30.09.2019	CHANGE
Loans and advances at nominal value ^(*)	156,246.2	154,516.4	1.1%
Loans and investments in financial leases	146,509.9	143,846.5	1.9%
Retail	78,722.3	75,822.4	3.8%
Corporate	67,787.6	68,024.1	(0.3%)
Non-treasury debt securities	9,736.3	10,669.9	(8.7%)
Other ^(**)	1,165.5	1,233.4	(5.5%)
Impairment allowances	(7,262.7)	(6,451.4)	12.6%
Total net receivables	150,149.0	149,298.4	0.6%
Reverse repo transactions	1,935.0	-	x
Total Customers' financing ^(***)	158,181.2	154,516.4	2.4%

(*) Excluding reverse repo transactions.

(**) Including interest and receivables in transit.

(***) Total customers' financing includes loans and advances at nominal value, securities issued by non-monetary entities and reverse repo transactions.

As at the end of September 2020, loans and advances at nominal value amounted to PLN 156,246.2 million, an increase of PLN 1,729.8 million, i.e. 1.1% in comparison to the end of September 2019 with significant growth in key strategic areas.

As at the end of September 2020, the volume of retail loans amounted to PLN 78,722.3 million, an increase of PLN 2,899.9 million, i.e. 3.8% in comparison to the end of September 2019, thanks to dynamic growth of PLN mortgage loans by 6.6% y/y.

As at the end of September 2020, corporate loans and non-treasury debt securities amounted to PLN 77,523.9 million, an increase of PLN 1,170.1 million, i.e. 1.5% in comparison to the end of September 2019, thanks to strong dynamics in the medium-sized enterprise segment (1.7% y/y) and leasing receivables.

Receivables and impairment losses^(*)

(in PLN million)

	30.09.2020	30.09.2019	CHANGE
Gross receivables	157,411.7	155,749.8	1.1%
Stage 1	121,919.2	126,896.2	(3.9%)
Stage 2	27,021.1	20,971.2	28.8%
Stage 3	8,471.4	7,882.4	7.5%
Impairment allowances	(7,262.7)	(6,451.4)	12.6%
Stage 1	(415.3)	(401.9)	3.3%
Stage 2	(944.4)	(721.2)	30.9%
Stage 3	(5,903.0)	(5,328.3)	10.8%
Total net receivables	150,149.0	149,298.4	0.6%

(*) Including net investments in financial leases to customers, non-treasury debt securities, interest and receivables in transit and excluding reverse repo transactions.

As at the end of September 2020 the ratio of impaired receivables (stage 3) to the gross receivables amounted to 5.4%.

Report on the activities of Bank Pekao S.A. Group for the third quarter of 2020

Loans and advances to customers by currency^(*)

	30.09.2020		30.09.2019		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Denominated in PLN	127,997.8	81.3%	128,902.6	82.8%	(0.7%)
Denominated in foreign currencies ^(**)	29,413.9	18.7%	26,847.2	17.2%	9.6%
Total	157,411.7	100.0%	155,749.8	100.0%	1.1%
Impairment allowances	(7,262.7)	x	(6,451.4)	x	12.6%
Total net	150,149.0	x	149,298.4	x	0.6%

^(*) Including net investments in financial leases to customers, non-treasury debt securities, interest and receivables in transit and excluding reverse repo transactions.

^(**) Including indexed loans.

The currency structure of loans and advances to customers is dominated by amounts expressed in the Polish zloty, as at the end of September 2020, their share was 81.3%. The largest portion of foreign currency loans and advances to customers were represented by those denominated in EUR (82.4%), CHF (10.4%) and USD (5.4%).

Loans and advances to customers by contractual maturities ^(*)

	30.09.2020		30.09.2019		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Current and up to 1 month	13,074.8	8.3%	17,776.3	11.4%	(26.4%)
1 to 3 months	6,577.3	4.2%	5,823.3	3.7%	12.9%
3 months to 1 year	14,879.2	9.5%	13,940.2	9.0%	6.7%
1 to 5 years	54,882.1	34.9%	49,905.7	32.0%	10.0%
Over 5 years	62,440.4	39.7%	62,785.2	40.3%	(0.5%)
Past due	4,392.4	2.8%	4,285.8	2.8%	2.5%
Other	1,165.5	0.7%	1,233.3	0.8%	(5.5%)
Total	157,411.7	100.0%	155,749.8	100.0%	1.1%
Impairment allowances	(7,262.7)	x	(6,451.4)	x	12.6%
Total net	150,149.0	x	149,298.4	x	0.6%

^(*) Including net investments in financial leases to customers, non-treasury debt securities, interest and receivables in transit and excluding reverse repo transactions.

As at the end of September 2020, loans and advances with maturity over 5 years represents 39.7% of total loans and advances (mainly attributed to mortgage loans, investment loans, and non-treasury debt securities).

Information on loan concentration is included in the Note to the Condensed Interim Consolidated Financial Statements of Bank Pekao S.A. Group for the period of 9 months ended on 30 September 2020.

Report on the activities of Bank Pekao S.A. Group for the third quarter of 2020

External sources of financing

(in PLN million)

	30.09.2020	30.09.2019	CHANGE
Amounts due to Central Bank	0.0	5.0	x
Amounts due to other banks	7,399.7	6,138.2	20.6%
Amounts due to customers	181,343.5	152,691.8	18.8%
Debt securities issued	4,491.7	5,949.9	(24.5%)
Subordinated liabilities	2,774.7	2,383.3	16.4%
Repo transactions	30.0	546.2	(94.5%)
Total external sources of financing	196,039.6	167,714.4	16.9%

Amounts due to customers amounted to PLN 181,343.5 million, an increase by 18.8% to significant extent contributed to dynamic increase in loans.

The deposit base is widely diversified and is sourced from retail and corporate customers. In addition, the Group uses also funds borrowed on the interbank market. The Group is not dependent on any single customer nor group of customers.

Amounts due to customers and debt securities issued

(in PLN million)

	30.09.2020	30.09.2019	CHANGE
Corporate deposits	79,203.7	62,013.8	27.7%
Non-financial entities	59,120.0	44,579.4	32.6%
Non-banking financial entities	6,332.8	6,189.7	2.3%
Budget entities	13,750.9	11,244.7	22.3%
Retail deposits	101,805.7	90,265.6	12.8%
Other ^(*)	334.1	412.4	(19.0%)
Amounts due to customers^(**)	181,343.5	152,691.8	18.8%
Debt securities issued, of which	7,266.4	8,333.2	(12.8%)
Structured Certificates of Deposit (SCD)	710.8	924.2	(23.1%)
Certificates of Deposit (CD)	-	1,027.0	x
Subordinated bonds	2,750.0	2,350.0	17.0%
Pekao Bank Hipoteczny S.A. covered bonds	1,422.7	1,348.7	5.5%
Pekao Bank Hipoteczny S.A. bonds	275.9	189.4	45.7%
Pekao Leasing Sp. z o.o. bonds	1,236.5	1,972.1	(37.3%)
Pekao Faktoring Sp. z o.o. bonds	843.1	475.1	77.5%
Interest	27.4	46.7	(41.3%)
Amounts due to customers and debt securities issued ^(**)	188,609.9	161,025.0	17.1%
Repo transactions	30.0	546.2	(94.5%)
Lease liabilities	423.6	482.8	(12.3%)
Amounts due to customers and debt securities issued, total ^(***)	189,063.5	162,054.0	16.7%
Investment funds of Pekao TFI S.A. (ex. Pioneer Pekao TFI)	18,334.0	20,808.7	(11.9%)
Bond and money market funds	14,756.8	16,930.5	(12.8%)
Balanced funds	1,987.9	2,166.5	(8.2%)
Equity funds	1,529.5	1,711.7	(10.6%)
PPK	59.9	-	x
including distributed through the Group's network	17,925.1	20,429.8	(12.3%)

(*) Other item includes interest and funds in transit.

(**) Excluding repo transactions and lease liabilities.

(***) Including repo transactions and lease liabilities.

Report on the activities of Bank Pekao S.A. Group for the third quarter of 2020

As at the end of September 2020, amounts due to the Group's customers and debt securities issued amounted to PLN 188,609.9 million, an increase of PLN 27,584.9 million, i.e. 17.1% in comparison to the end of September 2019.

The total volume of retail deposits, Structured Certificates of Deposit and other amounted to PLN 102,833.2 million as at the end of September 2020, an increase of PLN 11,265.5 million, i.e. 12.3% in comparison to the end of September 2019 and they increased their share in the structure of financing.

The total volume of corporate deposits, Certificates of Deposit, subordinated bonds, Pekao Bank Hipoteczny S.A. covered bonds and bonds, Pekao Leasing Sp. z o.o. bonds, Pekao Faktoring Sp. z o.o. bonds interest and other amounted to PLN 85,776.7 million as at the end September 2020, an increase of PLN 16,319.4 million, i.e. 23.5% as compared to the end of September 2019.

The value of net assets of investment funds managed by Pekao TFI S.A. amounted to PLN 18,334.0 million as at the end of September 2020, an decrease of PLN 2,474.7 million, i.e. 11.9% in comparison to the end of September 2019. The decrease occurred mainly in March and was related with a pandemic situation in the country and abroad.

Amounts due to customers by currency ^(*)

	30.09.2020		30.09.2019		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Denominated in PLN	153,102.6	84.4%	124,917.6	81.8%	22.6%
Denominated in foreign currencies	28,240.8	15.6%	27,774.2	18.2%	1.7%
Total	181,343.5	100.0%	152,691.8	100.0%	18.8%

(*) Including interest and amounts due in transit and excluding repo transactions and lease liabilities.

The bulk of the amounts due to customers are denominated in the Polish currency and its share as at the end of September 2020 amounted to 84.4%. The majority of amounts due to customers denominated in foreign currencies were in EUR (62.4%) and USD (31.0%).

Amounts due to customers by contractual maturities ^(*)

	30.09.2020		30.09.2019		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Current accounts and overnight deposits	155,548.2	85.9%	103,596.9	68.0%	50.1%
Term deposits	25,461.2	14.1%	48,682.4	32.0%	(47.7%)
Total deposits	181,009.4	100.0%	152,279.2	100.0%	18.9%
Interest accrued	85.8	x	185.0	x	(53.6%)
Funds in transit	248.3	x	227.6	x	9.1%
Total	181,343.5	x	152,691.8	x	18.8%

(*) Excluding repo transactions and lease liabilities.

Report on the activities of Bank Pekao S.A. Group for the third quarter of 2020

6.5 Provisions, deferred tax assets and liabilities

(in PLN million)

	GROUP		BANK PEKAO S.A.	
	30.09.2020	30.09.2019	30.09.2020	30.09.2019
Total provisions	926.3	752.6	973.2	764.1
of which:				
provisions for off-balance sheet commitments	384.4	283.1	442.8	303.8
provisions for liabilities to employees	418.9	380.0	411.6	372.3
other provisions	123.0	89.5	118.8	88.0
Deferred tax liabilities	28.3	30.9	-	-
Deferred tax assets	1,231.3	1,166.0	921.9	849.9

6.6 Off-balance sheet items

Statement of Off-balance sheet items

(in PLN million)

	30.09.2020	30.09.2019	CHANGE
Contingent liabilities granted and received	72,128.4	69,307.5	4.1%
Liabilities granted:	52,662.6	51,858.2	1.6%
financial	39,544.8	39,863.2	(0.8%)
guarantees	13,117.8	11,995.0	9.4%
Liabilities received:	19,465.8	17,449.3	11.6%
financial	761.9	1,490.0	(48.9%)
guarantees	18,703.9	15,959.3	17.2%
Derivative financial instruments	414,889.6	286,912.2	44.6%
interest rate transactions	286,994.7	166,519.3	72.3%
transactions in foreign currency and in gold	124,512.3	117,407.7	6.1%
transactions based on commodities and equity securities	3,382.5	2,985.2	13.3%
Total off-balance sheet items	487,018.0	356,219.7	36.7%

Information on loan concentration is included in the Notes to the Condensed Interim Consolidated Financial Statements of Bank Pekao S.A. Group for the period of 9 months ended on 30 September 2020.

Report on the activities of Bank Pekao S.A. Group for the third quarter of 2020

6.7 Capital adequacy

Capital ratios are the basic measure applied for the measurement of capital adequacy according to Regulation of the European Parliament and of the Council (EU) No 575/2013 of June 26, 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012, which entered into force since January 1, 2014 together with further amendments, in particular Regulation of the European Parliament and of the Council (EU) 2019/876 of May 20, 2019 amending Regulation (EU) No 575/2013 as regards the leverage ratio, the net stable funding ratio, requirements for own funds and eligible liabilities, counterparty credit risk, market risk, exposures to central counterparties, exposures to collective investment undertakings, large exposures, reporting and disclosure requirements, and Regulation (EU) No 648/2012 and Regulation of the European Parliament and of the Council (EU) No 2020/873 of June 24, 2020, amending Regulations (EU) No 575/2013 and (EU) 2019/876 for adjustments in response to the COVID-19 pandemic, as well as relevant Implementing or Delegated Regulations issued by the Commission (EU) (CRR Regulation).

Capital ratios, capital requirements and own funds have been calculated in accordance with the above mentioned CRR Regulation using national options defined in article 171a of The Banking Act, Act of 5 August 2015 on macro-prudential supervision over financial system and crisis management in financial system (Act on macro-prudential supervision), as well as regulations of minister in charge of the finance.

According to law, Group is required to maintain minimal values of capital ratios resulting from Pillar I level (CRR Regulation), capital requirement of Pillar II resulting from The Banking Act and combined buffer requirement resulting from Act on macro-prudential supervision.

Minimal value of capital ratios on Pillar I level are:

- Total capital ratio (TCR) in amount of 8%,
- Tier I capital ratio (T1) in amount of 6%,
- Common Equity Tier I capital ratio (CET 1) in amount of 4.5%.

For Group, capital requirement of Pillar II, resulting from individual requirement imposed on Pekao Bank Hipoteczny, by KNF, amounts to:

- 0.01% for TCR,
- 0.0075% for Tier I capital.

Combined buffer requirement consists of:

- Capital conservation buffer in amount of 2.50%,
- Countercyclical capital buffer in amount of 0.00%¹,
- Other systemically important institution buffer in amount of 0.75%,
- Systemic risk buffer in amount of 0.00%².

In total, Group is required to maintain:

- Total capital ratio (TCR) in amount of 11.26%,
- Capital ratio Tier I (T1) in amount of 9.26%,
- Common Equity Tier (CET 1) in amount of 7.76%.

As of September 30, 2020 for Pekao Group, total capital ratio amounted to 18.8% and Tier I ratio amounted to 16.8% The capital ratios were significantly above the minimum required by the law.

¹ Countercyclical capital buffer was calculated as of 30.09.2020 at the level 0.0003%

² According to Minister of Finance's regulation the systematic risk buffer was abolished as of March 19, 2020. The systemic risk buffer rate before abolition amounted to 3% of the total risk exposure amount for all exposures located only on the territory of the Republic of Poland.

Report on the activities of Bank Pekao S.A. Group for the third quarter of 2020

The table below presents the basic information concerning the Group capital adequacy as of 30 September, 2020, 31 December, 2019 and 30 September, 2019 according to regulation which were in force at those dates.

(in PLN thousand)

CAPITAL REQUIREMENT	30.09.2020	31.12.2019	30.09.2019
Credit risk	10,014,625	10,107,188	9,918,006
Exceeding the exposure concentration limit and large exposures limit	-	-	-
Market risk	83,728	87,596	71,066
Counterparty credit risk including CVA	175,380	119,803	140,138
Operational risk	630,356	527,844	496,854
Total capital requirement	10,904,089	10,842,431	10,626,064
OWN FUNDS			
Common Equity Tier I Capital	22,834,363	20,387,099	20,523,790
Tier II Capital	2,750,000	2,750,000	2,350,000
Own funds for total capital ratio	25,584,363	23,137,099	22,873,790
Common Equity Tier I Capital ratio (%)	16.8%	15.0%	15.5%
Total capital ratio TCR (%)	18.8%	17.1%	17.2%

Level of Group Total Capital Ratio at the end of September 2020 was higher by 1.6 p.p. compared to the end of September 2019 mainly due to higher own funds by 11.9% partially compensated by increase of capital requirements by 2.6%.

Increase in own funds for total capital ratio calculation resulted mainly from retention of 100% of Bank's net profit for year 2019 in Tier I capital, retention of 25% of Bank's net profit for first half of year 2020 in Tier I capital, inclusion in Tier II capital the amount of PLN 0.4 billion from the issue of subordinated bonds.

Total capital requirement increased mainly due to higher capital requirement for operational risk due to increased provisions for foreign currency denominated mortgage loans and the higher credit risk and counterparty credit risk capital requirements resulting mainly from increase in loan volumes.

Common Equity Tier I capital ratio of Group as at the end of September 2020 was higher by 1.3 p.p. compared to September 2019 due to higher Common Equity Tier I capital by 11.3% partially compensated by increase of capital requirements.

Report on the activities of Bank Pekao S.A. Group for the third quarter of 2020

6.8 Reconciliation of income statement – presentation form and long form

Consolidated income statement for the three quarters of 2020

INCOME STATEMENT – PRESENTATION FORM'S ITEMS	LONG FORM'S ITEMS RECLASSIFIED TO PRESENTATION FORM	3 QUARTERS OF 2020
Net interest income	Net interest income	3,996,851
Net fee and commission income	Net fee and commission income	1,777,350
Dividend income	Dividend income	26,271
Trading result	-	135,131
	Net result on other financial instruments at fair value through profit and loss	87,153
	Result on fair value hedge accounting	(869)
	(Gains) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	48,847
Net other operating income and expenses	Net other operating income and expenses	(14,656)
Net non-interest income	-	1,924,096
Operating income	-	5,920,947
Operating costs	-	(2,637,227)
	Personnel expenses	(1,566,691)
	Other administrative expenses	(1,504,756)
	less – Bank Guarantee Fund fee	336,946
	less – Tax on certain financial institutions	494,896
	Depreciation and amortization	(397,622)
Gross operating profit	-	3,283,720
Net impairment losses on financial assets and off-balance sheet commitments	Net impairment losses on loans and off-balance sheet commitments	(1,082,307)
Net operating profit	-	2,201,413
Bank Guarantee Fund fee	Bank Guarantee Fund fee	(336,946)
Tax on certain financial institutions	Tax on certain financial institutions	(494,896)
Gains (losses) on subsidiaries and associates	(Gains) losses on the sale of shares in subsidiaries and associates	-
Profit before income tax	Profit before income tax	1,369,571
Income tax expense	Income tax expense	(451,564)
Net profit for the period	Net profit for the period	918,007
Attributable to equity holders of the Bank	Attributable to equity holders of the Bank	916,900
Attributable to non-controlling interest	Attributable to non-controlling interest	1,107

Report on the activities of Bank Pekao S.A. Group for the third quarter of 2020

Consolidated income statement for the three quarters of 2019

INCOME STATEMENT – PRESENTATION FORM'S ITEMS	LONG FORM'S ITEMS RECLASSIFIED TO PRESENTATION FORM	3 QUARTERS OF 2019
Net interest income	Net interest income	4,049,374
Net fee and commission income	Net fee and commission income	1,879,038
Dividend income	Dividend income	22,187
Trading result	-	105,256
	Net result on other financial instruments at fair value through profit and loss	69,478
	Result on fair value hedge accounting	(3,676)
	(Gains) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	39,454
Net other operating income and expenses	Net other operating income and expenses	26,961
Net non-interest income	-	2,033,442
Operating income	-	6,082,816
Operating costs	-	(2,672,303)
	Personnel expenses	(1,568,116)
	Other administrative expenses	(1,602,413)
	/less – Bank Guarantee Fund fee	434,164
	/less – Tax on certain financial institutions	442,863
	Depreciation and amortization	(378,801)
Gross operating profit	-	3,410,513
Net impairment losses on financial assets and off-balance sheet commitments	Net impairment losses on loans and off-balance sheet commitments	(463,384)
Net operating profit	-	2,947,129
Bank Guarantee Fund fee	Bank Guarantee Fund fee	(434,164)
Tax on certain financial institutions	Tax on certain financial institutions	(442,863)
Gains (losses) on subsidiaries and associates	(Gains) losses on the sale of shares in subsidiaries and associates	-
Profit before income tax	Profit before income tax	2,070,102
Income tax expense	Income tax expense	(587,210)
Net profit for the period	Net profit for the period	1,482,892
Attributable to equity holders of the Bank	Attributable to equity holders of the Bank	1,480,661
Attributable to non-controlling interest	Attributable to non-controlling interest	2,231

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7. Quarterly Income Statement

7.1 Consolidated income statement – long form

Consolidated income statement for 2020 and 2019 - Provided for comparability purposes.

(in PLN thousand)

	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019
Interest income	1,307,670	1,547,044	1,717,440	1,722,641	1,703,631	1,668,660	1,597,982
Financial assets measured at amortised cost	1,091,978	1,314,397	1,499,810	1,504,302	1,474,538	1,436,541	1,377,505
Financial assets measured at fair value through other comprehensive income	156,413	164,408	158,249	156,604	158,718	167,013	159,844
Financial assets measured at fair value through profit or loss	59,279	68,239	59,381	61,735	70,375	65,106	60,633
Interest expense	(104,618)	(181,496)	(289,189)	(303,969)	(312,201)	(311,112)	(297,586)
Net interest income	1,203,052	1,365,548	1,428,251	1,418,672	1,391,430	1,357,548	1,300,396
Fee and commission income	714,908	676,929	719,266	758,856	743,649	725,062	684,885
Fee and commission expense	(119,799)	(109,082)	(104,872)	(104,230)	(100,872)	(92,380)	(81,306)
Net fee and commission income	595,109	567,847	614,394	654,626	642,777	632,682	603,579
Dividend income	268	25,748	255	220	535	21,266	386
Result on financial assets and liabilities measured at fair value through profit or loss	26,178	50,703	10,272	74,393	20,752	31,063	17,663
Result on fair value hedge accounting	(117)	992	(1,744)	2,010	(1,972)	(728)	(976)
Result on derecognition of financial assets and liabilities not measured at fair value through profit or loss	4,672	23,049	21,126	32,447	19,592	8,430	11,432
Net impairment losses on financial assets and off-balance sheet commitments	(277,387)	(474,010)	(330,910)	(232,654)	(176,463)	(177,238)	(109,683)
Net other operating income and expenses	(5,990)	(7,879)	(787)	16,545	(10,582)	23,246	14,297
Administrative expenses	(878,213)	(909,932)	(1,283,302)	(908,456)	(905,268)	(993,200)	(1,272,061)
Personnel expenses	(459,178)	(489,277)	(618,236)	(509,580)	(502,264)	(586,428)	(479,424)
Other administrative expenses	(419,035)	(420,655)	(665,066)	(398,876)	(403,004)	(406,772)	(792,637)
Depreciation and amortization	(139,383)	(134,704)	(123,535)	(125,416)	(123,578)	(126,576)	(128,647)
Gains (losses) on subsidiaries and associates	-	-	-	-	-	-	-
PROFIT BEFORE INCOME TAX	528,189	507,362	334,020	932,387	857,223	776,493	436,386
Income tax expense	(157,089)	(147,906)	(146,569)	(248,662)	(200,329)	(193,560)	(193,321)
NET PROFIT	371,100	359,456	187,451	683,725	656,894	582,933	243,065
Attributable to equity holders of the Bank	370,851	359,151	186,898	684,386	656,214	582,106	242,341
Attributable to non-controlling interests	249	305	553	(661)	680	827	724

(*) Other administrative expenses includes tax on certain financial institutions and Bank Guarantee Fund fee.

Report on the activities of Bank Pekao S.A. Group for the third quarter of 2020

7.2 Consolidated statement of comprehensive income

Consolidated statement of comprehensive income for 2020 and 2019

(in PLN thousand)

	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019
Net profit	371,100	359,456	187,451	683,725	656,894	582,933	243,065
Other comprehensive income							
Item that are or may be reclassified subsequently to profit or loss:							
Change in fair value of financial assets measured at fair value through other comprehensive income:							
Profit or loss on fair value measurement	124,982	525,077	(161,105)	(39,335)	54,837	123,334	(9,750)
Profit or loss reclassification to income statement after derecognition	(5,322)	(23,764)	(13,439)	(28,909)	(14,939)	(7,281)	(11,556)
Change in fair value of cash flow hedges	4,332	118,954	414,935	(76,199)	59,352	27,302	64,768
Tax on items that are or may be reclassified subsequently to profit or loss	(24,570)	(122,366)	(48,228)	21,952	(21,696)	(28,621)	(10,453)
Items that will never be reclassified to profit or loss:							
Effects of the revaluation or sale of investments in equity instruments designated at fair value through other comprehensive	(6,572)	21,880	(11,233)	(17,025)	(7,795)	16,556	802
Remeasurements of the defined benefit liabilities	-	-	-	(2,783)	-	-	-
Tax on items that will never be reclassified to profit or loss	1,249	(4,157)	2,134	3,763	1,481	(3,146)	(152)
Other comprehensive income (net of tax)	99,421	539,388	196,503	(109,627)	86,179	135,425	45,215
Total comprehensive income	470,521	898,844	383,954	574,098	743,073	718,358	288,280
Attributable to equity holders of the Bank	470,272	898,539	383,401	574,767	742,393	717,531	287,556
Attributable to non-controlling interests	249	305	553	(669)	680	827	724

Report on the activities of Bank Pekao S.A. Group for the third quarter of 2020

7.3 Consolidated income statement – presentation form

Consolidated income statement for 2020 and 2019

(in PLN thousand)

	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019
Net interest income	1,203,052	1,365,548	1,428,251	1,418,672	1,391,430	1,357,548	1,300,396
Net fee and commission income	595,109	567,847	614,394	654,626	642,777	632,682	603,579
Dividend income	268	25,748	255	220	535	21,266	386
Trading result	30,733	74,744	29,654	108,850	38,372	38,765	28,119
Net other operating income and expenses	(5,990)	(7,879)	(787)	16,545	(10,582)	23,246	14,297
Net non-interest income	620,120	660,460	643,516	780,241	671,102	715,959	646,381
Operating income	1,823,172	2,026,008	2,071,767	2,198,913	2,062,532	2,073,507	1,946,777
Operating costs	(805,887)	(831,712)	(999,628)	(864,770)	(862,737)	(950,881)	(858,685)
Gross operating profit	1,017,285	1,194,296	1,072,139	1,334,143	1,199,795	1,122,626	1,088,092
Net impairment losses on financial assets and off-balance sheet commitments	(277,387)	(474,010)	(330,910)	(232,654)	(176,463)	(177,238)	(109,683)
Net operating profit	739,898	720,286	741,229	1,101,489	1,023,332	945,388	978,409
Bank Guarantee Fund fee	(43,162)	(43,081)	(250,703)	(20,562)	(20,530)	(20,472)	(393,162)
Tax on certain financial institutions	(168,547)	(169,843)	(156,506)	(148,540)	(145,579)	(148,423)	(148,861)
Gains (losses) on subsidiaries and associates	-	-	-	-	-	-	-
Profit before income tax	528,189	507,362	334,020	932,387	857,223	776,493	436,386
Income tax expense	(157,089)	(147,906)	(146,569)	(248,662)	(200,329)	(193,560)	(193,321)
Net profit	371,100	359,456	187,451	683,725	656,894	582,933	243,065
Attributable to equity holders of the Bank	370,851	359,151	186,898	684,386	656,214	582,106	242,341
Attributable to non-controlling interest	249	305	553	(661)	680	827	724

Report on the activities of Bank Pekao S.A. Group for the third quarter of 2020

8. Other Information

8.1 Management Board position regarding the possibility of achieving previously published forecasts

The Bank has not published the forecast of the financial results for 2020.

8.2 Shares in the Bank and related entities held by the Bank's Directors

According to information available to the Bank, as at the date of submitting of Report on the activities of Bank Pekao S.A. Group for the third quarter of 2020 and as at the date of submitting of Report on the activities of Bank Pekao S.A. Group for the first half of 2020, the Members of the Bank's management and supervisory bodies did not held shares of Bank Pekao S.A.

8.3 Pending litigations

Information on significant legal proceedings pending before courts, arbitration bodies or public administration authorities in respect of liabilities and receivables of the Bank and its subsidiaries is included in Note 36 to the Condensed Interim Consolidated Financial Statements of Bank Pekao S.A. Group for the period of 9 months ended on 30 September 2020.

8.4 Information on derivative financial instruments and hedge accounting

Information on derivative financial instruments and hedge accounting is included in Note 27 to the Condensed Interim Consolidated Financial Statements of Bank Pekao S.A. Group for the period of 9 months ended on 30 September 2020.

8.5 Related party transactions

In the third quarter of 2020, the Bank and its subsidiaries have not concluded any significant transactions (single or aggregate) with related entities other than those executed on arm's length.

In the third quarter of 2020, the Bank and its subsidiaries did not provide any sureties in respect of loans or advances or did not provide any guarantees to an entity or a subsidiary of such entity, which the total value would be significant.

Detailed information on related party transactions is included in Note 39 to the Condensed Interim Consolidated Financial Statements of Bank Pekao S.A. Group for the period of 9 months ended on 30 September 2020.

8.6 Accounting principles adopted in the preparation of the report

Accounting principles adopted in the preparation of the report are described in Note 5 to the Condensed Interim Consolidated Financial Statements of Bank Pekao S.A. Group for the period of 9 months ended on 30 September 2020.

8.7 Seasonality or cyclical nature of the Bank's activity

The demand for the financial services offered by the Bank is stable with no material impact of seasonal changes. Due to the nature of the Bank's activity, it is not subject to seasonal or cyclical changes.

Report on the activities of Bank Pekao S.A. Group for the third quarter of 2020

8.8 Issuance, redemption and repayment of debt securities

Structured Certificates of Deposit

Structured Certificates of Deposit are investment products for the Bank's clients that form an alternative to traditional banks' deposits. The total value of the Bank's liabilities relating to these products amounted to PLN 710.8 (principal value) as at the end of September 2020. There is 14 issuances of Structured Certificates of Deposit open in PLN with the maximum maturity date on August 16, 2021. The liabilities with the maturity date in 2020 and 2021 accounts for 25.8% and 74.2% of its total value respectively.

Subordinated bonds

On 30 October 2017, the Bank issued 10 years subordinated bonds with a total nominal value of 1.25 PLN billion. The funds from the issue were designated – after receiving the approval of the Polish Financial Supervision Authority on 21 December 2017 – to increase the Bank's supplementary capital, pursuant to art. 127 para. 2 point 2 of the Banking Law and art. 63 of Regulation No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms. The bonds were introduced to trading on the ASO Catalyst market.

On 15 October 2018, the Bank issued 10 years subordinated bonds with a total nominal value of PLN 0.55 billion. The funds from the issue were designated – after receiving the approval of the Polish Financial Supervision Authority on 16 November 2018 – to increase the Bank's supplementary capital, pursuant to art. 127 para. 2 point 2 of the Banking Law and art. 63 of Regulation No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms. The bonds were introduced to trading on the ASO Catalyst market.

On 15 October 2018, the Bank issued 15 years subordinated bonds with a total nominal value of PLN 0.20 billion. The funds from the issue were designated – after receiving the approval of the Polish Financial Supervision Authority on 18 October 2018 – to increase the Bank's supplementary capital, pursuant to art. 127 para. 2 point 2 of the Banking Law and art. 63 of Regulation No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms. The bonds were introduced to trading on the ASO Catalyst market.

On 4 June 2019, the Bank issued 12 years subordinated bonds with a total nominal value of PLN 0.35 billion. The funds from the issue were designated – after receiving the approval of the Polish Financial Supervision Authority on 8 July 2019 – to increase the Bank's supplementary capital, pursuant to art. 127 para. 2 point 2 of the Banking Law and art. 63 of Regulation No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms. The bonds were introduced to trading on the ASO Catalyst market.

On 4 December 2019, the Bank issued 12 years subordinated bonds with a total nominal value of PLN 0.40 billion. The funds from the issue were designated – after receiving the approval of the Polish Financial Supervision Authority on 10 December 2019 – to increase the Bank's supplementary capital, pursuant to art. 127 para. 2 point 2 of the Banking Law and art. 63 of Regulation No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms. The bonds were introduced to trading on the ASO Catalyst market.

Report on the activities of Bank Pekao S.A. Group for the third quarter of 2020

Pekao Bank Hipoteczny S.A. covered bonds

The total value of the company's liabilities due to covered bonds amounted to PLN 1,566.1 million (principal value) as at the end of September 2020. The liabilities under covered bonds with maturity date up to 1 year account 35.0%, up to the 2 year account 21.6%, up to 3 years account for 12.0% up to 4 years account for 5.6% and with maturity date up to 5 years account for 25.8% of the total nominal value.

Pekao Bank Hipoteczny S.A. bonds

The total value of the company's liabilities under bonds amounted to PLN 339.2 million (principal value) as of September 2020. The liabilities under covered bonds with maturity date up to 1 year account 55.8%, up to the 2 year account 44.2%,

Pekao Leasing Sp. z o.o. bonds

The total value of the company's liabilities under bonds with maturity date to 1 year amounted to PLN 1,835.1 million (principal value) as of 30 September 2020.

Pekao Faktoring Sp. z o.o. bonds

The total value of the company's liabilities under bonds with maturity date to 3 months amounted to PLN 1,282.1 million (principal value) as of 30 September 2020.

8.9 Subsequent events

The change of minimum requirement for own funds and eligible liabilities

On 13 October 2020 The Bank received the letter from BGF regarding change of minimum requirement for own funds and eligible liabilities (MREL). BGF set the target minimal level of MREL requirement at the level of 12.88% of the sum of own funds and total liabilities (TLOF), which corresponds to 19.04% of the total risk exposure (TRE). The target minimal level of MREL for the Bank based on standalone data at the abovementioned date is 12.23% in relation to TLOF, which corresponds to 19.02% in relation to TRE. The abovementioned requirements will be binding for Bank starting from 1 January 2024.

BGF set a path to reach the limit both on standalone and consolidated basis.

As at 30 September 2020, Bank meets the target level of MREL requirement set by BGF at the standalone level. On consolidated level Bank meets the minimal level of MREL set by BGF for 31 December 2022.

The decision from the President of the Office of Competition and Consumer Protection

On 16 October 2020, the Bank received a decision from the President of the Office of Competition and Consumer Protection (UOKiK), pursuant to which a financial penalty of PLN 21,088,642 was imposed on the Bank. The imposed financial penalty is a consequence of the recognition by the President of the Office of Competition and Consumer Protection that the regulation on the principles of determining foreign exchange rates used by the Bank in annexes to the contracts constitutes an illegal contractual clause. The bank intends to appeal to the court against the decision of the President of UOKiK.

**Condensed Interim Consolidated
Financial Statements
of Bank Pekao S.A. Group
for the period of 9 months
ended on 30 September 2020**



Warsaw, November 2020

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

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Consolidated income statement

(in PLN thousand)

	NOTE	III QUARTER 2020 PERIOD FROM 01.07.2020 TO 30.09.2020	3 QUARTERS 2020 PERIOD FROM 01.01.2020 TO 30.09.2020	III QUARTER 2019 PERIOD FROM 01.07.2019 TO 30.09.2019 RESTATED	3 QUARTERS 2019 PERIOD FROM 01.01.2019 TO 30.09.2019 RESTATED
Interest income	9	1 307 670	4 572 154	1 703 631	4 970 273
Financial assets measured at amortized cost		1 091 978	3 906 185	1 474 538	4 288 584
Financial assets measured at fair value through other comprehensive income		156 413	479 070	158 718	485 575
Financial assets measured at fair value through profit or loss		59 279	186 899	70 375	196 114
Interest expense	9	(104 618)	(575 303)	(312 201)	(920 899)
Net interest income		1 203 052	3 996 851	1 391 430	4 049 374
Fee and commission income	10	714 908	2 111 103	743 649	2 153 596
Fee and commission expense	10	(119 799)	(333 753)	(100 872)	(274 558)
Net fee and commission income		595 109	1 777 350	642 777	1 879 038
Dividend income	11	268	26 271	535	22 187
Result on financial assets and liabilities measured at fair value through profit or loss	12	26 178	87 153	20 752	69 478
Result on fair value hedge accounting	27	(117)	(869)	(1 972)	(3 676)
Result on derecognition of financial assets and liabilities not measured at fair value through profit or loss	13	4 672	48 847	19 592	39 454
Net impairment losses on financial assets and off-balance sheet commitments	14	(277 387)	(1 082 307)	(176 463)	(463 384)
Net other operating income and expenses	15	(5 990)	(14 656)	(10 582)	26 961
Administrative expenses	16	(878 213)	(3 071 447)	(905 268)	(3 170 529)
Personnel expenses		(459 178)	(1 566 691)	(502 264)	(1 568 116)
Other administrative expenses		(419 035)	(1 504 756)	(403 004)	(1 602 413)
Depreciation and amortization	17	(139 383)	(397 622)	(123 578)	(378 801)
PROFIT BEFORE INCOME TAX		528 189	1 369 571	857 223	2 070 102
Income tax expense	18	(157 089)	(451 564)	(200 329)	(587 210)
NET PROFIT		371 100	918 007	656 894	1 482 892
1. Attributable to equity holders of the Bank		370 851	916 900	656 214	1 480 661
2. Attributable to non-controlling interests		249	1 107	680	2 231
Earnings per share (in PLN per share)					
basic for the period	19	1.41	3.49	2.50	5.64
diluted for the period	19	1.41	3.49	2.50	5.64

Notes to the financial statements presented on pages 19 – 90 constitute an integral part of the condensed interim consolidated financial statements.

Consolidated statement of comprehensive income

(in PLN thousand)

	NOTE	III QUARTER 2020 PERIOD FROM 01.07.2020 TO 30.09.2020	3 QUARTERS 2020 PERIOD FROM 01.01.2020 TO 30.09.2020	III QUARTER 2019 PERIOD FROM 01.07.2019 TO 30.09.2019	3 QUARTERS 2019 PERIOD FROM 01.01.2019 TO 30.09.2019
Net profit		371 100	918 007	656 894	1 482 892
Other comprehensive income					
Item that are or may be reclassified subsequently to profit or loss:					
Change in fair value of financial assets measured at fair value through other comprehensive income:		124 982	488 954	54 837	168 421
Profit or loss on fair value measurement		130 304	531 479	69 776	202 197
Profit or loss reclassification to income statement after derecognition		(5 322)	(42 525)	(14 939)	(33 776)
Change in fair value of cash flow hedges	27	4 332	538 221	59 352	151 422
Tax on items that are or may be reclassified subsequently to profit or loss	18	(24 570)	(195 164)	(21 696)	(60 770)
Items that will never be reclassified to profit or loss:					
Effects of the revaluation or sale of investments in equity instruments designated at fair value through other comprehensive		(6 572)	4 075	(7 795)	9 563
Remeasurements of the defined benefit liabilities		-	-	-	-
Tax on items that will never be reclassified to profit or loss	18	1 249	(774)	1 481	(1 817)
Other comprehensive income (net of tax)		99 421	835 312	86 179	266 819
Total comprehensive income		470 521	1 753 319	743 073	1 749 711
1. Attributable to equity holders of the Bank		470 272	1 752 212	742 393	1 747 480
2. Attributable to non-controlling interests		249	1 107	680	2 231

Notes to the financial statements presented on pages 19 – 90 constitute an integral part of the condensed interim consolidated financial statements.

Consolidated statement of financial position

(in PLN thousand)

	NOTE	30.09.2020	31.12.2019
ASSETS			
Cash and due from Central Bank	21	5 898 799	5 162 682
Loans and advances to banks	22	2 362 931	1 791 436
Financial assets held for trading	23	827 380	1 281 664
Derivative financial instruments (held for trading)	24	5 336 115	2 079 529
Loans and advances to customers	25	135 090 677	134 200 413
1. Measured at amortised cost		133 375 759	132 577 167
2. Measured at fair value through profit or loss		198 955	242 639
3. Measured at fair value through other comprehensive income		1 515 963	1 380 607
Receivables from finance leases	26	7 273 915	6 712 939
Hedging instruments	27	959 041	377 208
Investments (placement) securities	28	68 460 144	45 893 115
1. Measured at fair value through profit or loss		134 217	146 119
2. Designated at fair value through profit or loss		-	-
3. Measured at fair value through other comprehensive income (debt securities)		45 540 160	30 942 999
4. Designated at fair value through other comprehensive income (equity instruments)		229 651	225 332
5. Measured at amortised cost		22 556 116	14 578 665
Assets held for sale		17 175	17 175
Investments in associates		-	-
Intangible assets	29	1 854 822	1 617 531
Property, plant and equipment	30	1 895 936	1 920 252
Investment properties		-	-
Income tax assets		1 242 120	1 095 050
1. Current tax assets		10 821	420
2. Deferred tax assets		1 231 299	1 094 630
Other assets		894 894	1 173 925
TOTAL ASSETS		232 113 949	203 322 919
EQUITY AND LIABILITIES			
Liabilities			
Amounts due to Central Bank	21	-	4 550
Amounts due to other banks	32	7 399 735	6 539 539
Financial liabilities held for trading	23	325 438	184 799
Derivative financial instruments (held for trading)	24	5 168 882	2 034 113
Amounts due to customers	33	181 797 104	157 989 734
Hedging instruments	27	979 760	614 765
Debt securities issued	34	4 491 696	6 307 837
Subordinated liabilities	35	2 774 693	2 764 493
Income tax liabilities		308 437	216 920
1. Current tax liabilities		280 097	187 002
2. Deferred tax liabilities		28 340	29 918
Provisions	36	926 337	752 597
Other liabilities		2 792 424	2 515 546
TOTAL LIABILITIES		206 964 506	179 924 893
Equity			
Share capital		262 470	262 470
Other capital and reserves		22 082 621	20 665 430
Retained earnings and net profit for the period		2 793 077	2 458 387
Total equity attributable to equity holders of the Bank		25 138 168	23 386 287
Non-controlling interests		11 275	11 739
TOTAL EQUITY		25 149 443	23 398 026
TOTAL LIABILITIES AND EQUITY		232 113 949	203 322 919

Notes to the financial statements presented on pages 19 – 90 constitute an integral part of the condensed interim consolidated financial statements.

Consolidated statement of changes in equity

(in PLN thousand)

For the period from 1 January 2020 to 30 September 2020

	EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK							RETAINED EARNINGS AND NET PROFIT FOR THE PERIOD	TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK	NON - CONTROLLING INTERESTS	TOTAL EQUITY
	SHARE CAPITAL	TOTAL OTHER CAPITAL AND RESERVES	SHARE PREMIUM	GENERAL BANKING RISK FUND	OTHER RESERVE CAPITAL	REVALUATION RESERVES	OTHER				
Equity as at 1.01.2020	262 470	20 665 430	9 137 221	1 982 459	8 787 844	359 668	398 238	2 458 387	23 386 287	11 739	23 398 026
Comprehensive income	-	835 312	-	-	-	835 312	-	916 900	1 752 212	1 107	1 753 319
Remeasurements of the defined benefit liabilities (net of tax)	-	-	-	-	-	-	-	-	-	-	-
Revaluation of debt financial instruments measured at fair value through other comprehensive income (net of tax)	-	396 052	-	-	-	396 052	-	-	396 052	-	396 052
Revaluation or sale of investments in equity instruments designated at fair value through other comprehensive income (net of tax)	-	3 301	-	-	-	3 301	-	-	3 301	-	3 301
Revaluation of hedging financial instruments (net of tax)	-	435 959	-	-	-	435 959	-	-	435 959	-	435 959
Net profit for the period	-	-	-	-	-	-	-	916 900	916 900	1 107	918 007
Appropriation of retained earnings	-	581 861	-	-	598 686	-	(16 825)	(581 861)	-	(1 469)	(1 469)
Dividend paid	-	-	-	-	-	-	-	-	-	(1 469)	(1 469)
Profit appropriation to other reserves	-	581 861	-	-	598 698	-	(16 825)	(581 861)	-	-	-
Other	-	18	-	-	18	-	-	(349)	(331)	(102)	(433)
Other	-	18	-	-	18	-	-	(349)	(331)	(102)	(433)
Equity as at 30.09.2020	262 470	22 082 621	9 137 221	1 982 459	9 386 548	1 194 980	381 413	2 793 077	25 138 168	11 275	25 149 443

Notes to the financial statements presented on pages 19 - 90 constitute an integral part of the condensed interim consolidated financial statements.

Consolidated statement of changes in equity (cont.)

(in PLN thousand)

For the period from 1 January 2019 to 31 December 2019

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

Notes to the financial statements presented on pages 19 - 90 constitute an integral part of the condensed interim consolidated financial statements.

Consolidated statement of changes in equity (cont.)

(in PLN thousand)

For the period from 1 January 2019 to 30 September 2019

	EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK								NON - CONTROLLING INTERESTS	TOTAL EQUITY	
	SHARE CAPITAL	OTHER CAPITAL AND RESERVES					RETAINED EARNINGS AND NET PROFIT FOR THE PERIOD	TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK			
	TOTAL OTHER CAPITAL AND RESERVES	SHARE PREMIUM	GENERAL BANKING RISK FUND	OTHER RESERVE CAPITAL	REVALUATIO N RESERVES	OTHER					
Equity as at 01.01.2019	262 470	20 865 916	9 137 221	1 982 459	9 137 113	202 663	406 460	1 668 340	22 796 726	11 491	22 808 217
Comprehensive income	-	266 819	-	-	195	266 624	-	1 480 661	1 747 480	2 231	1 749 711
Remeasurements of the defined benefit liabilities (net of tax)	-	-	-	-	171	(171)	-	-	-	-	-
Revaluation of debt financial instruments measured at fair value through other comprehensive income (net of tax)	-	136 421	-	-	-	136 421	-	-	136 421	-	136 421
Revaluation or sale of investments in equity instruments designated at fair value through other comprehensive income (net of tax)	-	7 746	-	-	24	7 722	-	-	7 746	-	7 746
Revaluation of hedging financial instruments (net of tax)	-	122 652	-	-	-	122 652	-	-	122 652	-	122 652
Net profit for the period	-	-	-	-	-	-	-	1 480 661	1 480 661	2 231	1 482 892
Appropriation of retained earnings	-	593 566	-	-	587 318	-	6 248	(2 325 868)	(1 732 302)	(1 214)	(1 733 516)
Dividend paid	-	-	-	-	-	-	-	(1 732 302)	(1 732 302)	(1 214)	(1 733 516)
Profit appropriation to other reserves	-	593 566	-	-	587 318	-	6 248	(593 566)	-	-	-
Other	-	(951 252)	-	-	(936 782)	-	(14 470)	950 868	(384)	(101)	(485)
Coverage of negative impact of IFRS 9 implementation	-	(951 218)	-	-	(936 748)	-	(14 470)	951 218	-	-	-
Other	-	(34)	-	-	(34)	-	-	(350)	(384)	(101)	(485)
Equity as at 30.09.2019	262 470	20 775 049	9 137 221	1 982 459	8 787 844	469 287	398 238	1 774 001	22 811 520	12 407	22 823 927

Notes to the financial statements presented on pages 19 – 90 constitute an integral part of the condensed interim consolidated financial statements.

Consolidated cash flow statement

(in PLN thousand)

	NOTE	III QUARTER 2020 PERIOD FROM 01.07.2020 TO 30.09.2020	3 QUARTERS 2020 PERIOD FROM 01.01.2020 TO 30.09.2020	III QUARTER 2019 PERIOD FROM 01.07.2019 TO 30.09.2019	3 QUARTERS 2019 PERIOD FROM 01.01.2019 TO 30.09.2019
Cash flow from operating activities – indirect method					
Net profit attributable to equity holders of the Bank		370 851	916 900	656 214	1 480 661
Adjustments for:		(2 126 558)	24 074 501	(689 278)	(4 195 753)
Depreciation and amortization	17	139 383	397 622	123 578	378 801
(Gains) losses on investing activities		(5 359)	(39 005)	(19 430)	(49 932)
Net interest income	9	(1 203 052)	(3 996 851)	(1 391 430)	(4 049 374)
Dividend income	11	(268)	(26 271)	(535)	(22 187)
Interest received		1 362 638	4 515 840	1 645 518	5 059 437
Interest paid		(151 478)	(689 771)	(344 522)	(922 299)
Income tax		157 089	451 564	200 329	587 210
Income tax paid		(182 669)	(579 722)	(171 857)	(546 922)
Change in loans and advances to banks		(16 566)	(16 041)	63 692	(84 081)
Change in financial assets held for trading		39 135	446 513	286 961	(1 183 472)
Change in derivative financial instruments (assets)		79 664	(3 256 586)	(533 549)	(858 455)
Change in loans and advances to customers		1 158 810	(932 815)	(2 876 052)	(8 355 728)
Change in receivables from finance leases		(102 317)	(560 976)	(402 777)	(1 105 531)
Change in investment (placement) securities		203 892	(219 272)	(186 573)	(283 469)
Change in other assets		369 571	488 075	116 742	(521 099)
Change in amounts due to banks		(788 549)	181 929	(615 133)	1 441 895
Change in financial liabilities held for trading		23 033	140 639	200 753	638 944
Change in derivative financial instruments (liabilities)		(64 165)	3 134 769	268 036	632 334
Change in amounts due to customers		(2 676 786)	24 000 269	3 415 205	4 379 161
Change in debt securities issued		(330 582)	(299 273)	34 672	34 029
Change in subordinated liabilities		4 979	-	19 956	20 790
Payments for short-term leases and leases of low-value assets		(1 119)	(8 591)	(5 008)	(19 736)
Change in provisions		(19 644)	173 740	5 283	117 490
Change in other liabilities		(122 198)	768 715	(523 137)	516 441
Net cash flows from operating activities		(1 755 707)	24 991 401	(33 064)	(2 715 092)
Cash flow from investing activities					
Investing activity inflows		126 413 105	211 771 151	8 270 455	120 220 594
Sale of investment securities		126 411 814	211 735 845	8 265 294	120 180 971
Sale of intangible assets and property, plant and equipment		1 023	9 035	4 626	17 436
Dividend received	11	268	26 271	535	22 187
Investing activity outflows		(132 119 520)	(234 565 752)	(5 003 280)	(122 556 141)
Acquisition of investment securities		(131 844 980)	(233 938 799)	(4 879 551)	(122 299 153)
Acquisition of intangible assets and property, plant and equipment		(274 540)	(626 953)	(123 729)	(256 988)
Net cash flows from investing activities		(5 706 415)	(22 794 601)	3 267 175	(2 335 547)

Notes to the financial statements presented on pages 19 – 90 constitute an integral part of the condensed interim consolidated financial statements

Consolidated cash flow statement (cont.)

(in PLN thousand)

	NOTE	III QUARTER 2020 PERIOD FROM 01.07.2020 TO 30.09.2020	3 QUARTERS 2020 PERIOD FROM 01.01.2020 TO 30.09.2020	III QUARTER 2019 PERIOD FROM 01.07.2019 TO 30.09.2019	3 QUARTERS 2019 PERIOD FROM 01.01.2019 TO 30.09.2019
Cash flows from financing activities					
Financing activity inflows		2 388 008	7 459 717	3 677 849	7 994 422
Due to loans and advances received from banks		240 614	1 209 085	1 896 674	2 624 491
Issue of debt securities		2 147 394	6 250 632	1 781 175	5 019 931
Issue of subordinated bonds		-	-	-	350 000
Financing activity outflows		(2 152 479)	(8 362 586)	(5 295 388)	(9 739 377)
Repayment of loans and advances received from banks		228 205	(519 657)	(1 730 084)	(3 547 658)
Redemption of debt securities		(2 352 685)	(7 757 977)	(1 794 646)	(4 331 949)
Dividends and other payments to shareholders		-	-	(1 732 302)	(1 732 302)
Payments for the principal portion of the lease liabilities		(27 999)	(84 952)	(38 356)	(127 468)
Net cash flows from financing activities		235 529	(902 869)	(1 617 539)	(1 744 955)
Total net cash flows		(7 226 593)	1 293 931	1 616 572	(6 795 594)
including effect of exchange rate fluctuations on cash and cash equivalents		19 547	113 479	69 138	52 249
Net change in cash and cash equivalents		(7 226 593)	1 293 931	1 616 572	(6 795 594)
Cash and cash equivalents at the beginning of the period		15 471 496	6 950 972	6 827 100	15 239 266
Cash and cash equivalents at the end of the period	38	8 244 903	8 244 903	8 443 672	8 443 672

Notes to the financial statements presented on pages 19 – 90 constitute an integral part of the condensed interim consolidated financial statements.

Separate financial data of Bank Pekao S.A.

(in PLN thousand)

Statement of income of Bank Pekao S.A.

	III QUARTER 2020 PERIOD FROM 01.07.2020 TO 30.09.2020	3 QUARTERS 2020 PERIOD FROM 01.01.2020 TO 30.09.2020	III QUARTER 2019 PERIOD FROM 01.07.2019 TO 30.09.2019 RESTATED	3 QUARTERS 2019 PERIOD FROM 01.01.2019 TO 30.09.2019 RESTATED
Interest income	1 245 503	4 369 248	1 637 893	4 782 410
Financial assets measured at amortized cost	1 028 651	3 699 930	1 406 941	4 095 932
Financial assets measured at fair value through other comprehensive income	157 067	479 864	159 179	486 914
Financial assets measured at fair value through profit or loss	59 785	189 454	71 773	199 564
Interest expense	(84 363)	(493 677)	(284 334)	(840 097)
Net interest income	1 161 140	3 875 571	1 353 559	3 942 313
Fee and commission income	624 546	1 834 044	627 550	1 802 319
Fee and commission expense	(118 295)	(328 966)	(98 628)	(270 427)
Net fee and commission income	506 251	1 505 078	528 922	1 531 892
Dividend income	269	174 125	46 018	246 617
Result on financial assets and liabilities measured at fair value through profit or loss	24 486	76 104	16 512	57 341
Result on fair value hedge accounting	(117)	(869)	(1 972)	(3 676)
Result on derecognition of financial assets and liabilities not measured at fair value through profit or loss	4 672	48 258	19 044	38 514
Net impairment losses on financial assets and off-balance sheet commitments	(272 363)	(1 060 398)	(162 786)	(425 938)
Net other operating income and expenses	(3 862)	(11 858)	(17 549)	12 071
Administrative expenses	(820 656)	(2 891 704)	(832 297)	(2 944 267)
Personnel expenses	(402 861)	(1 391 779)	(436 845)	(1 372 002)
Other administrative expenses	(417 795)	(1 499 925)	(395 452)	(1 572 265)
Depreciation and amortization	(128 753)	(366 042)	(112 036)	(343 536)
Gains (losses) on subsidiaries and associates	1 543	1 178	-	-
PROFIT BEFORE INCOME TAX	472 610	1 349 443	837 415	2 111 331
Income tax expense	(146 492)	(417 603)	(187 140)	(544 796)
NET PROFIT	326 118	931 840	650 275	1 566 535
Earnings per share (in PLN per share)				
basic for the period	1.24	3.55	2.48	5.97
diluted for the period	1.24	3.55	2.48	5.97

Separate financial data of Bank Pekao S.A.

(in PLN thousand)

Statement of comprehensive income of Bank Pekao S.A.

	III QUARTER 2020 PERIOD FROM 01.07.2020 TO 30.09.2020	3 QUARTERS 2020 PERIOD FROM 01.01.2020 TO 30.09.2020	III QUARTER 2019 PERIOD FROM 01.07.2019 TO 30.09.2019	3 QUARTERS 2019 PERIOD FROM 01.01.2019 TO 30.09.2019
Net profit	326 118	931 840	650 275	1 566 535
Other comprehensive income				
Item that are or may be reclassified subsequently to profit or loss:				
Change in fair value of financial assets measured at fair value through other comprehensive income	126 202	490 857	57 091	170 715
Profit or loss on fair value measurement	131 524	532 793	71 783	203 852
Profit or loss reclassification to income statement after derecognition	(5 322)	(41 936)	(14 692)	(33 137)
Change in fair value of cash flow hedges	4 332	538 221	59 352	151 422
Tax on items that are or may be reclassified subsequently to profit or loss	(24 802)	(195 525)	(22 124)	(61 206)
Items that will never be reclassified to profit or loss:				
Investment in equity instruments designated at fair value through other comprehensive income	(6 572)	4 075	(7 779)	9 563
Remeasurements of the defined benefit liabilities	-	-	-	-
Tax on items that will never be reclassified to profit or loss	1 249	(774)	1 478	(1 817)
Other comprehensive income (net of tax)	100 409	836 854	88 018	268 677
Total comprehensive income	426 527	1 768 694	738 293	1 835 212

Separate financial data of Bank Pekao S.A.

(in PLN thousand)

Statement of financial position of Bank Pekao S.A.

	30.09.2020	31.12.2019
ASSETS		
Cash and due from Central Bank	5 898 342	5 138 758
Loans and advances to banks	2 962 326	2 243 908
Financial assets held for trading	1 157 147	1 279 495
Derivative financial instruments (held for trading)	5 363 946	2 085 989
Loans and advances to customers	132 050 526	131 675 384
1. Measured at amortised cost	130 221 921	129 886 963
2. Measured at fair value through profit or loss	198 955	242 639
3. Measured at fair value through other comprehensive income	1 629 650	1 545 782
Hedging instruments	959 041	377 208
Investment (placement) securities	69 096 145	45 873 297
1. Measured at fair value through profit or loss	134 217	125 454
2. Designated at fair value through profit or loss	-	-
3. Measured at fair value through other comprehensive income (debt securities)	45 908 640	30 964 680
4. Designated at fair value through other comprehensive income (equity instruments)	229 651	225 332
5. Measured at amortised cost	22 823 637	14 557 831
Assets held for sale	17 175	17 175
Investments in subsidiaries	1 564 250	1 626 449
Investments in associates	-	-
Intangible assets	984 982	739 777
Property, plant and equipment	1 784 032	1 842 378
Investment properties	-	-
Income tax assets	921 891	777 116
1. Current tax assets	-	-
2. Deferred tax assets	921 891	777 116
Other assets	673 931	973 058
TOTAL ASSETS	223 433 734	194 649 992
EQUITY AND LIABILITIES		
Liabilities		
Amounts due to Central Bank	-	4 550
Amounts due to other banks	2 985 414	3 043 969
Financial liabilities held for trading	325 438	184 799
Derivative financial instruments (held for trading)	5 178 958	2 040 368
Amounts due to customers	182 258 339	158 544 670
Hedging instruments	979 760	614 765
Debt securities issued	710 858	1 604 344
Subordinated liabilities	2 774 693	2 764 493
Income tax liabilities	276 508	168 318
1. Current tax liabilities	276 508	168 318
2. Deferred tax liabilities	-	-
Provisions	973 242	773 057
Other liabilities	2 685 818	2 379 871
TOTAL LIABILITIES	199 149 028	172 123 204
Equity		
Share capital	262 470	262 470
Other capital and reserves	21 405 338	20 016 851
Retained earnings and net profit for the period	2 616 898	2 247 467
TOTAL EQUITY	24 284 706	22 526 788
TOTAL LIABILITIES AND EQUITY	223 433 734	194 649 992

Separate financial data of Bank Pekao S.A.

(in PLN thousand)

Statement of changes in equity of Bank Pekao S.A.

For the period from 1 January 2020 to 30 September 2020

	SHARE CAPITAL	OTHER CAPITAL AND RESERVES					RETAINED EARNINGS AND NET PROFIT FOR THE PERIOD	TOTAL EQUITY
		TOTAL OTHER CAPITAL AND RESERVES	SHARE PREMIUM	GENERAL BANKING RISK FUND	OTHER RESERVE CAPITAL	REVALUATION RESERVES	OTHER	
Equity as at 1.01.2020	262 470	20 016 851	9 137 221	1 982 459	8 300 933	363 111	233 127	22 526 788
Comprehensive income	-	836 854	-	-	-	836 854	931 840	1 768 694
Remeasurements of the defined benefit liabilities (net of tax)	-	-	-	-	-	-	-	-
Revaluation of debt financial instruments measured at fair value through other comprehensive income (net of tax)	-	397 594	-	-	-	397 594	-	397 594
Revaluation or sale of investments in equity instruments designated at fair value through other comprehensive income (net of tax)	-	3 301	-	-	-	3 301	-	3 301
Revaluation of hedging financial instruments (net of tax)	-	435 959	-	-	-	435 959	-	435 959
Net profit for the period	-	-	-	-	-	-	931 840	931 840
Appropriation of retained earnings	-	562 409	-	-	562 409	-	(562 409)	-
Dividend paid	-	-	-	-	-	-	-	-
Profit appropriation	-	562 409	-	-	562 409	-	(562 409)	-
Other	-	(10 776)	-	-	(10 776)	-	-	(10 776)
Acquisition of the organised part of the enterprise of the Pekao Investment Banking S.A.	-	(10 776)	-	-	(10 776)	-	-	(10 776)
Equity as at 30.09.2020	262 470	21 405 338	9 137 221	1 982 459	8 852 566	1 199 965	2 616 898	24 284 706

Separate financial data of Bank Pekao S.A.

(in PLN thousand)

Statement of changes in equity of Bank Pekao S.A.

For the period from 1 January 2019 to 31 December 2019

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

Separate financial data of Bank Pekao S.A.

(in PLN thousand)

Statement of changes in equity of Bank Pekao S.A.

For the period from 1 January 2019 to 30 September 2019

	SHARE CAPITAL	OTHER CAPITAL AND RESERVES						RETAINED EARNINGS AND NET PROFIT FOR THE PERIOD	TOTAL EQUITY
		TOTAL OTHER CAPITAL AND RESERVES	SHARE PREMIUM	GENERAL BANKING RISK FUND	OTHER RESERVE CAPITAL	REVALUATION RESERVES	OTHER		
Equity as at 01.01.2019	262 470	20 185 676	9 137 221	1 982 459	8 627 858	205 011	233 127	1 373 852	21 821 998
Comprehensive income	-	268 677	-	-	-	268 677	-	1 566 535	1 835 212
Remeasurements of the defined benefit liabilities (net of tax)	-	-	-	-	-	-	-	-	-
Revaluation of debt financial instruments measured at fair value through other comprehensive income (net of tax)	-	138 279	-	-	-	138 279	-	-	138 279
Revaluation or sale of investments in equity instruments designated at fair value through other comprehensive income (net of tax)	-	7 746	-	-	-	7 746	-	-	7 746
Revaluation of hedging financial instruments (net of tax)	-	122 652	-	-	-	122 652	-	-	122 652
Net profit for the period	-	-	-	-	-	-	-	1 566 535	1 566 535
Appropriation of retained earnings	-	578 298	-	-	578 298	-	-	(2 310 600)	(1 732 302)
Dividend paid	-	-	-	-	-	-	-	(1 732 302)	(1 732 302)
Profit appropriation	-	578 298	-	-	578 298	-	-	(578 298)	-
Other	-	(905 223)	-	-	(905 223)	-	-	936 748	31 525
Coverage of negative impact of IFRS 9 implementation	-	(936 748)	-	-	(936 748)	-	-	936 748	-
Transfer of a part of CDM assets and liabilities to the Bank	-	31 525	-	-	31 525	-	-	-	31 525
Equity as at 30.09.2019	262 470	20 127 428	9 137 221	1 982 459	8 300 933	473 688	233 127	1 566 535	21 956 433

Separate financial data of Bank Pekao S.A.

(in PLN thousand)

Cash flow statement of Bank Pekao S.A.

	III QUARTER 2020 PERIOD FROM 01.07.2020 TO 30.09.2020	3 QUARTERS 2020 PERIOD FROM 01.01.2020 TO 30.09.2020	III QUARTER 2019 PERIOD FROM 01.07.2019 TO 30.09.2019	3 QUARTERS 2019 PERIOD FROM 01.01.2019 TO 30.09.2019
Cash flow from operating activities – indirect method				
Net profit	326 118	931 840	650 275	1 566 535
Adjustments for:	(879 484)	24 697 732	(613 647)	(4 470 750)
Depreciation and amortization	128 753	366 042	112 036	343 536
(Gains) losses on investing activities	(5 313)	(38 220)	(18 638)	(48 628)
Net interest income	(1 161 140)	(3 875 571)	(1 353 559)	(3 942 313)
Dividend income	(269)	(174 125)	(46 018)	(246 617)
Interest received	1 299 016	4 309 030	1 593 053	4 895 208
Interest paid	(119 969)	(597 730)	(318 047)	(858 856)
Income tax	146 492	417 603	187 140	544 796
Income tax paid	(177 723)	(525 633)	(155 114)	(460 357)
Change in loans and advances to banks	(147 738)	(81 940)	31 499	68 723
Change in financial assets held for trading	(130 481)	114 590	697 865	(1 297 216)
Change in derivative financial instruments (assets)	74 902	(3 277 957)	(548 804)	(869 421)
Change in loans and advances to customers	2 248 931	(414 097)	(3 567 411)	(8 508 947)
Change in investment (placement) securities	175 267	(181 213)	(119 992)	(200 440)
Change in other assets	294 298	383 884	(28 979)	(615 213)
Change in amounts due to banks	(456 465)	104 336	(566 976)	495 716
Change in financial liabilities held for trading	23 033	140 639	200 753	638 944
Change in derivative financial instruments (liabilities)	(62 788)	3 138 590	267 690	633 253
Change in amounts due to customers	(3 010 611)	23 906 111	3 497 460	4 296 649
Change in debt securities issued	(5 655)	(20)	24 001	21 922
Change in subordinated liabilities	4 979	-	19 956	20 790
Payments for short-term leases and leases of low-value assets	(911)	(7 953)	(1 517)	(8 092)
Change in provisions	(11 665)	200 185	910	109 137
Change in other liabilities	15 573	791 181	(520 955)	516 676
Net cash flows from operating activities	(553 366)	25 629 572	36 628	(2 904 215)
Cash flow from investing activities				
Investing activity inflows	126 416 688	211 550 370	7 647 778	119 686 387
Sale of investment securities	126 354 231	211 314 057	7 598 155	119 424 015
Sale of intangible assets and property, plant and equipment	2	2	3 605	15 755
Dividend received	62 455	236 311	46 018	246 617
Investing activity outflows	(132 331 410)	(234 650 300)	(4 449 162)	(121 979 576)
Acquisition of investment securities	(132 146 988)	(234 170 923)	(4 348 396)	(121 799 232)
Acquisition of intangible assets and property, plant and equipment	(184 422)	(479 377)	(100 766)	(180 344)
Net cash flows from investing activities	(5 914 722)	(23 099 930)	3 198 616	(2 293 189)

Separate financial data of Bank Pekao S.A.

(in PLN thousand)

	III QUARTER 2020 PERIOD FROM 01.07.2020 TO 30.09.2020	3 QUARTERS 2020 PERIOD FROM 01.01.2020 TO 30.09.2020	III QUARTER 2019 PERIOD FROM 01.07.2019 TO 30.09.2019	3 QUARTERS 2019 PERIOD FROM 01.01.2019 TO 30.09.2019
Cash flows from financing activities				
Financing activity inflows	-	479 940	885 588	1 704 357
Due to loans and advances received from banks	-	-	185 006	218 881
Issue of debt securities	-	479 940	700 582	1 135 476
Issue of subordinated bonds	-	-	-	350 000
Financing activity outflows	(743 481)	(1 611 159)	(2 506 938)	(2 960 308)
Repayment of loans and advances received from banks	(32 274)	(154 873)	(88 843)	(195 884)
Redemption of debt securities	(683 222)	(1 371 398)	(648 747)	(909 718)
Dividends and other payments to shareholders	-	-	(1 732 302)	(1 732 302)
Payments for the principal portion of the lease liabilities	(27 985)	(84 888)	(37 046)	(122 404)
Net cash flows from financing activities	(743 481)	(1 131 219)	(1 621 350)	(1 255 951)
Total net cash flows	(7 211 569)	1 398 423	1 613 894	(6 453 355)
including effect of exchange rate fluctuations on cash and cash equivalents held	20 250	113 710	69 120	52 662
Net change in cash and cash equivalents	(7 211 569)	1 398 423	1 613 894	(6 453 355)
Cash and cash equivalents at the beginning of the period	15 830 174	7 220 182	7 165 521	15 232 770
Cash and cash equivalents at the end of the period	8 618 605	8 618 605	8 779 415	8 779 415

Notes to financial statements

(in PLN thousand)

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

1. General information

Bank Polska Kasa Opieki Spółka Akcyjna (hereafter 'Bank Pekao S.A.' or 'the Bank'), with its headquarters in Warsaw 00-844, Grzybowska Street 53/57, was incorporated on 29 October 1929 in the Commercial Register of the District Court in Warsaw and has been continuously operating since its incorporation.

Bank Pekao S.A. is registered in the National Court Registry – Enterprise Registry of the Warsaw District Court, XII Commercial Division of the National Court Registry in Warsaw under the reference number KRS 0000014843.

According to IFRS 10 'Consolidated financial statements', the parent entity of Bank Pekao S.A. is Powszechny Zakład Ubezpieczeń S.A. (hereinafter 'PZU S.A.') with its registered office in Warsaw at Al. Jana Pawła II 24.

The Condensed Interim Consolidated Financial Statements of Bank Pekao S.A. Group for the period from 1 January 2020 to 30 September 2020 contain financial information of the Bank and its subsidiaries (together referred to as the 'Group'), and the associates accounted for using equity method.

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

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

2. Group structure

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

NAME OF ENTITY	LOCATION	CORE ACTIVITY	PERCENTAGE OF THE GROUP'S OWNERSHIP RIGHTS IN SHARE CAPITAL/VOTING	
			30.09.2020	31.12.2019
Pekao Bank Hipoteczny S.A.	Warsaw	Banking	100.00	100.00
Pekao Leasing Sp. z o.o.	Warsaw	Leasing services	100.00	100.00
Pekao Investment Banking S.A.	Warsaw	Brokerage	100.00	100.00
Pekao Faktoring Sp. z o.o.	Lublin	Factoring services	100.00	100.00
Pekao Powszechne Towarzystwo Emerytalne S.A. (in liquidation)	Warsaw	Pension fund management	-	100.00
Centrum Kart S.A.	Warsaw	Financial support	100.00	100.00
Pekao Financial Services Sp. z o.o.	Warsaw	Transferable agent	66.50	66.50
Pekao Direct Sp. z o.o. (ex. Centrum Bankowości Bezpośredniej Sp. z o.o.)	Cracow	Call-center services	100.00	100.00
Pekao Property S.A. (in liquidation), including:	Warsaw	Real estate development	100.00	100.00
FPB - Media Sp. z o.o. (in bankruptcy)	Warsaw	Real estate development	100.00	100.00
Pekao Fundusz Kapitałowy Sp. z o.o. (in liquidation)	Warsaw	Business consulting	100.00	100.00
Dom Inwestycyjny Xelion Sp. z o.o.	Warsaw	Financial intermediary	100.00	100.00
Pekao Investment Management S.A., including:	Warsaw	Holding	100.00	100.00
Pekao TFI S.A.	Warsaw	Asset management	100.00	100.00

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

Notes to financial statements (cont.)

(in PLN thousand)

Associates

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

NAME OF ENTITY	LOCATION	CORE ACTIVITY	PERCENTAGE OF THE GROUP'S OWNERSHIP RIGHTS IN SHARE CAPITAL/VOTING	
			30.09.2020	31.12.2019
CPF Management	Tortola, British Virgin Islands	Financial brokerage – not operating	40.00	40.00

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

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

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

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

Liquidation of Pekao Powszechne Towarzystwo Emerytalne S.A. (in liquidation)

In 2020, Pekao Powszechne Towarzystwo Emerytalne S.A. (in liquidation) was liquidated.

3. Business combinations

As at 30 September 2020 and in 2019 there were no business combinations in the Group.

Statement of compliance

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

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

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

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

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

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

Notes to financial statements (cont.)

(in PLN thousand)

5. Significant accounting policies

5.1 Basis of preparation of Consolidated Financial Statements

General information

Condensed Interim Consolidated Financial Statements of the Group for the period of nine months ended on 30 September of 2020 have been prepared based on the following valuation methods:

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

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

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

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

Notes to financial statements (cont.)

(in PLN thousand)

Comparability of financial data

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

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

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

CONSOLIDATED INCOME STATEMENT	DATA FOR III QUARTER 2019 BEFORE RESTATEMENT	RESTATEMENT	DATA FOR III QUARTER 2019 AFTER RESTATEMENT
Net result on other provisions	(32 576)	32 576	-
Gains (losses) on disposal of property plant and equipment and intangible assets	1 011	(1 011)	-
Net other operating income and expenses	20 983	(31 565)	(10 582)

CONSOLIDATED INCOME STATEMENT	DATA FOR 3 QUARTERS 2019 BEFORE RESTATEMENT	RESTATEMENT	DATA FOR 3 QUARTERS 2019 AFTER RESTATEMENT
Net result on other provisions	(40 772)	40 772	-
Gains (losses) on disposal of property plant and equipment and intangible assets	12 700	(12 700)	-
Net other operating income and expenses	55 033	(28 072)	26 961

Notes to financial statements (cont.)

(in PLN thousand)

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

STANDARD/ INTERPRETATION	DESCRIPTION	IMPACT ASSESSMENT
IAS 1 (amendment) 'Presentation of financial statements' and IAS 8 (amendment) 'Accounting policies, changes in accounting estimates and errors'	The amendments clarify and align the definition of 'material' and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards.	The standards amendments did not have a material impact on the financial statements in the period of its first application.
IFRS 9 (amendment) 'Financial instruments' and IFRS 7 (amendment) 'Financial instruments: disclosures'	The changes are mandatory and apply to all hedging relationships that are affected by uncertainty arising from the interest rate benchmark reform. The amendments introduce a temporary exemption from the application of specific hedge accounting requirements in such a way that the interest rate benchmark reform does not result in the termination of hedge accounting. The key exemptions resulting from the Changes relate to: <ul style="list-style-type: none"> • the requirement that flows are 'highly likely', • risk components, • prospective assessment, • retrospective effectiveness test (applies to IAS 39), • reclassification of the provision for cash flow hedges. 	The Group decided to apply these changes in the standards earlier, i.e. the principles resulting from these changes were adopted as binding in 2019.
IFRS 3 (amendment) 'Business combinations'	The amendments narrowed and clarified the definition of a business. They also permit a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business.	The standard's amendment did not have a material impact on the financial statements in the period of its first application.
MSSF 16 (amendment) 'Leasing'	The amendments introduce an optional practical expedient that simplifies how a lessee accounts for rent concessions that are a direct consequence of COVID-19. A lessee that applies the practical expedient is not required to assess whether eligible rent concessions are lease modifications, and accounts for them in accordance with other applicable guidance. The resulting accounting will depend on the details of the rent concession. For example, if the concession is in the form of a one-off reduction in rent, it will be accounted for as a variable lease payment and be recognised in profit or loss. The practical expedient will only apply if: <ul style="list-style-type: none"> • the revised consideration is substantially the same or less than the original consideration, • the reduction in lease payments relates to payments due on or before 30 June 2021, and • no other substantive changes have been made to the terms of the lease 	The standard's amendment did not have a material impact on the financial statements in the period of its first application.

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

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

Notes to financial statements (cont.)

(in PLN thousand)

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

STANDARD/ INTERPRETATION	DESCRIPTION	IMPACT ASSESSMENT
IFRS 17 'Insurance Contracts'	The new standard requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 'Insurance Contracts' and related interpretations while applied. Date of application: annual periods beginning on or after 1 January 2023.	The Group claims that the new standard will not have a material impact on the financial statements in the period of its first application.
IAS 1 (amendment) 'Presentation of financial statements'	The amendments affect requirements in IAS 1 for the presentation of liabilities. In particular, these amendments clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. Date of application: annual periods beginning on or after 1 January 2023.	The Group claims that the standard's amendments will not have a material impact on the financial statements in the period of its first application.
IFRS 3 (amendment) 'Business combinations'	The amendments to IFRS 3 include: <ul style="list-style-type: none"> Update IFRS 3 so that it refers to the 2018 Conceptual Framework instead of the 1989 Framework, Add to IFRS 3 a requirement that, for transactions and other events within the scope of IAS 37 or IFRIC 21, an acquirer applies IAS 37 or IFRIC 21 (instead of the Conceptual Framework) to identify the liabilities it has assumed in a business combination, and Add to IFRS 3 an explicit statement that an acquirer does not recognize contingent assets acquired in a business combination. Date of application: annual periods beginning on or after 1 January 2022.	The Group claims that the standard's amendments will not have a material impact on the financial statements in the period of its first application.
IAS 16 (amendment) 'Property, plant and equipment'	The amendments to IAS 16 prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the cost of producing those items, in profit or loss. Date of application: annual periods beginning on or after 1 January 2022.	The Group claims that the standard's amendments will not have a material impact on the financial statements in the period of its first application.
IAS 37 (amendment) 'Provisions, contingent liabilities and contingent assets'	The amendments to IAS 37 specify that the 'cost of fulfilling' an onerous contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract or an allocation of other costs that relate directly to fulfilling contracts. Date of application: annual periods beginning on or after 1 January 2022.	The Group claims that the standard's amendments will not have a material impact on the financial statements in the period of its first application.
IFRS 4 (amendment) 'Insurance contracts'	The main amendments include: <ul style="list-style-type: none"> deferral of the date of initial application of IFRS 17 by two years to annual reporting periods beginning on or after 1 January 2023, extension of the temporary exemption from applying IFRS 9 by two years. As a result, the qualifying entities will be required to apply IFRS 9 for annual period beginning on or after 1 January 2023. Date of application: annual periods beginning on or after 1 January 2021.	The Group claims that the standard's amendments will not have a material impact on the financial statements in the period of its first application.

Notes to financial statements (cont.)

(in PLN thousand)

STANDARD/ INTERPRETATION	DESCRIPTION	IMPACT ASSESSMENT
IFRS 9 (amendment) 'Financial instruments' and IFRS 7 (amendment) 'Financial instruments: disclosures' and IFRS 17 (amendment) 'Insurance contracts' and IFRS 16 (amendment) 'Leasing'	<p>The main amendments include:</p> <ol style="list-style-type: none"> 1. accounting for modifications to financial assets, financial liabilities and lease liabilities required as a direct consequence of the interest rate benchmark reform and performed on an economically equivalent basis, by updating the effective interest rate. 2. hedge accounting is not discontinued solely because of the interest rate benchmark reform. Hedging relationships (and related documentation) must be amended to reflect modifications to the hedged item, hedging instrument and hedged risk. Amended hedging relationships should meet all qualifying criteria to apply hedge accounting, including effectiveness requirements. 3. in order to allow users to understand the nature and extent of risks arising from the interest rate benchmark reform to which the entity is exposed to and how the entity manages those risks as well as the entity's progress in transitioning from interest rate benchmarks to alternative benchmark rates, and how the entity is managing this transition, the amendments require that an entity discloses information about: <ul style="list-style-type: none"> • how the transition from interest rate benchmarks to alternative benchmark rates is managed, the progress made at the reporting date, and the risks arising from the transition; • quantitative information about non-derivative financial assets, non-derivative financial liabilities and derivatives that continue to reference interest rate benchmarks subject to the reform, disaggregated by significant interest rate benchmark; • to the extent that the interest rate benchmark reform has resulted in changes to an entity's risk management strategy, a description of these changes and how is the entity managing those risks. <p>Date of application: annual periods beginning on or after 1 January 2021</p>	<p>The Group is currently analyzing the impact of those changes on the financial statements.</p>

Notes to financial statements (cont.)

(in PLN thousand)

6. Accounting estimates

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

Estimates and assumptions are reviewed on an ongoing basis by the Group and rely on historic data and other factors including expectation of the future events which seems justified in given circumstances. In particular, as at 30 September 2020, the Bank included in its estimates the impact of the COVID-19 epidemic on individual items of the Group's assets and liabilities.

However, taking into account the significant uncertainty as to the further development of the economic situation, the estimates made may change in the future.

The uncertainty of the estimates made by the Group as at 30 September 2020 concerns mainly:

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

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

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

Impairment of loans and advances to customers, expected credit losses

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

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

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

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

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

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

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

Notes to financial statements (cont.)

(in PLN thousand)

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

Impairment of non-current assets (including goodwill)

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

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

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

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

Provisions for legal risk regarding foreign currency mortgage loans in CHF

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

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

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

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

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

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

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

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

Fair value measurement

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

Notes to financial statements (cont.)

(in PLN thousand)

7. Risk management

7.1 Credit risk

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

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

In order to reduce this risk, the Group has implemented a number of activities to mitigate credit risk and solutions supporting clients, including:

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

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

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

Solutions adopted by the Bank, the portfolio of which generates the vast majority of the credit costs of impairment allowances, are described below. Subsidiaries applied solutions adequate to their specificity of operation.

Changes in the methodology of calculation an expected credit losses

Rapid spread of the COVID-19 epidemic and an unprecedented scale of remedies taken so far by the Polish government and banking sector in the scope of pandemic range limitation and stimulation of the economy, implicate very high uncertainty of future economic perspective and impact on the Bank's credit portfolio. Due to lack of similar historical experience, the forecasting of future, which is the basis in the calculation of expected credit losses, in this situation is subject to additional degree of uncertainty and require some major expert assumptions. The Bank's approach in this area and selected credit risk quantitative data are presented in the following paragraphs.

In its approach, the Bank aimed to adequately reflect the potential future deterioration in the credit risk quality in the expected credit losses for stage 1 and 2 and appropriate coverage ratio of nonperforming loans (stage 3) because of possible difficulty in the credit debt recovery (collection) in the present situation. In the current phase of downturn caused by the COVID-19 epidemic, increase in impairment allowances in the Bank results mainly from forecasts of changes in the credit portfolio quality, taken into account in the calculation of expected credit losses according to IFRS9 requirements, and not from its actual its evolution. So far the Group has not observed significant increase in the default rate, which would have an effect on the growth of nonperforming loans (share of NPL remained stable i.e. 5.1%-5.3%).

Notes to financial statements (cont.)

(in PLN thousand)

Banks expectations of macroeconomic situation

Starting point in the calculation of expected credit losses is the Group's expectations of macroeconomic situation which assume strong economic slowdown in 2020 and bounce back in 2021. GDP growth is forecast to decline to minus 2.4% year over year in 2020 compared to 4.1% year over year in 2019 and then bounce above output level (pre-Covid level) in the next year. It is assumed that the unemployment rate will increase from 5.2% at the end of 2019 to 6.8% at the end 2020. The scale of a decrease in GDP growth reflects the limitations in the business activities due to the epidemic and has direct and indirect influence on the economic activities in Poland and abroad. The moderate increase in the unemployment rate reflects an observed situation which can be called 'saving the labor resources'. Maintenance of workplace is possible due to the anti-crisis protection mechanism ('anti-crisis shield') and on the other hand by large reduction of working time and pay cuts.

Compared to the assumptions for the first half of 2020, in the third quarter, the additional expected macroeconomic situation deterioration was reflected by a change of the LGD parameter (Loss Given Default) used in the calculation of expected credit losses based on historical data analysis taking into account the expert assessment necessary due to the uniqueness of the current conditions.

The deterioration in recovery rate was reflected in the individual analysis for nonperforming loans and additional assumption for statistically valued loans that the restrictions in the economy caused by the epidemic would result in further recovery delay, on average by several months.

Described estimations, with regard to character of current situation, are characterized by a significant level of uncertainty and will be revised in the subsequent periods.

Identification of significant increase in credit risk and stage allocation

The Bank did not change its approach to identifying a significant deterioration in the credit risk, which is the basis for classifying exposures to stage 2. However, the Bank applies methods consistently, taking into consideration current situation. In particular, in case of credit payment holidays and other actions taken to mitigate the effects of the COVID-19 pandemic, the Bank's methodology is consistent with regulatory guidelines (e.g. Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis). Granting payment holidays on credit loans or other measures which mitigate the effects of pandemic do not automatically reclassify exposures to stage 2. However, such reclassification takes place if the increase of credit risk is influenced by additional factors which indicate the debtor's problems. Additionally, as part of the binding procedures, the Bank reviewed and reclassified the most exposed sectors (high risk) in terms of exposure to negative effects of the COVID-19 pandemic. Next, the Bank made a detailed analysis of current situation of corporate clients operating in high risk sectors and reclassified the exposures for which significant increase of credit risk was identified to stage 2.

Notes to financial statements (cont.)

(in PLN thousand)

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

	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT- IMPAIRED (POCI)	TOTAL
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
LOANS AND ADVANCES TO CUSTOMERS MEASURED AT AMORTISED COST						
GROSS CARRYING AMOUNT						
GROSS CARRYING AMOUNT AS AT 1.01.2020	111 598 146	19 438 314	5 084 221	2 796 868	42 806	138 960 355
Transfer to Stage 1	4 150 406	(4 123 090)	(149)	(27 167)	-	-
Transfer to Stage 2	(12 736 464)	12 914 264	(13 230)	(164 570)	-	-
Transfer to Stage 3	(386 486)	(598 604)	352 780	632 310	-	-
New / Purchased / Granted financial assets	23 960 771	-	-	-	824	23 961 595
Financial assets derecognised, other than write-offs (repayments)	(20 944 052)	(1 820 932)	(244 690)	(166 066)	(4 484)	(23 180 224)
Financial assets written off (*)	-	-	(294 547)	(226 971)	(867)	(522 385)
Modifications not resulting in derecognition	(7 205)	(1 601)	(78)	-	-	(8 884)
Other, in this changes resulting from exchange rates	657 813	247 475	140 443	185 647	36	1 231 414
GROSS CARRYING AMOUNT AS AT 30.09.2020	106 292 929	26 055 826	5 024 750	3 030 051	38 315	140 441 871
IMPAIRMENT ALLOWANCE						
IMPAIRMENT ALLOWANCE AS AT 1.01.2020	301 078	710 549	3 445 577	1 914 540	11 444	6 383 188
Transfer to Stage 1	153 080	(143 848)	(17)	(9 215)	-	-
Transfer to Stage 2	(63 500)	113 672	(2 778)	(47 394)	-	-
Transfer to Stage 3	(64 230)	(103 326)	28 392	139 164	-	-
New / Purchased / Granted financial assets	100 798	-	-	-	440	101 238
Financial assets derecognised, other than write-offs (repayments)	(32 682)	(21 326)	(20 770)	(25 145)	(400)	(100 323)
Financial assets written off (*)	-	-	(294 547)	(226 971)	(867)	(522 385)
Changes in level of credit risk (excluding the transfers between the Stages) (**)	(37 369)	337 281	434 403	182 925	900	918 140
Other, in this changes resulting from exchange rates	15 662	49 249	157 735	61 172	2 436	286 254
IMPAIRMENT ALLOWANCE AS AT 30.09.2020	372 837	942 251	3 747 995	1 989 076	13 953	7 066 112

(*) Including the value of contractual interest subject to partial write-off in the amount of PLN 238 127 thousand.

(**) Including the provision for legal risk regarding foreign currency mortgage loans in the amount of PLN 72 820 thousand.

The total value of undiscounted expected credit losses at the time of initial recognition of financial assets purchased or originated credit-impaired in the period ended 30 September 2020 amounted to PLN 1 111 thousand.

Notes to the financial statements (cont.)

(in PLN thousand)

	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT- IMPAIRED (POCI)	TOTAL
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
LOANS AND ADVANCES TO CUSTOMERS MEASURED AT AMORTISED COST						
GROSS CARRYING AMOUNT						
GROSS CARRYING AMOUNT AS AT 1.01.2019	100 388 050	20 213 176	5 063 110	2 542 099	87 565	128 294 000
Transfer to Stage 1	4 642 225	(4 617 247)	(7 562)	(17 416)	-	-
Transfer to Stage 2	(7 118 153)	7 239 409	(6 238)	(115 018)	-	-
Transfer to Stage 3	(739 724)	(737 339)	545 459	931 604	-	-
New / Purchased / Granted financial assets	38 405 396	-	-	-	5 145	38 410 541
Financial assets derecognised, other than write-offs (repayments)	(23 660 804)	(2 782 864)	(361 593)	(337 530)	(49 677)	(27 192 468)
Financial assets written off (*)	-	-	(321 500)	(270 429)	(126)	(592 055)
Modifications not resulting in derecognition	(2 223)	-	-	-	-	(2 223)
Other, in this changes resulting from exchange rates	(316 621)	123 179	172 545	63 558	(101)	42 560
GROSS CARRYING AMOUNT AS AT 31.12.2019	111 598 146	19 438 314	5 084 221	2 796 868	42 806	138 960 355
IMPAIRMENT ALLOWANCE						
IMPAIRMENT ALLOWANCE AS AT 1.01.2019	358 389	659 536	3 265 624	1 800 673	53 455	6 137 677
Transfer to Stage 1	134 108	(126 074)	(790)	(7 244)	-	-
Transfer to Stage 2	(36 836)	85 718	(1 440)	(47 442)	-	-
Transfer to Stage 3	(120 056)	(189 882)	38 272	271 666	-	-
New / Purchased / Granted financial assets	150 989	6	-	-	2 783	153 778
Financial assets derecognised, other than write-offs (repayments)	(68 125)	(33 594)	(43 861)	(53 249)	(5 551)	(204 380)
Financial assets written off (*)	-	-	(321 500)	(270 429)	(126)	(592 055)
Changes in level of credit risk (excluding the transfers between the Stages) (**)	(133 499)	300 874	281 639	201 483	(2 587)	647 910
Other, in this changes resulting from exchange rates	16 108	13 965	227 633	19 082	(36 530)	240 258
IMPAIRMENT ALLOWANCE AS AT 31.12.2019	301 078	710 549	3 445 577	1 914 540	11 444	6 383 188

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

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

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

Notes to the financial statements (cont.)

(in PLN thousand)

	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT- IMPAIRED (POCI)	TOTAL
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
RECEIVABLES FROM FINANCE LEASES						
GROSS CARRYING AMOUNT						
GROSS CARRYING AMOUNT AS AT 1.01.2020	6 368 110	175 582	166 630	88 980	-	6 799 302
Transfer to Stage 1	80 230	(76 380)	(737)	(3 113)	-	-
Transfer to Stage 2	(136 343)	137 811	(1 317)	(151)	-	-
Transfer to Stage 3	(86 977)	(50 973)	95 348	42 602	-	-
New/Purchased/Granted financial assets	1 666 710	-	-	-	-	1 666 710
Financial assets derecognised, other than write-offs (repayments)	(998 064)	(24 985)	(28 842)	(15 647)	-	(1 067 538)
Financial assets written off	-	-	-	-	-	-
Other, in this changes resulting from exchange rates	(45)	-	-	-	-	(45)
GROSS CARRYING AMOUNT AS AT 30.09.2020	6 893 621	161 055	231 082	112 671	-	7 398 429
IMPAIRMENT ALLOWANCE						
IMPAIRMENT ALLOWANCE AS AT 1.01.2020	3 214	1 769	19 009	62 371	-	86 363
Transfer to Stage 1	3 060	(720)	(131)	(2 209)	-	-
Transfer to Stage 2	(723)	830	(68)	(39)	-	-
Transfer to Stage 3	(514)	(502)	876	140	-	-
New/Purchased/Granted financial assets	1 611	-	-	-	-	1 611
Financial assets derecognised, other than write-offs (repayments)	(1 154)	(356)	(4 326)	(9 075)	-	(14 911)
Financial assets written off	-	-	-	-	-	-
Changes in level of credit risk (excluding the transfers between the Stages)	(376)	859	32 682	19 608	-	52 773
Other, in this changes resulting from exchange rates	(1 322)	-	-	-	-	(1 322)
IMPAIRMENT ALLOWANCE AS AT 30.09.2020	3 796	1 880	48 042	70 796	-	124 514

Notes to the financial statements (cont.)

(in PLN thousand)

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

Notes to the financial statements (cont.)

(in PLN thousand)

	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT- IMPAIRED (POCI)	TOTAL
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
LOANS AND ADVANCES TO CUSTOMERS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME						
CARRYING AMOUNT						
CARRYING AMOUNT AS AT 1.01.2020	771 987	608 620	-	-	-	1 380 607
Transfer to Stage 1	-	-	-	-	-	-
Transfer to Stage 2	(137 713)	137 713	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
New / Purchased / Granted financial assets	100 000	-	-	-	-	100 000
Financial assets derecognised, other than write-offs (repayments)	(2 843)	(44 992)	-	-	-	(47 835)
Financial assets written off	-	-	-	-	-	-
Modifications not resulting in derecognition	-	-	-	-	-	-
Other, in this changes resulting from exchange rates	(1 903)	85 094	-	-	-	83 191
CARRYING AMOUNT AS AT 30.09.2020	729 528	786 435	-	-	-	1 515 963
IMPAIRMENT ALLOWANCE (*)						
IMPAIRMENT ALLOWANCE AS AT 1.01.2020	3 407	17 401	-	-	-	20 808
Transfer to Stage 1	-	-	-	-	-	-
Transfer to Stage 2	(524)	524	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
New / Purchased / Granted financial assets	331	-	-	-	-	331
Financial assets derecognised, other than write-offs (repayments)	-	-	-	-	-	-
Changes in level of credit risk (excluding the transfers between the Stages)	2 697	1 739	-	-	-	4 436
Other, in this changes resulting from exchange rates	215	1 159	-	-	-	1 374
IMPAIRMENT ALLOWANCE AS AT 30.09.2020	6 126	20 823	-	-	-	26 949

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

Notes to the financial statements (cont.)

(in PLN thousand)

	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT- IMPAIRED (POCI)	TOTAL
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
LOANS AND ADVANCES TO CUSTOMERS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME						
CARRYING AMOUNT						
CARRYING AMOUNT AS AT 1.01.2019	1 511 102	-	-	-	-	1 511 102
Transfer to Stage 1	-	-	-	-	-	-
Transfer to Stage 2	(623 665)	623 665	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
New / Purchased / Granted financial assets	571 101	-	-	-	-	571 101
Financial assets derecognised, other than write-offs (repayments)	(686 334)	(15 977)	-	-	-	(702 311)
Other, in this changes resulting from exchange rates	(217)	932	-	-	-	715
CARRYING AMOUNT AS AT 31.12.2019	771 987	608 620	-	-	-	1 380 607
IMPAIRMENT ALLOWANCE (*)						
IMPAIRMENT ALLOWANCE AS AT 1.01.2019	14 590	-	-	-	-	14 590
Transfer to Stage 1	-	-	-	-	-	-
Transfer to Stage 2	(7 955)	7 955	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
New / Purchased / Granted financial assets	2 307	-	-	-	-	2 307
Financial assets derecognised, other than write-offs (repayments)	(3 267)	-	-	-	-	(3 267)
Changes in level of credit risk (excluding the transfers between the Stages)	(2 049)	9 431	-	-	-	7 382
Other, in this changes resulting from exchange rates	(219)	15	-	-	-	(204)
IMPAIRMENT ALLOWANCE AS AT 31.12.2019	3 407	17 401	-	-	-	20 808

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

Notes to the financial statements (cont.)

(in PLN thousand)

	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)	PURCHASED OR ORIGINATED CREDIT- IMPAIRED (POCI)	TOTAL
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT	
DEBT SECURITIES MEASURED AT AMORTISED COST					
GROSS CARRYING AMOUNT					
GROSS CARRYING AMOUNT AS AT 1.01.2020	14 289 472	331 816	32 370	-	14 653 658
Transfer to Stage 1	305 373	(305 373)	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
New / purchased / granted financial assets	13 940 290	-	-	-	13 940 290
Financial assets derecognised, other than write-offs (repayments)	(6 199 477)	(20 393)	-	-	(6 219 870)
Other, in this changes resulting from exchange rates	256 863	(35)	731	-	257 559
GROSS CARRYING AMOUNT AS AT 30.09.2020	22 592 521	6 015	33 101	-	22 631 637
IMPAIRMENT ALLOWANCE					
IMPAIRMENT ALLOWANCE AS AT 1.01.2020	25 668	16 955	32 370	-	74 993
Transfer to Stage 1	15 961	(15 961)	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
New / purchased / granted financial assets	13 150	-	-	-	13 150
Financial assets derecognised, other than write-offs (repayments)	(4 067)	(694)	-	-	(4 761)
Changes in level of credit risk (excluding the transfers between the Stages)	(8 850)	7	-	-	(8 848)
Other, in this changes resulting from exchange rates	255	1	731	-	987
IMPAIRMENT ALLOWANCE AS AT 30.09.2020	42 117	308	33 101	-	75 521

Notes to the financial statements (cont.)

(in PLN thousand)

	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)	PURCHASED OR ORIGINATED CREDIT- IMPAIRED (POCI)	TOTAL
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT	
DEBT SECURITIES MEASURED AT AMORTISED COST					
GROSS CARRYING AMOUNT					
GROSS CARRYING AMOUNT AS AT 1.01.2019	11 283 691	-	31 547	-	11 315 238
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	(331 816)	331 816	-	-	-
Transfer to Stage 3	-	-	-	-	-
New / purchased / granted financial assets	8 775 942	-	-	-	8 775 942
Financial assets derecognised, other than write-offs (repayments)	(5 610 765)	-	-	-	(5 610 765)
Other, in this changes resulting from exchange rates	172 420	-	823	-	173 243
GROSS CARRYING AMOUNT AS AT 31.12.2019	14 289 472	331 816	32 370	-	14 653 658
IMPAIRMENT ALLOWANCE					
IMPAIRMENT ALLOWANCE AS AT 1.01.2019	27 792	-	31 547	-	59 339
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	(9 448)	9 448	-	-	-
Transfer to Stage 3	-	-	-	-	-
New / purchased / granted financial assets	4 470	-	-	-	4 470
Financial assets derecognised, other than write-offs (repayments)	(3 090)	-	-	-	(3 090)
Changes in level of credit risk (excluding the transfers between the Stages)	6 010	7 506	-	-	13 516
Other, in this changes resulting from exchange rates	(66)	1	823	-	758
IMPAIRMENT ALLOWANCE AS AT 31.12.2019	25 668	16 955	32 370	-	74 993

Notes to the financial statements (cont.)

(in PLN thousand)

	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)	PURCHASED OR ORIGINATED CREDIT- IMPAIRED (POCI)	TOTAL
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT	
DEBT SECURITIES MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME					
CARRYING AMOUNT					
CARRYING AMOUNT AS AT 1.01.2020	30 930 139	12 860	-	-	30 942 999
Transfer to Stage 1	11 880	(11 880)	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
New / purchased / granted financial assets	220 011 658	-	-	-	220 011 658
Financial assets derecognised, other than write-offs (repayments)	(206 276 079)	(1 054)	-	-	(206 277 133)
Other, in this changes resulting from exchange rates	862 562	74	-	-	862 636
CARRYING AMOUNT AS AT 30.09.2020	45 540 160	-	-	-	45 540 160
IMPAIRMENT ALLOWANCE (*)					
IMPAIRMENT ALLOWANCE AS AT 1.01.2020	32 000	671	-	-	32 671
Transfer to Stage 1	671	(671)	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
New / purchased / granted financial assets	5 416	-	-	-	5 416
Financial assets derecognised, other than write-offs (repayments)	(4 038)	-	-	-	(4 038)
Changes in level of credit risk (excluding the transfers between the Stages)	23 759	-	-	-	23 759
IMPAIRMENT ALLOWANCE AS AT 30.09.2020	57 808	-	-	-	57 808

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

Notes to the financial statements (cont.)

(in PLN thousand)

	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT- IMPAIRED (POCI)	TOTAL
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
DEBT SECURITIES MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME						
CARRYING AMOUNT						
CARRYING AMOUNT AS AT 1.01.2019	27 032 827	-	-	-	-	27 032 827
Transfer to Stage 1	-	-	-	-	-	-
Transfer to Stage 2	(12 860)	12 860	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
New / purchased / granted financial assets	135 254 183	-	-	-	-	135 254 183
Financial assets derecognised, other than write-offs (repayments)	(132 086 153)	-	-	-	-	(132 086 153)
Other, in this changes resulting from exchange rates	742 142	-	-	-	-	742 142
CARRYING AMOUNT AS AT 31.12.2019	30 930 139	12 860	-	-	-	30 942 999
IMPAIRMENT ALLOWANCE (*)						
IMPAIRMENT ALLOWANCE AS AT 1.01.2019	28 307	-	-	-	-	28 307
Transfer to Stage 1	-	-	-	-	-	-
Transfer to Stage 2	(388)	388	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
New / purchased / granted financial assets	10 398	-	-	-	-	10 398
Financial assets derecognised, other than write-offs (repayments)	(6 824)	-	-	-	-	(6 824)
Changes in level of credit risk (excluding the transfers between the Stages)	507	283	-	-	-	790
IMPAIRMENT ALLOWANCE AS AT 31.12.2019	32 000	671	-	-	-	32 671

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

Notes to the financial statements (cont.)

(in PLN thousand)

Moratoria implemented in the period of 9 months of 2020 due to COVID-19

In the period of three quarters of 2020, due to COVID-19, the Group introduced the following loan repayment programs:

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

Using the above-mentioned moratoria by clients depended on the timely servicing of loan repayments and the assessment of its financial situation.
- 2) moratoria developed by the Group in accordance with the EBA Guidelines, i.e.:

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

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

All the above-mentioned moratoria were assessed by the Group in terms of meeting the modification criteria as defined in IFRS 9 in accordance with the principles defined in the Group's accounting policies. Given the nature of the above-mentioned moratoria, they were insignificant modifications in line with the policies adopted by the Group. Therefore, in relation to the loans covered by the above-mentioned moratoria, the Group each time determined the result on insignificant modifications. As at 30 September 2020, the gross carrying amount of the loan portfolio covered by the above-mentioned moratoria amounted to PLN 15 246 million (88 581 units), and the negative result on insignificant modifications recognised in the period of three quarters of 2020 related to these moratoria amounted to PLN 6.8 million.

Notes to the financial statements (cont.)

(in PLN thousand)

Additionally, the Bank signed the series of portfolio guarantee agreements with Bank Gospodarstwa Krajowego ('BGK'), limiting the effects of COVID-19. The most important of them are:

1) De minimis guarantees

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

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

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

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

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

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

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

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

Guarantees for the above-mentioned parameters can be granted until 31 December 2020. The guarantee may be granted for new credits and renewals. As at 30 September 2020, the gross carrying amount of the loan portfolio covered by the above-mentioned guarantees amounted to PLN 2 130 million (2 253 units).

Notes to the financial statements (cont.)

(in PLN thousand)

Forbearance measures

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

Share of forbore exposures in the Group's loan portfolio

	30.09.2020					TOTAL
	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT-IMPAIRED (POCI)	
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
Loans and advances measured at amortised cost, including:	105 920 092	25 113 575	1 276 755	1 040 975	24 362	133 375 759
Forborne exposures gross	1 129 473	400 316	2 415 437	633 727	21 942	4 600 895
Loss allowance	(2 785)	(40 447)	(1 641 563)	(302 511)	(2 038)	(1 989 344)
Forborne exposures net	1 126 688	359 869	773 874	331 216	19 904	2 611 551
Loans and advances measured at fair value through other comprehensive income, including:	729 528	786 435	-	-	-	1 515 963
Forborne exposures	-	-	-	-	-	-
Impairment allowance (*)	-	-	-	-	-	-
Loans and advances measured at fair value through profit or loss, including:						198 955
Forborne exposures						1 094
Leasing exposures measured at amortised cost, including:	6 889 825	159 175	183 040	41 875	-	7 273 915
Forborne exposures gross	294	4 628	22 719	7 214	-	34 855
Impairment allowance	-	(51)	(5 529)	(5 732)	-	(11 312)
Forborne exposures net	294	4 577	17 190	1 482	-	23 543

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

Notes to financial statements (cont.)

(in PLN thousand)

Share of forbore exposures in the Group's loan portfolio

31.12.2019						
	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT-IMPAIRED (POCI)	TOTAL
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
Loans and advances measured at amortised cost, including:	111 297 068	18 727 765	1 638 644	882 328	31 362	132 577 167
Forborne exposures gross	349 409	112 400	2 288 966	508 654	21 491	3 280 920
Loss allowance	(2 950)	(11 656)	(1 394 073)	(267 702)	(757)	(1 677 138)
Forborne exposures net	346 459	100 744	894 893	240 952	20 734	1 603 782
Loans and advances measured at fair value through other comprehensive income, including:	771 987	608 620	-	-	-	1 380 607
Forborne exposures	-	-	-	-	-	-
Impairment allowance (*)	-	-	-	-	-	-
Loans and advances measured at fair value through profit or loss, including:						242 639
Forborne exposures						998
Leasing exposures measured at amortised cost, including:	6 364 896	173 813	147 621	26 609	-	6 712 939
Forborne exposures gross	1 674	4 482	27 697	5 428	-	39 281
Impairment allowance	(3)	(42)	(6 639)	(4 165)	-	(10 849)
Forborne exposures net	1 671	4 440	21 058	1 263	-	28 432

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

CHF loans to individuals

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

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

30.09.2020						
	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT-IMPAIRED (POCI)	TOTAL
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
Gross carrying amount, of which:	182 543	2 519 654	41 995	191 143	795	2 936 130
denominated in CHF	182 543	2 513 186	41 995	190 399	795	2 928 918
indexed to CHF	-	6 468	-	744	-	7 212
Impairment allowances, of which: (*)	(124)	(27 297)	(25 224)	(89 212)	(339)	(142 196)
denominated in CHF	(124)	(27 252)	(25 224)	(88 918)	(339)	(141 857)
indexed to CHF	-	(45)	-	(294)	-	(339)
Carrying amount, of which:	182 419	2 492 357	16 771	101 931	456	2 793 934
denominated in CHF	182 419	2 485 934	16 771	101 481	456	2 787 061
indexed to CHF	-	6 423	-	450	-	6 873

(*) Including the provision for legal risk regarding foreign currency mortgage loans in the amount of PLN 72 820 thousand.

Notes to financial statements (cont.)

(in PLN thousand)

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

	31.12.2019					TOTAL
	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT-IMPAIRED (POCI)	
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
Gross carrying amount, of which:	192 721	2 595 740	38 245	175 961	752	3 003 419
denominated in CHF	192 721	2 586 325	38 245	175 150	752	2 993 193
indexed to CHF	-	9 415	-	811	-	10 226
Impairment allowances, of which: (*)	(194)	(57 680)	(21 617)	(82 240)	(303)	(162 034)
denominated in CHF	(194)	(57 623)	(21 617)	(81 932)	(303)	(161 669)
indexed to CHF	-	(57)	-	(308)	-	(365)
Carrying amount, of which:	192 527	2 538 060	16 628	93 721	449	2 841 385
denominated in CHF	192 527	2 528 702	16 628	93 218	449	2 831 524
indexed to CHF	-	9 358	-	503	-	9 861

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

As of 30 September 2020 the average LTV for CHF loans to individuals granted by the Group amounted to 41.4% (39.9% as at 31 December 2019), with an average LTV for the whole portfolio of 58.9% (57.9% as at 31 December 2019).

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

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

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

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

Considering the increase in the number of lawsuits regarding foreign currency mortgage loans in CHF observed in the banking sector and the heterogeneity in the ruling line regarding the above loans, as at 30 September 2020 the Group estimated the provision for the above legal risk related to foreign currency mortgage loan agreements in CHF in the total amount of PLN 104.6 million (as at 31 December 2019 - PLN 58.7 million).

The above amount of the provision includes the following elements:

1. PLN 72.8 million for current and future claims regarding balance sheet exposures recognized as impairment allowances for loan exposures in correspondence with 'Net impairment losses on financial assets and off-balance sheet commitments' (as at 31 December 2019 - PLN 36.3 million),
2. PLN 31.8 million for current and future claims regarding paid exposures recognized as provisions in correspondence with 'Other operating expenses' (as at 31 December 2019 - PLN 22.4 million),

Notes to financial statements (cont.)

(in PLN thousand)

As at 30 September 2020 lawsuits in number of 445 were pending against the Group regarding foreign currency mortgage loans in CHF, which were granted in previous years with a total amount in dispute of PLN 125.3 million (as at 31 December 2019 the number of cases was 195, corresponding to the total amount in dispute of PLN 59 million). In relation to the above lawsuits, the Group estimated the provision in the total amount of PLN 59.4 million (as at 31 December 2019 - PLN 19.9 million) based on an external legal opinion regarding the assessment of contractual patterns of foreign currency mortgage loans in CHF and on the individual assessment (for each lawsuit) of the risk of losing a given case in court, taking into account the nature of the claim, as well as possible financial consequences.

In addition, as at 30 September 2020, the Group estimated the portfolio provision in the total amount of PLN 45.2 million (as at 31 December 2019 - PLN 38.8 million), which was determined in relation to future possible lawsuits regarding the portfolio of foreign currency mortgage loans in CHF. The calculation of the provision was based on an assessment of the legal risk associated with the abovementioned agreements (performed by the Group with the involvement of an external legal company) and concerned mainly the determination of the following elements:

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

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

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

PARAMETR	SCENARIO	IMPACT ON THE LEVEL OF PROVISION
Number of lawsuits	+20%	15.4
	-20%	(15.4)
Time horizon	4 lata	4.3
	2 lata	(4.3)

If an additional of 1% the Group's customers with foreign currency mortgage loans in CHF filed a lawsuit against the Group, then the impact on the loss from legal risk on mortgage loans in convertible currencies would increase by PLN 25.3 million.

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

Notes to financial statements (cont.)

(in PLN thousand)

7.2 Market risk

Market risk of the trading book

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

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

	30.09.2020	MINIMUM VALUE	AVERAGE VALUE	MAXIMUM VALUE
foreign currency exchange risk	41	6	56	1 153
interest rate risk	2 233	859	2 016	6 419
Trading portfolio	2 206	837	2 173	6 863

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

Interest rate risk of the banking book

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

The cycle of significant reductions in NBP interest rates and the increased liquidity of the banking sector in response to the developing COVID-19 pandemic had a significant impact on the level of the Bank's exposure to interest rate risk and the amount of net interest income generated for 9 months of 2020. In order to hedge the current accounts, the Bank continued the implementation of the hedging strategy by concluding IRS transactions and purchasing fixed-coupon bonds.

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

SENSITIVITY IN %	30.09.2020	31.12.2019
NII	(5.74)	(6.98)
EVE (*)	(5.45)	(3.04)

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

Currency risk

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

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

Value at Risk

CURRENCY	30.09.2020	31.12.2019
Currencies total (*)	3 300	117

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

Notes to financial statements (cont.)

(in PLN thousand)

Currency position

30.09.2020	BALANCE SHEET OPERATIONS		OFF-BALANCE SHEET OPERATIONS- DERIVATIVES		NET POSITION
	ASSETS	LIABILITIES	LONG POSITION	SHORT POSITION	
CAD	22 981	55 540	55 506	23 511	(564)
CHF	3 029 556	604 524	1 117 007	3 541 065	974
CNY	6 548	41 261	219 377	184 471	193
CZK	48 655	45 741	344 161	346 823	252
DKK	49 999	42 025	40 773	48 652	95
EUR	27 557 910	22 528 924	17 376 900	22 406 453	(567)
GBP	510 467	1 078 549	652 921	83 198	1 641
NOK	494 808	77 397	340 674	757 824	261
SEK	90 959	58 973	4 016	35 955	47
USD	7 261 449	9 155 457	9 200 112	7 362 697	(56 593)
Other currencies	64 449	108 939	350 095	305 077	528
Total	39 137 781	33 797 330	29 701 542	35 095 726	(53 733)

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

7.3 Liquidity risk

The liquidity turmoil related to the COVID-19 pandemic ended at the end of the second quarter of 2020. Therefore, the liquidity risk management process returned to a state similar to that described in the consolidated financial statements of the Bank Pekao S.A. Group for the year ended 31 December 2019.

Notes to financial statements (cont.)

(in PLN thousand)

Regulatory liquidity norms and LCR (*)

SUPERVISORY LIQUIDITY NORMS		LIMIT	30.09.2020	31.12.2019
M3(*)	Own funds to non-liquid assets cover ratio	1	9.08	7.63
M4 (**)	Own funds and stable external funds to non-liquid and limited liquidity assets cover ratio	1	1.35	1.18
LCR	Liquidity coverage ratio	1	3.29	1.52

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

(**) Ratio at the separate level.

The tables below present adjusted liquidity gap.

30.09.2020	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
Assets	69 681 655	8 191 072	23 369 335	72 141 064	58 730 823	232 113 949
Equity and liabilities	18 179 176	11 184 574	26 471 996	34 441 646	141 836 557	232 113 949
Off-balance sheet assets/liabilities (net)	(8 570 059)	1 166 102	1 442 817	1 608 246	3 862 676	(490 218)
Periodic gap	42 932 420	(1 827 400)	(1 659 844)	39 307 664	(79 243 058)	(490 218)
Cumulated gap	-	41 105 020	39 445 176	78 752 840	(490 218)	-

31.12.2019	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
Assets	39 979 611	7 183 432	27 270 488	67 711 772	61 177 616	203 322 919
Equity and liabilities	11 597 534	9 637 749	22 276 041	19 569 624	140 241 971	203 322 919
Off-balance sheet assets/liabilities (net)	(6 184 210)	(1 154 062)	1 039 085	2 976 635	3 008 982	(313 570)
Periodic gap	22 197 867	(3 608 379)	6 033 532	51 118 783	(76 055 373)	(313 570)
Cumulated gap	-	18 589 488	24 623 020	75 741 803	(313 570)	-

7.4 Operational risk

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

7.5 Fair value of financial assets and liabilities

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

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

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

Notes to financial statements (cont.)

(in PLN thousand)

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

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

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

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

30.09.2020	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Assets:	13 057 977	28 031 356	13 652 149	54 741 482
Financial assets held for trading	659 354	136 963	31 063	827 380
Derivative financial instruments, including:	-	5 335 241	874	5 336 115
Banks	-	1 294 154	874	1 295 028
Customers	-	4 041 087	-	4 041 087
Hedging instruments, including:	-	959 041	-	959 041
Banks	-	52 485	-	52 485
Customers	-	906 556	-	906 556
Securities measured at fair value through other comprehensive income	12 398 623	21 600 111	11 771 077	45 769 811
Securities measured at fair value through profit or loss	-	-	134 217	134 217
Loans and advances to customers measured at fair value through other comprehensive income	-	-	1 515 963	1 515 963
Loans and advances to customers measured at fair value through profit or loss	-	-	198 955	198 955
Liabilities:	325 438	6 148 642	-	6 474 080
Financial liabilities held for trading	325 438	-	-	325 438
Derivative financial instruments, including:	-	5 168 882	-	5 168 882
Banks	-	1 248 039	-	1 248 039
Customers	-	3 920 843	-	3 920 843
Hedging instruments, including:	-	979 760	-	979 760
Banks	-	897 600	-	897 600
Customers	-	82 160	-	82 160

Notes to financial statements (cont.)

(in PLN thousand)

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

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

Notes to financial statements (cont.)

(in PLN thousand)

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

3 QUARTERS 2020	FINANCIAL ASSETS HELD FOR TRADING	DERIVATIVE FINANCIAL INSTRUMENTS (ASSETS)	LOANS AND ADVANCES TO CUSTOMERS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	LOANS AND ADVANCES TO CUSTOMERS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	SECURITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	SECURITIES MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME
Opening balance	8 035	3 042	1 380 607	242 639	125 454	6 941 296
Increases, including:	1 143 585	-	135 356	31	8 763	15 683 710
Reclassification	29 348	-	-	-	-	326 977
Transactions made in 2020	-	-	-	-	-	-
Acquisition/Granting	1 113 082	-	99 383	31	-	15 204 957
Settlement/Redemption	-	-	15 484	-	-	-
Gains on financial instruments	1 155	-	20 489	-	8 763	151 776
recognized in the income statement	1 155	-	19 747	-	8 763	148 358
recognized in revaluation reserves	-	-	742	-	-	3 418
Decreases, including:	(1 120 557)	(2 168)	-	(43 715)	-	(10 853 929)
Reclassification	(2 306)	-	-	-	-	(242 428)
Settlement/Redemption	(33 181)	-	-	(42 147)	-	(186 610)
Sale/Repayment	(1 085 064)	-	-	-	-	(10 366 506)
Losses on financial instruments	(6)	(2 168)	-	(1 568)	-	(58 385)
recognized in the income statement	(6)	(2 168)	-	(1 568)	-	(79)
recognized in revaluation reserves	-	-	-	-	-	(58 306)
Closing balance	31 063	874	1 515 963	198 955	134 217	11 771 077
Unrealized income from financial instruments held in portfolio at the end of the period, recognized in:	1 622	(2 168)	(2 513)	(1 980)	-	67 892
Income statement:	1 622	(2 168)	(3 255)	(1 980)	-	24 989
net interest income	1	-	1 512	59	-	49 513
net impairment losses on financial assets and off-balance sheet commitments	-	-	(4 767)	-	-	(24 524)
result on financial assets and liabilities held for trading	1 621	(2 168)	-	(2 039)	-	-
Other comprehensive income	-	-	742	-	-	42 903

Notes to financial statements (cont.)

(in PLN thousand)

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

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

Notes to financial statements (cont.)

(in PLN thousand)

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

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

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

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

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

FINANCIAL ASSET/LIABILITY	FAIR VALUE AS AT 30.09.2020	VALUATION TECHNIQUE	UNOBSERVABLE FACTOR	ALTERNATIVE FACTOR RANGE (WEIGHTED AVERAGE)	IMPACT ON FAIR VALUE AS AT 30.09.2020	
					POSITIVE SCENARIO	NEGATIVE SCENARIO
Corporate and municipal debt securities	11 576 505	Discounted cash flow	Credit spread	0.27% - 1.18%	193 781	(206 715)
Sovereign securities	27 331	Discounted cash flow	Spread to benchmark bond	0.03% - 0.72%	1 887	(1 887)
Derivatives	874	Black Scholes Model	Correlation	0 - 1	72	(831)
Loans and advances measured at fair value through profit or loss	198 955	Discounted cash flow	Credit spread	0.38% - 1.36%	4 209	(4 092)
Loans and advances measured at fair value through other comprehensive income	1 515 963	Discounted cash flow	Credit spread	2.24% - 3.22%	21 705	(21 323)

FINANCIAL ASSET	FAIR VALUE AS AT 30.09.2020	PARAMETR	SCENARIO	IMPACT ON FAIR VALUE AS AT 30.09.2020	
				POSITIVE SCENARIO	NEGATIVE SCENARIO
Equity instruments mandatorily measured at fair value through profit or loss	134 217	Conversion discount	+10% / -10%	16 777	(16 777)
Equity instrument in entity providing credit information designated for measurement at fair value through other comprehensive income	179 192	Discount rate	+1% / -1%	19 631	(16 102)

Notes to financial statements (cont.)

(in PLN thousand)

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

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

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

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

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

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

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

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

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

Notes to financial statements (cont.)

(in PLN thousand)

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

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

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

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

30.09.2020	CARRYING AMOUNT	FAIR VALUE	OF WHICH:		
			LEVEL 1	LEVEL 2	LEVEL 3
Assets					
Cash and due from Central Bank	5 898 799	5 898 286	4 162 124	1 736 162	-
Loans and advance to banks	2 362 931	2 362 936	-	1 028 811	1 334 125
Loans and advances to customers measured at amortised cost	133 375 759	132 468 256	-	1 935 337	130 532 919
Receivables from financial leases	7 273 915	7 280 813	-	-	7 280 813
Debt securities measured at amortised cost	22 556 116	23 417 486	15 669 502	3 007 563	4 740 421
Total Assets	171 467 520	171 427 777	19 831 626	7 707 873	143 888 278
Liabilities					
Amounts due to Central Bank	-	-	-	-	-
Amounts due to other banks	7 399 735	7 283 061	-	298 242	6 984 819
Amounts due to customers	181 797 104	181 607 139	-	-	181 607 139
Debt securities issued	4 491 696	4 481 139	-	4 481 139	-
Subordinated liabilities	2 774 693	2 778 898	-	2 778 898	-
Total Liabilities	196 463 228	196 150 237	-	7 558 279	188 591 958

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

Notes to financial statements (cont.)

(in PLN thousand)

8. Operating segments

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

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

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

Operating segments

The operating segments of the Group are as follows:

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

Notes to financial statements (cont.)

(in PLN thousand)

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

	RETAIL BANKING	CORPORATE AND INVESTMENT BANKING	SME BANKING	ASSETS AND LIABILITIES MANAGEMENT AND OTHER	TOTAL
External interest income	2 384 908	1 412 744	78 668	695 834	4 572 154
External interest expenses	(314 144)	(178 830)	(15 056)	(67 273)	(575 303)
Net external interest income	2 070 764	1 233 914	63 612	628 561	3 996 851
Internal interest income	1 131 739	248 320	73 617	(1 453 676)	-
Internal interest expenses	(1 064 532)	(594 321)	(31 673)	1 690 526	-
Net internal interest income	67 207	(346 001)	41 944	236 850	-
Total net interest income	2 137 971	887 913	105 556	865 411	3 996 851
Non-interest income	894 819	658 143	204 214	166 920	1 924 096
Operating income	3 032 790	1 546 056	309 770	1 032 331	5 920 947
Personnel expenses	(713 820)	(211 525)	(73 031)	(568 315)	(1 566 691)
Other administrative expenses	(947 282)	(209 362)	(75 801)	559 531	(672 914)
Depreciation and amortisation	(142 136)	(23 920)	(3 942)	(227 624)	(397 622)
Operating costs	(1 803 238)	(444 807)	(152 774)	(236 408)	(2 637 227)
Gross operating profit	1 229 552	1 101 249	156 996	795 923	3 283 720
Net impairment losses on financial assets and off-balance sheet commitments	(362 621)	(728 721)	(20 005)	29 040	(1 082 307)
Net operating profit	866 931	372 528	136 991	824 963	2 201 413
Guarantee funds charges	(217 731)	(177 469)	(9 474)	67 728	(336 946)
Tax on certain financial institutions	-	-	-	(494 896)	(494 896)
Profit before tax	649 200	195 059	127 517	397 795	1 369 571
Income tax expense					(451 564)
Net profit for the period					918 007
Attributable to equity holders of the Bank					916 900
Attributable to non-controlling interests					1 107
Allocated assets	80 148 946	81 156 921	3 346 320	50 932 090	215 584 277
Unallocated assets					16 529 672
Total assets					232 113 949
Allocated liabilities	114 356 694	64 462 148	14 956 953	3 251 204	197 026 999
Unallocated liabilities					9 937 507
Total liabilities					206 964 506

Notes to financial statements (cont.)

(in PLN thousand)

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

	RETAIL BANKING	CORPORATE AND INVESTMENT BANKING	SME BANKING	ASSETS AND LIABILITIES MANAGEMENT AND OTHER	TOTAL
External interest income	2 632 273	1 600 432	101 299	636 269	4 970 273
External interest expenses	(449 532)	(360 647)	(31 344)	(79 376)	(920 899)
Net external interest income	2 182 741	1 239 785	69 955	556 893	4 049 374
Internal interest income	1 450 419	620 786	107 819	(2 179 024)	-
Internal interest expenses	(1 308 183)	(1 002 343)	(50 818)	2 361 344	-
Net internal interest income	142 236	(381 557)	57 001	182 320	-
Total net interest income	2 324 977	858 228	126 956	739 213	4 049 374
Non-interest income	983 204	612 075	194 099	244 064	2 033 442
Operating income	3 308 181	1 470 303	321 055	983 277	6 082 816
Personnel expenses	(769 426)	(202 709)	(70 791)	(525 190)	(1 568 116)
Other administrative expenses	(1 039 148)	(238 217)	(77 885)	629 864	(725 386)
Depreciation and amortisation	(131 147)	(24 332)	(3 467)	(219 855)	(378 801)
Operating costs	(1 939 721)	(465 258)	(152 143)	(115 181)	(2 672 303)
Gross operating profit	1 368 460	1 005 045	168 912	868 096	3 410 513
Net impairment losses on financial assets and off-balance sheet commitments	(287 516)	(171 476)	(5 387)	995	(463 384)
Net operating profit	1 080 944	833 569	163 525	869 091	2 947 129
Guarantee funds charges	(205 179)	(167 653)	(9 360)	(51 972)	(434 164)
Tax on certain financial institutions	-	-	-	(442 863)	(442 863)
Profit before tax	875 765	665 916	154 165	374 256	2 070 102
Income tax expense					(587 210)
Net profit for the period					1 482 892
Attributable to equity holders of the Bank					1 480 661
Attributable to non-controlling interests					2 231
Allocated assets	77 316 378	73 068 539	3 460 983	33 182 196	187 028 096
Unallocated assets					11 776 304
Total assets					198 804 400
Allocated liabilities	100 150 711	54 774 141	11 008 337	3 135 003	169 068 192
Unallocated liabilities					6 912 281
Total liabilities					175 980 473

Notes to financial statements (cont.)

(in PLN thousand)

Reconciliations of operating income for reportable segments

	3 QUARTERS 2020	3 QUARTERS 2019
Net interest income	3 996 851	4 049 374
Net fee and commission income	1 777 350	1 879 038
Dividend income	26 271	22 187
Result on financial assets and liabilities measured at fair value through profit or loss	87 153	69 478
Result on fair value hedge accounting	(869)	(3 676)
Profit (loss) from derecognition of financial assets and financial liabilities not at fair value through profit or loss	48 847	39 454
Operating income	5 935 603	6 055 855
Net other operating income and expenses	(14 656)	26 961
Total operating income for reportable segments	5 920 947	6 082 816

9. Interest income and expense

Interest income

	III QUARTER 2020			TOTAL
	FINANCIAL ASSETS MEASURED AT AMORTISED COST	FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	
Loans and other receivables from customers	995 449	8 485	176	1 004 110
Interbank placements	(91)	-	-	(91)
Reverse repo transactions	207	-	-	207
Investment securities	96 413	147 928	-	244 341
Hedging derivatives	-	-	58 428	58 428
Financial assets held for trading	-	-	675	675
Total	1 091 978	156 413	59 279	1 307 670

	3 QUARTERS 2020			TOTAL
	FINANCIAL ASSETS MEASURED AT AMORTISED COST	FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	
Loans and other receivables from customers	3 582 651	24 515	1 970	3 609 136
Interbank placements	12 911	-	-	12 911
Reverse repo transactions	10 437	-	-	10 437
Investment securities	300 186	454 555	-	754 741
Hedging derivatives	-	-	179 007	179 007
Financial assets held for trading	-	-	5 922	5 922
Total	3 906 185	479 070	186 899	4 572 154

Notes to financial statements (cont.)

(in PLN thousand)

Interest income

	III QUARTER 2019			TOTAL
	FINANCIAL ASSETS MEASURED AT AMORTISED COST	FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	
Loans and other receivables from customers	1 354 151	11 324	1 549	1 367 024
Interbank placements	10 525	-	-	10 525
Reverse repo transactions	11 029	-	-	11 029
Investment securities	98 833	147 394	-	246 227
Hedging derivatives	-	-	63 878	63 878
Financial assets held for trading	-	-	4 948	4 948
Total	1 474 538	158 718	70 375	1 703 631

	3 QUARTERS 2019			TOTAL
	FINANCIAL ASSETS MEASURED AT AMORTISED COST	FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	
Loans and other receivables from customers	3 971 355	27 619	4 854	4 003 828
Interbank placements	35 278	-	-	35 278
Reverse repo transactions	31 599	-	-	31 599
Investment securities	250 352	457 956	-	708 308
Hedging derivatives	-	-	179 607	179 607
Financial assets held for trading	-	-	11 653	11 653
Total	4 288 584	485 575	196 114	4 970 273

Interest expense

	III QUARTER 2020	3 QUARTERS 2020	III QUARTER 2019	3 QUARTERS 2019
Deposits from customers	(60 759)	(394 649)	(224 427)	(697 786)
Interbank deposits	(1 342)	(7 077)	(7 757)	(15 361)
Repo transactions	(2)	(6 995)	(18 465)	(29 616)
Loans and advances received	(7 033)	(28 606)	(7 100)	(21 224)
Leasing	(2 505)	(7 920)	(3 362)	(10 326)
Debt securities	(32 977)	(130 056)	(51 090)	(146 586)
Total	(104 618)	(575 303)	(312 201)	(920 899)

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

Notes to financial statements (cont.)

(in PLN thousand)

10. Fee and commission income and expense

Fee and commission income

	III QUARTER 2020	3 QUARTERS 2020	III QUARTER 2019	3 QUARTERS 2019
Accounts maintenance, payment orders and cash transactions	143 470	437 728	159 940	466 189
Payment cards	147 329	434 872	161 981	457 079
Loans and advances	96 632	284 373	112 869	316 952
Margin on foreign exchange transactions with clients	132 047	382 075	125 334	368 965
Service and sell investment and insurance products	118 338	349 689	131 180	384 269
Securities operations	26 208	69 980	12 349	41 958
Custody activity	14 936	41 470	12 446	38 518
Guarantees, letters of credit and similar transactions	16 220	48 455	15 594	46 691
Other	19 728	62 461	11 956	32 975
Total	714 908	2 111 103	743 649	2 153 596

Fee and commission expense

	III QUARTER 2020	3 QUARTERS 2020	III QUARTER 2019	3 QUARTERS 2019
Payment cards	(80 382)	(230 487)	(71 447)	(191 726)
Money orders and transfers	(5 303)	(15 937)	(6 211)	(17 059)
Securities and derivatives operations	(14 440)	(31 618)	(8 044)	(22 738)
Acquisition services	(10 236)	(29 007)	(7 575)	(20 582)
Custody activity	(5 008)	(14 552)	(3 710)	(12 230)
Accounts maintenance	(1 083)	(3 193)	(1 291)	(3 320)
Investment funds management	(433)	(733)	(145)	(408)
Other	(2 914)	(8 226)	(2 449)	(6 495)
Total	(119 799)	(333 753)	(100 872)	(274 558)

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

11.Dividend income

	III QUARTER 2020	3 QUARTERS 2020	III QUARTER 2019	3 QUARTERS 2019
Issuers of securities measured at fair value through profit or loss	268	785	535	937
Issuers of equity instruments designated at fair value through other comprehensive income	-	25 486	-	21 250
Total	268	26 271	535	22 187

Notes to financial statements (cont.)

(in PLN thousand)

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

	III QUARTER 2020	3 QUARTERS 2020	III QUARTER 2019	3 QUARTERS 2019
Gains (losses) on loans and advances to customers measured mandatorily at fair value through profit or loss	1 401	(2 262)	(750)	(4 607)
Gains (losses) on securities measured mandatorily at fair value through profit or loss	3 969	6 900	(786)	20 197
Foreign currency exchange result	(4 481)	(28 472)	(21 683)	(30 071)
Gains (losses) on derivatives	17 648	75 996	36 900	68 492
Gains (losses) on securities held for trading	7 641	34 991	7 071	15 467
Total	26 178	87 153	20 752	69 478

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

Realized gains

	III QUARTER 2020	3 QUARTERS 2020	III QUARTER 2019	3 QUARTERS 2019
Financial assets measured at amortised cost	279	9 684	6 524	12 098
Financial assets measured at fair value through other comprehensive income	5 333	44 552	15 220	34 071
Financial liabilities not measured at fair value through profit or loss	-	1	-	-
Total	5 612	54 237	21 744	46 169

Realized losses

	III QUARTER 2020	3 QUARTERS 2020	III QUARTER 2019	3 QUARTERS 2019
Financial assets measured at amortised cost	(868)	(3 215)	(1 741)	(6 101)
Financial assets measured at fair value through other comprehensive income	(11)	(2 027)	(280)	(294)
Financial liabilities not measured at fair value through profit or loss	(61)	(148)	(131)	(320)
Total	(940)	(5 390)	(2 152)	(6 715)
Net realized profit	4 672	48 847	19 592	39 454

Notes to financial statements (cont.)

(in PLN thousand)

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

	III QUARTER 2020	3 QUARTERS 2020	III QUARTER 2019	3 QUARTERS 2019
Loans and other financial assets measured at amortized cost (*) (**)	(239 559)	(925 074)	(180 217)	(391 290)
Debt securities measured at amortized cost	(5 558)	459	(98)	(15 043)
Loans measured at fair value through other comprehensive income	1	(4 767)	1 186	(17 119)
Debt securities measured at fair value through other comprehensive income	(8 813)	(25 137)	1 592	1 623
Off-balance sheet commitments	1 367	(91 234)	1 074	(41 555)
Provision for legal risk regarding foreign currency mortgage loans	(24 825)	(36 554)	-	-
Total	(277 387)	(1 082 307)	(176 463)	(463 384)

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

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

15. Net other operating income and expenses

Other operating income

	III QUARTER 2020	3 QUARTERS 2020	III QUARTER 2019 RESTATED	3 QUARTERS 2019 RESTATED
Gains on disposal of property, plant and equipment	66	245	3 743	16 005
Premises rental income	5 335	14 005	4 418	13 642
Leasing net income (*)	(1 231)	695	2 844	9 428
Compensation, recoveries, penalty fees and fines received	3 756	10 479	6 184	17 237
Miscellaneous income	2 973	13 160	4 688	10 264
Recovery of debt collection costs	3 328	7 530	5 729	13 264
Net revenues from sale of products, goods and services	1 408	4 007	927	3 736
Releases of impairment allowances for litigation and other assets	303	485	290	856
Other	801	1 997	1 819	3 033
Total	16 739	52 603	30 642	87 465

(*) Leasing net income

	III QUARTER 2020	3 QUARTERS 2020	III QUARTER 2019 RESTATED	3 QUARTERS 2019 RESTATED
Income from operating leases	1 869	5 720	(199)	2 821
Costs of depreciation of fixed assets provided under operating leases	(1 863)	(6 179)	-	-
Other net income from financial lease	(1 237)	1 154	3 043	6 607
Total	(1 231)	695	2 844	9 428

Notes to financial statements (cont.)

(in PLN thousand)

Other operating expenses

	III QUARTER 2020	3 QUARTERS 2020 D	III QUARTER 2019 RESTATED	3 QUARTERS 2019 RESTATED
Net provision for liabilities disputable and other provisions	(12 324)	(23 178)	(32 576)	(40 772)
Net provision for legal risk regarding foreign currency mortgage loans	(4 901)	(9 336)	-	-
Loss on disposal of property, plant and equipment and intangible assets	(89)	(10 092)	(2 732)	(3 305)
Card transactions monitoring costs	1 091	(3 302)	(348)	(3 565)
Sundry expenses	(632)	(5 182)	(1 364)	(3 884)
Costs of litigation and claims	(1 245)	(2 604)	(825)	(2 278)
Impairment allowance for litigations and other assets	(1 108)	(2 489)	(2 060)	(2 504)
Compensation, penalty fees and fines	(253)	(654)	(72)	(309)
Credit insurance expenses	-	(5)	(97)	(545)
Other	(3 268)	(10 417)	(1 150)	(3 342)
Total	(22 729)	(67 259)	(41 224)	(60 504)
Net other operating income and expenses	(5 990)	(14 656)	(10 582)	26 961

16. Administrative expenses

Personnel expenses

	III QUARTER 2020	3 QUARTERS 2020	III QUARTER 2019	3 QUARTERS 2019
Wages and salaries	(385 513)	(1 325 441)	(422 135)	(1 329 958)
Insurance and other charges related to employees	(74 035)	(232 939)	(77 301)	(229 865)
Share-based payments expenses	370	(8 311)	(2 828)	(8 293)
Total	(459 178)	(1 566 691)	(502 264)	(1 568 116)

Other administrative expenses

	III QUARTER 2020	3 QUARTERS 2020	III QUARTER 2019	3 QUARTERS 2019
General expenses	(197 366)	(626 651)	(229 353)	(675 579)
Taxes and charges	(9 156)	(27 190)	(7 319)	(24 567)
Bank Guarantee Fund fee	(43 162)	(336 946)	(20 530)	(434 164)
Financial supervision authority fee (KNF)	(804)	(19 073)	(223)	(25 240)
Tax on certain financial institutions	(168 547)	(494 896)	(145 579)	(442 863)
Total	(419 035)	(1 504 756)	(403 004)	(1 602 413)
Total administrative expenses	(878 213)	(3 071 447)	(905 268)	(3 170 529)

From 1 January 2017 new rules for making contributions to Bank Guarantee Fund (hereinafter 'BGF'), defined in the Act of 10 June 2016 on Bank Guarantee Fund, deposit guarantee schemes and resolution of banks (hereinafter 'BGF Act'), have to be applied.

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

Notes to financial statements (cont.)

(in PLN thousand)

As a result of application of the Interpretation IFRIC 21 *Levies* for recognition of the above obligations, the costs of quarterly contribution to deposit guarantee fund of banks in the amount of PLN 126 560 thousand for the 3 quarters of 2020 (for the 3 quarters of 2019 - PLN 61 725 thousand) and the costs of annual contribution to resolution fund of banks in the amount of PLN 210 386 thousand (PLN 372 439 thousand in 2019).

17. Depreciation and amortization

	III QUARTER 2020	3 QUARTERS 2020	III QUARTER 2019	3 QUARTERS 2019
Property, plant and equipment	(77 040)	(228 683)	(73 857)	(226 298)
Investment property	-	-	(81)	(227)
Intangible assets	(62 343)	(168 939)	(49 640)	(152 276)
Total	(139 383)	(397 622)	(123 578)	(378 801)

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

	III QUARTER 2020	3 QUARTERS 2020	III QUARTER 2019	3 QUARTERS 2019
INCOME STATEMENT				
Current tax	(234 696)	(785 750)	(235 737)	(686 522)
Current tax charge in the income statement	(234 573)	(780 131)	(235 713)	(681 740)
Adjustments related to the current tax from previous years	-	(4 975)	2	(4 423)
Other taxes (e.g. withholding tax)	(123)	(644)	(26)	(359)
Deferred tax	77 607	334 186	35 408	99 312
Occurrence and reversal of temporary differences	77 607	334 186	35 408	99 312
Tax charge in the consolidated income statement	(157 089)	(451 564)	(200 329)	(587 210)
EQUITY				
Deferred tax	(23 321)	(195 938)	(20 215)	(62 587)
Income and costs disclosed in other comprehensive income:				
revaluation of financial instruments - cash flows hedges	(823)	(102 262)	(11 277)	(28 770)
fair value revaluation through other comprehensive income	(23 747)	(92 902)	(10 419)	(32 000)
Tax on items that are or may be reclassified subsequently to profit or loss	(24 570)	(195 164)	(21 696)	(60 770)
Tax charge on items that will never be reclassified to profit or loss	1 249	(774)	1 481	(1 817)
fair value revaluation through other comprehensive income – equity securities	1 249	(774)	1 481	(1 817)
remeasurements the defined benefit liabilities	-	-	-	-
TOTAL CHARGE	(180 410)	(647 502)	(220 544)	(649 797)

Notes to financial statements (cont.)

(in PLN thousand)

19. Earnings per share

Basic earnings per share

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

	III QUARTER 2020	3 QUARTERS 2020	III QUARTER 2019	3 QUARTERS 2019
Net profit	370 851	916 900	656 214	1 480 661
Weighted average number of ordinary shares in the period	262 470 034	262 470 034	262 470 034	262 470 034
Earnings per share (in PLN per share)	1.41	3.49	2.50	5.64

Diluted earnings per share

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

As at 30 September 2020 and 30 September 2019 here were no diluting instruments in the form of convertible bonds in the Group.

	III QUARTER 2020	3 QUARTERS 2020	III QUARTER 2019	3 QUARTERS 2019
Net profit	370 851	916 900	656 214	1 480 661
Weighted average number of ordinary shares in the period	262 470 034	262 470 034	262 470 034	262 470 034
Weighted average number of ordinary shares for the purpose of calculation of diluted earnings per share	262 470 034	262 470 034	262 470 034	262 470 034
Diluted earnings per share (in PLN per share)	1.41	3.49	2.50	5.64

20. Dividends

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

21. Cash and balances with Central Bank

CASH AND DUE FROM CENTRAL BANK	30.09.2020	31.12.2019
Cash	4 162 124	3 036 985
Current account at Central Bank	1 736 821	2 101 957
Deposits	-	23 914
Gross carrying amount	5 898 945	5 162 856
Impairment allowances	(146)	(174)
Net carrying amount	5 898 799	5 162 682

AMOUNTS DUE TO CENTRAL BANK	30.09.2020	31.12.2019
Term deposits	-	4 550
Total	-	4 550

Notes to financial statements (cont.)

(in PLN thousand)

22. Loans and advances to banks

Loans and advances to banks by product type

	30.09.2020	31.12.2019
Current accounts	215 247	325 704
Interbank placements	497 252	200 840
Loans and advances	25 177	11 536
Cash collaterals	1 219 758	733 093
Reverse repo transactions	317 873	219 153
Cash in transit	89 663	302 298
Total gross amount	2 364 970	1 792 624
Impairment allowances	(2 039)	(1 188)
Total net amount	2 362 931	1 791 436

Loans and advances to banks are measured at amortised cost.

23. Financial assets and liabilities held for trading

Financial assets and liabilities held for trading by product type

	30.09.2020	31.12.2019
FINANCIAL ASSETS		
Debt securities	823 612	1 276 711
Equity securities	3 768	4 953
Total financial assets	827 380	1 281 664
FINANCIAL LIABILITIES		
Debt securities	325 438	184 799
Total financial liabilities	325 438	184 799

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

Debt securities held for trading

	30.09.2020	31.12.2019
FINANCIAL ASSETS		
Debt securities issued by State Treasury	689 688	1 131 733
T - bills	100	-
T - bonds	689 588	1 131 733
Debt securities issued by banks	95 494	13 838
Debt securities issued by business entities	38 430	131 140
Total financial assets	823 612	1 276 711
FINANCIAL LIABILITIES		
Debt securities issued by State Treasury	325 438	184 799
T - bonds	325 438	184 799
Total financial liabilities	325 438	184 799

Notes to financial statements (cont.)

(in PLN thousand)

Equity securities held for trading

	30.09.2020	31.12.2019
Shares	2 764	2 620
Participation units	1 004	2 333
Total	3 768	4 953

24. Derivative financial instruments (held for trading)

Fair value of trading derivatives

30.09.2020	ASSETS	LIABILITIES
Interest rate transactions		
Interest Rate Swaps (IRS)	4 628 218	4 674 352
Forward Rate Agreements (FRA)	965	10 358
Options	7 599	1 568
Other	233	150
Foreign currency and gold transactions		
Cross-Currency Interest Rate Swaps (CIRS)	114 899	66 625
Currency Forward Agreements	153 930	170 361
Currency Swaps (FX-Swap)	207 299	29 889
Options for currency and gold	56 862	54 431
Transactions based on equity securities and stock indexes		
Options	874	874
Other	-	-
Transactions based on commodities and precious metals		
Options	136 531	132 361
Other	28 705	27 913
Total	5 336 115	5 168 882

Notes to financial statements (cont.)

(in PLN thousand)

Fair value of trading derivatives

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

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

25. Loans and advances to customers

Loans and advances to customers by product type

	30.09.2020			TOTAL
	AMORTISED COST	FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	FAIR VALUE THROUGH PROFIT OR LOSS	
Mortgage loans	74 905 881	806 983	17 478	75 730 342
Current accounts	9 474 860	-	-	9 474 860
Operating loans	9 521 466	432 877	20 029	9 974 372
Investment loans	21 633 576	276 103	29 251	21 938 930
Cash loans	13 900 369	-	-	13 900 369
Payment cards receivables	1 020 404	-	-	1 020 404
Factoring	6 312 517	-	-	6 312 517
Other loans and advances	1 614 564	-	132 197	1 746 761
Debt securities	-	-	-	-
Reverse repo transactions	1 934 976	-	-	1 934 976
Cash in transit	123 258	-	-	123 258
Gross carrying amount	140 441 871	1 515 963	198 955	142 156 789
Impairment allowances (*) (**)	(7 066 112)	-	-	(7 066 112)
Carrying amount	133 375 759	1 515 963	198 955	135 090 677

(*) The impairment allowance for loans and advances to customers measured at fair value through other comprehensive income in the amount of PLN 26 949 thousand is included in the 'Revaluation reserve' item and does not reduce the carrying amount of the loan.

(**) Including the provision for legal risk regarding foreign currency mortgage loans in the amount of PLN 72 820 thousand.

Notes to financial statements (cont.)

(in PLN thousand)

Loans and advances to customers by product type

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

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

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

Loans and advances to customers by customer type

	30.09.2020			TOTAL
	AMORTISED COST	FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	FAIR VALUE THROUGH PROFIT OR LOSS	
Corporate	58 532 644	1 515 963	35 015	60 083 622
Individuals	79 007 840	-	132 196	79 140 036
Budget entities	2 901 387	-	31 744	2 933 131
Gross carrying amount	140 441 871	1 515 963	198 955	142 156 789
Impairment allowances (*) (**)	(7 066 112)	-	-	(7 066 112)
Carrying amount	133 375 759	1 515 963	198 955	135 090 677

(*) The impairment allowance for loans and advances to customers measured at fair value through other comprehensive income in the amount of PLN 26 949 thousand is included in the 'Revaluation reserve' item and does not reduce the carrying amount of the loan.

(**) Including the provision for legal risk regarding foreign currency mortgage loans in the amount of PLN 72 820 thousand.

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

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

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

Notes to financial statements (cont.)

(in PLN thousand)

26. Receivables from financial leases

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

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

FINANCE LEASES UNDER IFRS 16	30.09.2020	31.12.2019
Up to 1 year	2 674 799	2 503 384
Between 1 and 2 years	1 990 249	1 757 776
Between 2 and 3 years	1 332 896	1 338 587
Between 3 and 4 years	798 270	732 174
Between 4 and 5 years	444 516	392 005
Over 5 years	528 661	532 296
Total undiscounted lease payments	7 769 391	7 256 222
Unearned interest income	(370 962)	(456 920)
Net investment in the lease	7 398 429	6 799 302
Impairment allowances	(124 514)	(86 363)
Carrying amount	7 273 915	6 712 939

Receivables from financial leases by entity

	30.09.2020	31.12.2019
Loans and advances to banks	75	117
Loans and advances to customers	7 398 354	6 799 185
Gross carrying amount	7 398 429	6 799 302
Impairment allowances	(124 514)	(86 363)
Carrying amount	7 273 915	6 712 939

27. Hedge accounting

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

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

FVH - fair value hedge accounting:

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

CFH - cash flow hedge accounting:

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

Notes to financial statements (cont.)

(in PLN thousand)

Impact of the IBOR reform on hedge accounting

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

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

- CFH CIRS deposits / loans (CHF 613 million transactions based on CHF LIBOR)
- FVH IRS bonds (USD 198 million transactions based on USD LIBOR)

Fair value hedge accounting

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

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

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

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

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

30.09.2020	FVH IRS BONDS – IRS HEDGING DEBT SECURITIES MEASURED AT		TOTAL
	AMORTISED COST	FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	
HEDGING INSTRUMENTS			
Nominal value	200 000	2 355 009	2 555 009
Carrying amount – assets	-	-	-
Carrying amount – liabilities	30 741	168 468	199 209
Balance sheet item in which hedging instrument is reported	Hedging instruments	Hedging instruments	Hedging instruments
Amount of changes in fair value of the hedging instrument in the reporting period used for estimating hedge inefficiency	(13 841)	(43 437)	(57 278)
Amount of hedge ineffectiveness recognized in the income statement 'Result on fair value hedge accounting'	(290)	(579)	(869)
HEDGED ITEM			
Carrying amount – assets	229 785	2 586 596	2 816 381
Accumulated amount of the adjustment to the fair value of the hedged item included in the carrying amount of the hedged item recognized in the balance sheet - assets	27 840	195 088	222 928
Balance sheet item in which hedged item is reported	Hedging instruments	Hedging instruments	Hedging instruments
Change in the value of hedged item used for estimating hedge inefficiency in the reporting period	13 551	42 858	56 409
Accumulated amount of the adjustment to the fair value of the hedged item remaining in the balance sheet for those hedged items for which adjustments of the balance sheet item for adjustment to fair value has been discontinued	-	-	-

Notes to financial statements (cont.)

(in PLN thousand)

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

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

Cash flow hedge accounting

The Group applies:

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

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

Notes to financial statements (cont.)

(in PLN thousand)

Impact of cash flow hedge on balance sheet and financial result

HEDGE IN RELATIONSHIP AS AT 30.09.2020	INTEREST RATE RISK		INTEREST RATE RISK / CURRENCY RISK	
	CFH IRS loans	CFH IRS deposits	CFH CIRS deposits/ loans	CFH FX-Swap deposits/loans
HEDGING INSTRUMENTS				
Nominal value	17 053 299	1 165 155	4 659 608	23 068 100
Carrying amount – assets	920 379	7 328	-	31 334
Carrying amount – liabilities	192	53 021	518 316	209 022
Balance sheet item in which hedging instrument is reported	Hedging instruments	Hedging instruments	Hedging instruments	Hedging instruments
Change in the fair value of the hedging instrument used for estimating hedge ineffectiveness	548 801	(18 725)	10 734	1 438
Gains or losses resulting from hedging, recognized in other comprehensive income	-	-	-	-
Amount of hedge ineffectiveness recognized in the income statement in item 'Result on financial assets and liabilities measured at fair value through profit or loss'	2 805	-	-	4
Amount transferred from the revaluation reserves due to cash flow hedge accounting to the income statement as a reclassification adjustment	-	-	-	-
Income statement item in which reclassification adjustment is reported	Result on financial assets and liabilities measured at fair value through profit or loss	Result on financial assets and liabilities measured at fair value through profit or loss	Result on financial assets and liabilities measured at fair value through profit or loss	Result on financial assets and liabilities measured at fair value through profit or loss
HEDGED ITEM				
Amount of change in the fair value of a hypothetical derivative representing the hedged item used for estimating the hedge ineffectiveness in the reporting period	(542 626)	18 725	(10 792)	(1 442)
Revaluation reserve due to cash flow hedge accounting for relationships for which hedge accounting will be continued after the end of the reporting period	745 708	(41 053)	(42 903)	3 232
Revaluation reserve due to cash flow hedge accounting for relationships for which hedge accounting is no longer applied	-	-	-	-

Notes to financial statements (cont.)

(in PLN thousand)

Impact of cash flow hedge on balance sheet and financial result

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

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

	3 QUARTERS 2020	3 QUARTERS 2019
Opening balance	126 763	51 540
INTEREST RATE RISK		
Gains or losses resulting from hedging, recognized in other comprehensive income during the reporting period	526 040	106 878
Part of the loss transferred to the income statement due to the lack of expectation of materialization of the hedged item	-	-
INTEREST RATE RISK/CURRENCY RISK		
Gains or losses resulting from hedging, recognized in other comprehensive income during the reporting period	12 181	44 544
Part of the loss transferred to the income statement due to the lack of expectation of materialization of the hedged item	-	-
Closing balance	664 984	202 962

Notes to financial statements (cont.)

(in PLN thousand)

28. Investment (placement) securities

	30.09.2020	31.12.2019
Debt securities measured at amortised cost	22 556 116	14 578 665
Debt securities measured at fair value through other comprehensive income	45 540 160	30 942 999
Equity instruments designated at fair value through other comprehensive income	229 651	225 332
Equity instruments mandatorily measured at fair value through profit or loss	134 217	146 119
Total	68 460 144	45 893 115

Debt securities measured at amortised cost

	30.09.2020	31.12.2019
Securities issued by State Treasury	15 726 272	8 901 451
T-bills	807 255	-
T-bonds	14 919 017	8 901 451
Securities issued by Central Banks	70 480	64 262
Securities issued by banks	1 484 815	-
Securities issued by business entities	2 134 226	2 416 388
Securities issued by local governments	3 140 323	3 196 564
Total	22 556 116	14 578 665
including impairment of assets	(75 521)	(74 993)

Debt securities measured at fair value through other comprehensive income

	30.09.2020	31.12.2019
Securities issued by State Treasury	19 197 396	18 639 761
T-bills	1 337 233	-
T-bonds	17 612 210	18 390 151
Other	247 953	249 610
Securities issued by Central Banks	8 999 951	3 000 508
Securities issued by banks	7 495 413	3 632 368
Securities issued by business entities	7 198 967	2 732 829
Securities issued by local governments	2 648 433	2 937 533
Total	45 540 160	30 942 999
including impairment of assets (*)	(57 808)	(32 671)

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

Equity instruments designated at fair value through other comprehensive income

	30.09.2020	31.12.2019
Shares	229 651	225 332
Total	229 651	225 332

Equity instruments mandatorily measured at fair value through profit or loss

	30.09.2020	31.12.2019
Shares	134 217	125 454
Investment certificates	-	20 665
Total	134 217	146 119

Notes to financial statements (cont.)

(in PLN thousand)

29. Intangible assets

	30.09.2020	31.12.2019
Intangible assets, including:	1 107 174	869 883
research and development expenditures	5 310	4 715
licenses and patents	651 088	467 147
other	146 989	156 963
assets under construction	303 787	241 058
Goodwill	747 648	747 648
Total	1 854 822	1 617 531

The item 'Goodwill' contains:

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

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

The impairment tests are performed by comparing the carrying amount of the CGU, including the goodwill, with the recoverable amount of the CGU. The recoverable amount is estimated on the basis of value in use of the CGU. The value in use is the present, estimated value of the future cash flows for the period of 5 years, taking into account the residual value of the CGU. The residual value of the CGU is calculated based on an extrapolation of cash flows projections beyond the forecast period using the growth rate of 2.0%. The forecasts of the future cash flows are based on the assumptions included the budget for 2020 and financial plan for 2021-2025. To discount the future cash flows, it is applied the discount rate of 8.39%, which includes the risk-free rate and the risk premium.

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

Notes to financial statements (cont.)

(in PLN thousand)

30. Property, plant and equipment

	30.09.2020	31.12.2019
Non-current assets, including:	1 818 748	1 743 300
land and buildings	1 224 276	1 288 838
machinery and equipment	385 643	288 008
transport vehicles	101 108	73 528
other	107 721	92 926
Non-current assets under construction and prepayments	77 188	176 952
Total	1 895 936	1 920 252

In the period from 1 January to 30 September 2020 the Group acquired property, plant and equipment in the amount of PLN 172 254 thousand (in 2019 - PLN 282 607 thousand), while the value of property, plant and equipment sold amounted to PLN 3 811 thousand (in 2019 - PLN 12 149 thousand).

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

Contractual commitments

As at 30 September 2020 the contractual commitments for the acquisition of property, plant and equipment amounted to PLN 72 747 thousand, (as at 31 December 2019 - PLN 39 481 thousand).

31. Assets pledged as security for liabilities

TYPE OF TRANSACTION AS AT 30.09.2020	SECURITY	CARRYING VALUE OF ASSETS PLEDGED AS SECURITY FOR LIABILITIES	NOMINAL VALUE OF ASSETS PLEDGED AS SECURITY FOR LIABILITIES	VALUE OF LIABILITIES SUBJECT TO SECURITY
Repo transactions	bonds	322 632	298 057	322 742
Coverage of Fund for protection of guaranteed assets to the benefit of the Bank Guarantee Fund	bonds	693 624	660 000	-
Coverage of payment commitments to the guarantee fund for the Bank Guarantee Fund	bonds	130 008	127 000	117 092
Coverage of payment commitments to the resolution fund for the Bank Guarantee Fund	bonds	305 255	292 800	267 598
Lombard and technical loan	bonds	5 855 405	5 648 852	-
Other loans	bonds	362 345	352 300	302 888
Debt securities issued	loans, bonds	1 937 393	1 946 101	1 425 891
Coverage of the Guarantee Fund for the Settlement of Stock Exchange Transactions to Central Securities Depository (KDPW)	bonds, cash deposits	42 694	42 694	-
Derivatives	bonds	48 713	47 586	29 840

Notes to financial statements (cont.)

(in PLN thousand)

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

32. Amounts due to other banks

Amounts due to other banks by product type

	30.09.2020	31.12.2019
Current accounts	590 760	408 172
Interbank deposits and other liabilities	294 470	691 719
Loans and advances received	6 085 674	5 194 074
Repo transactions	292 727	218 449
Cash in transit	135 801	26 466
Lease liabilities	303	659
Total	7 399 735	6 539 539

Amounts due to other banks are measured at amortised cost.

Notes to financial statements (cont.)

(in PLN thousand)

33. Amounts due to customers

Amounts due to customers by entity and product type

	30.09.2020	31.12.2019
Amounts due to corporate, including:	65 459 441	54 146 677
current accounts	60 826 525	42 198 847
term deposits and other liabilities	4 632 916	11 947 830
Amounts due to budget entities, including:	13 751 590	10 915 849
current accounts	13 387 896	10 526 619
term deposits and other liabilities	363 694	389 230
Amounts due to individuals, including:	101 884 120	91 900 464
current accounts	81 338 639	57 013 373
term deposits and other liabilities	20 545 481	34 887 091
Repo transactions	30 015	379 792
Cash in transit	248 318	240 407
Lease liabilities	423 620	406 545
Total	181 797 104	157 989 734

Amounts due to customers are measured at amortised cost.

34. Debt securities issued

Debt securities issued by type

	30.09.2020	31.12.2019
Liabilities from bonds	2 355 352	3 361 056
Certificates of deposit	710 858	1 604 344
Mortgage bonds	1 425 486	1 342 437
Total	4 491 696	6 307 837

Amounts debt securities issued are measured at amortised cost.
The Group redeems its own debt securities issued on a timely basis.

Notes to financial statements (cont.)

(in PLN thousand)

35. Subordinated liabilities

Subordinated liabilities by type

TYPE OF TRANSACTION	NOMINAL AMOUNT	CURRENCY	INTEREST RATE	ISSUE DATE	MATURITY DATE	SPECIAL TERMS	BALANCE SHEET VALUE AS AT 30.09.2020
Subordinated bonds	1 250 000	PLN	variable, WIBOR 6M + margin	30.10.2017	29.10.2027	Call option giving the Bank the right of early redemption within 5 years from the issue date, subject to the approval of the PFSA	1 261 712
Subordinated bonds	550 000	PLN	variable, WIBOR 6M + margin	15.10.2018	16.10.2028	Call option giving the Bank the right of early redemption within 5 years from the issue date, subject to the approval of the PFSA	555 781
Subordinated bonds	200 000	PLN	variable, WIBOR 6M + margin	15.10.2018	14.10.2033	Call option giving the Bank the right of early redemption within 10 years from the issue date, subject to the approval of the PFSA	202 334
Subordinated bonds	350 000	PLN	variable, WIBOR 6M + margin	04.06.2019	04.06.2031	Call option giving the Bank the right of early redemption within 12 years from the issue date, subject to the approval of the PFSA	352 271
Subordinated bonds	400 000	PLN	variable, WIBOR 6M + margin	04.12.2019	04.06.2031	Call option giving the Bank the right of early redemption within 12 years from the issue date, subject to the approval of the PFSA	402 595
TOTAL	2 750 000						2 774 693

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

Notes to financial statements (cont.)

(in PLN thousand)

36. Provisions

Changes in provisions in the reporting period

3 QUARTERS 2020	PROVISIONS FOR LITIGATION AND CLAIMS (*)	RESTRUCTURING PROVISION	PROVISIONS FOR DEFINED BENEFIT PLANS	PROVISIONS FOR UNDRAWN CREDIT FACILITIES AND GUARANTEES ISSUED	OTHER PROVISIONS	TOTAL
Opening balance	103 933	18 954	290 269	290 902	48 539	752 597
Provision charges/revaluation	33 019	144 430	16 167	204 185	8 311	406 112
Provision utilization	(13 538)	(71 582)	(24 442)	-	(11 589)	(121 151)
Provision releases	(435)	-	-	(112 951)	(70)	(113 456)
Foreign currency exchange differences	-	-	-	2 235	-	2 235
Other changes	-	-	-	-	-	-
Closing balance	122 979	91 802	281 994	384 371	45 191	926 337
Short term	23 936	91 802	4 011	49 567	228	169 544
Long term	99 043	-	277 983	334 804	44 963	756 793

(*) Including the provision for legal risk regarding foreign currency mortgage loans in CHF in the amount of PLN 31 777 thousand and a provision for early repayments of consumer loans in the amount of PLN 23 124 thousand as at 30 September 2020.

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

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

Provisions for litigation and claims

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

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

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

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

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

Notes to financial statements (cont.)

(in PLN thousand)

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

As at 30 September 2020 the provision regarding early repayment of consumer loans made before the judgment of the CJEU (i.e. before 11 September 2019) amounts to PLN 23.1 million (the change during 2020 concerns the additional provision in the amount of PLN 10 million, which was compensated by the provision utilization of PLN 13.2 million).

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

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

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

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

In addition, with respect to balance sheet exposures as at 30 September 2020, the Group estimated possible future prepayments of these exposures. In accordance with the above, the Group recognized the amount of PLN 9 million in 'Other liabilities' (as at 31 December 2019 - PLN 9.5 million).

Restructuring provision

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

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

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

Provisions for defined benefits plans

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

Other provisions

Other provisions include in particular provisions for other employee benefits.

Notes to financial statements (cont.)

(in PLN thousand)

37. Contingent commitments

Court cases

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

- 1) in the group of liabilities (against the Group):
 - brought by a legal person – lawsuit for payment by virtue of improper performance of an agreement, value of the object of litigation EUR 17 521 646 (which as of 30 September 2020 at mid NBP rate was equivalent to PLN 79 316 987.11), litigation initiation date – 19 July 2018, on 27 May 2019 the Arbitration Court at the Polish Chamber of Commerce passed a sentence dismissing the suit in its entirety, the sentence is legally valid but the plaintiff lodged a complaint with a court of general jurisdiction and demand the sentence to be repealed, in the present factual and legal circumstances the Bank assesses the funds outflow risk as possible,
 - brought by the receiver for a joint stock company in liquidation bankruptcy – lawsuit for payment of compensation for a damage incurred as a result of the Bank's demanding immediate payment of the amounts due in virtue of payment of the price from the credit receivables transfer agreement and conducting debt enforcement collection of the portion of the price remaining for payment by a court enforcement officer, value of the object of litigation PLN 57 450 130 litigation initiation date – 30 April 2015, in the present factual and legal circumstances the Bank assesses the funds outflow risk as possible,
 - brought by a natural person – lawsuit for payment by the Bank of an amount charged by virtue of settlement of financial future or forward transactions, value of the object of litigation PLN 38 916 555.18, litigation initiation date – 2 October 2016, on 6 May 2019 the Regional Court in Warsaw issued a sentence ordering the Bank to pay the amount PLN 3 392 349.18 and as to the remainder the Court dismissed the suit, the sentence is not legally valid, the Bank and the plaintiff appealed against the judgment. In the present factual and legal circumstances regarding the amount awarded by the Circuit Court the Bank assesses the funds outflow risk as probable and in the remaining scope as possible,
 - brought by a beneficiary of warranty – lawsuit for payment of a claim by virtue of the warranty issued by the Bank, value of the object of litigation PLN 32 750 000 litigation initiation date – 14 January 2014, in the present factual and legal circumstances the Bank assesses the funds outflow risk as minor,
 - brought by a natural person – lawsuit for payment of damages by the Bank resulting from improper conduct of a Group entity – former Pekao S.A. Central Brokerage House, the value of the object of litigation is PLN 30 000 000 - the date of the litigation initiation is 16 May 2019. On 7 February 2020 the Regional Court in Warsaw issued a sentence dismissing the suit in its entirety, the sentence is not legally valid. In the present factual and legal circumstances the Bank assesses the funds outflow risk as minor,
- 2) in the group of receivables (brought by the Group):
 - Bank's main intervention lawsuit against the parties of the main lawsuit – the object of the intervention is the demand for payment by virtue of the assignment of receivables securing Bank's liabilities, value of the object of litigation is PLN 321 979 666.87, litigation initiation date – 26 October 2018,
 - Bank's lawsuit for payment against limited debtor by virtue of mortgage collateralizing repayment of the granted credit, value of the object of litigation PLN 132 877 901, litigation initiation date – 21 January 2016,
 - Bank's main intervention lawsuit against the parties of the main lawsuit – the object of the intervention is the demand for payment by virtue of the assignment of receivables securing Bank's liabilities, value of the object of litigation PLN 119 020 334, litigation initiation date – 26 October 2018,
 - Bank's mutual lawsuit for payment of amounts due by virtue of the transfer of receivables, value of the object of litigation PLN 89 977 886, litigation initiation date – 28 February 2013,
 - Bank's main intervention lawsuit against the parties of the main lawsuit – the object of the intervention is the demand to execute (pay) the liabilities purchased by the Bank from one of the defendants against the other defendant, value of the object of litigation PLN 67 432 617.21, litigation initiation date – 23 January 2006.

None of the litigations pending in the period of 9 months of the year 2020 before the court, authority competent for arbitrary proceedings or a body of public administration posed a threat for financial liquidity of the Group.

Notes to financial statements (cont.)

(in PLN thousand)

The Group created provisions for litigations against the Group entities which, according to the legal opinion, are connected with a risk of the funds outflow resulting from the fulfillment of the obligation. The value of the provisions as at 30 September 2020 is PLN 122 979 thousand (PLN 103 933 thousand as at 31 December 2019).

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

Financial commitments granted

Financial commitments granted by entity

	30.09.2020	31.12.2019
Financial commitments granted to:		
banks	557 497	377 742
customers	38 034 977	35 678 506
budget entities	952 363	657 679
Total	39 544 837	36 713 927

Guarantees issued

Guarantees issued by entity

	30.09.2020	31.12.2019
Issued to banks:		
guarantees	1 650 388	1 868 388
confirmed export letters of credit	1 639 085	1 822 039
	11 303	46 349
Issued to customers	10 458 568	10 087 707
guarantees	7 583 172	7 048 690
securities' underwriting guarantees	2 770 588	2 982 379
sureties	104 808	56 638
Issued to budget entities:	1 008 805	682 865
guarantees	36 073	29 070
securities' underwriting guarantees	972 732	653 795
Total	13 117 761	12 638 960

Off-balance sheet commitments received

Off-balance sheet commitments received by entity

	30.09.2020	31.12.2019
Financial received from:		
banks	761 886	1 297 658
customers	-	-
budget entities	-	-
Guarantees received from:	18 703 936	18 071 470
banks	6 469 984	4 896 962
customers	11 166 083	12 159 551
budget entities	1 067 869	1 014 957
Total	19 465 822	19 369 128

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

Notes to financial statements (cont.)

(in PLN thousand)

38. Additional information to the consolidated cash flow statement

Cash and cash equivalents

	30.09.2020	30.09.2019
Cash and amounts due from Central Bank	5 898 799	6 357 556
Loans and receivables from banks with maturity up to 3 months	2 346 104	2 086 116
Cash and Cash equivalents presented in the cash flow statement	8 244 903	8 443 672

Restricted availability cash and cash equivalents as at 30 September 2020 amounted to PLN 1 763 821 thousand (PLN 3 478 846 thousand as at 30 September 2019).

39. Related party transactions

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

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

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

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

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

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

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

Notes to financial statements (cont.)

(in PLN thousand)

Related party transactions

Related party transactions as at 30 September 2020

NAME OF ENTITY	RECEIVABLES FROM LOANS AND PLACEMENTS	SECURITIES	RECEIVABLES FROM REVALUATION OF DERIVATIVES	OTHER RECEIVABLES	LIABILITIES FROM LOANS AND DEPOSITS	LIABILITIES FROM REVALUATION OF DERIVATIVES	OTHER LIABILITIES
PZU S.A. – the Bank's parent entity	10	-	142	3 347	249 314	-	2 215
Entities of PZU S.A. Group excluding of Bank Pekao S.A. Group entities	46 721	-	8 214	9 867	677 503	18	1 158
Key management personnel of the Bank Pekao S.A.	161	-	-	-	3 730	-	-
Total	46 892	-	8 356	13 214	930 547	18	3 373

Related party transactions as at 31 December 2019

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

Notes to financial statements (cont.)

(in PLN thousand)

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

NAME OF ENTITY	INTEREST INCOME	INTERES EXPENSE	FEE AND COMMISSION INCOME	FEE AND COMMISSION EXPENSE	POSITIVE VALUATION OF DERIVATIVES AND OTHER INCOME	NEGATIVE VALUATION OF DERIVATIVES AND OTHER EXPENSES
PZU S.A. – the Bank 's parent entity	(1 198)	(279)	26 629	(379)	236	(3 134)
Entities of PZU S.A. Group excluding of Bank Pekao S.A. Group entities	175	(444)	31 412	(163)	1 658	(11 406)
Key management personnel of the Bank Pekao S.A.	3	(15)	1	-	-	-
Total	(1 020)	(738)	58 042	(542)	1 894	(14 540)

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

NAME OF ENTITY	INTEREST INCOME	INTERES EXPENSE	FEE AND COMMISSION INCOME	FEE AND COMMISSION EXPENSE	POSITIVE VALUATION OF DERIVATIVES AND OTHER INCOME	NEGATIVE VALUATION OF DERIVATIVES AND OTHER EXPENSES
PZU S.A. – the Bank 's parent entity	543	(482)	3 901	(101)	1 281	(369)
Entities of PZU S.A. Group excluding of Bank Pekao S.A. Group entities	471	(1 124)	34 933	(104)	2 151	(15 536)
Key management personnel of the Bank Pekao S.A.	8	(32)	1	-	-	-
Total	1 022	(1 638)	38 835	(205)	3 432	(15 905)

Notes to financial statements (cont.)

(in PLN thousand)

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

NAME OF ENTITY	GRANTED		RECEIVED	
	FINANCIAL	GUARANTEES	FINANCIAL	GUARANTEE
PZU S.A. – the Bank's parent entity	2 675	105 942	-	520 582
Entities of PZU S.A. Group excluding of Bank Pekao S.A. Group entities	1 035	101 942	-	-
Key management personnel of the Bank Pekao S.A.	136	-	-	-
Total	3 846	207 884	-	520 582

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

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

Notes to financial statements (cont.)

(in PLN thousand)

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

	VALUE OF BENEFITS	
	3 QUARTERS 2020	3 QUARTERS 2019
Management Board of the Bank		
Short-term employee benefits (*)	8 320	9 535
Post-employment benefits	242	-
Long-term benefits (**)	675	1 112
Share-based payments (***)	1 930	4 459
Total	11 167	15 106
Supervisory Board of the Bank		
Short-term employee benefits (*)	853	787
Total	853	787

(*) Short-term employee benefits include: base salary, bonuses and other benefits due in next 12 months from the date of the balance sheet.

(**) The item 'Other long-term benefit' includes: provisions for deferred bonus payments.

(***) The value of share-based payments is a part of Personnel Expenses, recognized according to IFRS 2 during the reporting period in the income statement, representing the settlement of fair value of share options and shares, including phantom shares, granted to the Members of the Bank's Management Board.

The Bank's Management Board and Supervisory Board Members did not receive any remuneration from subsidiaries and associates in the period from 1 January to 30 September 2020 and in the period from 1 January to 30 September 2019.

Remuneration expenses of Supervisory Boards and Management Boards of subsidiaries

	VALUE OF BENEFITS	
	3 QUARTERS 2020	3 QUARTERS 2019
Companies' Management Boards		
Short-term employee benefits	10 124	9 819
Post-employment benefits	1 138	1 347
Long-term benefits	1 558	2 039
Paid termination benefits	395	738
Total	13 215	13 943
Companies' Supervisory Boards		
Short-term employee benefits	508	480
Total	508	480

40. Subsequent events

Significant subsequent events are presented in the Note 8.9 'Subsequent events' of the Report on the activities of Bank Pekao S.A. Group for the third quarter of 2020.

Signatures of the Management Board Members

04.11.2020 Date	Leszek Skiba Name/Surname	Vice President of the Management Board managing work of the Management Board Position/Function	Signature
04.11.2020 Date	Jarosław Fuchs Name/Surname	Vice President of the Management Board Position/Function	Signature
04.11.2020 Date	Marcin Gadomski Name/Surname	Vice President of the Management Board Position/Function	Signature
04.11.2020 Date	Krzysztof Kozłowski Name/Surname	Vice President of the Management Board Position/Function	Signature
04.11.2020 Date	Tomasz Kubiak Name/Surname	Vice President of the Management Board Position/Function	Signature
04.11.2020 Date	Grzegorz Olszewski Name/Surname	Vice President of the Management Board Position/Function	Signature
04.11.2020 Date	Tomasz Styczyński Name/Surname	Vice President of the Management Board Position/Function	Signature
04.11.2020 Date	Marek Tomczuk Name/Surname	Vice President of the Management Board Position/Function	Signature
04.11.2020 Date	Magdalena Zmitrowicz Name/Surname	Vice President of the Management Board Position/Function	Signature

Glossary

Glossary

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

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

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

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

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

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

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

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

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

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

EAD – Exposure at Default.

EL – Expected Loss.

Life-time ECL – Lifetime Expected Credit Loss.

CCF – Credit Conversion Factor.

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

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

FVH – fair value hedge accounting.

CFH – cash flow hedge accounting.