

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



Warsaw, May 2020

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



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1 Highlights of Bank Pekao S.A. Group

	1 QUARTER 2020	1 QUARTER 2019	2019	2018
INCOME STATEMENT- SELECTED ITEMS (in PLN million)				
Operating income (*)	2,071.8	1,946.8	8,281.7	7,830.2
Operating costs	(999.6)	(858.7)	(3,537.1)	(3,444.4)
Gross operating profit (*)	1,072.1	1,088.1	4,744.7	4,385.8
Profit before income tax	334.0	436.4	3,002.5	3,047.3
Net profit for the period attributable to equity holders of the Bank	186.9	242.3	2,165.0	2,287.2
PROFITABILITY RATIOS				
Return on average equity (ROE) - nominally	3.2%	4.2%	9.5%	10.2%
Return on average equity (ROE) - linearly adjusted for BGF charges	5.8%	9.1%	9.5%	10.2%
Return on assets (ROA)	0.4%	0.5%	1.1%	1.3%
Net interest margin	2.9%	2.9%	2.9%	2.8%
Cost / income (*)	48.3%	44.1%	42.7%	44.0%
Cost / income excluding restructuring costs (*)	41.6%	44.1%	41.7%	43.3%
Costs of risk	0.83%	0.30%	0.46%	0.36%
STATEMENT OF FINANCIAL POSITION – SELECTED ITEMS (in PLN million)				
Total assets	217,359.8	196,640.0	203,322.9	191,089.8
Customers' financing(**)	154,092.4	143,079.8	151,383.8	140,032.3
Amounts due to customers(***)	166,877.1	150,684.6	157,203.4	149,143.4
Debt securities issued and subordinated liabilities	7,829.0	7,418.1	9,072.3	7,243.3
Equity	23,781.8	23,094.9	23,398.0	22,808.2
STATEMENT OF FINANCIAL POSITION STRUCTURE RATIOS				
Customers' financing(**) / total assets	70.9%	72.8%	74.5%	73.3%
Securities / total assets	17.1%	17.8%	17.8%	15.0%
Deposits(****) / total assets	80.4%	80.4%	81.8%	81.8%
Customers' financing(*) / deposits(****)	88.2%	90.5%	91.0%	89.5%
Equity / total assets	10.9%	11.7%	11.5%	11.9%
Total capital ratio	16.4%	17.1%	17.1%	17.4%
EMPLOYEES AND NETWORK				
Total number of employees	15,889	16,815	15,678	16,714
Number of outlets	797	816	805	818
Number of ATMs	1,640	1,690	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 first quarter 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 first quarter of 2020

2 Highlights of Bank Pekao S.A.

	1 QUARTER 2020	1 QUARTER 2019	2019	2018
INCOME STATEMENT – SELECTED ITEMS				<i>(in PLN million)</i>
Operating income (*)	1,920.0	1,853.2	7,887.0	7,467.3
Operating costs	(927.7)	(771.9)	(3,203.6)	(3,119.0)
Gross operating profit (*)	992.3	1,081.4	4,683.4	4,348.4
Profit before income tax	240.6	440.9	3,015.8	3,020.8
Net profit	113.1	259.3	2,247.5	2,310.6
PROFITABILITY RATIOS				
Return on average equity (ROE) - nominally	2.0%	4.7%	10.2%	10.7%
Return on average equity (ROE) - linearly adjusted for BGF charges	4.7%	9.7%	10.2%	10.7%
Return on assets (ROA)	0.2%	0.6%	1.2%	1.3%
Net interest margin	2.9%	2.9%	2.9%	2.8%
Cost / income (*)	48.3%	41.6%	40.6%	41.7%
Cost / income excluding restructuring costs (*)	41.1%	41.6%	39.5%	41.1%
Costs of risk	0.92%	0.29%	0.43%	0.36%
STATEMENT OF FINANCIAL POSITION – SELECTED ITEMS				<i>(in PLN million)</i>
Total assets	209,065.3	189,494.1	194,650.0	184,347.2
Customers' financing (**)	144,630.9	135,706.7	142,146.0	133,085.1
Amounts due to customers (***)	167,535.4	151,301.8	157,750.4	149,784.4
Debt securities issued and subordinated liabilities	4,149.2	3,910.7	4,368.8	3,745.1
Equity	22,837.0	22,126.9	22,526.7	21,821.9
STATEMENT OF FINANCIAL POSITION STRUCTURE RATIOS				
Customers' financing (**)/ total assets	69.2%	71.6%	73.0%	72.2%
Securities / total assets	18.0%	18.4%	18.6%	15.5%
Deposits (****) / total assets	82.1%	81.9%	83.3%	83.3%
Customers' financing (*) / deposits (****)	84.2%	87.4%	87.7%	86.7%
Equity / total assets	10.9%	11.7%	11.6%	11.8%
Total capital ratio	18.1%	18.4%	18.7%	18.7%
EMPLOYEES AND NETWORK				
Total number of employees	13,843	14,591	13,779	14,569
Total number of outlets	797	816	805	818
Number of ATMs	1,640	1,690	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 first quarter 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 first quarter of 2020 amounted to PLN 186.9 million and on comparable basis^(*) increased by 12.5% y/y, mainly thanks to the dynamic development of commercial results and strict control of operating costs. Nominal net profit was lower by 22.9% y/y, mainly due to the creation of provisions for FTEs restructuring (PLN 120 million) and network restructuring (PLN 24 million) and also higher write-offs for impairment of financial assets, related to the COVID-19 coronavirus pandemic (about PLN 200 million).

Thanks to Group's commercial activities expressed in the growth of customers' financing by 7.7% y/y, as well as amounts due to customers by 10.7% (of which retail deposits by 13.3% y/y) total assets exceeded the level of PLN 217 billion.

The Group maintained the solid capital base (TCR amounted to 16.4% as at the end of March 2020) and the safe liquidity profile reflected by net loans to deposits ratio at 88.2%. This, together with high level of capital, enables for further solid and stable development of the Group's activities.

Main P&L items

In the first quarter of 2020, the Group's operating income amounted to PLN 2,071.8 million and was higher by 6.4% in comparison with the first quarter of 2019 mainly thanks to the acceleration of the dynamics of core revenues (an increase by 7.3% y/y). The dynamics of commercial income, which includes income from the Group's products offered in the Bank's network amounted to 11% y/y, compensating the decrease in net other operating income and expenses.

- Net interest income in the first quarter of 2020, amounted to PLN 1,428.3 million and was higher by PLN 127.9 million, i.e. 9.8% compared to the first quarter of 2019, mainly driven by higher volumes of loans and deposits as well as higher margin. Positive dynamics of commercial activities allowed to compensate the effect of a drop in interest rates on the bonds portfolio.
- The Group's net fee and commission income in the first quarter of 2020, amounted to PLN 614.4 million and was higher by PLN 10.8 million, i.e. 1.8% compared to the first quarter of 2019, mainly due to higher commission on margins on foreign exchange transactions with clients related to the increase in the volume of transactions in all business segments and higher commissions from brokerage and others.
- Other income In the first quarter of 2020, amounted to PLN 29.1 million and was lower by PLN 13.7 million as compared to the first quarter of 2019, which was due to a decrease in the valuation of shares in VISA Inc., provision for the branches liquidation and donations to hospitals for financial support in relation to the COVID-19 pandemic.

In the first quarter of 2020 the operating costs amounted to PLN 999.6 million and excluding the costs of restructuring provision were higher by 0.7% y/y, significantly below inflation and despite the costs of investments in operational transformation and digitization and additional costs associated with the coronavirus pandemic. Nominal costs were higher by PLN 140.9 million, i.e. 16.4% compared to the costs achieved in the first quarter of 2019, mainly due to the cost of FTEs restructuring provision and network restructuring provision in the amount of PLN 134.6 million.

^(*) Excluding provisions for FTEs restructuring (PLN 120 million gross) and network restructuring (PLN 24.4 million gross, including PLN 9.8 million in other operating income and PLN 14.6 million in administrative expenses), impairment losses on financial assets related to the COVID-19 coronavirus pandemic (about PLN 200 million gross), and Bank Guarantee Fund (BGF) fee.

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The Group's net impairment losses on financial assets and off-balance sheet commitments amounted to PLN 330.9 million in the first quarter of 2020, an increase of PLN 221.3 million, i.e. over 100% as compared the first quarter of 2019, due to the creation of impairment related to the COVID-19 virus pandemic in accordance with IFRS 9. The impairment was calculated based on the forecasted worsening of credit risk parameters of the loan portfolio in the amount of about PLN 200 million and was estimated based on macroeconomic scenarios.

Bank Guarantee Fund fee in the first quarter of 2020 amounted to PLN 250.7 million, and were lower of PLN 142.5 million as compared the first quarter of 2019.

Tax on certain financial institutions in the first quarter of 2020 amounted to PLN 156.5 million and was higher by PLN 7.6 million, i.e. 5.1% as compared the first quarter of 2019, due to an increase in Group's assets by 10.5%.

Volumes

As at the end of March 2020, loans and advances at nominal value amounted to PLN 159,594.8 million, an increase of PLN 11,483.3 million, i.e. 7.8% in comparison to the end of March 2019. The volume of retail loans grew by 7.7% y/y thanks to dynamic growth of PLN mortgage loans by 9.2% y/y. The volume of corporate loans including non-treasury debt securities grew by 7.8% y/y thanks to strong dynamics in the medium-sized enterprise segment (15.7% y/y) and significant increasing leasing receivables.

As at the end of March 2020, amounts due to the Group's customers and debt securities issued amounted to PLN 174,706.1 million, an increase of PLN 16,603.4 million, i.e. 10.5% in comparison to the end of March 2019, with volume of corporate growing by 6.9% and retail deposits growing by 13.3% 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 16,663.1 million as at the end of March 2020, an decrease of PLN 3,370.4 million, i.e. 16.8% in comparison to the end of March 2019. The decrease occurred mainly in March and was caused by a pandemic situation in the country and abroad.

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.

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.

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.

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Strategy execution key financial ratios

The Bank Pekao S.A. Group consistently implements the strategy adopted for 2018-2020 "Strength of the Polish Bison" based on four pillars: Leader of smart growth, Expert in efficiency and quality, Integrated risk management expert and Employer for the best talents. The aspirations outlined in the strategy are reflected in ambitious financial goals, in particular return on average equity (ROE) and the cost / income ratio.

In the first quarter of 2020, the Bank remained on the path leading to the realization of the strategic targets set for 2020.

In the first quarter of 2020, return on average capital (ROE) in comparable conditions amounted to 10.5%.

In the first quarter of 2020 the cost / income ratio, excluding the costs of restructuring provision amounted to 41.6% and was by 2.5 pp lower y/y, approaching the strategic goal of 40% set for 2020.

The table below presents key financial ratios against the Strategy's goals:

	1 QUARTER 2020	2019	2018	STRATEGIC GOAL ON 2020 (BEFORE COVID-19)
Growth of customers' financing	8%	8%	6%	7-8%
Growth of commercial revenues	11%	12%	10%	10%
Dynamic of operating costs ^(*)	0.7%	1.4%	2.3%	below inflation
Cost / income ^(*)	41.6%	41.7%	43.3%	~ 40%
Cost of risk ^(*)	0.33%	0.43%	0.36%	~ 0.50%
Return on average equity (ROE) ^(*)	10.5%	10.1%	10.2%	11%-12%

^(*) On comparable basis

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 proposed so-called "credit holidays" to help the most vulnerable borrowers by temporarily deferring instalments' payments.

On the basis of published results and current reports, we expect that the performance of banks in the first quarter of 2020, as well as in the whole year, will be significantly lower compared to the previous year. This will be mainly due to additional write-downs resulting from the deterioration of the macroeconomic environment and its impact on the financial situation of households and companies, as well as a drop in interest rates in Poland.

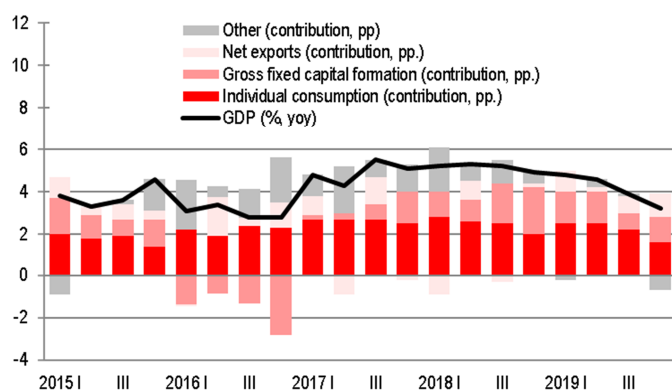
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Economic growth

Economic growth moderated from 3.9% year on year in the third quarter of 2019 to 3.2% year on year in the fourth quarter, recording the slowest annual growth since the fourth quarter of 2016. Seasonally adjusted data point to Gross Domestic Product (GDP) growth slowing to 0.3% qoq from 1.2% qoq posted in the previous quarter. Domestic demand advanced by 2.2% year on year as compared with 3.3% year on year increase in the previous quarter, while positive contribution of foreign trade amounted to 1.1 p.p. Despite robust increase in labour income and social transfers, household's consumption growth slowed to 3.3% yoy (the softest reading since the second quarter of 2016). Consumer confidence deteriorated vs. the third quarter of 2019. In the final quarter of last year fixed investment growth was similar to the pace observed in the third quarter of 2019. Gross fixed capital formation jumped up by 4.9% year on year after increasing by 4.7% year on year in the third quarter of 2019.

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 first signs of recovery are to be visible only at the beginning of 2012. Economic recovery is likely to be "U-shaped".

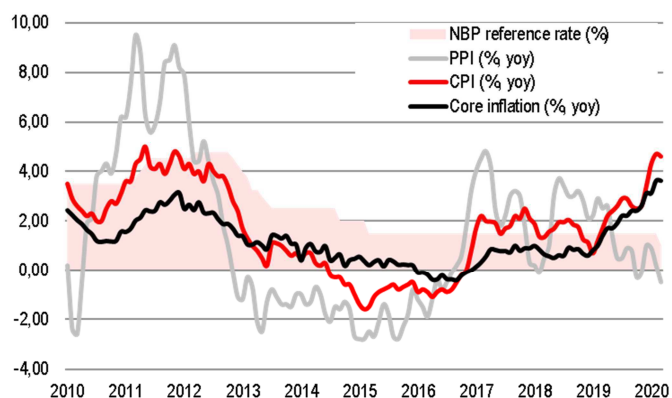


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Inflation and monetary policy

In February 2020 CPI inflation increased to 4.7% year on year, reaching the highest level in eight years. In March inflation moderated to 4.6% year on year and for the fourth month in a row was running above the upper bound of permissible deviations from the National Bank of Poland (NBP) target (2.5%, +/- 1 percentage point). In March annual price growth was mainly driven by higher prices of food (8.6% year on year) and costs linked to housing (5.9% year on year) that contributed 1.97 p.p. and 1.42 p.p. respectively to CPI growth.

In response to deteriorating economic outlook and the risk of recession linked to COVID-19 epidemic at the extraordinary meeting on March 17 the Monetary Policy Council cut the reference rate by 0.50 b.p., delivering the first change to policy rate in five years. Policymakers also cut the obligatory reserve ratio from 3.5% to 0.5% and increased the interest on obligatory reserves from 0.5% to the level of the reference rate. On the top of those policy actions the central bank deployed the programme of T-bonds purchases on the secondary market, repo operations supporting banking sector liquidity and offers refinancing bill discount credit aimed at refinancing loans granted to enterprises by banks. At the end of March 2020 the NBP reference rate stood at 1.00%, the deposit rate at 0.50% and the lombard rate at 1.50%.



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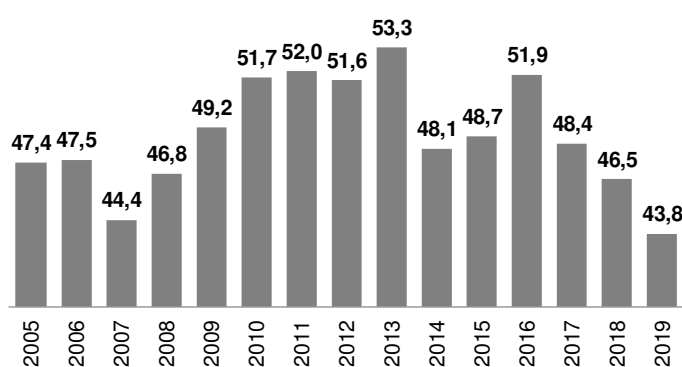
Fiscal policy

According to the preliminary estimates after March the state budget (cash basis) posted a PLN 9.4 billion deficit, while the budget act assumes revenues and expenditures to be balanced in 2020. Budget revenues amounted to PLN 96.2 billion and were PLN 5.9 billion higher than in the corresponding period of 2019, whereas budget expenditures totaled PLN 105.6 billion and were PLN 10.8 billion higher than in the first quarter of 2019. VAT tax collections were 5.5% higher than in the first three months of 2019 and proceeds from excise duty went up by 6.5% year on year. The first quarter of 2020 brought declines in revenues from direct taxes – corporate income tax (CIT) receipts fell by 6.6% year on year; revenues from personal income tax declined by 1.1% year on year. Substantial increase in budget spending was to a large extent a consequence of higher subsidies to the local governments and the Social Security Fund (FUS).

According to the Central Statistical Office (GUS) fiscal notification in 2019 the general government deficit increased to 0.7% of GDP from 0.2% of GDP in 2018. Estimates are of preliminary nature and might be amended later on.

At the end of 2019 the state public debt reached PLN 990.9 billion and was PLN 6.6 billion higher than at the end of 2018. Domestic debt rose by PLN 27.9 billion last year, while foreign debt declined by PLN 21.3 billion. In relation to GDP the state public debt went down to 43.8% in 2019 from 46.5% in 2018. The general government debt reached PLN 1 045.1 billion i.e. 46.1% of GDP at the end of 2019.

■ State public debt, % of GDP

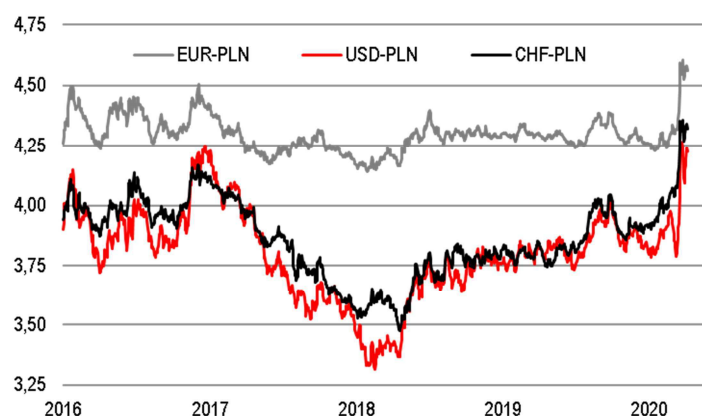


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The exchange rate

There was no indication at the beginning of 2020 of the risk of rapid and adverse changes across financial markets, which occurred in late February and still prevailed. An outbreak of the COVID-19 epidemic and fears of its negative effects for global economy sparked panic markets' reactions. As a result, in just a few weeks, the main stock indices fell sharply in line with an oil prices' decline due to concerns about global recession. A volatility across FX markets rose clearly and EUR-USD range widened to 1.0650-1.1500 in March. Capital flight towards the dollar due to so-called liquidity crisis, slowed down after main central banks' actions to support the economy and financial markets. Policy interest rates were cut sharply to an all-time low and massive monetary easing and fiscal plans were launched. At volatile market the balance of 1Q20 was positive for the greenback, the Swiss franc and the Japanese yen - currencies known as a "safe havens". The euro fell some 2.4%, 2.5% and 2.7%, respectively, against them in that period. EUR-USD is likely to hover within a wide consolidation range of 1.08-1.12 awaiting the end of an economic "lockdown" if a pandemic halts.

Given a sharp decline of risky assets since mid-February 2020, the weakening of the zloty to 4.33/EUR by the end of the first decade of March was only modest. However, the following days brought a significant increase in global risk aversion and capital outflows from emerging markets, what affected the PLN and its long-term prospects. The exchange rate set its weakest level since 2009 (4.63/EUR) in the second half of March and trimmed only a small portion of losses by the end of the month. In the first quarter, the zloty lost about 9% against the USD and the CHF and some 6.5% against the EUR. In a volatile environment, the Hungarian forint and the Czech koruna also recorded solid declines of 11-12% against the greenback. The zloty is currently under pressure for further weakening with targets above 4.65/EUR if global recession and in Poland proves to be deeper. Domestic factors, including fiscal and monetary measures, should be less important for the zloty in the near future. Better outlook for the emerging markets' currencies, including the PLN, would require a visible improvement of epidemiological situation and, as a consequence, maintaining an optimism across global market.



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Banking sector

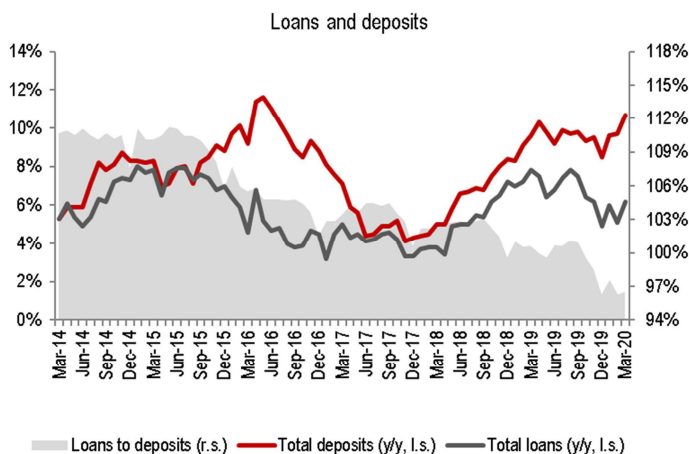
According to the Financial Supervision Authority (KNF) data, in the period of January-February 2020 net profit of the banking sector amounted to PLN 1.8 billion and increased by 59% in comparison to corresponding period of 2019. However, these results are not representative as they do not take into account the impact of COVID-19 epidemic, noticeable from March.

Total net operating income of banks in described period grew by 4.4% year on year. Two key components recorded positive trends, with net interest income growing by 6.8% year on year and net fees and commission income by 11.1% year on year. Worse outcome was recorded only in other income lines (-24.6% year on year). Operating costs (together with depreciation and amortization) remained relatively stable (-0.3% year on year), however staff costs rose by 0.9% year on year while general administrative expenses fell by 2.2% year on year. Cost of risk turned out 4.4% year on year lower.

At the end of February 2020 total assets of the banking sector amounted to PLN 2,055 billion and increased by 7.1% year on year compared to the end of February 2019. Total receivables from the non-financial sector increased by 4.8% year on year and total deposits from this sector increased by 10% year on year.

According to the National Bank of Poland (NBP), at the end of March 2020 the nominal volume of households' loans increased by 6.9% year on year compared to year before. The pace increased slightly vs. end of 2019 (6.0% year on year). In terms of enterprises the growth had slowed down considerably in last couple of months and after March amounted to 3.5% year on year (1.2% year on year at the end of 2019).

Bank deposits grow at high pace. After March 2020 the pace reached +9.4% year on year in case of households (9.5% year on year at the end of 2019), while in case of enterprises +18.1% year on year (vs. +10.0% year on year after 2019). While for retail segment this has been a trend visible for a while now, the enterprises segment growth accelerated visibly during last couple of months.



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

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

5.2 Changes in the Group's structure

Planned sale of the organised part of the enterprise of Pekao Investment Banking S.A.

It is planned to sell the organised part of the enterprise of Pekao Investment Banking S.A. related to provision of brokerage services to the Bank's organizational unit - Dom Maklerski Pekao. Other operations of Pekao Investment Banking S.A. connected with offering of investment banking services will remain in the Company.

Change of the name of a subsidiary

On January 17, 2020, the Registry Court entered in the Register of Entrepreneurs of the National Court Register a 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 December 19, 2019, consisting in the change of the company, which currently is Pekao Direct limited 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.

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 FIRST QUARTER OF 2020	31 MARCH, 2020	AS AT THE DATE OF SUBMITTING THE REPORT FOR 2019
Grzegorz Janas Chairman of the Supervisory Board	Paweł Surówka Chairman of the Supervisory Board	Paweł Surówka Chairman of the Supervisory Board
Joanna Dynysiuk Deputy Chairman of the Supervisory Board	Joanna Dynysiuk Deputy Chairman of the Supervisory Board	Joanna Dynysiuk (maiden name Błaszczuk) Deputy Chairman of the Supervisory Board
Stanisław Ryszard Kaczoruk Deputy Chairman of the Supervisory Board	Stanisław Ryszard Kaczoruk Deputy Chairman of the Supervisory Board	Stanisław Ryszard Kaczoruk Deputy Chairman of the Supervisory Board
Paweł Stopczyński Secretary of the Supervisory Board	Paweł Stopczyński Secretary of the Supervisory Board	Paweł Stopczyński 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	Grzegorz Janas Member of the Supervisory Board	Grzegorz Janas Member of the Supervisory Board
Marian Majcher 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

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

Changes in the Bank's Management Board

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. The resignation did not include the reason for its submission. Mr. Marcin Gadomski remains an employee of the Bank.

On 21 April 2020 Mr. Marek Lusztyń 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 Lusztyń 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 Lusztyń 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. 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 (National Court Register) 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 Lusztyń 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 Lusztyń 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. 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.

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

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 FIRST QUARTER OF 2020	31 MARCH, 2020	AS AT THE DATE OF SUBMITTING THE REPORT FOR 2019
Leszek Skiba Vice President of the Management Board managing the work of the Bank's Management Board	Marek Lusztyń President of the Management Board	Marek Lusztyń President of the 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
Krzysztof Kozłowski Vice President of the Management Board	Marcin Gadomski Vice President of the Management Board	Marcin Gadomski 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
Marek Lusztyń Vice President of the Management Board	Tomasz Styczyński Vice President of the Management Board	Tomasz Styczyński Vice President of the Management Board
Grzegorz Olszewski Vice President of the Management Board	Marek Tomczuk Vice President of the Management Board	Marek Tomczuk Vice President of the Management Board
Tomasz Styczyński Vice President of the Management Board	Magdalena Zmitrowicz Vice President of the Management Board	Magdalena Zmitrowicz Vice President of the Management Board
Marek Tomczuk Vice President of the Management Board	Grzegorz Olszewski Member of the Management Board	Grzegorz Olszewski Member of the Management Board
Magdalena Zmitrowicz Vice President of the Management Board		

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.

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



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.



Krzysztof Kozłowski
Vice President of the Management Board

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

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



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.

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.



MAREK LUSZTYN
Vice President of the
Management Board
supervising the Risk
Management Division

For 20 years professionally associated with the Bank Pekao S.A. Group, from November 2019 to April 2020 as the President of the Bank's Management Board.

Till June 2017, he worked in Unicredit SpA (Milan) as a Senior Vice President, with a global responsibility for market and traded credit risk management and a member of Unicredit Corporate and Investment Banking Markets; Executive Committee, in charge of risk management.

From 2010 to 2013, he worked in Unicredit Bank AG (formerly Hypovereinsbank) in Munich, supervising market, counterparty credit and operational risks management. In years 2008 to 2010, he worked in the Unicredit Group in London, where he was responsible for the methodology and market risk infrastructure for the entire Unicredit Group. Previously, from 2000 to 2008, he acted as Director of Market Risk Unit and later Managing Director of Financial Risk Department in Bank Pekao S.A.

For 8 years he has been a Member and Secretary of the Supervisory Board of Pekao Central Brokerage House - CDM Pekao S.A.

He holds Ph.D. in Economics from SGH Warsaw School of Economics, and he is also an alumnus of University of Illinois (Executive MBA) and INSEAD. In 2014 he was named the Future Leader in Global Finance by the Institute of International Finance. Since September 2019, he has been appointed by the Senate of the Warsaw School of Economics as a member of the first University Council, as a representative of the SGH WSE Partner Club.

Marek Lusztyn meets suitability requirements determined in art. 22aa of the Banking Law Act.

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



**GRZEGORZ
OLSZEWSKI**
Vice President of the
Management Board,
supervising the
Technology and
Operations Division

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. He is currently serving as Vice President of the Management Board supervising the Technology and Operations Division, and being responsible for robotization and automation of banking operations. He's also 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. From April 2019, he supervised Investment and Insurance Products Management Division.

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 High School of Management (currently the Vistula Academy of Finance and Business in Warsaw) in the Faculty of Finance Management and holds Bachelor of Arts (B.A.) degree in Finance at the 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.

He graduated from the Faculty of Finance and Banking and the Faculty of Management and Marketing of the Cracow University of Economics. He participated in a number of domestic and foreign trainings in management, banking and finance.

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

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



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

He started his 20-year career in the banking sector at Bank Handlowy w Warszawie S.A. (Citigroup). Currently, as the Vice President of the Management Board of Bank Pekao S.A. oversees the Retail Banking Division. During several years he was holding managerial positions at Kredyt Bank S.A. (KBC Group), Bank Zachodni WBK S.A. (Santander Group) and Raiffeisen Bank Polska S.A. (Raiffeisen Bank International AG Group).

He sits as the Chairman of the Supervisory Board of Pekao Direct Sp. z o.o., Biuro Informacji Kredytowej S.A. and is a member of the Supervisory Board of Pekao Bank Hipoteczny S.A.

Marek Tomczuk graduated from the Department 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 was appointed a member of the management board in December 2018. In 2018 she started work in Bank Pekao S.A. as Managing Director in Corporate Banking Department. She started her professional career in 1999 in Bank Handlowy w Warszawie S.A. in Retail Banking Sector. She continued in Corporate Banking division, taking on various leadership roles in the lender's regional structures. These included a position of Head of Sales for Northern Region and Head of Public Sector for Regions in the Department of Public Sector.

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 clients and international corporations.

She graduated from the Faculty of Social Sciences at the University of Gdańsk and post-graduate studies at the Faculty of Management at the University of Gdańsk. She completed many trainings in the country and abroad, 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 fulfills suitability requirements determined in art. 22aa of Banking Law Act.

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

5.4 The Bank's share capital and share ownership structure

As at 31 March, 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 FIRST QUARTER OF 2020		AS AT THE DATE OF SUBMITTING THE REPORT FOR 2019	
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 Powszechno Towarzystwo Emerytalne Aviva Santander S.A.	13,281,544	5.06%	-	-
Nationale-Nederlanden Powszechno Towarzystwo Emerytalne S.A.	13,201,655	5.03%	13,201,655	5.03%
BlackRock, Inc.	-	-	13,129,549	5.00%
Other shareholders (below 5%)	149,896,662	57.11%	150,048,657	57.17%
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.

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 Powszechno Towarzystwo Emerytalne S.A. (NN PTE) regarding the change 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 January 24th, 2020:

Report on the activities of Bank Pekao S.A. Group for the first quarter of 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 first 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 31 March, 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.

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

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 capitalization 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.

5.5.2 Pekao Bank Hipoteczny S.A. financial credibility ratings

As at the end of March 2020, mortgage bonds issued by Pekao Bank Hipoteczny S.A., a 100% subsidiary of Bank Pekao S.A., had an "A-" rating by the Fitch. A high rating of letters means that Pekao Bank Hipoteczny S.A. has the ability to issue securities with a very high level of security and obtain long-term funds for lending.

On April 14, 2020, the Fitch announced that the long-term rating for Pekao Bank Hipoteczny S.A. was maintained at BBB + and at the same time changed the perspective from 'Stable' to 'Negative'.

On April 20, 2020, the Fitch announced a change from 'Stable' to 'Negative' rating outlook issued by Pekao Bank Hipoteczny S.A. mortgage covered bonds, while maintaining their rating at "A-".

The Fitch informs that the change in rating outlook issued by Pekao Bank Hipoteczny S.A. mortgage covered bonds is a consequence of the change in rating outlook resulting from the impact of the COVID-19 pandemic on current financial and business conditions in Poland.

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

5.6 Achievements of Bank and Bank Pekao S.A. Group

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.

	31.03.2020	31.03.2019
Total number of outlets	797	816
own outlets	729	739
partner branches	68	77
Total number of own ATMs	1,640	1,690

The number of accounts

As at the end of March 2020, the Bank maintained 6,290.7 thousand PLN-denominated current accounts, 396.4 thousand mortgage loan accounts and 720.4 thousand "Pożyczka Ekspresowa" (Express Loan) loan accounts.

(in thousand)

	31.03.2020	31.03.2019
Total number of PLN current accounts (*)	6,290.7	6,021.7
of which packages	4,543.4	4,403.9
Number of mortgage loans accounts (**)	396.4	382.2
of which PLN mortgage loans accounts	365.1	350.1
Number of Pożyczka Ekspresowa loan accounts (***)	720.4	688.3

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

(**) Retail customers accounts.

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

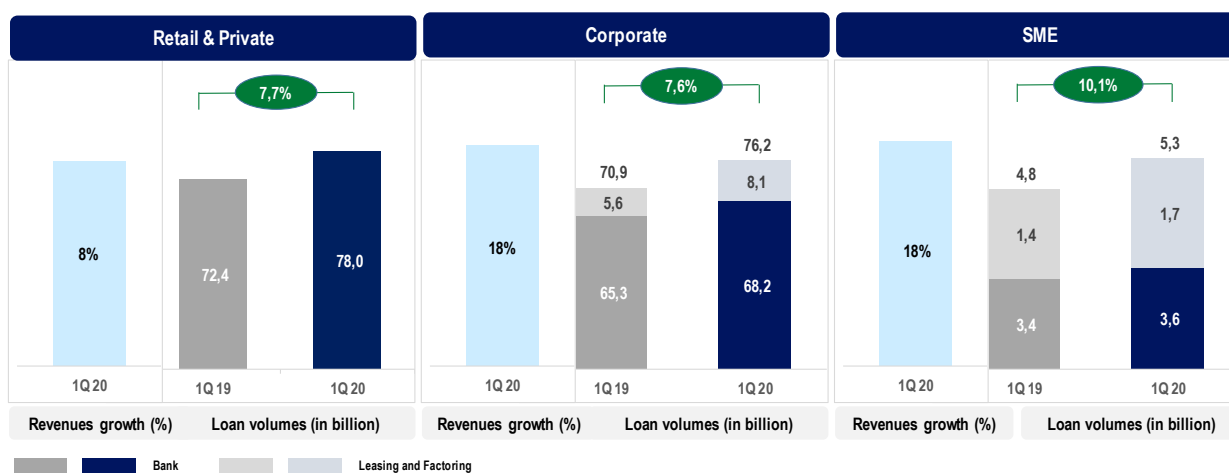
Report on the activities of Bank Pekao S.A. Group for the first quarter of 2020

Business model

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

- **Retail 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 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.

In the first quarter of 2020, the Bank recorded a double-digit growth rate of commercial income at +11%, which includes income from the Group's products offered in the Bank's network achieved in three business areas: Retail and Private Banking (+8%), Small and Medium Banking (+18%) and Corporate Banking (+18%). Results were supported by a dynamic increase in the volume of loans in individual segments and effective acquisition of new customers.



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

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 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 ("Stay at home"), as well as safety rules during a visit to the branch.

As a result, the number of active mobile clients in April increased by + 84 thousand compared to January 2020, as well as significantly increased to 45% the share of new personal accounts, the sale of which was initiated in digital channels (including using an innovative process for "selfie"), and the sale of cash loans in 68% was carried out online (including using the click process). The Pekao Direct Center serviced around 15 thousand a phone calls. The bank has created a special dedicated "Senior Zone" for customers who have not had much contact with the internet or online banking before.

As part of the "7 golden rules", 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 from PLN 50 to PLN 100, without the need for authorization. The increased transaction amount limit was automatically granted to all customers of the Bank using credit and payment cards.

The Bank organized environment for remote work for ~6 thousand employees whose work did not require direct contact with the client or this contact could be maintained through the use of remote or ICT channels. Due to technological possibilities and digitization of processes, a significant part of tasks is performed by employees remotely or in dispersed locations. At the same time, 3.6 thousand employees were involved in training related to COVID-19.

The Bank has accelerated the implementation of advanced digital solutions, digitization and process automation (including the receipt of documents in electronic form), aimed at enabling remote customer service. For individual clients, the Bank has implemented new functionalities for electronic banking "New Pekao24" and the new mobile banking PeoPay 3.0.

The Bank enabled owners of companies from the SME and corporate segment to open a business account remotely, without meeting a consultant in the branch, and the necessary information is sent via electronic channels. Bearing in mind the clients' expectations, the Bank also introduced the possibility of obtaining funds to finance the company in a quick and convenient way ("SMEX in one click") without leaving home.

The Bank accelerated the process of mass use of qualified electronic signatures, which in the future will significantly improve the service of all corporate clients of the Bank.

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. The application process can be carried out in a remote process at Pekao24. Solutions in the form of so-called "Credit holidays" are also available to corporate clients - micro enterprises, SME clients and corporate clients.

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% (from 60%), extending the warranty period from 27 months to 39 months, 0% commission fee on the guarantee payable by 31 December 2020. The Bank also signed a portfolio guarantee agreement with BGK as part of Funduszu Gwarancji Płynnościowych, under which the Bank may grant liquidity loans to medium and large companies up to the limit of PLN 15 billion.

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

The Bank also introduces agreements with the European Investment Fund 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.

As part of government support programs for micro, small and medium enterprises, the bank's clients may submit applications for funding in the "PFR Financial Shield". Customers entitled to receive grants can submit applications via online banking,

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 Individual clients and Private Banking

Strong customer acquisition

In the first quarter of 2020, the Bank continued the program of recommendations "Polecam Przekorzystne", which supported the acquisition of new accounts. The Bank's customers could receive up to PLN 1.5 thousand for successfully recommendation of a bank account to 15 people. Dynamic acquisition of personal accounts contributed to an increase of 125 thousand accounts, +12% compared to the first quarter of 2019. The Bank also maintained a high increase in the volume of retail deposits (+ 13.3% compared to the end of 2019), which was influenced by the attractive offer for new Bank customers, thanks to which they received a bonus of PLN 200 for opening an online Konto Przekorzystne and high interest rates on savings account - 3% per annum for four months. The offer linking the Konto Przekorzystne with savings account took first place in the December Bankier.pl ranking rated the most advantageous offer for a client looking for a cheap personal account along with a highly interest-bearing savings account.

The process of remote opening of a selfie account initiated by the Bank, was very popular among customers, in the first quarter of 2020 every fifth account was established in this way.

The Bank enabled customers to join the loyalty program Bezcenne Chwile organized by Mastercard, as part of which they gain access to the Premium zone with a rich catalog of rewards.

In the first quarter of 2020, the Bank implemented a Smart City solution in Białystok Public Transport. It is a modern payment card acceptance technology that allows to buy tickets without cash, and the card itself entitles you to travel by city bus.

The offer of the Konto Świat Premium was very popular among both new and existing customers. The average monthly sales of new Konto Świat Premium in the first quarter of 2020 were higher by over 20% compared to the average monthly sales in 2019.

In the first quarter of 2020, Pekao Direct serving customers via remote communication channels (telephone, e-mail, SMS, chat, video) made nearly 3.4 million telephone connections and over 56 thousand chat and video connections as part of conversational banking - 4 times more than in the same quarter of the previous year. Pekao Direct supported clients in opening Konto Przekorzystne in a unique selfie process, in the sale of cash loans and mortgages. From the first quarter of 2020, helpline employees also offer leasing services.

Loans

The Bank has prepared a competitive credit offer for new and existing customers, in particular focused on successively increasing availability in "click" processes.

In the first quarter of 2020, sales of loans in electronic processes 'on click' increased steadily, the Bank granted loans in the amount of PLN 269 million, i.e. 12% more than in the corresponding period of 2019. The share of electronic sales in "click" processes in the first quarter of 2020 amounted to 47% of all loan agreements concluded, i.e. an increase of 11 pp compared to the first quarter of 2019.

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

The Bank adjusted the housing loan offer to changing market conditions on an ongoing basis and consistently optimized the processes of granting and servicing housing loans, introducing further improvements. The most important changes include the introduction of a PLN mortgage housing loan for individuals with a fixed interest rate. In addition, the Bank extended the method of sending notifications about the amount of the loan installment and information on the change of interest to customers. In addition to the current traditional postal form, the customer can choose the option of notification via e-mail or through the Pekao24 website.

On the Pekao24 website the option of sending documents regarding insurance policies and life policies without having to visit a Bank branch has been added, and users have been able to conclude a contract for the transfer of rights from a property insurance contract (assignment). In the first quarter of 2020, sales of housing loans amounted to PLN 2.1 billion.

Growth in the area of deposits and development of the offer of investment products

In the first quarter of 2020, retail deposits customers at the Bank increased by PLN 11.6 billion year on year, increase by 13.3%. The most significant impact on the growth were inflows to savings accounts and personal accounts.

In the first quarter of 2020, the Bank continued to promote Konto Oszczędnościowe and Konto Oszczędnościowe Premim with a promotional interest rate of 3.00% per annum for 4 months from account opening. The promotion was addressed to new customers and customers with small savings at the Bank.

In the first quarter of 2020, the Bank introduced new investment products to its offer. The offer of structured products was expanded by 4 new issues: Akumulator USD / PLN, Akumulator EUR / PLN 10, Akumulator EUR / PLN 11 and the product of the new issuer UniCredit Bank AG: Structured Certificate 'Onemarkets Toward Europe' based on the change of EUR / PLN exchange rate. The offer of IKE and IKZE Pekao Programs has been extended by a new fund: 'Pekao Kompas'.

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

Private Banking

In the first quarter of 2020, activities in the area of Private Banking focused on optimizing the organizational structure, effective network management and introducing new solutions for clients.

Intensive work was underway to modify the offer of safe boxes. The service is available only in two banks on the Polish market.

Private Banking customers using the Mastercard have been allowed to join the Mastercard loyalty program Bezcenne Chwile, in which the customers gain access to the Premium zone with an extensive catalog of rewards.

88 new clients were acquired for servicing, the value of investment products purchased amounted to PLN 264 million, while the assets covered by the Investment Consulting service reached PLN 3.1 billion.

As part of the investment offer, the Bank introduced new autocall certificates of external issuers with conditional capital protection based on the company's listing: Anheuser-Busch InBev N.V. (denominated in PLN and USD, issued by UniCredit Bank AG), Swatch Group S.A. (denominated in PLN and USD, issued by UniCredit Bank AG) as well as Porsche Automobil Holding SE (denominated in PLN issued by UniCredit Bank AG). In addition, the offer of investment funds was expanded by a debt sub fund - Pekao Local Government Bonds.

Development in the area of insurance products

In the first 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 to increase the level of insurance associated with credit products. In the first quarter of 2020, the share of PEX cash loans sold with the CPI reached 34% and was +6 p.p. higher than in the same period of the previous year. In the case of mortgage loans, the share of loans sold with the CPI amounted to 77% and was +9 p.p. higher than in the same period of the previous year.

The value of gross written premiums (GWP) due to concluded contracts increased by 20% in the first quarter of 2020 compared to the first quarter of 2019.

In the first quarter of 2020, the Bank continued its cooperation with the PZU Group. As part of assurbanking activities implemented, among others in PZU branches, almost twice as many customers were acquired as compared to the first quarter of 2019.

Acceleration of acquisitions in the segment of business clients (micro-entrepreneurs)

In the first quarter of 2020, the Bank acquired 55% more customers compared to the same period of 2019. The Bank continued the promotion of the next edition of the 3 x 200 PLN Konto Przekorzystne Biznes, under which customers could get a PLN 600 bonus for opening an account, signing a contract for a POS payment terminal and concluding a contract for a credit card or credit, and additionally as part of the promotion for a period of 12 months they will also not bear the costs associated with BLIK deposits at Euronet and PlanetCash deposit machines.

Business clients were offered additional services in the field of professional IT assistance, such as support of an experienced IT specialist in everyday use of the equipment as well as assistance in the installation and selection of computer software.

Customers could use solutions prepared in cooperation with Bank Gospodarstwa Krajowego. Pekao has implemented facilitation for clients from the micro, small and medium enterprises sector in access to financing based on a new agreement with BGK. It increases de minimis guarantees to 80%, reduces the commission and extends the guarantee period for revolving loans to 39 months.

At the end of the first quarter of 2020, due to the economic situation in Poland, the Bank implemented a special SOS assistance package for borrowers injured in a pandemic. Clients who are at risk of losing financial liquidity, have the option of suspending repayment of principal installments and interest loans and investment loans for 3 months, and shifting the repayment date of the overdraft or credit card limit to 3 or 6 months, without changing the other terms of the contract.

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Brokerage activities

Bank Pekao S.A. Group provides clients with broad access to capital market services and products as part of the offer provided by the Brokerage House of Bank Pekao S.A. (Brokerage House) and Xelion DI.

At the end of March 2020, the Brokerage House operated a total of 258.5 thousand of investment accounts, servicing 167.9 thousand accounts with active access to services via remote channels. Direct service to individual clients was carried out as part of a nationwide network comprising a total of 378 outlets providing brokerage services.

The value of the assets of retail clients of the Brokerage House of Bank Pekao S.A. and Xelion DI as at March 31, 2020 amounted to PLN 18.9 billion.

In the first quarter of 2020, activities in the brokerage area focused on customer service on the secondary market, acquiring new investors, development of tools and services as well as product offer, in particular services provided in remote channels.

In the first quarter of 2020, the Brokerage House served:

- Sales of 4 series of Structured Certificates of Deposit as part of the Third Structured Certificates Issue Program issued by Bank Pekao S.A., accepting subscriptions for the total amount of PLN 370.7 million,
- 6 public offers of structured certificates with a capital guarantee and without a capital guarantee issued by UniCredit Bank AG accepting subscriptions for the amount of PLN 44.8 million and USD 1.3 million,
- 3 public offers of Investment Certificates of Closed Investment Funds, in which subscriptions were accepted for a total amount of approximately PLN 49.5 million.

In addition, the Brokerage House performed the function of the Offeror for the issue of PZU FIZ Akord Investment Certificates for the AG, AH and AI series and as part of cooperation with the intermediary entity Pekao Investment Banking S.A. accepted subscriptions in two calls for the sale of shares. In January 2020, the Brokerage House in cooperation with Pekao TFI began distributing participation units of the Pekao Subfund of Local Government Bonds.

In the first quarter of 2020, the Brokerage House of Bank Pekao S.A. was nominated for the ranking: Best Brokerage House of 2019, conducted as part of Invest Cuffs, in which distinguished were entities that have most contributed to the development of the investment market and building the highest quality services.

The Brokerage House, as the Bank's brokerage entity, remains active in the field of initiatives aimed at developing and optimizing the Polish capital market. In March 2020, he was the strategic partner of the Conference of the Chamber of Brokerage Houses, held under the slogan: "Development needs capital - Capital market for infrastructure and innovation". The meeting with representatives of the Warsaw Stock Exchange, the National Depository for Securities, the Polish Financial Supervision Authority and the government as well as brokerage entities, were aimed at summary discussion of the government's Capital Market Development Strategy approved last year. The purpose of the discussion with representatives of the Bank and the Brokerage House was to develop proposals for solutions beneficial for the development of the Polish economy and capital market, whose future depends on the involvement and cooperation of all participants.

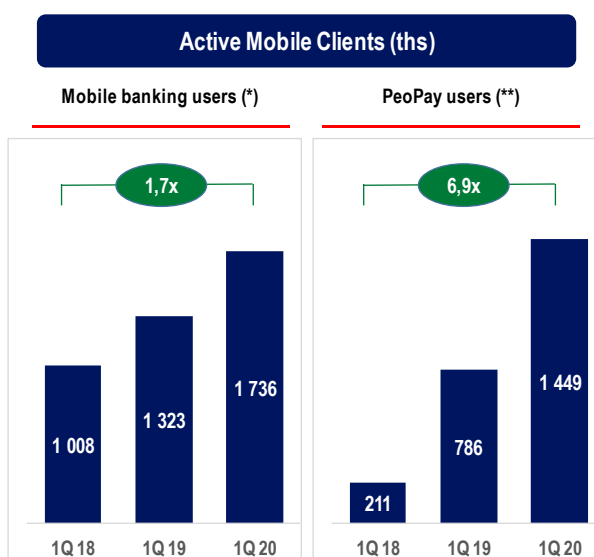
High standards and reliability of customer transaction settlements, performed through the Brokerage House of Bank Pekao S.A. settlements were confirmed by the third place in the "Ranking of clearing member in KDPW_CCP or settlement agent in the scope of organized cash market in 2019" announced by the KDPW Supervision Department in February 2020.

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

Rapid increase in the number of active mobile banking and PeoPay customers

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 first quarter of 2020, the number of active mobile banking customers increased by 58 thousand and was 1.7 times higher than two years ago. The number of active mobile clients using PeoPay is growing even faster, which in the first quarter of 2020 increased by another 78 thousand customers and was almost 7 times higher than 2 years ago.

It also brings effects visible in the sales of bank products in electronic channels. Nearly 22% of new accounts are set up using remote channels, and 47% of cash loans are sold online or through the PeoPay mobile app.



(*) 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.

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

The Bank consistently developed the modern PeoPay mobile application. The application offers a number of innovative solutions, including:

- 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,
- paying for online purchases immediately on your phone without logging in to online banking,
- scanning invoice numbers without having to rewrite invoice numbers to the application,
- paying by phone abroad (or in a foreign online store) directly from the currency account without any additional fees and commissions for currency conversion,
- 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,

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- the user can set the application to display the account balance on the PeoPay main screen without logging in,
- the ability to verify the customer during a conversation with a bank consultant,
- the possibility of depositing and withdrawing cash to their accounts by individual and company account holders,
- possibility of contacting a consultant via text messages (chat). The service is available to logged in users and allows the customer to obtain full information about their products and order instructions,
- the ability to make transfers to a BLIK phone. Ordering transfers using the bank's mobile application directly to a number from the phone book.
- the option of using the Google Assistant in the PeoPay application. The service is available on Android devices,
- wide selection of payment methods: Apple Pay, BLIK, PeoPay payments, Garmin Pay, Fitbit Pay.

As part of the Digital Transformation Project implemented at the Bank, the Bank made available to new customers an electronic version of the electronic banking service - the new Pekao24. The new website is based on responsive technology (RWD - Responsive Web Design), which is characterized by intuitive navigation facilitating the use of the website regardless of the type of device used by the customer. The website has a rich financial analysis module supporting clients in daily financial management, a modern and intuitive interface that allows optimization of transaction processes most often performed by users of electronic banking

In the first quarter of 2020, the Bank consistently developed a new version of the electronic banking website - the new Pekao24. Since the implementation of the new version of the website in the fourth quarter of 2019, the Bank's clients can gradually familiarize themselves with the new version of the website and submit comments and suggestions that are systematically analyzed and adequately to the possibilities provided for implementation.

The most important new products introduced to the new Pekao24 website include:

- making an immediate transfer to another bank, thanks to the introduction of the Express Elixir service,
- free switching between private and company accounts for business customers,
- the option of fully online opening a new account, including currency account, with a new payment card.

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) - based on the international accessibility standard WCAG 2.1 and the Act of on April 4, 2019 on the digital availability of websites and mobile applications of public entities.

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 March 2020 54.6 thousand clients actively used mobile banking. The number of users with access to electronic banking increased by 17 thousand compared to the end of March 2019. 163.8 thousand actively used electronic banking customers.

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

5.6.2 Small and medium enterprises (SME)

In the first quarter of 2020, Bank achieved a double-digit growth rate of commercial revenues in the Banking of Small and Medium Enterprises (+ 18% y/y), which includes income from the Group's products offered in the Bank's network - supported by an increase in the volume of loans by + 10.1% y/y, increased customer acquisition by + 6.3% y/y and an increase in average customer income by + 22.6% y/y.

Small and Medium Enterprises Banking Division handles 43 thousand clients. The service is carried out in 57 dedicated Business Centers, in which customers 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 transactional banking (bills, transfers, cash deposits and withdrawals), enterprise financing supported by EU programs, treasury activity products as well as factoring and leasing.

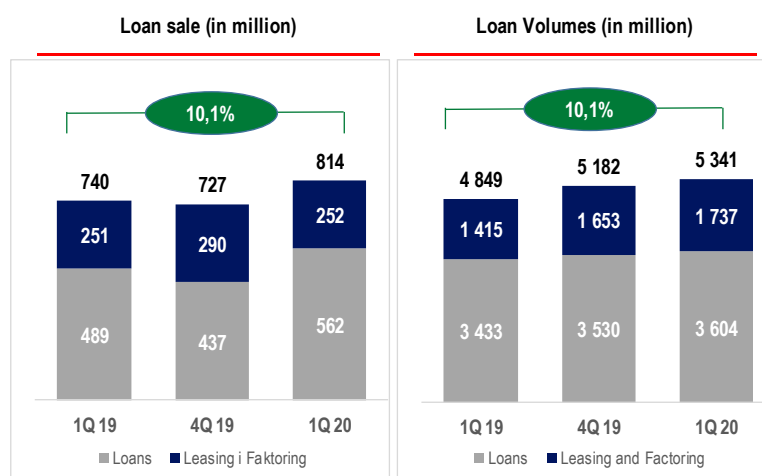
In the first quarter of 2020, the Bank focused on activities aimed at increasing customer satisfaction through further improvement and optimization of key processes, products and services, thanks to which the number of acquired customers increased significantly compared to the first quarter of 2019.

The increase in revenues from strategic cross-sell products, such as treasury products, leasing, factoring and cash management was + 34% y/y.

As part of the Cashless Poland Program, the Bank offers customers payment terminals (POS) on attractive terms. The number of POS terminals issued to SME customers in the first quarter of 2020 was higher by +111% y/y.

The customers of the SME sector have also been provided with a wide range of products in the field of FX Spot transactions and transactions hedging exchange rate risk, which until now were dedicated only to clients of the corporate segment. The volume of FX Spot transactions increased by 24% compared to the first quarter of 2019, the volume of transactions hedging currency risk increased by over 124%. Future currency exchange rate hedging transactions based on cash-forged FX Forward transactions enjoyed increasing popularity, the volume of interest rate hedging transactions increased by over 160% compared to the first quarter of 2019. The treasury product offer has been expanded to include the possibility of purchasing participation units in selected funds managed by Pekao TFI.

In the credit area, processes related to obtaining financing by customers were simplified and accelerated, thanks to which the volume of loans (including leasing and factoring) increased by + 10.1% y/y to the level of PLN 5.3 billion. This was supported by an increase in new sales of + 10.1% y/y.



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

The Office of European Union Funds and the Bank's Public Programs in cooperation with external EU advisory companies also provides financial consultancy and advisory services. Customers receive comprehensive assistance in developing application documents for EU subsidies.

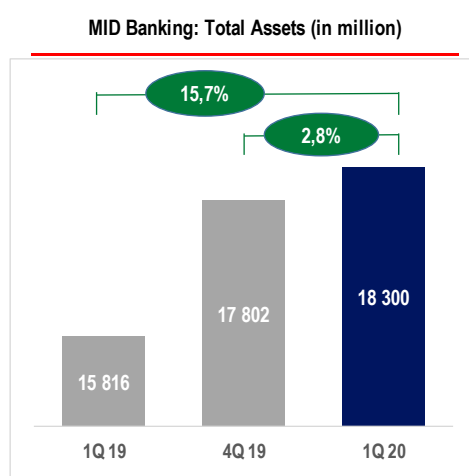
In March 2020, the Bank implemented remote customer service processes using electronic banking and commercially available solutions for electronic signing of documents. These solutions are designed to increase the security of business services, which is crucial from the point of view of maintaining business continuity in many industries. These activities are also part of the overall market trend related with the transfer of business processes throughout the economy to remote channels.

In connection with limiting the negative effects of the COVID-19 pandemic for enterprises, the Bank signed a portfolio agreement with Bank Gospodarstwa Krajowego 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% (from 60%), extending the warranty period from 27 months to 39 months, 0% commission fee on the guarantee payable by 31 December 2020.

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5.6.3 Corporate customers

In the first two months of 2020, in the corporate segment, the Bank continued its increasing dynamics in revenues and volumes. Despite the extraordinary situation, in the first quarter of 2020, the commercial income of Corporate Banking increased by +18% as compared to the first quarter of 2019, mainly due to increases in the segment of medium-sized enterprises (+23% y/y), and a high dynamics in the segment of large enterprises (+23% y/y).



Market position and main directions of activities in Corporate Banking

Bank Pekao S.A. consistently deepens customer relationships and provides customised solutions tailored to the business profile of its clients. It continuously strengthens its market position and remains the first choice bank for corporate clients providing both the comprehensive services of a universal bank and all the other financial services available on the Polish market (including leasing, factoring and investment advisory in, among others, M&A area, 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 determine the strength of corporate banking of Bank Pekao S.A.

Bank Pekao S.A. is 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 12.6 thousand entities, including c.a. 3 thousand foreign clients and over 2.5 thousand local self-government units and municipal companies.

The Bank is available to clients at every stage of their business activity. The Bank supports the financial management processes in production and sales, automation of service processes, finances development and current liquidity as well as provides advisory and funds for investments and international expansion. "Tailor-made" corporate banking solutions of Bank Pekao S.A. are recognized both in Poland and internationally. Specialized expertise and experience in the arrangement and financing of investments, trading in Treasury securities, custodian business and a depository bank, trade finance or real estate finance are the areas of corporate banking appreciated by clients and a group of independent, national and international experts.

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In addition, a new Credit Analysis Department was established within the Corporate Banking, Markets and Investment Banking Division, which is to ensure the highest effectiveness of activities, optimum use of employees' experience and competences, and creation of sales of corporate banking products with priority being given to a prudent approach to risk management expressed by COR (cost of risk) level - in line with the strategy of the Bank.

The significant market position of Corporate Banking is also reflected in the recognition of national and international experts. The Global Finance magazine gave three prestigious awards to Bank Pekao: Best Investment Bank in Central and Eastern Europe for 2020 (for the first time in history), Best Treasury and Cash Management Provider in 2020 and Best Investment Bank in Poland for 2020.

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. The Bank also provides the Pekao Conect 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 key achievements in the area of the Bank's transactional banking in the first quarter of 2020 include:

- processing - within the framework of Pekao Collect service (identification of Clients' mass payments) - over 40 million transactions with the total volume of more than PLN 50 billion, i.e. an increase by 4.6% and 3% as compared to the first quarter of 2019 (over 14 million transactions were processed in March, which is a record number of transactions processed within one month since the launch of the Pekao Collect service by the Bank),
- an increase in the number of Direct Debit Orders by 17.7% as compared to the first quarter of 2019,
- an increase in the number and volume of domestic transfers by 10.1% and 5.5% as compared to the first quarter of 2019,
- implementing changes in the method of executing transfers to Tax Offices in the Bank's Front & BackEnd systems,
- implementing instant incoming payments - Express Elixir.

Trade Finance

In the first quarter of 2020, the amount of newly granted guarantees and sureties increased by more than +11% as compared to the same period of 2019. The Bank's exposure under issued guarantees increased by almost +15%. The Bank also recorded a double-digit growth dynamics in the area of documentary letters of credit. The amount of newly opened transactions increased by over 20% as compared to the first quarter of 2019.

Thanks to adjusting the offer to clients' expectations and due to further development of the Open Financing Platform (OPF), in the first quarter of 2020, the Bank financed, as part of this service, invoices worth nearly PLN 100 million more than in the first quarter of 2019.

In the first quarter of 2020, the suppliers of goods and services became considerably more interested in Supplier Finance programs - in March the number of suppliers using this type of financing increased by 21%, of which 9% were the companies from the transport industry. In the current situation, the programs allow suppliers to diversify the sources of raising capital and get paid for the goods delivered or the service performed after issuing the invoice without the risk of a possible lack of payment by the recipient.

The Bank provided clients with new functionalities supporting the requirements resulting from generally applicable regulations, e.g. verification reports on the White List of accounts to which the Bank pays the receivables as part of the receivables financing service.

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

The Bank also focused on providing solutions aimed at helping clients, whose activities have been or will be affected by the effects of pandemic, maintain and improve their financial liquidity, and thus the solutions will ensure the continuation of their operations in current difficult conditions. A program was introduced allowing the use of special credit solutions in terms of financing, including:

- extending the repayment date of the working capital loan up to 6 months,
- suspending the repayment of loan installments up to 3 months,
- applying other solutions individually agreed on with the Bank.

The Bank introduced to its offer the Portfolio Guarantee Line from the Liquidity Guarantee Fund prepared by Bank Gospodarstwa Krajowego (BGK) the aim of which is to help medium and large-sized companies affected by the coronavirus epidemic in Poland. The amount of the limit granted to the Bank for credit guarantees for corporate and SME clients is PLN 15 billion.

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.

In the first quarter of 2020, the framework agreements were signed with the two largest banks in Belarus - Belagroprombank and Belarusbank - establishing a cooperation model and a template for credit documentation. Consequently, the time needed to prepare financing for Polish companies exporting services and products to the Belarusian market has been reduced, as a result of which the activity and position of Polish companies on that market will increase.

The Bank 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 to support 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.

Investment banking, structured finance and commercial real estates

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 hotels. The Bank also finances projects aimed at redevelopment of brownfield sites in order to improve common space and also provides financing allowing Polish enterprises to carry out mergers and acquisitions, including cross-border acquisitions.

The most important projects financed by the Bank in the first quarter of 2020 include:

- syndicated financing (loan refinancing) in the total amount of PLN 1,5 billion for a leading company from the telecommunications sector,
- syndicated financing (refinancing and granting a new loan) in the amount of PLN 978 million for a leading internet portal on the Polish market,

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

- syndicated financing in the total amount of PLN 700 million for a leading developer on the Polish market – construction of an office building complex in Warsaw,
- investment loan in the amount of PLN 123 million for a leading producer of bakery products to increase production capacity,
- syndicated financing in the total amount of PLN 67,8 million, a loan for building dormitories,
- acquisition loan (undisclosed amount) for one of the largest cable TV provider in Poland, the biggest loan in the media industry.

Issuance of debt securities

Taking into account the outstanding debt as at 29 February 2020, Bank Pekao S.A. had over 20% market share (the 2nd place) in the area of arrangement and management of non-treasury debt securities (above 365 days), including:

- almost 24% market share in arrangement of corporate bonds issues (1st place),
- nearly 16% market share in the segment of bank debt securities (3rd place),
- over 22% market share in arrangement of municipal bonds issues (2nd place).

In the first quarter of 2020, the non-treasury debt securities (of enterprises and municipal units) were issued through the Bank for the total amount of over PLN 2 billion, of which the following transactions deserve special attention:

- issue of seven series of bonds for a company from the leasing sector - with maturity date up to 6 months for the total amount of over PLN 1 billion,
- issue of four series of bonds for a company from the factoring sector – with maturity date up to 6 months for the total amount of over PLN 0,5 billion,
- issue of bonds for two developers, including 5-year bonds for EUR 30 million and 3,5-year bonds for PLN 30 million.

Cooperation with international and domestic financial institutions

As at 31 March 2020, the Bank maintained 75 nostro accounts with 47 banks in 26 countries; it ran 230 loro accounts for 207 foreign clients (banks and other financial institutions) from 48 countries and 51 current accounts for 44 foreign financial institutions.

The Bank 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. Pekao Leasing concluded its first loan agreement with the Industrial and Commercial Bank of China for PLN 200 million. The funds from the new agreement will be used for financing Polish small and medium-sized enterprises. Bank Pekao S.A. is both a transaction arranger and loan guarantor.

Comprehensive service of public sector finances

The Bank consistently deepened its cooperation with clients operating in the public sector and expanded the scope of this cooperation through a wide and rich offer of products and services. The Bank still maintained its leading position in the area of structuring and financing municipal projects in Poland. These activities support the development of Polish infrastructure and contribute to improvement of life of local communities. The number of cities, districts and provinces acquired for current service is steadily increasing.

The Bank cooperates with 11 out of 12 Polish metropolises (92% market share) and provides ongoing budget support for every third metropolis (33%). 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 specialized in financing infrastructure projects of the public sector using capital market instruments.

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

5.7 Awards and distinctions

The activities of Bank Pekao S.A. gained wide recognition by clients, industry specialists, the market and the media, as evidenced by numerous awards and distinctions granted by Polish and foreign institutions. Measures aimed at providing customers with the highest quality products and services, innovation of the proposed solutions have been appreciated.

Bank Pekao S.A. received a number of awards and distinctions in the first quarter of 2020. The most relevant honors are presented below.

Bank Pekao S.A. – the Best Investment Bank in Central and Eastern Europe

Bank Pekao S.A. - for the first time in history - received the title of the "Best Investment Bank in Central & Eastern Europe 2020" from the Global Finance international magazine. The quality of services provided by the Bank, the ability to find market opportunities and the ability to adjust solutions to client needs were appreciated.

The Best Investment Bank in Poland according to Global Finance

Bank Pekao S.A. was ranked the "The Best Investment Bank in Poland" for the third time in a row in the prestigious competition organised by the international Global Finance magazine.

The award was granted by a group of industry experts taking into account the reported deals completed in the past year. The opinion of financial circles, scope of provided advice and service and the institution's ability to structure transactions were also analysed in addition to the applications submitted for the competition. Other criteria included the Bank's market share, distribution network, pricing as well as the ability to respond to market needs, innovation and reputation.

Global Finance is one of the top international magazines with more than 30-year history. The awards were granted for the twentieth time this year. The readers of the magazine include CEOs, CFOs, analysts and managerial staff responsible for taking strategic investment decisions in 191 countries worldwide.

Private Banking of Bank Pekao S.A. ranked the best in Poland in the Private Bank Awards 2020

Private Banking of Bank Pekao S.A. – already for the fifth time in a row - was recognized as the best in Poland, according to the Global Finance magazine. The Private Bank Awards 2020 of Global Finance is one of the most comprehensive rankings classifying bank offers for the sector of most affluent customers.

The highest score for Private Banking services

Private Banking has already received the highest score for the third time - the prestigious five stars in the rating of Private Banking services, prepared by the Polish edition of the Forbes monthly. The quality of private banking offers was assessed by a representative group using Private Banking services, with particular emphasis placed on solutions that match market trends.

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

5.8 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 deteriorated rapidly 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. According to the latest forecasts by Bank Pekao S.A., in 2020 the Polish economy may contract by 4.4% y/y and unemployment caused by job cuts may increase to around 11% at the end of the year. The main sources of risk remain the scale and duration of the epidemiological situation. Its effects will be – if only partially – mitigated by government actions so-called "anti-crisis shield", under which enterprises can receive support in the amount of PLN 100 billion (4.5% of GDP), of which up to PLN 60 billion may be non-returnable.

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 matters.

As part of government support programs for micro, small and medium enterprises, the Bank's clients may submit applications for funding in the "PFR Financial Shield". Customers entitled to receive grants can submit applications via online banking, as well as use the information contained on the website or the free help line dedicated to the "PFR Financial Shield".

The Bank also focused on providing solutions aimed at helping clients, whose activities have been or will be affected by the effects of pandemic, maintain and improve their financial liquidity, and thus the solutions will ensure the continuation of their operations in current difficult conditions. A program was introduced allowing the use of special credit solutions in terms of financing, including:

- extending the repayment date of the working capital loan up to 6 months,
- suspending the repayment of loan installments up to 3 months,
- applying other solutions individually agreed on with the Bank.

The Bank has introduced to its offer the Portfelową Liniją Gwarancyjną from the Funduszu Gwarancji Płynnościowych prepared by Bank Gospodarstwa Krajowego (BGK), as a result of which micro, small, medium and large companies, which due to the current economic situation need liquidity support, will receive additional working capital collateral. The maximum amount of financing covered by the guarantee from the Funduszu Gwarancji Płynnościowych amounted PLN 250 million, and with the guarantee period is 27 months. The guarantees secure the total loan amount up to 80% of its value, in the range from PLN 3.5 to 200 million. Loan agreements secured by a guarantee can be concluded until the end of December 2020. The amount of the limit that the Bank has at its disposal for loan guarantees for customers is PLN 15 billion.

Monetary policy is an important factor influencing banks' performance. In the current economic situation, the MPC has decided to reduce interest rates, including the main interest rate from 1.50% to 0.50%. Lower interest rates have an 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").

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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 (BFG), 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' behavior, 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 and deposit items in the banking sector is expected to decrease significantly. Lower economic activity and worse financial situation of many households and enterprises will result in a much 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 be markedly 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 (especially in the case of households), the saving/holding of funds in anticipation of the worse material situation and on the labour market will have a limited reverse impact.

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6 Statement of Financial Position and Financial Results

Consolidated income statement containing cumulated items for the period from 1 January to 31 March, 2020 and 2019 respectively is presented in the Condensed Consolidated Interim Financial Statements of Bank Pekao S.A. Group for the first quarter of 2020.

The Report on activities of Bank Pekao S.A. Group for the first 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

	1 QUARTER OF 2020	1 QUARTER OF 2019	CHANGE
			(in PLN million)
Net interest income	1,428.3	1,300.4	9.8%
Net fee and commission income	614.4	603.6	1.8%
Dividend income	0.2	0.4	(50.0%)
Trading result	29.7	28.1	5.7%
Net other operating income and expenses (*)	(0.8)	14.3	x
Net non-interest income (*)	643.5	646.4	(0.4%)
Operating income (*)	2,071.8	1,946.8	6.4%
Operating costs	(999.6)	(858.7)	16.4%
Gross operating profit (*)	1,072.1	1,088.1	(1.5%)
Net impairment losses on financial assets and off-balance sheet commitments	(330.9)	(109.7)	>100%
Net operating profit	741.2	978.4	(24.2%)
Bank Guarantee Fund fee	(250.7)	(393.2)	(36.2%)
Tax on certain financial institutions	(156.5)	(148.9)	5.1%
Profit before tax	334.0	436.3	(23.4%)
Income tax expense	(146.6)	(193.3)	(24.2%)
Net profit	187.5	243.0	(22.8%)
Attributable to equity holders of the Bank	186.9	242.3	(22.9%)
Attributable to non-controlling interest	0.6	0.7	(14.3%)

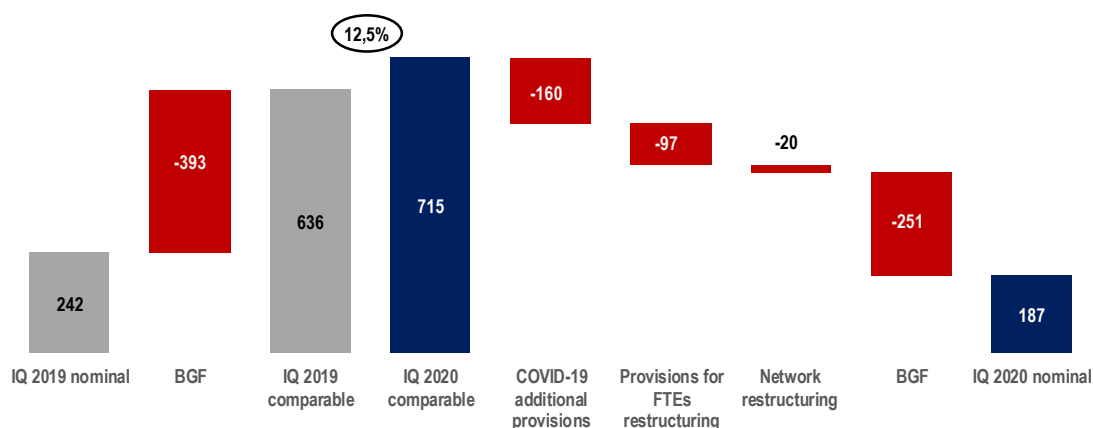
(*) Starting from the first quarter of 2020 the Group made changes in the presentation of selected items of the income statement. The items: 'Net result on other provisions, and 'Gains (losses) on disposal of property, plant and equipment and intangible assets, are presented in the line 'Net other operating 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 first quarter of 2019 have been restated in comparison to those previously published.

Net profit of the Bank Pekao S.A. Group attributable to the Bank's holders for the first quarter of 2020 amounted to PLN 186.9 million and on comparable basis^(*) increased by 12.5% y/y, mainly thanks to the dynamic development of commercial results and strict control of operating costs. Nominal net profit was lower by 22.9% y/y, mainly due to the creation of provisions for FTEs restructuring (PLN 120 million) and network restructuring (PLN 24 million) and also higher write-offs for impairment of financial assets, related to the COVID-19 coronavirus pandemic (about PLN 200 million).

(*) Excluding provisions for FTEs restructuring (PLN 120 million gross) and network restructuring (PLN 24.4 million gross, including PLN 9.8 million in other operating income and PLN 14.6 million in administrative expenses), impairment losses on financial assets related to the COVID-19 coronavirus pandemic (about PLN 200 million gross), and Bank Guarantee Fund (BGF) fee.

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

The chart below illustrates the above-mentioned exclusions and dynamics of net profit for shareholders



Operating income

In the first quarter of 2020, the Group's operating income amounted to PLN 2,071.8 million and was higher by 6.4% y/y in comparison with the first quarter of 2019 mainly thanks to the acceleration of the dynamics of core revenues (an increase by 7.3% y/y). The dynamics of commercial income, which includes income from the Group's products offered in the Bank's network amounted to 11% y/y, compensating the decrease in net other operating income and expenses.

Total net interest income

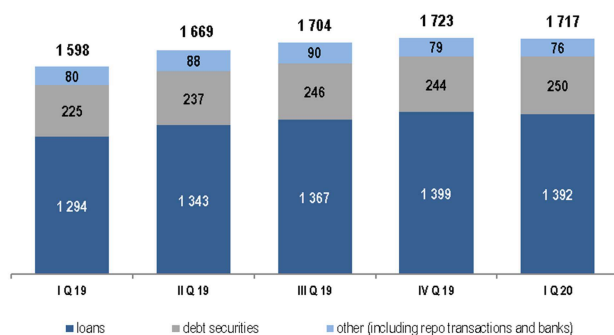
(in PLN million)

	1 QUARTER OF 2020	1 QUARTER OF 2019	CHANGE
Interest income	1,717.5	1,598.0	7.5%
Interest expense	(289.2)	(297.6)	(2.8%)
of which on leasing	(2.7)	(3.6)	(25.0%)
Net interest income	1,428.3	1,300.4	9.8%

Net interest income in the first quarter of 2020, amounted to PLN 1,428.3 million and was higher by PLN 127.9 million, i.e. 9.8% compared to the first quarter of 2019, mainly driven by higher volumes of loans and deposits as well as higher margin. Positive dynamics of commercial activities allowed to compensate the effect of a drop in interest rates on the bonds portfolio.

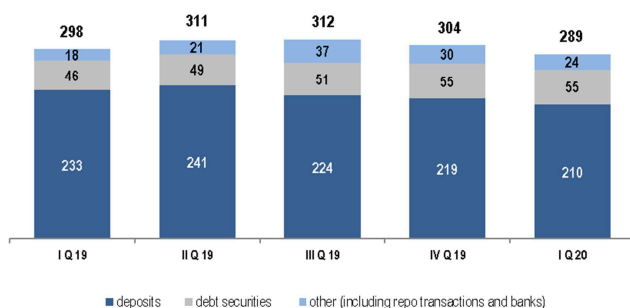
Report on the activities of Bank Pekao S.A. Group for the first quarter of 2020

Interest income



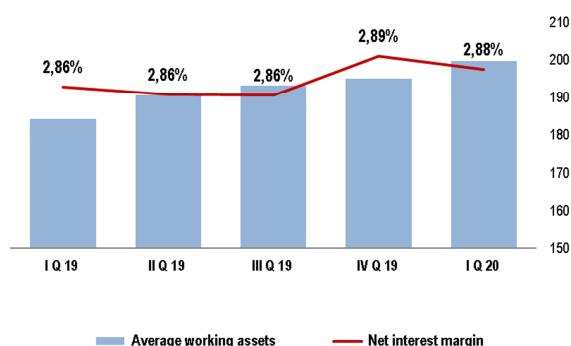
In the first quarter of 2020, the interest income amounted to PLN 1,717.5 million and was higher by PLN 119.5 million year on year thanks to higher income from loans and advances to customers by PLN 98.5 million, as a result of an increase in loan volumes by 7.8% year on year.

Interest expense



In the first quarter of 2020, the interest expense amounted to PLN 289.2 million and was higher by PLN 8.4 million year on year, mainly due to the increase in expenses related to on issue of debt securities, with lower due to customer deposits despite an increase in volumes by 10.7% year to year.

Interest margin



The interest margin achieved in the first quarter of 2020 amounted to 2.88% and was higher by 2 b.p.

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

Net non-interest income

(in PLN million)

	1 QUARTER OF 2020	1 QUARTER OF 2019	CHANGE
Fee and commission income	719.3	684.9	5.0%
Fee and commission expense	(104.9)	(81.3)	29.0%
Net fee and commission income	614.4	603.6	1.8%
Dividend income	0.2	0.4	(50.0%)
Trading result	29.7	28.1	5.7%
of which gains on derecognition of financial assets and liabilities not measured at fair value through profit or loss	21.1	11.6	81.9%
Net other operating income and expense	(0.8)	14.3	x
Net non-interest income	643.5	646.4	(0.4%)

The Group's net fee and commission income in the first quarter of 2020, amounted to PLN 614.4 million and was higher by PLN 10.8 million, i.e. 1.8% compared to the first quarter of 2019, mainly due to higher commission on margins on foreign exchange transactions with clients related to the increase in the volume of transactions in all business segments and higher commissions from brokerage and others.

Other income In the first quarter of 2020, amounted to PLN 29.1 million and was lower by PLN 13.7 million as compared to the first quarter of 2019, which was due to a decrease in the valuation of shares in VISA Inc., provision for the branches liquidation and donations to hospitals for financial support in relation to the COVID-19 pandemic.

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

(in PLN million)

	1 QUARTER OF 2020	1 QUARTER OF 2019	CHANGE
Net fee and commission income	614.4	603.6	1.8%
on loans	116.2	115.6	0.5%
on cards	71.1	87.6	(18.8%)
on mutual funds	105.1	107.8	(2.5%)
on brokerage activate	20.8	15.3	35.9%
on margins on foreign exchange transactions with clients	134.3	115.5	16.3%
other	166.9	161.8	3.2%

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

Operating costs

In the first quarter of 2020 the operating costs amounted to PLN 999.6 million and excluding the costs of restructuring provision were higher by 0.7% y/y, significantly below inflation and despite the costs of investments in operational transformation and digitization and additional costs associated with the coronavirus pandemic. Nominal costs were higher by PLN 140.9 million, i.e. 16.4% compared to the costs achieved in the first quarter of 2019, mainly due to the cost of FTEs restructuring provision and network restructuring provision in the amount of PLN 134.6 million.

(in PLN million)

	1 QUARTER OF 2020	1 QUARTER OF 2019	CHANGE
Personnel expenses (*)	(498.2)	(479.4)	3.9%
Other administrative expenses (**)	(243.2)	(250.6)	(2.9%)
of which Financial supervision authority fee (KNF)	(18.2)	(24.7)	(26.5%)
Depreciation and amortization	(123.5)	(128.7)	(4.0%)
Operating costs excluding restructuring provision	(864.9)	(858.7)	0.7%
Provisions for FTEs restructuring	(120.0)	-	x
Network restructuring	(14.6)	-	x
Operating costs	(999.6)	(858.7)	16.4%

(*) Excluding restructuring provision

(**) Excluding network restructuring

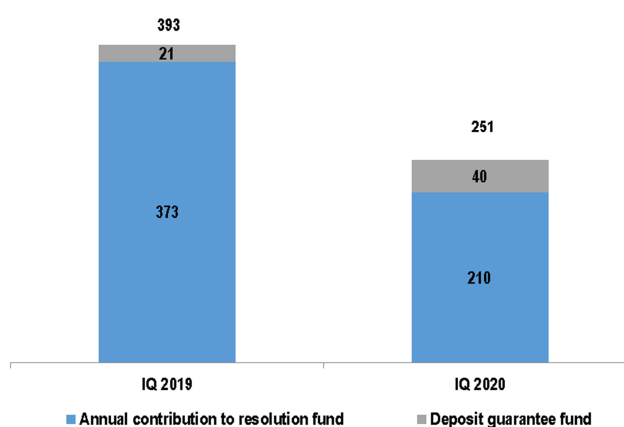
In the first quarter of 2020, cost / income ratio excluding restructuring provision in the first quarter of amounted to 41.6% and was lower by 2.5 p.p. y/y, approaching the strategic target of 40% set for 2020.

As of 31 March 2020, the Group employed 15,889 employees (in the Bank and the companies consolidated under full consolidation method) as compared to 16,815 employees as at the end of March 2019.

As of March 31, 2020, the Bank employed 13,843 employees as compared to 14,591 employees as at the end of March 2019.

Bank Guarantee Fund fee

Bank Guarantee Fund fee in the first quarter of 2020 amounted to PLN 250.7 million, and were lower of PLN 142.5 million as compared the first quarter of 2019.



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

Tax on certain financial institutions

Tax on certain financial institutions in the first quarter of 2020 amounted to PLN 156.5 million and was higher by PLN 7.6 million, i.e. 5.1% as compared the first quarter of 2019, due to an increase in Group's assets by 10.5%.

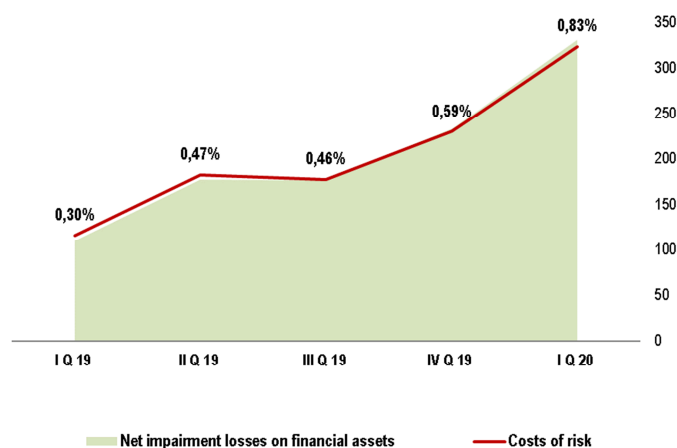
6.2 Net impairment losses

(in PLN million)

	GROUP		BANK PEKAO S.A.	
	1 QUARTER OF 2020	1 QUARTER OF 2019	1 QUARTER OF 2020	1 QUARTER OF 2019
financial assets measured at amortized cost	(278.1)	(83.6)	(277.1)	(74.9)
financial assets measured at fair value through other comprehensive income	(18.3)	(17.9)	(18.2)	(17.6)
financial liabilities measured at amortized cost	(34.5)	(8.1)	(51.1)	(8.6)
Net impairment losses on financial assets and off-balance sheet commitments	(330.9)	(109.7)	(346.4)	(101.1)

The Group's net impairment losses on financial assets and off-balance sheet commitments amounted to PLN 330.9 million in the first quarter of 2020, an increase of PLN 221.3 million, i.e. over 100% as compared the first quarter of 2019, due to the creation of impairment related to the COVID-19 virus pandemic in accordance with IFRS 9. The impairment was calculated based on the forecasted worsening of credit risk parameters of the loan portfolio in the amount of about PLN 200 million and was estimated based on macroeconomic scenarios

Costs of risk



The costs of risk in the first quarter of 2020 amounted to 0.83% and was higher by 53 bps 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 first quarter of 2020

6.3 The structure of the net profit

The structure of the net profit of the Group is presented in the table below:

(in PLN million)

	1 QUARTER OF 2020	1 QUARTER OF 2019	CHANGE
Net profit of Bank Pekao S.A.	113.1	259.3	(56.4%)
Entities consolidated under full method			
Pekao Investment Management S.A.	30.0	30.4	(1.3%)
Pekao Leasing Sp. z o.o.	15.9	13.0	22.3%
Pekao Faktoring Sp. z o.o.	1.7	3.8	(55.3%)
Pekao Financial Services Sp. z o.o.	1.7	2.2	(22.7%)
Pekao Direct Sp. z o.o. (d. Centrum Bankowości Bezpośredniej Sp. z o.o.) ^(*)	0.7	0.0	>100%
Dom Inwestycyjny Xelion Sp. z o.o.	0.3	0.1	100%
Pekao Powszechne Towarzystwo Emerytalne S.A. w likwidacji	0.1	0.2	(50.0%)
Pekao Fundusz Kapitałowy Sp. z o.o. w likwidacji	0.1	0.1	0.0%
Centrum Kart S.A.	0.1	0.0	x
Centralny Dom Maklerski Pekao S.A. ^(**)		5.7	x
FPB "MEDIA" Sp. z o.o. w upadłości ^(***)	0.0	0.0	x
Pekao Property S.A. w likwidacji	0.0	0.0	x
Pekao Investment Banking S.A.	(1.8)	(1.7)	5.9%
Pekao Bank Hipoteczny S.A.	(1.9)	(1.9)	0.0%
Exclusions and consolidation adjustments^(****)	26.9	(68.9)	x
Net profit of the Group attributable to equity holders of the Bank	186.9	242.3	(22.9%)

(*) 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 11 April, 2019, the District Court for the Capital City of Warsaw, 10th Economic Department for bankruptcy and restructuring, declared the bankruptcy of FPB-Media Sp. z o.o. The decision on the declaration of bankruptcy became valid on 8 May, 2019. FPB Media is a 100% subsidiary of Pekao Property S.A. in liquidation. Currently, the company operates under the name FPB Media Sp. z o.o. in bankruptcy.

(****) On March 1, 2019, the Extraordinary General Meeting of Shareholders of Pekao Property S.A. took the resolution to dissolve the company and to open its liquidation from that date. Currently, the company will operate under the name Pekao Property S.A. in liquidation.

(*****) 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 first quarter of 2020

Results of the Bank's major related entities

Pekao Investment Management S.A. – Pekao IM

In the first quarter of 2020, consolidated net profit of Pekao IM amounted to PLN 30.0 million and was on the same level as in the first quarter of 2019. Net assets of investment funds managed by Pekao TFI S.A. was lower by ca. 16.8% compared to the end of March 2019 due to the impact of the COVID-19 pandemic on the capital market in Poland and worldwide. As at March 31, 2020, Pekao TFI's share in capital market funds was 11.4%, giving second place.

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

In the first quarter of 2020, Pekao Leasing reported a net profit of **PLN 15.9 million** compared with PLN 13.0 million in the first quarter of 2019. The result was higher by 22.3% y/y due to higher revenues as well as strict cost control. In the first quarter of 2020, Pekao Leasing concluded over 3.9 thousand new contracts, i.e. more by 7.0% y/y, but the value of the subject of rent was 7.4% y/y lower and amounted to PLN 770.8 million.

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

In the first quarter of 2020, Pekao Faktoring reported a net profit of PLN 1.7 million, compared to a profit of PLN 3.8 million in the first quarter of 2019. The result of the current period is lower due to an extraordinary event. In the first quarter of 2020, the Company achieved an increase in factoring commitment by 68.5% y/y. Pekao Faktoring takes first place in turnover on the Polish factoring market.

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

In the first quarter of 2020, Pekao FS reported a net profit of PLN 1.7 million (including the Bank's share of **PLN 1.1 million**), compared to a profit of PLN 2.2 million achieved in the first quarter of 2019. The net result was lower due to the fluctuation of revenues in the first quarter 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.

Pekao Direct Sp. z o.o. (previously Centrum Bankowości Bezpośredniej Sp. z o.o.) – Pekao Direct

In the first quarter of 2020, Pekao Direct generated a net profit of PLN 0.7 million, compared to a result close to zero in the first quarter 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 first quarter of 2020 amounted to **PLN 0.3 million**, compared to the profit of PLN 0.1 million achieved in the first quarter 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 Powszechne Towarzystwo Emerytalne S.A. w likwidacji – Pekao PTE

In the first quarter of 2020, Pekao PTE reported net profit of **PLN 0.1 million** compared with PLN 0.2 million in the first quarter of 2019. Pekao PTE is in liquidation from June 1, 2018 and does not conduct activities.

Centralny Dom Maklerski Pekao S.A. – CDM Pekao

As of August 30, 2019, CDM Pekao was removed from the national court register, customer service was taken over by the Pekao Brokerage House (organizational unit of the Bank). The net results of CDM Pekao in the amount of **PLN 5.7 million** were included in the Group's results for the first quarter of 2019. From September 2019, the effects of CDM Pekao are recognized in the results of the Pekao Brokerage House.

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

Pekao Investment Banking S.A. – Pekao IB

In the first quarter of 2020, Pekao IB reported a net loss of PLN 1.8 million, compared to a loss of PLN 1.7 million in the first quarter 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.

Pekao Bank Hipoteczny S.A. – Pekao Bank Hipoteczny

In the first quarter of 2020, Pekao Bank Hipoteczny reported a net loss of PLN 1.9 million, i.e. at a similar level as in the first quarter of 2019. Net loss related to booking BFG costs and, in the case of the 2020 result, an additional increase in the level of credit risk.

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)

	1 QUARTER OF 2020	1 QUARTER OF 2019	CHANGE
Net interest income	1,386.8	1,267.4	9.4%
Net non-interest income	533.2	585.8	(9.0%)
Operating income	1,920.0	1,853.2	3.6%
Operating costs	(927.7)	(771.9)	20.2%
Gross operating profit	992.3	1,081.4	(8.2%)
Net impairment losses on financial assets and off-balance sheet commitments	(346.4)	(101.1)	>100%
Net operating profit	645.8	980.2	(34.1%)
Bank Guarantee Fund fee	(248.3)	(390.5)	(36.4%)
Tax on certain financial institutions	(156.5)	(148.9)	5.1%
Gains (losses) on subsidiaries and associates	(0.4)	0.0	x
Profit before tax	240.6	440.9	(45.4%)
Net profit	113.1	259.3	(56.4%)

(*) 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 first quarter of 2019 have been restated in comparison to those previously published.

Net profit of the Bank Pekao S.A. in the first quarter of 2020 amounted to PLN 113.1 million and was lower by 56.4% y/y mainly due to the establishment of restructuring provision in the first quarter of 2020 and higher impairment losses on financial assets related to the COVID-19 coronavirus pandemic, with growing revenues due to the dynamic development of commercial activities and continued strict control of operating costs.

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

The main Bank's financial information are as follows:

	31.03.2020	31.03.2019	CHANGE
STATEMENT OF FINANCIAL POSITION – SELECTED ITEMS (in PLN million)			
Loans and advances at nominal value ^(*)	149,991.0	140,647.9	6.6%
Amounts due to customers	167,535.4	151,301.8	10.7%
Structured Certificates of Deposit	899.5	709.0	26.9%
Certificates of Deposit	457.0	1,160.4	(60.6%)
Subordinated bonds	2,750.0	2,000.0	37.5%
Repo transactions	166.2	421.0	(60.5%)
Total assets	209,065.3	189,494.1	10.3%
Investment funds distributed through the Bank's network	15,601.9	18,704.0	(16.6%)
Total capital ratio in %	18.1%	18.4%	(0.3) p.p.

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

As at the end of March 2020, loans and advances at nominal value amounted to PLN 149,991.0 million, an increase of PLN 9,343.1 million, i.e. 6.6% in comparison to the end of March 2019. As at the end of March 2020, the volume of retail loans amounted to PLN 76,807.1 million and the volume of corporate loans amounted to PLN 62,885.9 million.

As at the end of March 2020, the amounts due to customers, Structured Certificates of Deposit, Certificates of Deposit and subordinated bonds amounted to PLN 171,641.9 million, an increase of PLN 16,470.7 million, i.e. 10.6% in comparison to the end of March 2019.

The value of net assets of investment funds managed by Pekao TFI S.A. distributed through the Bank's network amounted to PLN 15,601.9 million as at the end of March 2020, were lower of PLN 3,102.1 million, i.e. 16.6% in comparison to the end of March 2019.

Report on the activities of Bank Pekao S.A. Group for the first 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 March 2020, the total assets of Bank Pekao S.A. constitutes 96.2% of the total assets of the whole Group.

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

ASSETS	31.03.2020		31.03.2019		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Cash and due from Central Bank	9,939.3	4.6%	7,443.9	3.8%	33.5%
Loans and advances to banks (*)	3,045.4	1.4%	3,109.3	1.6%	(2.1%)
Loans and advances to customers (**)	154,092.4	70.9%	143,079.8	72.8%	7.7%
Reverse repo transactions	1,475.8	0.7%	-	x	x
Securities (***)	37,084.7	17.1%	35,067.2	17.8%	5.8%
Property, plant and equipment and intangible assets	3,589.3	1.7%	3,502.6	1.8%	2.5%
Other assets	8,132.9	3.7%	4,437.2	2.2%	83.3%
Total assets	217,359.8	100.0%	196,640.0	100.0%	10.5%

(*) 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	31.03.2020		31.03.2019		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Amounts due to Central Bank	4.6	0.0%	5.0	0.0%	(8.0%)
Amounts due to other banks	7,570.6	3.5%	6,987.5	3.6%	8.3%
Amounts due to customers	166,877.1	76.8%	150,684.6	76.6%	10.7%
Debt securities issued	5,041.3	2.3%	5,389.1	2.7%	(6.5%)
Subordinated liabilities	2,787.7	1.3%	2,029.0	1.0%	37.4%
Repo transactions	166.2	0.1%	421.0	0.2%	(60.5%)
Lease liabilities	438.0	0.2%	547.3	0.3%	(20,0%)
Other liabilities	10,692.3	4.9%	7,481.6	3.9%	42.9%
Total equity, including non-controlling interests	23,782.0	10.9%	23,094.9	11.7%	3.0%
	12.3	x	10.9	x	12.8%
Total equity and liabilities	217,359.8	100.0%	196,640.0	100.0%	10.5%

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

Customers' Financing

Customer structure of loans and advances

(in PLN million)

	31.03.2020	31.03.2019	CHANGE
Loans and advances at nominal value ⁽¹⁾	159,594.8	148,111.5	7.8%
Loans and investments in financial leases	149,296.8	138,020.8	8.2%
Retail	78,011.1	72,406.9	7.7%
Corporate	71,285.7	65,613.9	8.6%
Non-treasury debt securities	10,298.0	10,090.7	2.1%
Other ⁽²⁾	1,257.3	1,295.6	(3.0%)
Impairment allowances	(6,759.7)	(6,327.3)	6.8%
Total net receivables	154,092.4	143,079.8	7.7%
Reverse repo transactions	1,475.6	-	x
Total Customers' financing ⁽³⁾	161,070.4	148,111.5	8.7%

⁽¹⁾ Excluding reverse repo transactions.

⁽²⁾ Including interest and receivables in transit.

⁽³⁾ 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 March 2020, loans and advances at nominal value amounted to PLN 159,594.8 million, an increase of PLN 11,483.3 million, i.e. 7.8% in comparison to the end of March 2019 with significant growth in key strategic areas.

As at the end of March 2020, the volume of retail loans amounted to PLN 78,011.1 million, an increase of PLN 5,604.2 million, i.e. 7.7% in comparison to the end of March 2019, thanks to dynamic growth of PLN mortgage loans by 9.2% y/y.

As at the end of March 2020, corporate loans and non-treasury debt securities amounted to PLN 81,583.7 million, an increase of PLN 5,879.1 million, i.e. 7.8% in comparison to the end of March 2019, thanks to strong dynamics in the medium-sized enterprise segment and leasing receivables.

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

Receivables and impairment losses^(*)

(in PLN million)

	31.03.2020	31.03.2019	CHANGE
Gross receivables	160,852.1	149,407.1	7.7%
Stage 1	131,116.2	120,663.3	8.7%
Stage 2	21,433.9	20,800.0	3.0%
Stage 3	8,302.0	7,943.8	4.5%
Impairment allowances	(6,759.7)	(6,327.3)	6.8%
Stage 1	(459.7)	(390.0)	17.9%
Stage 2	(729.0)	(680.2)	7.2%
Stage 3	(5,571.0)	(5,257.1)	6.0%
Total net receivables	154,092.4	143,079.8	7.7%

(*) 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 March 2020 the ratio of impaired receivables (stage 3) to the gross receivables amounted to 5.2%.

Loans and advances to customers by currency^(*)

	31.03.2020		31.03.2019		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Denominated in PLN	131,619.7	81.8%	123,411.6	82.6%	6.7%
Denominated in foreign currencies ^(**)	29,232.4	18.2%	25,995.5	17.4%	12.5%
Total	160,852.1	100.0%	149,407.1	100.0%	7.7%
Impairment allowances	(6,759.7)	x	(6,327.3)	x	6.8%
Total net	154,092.4	x	143,079.8	x	7.7%

(*) 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 March 2020, their share was 81.8%. The largest portion of foreign currency loans and advances to customers were represented by those denominated in EUR (81.2%), CHF (11.4%) and USD (5.7%).

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

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

	31.03.2020		31.03.2019		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Current and up to 1 month	16,969.6	10.5%	17,627.4	11.8%	(3.7%)
1 to 3 months	5,739.4	3.6%	4,956.8	3.3%	15.8%
3 months to 1 year	14,943.0	9.3%	14,422.3	9.7%	3.6%
1 to 5 years	53,288.1	33.1%	46,759.3	31.3%	14.0%
Over 5 years	64,182.9	39.9%	59,841.3	40.1%	7.3%
Past due	4,471.8	2.8%	4,504.4	3.0%	(0.7%)
Other	1,257.3	0.8%	1,295.6	0.9%	(3.0%)
Total	160,852.1	100.0%	149,407.1	100.0%	7.7%
Impairment allowances	(6,759.7)	x	(6,327.3)	x	6.8%
Total net	154,092.4	x	143,079.8	x	7.7%

(*) 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 March 2020, loans and advances with maturity over 5 years represents 39.9% 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 Consolidated Interim Financial Statements of Bank Pekao S.A. Group for the first quarter of 2020.

External sources of financing

(in PLN million)

	31.03.2020	31.03.2019	CHANGE
Amounts due to Central Bank	4.6	5.0	(8.0%)
Amounts due to other banks	7,570.6	6,987.5	8.3%
Amounts due to customers	166,877.1	150,684.6	10.7%
Debt securities issued	5,041.3	5,389.1	(6.5%)
Subordinated liabilities	2,787.7	2,029.0	37.4%
Repo transactions	166.2	421.0	(60.5%)
Total external sources of financing	182,447.5	165,516.2	10.2%

Amounts due to customers amounted to PLN 166,877.1 million, an increase by 10.7% 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.

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

Amounts due to customers and debt securities issued

(in PLN million)

	31.03.2020	31.03.2019	CHANGE
Corporate deposits	67,646.2	63,035.1	7.3%
Non-financial entities	48,641.1	43,245.3	12.5%
Non-banking financial entities	6,540.2	7,149.4	(8.5%)
Budget entities	12,464.9	12,640.4	(1.4%)
Retail deposits	98,819.0	87,194.0	13.3%
Other ^(*)	411.9	455.5	(9.6%)
Amounts due to customers^(**)	166,877.1	150,684.6	10.7%
Debt securities issued, of which	7,829.0	7,418.1	5.5%
Structured Certificates of Deposit (SCD)	899.5	709.0	26.9%
Certificates of Deposit (CD)	457.0	1,160.4	(60.6%)
Subordinated bonds	2,750.0	2,000.0	37.5%
Pekao Bank Hipoteczny S.A. covered bonds	1,346.3	1,416.1	(4.9%)
Pekao Bank Hipoteczny S.A. bonds	35.1	299.8	(88.3%)
Pekao Leasing Sp. z o.o. bonds	1,860.8	1,786.1	4.2%
Pekao Faktoring Sp. z o.o. bonds	432.0	-	x
Interest	48.3	46.7	3.4%
Amounts due to customers and debt securities issued ^(**)	174,706.1	158,102.7	10.5%
Repo transactions	166.2	421.0	(60.5%)
Lease liabilities	438.0	547.3	(20.0%)
Amounts due to customers and debt securities issued, total ^(***)	175,310.3	159,071.0	10.2%
Investment funds of Pekao TFI S.A. (ex. Pioneer Pekao TFI)	16,663.1	20,033.5	(16.8%)
Bond and money market funds	13,655.1	15,955.1	(14.4%)
Balanced funds	1,740.9	2,237.3	(22.2%)
Equity funds	1,247.7	1,841.1	(32.2%)
PPK	19.5	-	x
including distributed through the Group's network	16,328.6	19,667.4	(17.0%)

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

(**) Excluding repo transactions and lease liabilities.

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

As at the end of March 2020, amounts due to the Group's customers and debt securities issued amounted to PLN 174,706.1 million, an increase of PLN 16,603.4 million, i.e. 10.5% in comparison to the end of March 2019.

The total volume of retail deposits, Structured Certificates of Deposit and other amounted to PLN 100,086.2 million as at the end of March 2020, an increase of PLN 11,770.5 million, i.e. 13.3% in comparison to the end of March 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 74,619.9 million as at the end March 2020, an increase of PLN 4,832.9 million, i.e. 6.9% as compared to the end of March 2019.

Repo transactions amounted to PLN 166.2 million as at the end of March 2020, a decrease by PLN 254.8 million, i.e. 60.5% as compared to the end of March 2019.

The value of net assets of investment funds managed by Pekao TFI S.A. amounted to PLN 16,663.1 million as at the end of March 2020, a decrease of PLN 3,370.4 million, i.e. 16.8% in comparison to the end of March 2019. The decrease occurred mainly in March and was caused by a pandemic situation in the country and abroad.

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

Amounts due to customers by currency ^(*)

	31.03.2020		31.03.2019		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Denominated in PLN	136,585.0	81.8%	124,227.0	82.4%	9.9%
Denominated in foreign currencies	30,292.1	18.2%	26,457.6	17.6%	14.5%
Total	166,877.1	100.0%	150,684.6	100.0%	10.7%

^(*) 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 March 2020 mounted to 81.8%. The majority of amounts due to customers denominated in foreign currencies were in EUR (61.5%) and USD (32.3%).

Amounts due to customers by contractual maturities ^(*)

	31.03.2020		31.03.2019		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Current accounts and overnight deposits	121,533.0	73.0%	95,544.2	63.6%	27.2%
Term deposits	44,932.2	27.0%	54,684.9	36.4%	(17.8%)
Total deposits	166,465.2	100.0%	150,229.1	100.0%	10.8%
Interest accrued	165.4	x	189.2	x	(12.6%)
Funds in transit	246.5	x	266.3	x	(7.4%)
Total	166,877.1	x	150,684.6	x	10.7%

^(*) Excluding repo transactions and lease liabilities.

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

6.5 Provisions, deferred tax assets and liabilities

(in PLN million)

	GROUP		BANK PEKAO S.A.	
	31.03.2020	31.03.2019	31.03.2020	31.03.2019
Total provisions	908.1	636.1	946.1	657.1
of which:				
provisions for off-balance sheet commitments	328.0	248.9	378.9	280.3
provisions for liabilities to employees	483.8	330.7	475.9	322.1
other provisions	96.3	56.5	91.3	54.7
Deferred tax liabilities	29.3	31.6	-	-
Deferred tax assets	1,203.8	1,169.6	880.2	864.8

6.6 Off-balance sheet items

Statement of Off-balance sheet items

(in PLN million)

	31.03.2020	31.03.2019	CHANGE
Contingent liabilities granted and received	69,977.9	66,502.9	5.2%
Liabilities granted:	49,895.3	45,932.3	8.6%
financial	37,282.3	33,234.9	12.2%
guarantees	12,613.0	12,697.4	(0.7%)
Liabilities received:	20,082.6	20,570.6	(2.4%)
financial	3,438.8	662.2	419.3%
guarantees	16,643.8	19,908.4	(16.4%)
Derivative financial instruments	394,729.9	246,151.9	60.4%
interest rate transactions	253,507.5	146,663.6	72.8%
transactions in foreign currency and in gold	136,684.1	96,083.0	42.3%
transactions based on commodities and equity securities	4,538.3	3,405.3	33.3%
Total off-balance sheet items	464,707.9	312,654.8	48.6%

Information on loan concentration is included in the Notes to the Condensed Consolidated Interim Financial Statements of Bank Pekao S.A. Group for the first quarter of 2020.

Report on the activities of Bank Pekao S.A. Group for the first 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 (CRR Regulation), which entered into force since January 1, 2014 together with further amendments.

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.

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 March 31, 2020 for Pekao Group, total capital ratio amounted to 16.4% and Tier I ratio amounted to 14.5%. The capital ratios were significantly above the minimum required by the law.

¹ Countercyclical capital buffer was calculated as of 31.03.2020 at the level 0.0045%

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 first quarter of 2020

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

(in PLN thousand)

CAPITAL REQUIREMENT	31.03.2020	31.12.2019	31.03.2019
Credit risk	10,325,359	10,107,188	9,488,187
Exceeding the exposure concentration limit and large exposures limit	-	-	-
Market risk	102,873	87,596	69,438
Counterparty credit risk including CVA	203,657	119,803	91,389
Operational risk	594,733	527,844	512,970
Total capital requirement	11,226,622	10,842,431	10,161,984
OWN FUNDS			
Common Equity Tier I Capital	20,292,650	20,387,099	19,743,939
Tier II Capital	2,750,000	2,750,000	2,000,000
Own funds for total capital ratio	23,042,650	23,137,099	21,743,939
Common Equity Tier I Capital ratio (%)	14.5%	15.0%	15.5%
Total capital ratio TCR (%)	16.4%	17.1%	17.1%

The Group Total Capital Ratio at the end of March 2020 was lower by 0.7 p.p. compared to the end of March 2019 mainly due to increase of capital requirements by 10.5% partially compensated by higher own funds by 6.0%.

Increase in own funds for total capital ratio calculation by 6.0% resulted from increase of the Tier I capital due to retention of 25% of Bank's net profit for year 2018 and 20% of Bank's net profit for year 2019, including in Tier II capital the amount of PLN 0.75 billion from the issue of subordinated bonds as well as the change of portfolio valuation measured at fair value through equity.

Total capital requirement increased by 10.5% mainly due to higher credit risk and counterparty credit risk capital requirements resulting mainly from depreciation of PLN against major currencies and increase in loan volumes.

Common Equity Tier I capital ratio of Group as at the end of March 2020 was lower by 1.0 p.p. compared to March 2019 due to increase of capital requirements partially compensated by higher Common Equity Tier I capital by 2.8%.

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

6.8 Reconciliation of income statement – presentation form and long form

Consolidated income statement for the first quarter of 2020

INCOME STATEMENT – PRESENTATION FORM'S ITEMS	LONG FORM'S ITEMS RECLASSIFIED TO PRESENTATION FORM	1 QUARTER OF 2020
Net interest income	Net interest income	1,428,251
Net fee and commission income	Net fee and commission income	614,394
Dividend income	Dividend income	255
Trading result	-	29,654
	Net result on other financial instruments at fair value through profit and loss	10,272
	Result on fair value hedge accounting	(1,744)
	(Gains) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	21,126
Net other operating income and expenses	Net other operating income and expenses	(787)
Net non-interest income	-	643,516
Operating income	-	2,071,767
Operating costs	-	(999,628)
	Personnel expenses	(618,236)
	Other administrative expenses	(665,066)
	less – Bank Guarantee Fund fee	250,703
	less – Tax on certain financial institutions	156,506
	Depreciation and amortization	(123,535)
Gross operating profit	-	1,072,139
Net impairment losses on financial assets and off-balance sheet commitments	Net impairment losses on loans and off-balance sheet commitments	(330,910)
Net operating profit	-	741,229
Bank Guarantee Fund fee	Bank Guarantee Fund fee	(250,703)
Tax on certain financial institutions	Tax on certain financial institutions	(156,506)
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	334,020
Income tax expense	Income tax expense	(146,569)
Net profit for the period	Net profit for the period	187,451
Attributable to equity holders of the Bank	Attributable to equity holders of the Bank	186,898
Attributable to non-controlling interest	Attributable to non-controlling interest	553

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

Consolidated income statement for the first quarter of 2019

INCOME STATEMENT – PRESENTATION FORM'S ITEMS	LONG FORM'S ITEMS RECLASSIFIED TO PRESENTATION FORM	1 QUARTER OF 2019
Net interest income	Net interest income	1,300,396
Net fee and commission income	Net fee and commission income	603,579
Dividend income	Dividend income	386
Trading result	-	28,119
	Net result on other financial instruments at fair value through profit and loss	17,663
	Result on fair value hedge accounting	(976)
	(Gains) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	11,432
Net other operating income and expenses	Net other operating income and expenses	14,297
Net non-interest income	-	646,381
Operating income	-	1,946,777
Operating costs	-	(858,685)
	Personnel expenses	(479,424)
	Other administrative expenses	(792,637)
	less – Bank Guarantee Fund fee	393,162
	less – Tax on certain financial institutions	148,861
	Depreciation and amortization	(128,647)
Gross operating profit	-	1,088,092
Net impairment losses on financial assets and off-balance sheet commitments	Net impairment losses on loans and off-balance sheet commitments	(109,683)
Net operating profit	-	978,409
Bank Guarantee Fund fee	Bank Guarantee Fund fee	(393,162)
Tax on certain financial institutions	Tax on certain financial institutions	(148,861)
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	436,386
Income tax expense	Income tax expense	(193,321)
Net profit for the period	Net profit for the period	243,065
Attributable to equity holders of the Bank	Attributable to equity holders of the Bank	242,341
Attributable to non-controlling interest	Attributable to non-controlling interest	724

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

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)

	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019
Interest income	1,717,440	1,722,641	1,703,631	1,668,660	1,597,982
Financial assets measured at amortised cost	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	158,249	156,604	158,718	167,013	159,844
Financial assets measured at fair value through profit or loss	59,381	61,735	70,375	65,106	60,633
Interest expense	(289,189)	(303,969)	(312,201)	(311,112)	(297,586)
Net interest income	1,428,251	1,418,672	1,391,430	1,357,548	1,300,396
Fee and commission income	719,266	758,856	743,649	725,062	684,885
Fee and commission expense	(104,872)	(104,230)	(100,872)	(92,380)	(81,306)
Net fee and commission income	614,394	654,626	642,777	632,682	603,579
Dividend income	255	220	535	21,266	386
Result on financial assets and liabilities measured at fair value through profit or loss	10,272	74,393	20,752	31,063	17,663
Result on fair value hedge accounting	(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	21,126	32,447	19,592	8,430	11,432
Net impairment losses on financial assets and off-balance sheet commitments	(330,910)	(232,654)	(176,463)	(177,238)	(109,683)
Net other operating income and expenses	(787)	16,545	(10,582)	23,246	14,297
Administrative expenses	(1,283,302)	(908,456)	(905,268)	(993,200)	(1,272,061)
Personnel expenses	(618,236)	(509,580)	(502,264)	(586,428)	(479,424)
Other administrative expenses	(665,066)	(398,876)	(403,004)	(406,772)	(792,637)
Depreciation and amortization	(123,535)	(125,416)	(123,578)	(126,576)	(128,647)
Gains (losses) on subsidiaries and associates	-	-	-	-	-
PROFIT BEFORE INCOME TAX	334,020	932,387	857,223	776,493	436,386
Income tax expense	(146,569)	(248,662)	(200,329)	(193,560)	(193,321)
NET PROFIT	187,451	683,725	656,894	582,933	243,065
Attributable to equity holders of the Bank	186,898	684,386	656,214	582,106	242,341
Attributable to non-controlling interests	553	(661)	680	827	724

(¹) 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 first quarter of 2020

7.2 Consolidated statement of comprehensive income

Consolidated statement of comprehensive income for 2020 and 2019

(in PLN thousand)

	Q1 2019	Q4 2019	Q3 2019	Q2 2019	Q1 2019
Net profit	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	(147,666)	(10,426)	69,776	130,615	1,806
Profit or loss reclassification to income statement after derecognition	(13,439)	(28,909)	(14,939)	(7,281)	(11,556)
Change in fair value of cash flow hedges	414,935	(76,199)	59,352	27,302	64,768
Tax on items that are or may be reclassified subsequently to profit or loss	(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	(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	2,134	3,763	1,481	(3,146)	(152)
Other comprehensive income (net of tax)	196,503	(109,627)	86,179	135,425	45,215
Total comprehensive income	383,954	574,098	743,073	718,358	288,280
Attributable to equity holders of the Bank	383,401	574,767	742,393	717,531	287,556
Attributable to non-controlling interests	553	(669)	680	827	724

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

7.3 Consolidated income statement – presentation form

Consolidated income statement for 2020 and 2019

(in PLN thousand)

	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019
Net interest income	1,428,251	1,418,672	1,391,430	1,357,548	1,300,396
Net fee and commission income	614,394	654,626	642,777	632,682	603,579
Dividend income	255	220	535	21,266	386
Trading result	29,654	108,850	38,372	38,765	28,119
Net other operating income and expenses	(787)	16,545	(10,582)	23,246	14,297
Net non-interest income	643,516	780,241	671,102	715,959	646,381
Operating income	2,071,767	2,198,913	2,062,532	2,073,507	1,946,777
Operating costs	(999,628)	(864,770)	(862,737)	(950,881)	(858,685)
Gross operating profit	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	(330,910)	(232,654)	(176,463)	(177,238)	(109,683)
Net operating profit	741,229	1,101,489	1,023,332	945,388	978,409
Bank Guarantee Fund fee	(250,703)	(20,562)	(20,530)	(20,472)	(393,162)
Tax on certain financial institutions	(156,506)	(148,540)	(145,579)	(148,423)	(148,861)
Gains (losses) on subsidiaries and associates	-	-	-	-	-
Profit before income tax	334,020	932,387	857,223	776,493	436,386
Income tax expense	(146,569)	(248,662)	(200,329)	(193,560)	(193,321)
Net profit	187,451	683,725	656,894	582,933	243,065
Attributable to equity holders of the Bank	186,898	684,386	656,214	582,106	242,341
Attributable to non-controlling interest	553	(661)	680	827	724

Report on the activities of Bank Pekao S.A. Group for the first 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 first quarter of 2020 and as at the date of submitting of Report on the activities of Bank Pekao S.A. Group for the 2019, 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 Consolidated Interim Financial Statements of Bank Pekao S.A. Group for the first quarter of 2020.

8.4 Information on derivative financial instruments and hedge accounting

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

8.5 Related party transactions

In the first 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 first 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 38 to the Condensed Consolidated Interim Financial Statements of Bank Pekao S.A. Group for the first quarter of 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 Consolidated Interim Financial Statements of Bank Pekao S.A. Group for the first quarter of 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 first 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 899.5 (principal value) as at the end of March 2020. There is 18 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 53.6% and 46.4% of its total value respectively.

Certificates of Deposit

Certificates of Deposit are investment products denominated in PLN that guarantee 100% protection of invested funds also in case of termination before redemption date. The total value of the Bank's liabilities under these products amounted to PLN 457.0 million (principal value) as at the end of March 2020. There are 4 issuances of Certificates of Deposit. The liabilities with the maturity dates up to 6 months.

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 first 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 1,346.3 million (principal value) as at the end of March 2020. The liabilities under covered bonds with maturity date up to 6 months account 14.2%, up to the 1 year account 25.6%, from 1 year up to 3 years account for 30.2% with maturity date from 3 up to 5 years account for 20.7% and with maturity date from 5 years up to 10 years account for 9.3% of the total nominal value.

Pekao Bank Hipoteczny S.A. bonds

The total value of the company's liabilities under bonds with maturity date to 6 months year amounted to PLN 35.1 million (principal value) as of 31 March 2020.

Pekao Leasing Sp. z o.o. bonds

The total value of the company's liabilities under bonds amounted to PLN 1,860.8 million (principal value) as of 31 March 2020. The liabilities with the maturity date up to 1 month, from 3 months and up to 6 months, up to 1 year and from to 3 year accounts for 12.2%, 53.6%, 24.9% and 9.4% of its total value respectively.

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 432.0 million (principal value) as of 31 March 2020.

8.9 Information on dividend and appropriation of profit achieved

On 21 April 2020, the Management Board of the Bank adopted, in the form of a resolution, a proposal regarding the distribution of the Bank's net profit for 2019 in the amount of PLN 2,247,466,618.97, assuming the allocation of PLN 562,409,000.69 (circa 25% of net profit of the Bank for 2019) to reserve capital.

The Management Board of the Bank also decided to propose to the Ordinary General Meeting of the Bank that the remaining part of net profit for 2019 in the amount of PLN 1,685,057,618.28 (circa 75% of net profit of the Bank for 2019) remains undistributed.

The justification for the above distribution of profit and leaving the undistributed portion of profit is the current situation in Poland related to the state of the coronavirus epidemic announced on 20 March 2020, possible negative economic consequences of this state, as well as their expected impact on the banking sector. The Management Board of the Bank also took into account the stance of the Polish Financial Supervision Authority expressed in its letter of 26 March 2020, according to which the PFSA expects banks to retain all profits generated in previous years. The reason for leaving the undistributed portion of net profit is the possibility of its potential use for the purpose of dividend payments in subsequent years, subject to any regulatory approval required for such payment.

The profit distribution proposal and leaving the undistributed portion of the profit received a positive opinion of the Supervisory Board of the Bank.

8.10 Subsequent events

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

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



Warsaw, May 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	I QUARTER 2020 PERIOD FROM 01.01.2020 TO 31.03.2020	I QUARTER 2019 PERIOD FROM 01.01.2019 TO 31.03.2019 RESTATED
Interest income	9	1 717 440	1 597 982
Financial assets measured at amortized cost		1 499 810	1 377 505
Financial assets measured at fair value through other comprehensive income		158 249	159 844
Financial assets measured at fair value through profit or loss		59 381	60 633
Interest expense	9	(289 189)	(297 586)
Net interest income		1 428 251	1 300 396
Fee and commission income	10	719 266	684 885
Fee and commission expense	10	(104 872)	(81 306)
Net fee and commission income		614 394	603 579
Dividend income	11	255	386
Result on financial assets and liabilities measured at fair value through profit or loss	12	10 272	17 663
Result on fair value hedge accounting	27	(1 744)	(976)
Result on derecognition of financial assets and liabilities not measured at fair value through profit or loss	13	21 126	11 432
Net impairment losses on financial assets and off-balance sheet commitments	14	(330 910)	(109 683)
Net other operating income and expenses	15	(787)	14 297
Administrative expenses	16	(1 283 302)	(1 272 061)
Personnel expenses		(618 236)	(479 424)
Other administrative expenses		(665 066)	(792 637)
Depreciation and amortization	17	(123 535)	(128 647)
PROFIT BEFORE INCOME TAX		334 020	436 386
Income tax expense	18	(146 569)	(193 321)
NET PROFIT		187 451	243 065
1. Attributable to equity holders of the Bank		186 898	242 341
2. Attributable to non-controlling interests		553	724
Earnings per share (in PLN per share)			
basic for the period	19	0.71	0.92
diluted for the period	19	0.71	0.92

Notes to the financial statements presented on pages 19 – 79 constitute an integral part of the interim condensed consolidated financial statements.

Consolidated statement of comprehensive income

(in PLN thousand)

	NOTE	I QUARTER 2020 PERIOD FROM 01.01.2020 TO 31.03.2020	I QUARTER 2019 PERIOD FROM 01.01.2019 TO 31.03.2019
Net profit		187 451	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:		(161 105)	(9 750)
Profit or loss on fair value measurement		(147 666)	1 806
Profit or loss reclassification to income statement after derecognition		(13 439)	(11 556)
Change in fair value of cash flow hedges	27	414 935	64 768
Tax on items that are or may be reclassified subsequently to profit or loss	18	(48 228)	(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		(11 233)	802
Remeasurements of the defined benefit liabilities		-	-
Tax on items that will never be reclassified to profit or loss	18	2 134	(152)
Other comprehensive income (net of tax)		196 503	45 215
Total comprehensive income		383 954	288 280
1. Attributable to equity holders of the Bank		383 401	287 556
2. Attributable to non-controlling interests		553	724

Notes to the financial statements presented on pages 19 – 79 constitute an integral part of the interim condensed consolidated financial statements.

Consolidated statement of financial position

(in PLN thousand)

	NOTE	31.03.2020	31.12.2019
ASSETS			
Cash and due from Central Bank	21	9 939 309	5 162 682
Loans and advances to banks	22	3 045 370	1 791 436
Financial assets held for trading	23	1 193 484	1 281 664
Derivative financial instruments (held for trading)	24	5 097 522	2 079 529
Loans and advances to customers	25	138 222 916	134 200 413
1. Measured at amortised cost		136 440 001	132 577 167
2. Measured at fair value through profit or loss		231 677	242 639
3. Measured at fair value through other comprehensive income		1 551 238	1 380 607
Receivables from finance leases	26	7 047 120	6 712 939
Hedging instruments	27	843 943	377 208
Investments (placement) securities	28	46 189 429	45 893 115
1. Measured at fair value through profit or loss		117 381	146 119
2. Designated at fair value through profit or loss		-	-
3. Measured at fair value through other comprehensive income (debt securities)		27 537 365	30 942 999
4. Designated at fair value through other comprehensive income (equity instruments)		214 362	225 332
5. Measured at amortised cost		18 320 321	14 578 665
Assets held for sale		17 175	17 175
Investments in associates		-	-
Intangible assets		1 678 709	1 617 531
Property, plant and equipment	29	1 910 578	1 920 252
Investment properties		-	-
Income tax assets		1 204 313	1 095 050
1. Current tax assets		558	420
2. Deferred tax assets		1 203 755	1 094 630
Other assets		969 964	1 173 925
TOTAL ASSETS		217 359 832	203 322 919
EQUITY AND LIABILITIES			
Liabilities			
Amounts due to Central Bank	21	4 565	4 550
Amounts due to other banks	31	7 570 574	6 539 539
Financial liabilities held for trading	23	382 001	184 799
Derivative financial instruments (held for trading)	24	4 963 672	2 034 113
Amounts due to customers	32	167 481 250	157 989 734
Hedging instruments	27	1 154 043	614 765
Debt securities issued	33	5 041 292	6 307 837
Subordinated liabilities	34	2 787 701	2 764 493
Income tax liabilities		326 084	216 920
1. Current tax liabilities		296 777	187 002
2. Deferred tax liabilities		29 307	29 918
Provisions	35	908 105	752 597
Other liabilities		2 958 556	2 515 546
TOTAL LIABILITIES		193 577 843	179 924 893
Equity			
Share capital		262 470	262 470
Other capital and reserves		20 861 942	20 665 430
Retained earnings and net profit for the period		2 645 285	2 458 387
Total equity attributable to equity holders of the Bank		23 769 697	23 386 287
Non-controlling interests		12 292	11 739
TOTAL EQUITY		23 781 989	23 398 026
TOTAL LIABILITIES AND EQUITY		217 359 832	203 322 919

Notes to the financial statements presented on pages 19 - 79 constitute an integral part of the interim condensed consolidated financial statements.

Consolidated statement of changes in equity

(in PLN thousand)

For the period from 1 January 2020 to 31 March 2020

	EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK										
	SHARE CAPITAL	OTHER CAPITAL AND RESERVES						RETAINED EARNINGS AND NET PROFIT FOR THE PERIOD	TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK	NON-CONTROLLING INTERESTS	TOTAL EQUITY
		TOTAL OTHER CAPITAL AND RESERVES	SHARE PREMIUM	GENERAL BANKING RISK FUND	OTHER RESERVE CAPITAL	REVALUATION RESERVES	OTHER				
Equity as at 1.01.2020	262 470	20 665 430	9 137 221	1 982 459	8 787 844	359 668	398 238	2 458 387	23 386 287	11 739	23 398 026
Comprehensive income	-	196 503	-	-	-	196 503	-	186 898	383 401	553	383 954
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)	-	(130 495)	-	-	-	(130 495)	-	-	(130 495)	-	(130 495)
Revaluation or sale of investments in equity instruments designated at fair value through other comprehensive income (net of tax)	-	(9 099)	-	-	-	(9 099)	-	-	(9 099)	-	(9 099)
Revaluation of hedging financial instruments (net of tax)	-	336 097	-	-	-	336 097	-	-	336 097	-	336 097
Net profit for the period	-	-	-	-	-	-	-	186 898	186 898	553	187 451
Appropriation of retained earnings	-	-	-	-	-	-	-	-	-	-	-
Dividend paid	-	-	-	-	-	-	-	-	-	-	-
Profit appropriation to other reserves	-	-	-	-	-	-	-	-	-	-	-
Other	-	9	-	-	9	-	-	-	9	-	9
Other	-	9	-	-	9	-	-	-	9	-	9
Equity as at 31.03.2020	262 470	20 861 942	9 137 221	1 982 459	8 787 853	556 171	398 238	2 645 285	23 769 697	12 292	23 781 989

Notes to the financial statements presented on pages 19 - 79 constitute an integral part of the interim condensed consolidated financial statements.

Consolidated statement of changes in equity (cont.)

(in PLN thousand)

For the period from 1 January 2019 to 31 December 2019

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

Notes to the financial statements presented on pages 19 - 79 constitute an integral part of the interim condensed consolidated financial statements.

Consolidated statement of changes in equity (cont.)

(in PLN thousand)

For the period from 1 January 2019 to 31 March 2019

	EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK										
	SHARE CAPITAL	OTHER CAPITAL AND RESERVES					RETAINED EARNINGS AND NET PROFIT FOR THE PERIOD	TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK	NON-CONTROLLING INTERESTS	TOTAL EQUITY	
		TOTAL OTHER CAPITAL AND RESERVES	SHARE PREMIUM	GENERAL BANKING RISK FUND	OTHER RESERVE CAPITAL	REVALUATION RESERVES					OTHER
Equity as at 1.01.2019	262 470	20 865 916	9 137 221	1 982 459	9 137 113	202 663	406 460	1 668 340	22 796 726	11 491	22 808 217
Comprehensive income	-	45 215	-	-	24	45 191	-	242 341	287 556	724	288 280
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)	-	(7 897)	-	-	-	(7 897)	-	-	(7 897)	-	(7 897)
Revaluation or sale of investments in equity instruments designated at fair value through other comprehensive income (net of tax)	-	650	-	-	24	626	-	-	650	-	650
Revaluation of hedging financial instruments (net of tax)	-	52 462	-	-	-	52 462	-	-	52 462	-	52 462
Net profit for the period	-	-	-	-	-	-	-	242 341	242 341	724	243 065
Appropriation of retained earnings	-	3 270	-	-	-	-	3 270	(3 270)	-	(1 214)	(1 214)
Dividend paid	-	-	-	-	-	-	-	-	-	(1 214)	(1 214)
Profit appropriation to other reserves including consolidation adjustments	-	3 270	-	-	-	-	3 270	(3 270)	-	-	-
Other	-	(34)	-	-	(34)	-	-	(200)	(234)	(101)	(335)
Other	-	(34)	-	-	(34)	-	-	(200)	(234)	(101)	(335)
Equity as at 31.03.2019	262 470	20 914 367	9 137 221	1 982 459	9 137 103	247 854	409 730	1 907 211	23 084 048	10 900	23 094 948

Notes to the financial statements presented on pages 19 – 79 constitute an integral part of the interim condensed consolidated financial statements.

Consolidated cash flow statement

(in PLN thousand)

	NOTE	I QUARTER 2020 PERIOD FROM 01.01.2020 TO 31.03.2020	I QUARTER 2019 PERIOD FROM 01.01.2019 TO 31.03.2019
Cash flow from operating activities – indirect method			
Net profit for the period		186 898	242 341
Adjustments for:		7 785 448	11 739
Depreciation and amortization	17	123 535	128 647
(Gains) losses on investing activities		(9 434)	(13 659)
Net interest income	9	(1 428 251)	(1 300 396)
Dividend income	11	(255)	(386)
Interest received		1 631 823	1 840 806
Interest paid		(316 059)	(261 986)
Income tax		146 569	193 321
Income tax paid		(195 283)	(192 802)
Change in loans and advances to banks		(5 098)	(424 226)
Change in financial assets held for trading		81 345	(624 724)
Change in derivative financial instruments (assets)		(3 017 993)	(130 830)
Change in loans and advances to customers		(4 012 004)	(3 468 897)
Change in receivables from finance leases		(334 181)	(275 194)
Change in investment (placement) securities		(548 476)	(523 707)
Change in other assets		(159 243)	(708 814)
Change in amounts due to banks		1 825 743	2 003 439
Change in financial liabilities held for trading		197 202	704 675
Change in derivative financial instruments (liabilities)		2 929 559	112 913
Change in amounts due to customers		9 539 841	2 192 826
Change in debt securities issued		21 547	(31 486)
Change in subordinated liabilities		23 208	16 500
Payments for short-term leases and leases of low-value assets		(7 314)	(6 995)
Change in provisions		155 508	1 055
Change in other liabilities		1 143 159	781 659
Net cash flows from operating activities		7 972 346	254 080
Cash flow from investing activities			
Investing activity inflows		36 312 919	62 094 159
Sale of investment securities		36 130 804	61 891 615
Sale of intangible assets and property, plant and equipment		2 200	4 586
Dividend received	11	255	386
Other investing inflows		179 660	197 572
Investing activity outflows		(36 162 420)	(67 014 232)
Acquisition of investment securities		(36 001 372)	(66 963 278)
Acquisition of intangible assets and property, plant and equipment		(161 048)	(50 954)
Net cash flows from investing activities		150 499	(4 920 073)

Notes to the financial statements presented on pages 19 - 79 constitute an integral part of the interim condensed consolidated financial statements.

Consolidated cash flow statement (cont.)

(in PLN thousand)

	NOTE	I QUARTER 2020 PERIOD FROM 01.01.2020 TO 31.03.2020	I QUARTER 2019 PERIOD FROM 01.01.2019 TO 31.03.2019
Cash flows from financing activities	40		
Financing activity inflows		5 466 529	1 613 942
Due to loans and advances received from banks		3 074 865	294 323
Issue of debt securities		2 391 664	1 319 619
Financing activity outflows		(7 563 531)	(2 113 163)
Repayment of loans and advances received from banks		(3 853 977)	(917 228)
Redemption of debt securities		(3 682 129)	(1 160 237)
Payments for the principal portion of the lease liabilities		(27 425)	(35 698)
Net cash flows from financing activities		(2 097 002)	(499 221)
Total net cash flows		6 025 843	(5 165 214)
including effect of exchange rate fluctuations on cash and cash equivalents held		136 694	10 538
Net change in cash and cash equivalents		6 025 843	(5 165 214)
Cash and cash equivalents at the beginning of the period		6 950 972	15 239 266
Cash and cash equivalents at the end of the period	40	12 976 815	10 074 052

Notes to the financial statements presented on pages 19 – 79 constitute an integral part of the interim condensed consolidated financial statements.

Unconsolidated income statement

(in PLN thousand)

	I QUARTER 2020 PERIOD FROM 01.01.2020 TO 31.03.2020	I QUARTER 2019 PERIOD FROM 01.01.2019 TO 31.03.2019 RESTATED
Interest income	1 640 978	1 539 945
Financial assets measured at amortized cost	1 422 403	1 318 215
Financial assets measured at fair value through other comprehensive income	158 240	160 422
Financial assets measured at fair value through profit or loss	60 335	61 308
Interest expense	(254 219)	(272 543)
Net interest income	1 386 759	1 267 402
Fee and commission income	616 962	567 187
Fee and commission expense	(103 460)	(80 335)
Net fee and commission income	513 502	486 852
Dividend income	255	64 352
Result on financial assets and liabilities measured at fair value through profit or loss	2 533	13 523
Result on fair value hedge accounting	(1 744)	(976)
Result on derecognition of financial assets and liabilities not measured at fair value through profit or loss	20 685	11 211
Net impairment losses on financial assets and off-balance sheet commitments	(346 415)	(101 141)
Net other operating income and expenses	(1 998)	10 872
Administrative expenses	(1 219 449)	(1 194 266)
Personnel expenses	(558 846)	(413 845)
Other administrative expenses	(660 603)	(780 421)
Depreciation and amortization	(113 147)	(116 951)
Gains (losses) on subsidiaries and associates	(365)	-
PROFIT BEFORE INCOME TAX	240 616	440 878
Income tax expense	(127 538)	(181 555)
NET PROFIT	113 078	259 323
Earnings per share (in PLN per share)		
basic for the period	0.43	0.99
diluted for the period	0.43	0.99

Unconsolidated statement of comprehensive income

(in PLN thousand)

	I QUARTER 2020 PERIOD FROM 01.01.2020 TO 31.03.2020	I QUARTER 2019 PERIOD FROM 01.01.2019 TO 31.03.2019
Net profit	113 078	259 323
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	(160 001)	(9 323)
Profit or loss on fair value measurement	(147 002)	2 012
Profit or loss reclassification to income statement after derecognition	(12 999)	(11 335)
Change in fair value of cash flow hedges	414 935	64 768
Tax on items that are or may be reclassified subsequently to profit or loss	(48 438)	(10 534)
Items that will never be reclassified to profit or loss:		
Investment in equity instruments designated at fair value through other comprehensive income	(11 233)	802
Remeasurements of the defined benefit liabilities	-	-
Tax on items that will never be reclassified to profit or loss	2 134	(152)
Other comprehensive income (net of tax)	197 397	45 561
Total comprehensive income	310 475	304 884

Unconsolidated statement of financial position

(in PLN thousand)

	31.03.2020	31.12.2019
ASSETS		
Cash and due from Central Bank	9 936 691	5 138 758
Loans and advances to banks	3 613 792	2 243 908
Financial assets held for trading	1 711 401	1 279 495
Derivative financial instruments (held for trading)	5 131 474	2 085 989
Loans and advances to customers	135 808 538	131 675 384
1. Measured at amortised cost	133 911 970	129 886 963
2. Measured at fair value through profit or loss	231 677	242 639
3. Measured at fair value through other comprehensive income	1 664 891	1 545 782
Hedging instruments	843 943	377 208
Investment (placement) securities	46 141 746	45 873 297
1. Measured at fair value through profit or loss	117 381	125 454
2. Designated at fair value through profit or loss	-	-
3. Measured at fair value through other comprehensive income (debt securities)	27 510 593	30 964 680
4. Designated at fair value through other comprehensive income (equity instruments)	214 362	225 332
5. Measured at amortised cost	18 299 410	14 557 831
Assets held for sale	17 175	17 175
Investments in subsidiaries	1 626 084	1 626 449
Investments in associates	-	-
Intangible assets	802 870	739 777
Property, plant and equipment	1 809 368	1 842 378
Investment properties	-	-
Income tax assets	880 208	777 116
1. Current tax assets	-	-
2. Deferred tax assets	880 208	777 116
Other assets	742 029	973 058
TOTAL ASSETS	209 065 319	194 649 992
EQUITY AND LIABILITIES		
Liabilities		
Amounts due to Central Bank	4 565	4 550
Amounts due to other banks	3 616 025	3 043 969
Financial liabilities held for trading	382 001	184 799
Derivative financial instruments (held for trading)	4 974 356	2 040 368
Amounts due to customers	168 127 124	158 544 670
Hedging instruments	1 154 043	614 765
Debt securities issued	1 361 511	1 604 344
Subordinated liabilities	2 787 701	2 764 493
Income tax liabilities	279 054	168 318
1. Current tax liabilities	279 054	168 318
2. Deferred tax liabilities	-	-
Provisions	946 150	773 057
Other liabilities	2 595 526	2 379 871
TOTAL LIABILITIES	186 228 056	172 123 204
Equity		
Share capital	262 470	262 470
Other capital and reserves	20 214 248	20 016 851
Retained earnings and net profit for the period	2 360 545	2 247 467
TOTAL EQUITY	22 837 263	22 526 788
TOTAL LIABILITIES AND EQUITY	209 065 319	194 649 992

Unconsolidated statement of changes in equity

(in PLN thousand)

For the period from 1 January 2020 to 31 March 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	2 247 467	22 526 788
Comprehensive income	-	197 397	-	-	-	197 397	-	113 078	310 475
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)	-	(129 601)	-	-	-	(129 601)	-	-	(129 601)
Revaluation or sale of investments in equity instruments designated at fair value through other comprehensive income (net of tax)	-	(9 099)	-	-	-	(9 099)	-	-	(9 099)
Revaluation of hedging financial instruments (net of tax)	-	336 097	-	-	-	336 097	-	-	336 097
Net profit for the period	-	-	-	-	-	-	-	113 078	113 078
Appropriation of retained earnings	-	-	-	-	-	-	-	-	-
Dividend paid	-	-	-	-	-	-	-	-	-
Profit appropriation	-	-	-	-	-	-	-	-	-
Equity as at 31.03.2020	262 470	20 214 248	9 137 221	1 982 459	8 300 933	560 508	233 127	2 360 545	22 837 263

Unconsolidated statement of changes in equity (cont.)

(in PLN thousand)

For the period from 1 January 2019 to 31 December 2019

	SHARE CAPITAL	OTHER CAPITAL AND RESERVES					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

Unconsolidated statement of changes in equity (cont.)

(in PLN thousand)

For the period from 1 January 2019 to 31 March 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	-	45 561	-	-	-	45 561	-	259 323	304 884
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)	-	(7 551)	-	-	-	(7 551)	-	-	(7 551)
Revaluation or sale of investments in equity instruments designated at fair value through other comprehensive income (net of tax)	-	650	-	-	-	650	-	-	650
Revaluation of hedging financial instruments (net of tax)	-	52 462	-	-	-	52 462	-	-	52 462
Net profit for the period	-	-	-	-	-	-	-	259 323	259 323
Appropriation of retained earnings	-	-	-	-	-	-	-	-	-
Dividend paid	-	-	-	-	-	-	-	-	-
Profit appropriation	-	-	-	-	-	-	-	-	-
Equity as at 31.03.2019	262 470	20 231 237	9 137 221	1 982 459	8 627 858	250 572	233 127	1 633 175	22 126 882

Unconsolidated cash flow statement

(in PLN thousand)

	I QUARTER 2020 PERIOD FROM 01.01.2020 TO 31.03.2020	I QUARTER 2019 PERIOD FROM 01.01.2019 TO 31.03.2019
Cash flow from operating activities – indirect method		
Net profit for the period	113 078	259 323
Adjustments for:	6 118 071	(370 360)
Depreciation and amortization	113 147	116 951
(Gains) losses on investing activities	(8 929)	(13 343)
Net interest income	(1 386 759)	(1 267 402)
Dividend income	(255)	(64 352)
Interest received	1 552 656	1 790 896
Interest paid	(259 519)	(240 296)
Income tax	127 538	181 555
Income tax paid	(170 187)	(150 128)
Change in loans and advances to banks	(67 466)	(253 121)
Change in financial assets held for trading	(438 741)	(581 700)
Change in derivative financial instruments (assets)	(3 045 485)	(128 078)
Change in loans and advances to customers	(4 119 682)	(3 326 220)
Change in investment (placement) securities	(500 674)	(508 588)
Change in other assets	(146 789)	(686 553)
Change in amounts due to banks	653 384	1 023 185
Change in financial liabilities held for trading	197 202	704 675
Change in derivative financial instruments (liabilities)	2 933 988	112 889
Change in amounts due to customers	9 630 799	2 175 949
Change in debt securities issued	(21 241)	(16 856)
Change in subordinated liabilities	23 208	16 500
Payments for short-term leases and leases of low-value assets	(7 042)	(3 666)
Change in provisions	173 093	2 100
Change in other liabilities	885 825	745 243
Net cash flows from operating activities	6 231 149	(111 037)
Cash flow from investing activities		
Investing activity inflows	35 985 493	61 993 445
Sale of investment securities	35 805 578	61 792 168
Sale of intangible assets and property, plant and equipment	-	4 471
Dividend received	255	-
Other investing inflows	179 660	196 806
Investing activity outflows	(35 776 982)	(66 854 778)
Acquisition of investment securities	(35 643 562)	(66 841 813)
Acquisition of intangible assets and property, plant and equipment	(133 420)	(12 965)
Net cash flows from investing activities	208 511	(4 861 333)

Unconsolidated cash flow statement (cont.)

(in PLN thousand)

	I QUARTER 2020 PERIOD FROM 01.01.2020 TO 31.03.2020	I QUARTER 2019 PERIOD FROM 01.01.2019 TO 31.03.2019
Cash flows from financing activities		
Financing activity inflows	370 707	256 125
Due to loans and advances received from banks	-	7 000
Issue of debt securities	370 707	249 125
Financing activity outflows	(709 691)	(152 275)
Repayment of loans and advances received from banks	(68 806)	(11 053)
Redemption of debt securities	(613 499)	(103 796)
Payments for the principal portion of the lease liabilities	(27 386)	(37 426)
Net cash flows from financing activities	(338 984)	103 850
Total net cash flows	6 100 676	(4 868 520)
including effect of exchange rate fluctuations on cash and cash equivalents held	136 936	11 797
Net change in cash and cash equivalents	6 100 676	(4 868 520)
Cash and cash equivalents at the beginning of the period	7 220 182	15 232 770
Cash and cash equivalents at the end of the period	13 320 858	10 364 250

Notes to financial statements

(in PLN thousand)

The accompanying notes to the financial statements constitute an integral part of the interim condensed 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 interim condensed consolidated financial statements of Bank Pekao S.A. Group for the period from 1 January 2020 to 31 March 2020 contain financial information of the Bank and its subsidiaries (together referred to as the 'Group'), and the associates accounted for using equity method.

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

The share ownership structure of the Bank is presented in the Note 5.4 of the Report on the activities of Bank Pekao S.A. Group for the first 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	
			31.03.2020	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 Powszechnie Towarzystwo Emerytalne S.A. (in liquidation)	Warsaw	Pension fund management	100.00	100.00
Centrum Kart S.A.	Warsaw	Financial support	100.00	100.00
Pekao Financial Services Sp. z o.o.	Warsaw	Transferable agent	66.50	66.50
Pekao Direct Sp. z o.o. (ex. Centrum Bankowości Bezpośredniej Sp. z o.o.)	Cracow	Call-center services	100.00	100.00
Pekao Property S.A. (in liquidation), including:	Warsaw	Real estate development	100.00	100.00
<i>FPB - Media Sp. z o.o. (in bankructcy)</i>	<i>Warsaw</i>	<i>Real estate development</i>	<i>100.00</i>	<i>100.00</i>
Pekao Fundusz Kapitałowy Sp. z o.o. (in liquidation)	Warsaw	Business consulting	100.00	100.00
Dom Inwestycyjny Xelion Sp. z o.o.	Warsaw	Financial intermediary	100.00	100.00
Pekao Investment Management S.A., including:	Warsaw	Holding	100.00	100.00
<i>Pekao TFI S.A.</i>	<i>Warsaw</i>	<i>Asset management</i>	<i>100.00</i>	<i>100.00</i>

As at 31 March 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	
			31.03.2020	31.12.2019
CPF Management	Tortola, British Virgin Islands	Financial brokerage – not operating	40.00	40.00

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

Planned sale of the organised part of the enterprise of Pekao Investment Banking S.A.

It is planned to sell the organised part of the enterprise of Pekao Investment Banking S.A. connected with the provision of brokerage services to the Bank's organizational unit - Dom Maklerski Pekao. Other operations of Pekao Investment Banking S.A. connected with offering investment banking services will remain in the Company.

3. Business combinations

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

4. Statement of compliance

The Interim Condensed Consolidated Financial statements of Bank Pekao S.A. Group for the period of 3 months ended 31 March 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 three months period ended 31 March 2020, i.e. current interim period.

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

These interim condensed consolidated financial statements were authorized for issue by the Management Board on 11 May 2020.

Notes to financial statements (cont.)

(in PLN thousand)

5. Significant accounting policies

5.1 Basis of preparation of Consolidated Financial Statements

General information

Interim Condensed Consolidated Financial Statements of the Group for the period of three months ended on 31 March of 2020 have been prepared based on the following valuation methods:

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

In the period of three months ended on 31 March 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 interim condensed consolidated financial statements, are the same as those applied in the Consolidated Financial Statements of Bank Pekao S.A. Group for the year ended on 31 December 2019. Those accounting policies have been applied uniformly to all presented reporting periods and by all entities of the Group.

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

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

Comparability of financial data

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

The above-mentioned changes resulted in restatement of comparable data for the period of three months ended 31 March 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 I QUARTER 2019 BEFORE RESTATEMENT	RESTATEMENT	DATA FOR I QUARTER 2019 AFTER RESTATEMENT
Net result on other provisions	(4 729)	4 729	-
Gains (losses) on disposal of property plant and equipment and intangible assets	2 108	(2 108)	-
Net other operating income and expenses	16 918	(2 621)	14 297

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.

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.

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

STANDARD/ INTERPRETATION	DESCRIPTION	IMPACT ASSESSMENT
IFRS 17 'Insurance Contracts'	The new standard requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 'Insurance Contracts' and related interpretations while applied. Date of application: annual periods beginning on or after 1 January 2021.	The Group claims that the new standard will not have a material impact on the financial statements in the period of its first application.
IAS 1 (amendment) 'Presentation of financial statements'	The amendments affect requirements in IAS 1 for the presentation of liabilities. In particular, these amendments clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. Date of application: annual periods beginning on or after 1 January 2023.	The Group claims that the standard's amendments will not have a material impact on the financial statements in the period of its first application.

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.

The estimates at balance sheet day reflect market conditions on that date (e.g. market prices, interest rates, exchange rates).

Although the estimates are based on the best knowledge concerning current conditions and activities of the Group, the actual results may differ from those estimates.

During the three months period ended 31 March 2020 the most significant estimates are as follows:

- impairment of financial assets and off-balance sheet commitments,
- fair value measurement for derivative financial instruments and unquoted debt securities,
- provision for legal risk regarding foreign currency mortgage loans in CHF ,
- provisions for commission refunds in the event of early repayment of loan.

As indicated in Note 7.1 to these interim condensed consolidated financial statements, the Bank included the impact of the COVID-19 epidemic in its estimates of impairment of financial assets and off-balance sheet commitments made as at 31 March 2020. Given the significant uncertainty about the further development of the economic situation, the estimates made are associated with significant uncertainty, and the impact of the COVID-19 epidemic on credit risk parameters may change in the future.

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.

7. Risk management

7.1 Credit risk

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

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

- increased monitoring of the loan portfolio with particular emphasis on high risk industries,
- increasing the frequency of portfolio quality reports and supplementing them, eg. with the results of monitoring of exposures,
- 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,
- deferring the payment of principal and interest instalments for a maximum period of 3 months,
- deferring the application of sanctions resulting from non-implementation of contractual clauses.

Notes to financial statements (cont.)

(in PLN thousand)

In addition, due to the impact of the COVID-19 epidemic on the forecast quality of the loan portfolio, the Bank took into account the assumed increase in the frequency of default in the calculation of expected credit losses. Due to the high uncertainty regarding the development of the economic situation and its impact on credit risk parameters, this impact was taken into account at the level of the entire portfolio, not its components, and its scale was estimated based on historical experience.

Actions taken by the Bank and assumptions concerning the calculation of impairment allowances will be adjusted to the changing external situation while maintaining compliance with regulatory guidelines.

The selected credit risk quantitative data are presented below.

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	2 292 464	(2 284 477)	(9)	(7 978)	-	-
Transfer to Stage 2	(3 470 856)	3 558 962	(21 177)	(66 929)	-	-
Transfer to Stage 3	(87 248)	(260 708)	112 619	235 337	-	-
New / Purchased / Granted financial assets	14 711 373	-	-	-	249	14 711 622
Financial assets derecognised, other than write-offs (repayments)	(11 040 075)	(712 630)	(114 511)	(65 927)	(236)	(11 933 379)
Financial assets written off (*)	-	-	(163 821)	(55 944)	-	(219 765)
Modifications not resulting in derecognition	(1 674)	-	-	-	-	(1 674)
Other, in this changes resulting from exchange rates	989 410	299 272	66 594	144 700	1 941	1 501 917
GROSS CARRYING AMOUNT AS AT 31.03.2020	114 991 540	20 038 733	4 963 916	2 980 127	44 760	143 019 076
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	66 581	(63 194)	(1)	(3 386)	-	-
Transfer to Stage 2	(16 809)	38 858	(1 693)	(20 356)	-	-
Transfer to Stage 3	(7 680)	(52 232)	3 745	56 167	-	-
New / Purchased / Granted financial assets	65 348	-	-	-	184	65 532
Financial assets derecognised, other than write-offs (repayments)	(14 085)	(8 442)	(7 606)	(9 095)	(13)	(39 241)
Financial assets written off (*)	-	-	(163 821)	(55 944)	-	(219 765)
Changes in level of credit risk (excluding the transfers between the Stages) (**)	15 767	73 512	132 572	8 321	848	231 020
Changes in models and risk parameters	-	-	-	-	-	-
Other, in this changes resulting from exchange rates	8 170	9 544	73 076	65 383	2 168	158 341
IMPAIRMENT ALLOWANCE AS AT 31.03.2020	418 370	708 595	3 481 849	1 955 630	14 631	6 579 075

(*) Including the value of contractual interest subject to partial write-off in the amount of PLN 77 956 thousand.

(**) Including the provision for legal risk regarding foreign currency mortgage loans in the amount of PLN 38 091 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 March 2020 amounted to PLN 130 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	89 616	(88 479)	(1 137)	-	-	-
Transfer to Stage 2	(344 253)	345 211	(221)	(737)	-	-
Transfer to Stage 3	(13 950)	(26 753)	21 665	19 038	-	-
New/Purchased/Granted financial assets	910 358	-	-	-	-	910 358
Financial assets derecognised, other than write-offs (repayments)	(554 371)	(4 141)	(4 455)	(6 856)	-	(569 823)
Financial assets written off	-	-	-	-	-	-
Other, in this changes resulting from exchange rates	-	-	-	-	-	-
GROSS CARRYING AMOUNT AS AT 31.03.2020	6 455 510	401 420	182 482	100 425	-	7 139 837
IMPAIRMENT ALLOWANCE						
IMPAIRMENT ALLOWANCE AS AT 1.01.2020	3 214	1 769	19 009	62 371	-	86 363
Transfer to Stage 1	919	(865)	(54)	-	-	-
Transfer to Stage 2	(518)	692	(43)	(131)	-	-
Transfer to Stage 3	(28)	(244)	3 630	(3 358)	-	-
New/Purchased/Granted financial assets	825	-	-	-	-	825
Financial assets derecognised, other than write-offs (repayments)	(51)	(9)	(602)	-	-	(662)
Financial assets written off	-	-	-	-	-	-
Changes in level of credit risk (excluding the transfers between the Stages)	1 624	-	(46)	4 608	-	6 186
Other, in this changes resulting from exchange rates	(2 504)	2 571	(1 519)	1 457	-	5
IMPAIRMENT ALLOWANCE AS AT 31.03.2020	3 481	3 914	20 375	64 947	-	92 717

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	-	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
New / Purchased / Granted financial assets	98 865	-	-	-	-	98 865
Financial assets derecognised, other than write-offs (repayments)	(401)	(4 112)	-	-	-	(4 513)
Financial assets written off	-	-	-	-	-	-
Modifications not resulting in derecognition	-	-	-	-	-	-
Other, in this changes resulting from exchange rates	44 408	31 871	-	-	-	76 279
CARRYING AMOUNT AS AT 31.03.2020	914 859	636 379	-	-	-	1 551 238
IMPAIRMENT ALLOWANCE (*)						
IMPAIRMENT ALLOWANCE AS AT 1.01.2020	3 407	17 401	-	-	-	20 808
Transfer to Stage 1	-	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
New / Purchased / Granted financial assets	727	-	-	-	-	727
Financial assets derecognised, other than write-offs (repayments)	-	-	-	-	-	-
Financial assets written off	-	-	-	-	-	-
Changes in level of credit risk (excluding the transfers between the Stages)	1 305	(527)	-	-	-	778
Changes in models and risk parameters	-	-	-	-	-	-
Other, in this changes resulting from exchange rates	241	1 179	-	-	-	1 420
IMPAIRMENT ALLOWANCE AS AT 31.03.2020	5 680	18 053	-	-	-	23 733

(*) 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	-	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
New / purchased / granted financial assets	6 481 448	-	-	-	-	6 481 448
Financial assets derecognised, other than write-offs (repayments)	(2 862 651)	(6 798)	-	-	-	(2 869 449)
Other, in this changes resulting from exchange rates	142 325	31	1 184	-	-	143 540
GROSS CARRYING AMOUNT AS AT 31.03.2020	18 050 594	325 049	33 554	-	-	18 409 197
IMPAIRMENT ALLOWANCE						
IMPAIRMENT ALLOWANCE AS AT 1.01.2020	25 668	16 955	32 370	-	-	74 993
Transfer to Stage 1	-	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
New / purchased / granted financial assets	3 310	-	-	-	-	3 310
Financial assets derecognised, other than write-offs (repayments)	(1 121)	(347)	-	-	-	(1 468)
Changes in level of credit risk (excluding the transfers between the Stages)	10 636	(152)	-	-	-	10 484
Other, in this changes resulting from exchange rates	373	-	1 184	-	-	1 557
IMPAIRMENT ALLOWANCE AS AT 31.03.2020	38 866	16 456	33 554	-	-	88 876

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	-	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
New / purchased / granted financial assets	29 523 234	-	-	-	-	29 523 234
Financial assets derecognised, other than write-offs (repayments)	(33 402 141)	(373)	-	-	-	(33 402 514)
Other, in this changes resulting from exchange rates	474 423	(777)	-	-	-	473 646
CARRYING AMOUNT AS AT 31.03.2020	27 525 655	11 710	-	-	-	27 537 365
IMPAIRMENT ALLOWANCE (*)						
IMPAIRMENT ALLOWANCE AS AT 1.01.2020	32 000	671	-	-	-	32 671
Transfer to Stage 1	-	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
New / purchased / granted financial assets	1 586	-	-	-	-	1 586
Financial assets derecognised, other than write-offs (repayments)	(2 824)	-	-	-	-	(2 824)
Changes in level of credit risk (excluding the transfers between the Stages)	18 113	(33)	-	-	-	18 080
IMPAIRMENT ALLOWANCE AS AT 31.03.2020	48 875	638	-	-	-	49 513

(*) 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)

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

	31.03.2020					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:	114 573 170	19 330 138	1 482 067	1 024 497	30 129	136 440 001
Forborne exposures gross	6 996	105 457	2 291 174	486 126	21 321	2 911 074
Loss allowance	(125)	(9 452)	(1 403 895)	(255 923)	(1 956)	(1 671 351)
Forborne exposures net	6 871	96 005	887 279	230 203	19 365	1 239 723
Loans and advances measured at fair value through other comprehensive income, including:	914 859	636 379	-	-	-	1 551 238
Forborne exposures	-	-	-	-	-	-
Impairment allowance (*)	-	-	-	-	-	-
Loans and advances measured at fair value through profit or loss, including:						231 677
Forborne exposures						1 073
Leasing exposures measured at amortised cost, including:	6 452 029	397 506	162 107	35 478	-	7 047 120
Forborne exposures gross	592	3 316	24 653	8 376	-	36 937
Impairment allowance	-	(29)	(5 333)	(4 972)	-	(10 334)
Forborne exposures net	592	3 287	19 320	3 404	-	26 603

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

Notes to financial statements (cont.)

(in PLN thousand)

Share of forbore exposures in the Group's loan portfolio

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

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

CHF loans to individuals

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

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

	31.03.2020					TOTAL
	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT-IMPAIRED (POCI)	
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
Gross carrying amount, of which:	194 434	2 764 191	42 215	193 131	821	3 194 792
denominated in CHF	194 434	2 755 187	42 215	192 328	821	3 184 985
indexed to CHF	-	9 004	-	803	-	9 807
Impairment allowances, of which: (*)	(93)	(52 137)	(25 147)	(86 939)	(342)	(164 658)
denominated in CHF	(93)	(52 108)	(25 147)	(86 684)	(342)	(164 374)
indexed to CHF	-	(29)	-	(255)	-	(284)
Carrying amount, of which:	194 341	2 712 054	17 068	106 192	479	3 030 134
denominated in CHF	194 341	2 703 079	17 068	105 644	479	3 020 611
indexed to CHF	-	8 975	-	548	-	9 523

(*) Including the provision for legal risk regarding foreign currency mortgage loans in the amount of PLN 38 091 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 31 March 2020 the average LTV for CHF loans to individuals granted by the Group amounted to 43.2% (39.9% as at 31 December 2019), with an average LTV for the whole portfolio of 58.4% (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 31 March 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 59 million.

The above amount of the provision includes the following elements:

1. PLN 38.1 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',
2. PLN 20.9 million for current and future claims regarding paid exposures recognized as provisions in correspondence with 'Other operating expenses'.

Notes to financial statements (cont.)

(in PLN thousand)

As at 31 March 2020 lawsuits in number of 213 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 62.5 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 24.7 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 31 March 2020, the Group estimated the portfolio provision in the total amount of PLN 34.3 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 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.

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 in the period from 1 January to 31 March 2020 and in 2019.

	31.03.2020	MINIMUM VALUE	AVERAGE VALUE	MAXIMUM VALUE
foreign currency exchange risk	13	6	50	1 153
interest rate risk	2 237	859	1 357	2 472
Trading portfolio	2 269	837	1 441	2 557

	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

Notes to financial statements (cont.)

(in PLN thousand)

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 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 31 March 2020 and as at 31 December 2019.

SENSITIVITY IN %	31.03.2020	31.12.2019
NII	(7.02)	(6.98)
EVE (*)	(3.45)	(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	31.03.2020	31.12.2019
Currencies total (*)	3 091	117

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

Currency position

31.03.2020	BALANCE SHEET OPERATIONS		OFF-BALANCE SHEET OPERATIONS- DERIVATIVES		NET POSITION
	ASSETS	LIABILITIES	LONG POSITION	SHORT POSITION	
EUR	28 956 399	23 195 096	17 081 082	22 916 000	(73 615)
USD	7 570 674	10 311 536	12 923 132	10 226 255	(43 985)
CHF	3 251 520	652 239	1 526 710	4 115 093	10 898
GBP	350 198	1 048 059	848 277	150 060	356
JPY	7 943	35 306	61 163	33 469	331
NOK	240 215	77 240	217 052	378 487	1 540
CZK	73 647	66 798	245 585	252 472	(38)
SEK	92 840	63 444	2 469	31 698	167
Other currencies	108 218	162 429	702 390	644 059	4 120
Total	40 651 654	35 612 147	33 607 860	38 747 593	(100 226)

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

Notes to financial statements (cont.)

(in PLN thousand)

7.3 Liquidity risk

The liquidity risk management process has not changed significantly in relation to the one described in the consolidated financial statements of Bank Pekao S.A. Group for the year ended 31 December 2019. Due to the COVID-19 pandemic expansion at the end of the first quarter of 2020, which indirectly contributed to the financial market turbulences, the Bank introduced the lowest liquidity contingency state - the state of attention. It provides the possibility to actively monitor the Bank's liquidity situation and market environment and quickly take the required actions. Nevertheless, the Bank's liquidity position remains fully stable at the moment and liquidity measures and ratios remain at high and safe level.

Regulatory liquidity norms.

SUPERVISORY LIQUIDITY NORMS		LIMIT	31.03.2020	31.12.2019
M3 (*)	Own funds to non-liquid assets cover ratio	1	8.07	7.63
M4 (*)	Own funds and stable external funds to non-liquid and limited liquidity assets cover ratio	1	1.17	1.18
LCR	Liquidity coverage ratio	1	1.78	1.52

(*) Ratio at the unconsolidated level.

The tables below present adjusted liquidity gap.

31.03.2020	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	47 593 505	7 225 593	26 756 965	73 452 569	62 331 200	217 359 832
Equity and liabilities	17 564 422	7 940 562	22 034 845	22 717 934	147 102 069	217 359 832
Off-balance sheet assets/liabilities (net)	(7 180 184)	77 199	1 256 531	2 160 377	2 975 270	(710 807)
Periodic gap	22 848 899	(637 770)	5 978 651	52 895 012	(81 795 599)	(710 807)
Cumulated gap	-	22 211 129	28 189 780	81 084 792	(710 807)	-

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.

Notes to financial statements (cont.)

(in PLN thousand)

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).

As of 31 March 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.

Notes to financial statements (cont.)

(in PLN thousand)

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

31.03.2020	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Assets:	13 662 210	14 064 276	9 060 486	36 786 972
Financial assets held for trading	888 059	272 654	32 771	1 193 484
Derivative financial instruments, including:	-	5 095 556	1 966	5 097 522
Banks	-	1 379 071	1 966	1 381 037
Customers	-	3 716 485	-	3 716 485
Hedging instruments, including:	-	843 943	-	843 943
Banks	-	141 572	-	141 572
Customers	-	702 371	-	702 371
Securities measured at fair value through other comprehensive income	12 774 151	7 852 123	7 125 453	27 751 727
Securities measured at fair value through profit or loss	-	-	117 381	117 381
Loans and advances to customers measured at fair value through other comprehensive income	-	-	1 551 238	1 551 238
Loans and advances to customers measured at fair value through profit or loss	-	-	231 677	231 677
Liabilities:	382 120	6 117 596	-	6 499 716
Financial liabilities held for trading	382 001	-	-	382 001
Derivative financial instruments, including:	119	4 963 553	-	4 963 672
Banks	-	1 503 978	-	1 503 978
Customers	119	3 459 575	-	3 459 694
Hedging instruments, including:	-	1 154 043	-	1 154 043
Banks	-	1 066 505	-	1 066 505
Customers	-	87 538	-	87 538

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

Notes to financial statements (cont.)

(in PLN thousand)

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

I QUARTER 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:	269 418	988	188 044	2 280	-	582 915
Reclassification	15 172	96	-	-	-	410 504
Transactions made in 2020	-	-	-	163	-	-
Acquisition/Granting	253 993	-	100 018	-	-	127 831
Settlement/Redemption	-	-	81 865	-	-	-
Gains on financial instruments	253	892	6 161	2 117	-	44 580
recognized in the income statement	253	892	6 161	2 117	-	43 474
recognized in revaluation reserves	-	-	-	-	-	1 106
Decreases, including:	(244 682)	(2 064)	(17 413)	(13 242)	(8 073)	(398 758)
Reclassification	(201)	-	-	-	-	(14 018)
Settlement/Redemption	(27)	-	-	(13 242)	-	(87 116)
Sale/Repayment	(243 545)	-	-	-	-	(69 147)
Losses on financial instruments	(909)	(2 064)	(17 413)	-	(8 073)	(228 477)
recognized in the income statement	(909)	(2 064)	-	-	(8 073)	-
recognized in revaluation reserves	-	-	(17 413)	-	-	(228 477)
Closing balance	32 771	1 966	1 551 238	231 677	117 381	7 125 453
Unrealized income from financial instruments held in portfolio at the end of the period, recognized in:	(769)	(1 172)	(16 853)	1 767	-	(239 315)
Income statement:	(769)	(1 172)	560	1 767	-	19 004
net interest income	87	-	2 066	78	-	22 895
net impairment losses on financial assets and off-balance sheet commitments	-	-	(1 506)	-	-	(3 891)
result on financial assets and liabilities held for trading	(856)	(1 172)	-	1 689	-	-
Other comprehensive income	-	-	(17 413)	-	-	(258 319)

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 as at the end of the reporting periods.

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

In the period from 1 January to 31 March 2020 the following transfers of financial instruments between the levels of the fair value hierarchy were made:

- from Level 3 to Level 2: municipal bonds with immaterial impact of the estimated credit parameters on the valuation,
- from Level 2 to Level 3: municipal and corporate bonds, for which impact of estimated credit parameters was material, 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.

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

FINANCIAL ASSET/LIABILITY	FAIR VALUE AS AT 31.03.2020	VALUATION TECHNIQUE	UNOBSERVABLE FACTOR	ALTERNATIVE FACTOR RANGE (WEIGHTED AVERAGE)	IMPACT ON FAIR VALUE AS AT 31.03.2020	
					POSITIVE SCENARIO	NEGATIVE SCENARIO
Corporate and municipal debt securities	6 955 564	Discounted cash flow	Credit spread	1.03%-1.85%	104 006	(115 388)
Sovereign securities	7 294	Discounted cash flow	Spread to benchmark bond	0.29%-0.59%	223	(223)
Derivatives	1 966	Black Scholes Model	Correlation	0-1	279	(1 179)
Loans and advances measured at fair value through profit or loss	231 677	Discounted cash flow	Credit spread	1.10%-2.02%	4 266	(4 155)
Loans and advances measured at fair value through other comprehensive income	1 551 238	Discounted cash flow	Credit spread	2.40%-3.32%	22 642	(22 222)

FINANCIAL ASSET	FAIR VALUE AS AT 31.03.2020	PARAMETR	SCENARIO	IMPACT ON FAIR VALUE AS AT 31.03.2020	
				POSITIVE SCENARIO	NEGATIVE SCENARIO
Equity instruments mandatorily measured at fair value through profit or loss	117 381	Conversion discount	+10% / -10%	14 673	(14 673)
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 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)

Notes to financial statements (cont.)

(in PLN thousand)

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

Financial instruments that are not measured at fair value in the 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 31 March 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.

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

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

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

Notes to financial statements (cont.)

(in PLN thousand)

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

31.03.2020	CARRYING AMOUNT	FAIR VALUE	OF WHICH:		
			LEVEL 1	LEVEL 2	LEVEL 3
Assets					
Cash and due from Central Bank	9 939 309	9 937 801	4 634 897	5 302 904	-
Loans and advance to banks	3 045 370	3 043 091	-	1 437 460	1 605 631
Loans and advances to customers measured at amortised cost	136 440 001	135 578 068	-	1 475 539	134 102 529
Receivables from financial leases	7 047 120	7 068 469	-	-	7 068 469
Debt securities measured at amortised cost	18 320 321	18 602 453	12 439 981	1 432 462	4 730 010
Total Assets	174 792 121	174 229 882	17 074 878	9 648 365	147 506 639
Liabilities					
Amounts due to Central Bank	4 565	4 565	-	-	4 565
Amounts due to other banks	7 570 574	7 594 479	-	996 531	6 597 948
Amounts due to customers	167 481 250	167 784 468	-	166 209	167 618 259
Debt securities issued	5 041 292	5 039 371	-	5 039 371	-
Subordinated liabilities	2 787 701	2 792 491	-	2 792 491	-
Total Liabilities	182 885 382	183 215 374	-	8 994 602	174 220 772

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 31 March 2020

	RETAIL BANKING	CORPORATE AND INVESTMENT BANKING	SME BANKING	ASSETS AND LIABILITIES MANAGEMENT AND OTHER	TOTAL
External interest income	915 637	550 986	33 102	217 715	1 717 440
External interest expenses	(139 115)	(113 211)	(9 367)	(27 496)	(289 189)
Net external interest income	776 522	437 775	23 735	190 219	1 428 251
Internal interest income	513 223	184 979	37 135	(735 337)	-
Internal interest expenses	(461 791)	(315 115)	(17 103)	794 009	-
Net internal interest income	51 432	(130 136)	20 032	58 672	-
Dividends and other income from equity investments	-	-	-	-	-
Total net interest income	827 954	307 639	43 767	248 891	1 428 251
Non-interest income	327 711	233 104	76 897	5 804	643 516
Operating income	1 155 665	540 743	120 664	254 695	2 071 767
Personnel expenses	(244 410)	(71 242)	(24 581)	(278 003)	(618 236)
Other administrative expenses	(354 474)	(88 989)	(28 413)	214 019	(257 857)
Depreciation and amortisation	(45 963)	(7 952)	(1 266)	(68 354)	(123 535)
Operating costs	(644 847)	(168 183)	(54 260)	(132 338)	(999 628)
Gross operating profit	510 818	372 560	66 404	122 357	1 072 139
Net impairment losses on financial assets and off-balance sheet commitments	(71 692)	(272 881)	(16 170)	29 833	(330 910)
Net operating profit	439 126	99 679	50 234	152 190	741 229
Guarantee funds charges	(73 528)	(58 127)	(3 273)	(115 775)	(250 703)
Tax on certain financial institutions	-	-	-	(156 506)	(156 506)
Gains (losses) on subsidiaries and associates	-	-	-	-	-
Profit before tax	365 598	41 552	46 961	(120 091)	334 020
Income tax expense					(146 569)
Net profit for the period					187 451
Attributable to equity holders of the Bank					186 898
Attributable to non-controlling interests					553
Allocated assets	79 556 076	76 540 126	3 522 870	41 179 383	200 798 455
Unallocated assets					16 561 377
Total assets					217 359 832
Allocated liabilities	108 741 968	59 382 030	11 799 856	3 961 040	183 884 894
Unallocated liabilities					9 692 949
Total liabilities					193 577 843

Notes to financial statements (cont.)

(in PLN thousand)

Operating segments reporting for the period from 1 January to 31 March 2019

	RETAIL BANKING	CORPORATE AND INVESTMENT BANKING	SME BANKING	ASSETS AND LIABILITIES MANAGEMENT AND OTHER	TOTAL
External interest income	852 047	505 078	32 629	208 228	1 597 982
External interest expenses	(148 586)	(114 519)	(10 641)	(23 840)	(297 586)
Net external interest income	703 461	390 559	21 988	184 388	1 300 396
Internal interest income	465 152	195 757	35 697	(696 606)	-
Internal interest expenses	(424 463)	(320 544)	(16 454)	761 461	-
Net internal interest income	40 689	(124 787)	19 243	64 855	-
Dividends and other income from equity investments	-	-	-	-	-
Total net interest income	744 150	265 772	41 231	249 243	1 300 396
Non-interest income	350 021	188 484	61 115	46 761	646 381
Operating income	1 094 171	454 256	102 346	296 004	1 946 777
Personnel expenses	(273 701)	(66 048)	(22 378)	(117 297)	(479 424)
Other administrative expenses	(329 675)	(92 933)	(26 409)	198 403	(250 614)
Depreciation and amortisation	(45 260)	(8 068)	(1 134)	(74 185)	(128 647)
Operating costs	(648 636)	(167 049)	(49 921)	6 921	(858 685)
Gross operating profit	445 535	287 207	52 425	302 925	1 088 092
Net impairment losses on financial assets and off-balance sheet commitments	(95 664)	(27 086)	(2 998)	16 065	(109 683)
Net operating profit	349 871	260 121	49 427	318 990	978 409
Guarantee funds charges	(67 841)	(53 770)	(2 998)	(268 553)	(393 162)
Tax on certain financial institutions	-	-	-	(148 861)	(148 861)
Gains (losses) on subsidiaries and associates	-	-	-	-	-
Profit before tax	282 030	206 351	46 429	(98 424)	436 386
Income tax expense					(193 321)
Net profit for the period					243 065
Attributable to equity holders of the Bank					242 341
Attributable to non-controlling interests					724
Allocated assets	74 359 141	69 391 455	3 363 926	39 471 877	186 586 399
Unallocated assets					10 053 617
Total assets					196 640 016
Allocated liabilities	96 476 261	56 122 156	10 752 682	4 175 109	167 526 208
Unallocated liabilities					6 018 860
Total liabilities					173 545 068

Notes to financial statements (cont.)

(in PLN thousand)

Reconciliations of operating income for reportable segments

	I QUARTER 2020	I QUARTER 2019
Net interest income	1 428 251	1 300 396
Net fee and commission income	614 394	603 579
Dividend income	255	386
Result on financial assets and liabilities measured at fair value through profit or loss	10 272	17 663
Result on fair value hedge accounting	(1 744)	(976)
Profit (loss) from derecognition of financial assets and financial liabilities not at fair value through profit or loss	21 126	11 432
Operating income	2 072 554	1 932 480
Net other operating income and expenses	(787)	14 297
Total operating income for reportable segments	2 071 767	1 946 777

9. Interest income and expense

Interest income

	I QUARTER 2020			TOTAL
	FINANCIAL ASSETS MEASURED AT AMORTISED COST	FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	
Loans and other receivables from customers	1 383 216	7 667	1 312	1 392 195
Interbank placements	10 199	-	-	10 199
Reverse repo transactions	7 247	-	-	7 247
Investment securities	99 148	150 582	-	249 730
Hedging derivatives	-	-	55 704	55 704
Financial assets held for trading	-	-	2 365	2 365
Total	1 499 810	158 249	59 381	1 717 440

	I 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	1 284 099	7 918	1 688	1 293 705
Interbank placements	12 262	-	-	12 262
Reverse repo transactions	8 339	-	-	8 339
Investment securities	72 805	151 926	-	224 731
Hedging derivatives	-	-	55 677	55 677
Financial assets held for trading	-	-	3 268	3 268
Total	1 377 505	159 844	60 633	1 597 982

Notes to financial statements (cont.)

(in PLN thousand)

Interest expense

	I QUARTER 2020	I QUARTER 2019
Deposits from customers	(209 933)	(232 754)
Interbank deposits	(3 395)	(3 498)
Repo transactions	(5 811)	(4 823)
Loans and advances received	(12 004)	(6 577)
Leasing	(2 680)	(3 567)
Debt securities issued	(55 366)	(46 367)
Total	(289 189)	(297 586)

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

10. Fee and commission income and expense

Fee and commission income

	I QUARTER 2020	I QUARTER 2019
Accounts maintenance, payment orders and cash transactions	148 456	150 330
Payment cards	146 102	141 938
Loans and advances	93 688	95 394
Margin on foreign exchange transactions with clients	134 319	115 580
Service and sell investment, insurance and retirement products	126 024	125 905
Securities operations	19 487	16 191
Custody activity	12 214	13 061
Guarantees, letters of credit and similar transactions	16 260	15 809
Other	22 716	10 677
Total	719 266	684 885

Fee and commission expense

	I QUARTER 2020	I QUARTER 2019
Payment cards	(75 056)	(54 307)
Money orders and transfers	(5 511)	(5 843)
Securities and derivatives operations	(8 455)	(7 456)
Accounts maintenance	(7 888)	(6 134)
Custody activity	(4 179)	(4 430)
Bank accounts services	(865)	(969)
Pension and investment funds management	(152)	(132)
Other	(2 766)	(2 035)
Total	(104 872)	(81 306)

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.

Notes to financial statements (cont.)

(in PLN thousand)

11.Dividend income

	I QUARTER 2020	I QUARTER 2019
Issuers of securities measured at fair value through profit or loss	255	386
Total	255	386

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

	I QUARTER 2020	I QUARTER 2019
Gains (losses) on loans and advances to customers measured mandatorily at fair value through profit or loss	1 691	(6 332)
Gains (losses) on securities measured mandatorily at fair value through profit or loss	(18 559)	12 267
Foreign currency exchange result	(28 498)	(3 305)
Gains (losses) on derivatives	44 878	13 054
Gains (losses) on securities held for trading	10 760	1 979
Total	10 272	17 663

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

Realized gains

	I QUARTER 2020	I QUARTER 2019
Financial assets measured at amortised cost	8 438	-
Financial assets measured at fair value through other comprehensive income	13 481	11 556
Financial liabilities not measured at fair value through profit or loss	1	-
Total	21 920	11 556

Realized losses

	I QUARTER 2020	I QUARTER 2019
Financial assets measured at amortised cost	(704)	-
Financial assets measured at fair value through other comprehensive income	(42)	-
Financial liabilities not measured at fair value through profit or loss	(48)	(124)
Total	(794)	(124)

Net realized profit	21 126	11 432
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Notes to financial statements (cont.)

(in PLN thousand)

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

	I QUARTER 2020	I QUARTER 2019
Loans and other financial assets measured at amortized cost (*) (**)	(263 903)	(84 116)
Debt securities measured at amortized cost	(12 326)	502
Loans measured at fair value through other comprehensive income	(1 505)	(19 951)
Debt securities measured at fair value through other comprehensive income	(16 842)	2 004
Off-balance sheet commitments	(34 507)	(8 122)
Provision for legal risk regarding foreign currency mortgage loans	(1 827)	-
Total	(330 910)	(109 683)

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

(**) In first quarter 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

	I QUARTER 2020	I QUARTER 2019 RESTATED
Gains on disposal of property, plant and equipment and intangible assets	76	2 376
Premises rental income	4 373	4 637
Leasing net income (*)	1 245	2 762
Compensation, recoveries, penalty fees and fines received	3 642	5 625
Miscellaneous income	5 196	4 565
Recovery of debt collection costs	2 311	3 133
Net revenues from sale of products, goods and services	1 506	1 368
Releases of impairment allowances for litigation and other assets	109	481
Write offs for liabilities disputable and other provisions	-	55
Other	843	541
Total	19 301	25 543

(*) Leasing net income

	I QUARTER 2020	I QUARTER 2019 RESTATED
Income from operating leases	1 813	1 341
Costs of depreciation of fixed assets provided under operating leases	(1 530)	-
Other income from financial lease	962	1 421
Total	1 245	2 762

Notes to financial statements (cont.)

(in PLN thousand)

Other operating expenses

	I QUARTER 2020	I QUARTER 2019 RESTATED
Write downs for liabilities disputable and other provisions	(684)	(4 784)
Net Provision for legal risk regarding foreign currency mortgage loans	1 547	-
Loss on disposal of property, plant and equipment and intangible assets	(9 945)	(268)
Card transactions monitoring costs	(1 438)	(2 078)
Sundry expenses	(2 002)	(1 354)
Costs of litigation and claims	(951)	(860)
Impairment allowance for litigations and other assets	(322)	(325)
Compensation, penalty fees and fines	(231)	(80)
Credit insurance expenses	(4)	(275)
Other	(6 058)	(1 222)
Total	(20 088)	(11 246)
Net other operating income and expenses	(787)	14 297

16. Administrative expenses

Personnel expenses

	I QUARTER 2020	I QUARTER 2019
Wages and salaries	(534 124)	(404 417)
Insurance and other charges related to employees	(79 772)	(74 562)
Share-based payments expenses	(4 340)	(445)
Total	(618 236)	(479 424)

Other administrative expenses

	I QUARTER 2020	I QUARTER 2019
General expenses	(230 806)	(217 352)
Taxes and charges	(8 858)	(8 523)
Bank Guarantee Fund fee	(250 703)	(393 162)
Financial supervision authority fee (KNF)	(18 193)	(24 739)
Tax on certain financial institutions	(156 506)	(148 861)
Total	(665 066)	(792 637)
Total administrative expenses	(1 283 302)	(1 272 061)

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 40 317 thousand for the I quarter 2020 (PLN 20 651 thousand for the I quarter of 2019) and the costs of annual contribution to resolution fund of banks in the amount of PLN 210 386 thousand (PLN 372 511 thousand in 2019).

17. Depreciation and amortization

	I QUARTER 2020	I QUARTER 2019
Property, plant and equipment	(73 253)	(76 460)
Investment property	-	(73)
Intangible assets	(50 282)	(52 114)
Total	(123 535)	(128 647)

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

	I QUARTER 2020	I QUARTER 2019
INCOME STATEMENT		
Current tax	(302 400)	(243 536)
Current tax charge in the income statement	(302 268)	(238 990)
Adjustments related to the current tax from previous years	(1)	(4 425)
Other taxes (e.g. withholding tax)	(131)	(121)
Deferred tax	155 831	50 215
Occurrence and reversal of temporary differences	155 831	50 215
Tax charge in the consolidated income statement	(146 569)	(193 321)
EQUITY		
Current tax		
Deferred tax	(46 094)	(10 605)
Income and costs disclosed in other comprehensive income:		
revaluation of financial instruments - cash flows hedges	(78 838)	(12 306)
fair value revaluation through other comprehensive income	30 610	1 853
Tax on items that are or may be reclassified subsequently to profit or loss	(48 228)	(10 453)
Tax charge on items that will never be reclassified to profit or loss	2 134	(152)
fair value revaluation through other comprehensive income – equity securities	2 134	(152)
sale of the shares - equity securities	-	-
remeasurements the defined benefit liabilities	-	-
Total charge	(192 663)	(203 926)

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.

	I QUARTER 2020	I QUARTER 2019
Net profit	186 898	242 341
Weighted average number of ordinary shares in the period	262 470 034	262 470 034
Earnings per share (in PLN per share)	0.71	0.92

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 31 March 2020 there were no diluting instruments in the form of convertible bonds in the Group.

	I QUARTER 2020	I QUARTER 2019
Net profit	186 898	242 341
Weighted average number of ordinary shares in the period	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
Diluted earnings per share (in PLN per share)	0.71	0.92

20. Dividends

The Management Board of Bank Polska Kasa Opieki S.A. decided to submit to the Ordinary General Meeting of Shareholders a proposal to distribute the Bank's net profit for 2019, assuming the allocation of PLN 562 409 thousand to reserve capital and that the remaining part of the net profit in the amount of PLN 1 685 058 thousand remains undistributed.

The final decision on the distribution of profit will be taken by the General Meeting of Shareholders.

21. Cash and balances with Central Bank

CASH AND DUE FROM CENTRAL BANK	31.03.2020	31.12.2019
Cash	4 634 897	3 036 985
Current account at Central Bank	5 302 225	2 101 957
Deposits	2 615	23 914
Gross carrying amount	9 939 737	5 162 856
Impairment allowances	(428)	(174)
Net carrying amount	9 939 309	5 162 682

AMOUNTS DUE TO CENTRAL BANK	31.03.2020	31.12.2019
Term deposits	4 565	4 550
Total	4 565	4 550

Notes to financial statements (cont.)

(in PLN thousand)

22. Loans and advances to banks

Loans and advances to banks by product type

	31.03.2020	31.12.2019
Current accounts	202 318	325 704
Interbank placements	943 730	200 840
Loans and advances	14 075	11 536
Cash collaterals	1 485 230	733 093
Reverse repo transactions	295 063	219 153
Cash in transit	106 239	302 298
Total gross amount	3 046 655	1 792 624
Impairment allowances	(1 285)	(1 188)
Total net amount	3 045 370	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

	31.03.2020	31.12.2019
FINANCIAL ASSETS		
Debt securities	1 185 139	1 276 711
Equity securities	8 345	4 953
Total financial assets	1 193 484	1 281 664
FINANCIAL LIABILITIES		
Debt securities	382 001	184 799
Total financial liabilities	382 001	184 799

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

Debt securities held for trading

	31.03.2020	31.12.2019
FINANCIAL ASSETS		
Debt securities issued by State Treasury	913 502	1 131 733
T- bills	-	-
T- bonds	913 502	1 131 733
Debt securities issued by banks	150 825	13 838
Debt securities issued by business entities	120 812	131 140
Total financial assets	1 185 139	1 276 711
FINANCIAL LIABILITIES		
Debt securities issued by State Treasury	382 001	184 799
T- bonds	382 001	184 799
Total financial liabilities	382 001	184 799

Notes to financial statements (cont.)

(in PLN thousand)

Equity securities held for trading

	31.03.2020	31.12.2019
Shares	6 495	2 620
Participation units	1 850	2 333
Total	8 345	4 953

24. Derivative financial instruments (held for trading)

Fair value of trading derivatives

31.03.2020	ASSETS	LIABILITIES
Interest rate transactions		
Interest Rate Swaps (IRS)	3 875 726	3 814 740
Forward Rate Agreements (FRA)	105	11 804
Options	7 754	1 653
Other	794	405
Foreign currency and gold transactions		
Cross-Currency Interest Rate Swaps (CIRS)	158 316	173 918
Currency Forward Agreements	337 688	431 825
Currency Swaps (FX-Swap)	352 002	170 489
Options for currency and gold	75 922	73 847
Transactions based on equity securities and stock indexes		
Options	2 322	2 317
Other	-	119
Transactions based on commodities and precious metals		
Options	238 965	234 968
Other	47 928	47 587
Total	5 097 522	4 963 672

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

	31.03.2020			TOTAL
	AMORTISED COST	FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	FAIR VALUE THROUGH PROFIT OR LOSS	
Mortgage loans	72 489 713	853 487	20 341	73 363 541
Current accounts	12 041 239	-	-	12 041 239
Operating loans	11 951 321	431 423	21 558	12 404 302
Investment loans	21 611 605	266 328	48 154	21 926 087
Cash loans	14 694 432	-	-	14 694 432
Payment cards receivables	1 052 801	-	-	1 052 801
Factoring	6 048 198	-	-	6 048 198
Other loans and advances	1 547 963	-	141 624	1 689 587
Debt securities	-	-	-	-
Reverse repo transactions	1 475 831	-	-	1 475 831
Cash in transit	105 973	-	-	105 973
Gross carrying amount	143 019 076	1 551 238	231 677	144 801 991
Impairment allowances (*) (**)	(6 579 075)	-	-	(6 579 075)
Carrying amount	136 440 001	1 551 238	231 677	138 222 916

(*) The impairment allowance for loans and advances to customers measured at fair value through other comprehensive income in the amount of PLN 23 733 thousand is included in the 'Revaluation reserve' item and does not reduce the carrying amount of the loan.

(**) Including the provision for legal risk regarding foreign currency mortgage loans in the amount of PLN 38 091 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

	31.03.2020			TOTAL
	AMORTISED COST	FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	FAIR VALUE THROUGH PROFIT OR LOSS	
Corporate	61 559 927	1 551 238	41 413	63 152 578
Individuals	78 310 805	-	141 626	78 452 431
Budget entities	3 148 344	-	48 638	3 196 982
Gross carrying amount	143 019 076	1 551 238	231 677	144 801 991
Impairment allowances (*) (**)	(6 579 075)	-	-	(6 579 075)
Carrying amount	136 440 001	1 551 238	231 677	138 222 916

(*) The impairment allowance for loans and advances to customers measured at fair value through other comprehensive income in the amount of PLN 23 733 thousand is included in the 'Revaluation reserve' item and does not reduce the carrying amount of the loan.

(**) Including the provision for legal risk regarding foreign currency mortgage loans in the amount of PLN 38 091 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	31.03.2020	31.12.2019
Up to 1 year	2 712 026	2 503 384
Between 1 and 2 years	1 842 987	1 757 776
Between 2 and 3 years	1 376 823	1 338 587
Between 3 and 4 years	752 676	732 174
Between 4 and 5 years	437 999	392 005
Over 5 years	472 486	532 296
Total undiscounted lease payments	7 594 997	7 256 222
Unearned interest income	(455 160)	(456 920)
Net investment in the lease	7 139 837	6 799 302
Impairment allowances	(92 717)	(86 363)
Carrying amount	7 047 120	6 712 939

Receivables from financial leases by entity

	31.03.2020	31.12.2019
Loans and advances to banks	1	117
Loans and advances to customers	7 139 836	6 799 185
Gross carrying amount	7 139 837	6 799 302
Impairment allowances	(92 717)	(86 363)
Carrying amount	7 047 120	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 31 March 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 (described in the accounting policy - Note 5.2), 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 31 March 2020:

- CFH CIRS deposits / loans (CHF 543 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 31 March 2020 and 31 December 2019.

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

31.03.2020	FVH IRS BONDS – IRS HEDGING DEBT SECURITIES MEASURED AT		TOTAL
	AMORTISED COST	FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	
HEDGING INSTRUMENTS			
Nominal value	200 000	2 920 952	3 120 952
Carrying amount – assets	-	-	-
Carrying amount – liabilities	27 280	173 819	201 099
Balance sheet item in which hedging instrument is reported	Hedging instruments	Hedging instruments	Hedging instruments
Amount of changes in fair value of the hedging instrument in the reporting period used for estimating hedge inefficiency	(11 217)	(49 412)	(60 629)
Amount of hedge ineffectiveness recognized in the income statement 'Result on fair value hedge accounting'	(178)	(1 566)	(1 744)
HEDGED ITEM			
Carrying amount – assets	227 285	3 127 549	3 354 834
Accumulated amount of the adjustment to the fair value of the hedged item included in the carrying amount of the hedged item recognized in the balance sheet - assets	25 328	167 288	192 616
Balance sheet item in which hedged item is reported	Hedging instruments	Hedging instruments	Hedging instruments
Change in the value of hedged item used for estimating hedge inefficiency in the reporting period	11 039	47 846	58 885
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 31.03.2020	INTEREST RATE RISK		INTEREST RATE RISK / CURRENCY RISK	
	CFH IRS loans	CFH IRS deposits	CFH CIRS deposits/ loans	CFH FX-Swap deposits/loans
HEDGING INSTRUMENTS				
Nominal value	12 100 000	1 248 412	5 274 105	17 378 659
Carrying amount – assets	715 304	7 105	-	121 534
Carrying amount – liabilities	19	50 602	632 572	269 751
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	399 169	(16 662)	17 626	11 244
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'	(3 506)	-	-	7
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	(402 813)	16 662	(7 324)	(11 248)
Revaluation reserve due to cash flow hedge accounting for relationships for which hedge accounting will be continued after the end of the reporting period	603 660	(39 001)	(35 999)	13 038
Revaluation reserve due to cash flow hedge accounting for relationships for which hedge accounting is no longer applied	-	-	-	-

Notes to financial statements (cont.)

(in PLN thousand)

Impact of cash flow hedge on balance sheet and financial result

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

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

	I QUARTER 2020	I QUARTER 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	386 044	36 536
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	28 891	28 233
Part of the loss transferred to the income statement due to the lack of expectation of materialization of the hedged item	-	-
Closing balance	541 698	116 309

Notes to financial statements (cont.)

(in PLN thousand)

28. Investment (placement) securities

	31.03.2020	31.12.2019
Debt securities measured at amortised cost	18 320 321	14 578 665
Debt securities measured at fair value through other comprehensive income	27 537 365	30 942 999
Equity instruments designated at fair value through other comprehensive income	214 362	225 332
Equity instruments mandatorily measured at fair value through profit or loss	117 381	146 119
Total	46 189 429	45 893 115

Debt securities measured at amortised cost

	31.03.2020	31.12.2019
Securities issued by State Treasury	12 700 594	8 901 451
T-bills	-	-
T-bonds	12 700 594	8 901 451
Securities issued by Central Banks	64 005	64 262
Securities issued by business entities	2 357 822	2 416 388
Securities issued by local governments	3 197 900	3 196 564
Total	18 320 321	14 578 665
including impairment of assets	(88 876)	(74 993)

Debt securities measured at fair value through other comprehensive income

	31.03.2020	31.12.2019
Securities issued by State Treasury	17 836 216	18 639 761
T-bills	-	-
T-bonds	17 593 496	18 390 151
Other	242 720	249 610
Securities issued by Central Banks	799 941	3 000 508
Securities issued by banks	3 865 649	3 632 368
Securities issued by business entities	2 360 830	2 732 829
Securities issued by local governments	2 674 729	2 937 533
Total	27 537 365	30 942 999
including impairment of assets (*)	(49 513)	(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

	31.03.2020	31.12.2019
Shares	214 362	225 332
Total	214 362	225 332

Equity instruments mandatorily measured at fair value through profit or loss

	31.03.2020	31.12.2019
Shares	117 381	125 454
Investment certificates	-	20 665
Total	117 381	146 119

Notes to financial statements (cont.)

(in PLN thousand)

29. Property, plant and equipment

	31.03.2020	31.12.2019
Non-current assets, including:	1 800 980	1 743 300
land and buildings	1 245 215	1 288 838
machinery and equipment	374 164	288 008
transport vehicles	88 078	73 528
other	93 523	92 926
Non-current assets under construction and prepayments	109 598	176 952
Total	1 910 578	1 920 252

In the period from 1 January to 31 March 2020 the Group acquired property, plant and equipment in the amount of PLN 63 782 thousand (in 2019 - PLN 282 607 thousand), while the value of property, plant and equipment sold amounted to PLN 1 656 thousand (in 2019 - PLN 12 149 thousand).

In the period from 1 January to 31 March 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 31 March 2020 the contractual commitments for the acquisition of property, plant and equipment amounted to PLN 37 412 thousand, (as at 31 December 2019 - PLN 39 481 thousand).

30. Assets pledged as security for liabilities

The following table presents financial assets pledged as security for liabilities

TYPE OF TRANSACTION AS AT 31.03.2020	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	458 873	448 448	459 401
Coverage of Fund for protection of guaranteed assets to the benefit of the Bank Guarantee Fund	bonds	656 683	615 000	-
Coverage of payment commitments to the guarantee fund for the Bank Guarantee Fund	bonds	100 041	100 000	91 219
Coverage of payment commitments to the resolution fund for the Bank Guarantee Fund	bonds	245 458	232 000	204 482
Lombard and technical loan	bonds	3 779 054	3 648 658	-
Other loans	bonds	364 844	357 500	317 088
Debt securities issued	loans, bonds	1 924 497	1 932 292	1 351 065
Coverage of the Guarantee Fund for the Settlement of Stock Exchange Transactions to Central Securities Depository (KDPW)	bonds, cash deposits	47 945	47 945	-
Derivatives	bonds	71 348	71 318	48 917

Notes to financial statements (cont.)

(in PLN thousand)

The following table presents financial assets pledged as security for liabilities

TYPE OF TRANSACTION AS AT 31.12.2019	SECURITY	CARRYING VALUE OF ASSETS PLEDGED AS SECURITY FOR LIABILITIES	NOMINAL VALUE OF ASSETS PLEDGED AS SECURITY FOR LIABILITIES	VALUE OF LIABILITIES SUBJECT TO SECURITY
Repo transactions	bonds	597 540	584 833	598 241
Coverage of Fund for protection of guaranteed assets to the benefit of the Bank Guarantee Fund	bonds	652 929	615 000	-
Coverage of payment commitments to the guarantee fund for the Bank Guarantee Fund	bonds	82 529	81 000	79 123
Coverage of payment commitments to the resolution fund for the Bank Guarantee Fund	bonds	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

31. Amounts due to other banks

Amounts due to other banks by product type

	31.03.2020	31.12.2019
Current accounts	932 130	408 172
Interbank deposits and other liabilities	991 745	691 719
Loans and advances received	5 300 242	5 194 074
Repo transactions	293 187	218 449
Cash in transit	52 730	26 466
Lease liabilities	540	659
Total	7 570 574	6 539 539

Amounts due to other banks are measured at amortised cost.

Notes to financial statements (cont.)

(in PLN thousand)

32. Amounts due to customers

Amounts due to customers by entity and product type

	31.03.2020	31.12.2019
Amounts due to corporate, including:	55 202 256	54 146 677
current accounts	44 328 195	42 198 847
term deposits and other liabilities	10 874 061	11 947 830
Amounts due to budget entities, including:	12 465 747	10 915 849
current accounts	11 706 394	10 526 619
term deposits and other liabilities	759 353	389 230
Amounts due to individuals, including:	98 962 581	91 900 464
current accounts	65 498 509	57 013 373
term deposits and other liabilities	33 464 072	34 887 091
Repo transactions	166 214	379 792
Cash in transit	246 488	240 407
Lease liabilities	437 964	406 545
Total	167 481 250	157 989 734

Amounts due to customers are measured at amortised cost.

33. Debt securities issued

Debt securities issued by type

	31.03.2020	31.12.2019
Liabilities from bonds	2 328 716	3 361 056
Certificates of deposit	1 361 511	1 604 344
Mortgage bonds	1 351 065	1 342 437
Total	5 041 292	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)

34. 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 31.03.2020
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	1 267 338
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	558 506
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	203 324
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	353 982
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	404 551
TOTAL	2 750 000						2 787 701

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)

35. Provisions

Changes in provisions in the reporting period

I QUARTER 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	702	144 430	5 386	71 251	4 340	226 109
Provision utilization	(7 095)	(18 798)	(8 600)	-	(421)	(34 914)
Provision releases	(1 565)	-	-	(36 744)	-	(38 309)
Foreign currency exchange differences	-	-	-	2 622	-	2 622
Other changes	-	-	-	-	-	-
Closing balance	95 975	144 586	287 055	328 031	52 458	908 105
Short term	6 594	144 586	19 792	51 940	750	223 662
Long term	89 381	-	267 263	276 091	51 708	684 443

(*) Including the provision for legal risk regarding foreign currency mortgage loans in CHF in the amount of PLN 20 894 thousand and a provision for early repayments of consumer loans in the amount of PLN 19 205 thousand as at 31 March 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 interim condensed 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 31 March 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 19.2 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 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 31 March 2020, the Group estimated possible future prepayments of these exposures. In accordance with the above, the Group recognized the amount of PLN 9.5 million in 'Other liabilities'.

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)

36. Contingent commitments

Court cases

As of 31 March 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 31 March 2020 at mid NBP rate was equivalent to PLN 79 763 789.08), litigation initiation date – 19 July 2018, on 27 May 2019 the Arbitration Court at the Polish Chamber of Commerce passed a sentence dismissing the suit in its entirety, the sentence is legally valid but the plaintiff lodged a complaint with a court of general jurisdiction and demand the sentence to be repealed, in the present factual and legal circumstances the Bank assesses the funds outflow risk as possible,
 - brought by the receiver for a joint stock company in liquidation bankruptcy – lawsuit for payment of compensation for a damage incurred as a result of the Bank's demanding immediate payment of the amounts due in virtue of payment of the price from the credit receivables transfer agreement and conducting debt enforcement collection of the portion of the price remaining for payment by a court enforcement officer, value of the object of litigation PLN 57 450 130 litigation initiation date – 30 April 2015, in the present factual and legal circumstances the Bank assesses the funds outflow risk as possible,
 - brought by a natural person – lawsuit for payment by the Bank of an amount charged by virtue of settlement of financial future or forward transactions, value of the object of litigation PLN 38 916 555.18, litigation initiation date – 2 October 2016, on 6 May 2019 the Regional Court in Warsaw issued a sentence ordering the Bank to pay the amount of PLN 3 392 349.18 and as to the remainder the Court dismissed the suit, the sentence is not legally valid, the Bank and the plaintiff appealed against the judgment. In the present factual and legal circumstances regarding the amount awarded by the Circuit Court the Bank assesses the funds outflow risk as probable and in the remaining scope as possible,
 - brought by a beneficiary of warranty – lawsuit for payment of a claim by virtue of the warranty issued by the Bank, value of the object of litigation PLN 32 750 000 litigation initiation date – 14 January 2014, in the present factual and legal circumstances the Bank assesses the funds outflow risk as minor,
 - brought by a natural person – lawsuit for payment of damages by the Bank resulting from improper conduct of a Group entity – former Pekao S.A. Central Brokerage House, the value of the object of litigation is PLN 30 000 000 - the date of the litigation initiation is 16 May 2019. On 7 February 2020 the Regional Court in Warsaw issued a sentence dismissing the suit in its entirety, the sentence is not legally valid. In the present factual and legal circumstances the Bank assesses the funds outflow risk as minor,
- 2) in the group of receivables (brought by the Group):
 - Bank's main intervention lawsuit against the parties of the main lawsuit – the object of the intervention is the demand for payment by virtue of the assignment of receivables securing Bank's liabilities, value of the object of litigation is PLN 321 979 666.87, litigation initiation date – 26 October 2018,
 - Bank's lawsuit for payment against limited debtor by virtue of mortgage collateralizing repayment of the granted credit, value of the object of litigation PLN 132 877 901, litigation initiation date – 21 January 2016,
 - Bank's main intervention lawsuit against the parties of the main lawsuit – the object of the intervention is the demand for payment by virtue of the assignment of receivables securing Bank's liabilities, value of the object of litigation PLN 119 020 334, litigation initiation date – 26 October 2018,
 - Bank's mutual lawsuit for payment of amounts due by virtue of the transfer of receivables, value of the object of litigation PLN 89 977 886, litigation initiation date – 28 February 2013,
 - Bank's main intervention lawsuit against the parties of the main lawsuit – the object of the intervention is the demand to execute (pay) the liabilities purchased by the Bank from one of the defendants against the other defendant, value of the object of litigation PLN 67 432 617.21, litigation initiation date – 23 January 2006.

None of the litigations pending in the first quarter 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 31 March 2020 is PLN 95 975 thousand (PLN 103 933 thousand as at 31 December 2019).

In addition, as at 31 March 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 interim condensed consolidated financial statements.

Financial commitments granted

Financial commitments granted by entity

	31.03.2020	31.12.2019
Financial commitments granted to:		
banks	1 033 186	377 742
customers	35 347 942	35 678 506
budget entities	901 196	657 679
Total	37 282 324	36 713 927

Guarantees issued

Guarantees issued by entity

	31.03.2020	31.12.2019
Issued to banks:		
guarantees	1 608 669	1 868 388
confirmed export letters of credit	50 006	46 349
Issued to customers	10 245 040	10 087 707
guarantees	7 294 699	7 048 690
securities' underwriting guarantees	2 889 796	2 982 379
sureties	60 545	56 638
Issued to budget entities:	759 252	682 865
guarantees	32 835	29 070
securities' underwriting guarantees	726 417	653 795
Total	12 612 961	12 638 960

Off-balance sheet commitments received

Off-balance sheet commitments received by entity

	31.03.2020	31.12.2019
Financial received from:		
banks	3 438 871	1 297 658
customers	-	-
budget entities	2 142 410	-
Guarantees received from:	16 643 774	18 071 470
banks	4 244 613	4 896 962
customers	11 330 429	12 159 551
budget entities	1 068 732	1 014 957
Total	20 082 645	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)

37. Additional information to the consolidated cash flow statement

Cash and cash equivalents

	31.03.2020	31.03.2019
Cash and amounts due from Central Bank	9 939 309	7 443 921
Loans and receivables from banks with maturity up to 3 months	3 037 506	2 630 131
Cash and Cash equivalents presented in the cash flow statement	12 976 815	10 074 052

Restricted availability cash and cash equivalents as at 31 March 2020 amounted to PLN 4 669 441 thousand (PLN 4 148 192 thousand as at 31 March 2019).

38. 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 March 2020

NAME OF ENTITY	RECEIVABLES FROM LOANS AND PLACEMENTS	SECURITIES	RECEIVABLES FROM REVALUATION OF DERIVATIVES	OTHER RECEIVABLES	LIABILITIES FROM LOANS AND DEPOSITS	LIABILITIES FROM REVALUATION OF DERIVATIVES	OTHER LIABILITIES
PZU S.A. – the Bank's parent entity	-	-	2 102	3 344	57 834	-	439
Entities of PZU S.A. Group excluding of Bank Pekao S.A. Group entities	-	-	2 025	14 381	151 759	319	1 785
Key management personnel of the Bank Pekao S.A.	93	-	-	-	10 357	-	-
Total	93	-	4 127	17 725	219 950	319	2 224

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 31 March 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	-	(114)	8 583	(388)	78	(2 855)
Entities of PZU S.A. Group excluding of Bank Pekao S.A. Group entities	89	(270)	12 022	(75)	356	(4 016)
Key management personnel of the Bank Pekao S.A.	-	(11)	-	-	-	-
Total	89	(395)	20 605	(463)	434	(6 871)

Income and expenses from transactions with related parties for the period from 1 January 2019 to 31 March 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	1 294	(88)	909	-	177	(139)
Entities of PZU S.A. Group excluding of Bank Pekao S.A. Group entities	160	(131)	11 891	(30)	2 348	(5 494)
Key management personnel of the Bank Pekao S.A.	1	(11)	-	-	-	-
Total	1 455	(230)	12 800	(30)	2 525	(5 633)

Notes to financial statements (cont.)

(in PLN thousand)

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

NAME OF ENTITY	GRANTED		RECEIVED	
	FINANCIAL	GUARANTEES	FINANCIAL	GUARANTEE
PZU S.A. – the Bank's parent entity	2 760	1 015	-	523 515
Entities of PZU S.A. Group excluding of Bank Pekao S.A. Group entities	15 000	11 000	-	-
Key management personnel of the Bank Pekao S.A.	225	-	-	-
Total	17 985	12 015	-	523 515

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

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

Notes to financial statements (cont.)

(in PLN thousand)

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

	VALUE OF BENEFITS	
	I QUARTER 2020	I QUARTER 2019
Management Board of the Bank		
Short-term employee benefits (*)	1 826	1 898
Post-employment benefits	-	-
Long-term benefits (**)	832	885
Share-based payments (***)	816	1 139
Total	3 474	3 922
Supervisory Board of the Bank		
Short-term employee benefits (*)	288	262
Total	288	262

(*) 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 31 March 2020 and in the period from 1 January to 31 March 2019.

Remuneration expenses of Supervisory Boards and Management Boards of subsidiaries

	VALUE OF BENEFITS	
	I QUARTER 2020	I QUARTER 2019
Companies' Management Boards		
Short-term employee benefits	3 479	3 139
Post-employment benefits	170	392
Long-term benefits	749	-
Paid termination benefits	198	207
Total	4 596	3 738
Companies' Supervisory Boards		
Short-term employee benefits	202	223
Total	202	223

39. Subsequent events

Significant subsequent events are presented in the Note 8.10 'Subsequent events' of the Report on the activities of Bank Pekao S.A. Group for the first quarter of 2020.

Signatures of the Management Board Members

11.05.2020 Date	Leszek Skiba Name/Surname	Vice President of the Management Board managing work of the Management Board Position/Function	Signature
11.05.2020 Date	Jarosław Fuchs Name/Surname	Vice President of the Management Board Position/Function	Signature
11.05.2020 Date	Krzysztof Kozłowski Name/Surname	Vice President of the Management Board Position/Function	Signature
11.05.2020 Date	Tomasz Kubiak Name/Surname	Vice President of the Management Board Position/Function	Signature
11.05.2020 Date	Marek Lusztyn Name/Surname	Vice President of the Management Board Position/Function	Signature
11.05.2020 Date	Grzegorz Olszewski Name/Surname	Vice President of the Management Board Position/Function	Signature
11.05.2020 Date	Tomasz Styczyński Name/Surname	Vice President of the Management Board Position/Function	Signature
11.05.2020 Date	Marek Tomczuk Name/Surname	Vice Member of the Management Board Position/Function	Signature
11.05.2020 Date	Magdalena Zmitrowicz Name/Surname	Vice Member of the Management Board Position/Function	Signature

Glossary

Glossary

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

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

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

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

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

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

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

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

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

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

EAD – Exposure at Default.

EL – Expected Loss.

Life-time ECL – Lifetime Expected Credit Loss.

CCF – Credit Conversion Factor.

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

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

FVH – fair value hedge accounting.

LTV – Loan to Value.

CFH – cash flow hedge accounting.