

Report of Bank Pekao S.A. Group for the third quarter of 2021



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

Warsaw, November 2021

Report on the activities of Bank Pekao S.A. Group for the third quarter of 2021



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1.	Highlights of Bank Pekao S.A. Group	3
2.	Highlights of Bank Pekao S.A.	4
3.	Summary of Performance	5
4.	External Activity Conditions	7
5.	Important Events and Achievements	12
5.1	Description of the Group	12
5.2	Changes in the Group's structure	12
5.3	Changes in the Statutory Bodies of the Bank	12
5.4	The Bank's share capital and share ownership structure	20
5.5	Financial credibility ratings	21
5.6	Achievements of Bank Pekao S.A.	23
5.7	Factors which will affect the results of the Group	33
6.	Statement of Financial Position and Financial Results	34
6.1	The consolidated income statement – presentation form	35
6.2	Net allowances for expected credit losses	39
6.3	The structure of the net profit	40
6.4	Structure of the consolidated statement of financial position – short form	43
6.5	Provisions, deferred tax assets and liabilities	48
6.6	Off-balance sheet items	48
6.7	Capital adequacy	49
6.8	Reconciliation of income statement – presentation form and long form	51
7.	Quarterly Income Statement	53
7.1	Consolidated income statement – long form	53
7.2	Consolidated statement of comprehensive income	54
7.3	Consolidated income statement – presentation form	55
8.	Other Information	56
8.1	Management Board position regarding the possibility of achieving previously published forecasts	56
8.2	Shares in the Bank and related entities held by the Bank's Directors	56
8.3	Pending litigations	56
8.4	Information on derivative financial instruments and hedge accounting	56
8.5	Related party transactions	56
8.6	Accounting principles adopted in the preparation of the report	56
8.7	Seasonality or cyclical nature of the Bank's activity	56
8.8	Issuance, redemption and repayment of debt securities	57
8.9	Subsequent events	58

1. Highlights of Bank Pekao S.A. Group

	3 QUARTERS OF 2021	3 QUARTERS OF 2020	2020	2019
INCOME STATEMENT – SELECTED ITEMS <i>(in PLN million)</i>				
Operating income	6,265	5,921	7,813	8,282
Operating costs	(2,883)	(2,637)	(3,468)	(3,537)
Profit before income tax	2,046	1,370	1,725	3,002
Net profit for the period attributable to equity holders of the Bank	1,481	917	1,102	2 165
PROFITABILITY RATIOS				
Return on average equity (ROE) - nominally	7.8%	5.0%	4.5%	9.5%
Return on average equity (ROE) - linearly adjusted for BGF charges	8.0%	5.3%	4.5%	9.5%
Return on assets (ROA)	0.8%	0.6%	0.5%	1.1%
Net interest margin	2.3%	2.6%	2.5%	2.9%
Cost / income ^(*) (including BFG cost)	50.1%	50.2%	49.3%	48.2%
Costs of risk	0.42%	0.91%	0.99%	0.46%
STATEMENT OF FINANCIAL POSITION – SELECTED ITEMS <i>(in PLN million)</i>				
Total assets	247,361	232,114	233,217	203,323
Customers' financing ^(**)	165,336	150,149	151,684	151,384
Amounts due to customers ^(***)	195,842	181,344	177,745	157,203
Debt securities issued and subordinated liabilities	8,671	7,266	8,905	9,072
Equity	24,999	25,149	25,495	23,398
STATEMENT OF FINANCIAL POSITION STRUCTURE RATIOS				
Customers' financing ^(**) / total assets	66.8%	64.7%	65.0%	74.5%
Securities / total assets	22.9%	25.7%	26.7%	17.8%
Deposits ^(****) / total assets	82.7%	81.3%	80.0%	81.8%
Customers' financing ^(*) / deposits ^(****)	80.8%	79.6%	81.3%	91.0%
Equity / total assets	10.1%	10.8%	10.9%	11.5%
Total capital ratio	17.6%	18.8%	19.2%	17.1%
EMPLOYEES AND NETWORK				
Total number of employees ^(****)	14,790	15,334	14,994	15,678
Number of outlets	652	733	713	805
Number of ATMs	1,482	1,616	1,592	1,648

^(*) 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.

^(****) Data for December 31, 2020 have been recalculated taking into account the retrospective recognition of part of the profit for 2020 (confirmation of the financial results by the General Shareholders Meeting) (after the approval of the KNF), in accordance with the EBA position expressed in Q&A 2018_3822 and Q&A 2018_4085.

^(*****) Including 551 people who became employees of the Bank on the basis of art. 23 of the Labor Code in connection with the acquisition of Idea Bank on 3 January, 2021.

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.

2. Highlights of Bank Pekao S.A.

	3 QUARTERS OF 2021	3 QUARTERS OF 2020	2020	2019
INCOME STATEMENT – SELECTED ITEMS <i>(in PLN million)</i>				
Operating income	5,928	5,666	7,476	7,887
Operating costs	(2,664)	(2,428)	(3,191)	(3,204)
Profit before income tax	1,956	1,349	1,697	3,016
Net profit	1,443	932	1,126	2,247
PROFITABILITY RATIOS				
Return on average equity (ROE) - nominally	7.8%	5.3%	4.8%	10.2%
Return on average equity (ROE) - linearly adjusted for BGF charges	8.0%	5.6%	4.8%	10.2%
Return on assets (ROA)	0.8%	0.6%	0.5%	1.2%
Net interest margin	2.3%	2.6%	2.5%	2.9%
Cost / income ⁽¹⁾ (including BFG cost)	49.3%	48.8%	47.7%	46.4%
Costs of risk	0.43%	0.94%	1.03%	0.43%
STATEMENT OF FINANCIAL POSITION – SELECTED ITEMS <i>(in PLN million)</i>				
Total assets	236,536	223,434	222,381	194,650
Customers' financing ⁽²⁾	152,494	140,449	139,926	142,146
Amounts due to customers ⁽³⁾	196,254	181,817	178,276	157,750
Debt securities issued and subordinated liabilities	2,771	3,486	3,281	4,369
Equity	24,120	24,285	24,647	22,527
STATEMENT OF FINANCIAL POSITION STRUCTURE RATIOS				
Customers' financing ⁽²⁾ / total assets	64.5%	62.9%	62.9%	73.0%
Securities / total assets	24.2%	26.8%	28.2%	18.6%
Deposits ⁽⁴⁾ / total assets	84.1%	82.9%	81.6%	83.3%
Customers' financing ⁽²⁾ / deposits ⁽⁴⁾	76.6%	75.8%	77.1%	87.7%
Equity / total assets	10.2%	10.9%	11.1%	11.6%
Total capital ratio	19.5%	20.9%	21.3%	18.7%
EMPLOYEES AND NETWORK				
Total number of employees ⁽⁵⁾	12,685	13,244	12,870	13,779
Number of outlets	652	733	713	805
Number of ATMs	1,482	1,616	1,592	1,648

⁽¹⁾ Including non-treasury debt securities and excluding reverse repo transactions.

⁽²⁾ Excluding repo transactions and lease liabilities.

⁽³⁾ Deposits include amounts due to customers, debt securities issued and subordinated liabilities.

⁽⁴⁾ Data for December 31, 2020 have been recalculated taking into account the retrospective recognition of part of the profit for 2020 (confirmation of the financial results by the General Shareholders Meeting) and the first half of 2020 (after the approval of the KNF), in accordance with the EBA position expressed in Q&A 2018_3822 and Q&A 2018_4085.

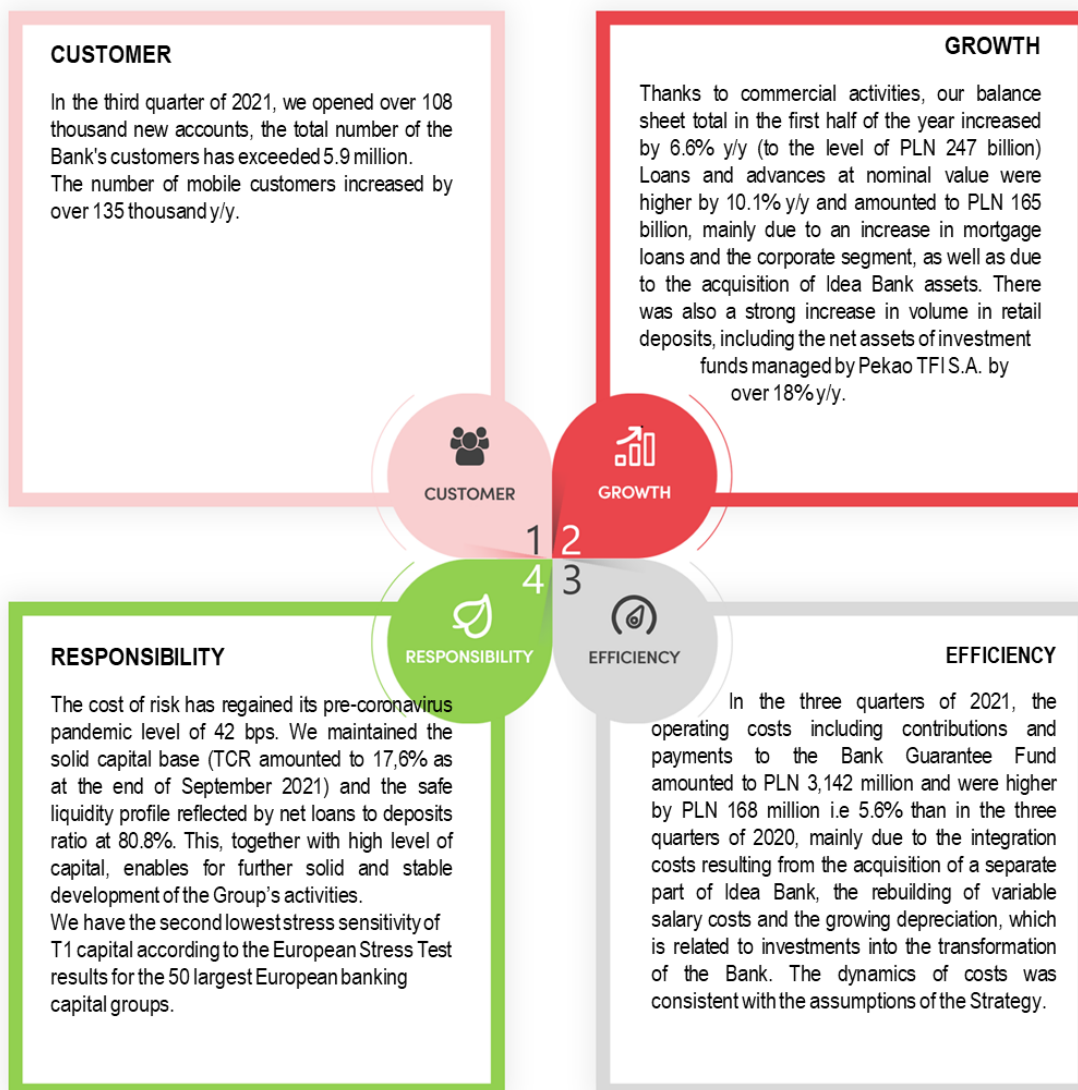
⁽⁵⁾ Including 551 people who became employees of the Bank on the basis of art. 23 of the Labor Code in connection with the acquisition of Idea Bank on 3 January, 2021.

3. Summary of Performance

In the three quarters of 2021, we generated the net profit of the Bank Pekao S.A. Group attributable to the Bank's holders at the level of PLN 1,481.2 million i.e. at the level of the net profit generated in the three quarters of 2019 before the pandemic. Net profit was higher by PLN 564.3 million, i.e. 61.5% y/y, mainly due to higher net fee and commission income and lower net allowances for expected credit losses, which are gradually normalizing towards the levels observed before the pandemic.

ROE with linear BFG charges distribution in the three quarters of 2021 amounted to 8.0%, and in the third quarter it reached the level of 9.2%.

Despite the COVID-19 pandemic, we increased the scale of our commercial activities, actively supporting clients' financial liquidity and focusing on further improvement of cost-effectiveness, digitizing and automating processes, and implementing advanced digital solutions. We focused our activities in the following key strategic areas (in accordance with the adopted Strategy for 2021-2024).



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

We continued our activities undertaken in 2020 in connection with the COVID-19 pandemic, actively supporting clients in maintaining financial liquidity, accelerating the digitization of processes and actively encouraging clients to use remote channels in everyday banking.

We monitor the economic situation in the country and in the world on an ongoing basis. The various scenarios for the development of the epidemic and its impact on the economy are analyzed, as well as the best solutions that the Bank can adopt.

Strategy and key financial indicators

„**Responsible Bank. Modern banking**“ is the new our strategy for the years 2021-2024, announced in March 2021.

According to the strategic plan, we:

- will be a **universal bank of first choice** for its customers
- will develop **remote** distribution and customer service **model**
- will focus on **cost and process efficiency**
- will grow in **most profitable market segments**

Our ambition in the 2024 horizon is to be among the most profitable and effective banks in Poland. Therefore, as part of the implementation of the new strategy, we focuses on:

- significant increase in the return on equity (ROE) from 4.5% in 2020 to ~10% in 2024 and
- reduction of the cost-to-income ratio (C / I) from 49% in 2020 to ~42% in 2024.

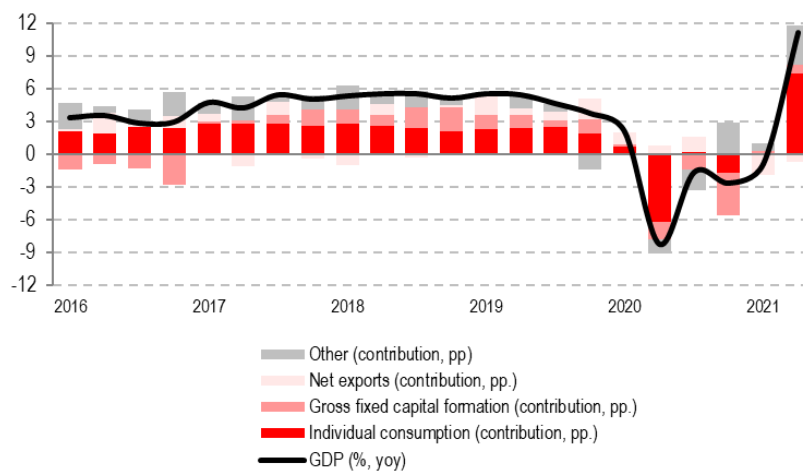
The main strategic goals also include an increase in the number of active mobile banking customers from 2 million in 2020 to 3.2 million in 2024.

4. External Activity Conditions

Economic growth

In the second quarter of 2021 Gross Domestic Product (GDP) increased by 11.1% year on year as compared to 0.9% year on year decline in the fourth quarter. GDP went up by 2.1% qoq sa after rising by 1.3% qoq in the previous quarter. Economic activity bounced back strongly in services that were earlier restrained by epidemic containment measures. Gross value added in accommodation and catering rose by 21.1% yoy in the second quarter of 2021 after declining by 77.2% yoy in the first quarter. Domestic demand advanced by 12.8% year on year vs. 1.0% year on year increase in the first quarter of 2021, while negative contribution of foreign trade to GDP amounted to 0.7 percentage point. Low reference base from the previous year and the absence of serious epidemic restrictions translated into buoyant growth of households consumption that jumped up by 13.3% yoy. Investment increased by 5.0% yoy.

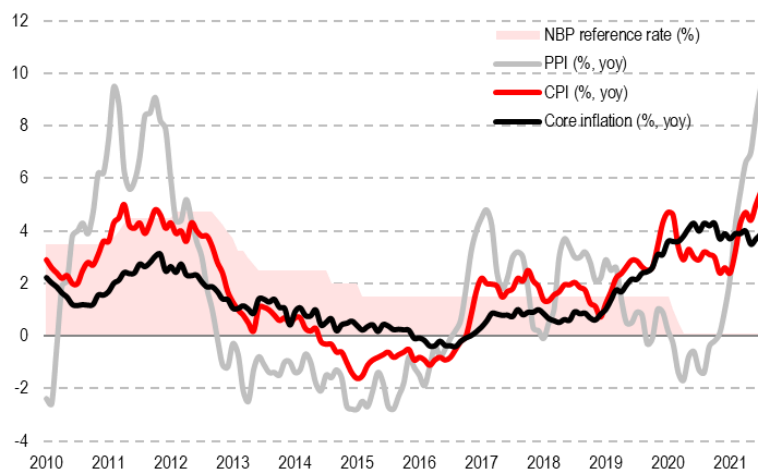
High-frequency data indicate that the economic recovery lost some momentum in the third quarter of 2021 due to global supply-side constraints (shortages of commodities and inputs, disruptions in deliveries) that restrained activity in manufacturing. In 2021 economic growth should be close to 5% despite risks linked to the fourth wave of pandemic in Poland.



Inflation and monetary policy

In September 2021 CPI inflation rose to 5.9% year on year from 5.5% year on year in August, mainly as a result of higher annual growth of food prices and an increase in core inflation excluding food and energy prices. In the third quarter of 2021 inflation reached 5.5% yoy and was running well above the upper bound of the range of permissible deviations from the National Bank of Poland (NBP) target (2.5%, +/- 1 percentage point). In September annual price growth was mainly driven by higher prices of transport (18.5% year on year) and dwelling (6.4% year on year) that contributed 1.65 p.p. and 1.60 p.p. respectively to CPI growth.

The Monetary Policy Council (MPC) maintains expansionary policy targeted at supporting economic recovery. In the second quarter of 2021 the NBP reference rate remained at record-low of 0.10%. Deposit rate stood at 0.00% and lombard rate at 0.50%. The central bank was still purchasing treasury bonds and state-guaranteed bonds on the secondary market at structural open market operations, but the pace of purchases slowed markedly as compared with the previous quarter. So far the NBP purchased securities worth about PLN 143 billion.



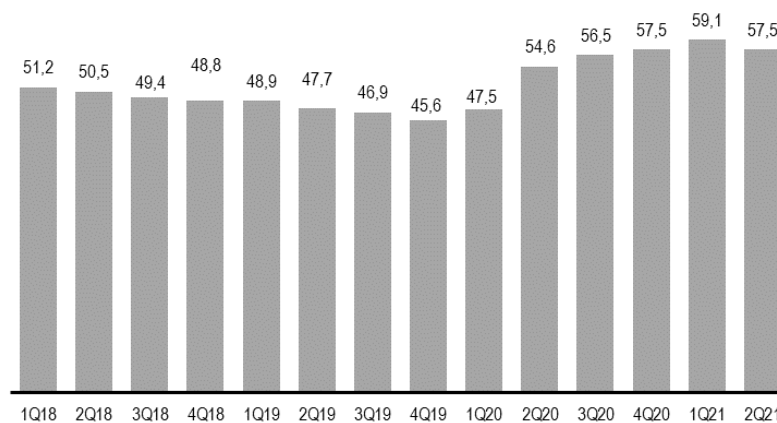
Fiscal policy

According to the preliminary data of the Ministry of Finance after August the state budget (cash basis) posted a PLN 43.4 billion deficit, while the budget act assumes envisages a deficit of PLN 82.3 billion. Budget revenues amounted to PLN 320.1 billion and were PLN 51.1 billion higher than in the corresponding period of 2020, whereas budget expenditures totaled PLN 276.7 billion and were PLN 5.5 billion lower than in the first eight months of 2020. Tax revenues increased by about PLN 44.8 billion VAT tax collections were 21.6% higher than in the first eight months of 2020 and proceeds from excise duty went up by 6.8% year on year. Revenues from direct taxes also rose – corporate income tax (CIT) receipts increased by 25.6% year on year; revenues from personal income tax (PIT) jumped up 15.7% year on year. Lower than in corresponding period of last year budget spending stemmed from lower subsidy to the Social Security Fund that received sizable transfer at the end of 2020.

At the end of the second quarter of 2021 the state public debt reached PLN 1 152.2 billion and was broadly unchanged vs. the first quarter. Domestic debt rose by PLN 9.6 billion during the quarter, while foreign debt declined by similar amount. In relation to GDP the state public debt moderated to 47.3% from 49.0% at the end of the first quarter of 2021. The general government debt reached PLN 1 401.6 billion i.e. 57.5% of GDP at the end of the second quarter of 2021.

Some expenditures linked to taming consequences of COVID19 pandemics is financed by the issuance of Bank Gospodarswa Krajowego bonds (COVID-19 Combating Fund) and Polish Development Fund (financial shield for enterprises). In the three quarters of 2021 the BGK and the PDF issued state-guaranteed bonds worth more than PLN 70 billion.

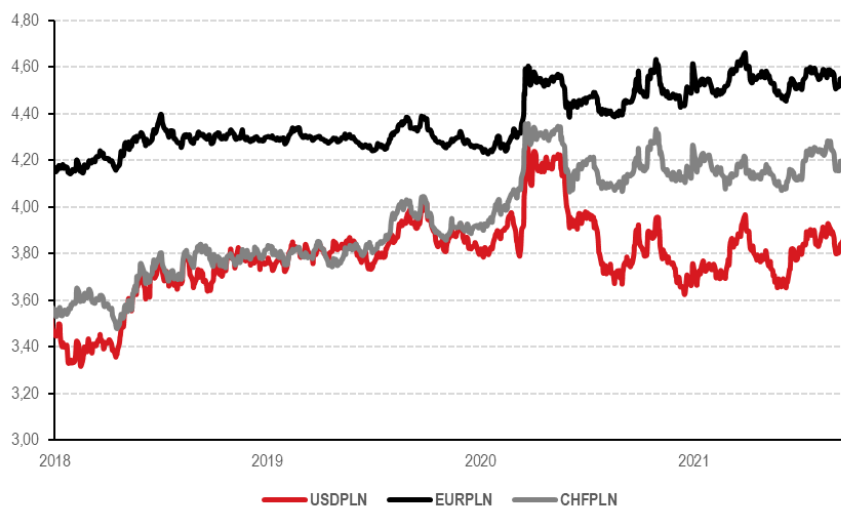
General government debt, % of GDP



The exchange rate

The global rise in inflation remained at the forefront throughout the entire quarter as inflation surprised to the upside in major economies and prices of key commodities were raising, especially energy-related ones. In these circumstances market interest rates were steadily rising only to kick into higher gear in September along with the spike in the prices of natural gas and electricity in Europe. The US dollar held at high levels in the summer months and broke through to year's highs in September, reaching 1.15 against the euro. The dollar's relative strength can be primarily attributed to divergent trajectories of monetary policy in the United States and the euro area. Although markets – guided to some extent by the Fed's announcement of tapering asset purchases – reached a consensus in the summer that further increases in inflation will be met by monetary tightening, only the Fed was expected to move that early (first rate hikes in 2022 already).

Over the July-September period the PLN lost 12 figures against the euro, 18 figures against the dollar and 16 figures against the Swiss franc, with most of the moves occurring in September. The PLN was losing ground mainly due to weaker sentiment towards risk assets and the relatively strong reaction to capital outflows from EMs was associated with relatively loose monetary policy maintained by the National Bank of Poland. The latter pertains both to low interest rates (including real ones) and to the central bank's dovish rhetoric. At the end of the quarter global trends, local inflation surprises and other CEE central banks' hawkishness brought about a more pronounced change in expectations, but the real shock to PLN interest rate markets was to come in early October with the rate hike.



Banking sector

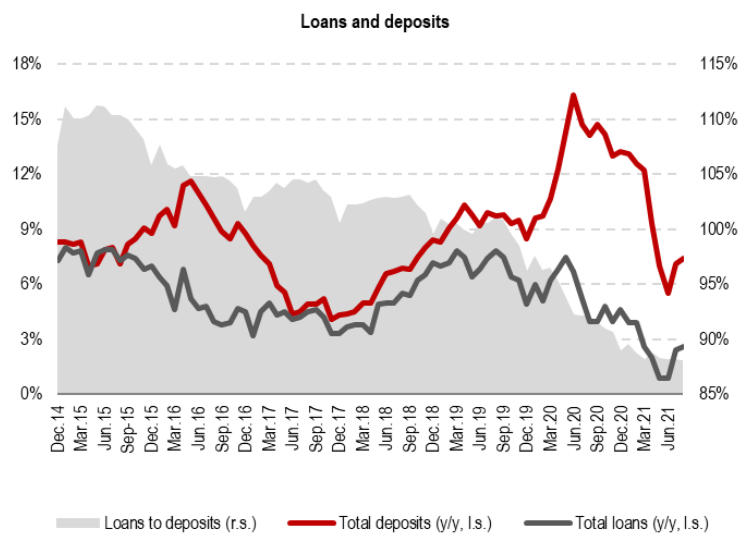
According to the Financial Supervision Authority (KNF) data, in the period of January-August 2021 net profit of the banking sector amounted to PLN 9.0 billion and rose by 59% in comparison to corresponding period of 2020. Although interest income remains under pressure from low interest rates, significant improvement in the result was possible primarily due to significantly lower cost of risk (the result of, among other, a better understanding of the actual economic impact of the crisis and greater optimism about future developments of the situation) as well as rising fee and commission income.

Total net operating income of banks was similar to last year's (+0,3% y/y). The decline in the key net interest income (-8,1% y/y) caused by low interest rates was fully covered by a strong increase in fees and commission income (+17% y/y) and a recovery in other income (+28% y/y). In addition, banks' operating expenses slightly decreased (-1% y/y). For the reasons mentioned above (and with last year's high base), the sector's cost of risk was significantly lower (-36% y/y).

At the end of August 2021 total assets of the banking sector amounted to PLN 2,517 billion and increased by 8.8% compared to August 2020. Total receivables from the non-financial sector rose by 2.5%, while total deposits from this sector increased by 7.0% year on year.

According to the National Bank of Poland (NBP), at the end of August 2021 the nominal volume of households' loans increased by 4.2% compared to year before and fell by 1.9% in case of enterprises. In both cases dynamics have been improving in recent months – this is in part supported by low base from 2020, but also reflects gradual improvement on the credit market as the economy recovers.

The inflow of funds paid out to companies under the so-called anti-crisis shield, the protection of jobs and, in addition, the effect of accumulating savings in anticipation of a worsening environment translated into strong deposit growth in 2020. Due to this high base, pace in 2021 slowed down markedly and are now normalizing. At the end of August growth was at 6.4% y/y for households and 8.0% y/y for companies.



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 period of 9 months ended on 30 September 2021.

5.2 Changes in the Group's structure

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

On 31 March, 2021, the purchase transaction was completed, as a result of which Bank became the owner of 210,641 shares constituting 38.33% of the capital and entitling to 38.33% of votes at the General Meeting of Krajowy Integrator Płatności S.A. with its seat in Poznań, the operator of the Tpay.com system.

Acquisition of shares in the company PeUF Sp. z o.o.

In 2021, Pekao Leasing Sp. z o.o., a subsidiary of the Bank, acquired 100% shares in Metsi Sp. z o.o. for the price of PLN 5 thousand. After changing the agreement of Metsi Sp. z o.o., it operates under PeUF Sp. z o.o. and deals with the distribution of insurance.

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

With reference to the information provided in the Consolidated Financial Statements of Bank's Capital Group as of 2020, about the preliminary agreement for the sale of 100% shares in Dom Inwestycyjny Xelion Sp. z o.o., signed by the Bank in December 2020, the Bank informs that the Polish Financial Supervision Authority stated in a communication published on September 7, 2021 that there are no grounds to object to the planned intention to directly acquire 120,100 shares of Dom Inwestycyjny Xelion Sp. z o.o. with its seat in Warsaw by Quercus Agent Transferowy Sp. z o.o. with its seat in Warsaw. On 29 October 2021, a promised agreement was signed for the sale of 100% of shares in Dom Inwestycyjny Xelion Sp. z o.o.

5.3 Changes in the Statutory Bodies of the Bank

Changes in the Bank's Supervisory Board

On 7 June 2021 Mr. Marcin Eckert resigned from the position of the Vice Chairman of the Supervisory Board of the Bank and from the composition of the Supervisory Board of the Bank, effective at the time of its submission. The resignation did not contain information about its reasons.

On 11 June 2021, the Ordinary General Meeting of the Bank, taking into account the suitability assessment, appointed Mr. Marcin Izdebski to the composition of the Supervisory Board of the Bank as of 11 June 2021 for the period until the end of the current joint term of office of the Supervisory Board of the Bank.

According to the submitted statement Mr. Marcin Izdebski does not conduct any business competitive to that of the Bank and is 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 competitive legal person. According to the submitted statement Mr. Marcin Izdebski is not registered in the Register of Insolvent Debtors kept pursuant to the provisions of the KRS (National Court Register) Act of 20 August 1997.

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

AS AT THE DATE OF SUBMITTING THE REPORT FOR THE THIRD QUARTER OF 2021	30 SEPTEMBER 2021	AS AT THE DATE OF SUBMITTING THE REPORT FOR THE FIRST HALF OF 2021
Beata Kozłowska-Chyla Chairman of the Supervisory Board	Beata Kozłowska-Chyla Chairman of the Supervisory Board	Beata Kozłowska-Chyla Chairman of the Supervisory Board
Joanna Dynysiuk Deputy Chairman of the Supervisory Board	Joanna Dynysiuk Deputy Chairman of the Supervisory Board	Joanna Dynysiuk Deputy Chairman of the Supervisory Board
Małgorzata Sadurska Deputy Chairman of the Supervisory Board	Małgorzata Sadurska Deputy Chairman of the Supervisory Board	Marcin Eckert Deputy Chairman of the Supervisory Board
Stanisław Ryszard Kaczoruk Secretary of the Supervisory Board	Stanisław Ryszard Kaczoruk Secretary of the Supervisory Board	Stanisław Ryszard Kaczoruk Secretary of the Supervisory Board
Sabina Bigos-Jaworowska Member of the Supervisory Board	Sabina Bigos-Jaworowska Member of the Supervisory Board	Sabina Bigos-Jaworowska Member of the Supervisory Board
Justyna Głębiowska-Michalak Member of the Supervisory Board	Justyna Głębiowska-Michalak Member of the Supervisory Board	Justyna Głębiowska-Michalak Member of the Supervisory Board
Michał Kaszyński Member of the Supervisory Board	Michał Kaszyński Member of the Supervisory Board	Michał Kaszyński Member of the Supervisory Board
Marian Majcher Member of the Supervisory Board	Marian Majcher Member of the Supervisory Board	Marian Majcher Member of the Supervisory Board
Marcin Izdebski Member of the Supervisory Board	Marcin Izdebski Member of the Supervisory Board	Małgorzata Sadurska Member of the Supervisory Board

Changes in the Bank's Management Board

On 14 January 2021 the Supervisory Board of the Bank, after assessing suitability, appointed Mr. Błażej Szczecki and Mr. Wojciech Werochowski to the Management Board of the Bank for the current joint term of office as the Vice President of the Management Board of the Bank with the effect from 15 January 2021, and Mr. Jerzy Kwieciński to the Management Board of the Bank for the current joint term of office as the Vice President of the Management Board of the Bank with the effect from 1 February 2021.

According to the submitted statement Mr. Błażej Szczecki does not conduct any business competitive to that of the Bank and he is not involved in a competitive business as a shareholder or partner in a civil law company, a partnership or a corporation or a member of a corporate body of a competitive corporation or legal person. Mr. Błażej Szczecki is 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. Wojciech Werochowski does not conduct any business competitive to that of the Bank and he is not involved in a competitive business as a shareholder or partner in a civil law company, a partnership or a corporation or a member of a corporate body of a competitive corporation or legal person. Mr. Wojciech Werochowski is 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. Jerzy Kwieciński does 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 competitive corporation or legal person. Mr. Jerzy Kwieciński is not registered in the Register of Insolvent Debtors kept pursuant to the provisions of the KRS (National Court Register) Act of 20 August 1997.

On 4 February 2021, the Polish Financial Supervision Authority unanimously expressed consent to the appointment of Mr. Leszek Skiba as the President of the Management Board of the Bank. Obtaining the said consent results in fulfillment of the condition of becoming the President of the Management Board of the Bank.

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

On 15 February 2021, the Polish Financial Supervision Authority unanimously expressed consent to entrust Mr. Marcin Gadomski with the position of the Member of the Management Board of the Bank supervising the management of material risk in the Bank's operations. Obtaining the said consent results in fulfillment of the condition of becoming the Vice President of the Management Board of the Bank supervising the management of material risk in the Bank's operations.

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

On 20 July 2021 Mr. Krzysztof Kozłowski resigned from the position of the Vice-President of the Management Board of the Bank as well as from the composition of the Management Board of the Bank, with the effect at the end of 3 August 2021.

On 3 August 2021, the Supervisory Board of the Bank, after assessing suitability, appointed Mr. Paweł Strączyński 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 5 August 2021.

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

On 29 October, 2021 Mr. Tomasz Kubiak resigned from the position of Vice-President of the Management Board of the Bank, as well as from the Management Board of the Bank with effect at the end of 4 November, 2021.

On 29 October 2021 the Supervisory Board of the Bank, after assessing suitability, appointed Mr. Piotr Zborowski 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 5 November 2021.

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

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

AS AT THE DATE OF SUBMITTING THE REPORT FOR THE THIRD QUARTER OF 2021	30 SEPTEMBER 2021	AS AT THE DATE OF SUBMITTING THE REPORT FOR THE FIRST HALF OF 2021
Leszek Skiba President of the Management Board	Leszek Skiba President of the Management Board	Leszek Skiba 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
Marcin Gądomski Vice President of the Management Board	Marcin Gądomski Vice President of the Management Board	Marcin Gądomski 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
Jerzy Kwieciński Vice President of the Management Board	Jerzy Kwieciński Vice President of the Management Board	Jerzy Kwieciński Vice President of the Management Board
Paweł Strączyński Vice President of the Management Board	Paweł Strączyński Vice President of the Management Board	Błażej Szczecki Vice President of the Management Board
Błażej Szczecki Vice President of the Management Board	Błażej Szczecki Vice President of the Management Board	Wojciech Werochowski Vice President of the Management Board
Wojciech Werochowski Vice President of the Management Board	Wojciech Werochowski Vice President of the Management Board	Magdalena Zmitrowicz Vice President of the Management Board
Magdalena Zmitrowicz Vice President of the Management Board	Magdalena Zmitrowicz Vice President of the Management Board	

Management Board of Bank Pekao S.A. at the date of submitting the report for the third quarter of 2021 consists 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
President of the Management
Board

Leszek Skiba is President of the Management Board.

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

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

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

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



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

Jarosław Fuchs 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.



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

Marcin Gadomski Vice President of the Management Board supervising the Risk Management Division.

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

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

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

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

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

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



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

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 the years 2011-2015 he was a Member of the Supervisory Board of Pekao Bank Hipoteczny S.A., from 2017 he was the Deputy Chairman and from June 2018 the Chairman. From August 2017, a member of the Supervisory Board of Pekao Leasing Sp. z o.o. From September 2018, he was a Chairman of the Supervisory Board of Pekao Investment Management S.A., and from July 2019 he is the Vice-Chairman of the Supervisory Board of the Company.

From June 2021, the Secretary of the Supervisory Board of Pekao Investment Banking S.A., as a member, he sits on the Supervisory Board of Pekao Investment Banking S.A. from August 2017.

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

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

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

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



JERZY KWIECIŃSKI
Vice President of the Management
Board supervising the Corporate
Banking and MIB Division

Jerzy Kwieciński, Vice President of the Management Board supervising the Corporate Banking and MIB Division.

He is a graduate of Faculty of Materials Engineering of the Warsaw University of Technology and holds a degree of Doctor in the field of technical science. He also completed a postgraduate course for managers at the Warsaw School of Economics and an international Master of Business Administration (MBA) programme run by the University of Antwerp, the University of Staffordshire, the Free University of Brussels and the University of Warsaw. Jerzy Kwieciński also has experience in academic and research and development work, which he gained, among others at the Warsaw University of Technology and as a visiting professor at Brunel University of West London.

Jerzy Kwieciński has more than 30 years of international experience in strategic planning, management of large organizations, programs and projects in the public, private, non-governmental and scientific research sectors, including energy sector. From 1993 to 2004, he worked for the European Commission Representation in Poland, where his duties included management of programmes and projects financed by the European Union. He also participated in the works preparing Poland for membership in the European Union. Between 2004 and 2005 he was the President of Europejskie Centrum Przedsiębiorczości sp. z o.o., where in 2008-2015 he acted as a Vice-President of the Management Board.

In 2005, Jerzy Kwieciński took a position of the Undersecretary of State at the Ministry of Regional Development, where he coordinated the national development policy and cohesion policy, including the work on the National Development Strategy for 2007-2015 and the National Cohesion Strategy for 2007-2013.

Between 2008 and 2015, he served as President of the Management Board of JP Capital Group sp. z o.o., specializing in preparation and implementation of projects and innovations, including establishing and running start-ups. In that period he was also head of Fundacja Europejskie Centrum Przedsiębiorczości (European Entrepreneurship Centre Foundation). In 2015, he was appointed the Secretary of State in the Ministry of Development. Since 2015, he has been a member of the National Development Council. In November 2015, he was appointed the First Deputy of the Deputy Prime Minister in the Ministry of Development. From January 2018, he held the office of the Minister of Investment and Development, and from September 2019 he served also as the Minister of Finance. He held both functions until November 15, 2019. He worked on, among others on preparation and implementation of the Strategy for Responsible Development and implementation of cohesion policy.

From January to December 2020 he acted as President of the Management Board of Polskie Górnictwo Naftowe i Gazownictwo S.A. (PGNiG), he has been a member of the Supervisory Board in TUW Polski Gaz, EuroPolgaz SA and President of the Board of Directors PGNiG Upstream Norway.

From March 2021, Chairman of the Supervisory Board of Pekao Investment Banking S.A. and since April 2021, Member of the Supervisory Board of Pekao Leasing Sp. z o.o.

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



PAWEŁ STRĄCZYŃSKI
Vice President of the Management
Board supervising the Strategy
Division

Paweł Strączyński, Vice President of the Management Board supervising the Strategy Division

Mr. Paweł Strączyński has a university degree from the Wrocław University of Economics, the Faculty of National Economy, field of study: finance and banking and Master of Business Administration – Executive MBA degree.

He has extensive managerial experience. Mr. Paweł Strączyński has held position of the President of the Management Board of TAURON S.A. He was also Member of the Management Board of PKEE – Polish Electricity Association.

Previously Mr. Paweł Strączyński had held position of the Vice President of the Management Board for Finance at PGE Polska Grupa Energetyczna S.A. He had been a Member of the Management Board of companies such as: Zespół Elektrociepłowni Wrocławskich KOGENERACJA S.A., ZOWER Sp. z o.o., PGNiG Termika Energetyka Przemysłowa S.A., Przedsiębiorstwo Energetyki Ciepłej S.A. in Jastrzębie-Zdrój and Polska Grupa Biogazowa S.A.

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



BŁAŻEJ SZCZECKI
Vice President of the Management
Board supervising Banking
Operations and IT Division

Błażej Szczecki, Vice President of the Management Board supervising the Banking Operations and IT Division.

Professionally associated with the Pekao Group since 2004. From 2018 till 2021 he has served as the Chief Transformation Officer and subsequently as the Chief Strategy Officer of Bank Pekao, responsible a.o. for the digital and operational transformation, as well as for the coordination of the work on the strategy of the Bank. From 2017 till 2018 he was responsible for the Transformation and Services Division, where he managed a.o. IT and Operations of the Bank. In 2010- 2017 he was Member of the Management Board of Pekao Leasing Sp. z o.o., where he assumed responsibility for IT, operations, insurance business, and customer service.

Previously, from 2004 till 2010 he held various leadership roles in the Corporate Banking Division of Bank Pekao, including participation in the taskforce preparing the merger of Bank Pekao with the BPH Bank. Before joining Bank Pekao, he worked as consultant for McKinsey and Co. in Frankfurt (Main) in Germany. He also served as a research associate at the University in Frankfurt (Oder) and in Giessen (Germany), as well as professional experience at Dresdner Bank. Since 2017 he has served as the Chairman of the Supervisory Board of Centrum Kart. In addition, from 2017 till 2020 he was also the Vice-chairmen of the Supervisory Board of Pekao Financial Services.

From 2017, Chairman of the Supervisory Board of Centrum Kart S.A. From 2017 to August 2020, in the Supervisory Board of Pekao Financial Services Sp. z o.o. he was the Deputy Chairman and Secretary of the Supervisory Board. He was reappointed to the Supervisory Board of Pekao Financial Services Sp. z o.o. in March 2021 and serves as the Chairman of the company's Supervisory Board.

He has a Ph.D degree in economics from the European University Viadrina Frankfurt (Oder), he graduated from the Faculty of Economics at the European University Viadrina Frankfurt (Oder). He participated in numerous courses and trainings in Poland and abroad, a.o. Unifuture in cooperation with the Institute for Management Development (IMD) in Lausanne (Switzerland).

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



WOJCIECH WEROCHOWSKI
Vice President of the Management
Board supervising the Retail
Banking Division

Wojciech Werochowski, Vice President of the Management Board supervising the Retail Banking Division.

Manager with 20 years of experience in banking, for 3 years associated with Bank Pekao S.A., with the Retail Banking Division. From December 2017 served as a director of the Retail Customer Credit Products Department, where he managed retail customer credit products and was responsible for the sales activity, portfolio quality as well as financial performance of the product and product development.

Before joining Bank Pekao S.A. he worked at PKO Bank Polski, Bank Citi Handlowy, and Bank BPH, where he was responsible for the development and management of credit products, including mortgage loans, and the CRM function. Between 2000 and 2008 he was associated with General Electric Capital in Poland, with GE Money Bank. He has worked in a number of positions in the areas of product management, development of new business models, strategic pricing and finance management, Lean Six Sigma programs.

He has a university degree and an MBA degree from the University of Gdańsk, Copenhagen Business School and Universiteit Antwerpen. He completed trainings under the GE Management Development Institute, including Six Sigma Black Belt and Advanced Manager Course.

From March 2021, Vice-Chairman of the Supervisory Board of Pekao Direct Sp. z o.o.

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



MAGDALENA ZMITROWICZ
Vice President of the Management
Board supervising the Banking
Enterprise Division

Magdalena Zmitrowicz, Vice President of the Management Board supervising the Banking Enterprise Division

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

From January 2019, a Member of the Supervisory Board of Pekao Leasing Sp. z o.o. From December 2018, Deputy Chairman of the Supervisory Board of Pekao Faktoring Sp. z o.o., and from March 2021, the Chairman of the Supervisory Board of the Company.

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

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

5.4 The Bank's share capital and share ownership structure

As at 30 September, 2021, the share capital of Bank Pekao S.A. amounted to PLN 262,470,034 and remained unchanged until the date of submitting the report. The Bank's share capital was divided into 262,470,034 shares in the following series:

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

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

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

SHAREHOLDER'S NAME	NUMBER OF SHARES AND VOTES AT THE GENERAL MEETING	SHARE IN SHARE CAPITAL AND TOTAL NUMBER OF VOTES AT THE GENERAL MEETING	NUMBER OF SHARES AND VOTES AT THE GENERAL MEETING	SHARE IN SHARE CAPITAL AND TOTAL NUMBER OF VOTES AT THE GENERAL MEETING
	AS AT THE DATE OF SUBMITTING THE REPORT FOR THE THIRD QUARTER OF 2021		AS AT THE DATE OF SUBMITTING THE REPORT FOR THE FIRST HALF OF 2021	
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 Otwarty Fundusz Emerytalny Aviva Santander	13,281,544	5.06%	13,281,544	5.06%
Fundusze zarządzane przez Nationale-Nederlanden Powszechne Towarzystwo Emerytalne S.A.	13,201,655	5.03%	13,201,655	5.03%
Other shareholders (below 5%)	149,896,662	57.11%	149,896,662	57.11%
Total	262,470,034	100.00%	262,470,034	100.00%

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.

5.5 Financial credibility ratings

Bank Pekao S.A. financial credibility ratings

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

As of 30 September 2021, 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	F1
Viability rating	bbb+	-
Support rating	5	-
Support rating factor	No floor	-
Outlook	Stable	Stable
National Long-Term Rating	AA(pol) (stable 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	baa2	-
Long-term counterparty risk assessment	A2(cr)	-
Short-term counterparty risk assessment	Prime-1(cr)	-
Outlook	Stabilna	Stable
Long-term Counterparty Risk Rating (CRR)	A1	-
Short-term Counterparty Risk Rating (CRR)	Prime-1	-

On 7 January, 2021, rating agency Moody's Investors Service informed the Bank about maintaining the „A2” long term and „P-1” short term deposit ratings as well as stable outlook on the long term deposit ratings. Concurrently Moody's downgraded the Bank's Baseline Credit Assessment („BCA”) and Adjusted Baseline Credit Assessment („Adjusted BCA”) to „baa2” from „baa1” and its long term Counterparty Risk Ratings („CRR”) to „A2” from „A1”. Banks's long term Counterparty Risk Assessment („CRA”) was also downgraded to „A2(cr)” from „A1(cr)”. The short term CRR and CRA were affirmed at „P-1” and „P-1(cr)” respectively.

According to Moody's, the rating update is a consequence of the Bank's announcement of the acquisition of the certain assets and liabilities of Idea Bank S.A. as part of Idea's resolution under the legal framework of the Act of 10 June 2016 on the Bank Guarantee Fund, Deposit Guarantee Scheme and Resolution. Moody's stated that the transaction has a very limited impact on the Bank's credit profile and Moody's expectations on the Bank's financial fundamentals and performance are now more appropriately reflected in the BCA's of „baa2”, which is a one-notch lower than before the assessment. At the same time, long-term deposit ratings were affirmed owing to rating uplift from the application of Moody's Advanced Loss Given Failure analysis and a moderate likelihood of support from the government of Poland in case of need. The stable outlook for the ratings reflects the rating agency's expectation that the Bank will successfully execute the transaction within the set timelines, while maintaining its financial metrics broadly at current levels.

On 24 June 2021 rating agency S&P Global Ratings (the "S&P") informed the Bank about maintaining the ratings of the Bank at the current level with the stable outlook.

According to S&P, the ratings of the Bank reflects its strong franchise as one of the top 3 universal banks in Poland and its strong capital buffer. The Bank's exposure to legacy CHF loans is not material, according to S&P, and in case of any unlikely adverse scenarios, the Bank could benefit from the support of its state-controlled strategic investor, PZU Group.

The stable outlook reflects that on Pekao's largest investor, PZU.

On 23 September 2021 rating agency Fitch Ratings informed the Bank that it has revised the outlook for the Bank's Long-term IDR and National Long-Term Rating from "Negative" to "Stable" and has affirmed the ratings of the Bank.

According to the rationale provided by Fitch, Pekao's IDRs are driven by the bank's intrinsic strength, as reflected in its VR. The Outlook revision to Stable from Negative on Pekao reflects the swift economic recovery, which supports Fitch's mid-term expectations of stable asset quality metrics and a gradual recovery of operating profitability, which has been depressed in 2020 by deep interest rate cuts. It also reflects the outlook revision for the Polish operating environment which to large degree acts as a constraining factor for the bank's ratings.

Fitch highlights that Pekao's VR of 'bbb+' reflects its well-diversified business model, solid market share and franchise in both retail and corporate banking, conservative risk appetite, and strong capitalisation and liquidity. The new mid-term strategy announced in 2021 is to a large degree a continuation of the previous one, and according to Fitch business and financial targets for 2024 appear achievable.

Pekao Bank Hipoteczny S.A. financial credibility ratings

Pekao Bank Hipoteczny S.A. he cooperates with the international rating agency Fitch Ratings.

Fitch emphasizes that the rating of Pekao Bank Hipoteczny S.A. is related to the rating of Bank Pekao S.A., which holds 100% of the Bank's shares. According to Fitch, the rating of Pekao Bank Hipoteczny S.A. it is influenced by the level of integration with the parent company, the scale of operations and the Bank's capital.

On 23 September, 2021, the Fitch Ratings rating agency announced that all ratings were kept unchanged, including the long-term rating of Pekao Bank Hipoteczny S.A. at the BBB + level and at the same time changed the outlook from "Negative" to "Stable". The rating outlook issued by Pekao Bank Hipoteczny S.A. also changed positively from "Negative" to "Stable". covered bonds. According to the rating agency, the change in the outlook was influenced by the rapid economic recovery after the pandemic, which supports Fitch's medium-term expectations of stable asset quality ratios and a gradual recovery of banks' operating profitability.

At the end of September 2021, mortgage bonds issued by Pekao Bank Hipoteczny S.A. had the "A-" rating assigned by the Fitch rating agency. The high rating of the letters means that Pekao Bank Hipoteczny S.A. has the ability to issue securities with a high level of security and to obtain long-term funds for lending activities.

5.6 Achievements of Bank Pekao S.A.

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

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

BUSINESS MODEL

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

- **RETAIL BANKING AND PRIVATE BANKING** – serving individual clients, including affluent private banking clients and micro enterprises. Private banking clients are offered investment advisory through private banking centers and remote channels, while all individual clients and micro-enterprises are served through a wide network of branches and partner outlets supported by market-leading remote service channels, including digital channels,
- **ENTERPRISE BANKING** – providing financial services to clients from small and medium-sized enterprises sector that are served by relationship managers with the support of product specialists. The service is carried out in specialized Business Customer Centers, Corporate Centers and universal retail branches. Customers are offered with products and services tailored to their individual needs based on solutions proven in corporate banking and adapted to the needs of the enterprise segment,
- **CORPORATE AND INVESTMENT BANKING** – providing financial services to 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.

Distribution channels

In line with the Strategy, we take actions aimed at improving efficiency and migrating processes to remote channels. In the third quarter of 2021, the Bank reduced its branch network by 17 units. As part of the development of the franchise network, the number of agency outlets over the last year increased by +12 units.

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

	30.09.2021	30.09.2020
Total number of outlets	652	733
own outlets	575	668
partner branches	77	65
Total number of own ATMs	1,482	1,616

The number of accounts

At the end of September 2021, the Bank maintained 6,823.2 thousand PLN-denominated current accounts, 405.9 thousand mortgage loan accounts and 626.4 thousand "Pożyczka Ekspresowa" (Express Loan) accounts.

	30.09.2021	30.09.2020
Total number of PLN current accounts (*)	6,823.2	6,487.7
of which packages	4,830.1	4,656.7
Number of mortgage loans accounts (**)	405.9	399.3
of which PLN mortgage loans accounts	378.6	369.0
Number of Pożyczka Ekspresowa loan accounts (***)	626.4	688.3

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

(**) Retail customers accounts.

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

The data presented according to the business model, based on the managerial model in which the main criterion for dividing the Group's reporting is the classification of the client depending on his profile and service model.

On January 3, 2021, the Bank took over the enterprise and liabilities of Idea Bank S.A. with exceptions, as a result of the BGF's application of the resolution instrument. As at the date of publication of the report, the acquired assets, liabilities and customers were not assigned to any of the above-mentioned areas of activity, which will take place after the completion of the integration process of the acquired enterprise.

RETAIL BANKING AND PRIVATE BANKING

Strategy - The „Customer” pillar

We are intensively developing digital channels as well as quick and convenient service processes. We seek to enable retail clients to handle almost any matter online. **The digitization rate of nearly 100% is one of the key strategic aspirations.**

The PeoPay mobile application becomes the main channel of contact with the client. We plan to make even greater use of advanced data analytics and modern sales support tools in order to personalize the offer, improve service quality and increase the tendency to recommend our services. The key measure of success that we strive for is a leap advance in customer satisfaction rankings.

Number of clients and accounts

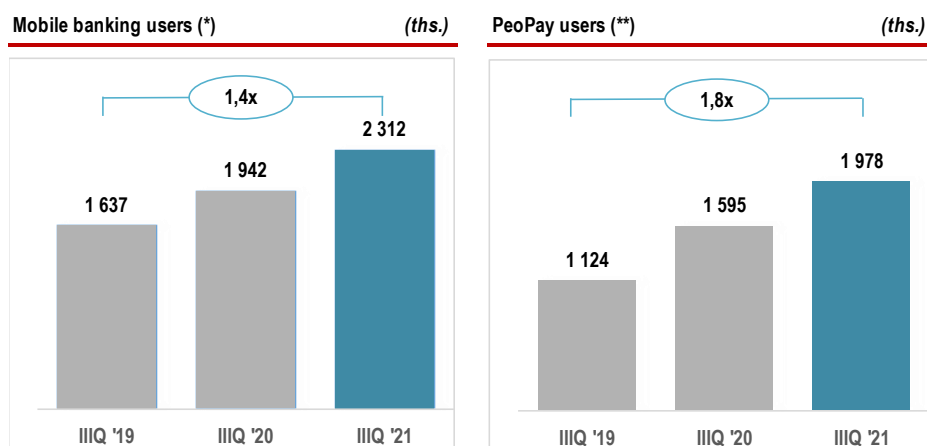
In the third quarter of 2021, we opened over 108 thousand accounts (+ 15% compared to the second quarter of 2021), Konto Przekorzystne and Konto Świat Premium accounts, i.e. nearly 300 thousand accounts from the beginning of the year.

The total number of personal ROR accounts for individual clients exceeded the level of 4.5 million and increased by +50 thousand compared to the previous quarter and by +160 thousand year-on-year.

We consistently expanded the additional benefits of having Konto Przekorzystne and Świat Premium Accounts. In June 2021, in cooperation with PZU, we introduced the "Comfort Package" to the offer, which is one of the few combinations of banking and insurance products with a wide range of protection available on the market. The "Comfort Package" gives customers, among others the possibility of immediate payments and insurance of internet purchases, assistance in the event of a breakdown at home, personal belongings insurance. It is available in three variants: Platinum, Golden and Standard, different in terms of the number of Express Elixir transfers to be used in a month and the scope of insurance.

Development of electronic and mobile banking

In the third quarter of 2021, the number of active mobile banking customers increased by 135 thousand and is 1.4 times larger than two years ago. The number of active mobile customers using PeoPay increased by 95 thousand customers in the third quarter of 2021 and is 1.8 times greater than two years ago.



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

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

At the end of the third quarter of 2021, 86.6 thousand of customers actively used mobile banking for companies, and 179 thousand from electronic banking (an increase by 8,4 thousand compared to the third quarter of 2020).

In the PeoPay application - the main mobile banking tool, we offer a number of innovative solutions, including:

- concluding a loan agreement as part of the “click” process, without leaving your home – within 30 seconds of accepting the contract
- concluding a loan agreement at the Banks’s outlet „by click”,
- finger or face biometrics approval transfers and payments,
- wide selection of payment methods: Apple Pay, BLIK, PeoPay payments, Garmin Pay, Fitbit Pay.
- paying for online purchases on your phone without logging into online banking,
- a wider range of instructions, thanks to which more and more case are carried out online without visiting a branch
- scanning account numbers from invoices without rewriting the account numbers to the application,
- executing transactions both in PLN and selected foreign currencies without currency conversion, due to the link to the relevant currency accounts,
- the ability to manage cards - from the application level the client can activate or block the card, as well as change card,
- the ability to deposit and withdraw cash to their accounts by holders of individual and company accounts
- making the Messages module for correspondence with the Bank available,
- possibility of contacting a consultant via text messages (chat). and the possibility of using the Google Assistant in the PeoPay application,
- sending documents regarding insurance and life policies and concluding a contract for the transfer of rights under the real estate insurance contract,
- automation of recurring payments using Qlips service (interbank service supported by the National Clearing House and the Polish Bank Association),
- making automatic payments for motorway tolls using the Autopay service,
- full access to brokerage services, including online quote and exchange orders,

Our PeoPay KIDS application is dedicated to children aged 6-13 and offers access to the Konto Przekorzystne for young people, the My Skarb savings account and the PeoPay KIDS debit card. Thanks to the application, children can learn to save and manage their own funds in an easy and accessible way, and thanks to the payment card they can make cashless payments in stores and withdraw cash from ATMs. The application also includes the function of a trainer who introduces the child to the world of finance.

The PeoPay KIDS application is connected with PeoPay mobile banking and Pekao24 internet banking, which allows the caregivers to view and authorize the child's finances. In the panel, the parent can, among other things: check the child's expenses, view the account balance, set functions that will be visible in the child's application - phone top-ups or purchase of game codes. And also set a spending limit on the child's payment card, make a quick transfer or order a permanent pocket money transfer. In the third quarter of 2021, we enabled parents to make remote changes to the settings in the child's profile.

At the end of September 2021, young customers had 58.7 thousand. PeoPay KIDS packages, over 81 thousand. virtual virtual moneyboxes for individual purposes, for which they have accumulated over PLN 30 million. 93% of children used payment cards, who made nearly 1.9 million transactions with the total amount of PLN 19 million.

The PeoPay KIDS application is very popular among children and receives very high ratings in Google Play and the App Store.

In the third quarter of 2021, PeoPay KIDS was once again distinguished and received two important awards:

- Eagle of Innovation of the Republic of Poland, in which the most innovative companies and solutions in the Polish economy are awarded,
- In the "Best e-banking Implementation" category from the Chamber of Electronic Economy associating giants of Polish e-commerce.

In addition, we are systematically developing the Pekao24 service and the latest version of the PeoPay application with self-service processes thanks to which customers can submit instructions for a housing loan, student loan, loan, bill or card on their own without leaving home, including among others: an instruction for the complete early repayment of a mortgage and a loan, a certificate of the amount of debt, issuing a bank opinion or preparation of documents for establishing a mortgage.

We have also developed the PekaolD digital identity and trusted profile services, enabling remote confirmation of the identity of retail clients. Thanks to the integration with the eIDAS National Node, PekaolD activation increased significantly. By the end of the third quarter of 2021, the number of customers using PekaolD amounted to 1,2 million.

Open banking

Open banking is a new standard on the payment services market implemented in accordance with the EU directive PSD2. In the third quarter of 2021, we consistently developed open banking services, which enable quick access to information about accounts in other banks and making transfers from these accounts in the Pekao24 service and the PeoPay application. As the only one in Poland, as part of open banking, we also provide foreign transfers (SEPA, SWIFT) from accounts in PKO BP, Inteligo, Santander, ING, BNP Paribas, Alior Bank, Millennium, mBank and Getin Bank. Currently, customers can add information about accounts from 11 banks. Thanks to the open banking service, in selected loan processes it is possible to use data collected from another bank, which significantly improves and shortens the path of the loan process.

Strategy - The „Growth” pillar

We strive for business growth in the most profitable market segments, product groups and areas of untapped potential, which will result in improved profitability, i.e. consumer finance and in the micro-enterprises segment.

Over the next four years, Pekao wants to acquire over 400 thousand individual customers every year and increase its market share in cash loans from 7% up to 10%. Moreover, we will seek to rejuvenate the demographic structure of the retail customer base. The goal is to acquire over 600 thousand customers under 26 years of age by 2024.

We also focus on digital growth in investment products. By 2024, over 80% of the sales volume of investment funds will be realized in remote channels. We are also strengthening business synergies with the PZU Group, which will result in an increase in sales of insurance products and a twofold increase in the gross written premium by 2024.

Key Retail Loans

From June 2021, we use the open banking functionality in the processes of granting a cash loan, overdraft limits and credit cards, using the account history from another bank to assess the customer's creditworthiness. As a result, we accelerated the credit process and our clients gained the opportunity to receive a faster credit decision. Currently, the history of an account maintained at the following banks can be downloaded and used for the credit process: Santander, Millennium, Alior, BNP Paribas, ING, Credit Agricole.

The value of granted cash loans in the third quarter of 2021, measured by the net volume, amounted to PLN 1.1 billion and increased by + 52% compared to the third quarter of 2020. Sales in remote channels in the third quarter of 2021 amounted to over PLN 485 million (+ 114% compared to the third quarter of 2020). 62% of cash loans were granted in remote processes.

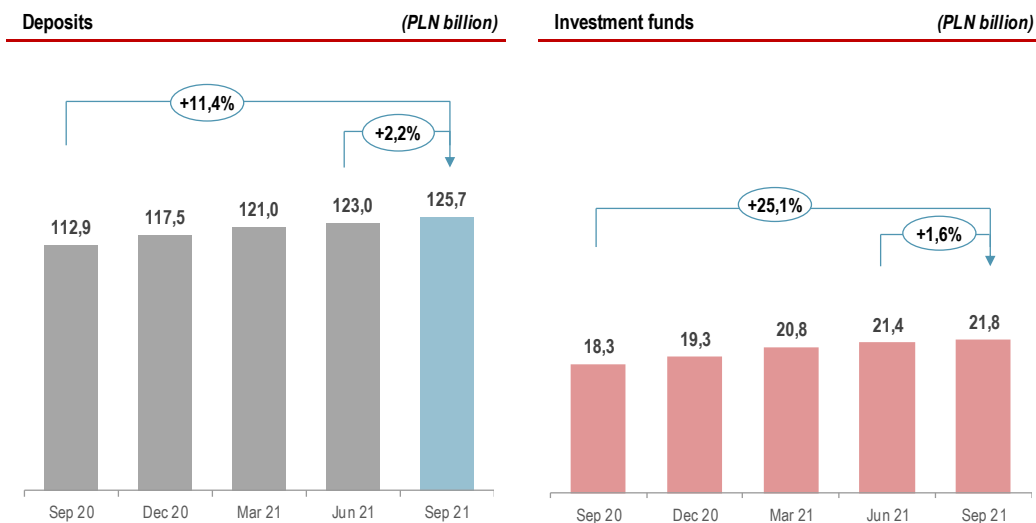
There was also an increase in the sale of overdraft limits, both in branches and remotely, including "by click". In the third quarter of 2021, 11% more agreements were concluded for new limits compared to the second quarter of 2021.

In the third quarter of 2021, sales of housing loans amounted to over PLN 2.8 billion, recording an increase in volume by 65% y/y.

Development in the area of insurance products

In the third quarter of 2021, the share of cash loans granted with insurance was 37%, while the share of mortgage loans sold with insurance increased to 97% (+5 pp compared to the third quarter of 2020). The premium collected in protective insurance was 105% higher in the third quarter of 2021 than in the corresponding period of the previous year, and 181% higher, taking into account investment products.

We consistently developed cooperation with PZU SA in the field of assurbanking activities. In more than 150 PZU branches, customers can open the Konto Przekorzystne and the number of the Bank's customers acquired through the branches was 29% higher than in the corresponding period of 2020.

Deposit, brokering activity and sale of investment products


At the end of September 2021, deposits of individual and business customers amounted to PLN 125.7 billion and were higher than in the corresponding period by 2.2%.

We actively encouraged clients purchasing investment products to use remote channels, offering preferential pricing conditions. In the Pekao 24 system, we have provided clients with a new product - Lokata z Funduszem with an attractive deposit interest rate of up to 1.5% for 6 months and the option to purchase participation units in one of the 5 Pekao TFI funds tailored to investment preferences.

As a consequence of low interest rates, sustained from the first half of 2020, the Bank's offer only includes deposits concluded for a period of 3 and 6 months, which can only be opened in electronic banking or in the PeoPay mobile application.

In the third quarter of 2021, in cooperation with the Pekao Brokerage House, we introduced the following products to the offer for individual clients and private banking:

- Structured product without Autocall capital protection linked to BNP Paribas shares issued by Goldman, Sachs & Co. Wertpapier GmbH,
- Structured product with full Autocall capital protection linked to Newmont Corporation and Rio Tinto shares issued by Goldman, Sachs & Co. Wertpapier GmbH,
- Structured product with full Autocall capital protection linked to Totalenergies SE and Exxon Mobil Corporation shares issued by Goldman, Sachs & Co. Wertpapier GmbH,
- Structured product with full Autocall capital protection linked to BNP PARIBAS S.A. shares and HSBC HOLDINGS PLC issued by Goldman, Sachs & Co. Wertpapier GmbH,
- Structured product with full Autocall capital protection linked to Totalenergies SE and Volkswagen AG shares issued by Goldman, Sachs & Co. Wertpapier GmbH,
- COZ Structured Product Linked to FedEx Corp Shares issued by Goldman, Sachs & Co. Wertpapier GmbH,
- Structured product with conditional capital protection based on Bayerische Motoren Werke AG shares issued by UniCredit Bank AG.

In the third quarter of 2021, we made it possible for clients to remotely sign an agreement for accepting orders regarding investment fund participation units, update the questionnaire and indicate consent for a durable medium, as well as remotely open an investment account in the PeoPay mobile application.

We offer preferential pricing conditions to clients who purchase investment products via remote channels, and for clients who have a brokerage account at the Pekao Brokerage House and PZU shares, we have prepared the Moje PZU loyalty program.

In the third quarter of 2021, we expanded the offer of structured products, including about:

- new subfund Pekao Ekologiczny from the offer of Pekao TFI, focused mainly on pro-ecological and environmentally friendly investments. The portfolio is built on the basis of a careful selection of companies, in which an important element is the analysis of ESG, i.e. factors of sustainable development,

- 9 index sub-funds included in the umbrella fund inPZU SFIO. InPZU index funds are funds that follow a given benchmark, the so-called benchmark portfolio, the aim of which is to provide a rate of return that is closest to a given benchmark.

At the end of the third quarter of 2021, the Pekao Brokerage House operated a total of 186.6 thousand investment accounts, servicing 134.4 thousand accounts with active access to services via remote channels. Direct service was carried out within a nationwide network of 347 outlets providing brokerage services in total. The value of the assets of Pekao Brokerage House and Dom Inwestycyjny Xelion S.A. as at 30 September, 2021, it amounted to PLN 30.1 billion.

In the third quarter of 2021, the Pekao Brokerage House processed the subscriptions of 7 public offers of structured certificates issued by external suppliers, in which subscriptions were accepted for a total amount of PLN 178 million.

Moreover, the Brokerage House participated in accepting subscriptions as part of the public offering of Cavatina Holdings shares, 10 calls for the sale of shares and 1 forced buyout, 3 issues of shares with the exercise of subscription rights.

ENTERPRISE BANKING

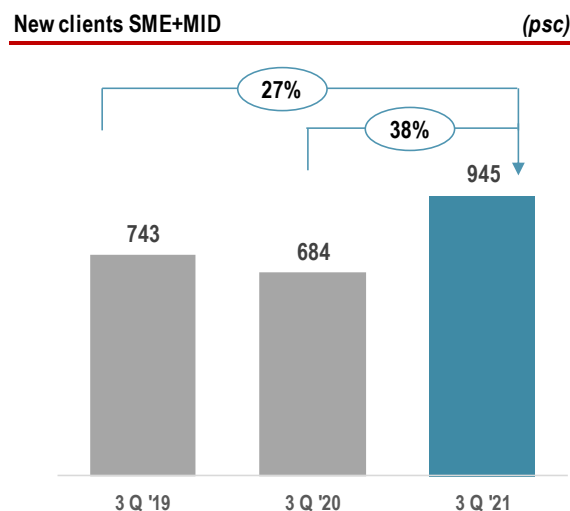
Commercial Banking consists of two segments: Small and Medium Enterprises (SME) and Medium Enterprises (MID) segments.

Strategy - The „Customer” pillar

We put the customer and his needs at the center of our activities, intensively develop digital channels and fast and convenient service processes. To an even greater extent, we will use advanced data analytics and modern CRM tools to support sales, which will allow us to better adjust the offer, improve the quality of service and increase the tendency to recommend our services.

According to the Strategy, we plan to acquire 2.2 thousand new clients from the SME sector and 1 thousand clients from the MID sector annually.

In the third quarter of 2021, we maintained high level of acquisition and acquired 945 clients, this result was better by 38% compared to the third quarter of 2020. Since of the beginning of 2021, we have acquired 3.1 thousand customers, achieving a 53% increase in acquisition in the SME segment and a 57% increase in the MID segment. At the end of the third quarter of 2021, we were provided service for 49 thousand customers in the Corporate Banking Division.



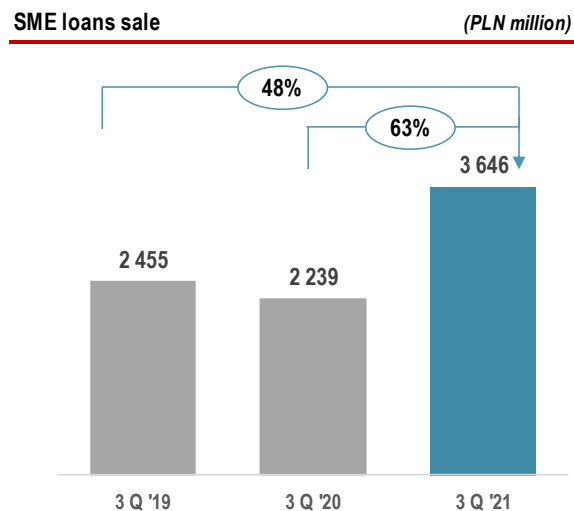
Strategy - The „Growth” pillar

By focusing on the most profitable segments and groups of product, we plan to increase the share in the revenues of SME segments by 2 p.p. and 4 p.p. for the MID segment compared to the 2020.

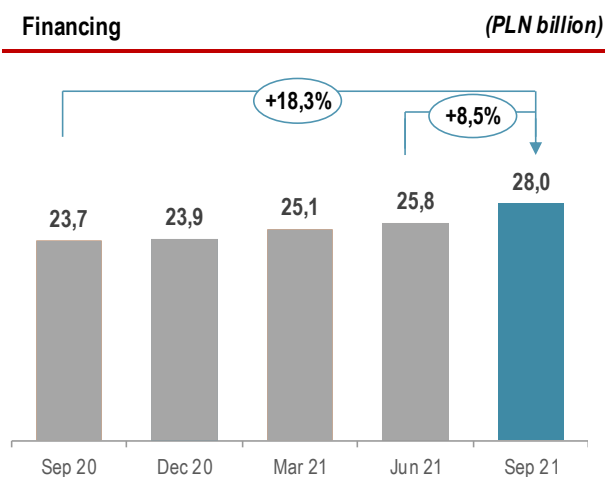
Lending activities and customer financing

We offer our clients a wide, comprehensive range of products and services, such as bank loans, leasing, factoring, arranging issues of debt securities and other specialized forms of financing.

Our sales of loans in the SME segment remain at record levels - the third quarter of 2021 was the fourth quarter in a row in which the value of loans sold exceeded PLN 1.0 billion (including PLN 1.2 billion in the third quarter). After three quarters of 2021, sales exceeded PLN 3.6 billion, and the sales dynamics increase by + 63% y/y.



In the third quarter of 2021, the value of the loan portfolio increased by +18.3% y/y, including +26.6% y/y in the SME segment and +16.0% y/y in the MID segment, compared to the second quarter of 2021, the value of the loan portfolio increased +8.5% q/q.



We consistently optimize and improve credit processes so as to improve the efficiency of customer service. We have made available a new, fully electronic loan application - thanks to which the client can easily and quickly receive financing in the form of the SMEX Express Loan.

In cooperation with the Polish Development Fund, we proposed a new program for financing investments in renewable energy sources. The program is dedicated to, among others local governments and entrepreneurs with lower capital commitment, whose revenues are based on market risk. Green investments for business worth PLN 1 billion are an opportunity to implement larger projects and a faster return on capital investment.

Transactional banking

We consistently developed the self-service zone for enterprise clients in PekaoBiznes24 electronic banking. We have made available further processes enabling self-service, among others submitting applications in the field of credit card service, PFR financial shield, closing sub-accounts.

We implemented a new biometric remote method ('on a selfie') of verifying the identity of representatives of a potential client. The method enables clients from the SME and corporate segment to establish relationships completely remotely, regardless of their legal form. The solution is intended for companies registered in Poland, represented by people with Polish identity cards.

In addition, we have made Google Pay payments for business cards available to the Bank's customers, supporting new payment methods.

CORPORATE AND INVESTMENT BANKING

The Corporate Banking Division covers corporate segments, large and significant capital groups (the so-called Large Corporations), public sector clients, financial institutions as well as commercial real estate and specialized financing. Thanks to the qualified staff, specialist knowledge, safe and effective processes and a strong liquidity position we arrange and co-finance the most complex and biggest investment projects on the Polish market. A wide range of products and services, innovative solutions, customised approach and the comprehensive financial services for enterprises, institutions and public sector units strengthen our position as a market leader in the area of corporate services.

We provide both the comprehensive services of a universal bank and the services from such areas as leasing, factoring, investment advisory services, advisory in M&A as well as highly advanced treasury and capital market products. We also prepare comprehensive offers of short- and long-term financing of international activities, supporting the expansion of Polish enterprises both on the European and developing markets. As part of developed transactions, we have cooperated, inter alia, with KUKE and we have developed a set of unique products and services on the market in the area of export finance, offering our clients a financing structure that is optimal for the conducted business activity and implemented projects.

In addition, we continue our 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 customers 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 positions Bank Pekao S.A. as a Polish bank with a European reach.

The agreements with our partners allowed us to expand the geographic area of the serviced markets and develop further the business with international companies.

Strategy

We plan to maintain the leading position in the corporate banking and maintain a high market share in revenues at least at the level of 2020, potentially increasing it, through effective volume growth using competitive advantages such as: in-depth sector expertise, specialist financing knowledge as well as the growing digitalization of processes.

We consistently develop digitization, process automation and relieve its relationship managers in operational work, thanks to which clients receive a wide range of digital solutions enabling self-service, and relationship managers have more time and better tools to reach the most demanding enterprises with specialist knowledge.

The Bank, as a leading institution cooperating with the largest corporate clients, in addition to substantive, operational and financial support in the development of clients, is also a partner for public development programs, socially responsible ESG projects, actively involved in the development and modernization of the Polish economy supported by numerous programs and EU funds.

Pursuing the adopted strategy of sustainable development (ESG) we are even more involved in the energy and ecological transformation of Poland as well as environmental protection, in accordance with the principles of the European Green Deal.

We actively participate in building the renewable energy sources (RES) sector in Poland, offering and arranging the issues of sustainable development bonds. We were the first bank to take part in the largest and most complex ESG projects in Poland and we participated in all the most important benchmark bond issues for State Treasury Companies.

We also co-arranged the first issues of green local government bonds in Poland. As part of the signed agreement, the City of Łódź obtained PLN 418 million, of which PLN 50 million will be the green bonds. The funds will be used for financing the low-emission city transport and a sewage treatment plant.

Other projects that fit in with our strategy – Responsible Bank supporting Sustainable Development - include:

- participation in a consortium with Bank PKO BP established for the issue of bonds for the amount of PLN 491 million to be used for implementation of the investment program improving the standard of public transport in Wrocław,
- participation in a consortium with Bank BGK arranging financing for the amount of PLN 496 million to be used for modernization and building of track infrastructure in the Silesian Agglomeration and for the purchase of tram rolling stock and specialized rail vehicles.

At the end of the third quarter of 2021, the Corporate Banking Division serviced nearly 6.1 thousand entities being large corporations, public sector clients, financial institutions as well as commercial real estate projects and projects involving specialised financing. We also established cooperation with 253 new clients from those areas.

We cooperate with 11 out of 12 Polish metropolises (92% market share) and provide ongoing budget support for every third metropolis (33%). We cooperate with every fourth municipality in Poland (25% market share). We also maintain business relationships with 92% of towns with county rights and provide ongoing services to every fifth of them (21%). We also cooperate with every third county (37%) and with almost all provinces (94%). We are also a major partner for state universities.

Financing of clients' activities

The key projects financed by the Bank in the third quarter of 2021 include:

- financing the development of the telecommunication network of a sector leader. The amount of financing: PLN 3,1 billion,
- investment financing for a leading company operating in the food processing industry. The amount of financing: PLN 330 million,
- financing the construction of a warehouse park near Warsaw, the loan amount: PLN 214 million,
- financing the construction of private dormitories in Warsaw and Cracow, the loan amount: PLN 160 million.

Trade finance

In the first three quarters of 2021, as part of the Open Financing Platform (OFE), we financed over 36 thousand invoices with a value higher by over PLN 600 million than in the corresponding period of 2020. The amount of newly opened letters of credit in that period increased by over 45% as compared to the first three quarters of 2020. We also noted a two-digit growth dynamics in the area of guarantees and sureties. The amount of new transactions was higher by nearly 90% in comparison with the same period of 2020, and the Bank's exposure under guarantees granted in comparable periods increased by more than 36%.

In the third quarter of 2021, we launched a supplier financing program for one of the key clients from the clothing industry. We have provided the client and its suppliers with the unique solutions of the Open Funding Platform (OPF) that allow for quick and flexible management of the financing program which can be utilized in PLN, USD and EUR. The access to the program was offered to almost 60 domestic and 130 foreign suppliers from such countries as China, India and Turkey.

Issuance of debt securities

Taking into account the outstanding debt as at 31 August 2021, Bank Pekao S.A. had nearly 30% market share (1st place) in the area of arranging and servicing non-treasury debt securities (above 365 days), including:

- nearly 38% market share in arrangement of corporate bonds issues (1st place),
- over 18% market share in arrangement of banks' debt securities (3rd place),
- over 22% market share in arrangement of municipal bonds issues (2nd place).

In the third quarter of 2021, Bank Pekao S.A. issued non-treasury debt securities in the total amount of over PLN 8,5 billion among which the following transactions deserve special attention:

- issue of 10-year Eurobonds for a Polish bank for the amount of EUR 500 million, in which the Bank was the co-arranger and dealer,
- issue of six series of bonds for a company from the factoring industry for the total amount being the equivalent of nearly PLN 2 billion, denominated in PLN and EUR and with the maturity of up to 1 year
- issue of four series of bonds for a company operating in the leasing industry for the total amount being the equivalent of ca. PLN 1,7 billion, denominated in EUR and PLN and with the maturity up to 1,5 year,
- issue of Eurobonds for a multilateral financial institution with the highest credit rating for the amount of PLN 750 million, in which the Bank was the sole arranger and dealer,
- issue of 1-year bonds for a company belonging to an international automotive group for the amount of PLN 500 million, in which the Bank acted as the sole arranger and dealer,

- the issue of 6-year bonds for a company from the logistics industry for the amount of PLN 500 million, in which the Bank was the arranger and dealer,
- issue of two series of mortgage covered bonds for a mortgage bank for the total amount of PLN 350 million,
- issue of two series of 2-year bonds for a leasing company belonging to an international financial group for the total amount of PLN 250 million, in which the Bank was the coordinator and dealer,
- issue of 17-year bonds for a tram company from the southern Poland for the total amount of PLN 134,2 million.

Transactional banking

The Bank's most important achievements in the area of transactional banking in the third quarter of 2021 included:

- an increase in the volumes of outgoing and incoming foreign transfers by 28% and 36% respectively and an increase in the number of outgoing transfers by 29% as compared to the third quarter of 2020,
- processing of more than 33 thousand ExpressElixir transactions outgoing from Pekaobiznes24, which is an increase of 209% as compared to the data after the third quarter of 2020, and an increase of 186% in terms of volume of processed transactions,
- processing – after three quarters - of over 125 million transactions as part of the Pekao Collect service (identifying mass payments of customers) with the total volume of nearly PLN 161 billion, which is an increase of 4,0% as compared to the data after three quarters of 2021 (in terms of the number of transactions) and +14% in terms of volume processed transactions,
- an increase up to PLN 616 million of the total amount of Direct Debit transactions, which is an increase of 21,5% as compared to the second quarter of 2021,
- an increase of 5% in the number of domestic outgoing transfers as compared to the third quarter of 2020.

The new products and functionalities were made available to corporate clients, including:

- Pekao CashCard which allows you only to deposit cash from the conducted business activity in selected ATMs, without restrictions resulting from the opening hours of the Bank's branches,
- possibility to add payment cards to Google Pay,
- Cumulated Limit (CIL) – as a result of which we have extended the scope of management of the joint, consolidated balance on the accounts of the group's clients using the Cash Pool service.

5.7 Factors which will affect the results of the Group

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

While the first half of the year was still marked by the strong impact of pandemic restrictions on the Polish economy, next month brought about opening and a strong influx of optimism, related, among others, to the progress of the vaccination process. At present, the main concerns relate to the scale and impact of the rising fourth wave of the pandemic, although it is believed that its economic impact will remain moderate (less pressure on health care, possible spot and regional tightening, and thus less economic consequences). Bank Pekao S.A. currently estimates that Poland's GDP will grow by 5.0% y/y in 2021 and in 2022.

Further development of the epidemic will have an impact on demand for banking products and possible further changes in the cost of risk as a result of updated assumptions about the economic situation.

Monetary policy is an important factor influencing banks' performance. In 2020, considering the economic situation, the MPC has decided to significantly reduce interest rates, including the main interest rate from 1.50% to 0.10%. Very low interest rates have a strong, adverse impact on the results of the banking sector (through the impact on the net interest result of banks), while the transmission of this effect is spreading over time and is still being mirrored in the banks' results. In view of the changing macroeconomic environment in 2021, including the pressure of high inflation, the MPC decided to start the cycle of rate hikes already in October. Currently, the main rate is at 0.5%, which will positively translate into banks' results in the following periods, although the sector's interest income will remain lower than in previous years (in the environment of higher market rates at that time).

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.

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, 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. Although some burdens have been somewhat eased in the wake of the pandemic – including a 30% reduction in banks' mandatory contributions to BFG in 2021 – the tax and regulatory environment of the sector remains very restrictive, which, combined with the unprecedented economic situation, may constrain banks' credit expansion and impact their financial results.

The issue of foreign currency mortgages continues to be 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. A number of events (i.a. the rulings of CJEU) has led towards higher number of borrowers seeking judicial resolution. This will 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 to the expected legal risk – they have already strongly impacted the 2020 results, as well as in 2021. 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, the reactions of national supervisory institutions or the actions of the banks themselves. The opinion of the Civil Chamber of the Supreme Court may prove important in this context – it is expected to address a number of questions at a dedicated session (already postponed multiple times), the answers to which may become the main statutory interpretation of the law in future litigation. 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 direction of decisions made by Polish courts, as well as market practice and borrowers' behaviour, and will assess on an ongoing basis the probability of cash outflow with respect to the mortgage loans in question. However, the impact may be indirect in case of potential financial problems of some smaller institutions with a particularly large exposure to the discussed risk.

Assuming further containment of the epidemic situation, including lesser severity of the fourth wave (thanks to vaccinations, among other things), a further recovery in credit volumes can be expected. This may be visible in the retail segment to a greater extent (still solid demand for housing credit, rebound in consumer loans), while business sentiment will improve more slowly (gradually increasing interest in revolving credit and investment loans). With a strong labour market despite the impact of the pandemic, household deposits will still maintain a solid pace. High base (inflow of funds from anti-crisis shields in 2020) will in turn limit dynamics of corporate deposits, elevated in previous months.

6. Statement of Financial Position and Financial Results

Consolidated income statement containing cumulated items for the period from 1 January to 30 September, 2021 and 2020 respectively is presented in the Condensed Interim Consolidated Financial Statements of Bank Pekao S.A. Group for the period of 9 months ended on 30 September 2021.

The Report on activities of Bank Pekao S.A. Group for the third quarter of 2021, 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.

Strategy

In line with the Strategy, in 2024 the Group plans to achieve ROE at the level of 10% and the cost/income ratio (including BGF fees) at the level around 42%. We plan to achieve this thanks to:

- growth of the loan portfolio at the rate of 6-8% per year,
- improvement in interest margin by 5-8 bp annually,
- keeping the dynamics of operating costs below inflation.

Main P&L items

Net profit of the Bank Pekao S.A. Group attributable to the Bank's holders for the three quarters of 2021 amounted to PLN 1,481.2 million i.e. returned to the level achieved in the three quarters of 2019 before the pandemic. Net profit was higher by PLN 564.3 million i.e. 61.5% y/y. ROE (with linear BFG distribution) reached the level of 8.0% (nominal 7.8%).

In the three quarters of 2021, the Group's operating income amounted to PLN 6,265.1 million and was higher by 5.8% in comparison with the three quarters of 2020, mainly due to the non-interest result, the increase of which compensated for the negative impact of interest rate cuts.

- Net interest income in the three quarters of 2021, amounted to PLN 4,060.1 million and was higher by PLN 63.2 million, i.e. 1.6% in compared to the three quarters of 2020, mainly due to the negative impact of interest rate cuts.
- The Group's net fee and commission income in the three quarters of 2021, amounted to PLN 1,992.3 million and was higher by PLN 215.0 million i.e. 12.1% compared to the three quarters of 2020, mainly due to the adaptation of the offer to the changing market conditions and the positive sentiment on the capital markets, offsetting the impact of lower customer activity in the pandemic, translating into lower commissions on card operations, and the negative impact of regulatory changes in the area of investment funds.

On 23 March 2021 the Bank concluded an agreement defining the principles of collective redundancies with seven trade unions operating at the Bank, including all representative trade unions. The intention of the Bank's Management Board was to terminate employment contracts with up to 1 110 employees and amend terms and conditions of employment with up to 1 250 employees in the period from 24 March 2021 to 30 June 2021.

The Bank estimated all the costs of termination of employment contracts and amendment of terms and conditions of employment the Bank's employees related to the collective redundancies for the amount of PLN 120 million and the restructuring provision in this amount was created in the Bank's accounting books.

In the third quarter of 2021, the Group's operating costs including contributions and payments to the Bank Guarantee Fund amounted to PLN 3,141.8 million and were higher by PLN 167.7 million, i.e. 5.6% than in the three quarters of 2020, mainly due to integration costs resulting from the acquisition of the part of Idea Bank, the reconstruction of variable salary costs and the growing depreciation, which is related to investments in the transformation of the Bank. The dynamics of costs was consistent with the assumptions of the Strategy.

In the three quarters of 2021 the Bank Guarantee Fund fee amounted to PLN 259.3 million, and were lower of PLN 77.6 million as compared to the three quarters of 2020.

The Group's Net allowances for expected credit losses amounted to PLN 546.1 million in the three quarters of 2021, and was lower than in the corresponding period of 2020 by 49.5% y/y, mainly due to the gradual normalization of write-offs towards the levels observed before the pandemic.

Tax on certain financial institutions in the three quarters of 2021 amounted to PLN 532.5 million and was higher by PLN 37.6 million, i.e. 7.6% as compared to the three quarters of 2020, due to an increase in Group's assets.

Volumes

As at the end of September 2021, loans and advances at nominal value amounted to PLN 171,421.4 million, an increase of PLN 15 175,2 million, i.e. 9.7% in comparison to the end of September 2020. (excluding loans taken over from Idea Bank higher by 4.5% y/y).

As at the end of September 2021, the volume of retail loans amounted to PLN 82,346.9 million, an increase of PLN 3 624.6 million, i.e. 4.6% in comparison to the end of September 2020, thanks to dynamic growth of PLN mortgage loans by 7.1% y/y. As at the end of September 2021, corporate loans and non-treasury debt securities amounted to PLN 89 074,5 million, an increase of PLN 11 550,6 million, i.e. 14.9% in comparison to the end of September 2020, however with the growth in the segment of enterprises (18.3% y/y) and leasing receivables.

As at the end of September 2021, amounts due to the Group's customers and debt securities issued amounted to PLN 204,512.2 million, an increase of PLN 15,902.3 million, i.e. 8.4% in comparison to the end of September 2020.

The value of net assets of investment funds managed by Pekao TFI S.A. amounted to PLN 21,759.2 million as at the end of September 2021, an increase of PLN 3,425,2 million, i.e. 18.7% in comparison to the end of September 2020.

6.1 The consolidated income statement – presentation form

In the three quarters of 2021, we generated the net profit of the Bank Pekao S.A. Group attributable to the Bank's holders at the level of PLN 1,481.2 million i.e. at the level of the net profit generated in the three quarters of 2019 before the pandemic. Net profit was higher by PLN 564.3 million, i.e. 61.5% y/y, mainly due to higher net fee and commission income and lower net allowances for expected credit losses, which are gradually normalizing towards the levels observed before the pandemic.

On 3 January, 2021, the Bank took over the enterprise and liabilities of Idea Bank S.A. with exclusions as a result of the BGF's application of the resolution instrument on 30 December, 2020.

(in PLN million)

	3 QUARTERS OF 2021	3 QUARTERS OF 2020	CHANGE
Net interest income	4,060.1	3,996.9	1.6%
Net fee and commission income	1,992.3	1,777.3	12.1%
Dividend income	26.7	26.3	1.5%
Trading result	160.3	135.1	18.7%
Net other operating income and expenses ⁽¹⁾	25.7	(14.6)	x
Net non-interest income ⁽¹⁾	2,205.0	1,924.1	14.6%
Operating income ⁽¹⁾	6,265.1	5,920.9	5.8%
Operating costs	(2,882.5)	(2,637.2)	9.3%
Gross operating profit ⁽¹⁾	3,382.7	3,283.7	3.0%
Net allowances for expected credit losses	(546.1)	(1,082.3)	(49.5%)
Net operating profit	2,836.6	2,201.4	28.9%
Bank Guarantee Fund fee	(259.3)	(336.9)	(23.0%)
Tax on certain financial institutions	(532.5)	(494.9)	7.6%
Gains (losses) on associates	1.0	-	x
Profit before tax	2,045.8	1,369.6	49.4%
Income tax expense	(563.0)	(451.6)	24.7%
Net profit	1,482.8	918.0	61.5%
Attributable to equity holders of the Bank	1,481.2	916.9	61.5%
Attributable to non-controlling interest	1.6	1.1	45.5%

Operating income

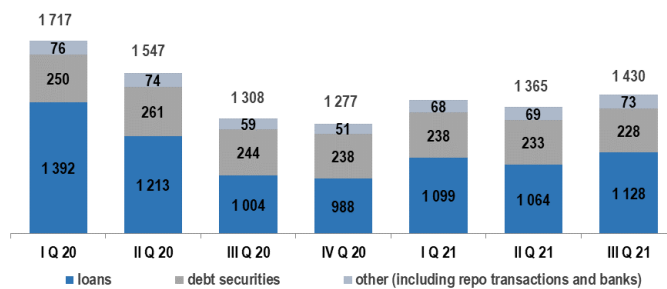
In the three quarters of 2021, the Group's operating income amounted to PLN 6,265.1 million and was higher by 5.8% in comparison with the three quarters of 2020, mainly due to the non-interest result, the increase of which compensated for the negative impact of interest rate cuts.

Total net interest income

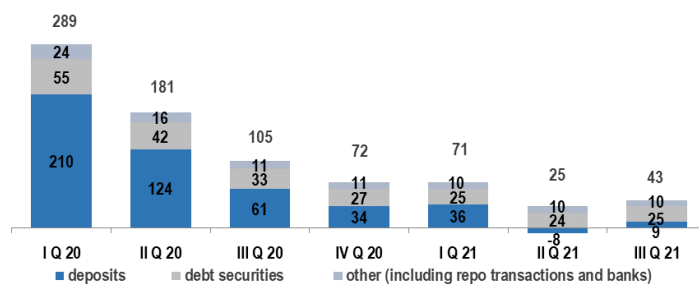
(in PLN million)

	3 QUARTERS OF 2021	3 QUARTERS OF 2020	CHANGE
Interest income	4,199.9	4,572.2	(8.1%)
Interest expense	(139.8)	(575.3)	(75.7%)
of which on leasing	(6.9)	(7.9)	(12.7%)
Net interest income	4,060.1	3,996.9	1.6%

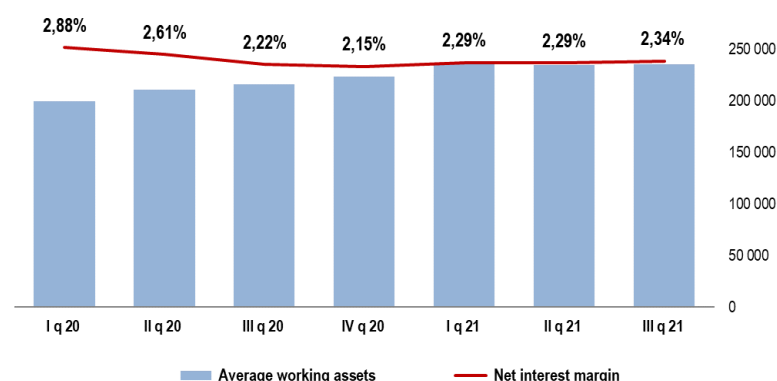
Net interest income in the three quarters of 2021, amounted to PLN 4,060.1 million and was higher by PLN 63.2 million, i.e. 1.6% in compared to the three quarters of 2020, mainly due to the negative impact of interest rate cuts.

Interest income


In the three quarters of 2021, the interest income amounted to PLN 4,199.9 million and was lower by PLN 372.3 million y/y due to the negative impact of interest rates' cut on the interest income. The decrease in revenues was partially offset by additional interest income on assets acquired from Idea Bank S.A.

Interest expense


In the three quarters of 2021, the interest expense amounted to PLN 139.8 million and was lower by PLN 435.5 million y/y, (despite a strong increase in the volume of deposits), mainly due to the adaptation of the Bank's product offer to the market conditions.

Interest margin


The interest margin achieved in the third quarter of 2021 was 2.34% and was 0.19 p.p. higher than the margin achieved in the fourth quarter of 2020 thanks to commercial activities and the positive impact of assets acquired from Idea Bank.

Net non-interest income

(in PLN million)

	3 QUARTERS OF 2021	3 QUARTERS OF 2020	CHANGE
Fee and commission income	2,380.3	2,111.1	12.8%
Fee and commission expense	(388.0)	(333.8)	16.2%
Net fee and commission income	1,992.3	1,777.3	12.1%
Dividend income	26.7	26.3	1.5%
Trading result	160.3	135.1	18.7%
of which gains on derecognition of financial assets and liabilities not measured at fair value through profit or loss	36.9	48.8	(24.4%)
Net other operating income and expense	25.7	(14.6)	x
Net non-interest income	2,205.0	1,924.1	14.6%

The Group's net fee and commission income in the three quarters of 2021, amounted to PLN 1,992.3 million and was higher by PLN 215.0 million, i.e. 12.1% compared to the three quarters of 2020, mainly due to the adaptation of the offer to the changing market conditions and the positive sentiment on the capital markets, offsetting the impact of lower customer activity in the pandemic, translating into lower commissions on card operations, and the negative impact of regulatory changes in the area of investment funds.

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

(in PLN million)

	3 QUARTERS OF 2021	3 QUARTERS OF 2020	CHANGE
Net fee and commission income	1,992.3	1,777.3	12.1%
on loans	411.1	347.6	18.3%
on cards	183.1	204.4	(10.4%)
on mutual funds	276.2	291.5	(5.2%)
on brokerage activate	103.5	72.0	43.8%
on margins on foreign exchange transactions with clients	427.3	382.1	11.8%
other	591.1	479.7	23.2%

Operating costs

In the three quarters of 2021, the Group's operating costs including contributions and payments to the Bank Guarantee Fund amounted to PLN 3,141.8 million and were higher by PLN 167.7 million, i.e. 5.6% than in the three quarters of 2020, mainly due to integration costs resulting from the acquisition of the part of Idea Bank, the reconstruction of variable salary costs and the growing depreciation, which is related to investments in the transformation of the Bank. The dynamics of costs was consistent with the assumptions of the Strategy.

On 23 March 2021 the Bank concluded an agreement defining the principles of collective redundancies with seven trade unions operating at the Bank, including all representative trade unions. The intention of the Bank's Management Board was to terminate employment contracts with up to 1 110 employees and amend terms and conditions of employment with up to 1 250 employees in the period from 24 March 2021 to 30 June 2021.

The Bank estimated all the costs of termination of employment contracts and amendment of terms and conditions of employment the Bank's employees related to the collective redundancies for the amount of PLN 120 million and the restructuring provision in this amount was created in the Bank's accounting books.

(in PLN million)

	3 QUARTERS OF 2021	3 QUARTERS OF 2020	CHANGE
Personnel expenses (*)	(1,565.3)	(1,446.7)	8.2%
Other administrative expenses (**)	(715.9)	(658.2)	8.8%
of which Financial supervision authority fee (PFSA)	(26.3)	(19.1)	37.5%
Depreciation and amortization	(481.3)	(397.6)	21.1%
Operating costs excluding restructuring provision	(2,762.5)	(2,502.5)	10.4%
Provisions for FTEs restructuring	(120.0)	(120.0)	x
Network restructuring	-	(14.7)	(100.0%)
Operating costs	(2,882.5)	(2,637.2)	9.3%

(*) Excluding restructuring provision.

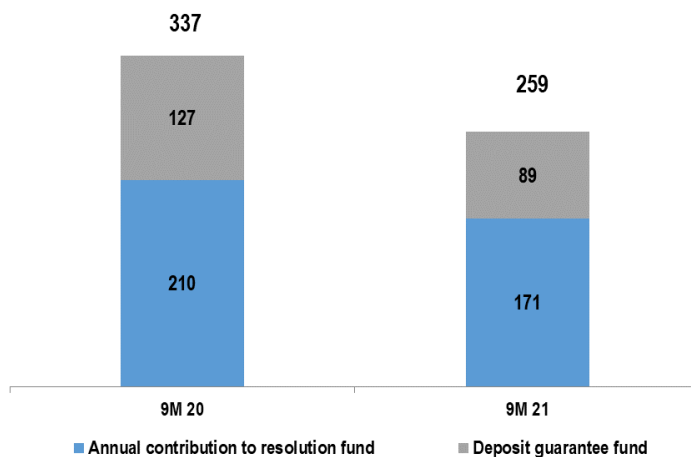
(**) Excluding network restructuring.

In the three quarters of 2021, cost / income ratio amounted to 46.0% and was higher by 1.5 p.p. y/y.

As of 30 September 2021, the Group employed 14,790 employees (in the Bank and the companies consolidated under full consolidation method) as compared to 15,334 employees as at the end of September 2020 and was lower y/y despite of the acquisition of Idea Bank S.A. with exceptions on 3 January, 2021, whose employees became employees of the Bank pursuant to Art. 23 of the Labor Code.

Bank Guarantee Fund fee

In the three quarters of 2021 the Bank Guarantee Fund fee amounted to PLN 259.3 million, and were lower of PLN 77.6 million as compared to the three quarters of 2020.



Tax on certain financial institutions

Tax on certain financial institutions in the three quarters of 2021 amounted to PLN 532.5 million and was higher by PLN 37.6 million, i.e. 7.6% as compared to the three quarters of 2020, due to an increase in Group's assets.

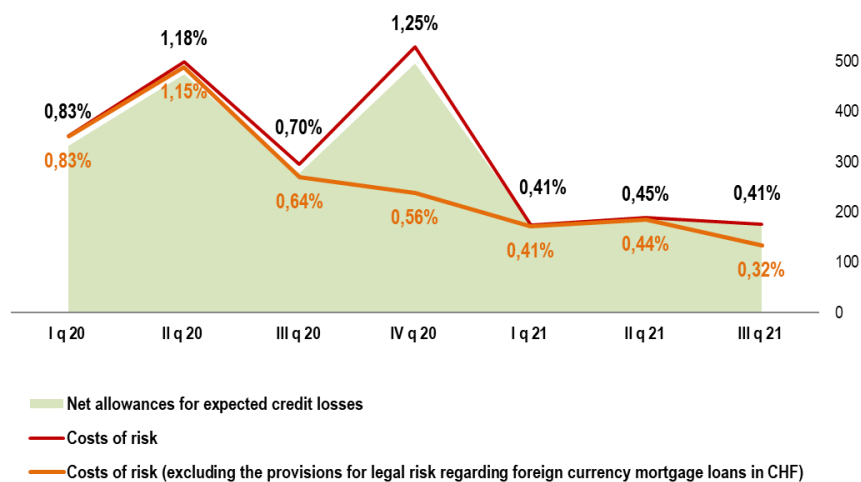
6.2 Net allowances for expected credit losses

(in PLN million)

	GRUPA		BANK PEKAO S.A.	
	3 QUARTERS OF 2021	3 QUARTERS OF 2020	3 QUARTERS OF 2021	3 QUARTERS OF 2020
financial assets measured at amortized cost excluding provisions for legal risk regarding foreign currency mortgage loans in CHF	(575,8)	(924,6)	(557,6)	(876,8)
financial assets measured at fair value through other comprehensive income	36,1	(29,9)	26,0	(32,4)
financial liabilities measured at amortized cost	40,9	(91,2)	57,7	(115,5)
Net allowances for expected credit losses excluding provisions for legal risk regarding foreign currency mortgage loans in CHF	(498,8)	(1 045,8)	(473,9)	(1 024,7)
financial assets measured at amortized cost - provisions for legal risk regarding foreign currency mortgage loans in CHF	(47,3)	(36,6)	(44,0)	(35,7)
Net allowances for expected credit losses	(546,1)	(1 082,3)	(517,9)	(1 060,4)

The Group's Net allowances for expected credit losses amounted to PLN 546.1 million in the three quarters of 2021, and was lower than in the corresponding period of 2020 by 49.5% y/y, mainly due to the gradual normalization of write-offs towards the levels observed before the pandemic.

Costs of risk



The costs of risk in the third quarter of 2021 amounted to 0.42% and was lower by 0.48 p.p. y/y. In the third quarter of 2021, the Group made an additional PLN 41.9 million provisions for legal risk regarding foreign currency mortgage loans in CHF.

6.3 The structure of the net profit

(in PLN million)

	3 QUARTERS OF 2021	3 QUARTERS OF 2020	CHANGE
Net profit of Bank Pekao S.A.	1,442.6	931.8	54.8%
Entities consolidated under full method			
Pekao Investment Management S.A.	67.5	78.2	(13.7%)
Pekao Leasing Sp. z o.o.	60.6	20.2	> 100%
Pekao Faktoring Sp. z o.o.	29.9	16.9	76.9%
Pekao Investment Banking S.A. ^(*)	11.8	(3.6)	x
Centrum Kart S.A.	6.8	(0.6)	x
Pekao Financial Services Sp. z o.o.	4.8	3.3	45.5%
Pekao Bank Hipoteczny S.A.	3.5	0.3	> 100%
Dom Inwestycyjny Xelion Sp. z o.o.	1.3	0.4	> 100%
Pekao Direct Sp. z o.o.	0.6	2.9	(79.3%)
Pekao Powszechne Towarzystwo Emerytalne S.A. w likwidacji ^(**)	0.0	0.2	x
FPB "MEDIA" Sp. z o.o. w upadłości	0.0	0.0	x
PEUF Sp. z o.o. ^(***)	0.0	-	x
Pekao Fundusz Kapitałowy Sp. z o.o. w likwidacji	(0.2)	0.1	x
Pekao Property S.A. w likwidacji	(0.3)	(0.2)	50.0%
Entities valued under the equity method			
Krajowy Integrator Płatności S.A. ^(****)	1.0	-	x
Exclusions and consolidation adjustments ^(****)	(148.7)	(133.0)	11.8%
Net profit of the Group attributable to equity holders of the Bank	1,481.2	916.9	61.5%

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

^(**) The liquidation process of Pekao Powszechne Towarzystwo Emerytalne S.A. in liquidation has been completed. On November 19, 2020, the Company was removed from the National Court Register.

^(***) Pekao Leasing Sp. z o.o., a subsidiary of the Bank, acquired 100% of the shares of Metsi Sp. z o.o. with its seat in Warsaw, which then changed its name to PeUF Sp. z o.o. with its seat in Warsaw, which constitutes 100% of the votes at the Shareholders' Meeting of PeUF Sp. z o.o.

^(****) On March 31, 2021, the purchase transaction was completed, as a result of which the Bank became the owner of shares representing 38.33% of the capital and entitling to 38.33% votes at the General Meeting of Krajowy Integrator Płatności SA with its registered office in Poznań, a Tpay.com guide.

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

Results of the Bank's major related entities**Pekao Investment Management S.A. - Pekao IM**

Consolidated net profit of Pekao IM in the three quarters of 2021 amounted to PLN **67.5** million, compared to PLN 78.2 million in the three quarters of 2020. The decline in the result was due to reductions in fund management fees, adjusted to statutory restrictions and to the macroeconomic situation.

Pekao Leasing Sp. z o.o. - Pekao Leasing

In the three quarters of 2021, Pekao Leasing generated a net profit of PLN **60.6** million, compared to a profit of PLN 20.2 million in the three quarters of 2020. The result in the three quarters of 2020 was lower due to the pandemic, including an increase in costs of risk. As a result of the stabilization of the COVID-19 situation in the three quarters of 2021, the costs of risk are lower, and the Company achieved an increase in revenues by 37.7%, while maintaining strict cost control.

Pekao Faktoring Sp. z o.o. - Pekao Faktoring

In the three quarters of 2021, Pekao Faktoring generated a net profit of PLN **29.9** million, compared to a profit of PLN 16.9 million in the three quarters of 2020. In the three quarters of 2021, the Company achieved an increase in factoring involvement by 21.2% y/y and revenues by 42.6%, with strict cost control. Pekao Faktoring ranks first in terms of turnover on the Polish factoring market.

Pekao Investment Banking S.A. - Pekao IB

In the three quarters of 2021, Pekao IB achieved a net profit of PLN **11.8** million, compared to a loss of PLN 3.6 million in the three quarters of 2020. The profit generated is the result of a greater number of advisory transactions, while in the three quarters of last year, the lack of projects was the result of the unfavorable economic situation resulting from the pandemic.

Centrum Kart S.A. – Centrum Kart

In the three quarters of 2021, Centrum Kart achieved a net profit of PLN **6.8** million, compared to a loss of PLN 0.6 million in the three quarters of 2020. The higher net result is related to the increase in the income generated as part of the services provided for the Bank.

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

In the three quarters of 2021, PFS generated a net profit of PLN 4.8 million (including the Bank's share of PLN **3.2** million), compared to a profit of PLN 3.3 million in the three quarters of 2020. The net result was higher mainly due to the revenues generated from servicing the implemented 4 stages of the PPK program.

Pekao Bank Hipoteczny S.A. - Pekao Bank Hipoteczny

In the three quarters of 2021, Pekao Bank Hipoteczny recorded a net profit of PLN **3.5** million compared to a profit of PLN 0.3 million in the three quarters of 2020. The result is higher thanks to the acquisition of a loan portfolio as part of cooperation with Bank Pekao S.A. and thanks to lower contributions and payments to the Bank Guarantee Fund than in the first half of 2020 and a lower cost of risk.

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

DI Xelion's net profit in the three quarters of 2021 amounted to PLN **1.3** million, compared to PLN 0.4 million in the three quarters of 2020. As a result of the stabilization of the pandemic situation, clients return to invest in investment funds, which positively influenced the achievement of higher income and result.

Pekao Direct Sp. z o.o. - Pekao Direct

In the three quarters of 2021, Pekao Direct recorded a net profit of PLN **0.6** million compared to the result of PLN 2.9 million in the three quarters of 2020. Revenues in the three quarters of 2021 were higher by 0.7% y/y, with an increase in costs resulting from the growing pressure on remuneration of telemarketers. The result for the three quarters of 2020 was influenced by the increase in services provided to the Bank using remote communication channels in a pandemic situation.

The results of Bank Pekao S.A.

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

(in PLN million)

	3 QUARTERS OF 2021	3 QUARTERS OF 2020	CHANGE
Net interest income	3,879.3	3,875.6	0.1%
Net non-interest income	2,048.9	1,790.8	14.4%
Operating income	5,928.2	5,666.4	4.6%
Operating costs	(2,664.1)	(2,428.3)	9.7%
Gross operating profit	3,264.1	3,238.2	0.8%
Net allowances for expected credit losses	(517.9)	(1,060.4)	(51.2%)
Net operating profit	2,746.2	2,177.8	26.1%
Bank Guarantee Fund fee	(257.6)	(334.6)	(23.0%)
Tax on certain financial institutions	(532.5)	(494.9)	7.6%
Gains (losses) on associates	(0.2)	1.2	x
Profit before tax	1,955.9	1,349.4	44.9%
Net profit	1,442.6	931.8	54.8%

Net profit of Bank Pekao S.A. in the three quarters of 2021, amounted to PLN 1,442.6 million and was higher by 54.8% y/y, mainly due to lower net allowances for expected credit losses as well as lower contributions and payments to the Bank Guarantee Fund.

The main Bank's financial information are as follows:

	30.09.2021	30.09.2020	CHANGE
STATEMENT OF FINANCIAL POSITION – SELECTED ITEMS (in PLN million)			
Loans and advances at nominal value ^(*)	158,328.7	146,354.4	8.2%
Amounts due to customers	196,253.9	181,817.3	7.9%
Structured Certificates of Deposit	-	710.8	x
Subordinated bonds	2,750.0	2,750.0	0.0%
Total assets	236,535.7	223,433.7	5.9%
Investment funds distributed through the Bank's network	20,070.8	17,150.0	17.0%
Total capital ratio in %	19.5%	20.9%	(1.4 p.p.)

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

Loans and advances at nominal value at the end of September 2021 amounted to PLN 158,328.7 million and were higher by PLN 11,974.3 million, i.e. 8.2% than at the end of September 2020. (excluding loans taken over from Idea Bank higher by 2.6% y/y). At the end of September 2021, retail loans amounted to PLN 79,508.3 million, and corporate loans to PLN 66,247.7 million.

Amounts due to customers, Certificates of Deposit and Subordinated Bonds at the end of September 2021 amounted to PLN 199,003.9 million and were higher by PLN 13,725.8 million, i.e. 7.4% compared to the end of September 2020.

Net assets of investment funds managed by Pekao TFI S.A. distributed by the Bank's network at the end of September 2021 amounted to PLN 20,070.8 million and was higher by PLN 2,920.8 million, i.e. 17.0% compared to the end of September 2020.

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

The balance sheet of Bank Pekao S.A. determines the amount of total assets in balance sheet and the structure of the assets and liabilities of the Group. As at the end of September 2021, the total assets of Bank Pekao S.A. constitutes 95.6% of the total assets of the whole Group.

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

ASSETS	30.09.2021		30.09.2020		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Cash and due from Central Bank	7,346.1	3.0%	5,898.8	2.5%	24.5%
Loans and advances to banks ^(*)	5,117.0	2.1%	2,362.9	1.0%	> 100%
Loans and advances to customers ^(**)	165,335.8	66.8%	150,149.0	64.7%	10.1%
Reverse repo transactions	1,832.8	0.7%	1,935.0	0.8%	(5.3%)
Securities ^(***)	56,639.6	22.9%	59,568.1	25.7%	(4.9%)
Investments in associates	43.2	0.0%	-	-	x
Property, plant and equipment and intangible assets	3,937.2	1.6%	3,750.8	1.6%	5.0%
Other assets	7,109.1	2.9%	8,449.3	3.6%	(15.9%)
Total assets	247,360.8	100.0%	232,113.9	100.0%	6.6%

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

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

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

EQUITY AND LIABILITIES	30.09.2021		30.09.2020		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Amounts due to Central Bank	0.0	0.0%	0.0	0.0%	x
Amounts due to other banks	7,528.6	3.0%	7,399.7	3.2%	1.7%
Amounts due to customers	195,841.5	79.2%	181,343.5	78.1%	8.0%
Debt securities issued	5,900.2	2.4%	4,491.7	1.9%	31.4%
Subordinated liabilities	2,770.5	1.1%	2,774.7	1.2%	(0.2%)
Repo transactions	0.0	0.0%	30.0	0.0%	x
Lease liabilities	352.2	0.1%	423.6	0.2%	(16.9%)
Other liabilities	9,968.7	4.0%	10,501.3	4.5%	(5.1%)
Total equity, including	24,999.1	10.1%	25,149.4	10.8%	(0.6%)
non-controlling interests	11.8	0.0%	11.3	x	4.4%
Total equity and liabilities	247,360.8	100.0%	232,113.9	100.0%	6.6%

Customers' Financing
Customer structure of loans and advances

(in PLN million)

	30.09.2021	30.09.2020	CHANGE
Loans and advances at nominal value ^(*)	171,421.4	156,246.2	9.7%
Loans and investments in financial leases	161,021.1	146,509.9	9.9%
Retail	82,346.9	78,722.3	4.6%
Corporate	78,674.2	67,787.6	16.1%
Non-treasury debt securities	10,400.3	9,736.3	6.8%
Other ^(**)	1,849.9	1,165.5	58.7%
Impairment allowances	(7,935.5)	(7,262.7)	9.3%
Total net receivables	165,335.8	150,149.0	10.1%
Reverse repo transactions	1,832.8	1,935.0	(5.3%)
Total Customers' financing ^(***)	173,254.2	158,181.2	9.5%

(*) Excluding reverse repo transactions.

(**) Including interest and receivables in transit.

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

As at the end of September 2021, loans and advances at nominal value amounted to PLN 171,421.4 million, an increase of PLN 15 175,2 million, i.e. 9.7% in comparison to the end of September 2020. (excluding loans taken over from Idea Bank higher by 4.5% y/y).

As at the end of September 2021, the volume of retail loans amounted to PLN 82,346.9 million, an increase of PLN 3 624,6 million, i.e. 4.6% in comparison to the end of September 2020, thanks to dynamic growth of PLN mortgage loans by 7.1% y/y.

As at the end of September 2021, corporate loans and non-treasury debt securities amounted to PLN 89 074,5 million, an increase of PLN 11 550,6 million, i.e. 14.9% in comparison to the end of September 2020, however with the growth in the segment of enterprises (18.3% y/y) and leasing receivables.

Receivables and impairment losses ^(*)

(in PLN million)

	30.09.2021	30.09.2020	CHANGE
Gross receivables	173,271.3	157,411.7	10.1%
Stage 1	136,963.9	121,919.2	12.3%
Stage 2	26,801.4	27,021.1	(0.8%)
Stage 3	9,506.0	8,471.4	12.2%
Impairment allowances	(7,935.5)	(7,262.7)	9.3%
Stage 1	(566.0)	(415.3)	36.3%
Stage 2	(1,217.0)	(944.4)	28.9%
Stage 3	(6,152.5)	(5,903.0)	4.2%
Total net receivables	165,335.8	150,149.0	10.1%

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

As at the end of September 2021 the ratio of impaired receivables (stage 3) to the gross receivables amounted to 5.5%.

Loans and advances to customers by currency ^(*)

	30.09.2021		30.09.2020		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Denominated in PLN	143,485.9	82.8%	127,997.8	81.3%	12.1%
Denominated in foreign currencies ^(**)	29,785.4	17.2%	29,413.9	18.7%	1.3%
Total	173,271.3	100.0%	157,411.7	100.0%	10.1%
Impairment allowances	(7,935.5)	x	(7,262.7)	x	9.3%
Total net	165,335.8	x	150,149.0	x	10.1%

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

^(**) Including indexed loans.

The currency structure of loans and advances to customers is dominated by amounts expressed in the Polish zloty, as at the end of September 2021, their share was 82.8%. The largest portion of foreign currency loans and advances to customers were represented by those denominated in EUR (84.2%), CHF (9.2%) and USD (4.8%).

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

	30.09.2021		30.09.2020		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Current and up to 1 month	16,397.9	9.5%	13,074.8	8.3%	25.4%
1 to 3 months	7,953.8	4.6%	6,577.3	4.2%	20.9%
3 months to 1 year	19,122.0	11.0%	14,879.2	9.5%	28.5%
1 to 5 years	58,922.0	34.0%	54,882.1	34.9%	7.4%
Over 5 years	64,718.3	37.4%	62,440.4	39.7%	3.6%
Past due	4,307.5	2.5%	4,392.4	2.8%	(1.9%)
Other	1,849.8	1.1%	1,165.5	0.7%	58.7%
Total	173,271.3	100.0%	157,411.7	100.0%	10.1%
Impairment allowances	(7,935.5)	x	(7,262.7)	x	9.3%
Total net	165,335.8	x	150,149.0	x	10.1%

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

As at the end of September 2021, loans and advances with maturity over 5 years represents 37.4% 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 period of 9 months ended on 30 September 2021.

External sources of financing

(in PLN million)

	30.09.2021	30.09.2020	CHANGE
Amounts due to Central Bank	0.0	0.0	x
Amounts due to other banks	7,528.6	7,399.7	1.7%
Amounts due to customers	195,841.5	181,343.5	8.0%
Debt securities issued	5,900.2	4,491.7	31.4%
Subordinated liabilities	2,770.5	2,774.7	(0.2%)
Repo transactions	-	30.0	x
Total external sources of financing	212,040.8	196,039.6	8.2%

Amounts due to customers amounted to PLN 195,841.5 million, an increase by 8.0% to significant extent contributed to dynamic increase in loans.

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

Amounts due to customers and debt securities issued

(in PLN million)

	30.09.2021	30.09.2020	CHANGE
Corporate deposits	81,124.0	79,203.7	2.4%
Non-financial entities	59,686.5	59,120.0	1.0%
Non-banking financial entities	4,825.4	6,332.8	(23.8%)
Budget entities	16,612.1	13,750.9	20.8%
Retail deposits	114,305.0	101,805.7	12.3%
Other (*)	412.5	334.1	23.5%
Amounts due to customers(**)	195,841.5	181,343.5	8.0%
Debt securities issued, of which	8,670.7	7,266.4	19.3%
Structured Certificates of Deposit (SCD)	-	710.8	x
Subordinated bonds	2,750.0	2,750.0	0.0%
Pekao Bank Hipoteczny S.A. covered bonds	1,244.0	1,422.7	(12.6%)
Pekao Bank Hipoteczny S.A. bonds	156.1	275.9	(43.4%)
Pekao Leasing Sp. z o.o. bonds	2,365.3	1,236.5	91.3%
Pekao Faktoring Sp. z o.o. bonds	2,130.5	843.1	>100%
Interest	24.8	27.4	(9.1%)
Amounts due to customers and debt securities issued (**)	204,512.2	188,609.9	8.4%
Lease liabilities	352.2	423.6	(16.9%)
Repo transactions	-	30.0	x
Amounts due to customers and debt securities issued total (***)	204,864.4	189,063.5	8.4%
Investment funds of Pekao TFI S.A. (ex. Pioneer Pekao TFI)	21,759.2	18,334.0	18.7%
Bond and money market funds	16,068.5	14,756.8	8.9%
Balanced funds	3,182.8	1,987.9	60.1%
Equity funds	2,244.0	1,529.5	46.7%
PPK	263.9	59.9	>100%
including distributed through the Group's network	21,000.3	17,925.1	17.2%

(*) 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 September 2021, amounts due to the Group's customers and debt securities issued amounted to PLN 204,512.2 million, an increase of PLN 15,902.3 million, i.e. 8.4% in comparison to the end of September 2020.

The total volume of retail deposits, Structured Certificates of Deposit and other amounted to PLN 114,671.3 million as at the end of September 2021, an increase of PLN 11,838.1 million, i.e. 11.5% in comparison to the end of September 2020 and they increased their share in the structure of financing.

The total volume of corporate deposits, 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 89,840.9 million as at the end of September 2021, an increase of PLN 4,064.2 million, i.e. 4.7% as compared to the end of September 2020.

The value of net assets of investment funds managed by Pekao TFI S.A. amounted to PLN 21,759.2 million as at the end of September 2021, an increase of PLN 3,425.2 million, i.e. 18.7% in comparison to the end of September 2020.

Amounts due to customers by currency ^(*)

	30.09.2021		30.09.2020		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Denominated in PLN	163,945.3	83.7%	153,102.6	84.4%	7.1%
Denominated in foreign currencies	31,896.1	16.3%	28,240.8	15.6%	12.9%
Total	195,841.5	100.0%	181,343.5	100.0%	8.0%

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

The bulk of the amounts due to customers are denominated in the Polish currency and its share as at the end of September 2021 amounted to 83.7%. The majority of amounts due to customers denominated in foreign currencies were in EUR (64.0%) and USD (28.9%).

Amounts due to customers by contractual maturities ^(*)

	30.09.2021		30.09.2020		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Current accounts and overnight deposits	181,645.6	92.9%	155,548.2	85.9%	16.8%
Term deposits	13,783.4	7.1%	25,461.2	14.1%	(45.9%)
Total deposits	195,428.9	100.0%	181,009.4	100.0%	8.0%
Interest accrued	5.0	x	85.8	x	(94.2%)
Funds in transit	407.5	x	248.3	x	64.1%
Total	195,841.5	x	181,343.5	x	8.0%

^(*) Excluding repo transactions and lease liabilities.

6.5 Provisions, deferred tax assets and liabilities

(in PLN million)

	GROUP		BANK PEKAO S.A.	
	30.09.2021	30.09.2020	30.09.2021	30.09.2020
Total provisions	909.3	926.3	958.1	973.2
of which:				
provisions for off-balance sheet commitments	344.8	384.4	412.8	442.8
provisions for liabilities to employees	386.3	418.9	377.7	411.6
other provisions	178.2	123.0	167.6	118.8
Deferred tax liabilities	25.8	28.3	-	-
Deferred tax assets	1,555.8	1,231.3	1,250.3	921.9

6.6 Off-balance sheet items

Statement of Off-balance sheet items

(in PLN million)

	30.09.2021	30.09.2020	CHANGE
Contingent liabilities granted and received	80,026.7	72,128.4	11.0%
Liabilities granted:	57,472.7	52,662.6	9.1%
financial	43,246.1	39,544.8	9.4%
guarantees	14,226.6	13,117.8	8.5%
Liabilities received:	22,554.0	19,465.8	15.9%
financial	1,068.8	761.9	40.3%
guarantees	21,485.2	18,703.9	14.9%
Derivative financial instruments	444,766.4	414,889.6	7.2%
interest rate transactions	283,489.2	286,994.7	(1.2%)
transactions in foreign currency and in gold	155,203.8	124,512.3	24.6%
transactions based on commodities and equity securities	6,073.4	3,382.5	79.6%
Total off-balance sheet items	524,793.1	487,018.0	7.8%

Information on loan concentration is included in the Notes to the Condensed Consolidated Interim Financial Statements of Bank Pekao S.A. Group for the period of 9 months ended on 30 September 2021.

6.7 Capital adequacy

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

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

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

Minimal value of capital ratios on Pillar I level are:

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

Capital requirement of Pillar II for Pekao Group, results from the recommendation of KNF regarding holding by the Group own funds to cover the additional capital requirement to secure the risk resulting from mortgage-secured foreign currency loans and credits to households, amounts to 0.008% for TCR, which should consist of at least 75% of Tier 1 (which corresponds to 0.006 p.p.) and at least 56% of the Common Equity Tier 1 (which corresponds to 0.004 p.p.).

Combined buffer requirement consists of:

- Capital conservation buffer in amount of 2.50%,
- Countercyclical capital buffer in amount of 0.01%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 11.27%,
- Capital ratio Tier I (T1) in amount of 9.26%,
- Common Equity Tier (CET 1) in amount of 7.76%.

As of September 30, 2021 for Pekao Group, total capital ratio amounted to 17.6% and Tier I ratio amounted to 15.7% The capital ratios were significantly above the minimum required by the law.

¹ Countercyclical capital buffer was calculated as of 30.09.2021 at the level 0.0077%.

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.

The table below presents the basic information concerning the Group capital adequacy as of 30 September, 2021, 31 December, 2020 and 30 September, 2020.

(in PLN thousand)

CAPITAL REQUIREMENT	30.09.2021	31.12.2020⁽¹⁾	30.09.2020
Credit risk	10,556,321	10,103,020	10,014,625
Market risk	100,430	99,400	83,728
Counterparty credit risk including CVA	326,266	173,859	175,380
Operational risk	854,962	699,703	630,356
Total capital requirement	11,837,979	11,075,982	10,904,088
OWN FUNDS			
Common Equity Tier I Capital	23,250,342	23,769,613	22,834,363
Tier II Capital	2,750,000	2,750,000	2,750,000
Own funds for total capital ratio	26,000,342	26,519,613	25,584,363
Common Equity Tier I Capital ratio (%)	15.7%	17.2%	16.8%
Total capital ratio TCR (%)	17.6%	19.2%	18.8%

⁽¹⁾ Data for 31 December, 2020 have been recalculated taking into account the retrospective recognition of part of the profit for 2020 (confirmation of the financial results by the General Shareholders Meeting), in accordance with the EBA position expressed in Q&A 2018_3822 and Q&A 2018_4085.

Level of Group Total Capital Ratio at the end of September 2021 was lower by 1.2 p.p. compared to the end of September 2020 mainly due to higher capital requirements by 8.6% partially compensated by higher own funds by 1.6%.

Increase in own funds for total capital ratio calculation resulted mainly from retention of 25% of Bank's net profit for year 2020 in Tier I capital after General Shareholders Meeting and retention of 25% of Bank's net profit for first half of year 2021 in Tier I capital after the approval of KNF partially compensated by decrease of HTC&S valuation.

Total capital requirement increased mainly due to increase of credit risk due to increase of on-balance and off-balance exposure, increase of operational risk due to increased provisions for foreign currency denominated mortgage loans and increase of capital requirements for counterparty credit risk resulting from implementation of new Standardized Approach SA CCR.

EU-Wide Stress Test Results

The European Banking Authority ("EBA") published on 30 July 2021 the results of the stress tests covering the European Union ("EBA stress tests"). In this year's test, Bank Pekao proved to be the second most resilient European bank out of the 50 sampled (according to the sensitivity of T1 fully loaded capital criterion), with the stress sensitivity of capital ratios almost five times below the average of European banks. In the previous EBA tests from November 2018, Bank Pekao was on third position. We are proud of these results as they are the culmination of many years of consistent work, a responsible approach to business development and building long-term shareholder value.

The EBA stress tests are cyclical test of European banks, intended to serve as an important source of information for the supervisory review and evaluation process. Their aim is to help competent authorities assess the ability to meet prudential requirements under stress scenarios by the banks. In Poland, two banks were taking part in EBA stress tests, including Bank Pekao.

The adverse stress scenario was set by the ECB/ESRB and covers a three-year time horizon (2021-2023). The tests do not have a threshold to determine their passing, instead they are intended to serve as an important source of information for the supervisory review and evaluation process (SREP). The results will assist the competent authorities in assessing the Bank's ability to meet relevant prudential requirements under stress scenarios.

The stress test was conducted assuming a static balance sheet as of December 2020, and therefore does not take into account future business strategies and management actions. The stress test results presented do not represent a forecast of the Bank's profits.

According to this year's stress test results, Bank Pekao's consolidated Common Equity Tier 1 (CET1) capital ratio would be 17.7 per cent in 2023 in the base case scenario with a 3-year profit of PLN 5.0 billion and 15.4 per cent in the stress case scenario with a 3-year profit of PLN 2.2 billion. Both significantly above the levels required by the regulator and the target capital ratios.

6.8 Reconciliation of income statement – presentation form and long form

Consolidated income statement for the three quarters of 2021

INCOME STATEMENT – PRESENTATION FORM'S ITEMS	LONG FORM'S ITEMS RECLASSIFIED TO PRESENTATION FORM	3 QUARTERS OF 2021
Net interest income	Net interest income	4,060,109
Net fee and commission income	Net fee and commission income	1,992,274
Dividend income	Dividend income	26,659
Trading result	-	160,268
	Net result on other financial instruments at fair value through profit and loss	120,363
	Result on fair value hedge accounting	2,981
	(Gains) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	36,924
Net other operating income and expenses	Net other operating income and expenses	25,824
	Operating income	75,527
	Operating expenses	(49,703)
Net non-interest income	-	2,205,025
Operating income	-	6,265,134
Operating costs	-	(2,882,475)
	Personnel expenses	(1,685,278)
	Other administrative expenses	(1,507,719)
	less – Bank Guarantee Fund fee	259,338
	less – Tax on certain financial institutions	532,513
	Depreciation and amortization	(481,329)
Gross operating profit	-	3,382,659
Net allowances for expected credit losses	Net allowances for expected credit losses	(546,071)
Net operating profit	-	2,836,588
Bank Guarantee Fund fee	Bank Guarantee Fund fee	(259,338)
Tax on certain financial institutions	Tax on certain financial institutions	(532,513)
Gains (losses) on associates	-	1,048
Profit before income tax	Profit before income tax	2,045,785
Income tax expense	Income tax expense	(562,966)
Net profit for the period	Net profit for the period	1,482,819
Attributable to equity holders of the Bank	Attributable to equity holders of the Bank	1,481,208
Attributable to non-controlling interest	Attributable to non-controlling interest	1,611

Consolidated income statement for the three quarters of 2020

INCOME STATEMENT – PRESENTATION FORM'S ITEMS	LONG FORM'S ITEMS RECLASSIFIED TO PRESENTATION FORM	3 QUARTERS OF 2020
Net interest income	Net interest income	<u>3,996,851</u>
Net fee and commission income	Net fee and commission income	<u>1,777,350</u>
Dividend income	Dividend income	<u>26,271</u>
Trading result	-	<u>135,131</u>
	Net result on other financial instruments at fair value through profit and loss	87,153
	Result on fair value hedge accounting	(869)
	(Gains) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	48,847
Net other operating income and expenses	Net other operating income and expenses	<u>(14,656)</u>
	Operating income	<u>52,118</u>
	Operating expenses	<u>(66,774)</u>
Net non-interest income	-	<u>1,924,096</u>
Operating income	-	<u>5,920,947</u>
Operating costs	-	<u>(2,637,227)</u>
	Personnel expenses	(1,566,691)
	Other administrative expenses	(1,504,756)
	less – Bank Guarantee Fund fee	336,946
	less – Tax on certain financial institutions	494,896
	Depreciation and amortization	(397,622)
Gross operating profit	-	<u>3,283,720</u>
Net allowances for expected credit losses	Net allowances for expected credit losses	<u>(1,082,307)</u>
Net operating profit	-	<u>2,201,413</u>
Bank Guarantee Fund fee	Bank Guarantee Fund fee	(336,946)
Tax on certain financial institutions	Tax on certain financial institutions	(494,896)
Profit before income tax	Profit before income tax	<u>1,369,571</u>
Income tax expense	Income tax expense	<u>(451,564)</u>
Net profit for the period	Net profit for the period	<u>918,007</u>
Attributable to equity holders of the Bank	Attributable to equity holders of the Bank	<u>916,900</u>
Attributable to non-controlling interest	Attributable to non-controlling interest	1,107

7. Quarterly Income Statement

7.1 Consolidated income statement – long form

Consolidated income statement for 2021 and 2020 - Provided for comparability purposes.

(in PLN thousand)

	Q3 2021	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020
Interest income	1,430,228	1,364,910	1,404,779	1,277,205	1,307,670	1,547,044	1,717,440
Interest income calculated using the effective interest method	1,354,688	1,296,270	1,336,590	1,225,600	1,248,391	1,478,805	1,658,059
Financial assets measured at amortised cost	1,259,802	1,180,899	1,191,489	1,076,910	1,091,978	1,314,397	1,499,810
Financial assets measured at fair value through other comprehensive income	94,886	115,371	145,101	148,690	156,413	164,408	158,249
Other interest income related to financial assets measured at fair value through profit or loss	75,540	68,640	68,189	51,605	59,279	68,239	59,381
Interest expense	(43,170)	(25,458)	(71,180)	(72,044)	(104,618)	(181,496)	(289,189)
Net interest income	1,387,058	1,339,452	1,333,599	1,205,161	1,203,052	1,365,548	1,428,251
Fee and commission income	842,719	800,788	736,798	794,163	714,908	676,929	719,266
Fee and commission expense	(139,062)	(128,034)	(120,935)	(137,863)	(119,799)	(109,082)	(104,872)
Net fee and commission income	703,657	672,754	615,863	656,300	595,109	567,847	614,394
Dividend income	1,062	25,597	-	7	268	25,748	255
Result on financial assets and liabilities measured at fair value through profit or loss and foreign exchange result	27,197	64,559	28,607	83,386	26,178	50,703	10,272
Result on fair value hedge accounting	335	847	1,799	22	(117)	992	(1,744)
Result on derecognition of financial assets and liabilities not measured at fair value through profit or loss	2,917	23,194	10,813	12,285	4,672	23,049	21,126
Net allowances for expected credit losses	(178,138)	(191,900)	(176,033)	(496,153)	(277,387)	(474,010)	(330,910)
Operating income	28,846	27,944	18,737	16,062	16,436	16,490	19,192
Operating expenses	(18,614)	(21,905)	(9,184)	(81,337)	(22,426)	(24,369)	(19,979)
Administrative expenses	(942,081)	(985,347)	(1,265,569)	(898,960)	(878,213)	(909,932)	(1,283,302)
Personnel expenses	(506,269)	(532,478)	(646,531)	(473,175)	(459,178)	(489,277)	(618,236)
Other administrative expenses	(435,812)	(452,869)	(619,038)	(425,785)	(419,035)	(420,655)	(665,066)
Depreciation and amortization	(163,726)	(160,520)	(157,083)	(141,329)	(139,383)	(134,704)	(123,535)
Gains (losses) on associates	693	355	-	-	-	-	-
PROFIT BEFORE INCOME TAX	849,206	795,030	401,549	355,444	528,189	507,362	334,020
Income tax expense	(217,841)	(189,672)	(155,453)	(170,550)	(157,089)	(147,906)	(146,569)
NET PROFIT	631,365	605,358	246,096	184,894	371,100	359,456	187,451
Attributable to equity holders of the Bank	630,780	604,780	245,648	184,812	370,851	359,151	186,898
Attributable to non-controlling interests	585	578	448	82	249	305	553

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

7.2 Consolidated statement of comprehensive income

Consolidated statement of comprehensive income for 2021 and 2020

(in PLN thousand)

	Q3 2021	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020
Net profit	631,365	605,358	246,096	184,894	371,100	359,456	187,451
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:							
Change in fair value of financial assets measured at fair value through other comprehensive income:	(119,754)	(339,051)	(248,072)	196,774	124,982	525,077	(161,105)
Profit or loss on fair value measurement	(116,706)	(318,239)	(240,436)	201,032	130,304	548,841	(147,666)
Profit or loss reclassification to income statement after derecognition	(3,048)	(20,812)	(7,636)	(4,258)	(5,322)	(23,764)	(13,439)
Change in fair value of cash flow hedges	(286,668)	(123,581)	(335,520)	(71,505)	4,332	118,954	414,935
Tax on items that are or may be reclassified subsequently to profit or loss	77,219	87,900	110,883	(23,800)	(24,570)	(122,366)	(48,228)
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	(45,232)	38,595	44,385	84,005	(6,572)	21,880	(11,233)
Remeasurements of the defined benefit liabilities	-	-	-	(10,672)	(292)	-	-
Tax on items that will never be reclassified to profit or loss	8,594	(7,333)	(8,433)	(13,878)	1,249	(4,157)	2,134
Other comprehensive income (net of tax)	(365,841)	(343,470)	(436,757)	160,924	99,129	539,388	196,503
Total comprehensive income	265,524	261,888	(190,661)	345,818	470,229	898,844	383,954
Attributable to equity holders of the Bank	264,939	261,310	(191,109)	345,745	469,980	898,539	383,401
Attributable to non-controlling interests	585	578	448	73	249	305	553

7.3 Consolidated income statement – presentation form

Consolidated income statement for 2021 and 2020

(in PLN thousand)

	Q3 2021	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020
Net interest income	1,387,058	1,339,452	1,333,599	1,205,161	1,203,052	1,365,548	1,428,251
Net fee and commission income	703,657	672,754	615,863	656,300	595,109	567,847	614,394
Dividend income	1,062	25,597	-	7	268	25,748	255
Trading result	30,449	88,600	41,219	95,693	30,733	74,744	29,654
Net other operating income and expenses	10,232	6,039	9,553	(65,275)	(5,990)	(7,879)	(787)
Net non-interest income	745,400	792,990	666,635	686,725	620,120	660,460	643,516
Operating income	2,132,458	2,132,442	2,000,234	1,891,886	1,823,172	2,026,008	2,071,767
Operating costs	(899,330)	(939,310)	(1,043,835)	(830,682)	(805,887)	(831,712)	(999,628)
Gross operating profit	1,233,128	1,193,132	956,399	1,061,204	1,017,285	1,194,296	1,072,139
Net allowances for expected credit losses	(178,138)	(191,900)	(176,033)	(496,153)	(277,387)	(474,010)	(330,910)
Net operating profit	1,054,990	1,001,232	780,366	565,051	739,898	720,286	741,229
Bank Guarantee Fund fee	(27,120)	(28,861)	(203,357)	(43,913)	(43,162)	(43,081)	(250,703)
Tax on certain financial institutions	(179,357)	(177,696)	(175,460)	(165,694)	(168,547)	(169,843)	(156,506)
Gains (losses) on associates	693	355	-	-	-	-	-
Profit before income tax	849,206	795,030	401,549	355,444	528,189	507,362	334,020
Income tax expense	(217,841)	(189,672)	(155,453)	(170,550)	(157,089)	(147,906)	(146,569)
Net profit	631,365	605,358	246,096	184,894	371,100	359,456	187,451
Attributable to equity holders of the Bank	630,780	604,780	245,648	184,812	370,851	359,151	186,898
Attributable to non-controlling interest	585	578	448	82	249	305	553

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 2021.

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

According to information available to the Bank, as at the date of submitting of Report on the activities of Bank Pekao S.A. Group for the third quarter of 2021 and as at the date of submitting of Report on the activities of Bank Pekao S.A. Group for the first half of 2021, 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 37 to the Condensed Interim Consolidated Financial Statements of Bank Pekao S.A. Group for the period of 9 months ended on 30 September 2021.

8.4 Information on derivative financial instruments and hedge accounting

Information on derivative financial instruments and hedge accounting is included in Note 27 and 31 to the Condensed Interim Consolidated Financial Statements of Bank Pekao S.A. Group for the period of 9 months ended on 30 September 2021.

8.5 Related party transactions

In the third quarter of 2021, the Bank and its subsidiaries have not concluded any significant transactions (single or aggregate) with related entities other than those executed on arm's length.

In the third quarter of 2021, the Bank and its subsidiaries did not provide any sureties in respect of loans or advances or did not provide any guarantees to an entity or a subsidiary of such entity, which the total value would be significant.

Detailed information on related party transactions is included in Note 39 to the Condensed Consolidated Interim Financial Statements of Bank Pekao S.A. Group for the period of 9 months ended on 30 September 2021.

8.6 Accounting principles adopted in the preparation of the report

Accounting principles adopted in the preparation of the report are described in Note 5 to the Condensed Interim Consolidated Financial Statements of Bank Pekao S.A. Group for the period of 9 months ended on 30 September 2021.

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.

8.8 Issuance, redemption and repayment of debt securities

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.

Pekao Bank Hipoteczny S.A. covered bonds

The total value of the company's liabilities due to covered bonds amounted to PLN 1,244.0 million (principal value) as at the end of September 2021. Liabilities from covered bonds with maturity up to 6 months account for 8.3%, up to 1 year account for 8.7%, up to 2 years account for 9.6%, up to 5 years account for 50.0% , up to 10 years account for 23.4% of the total nominal value.

Pekao Bank Hipoteczny S.A. bonds

The total value of the company's liabilities under bonds amounted to PLN 156.1 million (principal value) as of September 2021 with maturity date up to 1 month account for 0.1%, up to 1 year account for 50.0%, up to 2 years account for 49.9% of the total nominal value.

Pekao Leasing Sp. z o.o. bonds

The total value of the company's liabilities under bonds amounted to PLN 2,365.3 million (principal value) as of 30 September 2021 with maturity date up to 3 months account for 37.8%, up to 6 months account for 16.9%, up to 1 year account for 22.6% and up to 2 years account for 21.8% of the total nominal value.

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 2,130.5 million (principal value) as of 30 September 2021.

8.9 Subsequent events

Sale of 100% of shares in Dom Inwestycyjny Xelion Sp. z o.o.

On 29 October 2021, a promised agreement was signed for the sale of 100% of shares in Dom Inwestycyjny Xelion Sp. z o.o. ("Xelion"), as a result of which the Bank sold to Quercus TFI S.A. (through the special purpose vehicle Quercus Agent Transferowy Sp.z o.o.) 120 100 shares, constituting 100% of shares in the capital and entitling to 100% votes at the General Meeting of Xelion. The promised Xelion sale agreement was signed after the conditions precedent to the transaction, contained in the preliminary agreement for the sale of shares signed in December 2020, were met, i.e. after obtaining the relevant regulatory approvals, as well as the payment of Xelion funds to the Bank.

Therefore, on 29 October 2021, the ownership of the abovementioned shares was transferred to Quercus Agent Transferowy Sp. z o.o.

Resignation of the Vice-President of the Management Board of Bank Pekao S.A.

On 29 October, 2021 Mr. Tomasz Kubiak resigned from the position of Vice-President of the Management Board of the Bank, as well as from the Management Board of the Bank with effect at the end of 4 November, 2021.

Appointment of the Vice-President of the Management Board of Bank Pekao S.A.

On 29 October 2021 the Supervisory Board of the Bank, after assessing suitability, appointed Mr. Piotr Zborowski 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 5 November 2021.

Condensed Interim Consolidated Financial Statements of Bank Pekao S.A. Group for the period of 9 months ended on 30 September 2021



Warsaw, November 2021

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

Consolidated income statement	3	27. Hedge accounting	71
Consolidated statement of comprehensive income	4	28. Investment (placement) securities	76
Consolidated statement of financial position	5	29. Intangible assets	77
Consolidated statement of changes in equity	6	30. Property, plant and equipment	77
Consolidated cash flow statement	9	31. Assets pledged as security for liabilities	78
Income statement of Bank Pekao S.A.	11	32. Amounts due to other banks	79
Statement of comprehensive income of Bank Pekao S.A.	12	33. Amounts due to customers	79
Statement of financial position of Bank Pekao S.A.	13	34. Debt securities issued	79
Statement of changes in equity of Bank Pekao S.A.	14	35. Subordinated liabilities	80
Cash flow statement of Bank Pekao S.A.	17	36. Provisions	81
Notes to financial statements	19	37. Contingent commitments	82
1. General information	19	38. Additional information to the consolidated cash flow statement	84
2. Group structure	19	39. Related party transactions	86
3. Business combinations	20	40. Subsequent events	90
4. Statement of compliance	23	Glossary	II
5. Significant accounting policies	24		
6. Accounting estimates	28		
7. Risk management	30		
8. Operating segments	56		
9. Interest income and expense	59		
10. Fee and commission income and expense	61		
11. Dividend income	62		
12. Result on financial assets and liabilities measured at fair value through profit or loss and foreign exchange result	62		
13. Result on derecognition of financial assets and liabilities not measured at fair value through profit or loss	62		
14. Net allowances for expected credit losses	63		
15. Other operating income and expenses	63		
16. Administrative expenses	64		
17. Depreciation and amortization	65		
18. Total gains (losses) from associates	65		
19. Basic components of income tax charge in the income statement and equity	65		
20. Earnings per share	66		
21. Dividends	66		
22. Cash and balances with Central Bank	67		
23. Loans and advances to banks	67		
24. Financial assets and liabilities held for trading	67		
25. Derivative financial instruments (held for trading)	68		
26. Loans and advances to customers	69		

Consolidated income statement

	NOTE	III QUARTER 2021 PERIOD FROM 01.07.2021 TO 30.09.2021	3 QUARTERS 2021 PERIOD FROM 01.01.2021 TO 30.09.2021	III QUARTER 2020 PERIOD FROM 01.07.2020 TO 30.09.2020 RESTATED	3 QUARTERS 2020 PERIOD FROM 01.01.2020 TO 30.09.2020 RESTATED
Interest income	9	1 430 228	4 199 917	1 307 670	4 572 154
Interest income calculated using the effective interest method		1 354 688	3 987 548	1 248 391	4 385 255
Financial assets measured at amortised cost		1 259 802	3 632 190	1 091 978	3 906 185
Financial assets measured at fair value through other comprehensive income		94 886	355 358	156 413	479 070
Other interest income related to financial assets measured at fair value through profit or loss		75 540	212 369	59 279	186 899
Interest expense	9	(43 170)	(139 808)	(104 618)	(575 303)
Net interest income		1 387 058	4 060 109	1 203 052	3 996 851
Fee and commission income	10	842 719	2 380 305	714 908	2 111 103
Fee and commission expense	10	(139 062)	(388 031)	(119 799)	(333 753)
Net fee and commission income		703 657	1 992 274	595 109	1 777 350
Dividend income	11	1 062	26 659	268	26 271
Result on financial assets and liabilities measured at fair value through profit or loss and foreign exchange result	12	27 197	120 363	26 178	87 153
Result on fair value hedge accounting	27	335	2 981	(117)	(869)
Result on derecognition of financial assets and liabilities not measured at fair value through profit or loss	13	2 917	36 924	4 672	48 847
Net allowances for expected credit losses	14	(178 138)	(546 071)	(277 387)	(1 082 307)
Operating income	15	28 846	75 527	16 436	52 118
Operating expenses	15	(18 614)	(49 703)	(22 426)	(66 774)
Administrative expenses	16	(942 081)	(3 192 997)	(878 213)	(3 071 447)
Personnel expenses		(506 269)	(1 685 278)	(459 178)	(1 566 691)
Other administrative expenses		(435 812)	(1 507 719)	(419 035)	(1 504 756)
Depreciation and amortization	17	(163 726)	(481 329)	(139 383)	(397 622)
Gains (losses) on associates	18	693	1 048	-	-
PROFIT BEFORE INCOME TAX		849 206	2 045 785	528 189	1 369 571
Income tax expense	19	(217 841)	(562 966)	(157 089)	(451 564)
NET PROFIT		631 365	1 482 819	371 100	918 007
1. Attributable to equity holders of the Bank		630 780	1 481 208	370 851	916 900
2. Attributable to non-controlling interests		585	1 611	249	1 107
Earnings per share (in PLN per share)					
basic for the period	20	2.40	5.64	1.41	3.49
diluted for the period	20	2.40	5.64	1.41	3.49

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

Consolidated statement of comprehensive income

	NOTE	III QUARTER 2021 PERIOD FROM 01.07.2021 TO 30.09.2021	3 QUARTERS 2021 PERIOD FROM 01.01.2021 TO 30.09.2021	III QUARTER 2020 PERIOD FROM 01.07.2020 TO 30.09.2020	3 QUARTERS 2020 PERIOD FROM 01.01.2020 TO 30.09.2020
Net profit		631 365	1 482 819	371 100	918 007
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		(119 754)	(706 877)	124 982	488 954
Profit or loss reclassification to income statement after derecognition		(116 706)	(675 381)	130 304	531 479
Change in fair value of cash flow hedges	27	(3 048)	(31 496)	(5 322)	(42 525)
Tax on items that are or may be reclassified subsequently to profit or loss	19	(286 668)	(745 769)	4 332	538 221
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		77 219	276 002	(24 570)	(195 164)
Remeasurements of the defined benefit liabilities		-	-	(292)	(292)
Tax on items that will never be reclassified to profit or loss	19	8 594	(7 172)	1 249	(774)
Other comprehensive income (net of tax)		(365 841)	(1 146 068)	99 129	835 020
Total comprehensive income		265 524	336 751	470 229	1 753 027
1. Attributable to equity holders of the Bank		264 939	335 140	469 980	1 751 920
2. Attributable to non-controlling interests		585	1 611	249	1 107

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

Consolidated statement of financial position

	NOTE	30.09.2021	31.12.2020
ASSETS			
Cash and due from Central Bank	22	7 346 093	4 456 279
Loans and advances to banks	23	5 116 953	2 578 339
Financial assets held for trading	24	678 016	1 317 709
Derivative financial instruments (held for trading)	25	4 061 760	4 812 231
Loans and advances to customers	26	156 810 721	142 487 797
1. Measured at amortised cost		156 373 828	140 825 741
2. Measured at fair value through profit or loss		172 434	187 001
3. Measured at fair value through other comprehensive income		264 459	1 475 055
Hedging instruments	27	331 969	779 063
Investments (placement) securities	28	66 319 444	70 491 227
1. Measured at fair value through profit or loss		173 402	160 486
2. Designated at fair value through profit or loss		-	-
3. Measured at fair value through other comprehensive income (debt securities)		28 970 808	42 737 500
4. Designated at fair value through other comprehensive income (equity instruments)		464 320	331 690
5. Measured at amortised cost		36 710 914	27 261 551
Assets held for sale		60 987	54 123
Investments in associates	2	43 242	-
Intangible assets	29	2 119 638	2 008 097
Property, plant and equipment	30	1 817 607	1 919 447
Income tax assets		1 558 353	1 253 578
1. Current tax assets		3 351	4 831
2. Deferred tax assets		1 555 002	1 248 747
Other assets		1 095 996	1 059 292
TOTAL ASSETS		247 360 779	233 217 182
EQUITY AND LIABILITIES			
Liabilities			
Amounts due to Central Bank	22	-	-
Amounts due to other banks	32	7 528 621	9 950 663
Financial liabilities held for trading	24	402 812	742 804
Derivative financial instruments (held for trading)	25	3 882 562	4 617 416
Amounts due to customers	33	196 193 674	178 303 984
Hedging instruments	27	1 198 229	1 072 959
Debt securities issued	34	5 900 194	6 146 708
Subordinated liabilities	35	2 770 538	2 757 876
Liabilities associated with assets held for sale		69 937	82 643
Income tax liabilities		85 072	339 798
1. Current tax liabilities		59 263	312 006
2. Deferred tax liabilities		25 809	27 792
Provisions	36	909 283	988 704
Other liabilities		3 420 729	2 718 650
TOTAL LIABILITIES		222 361 651	207 722 205
Equity			
Share capital		262 470	262 470
Other capital and reserves		21 384 578	22 243 269
Retained earnings and net profit for the period		3 340 310	2 977 889
Total equity attributable to equity holders of the Bank		24 987 358	25 483 628
Non-controlling interests		11 770	11 349
TOTAL EQUITY		24 999 128	25 494 977
TOTAL LIABILITIES AND EQUITY		247 360 779	233 217 182

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

Consolidated statement of changes in equity

	EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK										
	SHARE CAPITAL	OTHER CAPITAL AND RESERVES						RETAINED EARNINGS AND NET PROFIT FOR THE PERIOD	TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK	NON - CONTROLLING INTERESTS	TOTAL EQUITY
		TOTAL OTHER CAPITAL AND RESERVES	SHARE PREMIUM	GENERAL BANKING RISK FUND	OTHER RESERVE CAPITAL	REVALUATION RESERVES	OTHER				
Equity as at 1.01.2021	262 470	22 243 269	9 137 221	1 982 459	9 386 555	1 355 621	381 413	2 977 889	25 483 628	11 349	25 494 977
Comprehensive income	-	(1 134 599)	-	-	11 469	(1 146 068)	-	1 481 208	346 609	1 611	348 220
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)	-	(572 571)	-	-	-	(572 571)	-	-	(572 571)	-	(572 571)
Revaluation or sale of investments in equity instruments designated at fair value through other comprehensive income (net of tax)	-	42 045	-	-	11 469	30 576	-	-	42 045	-	42 045
Revaluation of hedging financial instruments (net of tax)	-	(604 073)	-	-	-	(604 073)	-	-	(604 073)	-	(604 073)
Net profit for the period	-	-	-	-	-	-	-	1 481 208	1 481 208	1 611	1 482 819
Appropriation of retained earnings	-	275 908	-	-	287 783	-	(11 875)	(1 118 437)	(842 529)	(1 088)	(843 617)
Dividend paid	-	-	-	-	-	-	-	(842 529)	(842 529)	(1 088)	(843 617)
Profit appropriation to other reserves	-	275 908	-	-	287 783	-	(11 875)	(275 908)	-	-	-
Other	-	-	-	-	-	-	-	(350)	(350)	(102)	(452)
Other	-	-	-	-	-	-	-	(350)	(350)	(102)	(452)
Equity as at 30.09.2021	262 470	21 384 578	9 137 221	1 982 459	9 685 807	209 553	369 538	3 340 310	24 987 358	11 770	24 999 128

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

	EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK										
	SHARE CAPITAL	OTHER CAPITAL AND RESERVES						RETAINED EARNINGS AND NET PROFIT FOR THE PERIOD	TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK	NON - CONTROLLING INTERESTS	TOTAL EQUITY
		TOTAL OTHER CAPITAL AND RESERVES	SHARE PREMIUM	GENERAL BANKING RISK FUND	OTHER RESERVE CAPITAL	REVALUATION RESERVES	OTHER				
Equity as at 1.01.2020	262 470	20 665 430	9 137 221	1 982 459	8 787 844	359 668	398 238	2 458 387	23 386 287	11 739	23 398 026
Comprehensive income	-	995 953	-	-	-	995 953	-	1 101 712	2 097 665	1 180	2 098 845
Remeasurements of the defined benefit liabilities (net of tax)	-	(8 872)	-	-	-	(8 872)	-	-	(8 872)	(9)	(8 881)
Revaluation of debt financial instruments and loans measured at fair value through other comprehensive income (net of tax)	-	555 440	-	-	-	555 440	-	-	555 440	-	555 440
Revaluation or sale of investments in equity instruments designated at fair value through other comprehensive income (net of tax)	-	71 345	-	-	-	71 345	-	-	71 345	-	71 345
Revaluation of hedging financial instruments (net of tax)	-	378 040	-	-	-	378 040	-	-	378 040	-	378 040
Net profit for the period	-	-	-	-	-	-	-	1 101 712	1 101 712	1 189	1 102 901
Appropriation of retained earnings	-	581 861	-	-	598 686	-	(16 825)	(581 861)	-	(1 469)	(1 469)
Dividend paid	-	-	-	-	-	-	-	-	-	(1 469)	(1 469)
Profit appropriation to other reserves	-	581 861	-	-	598 686	-	(16 825)	(581 861)	-	-	-
Other	-	25	-	-	25	-	-	(349)	(324)	(101)	(425)
Other	-	25	-	-	25	-	-	(349)	(324)	(101)	(425)
Equity as at 31.12.2020	262 470	22 243 269	9 137 221	1 982 459	9 386 555	1 355 621	381 413	2 977 889	25 483 628	11 349	25 494 977

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

	EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK										
	SHARE CAPITAL	OTHER CAPITAL AND RESERVES					RETAINED EARNINGS AND NET PROFIT FOR THE PERIOD	TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK	NON - CONTROLLING INTERESTS	TOTAL EQUITY	
		TOTAL OTHER CAPITAL AND RESERVES	SHARE PREMIUM	GENERAL BANKING RISK FUND	OTHER RESERVE CAPITAL	REVALUATION RESERVES					OTHER
Equity as at 01.01.2020	262 470	20 665 430	9 137 221	1 982 459	8 787 844	359 668	398 238	2 458 387	23 386 287	11 739	23 398 026
Comprehensive income	-	835 312	-	-	-	835 312	-	916 900	1 752 212	1 107	1 753 319
Remeasurements of the defined benefit liabilities (net of tax)	-	-	-	-	-	-	-	-	-	-	-
Revaluation of debt financial instruments measured at fair value through other comprehensive income (net of tax)	-	396 052	-	-	-	396 052	-	-	396 052	-	396 052
Revaluation or sale of investments in equity instruments designated at fair value through other comprehensive income (net of tax)	-	3 301	-	-	-	3 301	-	-	3 301	-	3 301
Revaluation of hedging financial instruments (net of tax)	-	435 959	-	-	-	435 959	-	-	435 959	-	435 959
Net profit for the period	-	-	-	-	-	-	-	916 900	916 900	1 107	918 007
Appropriation of retained earnings	-	581 861	-	-	598 686	-	(16 825)	(581 861)	-	(1 469)	(1 469)
Dividend paid	-	-	-	-	-	-	-	-	-	(1 469)	(1 469)
Profit appropriation to other reserves	-	581 861	-	-	598 686	-	(16 825)	(581 861)	-	-	-
Other	-	18	-	-	18	-	-	(349)	(331)	(102)	(433)
Other	-	18	-	-	18	-	-	(349)	(331)	(102)	(433)
Equity as at 30.09.2020	262 470	22 082 621	9 137 221	1 982 459	9 386 548	1 194 980	381 413	2 793 077	25 138 168	11 275	25 149 443

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

Consolidated cash flow statement

	NOTA	III QUARTER 2021 PERIOD FROM 01.07.2021 TO 30.09.2021	3 QUARTERS 2021 PERIOD FROM 01.01.2021 TO 30.09.2021	III QUARTER 2020 PERIOD FROM 01.07.2020 TO 30.09.2020 RESTATED	3 QUARTERS 2020 PERIOD FROM 01.01.2020 TO 30.09.2020 RESTATED
Cash flow from operating activities – indirect method					
Profit before income tax		849 206	2 045 785	528 189	1 369 571
Adjustments for:		(455 441)	212 179	(2 283 896)	23 621 830
Depreciation and amortization	17	163 726	481 329	139 383	397 622
Share in gains (losses) from associates	18	(693)	(1 048)	-	-
(Gains) losses on investing activities		(10 412)	(47 332)	(5 359)	(39 005)
Net interest income	9	(1 387 058)	(4 060 109)	(1 203 052)	(3 996 851)
Dividend income	11	(1 062)	(26 659)	(268)	(26 271)
Interest received		1 329 641	3 924 844	1 362 638	4 515 840
Interest paid		(44 538)	(194 393)	(151 478)	(689 771)
Income tax paid		(199 883)	(601 833)	(182 669)	(579 722)
Change in loans and advances to banks	38	(28 833)	1 158 627	(16 566)	(16 041)
Change in financial assets held for trading	38	(192 158)	703 779	39 135	446 513
Change in derivative financial instruments (assets)	38	(495 601)	759 515	79 664	(3 256 586)
Change in loans and advances to customers (in this receivables from financial leases)	38	(2 183 976)	(1 939 612)	1 056 493	(1 493 791)
Change in investment (placement) securities	38	(38 143)	395 346	203 892	(219 272)
Change in other assets	38	(153 542)	(1 079 760)	369 322	486 968
Change in amounts due to banks	38	(1 237 559)	(2 277 798)	(788 549)	181 929
Change in financial liabilities held for trading		(142 194)	(339 992)	23 033	140 639
Change in derivative financial instruments (liabilities)	38	436 849	(899 030)	(64 165)	3 134 769
Change in amounts due to customers	38	3 761 012	4 450 543	(2 676 786)	24 000 269
Change in debt securities issued		(373 980)	(381 753)	(330 582)	(299 273)
Change in subordinated liabilities		12 765	12 662	4 979	-
Payments for short-term leases and leases of low-value assets		(556)	(1 697)	(1 119)	(8 591)
Change in provisions	38	1 339	(83 310)	(19 644)	173 740
Change in other liabilities	38	329 415	259 860	(122 198)	768 715
Net cash flows from operating activities		393 765	2 257 964	(1 755 707)	24 991 401
Cash flow from investing activities					
Investing activity inflows		45 188 520	186 846 033	126 413 105	211 771 151
Subsidy received for taking over the part of the activities of Idea Bank S.A.	3	-	193 904	-	-
Sale of investment securities		45 161 142	186 547 904	126 411 814	211 735 845
Sale of intangible assets and property, plant and equipment		26 316	77 566	1 023	9 035
Dividend received		1 062	26 659	268	26 271
Investing activity outflows		(44 187 247)	(182 755 237)	(132 119 520)	(234 565 752)
Acquisition of associates		-	(42 193)	-	-
Acquisition of investment securities		(44 042 457)	(182 359 196)	(131 844 980)	(233 938 799)
Acquisition of intangible assets and property, plant and equipment		(144 790)	(353 848)	(274 540)	(626 953)
Net cash flows from investing activities		1 001 273	4 090 796	(5 706 415)	(22 794 601)

	NOTE	III QUARTER 2021 PERIOD FROM 01.07.2021 TO 30.09.2021	3 QUARTERS 2021 PERIOD FROM 01.01.2021 TO 30.09.2021	III QUARTER 2020 PERIOD FROM 01.07.2020 TO 30.09.2020 RESTATED	3 QUARTERS 2020 PERIOD FROM 01.01.2020 TO 30.09.2020 RESTATED
Cash flows from financing activities					
Financing activity inflows		750 142	3 621 556	2 388 008	7 459 717
Due to loans and advances received from banks		750 142	750 142	240 614	1 209 085
Issue of debt securities		-	2 871 414	2 147 394	6 250 632
Financing activity outflows		472 996	(4 678 702)	(2 152 479)	(8 362 586)
Repayment of loans and advances received from banks		182 457	(1 018 465)	228 205	(519 657)
Redemption of debt securities		1 160 849	(2 731 691)	(2 352 685)	(7 757 977)
Dividends and other payments to shareholders		(842 529)	(842 529)	-	-
Payments for the principal portion of the lease liabilities		(27 781)	(86 017)	(27 999)	(84 952)
Net cash flows from financing activities		1 223 138	(1 057 146)	235 529	(902 869)
Total net cash flows		2 618 176	5 291 614	(7 226 593)	1 293 931
including effect of exchange rate fluctuations on cash and cash equivalents held		58 236	24 372	19 547	113 479
Net change in cash and cash equivalents		2 618 176	5 291 614	(7 226 593)	1 293 931
Cash and cash equivalents at the beginning of the period		9 678 786	7 005 348	15 471 496	6 950 972
Cash and cash equivalents at the end of the period	38	12 296 962	12 296 962	8 244 903	8 244 903

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

Income statement of Bank Pekao S.A.

	III QUARTER 2021 PERIOD FROM 01.07.2021 TO 30.09.2021	3 QUARTERS 2021 PERIOD FROM 01.01.2021 TO 30.09.2021	III QUARTER 2020 PERIOD FROM 01.07.2020 TO 30.09.2020 RESTATED	3 QUARTERS 2020 PERIOD FROM 01.01.2020 TO 30.09.2020 RESTATED
Interest income	1 349 313	3 966 007	1 245 503	4 369 248
Interest income calculated using the effective interest method	1 274 526	3 752 872	1 185 718	4 179 794
Financial assets measured at amortised cost	1 173 575	3 383 950	1 028 651	3 699 930
Financial assets measured at fair value through other comprehensive income	100 951	368 922	157 067	479 864
Other interest income related to financial assets measured at fair value through profit or loss	74 787	213 135	59 785	189 454
Interest expense	(24 932)	(86 753)	(84 363)	(493 677)
Net interest income	1 324 381	3 879 254	1 161 140	3 875 571
Fee and commission income	734 556	2 077 055	624 546	1 834 044
Fee and commission expense	(135 440)	(376 789)	(118 295)	(328 966)
Net fee and commission income	599 116	1 700 266	506 251	1 505 078
Dividend income	1 062	168 166	269	174 125
Result on financial assets and liabilities measured at fair value through profit or loss and foreign exchange result	26 639	116 097	24 486	76 104
Result on fair value hedge accounting	335	2 981	(117)	(869)
Result on derecognition of financial assets and liabilities not measured at fair value through profit or loss	2 917	36 924	4 672	48 258
Net allowances for expected credit losses	(182 364)	(517 903)	(272 363)	(1 060 398)
Operating income	28 710	72 053	17 292	49 717
Operating expenses	(18 133)	(47 551)	(21 154)	(61 575)
Administrative expenses	(879 632)	(3 006 244)	(820 656)	(2 891 704)
Personnel expenses	(443 933)	(1 497 408)	(402 861)	(1 391 779)
Other administrative expenses	(435 699)	(1 508 836)	(417 795)	(1 499 925)
Depreciation and amortization	(152 485)	(447 927)	(128 753)	(366 042)
Gains (losses) on subsidiaries	-	(170)	1 543	1 178
PROFIT BEFORE INCOME TAX	750 546	1 955 946	472 610	1 349 443
Income tax expense	(199 011)	(513 338)	(146 492)	(417 603)
NET PROFIT	551 535	1 442 608	326 118	931 840
Earnings per share (in PLN per share)				
basic for the period	2.11	5.50	1.24	3.55
diluted for the period	2.11	5.50	1.24	3.55

Statement of comprehensive income of Bank Pekao S.A.

	III QUARTER 2021 PERIOD FROM 01.07.2021 TO 30.09.2021	3 QUARTERS 2021 PERIOD FROM 01.01.2021 TO 30.09.2021	III QUARTER 2020 PERIOD FROM 01.07.2020 TO 30.09.2020	3 QUARTERS 2020 PERIOD FROM 01.01.2020 TO 30.09.2020
Net profit	551 535	1 442 608	326 118	931 840
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	(110 950)	(697 932)	126 202	490 857
Profit or loss on fair value measurement	(107 902)	(666 436)	131 524	532 793
Profit or loss reclassification to income statement after derecognition	(3 048)	(31 496)	(5 322)	(41 936)
Change in fair value of cash flow hedges	(286 668)	(745 769)	4 332	538 221
Tax on items that are or may be reclassified subsequently to profit or loss	75 547	274 303	(24 802)	(195 525)
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	(45 232)	37 748	(6 572)	4 075
Remeasurements of the defined benefit liabilities	-	-	-	-
Tax on items that will never be reclassified to profit or loss	8 594	(7 172)	1 249	(774)
Other comprehensive income (net of tax)	(358 709)	(1 138 822)	100 409	836 854
Total comprehensive income	192 826	303 786	426 527	1 768 694

Statement of financial position of Bank Pekao S.A

	30.09.2021	31.12.2020
ASSETS		
Cash and due from Central Bank	7 345 697	4 456 272
Loans and advances to banks	6 353 711	2 917 839
Financial assets held for trading	870 195	1 613 337
Derivative financial instruments (held for trading)	4 086 471	4 842 279
Loans and advances to customers	141 795 842	128 726 959
1. Measured at amortised cost	141 258 543	126 951 240
2. Measured at fair value through profit or loss	172 434	187 001
3. Measured at fair value through other comprehensive income	364 865	1 588 718
Hedging instruments	331 969	779 063
Investment (placement) securities	68 997 039	72 657 423
1. Measured at fair value through profit or loss	173 402	160 486
2. Designated at fair value through profit or loss	-	-
3. Measured at fair value through other comprehensive income (debt securities)	31 804 040	44 606 162
4. Designated at fair value through other comprehensive income (equity instruments)	464 320	331 690
5. Measured at amortised cost	36 555 277	27 559 085
Assets held for sale	35 924	35 738
Investments in subsidiaries	1 542 623	1 542 792
Investments in associates	42 194	-
Intangible assets	1 262 293	1 139 355
Property, plant and equipment	1 735 869	1 834 635
Income tax assets	1 249 413	939 978
1. Current tax assets	-	-
2. Deferred tax assets	1 249 413	939 978
Other assets	886 412	895 326
TOTAL ASSETS	236 535 652	222 380 996
EQUITY AND LIABILITIES		
Liabilities		
Amounts due to Central Bank	-	-
Amounts due to other banks	3 263 956	5 225 544
Financial liabilities held for trading	402 812	742 804
Derivative financial instruments (held for trading)	3 885 477	4 636 116
Amounts due to customers	196 643 881	178 827 283
Hedging instruments	1 198 229	1 072 959
Debt securities issued	-	523 305
Subordinated liabilities	2 770 538	2 757 876
Income tax liabilities	51 688	309 449
1. Current tax liabilities	51 688	309 449
2. Deferred tax liabilities	-	-
Provisions	958 087	1 052 781
Other liabilities	3 240 887	2 585 508
TOTAL LIABILITIES	212 415 555	197 733 625
Equity		
Share capital	262 470	262 470
Other capital and reserves	20 729 961	21 573 419
Retained earnings and net profit for the period	3 127 666	2 811 482
TOTAL EQUITY	24 120 097	24 647 371
TOTAL LIABILITIES AND EQUITY	236 535 652	222 380 996

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

	SHARE CAPITAL	OTHER CAPITAL AND RESERVES					REVALUATION RESERVES	OTHER	RETAINED EARNINGS AND NET PROFIT FOR THE PERIOD	TOTAL EQUITY
		TOTAL OTHER CAPITAL AND RESERVES	SHARE PREMIUM	GENERAL BANKING RISK FUND	OTHER RESERVE CAPITAL					
Equity as at 1.01.2021	262 470	21 573 419	9 137 221	1 982 459	8 852 566	1 368 046	233 127	2 811 482	24 647 371	
Comprehensive income	-	(1 127 353)	-	-	11 469	(1 138 822)	-	1 442 608	315 255	
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)	-	(565 325)	-	-	-	(565 325)	-	-	(565 325)	
Revaluation or sale of investments in equity instruments designated at fair value through other comprehensive income (net of tax)	-	42 045	-	-	11 469	30 576	-	-	42 045	
Revaluation of hedging financial instruments (net of tax)	-	(604 073)	-	-	-	(604 073)	-	-	(604 073)	
Net profit for the period	-	-	-	-	-	-	-	1 442 608	1 442 608	
Appropriation of retained earnings	-	283 895	-	-	283 895	-	-	(1 126 424)	(842 529)	
Dividend paid	-	-	-	-	-	-	-	(842 529)	(842 529)	
Profit appropriation	-	283 895	-	-	283 895	-	-	(283 895)	-	
Equity as at 30.09.2021	262 470	20 729 961	9 137 221	1 982 459	9 147 930	229 224	233 127	3 127 666	24 120 097	

	SHARE CAPITAL	OTHER CAPITAL AND RESERVES					REVALUATION RESERVES	OTHER	RETAINED EARNINGS AND NET PROFIT FOR THE PERIOD	TOTAL EQUITY
		TOTAL OTHER CAPITAL AND RESERVES	SHARE PREMIUM	GENERAL BANKING RISK FUND	OTHER RESERVE CAPITAL					
Equity as at 1.01.2020	262 470	20 016 851	9 137 221	1 982 459	8 300 933	363 111	233 127	2 247 467	22 526 788	
Comprehensive income	-	1 004 935	-	-	-	1 004 935	-	1 126 424	2 131 359	
Remeasurements of the defined benefit liabilities (net of tax)	-	(8 400)	-	-	-	(8 400)	-	-	(8 400)	
Revaluation of debt financial instruments and loans measured at fair value through other comprehensive income (net of tax)	-	563 950	-	-	-	563 950	-	-	563 950	
Revaluation or sale of investments in equity instruments designated at fair value through other comprehensive income (net of tax)	-	71 345	-	-	-	71 345	-	-	71 345	
Revaluation of hedging financial instruments (net of tax)	-	378 040	-	-	-	378 040	-	-	378 040	
Net profit for the period	-	-	-	-	-	-	-	1 126 424	1 126 424	
Appropriation of retained earnings	-	562 409	-	-	562 409	-	-	(562 409)	-	
Dividend paid	-	-	-	-	-	-	-	-	-	
Profit appropriation	-	562 409	-	-	562 409	-	-	(562 409)	-	
Other	-	(10 776)	-	-	(10 776)	-	-	-	(10 776)	
Acquisition of the organised part of the enterprise of the Pekao Investment Banking S.A	-	(10 776)	-	-	(10 776)	-	-	-	(10 776)	
Equity as at 31.12.2020	262 470	21 573 419	9 137 221	1 982 459	8 852 566	1 368 046	233 127	2 811 482	24 647 371	

	SHARE CAPITAL	OTHER CAPITAL AND RESERVES					REVALUATION RESERVES	OTHER	RETAINED EARNINGS AND NET PROFIT FOR THE PERIOD	TOTAL EQUITY
		TOTAL OTHER CAPITAL AND RESERVES	SHARE PREMIUM	GENERAL BANKING RISK FUND	OTHER RESERVE CAPITAL					
Equity as at 1.01.2020	262 470	20 016 851	9 137 221	1 982 459	8 300 933	363 111	233 127	2 247 467	22 526 788	
Comprehensive income	-	836 854	-	-	-	836 854	-	931 840	1 768 694	
Remeasurements of the defined benefit liabilities (net of tax)	-	-	-	-	-	-	-	-	-	
Revaluation of debt financial instruments measured at fair value through other comprehensive income (net of tax)	-	397 594	-	-	-	397 594	-	-	397 594	
Revaluation or sale of investments in equity instruments designated at fair value through other comprehensive income (net of tax)	-	3 301	-	-	-	3 301	-	-	3 301	
Revaluation of hedging financial instruments (net of tax)	-	435 959	-	-	-	435 959	-	-	435 959	
Net profit for the period	-	-	-	-	-	-	-	931 840	931 840	
Appropriation of retained earnings	-	562 409	-	-	562 409	-	-	(562 409)	-	
Dividend paid	-	-	-	-	-	-	-	-	-	
Profit appropriation	-	562 409	-	-	562 409	-	-	(562 409)	-	
Other	-	(10 776)	-	-	(10 776)	-	-	-	(10 776)	
Acquisition of the organised part of the enterprise of the Pekao Investment Banking S.A	-	(10 776)	-	-	(10 776)	-	-	-	(10 776)	
Equity as at 30.09.2020	262 470	21 405 338	9 137 221	1 982 459	8 852 566	1 199 965	233 127	2 616 898	24 284 706	

Cash flow statement of Bank Pekao S.A.

	III QUARTER 2021 PERIOD FROM 01.07.2021 TO 30.09.2021	3 QUARTERS 2021 PERIOD FROM 01.01.2021 TO 30.09.2021	III QUARTER 2020 PERIOD FROM 01.07.2020 TO 30.09.2020 RESTATED	3 QUARTERS 2020 PERIOD FROM 01.01.2020 TO 30.09.2020 RESTATED
Cash flow from operating activities – indirect method				
Profit before income tax	750 546	1 955 946	472 610	1 349 443
Adjustments for:	1 461 257	1 713 541	(1 025 976)	24 280 129
Depreciation and amortization	152 485	447 927	128 753	366 042
(Gains) losses on investing activities	(10 247)	(47 831)	(5 313)	(38 220)
Net interest income	(1 324 381)	(3 879 254)	(1 161 140)	(3 875 571)
Dividend income	(1 062)	(168 166)	(269)	(174 125)
Interest received	1 250 430	3 692 925	1 299 016	4 309 030
Interest paid	(13 781)	(115 521)	(119 969)	(597 730)
Income tax paid	(186 574)	(556 771)	(177 723)	(525 633)
Change in loans and advances to banks	6 550	562 462	(147 738)	(81 940)
Change in financial assets held for trading	45 649	805 100	(130 481)	114 590
Change in derivative financial instruments (assets)	(508 686)	764 852	74 902	(3 277 957)
Change in loans and advances to customers	(1 889 381)	(685 370)	2 248 931	(414 097)
Change in investment (placement) securities	(59 895)	452 408	175 267	(181 213)
Change in other assets	(73 032)	(890 858)	294 298	383 884
Change in amounts due to banks	(432 394)	(1 875 672)	(456 465)	104 336
Change in financial liabilities held for trading	(142 194)	(339 992)	23 033	140 639
Change in derivative financial instruments (liabilities)	437 285	(914 815)	(62 788)	3 138 590
Change in amounts due to customers	3 923 193	4 376 317	(3 010 611)	23 906 111
Change in debt securities issued	(12 774)	(18 394)	(5 655)	(20)
Change in subordinated liabilities	12 765	12 662	4 979	-
Payments for short-term leases and leases of low-value assets	(182)	(587)	(911)	(7 953)
Change in provisions	10 361	(98 583)	(11 665)	200 185
Change in other liabilities	277 122	190 702	15 573	791 181
Net cash flows from operating activities	2 211 803	3 669 487	(553 366)	25 629 572
Cash flow from investing activities				
Investing activity inflows	47 591 279	192 279 610	126 416 688	211 550 370
Subsidy received for taking over the part of the activities of Idea Bank S.A.	-	193 904	-	-
Sale of investment securities	47 590 218	192 005 658	126 354 231	211 314 057
Sale of intangible assets and property, plant and equipment	-	-	2	2
Dividend received	1 061	80 048	62 455	236 311
Investing activity outflows	(46 152 213)	(188 692 031)	(132 331 410)	(234 650 300)
Acquisition of associates	-	(42 193)	-	-
Acquisition of investment securities	(46 020 076)	(188 320 595)	(132 146 988)	(234 170 923)
Acquisition of intangible assets and property, plant and equipment	(132 137)	(329 243)	(184 422)	(479 377)
Net cash flows from investing activities	1 439 066	3 587 579	(5 914 722)	(23 099 930)

	III QUARTER 2021 PERIOD FROM 01.07.2021 TO 30.09.2021	3 QUARTERS 2021 PERIOD FROM 01.01.2021 TO 30.09.2021	III QUARTER 2020 PERIOD FROM 01.07.2020 TO 30.09.2020 RESTATED	3 QUARTERS 2020 PERIOD FROM 01.01.2020 TO 30.09.2020 RESTATED
Cash flows from financing activities				
Financing activity inflows	-	-	-	479 940
Due to loans and advances received from banks	-	-	-	-
Issue of debt securities	-	-	-	479 940
Financing activity outflows	(1 017 265)	(1 664 761)	(743 481)	(1 611 159)
Repayment of loans and advances received from banks	(98 551)	(212 086)	(32 274)	(154 873)
Redemption of debt securities	(48 410)	(524 138)	(683 222)	(1 371 398)
Dividends and other payments to shareholders	(842 529)	(842 529)	-	-
Payments for the principal portion of the lease liabilities	(27 775)	(86 008)	(27 985)	(84 888)
Net cash flows from financing activities	(1 017 265)	(1 664 761)	(743 481)	(1 131 219)
Total net cash flows	2 633 604	5 592 305	(7 211 569)	1 398 423
including effect of exchange rate fluctuations on cash and cash equivalents held	58 501	24 387	20 250	113 710
Net change in cash and cash equivalents	2 633 604	5 592 305	(7 211 569)	1 398 423
Cash and cash equivalents at the beginning of the period	10 255 050	7 296 349	15 830 174	7 220 182
Cash and cash equivalents at the end of the period	12 888 654	12 888 654	8 618 605	8 618 605

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

1. General information

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

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

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

The Condensed Interim Consolidated Financial Statements of Bank Pekao S.A. Group for the period from 1 January 2021 to 30 September 2021 contain financial information of the Bank and its subsidiaries (together referred to as the 'Group'), and the associates accounted for using equity method.

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

The share ownership structure of the Bank is presented in the Note 5.4 of the Report on the activities of Bank Pekao S.A. Group for the third quarter of 2021.

2. Group structure

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

NAME OF ENTITY	LOCATION	CORE ACTIVITY	PERCENTAGE OF THE GROUP'S OWNERSHIP RIGHTS IN SHARE CAPITAL/VOTING	
			30.09.2021	31.12.2020
Pekao Bank Hipoteczny S.A.	Warsaw	Banking	100.00	100.00
Pekao Leasing Sp. z o.o.	Warsaw	Leasing services	100.00	100.00
PeUF Sp. z o.o.	Warsaw	Financial support	100.00	-
Pekao Investment Banking S.A.	Warsaw	Brokerage	100.00	100.00
Pekao Faktoring Sp. z o.o.	Lublin	Factoring services	100.00	100.00
Centrum Kart S.A.	Warsaw	Financial support	100.00	100.00
Pekao Financial Services Sp. z o.o.	Warsaw	Transferable agent	66.50	66.50
Pekao Direct Sp. z o.o.	Cracow	Call-center services	100.00	100.00
Pekao Property S.A. (in liquidation)	Warsaw	Real estate development	100.00	100.00
FPB - Media Sp. z o.o. (in bankruptcy)	Warsaw	Real estate development	100.00	100.00
Pekao Fundusz Kapitałowy Sp. z o.o. (in liquidation)	Warsaw	Business consulting	100.00	100.00
Dom Inwestycyjny Xelion Sp. z o.o.	Warsaw	Financial intermediary	100.00	100.00
Pekao Investment Management S.A.	Warsaw	Holding	100.00	100.00
Pekao TFI S.A.	Warsaw	Asset management	100.00	100.00

As at 30 September 2021 and 31 December 2020 all subsidiaries of the Bank have been consolidated.

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

Investments in associates

NAME OF ENTITY	LOCATION	CORE ACTIVITY	PERCENTAGE OF THE GROUP'S OWNERSHIP RIGHTS IN SHARE CAPITAL/VOTING	
			30.09.2021	31.12.2020
Krajowy Integrator Płatności S.A.	Poznań	Monetary brokerage	38.33	-

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

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

Sale of 100% of shares in Dom Inwestycyjny Xelion Sp. z o.o.

On 29 October 2021, a promised agreement was signed for the sale of 100% of shares in Dom Inwestycyjny Xelion Sp. z o.o. ('Xelion'), as a result of which the Bank sold to Quercus TFI S.A. (through the special purpose vehicle Quercus Agent Transferowy Sp.z o.o.) 120 100 shares, constituting 100% of shares in the capital and entitling to 100% votes at the General Meeting of Xelion. The promised Xelion sale agreement was signed after the conditions precedent to the transaction, contained in the preliminary agreement for the sale of shares signed in December 2020, were met, i.e. after obtaining the relevant regulatory approvals, as well as the payment of Xelion funds to the Bank.

Therefore, on 29 October 2021, the ownership of the abovementioned shares was transferred to Quercus Agent Transferowy Sp. z o.o. In these financial statements, the Group presents the assets and liabilities of Dom Inwestycyjny Xelion Sp. z o.o. as held for sale as the disposal of shares took place after the balance sheet date.

Acquisition of shares in PeUF Sp. z o.o.

In 2021, Pekao Leasing Sp. z o.o., a subsidiary of the Bank, acquired 100% shares in Metsi Sp. z o.o. for the price of PLN 5 thousand. After changing the agreement of Metsi Sp. z o.o., it operates under PeUF Sp. z o.o. and deals with the distribution of insurance.

3. Business combinations

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

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

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

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

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

hereinafter referred to as 'Acquired Business'.

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

Transaction Justification

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

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

Price conditions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Significant assumptions used for the fair value measurement

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

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

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

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

Loans and advances to customers

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

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

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

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

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

Investments (placement) securities

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

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

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

Intangible assets

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

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

Property, plant and equipment

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

Other assets

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

Amounts due to customers

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

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

Provisions

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

Other liabilities

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

4. Statement of compliance

The Condensed Interim Consolidated Financial Statements of Bank Pekao S.A. Group for the period of nine months ended 30 September of 2021 have been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting' (IAS 34) as adopted by the European Union and other applicable regulations.

These financial statements do not include all information required for annual financial statements, and shall be read in conjunction with the consolidated financial statements of Bank Pekao S.A. Group for the year ended 31 December 2020.

The consolidated financial statements of Bank Pekao S.A. Group as at and for the year ended 31 December 2020 are available at the Bank's website www.pekao.com.pl.

In accordance with the Decree of the Ministry of Finance dated 29 March 2018 on current and periodic information provided by issuers of securities and the conditions for recognition as equivalent information required by the law of a non-Member State the Bank is required to publish the financial report for the nine months period ended 30 September 2021, i.e. current interim period.

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

These condensed interim consolidated financial statements were authorized for issue by the Management Board on 3 November 2021.

5. Significant accounting policies

5.1 Basis of preparation of Consolidated Financial Statements

General information

Condensed Interim Consolidated Financial Statements of the Group for the period of nine months ended on 30 September of 2021 have been prepared based on the following valuation methods:

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

In the period of three quarters of 2021 the Group did not amend its accounting policies in respect to valuation of assets and liabilities and profit measurement. The accounting policies applied by the Group in these condensed interim consolidated financial statements, are the same as those applied in the Consolidated Financial Statements of Bank Pekao S.A. Group for the year ended on 31 December 2020. Those accounting policies have been applied uniformly to all presented reporting periods and by all entities of the Group.

The consolidated financial statements include the requirements of all the International Financial Reporting Standards and International Accounting Standards approved by the European Union and related interpretations. Changes in published standards and interpretations, which became effective on or after 1 January 2021, had no material impact on the Group's financial statements.

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

Comparability of financial data

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

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

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

CONSOLIDATED INCOME STATEMENT	DATA FOR III QUARTER 2020 BEFORE RESTATEMENT	RESTATEMENT	DATA FOR III QUARTER 2020 AFTER RESTATEMENT
Net other operating income and expenses	(5 990)	5 990	-
Other operating income	-	16 436	16 436
Other operating expenses	-	(22 426)	(22 426)

CONSOLIDATED INCOME STATEMENT	DATA FOR 3 QUARTERS 2020 BEFORE RESTATEMENT	RESTATEMENT	DATA FOR 3 QUARTERS 2020 AFTER RESTATEMENT
Net other operating income and expenses	(14 656)	14 656	-
Other operating income	-	52 118	52 118
Other operating expenses	-	(66 774)	(66 774)

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

INCOME STATEMENT OF THE BANK	DATA FOR III QUARTER 2020 BEFORE RESTATEMENT	RESTATEMENT	DATA FOR III QUARTER 2020 AFTER RESTATEMENT
Net other operating income and expenses	(3 862)	3 862	-
Other operating income	-	17 292	17 292
Other operating expenses	-	(21 154)	(21 154)

INCOME STATEMENT OF THE BANK	DATA FOR 3 QUARTERS 2020 BEFORE RESTATEMENT	RESTATEMENT	DATA FOR 3 QUARTERS 2020 AFTER RESTATEMENT
Net other operating income and expenses	(11 858)	11 858	-
Other operating income	-	49 717	49 717
Other operating expenses	-	(61 575)	(61 575)

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

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

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

CONSOLIDATED CASH FLOW STATEMENT	DATA FOR III QUARTER 2020 BEFORE RESTATEMENT	RESTATEMENT	DATA FOR III QUARTER 2020 AFTER RESTATEMENT
Profit before income tax	-	528 189	528 189
Net profit for the period	370 851	(370 851)	-
Income tax	157 089	(157 089)	-
Change in other assets	369 571	(249)	369 322
Change in receivables from finance leases	(102 317)	102 317	-
Change in loans and advances to customers (in this receivables from financial leases)	1 158 810	(102 317)	1 056 493

CONSOLIDATED CASH FLOW STATEMENT	DATA FOR 3 QUARTERS 2020 BEFORE RESTATEMENT	RESTATEMENT	DATA FOR 3 QUARTERS 2020 AFTER RESTATEMENT
Profit before income tax	-	1 369 571	1 369 571
Net profit for the period	916 900	(916 900)	-
Income tax	451 564	(451 564)	-
Change in other assets	488 075	(1 107)	486 968
Change in receivables from finance leases	(560 976)	560 976	-
Change in loans and advances to customers (in this receivables from financial leases)	(932 815)	(560 976)	(1 493 791)

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

- cash flows from operating activities determined using the indirect method have been presented as 'Gross profit' and adjustments (previously 'Net profit' and adjustments), therefore the item 'Income tax' has been rejected from the item 'Total adjustments'.

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

CASH FLOW STATEMENT OF THE BANK	DATA FOR III QUARTER 2020 BEFORE RESTATEMENT	RESTATEMENT	DATA FOR III QUARTER 2020 AFTER RESTATEMENT
Profit before income tax	-	472 610	472 610
Net profit for the period	326 118	(326 118)	-
Income tax	146 492	(146 492)	-

CASH FLOW STATEMENT OF THE BANK	DATA FOR 3 QUARTERS 2020 BEFORE RESTATEMENT	RESTATEMENT	DATA FOR 3 QUARTERS 2020 AFTER RESTATEMENT
Profit before income tax	-	1 349 443	1 349 443
Net profit for the period	931 840	(931 840)	-
Income tax	417 603	(417 603)	-

5.2 New standards, interpretations and amendments to published standards that have been approved and published by the European Union and are effective on or after 1 January 2021

STANDARD / INTERPRETATION	DESCRIPTION	IMPACT ASSESSMENT
IFRS 4 (amendment) 'Insurance contracts'	The main amendments include: <ul style="list-style-type: none"> deferral of the date of initial application of IFRS 17 by two years to annual reporting periods beginning on or after 1 January 2023, extension of the temporary exemption from applying IFRS 9 by two years. As a result, the qualifying entities will be required to apply IFRS 9 for annual period beginning on or after 1 January 2023. 	The standard's amendments did not have a material impact on the financial statements in the period of their first application.
IFRS 9 (amendment) 'Financial instruments' and IFRS 7 (amendment) 'Financial instruments: disclosures' and IFRS 4 (amendment) 'Insurance contracts' and IFRS 16 (amendment) 'Leasing'	The main amendments include: <ol style="list-style-type: none"> accounting for modifications to financial assets, financial liabilities and lease liabilities required as a direct consequence of the interest rate benchmark reform and performed on an economically equivalent basis, by updating the effective interest rate. hedge accounting is not discontinued solely because of the interest rate benchmark reform. Hedging relationships (and related documentation) must be amended to reflect modifications to the hedged item, hedging instrument and hedged risk. Amended hedging relationships should meet all qualifying criteria to apply hedge accounting, including effectiveness requirements. in order to allow users to understand the nature and extent of risks arising from the interest rate benchmark reform to which the entity is exposed to and how the entity manages those risks as well as the entity's progress in transitioning from interest rate benchmarks to alternative benchmark rates, and how the entity is managing this transition, the amendments require that an entity discloses information about: <ul style="list-style-type: none"> how the transition from interest rate benchmarks to alternative benchmark rates is managed, the progress made at the reporting date, and the risks arising from the transition, quantitative information about non-derivative financial assets, non-derivative financial liabilities and derivatives that continue to reference interest rate benchmarks subject to the reform, disaggregated by significant interest rate benchmark, to the extent that the interest rate benchmark reform has resulted in changes to an entity's risk management strategy, a description of these changes and how is the entity managing those risks. 	The amendments to the standards did not have a material impact on the financial statements in the period of their first application.
MSSF 16 (amendment) 'Leasing'	The amendments introduce an optional practical expedient that simplifies how a lessee accounts for rent concessions that are a direct consequence of Covid-19. A lessee that applies the practical expedient is not required to assess whether eligible rent concessions are lease modifications, and accounts for them in accordance with other applicable guidance. The resulting accounting will depend on the details of the rent concession. For example, if the concession is in the form of a one-off reduction in rent, it will be accounted for as a variable lease payment and be recognized in profit or loss. The practical expedient will only apply if: <ul style="list-style-type: none"> the revised consideration is substantially the same or less than the original consideration, the reduction in lease payments relates to payments due on or before 30 June 2022, and no other substantive changes have been made to the terms of the lease. 	The standard's amendments did not have a material impact on the financial statements in the period of their first application.

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

STANDARD / INTERPRETATION	DESCRIPTION	IMPACT ASSESSMENT
IFRS 3 (amendment) 'Business combinations'	The amendments to IFRS 3 include: <ul style="list-style-type: none"> Update IFRS 3 so that it refers to the 2018 Conceptual Framework instead of the 1989 Framework, Add to IFRS 3 a requirement that, for transactions and other events within the scope of IAS 37 or IFRIC 21, an acquirer applies IAS 37 or IFRIC 21 (instead of the Conceptual Framework) to identify the liabilities it has assumed in a business combination, and Add to IFRS 3 an explicit statement that an acquirer does not recognize contingent assets acquired in a business combination. Date of application: annual periods beginning on or after 1 January 2022.	The Group claims that the standard's amendments will not have a material impact on the financial statements in the period of its first application.
IAS 16 (amendment) 'Property, plant and equipment'	The amendments to IAS 16 prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the cost of producing those items, in profit or loss. Date of application: annual periods beginning on or after 1 January 2022.	The Group claims that the standard's amendments will not have a material impact on the financial statements in the period of its first application.

STANDARD / INTERPRETATION	DESCRIPTION	IMPACT ASSESSMENT
IAS 37 (amendment) 'Provisions, contingent liabilities and contingent assets'	The amendments to IAS 37 specify that the 'cost of fulfilling' an onerous contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract or an allocation of other costs that relate directly to fulfilling contracts. Date of application: annual periods beginning on or after 1 January 2022.	The Group claims that the standard's amendments will not have a material impact on the financial statements in the period of its first application.

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

STANDARD/ INTERPRETATION	DESCRIPTION	IMPACT ASSESSMENT
IFRS 17 'Insurance Contracts'	The new standard requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 'Insurance Contracts' and related interpretations while applied. Date of application: annual periods beginning on or after 1 January 2023.	The Group claims that the new standard will not have a material impact on the financial statements in the period of its first application.
IAS 1 (amendment) 'Presentation of financial statements'	The amendments affect requirements in IAS 1 for the presentation of liabilities. In particular, these amendments clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. Date of application: annual periods beginning on or after 1 January 2023.	The Group claims that the standard's amendments will not have a material impact on the financial statements in the period of its first application.
IAS 1 (amendment) 'Presentation of financial statement'	The amendments to IAS 1 include: <ul style="list-style-type: none"> an entity is required to disclose its material accounting policy information instead of its significant accounting policies, clarification that accounting policy information may be material because of its nature, even if the related amounts are immaterial, clarification that accounting policy information is material if users of an entity's financial statements would need it to understand other material information in the financial statements, and clarification that if an entity discloses immaterial accounting policy information, such information shall not obscure material accounting policy information. Date of application: annual period 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.
IAS 8 (amendment) 'Accounting policies, changes in accounting estimates and errors'	The amendments to IAS 8 include: <ul style="list-style-type: none"> the definition of a change in accounting estimates is replaced with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty, clarification that a change in accounting estimate that results from new information or new developments is not the correction of an error. In addition, the effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors, clarification that a change in an accounting estimate may affect only the current period's profit or loss, or the profit or loss of both the current period and future periods. The effect of the change relating to the current period is recognized as income or expense in the current period. The effect, if any, on future periods is recognized as income or expense in those future periods. 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.
IAS 12 (amendment) 'Income taxes'	The amendments introduce the requirement to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. The amendments will mainly apply to transactions such as leases for the lessee and decommissioning obligations. Date of application: annual periods beginning on or after 1 January 2023.	The Group is currently analyzing the impact of the standard's amendment on the financial statements in the period of its first application.

6. Accounting estimates

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

Estimates and assumptions are reviewed on an ongoing basis by the Group and rely on historic data and other factors including expectation of the future events which seems justified in given circumstances. In particular, as at 30 September 2021, the Bank included in its estimates the impact of the Covid-19 epidemic on individual items of the Group's assets and liabilities.

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

The uncertainty of the estimates made by the Group as at 30 September 2021 concerns mainly:

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

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

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

Impairment of loans and advances to customers, expected credit losses

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

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

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

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

For all other financial instruments the Group measures the allowance for expected credit losses according to IFRS 9, taking into account forecasts and expected future economic conditions in the context of credit risk.

Impairment of non-current assets (including goodwill)

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

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

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

As at 30 September 2021, there was no need to make impairment allowances for non-current assets.

Provisions for legal risk regarding foreign currency mortgage loans in CHF

As at 30 September 2021 the Group assessed the probability of the impact of legal risk regarding foreign currency mortgage loans in CHF on future expected cash flows from loan exposures and the probability of cash outflows.

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

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

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

As at 30 September 2021 the Group assessed the legal risk arising from the judgment of the Court of Justice of the European Union (hereinafter the 'CJEU') on consumer loans and estimated the possible amount of cash outflow as a refund of commission to the customer in relation to early repayment of consumer loans (for loans prepaid before the judgment of the CJEU, i.e. before 11 September 2019).

In addition, with regard to balance sheet exposures as at 30 September 2021, the Group estimated the possible prepayments of these exposures in the future.

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

Details on the estimated provision for earlier repayments of consumer loans are presented in Note 36.

Fair value measurement

The principles of estimating fair value of derivative instruments and unquoted debt securities measured at fair value did not change in relation to 31 December 2020.

7. Risk management

7.1 Credit risk

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

The relatively low level of vaccination in Poland contributes to the growing number of people infected with SARS-Cov-2 virus causing the Covid-19 disease and thus to the persistence of uncertainty factors in the macroeconomic situation such as: the risk of restricting the activities for some sectors of the economy exposed to the effects of the pandemic, the risk of spreading the epidemic, including the emergence of new SARS-Cov-2 mutations and the potential ineffectiveness of currently used vaccines. The Group reflects these factors in the applied approach to credit risk management and calculation of expected credit losses.

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

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

Changes in the methodology of calculation an expected credit losses

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

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

In the period of Covid-19 pandemic unusual changes took place in the macroeconomic situation and quality of the credit portfolio.

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

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

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

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

Additionally, for some clients, where deterioration in financial quality might take place in connection with Covid-19, the Group took into consideration adequate probability of default in the expected credit loss calculation. For clients operating in the sector at risk and clients for which an increased risk has been identified the rating derived directly from internal models was downgraded by 2 levels (consistent with the standard monitoring process).

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

Sensitivity analysis concerning the forecast of the macroeconomic situation

The Group determines expected credit losses taking into account three scenarios for the macroeconomic situation: base (with 45% probability of realization), optimistic (assuming positive changes in the quality of the portfolio in subsequent years as compared to the baseline scenario, with 5% probability of realization) and pessimistic (assuming negative changes in the situation in the following years compared to the baseline scenario, with a probability of 50%).

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

30.09.2021	BASE SCENARIO	OPTIMISTIC SCENARIO	PESSIMISTIC SCENARIO
Change in the level of expected credit losses for exposures without impairment (Stage 1 and 2), assuming 100% realization of the scenario	(184 240)	(628 612)	228 724

The table below presents the results of the ECL sensitivity analysis for the assumed changes in PD and RR/LGD parameters carried out separately for exposures subject to individual and group analysis. For the exposures included in the group analysis, the PD and recovery rate (1-RR=LGD) increase and decrease by 1% and 5% scenario were presented compared to the values used to calculate the expected credit loss as of date 30 September 2021. For the exposures analyzed individually, the estimated impact is presented as a reduction of recoveries from collaterals included in the debt collection scenario by 10%.

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

PARAMETER DELTA	SCENARIO		
	GROUP ANALYSIS		INDYWIDUAL ANALYSIS
	PD CHANGE	RECOVER RATE CHANGE (1-LGD)	RECOVER RATE CHANGE
-10.0%	n/a	n/a	46
-5.0%	(85)	250	n/a
-1.0%	(18)	50	n/a
1.0%	18	(50)	n/a
5.0%	88	(248)	n/a

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

	LOANS AND ADVANCES TO BANKS AND CENTRAL BANKS MEASURED AT AMORTISED COST (*)				
	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		TOTAL
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT	
GROSS CARRYING AMOUNT					
GROSS CARRYING AMOUNT AS AT 1.01.2021	2 729 506	168	-	86	2 729 760
Increase due to acquisition of part of Idea Bank S.A. activity	1 295 830	-	-	-	1 295 830
Transfer to Stage 1	11	(11)	-	(1)	(1)
Transfer to Stage 2	(34 130)	34 135	-	(5)	-
Transfer to Stage 3	(1)	(9)	-	10	-
New / purchased / granted financial assets	7 471 990	-	-	-	7 471 990
Financial assets derecognised, other than write-offs (repayments)	(2 954 383)	(661)	-	(12)	(2 955 056)
Financial assets written off (**)	-	-	-	-	-
Other, in this changes resulting from exchange rates	(18 910)	(412)	-	7	(19 315)
GROSS CARRYING AMOUNT AS AT 30.09.2021	8 489 913	33 210	-	85	8 523 208
IMPAIRMENT ALLOWANCE					
IMPAIRMENT ALLOWANCE AS AT 1.01.2021	1 232	-	-	4	1 236
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
New / purchased / granted financial assets	445	-	-	-	445
Financial assets derecognised, other than write-offs (repayments)	(89)	(1)	-	(3)	(93)
Financial assets written off (**)	-	-	-	-	-
Changes in level of credit risk (excluding the transfers between the Stages)	(259)	-	-	-	(259)
Other, in this changes resulting from exchange rates	(23)	1	-	-	(22)
IMPAIRMENT ALLOWANCE AS AT 30.09.2021	1 306	-	-	1	1 307

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

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

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

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

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

TOTAL	LOANS AND ADVANCES TO CUSTOMERS MEASURED AT AMORTISED COST					LOANS AND ADVANCES TO CUSTOMERS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME			
	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT- IMPAIRED (POCI)	TOTAL	STAGE 1 (12M EC)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	TOTAL
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT					
GROSS CARRYING AMOUNT									
GROSS CARRYING AMOUNT AS AT 1.01.2021	113 515 763	25 978 924	5 236 011	3 292 482	39 572	148 062 752	720 770	754 285	1 475 055
Increase due to acquisition of part of Idea Bank S.A. activity	11 188 837	-	-	-	872 105	12 060 942	-	-	-
Transfer to Stage 1	6 798 007	(6 619 810)	(9 295)	(168 902)	-	-	-	-	-
Transfer to Stage 2	(10 717 864)	10 954 504	(25 214)	(211 426)	-	-	-	-	-
Transfer to Stage 3	(501 681)	(903 494)	154 871	1 250 302	2	-	-	-	-
New / purchased / granted financial assets	33 071 422	-	-	-	5 314	33 076 736	-	-	-
Financial assets derecognised, other than write-offs (repayments)	(24 604 269)	(3 092 832)	(459 709)	(227 172)	(152 658)	(28 536 640)	(589 056)	(620 398)	(1 209 454)
Financial assets written off (*)	-	-	(77 628)	(258 682)	(29)	(336 339)	-	-	-
Modifications not resulting in derecognition	(1 885)	(912)	(2)	(201)	-	(3 000)	-	-	-
Other, in this changes resulting from exchange rates	(266 643)	(18 448)	84 133	40 567	47 390	(113 001)	(80)	(1 062)	(1 142)
GROSS CARRYING AMOUNT AS AT 30.09.2021	128 481 687	26 297 932	4 903 167	3 716 968	811 696	164 211 450	131 634	132 825	264 459
Including gross carrying amount as at 30.09.2021 of loans and advances from acquisition of part of Idea Bank S.A. activity	6 682 104	1 103 077	42 490	179 179	769 009	8 775 859	-	-	-
IMPAIRMENT ALLOWANCE (**)									
IMPAIRMENT ALLOWANCE AS AT 1.01.2021	390 616	1 175 162	3 568 016	2 087 241	15 976	7 237 011	5 242	21 329	26 571
Transfer to Stage 1	209 772	(154 727)	(1 615)	(53 430)	-	-	-	-	-
Transfer to Stage 2	(22 123)	96 629	(7 602)	(66 904)	-	-	-	-	-
Transfer to Stage 3	(45 930)	(110 380)	(203 296)	359 606	-	-	-	-	-
New / purchased / granted financial assets	139 582	-	-	-	2 098	141 680	-	-	-
Financial assets derecognised, other than write-offs (repayments)	(44 593)	(39 082)	(36 158)	(32 942)	(22 260)	(175 035)	(3 916)	(19 259)	(23 175)
Financial assets written off (*)	-	-	(77 628)	(258 682)	(29)	(336 339)	-	-	-
Changes in level of credit risk (excluding the transfers between the Stages) (***)	(110 858)	226 633	223 653	296 311	7 420	643 159	59	941	1 000
Other, in this changes resulting from exchange rates	10 397	17 925	101 813	48 460	148 551	327 146	(225)	(340)	(565)
IMPAIRMENT ALLOWANCE AS AT 30.09.2021	526 863	1 212 160	3 567 183	2 379 660	151 756	7 837 622	1 160	2 671	3 831

(*) Including the value of contractual interest subject to partial write-off in the amount of PLN 165 778 thousand.

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

(***) Including the provision for legal risk regarding foreign currency mortgage loans in the amount of PLN 392 314 thousand.

The total value of undiscounted expected credit losses at the time of initial recognition of financial assets purchased or originated credit impaired in the period ended 30 September 2021 amounted to PLN 2 088 thousand.

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

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

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

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

The total value of undiscounted expected credit losses at the time of initial recognition of financial assets purchased or originated credit impaired in the period ended 31 December 2020 amounted to PLN 1 400 thousand.

CORPORATE	LOANS AND ADVANCES TO CUSTOMERS MEASURED AT AMORTISED COST						LOANS AND ADVANCES TO CUSTOMERS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME		
	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL – NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL – CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT- IMPAIRED (POCI)	TOTAL	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	TOTAL
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT					
GROSS CARRYING AMOUNT									
GROSS CARRYING AMOUNT AS AT 1.01.2021	49 845 330	10 386 311	4 957 895	609 049	31 859	65 830 444	720 770	754 285	1 475 055
Increase due to acquisition of part of Idea Bank S.A. activity	10 945 224	-	-	-	839 930	11 785 154	-	-	-
Transfer to Stage 1	3 913 850	(3 898 465)	(8 196)	(7 189)	-	-	-	-	-
Transfer to Stage 2	(6 873 825)	6 898 539	(18 330)	(6 384)	-	-	-	-	-
Transfer to Stage 3	(200 267)	(475 019)	170 581	504 705	-	-	-	-	-
New / purchased / granted financial assets	20 729 074	-	-	-	2 478	20 731 552	-	-	-
Financial assets derecognised, other than write-offs (repayments)	(17 145 561)	(1 468 590)	(471 188)	(55 104)	(127 921)	(19 268 364)	(589 056)	(620 398)	(1 209 454)
Financial assets written off	-	-	(69 846)	(35 403)	-	(105 249)	-	-	-
Modifications not resulting in derecognition	(117)	190	-	-	-	73	-	-	-
Other, in this changes resulting from exchange rates	(48 705)	(28 711)	70 069	14 588	22 871	30 112	(80)	(1 062)	(1 142)
GROSS CARRYING AMOUNT AS AT 30.09.2021	61 165 003	11 414 255	4 630 985	1 024 262	769 217	79 003 722	131 634	132 825	264 459
Including gross carrying amount as at 30.09.2021 of loans and advances from acquisition of part of Idea Bank S.A. activity	6 433 311	1 004 437	27 709	178 750	737 323	8 381 530	-	-	-
IMPAIRMENT ALLOWANCE (*)									
IMPAIRMENT ALLOWANCE AS AT 1.01.2021	253 166	256 267	3 360 851	531 917	12 773	4 414 974	5 242	21 329	26 571
Transfer to Stage 1	61 787	(56 933)	(1 327)	(3 527)	-	-	-	-	-
Transfer to Stage 2	(18 819)	24 751	(3 391)	(2 541)	-	-	-	-	-
Transfer to Stage 3	(10 371)	(18 529)	(184 109)	213 009	-	-	-	-	-
New / purchased / granted financial assets	101 712	-	-	-	261	101 973	-	-	-
Financial assets derecognised, other than write-offs (repayments)	(35 310)	(18 923)	(33 834)	(11 676)	(22 023)	(121 766)	(3 916)	(19 259)	(23 175)
Financial assets written off	-	-	(69 846)	(35 403)	-	(105 249)	-	-	-
Changes in level of credit risk (excluding the transfers between the Stages)	41 151	96 349	208 763	67 055	9 367	422 685	59	941	1 000
Other, in this changes resulting from exchange rates	9 582	4 110	97 312	33 936	149 717	294 657	(225)	(340)	(565)
IMPAIRMENT ALLOWANCE AS AT 30.09.2021	402 898	287 092	3 374 419	792 770	150 095	5 007 274	1 160	2 671	3 831

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

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

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

LOANS AND ADVANCES TO CUSTOMERS MEASURED AT AMORTISED COST						
MORTGAGE LOANS TO INDIVIDUAL CLIENTS	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT-IMPAIRED (POCI)	TOTAL
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
GROSS CARRYING AMOUNT						
GROSS CARRYING AMOUNT AS AT 1.01.2021	51 376 624	12 877 516	93 775	1 004 285	1 330	65 353 530
Increase due to acquisition of part of Idea Bank S.A. activity	43 943	-	-	-	9 521	53 464
Transfer to Stage 1	2 324 055	(2 221 217)	(1 099)	(101 739)	-	-
Transfer to Stage 2	(3 113 617)	3 258 980	(6 720)	(138 643)	-	-
Transfer to Stage 3	(146 470)	(221 728)	(13 703)	381 901	-	-
New / purchased / granted financial assets	8 698 140	-	-	-	72	8 698 212
Financial assets derecognised, other than write-offs (repayments)	(4 555 990)	(1 008 304)	(8 617)	(70 358)	(1 158)	(5 644 427)
Financial assets written off	-	-	(2 517)	(3 555)	-	(6 072)
Modifications not resulting in derecognition	(715)	(389)	(2)	(35)	-	(1 141)
Other, in this changes resulting from exchange rates	(2 524)	5 455	9 548	(2 718)	16 202	25 963
GROSS CARRYING AMOUNT AS AT 30.09.2021	54 623 446	12 690 313	70 665	1 069 138	25 967	68 479 529
IMPAIRMENT ALLOWANCE						
IMPAIRMENT ALLOWANCE AS AT 1.01.2021	20 648	528 449	55 782	365 269	173	970 321
Transfer to Stage 1	54 568	(36 223)	(288)	(18 057)	-	-
Transfer to Stage 2	(330)	31 818	(4 163)	(27 325)	-	-
Transfer to Stage 3	(4 045)	(22 339)	(13 075)	39 459	-	-
New / purchased / granted financial assets	6 304	-	-	-	12	6 316
Financial assets derecognised, other than write-offs (repayments)	(899)	(4 809)	(2 197)	(9 289)	(117)	(17 311)
Financial assets written off	-	-	(2 517)	(3 555)	-	(6 072)
Changes in level of credit risk (excluding the transfers between the Stages)	(48 539)	80 672	4 494	73 116	(71)	109 672
Other, in this changes resulting from exchange rates	(1 698)	9 025	5 954	(3 483)	(538)	9 260
IMPAIRMENT ALLOWANCE AS AT 30.09.2021	26 009	586 593	43 990	416 135	(541)	1 072 186

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

LOANS AND ADVANCES TO CUSTOMERS MEASURED AT AMORTISED COST						
OTHER LOANS AND ADVANCE TO INDIVIDUAL CLIENTS	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT- IMPAIRED (POCI)	TOTAL
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
GROSS CARRYING AMOUNT						
GROSS CARRYING AMOUNT AS AT 1.01.2021	9 914 404	2 576 845	72 081	1 679 138	6 381	14 248 849
Increase due to acquisition of part of Idea Bank S.A. activity	13 985	-	-	-	4 889	18 874
Transfer to Stage 1	456 639	(396 666)	-	(59 973)	-	-
Transfer to Stage 2	(602 321)	668 885	(165)	(66 399)	-	-
Transfer to Stage 3	(154 942)	(206 747)	(1 990)	363 679	-	-
New / purchased / granted financial assets	3 407 699	-	-	-	2 764	3 410 463
Financial assets derecognised, other than write-offs (repayments)	(2 628 451)	(602 292)	1 874	(101 712)	(1 179)	(3 331 760)
Financial assets written off	-	-	(5 200)	(219 722)	(29)	(224 951)
Modifications not resulting in derecognition	(1 053)	(713)	-	(166)	-	(1 932)
Other, in this changes resulting from exchange rates	(117 943)	6 123	7 007	28 702	12 086	(64 025)
GROSS CARRYING AMOUNT AS AT 30.09.2021	10 288 017	2 045 435	73 607	1 623 547	24 912	14 055 518
IMPAIRMENT ALLOWANCE						
IMPAIRMENT ALLOWANCE AS AT 1.01.2021	113 302	383 954	39 344	1 190 054	3 031	1 729 685
Transfer to Stage 1	90 557	(58 711)	-	(31 846)	-	-
Transfer to Stage 2	(2 855)	39 940	(47)	(37 038)	-	-
Transfer to Stage 3	(31 514)	(69 512)	(6 095)	107 121	-	-
New / purchased / granted financial assets	31 536	-	-	-	1 825	33 361
Financial assets derecognised, other than write-offs (repayments)	(8 335)	(15 319)	(127)	(11 977)	(120)	(35 878)
Financial assets written off	-	-	(5 200)	(219 722)	(29)	(224 951)
Changes in level of credit risk (excluding the transfers between the Stages)	(102 517)	50 326	10 228	156 141	(1 877)	112 301
Other, in this changes resulting from exchange rates	2 495	4 794	(2 672)	18 018	(674)	21 961
IMPAIRMENT ALLOWANCE AS AT 30.09.2021	92 669	335 472	35 431	1 170 751	2 156	1 636 479

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

	DEBT SECURITIES MEASURED AT AMORTISED COST					DEBT SECURITIES MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME		
	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT-IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)	PURCHASED OR ORIGINATED CREDIT- IMPAIRED (POCI)	TOTAL	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT-IMPAIRED)	TOTAL
			INDIVIDUAL ASSESSMENT					
GROSS CARRYING AMOUNT								
GROSS CARRYING AMOUNT AS AT 1.01.2021	27 263 713	38 433	32 971	-	27 335 117	42 593 115	144 385	42 737 500
Increase due to acquisition of part of Idea Bank S.A. activity	15 080	-	-	40 266	55 346	312 513	-	312 513
Transfer to Stage 1	-	-	-	-	-	-	-	-
Transfer to Stage 2	(206 447)	206 447	-	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-	-	-
New / purchased / granted financial assets	14 843 229	-	-	-	14 843 229	167 540 017	-	167 540 017
Financial assets derecognised, other than write-offs (repayments)	(5 699 306)	-	-	-	(5 699 306)	(181 904 478)	(30 229)	(181 934 707)
Modifications not resulting in derecognition	-	-	-	-	-	-	-	-
Other, in this changes resulting from exchange rates	281 545	735	1 208	(711)	282 777	315 580	(95)	315 485
GROSS CARRYING AMOUNT AS AT 30.09.2021	36 497 814	245 615	34 179	39 555	36 817 163	28 856 747	114 061	28 970 808
IMPAIRMENT ALLOWANCE (*)								
IMPAIRMENT ALLOWANCE AS AT 1.01.2021	40 018	582	32 971	(5)	73 566	60 041	3 102	63 143
Transfer to Stage 1	-	-	-	-	-	-	-	-
Transfer to Stage 2	(5 482)	5 482	-	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-	-	-
New / purchased / granted financial assets	24 050	-	-	-	24 050	16 912	-	16 912
Financial assets derecognised, other than write-offs (repayments)	(2 595)	-	-	-	(2 595)	(16 571)	(9)	(16 580)
Changes in level of credit risk (excluding the transfers between the Stages)	(8 472)	222	-	-	(8 250)	(14 893)	641	(14 252)
Other, in this changes resulting from exchange rates	48	-	1 208	18 222	19 478	-	-	-
GROSS CARRYING AMOUNT AS AT 30.09.2021	47 567	6 286	34 179	18 217	106 249	45 489	3 734	49 223

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

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

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

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

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

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

As at 30 September 2021, the gross carrying amount of the loan portfolio covered by the above-mentioned moratoria (active and expired) amounted to PLN 13 594 million (PLN 14 606 million as at 31 December 2020) and 69 277 customers were covered by moratoria (69 902 customers as at 31 December 2020). The gross carrying amount of the loan portfolio covered by the active moratoria as at 30 September 2021 amounted to PLN 71 million (PLN 605 million as at 31 December 2020). The negative result on insignificant modifications recognized in the three quarters of 2021 related to these moratoria amounted to PLN -2.7 million (in the three quarters of 2020 PLN -6.8 million) and was recognized in the net interest income.

As at 30 September 2021, the gross carrying amount of the loan portfolio covered by BGK's portfolio guarantees limiting the effects of Covid-19 was PLN 5 758 million (as at 31 December 2020 PLN 3 417 million) and guarantees covered 8 703 customers (4 560 customers as at 31 December 2020).

Forbearance measures

The forbome exposure identifying process has not changed substantially in relation to the principles described in the consolidated financial statements of Bank Pekao S.A. Group for the year ended on 31 December 2020. The Bank has not modified the identification rules for 'forborne' exposures. In the case of granting credit holidays or other measures mitigating the effects of the Covid-19 epidemic, the Bank applies an approach consistent with regulatory guidelines in this respect. Granting credit holidays or other mitigation measures for the Covid-19 epidemic did not identify forbome exposures automatically.

Share of forbome exposures in the Group's loan portfolio

	30.09.2021					TOTAL
	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT- IMPAIRED (POCI)	
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
Loans and advances measured at amortised cost, including:	127 954 824	25 085 772	1 335 984	1 337 308	659 940	156 373 828
Forbome exposures gross	990 520	416 520	2 899 222	794 928	133 279	5 234 469
Loss allowance	(1 580)	(30 214)	(1 889 628)	(466 292)	(3 915)	(2 391 629)
Forbome exposures net	988 940	386 306	1 009 594	328 636	129 364	2 842 840
Loans and advances measured at fair value through other comprehensive income, including:	131 634	132 825	-	-	-	264 459
Forbome exposures	-	-	-	-	-	-
Impairment allowance (*)	-	-	-	-	-	-
Loans and advances measured at fair value through profit or loss, including:						172 434
Forbome exposures						1 943

	31.12.2020					TOTAL
	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT- IMPAIRED (POCI)	
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
Loans and advances measured at amortised cost, including:	113 125 147	24 803 762	1 667 995	1 205 241	23 596	140 825 741
Forbome exposures gross	1 067 782	412 723	2 429 599	661 951	21 672	4 593 727
Loss allowance	(2 222)	(35 246)	(1 803 056)	(335 092)	(3 055)	(2 178 671)
Forbome exposures net	1 065 560	377 477	626 543	326 859	18 617	2 415 056
Loans and advances measured at fair value through other comprehensive income, including:	720 770	754 285	-	-	-	1 475 055
Forbome exposures	-	-	-	-	-	-
Impairment allowance (*)	-	-	-	-	-	-
Loans and advances measured at fair value through profit or loss, including:						187 001
Forbome exposures						1 068

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

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

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

As at 30 September 2021, the Group had a portfolio of foreign currency mortgage loans in CHF with a total gross carrying amount of PLN 2 690.5 million (i.e. CHF 629.7 million) compared to PLN 2 899 million (i.e. CHF 679.9 million) as at 31 December 2020.

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

	30.09.2021					TOTAL
	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT-IMPAIRED (POCI)	
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
Gross carrying amount, of which:	2 402	2 442 663	43 336	201 471	592	2 690 464
denominated in CHF	2 402	2 440 074	43 336	201 013	592	2 687 417
indexed to CHF	-	2 589	-	458	-	3 047
Impairment allowances, of which: (*)	(1)	(403 187)	(20 866)	(104 189)	(150)	(528 393)
denominated in CHF	(1)	(403 164)	(20 866)	(103 973)	(150)	(528 154)
indexed to CHF	-	(23)	-	(216)	-	(239)
Carrying amount, of which:	2 401	2 039 476	22 470	97 282	442	2 162 071
denominated in CHF	2 401	2 036 910	22 470	97 040	442	2 159 263
indexed to CHF	-	2 566	-	242	-	2 808

(*) Including the provision for legal risk regarding foreign currency mortgage loans in the amount of PLN 392 314 thousand.

	31.12.2020					TOTAL
	STAGE 1 (12M ECL)	STAGE 2 (LIFETIME ECL - NOT CREDIT- IMPAIRED)	STAGE 3 (LIFETIME ECL - CREDIT-IMPAIRED)		PURCHASED OR ORIGINATED CREDIT-IMPAIRED (POCI)	
			INDIVIDUAL ASSESSMENT	GROUP ASSESSMENT		
Gross carrying amount, of which:	2 602	2 645 935	52 315	197 467	806	2 899 125
denominated in CHF	2 602	2 640 379	52 315	196 873	806	2 892 975
indexed to CHF	-	5 556	-	594	-	6 150
Impairment allowances, of which: (*)	(1)	(358 050)	(25 436)	(94 040)	(341)	(477 868)
denominated in CHF	(1)	(358 012)	(25 436)	(93 844)	(341)	(477 634)
indexed to CHF	-	(38)	-	(196)	-	(234)
Carrying amount, of which:	2 601	2 287 885	26 879	103 427	465	2 421 257
denominated in CHF	2 601	2 282 367	26 879	103 029	465	2 415 341
indexed to CHF	-	5 518	-	398	-	5 916

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

As of 30 September 2021 the average LTV for CHF loans to individuals granted by the Group amounted to 35.7% (38.1% as at 31 December 2020), with an average LTV for the whole portfolio of mortgage loans of 54.2% (55.8% as at 31 December 2020).

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

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

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

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

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

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

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

As at 30 September 2021, 1 337 individual court cases were pending against the Group regarding FX mortgage loans in CHF, which were granted in previous years, with the total value of the claim in the amount of PLN 377.9 million (as at 31 December 2020, the number of cases was 592, and the corresponding value of the dispute is PLN 159.7 million). The main cause of the dispute, as indicated by the plaintiffs, concerns the questioning of the provisions of the loan agreement with regard to the Group's application of conversion rates and results in claims regarding the partial or complete invalidity of the loan agreements. In the three quarters of 2021, the Group received 52 unfavorable court judgments in cases brought by borrowers, including 6 final judgment and 8 favorable court judgments, including 1 judgment dismissing the claim to declare the loan agreement invalid and an action for payment in connection with the invalidity of the loan agreement (in 2020: 36 unfavorable court judgments in cases brought by borrowers, including 3 final judgments declaring the invalidity of the loan agreement and 13 favorable court judgments, including 2 final judgments dismissing the claim to declare the loan agreement invalid and an action for payment in connection with the invalidity of the loan agreement).

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

As at 30 September 2021, the level of the provision for the above-mentioned legal risk related to foreign currency mortgage loans in CHF estimated by the Group amounted to PLN 488.1 million and increased by 52 million compared to the level of these provisions as at 31 December 2020.

The above amount includes the provision for individual pending litigation to which the Group is a party in the amount of PLN 167.2 million as at 30 September 2021 (PLN 76.1 million as at 31 December 2020) and the portfolio provision for other foreign currency mortgage loan agreements in CHF, which are subject to legal risk related to the nature of these agreements, in the amount of PLN 320.9 million as at 30 September 2021 (PLN 360.0 million as at 31 December 2020).

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

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

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

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

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

PARAMETR	SCENARIO	IMPACT ON THE PROVISION LEVEL ON 30.09.2021
Number of lawsuits	+20%	62 487
	-20%	(62 487)
Probability of failure	+10 p.p. (no more than 100%)	24 124
	-10 p.p.	(36 913)
Probability of a contract invalidity scenario	+10 p.p. (no more than 100%)	16 004
	-10 p.p.	(28 459)

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

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

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

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

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

STATEMENT OF FINANCIAL POSITION	30.09.2021	31.12.2020
Impairment allowances for loan exposures, in this:	392 314	345 131
Individual provisions	142 727	65 420
Portfolio provisions	249 587	279 711
Provisions for litigation and claims, in this:	95 827	90 939
Individual provisions	24 475	10 668
Portfolio provisions	71 352	80 271
Total	488 141	436 070

INCOME STATEMENT	III QUARTER 2021	3 QUARTERS 2021	III QUARTER 2020	3 QUARTERS 2020
Net allowances for expected credit losses	(41 853)	(47 270)	(24 825)	(36 554)
Other operating expenses	(8 148)	(5 051)	(4 901)	(9 336)
Total	(50 001)	(52 321)	(29 726)	(45 890)

7.2 Market risk

Market risk of the trading book

The model of market risk measurement has not changed in relation to the one described in the Consolidated Financial Statements of the Bank Pekao S.A. Group for the year ended on 31 December 2020.

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

	30.09.2021	MINIMUM VALUE	AVERAGE VALUE	MAXIMUM VALUE
foreign currency exchange risk	49	13	70	413
interest rate risk	2 262	801	2 038	4 072
Trading portfolio	2 685	810	2 039	3 592

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

Interest rate risk of the banking book

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

In the third quarter of 2021, very low NBP interest rates and high liquidity of the banking system still exerted a significant impact on the Bank's exposure to interest rate risk and Net Interest Income realised. The Bank protects economic value of equity and the net interest income by concluding due amounts of IRS transactions and purchasing fixed-coupon bonds.

The table below presents the sensitivity of contractual interest income (NII) to the interest rate change by 100 b.p. and sensitivity of economic value of the Bank's equity (EVE) to the interest rate change by 200 b.p. (standard regulatory shock excluding the risk profile of own funds) as at 30 September 2021 and as at 31 December 2020.

SENSITIVITY IN %	30.09.2021	31.12.2020
NII	(6.31)	(6.31)
EVE	(5.77)	(7.10)

Currency risk

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

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

Value at Risk

CURRENCY	30.09.2021	31.12.2020
Currencies total (*)	1 332	287

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

Currency position

30.09.2021	BALANCE SHEET OPERATIONS		OFF-BALANCE SHEET OPERATIONS- DERIVATIVES		NET POSITION
	ASSETS	LIABILITIES	LONG POSITION	SHORT POSITION	
EUR	31 643 209	27 175 801	25 434 301	29 837 989	63 720
USD	8 715 765	9 687 532	8 626 074	7 674 192	(19 885)
CHF	2 772 185	622 006	1 449 095	3 600 595	(1 321)
GBP	403 102	1 123 588	769 120	47 560	1 074
NOK	317 999	74 710	5 393	248 452	230
SEK	85 936	76 932	37 239	45 730	513
CAD	24 164	64 343	53 365	13 969	(783)
DKK	57 196	20 311	6 344	43 236	(7)
CZK	32 652	53 374	611 335	590 460	153
RON	2 862	4 479	222 106	220 714	(225)
CNY	12 743	52 090	716 206	676 008	851
HRK	4 373	17 825	134 101	120 348	301
HUF	4 042	12 600	427 146	418 778	(190)
Other currencies	32 220	59 464	99 635	70 452	1 939
Total	44 108 448	39 045 055	38 591 460	43 608 483	46 370

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

7.3 Liquidity risk

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

Regulatory liquidity ratios LCR and NSFR (*)

SUPERVISORY LIQUIDITY NORMS		LIMIT	30.09.2021	31.12.2020
LCR	Liquidity coverage ratio	100%	247%	251%
NSFR	Net stable funding ratio	100%	148%	145%

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

The tables below present adjusted liquidity gap:

30.09.2021	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
Assets	69 121 138	9 940 345	30 725 879	75 757 000	61 816 417	247 360 779
Equity and liabilities	23 348 220	15 881 344	30 222 175	38 065 889	139 843 151	247 360 779
Off-balance sheet assets/liabilities (net)	(10 758 683)	1 367 659	907 673	3 306 784	4 522 948	(653 619)
Periodic gap	35 014 235	(4 573 340)	1 411 377	40 997 895	(73 503 786)	(653 619)
Cumulated gap	-	30 440 895	31 852 272	72 850 167	(653 619)	-

31.12.2020	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
Assets	69 513 131	7 196 796	25 085 033	72 392 852	59 029 370	233 217 182
Equity and liabilities	18 307 777	12 023 248	26 212 984	36 038 239	140 634 934	233 217 182
Off-balance sheet assets/liabilities (net)	(9 377 774)	(161 509)	2 726 628	2 231 163	3 874 654	(706 838)
Periodic gap	41 827 580	(4 987 961)	1 598 677	38 585 776	(77 730 910)	(706 838)
Cumulated gap	-	36 839 619	38 438 296	77 024 072	(706 838)	-

7.4 Operational risk

There have been no significant changes in the operational risk management process in relation to the one described in the Consolidated Financial Statements of Bank Pekao S.A. Group for the year ended on 31 December 2020, subject to the fact that, in accordance with the decision issued by the Polish Financial Supervision Authority, the capital requirement for operational risk for the acquired part of the enterprise of Idea Bank S.A. is calculated using the Standardised Approach.

7.5 Fair value of financial assets and liabilities

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

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

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

30.09.2021	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Assets:	10 038 158	16 019 920	9 059 090	35 117 168
Financial assets held for trading	438 288	165 873	73 855	678 016
Derivative financial instruments, including:	-	4 056 936	4 824	4 061 760
Banks	-	967 497	4 824	972 321
Customers	-	3 089 439	-	3 089 439
Hedging instruments, including:	-	331 969	-	331 969
Banks	-	43 434	-	43 434
Customers	-	288 535	-	288 535
Securities measured at fair value through other comprehensive income	9 599 870	11 465 142	8 370 116	29 435 128
Securities measured at fair value through profit or loss	-	-	173 402	173 402
Loans and advances to customers measured at fair value through other comprehensive income	-	-	264 459	264 459
Loans and advances to customers measured at fair value through profit or loss	-	-	172 434	172 434
Liabilities:	402 812	5 075 985	4 806	5 483 603
Financial liabilities held for trading	402 812	-	-	402 812
Derivative financial instruments, including:	-	3 877 756	4 806	3 882 562
Banks	-	882 714	-	882 714
Customers	-	2 995 042	4 806	2 999 848
Hedging instruments, including:	-	1 198 229	-	1 198 229
Banks	-	890 847	-	890 847
Customers	-	307 382	-	307 382

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

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

3 QUARTERS 2021	FINANCIAL ASSETS HELD FOR TRADING	DERIVATIVE FINANCIAL INSTRUMENTS (ASSETS)	LOANS AND ADVANCES TO CUSTOMERS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	LOANS AND ADVANCES TO CUSTOMERS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	SECURITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	SECURITIES MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	DERIVATIVE FINANCIAL INSTRUMENTS (LIABILITIES)
Opening balance	43 532	1 712	1 475 055	187 001	160 486	10 490 998	-
Increases, including:	3 560 767	10 242	92 883	2 538	12 916	3 537 649	4 390
Increase due to acquisition of part of Idea Bank S.A. activity	-	4 453	-	-	-	85 309	-
Reclassification	987	-	-	-	-	737 462	-
Transactions made in 2021	-	-	52 830	461	-	-	-
Acquisition/Granting	3 558 415	-	-	-	-	2 569 241	-
Settlement/Redemption	-	-	-	-	-	-	-
Gains on financial instruments	1 365	5 789	40 053	2 077	12 916	145 637	-
recognized in the income statement	876	5 789	40 053	2 077	12 916	130 543	-
recognized in revaluation reserves	489	-	-	-	-	15 094	-
Decreases, including:	(3 530 444)	(7 130)	(1 303 479)	(17 105)	-	(5 658 531)	416
Reclassification	(307)	-	-	-	-	(336 609)	-
Settlement/Redemption	(21 729)	(7 130)	(1 087 460)	(17 105)	-	(4 131 499)	-
Sale/Repayment	(3 503 572)	-	(195 500)	-	-	(1 096 416)	-
Losses on financial instruments	(4 836)	-	(20 519)	-	-	(94 007)	416
recognized in the income statement	-	-	-	-	-	(298)	416
recognized in revaluation reserves	(4 836)	-	(20 519)	-	-	(93 709)	-
Closing balance	73 855	4 824	264 459	172 434	173 402	8 370 116	4 806
Unrealized income from financial instruments held in portfolio at the end of the period, recognized in:	(4 248)	371	(5 153)	2 056	-	(75 830)	(416)
Income statement:	(4 248)	371	(2 496)	2 056	-	64 300	(416)
net interest income	484	-	(1 496)	68	-	51 189	-
net allowances for expected credit losses	-	-	(1 000)	-	-	13 111	-
result on financial assets and liabilities held for trading	(4 732)	371	-	1 988	-	-	(416)
Other comprehensive income	-	-	(2 657)	-	-	(140 130)	-

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

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

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

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

- from Level 3 to Level 2: corporate and municipal bonds which were valued based on information on the prices of comparable financial instruments, corporate and municipal bonds with immaterial impact of the estimated credit parameters on the valuation and equity derivative instruments for which the estimated correlation did not significantly affect the valuation,
- from Level 2 to Level 3: municipal and corporate bonds, for which impact of estimated credit parameters was material and equity market derivatives for which the estimated volatility materially affected the valuation.

The impact of estimated parameters on measurement of financial instruments for which the Group applies fair value valuation according to Level 3 as at 30 September 2021 is as follows:

FINANCIAL ASSET/LIABILITY	FAIR VALUE AS AT 30.09.2021	VALUATION TECHNIQUE	UNOBSERVABLE FACTOR	ALTERNATIVE FACTOR RANGE (WEIGHTED AVERAGE)	IMPACT ON FAIR VALUE AS AT 30.09.2021	
					POSITIVE SCENARIO	NEGATIVE SCENARIO
Corporate and municipal debt securities	7 999 077	Discounted cash flow	Credit spread	0.34%-1.24%	231 916	(244 563)
Sovereign securities	36 188	Discounted cash flow	Spread to benchmark bond	0.07%-0.69%	2 122	(2 122)
Derivatives	4 824	Black Scholes model	Volatility	2.9-4.3	1 233	(1 073)
Loans and advances measured at fair value through profit or loss	172 434	Discounted cash flow	Credit spread	0.33%-1.26%	3 733	(3 637)
Loans and advances measured at fair value through other comprehensive income	264 459	Discounted cash flow	Credit spread	3.23%-4.16%	2 643	(2 605)

FINANCIAL ASSET	FAIR VALUE AS AT 30.09.2021	PARAMETR	SCENARIO	IMPACT ON FAIR VALUE AS AT 30.09.2021	
				POSITIVE SCENARIO	NEGATIVE SCENARIO
Equity instruments mandatorily measured at fair value through profit or loss	173 402	Discount rate	+10% / -10%	9 614	(19 263)
Equity instrument in entity providing credit information designated for measurement at fair value through other comprehensive income	346 516	Discount rate	+1% / -1%	66 953	(48 310)

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

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

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

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

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

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

30.09.2021	CARRYING AMOUNT	FAIR VALUE	OF WHICH:		
			LEVEL 1	LEVEL 2	LEVEL 3
Assets					
Cash and due from Central Bank	7 346 093	7 346 327	3 941 145	3 405 182	-
Loans and advance to banks	5 116 953	5 109 441	-	3 542 173	1 567 268
Loans and advances to customers measured at amortised cost	156 373 828	156 182 387	-	1 832 766	154 349 621
Debt securities measured at amortised cost	36 710 914	37 200 140	22 090 596	7 013 020	8 096 524
Other assets	1 095 996	1 095 996	-	-	1 095 996
Total Assets	206 643 784	206 934 291	26 031 741	15 793 141	165 109 409
Liabilities					
Amounts due to Central Bank	-	-	-	-	-
Amounts due to other banks	7 528 621	7 520 505	-	924 042	6 596 463
Amounts due to customers	196 193 674	195 872 767	-	-	195 872 767
Debt securities issued	5 900 194	5 907 538	-	5 907 538	-
Subordinated liabilities	2 770 538	2 771 513	-	2 771 513	-
Other liabilities	3 420 729	3 420 729	-	-	3 420 729
Total Liabilities	215 813 756	215 493 052	-	9 603 093	205 889 959

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

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

8. Operating segments

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

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

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

Operating segments

The operating segments of the Group are as follows:

- Retail banking – all banking activities related to retail customers (excluding private banking customers) and micro companies with annual turnover not exceeding PLN 5 million, as well as results of the subsidiaries, and shares in net profit of associates accounted for using the equity method, that are assigned to the retail banking activity,
- Private banking – all banking activities related to the most affluent individual customers,
- Corporate and Investment banking – all banking activities related to large companies and results of the subsidiaries that are assigned to the Corporate and Investment banking activity,
- Enterprise banking - all banking activities related to the companies with annual turnover from PLN 5 million to PLN 100 million and below 5 million in the case of companies conducting full accounting,
- Assets and Liabilities management and other – supervision and monitoring of fund transfers, interbank market, debt securities and other instruments, other activities centrally managed as well as the results of subsidiaries and share in net profit of associates accounted for using the equity method that are not assigned to other reported segments.

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

	RETAIL BANKING	PRIVATE BANKING	CORPORATE AND INVESTMENT BANKING	ENTERPRISE BANKING	ASSETS & LIABILITIES MANAGEMENT AND OTHER	TOTAL
External interest income	1 912 042	2 882	895 275	301 203	1 088 515	4 199 917
External interest expenses	(32 699)	(7 484)	(48 334)	(2 212)	(49 079)	(139 808)
Net external interest income	1 879 343	(4 602)	846 941	298 991	1 039 436	4 060 109
Internal interest income	391 445	29 656	4 612	24 301	(450 014)	-
Internal interest expenses	(588 973)	(2 301)	(255 449)	(104 497)	951 220	-
Net internal interest income	(197 528)	27 355	(250 837)	(80 196)	501 206	-
Total net interest income	1 681 815	22 753	596 104	218 795	1 540 642	4 060 109
Fee and commission income and expense	831 508	136 537	507 613	486 970	29 646	1 992 274
Other non-interest income	3 982	(1 010)	102 130	31 481	76 168	212 751
Operating income	2 517 305	158 280	1 205 847	737 246	1 646 456	6 265 134
Personnel expenses	(670 384)	(61 369)	(160 461)	(144 453)	(648 611)	(1 685 278)
Other administrative expenses	(899 317)	(23 502)	(130 769)	(193 355)	531 075	(715 868)
Depreciation and amortisation	(150 755)	(12 278)	(15 652)	(13 457)	(289 187)	(481 329)
Operating costs	(1 720 456)	(97 149)	(306 882)	(351 265)	(406 723)	(2 882 475)
Gross operating profit	796 849	61 131	898 965	385 981	1 239 733	3 382 659
Net allowances for expected credit losses	(239 708)	965	(137 090)	(116 306)	(53 932)	(546 071)
Net operating profit	557 141	62 096	761 875	269 675	1 185 801	2 836 588
Guarantee funds charges	(218 929)	(616)	(129 398)	(53 124)	142 729	(259 338)
Tax on certain financial institutions					(532 513)	(532 513)
Gains (losses) on associates					1 048	1 048
Profit before tax	338 212	61 480	632 477	216 551	797 065	2 045 785
Income tax expense						(562 966)
Net profit for the period						1 482 819
Attributable to equity holders of the Bank						1 481 208
Attributable to non-controlling interests						1 611
Allocated assets	80 759 494	1 083 659	64 151 191	20 737 047	65 205 987	231 937 378
Unallocated assets						15 423 401
Total Assets						247 360 779
Allocated liabilities	110 323 041	16 168 905	50 943 822	27 833 365	7 771 818	213 040 951
Unallocated liabilities						9 320 700
Total Liabilities						222 361 651

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

	RETAIL BANKING	PRIVATE BANKING	CORPORATE AND INVESTMENT BANKING	ENTERPRISE BANKING	ASSETS & LIABILITIES MANAGEMENT AND OTHER	TOTAL
External interest income	2 378 746	4 778	1 152 060	336 404	700 166	4 572 154
External interest expenses	(223 854)	(90 858)	(166 998)	(26 144)	(67 449)	(575 303)
Net external interest income	2 154 892	(86 080)	985 062	310 260	632 717	3 996 851
Internal interest income	604 802	113 034	204 884	76 661	(999 381)	-
Internal interest expenses	(1 051 193)	(5 399)	(473 484)	(151 305)	1 681 381	-
Net internal interest income	(446 391)	107 635	(268 600)	(74 644)	682 000	-
Total net interest income	1 708 501	21 555	716 462	235 616	1 314 717	3 996 851
Fee and commission income and expense	818 499	120 088	364 776	410 648	63 339	1 777 350
Other non-interest income	14 175	(1 044)	56 619	32 615	44 381	146 746
Operating income	2 541 175	140 599	1 137 857	678 879	1 422 437	5 920 947
Personnel expenses	(653 156)	(56 352)	(161 521)	(123 035)	(572 627)	(1 566 691)
Other administrative expenses	(864 151)	(19 282)	(101 913)	(187 570)	500 002	(672 914)
Depreciation and amortisation	(133 320)	(8 734)	(21 652)	(6 210)	(227 706)	(397 622)
Operating costs	(1 650 627)	(84 368)	(285 086)	(316 815)	(300 331)	(2 637 227)
Gross operating profit	890 548	56 231	852 771	362 064	1 122 106	3 283 720
Net allowances for expected credit losses	(359 858)	(2 763)	(345 776)	(373 910)	-	(1 082 307)
Net operating profit	530 690	53 468	506 995	(11 846)	1 122 106	2 201 413
Guarantee funds charges	(217 077)	(561)	(137 967)	(48 670)	67 329	(336 946)
Tax on certain financial institutions					(494 896)	(494 896)
Profit before tax	313 613	52 907	369 028	(60 516)	694 539	1 369 571
Income tax expense						(451 564)
Net profit for the period						918 007
Attributable to equity holders of the Bank						916 900
Attributable to non-controlling interests						1 107
Allocated assets	78 881 777	1 005 128	58 143 068	17 624 941	59 929 363	215 584 277
Unallocated assets						16 529 672
Total Assets						232 113 949
Allocated liabilities	99 134 077	16 689 689	47 791 385	30 142 158	3 269 690	197 026 999
Unallocated liabilities						9 937 507
Total Liabilities						206 964 506

Reconciliations of operating income for reportable segments

	3 QUARTERS 2021	3 QUARTERS 2020
Net interest income	4 060 109	3 996 851
Net fee and commission income	1 992 274	1 777 350
Dividend income	26 659	26 271
Result on financial assets and liabilities measured at fair value through profit or loss and foreign exchange result	120 363	87 153
Result on fair value hedge accounting	2 981	(869)
Profit (loss) from derecognition of financial assets and financial liabilities not at fair value through profit or loss	36 924	48 847
Operating income	6 239 310	5 935 603
Other operating income	75 527	52 118
Other operating expenses	(49 703)	(66 774)
Total operating income for reportable segments	6 265 134	5 920 947

9. Interest income and expense

Interest income

	III QUARTER 2021			TOTAL
	FINANCIAL ASSETS MEASURED AT AMORTISED COST	FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	
Interest income calculated using the effective interest method	1 259 802	94 886	-	1 354 688
Loans and advances (in this receivables from financial leases)	1 126 234	1 980	-	1 128 214
Interbank placements	(2 306)	-	-	(2 306)
Reverse repo transactions	321	-	-	321
Investment securities	135 553	92 906	-	228 459
Other interest income related to financial assets measured at fair value through profit or loss	-	-	75 540	75 540
Loans and other receivables from customers	-	-	97	97
Hedging derivatives	-	-	74 656	74 656
Financial assets held for trading	-	-	787	787
Total	1 259 802	94 886	75 540	1 430 228

	3 QUARTERS 2021			TOTAL
	FINANCIAL ASSETS MEASURED AT AMORTISED COST	FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	
Interest income calculated using the effective interest method	3 632 190	355 358	-	3 987 548
Loans and advances (in this receivables from financial leases)	3 272 377	17 878	-	3 290 255
Interbank placements	(2 343)	-	-	(2 343)
Reverse repo transactions	682	-	-	682
Investment securities	361 474	337 480	-	698 954
Other interest income related to financial assets measured at fair value through profit or loss	-	-	212 369	212 369
Loans and other receivables from customers	-	-	311	311
Hedging derivatives	-	-	211 026	211 026
Financial assets held for trading	-	-	1 032	1 032
Total	3 632 190	355 358	212 369	4 199 917

	III QUARTER 2020			TOTAL
	FINANCIAL ASSETS MEASURED AT AMORTISED COST	FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	
Interest income calculated using the effective interest method	1 091 978	156 413	-	1 248 391
Loans and advances (in this receivables from financial leases)	995 449	8 485	-	1 003 934
Interbank placements	(91)	-	-	(91)
Reverse repo transactions	207	-	-	207
Investment securities	96 413	147 928	-	244 341
Other interest income related to financial assets measured at fair value through profit or loss	-	-	59 279	59 279
Loans and other receivables from customers	-	-	176	176
Hedging derivatives	-	-	58 428	58 428
Financial assets held for trading	-	-	675	675
Total	1 091 978	156 413	59 279	1 307 670

	3 QUARTERS 2020			TOTAL
	FINANCIAL ASSETS MEASURED AT AMORTISED COST	FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	
Interest income calculated using the effective interest method	3 906 185	479 070	-	4 385 255
Loans and advances (in this receivables from financial leases)	3 582 651	24 515	-	3 607 166
Interbank placements	12 911	-	-	12 911
Reverse repo transactions	10 437	-	-	10 437
Investment securities	300 186	454 555	-	754 741
Other interest income related to financial assets measured at fair value through profit or loss	-	-	186 899	186 899
Loans and other receivables from customers	-	-	1 970	1 970
Hedging derivatives	-	-	179 007	179 007
Financial assets held for trading	-	-	5 922	5 922
Total	3 906 185	479 070	186 899	4 572 154

Interest expense

	III QUARTER 2021	3 QUARTERS 2021	III QUARTER 2020	3 QUARTERS 2020
Deposits from customers	(8 730)	(36 450)	(60 759)	(394 649)
Interbank deposits	(1 017)	(3 191)	(1 342)	(7 077)
Repo transactions	(36)	(62)	(2)	(6 995)
Loans and advances received	(6 663)	(19 514)	(7 033)	(28 606)
Leasing	(1 881)	(6 916)	(2 505)	(7 920)
Debt securities	(24 843)	(73 675)	(32 977)	(130 056)
Total	(43 170)	(139 808)	(104 618)	(575 303)

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

	III QUARTER 2021	3 QUARTERS 2021	III QUARTER 2020	3 QUARTERS 2020
Accounts maintenance, payment orders and cash transactions	188 057	537 971	143 470	437 728
Payment cards	158 101	440 549	147 329	434 872
Loans and advances	125 012	343 284	96 632	284 373
Margin on foreign exchange transactions with clients	162 785	427 311	132 047	382 075
Service and sell investment and insurance products	118 989	355 616	118 338	349 689
Securities operations	29 428	97 967	26 208	69 980
Custody activity	18 397	51 682	14 936	41 470
Guarantees, letters of credit and similar transactions	20 152	56 932	16 220	48 455
Other	21 798	68 993	19 728	62 461
Total	842 719	2 380 305	714 908	2 111 103

Fee and commission expense

	III QUARTER 2021	3 QUARTERS 2021	III QUARTER 2020	3 QUARTERS 2020
Payment cards	(95 490)	(257 452)	(80 382)	(230 487)
Money orders and transfers	(5 925)	(16 555)	(5 303)	(15 937)
Securities and derivatives operations	(10 737)	(36 383)	(14 440)	(31 618)
Acquisition services	(13 746)	(39 863)	(10 236)	(29 007)
Custody activity	(5 760)	(17 946)	(5 008)	(14 552)
Accounts maintenance	(1 253)	(3 340)	(1 083)	(3 193)
Investment funds management	(429)	(916)	(433)	(733)
Other	(5 722)	(15 576)	(2 914)	(8 226)
Total	(139 062)	(388 031)	(119 799)	(333 753)

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

11. Dividend income

	III QUARTER 2021	3 QUARTERS 2021	III QUARTER 2020	3 QUARTERS 2020
Issuers of securities measured at fair value through profit or loss	1 062	1 082	268	785
Issuers of equity instruments designated at fair value through other comprehensive income	-	25 577	-	25 486
Total	1 062	26 659	268	26 271

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

	III QUARTER 2021	3 QUARTERS 2021	III QUARTER 2020	3 QUARTERS 2020
Gains (losses) on loans and advances to customers measured mandatorily at fair value through profit or loss	741	2 014	1 401	(2 262)
Gains (losses) on securities measured mandatorily at fair value through profit or loss	(8 470)	2 528	3 969	6 900
Foreign exchange result	(16 728)	56 453	(4 481)	(28 472)
Gains (losses) on derivatives	47 232	42 125	17 648	75 996
Gains (losses) on securities held for trading	4 422	17 243	7 641	34 991
Total	27 197	120 363	26 178	87 153

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

Realized gains

	III QUARTER 2021	3 QUARTERS 2021	III QUARTER 2020	3 QUARTERS 2020
Financial assets measured at amortised cost	2 029	8 611	279	9 684
Financial assets measured at fair value through other comprehensive income	3 109	31 856	5 333	44 552
Financial liabilities not measured at fair value through profit or loss	-	-	-	1
Total	5 138	40 467	5 612	54 237

Realized losses

	III QUARTER 2021	3 QUARTERS 2021	III QUARTER 2020	3 QUARTERS 2020
Financial assets measured at amortised cost	(2 038)	(3 034)	(868)	(3 215)
Financial assets measured at fair value through other comprehensive income	(63)	(361)	(11)	(2 027)
Financial liabilities not measured at fair value through profit or loss	(120)	(148)	(61)	(148)
Total	(2 221)	(3 543)	(940)	(5 390)

Net realized profit	2 917	36 924	4 672	48 847
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14. Net allowances for expected credit losses

	III QUARTER 2021	3 QUARTERS 2021	III QUARTER 2020	3 QUARTERS 2020
Loans and other financial assets measured at amortized cost (*)	(91 142)	(562 627)	(239 559)	(925 074)
Debt securities measured at amortized cost	(20 411)	(13 205)	(5 558)	459
Loans measured at fair value through other comprehensive income	167	22 175	1	(4 767)
Debt securities measured at fair value through other comprehensive income	(10 302)	13 920	(8 813)	(25 137)
Off-balance sheet commitments	(14 597)	40 936	1 367	(91 234)
Provision for legal risk regarding foreign currency mortgage loans	(41 853)	(47 270)	(24 825)	(36 554)
Total	(178 138)	(546 071)	(277 387)	(1 082 307)

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

15. Other operating income and expenses

Other operating income

	III QUARTER 2021	3 QUARTERS 2021	III QUARTER 2020	3 QUARTERS 2020
Gains on disposal of property, plant and equipment	7 778	17 451	66	245
Premises rental income, terminals and IT equipment	5 285	15 564	5 335	14 005
Operating leasing net income (*)	896	2 570	6	(459)
Compensation, recoveries, penalty fees and fines received	3 915	11 812	3 756	10 479
Miscellaneous income	2 001	8 395	2 973	13 160
Recovery of debt collection costs	2 523	6 206	3 328	7 530
Net revenues from sale of products, goods and services	1 381	4 144	1 408	4 007
Other	5 067	9 385	(436)	3 151
Total	28 846	75 527	16 436	52 118

(*) Operating leasing net income

	III QUARTER 2021	3 QUARTERS 2021	III QUARTER 2020	3 QUARTERS 2020
Income from operating leases	2 852	8 406	1 869	5 720
Costs of depreciation of fixed assets provided under operating leases	(1 956)	(5 836)	(1 863)	(6 179)
Total	896	2 570	6	(459)

Other operating expenses

	III QUARTER 2021	3 QUARTERS 2021	III QUARTER 2020	3 QUARTERS 2020
Provision for liabilities disputable and other provisions (*)	20	(13 912)	(12 325)	(23 178)
Provision for legal risk regarding foreign currency mortgage loans	(8 148)	(5 051)	(4 901)	(9 336)
Loss on disposal of property, plant and equipment and intangible assets	(674)	(2 915)	(89)	(10 092)
Card transactions monitoring costs	(4 256)	(9 673)	1 091	(3 302)
Sundry expenses	(536)	(3 106)	(632)	(5 182)
Costs of litigation and claims	(1 002)	(2 502)	(1 245)	(2 604)
Impairment allowance on fixed assets, litigations and other assets	1 794	615	(805)	(2 004)
Compensation, penalty fees and fines	(781)	(1 876)	(253)	(654)
Other	(5 031)	(11 283)	(3 267)	(10 422)
Total	(18 614)	(49 703)	(22 426)	(66 774)

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

16. Administrative expenses

Personnel expenses

	III QUARTER 2021	3 QUARTERS 2021	III QUARTER 2020	3 QUARTERS 2020
Wages and salaries	(431 045)	(1 439 624)	(385 513)	(1 325 441)
Insurance and other charges related to employees	(77 558)	(238 265)	(74 035)	(232 939)
Share-based payments expenses	2 334	(7 389)	370	(8 311)
Total	(506 269)	(1 685 278)	(459 178)	(1 566 691)

Other administrative expenses

	III QUARTER 2021	3 QUARTERS 2021	III QUARTER 2020	3 QUARTERS 2020
General expenses	(217 275)	(659 693)	(197 366)	(626 651)
Taxes and charges	(10 198)	(29 920)	(9 156)	(27 190)
Bank Guarantee Fund fee	(27 120)	(259 338)	(43 162)	(336 946)
Financial supervision authority fee (KNF)	(1 862)	(26 255)	(804)	(19 073)
Tax on certain financial institutions	(179 357)	(532 513)	(168 547)	(494 896)
Total	(435 812)	(1 507 719)	(419 035)	(1 504 756)

Total administrative expenses	(942 081)	(3 192 997)	(878 213)	(3 071 447)
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From 1 January 2017 new rules for making contributions to Bank Guarantee Fund (hereinafter 'BGF'), defined in the Act of 10 June 2016 on Bank Guarantee Fund, deposit guarantee schemes and resolution of banks (hereinafter 'BGF Act'), have to be applied.

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

As a result of application of the Interpretation IFRIC 21 *Levies* for recognition of the above obligations, the costs of quarterly contribution to deposit guarantee fund of banks in the amount of PLN 88 746 thousand for the three quarters of 2021 (for the three quarters of 2020 - PLN 126 560 thousand) and the costs of annual contribution to resolution fund of banks in the amount of PLN 170 592 thousand (PLN 210 386 thousand in 2020).

17. Depreciation and amortization

	III QUARTER 2021	3 QUARTERS 2021	III QUARTER 2020	3 QUARTERS 2020
Property, plant and equipment	(80 272)	(240 971)	(77 040)	(228 683)
Intangible assets	(83 454)	(240 358)	(62 343)	(168 939)
Total	(163 726)	(481 329)	(139 383)	(397 622)

18. Total gains (losses) from associates

Share in gains (losses) from associates

	III QUARTER 2021	3 QUARTERS 2021	III QUARTER 2020	3 QUARTERS 2020
Krajowy Integrator Płatności SA (*)	693	1 048	-	-
Total	693	1 048	-	-

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

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

	III QUARTER 2021	3 QUARTERS 2021	III QUARTER 2020	3 QUARTERS 2020
INCOME STATEMENT				
Current tax	(272 041)	(602 373)	(234 696)	(785 750)
Current tax charge in the income statement	(271 677)	(595 628)	(234 573)	(780 131)
Adjustments related to the current tax from previous years	-	(5 994)	-	(4 975)
Other taxes (e.g. withholding tax)	(364)	(751)	(123)	(644)
Deferred tax	54 200	39 407	77 607	334 186
Occurrence and reversal of temporary differences	54 200	39 407	77 607	334 186
Tax charge in the consolidated income statement	(217 841)	(562 966)	(157 089)	(451 564)
EQUITY				
Deferred tax	85 813	268 830	(23 321)	(195 938)
Income and costs disclosed in other comprehensive income:				
revaluation of financial instruments - cash flows hedges	54 467	141 696	(823)	(102 262)
fair value revaluation through other comprehensive income	22 752	134 306	(23 747)	(92 902)
Tax on items that are or may be reclassified subsequently to profit or loss	77 219	276 002	(24 570)	(195 164)
Tax charge on items that will never be reclassified to profit or loss	8 594	(7 172)	1 249	(774)
fair value revaluation through other comprehensive income – equity securities	8 594	(7 172)	1 249	(774)
remeasurements the defined benefit liabilities	-	-	-	-
TOTAL CHARGE	(132 028)	(294 136)	(180 410)	(647 502)

20. Earnings per share

Basic earnings per share

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

	III QUARTER 2021	3 QUARTERS 2021	III QUARTER 2020	3 QUARTERS 2020
Net profit	630 780	1 481 208	370 851	916 900
Weighted average number of ordinary shares in the period	262 470 034	262 470 034	262 470 034	262 470 034
Earnings per share (in PLN per share)	2.40	5.64	1.41	3.49

Diluted earnings per share

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

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

	III QUARTER 2021	3 QUARTERS 2021	III QUARTER 2020	3 QUARTERS 2020
Net profit	630 780	1 481 208	370 851	916 900
Weighted average number of ordinary shares in the period	262 470 034	262 470 034	262 470 034	262 470 034
Weighted average number of ordinary shares for the purpose of calculation of diluted earnings per share	262 470 034	262 470 034	262 470 034	262 470 034
Diluted earnings per share (in PLN per share)	2.40	5.64	1.41	3.49

21. Dividends

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

Profit Distribution Resolution defines three Dividend Payment Conditions:

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

In case:

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

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

The Management Board of the Bank on 16 July 2021, pursuant to § 5 (1) of the Profit Distribution Resolution, in connection with the KNF Position and KNF Recommendation, adopted a resolution on the Dividend Payment Conditions. It stated therein that: the Dividend Payment Condition of 75% set in the Profit Distribution Resolution was fulfilled, therefore the

following conditions were not fulfilled: Dividend Payment Condition 50% and Dividend Payment Condition 25%. The above means that: 74.8% of the Bank's net profit for 2020, i.e. the amount of PLN 842 528 809.14 was allocated to dividend. The dividend day was 10 September 2021 and the dividend payment date was 29 September 2021.

22. Cash and balances with Central Bank

CASH AND DUE FROM CENTRAL BANK	30.09.2021	31.12.2020
Cash	3 941 145	4 306 094
Current account at Central Bank	3 405 126	150 198
Deposits	56	-
Gross carrying amount	7 346 327	4 456 292
Impairment allowances	(234)	(13)
Net carrying amount	7 346 093	4 456 279

AMOUNTS DUE TO CENTRAL BANK	30.09.2021	31.12.2020
Term deposits	-	-
Total	-	-

23. Loans and advances to banks

Loans and advances to banks by product type

	30.09.2021	31.12.2020
Current accounts	324 621	273 795
Interbank placements	2 883 095	179 332
Loans and advances	124 133	35 282
Cash collaterals	1 189 862	1 173 087
Reverse repo transactions	348 493	719 015
Cash in transit	247 822	199 051
Total gross amount	5 118 026	2 579 562
Impairment allowances	(1 073)	(1 223)
Total net amount	5 116 953	2 578 339

Loans and advances to banks are measured at amortised cost.

24. Financial assets and liabilities held for trading

Financial assets and liabilities held for trading by product type

	30.09.2021	31.12.2020
FINANCIAL ASSETS		
Debt securities	674 346	1 312 316
Equity securities	3 670	5 393
Total financial assets	678 016	1 317 709
FINANCIAL LIABILITIES		
Debt securities	402 812	742 804
Total financial liabilities	402 812	742 804

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

Debt securities held for trading

	30.09.2021	31.12.2020
FINANCIAL ASSETS		
Debt securities issued by State Treasury	483 790	976 025
T- bills	-	100
T- bonds	483 790	975 925
Debt securities issued by banks	32 135	135 299
Debt securities issued by business entities	157 577	200 992
Debt Securities issued by local governments	844	-
Total financial assets	674 346	1 312 316
FINANCIAL LIABILITIES		
Debt securities issued by State Treasury	402 812	742 804
T- bonds	402 812	742 804
Total financial liabilities	402 812	742 804

Equity securities held for trading

	30.09.2021	31.12.2020
Shares	2 678	5 393
Participation units	992	-
Total	3 670	5 393

25. Derivative financial instruments (held for trading)

Fair value of trading derivatives

30.09.2021	ASSETS	LIABILITIES
Interest rate transactions		
Interest Rate Swaps (IRS)	2 834 502	2 807 917
Forward Rate Agreements (FRA)	194	1 099
Options	16 366	10 314
Other	539	746
Foreign currency and gold transactions		
Cross-Currency Interest Rate Swaps (CIRS)	125 495	113 702
Currency Forward Agreements	245 828	373 570
Currency Swaps (FX-Swap)	299 307	56 402
Options for currency and gold	63 521	48 740
Transactions based on equity securities and stock indexes		
Options	27 341	27 264
Other	-	-
Transactions based on commodities and precious metals		
Options	18 086	16 566
Other	430 581	426 242
Total	4 061 760	3 882 562

Fair value of trading derivatives

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

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

26. Loans and advances to customers

Loans and advances to customers by product type

	30.09.2021			TOTAL
	AMORTISED COST	FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	FAIR VALUE THROUGH PROFIT OR LOSS	
Mortgage loans	78 876 403	132 824	13 281	79 022 508
Current accounts	10 764 010	-	-	10 764 010
Operating loans	12 408 269	-	16 666	12 424 935
Investment loans	23 388 128	131 635	17 700	23 537 463
Cash loans	13 659 035	-	-	13 659 035
Payment cards receivables	1 065 530	-	-	1 065 530
Financial leasing	8 491 891	-	-	8 491 891
Factoring	11 718 569	-	-	11 718 569
Other loans and advances	1 923 658	-	124 787	2 048 445
Reverse repo transactions	1 832 771	-	-	1 832 771
Cash in transit	83 186	-	-	83 186
Gross carrying amount	164 211 450	264 459	172 434	164 648 343
Impairment allowances (*) (**)	(7 837 622)	-	-	(7 837 622)
Carrying amount	156 373 828	264 459	172 434	156 810 721

(*) The impairment allowance for loans and advances to customers measured at fair value through other comprehensive income in the amount of PLN 3 831 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 392 314 thousand.

Loans and advances to customers by product type

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

(*) The impairment allowance for loans and advances to customers measured at fair value through other comprehensive income in the amount of PLN 26 571 thousand is included in the 'Revaluation reserve' item and does not reduce the carrying amount of the loan.

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

Loans and advances to customers by customer type

	30.09.2021					TOTAL
	AMORTISED COST			FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (*)	FAIR VALUE THROUGH PROFIT OR LOSS	
	GROSS CARRYING AMOUNT	IMPAIRMENT ALLOWANCES (**)	CARRYING AMOUNT			
Corporate	79 003 722	(5 007 274)	73 996 448	264 459	27 507	74 288 414
Individuals	82 535 047	(2 708 665)	79 826 382	-	124 788	79 951 170
Budget entities	2 672 681	(121 683)	2 550 998	-	20 139	2 571 137
Loans and advances to customers	164 211 450	(7 837 622)	156 373 828	264 459	172 434	156 810 721

(*) The impairment allowance for loans and advances to customers measured at fair value through other comprehensive income in the amount of PLN 3 831 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 392 314 thousand.

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

(*) The impairment allowance for loans and advances to customers measured at fair value through other comprehensive income in the amount of PLN 26 571 thousand is included in the 'Revaluation reserve' item and does not reduce the carrying amount of the loan.

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

27. Hedge accounting

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

As of 30 September 2021 the Group applies fair value hedge accounting and cash flow hedge accounting:

FVH - fair value hedge accounting:

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

CFH - cash flow hedge accounting:

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

Impact of the IBOR reform on hedge accounting

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

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

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

For LIBOR CHF and LIBOR USD, the established hedging relationships extend beyond the anticipated cessation dates for both benchmarks, i.e. 31 December 2021 for CHF LIBOR and 30 June 2023 for USD LIBOR. The bank expects that these benchmarks will be replaced by new benchmarks: CHF LIBOR by the SARON (Swiss Averaged Rate Overnight) administered by the SIX Swiss Exchange and LIBOR USD by the SOFR (Secured Overnight Financing Rate) administered by the Federal Reserve Bank of New York, but there is uncertainty about the timing and amounts of cash flows for the new rates. Such uncertainty may impact the assessment of: the effectiveness of the relationship and the high probability of the hedged item. For the purposes of these assessments, the Bank assumes that the hedged interest rates benchmarks on which the cash flows of the hedged item and / or the hedging instrument are based will not be altered as a result of IBOR reform.

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

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

The bank has developed an action plan in case of significant changes or the discontinuation of the benchmark. One of the activities of the above-mentioned plan is to introduce appropriate clauses in contracts with counterparties. Regarding loan agreements, after the reporting date the European Commission introduced the SARON benchmarks as replacements for the CHF LIBOR benchmarks. Regarding the hedging instruments, the Bank actively cooperates with counterparties in order to implement rules of conduct in line with the ISDA methodology (ISDA Fallbacks Protocol).

Fair value hedge accounting

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

EURIBOR, LIBOR USD). In the past, hedged risk component accounted for a significant portion of changes in fair value of the hedged item.

Risk management strategy regarding fair value hedge relationships, hedge accounting system and main sources of hedge ineffectiveness were described in consolidated financial statements of Bank Pekao S.A. Group for the year ended 31 December 2020 and have not changed substantially since then.

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

The tables below present interest rate swaps which are used by the Group as instruments hedging interest rate risk in fair value hedge accounting as of 30 September 2021 and 31 December 2020.

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

30.09.2021	FVH IRS BONDS – IRS HEDGING DEBT SECURITIES MEASURED AT		TOTAL
	AMORTISED COST	FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	
HEDGING INSTRUMENTS			
Nominal value	200 000	2 130 782	2 330 782
Carrying amount – assets	-	-	-
Carrying amount – liabilities	12 557	103 813	116 370
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	15 753	48 594	64 347
Amount of hedge ineffectiveness recognized in the income statement 'Result on fair value hedge accounting'	653	2 328	2 981
HEDGED ITEM			
Carrying amount – assets	212 585	2 297 333	2 509 918
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	10 393	142 083	152 476
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	(15 100)	(46 265)	(61 365)
Accumulated amount of the adjustment to the fair value of the hedged item remaining in the balance sheet for those hedged items for which adjustments of the balance sheet item for adjustment to fair value has been discontinued	-	-	-

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

31.12.2020	FVH IRS BONDS – IRS HEDGING DEBT SECURITIES MEASURED AT		TOTAL
	AMORTISED COST	FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	
HEDGING INSTRUMENTS			
Nominal value	200 000	2 359 246	2 559 246
Carrying amount – assets	-	-	-
Carrying amount – liabilities	26 944	171 136	198 080
Balance sheet item in which hedging instrument is reported	Hedging instruments	Hedging instruments	Hedging instruments
Amount of changes in fair value of the hedging instrument in the reporting period used for estimating hedge inefficiency	(11 384)	(34 162)	(45 546)
Amount of hedge ineffectiveness recognized in the income statement 'Result on fair value hedge accounting'	(179)	(668)	(847)
HEDGED ITEM			
Carrying amount – assets	225 471	2 595 811	2 821 282
Accumulated amount of the adjustment to the fair value of the hedged item included in the carrying amount of the hedged item recognized in the balance sheet – assets	25 494	187 793	213 287
Balance sheet item in which hedged item is reported	Hedging instruments	Hedging instruments	Hedging instruments
Change in the value of hedged item used for estimating hedge inefficiency in the reporting period	11 205	33 496	44 701
Accumulated amount of the adjustment to the fair value of the hedged item remaining in the balance sheet for those hedged items for which adjustments of the balance sheet item for adjustment to fair value has been discontinued	-	-	-

Cash flow hedge accounting

The Group applies:

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

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

The Group's risk management strategy regarding cash flow hedge relationships, hedge accounting system and main sources of hedge ineffectiveness were described in consolidated financial statements of Bank Pekao S.A. Group for the year ended on 31 December 2020 and have not changed substantially since then.

Impact of cash flow hedge on balance sheet and financial result

HEDGE IN RELATIONSHIP AS AT 30.09.2021	INTEREST RATE RISK		INTEREST RATE RISK / CURRENCY RISK	
	CFH IRS loans	CFH IRS deposits	CFH CIRS	CFH FX-Swap
HEDGING INSTRUMENTS				
Nominal value	21 825 000	474 000	8 672 561	23 104 246
Carrying amount – assets	295 512	1 222	-	35 235
Carrying amount – liabilities	283 673	19 187	666 869	112 130
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	(782 878)	23 125	14 901	(4 409)
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'	(5 918)	-	1 870	-
Amount transferred from the revaluation reserves due to cash flow hedge accounting to the income statement as a reclassification adjustment	-	-	-	-
Income statement item in which reclassification adjustment is reported	Result on financial assets and liabilities measured at fair value through profit or loss	Result on financial assets and liabilities measured at fair value through profit or loss	Result on financial assets and liabilities measured at fair value through profit or loss	Result on financial assets and liabilities measured at fair value through profit or loss
Amount of change in the fair value of a hypothetical derivative representing the hedged item used for estimating the hedge ineffectiveness in the reporting period	780 436	(23 125)	(18 211)	4 409
Revaluation reserve due to cash flow hedge accounting for relationships for which hedge accounting will be continued after the end of the reporting period	(108 138)	(13 615)	(26 841)	(3 696)
Revaluation reserve due to cash flow hedge accounting for relationships for which hedge accounting is no longer applied	-	-	-	-

Impact of cash flow hedge on balance sheet and financial result

HEDGE IN RELATIONSHIP AS AT 31.12.2020	INTEREST RATE RISK		INTEREST RATE RISK / CURRENCY RISK	
	CFH IRS loans	CFH IRS deposits	CFH CIRS	CFH FX-Swap
HEDGING INSTRUMENTS				
Nominal value	15 692 000	1 155 289	4 706 380	28 146 997
Carrying amount – assets	766 961	6 765	-	5 337
Carrying amount – liabilities	2 085	47 829	561 308	263 657
Balance sheet item in which hedging instrument is reported	Hedging instruments	Hedging instruments	Hedging instruments	Hedging instruments
Change in the fair value of the hedging instrument used for estimating hedge ineffectiveness	475 586	(14 395)	14 303	(1 080)
Gains or losses resulting from hedging, recognized in other comprehensive income	-	-	-	-
Amount of hedge ineffectiveness recognized in the income statement in item 'Result on financial assets and liabilities measured at fair value through profit or loss'	7 742	-	-	4
Amount transferred from the revaluation reserves due to cash flow hedge accounting to the income statement as a reclassification adjustment	-	-	-	-
Income statement item in which reclassification adjustment is reported	Result on financial assets and liabilities measured at fair value through profit or loss	Result on financial assets and liabilities measured at fair value through profit or loss	Result on financial assets and liabilities measured at fair value through profit or loss	Result on financial assets and liabilities measured at fair value through profit or loss
HEDGED ITEM				
Amount of change in the fair value of a hypothetical derivative representing the hedged item used for estimating the hedge ineffectiveness in the reporting period	(466 966)	14 395	(16 776)	1 077
Revaluation reserve due to cash flow hedge accounting for relationships for which hedge accounting will be continued after the end of the reporting period	668 822	(36 727)	(39 329)	713
Revaluation reserve due to cash flow hedge accounting for relationships for which hedge accounting is no longer applied	-	-	-	-

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

	3 QUARTERS 2021	3 QUARTERS 2020
Opening balance	593 479	126 763
INTEREST RATE RISK		
Gains or losses resulting from hedging, recognized in other comprehensive income during the reporting period	(753 848)	526 040
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	8 079	12 181
Part of the loss transferred to the income statement due to the lack of expectation of materialization of the hedged item	-	-
Closing balance	(152 290)	664 984

28. Investment (placement) securities

	30.09.2021	31.12.2020
Debt securities measured at amortised cost	36 710 914	27 261 551
Debt securities measured at fair value through other comprehensive income	28 970 808	42 737 500
Equity instruments designated at fair value through other comprehensive income	464 320	331 690
Equity instruments mandatorily measured at fair value through profit or loss	173 402	160 486
Total	66 319 444	70 491 227

Debt securities measured at amortised cost

	30.09.2021	31.12.2020
Securities issued by State Treasury	21 907 192	19 759 086
T-bills	-	808 649
T-bonds	21 907 192	18 950 437
Securities issued by central banks	19 400	74 678
Securities issued by banks	6 564 331	2 229 516
Securities issued by business entities	5 153 220	2 037 279
Securities issued by local governments	3 066 771	3 160 992
Total	36 710 914	27 261 551
including impairment of assets	(106 249)	(73 566)

Debt securities measured at fair value through other comprehensive income

	30.09.2021	31.12.2020
Securities issued by State Treasury	15 505 663	21 378 138
T-bills	-	1 737 500
T-bonds	15 255 452	19 390 658
Other	250 211	249 980
Securities issued by central banks	999 997	1 000 000
Securities issued by banks	3 546 078	8 942 332
Securities issued by business entities	6 989 514	8 787 943
Securities issued by local governments	1 929 556	2 629 087
Total	28 970 808	42 737 500
including impairment of assets (*)	(49 223)	(63 143)

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

Equity instruments designated at fair value through other comprehensive income

	30.09.2021	31.12.2020
Shares	464 320	331 690
Total	464 320	331 690

Equity instruments mandatorily measured at fair value through profit or loss

	30.09.2021	31.12.2020
Shares	173 402	160 486
Total	173 402	160 486

29. Intangible assets

	30.09.2021	31.12.2020
Intangible assets, including:	1 371 086	1 260 449
research and development expenditures	10 672	10 071
licenses and patents	833 868	760 462
other	133 967	144 155
assets under construction	392 579	345 761
Goodwill (*)	748 552	747 648
Total	2 119 638	2 008 097

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

30. Property, plant and equipment

	30.09.2021	31.12.2020
Non-current assets, including:	1 770 117	1 791 346
land and buildings	1 146 506	1 224 142
machinery and equipment	405 777	384 718
transport vehicles	105 916	73 407
other	111 918	109 079
Non-current assets under construction and prepayments	47 490	128 101
Total	1 817 607	1 919 447

In the period from 1 January to 30 September 2021 the Group acquired 'Property, plant and equipment' amounted PLN 80 082 thousand (including PLN 32 291 thousand 'Property, plant and equipment' arising from the acquisition of part of the activities of Idea Bank S.A.; in 2020 - PLN 352 641 thousand), while the value of property, plant and equipment sold amounted to PLN 12 370 thousand (in 2020 - PLN 5 254 thousand).

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

Contractual commitments

As at 30 September 2021 the contractual commitments for the acquisition of property, plant and equipment amounted to PLN 12 469 thousand, (as at 31 December 2020 - PLN 45 043 thousand).

31. Assets pledged as security for liabilities

TYPE OF TRANSACTION AS AT 30.09.2021	SECURITY	CARRYING VALUE OF ASSETS PLEDGED AS SECURITY FOR LIABILITIES	NOMINAL VALUE OF ASSETS PLEDGED AS SECURITY FOR LIABILITIES	VALUE OF LIABILITIES SUBJECT TO SECURITY
Repo transactions	bonds	19 658	18 603	19 676
Coverage of Fund for protection of guaranteed assets to the benefit of the Bank Guarantee Fund	bonds	705 437	674 000	-
Coverage of payment commitments to the guarantee fund for the Bank Guarantee Fund	bonds	169 353	165 000	147 362
Coverage of payment commitments to the resolution fund for the Bank Guarantee Fund	bonds	330 726	318 400	309 539
Lombard and technical loan	bonds	5 886 994	5 797 643	-
Other loans	bonds	345 985	340 100	280 408
Debt securities issued	loans, bonds	1 738 299	1 742 459	1 245 765
Coverage of the Guarantee Fund for the Settlement of Stock Exchange Transactions to Central Securities Depository (KDPW)	bonds, cash deposits	33 667	33 667	-
Derivatives	bonds	45 018	43 861	31 895
Uncommitted Collateralized Intraday Technical Overdraft Facility Agreement	bonds	40 274	32 430	-

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

32. Amounts due to other banks

Amounts due to other banks by product type

	30.09.2021	31.12.2020
Current accounts	235 593	951 990
Interbank deposits and other liabilities	1 163 322	2 070 855
Loans and advances received	6 050 857	6 305 526
Repo transactions	19 676	589 928
Cash in transit	59 029	32 175
Lease liabilities	144	189
Total	7 528 621	9 950 663

Amounts due to other banks are measured at amortised cost.

33. Amounts due to customers

Amounts due to customers by entity and product type

	30.09.2021	31.12.2020
Amounts due to corporate, including:	64 512 971	59 387 184
current accounts	62 878 690	56 053 193
term deposits and other liabilities	1 634 281	3 333 991
Amounts due to budget entities, including:	16 612 149	12 281 660
current accounts	16 529 970	12 109 189
term deposits and other liabilities	82 179	172 471
Amounts due to individuals, including:	114 308 825	105 776 513
current accounts	102 239 204	88 796 952
term deposits and other liabilities	12 069 621	16 979 561
Repo transactions	-	152 563
Cash in transit	407 509	299 842
Lease liabilities	352 220	406 222
Total	196 193 674	178 303 984

Amounts due to customers are measured at amortised cost.

34. Debt securities issued

Debt securities issued by type

	30.09.2021	31.12.2020
Liabilities from bonds	4 654 429	4 304 447
Certificates of deposit	-	523 305
Mortgage bonds	1 245 765	1 318 956
Total	5 900 194	6 146 708

Amounts debt securities issued are measured at amortised cost.

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

35. Subordinated liabilities

Subordinated liabilities by type

TYPE OF TRANSACTION	NOMINAL AMOUNT	CURRENCY	INTEREST RATE	ISSUE DATE	MATURITY DATE	SPECIAL TERMS	BALANCE SHEET VALUE AS AT 30.09.2021
Subordinated bonds	1 250 000	PLN	variable, WIBOR 6M + margin	30.10.2017	29.10.2027	Call option giving the Bank the right of early redemption within 5 years from the issue date, subject to the approval of the PFSA	1 259 288
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	554 584
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	201 898
Subordinated bonds	350 000	PLN	variable, WIBOR 6M + margin	04.06.2019	04.06.2031	Call option giving the Bank the right of early redemption within 12 years from the issue date, subject to the approval of the PFSA	352 225
Subordinated bonds	400 000	PLN	variable, WIBOR 6M + margin	04.12.2019	04.06.2031	Call option giving the Bank the right of early redemption within 12 years from the issue date, subject to the approval of the PFSA	402 543
TOTAL	2 750 000						2 770 538

TYPE OF TRANSACTION	NOMINAL AMOUNT	CURRENCY	INTEREST RATE	ISSUE DATE	MATURITY DATE	SPECIAL TERMS	BALANCE SHEET VALUE AS AT 31.12.2020
Subordinated bonds	1 250 000	PLN	variable, WIBOR 6M + margin	30.10.2017	29.10.2027	Call option giving the Bank the right of early redemption within 5 years from the issue date, subject to the approval of the PFSA	1 253 762
Subordinated bonds	550 000	PLN	variable, WIBOR 6M + margin	15.10.2018	16.10.2028	Call option giving the Bank the right of early redemption within 5 years from the issue date, subject to the approval of the PFSA	552 116
Subordinated bonds	200 000	PLN	variable, WIBOR 6M + margin	15.10.2018	14.10.2033	Call option giving the Bank the right of early redemption within 10 years from the issue date, subject to the approval of the PFSA	200 876
Subordinated bonds	350 000	PLN	variable, WIBOR 6M + margin	04.06.2019	04.06.2031	Call option giving the Bank the right of early redemption within 12 years from the issue date, subject to the approval of the PFSA	350 524
Subordinated bonds	400 000	PLN	variable, WIBOR 6M + margin	04.12.2019	04.06.2031	Call option giving the Bank the right of early redemption within 12 years from the issue date, subject to the approval of the PFSA	400 598
TOTAL	2 750 000						2 757 876

36. Provisions

Changes in provisions in the reporting period

3 QUARTERS 2021	PROVISIONS FOR LITIGATION AND CLAIMS (*)	RESTRUCTURING PROVISION	PROVISIONS FOR DEFINED BENEFIT PLANS	PROVISIONS FOR UNDRAWN CREDIT FACILITIES AND GUARANTEES ISSUED	OTHER PROVISIONS	TOTAL
Opening balance	178 589	81 077	294 880	383 415	50 743	988 704
Increase due to acquisition of part of Idea Bank S.A. activity	392	-	-	1 608	-	2 000
Provision charges/revaluation	20 624	105 000	16 055	163 052	7 388	312 119
Provision utilization	(22 370)	(134 534)	(22 680)	-	(11 492)	(191 076)
Provision releases	(1 758)	-	-	(203 988)	-	(205 746)
Foreign currency exchange differences	714	-	-	515	-	1 229
Other changes	1 889	-	-	164	-	2 053
Closing balance	178 080	51 543	288 255	344 766	46 639	909 283
Short term	35 547	51 543	14 266	91 568	78	193 002
Long term	142 533	-	273 989	253 198	46 561	716 281

(*) Including the provision for legal risk regarding foreign currency mortgage loans in CHF in the amount of PLN 95 827 thousand and a provision for early repayments of consumer loans in the amount of PLN 14 541 thousand as at 30 September 2021.

2020	PROVISIONS FOR LITIGATION AND CLAIMS (*)	RESTRUCTURING PROVISION	PROVISIONS FOR DEFINED BENEFIT PLANS	PROVISIONS FOR UNDRAWN CREDIT FACILITIES AND GUARANTEES ISSUED	OTHER PROVISIONS	TOTAL
Opening balance	103 933	18 954	290 269	290 902	48 539	752 597
Provision charges/revaluation	107 705	144 430	23 529	240 153	14 005	529 822
Provision utilization	(17 743)	(82 307)	(29 715)	-	(11 714)	(141 479)
Provision releases	(9 744)	-	-	(150 517)	(70)	(160 331)
Foreign currency exchange differences	(164)	-	-	2 877	-	2 713
Other changes	(5 398)	-	10 797	-	(17)	5 382
Closing balance	178 589	81 077	294 880	383 415	50 743	988 704
Short term	32 678	81 077	24 529	52 373	383	191 040
Long term	145 911	-	270 351	331 042	50 360	797 664

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

Provisions for litigation and claims

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

Provisions for litigation and claims also include the part of total provision created for legal risk related to foreign currency mortgage loans in CHF, in part relating to exposures already repaid (fully or partially). Details about the above provisions are presented in Note 7.1.

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

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

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

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

As at 30 September 2021 the provision regarding early repayment of consumer loans made before the judgment of the CJEU (i.e. before 11 September 2019) amounts to PLN 14.5 million (as at 31 December 2020 - PLN 19.7 million) and includes an increase in the provision in the amount of PLN 8.5 million during the three quarters of 2021.

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

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

In addition, with respect to balance sheet exposures as at 30 September 2021, the Group estimated possible future prepayments of these exposures. In accordance with the above, the Group recognized the amount of PLN 12.8 million in 'Other liabilities' (as at 31 December 2020 - PLN 10 million).

Restructuring provision

The Management Board of Bank Pekao S.A. informed in the current report No. 8/2021 that on 3 March 2021, in accordance with the Act of 13 March 2003 on special rules of terminating employment contracts for reasons not attributable to the employees, adopted a resolution on the intended collective redundancies and the start of the consultation procedure for collective redundancies.

The intention of the Bank's Management Board was to terminate employment contracts with up to 1 110 employees and amend terms and conditions of employment with up to 1 250 employees in the period from 24 March 2021 to 30 June 2021.

The Bank estimated all the costs of termination of employment contracts and amendment of terms and conditions of employment the Bank's employees related to the collective redundancies for the amount of PLN 120 million and the restructuring provision in this amount was created in the Bank's accounting books.

Provisions for defined benefits plans

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

Other provisions

Other provisions include in particular provisions for other employee benefits.

37. Contingent commitments

Court cases

As of 30 September 2021 the following court cases for payment are pending with involvement of the Group, that are important in view of the value of the object of litigation:

1) in the group of liabilities (against the Group):

- brought by the receiver for a joint stock company in liquidation bankruptcy – lawsuit for payment of compensation for a damage incurred as a result of the Bank's demanding immediate payment of the amounts due in virtue of payment of the price from the credit receivables transfer agreement and conducting debt enforcement collection of the portion of the price remaining for payment by a court enforcement officer, value of the object of litigation PLN 57 450 130 litigation initiation date – 30 April 2015, in the present factual and legal circumstances the Bank assesses the funds outflow risk as possible,
- brought by a natural person – lawsuit for payment by the Bank of an amount charged by virtue of settlement of financial future or forward transactions, value of the object of litigation PLN 38 916 555.18, litigation initiation date – 2 October 2016, on 6 May 2019 the Regional Court in Warsaw issued a sentence ordering the Bank to pay the amount of PLN 3 392 349.18 and as to the remainder the Court dismissed the suit, the sentence is not legally valid, the Bank and the plaintiff appealed against the judgment. On the 16 December 2020 the Court of Appeal quashed the sentence of the Regional Court in its entirety and remitted the case to that Court. The Bank maintains its current assessment of the risk of outflow of funds and, in terms of the amount awarded by the Regional Court, the Bank assesses the funds outflow risk as probable and in the remaining scope as possible,
- brought by a beneficiary of warranty – lawsuit for payment of a claim by virtue of the warranty issued by the Bank, value of the object of litigation PLN 32 750 000 litigation initiation date – 14 January 2014, in the present factual and legal circumstances the Bank assesses the funds outflow risk as minor,
- brought by a natural person – lawsuit for payment of damages by the Bank resulting from improper conduct of a Group entity – former Pekao S.A. Central Brokerage House, the value of the object of litigation is PLN 30 000 000 - the date of the litigation initiation is 16 May 2019. On 7 February 2020 the Regional Court in Warsaw issued a sentence dismissing the suit in its entirety. On 6 July 2021 the Court of Appeal rejected claimant's appeal. The sentence of the Regional Court of February 7, 2020 dismissing the claim is legally valid and final. Case closed in the third quarter 2021,

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 third quarter 2021 before the court, authority competent for arbitrary proceedings or a body of public administration posed a threat for financial liquidity of the Group.

The Group created provisions for litigations against the Group entities which, according to the legal opinion, are connected with a risk of the funds outflow resulting from the fulfillment of the obligation. The value of the provisions as at 30 September 2021 is PLN 178 080 thousand (PLN 178 589 thousand as at 31 December 2020).

In addition, as at 30 September 2021 the Group assessed the legal risk of foreign currency mortgage loans in CHF and created a provision related to this risk. Details are presented in Note 7.1.

Financial commitments granted

Financial commitments granted by entity

	30.09.2021	31.12.2020
Financial commitments granted to:		
Banks	692 781	551 503
Customers	41 967 047	39 930 464
budget entities	586 287	721 915
Total	43 246 115	41 203 882

Guarantees issued

Guarantees issued by entity

	30.09.2021	31.12.2020
Issued to banks:	1 338 240	1 647 148
guarantees	1 308 726	1 603 269
securities' underwriting guarantees	-	-
confirmed export letters of credit	29 514	43 879
Issued to customers	11 087 682	10 610 484
guarantees	8 281 729	7 443 561
securities' underwriting guarantees	2 663 060	3 013 647
sureties	142 893	153 276
Issued to budget entities:	1 800 663	1 360 653
guarantees	58 767	35 551
securities' underwriting guarantees	1 741 896	1 325 102
Total	14 226 585	13 618 285

Off-balance sheet commitments received

Off-balance sheet commitments received by entity

	30.09.2021	31.12.2020
Financial received from:	1 068 819	563 455
banks	309 221	563 455
customers	759 598	-
budget entities	-	-
Guarantees received from:	21 485 157	20 345 840
banks	10 572 238	8 596 465
customers	9 682 656	10 642 784
budget entities	1 230 263	1 106 591
Total	22 553 976	20 909 295

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

38. Additional information to the consolidated cash flow statement

Cash and cash equivalents

	30.09.2021	30.09.2020
Cash and amounts due from Central Bank	7 346 093	5 898 799
Loans and receivables from banks with maturity up to 3 months	4 950 869	2 346 104
Cash and Cash equivalents presented in the cash flow statement	12 296 962	8 244 903

Restricted availability cash and cash equivalents as at 30 September 2021 amounted to PLN 3 405 126 thousand (PLN 1 763 821 thousand as at 30 September 2020).

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

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

	III QUARTER 2021	3 QUARTERS 2021
Change in balance sheet	(28 832)	(137 203)
Change in business combination	-	1 295 830
Total	(28 832)	1 158 627

Change in financial assets held for trading

	III QUARTER 2021	3 QUARTERS 2021
Change in balance sheet	(192 158)	638 607
Change in business combination	-	65 172
Total	(192 158)	703 779

Change in derivative financial instruments (assets)

	III QUARTER 2021	3 QUARTERS 2021
Change in balance sheet	(495 601)	750 471
Change in business combination	-	9 044
Total	(495 601)	759 515

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

	III QUARTER 2021	3 QUARTERS 2021
Change in balance sheet	(2 183 976)	(14 000 554)
Change in business combination	-	12 060 942
Total	(2 183 976)	(1 939 612)

Change in investment (placement) securities

	III QUARTER 2021	3 QUARTERS 2021
Change in balance sheet	(38 143)	(57 822)
Change in business combination	-	453 168
Total	(38 143)	395 346

Change in other assets

	III QUARTER 2021	3 QUARTERS 2021
Change in balance sheet	(153 542)	(1 214 604)
Change in business combination	-	134 844
Total	(153 542)	(1 079 760)

Change in amounts due to banks

	III QUARTER 2021	3 QUARTERS 2021
Change in balance sheet	(1 237 559)	(2 152 310)
Change in business combination	-	(125 488)
Total	(1 237 559)	(2 277 798)

Change in derivative financial instruments (liabilities)

	III QUARTER 2021	3 QUARTERS 2021
Change in balance sheet	436 849	(734 854)
Change in business combination	-	(164 176)
Total	436 849	(899 030)

Change in amounts due to customers

	III QUARTER 2021	3 QUARTERS 2021
Change in balance sheet	3 761 012	18 026 096
Change in business combination	-	(13 575 553)
Total	3 761 012	4 450 543

Change in provisions

	III QUARTER 2021	3 QUARTERS 2021
Change in balance sheet	1 339	(79 421)
Change in business combination	-	(3 889)
Total	1 339	(83 310)

Change in other liabilities

	III QUARTER 2021	3 QUARTERS 2021
Change in balance sheet	329 415	603 658
Change in business combination	-	(343 798)
Total	329 415	259 860

39. Related party transactions

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

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

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

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

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

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

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

Related party transactions

Related party transactions as at 30 September 2021

NAME OF ENTITY	RECEIVABLES FROM LOANS AND PLACEMENTS	SECURITIES	RECEIVABLES FROM REVALUATION OF DERIVATIVES	OTHER RECEIVABLES	LIABILITIES FROM LOANS AND DEPOSITS	LIABILITIES FROM REVALUATION OF DERIVATIVES	OTHER LIABILITIES
PZU S.A. – the Bank's parent entity	20	-	2 385	4 390	132 031	-	240
Entities of PZU S.A. Group excluding of Bank Pekao S.A. Group entities	34	-	1 538	11 025	273 107	119	910
Subsidiaries of Bank Pekao S.A Group entities		-	-			-	
Krajowy Integrator Płatności S.A.	-	-	-	-	653	-	-
Key management personnel of the Bank Pekao S.A.	1 603	-	-	-	2 088	-	-
Total	1 657	-	3 923	15 415	407 879	119	1 150

Related party transactions as at 31 December 2020

NAME OF ENTITY	RECEIVABLES FROM LOANS AND PLACEMENTS	SECURITIES	RECEIVABLES FROM REVALUATION OF DERIVATIVES	OTHER RECEIVABLES	LIABILITIES FROM LOANS AND DEPOSITS	LIABILITIES FROM REVALUATION OF DERIVATIVES	OTHER LIABILITIES
PZU S.A. – the Bank's parent entity	1	-	911	3 839	87 519	-	2 238
Entities of PZU S.A. Group excluding of Bank Pekao S.A. Group entities	1	-	9 517	12 498	308 929	322	1 109
Key management personnel of the Bank Pekao S.A.	1 640	-	-	-	2 943	-	-
Total	1 642	-	10 428	16 337	399 391	322	3 347

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

NAME OF ENTITY	INTEREST INCOME	INTERES EXPENSE	FEE AND COMMISSION INCOME	FEE AND COMMISSION EXPENSE	POSITIVE VALUATION OF DERIVATIVES AND OTHER INCOME	NEGATIVE VALUATION OF DERIVATIVES AND OTHER EXPENSES
PZU S.A. – the Bank 's parent entity	(1 338)	-	38 246	(614)	886	(414)
Entities of PZU S.A. Group excluding of Bank Pekao S.A. Group entities	(5)	(2)	39 842	(170)	1 103	(17 359)
Subsidiaries of Bank Pekao S.A Group entities						
Krajowy Integrator Płatności S.A.	-	-	154	-	-	-
Key management personnel of the Bank Pekao S.A.	35	-	-	-	-	-
Total	(1 308)	(2)	78 242	(784)	1 989	(17 773)

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

NAME OF ENTITY	INTEREST INCOME	INTERES EXPENSE	FEE AND COMMISSION INCOME	FEE AND COMMISSION EXPENSE	POSITIVE VALUATION OF DERIVATIVES AND OTHER INCOME	NEGATIVE VALUATION OF DERIVATIVES AND OTHER EXPENSES
PZU S.A. – the Bank 's parent entity	(1 198)	(279)	26 629	(379)	236	(3 134)
Entities of PZU S.A. Group excluding of Bank Pekao S.A. Group entities	175	(444)	31 412	(163)	1 658	(11 406)
Key management personnel of the Bank Pekao S.A.	3	(15)	1	-	-	-
Total	(1 020)	(738)	58 042	(542)	1 894	(14 540)

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

NAME OF ENTITY	GRANTED		RECEIVED	
	FINANCIAL	GUARANTEES	FINANCIAL	GUARANTEE
PZU S.A. – the Bank's parent entity	2 710	107 078	699 958	532 784
Entities of PZU S.A. Group excluding of Bank Pekao S.A. Group entities	7 072	102 172	-	-
Key management personnel of the Bank Pekao S.A.	204	-	-	-
Total	9 986	209 250	699 958	532 784

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

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

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

	VALUE OF BENEFITS	
	3 QUARTERS 2021	3 QUARTERS 2020
Management Board of the Bank		
Short-term employee benefits (*)	9 082	8 320
Post-employment benefits	492	242
Long-term benefits (**)	716	675
Share-based payments (***)	3 477	1 930
Total	13 767	11 167
Supervisory Board of the Bank		
Short-term employee benefits (*)	935	853
Total	935	853

(*) Short-term employee benefits include: base salary, bonuses and other benefits due in next 12 months from the date of the balance sheet.

(**) The item 'Other long-term benefit' includes: provisions for deferred bonus payments.

(***) The value of share-based payments is a part of Personnel Expenses, recognized according to IFRS 2 during the reporting period in the income statement, representing the settlement of fair value of share options and shares, including phantom shares, granted to the Members of the Bank's Management Board.

The Bank's Management Board and Supervisory Board Members did not receive any remuneration from subsidiaries and associates in the period from 1 January to 30 September 2021 and in the period from 1 January to 30 September 2020.

Remuneration expenses of Supervisory Boards and Management Boards of subsidiaries

	VALUE OF BENEFITS	
	3 QUARTERS 2021	3 QUARTERS 2020
Companies' Management Boards		
Short-term employee benefits	10 394	10 124
Post-employment benefits	1 168	1 138
Long-term benefits	1 033	1 558
Paid termination benefits	156	395
Total	12 751	13 215
Companies' Supervisory Boards		
Short-term employee benefits	797	508
Total	797	508

40. Subsequent events

Significant subsequent events are presented in the Note 8.9 'Subsequent events' of the Report on the activities of Bank Pekao S.A. Group for the third quarter of 2021.

03.11.2021 Date	Leszek Skiba Name/Surname	President of the Management Board Position/Function	Signature
03.11.2021 Date	Jarosław Fuchs Name/Surname	Vice President of the Management Board Position/Function	Signature
03.11.2021 Date	Marcin Gadomski Name/Surname	Vice President of the Management Board Position/Function	Signature
03.11.2021 Date	Tomasz Kubiak Name/Surname	Vice President of the Management Board Position/Function	Signature
03.11.2021 Date	Jerzy Kwieciński Name/Surname	Vice President of the Management Board Position/Function	Signature
03.11.2021 Date	Paweł Strączyński Name/Surname	Vice President of the Management Board Position/Function	Signature
03.11.2021 Date	Błażej Szczecki Name/Surname	Vice President of the Management Board Position/Function	Signature
03.11.2021 Date	Wojciech Werochowski Name/Surname	Vice President of the Management Board Position/Function	Signature
03.11.2021 Date	Magdalena Zmitrowicz Name/Surname	Vice President of the Management Board Position/Function	Signature

Glossary

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

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

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

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

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

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

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

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

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

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

EAD – Exposure at Default.

EL – Expected Loss.

Life-time ECL – Lifetime Expected Credit Loss.

CCF – Credit Conversion Factor.

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

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

FVH – fair value hedge accounting.

CFH – cash flow hedge accounting.