INTERIM CONSOLIDATED REPORT

FOR THE PERIOD OF 9 MONTHS ENDED 30 SEPTEMBER 2020

BNP Paribas Bank Polska S.A. Capital Group

BNP PARIBAS

TABLE OF CONTENTS

SELECTED FINANCIAL DATA

Selected consolidated financial data	in PLN '000		in EUR '000	
Statement of profit or loss	**30.09.2020 (YTD)**	30.09.2019 (YTD)	**30.09.2020 (YTD)**	30.09.2019 (YTD)
Net interest income	**2,312,684**	2,363,447	**520,640**	548,542
Net fee and commission income	**658,295**	612,610	**148,198**	142,183
Gross profit	**845,865**	690,498	**190,424**	160,260
Net profit	**565,629**	493,423	**127,337**	114,520
Total comprehensive income	**654,649**	485,667	**147,377**	112,720
Total net cash flows	**(1,654,661)**	(513,143)	**(372,504)**	(119,097)
Ratios	**30.09.2020**	30.09.2019	**30.09.2020**	30.09.2019
Number of shares (items)	**147,418,918**	147,418,918	**147,418,918**	147,418,918
Earnings per share	**3.84**	3.35	**0.86**	0.78
Statement of financial position	**30.09.2020**	31.12.2019	**30.09.2020**	31.12.2019
Total assets	**121,574,248**	109,954,142	**26,856,554**	25,819,923
Loans and advances to customers measured at amortised cost	**73,961,882**	71,836,643	**16,338,668**	16,869,002
Loans and advances to customers measured at fair value through profit or loss	**1,640,581**	1,974,396	**362,415**	463,636
Total liabilities	**109,753,961**	98,794,759	**24,245,374**	23,199,427
Liabilities due to customers	**94,880,015**	86,134,984	**20,959,622**	20,226,602
Share capital	**147,419**	147,419	**32,566**	34,618
Total equity	**11,820,287**	11,159,383	**2,611,179**	2,620,496
Capital adequacy	**30.09.2020**	31.12.2019	**30.09.2020**	31.12.2019
Total own funds	**13,243,898**	12,586,528	**2,925,664**	2,955,625
Total risk exposure	**83,885,088**	83,762,992	**18,530,770**	19,669,600
Total capital ratio	**15,79%**	15.03%	**15,79%**	15.03%
Tier 1 capital ratio	**13,44%**	12.78%	**13,44%**	12.78%

Selected separate financial data	in PLN '000		in EUR '000	
Statement of profit or loss	**30.09.2020 (YTD)**	30.09.2019 (YTD)	**30.09.2020 (YTD)**	30.09.2019 (YTD)
Net interest income	**2,268,186**	2,326,720	**510,623**	540,018
Net fee and commission income	**629,516**	587,800	**141,719**	136,425
Gross profit	**835,631**	720,547	**188,120**	167,235
Net profit	**559,134**	521,406	**125,874**	121,015
Total comprehensive income	**648,154**	513,627	**145,915**	119,210
Total net cash flows	**(1,733,702)**	(498,851)	**(390,298)**	(115,780)
Ratios	**30.09.2020**	30.09.2019	**30.09.2020**	30.09.2019
Number of shares (items)	**147,418,918**	147,418,918	**147,418,918**	147,418,918
Earnings per share	3.78	3.54	**0.85**	0.82
Statement of financial position	**30.09.2020**	31.12.2019	**30.09.2020**	31.12.2019
Total assets	**117,930,857**	106,592,130	**26,051,705**	25,030,440
Loans and advances to customers measured at amortised cost	**70,492,040**	68,651,562	**15,572,157**	16,121,067
Loans and advances to customers measured at fair value through profit or loss	**1,640,581**	1,974,396	**362,415**	463,636
Total liabilities	**106,092,084**	95,407,828	**23,436,442**	22,404,093
Liabilities due to customers	**96,518,630**	88,445,327	**21,321,602**	20,769,127
Share capital	**147,419**	147,419	**32,566**	34,618
Total equity	**11,838,773**	11,184,302	**2,615,263**	2,626,348
CAPITAL ADEQUACY	**30.09.2020**	31.12.2019	**30.09.2020**	31.12.2019
Total own funds	**13,284,508**	12,651,988	**2,934,636**	2,970,996
Total risk exposure	**80,617,789**	80,852,563	**17,809,002**	18,986,160
Total capital ratio	**16,48%**	15.65%	**16,48%**	15.65%
Tier 1 capital ratio	**14,03%**	13.32%	**14,03%**	13.32%

For purposes of data translation into EUR, the following exchange rates are used by the Group:

For items of the statement of financial position, rates of the National Bank of Poland are applied:
- as at 30.09.2020 - EUR 1 = PLN 4.5268
- as at 31.12.2019 - EUR 1 = PLN 4.2585

For items of the statement of profit or loss and the statement of cash flows, the EUR exchange rate is calculated as the arithmetic average of the rates published by the National Bank of Poland as at the last day of each month in the period:
- for the period from 1.01.2020 to 30.09.2020 - EUR 1 = PLN 4.4420
- for the period from 1.01.2019 to 31.09.2019 - EUR 1 = PLN 4.3086

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

	Note	3Q 2020 from 01.07.2020 to 30.09.2020	3 quarters of 2020 from 01.01.2020 to 30.09.2020	3Q 2019 from 01.07.2019 to 30.09.2019	3 quarters of 2019 from 01.01.2019 to 30.09.2019
Interest income	8	832,568	2,779,436	1,053,372	3,147,967
Interest income calculated with the use of effective interest rate method		783,564	2,625,890	999,842	2,981,393
Interest income on financial instruments measured at amortized cost		734,911	2,480,277	948,498	2,813,025
Interest income on financial instruments measured at fair value through other comprehensive income		48,653	145,613	51,344	168,368
Income of a similar nature to interest on instruments measured at fair value through profit or loss		49,004	153,546	53,530	166,574
Interest expense	8	(93,657)	(466,752)	(255,064)	(784,520)
Net interest income		**738,911**	**2,312,684**	**798,308**	**2,363,447**
Fee and commission income	9	297,129	806,171	259,542	767,949
Fee and commission expenses	9	(45,893)	(147,876)	(54,019)	(155,339)
Net fee and commission income		**251,236**	**658,295**	**205,523**	**612,610**
Dividend income		5,811	8,250	4,451	6,007
Net trading income	10	157,593	534,398	175,696	501,728
Result on investment activities	11	11,015	28,885	(20,533)	(40,531)
Result on fair value hedge accounting	22	(2,992)	(12,689)	(3,559)	(4,642)
Net impairment losses on financial assets and contingent liabilities		(94,733)	(492,966)	(135,315)	(340,849)
Result on provisions for legal risk related to foreign currency loans		(39,914)	(66,476)	(174)	(934)
General administrative expenses	13	(479,852)	(1,610,279)	(585,234)	(1,818,134)
Depreciation and amortization	14	(90,982)	(270,534)	(131,016)	(352,243)
Other operating income	15	43,356	238,823	30,696	139,547
Other operating expenses	16	(83,255)	(248,077)	(99,861)	(164,724)
Operating result		**416,193**	**1,080,313**	**238,982**	**901,282**
Tax on financial institutions		(83,625)	(234,448)	(69,457)	(210,784)
Profit before tax		**332,568**	**845,865**	**169,525**	**690,498**
Income tax expenses	17	(101,066)	(280,236)	(54,763)	(197,075)
Net profit		**231,502**	**565,629**	**114,762**	**493,423**
attributable to equity holders of the Group		231,502	565,629	114,762	493,423
Earnings (loss) per share (in PLN per one share)					
Basic		1.57	3.84	0.78	3.35
Diluted		1.56	3.83	0.78	3.35

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	3Q 2020 from 01.07.2020 to 30.09.2020	3 quarters of 2020 from 01.01.2020 to 30.09.2020	3Q 2019 from 01.07.2019 to 30.09.2019	3 quarters of 2019 from 01.01.2019 to 30.09.2019
Net profit for the period	**231,502**	**565,629**	**114,762**	**493,423**
Other comprehensive income				
Items that will be reclassified subsequently to profit or loss upon fulfilment of certain conditions	**27,283**	**90,113**	**8,638**	**(7,090)**
Measurement of financial assets measured through other comprehensive income	33,683	111,251	10,664	(8,759)
Deferred income tax	(6,400)	(21,138)	(2,026)	1,669
Items that will not be reclassified to profit or loss	**(311)**	**(1,093)**	**(978)**	**(666)**
Actuary valuation of employee benefits	(383)	(1,349)	(1,208)	(822)
Deferred income tax	72	256	230	156
Other comprehensive income (net)	**26,972**	**89,020**	**7,660**	**(7,756)**
Total comprehensive income for the period	**258,474**	**654,649**	**122,422**	**485,667**
attributable to equity holders of the Group	258,474	654,649	122,422	485,667

BNP Paribas Bank Polska S.A. Capital Group in the three quarters of 2020 generated a net profit of PLN 565,629 thousand, which was PLN 72,206 thousand (14.6%) more than achieved in the corresponding period of 2019. The result on the Group's banking operations in the three quarters of 2020 amounted to PLN 3,520,568 thousand and was higher YoY by PLN 107,126 thousand, i.e. by 3.1%.

The most important events affecting the increase in the level of net profit generated in the three quarters of 2020 compared to the result generated in the three quarters of 2019, were the absence of costs of integrating the Bank and the core business of Raiffeisen Bank Polska S.A. in the current year ("RBPL", "Core RBPL") and the positive effects of synergy and cost efficiency activities achieved especially in the second and third quarter of 2020. The integration costs incurred in the three quarters of 2019 amounted to PLN 266,172 thousand compared to the positive amount (cost reduction) of PLN 610 thousand in three quarters of 2020.

It is estimated that without integration costs, the net profit for the three quarters of 2020 would amount to PLN 565,135 thousand and would be lower YoY by PLN 143,888 thousand (i.e. by 20.3%).

The most important event negatively affecting the level of net profit in the three quarters of 2020 was the coronavirus pandemic that began in Poland in March 2020 and radically changed the economic situation of the country and the conditions of the Group's and its customers' operations. The factors that had the most significant impact on the Group's financial results include:

- lowering the level of interest rates made by the Monetary Policy Council with decisions of 17 March, 8 April and 28 May 2020 (the reference rate has been lowered from 1.5% to 0.1%), being a significant external factor affecting the level of net interest income. Net interest income for 9 months of this year. was PLN 50.8 million (-2.1%) lower than the level generated in the corresponding period of the previous year. In addition, changes in the yield curve, as a result of the reduction in interest rates, had a negative impact on the result on the loan portfolio valued at fair value through the profit and loss account, i.e. the result on the Group's investment activities;
- disturbances in economic activity caused by sanitary restrictions introduced in Poland at the end of the first quarter and kept in force in the second quarter of 2020, had a negative impact on the economic situation and as a consequence, led to a significant increase in the cost of risk due to additional write-offs resulting from changes in macroeconomic scenarios as a result of COVID-19. The result of impairment losses on financial assets and provisions for contingent liabilities in the three quarters of 2020 was negative and amounted to PLN 492,966 thousand, compared to PLN 340,849 thousand in the same period of the previous year

(increase of PLN 152,117 thousand, ie by 44.6%). The Group estimates that the negative impact of COVID-19 on the cost of risk in the three quarters of 2020 amounted to PLN 175,478 thousand. The observed economic recovery and aid programs had a positive impact on the cost of credit risk in the third quarter of this year alone, but the growing uncertainty about the further development of the COVID-19 pandemic and the re-freezing of the economy currently makes it impossible to estimate its impact on the results of the entire 2020;

- disturbances in the activity and changes in the current habits and behavior of the Group's customers, despite the adaptation measures taken, may affect the results of commissions and fees and commercial activities. The uncertainty concerning the scale and durability of these changes means that their impact on the results of 2020 is impossible to estimate at present.

The following factors additionally affected the comparability of results achieved in the analysed periods:

- including in the results for the three quarters of 2020 the provisions for legal risk related to foreign currency loans in the amount of PLN 66,476 thousand, as compared to PLN 943 thousand in the three quarters of the previous year,
- the Group incurred higher costs for the Bank Guarantee Fund, resulting from an increase in the level of contributions to the restructuring fund and the bank guarantee fund in 2020 compared to 2019. In the three quarters of 2020, the total BGF costs incurred by the Group amounted to PLN 191,436 thousand and were by PLN 37,401 thousand (i.e. by 24.3%) higher than the costs incurred in the three quarters of 2019.
- creation of PLN 26,626 thousand provision for the penalty imposed on the Bank by the Office of Competition and Consumer Protection (UOKiK) with reference to prohibited provisions in loan agreements defining the rules of determining the amount of currency spreads,
- positive result on sales of debt instruments measured at fair value through profit or loss, realized mainly in the first and second quarter of this year. These transactions allowed to increase the result on investment activity in the three quarters of 2020 by the total amount of PLN 74,425 thousand (compared to PLN 630 thousand in the corresponding period of the previous year),
- positive result on equity instruments measured at fair value through profit and loss account (mainly shares in BIK, KIR, Mastercard and VISA Int. infrastructure companies), which amounted to PLN 73,611 thousand in three quarters of 2020 (compared to PLN 13,774 thousand in the corresponding period of the previous year), presented under the result on trading activities,
- recognition of the sale of Kasprzaka real estate in result of other income/operating costs in the gross amount of PLN 43,564 thousand,
- transaction of sale of the organized part of the Bank's enterprise dedicated to factoring activity for BGŻ BNP Paribas Faktoring Sp. z o.o. (currently BNP Paribas Faktoring Sp. z o.o.) executed on 28 June 2019 and the recognition of PLN 42,435 thousand in the Group's gross financial result in three quarters of 2019.

The Group's total income in the three quarters of 2020 was PLN 168,982 thousand (i.e. 34.8%) higher than in the same period last year. The factors positively affecting their level of total income were an increase in valuation of financial assets valued at fair value through other comprehensive income (by PLN 120,010 thousand) and an increase in the net profit generated (by PLN 72,206 thousand).

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS	Note	30 September 2020	31 December 2019
Cash and balances at Central Bank	19	2,923,598	4,658,171
Amounts due from banks	20	661,528	679,308
Derivative financial instruments	21	1,447,087	800,886
Adjustment of fair value of hedging item	22	578,742	228,120
Loans and advances to customers measured at amortised cost	23	73,961,882	71,836,643
Loans and advances to customers measured at fair value through profit or loss	24	1,640,581	1,974,396
Securities measured at amortised cost	25	21,832,298	17,916,645
Financial instruments measured at fair value through profit or loss	26	363,874	241,754
Securities measured at fair value through other comprehensive income	27	14,707,256	7,953,358
Investment properties		56,577	56,577
Intangible assets	28	552,575	519,945
Property, plant and equipment	29	1,123,993	1,226,746
Deferred tax assets		871,098	976,748
Current tax assets		42,816	-
Other assets	31	810,344	884,845
Total assets		**121,574,248**	**109,954,142**

The Group's total balance sheet as of 30 September 2020 amounted to PLN 121,574,248 thousand and was higher by PLN 11,620,106 thousand, i.e. by 10.6%, compared to the end of 2019.

The most important change in the structure of the Group's assets as compared to the end of 2019 related to an increase in the share of the securities portfolio (+6.6 p.p.) with a simultaneous decrease in the share of the loan portfolio (sum of portfolios measured at amortized cost and at fair value), which decreased by 4.9 p.p. This trend is a result of a drop in demand for credit from companies caused by the volatile economic situation and uncertainty about the further development of the COVID-19 pandemic.

The asset structure is dominated by loans and advances to customers (total portfolios measured at amortized cost and fair value), which represented 62.2% of all assets at the end of September 2020 compared to 67.1% at the end of 2019. The increase in net loans and advances amounted to PLN 1,791,424 thousand (+2.4%) and concerned the portfolio of individual clients (+9.7%), while the value of the portfolio of institutional clients decreased (-2.2%). The increase resulted mainly from increase in mortgages (+16.9%).

The second largest asset item were securities, which accounted for 30.4% of the balance sheet total at the end of September 2020 (at the end of 2019: 23.7%). In 2020, their value increased by PLN 10,791,671 thousand, i.e. by 41.3%, mainly as a result of an increase in the portfolio of NBP money bills, bonds issued by domestic banks and bonds issued by other financial institutions (including BGK and PFR as part of the anti-crisis programs).

At the same time, the share of cash and funds in the Central Bank decreased from 4.2% to 2.4% (down by PLN 1,734,573 thousand, i.e. by 37.2%).

LIABILITIES	Note	30 September 2020	31 December 2019
Amounts due to the Central Bank	32	106,994	-
Amounts due to banks	33	6,625,208	4,485,264
Derivative financial instruments	21	1,344,080	815,637
Adjustment of fair value of hedging and hedged item	22	585,208	224,218
Amounts due to customers	34	94,880,015	86,134,984
Debt securities issued	35	1,504,164	2,179,052
Subordinated liabilities	36	1,975,455	1,882,064
Lease liabilities	30	629,323	602,192
Other liabilities	37	1,500,465	1,893,414
Current tax liabilities		8,410	8,535
Deferred tax liability		53,714	38,338
Provisions	38	540,925	531,061
Total liabilities		**109,753,961**	**98,794,759**
EQUITY			
Share capital		147,419	147,419
Supplementary capital		9,110,976	9,110,976
Other reserve capital		2,207,770	1,572,757
Revaluation reserve		214,271	125,251
Retained earnings		139,851	202,980
retained profit		(425,778)	(411,714)
net profit for the period		565,629	614,694
Total equity		**11,820,287**	**11,159,383**
Total liabilities and equity		**121,574,248**	**109,954,142**

As of 30 September 2020, the total value of the Group's liabilities amounted to PLN 109,753,961 thousand and has increased by PLN 10,959,202 thousand, i.e. 11.1% since the end of 2019. The share of liabilities in the Group's total liabilities and equity amounted in the analysed period to 90.3% compared to 89.9% at the end of 2019.

The structure of liabilities did not change significantly compared to the end of 2019. The most significant was the increase in the share of amounts due to banks with a simultaneous slight decrease in the share of amounts due to customers and liabilities from debt securities issued.

The structure of liabilities is dominated by amounts due to customers. Their share at the end of September 2020 amounted to 86.4% and decreased in comparison to the end of 2019 by 0.7 p.p. The volume of those liabilities increased by PLN 8,745,031 thousand (10.2%) compared to December 2019 and amounted to PLN 94,880,015 thousand. This increase took place despite the reduction of NBP interest rates almost to zero and consequential significant drop in market rates and interest rates on bank deposits.

The share of total liabilities decreased by 0.8 p.p. to 1.4%, as a result of debt securities issued. Their value decreased by PLN 674,888 thousand (by 31.0%) compared to the end of 2019 and amounted to PLN 1,504,164 thousand. The reason for the decrease was the start of depreciation of the securitization transaction from January 2020.

The share of amounts due to banks at the end of September 2020 amounted to 6.0% and was higher by 1.5 p.p. compared to the end of 2019. The value of those liabilities increased by PLN 2,139,944 thousand (47.7%) to PLN 6,625,208 thousand and mainly concerned interbank deposits and other liabilities (repo transactions).

The increase was also observed in the share of derivative financial instruments (by 0.4 p.p.) and fair value adjustments of hedged and hedging items (by 0.3 p.p.). These shares remain marginal (1.2% and 0.5% respectively).

Equity as of 30 September 2020 amounted to PLN 11,820,287 thousand and increased in comparison to 31 December 2019 by PLN 660,904 thousand (by 5.9%) mainly due to including the entire net profit for 2019 into other reserve capitals. The share of total equity in the Group's total liabilities and equity amounted at the end of September 2020 9.7% (compared to 10.1% at the end of last year).

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Supplementary capital	Other reserve capital	Revaluation reserve	Retained earnings: Retained profit	Retained earnings: Net profit for the period	Total
Balance as at 1 January 2020 (data approved)	**147,419**	**9,110,976**	**1,572,757**	**125,251**	**(411,714)**	**614,694**	**11,159,383**
Total comprehensive income for the period	**-**	**-**	**-**	**89,020**	**-**	**565,629**	**654,649**
Net profit for the period	-	-	-	-	-	565,629	565,629
Other comprehensive income for the period	-	-	-	89,020	-	-	89,020
Distribution of retained earnings	**-**	**-**	**628,696**	**-**	**(14,003)**	**(614,694)**	**-**
Distribution of retained earnings intended for capital	-	-	628,696	-	(14,003)	(614,694)	-
Managerial options*	**-**	**-**	**6,316**	**-**	**-**	**-**	**6,316**
Other adjustments	**-**	**-**	**-**	**-**	**(61)**	**-**	**(61)**
Balance as at 30 September 2020	**147,419**	**9,110,976**	**2,207,770**	**214,271**	**(425,778)**	**565,629**	**11,820,287**

* the managerial option program is described in detail in Note 40

	Share capital	Supplementary capital	Other reserve capital	Revaluation reserve	Retained earnings: Retained profit	Retained earnings: Net profit for the period	Total
Balance as at 1 January 2019 (data approved)	**147,419**	**9,111,033**	**1,208,018**	**141,179**	**(408,214)**	**360,378**	**10,559,813**
Total comprehensive income for the period	-	-	-	**(15,928)**	-	**614,694**	**598,766**
Net profit for the period	-	-	-	-	-	614,694	614,694
Other comprehensive income for the period	-	-	-	(15,928)	-	-	(15,928)
Distribution of retained earnings	-	-	**364,739**	-	**(4,361)**	**(360,378)**	-
Distribution of retained earnings intended for capital	-	-	364,739	-	(4,361)	(360,378)	-
Share issue	-	**(57)**	-	-	-	-	**(57)**
Costs of share issue	-	(57)	-	-	-	-	(57)
Other (subsidiaries' equity)	-	-	-	-	**861**	-	**861**
Balance as at 31 December 2019	**147,419**	**9,110,976**	**1,572,757**	**125,251**	**(411,714)**	**614,694**	**11,159,383**

	Share capital	Supplementary capital	Other reserve capital	Revaluation reserve	Retained earnings: Retained profit	Retained earnings: Net profit for the period	Total
Balance as at 1 January 2019 (data approved)	**147,419**	**9,111,033**	**1,208,018**	**141,179**	**(408,214)**	**360,378**	**10,559,813**
Total comprehensive income for the period	-	-	-	**(7,756)**	-	**493,423**	**485,667**
Net profit for the period	-	-	-	-	-	493,423	493,423
Other comprehensive income for the period	-	-	-	(7,756)	-	-	(7,756)
Distribution of retained earnings	-	-	**364,739**	-	**(4,361)**	**(360,378)**	-
Distribution of retained earnings intended for capital	-	-	364,739		(4,361)	(360,378)	-
Share issue	-	**(57)**	-	-	-	-	**(57)**
Costs of share issue	-	(57)	-	-	-	-	(57)
Other (subsidiaries' equity)	-	-	-	-	**1,253**	-	**1,253**
Balance as at 30 September 2019	**147,419**	**9,110,976**	**1,572,757**	**133,423**	**(411,322)**	**493,423**	**11,046,676**

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

CASH FLOWS FROM OPERATING ACTIVITIES:	Note	3Q 2020 from 01.01.2020 to 30.09.2020	3Q 2019 from 01.01.2019 to 30.09.2019
Net profit (loss)		**565,629**	**493,423**
Adjustments for:		**8,890,277**	**(2,949,004)**
Income tax expenses		280,236	197,075
Depreciation and amortization		270,534	352,243
Dividend income		(8,250)	(6,007)
Interest income		(2,779,436)	(3,147,967)
Interest expense		466,752	784,520
Change in provisions		(177,862)	20,225
Change in amounts due from banks		(20,581)	23,521
Change in assets due to derivative financial instruments		(996,823)	(380,041)
Change in loans and advances to customers measured at amortised cost		(1,655,468)	252,894
Change in loans and advances to customers measured at fair value through profit or loss		333,815	346,444
Change in amounts due to banks		2,126,729	(693,141)
Change in liabilities due to derivative financial instruments		889,433	317,359
Change in amounts due to customers		8,855,512	(3,834,670)
Change in other assets and receivables due to current income tax		98,524	(150,687)
Change in other liabilities and provisions due to deferred tax		(391,004)	450,260
Other adjustments	41	(58,359)	274,488
Interest received		2,151,830	2,906,647
Interest paid		(499,951)	(673,829)
Lease payments for short-term leases not included in the lease liability measurement		4,647	11,662
Net cash flows from operating activities		**9,455,906**	**(2,455,581)**

CASH FLOWS FROM INVESTING ACTIVITIES:	Note	3Q 2020 from 01.01.2020 to 30.09.2020	3Q 2019 from 01.01.2019 to 30.09.2019
Investing activities inflows		**43,500,450**	**10,183,598**
Sale of debt securities		43,369,698	10,166,383
Sale of intangible assets and property, plant and equipment		122,447	11,208
Dividends received and other investment inflows		8,305	6,007
Investing activities outflows		**(53,995,409)**	**(7,857,896)**
Purchase of debt securities		(53,778,904)	(7,443,119)
Purchase of intangible assets and property, plant and equipment		(216,505)	(414,777)
Net cash flows from investing activities		**(10,494,959)**	**2,325,702**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Financing activities inflows		**1,039,585**	**-**
Long-term loans received		1,039,585	-
Financing activities outflows		**(1,655,193)**	**(383,264)**
Repayment of long-term loans and advances received		(886,950)	(388,235)
Repayment of lease liability		(93,370)	4,971
Redemption of debt securities		(674 873)	-
Net cash flows from financing activities		**(615 608)**	**(383,264)**
TOTAL NET CASH AND CASH EQUIVALENTS		**(1,654,661)**	**(513,143)**
Cash and cash equivalents at the beginning of the period		**4,833,209**	**3,425,453**
Cash and cash equivalents at the end of the period, including:	39	**3,178,548**	**2,912,310**
effect of exchange rate fluctuations on cash and cash equivalents		34,623	1,667

EXPLANATORY NOTES TO THE INTERIM CONDESTED CONSOLIDATED FINANCIAL STATEMENTS

1. IDENTIFICATION DATA

BNP Paribas Bank Polska S.A. („Bank” or „BNP Paribas”) is the parent company in the Capital Group OF BNP Paribas Bank Polska S.A. („Group”).

The registered office of the Bank is located at Kasprzaka 10/16 in Warsaw and is registered in Poland, by the District Court for the capital city of Warsaw, 12th Commercial Division of the National Court Register, under number KRS 0000011571. The duration of the parent and the Group companies is unlimited.

2. DESCRIPTION OF THE CAPITAL GROUP

BNP Paribas operates within the BNP Paribas Capital Group with its registered office in Paris.

As at 30 September 2020, the Group comprised BNP Paribas Bank Polska S.A. as the parent and its subsidiaries:

1. BANKOWY FUNDUSZ NIERUCHOMOŚCIOWY ACTUS SP. Z O.O. („ACTUS”).
2. BNP PARIBAS TOWARZYSTWO FUNDUSZY INWESTYCYJNYCH S.A. („TFI”).
3. BNP PARIBAS LEASING SERVICES SP. Z O.O. („LEASING”).
4. BNP PARIBAS GROUP SERVICE CENTER S.A. („GSC”).
5. CAMPUS LESZNO SP. Z O.O.
6. BNP PARIBAS SOLUTIONS SPÓŁKA Z O.O.
7. BGZ POLAND ABS1 DAC („SPV”).

The Bank does not have any capital involvement in BGŻ Poland ABS1 DAC (SPV). The company is controlled by the Bank in connection with the control conditions contained in IFRS 10.

In accordance with the principles of International Financial Reporting Standards, the interim condensed consolidated financial statements cover all subsidiaries as at 30 September 2020.

3. ACCOUNTING PRINCIPLES APPLIED FOR THE PURPOSE OF PREPARATION OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The interim condensed consolidated financial statements for the third quarter ended 30 September 2020 were prepared in accordance with the requirements of International Financial Reporting Standards, as adopted by the European Union (“EU IFRS”).

The accounting principles applied in the third quarter of 2020 do not differ from the principles applicable in 2019, which are described in detail in the Consolidated financial statements of Bank BNP Paribas S.A. Capital Group for the year ended 31 December 2019.

The interim condensed consolidated financial statements do not include all information and disclosures required in annual consolidated financial statements, and, therefore, should be read in conjunction with the Consolidated financial statements of BNP Paribas Bank Polska S.A. Capital Group for the year ended 31 December 2019.

The present interim condensed consolidated financial statements include the requirements of all International Accounting Standards approved by the European Union ("IAS"), International Financial Reporting Standards ("EU IFRS") and interpretations related to these standards, except for the standards and interpretations listed below that are awaiting approval by the European Union or have been approved, but entered into or will enter into force only after the balance sheet date.

In the period covered by the interim condensed consolidated financial statements, the Group did not use the option of earlier application of standards and interpretations, which were approved by the European Union, but will enter into force only after the balance sheet date.

3.1. New standards and amendments to the existing standards published by IASB but not yet effective

- **IFRS 17 "Insurance Contracts",** was published by the International Accounting Standards Board on 18 May 2017 and is effective for annual reporting periods beginning on or after January 1, 2023. IFRS 17 defines new approach to the recognition, measurement, presentation and disclosure of insurance contracts. The main purpose of IFRS 17 is to ensure the transparency and comparability of insurers' financial statements. For this purpose, an entity will disclose a range of quantitative and qualitative information that enables users of its financial statements to evaluate the effect of insurance contracts on the entity's financial condition, financial performance and cash flows. IFRS 17 introduces a number of significant changes in relation to the existing requirements of IFRS 4. They concern, i.a.: levels of aggregation at which calculations are performed, methods of valuation of insurance liabilities, recognition of profit or loss over time, recognition of reinsurance, separation of the investment component, methods of presentation of individual items in the balance sheet and profit and loss account of the reporting units, including separate presentation of insurance income, insurance service costs, and financial income or costs.
- **Amendments to IFRS 17 „Insurance Contracts"** – were issued by the IASB on June 25, 2020 and are effective for annual reporting periods beginning on or after January 1, 2023. The amendments include a two-year effective date deferral and a fixed expiry date for IFRS 9 temporary exemption for insurers that meet certain criteria. The entities preparing its financial statements are no longer required to apply IFRS 17 to certain credit cards or similar contracts and loans that provide insurance coverage. The earnings recognition pattern for insurance contracts under IFRS 17 has been changed to reflect the insurance coverage and any investment services provided. Insurance contracts now need to be presented on the balance sheet at the portfolio level. The changes also apply to accounting mismatches that arise when an entity concludes a reinsurance contract that is onerous and recognizes losses on underlying contracts at the time of initial recognition.
- **Amendments to IFRS 16 COVID 19-related rental facilities** – were issued by the IASB on May 28, 2020 and are effective for annual periods beginning on or after June 1, 2020. Amendments to IFRS 16 introduce a practical exception that allows lessees not to assess whether rental facilities that occur as a direct consequence of the COVID 19 pandemic and meet certain conditions constitute a modification to the lease, and instead recognize such rental facilities as if they were not a modification to the lease.
- **Amendments to IAS 16 Property, Plant and Equipment: Receipts Before Planned Use** - were issued by the IASB on May 14, 2020 and are effective for annual periods beginning on or after January 1, 2022. Amendments to IAS 16 prohibit an entity from deducting from the cost of construction of property, plant and equipment, amounts received from the sale of components produced in the process of preparing an asset for its intended use. Instead, the entity recognizes such sale revenues and related expenses in profit or loss account.
- **The Annual Amendments to the 2018-2020 Standards** - were issued by the IASB on May 14, 2020, and are effective for annual periods beginning on or after January 1, 2022. Annual amendments to the Standards include amendments to IFRS 1 First-time Adoption of International Financial Standards, IFRS 9 Financial Instruments, Illustrative Example to IFRS 16 Leases and IAS 41 Agriculture. Amendments to IFRS 1 allow a subsidiary that applies paragraph D16 a) of IFRS 1 to measure the cumulative exchange differences using the amounts reported by the parent based on the date of the parent's transition to IFRS. Amendments to IFRS 9 clarify what fees the entity takes into account when applying the "10% test" to assess the derecognition of a financial liability. An entity considers only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by the entity or the lender on behalf of the other party. The amendment to IFRS 16 removes the illustration of lessor payments for lease improvements to resolve any potential misunderstandings about the treatment of lease incentives. The amendment to IAS 41 removes the requirement to exclude taxable cash flows when measuring biological assets to fair value using the parent's technique. This is to ensure compliance with the requirements of IFRS 13 Fair Value Measurement
- **Amendments to IAS 37 Onerous Contracts - Contract Costs** - were issued by the IASB on May 14, 2020 and are effective for annual periods beginning on or after January 1, 2022. Amendments to IAS 37 specify the costs that should be taken into account when estimating the cost of performing a contract for the purposes of assessing whether the contract is an onerous contract.
- **Amendments to IFRS 3, Reference to the Conceptual Framework** - were issued by the IASB on May 14, 2020 and are effective for annual periods beginning on or after January 1, 2022. Amendments to IFRS 3 replaced references to the framework by the references to the 2018 Conceptual Framework. It also added the requirement that, in relation to transactions and other events within the scope of IAS 37 or IFRIC 21, the acquirer uses IAS 37 or IFRIC 21 (instead of the conceptual framework) to identify the liabilities it has incurred in a business combination. Moreover, the standard added an explicit statement that the acquirer does not recognize contingent assets acquired in a business combination.
- **Amendments to IFRS 4 Extension of the temporary exemption from the application of IFRS 9** - were issued by the IASB on June 25, 2020 and are effective for annual periods beginning on June 1, 2023 or after that date. Amendments to IFRS 4 provide a temporary exemption that allows the insurer to use IAS 39 instead of IFRS 9 Financial Instruments. The extension ensures consistency between the expiry date of the temporary exemption and the effective date of IFRS 17, which replaces IFRS 4.
- **Amendments to IFRS 10 and IAS 28 Transactions of sale or contribution of assets between an investor and its associate or joint venture** (published on September 11, 2014) - the work leading to the approval of these amendments has been postponed indefinitely by the EU - the effective date has been postponed by the IASB for an indefinite period.

- **Amendments to IAS 1, Classification of liabilities as short-term and long-term** - were issued by the IASB on January 23, 2020 and are effective for annual periods beginning on or after January 1, 2022. Amendments to IAS 1 affect the requirements for presenting liabilities in the financial statements. In particular, they explain one of the criteria for classifying a liability as long-term.
- **Amendments to IAS 1 Classification of liabilities as short-term and long-term** - postponement of the effective date was published by the IASB on July 15, 2020 and is effective for annual periods beginning on January 1, 2023 or after that date. The amendment to IAS 1 provides entities with an operating relief by postponing the effective date of the amendments to the Standard by one year for annual reporting periods beginning on or after January 1, 2023.
- **IBOR reform** - **Phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16** - was published by the IASB on 27 August 2020 and is effective for annual periods beginning on 1 January 2021. The changes introduced in Phase 2 supplement the changes introduced in Phase 1 and relate to the following areas: modifications of financial assets and financial liabilities, hedge accounting, disclosures.

In the Group's opinion, the aforementioned standards and amendments to the existing standards will not have a significant impact on its interim condensed financial statements for the three quarters of 2020.

3.2. Changes in presentation of financial data

Compared to the interim consolidated financial statements prepared as at 30 September 2020, the Group changed the presentation of the provision for legal risk related to foreign currency loans by transferring the costs of creating a provision from the item Other operating expenses to the item Result on provisions for legal risk related to foreign currency loans. The transformed data is presented below:

	30 September 2019 (before change)	Change	30 September 2019 (after change)
Other operating expenses	(165,658)	934	(164,724)
Result on provisions for legal risk related to foreign currency loans	-	(934)	(934)

4. GOING CONCERN

The present interim condensed consolidated financial statements have been prepared assuming that the companies within the Group will continue as a going concern in substantially the same scope, in the foreseeable future, i.e. within at least 12 months from the date of the reporting period end.

5. APPROVAL OF THE FINANCIAL STATEMENTS

The interim condensed consolidated report of the BNP Paribas Bank Polska S.A. Capital Group for the third quarter ended 30 September 2020 was approved for publication by the Management Board on 9 November 2020.

6. SEASONAL AND CYCLICAL NATURE OF BUSINESS

There are no significant seasonal or cyclical phenomena in the Group’s operations.

7. ESTIMATES

The Group makes estimates and assumptions which affect the value of its assets and liabilities in the subsequent period. The estimates and assumptions, which are reviewed on an ongoing basis, are made based on prior experience and considering other factors, including expectations as to future events, which appear reasonable in specific circumstances.

a. Impairment of financial assets

The assessment of impairment of financial assets in accordance with IFRS 9 requires estimates and assumptions, especially in the areas of estimates of the value and timing of future cash flows, the value of collaterals established, or the assessment of a significant increase in credit risk.

The assessment of impairment in accordance with IFRS 9 covers financial assets of the Bank measured at amortized cost and financial assets measured at fair value through other comprehensive income. The recognition of expected credit losses depends on the change in the level of credit risk recorded since the moment of initial recognition of the financial asset. Financial assets are subject to the assessment as to whether there are any events of default.

The requirements of IFRS 9 relating to impairment are based on the model of expected credit loss.

The Bank applies a three-step approach to the measurement of expected credit losses from debt instruments measured at amortized cost or at fair value through other comprehensive income, for which no impairment loss was recognized as at the moment of initial recognition. As a result of changes in the credit quality since the initial recognition, financial assets are transferred between the following three stages:

i) Stage 1: An allowance due to expected credit losses in 12-month horizon

If the credit risk did not increase significantly from the date of the initial recognition, and the event of default did not occur from the moment of granting the financial instrument, the Bank recognizes an allowance for the expected credit loss within the next 12-month horizon.

ii) Stage 2: An allowance due to expected credit losses for the entire lifetime – no event of default identified

In the case of financial instruments, whose credit risk has increased significantly since the moment of their initial recognition, but no event of default occurred, an impairment allowance is created for the entire remaining financing period, considering the probability of the occurrence of the event of default. One of the triggers of significant increase in the credit risk is 30 or more days past due.

If in the subsequent periods the credit quality of the financial instrument improves and the previous conclusions regarding a significant credit risk increase from the moment of initial recognition are reversed, the exposure is reclassified from Stage 2 to Stage 1, and impairment allowances for expected impairment losses of these financial instruments are calculated in the 12-month horizon.

iii) Stage 3: An allowance due to expected credit losses for the entire lifetime – event of default

In the case of financial instruments for which the event of default occurred, an allowance for the expected credit loss is created for the entire remaining financing period.

In order to assess whether there has been a significant increase in credit risk since the initial recognition of the financial instrument, the Bank compares the risk of default during the expected period of financing granted as at the balance sheet date and the date of initial recognition. For this purpose, the Bank applies an internal credit risk rating system, information on delay in repayments and information from internal credit risk monitoring systems, such as warning letters and information about restructuring.

The value of the allowance due to expected impairment losses is calculated using the probability of default, the value of the exposure expected at the moment of default and the estimation of loss in case of default. When calculating the probability of default, the Bank takes into account factors regarding the forecast of the future economic situation. The Bank uses three scenarios when forecasting the future economic situation: optimistic, pessimistic and the most probable. The considered macroeconomic factors include GDP growth, the level of exchange rates and interest rates, and the unemployment rate. The final selection of the factor affecting the estimates and the form of quantification of the impact of the forecast of macroeconomic conditions on portfolio performance depends on the exposure to the particular sub-portfolio and the results of a number of statistical analyses.

In the three quarters of 2020 the impairment provision included additional write-off resulting mainly from the changes in macroeconomic scenarios as a result of COVID-19 (forward looking PDs and LGDs determined based on smoothed macroeconomic forecasts) and the Bank's assessment of the expected future impact of the current economic situation on risk parameters for selected types of clients in the total amount of PLN 175,478 thousand on a consolidated basis (PLN 170,070 thousand on a separate basis).

As regards business entities in which full accounting system is applied, the Bank has compiled a list of events of default, such as considerable financial difficulties of the customer, substantial deterioration of the customer’s rating or more than 90 days past due (or 30 days for forbearance exposures).

As regards retail customers and micro enterprises with simplified accounting system, more than 90 days past due (or more than 30 days for exposures with forbearance granted to debtors) is the key event of default. Other triggers include debt restructuring or a suspicion of fraud.

For exposures in case of which events of default occurred, individual or collective (group) tests are performed by the Bank. Individual assessment is performed for assets considered by the Bank to be individually significant and in all the cases in which the Bank has decided to perform an individual test of impairment for a given exposure.

Impairment assessment for individually significant assets

The individual test is performed by the Bank for individually significant financial assets, for which the event of default was identified. It consists in case-by-case verification of financial assets in terms of impairment. During the individual assessment, the Bank determines expected future cash flows and impairment is calculated as the difference between the present value (balance sheet amount) of a financial asset which is individually significant and the value of future cash flows generated by that asset, discounted using the effective interest method. Cash flows from collateral are taken into account for purposes of estimating future cash flows.

Collective (group) assessment

The following assets are tested collectively:

- classified as individually insignificant;
- classified as individually significant, for which the event of default was not identified.

The value of the allowance for the expected credit losses depends on the type of credit exposure, delinquency period and collateral type and value (for selected portfolios), on the probability of default (PD) parameters, loss given default (LGD) parameters and credit conversion factor (CCF).

The amount of collective impairment allowances is determined with the application of statistical methods for defined exposure portfolios which are homogenous from the perspective of credit risk. Homogeneous exposure portfolios are defined based on customer segment, type of credit products and exposure delinquency classes and, for institutional customers with a rating assigned by the Bank internally, the credit rating assigned to the customer. The criteria applied by the Bank to define homogeneous portfolios are aimed at grouping exposures so that the credit risk profile is reflected as accurately as practicable and, consequently, so as to estimate the level of allowances for the expected credit losses on financial assets as objectively and adequately as possible.

The PD parameters are updated periodically during the year, in line with the value estimation principles adopted by the Bank. The aforesaid parameters are determined based on statistical analyses of historical data as well as observable migration of credit exposures. LGD and CCF parameters are updated periodically during the year. As regards CCF, the Bank's analysis focuses on the percentage of off-balance sheet liabilities converted into on-balance sheet exposures. In selected portfolios, LGD is determined for each exposure individually, based on its type and collateral value. For the remaining exposures, it is determined at the level of a given homogenous portfolio.

While classifying the exposure to Stage 3, the Bank takes into account a quarantine period, in which a credit exposure with an objective impairment trigger identified may be reclassified to Stage 2 or 1 only if the Bank's receivables from the customer have been paid on time (no amounts overdue over 30 days) for a specific number of months. The required quarantine period differs depending on the customer type. Its length is determined by the Bank based on historical observations which allow for determining the period after which the probability of default drops to the level comparable to that of other exposures classified to the portfolio with no indications of impairment.

Allowances for the expected credit losses on financial assets estimated in a collective impairment test are back tested on a regular basis. The models of risk parameters used for purposes of estimating impairment allowances are covered by the model management process, which specifies the principles of their development, approval and monitoring (including model back-testing). Additionally, there is a validation unit in the Bank, which is independent of the owners and users of the models. The tasks of the unit include annual validation of risk parameters considered to be significant. The process of validation covers both qualitative and quantitative approach. The process of estimating impairment allowances is subject to periodic functional control and verified independently by the Bank's internal audit.

b. Classification of financial instruments

When classifying financial instruments in accordance with IFRS 9, the Bank used the assessment of business models for maintaining financial assets and assessing whether the contractual terms related to a financial asset resulted in cash flows that were solely payment of principal and interest on the principal amount remaining to be repaid.

c. Fair value of derivative instruments

The fair value of derivative instruments which are not quoted on active markets is determined using measurement techniques (e.g. models). Such methods are evaluated and verified periodically by qualified independent employees who have not participated in their development. All models require approval before use as well as calibration to ensure that the results reflect actual data and comparable market prices. The models used at present rely on the data obtained from Reuters and/or Bloomberg information systems. Derivative instruments are measured based on generally acceptable models. Linear instruments are measured using the discounted cash flow method while plain vanilla options using the Black-Scholes model. Other options included in structured deposits are measured either through decomposition into vanilla options or through Monte Carlo simulations.
Credit Valuation Adjustment / Debit Value Adjustment (CVA/DVA) is estimated for all derivatives which are active at a specific date. The adjustment (counterparty credit risk and non-performance risk) is determined based on the projected future exposure resulting from the instrument, counterparty rating and collateral provided/accepted.

d. Securities

Securities, for which no liquid market exists, are measured using the discounted cash flow model. In the case of securities classified in the fair value hierarchy, the credit risk margin is a non-observable parameter corresponding to the market margin for instruments with similar characteristics.

e. Impairment of fixed assets

At the end of each reporting period, the Group verifies whether there is any objective impairment trigger concerning its fixed assets. If such triggers have been identified, the Group estimates the recoverable amount. Determination of the value in use of a fixed asset requires the Group to make assumptions as to the estimated amounts, dates of future cash flows that may be generated by the Group on the fixed asset as well as other factors. When estimating the fair value less costs to sell, the Group relies on available market data or valuations of independent appraisers, which generally are also based on estimates.

f. Provision for retirement, disability and post-mortem severance pay

The Group creates provisions for retirement, disability and post-mortem severance pay ("severance"), in accordance with IAS 19. The severance provision is calculated individually for each employee using the actuarial method of projected unit credit as at the date of valuation, by an independent actuary as the present value of the Group's future liabilities to employees based on employment and remuneration as at the calculation update date. The calculations take into account a number of factors, including macroeconomic conditions, employee turnover, risk of death and others. The basis for calculating of the provision for employees is the anticipated value of severance pay which the Group is to pay pursuant from the Remuneration Regulations in force at the Group. The anticipated severance pay is calculated as the resultant of the following factors:

- the expected severance base, in accordance with the provisions of the Collective Bargaining Agreement,
- the expected increase in the severance base from the moment of valuation until the payment of severance,
- the recommended proportional dependence on seniority (in accordance with the provisions of the Company Collective Labor Agreement),
- gradual rights to services, unique for each team and proportional to their seniority at the Group.

The projected value is discounted actuarially at the end of the year. In accordance with the requirements of IAS 19, the financial discount rate for calculating the current value of liabilities related to employee benefits is determined on the basis of market yields on treasury bonds whose currency and maturity date are consistent with the currency and the estimated date of the benefit obligations. The actuarial discount is the product of the financial discount, the probability of a person's continued employment at the Group until the severance is required, and the probability of the need for a particular benefit (e.g. the probability of acquiring a disability). The value of annual write-offs and the probability are projected with the use of models which take the following three risks into account:

- possibility of dismissal from work,
- risk of inability to work,
- risk of death.

The possibility of dismissal from work is estimated trough a probability distribution, based on the Group's statistical data. The likelihood of dismissal depends on the age of the employee and is constant throughout each year of work. The risks of death and disability were estimated based on analyses of the latest statistical data on life expectancy in Poland (for men and women) as well as historical data published by the Central Statistical Office and the Social Security Office.

Provisions resulting from actuarial valuation are updated quarterly.

g. Restructuring provision

On 14 December 2018, the Bank finalized negotiations with trade union organizations operating in the Bank and concluded an agreement on defining the rules with reference to the matters concerning employees in connection with the group layoffs process. In connection with the agreement concluded in December 2018 the Bank created restructuring provision to cover the costs of employment reduction and closure of branches.

The group layoffs are currently being carried out and severance payments are financed from the created restructuring provision.

h. Asset and provision for deferred income tax

The provision for deferred income tax is recognized in the full amount using the balance sheet method, due to positive temporary differences between the tax value of assets and liabilities, and their balance sheet value in the financial statements. Deferred tax assets are recognized for all negative temporary differences, as well as unused tax credits and unused tax losses carried forward to the subsequent years, in the amount in which it is probable that taxable income will be generated that will allow the use of the above mentioned differences, assets and losses. Deferred income tax is determined using tax rates (and regulations) in force or at the end of the reporting period, which are expected to be effective at the time of realization of the related assets due to deferred income tax or settlement of liabilities due to deferred income tax.

If the temporary differences arose as a result of the recognition of an asset or liability resulting from a transaction that is not a business combination and which at the time of the conclusion did not affect the tax or accounting result, the deferred tax is not recognized. In addition, a deferred tax provision is created for positive temporary differences arising from investments in subsidiaries or associates and investments in joint ventures - except the situations when the timing of temporary differences reversal is subject to control by the entity and when it is probable that in the foreseeable future, temporary differences will not be reversed Deferred tax assets in the event of negative temporary differences from investments in subsidiaries or associates and investments in joint ventures, only to the extent that it is probable that in the foreseeable future the abovementioned temporary differences will be reversed and taxable income allowing to offset any negative temporary differences will be generated.

The balance sheet amount of the deferred tax asset is reviewed at the end of each reporting period and is reduced accordingly, and so far as it is no longer probable that taxable income sufficient for partial or total realization of the deferred tax asset will be realized. An unrecognized deferred tax asset is subject to reassessment at the end of each reporting period and is recognized up to an amount that reflects the probability of achieving future taxable income that will allow recovery of that asset. The Group offsets deferred tax assets with deferred tax provisions if and only if it has an enforceable legal title to compensate corresponding receivables and liabilities due to current tax and deferred income tax is related to the same taxpayer and the same tax authority.

Income tax related to the items recognized directly in equity is recognized in equity and in the statement of comprehensive income.

In third quarters of 2020, current income tax and deferred tax provision were calculated using the 19% rate.

i. Provision for the return of commission for early repayment of the loan

On 11 September 2019, the CJEU issued a judgment in which it was stated that Article 16 paragraph 1 of the Directive No. 2008/48/EC of the European Parliament and of the Council of 23 April 2008 on consumer loan agreements which repealed Council Directive No. 87/102/EEC should be interpreted in the following way: the consumer's right to reduce the total cost of a loan in the event of earlier repayment includes all costs that have been imposed on the consumer. The CJEU pointed out that a comparative analysis of the different language versions of Article 16 clause 1 of the Directive does not allow to clearly determine the exact scope of the reduction of the total cost of a loan envisaged by this provision, because some language versions of this provision suggest reducing the costs related to the remaining period of the contract, others suggest that the costs associated with this period constitute an indication for calculating the reduction, others still only refer to interest and costs due for the remaining period of the contract.

The judgment was issued following a question referred for a preliminary ruling by the Lublin-Wschód District Court based in Świdnik, which examined three disputes between the company Lexitor, which acquired the claims of three clients, and SKOK Stefczyka, Santander Consumer Bank and mBank, regarding the reduction of the total cost of consumer loans due to their earlier repayment. The Polish court had doubts about the interpretation of Article 16 paragraph 1 of Directive No. 2008/48/EC of the European Parliament and of the Council of 23 April 2008, and therefore asked the CJEU whether this provision concerns all costs or only those related to the duration of the contract.

As a result of the analysis concerning the impact of the judgment on the Group's revenues, in particular on relations expired before the judgment was issued, in 2019 the Group decided to create a provision for a proportional refund of commission in the event of early repayment of the loan in the amount of PLN 48,750 thousand as at 30 September 2020 the provision amounted to PLN 28,757 thousand (as at 31 December 2019 the provision amounted to PLN 48,466 thousand).

Additionally, the Group created in 2019 a provision of PLN 20,800 thousand to cover the partial reimbursements of loan commissions in the event of their early repayment, for loans repaid after 31 December 2019. The estimate of the provision is based on the difference between the value of commissions to be reimbursed and the balance of unsettled commissions as at the expected date of early loan repayment, as at 30 September 2020 the provision amounted to 11,051 thousand.

In the third quarter of 2020, the Group decided to create an additional provision in the amount of PLN 1,500 thousand. for loans granted and repaid from 2020 on account of the return of part of the commission charged in connection with granting the loan in the case of its early repayment and the estimation of the part of the commission being the difference between the amounts of commission to be returned to customers and the balance of unsettled commissions as of the expected date of early repayment. In the case of early repayment of the loan the provision will be released and for newly sold loans will be created on an ongoing basis

The created reserve level may be changed due to the fact that analyses are still ongoing in the banking sector as to the impact of this judgment on the financial situation and business activities of banks in Poland.

Simultaneously, the Group recognizes its liability due to the proportional reimbursement of commissions in the event of their early repayment in the period from the date of the judgment of the CJEU on 11 September 2019 to 31 December 2019. As at 30 September 2020, this liability amounted to PLN 2,469 thousand (as at 31 December 2019 PLN 12,797 thousand).

j. Provision for potential claims arising from legal proceedings related to loans in CHF

Provision for potential claims resulting from proceedings related to CHF loan agreements and model used by the Group were presented in Note 52 Litigation and claims.

8. NET INTEREST INCOME

Interest income	3Q 2020 from 01.07.2020 to 30.09.2020	3 quarters of 2020 from 01.01.2020 to 30.09.2020	3Q 2019 from 01.07.2019 to 30.09.2019	3 quarters of 2019 from 01.01.2019 to 30.09.2019
Amounts due from banks	91	6,542	6,583	18,339
Loans and advances to customers measured at amortised cost, including:	595,569	2,084,702	827,627	2,470,355
non-banking financial institutions	2,566	11,052	3,572	16,365
retail customers	294,770	989,029	384,364	1,122,459
economic operators	268,546	983,476	402,628	1,223,650
including retail farmers	77,068	281,219	113,970	329,848
public sector institutions	1,388	4,110	1,769	5,280
leasing receivables	28,299	97,035	35,294	102,601
Loans and advances to customers measured at amortised cost through profit or loss	1,528	18,952	15,801	49,085
Debt instruments measured at amortised cost	139,251	389,033	114,288	324,331
Debt instruments measured at fair value through profit or loss	1,268	3,154	283	563
Debt instruments measured at fair value through other comprehensive income	48,653	145,613	51,344	168,368
Derivative instruments as part of fair value hedge accounting	46,208	131,440	37,441	116,902
Purchased repo transactions	-	-	5	24
Total interest income	**832,568**	**2,779,436**	**1,053,372**	**3,147,967**

Interest expense	3Q 2020 from 01.07.2020 to 30.09.2020	3 quarters of 2020 from 01.01.2020 to 30.09.2020	3Q 2019 from 01.07.2019 to 30.09.2019	3 quarters of 2019 from 01.01.2019 to 30.09.2019
Amounts due to banks	(16,369)	(64,910)	(33,576)	(75,705)
Debt securities issued	(13,412)	(47,340)	(19,762)	(58,687)
Amounts due to customers, including:	(41,714)	(260,833)	(165,370)	(532,578)
non-banking financial institutions	(2,488)	(12,204)	(11,814)	(36,067)
retail customers	(28,611)	(164,761)	(107,803)	(330,424)
economic operators	(10,411)	(79,281)	(42,333)	(155,556)
including retail farmers	(94)	(1,365)	(1,066)	(3,443)
public sector institutions	(204)	(4,587)	(3,420)	(10,531)
Lease liabilities	(1,573)	(5,178)	(2,148)	(6,415)
Derivative instruments as part of fair value hedge accounting	(20,589)	(82,250)	(28,613)	(90,824)
Repo transactions	-	(6,241)	(5,595)	(20,311)
Total interest expense	**(93,657)**	**(466,752)**	**(255,064)**	**(784,520)**
Net interest income	**738,911**	**2,312,684**	**798,308**	**2,363,447**

Net interest income is the main source of the Group's income and in three quarters of 2020 amounted to PLN 2,312,684 thousand and was lower by PLN 50,753 thousand YoY, i.e. by 2.1%.

After three quarters of 2020, the interest income was lower by PLN 368,531 thousand or 11.7% than in the corresponding period of the previous year, while the interest expenses decreased by PLN 317,768 thousand or 40.5%.

An important external factor that contributed to the decrease in the level of income, costs and interest income was the policy of the National Bank of Poland (NBP) in the area of basic interest rates. In 2020, in order to mitigate the negative economic effects of the coronavirus pandemic, the Monetary Policy Council, in its decisions of 17 March, 8 April and 28 May 2020, reduced the NBP interest rates (in the case of the reference rate from 1.5% to 0.1%). The changes made were particularly visible in the results of the second and third quarter of 2020 and will result in a decrease in interest margins realized by banks throughout 2020.

An additional factor affecting the reduction of interest income in three quarters of 2020 as compared to the corresponding period of the previous year was the recognition in the profit and loss account of the fair value adjustment for the credit portfolio acquired under the Basic Activity of RBPL. In the three quarters of 2020, the positive impact of this settlement amounted to PLN 34,535 thousand (of which in the third quarter of 2020: PLN 9,439 thousand, in the second quarter: PLN 11,666 thousand, in the first quarter: PLN 13,431 thousand), while in the three quarters of 2019 it was PLN 82,638 thousand (decrease in revenue YoY by PLN 48,102 thousand).

The interest income in the three quarters of 2020 was also adversely affected by the reimbursement of commissions on early repayments of customer loans made after 11 September 2019 (CJEU ruling) in the amount of PLN 29.0 million (in the third quarter of 2020: PLN 4.9 million, in the second quarter: PLN 12.2 million, in the first quarter: PLN 11.8 million), while in the three quarters of 2019, it amounted to PLN 3.5 million (decrease in net interest income by PLN 25.5 million YoY).

As a result of the negative impact of the factors described above, average credit margins realized in the three quarters of 2020 were lower than in the corresponding period of the previous year and this trend will be visible in the whole 2020.

As part of the adaptation measures in the second and third quarter of 2020 The Bank pursued a policy of adjusting deposit prices to the changed market environment. As a result, the cost of deposits in September 2020 decreased by 56 bps compared to December 2019. Additionally, in the second and third quarter, actions were taken to optimize credit margins.

The drop in interest income was to some extent neutralised by the increase in assets and, as a result, an increase in the average value of the securities portfolio (interest income on debt instruments measured at amortised cost and at fair value increased in the analysed period by PLN 44,538 thousand, i.e. by 9.0%).

At the end of September 2020 the Group applied fair value hedge accounting. The change in fair value measurement of hedging transactions is recognized in the result on hedge accounting. Interest on IRS transactions and hedged items is recognized in the interest result.

The net interest income on hedging (total interest income and interest expense on derivatives under fair value hedge accounting) amounted in three quarters of 2020 to PLN 49,190 thousand compared to PLN 26,078 thousand in the three quarters of 2019 (increase by PLN 23,112 thousand or 88.6%).

9. FEE AND COMMISSION INCOME

Fee and commission income	3Q 2020 from 01.07.2020 to 30.09.2020	3 quarters of 2020 from 01.01.2020 to 30.09.2020	3Q 2019 from 01.07.2019 to 30.09.2019	3 quarters of 2019 from 01.01.2019 to 30.09.2019
loans, advances and leases	89,238	230,477	62,898	197,191
account maintenance	46,582	124,862	35,782	103,378
cash service	8,809	23,076	10,358	30,074
cash transfers and e-banking	18,927	55,675	24,777	77,736
guarantees and documentary operations	11,787	38,661	14,443	43,745
asset management and brokerage operations	27,466	80,769	26,939	84,439
payment and credit cards	59,099	154,257	61,629	163,140
insurance mediation activity	27,777	70,752	12,168	38,944
product sale mediation and customer acquisition	2,713	9,237	4,788	15,923
other commissions	4,732	18,405	5,760	13,379
Total fee and commission income	**297,129**	**806,171**	**259,542**	**767,949**

Fee and commission expense	3Q 2020 from 01.07.2020 to 30.09.2020	3 quarters of 2020 from 01.01.2020 to 30.09.2020	3Q 2019 from 01.07.2019 to 30.09.2019	3 quarters of 2019 from 01.01.2019 to 30.09.2019
loans, advances and leases	(9)	(289)	(714)	(2,223)
account maintenance	(2,300)	(7,980)	(1,282)	(3,800)
cash service	(4,979)	(8,837)	(3,653)	(9,450)
cash transfers and e-banking	(560)	(1,709)	(1,264)	(3,791)
asset management and brokerage operations	(1,664)	(3,816)	(2,607)	(10,731)
payment and credit cards	(20,852)	(72,435)	(28,456)	(81,189)
insurance mediation activity	(4,385)	(15,898)	(4,399)	(11,564)
product sale mediation and customer acquisition	(6,566)	(18,878)	(6,657)	(22,117)
other commissions	(4,578)	(18,034)	(4,987)	(10,474)
Total fee and commission expense	**(45,893)**	**(147,876)**	**(54,019)**	**(155,339)**
Net fee and commission income	**251,236**	**658,295**	**205,523**	**612,610**

The Group's net fee and commission income in the three quarters of 2020 amounted to PLN 658,295 thousand and was higher by PLN 45,685 thousand or 7.5% than in the three quarters of 2019. Fee and commission income increased by PLN 38,222 thousand or 5.0% after three quarters of 2020 as compared to three quarters of 2019, while fee and commission expenses decreased by PLN 7,463 thousand or 4.8%.

The largest increases in fee and commission income concerned the following categories:

- lending and leasing activity by PLN 33,286 thousand, i.e. by 16.9% (among others thanks to the settlement of commissions on large CIB transactions in 3Q 2020, higher commissions settled on a linear basis on overdrafts and debit limits for Micro companies),
- intermediation in the sale of insurance products by PLN 31,808 thousand, i.e. by 81.7% (among others due to higher income from life insurance on mortgages and remuneration from Cardif),
- servicing accounts by PLN 21,484 thousand, i.e. 20.8% (among other things, the effect of unification of the offer and commission rates after the merger with Core RBPL and adaptation measures taken in Q2 and Q3 2020),
- other commissions by PLN 7,408 thousand, i.e. by 67.4%.

The decrease of revenues from the execution of transfers and electronic banking services (by PLN 22,061 thousand, i.e. by 28.4%) was related, among others, to the new European regulations on the amount of international transfer fees (SEPA, December 2019).

The decrease in revenue from payment and credit cards service (by PLN 8,883 thousand, i.e. by 5.4%) was related, among others, to a change in the presentation of revenue from exchange rate differences on card transactions (since November 2019, exchange rate differences from card transactions with currency conversion are presented as a result of trading activity).

The decrease in fee and commission expenses was mainly caused by lower expenses concerning:

- payment and credit cards service by PLN 8,754 thousand, i.e. by 10.8%,
- asset management and brokerage operations by PLN 6,915 thousand, i.e. by 64.4%,
- intermediation in the sale of the Bank's products and acquiring customers by PLN 3,239 thousand, i.e. by 14.6%,

with a simultaneous increase in fee and commission expenses concerning:

- other commissions by PLN 7,560 thousand, i.e. by 72.2%,
- intermediation in the sale of insurance products by PLN 4,334 thousand, i.e. by 37.5%,
- servicing accounts by PLN 4,180 thousand, i.e. by 110.0% (i.e. increase of nostro account service costs).

10. NET TRADING INCOME

Net trading income	3Q 2020 from 01.07.2020 to 30.09.2020	3 quarters of 2020 from 01.01.2020 to 30.09.2020	3Q 2019 from 01.07.2019 to 30.09.2019	3 quarters of 2019 from 01.01.2019 to 30.09.2019
Equity instruments measured at fair value through profit or loss	11,827	73,611	4,861	13,774
Debt instruments measured at fair value through profit or loss	2,807	6,837	857	2,154
Derivative instruments and result on foreign exchange transactions	142,959	453,950	169,978	485,800
Result on financial instruments measured at fair value through profit or loss, total	**157,593**	**534,398**	**175,696**	**501,728**

The result on trading activity in 3 quarters of 2020 amounted to PLN 534,398 thousand and was higher by PLN 32,670 thousand, i.e. by 6.5% YoY. The level and variability of the result is depended mainly on the valuation of capital instruments and the result on FX.

The factor positively influencing the level of the result on trading activity for 3 quarters of 2020 was a positive change in the measurement of capital instruments measured at fair value through profit and loss account (primarily shares in companies held by the Bank) in the total amount of PLN 73,611 thousand (compared to PLN 13,774 thousand in the corresponding period of 2019). In the three quarters of this year, the Bank recognized, among other, an increase in the valuation of shares in Biuro Informacji Kredytowej S.A. (PLN 36,061 thousand), Mastercard (PLN 12,152 thousand), Visa Intl. (PLN 10,640 thousand) and Krajowa Izba Rozliczeniowa S.A. (8,990 thousand PLN).

The increase in valuation neutralised the decrease in the result on derivatives and the result on FX exchange and in 9 months of 2020 amounted to PLN 453,950 thousand and was lower by PLN 31,850 thousand, i.e. by 6.6% in comparison with the result in 9 months of 2019. This decrease was influenced, among others, by a decrease in the activity of companies as a result of freezing the economy in the second quarter of this year in connection with the coronavirus COVID-19 pandemic and lower scale of operations with clients in the third quarter of this year compared to the one observed at the beginning of the year, before the pandemic started.

11. RESULT ON INVESTMENT ACTIVITIES

In the third quarters of 2020, the Group did not change the classification of any financial assets measured at amortized cost to be measured at fair value through other comprehensive income.

Result on investment activities	3Q 2020 from 01.07.2020 to 30.09.2020	3 quarters of 2020 from 01.01.2020 to 30.09.2020	3Q 2019 from 01.07.2019 to 30.09.2019	3 quarters of 2019 from 01.01.2019 to 30.09.2019
Debt instruments measured at fair value through other comprehensive income	(7)	74,428	1,215	630
Loans and advances to customers measured at fair value through profit or loss	11,022	(45,543)	(21,748)	(41,161)
Total result on financial instruments measured at fair value through other comprehensive income	**11,015**	**28,885**	**(20,533)**	**(40,531)**

The result on investment activities for three quarters of 2020 amounted to PLN 28,885 thousand and increased by PLN 69,416 thousand from the loss incurred in the corresponding period of 2019 in the amount of PLN 40,531 thousand.

The item determining the level of the result in the three quarters of 2020 was the result on sale of debt instruments in the amount of PLN 74,428 thousand, realized mainly in the first and second quarter. The results from the sale of debt instruments in the three quarters of 2019 amounted to PLN 630 thousand.

Those transactions allowed to neutralise the negative impact of the valuation of the portfolio of loans and advances to clients measured at fair value through profit and loss account, which in the three quarters of 2020 was negative and amounted to PLN 45,543 thousand (compared to the negative impact of PLN 41,161 thousand in 2019 respectively).

The factor negatively affecting the valuation of the portfolio in the three quarters of 2020 was, among others, a decrease in the yield curve as a result of significant interest rate cuts made by the Monetary Policy Council this year. It is estimated that the impact amounted to about PLN 25.9 million in March and about PLN 12.1 million in May 2020. In Q3 2020 alone, the valuation of the portfolio of loans and advances to clients measured at fair value through profit and loss was positive and amounted to PLN 11.0 million.

12. NET IMPAIRMENT ALLOWANCES ON FINANCIAL ASSETS AND CONTINGENT LIABILITIES

Net Impairment losses on financial assets and provisions for contingent liabilities

3 quarters of 2020 from 01.01.2020 to 30.09.2020	Stage 1	Stage 2	Stage 3	Total	including POCI
Amounts due from banks	(644)	-	-	(644)	-
Loans and advances to customers measured at amortised cost	(159,170)	76,390	(435,175)	(517,955)	19,332
Contingent commitments granted	(1,183)	18,761	4,573	22,151	-
Securities measured at amortised cost	340	3,142	-	3,482	(2,122)
Total net impairment allowances on financial assets and contingent liabilities	**(160,657)**	**98,293**	**(430,602)**	**(492,966)**	**17,210**

Net Impairment losses on financial assets and provisions for contingent liabilities

3 quarters of 2019 from 01.01.2019 to 30.09.2019	Stage 1	Stage 2	Stage 3	Total	including POCI
Amounts due from banks	137	-	-	137	-
Loans and advances to customers measured at amortised cost	71	(26,623)	(311,889)	(338,441)	3,615
Contingent commitments granted	10,017	(15,359)	4,565	(777)	-
Securities measured at amortised cost	(1,471)	(481)	184	(1,768)	-
Total net impairment allowances on financial assets and contingent liabilities	**8,754**	**(42,463)**	**(307,140)**	**(340,849)**	**3,615**

Net impairment losses on financial assets and provisions for contingent liabilities in three quarters of 2020 was negative and amounted to PLN 492,966 thousand. Its negative impact on the Group's results was higher by PLN 152,117 thousand, i.e. by 44.6% as compared to the three quarters of 2019.

Considering the main operating segments :

- The Retail and Business Banking segment recorded an increase of the negative result by PLN 216,046 thousand YoY,
- SME Banking segment - recorded decrease (improvement) by PLN 55,632 thousand YoY,
- Corporate Banking segment (including CIB) - decrease (improvement) by PLN 7,824 thousand YoY.

The significant deterioration of the net result from impairments is primarily due to negative forecasts for the economic situation in Poland and worldwide, resulting in the development of the coronavirus pandemic. Taking into account - based on the current state of knowledge - assessments of the effects of the pandemic, including, among others, a decrease in GDP or weakening of the Polish zloty and the Bank's expectations regarding its impact on the financial condition of credit customers, resulted in an increase in the negative result of write-downs for impairment of financial assets and provisions for contingent liabilities.

The impact of COVID-19 on the Group's cost of risk in the three quarters of 2020 amounted to PLN 175,478 thousand and results primarily from the change of macroeconomic scenarios following COVID-19 (forward looking PD and LGD determined on the basis of macro forecasts) and the Bank's assessment of the expected future impact of the current economic situation on risk parameters for selected types of clients.

In 2020 the Bank concluded agreements on the sale of the retail and SME loan portfolio. The gross carrying amount of the sold portfolio amounted to PLN 121,018 thousand, while the amount of impairment losses created was PLN 105,253 thousand. The contractual price for the sale of those portfolios was set at PLN 14,959 thousand. The net impact on the Bank's result from the sale of the portfolios was negative and amounted to PLN 806 thousand and is presented in positions of creation and release of write-offs for impairment of financial assets.

In three quarters of 2019 The Bank concluded agreements on the sale of the retail loan portfolio. The amount of receivables sold under the agreements were covered to a significant extent by impairment allowances or fully written off and amounted to PLN 618,223 thousand (principal, interests and other collateral receivables). The contractual price of the sale of these portfolios was set at PLN 69,873 thousand. The net impact on the Bank's result from the sale of the portfolios amounted to PLN 7,639 thousand and is presented in positions of creation and release of write-offs for impairment of financial assets. In the first half of 2020 The Bank did not conclude any agreements on sale of credit receivables.

The cost of credit risk expressed as a relation of the result on write-offs to the average gross book value of loans and advances to customers, measured at amortized cost (calculated on the basis of the balances at the end of the quarters) was 0.85% in the three quarters of 2020 and increased by 24 bps compared to the three quarters of 2019 (0,61%). It is estimated that without taking into account the negative impact of the coronavirus pandemic, the cost of credit risk in the three quarters of 2020 would be 0.55% and the cost of credit risk without taking into account the sale of receivables would be 0.85% in the three quarters of 2020 and 0.62% in the three quarters of 2019.

13. GENERAL ADMINISTRATIVE EXPENSES

General administrative expenses	3Q 2020 from 01.07.2020 to 30.09.2020	3 quarters of 2020 from 01.01.2020 to 30.09.2020	3Q 2019 from 01.07.2019 to 30.09.2019	3 quarters of 2019 from 01.01.2019 to 30.09.2019
Personnel expenses	(282,971)	(889,735)	(342,022)	(1,016,328)
Marketing expenses	(15,099)	(64,476)	(30,055)	(106,602)
IT and telecom expenses	(50,923)	(127,635)	(79,802)	(198,838)
Short-term lease and operating costs	(16,988)	(55,383)	(25,237)	(73,629)
Other non-personnel expenses	(76,468)	(234,657)	(84,261)	(232,386)
Business travels	(1,747)	(7,329)	(5,507)	(16,586)
ATM and cash handling expenses	(6,812)	(19,489)	(1,151)	(5,354)
Costs of outsourcing services related to leasing operations	(927)	(2,622)	(1,248)	(3,417)
Fee for the Borrowers Support Fund	(3,366)	(9,588)	-	-
Bank Guarantee Fund fee	(21,883)	(191,436)	(12,315)	(154,035)
Polish Financial Supervision Authority fee	(2,668)	(7,929)	(3,636)	(10,959)
Total general administrative expenses	**(479,852)**	**(1,610,279)**	**(585,234)**	**(1,818,134)**

General administrative expenses (including depreciation and amortization) of the BNP Paribas Bank Polska S.A. Capital Group for the period of 9 months of 2020 amounted to PLN 1,880,813 thousand and were lower by PLN 289,564 thousand or 13.3% y/y due to the lack of material integration costs in the current period.

The integration costs for the period of three quarters of 2020, related to the Bank's acquisition of the Core Business of Raiffeisen Bank Polska in 2018, reduce the Bank's expenses by a total of PLN 610 thousand (including PLN 4.3 million recognised as operating expenses, while PLN 4.9 million were recognised as a reduction of other operating expenses). In the corresponding period of the previous year, integration costs amounted to PLN 266.2 million (PLN 263.2 million was recognised under general administrative expenses and depreciation and PLN 3.0 million under other operating expenses). Excluding integration costs in the periods under review, the Group's total of general administrative expenses and depreciation and amortization would have been lower by PLN 30.7 million, i.e. by 1.6% year-on-year.

The largest decrease in expenses by type year-on-year (by PLN 126.6m, i.e. 12.5%) was recorded in the personnel expenses item, mainly as a result of a reduction in the Group's workforce (by over 1.1 thousand jobs compared with the corresponding period of 2019), due to the absence of material integration costs in the current year and the partial release of the provision allocated to retention programmes. At the same time, in connection with the launch of the Employee Capital Programmes at the end of 2019, the costs incurred by the Bank on that account (excluding subsidiaries) in the period from January to September 2020 amounted to PLN 10.1 million. Excluding the integration costs from this expense category, in both analysed periods, the decrease in personnel expenses would have amounted to PLN 72.2m, or 7.5% year-on-year.

A reduction in the level of expenses year-on-year was also noted in the following categories:

- IT and telecommunication expenses – decreased by PLN 71.2 million - mainly in connection with the integration of IT infrastructure and systems after the operational merger completed in November 2019;

- marketing expenses- decreased by PLN 42.1 million - which was influenced by: on the one hand, the last year's rebranding campaign, related to the change of the Bank's name (expense of PLN 25.6 million for 9 months of 2019), and on the other hand, restrictions on marketing activities (including organisation of events and meetings) in the second and third quarters of this year as a result of the COVID-19 pandemic;
- short-term lease and maintenance expenses - decreased by PLN 18.2 million - following the process of optimising the branch network and renegotiating rents;
- business travel – decreased by PLN 9.3 million – as a result of the COVID-19 pandemic travel was reduced, which was impacted, among others, by the closure of hotels, remote working and organisation of meetings via Skype.

The Group's expenses for the period of 9 months of 2020 were also influenced by higher costs of BFG fees resulting from:

- the increase of the total amount of contributions determined by the Council of the Bank Guarantee Fund for the banking sector in 2020 (PLN 1.6 billion of contributions to the bank restructuring fund for 2020 as compared to PLN 2 billion for 2019 and PLN 1,575 million of contributions to the bank guarantee fund for 2020 as compared to PLN 791 million in the previous year), and
- the increase in the guaranteed fund base, as a result of the merger with Core RBPL;

The total contributions charged to the Bank's expenses for the period of 9 months of 2020 amounted to PLN 191.4 million and were PLN 37.4 million higher than in the same period last year:

- the annual contribution to the forced bank restructuring fund was PLN 126.0 million (in 2019 it was PLN 116.1 million),
- the contribution to the bank guarantee fund amounted to PLN 65.4 million (in 2019 it was PLN 37.9 million).

In addition, the level of general administrative expenses has been influenced by higher expenses in the following categories:

- ATM and cash handling expenses (increase by PLN 14.1m), which is related to a change in the presentation from 2020, resulting from the change of the supplier’s approach to ATM and cash handling. In 2019, these expenses were recorded outside of operating expenses, in other operating expenses,
- costs of the Borrowers' Support Fund - creation of a provision in the amount of PLN 9.6 million in the current period.

14. DEPRECIATION AND AMORTIZATION

Depreciation and amortization	3Q 2020 from 01.07.2020 to 30.09.2020	3 quarters of 2020 from 01.01.2020 to 30.09.2020	3Q 2019 from 01.07.2019 to 30.09.2019	3 quarters of 2019 from 01.01.2019 to 30.09.2019
Property, plant and equipment	(54,867)	(174,161)	(56,157)	(164,693)
Intangible assets	(36,115)	(96,373)	(74,859)	(187,550)
Total depreciation and amortization	**(90,982)**	**(270,534)**	**(131,016)**	**(352,243)**

Depreciation and amortization expenses of the BNP Paribas Bank Polska S.A. Capital Group for 9 months of 2020 amounted to PLN 270.5 million and were lower by PLN 81.7 million as compared to the corresponding period of the previous year. The decrease resulted mainly from the realisation of asset synergies as a result of the Bank's merger with Core RBPL, partially offset by increased depreciation on investments carried out in 2018-2019.

The costs of charging accelerated depreciation of systems in connection with the merger processes of two banks for the period of 9 months of 2019 amounted to PLN 92.0m.

Depreciation and amortization expenses in the Capital Group companies remained at a comparable level year-on-year.

15. OTHER OPERATING INCOME

Other operating income	3Q 2020 from 01.07.2020 to 30.09.2020	3 quarters of 2020 from 01.01.2020 to 30.09.2020	3Q 2019 from 01.07.2019 to 30.09.2019	3 quarters of 2019 from 01.01.2019 to 30.09.2019
Sale or liquidation of property, plant and equipment and intangible assets	4,742	124,957	5,832	14,628
Release of write-offs on other receivables	1,785	5,884	-	-
Sale of goods and services	2,072	6,544	8,114	18,635
Release of provisions for litigation and claims and other	17,395	38,071	1,674	11,536
Recovery of debt collection costs	6,273	17,971	4,843	12,658
Recovered indemnities	58	928	2,143	2,551
Income from leasing operations	8,456	22,717	3,846	8,600
Other operating income	2,575	21,751	4,244	70,939
Total other operating income	**43,356**	**238,823**	**30,696**	**139,547**

Other operating income for the nine months of 2020 amounted to PLN 238,823 thousand and was higher by PLN 99,276 thousand or 71.1% than in the first nine months of 2019.

The level of income realised in the analysed periods was mainly affected by the settlement and accounting treatment of the sale of the Bank's Head Office property at Kasprzaka Street in Warsaw in the first quarter of 2020.

The total result on that operation amounted to PLN 43,564 thousand (gross) and was presented under other operating income (under Income from the sale or liquidation of tangible and intangible assets, amounting to PLN 110,848 thousand) and under other operating expenses (under items: Costs of sale or liquidation of tangible and intangible assets, amounting to PLN 64,371 thousand, and Other costs, amounting to PLN 2,914 thousand).

In three quarters of 2019, the Bank recognised an amount of PLN 42,435 thousand under other operating income (under Other operating income), resulting from the sale of the Bank’s organised part of enterprise dedicated to factoring activities in June 2019 to BGŻ BNP Paribas Faktoring Sp. z o.o. (currently: BNP Paribas Faktoring Sp. z o.o.). The amount of PLN 45,000 thousand was recognized in the first half of 2019, whereas in July 2019 the Bank and factoring entity made a final verification of the transferred values of net factoring receivables, which were the basis for calculation of the sales price at the end of June 2019. The resulting difference of PLN 2,565 thousand was recognised in the third quarter of 2019).

16. OTHER OPERATING EXPENSES

Other operating expenses	3Q 2020 from 01.07.2020 to 30.09.2020	3 quarters of 2020 from 01.01.2020 to 30.09.2020	3Q 2019 from 01.07.2019 to 30.09.2019	3 quarters of 2019 from 01.01.2019 to 30.09.2019
Loss on sale or liquidation of property, plant and equipment and intangible assets	(4,447)	(80,978)	(11,059)	(24,274)
Impairment allowances on other receivables	(1,877)	(11,146)	-	-
Provisions for restructuring of assets, litigation and claim and other liabilities	(47,448)	(78,259)	(61,724)	(71,646)
Debt collection	(12,534)	(36,147)	(10,743)	(32,221)
Donations made	(1,968)	(5,195)	(1,631)	(4,601)
Costs of leasing operations	(5,184)	(13,692)	(5,741)	(16,776)
Costs of compensations, penalties and fines	(2,446)	(4,619)	(234)	(2,843)
Other operating expenses	(7,351)	(18,041)	(8,729)	(12,363)
Total other operating expenses	**(83,255)**	**(248,077)**	**(99,861)**	**(164,724)**

Other operating expenses in 9 months of 2020 amounted to PLN 248,077 thousand and were higher by PLN 83,353 thousand (ie by 50.6%) compared to the same period last year.

Other operating expenses in 9 months of 2020 included:

- part of the settlement of the sale of real estate of the Bank's Head Office at Kasprzaka Street in Warsaw, made in the first quarter of 2020 in the amount of PLN 64,371 thousand, presented in position „Loss on sale or liquidation of property, plant and equipment and intangible assets";
- provision in the amount of PLN 26,626 thousand for a financial penalty imposed on the Bank in the decision of the President of the Office of Competition and Consumer Protection concerning illegal provision regarding currency spreads in loan agreements and provision for legal risk related to the old legal case of the exBGŻ client related to option in the amount of PLN 9,827 thousand presented in position „Provisions for restructuring of assets, litigation and claim and other liabilities";
- Impairment allowance on other receivables in the amount of PLN 11,146 thousand;
- correction of input VAT in the amount of PLN 4,396 thousand and a part of the settlement of the sale of real estate of the Bank's Head Office at Kasprzaka Street in Warsaw in the amount of PLN 2,914 thousand in position „other operating expenses".

In comparison to the condensed interim consolidated financial statement as of 30.09.2019, the Group changed the presentation of the provision for legal risk related to foreign currency loans by transferring the costs of creating provisions from the item Other operating costs to a separate item of the income statement: Result on account of provisions for legal risk related to foreign currency loans.

Other operating expenses for 9 months of 2019 include:

- provision in the amount of PLN 48.8 million for the proportional return of commission in the case of early repayment of the loan, as a result of the judgment of the Court of Justice of the European Union of 11 September 2019 in case C-383/18, concerning the consumer's right to reduce the total cost of the loan in the case of early repayment,
- provision in the amount of PLN 11.3 million for a court judgment unfavorable for the Bank concerning a corporate client option case;
- provision in the amount of PLN 6.4 million for operating loss related to incorrect execution of a treasury attachment in 2017.

17. INCOME TAX EXPENSE

	3Q 2020 from 01.07.2020 to 30.09.2020	3 quarters of 2020 from 01.01.2020 to 30.09.2020	3Q 2019 from 01.07.2019 to 30.09.2019	3 quarters of 2019 from 01.01.2019 to 30.09.2019
Current income tax	(72,424)	(195,703)	(94,711)	(190,135)
Deferred income tax	(28,642)	(84,533)	39,948	(6,940)
Total income tax expense	**(101,066)**	**(280,236)**	**(54,763)**	**(197,075)**
Profit before income tax	332,568	845,865	169,525	690,498
Statutory tax rate	19%	19%	19%	19%
Income taxes on gross profit	**(63,305)**	**(162,232)**	**(32,210)**	**(131,195)**
Receivables written-off	(1,083)	(3,466)	(5,622)	(6,874)
Non-tax-deductible tangible costs/income	(124)	44	(221)	(348)
PFRON	(377)	(1,258)	(477)	(1,438)
Prudential fee to the Bank Guarantee Fund	(4,158)	(36,373)	(2,340)	(29,266)
Impairment allowance on receivables	(869)	(3,677)	1,003	1,608
Tax on financial institutions	(15,889)	(44,545)	(13,148)	(40,061)
Other differences	(15,261)	(28,729)	(1,748)	10,499
Total income / tax expense of the Group	**(101,065)**	**(280,236)**	**(54,763)**	**(197,075)**

* The item "other differences" in the amount of PLN (28,729) thousand during 9 months of 2020 includes, among others, costs of the provision for potential claims resulting from proceedings regarding loans in CHF in the amount of PLN (18,720) thousand and the benefit resulting from the tax relief for research and development for 2019 in the amount of PLN 1,816 thousand, while the item "other differences" in the amount of PLN 10,499 thousand in the three quarters of 2019 includes, among others, the amount of the tax benefit resulting from the research and development relief for 2018 in the amount of PLN 12,863 thousand.

18. EARNINGS PER SHARE

	9 months to 30.09.2020	9 months to 30.09.2019
Basic		
Net profit	565,629	493,423
Weighted average number of ordinary shares (units)	147,418,918	147,418,918
Basic earnings (loss) per share (in PLN per one share)	3.84	3.35
Diluted		
Net profit used in determining diluted earnings per share	565,629	493,423
Weighted average number of ordinary shares (units)	147,418,918	147,418,918
Adjustments for:		
- stock options	108,738	-
Weighted average number of ordinary shares for the diluted earnings per share (units)	147,527,656	147,418,918
Diluted earnings (loss) per share (in PLN per one share)	3.83	3.35

In accordance with IAS 33 the Bank prepares the calculation of diluted net profit per share, taking into account the shares issued conditionally under incentive schemes described in Note 40. The calculation does not take into account those elements of the incentive schemes which had antidilutive effect in the presented reporting periods and which may potentially affect the dilution of profit per share in the future.

The basic earnings per share is calculated by dividing the net profit by the weighted average number of ordinary shares during the period.

The diluted earnings per share is calculated based on the ratio of net profit to the weighted average number of ordinary shares adjusted as if all potential dilutive ordinary shares had been converted to shares. The Bank has one category of dilutive potential ordinary shares: share options. Dilutive shares are calculated as the number of shares that would be issued if all share options were exercised at the market price determined as the average annual closing price of the Bank's shares.

19. CASH AND CASH BALANCES AT CENTRAL BANK

Cash and cash equivalents	30.09.2020	31.12.2019
Cash and other balances	2,914,860	2,566,518
Account in the National Bank of Poland	8,740	2,092,027
Gross cash and cash equivalents	**2,923,600**	**4,658,545**
Impairment allowances	(2)	(374)
Total cash and cash equivalents	**2,923,598**	**4,658,171**

Change of impairment allowances	9 months to 30.09.2020	9 months to 30.09.2019
Opening balance	**(374)**	**(112)**
Increases due to acquisition or origination	(1,029)	(1)
Decreases due to derecognition	899	192
Net changes in credit risk	502	-
Other changes (including foreign exchange differences)	-	(90)
Closing balance	**(2)**	**(11)**

20. AMOUNTS DUE FROM BANKS

Amounts due from banks	30.09.2020			31.12.2019		
	Gross balance sheet value	Impairment allowance	Net balance sheet value	Gross balance sheet value	Impairment allowance	Net balance sheet value
Current accounts	156,302	(121)	156,181	262,329	(534)	261,795
Interbank deposits	98,501	(2)	98,499	296,479	(4)	296,475
Loans and advances	3,190	(8)	3,182	7,097	(27)	7,070
Other receivables	404,991	(1,325)	403,666	114,323	(355)	113,968
Total amounts due from banks	**662,984**	**(1,456)**	**661,528**	**680,227**	**(920)**	**679,307**

Change of impairment allowances on amount due from banks	9 months to 30.09.2020	9 months to 30.09.2019
Opening balance	**(920)**	**(1,261)**
Increases due to acquisition or origination	(5,984)	(408)
Decreases due to derecognition	5,264	1,980
Changes due to the change in credit risk (net)	200	(1,699)
Other changes (including foreign exchange differences)	(16)	149
Closing balance	**(1,456)**	**(1,239)**

As at 30 September 2020 and 31 December 2019, amounts due from banks were classified to Phase 1.

21. DERIVATIVE FINANCIAL INSTRUMENTS

Trading derivatives (held for trading)	Nominal value	Fair value	
30.09.2020		Assets	Liabilities
Currency derivatives:			
Foreign Exchange Forward (FX Forward + NDF)	12,116,358	105,829	93,103
Currency Swap (FX Swap)	19,370,810	215,780	115,057
Currency Interest Rate Swaps (CIRS)	12,970,339	207,981	269,024
OTC currency options	4,087,270	171,129	163,956
Total currency derivatives:	**48,544,777**	**700,719**	**641,140**
Interest rate derivatives:			
Interest Rate Swap	34,300,958	738,152	690,188
Forward Rate Agreements (FRA)	4,300,000	-	7,805
OTC interest rate options	4,342,844	4,347	1,189
Total interest rate derivatives:	**42,943,802**	**742,499**	**699,182**
Other derivatives			
OTC commodity swaps	265,858	3,868	3,758
Currency Spot (FX Spot)	1,843,325	-	-
Total other derivatives:	**2,109,183**	**3,868**	**3,758**
Total trading derivatives:	**93,597,762**	**1,447,087**	**1,344,080**
including measured using models	93,597,762	1,447,087	1,344,080

Trading derivatives (held for trading)	Nominal value	Fair value	
31.12.2019		Assets	Liabilities
Currency derivatives:			
Foreign Exchange Forward (FX Forward + NDF)	12,776,533	90,807	174,184
Currency Swap (FX Swap)	18,483,784	189,130	115,288
Currency Interest Rate Swaps (CIRS)	12,004,222	133,287	164,022
OTC currency options	2,277,986	26,273	43,701
Total currency derivatives:	**45,542,525**	**439,497**	**497,195**
Interest rate derivatives:			
Interest Rate Swap	36,811,673	345,936	303,640
Forward Rate Agreements (FRA)	5,500,000	122	346
OTC interest rate options	4,569,927	10,332	9,479
Total interest rate derivatives:	**46,881,600**	**356,390**	**313,465**
Other derivatives			
OTC commodity swaps	221,292	4,999	4,977
Currency Spot (FX Spot)	2,450,189	-	-
Total other derivatives:	**2,671,481**	**4,999**	**4,977**
Total trading derivatives:	**95,095,606**	**800,886**	**815,637**
including measured using models	95,095,606	800,886	815,637

22. HEDGE ACCOUNTING

As at 30 September 2020, the Group used fair value hedge (**macro fair value hedge**).

Hedging relationship description	The hedges are used against interest rate risk, specifically changes in the fair value of fixed-rate assets and liabilities resulting from changes in a specific reference rate.
Hedged items	Fixed-rate PLN, EUR and USD current accounts are the hedged items.
Hedging instruments	Hedging instruments include standard IRS transactions, i.e. plain vanilla IRS in PLN, EUR and USD, in which the Group receives a fixed interest rate and pays a floating rate based on WIBOR 6M, WIBOR 3M, EURIBOR 3M, EURIBOR 1M, USD LIBOR 1M, USD LIBOR 6M.

IRS	Nominal value	Fair Value	
		Assets	Liabilities
30.09.2020	14,421,251	578,742	-
31.12.2019	6,506,139	224,532	1,626

Presentation of result on the hedged and hedging transactions	The change in fair value of hedging instruments is recognized in the Result on hedge accounting. Interest on IRS transactions and current accounts is recognized in Interest income.

The liabilities in the item "Adjustment of the fair value of hedged and hedging item" include the adjustment of the value of hedged instruments (deposits) amounting to:

30.09.2020 PLN 522,375 thousand

31.12.2019 PLN 199,584 thousand

The below table presents derivative hedging instruments at their nominal value as at 30 September 2020 and 31 December 2019 by residual maturity dates:

30.09.2020

Hedging derivatives	Fair value		Nominal value					
	positive	negative	< 1 month	1-3 months	3-12 months	1-5 years	> 5 years	Total
Interest rate agreements								
Swap (IRS)	578,742	-	500,000	681,072	71,567	11,084,103	2,084,509	14,421,251
Hedging derivatives - total	**578,742**	**-**	**500,000**	**681,072**	**71,567**	**11,084,103**	**2,084,509**	**14,421,251**

31.12.2019

Hedging derivatives	Fair value		Nominal value					
	positive	negative	< 1 month	1-3 months	3-12 months	1-5 years	> 5 years	Total
Interest rate agreements								
Swap (IRS)	224,532	1,626	-	400,000	1,246,294	3,343,237	1,516,608	6,506,139
Hedging derivatives - total	**224,532**	**1,626**	**-**	**400,000**	**1,246,294**	**3,343,237**	**1,516,608**	**6,506,139**

Additionally, as at 30 September 2020, the Group applies fair value hedge accounting (**micro fair value hedge**).

Hedging relationship description	The hedges are used against interest rate risk, specifically changes in the fair value of fixed-rate assets and liabilities resulting from changes in a specific reference rate.
Hedged items	Fixed rate bonds PS0422, DS1029, WS0428, FPC0427, PFR0925 and fixed rate EUR loan are the hedged items.
Hedging instruments	Hedging instruments are the standard IRS transactions, i.e. plain vanilla IRS, denominated in PLN and EUR, in which the Group receives a fixed interest rate and pays a floating rate based on WIBOR 6M and EURIBOR 1M.

IRS	Nominal value	Fair value	
		Assets	Liabilities
30.09.2020	1,847,531	-	62,833
31.12.2019	846,800	-	23,007

Presentation of result on the hedged and hedging transactions	The change in fair value of hedging transactions is recognized in the Result on hedge accounting. Interest on IRS transactions and hedged items is recognized in interest income.

The below tables present derivative hedging instruments at their nominal value as at 30 September 2020 and 31 December 2019 by residual maturity dates:

30.09.2020

Hedging derivatives	Fair value		Nominal					
	positive	negative	< 1 month	1-3 months	3-12 months	1-5 years	> 5 years	Total
Interest rate agreements								
Swap (IRS)	-	62,833	596	96,935	-	950,000	800,000	1,847,531
Hedging derivatives - total	**-**	**62,833**	**596**	**96,935**	**-**	**950,000**	**800,000**	**1,847,531**

	31.12.2019							
Hedging derivatives	Fair value		Nominal					
	positive	negative	< 1 month	1-3 months	3-12 months	1-5 years	> 5 years	Total
Interest rate agreements								
Swap (IRS)	-	23,007	561	1,122	95,117	750,000	-	846,800
Hedging derivatives - total	**-**	**23,007**	**561**	**1,122**	**95,117**	**750,000**	**-**	**846,800**

23. LOANS AND ADVANCES TO CUSTOMERS MEASURED AT AMORTISED COST

	30.09.2020			31.12.2019		
Loans and advances to customers measured at amortised cost	Gross balance sheet amount	Allowance	Net balance sheet amount	Gross balance sheet amount	Allowance	Net balance sheet amount
Loans and advances for:						
Non-banking financial entities	**565,582**	**(1,856)**	**563,726**	**576,521**	**(2,314)**	**574,207**
current account loans	323,449	(963)	322,486	275,915	(1,191)	274,724
investment loans	120,771	(357)	120,414	195,443	(614)	194,829
other loans	121,362	(536)	120,826	105,163	(509)	104,654
Retail customers:	**32,900,871**	**(1,260,411)**	**31,640,460**	**29,997,525**	**(1,158,392)**	**28,839,133**
mortgage loans	21,670,636	(372,260)	21,298,376	18,526,757	(301,880)	18,224,877
other loans	11,230,235	(888,151)	10,342,084	11,470,768	(856,512)	10,614,256
Corporate customers:	**40,118,226**	**(2,336,977)**	**37,781,249**	**40,365,447**	**(1,939,521)**	**38,425,926**
current account loans	19,016,200	(1,479,010)	17,537,190	20,395,569	(1,163,590)	19,231,979
investment loans	14,195,470	(626,006)	13,569,464	14,066,034	(571,781)	13,494,253
other loans	6,906,556	(231,961)	6,674,595	5,903,844	(204,150)	5,699,694
Including retail farmers:	**8,618,295**	**(465,704)**	**8,152,591**	**8,732,840**	**(408,748)**	**8,324,092**
current account loans	4,400,389	(240,356)	4,160,033	4,389,269	(206,874)	4,182,395
investment loans	4,195,145	(223,162)	3,971,983	4,328,560	(200,839)	4,127,721
other loans	22,761	(2,186)	20,575	15,011	(1,035)	13,976
Public sector institutions:	**103,169**	**(1,829)**	**101,340**	**129,915**	**(1,925)**	**127,990**
current account loans	69,372	(1,257)	68,115	93,583	(1,294)	92,289
investment loans	33,141	(565)	32,576	35,635	(623)	35,012
other loans	656	(7)	649	697	(8)	689
Lease receivables	**3,995,419**	**(120,312)**	**3,875,107**	**3,995,444**	**(126,057)**	**3,869,387**
Total loans and advances to customers measured at amortised cost	**77,683,267**	**(3,721,385)**	**73,961,882**	**75,064,852**	**(3,228,209)**	**71,836,643**

As at 30 September 2020, gross value of loans and advances to customers (total amount of portfolios measured at amortised cost and at fair value) amounted to PLN 79,511,249 thousand and increased by PLN 2,329,833 thousand or 3.0% compared to the end of 2019.

The portfolio of loans and advances to customers measured at amortised cost (gross value) amounted to PLN 77,683,267 thousand as at the end of the period under review, and increased by PLN 2,618,415 thousand or 3.5% compared to the end of 2019.

The structure of loans and advances to customers measured at amortised cost

Gross value of loans and advances to retail customers amounted to PLN 32,900,871 thousand (an increase of PLN 2,903,346 thousand or 9.7% compared to the end of 2019). Their share in the loan portfolio measured at amortised cost in the period under review amounted to 42.4% (+2.4 p.p. as compared to the end of 2019). More than half (65.9%) of the credit exposure of retail customers was belonged to real estate loans, which amounted to PLN 21,670,636 thousand at the end of September 2020. In the structure of housing loans, 77.4% of the loans belonged to loans granted in PLN, while 22.4% are loans granted in CHF (the share of loans in CHF decreased by 3.7 p.p. as compared to 31 December 2019.

The value of gross loans and advances portfolio to business customers (excluding individual farmers) amounted to PLN 31, 499 ,931 thousand (decrease by PLN 132, 676 thousand, i.e. by 0.4% as compared to the end of 2019). Their share in the loan portfolio measured at amortized cost at the end of September 2020 was 40.5% and decreased by 1.6 p.p. compared to the end of 2019. Almost half of the portfolio (46.4%) consists of current account loans.

In the second and third quarter of 2020, a reduction in the demand for loans on the part of business customers and a decrease in the share of current financing with a simultaneous increase in the value of deposits held, mainly in current accounts, became visible.

As at the end of September 2020, the value of the portfolio of loans granted to individual farmers amounted to PLN 8,618,295 thousand, showing a slight decrease of 1.3% compared to December 2019. Their share in the analysed loan portfolio at the end of September 2020 amounted to 11.1%, a decrease of 0.5 p.p. compared to the end of 2019.

The value of lease receivables amounted to PLN 3,995,419 thousand (after the decrease in June this year the value returned to the level observable at the end of 2019). Their share in the credit portfolio measured at amortised cost amounted to 5.1% at the end of September 2020.

The volume of loans granted to non-banking financial institutions and public sector institutions amounted in total to PLN 668,751 thousand, which was slightly below the level from the end of December 2019 (PLN 706,436 thousand).

The ratio of the share of impaired exposures in gross loans and advances to customers measured at amortised cost amounted to 6.4% at the end of September 2020 (+0.5 p.p. increase compared to the end of 2019).

Net loans and advances to customers by stage are as follows:

30.09.2020	Stage 1	Stage 2	Stage 3	Total	including POCI
Loans and advances for:	**66,596,416**	**6,284,416**	**4,802,435**	**77,683,267**	**381,326**
Non-banking financial entities	563,631	1,104	847	565,582	78
Retail customers	29,760,653	1,609,385	1,530,833	32,900,871	89,300
Corporate customers	32,714,114	4,307,530	3,096,582	40,118,226	291,905
including retail farmers	6,820,408	886,561	911,326	8,618,295	17
Public sector entities:	102,980	53	136	103,169	43
Lease receivables	3,455,038	366,344	174,037	3,995,419	-
Impairment allowance on loans and receivables for:	**(624,703)**	**(407,964)**	**(2,688,718)**	**(3,721,385)**	**(68,523)**
Non-banking financial entities	(1,460)	(28)	(368)	(1,856)	(22)
Retail customers	(212,681)	(184,844)	(862,886)	(1,260,411)	(14,996)
Corporate customers	(382,697)	(208,764)	(1,745,516)	(2,336,977)	(53,493)
including retail farmers	(35,300)	(61,896)	(368,508)	(465,704)	(6)
Public sector entities:	(1,722)	(10)	(97)	(1,829)	(12)
Lease receivables	(26,143)	(14,318)	(79,851)	(120,312)	-
Net loans and advances to customers measured at amortised cost	**65,971,713**	**5,876,452**	**2,113,717**	**73,961,882**	**312,803**

31.12.2019	Stage 1	Stage 2	Stage 3	Total	including POCI
Loans and advances for:	**63,874,173**	**6,910,703**	**4,279,976**	**75,064,852**	**442,061**
Non-banking financial entities	575,529	84	908	576,521	73
Retail customers	26,877,993	1,786,916	1,332,616	29,997,525	103,974
Corporate customers	33,009,871	4,606,005	2,749,571	40,365,447	337,974
including retail farmers	6,997,926	966,263	768,651	8,732,840	17
Public sector entities:	127,419	2,362	134	129,915	40
Lease receivables	3,283,361	515,336	196,747	3,995,444	-
Impairment allowance on loans and receivables for:	**(462,118)**	**(481,781)**	**(2,284,310)**	**(3,228,209)**	**(52,253)**
Non-banking financial entities	(1,907)	(10)	(397)	(2,314)	(21)
Retail customers	(185,466)	(206,902)	(766,024)	(1,158,392)	(11,089)
Corporate customers	(246,545)	(248,549)	(1,444,427)	(1,939,521)	(41,137)
including retail farmers	(34,731)	(77,123)	(296,894)	(408,748)	(4)
Public sector entities:	(1,756)	(82)	(87)	(1,925)	(6)
Lease receivables	(26,444)	(26,238)	(73,375)	(126,057)	-
Net loans and advances to customers measured at amortised cost	**63,412,055**	**6,428,922**	**1,995,666**	**71,836,643**	**389,808**

Impairment allowance for loans and advances measured at amortized cost:

Change in impairment allowances	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2020	**(462,118)**	**(481,781)**	**(2,284,310)**	**(3,228,209)**
Increase due to acquisition or origination	(232,521)	(61,781)	(98,300)	(392,602)
Decrease due to derecognition	38,828	18,026	92,496	149,350
Changes resulting from the change in credit risk (net)	21,236	87,029	(524,223)	(415,958)
Use of allowances	-	-	31,968	31,968
Other changes (including foreign exchange differences)	9,872	30,543	93,651	134,066
Balance at 30 September 2020	**(624,703)**	**(407,964)**	**(2,688,718)**	**(3,721,385)**

Change in impairment allowances	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2019	**(509,733)**	**(505,571)**	**(2,035,857)**	**(3,051,161)**
Increase due to acquisition or origination	(204,316)	(80,717)	(45,904)	(330,937)
Decrease due to derecognition	111,577	53,645	77,921	243,143
Changes resulting from the change in credit risk (net)	174,046	(47,597)	(382,999)	(256,550)
Use of allowances	-	12	26,555	26,567
Other changes (including foreign exchange differences)	(31,167)	(7,244)	53,174	14,763
Balance at 30 September 2019	**(459,593)**	**(587,472)**	**(2,307,110)**	**(3,354,175)**

Gross amount of foreign currency mortgage loans for retail customers (in PLN '000)

Loans by currency	30.09.2020	31.12.2019
CHF	4,854,527	4,839,915
EUR	47,996	49,088
PLN	16,765,600	13,634,997
USD	2,513	2,757
Total	**21,670,636**	**18,526,757**

Value of CHF loan portfolio

	30.09.2020			
Value of CHF loan portfolio	Gross balance sheet amount	including CHF exposures	Allowance	including CHF exposures
Loans and advances for:				
Non-banking financial entities	**565,582**	**-**	**(1,856)**	**-**
current account loans	323,449	-	(963)	-
investment loans	120,771	-	(357)	-
other loans	121,362	-	(536)	-
Retail customers:	**32,900,871**	**4,910,751**	**(1,260,411)**	**(214,230)**
mortgage loans	21,670,636	4,854,527	(372,260)	(202,655)
other loans	11,230,235	56,224	(888,151)	(11,575)
Corporate customers:	**40,118,226**	**152,098**	**(2,336,977)**	**(10,450)**
current account loans	19,016,200	140,146	(1,479,010)	(6,069)
investment loans	14,195,470	10,313	(626,006)	(4,378)
other loans	6,906,556	1,639	(231,961)	(3)
Including retail farmers:	**8,618,295**	**3,206**	**(465,704)**	**(485)**
current account loans	4,400,389	3,102	(240,356)	(485)
investment loans	4,195,145	104	(223,162)	-
other loans	22,761	-	(2,186)	-
Public sector institutions:	**103,169**	**-**	**(1,829)**	**-**
current account loans	69,372	-	(1,257)	-
investment loans	33,141	-	(565)	-
other loans	656	-	(7)	-
Lease receivables	**3,995,419**	**42,464**	**(120,312)**	**(7,168)**
Total loans and advances	**77,683,267**	**5,105,313**	**(3,721,385)**	**(231,848)**

	31.12.2019			
Value of CHF loan portfolio	Gross balance sheet amount	including CHF exposures	Allowance	including CHF exposures
Loans and advances for:				
Non-banking financial entities	**576,521**	**-**	**(2,314)**	**-**
current account loans	275,915	-	(1,191)	-
investment loans	195,443	-	(614)	-
other loans	105,163	-	(509)	-
Retail customers:	**29,997,525**	**4,898,041**	**(1,158,392)**	**(173,819)**
mortgage loans	18,526,757	4,839,915	(301,880)	(164,191)
other loans	11,470,768	58,126	(856,512)	(9,628)
Corporate customers:	**40,365,447**	**148,434**	**(1,939,521)**	**(8,532)**
current account loans	20,395,569	135,201	(1,163,590)	(5,542)
investment loans	14,066,034	11,096	(571,781)	(2,986)
other loans	5,903,844	2,137	(204,150)	(4)
Including retail farmers:	**8,732,840**	**3,447**	**(408,748)**	**(261)**
current account loans	4,389,269	3,306	(206,874)	(261)
investment loans	4,328,560	141	(200,839)	-
other loans	15,011	-	(1,035)	-
Public sector institutions:	**129,915**	**-**	**(1,925)**	**-**
current account loans	93,583	-	(1,294)	-
investment loans	35,635	-	(623)	-
other loans	697	-	(8)	-
Lease receivables	**3,995,444**	**42,710**	**(126,057)**	**(7,558)**
Total loans and advances	**75,064,852**	**5,089,185**	**(3,228,209)**	**(189,909)**

24. LOANS AND ADVANCES TO CUTOMERS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	30.09.2020	31.12.2019
Subsidised loans	1,640,581	1,974,396
Total loans and advances to customers measured at fair value through profit or loss	**1,640,581**	**1,974,396**

Below table presents a comparison of the fair value of subsidised loans with their gross balance sheet amount, which would have been recognized if the Group - in accordance with the requirements of IFRS 9 - did not reclassify these portfolios to fair value through profit or loss.

	Gross balance sheet value	Fair value
30.09.2020	1,827,982	1,640,581
31.12.2019	2,116,564	1,974,396

Subsidised loans at fair value	Stage 1	Stage 2	Stage 3	Total
30.09.2020	1,254,278	252,796	133,507	1,640,581
31.12.2019	1,505,517	322,161	146,718	1,974,396

25. SECURITIES MEASURED AT AMORTISED COST

	30.09.2020			31.12.2019		
Securities	Gross balance sheet amount	Allowance	Net balance sheet amount	Gross balance sheet amount	Allowance	Net balance sheet amount
issued by domestic banks – covered bonds	5,584	-	5,584	5,231	(64)	5,167
issued by domestic banks	2,929,189	(4)	2,929,185	28,194	(296)	27,898
issued by other financial entities	300,592	-	300,592	-	-	-
issued by central governments – Treasury bonds	18,186,407	(88)	18,186,318	17,427,475	(72)	17,427,403
issued by non-financial entities – bonds	324,608	(12,235)	312,373	380,660	(21,691)	358,969
issued by local governments – municipal bonds	98,614	(368)	98,246	97,611	(403)	97,208
Total securities measured at amortised cost	**21,844,994**	**(12,695)**	**21,832,298**	**17,939,171**	**(22,526)**	**17,916,645**

30.09.2020	Stage 1	Stage 2	Stage 3	Total	including POCI
Securities	**21,647,905**	**4,662**	**192,427**	**21,844,994**	**188,272**
issued by domestic banks – covered bonds	5,584	-	-	**5,584**	-
issued by domestic banks	2,929,189	-	-	**2,929,189**	-
issued by other financial entities	300,592	-	-	**300,592**	-
issued by central governments – Treasury bonds	18,186,407	-	-	**18,186,407**	-
issued by non-financial entities – bonds	127,519	4,662	192,427	**324,608**	188,272
issued by local governments – municipal bonds	98,614	-	-	**98,614**	-
Impairment allowances on securities	**(871)**	**(477)**	**(11,347)**	**(12,695)**	**(7,192)**
issued by domestic banks	(4)	-	-	**(4)**	-
issued by central governments – Treasury bonds	(88)	-	-	**(88)**	-
issued by non-financial entities – bonds	(411)	(477)	(11,347)	**(12,235)**	(7,192)
issued by local governments – municipal bonds	(368)	-	-	**(368)**	-
Total net securities measured at amortised cost	**21,647,034**	**4,185**	**181,080**	**21,832,298**	**181,080**

31.12.2019	Stage 1	Stage 2	Stage 3	Total	including POCI
Securities	**17,706,009**	**24,487**	**208,675**	**17,939,171**	**204,520**
issued by domestic banks – covered bonds	5,231	-	-	5,231	-
issued by domestic banks	28,194	-	-	28,194	-
issued by central governments – Treasury bonds	17,427,475	-	-	17,427,475	-
issued by non-financial entities – bonds	147,498	24,487	208,675	380,660	204,520
issued by local governments – municipal bonds	97,611	-	-	97,611	-
Impairment allowances on securities	**(1,193)**	**(3,619)**	**(17,714)**	**(22,526)**	**(13,559)**
issued by domestic banks – covered bonds	(64)	-	-	(64)	-
issued by domestic banks	(296)	-	-	(296)	-
issued by central governments – Treasury bonds	(72)	-	-	(72)	-
issued by non-financial entities – bonds	(358)	(3,619)	(17,714)	(21,691)	(13,559)
issued by local governments – municipal bonds	(403)	-	-	(403)	-
Total net securities measured at amortised cost	**17,704,816**	**20,868**	**190,961**	**17,916,645**	**190,961**

26. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

Papiery wartościowe wyceniane według wartości godziwej przez rachunek zysków i strat	30.09.2020	31.12.2019
	Balance sheet	
Bonds issued by non-financial entities	54,218	53,902
Bonds convertible to non-financial institutions' shares	63,166	24,191
Equity instruments	246,449	163,334
Participations units	42	327
Total financial instruments measured at amortised cost (fair value through profit or loss)	**363,874**	**241,754**

27. SECURITIES MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Debt securities	30.09.2020	31.12.2019
Treasury bills of NBP	3,999,922	-
Bonds issued by banks	2,940,779	530,927
Treasury bonds issued by central governments	5,528,892	7,422,431
Bonds issued by other financial institutions	2,237,662	-
Securities measured at fair value through other comprehensive income	**14,707,256**	**7,953,358**

The valuation of debt securities measured at fair value through other comprehensive income is based on the discounted cash flow model using current market interest rates, taking into account the issuer's credit risk in the amount corresponding to the parameters observed on the market for transactions with similar credit risk parameters and similar time horizon. The measurement does not take into account assumptions that cannot be observed directly on the market.

28. INTANGIBLE ASSETS

Intangible assets	30.09.2020	31.12.2019
Licenses	408,143	279,675
Other intangible assets	8,136	8,299
Expenditure on intangible assets	136,296	231,971
Total intangible assets	**552,575**	**519,945**

In the three quarters of 2020, the net balance sheet amount of intangible assets acquired by the Group was PLN 152,915 thousand (in the three quarters of 2019 it amounted to PLN 159,701 thousand), while the net balance sheet value of sold and liquidated components amounted to PLN 3,272 thousand (in the three quarters of 2019 - PLN 1,202 thousand).

With regard to intangible assets that are not yet available for use, i.e. in progress, the Group identifies evidence of impairment on an ongoing basis.

As at 30 September 2020 and 31 December 2019, the Group did not have any significant contractual obligations incurred in connection with the acquisition of intangible assets.

29. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment	30.09.2020	31.12.2019
Fixed assets, including:	502,485	542,519
land and buildings	138,781	202,586
IT equipment	163,025	145,474
office equipment	47,236	41,593
other, including leasehold improvements	153,443	152,866
Fixed assets under construction	26,543	94,174
Right of use, including:	594,965	590,053
land and buildings	578,795	572,275
cars	16,053	13,487
IT equipment	-	4,104
other, including leasehold improvements	117	187
Total property, plant and equipment	**1,123,993**	**1,226,746**

In the three quarters of 2020, the net balance sheet amount of the components included in property, plant and equipment acquired by the Group was PLN 63,010 thousand (in the three quarters of 2019 it amounted to PLN 255,076 thousand), while the net balance sheet value of sold and liquidated components amounted to PLN 75,195 thousand (in the three quarters of 2019 it amounted to PLN 10,006 thousand).
As at 30 September 2020, the Group have significant contractual liabilities incurred in connection with the acquisition of property, plant and equipment in the amount of PLN 18,434 thousand (there were no significant liabilities as of 31 December 2019).

30. LEASES

Group as a lessee

The Group is a party to lease agreements with respect to underlying asset components such as:

- real estate,
- motor vehicles,
- land, including the right of perpetual usufruct of land,
- CDMs,
- equipment items,
- IT equipment.

The lease period of motor vehicles ranges from 1 to 5 years. The contracts contain extension options. The Group also concludes leaseback agreements for motor vehicles.

The Group is a party to real estate lease agreements. The contracts are concluded for a definite period from 1 to 30 years and for an indefinite period. In the case of contracts for an indefinite period, the Group determines the lease period based on the notice period. The agreements provide for variable lease fees depending on the index [e.g. GUS, HICP].

The Group is a party to land lease agreements for an indefinite period, and the right of perpetual usufruct of land received for a period of 40 to 100 years. Lease payments are valorized in accordance with the Land Management Act.

	30.09.2020	30.09.2019
Lease expenses recognized in the statement of profit or loss	**(101,713)**	**(111,262)**
- interest on lease liabilities	(5,178)	(6,456)
- depreciation of right of use assets	(92,197)	(91,863)
- expenses related to short-term lease (recognized in general administrative expenses)	(4,338)	(12,943)

Undiscounted lease payments by maturity	30.09.2020	31.12.2019
< 1 year	120,124	118,827
1-5 years	365,730	350,628
> 5 years	190,274	198,954
Total	**676,129**	**668,409**

	30.09.2020	31.12.2019
Book value of liabilities due to discounted lease payments	**629,323**	**602,192**

31. OTHER ASSETS

Other assets:	30.09.2020	31.12.2019
Receivables from contracts with customers:		
sundry debtors	302,267	332,647
accrued income	124,354	116,651
payment card settlements	32,150	30,566
social insurance settlements	7,675	6,387
Other:		
interbank and intersystem settlements	262,000	288,740
deferred expenses	40,152	41,617
tax and other regulatory receivables	43,524	74,232
other lease receivables	24,207	34,738
other	74,253	68,344
Total other assets (gross)	**910,582**	**993,922**
Impairment allowances on other receivables from sundry debtors	(100,238)	(109,077)
Total other assets (net)	**810,344**	**884,845**

32. AMOUNTS DUE TO CENTRAL BANK

Amounts due to the Central Bank	30.09.2020	31.12.2019
Overdraft on the current account in the Central Bank	106,994	-

33. AMOUNTS DUE TO BANKS

Amounts due to banks	30.09.2020	31.12.2019
Current accounts	958,651	593,160
Interbank deposits	707,376	-
Loans and advances received	3,806,916	3,682,321
Other liabilities	1,152,265	209,783
Total amounts due to banks	**6,625,208**	**4,485,264**

As at 30 September 2020, „Other liabilities" also include liabilities from securities sold with a repurchase clause in the amount of PLN 677,891 thousand.

There were no breaches of contractual provisions and covenants related to the financial situation of the Bank and disclosure obligations in three quarters of 2020 and 2019.

34. AMOUNTS DUE TO CUSTOMERS

Amounts due to customers	30.09.2020	31.12.2019
NON-BANKING FINANCIAL INSTITUTIONS	**2,341,461**	**2,443,792**
Current accounts	1,888,103	375,256
Term deposits	452,550	2,068,517
Other liabilities	808	19
RETAIL CUSTOMERS	**42,363,968**	**42,350,458**
Current accounts	33,159,753	27,275,384
Term deposits	8,823,299	14,753,587
Other liabilities	380,916	321,487
CORPORATE CUSTOMERS	**48,865,680**	**40,338,786**
Current accounts	44,534,880	29,239,743
Term deposits	4,113,613	10,336,908
Other liabilities	217,187	762,135
INCLUDING FARMERS	**2,061,331**	**1,942,191**
Current accounts	1,980,724	1,827,333
Term deposits	68,359	105,709
Other liabilities	12,248	9,149
PUBLIC SECTOR CUSTOMERS	**1,308,907**	**1,001,948**
Current accounts	1,065,479	788,034
Term deposits	242,277	212,777
Other liabilities	1,151	1,137
Total amounts due to customers	**94,880,015**	**86,134,984**

As at the end of September 2020, amounts due to customers amounted to PLN 94,880,015 thousand and were higher by PLN 8,745,031 thousand, i.e. by 10.2% as compared to the end of 2019, despite a significant decrease of interest rates on bank deposits as a result of interest rate cuts to the level close to zero.

In terms of entities, the increase mainly concerned amounts due to business entities (which as at the end of September 2020 amounted to PLN 48,865,680 thousand), the volume of which increased by PLN 8,526,894 thousand, i.e. by 21.1% as compared to the end of 2019 (increase in current deposits by PLN 15,295,137 thousand or 52.3%, with a decrease in term deposits by PLN 6,223,295 thousand). The share of this segment in the total amounts due to customers increased to 51.5% compared to 46.8% at the end of December 2019.

As at the end of September 2020, the volume of retail deposits was similar to the level at December 2019, and amounted to PLN 42,363,967 thousand. At the same time, the share of deposits from this customer group in the total structure of amounts due to customers decreased to 44.7%, compared with 49.2% as at the end of 2019.

Deposits from non-bank financial institutions as at the end of September 2020 amounted to PLN 2,341,461 thousand and were 4.2% lower than in December 2019.

The volume of deposits from public sector institutions increased by PLN 306,959 thousand (or 30.6%) to PLN 1,308,907 thousand.

<u>The share of current accounts</u> in the structure of total amounts due to customers amounted to 85.0% at the end of September 2020, recording an 18.0 p.p. increase compared to the end of 2019. Funds deposited in current accounts amounted to PLN 80,648,215 thousand and increased by PLN 22,969,798 thousand or 39.8%. The increase affected all groups of customers: business entities (+PLN 15,295,137 thousand, i.e. by 52.3%), retail customers (+PLN 5,884,369 thousand, i.e. by 21.6%), non-bank business entities (+PLN 1,512,847 thousand, i.e. by 403.2%) and public sector institutions (+PLN 277,445 thousand, i.e. by 35.2%).

<u>The share of term deposits</u> in the structure of amounts due to customers in the analysed period amounted to 14.4%, and decreased by 17.4 p.p. compared to the end of 2019. In value respect, term deposits decreased by PLN 13,740,050 thousand, i.e. by 50.2% as compared to December 2019 and amounted to PLN 13,631,739 thousand. The decrease mainly concerned business entities and retail customers (by: PLN 6,223,295 thousand and PLN 5,930,288 thousand, respectively).

<u>The share of other liabilities</u> in the structure of amounts due to customers amounted to 0.6% (a decrease of 0.6 p.p. as compared to December 2019). Their volume amounted to PLN 600,062 thousand.

35. DEBT SECURITIES ISSUED

	30.09.2020	31.12.2019
Debt securities issued	**1,504,164**	**2,179,052**

Debt securities issued	9 months to 30.09.2020	9 months to 30.09.2019
Opening balance	**2,179,052**	**2,179,424**
Purchase of deposit certificates	(674,873)	-
Change due to discount, interest, commissions and fees on deposit certificates settled according to EIR, exchange rate differences	(15)	-
Closing balance of debt securities issued	**1,504,164**	**2,179,424**

In December 2017, SPV issued bonds for the total amount of PLN 2,180,850 thousand with the maximum original maturity by 27.04.2032. Collateral for the repayment of bonds are receivables from loans and borrowings subject to securitization. The transaction of securitization of the cash and car loan portfolio is described in Note 45.

36. SUBORDINATED LIABILITIES

Subordinated liabilities	30.09.2020	31.12.2019
	1,975,455	**1,882,064**

Change in the balance of subordinated liabilities	9 months to 30.09.2020	9 months to 30.09.2019
Opening balance	**1,882,064**	**1,875,769**
Change in interest, commissions and fees measured according to EIR	(244)	(1,635)
Foreign exchange differences	93,635	46,400
Closing balance	**1,975,455**	**1,920,534**

37. OTHER LIABILITIES

Other liabilities	30.09.2020	31.12.2019
Liabilities due to contracts with customers		
Sundry creditors	213,305	214,377
Payment card settlements	98,400	104,886
Deferred income	92,686	114,931
Escrow account liabilities	3,458	9,830
Social insurance settlements	38,738	27,440
Other liabilities		
Interbank and intersystem settlements	394,950	480,839
Provisions for non-personnel expenses	259,273	341,305
Provisions for other employees-related liabilities	192,636	336,827
Provision for unused annual holidays	44,416	44,570
Other regulatory liabilities	59,055	64,183
Other lease liabilities	31,092	39,511
Other	72,457	114,715
Total other liabilities	**1,500,465**	**1,893,414**

38. PROVISIONS

	30.09.2020	31.12.2019
Provision for restructuring	68,249	113,076
Provision for retirement benefits and similar obligations	18,207	16,209
Provision for contingent financial liabilities and guarantees granted	213,658	233,179
Provisions for litigation and claims	236,478	166,073
Other provisions	4,334	2,524
Total provisions	**540,925**	**531,061**

Provisions for restructuring	9 months to 30.09.2020	9 months to 30.09.2019
Opening balance	**113,076**	**171,889**
Provisions recognition	7,698	3,312
Provisions utilization	(52,499)	(37,244)
Provision acquired as a result of merger	-	(687)
Other changes	(27)	(10,788)
Closing balance	**68,249**	**126,482**

Provision for retirement benefits and similar obligations	9 months to 30.09.2020	9 months to 30.09.2019
Opening balance	**16,209**	**14,703**
Provisions recognition	3,126	2,671
Provisions usage	(820)	-
Provisions release	(308)	(1,431)
Closing balance	**18,207**	**15,943**

Provisions for contingent financial liabilities and guarantees granted	9 months to 30.09.2020	9 months to 30.09.2019
Opening balance	**233,179**	**149,530**
Provisions recognition	527,366	289,909
Provisions release	(549,517)	(297,189)
Other changes	2,630	8,778
Closing balance	**213,658**	**151,028**

Provisions for litigation and claims	9 months to 30.09.2020	9 months to 30.09.2019
Opening balance	**166,073**	**62,156**
Provisions recognition	109,294	71,412
Provisions usage	(30,130)	(19,287)
Provisions release	(8,760)	(9,520)
Other changes	-	(1,118)
Closing balance	**236,478**	**103,643**

Other provisions	9 months to 30.09.2020	9 months to 30.09.2019
Opening balance	**2,524**	**39,134**
Provisions recognition	14	8,300
Provisions usage	(25)	-
Provisions release	(5)	(652)
Other changes	1,826	(1,824)
Closing balance	**4,334**	**44,958**

39. CASH AND CASH EQUIVALENTS

For the purpose of preparation of the statement of cash flows, the balance of cash and cash equivalents comprises the following balances with maturity shorter than three months.

Cash and cash equivalents	30.09.2020	31.12.2019
Cash and balances at Central Bank (Note 19)	2,923,598	4,658,171
Current accounts of banks and other receivables	156,302	173,524
Interbank loans	98,500	-
Loans and advances	148	1,514
Total cash and cash equivalents	**3,178,548**	**4,833,209**

40. SHARE-BASED PAYMENTS

The Bank has adopted the “Remuneration policy for individuals with a material impact on the risk profile of BNP Paribas S.A.".

The principles and assumptions contained in the Policy guarantee the existence of a rational, balanced and controllable remuneration policy, consistent with the accepted risk level, standards and values of BNP Paribas S.A. and relevant laws and regulations, in particular the Minister of Development and Finance Regulation dated 6 March 2017 on the risk management system and internal control system, remuneration policy and detailed method of estimating internal capital in banks and recommendations included in the CRD4 Directive.

Pursuant to *the Remuneration policy for Individuals with a significant impact on the Bank's risk profile* as amended on 31 December 2019 and regulations adopted on its basis, i.e. *the Rules of assigning and paying variable remuneration components to members of the Board of BNP Paribas Bank Polska S.A.* and *the Rules of assigning and paying variable remuneration components to individuals with a significant impact on the risk profile other than the members of the Board of BNP Paribas Bank Polska S.A.*, the form of a financial instrument in which a part of the variable remuneration is paid has been changed from phantom shares to ordinary shares (the change does not apply to persons who have terminated their cooperation with the Bank).

On 31 January 2020, the Extraordinary General Meeting of the Bank adopted a resolution on the introduction of *the Incentive Scheme for persons significantly Impacting the Bank's risk profile (MRT)*.

Phantom share-based programme

As at 31 December 2019, there was a variable remuneration scheme in force, granted in the form of a financial instrument - phantom shares, which will be settled in subsequent periods.

The variable remuneration granted in form of phantom shares is paid as cash equivalent with a value corresponding to the number of shares granted. The payment shall be made after the expiry of the retention period.

Financial instruments (phantom shares) - programme amendments for III quarters of 2020 and 2019.

	30.09.2020		**31.12.2019**	
	Financial instrument		**Financial instrument**	
	units	value (PLN ‘000)	units	value (PLN ‘000)
Opening balance	**294,738**	**15,628**	**182,913**	**10,684**
granted in a given period	13,586	928	170,853	8,440
executed during the period	(46,852)	(3,112)	(59,028)	(3,496)
Closing balance	**261,472**	**13,444**	**294,738**	**15,628**

In the three quarters of 2020, payments were made for the exercise of rights to phantom shares deferred (under the program for 2015, 2016 and 2017) in the amount of PLN 3,112 thousand.

The table below presents the conditions of the phantom share purchase plan for 2020

Type of transaction under IFRS 2	Cash-settled share-based payment transactions
Program announcement date	21 June 2012 - entry into force of the Supervisory Board Resolution approving the Remuneration Policy.
The commencement date for granting of phantom shares	11 March 2020
End date for granting phantom shares	18 March 2020

Programme based on the Bank's shares

There is currently a new variable remuneration scheme in place for the Bank's employees with a significant impact on risk profile. The variable remuneration is divided into a part granted in the form of a financial instrument (Bank shares) and the remaining part granted in cash.

The right to variable remuneration expressed in the form of the Bank's shares is granted by issuing subscription warrants in a number corresponding to the number of shares granted, one warrant entitles to acquire one share. The payment of the variable remuneration expressed in the form of the Bank's shares, i.e. taking up the Bank's shares through the exercise of rights from subscription warrants, takes place after the expiry of the retention period.

The Bank will grant the participants of the Incentive Scheme subscription warrants, which will result in the right to acquire a new Series M shares issued by the Bank under the conditional share capital increase. The number of Series M shares shall not exceed 576,000. The rights to acquire Series M shares shall be granted taking into account the principles of dividing the variable remuneration into the non-deferred and deferred portions, as defined in the Remuneration Policy and the regulations adopted on its basis. Series M shares will constitute a component of variable remuneration for persons having a significant impact on the Bank's risk profile within the meaning of the Regulation of the Minister of Finance dated 6 March 2017 on the risk management system and internal control system, remuneration policy and detailed method of estimating internal capital in banks (Journal of Laws 2017, item 637, as amended).

In order to implement the Incentive Programme, the Extraordinary General Meeting of the Bank also adopted resolutions on the issue of subscription warrants and conditional increase of the share capital through the issue of Series M shares, depriving the existing shareholders of the subscription right to warrants and to Series M shares, amending the Bank's Articles of Association and dematerialising and applying for the admission of Series M shares to trading on a regulated market.

Warrants and shares will be issued to eligible persons in 2021-2026, on dates specified in the aforementioned resolutions. The first subscription warrants of Series A1 and A2 shall be issued by 31 March 2021, and the rights resulting from Series A1 warrants may be exercised from 1 April 2021 to 30 September 2021.

On 24 April 2020, the Bank obtained a decision of the Polish Financial Supervision Authority on the amendments to the Articles of Association resulting from this Resolution, and on 14 May 2020 the conditional share capital increase was registered by the Court.

The amount and the division into the non-deferred and deferred portions of variable remuneration for employees identified as MRT is determined in accordance with the Bank's Remuneration Policy and regulations adopted on its basis. The regulations contain information on the annual bonus levels assigned to particular appraisals:

1. the part constituting at least 50% is assigned in the form of the Bank's shares (which will be acquired by exercising rights from subscription warrants);
2. the part of variable remuneration not less than 40% of that remuneration is deferred. The deferral period is at least 3 years. In the case of assignment of variable remuneration in an amount higher than the amount considered as particularly high, the deferral period is a maximum of 5 years. The deferred portion of the variable remuneration shall be divided into equal portions according to the number of years of the deferral period.

In order to ensure uniform and lawful conditions for the acquisition of the right to remuneration and its payment, remuneration shall be paid to persons having a material impact on the risk profile of the Bank taking into account the principles of suitability, proportionality and non-discrimination.

The Bank's rules include the possibility to withhold or limit the payment of variable remuneration where the Bank does not meet the combined buffer requirement:

1. The Bank shall be prohibited from paying assigned variable remuneration in excess of the maximum amount to be paid (the so-called MDA) in a situation where the Bank does not meet the combined buffer requirement within the meaning and under the rules set out in Articles 55 and 56 of the Act on macro-prudential supervision.
2. In the event when the Bank does not meet the combined buffer requirement, then before the MDA is calculated, the Bank:
   - does not undertake commitments to pay variable remuneration or discretionary pension benefits;

- does not make variable remuneration payments if the obligation to pay them arose during the period in which the Bank did not meet the combined buffer requirement.

If the legal relationship between the Bank and a given person having a material impact on the Bank's risk profile ceases to exist or if the position is excluded from the list, the remuneration is paid provided that the requirements specified in the Remuneration Policy for persons having a material impact on the risk profile of BNP Paribas Bank Polska S.A. are met.

A person is entitled to variable remuneration, provided that he/she has not been charged and is not subject to criminal or disciplinary sanctions.

The number of warrants granted for 2019 under the non-deferred portion of variable remuneration to be issued in 2021 is maximum 94,108 pieces.

In the period up to 30 September 2020, in connection with the bonus granted for 2019 and estimated for 2020, the Bank recognised the amount of PLN 6,316 thousand in costs and equity, with the bonus for 2020 (the so-called grant date) to be granted in 2021.

Financial instruments (shares - deferred portion) 30.09.2020.

	30.09.2020	
	Financial instrument	
	units	value (PLN ‘000)
Opening balance	-	-
granted in a given period	68,910	4,638
Closing balance	**68,910**	**4,638**

The table below presents the terms and conditions of the Share/Warrants Purchase Plan for 2020

Type of transaction under IFRS 2	Share-based payment transactions
Program announcement date	31 January 2020 – entry into force of the Supervisory Board Resolution approving the Remuneration Policy.
The commencement date for granting of shares	11 March 2020
End date for granting shares	18 March 2020

41. ADDITIONAL INFORMATION REGARDING THE STATEMENT OF CASH FLOWS

Cash flows from operating activities – other adjustments	9 months ended 30.09.2020	9 months ended 30.09.2019
FX differences from subordinated loans	93,635	46,400
IFRS 16 impact on liabilities	-	(596,492)
IFRS 16 impact on assets	-	610,497
Securities measurement through profit or loss	(146,684)	210,784
Allowance for securities	9,831	(4,288)
Other adjustments	(15,141)	7,587
Cash flows from operating activities – total other adjustments	**(58,359)**	**274,488**

42. CONTINGENT LIABILITIES

The following table presents the value of liabilities granted and received by the Bank.

Contingent liabilities	30.09.2020	31.12.2019
Contingent commitments granted	**35,863,675**	**31,087,503**
financial commitments	29,225,212	24,293,205
Guarantees	6,638,463	6,794,298
Contingent commitments received	**20,834,787**	**21,443,112**
financial commitments	12,786,321	12,127,379
Guarantees	8,048,466	9,315,733

43. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Based on the methods used to determine fair value, the Bank classifies particular assets and liabilities into the following categories:

Level 1
Assets and liabilities measured on the basis of market quotations available on active markets for identical instruments.

Level 2
Assets and liabilities measured using valuation techniques based on directly or indirectly observed market quotations or other information based on market quotations.

Level 3
Assets and liabilities measured using valuation techniques where input data is not based on observable market data.

The Bank periodically (at least quarterly) assigns individual assets and liabilities to particular levels of the fair value hierarchy. The basis for classification to particular levels of the valuation hierarchy is the input data used for the valuation, i.e. market quotes or other information. The lowest level of input data used for the valuation, having a significant impact on determining the fair value, determines the classification of an asset or liability to a particular hierarchy level.

If the input data is changed to data classified to another level, e.g. as a result of changes in the valuation methodology or changes in market data sources, the Bank transfers the asset or liability to the appropriate level of measurement in the reporting period in which the change occurred.

In the three quarters of 2020, the Bank did not make any changes in the method of fair value measurement that would result in the transfer of financial assets and liabilities between levels.

As at 30 September 2020, particular instruments were included in the following valuation levels:

1. the first level: Treasury bonds and bonds issued by European Investment Bank (fair value is determined directly by reference to published active market quotations);
2. the second level: interest rate options in EUR, USD and GBP, FX options, base interest rate and FX swaps maturing within 10 years, FRA maturing within 1 year, FX Forward, NDF and FX swaps maturing within 1 year, commodity swaps maturing within 1 year, interest rate swaps maturing within 10 years, structured instruments (fair value determined using measurement techniques which are based on available, verifiable market data);
3. the third level: interest rate options in PLN, FX options maturing over 1 year, FX Forward, NDF and FX swaps maturing over 1 year, base interest rate and FX swaps maturing over 10 years, commodity swaps maturing over 1 year, interest rate swaps with residual maturity exceeding 10 years, structured instruments (fair value determined using measurement techniques (models) which are not based on available, verifiable market data), derivatives for which significant Fair Value Correction or Credit Value Adjustment was created and corporate bonds other than CATALYST-listed ones, shares which are not listed on the WSE, subsidized loans (fair value determined using measurement techniques (models) which are not based on available, verifiable market data, i.e. in cases other than those described in 1 and 2).

The table below presents classification of assets and liabilities re-measured to fair value in the interim condensed consolidated financial statements into three categories:

30.09.2020	Level 1	Level 2	Level 3	Total
Assets measured at fair value:	**14,707,298**	**1,390,331**	**2,696,488**	**18,794,116**
Derivative financial instruments	-	1,032,115	414,972	1,447,087
Hedging instruments	-	358,216	220,526	578,742
Financial instruments measured at fair value through other comprehensive income	14,707,256	-	-	14,707,256
Financial instruments measured at fair value through profit or loss	42	-	363,833	363,875
Loans and advances to customers measured at fair value through profit or loss	-	-	1,640,581	1,640,581
Investment property	-	-	56,577	56,577
Liabilities measured at fair value:	**-**	**1,036,011**	**370,903**	**1,406,914**
Derivative financial instruments	-	973,178	370,903	1,344,080
Hedging instruments	-	62,833	-	62,833

31.12.2019	Level 1	Level 2	Level 3	Total
Assets measured at fair value:	**7,953,400**	**633,897**	**2,664,206**	**11,251,503**
Derivative financial instruments	-	500,072	300,814	800,886
Hedging instruments	-	133,540	90,992	224,532
Financial instruments measured at fair value through other comprehensive income	7,953,358	-	-	7,953,358
Financial instruments measured at fair value through profit or loss	42	285	241,427	241,754
Loans and advances to customers measured at fair value through profit or loss	-	-	1,974,396	1,974,396
Investment property	-	-	56,577	56,577
Liabilities measured at fair value:	**-**	**532,589**	**307,681**	**840,270**
Derivative financial instruments	-	509,582	306,055	815,637
Hedging instruments	-	23,007	1,626	24,633

In the case of some derivatives there was a change of valuation level from 3 to 2 due to reduction of time to maturity. Two of the transactions migrated from valuation level 2 to level 3 due to applied fair value adjustment for credit risk.

The fair value of level 2 and 3 financial instruments is determined using the measurement techniques (e.g. models).

The input data used for purposes of valuation of level 2 and 3 instruments include foreign exchange rates, yield curves, reference rates, changes in foreign exchange rates, reference rates, stock market indices and stock prices, swap points, basis spreads, stock market index values and futures prices.

In the case of derivative financial instruments classified to level 3, the unobservable parameters are correlations between stock exchange indices, correlations between exchange rates and stock exchange indices and implied volatilities of shares listed on the WSE and the WIG20 index.

As regards level 3 municipal bonds, the credit risk margin is a non-observable parameter which is replaceable with the market margin for instruments within similar characteristics. The effect of changes in the credit margin on changes in the fair value is considered immaterial.

Presented below are changes in the measurement of level 3 assets and liabilities as well as amounts charged to profit or loss and statement of comprehensive income.

30.09.2020	Derivative financial instruments – assets	Hedging instruments - assets	Financial assets measured at fair value	Investment properties	Derivative financial instruments – liabilities	Hedging instruments - liabilities
Opening balance	**300,814**	**90,992**	**2,215,823**	**56,577**	**(306,055)**	**(1,626)**
Total gains/losses recognized in:	114,158	129,534	35,486	-	(64,848)	1,626
statement of profit or loss	114,158	129,534	35,486	-	(64,848)	1,626
Purchase	-	-	24,484	-	-	-
Sell	-	-	(524)	-	-	-
Settlement	-	-	(275,850)	-	-	-
Transfer	-	-	4,995	-	-	-
Closing balance	**414,972**	**220,526**	**2,004,414**	**56,577**	**(370,903)**	**-**
Unrealized gains/losses recognized in profit or loss related to assets and liabilities at the end of the period						
	114,158	**129,534**	**35,486**	**-**	**(64,848)**	**1,626**

30.09.2019	Derivative financial instruments – assets	Hedging instruments - assets	Financial assets measured at fair value	Investment properties	Derivative financial instruments – liabilities	Hedging instruments - liabilities
Opening balance	**349,596**	**58,093**	**2,561,863**	**55,868**	**(493,868)**	**-**
Total gains/losses recognized in:	248,596	94,198	(40,933)	-	(238,215)	(5,397)
statement of profit or loss	248,596	94,198	(40,933)	-	(238,215)	(5,397)
Purchase	25,715	-	5,000	-	(3,695)	-
Settlement	(167,706)	-	(279,565)	-	286,137	-
Transfer	(75,089)	-	3,000	-	26,375	-
Closing balance	**381,112**	**152,291**	**2,249,365**	**55,868**	**(423,266)**	**(5,397)**
Unrealized gains/losses recognized in profit or loss related to assets and liabilities at the end of the period						
	248,596	**94,198**	**(40,933)**	**-**	**(238,215)**	**(5,397)**

The Bank measures the fair value by discounting all contractual cash flows related to transactions, with the use of yield curves characteristic of each transaction group. Where no repayment schedule is agreed for a product, it is assumed that the fair value is equal to the carrying amount of the transaction.

The yield curve used for fair value measurement of liabilities (such as customer and interbank deposits) and receivables (such as loans to customers and interbank deposits) comprises:
- the credit risk free yield curve;
- the cost of obtaining financing above the credit risk free yield curve;
- the market margin that reflects credit risk for receivables.

The yield curve for fair value measurement of loans is constructed through classification of loans into sub-portfolios depending on the product type and currency as well as customer segmentation. A margin is determined for each sub-portfolio taking into account credit risk. The margin may be determined in two ways: by reference to margins used for each type of loan granted over the past six months or with the use of credit risk parameters of a given customer determined in the process of calculating the impairment of financial instruments.

When using the first approach for foreign currency mortgage loans, the margin for the entire portfolio of a specific type of mortgage loans serves as the basis for determination of a margin reflecting credit risk as no new transactions are concluded. In the case of insufficient amount of loans, which makes it impossible to reliably determine the amount of margin, the average market margin for products of a given type is used.

The following table presents the book and fair values of those financial assets and liabilities which have not been presented in the Bank's statement of financial position at fair value, along with the measurement classification level. The current credit risk margin and the current liquidity margin, the values of which are not quoted on an active market, are the non-observable parameters for all the categories.

30.09.2020	Book value	Fair value	Level
Financial assets			
Cash and balances at Central Bank	2,923,598	2,923,598	3
Amounts due from banks	661,528	637,692	3
Loans and advances to customers measured at amortised cost	73,961,882	73,387,947	3
Debt instruments measured at amortised cost	21,832,298	23,815,784	1,3
Other financial assets	528 061	528 061	3
Financial liabilities			
Amounts due to the Central Bank	106,994	106,994	3
Amounts due to banks	6,625,208	6,617,545	3
Amounts due to customers	94,880,015	94,914,360	3
Subordinated liabilities	1,975,455	2,232,802	3
Leasing liabilities	629 323	629 323	3
Other financial liabilities	779 942	779,942	3
Debt securities issued	1,504,164	1,504,164	3

31.12.2019	Book value	Fair value	Level
Financial assets			
Cash and balances at Central Bank	4,658,171	4,658,171	3
Amounts due from banks	679,308	669,149	3
Loans and advances to customers measured at amortised cost	71,836,643	71,336,848	3
Debt instruments measured at amortised cost	17,916,645	18,771,310	1,3
Other financial assets	584,001	584,001	3
Financial liabilities			
Amounts due to banks	4,485,264	4,483,168	3
Amounts due to customers	86,134,984	86,175,042	3
Subordinated liabilities	1,882,064	2,119,516	3
Leasing liabilities	602,192	602,192	3
Other financial liabilities	876,883	876,883	3
Debt securities issued	2,179,052	2,179,052	3

a) Amounts due from banks and amounts due to banks

Amounts due from banks and amounts due to banks include interbank deposits and interbank settlements. The fair value of fixed and floating rate deposits/placements is based on discounted cash flows determined by reference to money market interest rates for items with similar credit risk and residual maturity.

b) Loans and advances to customers

The estimated fair value of loans and advances is the discounted value of future cash flows to be received, using the current market rates adjusted by financing cost and by actual or estimated credit risk margins.

c) Liabilities due to subordinated loan

Liabilities include subordinated loans. The fair value of the floating rate loan is based on discounted cash flows determined by reference to money market interest rates for items with similar credit risk and residual maturity.

d) Liabilities due to customers

The fair value of fixed and floating rate deposits is based on discounted cash flows determined by reference to money market interest rates adjusted by the actual cost of securing funds over the past three months. For demand deposits, it is assumed that the fair value is equal to their carrying amount.

e) Debt securities issued

The fair value of debt securities issued was estimated using a model discounting future cash flows from the investment, based on the market yield curves adjusted by the issuer's credit risk.

44. LOAN PORTFOLIO SALE

Loan portfolio sale

In 2020, the Group concluded agreements regarding the sale of retail and SME loan portfolio.

The gross book value of the portfolio amounted to PLN 121,018 thousand, the value of impairment allowances amounted to PLN 105,253 thousand.

The contractual price for the sale of these portfolios has been set at PLN 14,959 thousand. The net effect on the Group's results from the sale of portfolios which amounted to PLN - 806 thousand and is presented in Recognition and release of impairment allowances on loans and advances.

45. SECURITIZATION

Securitization

In December 2017, the Group performed a securitization transaction on the portfolio of cash and car loans. The transaction is a traditional securitization involving the transfer of ownership of the securitized receivables to SPV (BGŻ Poland ABS1 DAC based in Ireland). The revolving period was 24 months and ended in December 2019. From January 2020, the transaction is amortized.

As a result of the securitization the Bank obtained financing for its operations in exchange for giving away rights to future flows resulting from the securitized loan portfolio in the amount of PLN 2,300,471 thousand as at 22 November 2017 (the so-called cut-off date). The maximum term of the full redemption of bonds and loan repayment is 27 April 2032.

SPV issued bonds with a total value of PLN 2,180,850 thousand on the basis of securitized assets and received a loan of PLN 119,621 thousand, which was secured by a registered pledge on the rights to cash flows from securitized assets. At the end of September 2020, the value of bonds and loan amounted to PLN 1,586,137 thousand.

The main benefit of the performed transaction is a positive impact on capital adequacy ratios and improvement of liquidity and diversification of financing sources.

In the light of the provisions of IFRS 9, the contractual terms of the securitization do not fulfil the conditions for derecognition of securitized assets. In connection with the above, the Bank recognizes securitized assets in “Loans and advances to customers” as at 30 September 2020 at net value of PLN 1,578,948 thousand.

The Bank acts as a servicing entity in the transaction.

The transaction is affected by factors related to the effects of the coronavirus pandemic. On one hand, the value of current and future cash flows in the transaction is affected by the deferrals of loan payments granted by the Bank since 19 March 2020 in order to mitigate possible negative effects related to the coronavirus pandemic, and currently, in particular those resulting from the Act of 19 June 2020 on interest rate subsidies for bank loans granted to entrepreneurs affected by COVID-19 and on simplified proceedings for approval of the arrangement in connection with COVID-19.

On the other hand, the Bank is also affected by the decisions of the Monetary Policy Council to reduce the NBP base interest rates, in particular the reference rate to 0.10% on 29 May 2020, which resulted in a reduction of the maximum interest rate on loans and borrowings as well as a decrease in market WIBOR rates.

At the moment, it is not possible for the Bank to precisely estimate the consequences of the coronavirus pandemic on this transaction, in particular those related to a possible long-term of borrowers’ financial situation.

Balance sheet values and fair values of financial assets covered by securitization and related liabilities:

Balance sheet values and fair values of financial assets covered by securitization and related liabilities	Balance sheet amount		Fair value	
	30.09.2020	31.12.2019	30.09.2020	31.12.2019
Assets	1,578,948	2,247,024	1,482,365	2,130,777
Liabilities	1,586,137	2,298,573	1,586,137	2,298,573

46. RELATED PARTY TRANSACTIONS

BNP Paribas Bank Polska S.A. operates within the BNP Paribas Bank Polska S.A. Capital Group.

BNP Paribas Bank Polska S.A. is the parent in the BNP Paribas Bank Polska S.A. Capital Group.

As at 30 September 2020, the Capital Group of BNP Paribas Bank Polska S.A. comprised BNP Paribas Bank Polska S.A. as the parent company, and its subsidiaries:

1. BANKOWY FUNDUSZ NIERUCHOMOŚCIOWY ACTUS SP. Z O.O. („ACTUS”).
2. BNP PARIBAS TOWARZYSTWO FUNDUSZY INWESTYCYJNYCH S.A. („TFI”).
3. BNP PARIBAS LEASING SERVICES SP. Z O.O. („LEASING”).
4. BNP PARIBAS GROUP SERVICE CENTER S.A. („GSC”).
5. CAMPUS LESZNO SP. Z O.O.
6. BNP PARIBAS SOLUTIONS SPÓŁKA Z O.O.
7. BGZ POLAND ABS1 DAC („SPV”).

All transactions between the Bank and its related parties were entered into as part of daily operations and included mainly loans, deposits, transactions with reference to derivative instruments as well as income and expenses related to advisory and financial intermediation services.

Transactions with shareholders of BNP Paribas Bank Polska S.A. and related parties:

30.09.2020	BNP Paribas Paris	BNP Paribas Fortis S.A.	Other entities from the capital group of BNP Paribas S.A.	Key personnel	Total
Assets	**1,390,972**	**49,607**	**192,237**	**17**	**1,632,833**
Receivables on current accounts, loans and deposits	143,242	42,476	181,614	4	**367,336**
Derivative financial instruments	668,775	6,656	-	-	**675,431**
Hedging instruments	578,267	474	-	-	**578,742**
Other assets	688	-	10,623	13	**11,324**
Liabilities	**6,798,826**	**28,455**	**1,429,194**	**5,875**	**8,262,351**
Loans and advances received	3,140,519	-	490,777	-	**3,631,296**
Current accounts and deposits	1,051,803	27,003	664,200	5,875	**1,748,881**
Subordinated liabilities	1,703,307	-	272,148	-	**1,975,455**
Derivative financial instruments	840,364	1,452	-	-	**841,816**
Hedged instruments	62,833	-	-	-	**62,833**
Other liabilities	-	-	2,069	-	**2,069**
Contingent liabilities					
Financial commitments granted	-	-	543,318	56	**543,262**
Guarantee commitments	75,527	190,027	485,924	-	**751,478**
Commitments received	1,262,200	123,278	665,983	-	**2,051,461**
Derivative instruments (nominal value)	52,657,328	647,976	-	-	**53,305,304**
Hedging derivative instruments (nominal value)	16,255,202	13,580	-	-	**16,268,783**
Statement of profit or loss	**146,941**	**5,377**	**(43,698)**	**(18)**	**108,602**
Three quarters of 2020 period from 01.01.2020 to 30.09.2020					
Interest income	-	184	1,121	-	**1,305**
Interest expense	(102,305)	(64)	(11,831)	(19)	**(114,219)**
Fee and commission income	214	138	20,115	1	**20,468**
Fee and commission expense	(410)	-	(4,435)	-	**(4,845)**
Net trading income	273,421	5,119	(15)	-	**278,525**
Other operating income	-	-	3,281	-	**3,281**
Other operating expense	-	-	(347)	-	**(347)**
General administrative expenses	(23,979)	-	(51,587)	-	**(75,566)**

31.12.2019	BNP Paribas Paris	BNP Paribas Fortis S.A.	Other entities from the capital group of BNP Paribas S.A.	Key personnel	Total
Assets	**696,243**	**5,646**	**375,015**	**33**	**1,076,937**
Receivables on current accounts, loans and deposits	120,910	4,650	270,198	3	**395,761**
Derivative financial instruments	351,629	100	11	-	**351,740**
Hedging instruments	223,640	893	-	-	**224,533**
Other assets	64	3	104,806	30	**104,903**
Liabilities	**4,243,670**	**10,846**	**2,445,000**	**5,738**	**6,705,254**
Loans and advances received	1,921,054	-	1,421,191	-	**3,342,245**
Current accounts and deposits	291,720	10,846	752,601	5,733	**1,060,900**
Subordinated liabilities	1,630,349	-	256,066	-	**1,886,415**
Derivative financial instruments	375,204	-	-	-	**375,204**
Hedged instruments	24,633	-	-	-	**24,633**
Other liabilities	710	-	15,142	5	**15,857**
Contingent liabilities					
Financial commitments granted	-	-	227,588	57	**227,645**
Commitments received	2,152,316	123,415	1,132,726	-	**3,408,457**
Derivative instruments (nominal value)	50,735,912	227,067	132,014	-	**51,094,993**
Hedging derivative instruments (nominal value)	7,340,164	12,776	-	-	**7,352,940**
Statement of profit or loss	**(11,198)**	**(693)**	**(13,471)**	**(28)**	**(25,390)**
Three quarters of 2019 period from 01.01.2019 to 30.09.2019					
Interest income	157	368	2,070	-	**2,595**
Interest expense	(55,971)	(239)	(5,600)	(29)	**(61,839)**
Fee and commission income	880	219	2,286	1	**3,386**
Fee and commission expense	(14)	-	(241)	-	**(255)**
Net trading income	34,656	(1,040)	(245)	-	**33,371**
Other operating income	16,661	-	30	-	**16,691**
Other operating expense	-	(1)	-	-	**(1)**
General administrative expenses	(7,567)	-	(11,771)	-	**(19,338)**

Remuneration of the Management Board and Supervisory Board

Management Board	Three quarters of 2020 period from 01.01.2020 to 30.09.2020	Three quarters of 2019 period from 01.01.2019 to 30.09.2019
Short-term employee benefits	14,320	13,645
Long-term benefits	4,189	9,869
Termination benefits	-	33
Share-based payments	3,374	2,231
Total	**21,883**	**25,778**

Supervisory Board	Three quarters of 2020 period from 01.01.2020 to 30.09.2020	Three quarters of 2019 period from 01.01.2019 to 30.09.2019
Short-term employee benefits	1,035	949
Total	**1,035**	**949**

47. CONSOLIDATED CAPITAL ADEQUACY RATIO

	30.09.2020	31.12.2019
Total equity	13,243,898	12,586,528
Total risk exposure	83,855,088	83,762,992
Total capital ratio	15,79%	15.03%
Tier 1 capital ratio	13,44%	12.78%

48. OPERATING SEGMENTS

Segment reporting

The Group has identified the following operating segments for reporting purposes and allocated income and expenses as well as assets and liabilities thereto: Retail and Business Banking, Small and Medium-Sized Enterprises (SME), Corporate Banking, Corporate and Institutional Banking (CIB) as well as Other Operations, including ALM Treasury and the Corporate Centre. Additionally, performance related to Agro customers, i.e. individual farmers and agro-food sector enterprises, as well as the Personal Finance segment has been presented. Although the aforesaid segment performance overlaps with that of the basic operating segments, it is additionally monitored separately for purposes of the Group's management reporting. The abovementioned segmentation reflects the principles of customer classification to each segment in line with the business model adopted by the Bank, which are based on such criteria as the entity, finances and type of business activity.

The Group's management performance is monitored by considering all items of the statement of profit or loss of the particular segment, to the level of gross profit, i.e. for each segment revenue, expenses and net impairment losses are reported. Management revenue takes into account cash flows between customer segments and the asset liability management unit, measured by reference to internal transfer prices of funds based on market prices and liquidity margins for each maturity and currency. Management expenses of the segments include direct operating expenses and expenses allocated using the allocation model adopted by the Group. Additionally, the management performance of the segments take into account amounts due to each business line for services between such lines.

The Group's operations are conducted in Poland only. As no considerable differences in the risks, which might be affected by the geographical location of the Bank's branches, can be identified, no geographical disclosures have been presented.

The Group applies consistent, detailed principles to all identified segments. As regards the revenue, in addition to standard items, components of the net interest income of the segments have been identified, to include external and internal revenue and expenses. As regards operating expenses, the Group's indirect expenses are allocated to each segment in the Expense allocation (internal) item. Considering the profile of the Bank's business, no material seasonal or cyclical phenomena are identified. The Group provides financial services, the demand for which is stable, and the effect of seasonality is immaterial.

Description of operating segments

Retail and Business Banking segment covers comprehensive services to retail customers, including private banking customers, as well as business clients (microenterprises), including:

- entrepreneurs whose annual net income for the preceding financial year is below PLN 4 million, conducting full financial reporting,
- entrepreneurs conducting simplified financial reporting,
- housing communities and property managers,
- non-profit organizations,
- individual farmers whose credit exposure is less than PLN 4 or is in the range between PLN 3 million and PLN 4 million, if the collateral on arable lands covers at least 50% of credit exposure;

The scope of financial services offered by the Retail and Business Banking Segment includes maintenance of current and deposit accounts, acceptance of term deposits, granting mortgage loans, cash loans, mortgage advances, overdrafts, loans to microenterprises, issuing debit and credit cards, cross-border cash transfers, foreign exchange transactions, sale of insurance products as well as other services of lesser importance to the Group's income. Additionally, the performance of the Retail and Business Banking Segment includes: balances and performance of e-banking (Optima), performance of brokerage services and distribution and storage of investment fund units.

The Retail and Business Banking customers are served by the Bank's Branches and alternative channels, i.e. online banking, mobile banking and telephone banking, e-banking channel (Optima), the Banking Premium channel and Wealth Management (respectively investing assets over PLN 100 thousand and in the minimum amount of PLN 1 million). Selected products are also sold by financial intermediaries active at the country and local level.

Personal Finance is responsible for development of product offering and management of financial services provided to consumers, with the following major products: cash loans, car loans, instalment loans and credit cards. The aforesaid products are distributed through the Retail and Business Banking branch network as well as external distribution channels.

SME Banking provides services to:

- Agro-SME clients preparing full financial reporting in relation to net sales revenues for the previous financial year from PLN 4 million to PLN 40 million and credit exposure below PLN 12 million, as well as, regardless of the amount of revenues and the level of the Group's exposure, agricultural producer groups and organizational units of the National Forest Holding "The State Forests".
- Non-Agro-SME clients including: (i) companies preparing full financial reporting, with net sales revenues for the previous financial year from PLN 4 million to PLN 40 million and loan exposures lower than PLN 12 million; (ii) public finance sector entities with a budget of up to PLN 100 million;
- Agro entrepreneurs (i.e. companies conducting production activities in agriculture) preparing full financial reporting, with net sales revenues for the previous financial year from PLN 0 million to PLN 60 million and loan exposures lower than PLN 25 million, as well as individual farmers if their loan exposure is in the range of PLN 4 million to PLN 25 million or in the range of 3 PLN million to 4 PLN million if the collateral on arable lands covers less than 50% of credit exposure;

The SME sales network is based on Business Centres dedicated solely to provision of services to Small and Medium-Sized Enterprises.

Corporate Banking offers a wide variety of financial services to large and medium-sized enterprises as well as local government entities with annual turnover exceeding PLN 40 million or with the credit exposure above PLN 12 million, in addition to entities operating in multinational capital groups.

Clients of Corporate Banking are divided into:

- international clients (companies belonging to international capital groups through capital or personal connections);
- Polish corporations (or group of Polish related entities) with annual sales revenue between PLN 40 million and PLN 600 million (or between PLN 60 million and PLN 600 million in the case of business entities conducting agricultural activity) or with credit exposure greater or equal to PLN 12 million (or PLN 25 million for corporations operating in agriculture);
- large Polish corporations (with annual turnover over PLN 600 million, or listed on the stock exchange with potential in the area of investment banking services);
- public sector entities as well as financial and insurance institutions and international non-profit organizations.

Distribution network for Corporate Banking is based on Regional Corporate Banking Centres located in Warsaw, Łódź, Gdańsk, Poznań, Wrocław, Katowice, Kraków and Lublin. As part of the Regional Corporate Banking Centers, there are Corporate Banking Centers located in the largest business centers in Poland, ensuring a wide geographical and sector coverage. After-sales service for the clients of the Corporate Banking segment is also carried out by the Telephone Business Service Center and in the online banking system.

The basic products and services provided to Corporate Customers include cash management and global trade finance services – comprehensive services related to import and export LCs, bank guarantees and documentary collection, supply chain and exports financing, acceptance of deposits (from overnight to term deposits), corporate finance services which involve provision of overdraft facilities, revolving and investment loans as well as agro-business loans), financial market products, to include foreign exchange and derivative transactions for the account of customers, lease and factoring products as well as specialized services such as financing real estate, structured finance services to mid-caps and investment banking and services related to public sector entities: organization of municipal bond issues, forfaiting, dedicated cash management solutions.

The Corporate and Institutional Banking (CIB) Segment supports sales of products of the Group, dedicated to the largest Polish enterprises including services provided to key clients.

Other Banking Operations are performed mainly through the **ALM Treasury**, the main objective of which is ensuring an appropriate and stable level of funding to guarantee the security of the Bank's operations and compliance with the standards defined in the applicable laws.

The ALM Treasury assumes responsibility for liquidity management at the Bank, setting internal and external reference prices, management of the interest rate risk inherent in the Group's statement of financial position as well as the operational and structural currency risk. The ALM Treasury focuses on both prudential (compliance with external and internal regulations) and optimization aspects (financing cost management and generating profit on management of the Group's items from the statement of financial position).

The Other Operations segment includes also direct costs of the support functions, which have been allocated to segments in the Expense allocation (internal) item, as well as results that may not be assigned to any of the aforementioned segments (to include equity investment, gains/losses on own accounts and customer accounts not allocated to a specific segment).

	Retail and Business Banking	SME Banking	Corporate Banking	CIB	Other Operations	Total	including Agro customers	including Personal Finance
Statement of profit or loss 3 quarters of 2020 from 01.01.2020 to 30.09.2020								
Net interest income	1,296,208	202,299	426,735	27,782	359,662	**2,312,684**	321,621	465,563
external interest income	1,395,148	200,875	438,614	52,399	692,400	**2,779,436**	425,556	668,474
external interest expenses	(214,780)	(22,521)	(55,801)	(65)	(173,583)	**(466,752)**	(22,325)	(34,960)
internal interest income	652,850	113,213	235,709	(157)	(1,001,614)	**-**	86,188	-
internal interest expenses	(537,009)	(89,267)	(191,787)	(24,395)	842,459	**-**	(167,798)	(167,952)
Net fee and commission income	348,104	79,300	196,088	46,628	(11,826)	**658,295**	109,872	85,815
Dividend income	-	-	2,680	-	5,571	**8,250**	160	(316)
Net trading income	69,313	51,077	172,682	128,733	112,593	**534,398**	35,763	(317)
Result on investment activities	3,724	575	1,165	-	23,421	**28,885**	401	3,208
Result on hedge accounting	-	-	-	-	(12,689)	**(12,689)**	-	-
Other operating income and expenses	(30,581)	(2,500)	(5,080)	525	28,379	**(9,254)**	(4,332)	(8,124)
Net impairment losses on financial assets and contingent liabilities	(441,668)	(23,089)	(28,092)	450	(568)	**(492,966)**	(36,696)	(198,852)
Result on provisions for legal risk related to foreign currency loans	(66,476)	-	-	-	-	**(66,476)**	-	-
Total operating expenses	(867,092)	(107,325)	(196,125)	(48,516)	(391,221)	**(1,610,279)**	(11,091)	(218,818)
Depreciation and amortization	(73,822)	(2,443)	(13,677)	(4,493)	(176,100)	**(270,534)**	(353)	(10,627)
Expense allocation (internal)	(347,974)	(109,580)	(88,441)	(5,700)	551,695	**-**	-	(71,842)
Operating result	**(110,264)**	**88,314**	**467,935**	**145,409**	**488,917**	**1,080,313**	415 345	45 689
Tax on financial institutions	(121,614)	(26,234)	(70,636)	(5,407)	(10,558)	**(234,448)**	-	(32 837)
Profit before income tax	**(231,878)**	**62,080**	**397,299**	**140,002**	**478,359**	**845,865**	**415 345**	**12 852**
Income tax expense						**(280,236)**		
Net profit for the period						**565,629**		
Statement of financial position as at 30.09.2020								
Segment assets	45,268,257	7,030,897	21,279,683	2,467,400	45,528,010	**121,574,248**	14,556,342	10,344,731
Segment liabilities	55,953,573	12,816,922	29,737,664	-	11,245,800	**109,753,961**	9,399,932	-

*As the figures have been rounded and presented in PLN ‘000, in some cases their total may not correspond to the exact grand total.

	Retail and Business Banking	SME Banking	Corporate Banking	CIB	Other Operations	Total	including Agro customers	including Personal Finance
Statement of profit or loss 3 quarters of 2019 from 01.01.2019 to 30.09.2019								
Net interest income	1,345,030	229,276	444,230	26,191	318,720	**2,363,447**	334,559	514,072
external interest income	1,557,776	287,173	568,546	41,723	692,749	**3,147,967**	534,977	751,225
external interest expenses	(397,198)	(54,880)	(116,129)	(5,906)	(210,407)	**(784,520)**	(47,847)	(41,430)
internal interest income	823,819	143,449	288,862	11,321	(1,267,450)	**-**	112,306	-
internal interest expenses	(639,366)	(146,466)	(297,050)	(20,947)	1,103,828	**-**	(264,877)	(195,723)
Net fee and commission income	313,077	92,370	191,256	18,912	(3,003)	**612,610**	109,083	82,972
Dividend income	-	-	230	-	5,778	**6,007**	-	8,192
Net trading income	64,596	46,799	164,512	131,785	94,036	**501,728**	35,899	667
Result on investment activities	8	-	234	-	(40,774)	**(40,531)**	-	-
Result on hedge accounting	-	-	-	-	(4,642)	**(4,642)**	-	-
Other operating income and expenses	(41,768)	(3,318)	(1,280)	458	20,732	**(25,176)**	(4,761)	(52,189)
Net impairment losses on financial assets and contingent liabilities	(225,623)	(78,721)	(31,286)	(4,178)	(1,040)	**(340,849)**	(87,256)	(99,060)
Result on provisions for legal risk related to foreign currency loans	(934)	-	-	-	-	**(934)**	-	-
Total operating expenses	(853,464)	(114,744)	(202,469)	(50,061)	(597,396)	**(1,818,134)**	(11,544)	(232,170)
Depreciation and amortization	(56,581)	(2,212)	(7,595)	(4,029)	(281,825)	**(352,243)**	(463)	(8,875)
Expense allocation (internal)	(420,108)	(105,312)	(57,963)	(2,126)	585,509	**-**	-	(84,298)
Operating result	**124,233**	**64,137**	**499,867**	**116,952**	**96,094**	**901,282**	**375,518**	**129,310**
Tax on financial institutions	(105,742)	(35,239)	(60,177)	(6,464)	(3,162)	**(210,784)**	-	(29,228)
Profit before income tax	**18,491**	**28,898**	**439,690**	**110,488**	**92,932**	**690,498**	**375,518**	**100,082**
Income tax expense						**(197,075)**		
Net profit for the period						**493,423**		
Statement of financial position as at 30.09.2019								
Segment assets	40,123,368	8,741,944	23,057,600	1,774,768	36,256,463	**109,954,142**	16,202,431	11,791,620
Segment liabilities	50,751,268	10,594,643	24,650,077	1,109,955	11,688,816	**98,794,760**	8,447,870	-

*As the figures have been rounded and presented in PLN ‘000, in some cases their total may not correspond to the exact grand total.

49. THE SHAREHOLDER'S STRUCTURE OF BNP PARIBAS BANK POLSKA S.A.

As at 30 September 2020 the structure of the shareholders of BNP Paribas Bank Polska S.A., including those holding at least 5% of the total number of votes at the General Shareholders' Meeting was as follows:

Shareholder	Number of shares	Percentage interest in share capital	Number of votes at the general shareholders' meeting	Percentage share in the total number of votes at the general shareholders' meeting
BNP Paribas, total:	130,850,464	88.76%	130,850,464	88.76%
BNP Paribas directly	95,360,238	64.69%	95,360,238	64.69%
BNP Paribas Fortis SA/NV indirectly	35,490,226	24.07%	35,490,226	24.07%
Other shareholders	16,568,454	11.24%	16,568,454	11.24%
Total	**147,418,918**	**100.00%**	**147,418,918**	**100.00%**

In the three quarters of 2020, there were no changes in the shareholding structure of the Bank.
As at 30 September 2020, the Bank's share capital amounted to PLN 147,419 thousand.
The share capital is divided into 147,418,918 shares with the par value of PLN 1.00, including: 15,088,100 A series shares, 7,807,300 B series shares, 247,329 C series shares, 3,220,932 D series shares, 10,640,643 E series shares, 6,132,460 F series shares, 8,000,000 G series shares, 5,002,000 H series shares, 28,099,554 I series shares, 2,500,000 J series shares, 10, 800, 000 K series shares and 49,880,600 L series shares.

The Bank's shares are ordinary bearer and registered shares (as at 30 June 2019, there were 67,005,515 registered shares, including 4 shares from B series).
No special control rights are attached to the ordinary bearer shares.
Four B series registered shares in the Bank are preference shares with respect to payment of the full par value per share in the event of the Bank's liquidation, once the creditors' claims have been satisfied, with priority over payments per ordinary shares, which, after the rights attached to the preference shares have been exercised, may be insufficient to cover the total par value of those shares.

The Bank's Statute does not impose any limitations as to exercising the voting rights or set forth any provisions whereby the equity rights attached to securities would be separated from the holding itself. One right to vote at the General Shareholders' Meeting of the Bank is attached to each share. The Bank's Statute does not impose any limitations as to transferring the title to the securities issued by the Bank.

Shareholding of BNP Paribas Bank Polska shares by members of the Bank's Supervisory Board and members of the Bank's Management Board

As at 30 September 2020 and at the date of publication of this interim report, i.e. 10 November 2020:
- Mr. Przemysław Gdański - President of the Management Board - owned 500 shares of BNP Paribas Bank Polska, which has not changed from the date of presenting the Interim consolidated report for the first half of 2020, i.e. 13 August 2020,
- other members of the Bank's Management Board and members of the Bank's Supervisory Board did not declare holding any shares of BNP Paribas Bank Polska S.A., and there was no change in this respect from the date of presenting the Interim consolidated report of the Bank for the first half of 2020, i.e. 13 August 2020.

Investor obligation of BNP Paribas concerning the liquidity of the Bank's shares

On 14 September 2018, PFSA BNP Paribas SA adopted the obligations regarding prudent and stable management of the Bank. As part of the obligation, BNP Paribas SA committed to increase the liquidity of the Bank's shares on the Warsaw Stock Exchange up to at least 25% plus 1 share by the end of 2023 at the latest.

50. DIVIDEND PAID

The Group did not pay any dividends for 2019.

51. DISTRIBUTION OF RETAINED EARNINGS

In accordance with the Resolution No. 6 of the Ordinary General Meeting of the Bank of 29 June 2020, the profit of the Bank after tax (net profit) for 2019 in the amount of PLN 628,696 thousand, was fully allocated to the reserve capital.

52. LITIGATION AND CLAIMS

Legal risk

As at 30 September 2019, there were no proceedings in the court, arbitration tribunal or state administration authorities regarding liabilities or receivables of the Bank, the value of which would exceed 10% of the Bank's equity.

Judgment on the method of calculating the interchange fee

On 6 October 2015, the Court of Appeals issued a decision regarding calculation of the interchange fee by banks acting in agreement. Thus, the decision of the 1st instance (Regional) Court of 2013 was changed by dismissing the banks' appeals in whole, while upholding the appeal brought by the Office of Competition and Consumer Protection (UOKiK), which had questioned a considerable reduction in the fines by the 1st instance court. This denotes that the penalty imposed under the first decision of the President of UOKiK of 29 December 2006 was upheld. It involved a fine levied on 20 banks, including Bank BGŻ S.A. and Fortis Bank Polska S.A., for practices limiting competition by calculating interchange fees on Visa and MasterCard transactions in Poland in agreement.

The total fine levied on BNP Paribas Bank Polska amounted to PLN 12,54 million and included: i) a fine for the practice of Bank Gospodarki Żywnościowej in the amount of PLN 9,65 million; and ii) a fine for the practice of Fortis Bank Polska S.A. (FBP) in the amount of PLN 2,89 million. The penalty was paid by the Bank on 19 October 2015. The Bank prepared a last resort appeal against the aforesaid court decision and brought it on 25 April 2016. On 25 October 2017, the Supreme Court overruled the judgment of the Court of Appeal and remitted the case. Acquisition of the core business of RBPL did not change the situation of the Bank as RBPL was not a party to this claim.

Corporate claims against the Bank (interchange fee)

As at 30 September 2020 the Bank received:

- 32 requests for settlement from companies (merchants), due to interchange fees paid in relation to the use of payment cards, (three from companies which submitted their requests twice and one from a company which submitted two requests for different payment methods). The total amount of these claims was PLN 1,028.02 million, including PLN 1,018.05 million where the Bank had joint responsibility with other banks.
- 4 requests for mediation before the PFSA. The requests were sent to the Bank by the same entrepreneurs who had previously submitted requests for a settlement attempt. The total value of claims arising from the above applications amounts to PLN 40.29 million, of which PLN 37.79 million relates to joint liability with other banks.

Proceedings to recognize a standard contract as prohibited

On 22 September 2020, the Bank received a decision of the President of the Office of Competition and Consumer Protection (UOKiK) No. DZOIK 14/2020, in which the President of UOKiK:

- found certain provisions of the standard contract (the so-called anti-spread annex) concerning the principles of determining currency exchange rates illegal and prohibited their application;
- obligated the Bank to inform all customers who became to the annex about the decision and its consequences and to post information about the decision and its content on Bank's website;
- imposed a fine on the Bank in the amount of PLN 26,626 thousand payable to the Financial Education Fund.

The bank appealed against the decision within the statutory deadline. The Bank has established a provision for the above penalty in full amount.

Judgment of the Court of Justice of the European Union in case C-260/18.

On October 3, 2019, the Court of Justice of the European Union (CJEU) issued a ruling in which it stated that 1) unfair contractual terms regarding exchange differences cannot be replaced by general provisions of Polish civil law; 2) if, after removing unfair terms, the nature and main subject of these contracts may change to the extent that they would no longer be indexed to a foreign currency while being subject to an interest rate based on the rate applicable to that currency, European Union law shall not prevent annulling these contracts. However, the Court of Justice did not examine the issue of abusiveness of index clauses and allowed the national court to supplement gaps in the contract caused by the removal of a provision found abusive by a provision of domestic law of a dispositional nature. It should be emphasized that the CJEU judgment concerns indexed loans, while the Bank's portfolio does not contain such loans. The Bank and its legal predecessors only concluded denominated loan agreements and currency contracts. Therefore, the judgment of the CJEU does not automatically apply to disputes brought by the Bank's clients, but it cannot be ruled out that it will affect the jurisprudence line also regarding other loans, as a consequence of which a full assessment of the effects of the CJEU judgment will be possible only after the jurisprudence of Polish courts has developed. Changing the case-law may have a potentially negative impact on the Bank, but the scale, due to many unknowns, is currently not possible to estimate reliably.

Proceedings initiated by the Bank's customers who concluded currency loan agreements and agreements denominated in CHF

As at 30 September 2020, the Bank was a defendant in 489 court cases (131 new cases in the third quarter of 2020) including legally binding cases, clients brought a total of 512 actions against the Bank in which the Bank's clients demanded the annulment of mortgage loan agreements regarding foreign currency loans denominated in CHF, by determining that the Bank granted a loan in PLN without denomination to foreign currency, or settlement of the loan due to the invalidity of the loan agreement, discontinuation of enforcement of the decision, as well as repayment of the spread. The Bank is not a party to any collective claim regarding these loans. The total value of claims pursued in the above cases as at 30 September 2020 amounts to PLN 163.8 million and for legally binding proceedings: PLN 31.97 million.

In 23 legally binding cases: 13 claims against the Bank have been dismissed; in 2 cases the proceedings were discontinued; in 1 case the court rejected the claim; in 6 case, despite the dismissal of the claim, the court's justification annulled the contract, in 1 case only the claim for an insured low contribution was awarded (in the remaining scope the court dismissed the claim).

The Bank continually creates provisions for pending court proceedings related to denominated or foreign currency loans, taking into account the current state of legally binding judgments in cases against the Bank and the emerging line of case law. In the third quarter of 2020, the Bank decided to create a reserve in the amount of PLN 39.91 million for the risk related to the CHF loan portfolio.

The increase in the provision was caused by the increasing number of new cases related to foreign currency loans or loans denominated in CHF as well as the observed volatility and uncertainty concerning further development of the jurisprudence in this area.

The total value of provisions for proceedings related to CHF loans as at 30 September 2020 was PLN 98.59 million. The provision for pending cases is calculated on an individual basis, for future cases using the portfolio method. With the portfolio method, the Bank estimates the number of future lawsuits based on the number of certificates downloaded from the Bank by clients for trial purposes as well as the observed changes in new proceedings.

When calculating the expected loss on legal risk related to CHF loans, the Bank used simplifications resulting from the short horizon of available historical data and a relatively small number of cases ended with courts' rulings. The bank will monitor the number of downloaded certificates and the changing number of lawsuits and will update the provision estimate accordingly.

The Bank conducted a sensitivity analysis of the model used to estimate the number of future lawsuits. A change in the number of future lawsuits would have the following impact on the estimated loss due to legal risk related to CHF loans.

Parameter	Scenario	Impact on the Bank's loss due to legal risk
Number of lawsuits	20%	PLN 7.3 mln
	-20%	PLN (7.3) mln

Additionally, if 1% of customers with CHF loans filed a lawsuit against the Bank, the loss due to legal risk would increase by approx. PLN 13 million.

The Bank conducted a sensitivity analysis of the model used to estimate the number of lawsuits lost. A change in this estimate would have the following impact on the estimated loss due to legal risk related to CHF loans.

Parameter	Scenario	Impact on the Bank's loss due to legal risk
Percentage of cases lost	+5 p.p.	PLN 11.6 mln
	-5 p.p.	PLN (11.6) mln

The Bank points to the fact that there is a significant discrepancy in both facts (in particular different contractual provisions and scope of information provided to the clients) as well as rulings passed in Poland regarding indexed, denominated and currency loans, which significantly impedes a precise estimation of risk. The Bank monitors the courts' rulings on an ongoing basis and will adjust the level of reserves to the emerging case-law.

53. RISK MANAGEMENT

The most important changes in the approach to credit risk management, basic measures of market risk, liquidity risk, country and counterparty risk as well as changes in the approach to operational risk management introduced as at the end of September 2020 are described below.

CREDIT RISK

Credit risk is inherent in the core financial operations of the Bank, the scope of which includes both lending and providing funding with the use of capital market products. Consequently, credit risk is identified as the risk with the highest potential to affect the present and future profits and equity of BNP Paribas Bank Polska S.A. The materiality of credit risk is confirmed by 71% share in the total economic capital estimated by the Bank for purposes of covering major risks involved in the Bank's operations, in addition to its 89% share in the total value of regulatory capital.

Credit risk management is primarily aimed at implementation of the Bank's strategy through a harmonious increase in the loan portfolio, accompanied by maintenance of the credit risk appetite at an acceptable level.

Credit risk management principles adopted by the Bank include:

- each credit transaction requires comprehensive credit risk assessment expressed in internal rating or scoring;
- in-depth and careful financial analysis serves as the basis for regarding the customer's financial information and collateral-related data as reliable; prudential analyses performed by the Bank always take into account a safety margin;
- as a rule, financing is provided to the customer based on its ability to generate cash flows that ensure payment of its liabilities to the Bank;
- credit risk assessment is additionally verified by credit risk assessment personnel, independent of the business;
- pricing terms of a credit transaction have to take account of the risk involved in such a transaction;
- credit risk is diversified on such dimensions as geographical regions, industries, products and customers;
- credit decisions may only be taken by competent employees;
- the Bank enters into credit transactions only with customers it knows, and long-term relationships are the basis for cooperation with customers;
- the customer and the transactions made with the customer are monitored transparently from the perspective of the customer, in a manner strengthening the relationship between the Bank and the customer.

Forbearance practices

The Bank treats its exposures as forborne if the obligor is provided with a forbearance due to economic reasons (financial difficulties), including any forbearance granted for exposures with identified impairment triggers. In case the forbearance is granted for a customer with a material economic loss, the Bank classifies such a customer as default.

A facility is understood as the occurrence of at least one of the following events:

- a change to the repayment schedule, especially extending the loan maturity date,
- cancellation of overdue amounts (e.g. capitalization of an overdue amount, which can be repaid at a later date),
- redemption of principal, interest or fees,
- consolidation of loans into one new product, if the amounts of payments of the consolidated loan are lower than the sum of payments of these loans separately before the consolidation occurred,
- decrease of the base interest rate or margin,
- originating a new loan to repay the existing debt,
- amendment or withdrawal from essential contractual provisions (e.g. a contract term that has been breached as a result of financial difficulties).

only in the period of customer's financial difficulties or, in the period when, due to changes on the market, such difficulties may occur, i.e.:

- the exposure is subject to debt collection; or
- the exposure is not subject to debt collection but there is evidence (provided by the customer or obtained in the decision-making process) that the customer is facing financial difficulties or may be facing them in the near future.

A material economic loss is defined by the Bank as the drop of present value of expected cash flows, resulting from forbearance granted, equal or higher than 5%. The drop of the present value is calculated in accordance with the below formula:

$$\frac{NPV_0 - NPV_1}{NPV_0}$$

where:

NPV0 – the present value of expected cash flows (including interest and fees / commissions) prior to the introduction of changes in loan terms, discounted with the original effective interest rate,

NPV1 – the present value of expected cash flows (including interest and fees / commissions), after the introduction of changes in the loan terms, discounted using the original effective interest rate. In the case of consolidation of many loans for the original interest rate for the purpose of assessing the significance of economic loss, the average EIR weighted with the gross balance sheet exposure at the moment of granting the facility is assumed.

The "forborne" status is no longer assigned if the following conditions have been satisfied:

- exposure reclassified to performing portfolio as a result of the analysis of financial situation (in case of corporate portfolio), which proved that the customer does not meet the criteria for being classified to the impaired portfolio;
- the exposure has not been considered impaired for 24 months in a row;
- none of the exposures to the customer are past due by more than 30 days;
- the obligor has been making regular and considerable payments for at least a half of the trial period.

In connection with the outbreak of the COVID-19 pandemic, the Bank undertook a number of actions regarding, among others:

- the possibility for clients to request temporary postponement of principal and interest instalments on loans,
- review of the loan portfolio with focus on industries, particularly affected by and sensitive to the consequences of the COVID 19 pandemic;

The Bank also actively participates in the works of the banking sector, regulators and organizers of government assistance addressed to entrepreneurs, has launched a number of solutions allowing customers to submit application to the Bank electronically and online as well as to use assistance programs related to the effects of a pandemic and has been conducting ongoing monitoring of the number of clients and credit exposures affected by the pandemic, including ongoing decisions on individual clients regarding the type and structure of client financing adequate to his current situation and government support programs.

The Bank started cooperation with BGK in relation to PLG-FGP liquidity guarantees offered to the Bank's clients, other liquidity guarantees and loan interest rate subsidy programs.

An electronic and simplified process of applying for postponement of principal and interest instalments on investment loans was introduced.

As a partner of the PFR program, the Bank provided its clients with technical possibilities to apply for funding from these programs using electronic banking.

The Bank is currently focusing on the use of available assistance programs for clients, on an ongoing basis examining clients' applications in this respect.

	30.09.2020				
Loans and advances to customers subject to a moratorium	Number of clients granted with moratoriums	Value of loans and advances covered by ongoing and expired moratoriums	including regulatory moratorium	including ongoing moratorium	
				not impaired	impaired
Gross balance sheet value	**44,465**	**7,528,235**	**29,573**	**2,042,751**	**149,295**
Non-bank financial institutions	1	41	-	-	-
Retail customers	34,204	3,465,428	29,470	661,339	57,915
Corporate clients:	7,666	3,236,503	103	663,772	72,763
including retail farmers:	1,496	537,099	103	178,037	21,746
Public sector institutions:	2	1,062	-	820	-
Leasing receivables	2,592	825,201	-	716,820	18,617
Allowance	x	**(252,875)**	**(2,481)**	**(42,654)**	**(37,907)**
Non-bank financial institutions	x	(4)	-	-	-
Retail customers	x	(130,354)	(2,480)	(16,333)	(16,939)
Corporate clients:	x	(105,259)	(1)	(15,818)	(16,077)
including retail farmers:	x	(24,590)	(1)	(3,479)	(5,275)
Public sector institutions:	x	(18)	-	(14)	-
Leasing receivables	x	(17,240)	-	(10,489)	(4,891)
Loans and advances to customers subject to the moratorium together	**44,465**	**7,275,360**	**27,092**	**2,000,097**	**111,388**

30.09.2020	Residual term for moratoriums		
Gross balance sheet value	Total	up to 3 months	from 3 to 6 months
Non-bank financial institutions	-	-	-
Retail customers	719,254	663,877	55,377
Corporate clients:	736,535	601,155	135,380
including retail farmers:	199,783	153,654	46,129
Public sector institutions:	820	-	820
Leasing receivables	735,437	365,601	369,836
Loans and advances to customers subject to the moratorium together	**2,192,046**	**1,630,633**	**561,413**

Newly granted loans and advances to customers covered by public guarantee programs	Number of clients who have used the public guarantee	Value	Residual maturity of the public guarantee: up to 6 months	from 6 to 12 months	from 1 to 2 years	from 2 to 5 years
Gross balance sheet value	**1,650**	**839,706**	**1,323**	**56,992**	**362,455**	**418,936**
Non-bank financial institutions	-	-	-	-	-	-
Retail customers	-	-	-	-	-	-
Corporate clients:	1,650	839,706	1,323	56,992	362,455	418,936
including retail farmers:	5	1,318	-	-	901	417
Public sector institutions:	-	-	-	-	-	-
Leasing receivables	-	-	-	-	-	-
Allowance	x	**(6,464)**	**(1)**	**(97)**	**(1,818)**	**(4,548)**
Non-bank financial institutions	x	-	-	-	-	-
Retail customers	x	-	-	-	-	-
Corporate clients:	x	(6,464)	(1)	(97)	(1,818)	(4,548)
including retail farmers:	x	(8)	-	-	-	(8)
Public sector institutions:	x	-	-	-	-	-
Leasing receivables	x	-	-	-	-	-
Total newly granted loans and advances to customers covered by public guarantee programs	**1,650**	**833,242**	**1,322**	**56,895**	**360,637**	**414,388**

As at 30 September 2020, the value of expired moratoriums amounted to PLN 5,336,189 thousand.

The situation related to the COVID-19 pandemic did not change the principles of recognition of a significant increase in risk by the Bank. In particular, exceeding the 30-day delay is still considered as a significant risk increase, the recognition of which results in the calculation of write-downs over the lifetime horizon of credit exposition.

The postponement of repayment of principal and interest or just principal instalments proposed to customers over a period of three or six months is analysed by the Bank with respect to the application of paragraph 5.4.3 of IFRS 9 on recognition of the result on modifications to financial assets. The Bank estimated the result on modification of financial contracts as the difference between the modified cash flows discounted with the original effective interest rate and the current gross carrying amount. The result on modifications would be presented in the interest income, however, in the Bank's opinion, its amount is immaterial.

Concentration risk is an inherent risk taken by the Bank within the framework of its statutory activity and is subject to a specific management process and rules.

The Management Board assesses the adopted concentration risk management policy in terms of the way it is applied, in particular as regards its effectiveness and adequacy of rules implementation in the context of current and planned activities and taking into account the risk management strategy. In the event of significant changes in the Bank's operating environment or risk management strategy, the review of the adequacy of the concentration risk management process is carried out immediately after the occurrence of such circumstances. Proper assessment of the concentration risk incurred by the Bank significantly depends on correct and complete identification of key risk factors that affect the concentration risk level. In justified cases, the Bank identifies the concentration risk in the process of planning a new business, including the introduction and development of new products, services and presence on the markets, and significant changes to the existing products, services and changes on the markets.

Diversification of the credit portfolio is one of the most important tools for credit risk management. Excessive credit concentration is undesirable for the Bank, as it increases risk. Potential losses related to a significant threat – thus, the degree of concentration should be monitored, controlled and reported to the Bank's management. The basic tools of concentration risk mitigation are mechanisms of identification and measurement of concentration risk and limits of exposures in particular segments of the Bank's portfolio and in subsidiaries. These tools enable diversification of the credit portfolio and reduction of negative effects related to unfavourable changes in particular areas of the economy.

The Bank considers a situation in which the share of a given concentration area (dimension) in the Bank's total assets is equal to or exceeds 10% or 5% of the Bank's planned net financial result for a given financial year. In such a situation, a given area (dimension) of concentration is subject to analysis, reporting and management within the concentration risk management process.

One of the potential sources of credit risk is a high concentration of the Bank's credit exposures in particular entities or groups of entities related by capital and organisation. In order to limit it, Regulation (EU) No. 575/2013 defines the maximum exposure limit for the Bank. Pursuant to Article 395 of Regulation (EU) No. 575/2013: An institution shall not incur an exposure, after taking into account the effect of the credit risk mitigation in accordance with Articles 399 to 403, to a client or group of connected clients the value of which exceeds 25% of its eligible capital. Where that client is an institution or where a group of connected clients includes one or more institutions, that value shall not exceed 25% of the institution's eligible capital or EUR 150 million, whichever the higher, provided that the sum of exposure values, after taking into account the effect of the credit risk mitigation in accordance with Articles 399 to 403, to all connected clients that are not institutions does not exceed 25% of the institution's eligible capital.

The Bank monitors concentration limits in accordance with Article 387 of the EU Regulation No. 575/2013. As at the end of the three quarters of 2020, the limits specified in Article 395 of the EU Regulation No. 575/2013 were not exceeded. As at the end of the three quarters of 2020, the Bank's exposure to financing customers / groups of customers with capital or organisational links does not exceed the exposure concentration limit. The total of exposures equal to or exceeding 10% of the Bank's own funds represented 16%.

The concentration risk tolerance is defined in the Bank through a system of internal limits, which take into account both the directions and dynamics of business development assumed by the Bank, the acceptable level of credit risk and liquidity, as well as external macroeconomic and sectoral conditions and prospects. Internal limits for credit concentration risk are set for, i.a.:

- selected economic sectors/ industries,
- exposures denominated in foreign currency,
- customer segment (the Bank’s internal segmentation),
- loans secured by a given type of collateral,
- geographical regions,
- the average probability of default,
- exposures with a specific rating (the Bank's internal rating scale),
- exposure with a specific debt-to-income ratio
- exposure with a specific loan-to-value.

Actions reducing the Bank's exposure to concentration risk may include systemic actions and case-by-case actions related to a single / specific decision or transaction. Systemic actions limiting the concentration risk include:

- limiting the scope of lending to specific types of customers by modifying the credit policy,
- reducing the concentration risk limits,
- diversification of asset types at the level of the Bank's statement of financial position,
- changing the business strategy in such a way that it prevents excessive concentration,
- diversification in the types of collateral received.

Case-by-case actions (related to a single / specific decision or transaction) limiting the concentration risk include:

- limiting new transactions with a given customer or group of connected customers,
- sale of selected assets / loan portfolios,
- securitisation of assets,
- establishment of new collateral (e.g. credit derivatives, guarantees, subparticipation, insurance contracts) for existing or new credit exposures.

The Bank's industry concentration analysis covers all the Bank's credit exposures to institutional customers. The Bank defines industries based on the Polish Classification of Activities (PKD 2007 code). The structure of the Bank's exposure to industries analysed at the end of September 2020, similarly as at the end of September 2019, is characterised by concentration towards such industries as: Agriculture, Forestry, Hunting and Fishing; Production of Groceries, Beverages and Tobacco Products. As at

September 2020, they accounted for 32% of the Bank's exposure towards institutional clients, while as at December 2019 they constituted 33% of the Bank's exposure.

Sector	Exposure		Share of non-performing loans	
	30.09.2020	31.12.2019	30.09.2020	31.12.2019
Agriculture, Forestry, Hunting and Fishing; Production of Food, Beverages and Tobacco Products	13,726,530	15,050,731	9.30%	7.70%
Manufacture of motor vehicles, motorcycles, tires	924,606	763,233	0.40%	0.90%
Construction of civil engineering structures and specialized construction	1,961,498	2,069,417	17.90%	17.70%
Professional, scientific and technical activities; Business administration and support activities	3,102,168	2,436,639	6.80%	5.80%
Manufacture of chemicals and chemical products	578,719	582,828	0.60%	0.30%
Telecommunication; Postal and courier activities	1,030,361	620,168	0.20%	0.20%
Mining of coal, peat; Mining of crude oil and natural gas; Manufacture of gas fuels; Production of coke and refined petroleum products	62,056	61,877	0.20%	0.20%
Manufacture of machinery and equipment (except computers and electronic products)	1,688,169	2,073,662	9.70%	8.60%
Financial activities	536,342	534,919	6.60%	3.60%
Healthcare; Production of basic pharmaceutical substances and drugs	902,146	602,577	3.10%	3.60%
Hotels and restaurants; Activities related to culture, entertainment and recreation	325,653	361,896	25.70%	21.50%
Manufacture of furniture, household goods; Manufacture of clothing, textiles, leather	710,616	869,670	12.50%	11.40%
Activities relating to computer programming and consultancy; Information service activities; Manufacture of computers, electronic and optical products	288,709	318,284	5.70%	5.30%
Insurance activities	24,913	27,109	10.50%	9.90%
Extraction and production of other materials and ores	2,273,757	2,948,451	3.70%	2.20%
Publishing and printing activities; Activities related to media production	432,099	382,391	14.00%	12.40%
Education; Social assistance; Other service activities	176,252	292,291	12.60%	7.50%
Residential and non-residential construction; Real estate activities	5,347,456	4,786,969	3.50%	4.10%
Retail trade	2,825,212	3,300,196	5.50%	4.20%
Public administration and economic and social policy	95,566	118,350	0.00%	0.00%
Transport and warehouse management	1,446,564	2,015,526	7.50%	6.70%
Production and supply of electricity, gas, steam and hot water; Water supply; Sewage and waste management	687,263	435,894	2.20%	4.50%
Wholesale trade	3,521,695	4,606,850	12.00%	7.60%
Total	**42,668,348**	**45,259,930**	**7.80%**	**6.80%**

Structure of overdue receivables

The purpose of the analysis of arrears is to indicate the level of potential credit loss (with respect to receivables without impairment). The higher the overdue status, the greater the probability of identifying an objective indication of impairment in the future. An increase in the delay in repayment above zero days increases the likelihood of identifying an indication of impairment, but does not in itself provide a basis for the indication of impairment. However, in the case of exposures past due less than 91 days, the evidence may be identified on the basis of additional information on the economic and financial standing of the client.

The structure of the credit portfolio (measured at amortised cost and at fair value through profit or loss) divided into exposures with and without impairment, including the level of arrears, is presented in the tables below. For the purpose of calculating the impairment allowance, as well as for the purposes of presentation of the data in the tables below, the loan is deemed to have matured not on the day on which the instalment due date passes, but on the following day.

Loan portfolio structure due to impairment and overdue as at 30 September 2020 (net book value)

	30.09.2020					
Structure of overdue receivables	Not impaired				Impaired	Total
	0 days	1-30 days	31-60 days	61-90 days		
Mortgage loans	20,953,465	154,708	16,540	6,743	415,623	21,547,079
Cash loans	7,274,342	96,180	13,465	5,443	208,714	7,598,144
Car loans	1,557,383	8,713	1,091	582	15,021	1,582,790
Credit cards	1,083,141	25,717	3,129	1,448	33,411	1,146,846
Investment loans	20,198,310	47,660	1,899	3,148	755,413	21,006,430
Overdrafts	8,827,327	24,623	4,371	4,888	291,420	9,152,629
Revolving loans for enterprises	7,842,973	31,159	3,027	1,118	395,115	8,273,392
Leasing	3,726,207	49,616	4,233	815	94,186	3,875,057
Other	1,377,241	2,105	470	1,959	38,321	1,420,096
Total	**72,840,389**	**440,481**	**48,225**	**26,144**	**2,247,224**	**75,602,463**

Loan portfolio structure due to impairment and overdue as at 31 December 2019 (net book value)

	31.12.2019					
Structure of overdue receivables	Not impaired				Impaired	Total
	0 days	1-30 days	31-60 days	61-90 days		
Mortgage loans	17,851,522	272,210	28,903	8,732	342,371	18,503,738
Cash loans	7,342,714	123,147	24,211	7,413	187,339	7,684,824
Car loans	1,507,568	8,540	2,607	540	14,692	1,533,947
Credit cards	1,228,027	52,010	12,723	1,444	26,155	1,320,359
Investment loans	19,696,537	306,585	9,648	7,631	782,977	20,803,378
Overdrafts	10,851,918	38,440	5,703	10,091	341,984	11,248,136
Revolving loans for enterprises	7,436,518	106,063	5,876	3,676	292,293	7,844,426
Leasing	3,624,307	98,241	9,457	5,493	123,372	3,860,870
Other	971,146	7,734	1,024	256	31,201	1,011,361
Total	**70,510,257**	**1,012,970**	**100,152**	**45,276**	**2,142,384**	**73,811,039**

COUNTRY RISK

As at 30 September 2020, foreign lending operations of the Bank represented 50% of the Bank's exposure towards countries, international trade transactions (letters of credit and guarantees) accounted for 32%, while the remaining part, i.e. 18%, was related to treasury transactions (including deposits and derivatives).
Clients from France accounted for 24%, from Netherlands for 13%, from Belgium for 11%, from Czech Republic for 9%, Switzerland and Luxembourg for 7% of the exposure. The remaining exposure was related to clients from Turkey, Austria, Germany and Great Britain.

COUNTERPARTY RISK

Counterparty risk is the credit risk concerning the counterparty transactions in case of which the amount of liability may change in time depending on market parameters.
The counterparty risk was calculated for the following types of transactions contained in the trading portfolio of the Bank: foreign exchange transactions, interest rate swap transactions, FX options, interest rate options and commodity derivatives.
In connection with the COVID-19 pandemic, the Bank is observing increased volatility in market risk parameters, which results in a fluctuation of counterparty risk exposure. The Bank assesses the counterparty risk on an on-going basis by reviewing the credit portfolio of customers with such risk more often.
The Bank maintains the application of its basic principle "Know your customer". Due to the unique situation, some customers were requested to provide additional information related to the change in business conditions in the context of the COVID-19 situation. In risk assessment, the Bank also takes into account the higher volatility of the abovementioned parameters concluding new transactions.
So far, the Bank has not observed any significant changes in the counterparty risk materialization.

INTEREST RATE RISK IN BANKING PORTFOLIO

As part of interest rate risk management in the banking portfolio, the bank distinguishes structural elements consisting of interest-free current accounts and the Bank's capital as well as other commercial items. In terms of structural elements, the Bank secures a

significant portion of long-term positions (bonds, interest rate exchange transactions). Regarding other commercial items, the Bank plans to reduce interest rate risk.
The utilization of interest rate limits in the third quarter of 2020 was increasing due to the increase of balances of interest-free current accounts as a result of the decrease in interest rates to the level close to zero and the effects of anti-crisis shields. The decrease of interest rates increased the asymmetry in the sensitivity of the Bank's interest income under various scenarios of changes in interest rates (increase in sensitivity in the event of a decrease and no significant change in the event of an increase in interest rates).
Another effect of the decline in interest rates, compounded by the anti-crisis and financial shields, were significant shifts of balances between products (persistent in the third quarter of 2020), causing a change in the interest rate risk profile and the need to conclude new transactions in order to secure a new risk profile of interest rate in the banking book.
According to the Bank's estimates published in the Bank's current report 20/2020 of 2 June 2020, a decrease in the reference interest rate from 1.5% to 0.1% will have a negative impact on the Bank's and the Group's net interest income for 2020 in the forecasted range from PLN 195 to PLN 230 million. The actual impact will depend on the yield curve and the ability to achieve business goals.
The outbreak of the COVID-19 pandemic did not fundamentally affect the method of managing the interest rate risk in the banking book.

MARKET RISK

The market risk exposure in the trading book measured by sensitivity to the movement of interest rate curves by 1 basis point and to currency risk in the third quarter of 2020 was maintained at a relatively low level as a result of the continuing post-crisis situation caused by COVID-19 and increasing uncertainty about future market behavior. On the other hand, the exposure measured with VaR slightly decreased compared to the previous quarter and amounted to 26% of the VaR limit on average (compared to 27% in the previous quarter). The market risk mainly resulted from open interest rate position, with the average utilization of the VaR IR limit at 26%. The currency risk did not make a significant contribution to the overall risk level and, similarly to the previous quarter, it was maintained at a low level, i.e. approx. 10% of the use of available limits. Additionally, the Bank maintained a small open position in currency options in order to ensure the servicing of customer transactions.

LIQUIDITY RISK

In the period between January and September 2020, the Group maintained the supervisory liquidity measures for the short and long term above regulatory limits and internal limits. The average level of LCR during the three quarters of 2020 amounted to 158%. The maximum LCR level was 183%.

The main sources of financing are liabilities to customers and equity. The medium and long-term credit lines received, including subordinated loans were less significant source of financing and come mainly from the BNP Paribas group.

The third quarter of 2020 was another period of improvement in the liquidity situation of the Bank. During the quarter, the Bank observed an increase in deposits, at a time when the volume of used loans decreased. This is also due to the continued funding from aid schemes granted in connection with COVID-19. The main source of financing remains funds obtained from non-banking customers and the balance of these funds is increasing, in largely on the accounts of small and medium-sized enterprises that benefit from government assistance under the anti-crisis shield.

OPERATIONAL RISK

The Bank's operational risk is defined in accordance with the requirements of the Polish Financial Supervision Authority specified in Recommendation M of the PFSA as the possibility of incurring a loss or an unreasonable cost through the fault of inappropriate or unreliable internal processes, people, technical systems or as a result of external factors. It comprises legal but not strategic risk. Operational risk as such is inherent in any banking operations.

Operational risk is managed with a view to reducing the losses and costs resulting from the aforesaid risk, ensuring top quality of the services provided by the Group in addition to security and compliance of the Group operations with the applicable laws and standards.

Procedures

Operational risk management consists in employment of measures aimed at operational risk identification, analysis, monitoring, control, reporting and mitigating. Such measures take into account the structures, processes, resources and scopes of responsibilities for the said processes at various organizational levels. The operational risk management strategy has been described in the Operational Risk Management Strategy of BNP Paribas Bank Polska S.A., which was approved by the Management Board of the Bank and accepted by the Supervisory Board. The Operational Risk Policy of BNP Paribas Bank Polska S.A., adopted by the Management Board of the Bank, constitutes organizational framework and standards for operational risk management. It addresses all aspects of the Bank's operations in addition to defining the Bank's objectives and the methods of their achievement as regards the quality of operational risk management as well as compliance with legal requirements set out in the recommendations and resolutions issued by national financial supervision authorities. The Bank's operational risk management objectives include, in particular, compliance with high operational risk management that guarantee security of customer deposits, the Bank's equity, stability of its financial performance as well as maintenance of the operational risk level within the range of the operational risk appetite and tolerance defined by the Bank. When developing the operational risk management system, the Bank complies with the applicable legal requirements, in particular, with the recommendations and resolutions of the national financial supervision authorities and the standards adopted by the BNP Paribas Group.

In accordance with the Policy, the Bank's operational risk management instruments include:

- tools used for purposes of recording operational events, together with the principles of their recording, allocation and reporting;
- operational risk analysis, its monitoring and daily control;
- counteracting an elevated level of operational risk, to include risk transfer;
- calculation of the capital requirement related to the operational risk.

Compliance with the operational risk policy is verified by the Bank's Management Board periodically and, if necessary, the required adjustments are made in order to improve the system. To this end, the Management Board of the Bank is regularly provided with information concerning the scale and types of operational risk to which the Bank is exposed, its effects and management methods.

Internal environment

The Bank precisely defines the roles and responsibilities in the operational risk management process, considering its organizational structure. The Operational Risk Department is responsible for daily operational risk analysis in addition to development of appropriate risk control and mitigation techniques and their improvement. Development and implementation of the Bank's strategy with respect to insurance as a risk mitigation technique is the responsibility of the Real Estate and Administration Department, while the Security and Business Continuity Management Department is in charge of business continuity management.

As part of the legal risk management process, the Legal Division monitors, identifies and performs analyses of changes to laws of general application and their effect on the Group's operations, in addition to court and administrative proceedings which affect the Group. The Compliance Monitoring Department is responsible for daily non-compliance risk analysis in addition to development of appropriate risk controls and their improvement.

Considering the elevated level of external and internal risks related to fraud and offense against the assets of the Bank and its customers, the Bank has extended the scope of and improved its processes aimed at counteracting, detecting and examining such cases, which is entrusted with the Fraud Prevention Department.

Risk management

The Bank places a strong focus on identification and assessment of the factors that trigger its present exposure to operational risk in relation to banking products. It is the Bank's objective to reduce the operational risk level through improvement of its internal processes as well as mitigating the risk inherent in the process of launching new products and services and outsourcing operations to third parties.

In accordance with the Operational Risk Management Policy of BNP Paribas Bank Polska S.A., the operational risk analysis is aimed at acquiring an understanding of the interdependence between the risk generating factors and operational event types, and it is performed primarily with the objective to define the operational risk profile.

The operational risk profile is an assessment of the level of significance of this risk, understood as the scale and structure of operational risk exposures, determining the exposure levels to this risk (i.e. operational losses), expressed in the structural dimensions selected by the Bank and the scale dimensions. Periodic assessment and review of the Bank's operational risk profile is based on an analysis of the Bank's current risk parameters, changes and risks occurring in the Bank's environment, implementation of the business strategy, as well as the adequacy of the organizational structure and the effectiveness of the risk management and internal control system.

Keeping a track record of operational events enables efficient operational risk analysis and monitoring. The process of operational event recording is overseen by the Operational Risk Department, which assumes responsibility for verification of the quality and completeness of data concerning operational events recorded in dedicated tool available to all organizational units of the Bank.

Internal control system

The purpose of internal control is effective risk control, including risk prevention or early detection. The role of the internal control system is to achieve general and specific objectives of the internal control system, which should be considered at the design stage of control mechanisms. The principles of the internal control system are described in the "Policy on internal control at BNP Paribas Bank Polska S.A." document, approved by the Bank's Management Board. This document describes the main principles, organizational framework and standards for the functioning of the control environment at the Bank, complying with the PFSA requirements provided in Recommendation H and the Regulation of the Minister of Development and Finance of 6 March 2017 on the risk management system and the internal control system, the remuneration policy and the detailed method of estimating internal capital in banks. Detailed internal regulations concerning specific areas of the Bank's activity are adapted to the specifics of the Bank's operations. The appropriate organizational units of the Bank, in accordance with the scope of the tasks assigned to them, are responsible for developing detailed regulations relating to the area of internal control.

The internal control system at the Bank is based on the 3 defense lines model, which consists of:

- 1st defense line, which consists of organizational units from particular areas of banking and support areas,
- 2nd defense line, which consists of organizational units responsible for risk management, regardless of the risk management related to the first line defense, and the compliance unit,
- 3rd defense line, which is independent and objective internal audit unit.

The Bank ensures internal control through independent monitoring of compliance with control mechanisms, including on-going verification and testing.

Monitoring and reporting

The Bank periodically monitors the efficiency of the operational risk management system and its appropriateness for its current risk profile. The organization of the operational risk management system is reviewed as part of periodic control exercised by the Internal Audit Division, which is not directly involved in the operational risk management process but provides professional and unbiased opinions supporting achievement of the Bank's objectives. The operational risk management system is overseen, and its appropriateness and efficiency are assessed by the Supervisory Board.

Capital requirements due to operational risk

The Bank estimates its regulatory capital necessary to cover operational risk in accordance with the applicable regulations. The said calculation is performed using the standard approach (STA). Requirements regarding Bank's subsidiaries, to be disclosed in the consolidated financial statements, are determined in accordance with the base indicator method (BIA).

Subsidiaries

In accordance with supervisory regulations, the Group supervises operational risk related to the operations of its subsidiaries. Operational risk management in subsidiaries is performed in dedicated units / persons appointed for this purpose. The method of operational risk management in subsidiaries is organized adequately to the scope of the particular entity's activity and the profile of its operations, in accordance with the rules applied in the Group.

As part of operational risk management, the Bank conducts activities in the area of ongoing risk analysis related to the pandemic of the COVID-19 virus, and undertakes appropriate measures to ensure the safety of employees and clients of the Bank and to ensure uninterrupted implementation of processes related to the conducted business activities.

CAPITAL ADEQUACY

Capital adequacy management is aimed to ensure the Group's compliance with macro-prudential regulations defining capital requirements related to the risks incurred by the Bank, quantified in the form of the capital ratio.

Since 1 January 2014, banks have been subject to new principles applicable to calculation of capital ratios, following the implementation of Regulation No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on macro-prudential requirements for credit institutions and investment firms and amending Regulation No. 648/2012.

The capital ratios, capital requirements and equity have been calculated in accordance with the aforesaid Regulation with the use of national options.

On 8 August 2018, the Bank received a letter from the Polish Financial Supervision Authority with the information that the Commission conducted a review of the adequacy of the buffer ratio for another systemically important institution. As a result of the review, the Commission concluded that there are no reasons justifying the repeal or amendment of its previous decision of 4 October 2016, as amended by the Commission decision of 19 December 2017, concerning imposition of a buffer for another systemically important institution on the Bank (on a consolidated and separate basis) in the amount of 0.25% of the total risk exposure amount.

On July 9, 2019, the Bank received a letter from the Polish Financial Supervision Authority stating the expiry of the PFSA's decision of 15 October 2018, on the basis of which PFSA recommended that the Bank should maintain its own funds to cover the additional capital requirement in order to hedge the risk arising from mortgage-secured foreign currency loans and loans to households at the level of 0.36 p.p. over the value of the total capital ratio, 0.27 p.p. over the value of Tier 1 capital ratio and 0.20 p.p. over the value of Common Equity Tier 1 capital ratio referred to in article 92 paragraph 1 of the Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms ("Regulation No 575/2013").

On 19 March 2020, the Regulation of the Minister of Finance (Journal of Laws of 2020, item 473) of 18 March 2020 repealing the regulation on the systemic risk buffer came into force. The regulation repealed the Regulation of the Minister of Development and Finance of 1 September 2017 regarding the systemic risk buffer (Journal of Laws of 2017, item 1776), which pursuant to art. 1 paragraph 1 introduced the systemic risk buffer rate of 3% of the total risk exposure calculated in accordance with art. 92 paragraph 3 of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on macro-prudential requirements for credit institutions and investment firms and amending Regulation No. 648/2012. (Official Journal of the EU L 176 of 27 June 2013, p. 1, as amended 2)), on a separate and consolidated basis.

On 27 June 2020, Regulation (EU) 2020/873 of the European Parliament and of the Council of 24 June 2020, amending Regulations (EU) No 272/2013 and (EU) 2019/876 as regards certain adjustments in response to the COVID-19 pandemic entered into force.

The level of Tier I capital ratio (Tier I), both on separate and consolidated levels, and the total capital ratio (TCR) on a consolidated level, were above the requirements for the Bank in 9 months of 2020.

At the same time, the Bank meets the legal requirements under the Act of 5 August 2015 on macro-prudential supervision of the financial system and crisis management in the financial sector.

30.09.2020	The minimum supervisory consolidated solvency ratios of the Group	Consolidated capital adequacy ratios of the Group
CET I	7.25%	13.44%
Tier I	8.75%	13.44%
Total Capital Ratio	10.75%	15.79%
31.12.2019		
CET I	10.45%	12.78%
Tier I	12.02%	12.78%
Total Capital Ratio	14.11%	15.03%

30.09.2020	The minimum supervisory consolidated solvency ratios of the Group	Consolidated capital adequacy ratios of the Group
CET I	7.25%	14.03%
Tier I	8.75%	14.03%
Total Capital Ratio	10.75%	16.48%
31.12.2019		
CET I	10.45%	13.32%
Tier I	12.02%	13.32%
Total Capital Ratio	14.11%	15.65%

As at 30 September 2020 the levels of Tier I both on separate and consolidated levels exceeded the regulatory requirements.

On 16 March 2020 the Bank received an announcement from the Bank Guarantee Fund ("BFG") regarding the joint decision of the resolution authorities, i.e. the Single Resolution Board (“SRB”), Central Bank of Hungary, Finanstilsynet, Bank of England and BFG, on the minimum level of own funds and eligible liabilities ("MREL"). The decision is based on the Single Point of Entry (SPE) strategy applied to the BNP Paribas Group.

The MREL requirement for the Bank was set at the sub-consolidated level at 16.001% of the total liabilities and own funds (TLOF), which corresponds to 20.866% of total risk exposure amount (TRE). This requirement should be met by 31 December 2022. Additionally, the BFG set mid-term MREL goals at the sub-consolidated level, which: - in relation to TLOF are: 12.363% at the end of 2020 and 14.182% at the end of 2021, and - in relation to TRE are: 16.122% at the end of 2020 and 18.494% at the end of 2021.

The MREL requirement was determined based on consolidated balance sheet data as at 31 December 2018 and the value of required buffers as at 1 January 2019 and additional capital requirement of the PFSA as at 9 July 2019 (on 9 July 2019, the Bank was released from the obligation to maintain this requirement).

According to the BFG statement of 26 March 2020, as a consequence of the abolition of the systemic risk buffer, the MREL requirements will be significantly reduced and the target deadline will be extended to 1 January 2024 (instead of 1 January 2023), as well as the deadline of the first binding mid-term goal until 1 January 2022 (instead of 1 January 2021). The Bank informs that the binding decisions regarding MREL requirements for the Bank are issued at the SRB level in consultation with BFG and as at the date of publication of this Report, they have not changed.

The bank intends to meet the defined MREL requirements at the end of 2020.

54. MANAGEMENT OF BNP PARIBAS BANK POLSKA S.A.

Composition of the Bank's Supervisory Board as at 30 September 2020:

FULL NAME	OFFICE HELD IN THE SUPERVISORY BOARD OF THE BANK
Józef Wancer	Chairman of the Supervisory Board
Jarosław Bauc	Vice-Chairman of the Supervisory Board
Jean-Paul Sabet	Vice-Chairman of the Supervisory Board
Francois Benaroya	Member of the Supervisory Board
Stefaan Decraene	Member of the Supervisory Board
Magdalena Dziewguć	Independent Member of the Supervisory Board
Sofia Merlo	Member of the Supervisory Board
Vincent Metz	Member of the Supervisory Board
Piotr Mietkowski	Member of the Supervisory Board
Monika Nachyła	Member of the Supervisory Board
Stéphane Vermeire	Member of the Supervisory Board
Mariusz Warych	Independent Member of the Supervisory Board

Changes in the composition of the Supervisory Board in the period from 1 January to 30 September 2020:

- On 19 March 2020, Mr. Michel Falvert resigned from the function of a Member of the Supervisory Board, effective 19 March 2020,
- On 29 June 2020, the Ordinary General Meeting of the Bank appointed Mr. Vincent Metz as a Member of the Supervisory Board until the end of the current five-year joint term of office of members of the Supervisory Board,
- On 29 June 2020, the Ordinary General Meeting of the Bank appointed Mrs. Lucyna Stańczak-Wuczyńska as a Supervisory Board Member as of 1 December 2020 until the end of the current five-year joint term of office of Supervisory Board members,
- On 29 June 2020, Ms Monika Nachyła resigned from the function of a Supervisory Board member with effect as of 30 November 2020.

Composition of the Bank's Management Board as at 30 September 2020:

FULL NAME	OFFICE HELD IN THE MANAGEMENT BOARD OF THE BANK
Przemysław Gdański	President of the Management Board
Jean-Charles Aranda	Vice-President of the Management Board
André Boulanger	Vice-President of the Management Board
Przemysław Furlepa	Vice-President of the Management Board
Wojciech Kembłowski	Vice-President of the Management Board
Kazimierz Łabno	Vice-President of the Management Board
Jaromir Pelczarski	Vice-President of the Management Board
Volodymyr Radin	Vice-President of the Management Board
Jerzy Śledziewski	Vice-President of the Management Board

Changes in the composition of the Management Board after 30 of September 2020 ;

- On 12 October 2020, Mr. Jaromir Pelczarski resigned from the function of a Vice-President of the Management Board with effect as of 31 December 2020.

55. MAJOR EVENTS IN BNP PARIBAS BANK POLSKA S.A. IN THE THREE QUARTERS OF 2020

31.01.2020	**Extraordinary General Shareholders Meeting** • Adoption of a resolution on the introduction of an incentive program for persons having a material impact on the Bank's risk profile. • Adoption of a resolution authorizing the Management Board to purchase by the Bank its own shares and to create a reserve capital intended entirely for the purchase of own shares. • Adoption of a resolution on the issue of subscription warrants, a conditional increase in the share capital by issuing M series shares, depriving existing shareholders of the pre-emptive right to subscription warrants and pre-emptive rights to M series shares, amendments to the Statute and dematerialization and applying for admission of M series shares to trading on the regulated market. • Adoption of a resolution on the adoption of the uniform text of the Statute of BNP Paribas Bank Polska S.A.
6.02.2020	**PFSA approval of the inclusion of net profit for the third quarter of 2019 in the Common Equity Tier 1 capital** - unitary in the amount of PLN 114,075,064.24 and consolidated (prudential consolidation) in the amount of PLN 110,903,651.00
16.03.2020	**Minimum requirement for own funds and eligible liabilities (MREL) set for BNP Paribas Bank Polska S.A.** MREL requirement for the Bank was set at the sub-consolidated level at 16.001% of the total liabilities and own funds (TLOF), which corresponds to 20.866% of total risk exposure amount (TRE). This requirement should be met by 31 December 2022. Additionally, the BFG set mid-term MREL goals at the sub-consolidated level, which: - in relation to TLOF are: 12.363% at the end of 2020 and 14.182% at the end of 2021, and - in relation to TRE are: 16.122% at the end of 2020 and 18.494% at the end of 2021. The MREL requirement was determined based on consolidated balance sheet data as at 31 December 2018 and the value of required buffers as at 1 January 2019 and additional capital requirement of the PFSA as at 9 July 2019 (on 9 July 2019, the Bank was released from the obligation to maintain this requirement). According to the BFG statement of 26 March 2020, as a consequence of the abolition of the systemic risk buffer, the MREL requirements will be significantly reduced and the target deadline will be extended to 1 January 2024 (instead of 1 January 2023), as well as the deadline of the first binding mid-term goal until 1 January 2022 (instead of 1 January 2021). Until the date of publication of this Report, the Bank has not received information on updated individual MREL requirements. The Bank intends to meet the defined MREL requirements at the end of December 2020.
14.04.2020	**Determination by the Bank Guarantee Fund for BNP Paribas Bank Polska S.A. the amount of the annual contribution to the bank restructuring fund for 2020** (PLN 125.96 million)
5.05.2020	**PFSA approval of the inclusion of net profit for the fourth quarter of 2019 in the Common Equity Tier 1 capital** - unitary in the amount of PLN 107,290,717.58 and consolidated (prudential consolidation) in the amount of PLN 113,242,422.00.
5.05.2020	**Confirmation of the Bank's ratings and change of the rating outlook to stable by Moody's Investors Service**
13.05.2020	**Entry into the National Court Register of amendments to the Articles of Association of BNP Paribas Bank Polska S.A.** adopted by the Extraordinary General Meeting of the Bank on 15 November 2019.
14.05.2020	**Entry into the National Court Register of amendments to the Articles of Association of BNP Paribas Bank Polska S.A.** adopted by the Extraordinary General Meeting of the Bank on 31 January 2020.
29.06.2020	**Ordinary General Meeting of BNP Paribas Bank Polska S.A.** • Consideration and approval, i.a.: - Financial statements for 2019 and the Management Board's Report on activities in 2019. - Reports on non-financial information of the Bank and the Bank's Capital Group in 2019. • Reports on the activities of the Bank's Supervisory Board and its committees in 2019. • Adoption of a resolution on the distribution of the Bank's profit for the financial year 2019. • Adoption of resolutions on acknowledging the fulfilment of their duties by members of the Bank's Management Board and Supervisory Board in 2019.

29.09.2020	**PFSA's decisions to approve the inclusion of net profit for the first half of 2020,** at the standalone level in the amount of PLN 329,799,009.75 and consolidated in the amount of PLN 334,127,286.63 in Tier 1 capital.

Any changes in the composition of the Bank's Management Board and the Bank's Supervisory Board that took place in the first half of 2020 are described in Chapter 54. Management of BNP Paribas Bank Polska S.A. of this Report.

56. BUSINESS CONTINUITY MANAGEMENT IN THE THIRD QUARTER OF 2020 IN THE CONTEXT OF THE COVID-19 PANDEMIC

Since mid-March 2020, BNP Paribas Bank Polska has been actively involved in activities supporting the fight against the pandemic, taking steps to ensure continuity of service provision, while caring for the health of employees and customers, as well as the safety of funds entrusted to it.

WORK ORGANIZATION - PROTECTION OF EMPLOYEES AND CUSTOMERS

- remote working - the basic organization form of work in the Bank during pandemic; in organizational units where such a form of work is not possible for entire teams, the organization of work is based on a split-team system, based on dividing the team in order to separate people performing the same duties; at the end of September 2020, about 80% of the Head Office employees worked remotely;
- since 11 May 2020, the branches have been providing customer service during the standard working hours of the bank branches, while maintaining the rotation of teams in the branches and remote working, where possible, with special attention paid to safety rules; at the end of September 2020 one branch was excluded from service;
- gradual replacement of terminals with laptops in the Bank's branches;
- current equipment of branches with plexiglass windows at the customer service stations, protective masks, gloves, disinfectants;
- the possibility to perform tests on COVID-19 in ALAB diagnostic laboratories, at the Bank's expense, for Bank’s employees if there is a reasonable suspicion of virus infection during their business activities;
- the bank also refunds the tests to employees (before their return to work in the team) who were in isolation (they had a positive result of the first test) and are not directed to another test by a doctor/sanepid after the isolation;
- enabling senior employees to use the "hours for seniors" in shops, pharmacies;
- remote recruitment of new employees, virtual welcome trainings #MiłoCięWidzeć for new employees;
- psychological support through a dedicated telephone line and sharing health-related materials on the Worksmile wellbeing platform;
- all educational and pro-employment initiatives continued through online platforms;
- a special section on the internal Echonet network dedicated to information on coronavirus;
- marketing campaigns “banking without leaving home” and #StayHome.

BUSINESS ACTIVITY, CUSTOMER SUPPORT

From the beginning of April 2020 the Bank provided its clients with the possibility to defer the repayment of capital or interest and capital installments (so-called "credit moratorium") in a convenient remote process. As at the end of September 2020, the number of customers who were granted loans and credits subject to moratorium amounted to 44.5 thousand, with a total gross balance sheet exposure of the Capital Group of PLN 7,528.2 million, of which: PLN 3,465.4 million related to individual customers, PLN 3,236.5 million to business entities and PLN 826.3 million to lease and other receivables.

Since 1 October 2020 only government moratorium is available, which as of 30 September 2020 covered PLN 29.6 million of the Group's balance sheet exposures.

In addition, the Bank actively participated in the implementation of the government program concerning financial support of the Polish Development Fund for micro, small and medium enterprises in connection with fighting the effects of the COVID-19 pandemic in Poland within the framework of the governmental Anti-Crisis Shield. Under the program the Bank purchased on 27 April the PFR0324 bonds for PLN 1 billion, on 8 May the PFR0325 bonds for PLN 1 billion, on 25 May the PFR0925 bonds for PLN 1 billion, on 5 June the PFR0627 bonds for PLN 1 billion. The Bank's total exposure to the PFR bonds amounted to PLN 4 billion. In addition, the Bank acquired PLN 5.7 billion of bonds issued by Bank Gospodarstwa Krajowego ("BGK") for the COVID-19 counteraction fund.

In the GOonline and BiznesPl@net internet banking systems, the Bank enabled entrepreneurs to submit applications within the anti-crisis shield and the financial shield of the Polish Development Fund (PFR).

OTHER ACTIVITIES FOR CUSTOMERS

In the third quarter of this year the Bank actively supported clients and initiatives aimed at restoring economic recovery.
In the areas of retail and corporate banking, the Bank has focused its efforts on promoting digital solutions that allow customers to use mobile devices and e-banking more often in their contacts with the Bank.
In the third quarter of this year, the Bank took actions to extend/modify the facilities introduced in the first and second quarter of this year, among others in the scope of

- possibility of remote document processing for customers
- remote account opening in GOmobile application, using video verification technology to confirm identity,
- possibility to book visits in the whole network of Bank branches using Booksy application

  and
- continued customer support within the anti-crisis shield and financial shield of the Polish Development Fund (PFR),
- support activities under the de minimis guarantee scheme of BGK and the Liquidity Guarantee Fund.

Additionally, the following activities were introduced:

- the first solution within the framework of open banking - faster confirmation of the customer's identity in the online credit process through access to the customer's account information (AIS inquiry);
- a new method of logging in and authorising transactions - thanks to the mobile token built into GOmobile Biznes, it is possible to easily and securely authorise instructions in the BiznesPl@net Internet banking system,
- possibility to increase the credit limit via remote channels,
- new functionalities of GOmobile, such as setting the PIN number of the card directly in the application, own currency transfers, the possibility of setting up subsequent types of bank deposits directly from the application,
- electronic Autenti signature in the Bank branches
- webinars within the original program Mission Education: "Don't get caught up in the web! How to pay on the Internet, i.e. about safe banking and more?" and a series of webinars for seniors: "Why online banking is a good solution + first login", "How to safely use your account + Transfers and payments", "Savings".

In the second half of October this year, due to the worsening epidemiological situation, the Bank returned to some remote processes that operated during the first wave of the pandemic in the service of selected banking products, e.g. for the service of customers applying for or using the Bank's mortgage products or processing of credit applications for microenterprises.

SOCIAL ACTIVITIES

- the financial support for the Itaka Foundation's Antidepressants' Trust Telephone action, donated in May this year, provided the foundation with stability, thanks to which it was possible to undertake new initiatives aimed at helping people at risk of depression, especially in times of pandemic, including: extending the on-call time from 4 to 15 hours a week for 12 months and creating a new website www.stopdepresji,
- an informational campaign #StayHome encouraging safe banking and leaving home only when necessary,
- dedicated bookmark on the Bank's website https://www.bnpparibas.pl/koronawirus-aktualnosci informing customers about the possibilities of performing banking activities using Internet and mobile banking

The bank closely monitors the situation and tries to engage in support activities for the groups most affected by the pandemic.

IMPACT ON FINANCIAL RESULTS FOR 9 MONTHS OF 2020

- Interest income: according to the Bank's estimates - published by the Bank on 2 and 15 April and 2 June 2020 (Current Reports 13/2020, 15/2020, 20/2020) - the decisions of the Monetary Policy Council of 17 March 2020, 8 April 2020 and 28 May 2020 to reduce the reference interest rate from 1.5% to 0.1% and of 17 March 2020 to increase the interest rate on the mandatory reserve from 0.5% to 1.0% as of 30 April 2020 will have a total negative impact on the Bank's and the Group's interest result for 2020 in the range projected from PLN 195 to 230 million. The actual impact will depend on the profitability curve and the implementation of business assumptions.

  After three quarters of 2020, interest income was lower by PLN 50.8 million, i.e. 2.1% y/y, with a clear negative impact of interest rate cuts observable since the second quarter of 2020. (Q2 / Q1 result decreased by PLN 47.2 million or 5.8%, Q3 / Q2 result decreased by PLN 24.4 million or 3.2%).

- impairment allowances on financial assets and provisions for contingent liabilities: the impact of COVID-19 **on the cost of risk for three quarters of 2020 amounted to PLN 175 million** and resulted mainly from the change of macroeconomic scenarios following COVID-19 (forward looking PD and LGD determined based on smoothed macro forecasts) and the Bank's assessment of the expected future impact of the current economic situation on risk parameters for selected types of customers. As a result, the total cost of risk for three quarters of 2020 is 44.6% higher year-on-year than in the comparable period of the previous year.

IMPACT ON LIQUIDITY AND CAPITAL RESULTS

- The Bank monitors and assesses the impact of the coronavirus pandemic on the Bank's liquidity and capital situation, which remains positive. The Monetary Policy Council's decision of 17 March 2020 to reduce the mandatory reserve rate from 3.5% to 0.5% (which means leaving more funds at banks' disposal) and the National Bank of Poland's decisions on the purchase of treasury bonds, a bill of exchange loan and repo operations (increasing banks' ability to manage current liquidity) had a positive impact on the liquidity of the banking sector.
- By decision of the Minister of Finance, as of 19 March 2020, the level of the system risk buffer was reduced from 3% to 0%. This means that the minimum capital requirements for the Bank and the Group have been reduced to 10.75% for the Bank's total capital adequacy ratio (TCR) and to 8.75% for the Tier 1 capital ratio. As of 30 September 2020, the consolidated TCR was equal to 15.78% and Tier 1: 13.43%.
- After the period of economic freeze (March-May), in the third quarter of 2020 the bank noted a recovering activity of customers. Higher sales volumes of banking products were observed, e.g. the number of personal accounts sold increased by 73% q/q, and cash loans by 81% q/q. Only the sales of mortgage loans, which in the second quarter remained at the levels before the start of the pandemic, decreased by 9% q/q in the third quarter of 2020. In the Corporate Banking and SME segment, customer acquisitions in the third quarter increased by 92% q/q, with payment volumes lower by 4% q/q. This resulted in maintaining the level of credit volumes - the observed decrease in demand for credit from institutional clients as a result of the economic freeze in the second quarter of 2020 and the continuing uncertainty about the future was partly offset by an increase in the volume of housing loans. At the same time, an increase in deposits from non-financial customers was observed. These factors, in addition to the above mentioned changes in the amount required to maintain the mandatory reserve, resulted in a significant improvement in the liquidity ratios - the Bank's LCR increased from 130-140% to 173%, and the loan-to-deposit ratio decreased to a historically low 79.7%.
- Minimum Requirements for Own Funds and Eligible Liabilities (MREL): On 16 March 2020 the Bank received a letter from the Bank Guarantee Fund ("BFG") regarding a joint decision of the resolution authorities, i.e. the Single Resolution Board (SRB), the Central Bank of Hungary, Finanstilsynet, the Bank of England and the BFG, regarding the Minimum Requirements for Own Funds and Eligible Liabilities ("MREL"). This decision is based on the BNP Paribas Group's forced restructuring strategy of a Single Point of Entry (SPE).

  The MREL requirement for the Bank was set at the sub-consolidated level at 16.001% of total liabilities and own funds (TLOF), which corresponds to 20.866% of total risk exposure (TRE). This requirement should be achieved by 31 December 2022. In addition, the BFG set MREL's medium-term objectives at the sub-consolidated level: in relation to the TLOF are: 12.363% at the end of 2020 and 14.182% at the end of 2021, and in relation to the TRE are: 16.122% at end 2020 and 18.494% at end 2021.

  The MREL requirement was determined on the basis of the consolidated balance sheet data as at 31 December 2018 and the value of the required buffers valid as at 1 January 2019 and the additional capital requirement of the PFSA valid as at 9 July 2019. (on 9 July 2019 the Bank was released from the obligation to maintain this requirement).

  According to the BFG statement of 26 March 2020, as a consequence of the removal of the systemic risk buffer, the MREL requirements will be significantly reduced and deadline for fulfillment will be extended to 1 January 2024. (instead of 1 January 2023) as well as the deadline for meeting the first binding medium-term target by 1 January 2022 (instead of 1 January 2021). The Bank informs that binding decisions concerning MREL requirements for the Bank are issued at the SRB level in agreement with the BFG and have not changed as of the date of publication of this Report.

  The Bank intends to meet the defined MREL requirements at the end of December 2020.

POTENTIAL IMPACT ON THE FUTURE SITUATION OF THE BANK AND THE GROUP

At present, it is not possible for the Bank to precisely estimate the impact of the coronavirus pandemic on the Bank's operations and financial results in subsequent periods. The acceleration of the scale and pace of the spread of the SARS-CoV-2 virus in October this year and the introduction of further sanitary restrictions may have a significant impact on the economic situation. In the Bank's opinion, the worsening of global and domestic prospects may result in lower customer activity, partially rebuilt in the summer months, and the possibility of a decrease in sales of banking products, and consequently affect the business and financial results of the Bank and the Group. At present, it is not possible to accurately estimate the impact of the coronavirus pandemic on the quality of assets and the level of risk costs in subsequent periods. The Bank's Management Board intends to actively adjust the Bank's policy and procedures to the changing economic conditions and plans to undertake appropriate actions aimed at limiting the impact of these factors on the financial results.

57. FACTORS WHICH, IN THE BANK'S OPINION, WILL AFFECT THE RESULTS OF THE CAPITAL GROUP IN THE PERSPECTIVE OF AT LEAST THE FOLLOWING QUARTER

The most important external factors which, in the Bank's opinion, may affect the Group's results in subsequent periods are as follows:

- **Coronavirus pandemic and recession in Europe.** The scale and speed of the spread of coronavirus in the world has recently accelerated rapidly. After initial stabilisation thanks to restrictions and social distancing, Europe is facing a second wave of the pandemic. The restrictions introduced earlier, which limited the scale of the disease, have, however, had a negative impact on economic activity. The world economy shrank in the second quarter of this year by 8.7% y/y, and trade turnover fell at a double-digit rate. However, recent data indicate a gradual recovery in world trade, which predicts a good rebound in global GDP in Q3. In September, the PMI indicators in the major world economies continued to point to an ongoing economic recovery (>50). The dynamics of the recovery, however, have weakened, which may have been influenced by the increase in coronavirus infections in European countries. The International Monetary Fund (IMF) in its October report slightly revised its forecasts. According to the IMF, the global economy will shrink by around 4.4% in 2020 (previously -4.9%). In the euro area, the IMF forecasts a decline of 8.3% in 2020 and a rebound of 5.2% in 2021 (previously -10.2% and 6.0% respectively). The drop in Polish GDP was also slightly adjusted by the IMF. In 2020 GDP is expected to fall by 3.6% (vs. 4.6% in the June report). In the following year, however, forecasts assume a faster growth of 4.6% (compared with 4.2% previously). The IMF stresses, however, that the uncertainty related to the base projection is extremely high. The projection is based on factors related to public health and the economy, which are inherently difficult to predict. A group of uncertainties relate to the path of the pandemic and the associated disruption of economic activity, especially in sectors where people-to-people contacts cannot be excluded. Another source of uncertainty is the extent of the global side effects of weaker demand and tourism and reduced cash flow. The third set of factors includes the mood in financial markets and their impact on global capital flows.
- **Actions taken by the main central banks and governments.** The decisive and rapid actions taken by central banks and governments around the world have mitigated the economic impact of the first wave of the pandemic. Now, once again, most of the major central banks are asserting their readiness to act. The President of the European Central Bank (ECB), Christine Lagarde, during her recent speech, announced that the ECB would be ready to introduce further emergency action to mitigate the economic impact of the crisis. However, she stressed the need for coordination between monetary and fiscal policies, which means closer cooperation between central banks and governments.
- **Actions of Polish central institutions in the fight against the coronavirus pandemic.** The National Bank of Poland (NBP) continues to pursue a mild monetary policy. Starting from March this year the Monetary Policy Council (MPC) decided on three interest rate cuts, by a total of 140 bps. Currently, the reference interest rate is 0.1%. In addition, the NBP runs a quantitative easing programme (QE), consisting in the purchase of securities (treasury bonds and bonds guaranteed by the State Treasury issued by Bank Gospodarstwa Krajowego and Polski Fundusz Rozwoju). The easing of the NBP monetary policy combined with a significant scale of fiscal stimulation mitigate the negative effects of the pandemic on the real economy, support the liquidity of the private sector, and help to improve efficiency of the economy. In this way, it works towards improving the financial situation of borrowers and strengthens the stability of the financial system, although the simultaneous deterioration of banks' financial performance due to lower interest rates to some extent weakens the above positive effect.
- **The economic situation in Poland.** The final data on Polish GDP in Q2 have been revised down to 8.4% y/y. Both household consumption and investment recorded double-digit declines of 10.8% and 10.7% y/y respectively. In turn, public consumption increased by 3.4% y/y, while inventories were the main contributor to the decline in total GDP (2.0% deducted). Compared to other EU countries, the overall picture of GDP is rather positive. Capital expenditure remained relatively good (better than the central bank's expectations), and foreign trade activity did not fall more than in early 2009 (peak of the global financial crisis). With the end of the freezing period at the end of May, economic activity, including in the sectors which were mostly affected, grew rapidly. This should ensure a significant rebound of quarterly GDP growth in the third quarter and reduce the scale of the recession. Available monthly data and surveys for July-September suggest a quarterly growth rate in excess of 5%, which should, in the Bank's view, mitigate the annual fall in GDP. This is also confirmed by recent statements by the President of the NBP, who said that the economic slowdown may be softer than indicated in the NBP's July projection - the NBP projected a 5.4% y/y drop in GDP.
- **The situation on the local labour market.** In the third quarter of this year the unemployment rate remained at the same level as in the previous quarter, i.e. 6.1%. The decrease in employment slightly slowed down to about 1.6% from over 3% in the second quarter of this year, with a simultaneous acceleration of salary growth. The Ministry of Family, Labour and Social Policy forecasts that at the end of 2020 the unemployment rate will be around 7-8%. In the longer term, the forecast of the

unemployment rate is subject to great uncertainty and depends, among other things, on how quickly the recession in our main trading partners will end and how fast the rate of recovery will be.

- **Changes in the level of inflation.** According to the Central Statistical Office (GUS), in September CPI inflation accelerated to 3.2% y/y, which was a big surprise as the market expected it to remain at 2.9%. The main reason for the increase was core inflation, which amounted to 4.3% y/y in September (the highest result since 2001). Preliminary data suggest that core inflation remains high despite the general consensus that the pandemic will have a deflationary impact on the economy. The reasons for the rise in inflation can be found in an attempt to pass on the costs associated with tightening the sanitation regime to retail customers. However, the sharp slowdown in growth this year and the resulting emergence of a negative demand gap suggests a slowdown in inflation this and next year (to around 1.0% by mid-2021). This is consistent with the NBP inflation forecast published in the Inflation Report. According to this publication, the CPI inflation will slow down to 2.8% y/y in Q3 and to 2.7% y/y in Q4.
- **An increase in the imbalance in public finances.** The situation of central and local government sector institutions between 2020 and 2021 will be determined by macroeconomic developments and the consequences of decisions taken to prevent the spread of the COVID-19 pandemic. The freezing of certain sectors of the economy has a significant negative impact on the revenue stream of the sector in 2020, and therefore the deficit in this year will increase significantly. According to the updated Convergence Programme, the deficit of the entire public finance sector will be 8.4% of GDP. The main reason for this increase in the deficit will be implementation of the fiscal stimulation programme called 'Anti-Crisis Shield', which aims to help entrepreneurs and maintain jobs. The scale of the imbalance of public finances in 2021 will depend on the length of the period of functioning of the economy under the conditions of introduced restrictions, the pace of their gradual elimination, as well as the final size of actions taken in relation to the pandemic.
- **Potential increase in risk aversion in European financial markets.** At present, the prospects for global growth are strongly affected by the coronavirus pandemic. The main topic in the markets is the impact of the second wave of the disease on the world economy. The markets remain in uncertainty as to the extent to which governments are prepared to introduce additional fiscal incentives. At present, both in the European Union and in the United States, the fiscal packages are at the negotiation stage.
- **Potential weakening of Polish zloty against key currencies.** The zloty as an emerging market currency is highly dependent on external factors. In the third quarter of this year, the EUR/PLN exchange rate fell to about 4.40 compared to 4.45-4.55 in April-June, which was influenced by growing hopes for economic recovery. However, the recent outbreak of the second wave of the pandemic caused the EUR/PLN exchange rate to almost reach the peak from March (4.60). If aversion to the markets increases, capital will be transferred from risky assets to those considered safe (e.g. dollar, yen, gold), which may further weaken the gold. Nevertheless, the weaker PLN, according to the MPC, will support exports and subsequent GDP growth. On the other hand, once the pandemic slows down and the economy opens up, the zloty is likely to return to the nominal trend of appreciation against the euro.
- **Deterioration of credit portfolio quality.** Immediately after the outbreak of the pandemic, it was assumed that there would be a strong deterioration in the condition of businesses and a marked increase in unemployment. For banks, this would have implied an increase in non-performing loans (NPL). Implementation by the government of a number of anti-crisis tools has mitigated this effect and probably postponed it. Companies that have benefited have maintained employment. In addition, according to the data of the Polish Bank Association, over a million people took advantage of the possibility of credit holidays, lasting up to 6 months. As a result of these actions, the situation has remained relatively stable so far. Aggregate economic data indicate that the companies are even overly liquid, and unemployment has increased slightly, reaching 6.1% in September. Despite this, banks are already seeing a slow process of portfolio deterioration. According to NBP data for August 2020, the percentage of impaired loans in the non-financial sector reached 7.0% and was 0.4 p.p. higher than in February 2020 (last month before the pandemic). The largest increases in the corresponding period were recorded in the consumer loan portfolio (+1.0 p.p. to 11.6%) and the corporate sector (+0.7 p.p. to 8.9%). The change in the quality of the portfolio in subsequent periods may be affected in particular by the end of credit moratoriums and the return of customers to regular repayments, as well as the development of the pandemic and its impact on the economy.
- **Currency mortgage loans.** At the beginning of October 2020, one year has passed since the judgment of the Court of Justice of the European Union on a CHF-denominated mortgage loan. Since then, the number of individual actions has been increasing steadily. According to the data of the Bankier.pl portal, in the first half of 2020 alone, it increased by 65% to 18.7 thousand. The current value of the objects of dispute is about PLN 4 billion (out of about PLN 100 billion of the total loan portfolio according to the PFSA estimates). This is still a small percentage, but a further increase in the number and value of lawsuits can be expected, among other things, due to the growing share of court decisions favourable to the borrower and the intensive efforts of law firms to encourage the submission of lawsuits. In the first half of 2020 Banks listed on the WSE created provisions for legal risk related to the CHF portfolio in the total amount of approximately PLN 700 million. In subsequent periods, a further increase in provisions can be expected, which will adversely affect the profitability of the sector.
- **Structure of the banking sector balance sheet.** On an aggregate level, the relatively good September data have somewhat mitigated the unfavourable trends that have occurred in recent months. As a result, total loans in the banking sector remained almost at the same level compared to February 2020. It should be noted, however, that this was due almost exclusively to

mortgages. Their volume increased by PLN 5.2 billion in that month alone, which even before the pandemic would have been a very good result. This was reflected in the result of loans to households, where a slight increase of 1% (PLN 11 billion) was recorded compared to February 2020. The business sector is still experiencing decreases. The balance sheet value of the loan portfolio has decreased by 4% (PLN 16 billion) over the last 7 months. This is related to the repayment of current loans by companies. In the context of the reintroduction of sanitary restrictions, the prospects for a dynamic rebound seem remote. At the same time, a strong inflow of deposits is observed, mainly in the enterprise sector (increase by 21%, i.e. PLN 64 billion compared to February 2020). This is due both to the prudence of companies in investing and to their postponement of funds received under the anti-crisis shield. As a result, the loan-to-deposit ratio in the sector has fallen to a historically low level of around 80%. Such a high level of over liquidity is a challenge for banks how to efficiently allocate funds at almost zero interest rates. These structural changes may have a negative impact on banks' net interest margins, which may consequently reduce the profitability of the banking sector.

- **The ability of the sector to finance the economy.** Falling profitability in the banking sector as measured by return on capital has been continuing for several years. Almost a decade ago, the profitability of the sector was two-digit. Between 2018 and 2019 it was already below 7%. For the following years, forecasts indicate that the best banks will reach 5%. The pressure on profitability has many sources. Interest rates are close to zero, and the banks are under increasing regulatory pressure (e.g. directly in the form of a tax on certain financial institutions, indirectly through higher risk weights or the need to hold increased capital). With the additional increase in reserves related to the economic downturn and CHF loans, this translates into unprecedented pressure on performance. In the short term, this may continue to fuel the consolidation of the sector in search of economies of scale. In the longer term, limited profitability may slow down the growth of the capital base and thus limit lending possibilities.

The Bank underlines that the dynamically changing situation and uncertainty as to the real impact of the coronavirus pandemic on the economy and environment may result in the occurrence of other significant factors not mentioned in this report which may affect the Bank's and the Group's performance and operations in subsequent periods.

58. SUBSEQUENT EVENTS

The Group has not identified any significant subsequent events after the balance sheet date.

Changes in the composition of the Bank's Management Board that took place after the balance sheet date are described in Note 54 Management of BNP PARIBAS Bank Polska S.A. hereof.

II INTERIM CONDENSED SEPARATE FINANCIAL STATEMENTS

Interim condensed separate statement of profit or loss

	3Q 2020 from 01.07.2020 to 30.09.2020	3 quarters of 2020 from 01.01.2020 to 30.09.2020	3Q 2019 from 01.07.2019 to 30.09.2019	3 quarters of 2019 from 01.01.2019 to 30.09.2019
Interest income	801,623	2,675,243	1,018,358	3,051,851
Interest income calculated with the use of effective interest rate method	752,619	2,521,697	964,828	2,885,277
interest income on financial instruments measured at amortised cost	703,966	2,376,084	913,484	2,716,909
interest income on financial instruments measured at fair value through other comprehensive income	48,653	145,613	51,344	168,368
Income of a similar nature to interest on instruments measured at fair value through profit or loss	49,004	153,546	53,530	166,574
Interest expense	(77,517)	(407,057)	(233,367)	(725,131)
Net interest income	**724,106**	**2,268,186**	**784,991**	**2,326,720**
Fee and commission income	289,056	781,213	248,779	737,915
Fee and commission expense	(47,608)	(151,697)	(53,345)	(150,115)
Net fee and commission income	**241,448**	**629,516**	**195,434**	**587,800**
Dividend income	5,811	21,280	4,451	25,988
Net trading income	157,417	533,969	175,667	500,945
Result on investment activities	11,014	19,353	(20,534)	(40,535)
Result on hedge accounting	(2,992)	(12,689)	(3,559)	(4,642)
Net impairment losses on financial assets and contingent liabilities	(90,214)	(484,147)	(124,211)	(308,767)
Result on provisions for legal risk related to foreign currency loans	(39,914)	(66,476)	(174)	(934)
General administrative expenses	(459,129)	(1,547,537)	(564,169)	(1,758,776)
Depreciation and amortization	(90,524)	(269,192)	(130,559)	(350,952)
Other operating income	39,075	225,311	22,366	125,177
Other operating expenses	(83,758)	(247,495)	(101,105)	(170,693)
Operating result	**412,340**	**1,070,079**	**238,598**	**931,331**
Tax on financial institutions	(83,625)	(234,448)	(69,457)	(210,784)
Profit before tax	**328,715**	**835,631**	**169,141**	**720,547**
Income tax expenses	(99,380)	(276,497)	(55,066)	(199,141)
Net profit	**229,335**	**559,134**	**114,075**	**521,406**
attributable to equity holders of the Group	229,335	559,134	114,075	521,406
Earnings (loss) per share (in pln per one share)				
Basic	1.56	3.79	0.78	3.54
Diluted	1.55	3.78	0.78	3.54

Interim condensed separate statement on comprehensive income

	3Q 2020 from 01.07.2020 to 30.09.2020	3 quarters of 2020 from 01.01.2020 to 30.09.2020	3Q 2019 from 01.07.2019 to 30.09.2019	3 quarters of 2019 from 01.01.2019 to 30.09.2019
Net profit for the period	**229,335**	**559,134**	**114,075**	**521,406**
Other comprehensive income				
Items that will be reclassified subsequently to profit or loss upon fulfilment of certain conditions	**27,283**	**90,113**	**8,638**	**(7,113)**
Measurement of financial assets measured at fair value through other comprehensive income	33,683	111,251	10,664	(8,782)
Deferred income tax	(6,400)	(21,138)	(2,026)	1,669
Items that will not be reclassified to profit or loss	**(311)**	**(1,093)**	**(978)**	**(666)**
Actuary valuation of employee benefits	(383)	(1,349)	(1,208)	(822)
Deferred income tax	72	256	230	156
Other comprehensive income (net)	**26,972**	**89,020**	**7,660**	**(7,779)**
Total comprehensive income	**256,307**	**648,154**	**121,735**	**513,627**
attributable to equity holders of the group	256,307	648,154	121,735	513,627

Interim condensed separate statement on financial position

ASSETS	30 September 2020	31 December 2019
Cash and balances at Central Bank	2,923,558	4,658,142
Amounts due from banks	549,795	526,595
Derivative financial instruments	1,447,087	800,886
Adjustment of hedging item fair value	578,742	228,120
Loans and advances to customers measured at amortised cost	70,492,040	68,651,562
Loans and advances to customers measured at fair value through profit or loss	1,640,581	1,974,396
Securities measured at amortised cost	21,832,298	17,916,645
Financial instruments measured at fair value through profit or loss	363,833	241,427
Securities measured at fair value through other comprehensive income	14,707,256	7,953,358
Investments in subsidiaries	144,483	152,512
Intangible assets	551,883	519,124
Property, plant and equipment	1,112,967	1,214,434
Deferred tax assets	740,398	844,049
Other assets	845,938	910,880
Total assets	**117,930,857**	**106,592,130**
LIABILITIES	30 September 2020	31 December 2019
Amounts due to the Central Bank	106,994	-
Amounts due to banks	2,883,806	1,018,776
Derivative financial instruments	1,344,080	815,637
Adjustment of hedging and hedged item fair value	585,208	224,218
Amounts due to customers	96,518,630	88,445,327
Subordinated liabilities	1,975,455	1,882,064
Lease liabilities	629,205	601,157
Other liabilities	1,454,756	1,852,051
Current tax liabilities	53,623	38,061
Provisions	540,328	530,537
Total liabilities	**106,092,084**	**95,407,828**
EQUITY		
Share capital	147,419	147,419
Supplementary capital	9,110,976	9,110,976
Other reserve capital	2,207,770	1,572,757
Revaluation reserve	214,260	125,240
Retained earnings	158,348	227,910
retained profit	(400,786)	(400,786)
net profit for the period	559,134	628,696
Total equity	**11,838,773**	**11,184,302**
Total liabilities and equity	**117,930,857**	**106,592,130**

Interim condensed separate statement of changes in equity

	Share capital	Supplementary capital	Other reserve capital	Revaluation reserve	Retained earnings		Total
					Retained profit	Net profit for the period	
Balance as at 1 January 2020 (data approved)	**147,419**	**9,110,976**	**1,572,757**	**125,240**	**(400,786)**	**628,696**	**11,184,302**
Total comprehensive income for the period	**-**	**-**	**-**	**89,020**	**-**	**559,134**	**648,154**
Net profit for the period	-	-	-	-	-	559,134	559,134
Other comprehensive income for the period	-	-	-	89 020	-	-	89 020
Distribution of retained earnings	**-**	**-**	**628,696**	**-**	**-**	**(628,696)**	**-**
Distribution of retained earnings intended for capital	-	-	628,696	-	-	(628,696)	-
Managerial options*	**-**	**-**	**6 316**	**-**	**-**	**-**	**6 316**
Balance as at 30 September 2020	**147,419**	**9,110,976**	**2,207,770**	**214,260**	**(400,786)**	**559,134**	**11,838,773**

* the managerial option program is described in detail in Note 40

	Share capital	Supplementary capital	Other reserve capital	Revaluation reserve	Retained earnings		Total
					Retained profit	Net profit for the period	
Balance as at 1 January 2019 (data approved)	**147,419**	**9,111,033**	**1,208,018**	**141,139**	**(400,786)**	**364,739**	**10,571,562**
Total comprehensive income for the period	-	-	-	**(15,899)**	-	**628,696**	**612,797**
Net profit for the period	-	-	-	-	-	628,696	628,696
Other comprehensive income for the period	-	-	-	(15,899)	-	-	(15,899)
Distribution of retained earnings	-	**-**	**364,739**	**-**	**-**	**(364,739)**	**-**
Distribution of retained earnings intended for capital	-	-	364,739	-	-	(364,739)	-
Share issue costs	-	(57)	-	-	-	-	(57)
Balance as at 31 December 2019	**147,419**	**9,110,976**	**1,572,757**	**125,240**	**(400,786)**	**628,696**	**11,184,302**

	Share capital	Supplementary capital	Other reserve capital	Revaluation reserve	Retained earnings		Total
					Retained profit	Net profit for the period	
Balance as at 1 January 2019 (data approved)	**147,419**	**9,111,033**	**1,208,018**	**141,139**	**(400,786)**	**364,739**	**10,571,562**
Total comprehensive income for the period	-	-	-	**(7,779)**	-	**521,406**	**513,627**
Net profit for the period	-	-	-	-	-	521,406	521,406
Other comprehensive income for the period	-	-	-	(7,779)	-	-	(7,779)
Distribution of retained earnings	-	**-**	**364,739**	**-**	**-**	**(364,739)**	**-**
Distribution of retained earnings intended for capital	-	-	364,739	-	-	(364,739)	-
Share issue	-	**(57)**	**-**	**-**	**-**	**-**	**(57)**
Share issue costs	-	(57)	-	-	-	-	(57)
Balance as at 30 September 2019	**147,419**	**9,110,976**	**1,572,757**	**133,360**	**(400,786)**	**521,406**	**11,085,132**

Interim condensed separate statement on cash flows

CASH FLOWS FROM OPERATING ACTIVITIES:	3 quarters of 2020 from 01.01.2020 to 30.09.2020	3 quarters of 2019 from 01.01.2019 to 30.09.2019
Net profit (loss)	**559,134**	**521,406**
Adjustments for:	**8,283,055**	**(2,982,676)**
Income tax expenses	276,497	199,141
Depreciation and amortization	269,192	350,952
Dividend income	(21,280)	(25,988)
Interest income	(2,675,243)	(3,051,851)
Interest expense	407,057	725,131
Change in provisions	(178,165)	19,025
Change in amounts due from banks	(20,581)	40,693
Change in assets due to derivative financial instruments	(996,823)	(380,041)
Change in loans and advances to customers measured at amortised cost	(1,348,795)	(564,882)
Change in loans and advances to customers measured at fair value through profit or loss	333,815	346,444
Change in amounts due to banks	1,968,383	222,560
Change in liabilities related to derivative financial instruments	889,433	317,359
Change in amounts due to customers	8,109,636	(3,860,023)
Change in other assets and receivables due to current income tax	98,972	(198,194)
Change in other liabilities and provisions due to deferred tax	(382,280)	417,276
Other adjustments	(58,863)	226,867
Interest received	2,047,447	2,877,442
Interest paid	(439,994)	(656,249)
Lease payments with reference to short-term leases not included in the lease liability measurement	4,647	11,662
Net cash flows from operating activities	**8,842,189**	**(2,461,270)**

PRZEPŁYW ŚRODKÓW PIENIĘŻNYCH Z DZIAŁALNOŚCI INWESTYCYJNEJ:	3 quarters of 2020 from 01.01.2020 to 30.09.2020	3 quarters of 2019 from 01.01.2019 to 30.09.2019
Investing activities inflows	**43,513,137**	**10,203,579**
Sale and maturity of financial assets	43,369,410	10,166,383
Sale of intangible assets and property, plant and equipment	122,447	11,208
Dividends received and other investment inflows	21,280	25,988
Investing activities outflows	**(53,996,330)**	**(7,857,896)**
Purchase of shares in subsidiaries	(1,500)	-
Purchase of debt securities	(53,778,904)	(7,443,119)
Purchase of intangible assets and property, plant and equipment	(215,926)	(414,777)
Net cash flows from investing activities	**(10,483,193)**	**2,345,683**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Financing activities inflows	**-**	**-**
Financing activities outflows	**(92,698)**	**(383,264)**
Repayment of long-term loans and advances received	-	(388,235)
Repayment of lease liability	(92,698)	4,971
Net cash flows from financing activities	**(92,698)**	**(383,264)**
TOTAL NET CASH AND CASH EQUIVALENTS	**(1,733,702)**	**(498,851)**
Cash and cash equivalents at the beginning of the period	**4,800,477**	**3,374,744**
Cash and cash equivalents at the end of the period, including:	3,066,775	**2,875,893**
effect of exchange rate fluctuations on cash and cash equivalents	34,623	1,667

EXPLANATORY NOTES TO THE INTERIM CONDENSED SEPARATE FINANCIAL STATEMENTS

1 ACCOUNTING PRINCIPLES APPLIED FOR THE PURPOSE OF PREPARATION OF THE INTERIM CONDENSED SEPARATE FINANCIAL STATEMENTS

The interim condensed separate financial statements for the three quarters of 2020 ended 30 September 2020 were prepared in accordance with the requirements of International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34"), as adopted by the European Union as well as in accordance with other applicable regulations.

The interim condensed separate financial statements do not include all information and disclosures required for the annual financial statements, and therefore should be read in conjunction with the Interim condensed consolidated financial statements for the three quarters of 2020 and with the Separate financial statements of the BNP Paribas Bank Polska S.A. for the year ended 31 December 2019, which was approved by the Management Board of the Bank on 2 March 2020.

The accounting principles and methods of performing accounting estimates adopted in the preparation of the interim condensed separate financial statements of the Bank are consistent with the accounting principles adopted for the Group's interim condensed consolidated financial statements, which are described in sections 3 and 7.

The following significant events regarding the Interim condensed separate financial statements for the three quarters of 2020 were described in the Interim condensed consolidated financial statements for the three quarters of 2020:

- Major events in the BNP Paribas Bank Polska S.A. Capital Group in the three quarters of 2020 in note 55,
- Significant event after the balance sheet date in Note 58.

2. RELATED PARTY TRANSACTIONS

BNP Paribas Bank Polska S.A. is a member of the BNP Paribas Bank Polska S.A. Capital Group

BNP Paribas Bank Polska S.A. is the parent company of the BNP Paribas Bank Polska S.A. Capital Group.

As at 30 September 2020 the Capital Group of BNP Paribas Bank Polska S.A. comprised BNP Paribas Bank Polska S.A. as the parent company and its subsidiaries:

1. BANKOWY FUNDUSZ NIERUCHOMOŚCIOWY ACTUS SP. Z O.O. („ACTUS”).
2. BNP PARIBAS TOWARZYSTWO FUNDUSZY INWESTYCYJNYCH S.A. („TFI”).
3. BNP PARIBAS LEASING SERVICES SP. Z O.O. („LEASING”).
4. BNP PARIBAS GROUP SERVICE CENTER S.A. („GSC”).
5. CAMPUS LESZNO SP. Z O.O.
6. BNP PARIBAS SOLUTIONS SPÓŁKA Z O.O.
7. BGZ POLAND ABS1 DAC („SPV”).

All transactions between the Bank and its related parties were entered into as part of its daily operations and included mainly loans, deposits, transactions in derivative instruments as well as income and expenses related to advisory and financial intermediation services.

Transactions with entities that are shareholders of BNP Paribas Bank Polska S.A. and related entities:

30.09.2020	BNP Paribas Paris	BNP Paribas Fortis S.A.	Other entities from the capital group of BNP Paribas S.A.	Key personnel	Subsidiaries	Total
Assets	**1,390,972**	**49,607**	**188,495**	**17**	**34,784**	**1,663,875**
Receivables on current accounts, loans and deposits	143,242	42,476	181,614	4	30,438	**397,774**
Derivative financial instruments	668,775	6,656	-	-	-	**675,431**
Hedging instruments	578,267	474	-	-	-	**578,742**
Other assets	688	-	6,881	13	4,346	**11,928**
Liabilities	**3,658,307**	**28,455**	**938,022**	**5,875**	**120,953**	**4,751,612**
Current accounts and deposits	1,051,803	27,003	664,200	5,875	120,549	**1,869,430**
Subordinated liabilities	1,703,307	-	272,148	-	-	**1,975,455**
Derivative financial instruments	840,364	1,452	-	-	-	**841,816**
Hedged instruments	62,833	-	-	-	-	**62,833**
Other liabilities	-	-	1,674	-	404	**2,078**
Contingent liabilities						
Financial commitments granted	-	-	543,318	56	21,288	**564,550**
Guarantees granted	75,527	190,027	485,924	-	-	**751,478**
Commitments received	1,262,200	123,278	665,983	-	-	**2,051,461**
Derivative financial instruments (nominal value)	52,657,328	647,976	-	-	-	**53,305,304**
Derivatives (nominal value)	16,255,202	13,580	-	-	-	**16,268,783**
Statement of profit or loss	**177,422**	**5,377**	**(12,324)**	**(18)**	**1,968**	**172,425**
3 quarters of 2020 from 01.01.2020 to 30.09.2020						
Interest income	-	184	1,121	-	32	**1,337**
Interest expense	(71,824)	(64)	(4,385)	(19)	(146)	**(76,438)**
Fee and commission income	214	138	15,887	1	370	**16,610**
Fee and commission expense	(410)	-	(4,435)	-	(4,279)	**(9,124)**
Net trading income	273,421	5,119	(11)	-	-	**278,529**
Other operating income	-	-	-	-	12,719	**12,719**
General administrative expenses	(23,979)	-	(20,501)	-	(6,728)	**(51,208)**

31.12.2019	BNP Paribas Paris	BNP Paribas Fortis S.A.	Other entities from the capital group of BNP Paribas S.A.	Key personnel	Subsidiaries	Total
Assets	**696,243**	**5,646**	**370,931**	**33**	**9,480**	**1,082,333**
Receivables on current accounts, loans and deposits	120,910	4,650	270,198	3	8,513	**404,274**
Derivative financial instruments	351,629	100	11	-	-	**351,740**
Hedging instruments	223,640	893	-	-	-	**224,533**
Other assets	64	3	100,722	30	967	**101,786**
Liabilities	**2,322,616**	**10,846**	**1,023,066**	**5,738**	**130,404**	**3,492,670**
Current accounts, deposits	291,720	10,846	752,601	5,733	128,198	**1,189,098**
Subordinated liabilities	1,630,349	-	256,066	-	-	**1,886,415**
Derivative financial instruments	375,204	-	-	-	-	**375,204**
Hedged instruments	24,633	-	-	-	-	**24,633**
Other liabilities	710	-	14,399	5	2,206	**17,320**
Contingent liabilities						
Financial commitments granted	-	-	227,588	57	31,541	**259,186**
Guarantees granted	72,215	187,480	600,158	-	-	**859,853**
Commitments received	2,152,316	123,415	1,132,726	-	-	**3,408,457**
Derivatives (nominal value)	50,735,912	227,067	132,014	-	-	**51,094,993**
Derivative hedging instruments (nominal value)	7,340,164	12,776	-	-	-	**7,352,940**
Statement of profit or loss	**1,151**	**(672)**	**(13,180)**	**(28)**	**5,342**	**(7,387)**
3 quarters of 2019 from 01.01.2019 to 30.09.2019						
Interest income	-	368	2,070	-	24	**2,462**
Interest expense	(28,015)	(239)	(5,600)	(29)	(355)	**(34,238)**
Fee and commission income	880	219	2,286	1	78	**3,464**
Fee and commission expense	-	-	(241)	-	(2,580)	**(2,821)**
Net trading income	34,656	(1,040)	(245)	-	-	**33,371**
Other operating income	-	-	30	-	17,924	**17,954**
Other operating expenses	-	(1)	-	-	-	**(1)**
General administrative expenses	(6,370)	-	(11,771)	-	(9,749)	**(27,890)**

Remuneration of the Management Board and Supervisory Board

Management Board	3 quarters of 2020 from 01.01.2020 to 30.09.2020	3 quarters of 2019 from 01.01.2019 to 30.09.2019
Short-term employee benefits	13,469	13,645
Long-term benefits	4,189	9,869
Share-based payments	3,374	2,231
Total	**21,032**	**25,778**

Supervisory Board	3 quarters of 2020 from 01.01.2020 to 30.09.2020	3 quarters of 2019 from 01.01.2019 to 30.09.2019
Short-term employee benefits	1,035	949
Total	**1,035**	**949**

3. SEPARATE CAPITAL ADEQUACY RATIO

	30.09.2020	31.12.2019
Total own funds	13,284,508	12,651,988
Total risk exposure amount	80,617,789	80,852,563
Total capital ratio	16,48%	15.65%
Tier 1 capital ratio	14,03%	13.32%

4. SEASONAL OR CYCLICAL NATURE OF BUSINESS

There are no significant seasonal or cyclical phenomena in the Bank's operations.

5. DIVIDEND PAID

In 2019, no dividend was paid out in the Bank.

6. DISTRIBUTION OF RETAINED EARNINGS

In accordance with the Resolution No. 6 of the Ordinary General Meeting of the Bank of 29 June 2020, the profit of the Bank after tax (net profit) for 2019 in the amount of PLN 628,696 thousand, was fully allocated to the reserve capital.

7. CONTIGENT LIABILITIES

The following table presents the value of liabilities granted and received by the Bank.

Contingent liabilities	30.09.2020	31.12.2019
Contingent commitments granted	**35,448,424**	**31,087,503**
financial commitments	28,809,961	24,293,205
guarantees	6,638,463	6,794,298
Contingent commitments received	**20,819,216**	**21,443,112**
financial commitments	12,770,750	12,127,379
guarantees	8,048,466	9,315,733

8. SUBSEQUENT EVENTS

Subsequent events are described in Note 58 of the Interim consolidated financial statements for the three quarters of 2020.

SIGNATURES OF MEMBERS OF THE MANAGEMENT BOARD OF BNP PARIBAS BANK POLSKA S.A.

09.11.2020	**Przemysław Gdański** *President of the Management Board*	*qualified electronic signature*
09.11.2020	**Jean-Charles Aranda** *Vice-President of the Management Board*	*qualified electronic signature*
09.11.2020	**Andre Boulanger** *Vice-President of the Management Board*	*qualified electronic signature*
09.11.2020	**Przemysław Furlepa** *Vice-President of the Management Board*	*qualified electronic signature*
09.11.2020	**Wojciech Kembłowski** *Vice-President of the Management Board*	*qualified electronic signature*
09.11.2020	**Kazimierz Łabno** *Vice-President of the Management Board*	*qualified electronic signature*
09.11.2020	**Jaromir Pelczarski** *Vice-President of the Management Board*	*qualified electronic signature*
09.11.2020	**Volodymyr Radin** *Vice-President of the Management Board*	*qualified electronic signature*
09.11.2020	**Jerzy Śledziewski** *Vice-President of the Management Board*	*qualified electronic signature*

Warsaw, 9 November 2020