

Report No. 19/2020 – The update of the information about the impact of the spread of coronavirus, decisions of the Monetary Policy Council and other institutions on activities of the PKO Bank Polski Group

*Legal basis:*

Article 17 (1) MAR Regulation

The report:

The Management Board of PKO Bank Polski S.A. ("Bank") hereby updates the information about the impact of the coronavirus spread and the decisions of the Monetary Policy Council and other institutions on activities of the Issuer and the Capital Group ("Group"), presented in the reports No. 2/2020 and No. 13/2020.

The Bank estimates that the impact of NBP interest rate reduction by 1 p.p., changes in the mandatory deposit reserve requirement and some other decisions of monetary and supervisory institutions on net profit of the Group in 2020 will amount to PLN 550 - 600 million. The actual impact will depend on a yield curve and business assumptions' fulfillment.

The Bank also informs that following last year's judgments of the CJEU, which triggered changes in customer behavior and changes in the court rulings, the Bank will recognize in the consolidated financial statements for the first quarter of 2020:

1. an increase in write-offs for legal risk related to foreign currency mortgage contracts in the amount of PLN 85 million,
2. an increase in reserves for the partial return of origination fees due to early repayment of retail loans in the amount of PLN 70 million.

In addition, despite the Bank's still incomplete knowledge of the impact of the epidemic on the macroeconomic situation and its impact on other entities of the banking sector, the Bank will include in the consolidated financial statements for the first quarter of 2020 a conservative provision on Covid-19 due to forecasted deterioration of the Group's loan portfolio and other financial assets amounting to at least PLN 215 million. The Bank will take into account the negative macroeconomic scenarios that assume economic recession, increase of unemployment and a significant deterioration in the banking sector's loanbook. At the same time, the Bank will consider the lower cost of risk as compared to the peer group in 2019 and the relatively lower exposure to sectors of the economy most at risk due to a pandemic.

The total impact of the above-mentioned events on the Group's net profit in the first quarter of 2020 will amount to at least PLN 320 million, and the Group will record a significant decrease in net profit as compared to the first quarter of 2019.

The above estimates and assumptions may be subject to change.