



Bank Polski

PKO Bank Polski S.A. Group Directors' Report for the first half of 2021

This document is a translation of a document originally issued in Polish.
The only binding version is the original Polish version.

TABLE OF CONTENTS

1.	INTRODUCTION	3
2.	RESULTS OF OPERATIONS OF THE BANK'S GROUP IN THE FIRST HALF OF 2021	3
2.1.	Unusual events	3
2.2.	Selected financial data	5
3.	EXTERNAL BUSINESS CONDITIONS	7
3.1.	Macroeconomic environment	7
3.2.	Situation on the financial market	9
3.3.	Situation in the Polish banking and non-banking sector	10
3.4.	Regulatory and legal environment	11
3.5.	Factors which will affect the financial results of the Bank's Group in the second half of the year	12
4.	ORGANIZATION OF THE BANK'S GROUP	13
4.1.	Changes in the composition of the Supervisory Board and the Management Board of the Bank	13
4.2.	Entities covered by the financial statements	15
5.	DIRECTIONS OF DEVELOPMENT OF THE BANK'S GROUP	17
6.	FINANCIAL STANDING OF THE BANK'S GROUP	18
6.1.	Key financial indicators	18
6.2.	Consolidated income statement	19
6.3.	Statement of financial position	22
6.4.	Employment level	24
7.	FINANCIAL STANDING OF THE BANK	24
7.1.	Key financial indicators	24
7.2.	Income statement	25
7.3.	Statement of financial position	28
8.	DEVELOPMENT OF OPERATIONS - SIGNIFICANT ACHIEVEMENTS	30
9.	NETWORK OF BRANCHES AND AGENCIES	33
10.	RISK MANAGEMENT	34
11.	INFORMATION FOR INVESTORS	35
11.1.	Offset of losses for 2020, distribution of retained earnings and dividends	35
11.2.	Shareholders holding directly or indirectly through subsidiaries at least 5% of the total number of votes at the General Shareholders' Meeting	36
11.3.	Shares of PKO Bank Polski S.A. held by members the Bank's authorities	36
11.4.	Ratings	37
11.5.	WSE Good Practices 2021	37
12.	OTHER INFORMATION	37
13.	GLOSSARY	39
14.	STATEMENT OF THE MANAGEMENT BOARD	41

1. INTRODUCTION

The Powszechna Kasa Oszczędności Bank Polski S.A. Group (**PKO Bank Polski S.A. Group, the Bank's Group or the Group**) is one of the largest financial institutions in Poland and one of the largest financial groups in Central and Eastern Europe.

The parent entity of the Bank's Group is Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna (**PKO Bank Polski S.A. or the Bank**). PKO Bank Polski S.A. is the largest commercial bank in Poland and the leading bank on its home market in terms of the scale of operations, equity, loans, deposits, number of Customers and size of the distribution network.

In 2020, PKO Bank Polski S.A. was the largest bank in Central and Eastern Europe (CEE) in terms of the value of assets.¹

PKO Bank Polski S.A. is a universal bank that services individuals, legal entities and other Polish and foreign entities.

Apart from strictly banking operations, the PKO Bank Polski S.A. Group also provides services in respect of leases, factoring, investment funds, pension funds and insurance, and provides car fleet management services, transfer agent services, provides technological solutions, outsources IT professionals and supports other entities' operations and manages properties.

The PKO Bank Polski S.A. Group conducts banking activities and provides financial services outside Poland – mainly through its branches in the Federal Republic of Germany (the Branch in Germany), the Czech Republic (the Branch in the Czech Republic) and the Slovak Republic (the Branch in Slovakia), as well as its subsidiaries in Ukraine.

The PKO Bank Polski S.A. Group stands out on the Polish market due to its high financial results, which ensure its stable and safe growth.

2. RESULTS OF OPERATIONS OF THE BANK'S GROUP IN THE FIRST HALF OF 2021

2.1. Unusual events

In the first half of 2021, the PKO Bank Polski S.A. Group was preparing to offer settlements regarding mortgage loans granted to households for housing purposes in Swiss francs. The Group continued to support communities, Customers and employees in fighting the COVID-19 pandemic and its effects.

ACTIONS TAKEN BY THE BANK'S GROUP IN CONNECTION WITH THE PROPOSAL OF THE CHAIR OF THE POLISH FINANCIAL SUPERVISION AUTHORITY AND THE EXPECTED SUPREME COURT SESSION REGARDING LOANS GRANTED IN FOREIGN CURRENCIES

In December 2020, the Chair of the Polish Financial Supervision Authority (hereinafter: the PFSA Chair) made a proposal aimed at providing a systemic solution to the problem of housing loans in Swiss francs. In accordance with this solution, the banks would voluntarily offer settlement agreements to their customers. Under such agreements, the customers would repay their loans to the bank as if they had originally been granted in PLN with interest at WIBOR plus a historical margin applied to such loans.

The Bank's Group has analysed the benefits and risks associated with the possible approaches to the issue of foreign currency housing loans. In the Group's opinion, for both the Group and its Customers it is better to reach a compromise and conclude a settlement agreement than engage in long legal disputes whose outcome is uncertain.

A survey conducted by the Bank's Group among its Customers revealed that approx. 70% of them are interested in signing a settlement agreement with the Bank. The Bank's Group is currently conducting a pilot programme concerning the settlements, which involves participating in mediation at the court of arbitration at the Polish Financial Supervision Authority (PFSA) and concluding settlements in common courts.

On 23 April 2021, the Extraordinary General Shareholders' Meeting (EGSM) approved the possibility of offering settlement agreements to Customers. By a resolution dated 27 May 2021, the Bank's Supervisory Board approved the terms and conditions for offering settlement agreements proposed by the PFSA Chair. The Bank is working on

¹ According to a report by Inteliace Research.

the details of the solution, which include the option to switch to a fixed interest rate, which will be offered to the Customers in the settlement agreement.

ACTIONS TAKEN FOR THE COMMUNITY, CUSTOMERS AND EMPLOYEES IN CONNECTION WITH THE CORONAVIRUS PANDEMIC

Since the beginning of the COVID-19 pandemic the PKO Bank Polski S.A. Group has supported the local communities, its Customers and employees.

ACTIONS TAKEN FOR THE COMMUNITY

In the first half of 2021, the Bank's Group made cash donations exceeding PLN 2.2 million in total, including donations for:

- the purchase of a tomograph with a radiological platform for analysing images with the support of artificial intelligence for the Central Clinical Hospital of the Ministry of Internal Affairs and Administration in Warsaw;
- the purchase of additional specialist equipment for four medical facilities for patients who recovered from COVID-19;
- co-financing of a project organized by the Polish Chamber of Insurance, which is aimed at supporting the General Sanitary Inspector in the process of providing consultation and information about the epidemiological situation relating to the pandemic.

The Bank Customers may register for vaccination through the iPKO electronic banking platform. The solution has been available since the launch of the vaccination programme. PKO Bank Polski S.A. supports the vaccination lottery – the Customers can confirm their identity using the Moje ID (My ID) service at the Bank and withdraw their cash awards from the Bank's ATMs and at its branches.²

ACTIONS TAKEN FOR THE CUSTOMERS

In the first half of 2021, PKO Bank Polski S.A. introduced grace periods for Customers affected by the pandemic, including those working in the sectors known as "at risk". The Bank offered the following solutions to entrepreneurs:

- suspending or prolonging the repayment of instalments (principal or principal and interest, depending on the size of the enterprise and the form of financing) of investment loans, mortgage loans, SME loans, non-revolving working capital loans and restructuring agreements;
- renewing revolving loans (i.e. overdrafts, revolving facilities in a credit account and credit cards) with maturities up to 31 March 2021;

for a maximum period of 9 months, including the suspension or renewal periods from 2020. The grace periods were offered until 31 March 2021.

The creditworthiness of the Customers who applied for the above-mentioned aid instruments was assessed by the Bank in accordance with the simplified principles set out in the Banks' Statement on standardization of the principles for offering aid tools to customers developed under the guidance of the Polish Bank Association.

PKO Leasing S.A. and the Prime Car Management S.A. Group companies continued to offer the reliefs for Customers implemented in 2020 (until 31 March and 30 June 2021, respectively).

As in the previous year, the Customers of the Bank's Group could use aid provided under the anti-crisis shields (such as guarantees, subsidies, loans), including the aid offered by Bank Gospodarstwa Krajowego (BGK) and Polski Fundusz Rozwoju S.A. (The Polish Development Fund, PFR).

- In January 2021, such aid was extended to include the subsidies provided under the PFR Financial Shield 2.0 for micro, small and medium firms from 54 industries, which were forced to limit their economic activities due to the epidemic. The Bank's Customers could file applications through iPKO and iPKO biznes online banking platforms until the end of March 2021. Complaints were accepted until 15 April 2021. More than 8.8 thousand enterprises used this form of aid through PKO Bank Polski S.A., and the total amount of the subsidies granted exceeded PLN 1.3 billion. PKO Bank Polski S.A. became the leader in the distribution of such subsidies in terms of both the amount of funds provided and the number of firms which received aid.

² The vaccination lottery was launched on 1 July 2021.

- In April 2021, PFR commenced the process of settlement of the subsidies provided under the PFR Financial Shield 1.0 for micro, small and medium firms. The settlement process is conducted by the bank through which the financial subsidy agreement was concluded. Until 30 June 2021 the Bank made available the forms for more than 61 thousand firms who signed subsidy agreements through PKO Bank Polski S.A. More than 36 thousand firms received PFR decisions on the settlement of their subsidies, which stated the amount to be repaid and the forgiven amount. The total number of subsidies settled is PLN 6.1 billion, of which almost PLN 4 billion was forgiven.
- In June 2021, the Bank signed an annex to the agreement with BGK extending the period in which BGK liquidity guarantees securing working capital loans are offered to corporate Customers (medium and large enterprises) affected by the pandemic. The said period was extended to 31 December 2021.

ACTIONS TAKEN FOR THE EMPLOYEES

The Bank's Group continued the actions aimed at ensuring the safety and protection of the employees. Such actions were mainly focused on the continuation of rotational remote work in order to reduce the number of employees who are in the office at the same time. For the duration of the pandemic, the Bank's Group has equipped the employees with the necessary protective equipment and informed them about the rules to be followed to reduce the risk of infection. The Group has also adjusted its medical care model to the situation resulting from the pandemic.

In particular, in the first half of the year 2021 PKO Bank Polski S.A.:

- offered free post-COVID-19 medical check-ups to the Bank's employees and their family members covered by the LUX MED package and support in using the nationwide post-COVID-19 rehabilitation programme;
- participated in the National Vaccination Programme in the capacity of an employer, offering the possibility of registration and vaccination to the employees and their families.

The Bank and its selected subsidiaries began to pay compensation to their employees for remote work.

In the first half of 2021, the Group spent PLN 3.6 million on the employees' functioning during the pandemic and on mitigating its effects (this amount includes the costs of compensation for remote work).

2.2. Selected financial data

The individual items of the statement of financial position and income statement are defined in chapter 13. Glossary.³

The net profit of the PKO Bank Polski S.A. Group for the first half of 2021 amounted to PLN 2 413 million, which represents an 84.7% increase in relation to the first half of the previous year.

The increase in the net profit was due to the following:

- 1) an increase in net write-downs and impairment⁴ of PLN 896 million, including the costs of legal risk associated with mortgage loans denominated in convertible currencies;
- 2) a decrease in operating expenses, including mainly regulatory charges and employee benefits, of PLN 109 million;
- 3) an improvement in the result on business activities that achieved PLN 7 390 million (+2.7% y/y), which was mainly due to the increases in net other income of PLN 518 million and in net fee and commission income of PLN 207 million, accompanied by a decrease in net interest income of PLN 530 million.

³ Any differences in individual items, including sums, shares or dynamics arise from the rounding of amounts to full PLN millions and rounding of percentage shares in presented structures to one or two decimal places.

⁴ The net write-downs and impairment comprise net write-downs for expected credit losses, net impairment allowances on non-financial assets and the result on loans measured at fair value through profit or loss.

Table 1. Key financial data of the PKO Bank Polski S.A. Group (in PLN millions)

	30.06.2021	30.06.2020	Change (y/y)
Net profit	2 413	1 306	+84.7%
Net interest income	4 717	5 247	-10.1%
Net fee and commission income	2 099	1 892	+10.9%
Result on business activities	7 390	7 195	+2.7%
Operating expenses	-3 099	-3 208	-3.4%
Tax on certain financial institutions	-518	-533	-2.8%
Net write-downs and impairment	-544	-1 440	-62.2%
Total assets	392 622	377 196	+4.2%
Total equity	41 061	44 054	-6.8%
Net ROE	-3.4%	7.8%	-11.2 p.p.
Net ROE (in the period)	12.0%	6.1%	+5.9 p.p.
Net ROTE	-3.7%	8.4%	-12.1 p.p.
Net ROA	-0.4%	0.9%	-1.3 p.p.
Net ROA (in the period)	1.3%	0.7%	+0.6 p.p.
C/I (cost to income ratio)	39.7%	42.2%	-2.5 p.p.
Interest margin	2.75%	3.27%	-0.52 p.p.
Share of impaired exposures	4.5%	4.3%	+0.2 p.p.
Cost of credit risk	0.66%	0.54%	+0.12 p.p.
Total capital ratio	18.87%	18.21%	+0.66 p.p.
Common equity Tier 1 (CET1)	17.62%	16.98%	+0.64 p.p.

Events having a significant effect on the net profit earned by the Bank's Group in the first half of 2021 in relation to the first half of 2020:

RESULT ON BUSINESS ACTIVITIES

- The effects of the EGSM decision on offering settlement agreements to the Customers:
 - recognizing net foreign exchange gains of approx. PLN 328 million due to closing the foreign currency position;
 - de-designation of CIRS transactions, which previously financed the portfolio of foreign currency housing loans, from hedging accounting. As a result, the amount of approx. PLN 90 million (swap points) was recognized in net foreign exchange gains/(losses) (had the hedging relationships not been terminated, this amount would have been recognized in net interest income) and the change in the fair value measurement of such transactions of approx. PLN -61 million was also recognized in net foreign exchange gains/(losses) (previously it was recognized in equity – other comprehensive income – cash flow hedges);
- improvement in the result on the capital investments valuation of PLN 63 million (the change in the valuation concerned primarily the shares of VISA Inc. and BIK S.A.) and the improvement in the result on valuation of derivatives of PLN 38 million;
- recognition of the costs resulting from the verdict of the Court of Justice of the European Union (CJEU) concerning the consumer's right to reduce the cost of a loan if the loan is repaid before the contractual repayment deadline in the net interest income in the amount of PLN -163 million (the amount recognized in the first half of 2020 was PLN -105 million) and in the net other result in the amount of PLN -27 million (the amount recognized in the first half of 2020 was PLN -70 million).

NET WRITE-DOWNS AND IMPAIRMENT

- an improvement in net write-downs for credit risk of PLN 473 million,⁵ of which PLN 396 million resulted from changes in macroeconomic forecasts in the absence of credit risk materialization;

⁵Taking into account the loans measured at fair value through profit or loss.

- and events recognized in the first half of 2020, which contributed to the improvement in the annual result:
 - recognition of the costs of legal risk associated with mortgage loans denominated in convertible currencies in the amount of PLN -190 million (there were no such costs in the first half of 2021);
 - recognition of an impairment allowance in respect of the Nordea Bank Polska S.A. corporate CGU⁶ of PLN -116 million and recognition of goodwill impairment allowance on the acquisition of PKO Leasing Pro S.A. of PLN -31 million, resulting from the outbreak of the COVID-19 pandemic and its effects (an increase in the costs of credit risk and an expected decrease in economic activity) and an interest rate decrease, along with a high level of regulatory charges (tax on certain financial institutions and fees to the Bank Guarantee Fund), which caused a significant decrease in the expected profitability of banking activities;
 - recognition of an impairment allowance in respect of the shares of Bank Pocztowy S.A. of PLN -90 million.

REGULATORY COSTS

- a decrease of PLN 106 million due to lower contributions and payments to the Bank Guarantee Fund (including the contribution to the resolution fund, which decreased by PLN 65 million, and the contribution to the banks' guarantee fund, which decreased by PLN 57 million), accompanied by an increase in the payments to the Polish Financial Supervision Authority of PLN 15 million.

As a result of the actions taken in the first half of 2021, the scale of the Group's operations increased both in relation to the first half of the previous year and to the end of 2020:

- total assets reached the level of nearly PLN 393 billion, which is PLN 15 billion more than in the first half of the previous year and PLN 16 billion more than as at the end of the year 2020;
- Customer deposits increased to PLN 294 billion, which is PLN 12 billion more than as at the end of June 2020 and PLN 11 billion more than as at the end of December 2020. This was mainly the effect of an increase in retail and private banking deposits;
- the amount of financing granted to Customers exceeded PLN 237 billion and it was PLN 2 billion higher than as at the end of 2020, but PLN 8 billion lower than as at the end of June 2020 - mainly due to a decrease in the amount of financing granted to corporate Customers in the form of business loans and due to an adjustment of the gross carrying amount of housing loans made at the end of 2020 in connection with the decision of the EGSM to offer settlement agreements to the Customers;
- the banking portfolio of securities increased significantly - by PLN 20 billion in relation to the end of June 2020 and by PLN 16 billion in relation to the end of 2020.

In the first half of 2021, the Bank's Group:

- retained a high share in the loans and savings market of 17.4% and 18.1%, respectively;
- was the leader of the market of investment funds for private individuals with a market share of 19.4%.

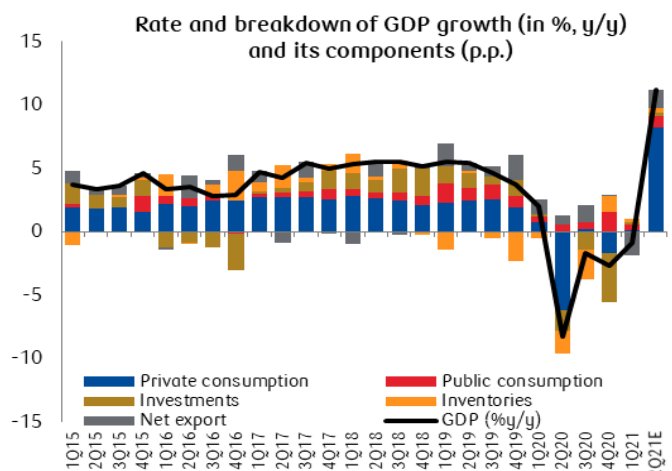
3. EXTERNAL BUSINESS CONDITIONS

3.1. Macroeconomic environment

FAST RECOVERY FROM LOSSES CAUSED BY THE PANDEMIC

The condition of the economy at the beginning of 2021 was a positive surprise. Despite the growing number of COVID-19 infections and re-imposed restrictions, GDP (after eliminating the effect of seasonality) increased by 1.1% in the first quarter (-0.9% y/y), which demonstrated the growing resilience of the economy to consecutive waves of the pandemic.

Investments already started growing in the first three months of the year (+1.3% y/y, as a result of the expenditure of domestic enterprises),



⁶ i.e. one of the cash generating units to which goodwill is allocated.

and private consumption increased by 0.2% y/y. The end of the third wave of the pandemic and loosening of the restrictions since May made the economic activity exploded.

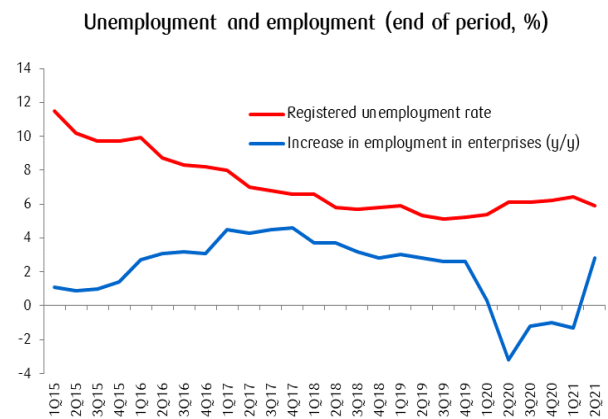
Deferred consumer demand has just started to materialize, which is possible, among other things, thanks to the “mandatory” savings accumulated during the pandemic. Demand for services is recovering fast, also in the HoReCa sector.

The global economic upturn brings a significant growth in export. Industrial production is growing strongly and in many sectors demand exceeds production capacity, which is adversely affected by the limited availability of some of the production components. Economic growth probably exceeded 10% y/y in the second quarter, which is partly due to a low statistical base, and GDP returned to its pre-pandemic level.

THE LABOUR MARKET PROTECTED BY THE SHIELDS

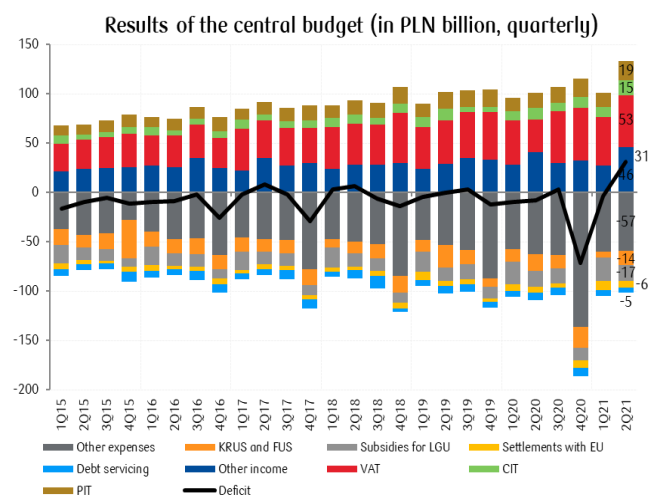
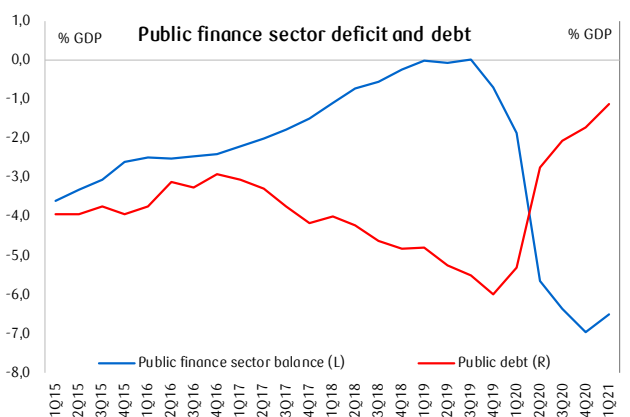
The situation on the labour market in the first half of 2021 was stable, which confirms the resilience to the consecutive waves of the pandemic. The changes in the registered unemployment rate followed the seasonal pattern, even though the decreases observed in spring were slightly weaker than in the previous years due to the pandemic.

The registered unemployment rate was 5.9% in June, compared to 6.2% in December of 2020. The difference between the average number of employees and the number of persons working in the enterprise sector increased again in spring, which suggests that the job protection mechanisms (the Anti-Crisis Shield) were used again, although on a much smaller scale than in 2020. The annual rate of growth of wages and salaries, enhanced by the base effects, exceeded 10%, although the estimated actual growth trend is closer to 5-6% y/y. Even though the moment of trial has come for the labour market in connection with the settlement of the Financial Shield (the incentives to maintain employment are about to expire), it has not resulted in layoffs.



PUBLIC FINANCES IN A GOOD SHAPE

The fiscal deficit (ESA) amounted to 7.0% of GDP in 2020 and it was visibly lower than estimated at the beginning of the pandemic. The fiscal result stopped deteriorating at the end of 2020/beginning of 2021 despite the difficult situation relating to the pandemic, demonstrating greater resilience of the economy and the lower need for fiscal support than in the spring of 2020. As a result, the fiscal deficit (ESA for 4 quarters) dropped to 6.5% of GDP in the first quarter of 2021. The fast recovery of economic activity, high inflation and distribution of profit by the National Bank of Poland (NBP) contributed to the comfortable situation of the state budget. The state budget surplus at the end of June was PLN 28 billion and it was the best result in history. The public debt (ESA) did not exceed the 60% of GDP threshold in the first quarter of 2021 (it was 59.1% of GDP).



INFLATION IS GROWING

Inflation grew in the first half of 2021 and quickly exceeded the level of acceptable deviation from the target set by the NBP. In May, inflation increased to 4.7% y/y, which was equal to the pre-pandemic “local peak” of February 2020, to drop to 4.4% y/y in June. In spring, inflation growth was stimulated by the base effect of fuel prices. It was also strongly stimulated by the increases in administered prices. The growth in food prices exceeded the seasonal pattern in the first half of the year, but the annual growth rate was restricted by the high base from the previous year. Generally, the price increases cover a wide range of goods and services, which indicates a general inflationary trend. The costs are growing, and strong demand encourages entrepreneurs to increase their prices.

ANTI-CRISIS ACTIONS OF THE CENTRAL BANK

The NBP maintained its moderate approach to the monetary policy and the declarations that maintaining the interest rates at their present level (the reference rate of 0.1%) is the most probable scenario for the next quarters. However, the method of communicating the interest rate path preferred by the Monetary Policy Council (MPC) changed in the second quarter of 2021. In place of the earlier unconditional declarations of a lack of space for normalization of the monetary policy in the foreseeable future, the MPC started to present arguments which could encourage it to increase the interest rates. According to the MPC, the interest rates could increase if: (1) uncertainty relating to the epidemic is mitigated; (2) inflation permanently exceeds 3.5% over the projection horizon; (3) exceeding the target results from an increase in demand accompanied by a heated labour market. According to the declarations, a potential interest rate increase would be preceded by termination of the QE programme.

NBP interest rates:

• reference	0.10%
• lombard	0.50%
• deposit	0.00%
• bills of exchange rediscount	0.11%
• bills of exchange discount	0.12%

3.2. Situation on the financial market

INTEREST RATE MARKET

The return on Polish Treasury bonds increased significantly in the first half of 2021. The returns on 2-year bonds increased by 29 bp to 0.39%; on 5-year bonds – by 81 bp to 1.28%; and the returns on 10-year bonds increased by 40 bp to 1.65%, which meant the bond prices to go down. The market suffered due to the growing inflation, which approached 5% in May. Consequently, the investors increased their expectations for interest rates to increase even as soon as in the second half of the current year. The market was also affected by a risk of increased supply of securities issued and guaranteed by the State Treasury and, indirectly, a strong drop in their prices, as it was the case with German and American bonds.

CURRENCY MARKET

In the first half of 2021, the EUR/USD exchange rate fluctuated between 1.17 and 1.23 to close the period at 1.18. At the same time, the EUR/PLN exchange rate fluctuated between 4.45 and 4.67 to close the six-month period at approx. 4.52. In the first quarter of 2021, the dollar was stronger in relation to the euro due to a higher speed of vaccination and, consequently, faster recovery of the American economy after the shock caused by the pandemic. In the second quarter, however, the EUR/USD exchange rate grew due to the improving economic prospects in the euro zone. The Polish zloty dropped to the lowest level in relation to the euro since 2009 as a result of the outflow of foreign capital from Poland. The depreciation of the Polish zloty despite the good economic situation was mainly a result of very low NBP interest rates, especially in view of the growing inflation.

STOCK MARKET

The first half of 2021 was very good for shareholders, including those investing on the Warsaw Stock Exchange. The WIG index gained 16% in this period. Although the world is still fighting the coronavirus pandemic, investors focused on the strong economic upturn, which brought an improvement in the companies' profits. Beyond any doubt, the present very moderate monetary policy supported the stock markets. Despite a visible inflation growth, often exceeding the targets set by the central banks, in most cases the prospect of interest rate increases seems remote (it is particularly true about the American Fed and the European ECB). Investors who sought an alternative to safe assets bearing very low interest were more willing to invest in shares.

3.3. Situation in the Polish banking and non-banking sector

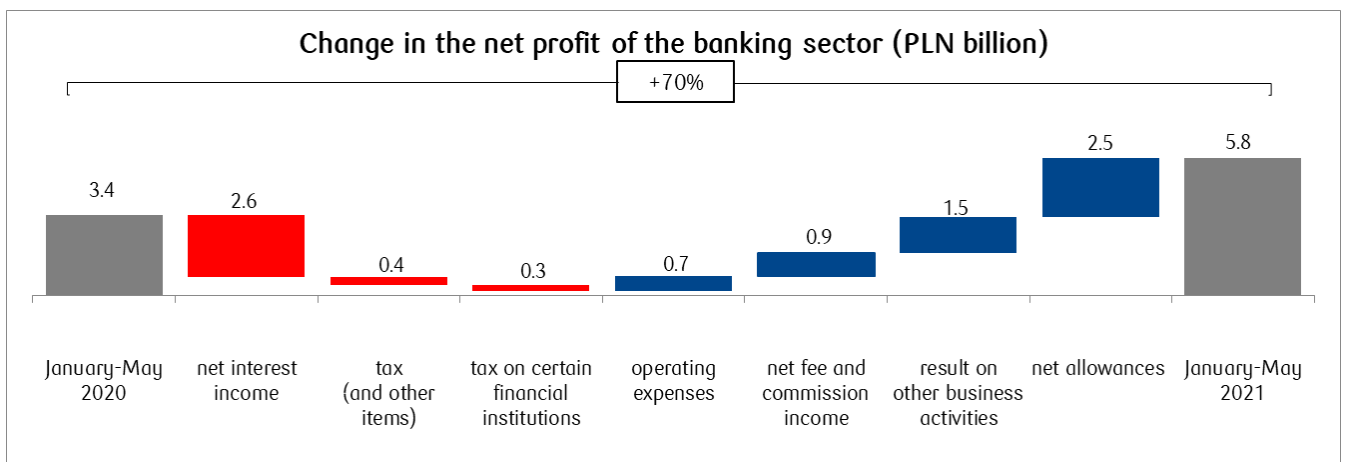
THE BANKING SECTOR⁷

In the first 5 months of 2021, the results of the banking sector improved significantly – its net profit increased by 70% y/y to PLN 5.8 billion, however, rolling return on equity (ROE for 12 months) remained low (1.3%).

The improvement in the net profit was mainly due to a y/y improvement in net write-downs – in 2020, the banks increased their write-downs to reflect less favourable macroeconomic forecasts. The net commission income also showed a positive trend, increasing mainly in the corporate sector.

On the other hand, the net interest income decreased significantly y/y, mainly due to the interest rate decreases introduced by the MPC. The total amount of loans granted remained at a relatively low level, which also had a negative effect on the net interest income. The provisions associated with the legal risk of foreign currency loans had a negative effect on the results of the banking sector.

The capital situation of banks was good. The total capital ratio as at the end of the first quarter of 2021 (the latest available data) was 21%. Revoking the obligation of banks to use the systemic risk buffer had a positive effect on the sector's capital adequacy (3%).



LEASE MARKET⁸

The lease market grew by approx. 36% in the first half of 2021 in relation to the first half of the previous year. The high rate of growth of the lease market was partly due to the low reference base from the previous year, which was associated with the state of pandemic emergency announced in March 2020.

In the first half of 2021, the lease sector financed assets with the combined value of approx. PLN 40.5 billion. Among the main segments of the movable property lease market, the heavy vehicle segment recorded the biggest growth⁹ (+89% y/y). The real estate lease segment recorded a decrease and a low market share of approx. 0.7%.

FACTORING MARKET

In the first half of 2021, the turnover of the members of the Polish Factors Association increased by approx. 24% y/y to approx. PLN 167.5 billion, and the number of entities using the services of factoring firms was approx. 23.1 thousand (+45% y/y).

The entrepreneurs still preferred non-recourse factoring whose share in the turnover of factoring firms was approx. 51%. The second largest market segment, i.e. recourse factoring, had a market share of 28%. As previously, factoring services were used the most frequently by the manufacturing and distribution companies, mostly operating in the food, metal and chemical industries.

⁷ Based on the latest available data of the Polish Financial Supervision Authority, calculations by PKO Bank Polski S.A.

⁸ According to data of the Polish Leasing Association.

⁹ The segment comprises: trucks above 3.5 tonnes, tractor units, trailers and semi-trailers, buses, ships, planes, trains, other vehicles.

INVESTMENT FUNDS MARKET

In the first half of 2021, the amount of assets under management of the Investment Fund Companies increased to PLN 308.1 billion (+9.5%), including the assets held by individuals, which increased to PLN 190.1 billion (+12.8%). As at the end of June 2021 the amount on deposit with PPK (Employee Capital Plans) Defined Maturity Date Funds exceeded PLN 4.4 billion.

The total balance of payments and redemptions was PLN 17.0 billion. The high net inflow of funds to the market was due to the continued big demand for investment funds among individuals who contributed PLN 17.2 billion (net) to the investment funds. At the same time, a change in the preferences of individuals towards riskier share funds, which recorded a net inflow of PLN 4 billion (compared to PLN 0.1 billion in the second half of 2020), was visible in the structure of the balance for the six-month period. The high average annual rates of return in this segment contributed to this increase. Debt funds, which enjoyed the biggest interest among individuals in the previous periods, recorded a drop in the balance of payments and redemptions from PLN 14.9 billion in the second half of 2020 to PLN 5.7 billion in the first half of 2021.

3.4. Regulatory and legal environment

The financial and organizational situation of the PKO Bank Polski S.A. Group was also affected by new legal and regulatory solutions implemented in the first half of 2021, including in particular:

SOLUTION	IMPACT
RISK MANAGEMENT	
Regulation (EU) 2019/876 of the European Parliament and of the Council of 20 May 2019 amending Regulation (EU) No. 575/2013 as regards the leverage ratio, the net stable funding ratio, requirements for own funds and eligible liabilities, counterparty credit risk, market risk, exposures to central counterparties, exposures to collective investment undertakings, large exposures, reporting and disclosure requirements, and Regulation (EU) No. 648/2012.	First-time application of the new regulatory requirements concerning the net stable funding ratio (NSFR) and the leverage ratio (LR), implementation of a new method for calculating the capital requirement for counterparty credit risk (SA-CCR).
Amendment to Recommendation S of the PFSA, concerning good practices for managing mortgage-secured credit exposures.	A requirement for banks to offer variable interest mortgage loans with a fixed interest rate (in a five-year period in the case of loans with a repayment period in excess of 5 years or in the whole repayment period in the case of loans repayable up to 5 years). Extension of the method for determining overpayments of loans with repayment schedules and accounting for changes in the calculation of liquidity risk measures.
The European Banking Authority Guidelines on loan origination and monitoring (EBA/GL/2020/06), which replaced the Guidelines on creditworthiness assessment (EBA/GL/2015/11).	Improvement of banking practices aimed at providing sound and prudent credit risk management standards and ensuring that loans are granted in compliance with the principles of consumer protection and fair treatment.
Commission Implementing Regulation (EU) 2021/637 of 15 March 2021 laying down implementing technical standards with regard to public disclosures by institutions of the information referred to in Titles II and III of Part Eight of Regulation (EU) No. 575/2013 of the European Parliament and of the Council and repealing Commission Implementing Regulation (EU) No. 1423/2013, Commission Delegated Regulation (EU) 2015/1555, Commission Implementing Regulation (EU) 2016/200 and Commission Delegated Regulation (EU) 2017/2295.	Unification of the process of reporting capital adequacy information by banks. Introduction of a set of uniform forms, templates and tables and ensuring high quality of disclosures.

PFSA decision on the amount of extra mark-up reflecting the Bank's sensitivity to unfavourable macroeconomic scenarios at 0.46 p.p. (without taking into account T1 and T2 capital issue at the level of 0.95 p.p.). The amount of the mark-up determined by the PFSA in December 2019 was 0.10 p.p.

Increasing the minimum capital ratios which allow dividend distribution.

TAXES

Regulation of the Minister of Finance, Funds and Regional Policy of 25 March 2021 on extending the deadline for submitting a declaration on the amount of income earned (loss incurred) and payment of tax due by corporate income tax payers (Journal of Laws of 2021, item 571), and subsequently the Act of 30 March 2021 on amending the Excise Tax Act and some other acts (Journal of Laws of 2021, item 694), which extended the deadline for submitting the declaration and payment of tax to 30 June 2021.

Extending the deadline for income tax payment.

The solutions implemented in 2020 to counteract the effects of the COVID-19 pandemic, which were mentioned in the Directors' Report of the PKO Bank Polski S.A. Group for 2020, continued to have an impact.

3.5. Factors, which will affect the financial results of the Bank's Group in the second half of the year

The following external factors will have a significant impact on the operations of the Bank's Group in the second half of 2021:

IN THE GLOBAL ECONOMY:

- the implementation of the COVID-19 vaccination programme, which will make it possible to lift the restrictions permanently;
- a risk of further mutations of the virus, which will reduce the effectiveness of vaccination and lead to new waves of the pandemic and possible stricter anti-pandemic restrictions; at present, the Delta variant is particularly dangerous;
- the process of the global economy recovering from the deep recession caused by the pandemic, including the countries which were the main export markets for Polish entrepreneurs;
- continuation of the expansionary monetary policy by the main central banks, including both the maintenance of interest rates at historically low levels and further purchases of assets under QE programmes; at the same time, the commencement of planning the strategies for monetary policy normalization or gradual policy normalization by less important central banks (e.g. the Czech Republic, Hungary, Canada, New Zealand);
- maintaining a loose fiscal policy accompanied by particularly strong expansion in the USA and the commencement of expenditures under Next Generation EU;
- continuation of supply limitations in global processing, which leads to stronger cost pressure and may reduce the rate and scale of economic upturn;
- a risk of a wave of state bankruptcies;
- political and economic conditions in Ukraine.

IN THE POLISH ECONOMY:

- the progress of the vaccination programme, which may result in reaching population immunity;
- spread of the Delta variant (and possibly some further mutations) of the virus, which requires a higher percentage of the population to be immune in order to control the virus;
- fast revival of economic activity, supported by the continued effect of the fiscal impulse from 2020 and a decrease in savings caused by the pandemic;
- the process of adapting the economy to the post-pandemic reality, including (1) employment and operations restructuring in industries most afflicted by the chronic negative effects of the pandemic, which thanks to the

resurgence of demand at a macro level should have the nature of “creative destruction”, but temporarily may cause turbulences on local labour markets, and (2) commencement of the process of repayment of the repayable part of aid provided under the Financial Shield;

- probable stabilization of NBP interest rates at a record low, continuation of the programme of purchase of assets by the NBP (although probably on a smaller scale than in the first half of the year), possible further activity of the NBP on the currency market, possible announcement of a reduction in the asset purchase programme by the NBP before the end of the year;
- maintained increased (above the NBP inflation target) CPI inflation level, which will lead to growing expectations concerning monetary policy normalization and means maintaining the real interest rates at a sub-zero level;
- further gradual revival of investment activity associated, among other things, with a strong increase in demand and high production capacity utilization, as well as the anticipated inflow of funds from the EU reconstruction programme and green spending;
- maintained weak demand for loans accompanied by a higher volume of deposits (effect of anti-crisis actions);
- the Supreme Court decision regarding foreign currency mortgage loans.

INCLUDING TAX-RELATED FACTORS:

- new regulations amending the income tax acts, which entered into force on 1 January 2021, imposed on corporate income tax payers whose annual income exceeds EUR 50 million and tax groups an obligation to prepare information on their tax strategy and publish it on the website. The obligation must be fulfilled by the end of the twelfth month after the end of a tax year (unless the relevant clarifying regulations are passed in 2021, then according to the Ministry of Finance the first such information should be prepared for 2020).

4. ORGANIZATION OF THE BANK'S GROUP

4.1. Changes in the composition of the Supervisory Board and the Management Board of the Bank

SUPERVISORY BOARD OF THE BANK

The following changes in the composition of the Supervisory Board of the Bank occurred in June 2021:

- Mr Marcin Izdebski resigned on 6 June 2021;
- On 7 June 2021, the Annual General Shareholders' Meeting of the Bank (AGSM) appointed Ms. Agnieszka Winnik-Kalmeba, Mr Dominik Kaczmarek and Mr Maciej Łopiński to the Supervisory Board and dismissed Ms. Grażyna Czurzyńska.

As at 30 June 2021, the Bank's Supervisory Board consisted of the following persons:

- Maciej Łopiński – Chair;
- Wojciech Jasiński – Deputy Chair;
- Dominik Kaczmarek – Secretary;
- Mariusz Andrzejewski;
- Grzegorz Chłopek;
- Zbigniew Hajłasz;
- Andrzej Kisielewicz;
- Rafał Kos;
- Krzysztof Michalski;
- Piotr Sadownik;
- Agnieszka Winnik-Kalmeba.

In accordance with the policy concerning the suitability of candidates for members and members of the Supervisory Board of Powszechna Kasa Oszczędności Bank Polski S.A., the AGSM confirmed the adequacy of:

- the new members of the Bank's Supervisory Board, in connection with their appointment for the current joint term;
- the other members of the Bank's Supervisory Board, as part of the annual assessment of their suitability;
- the entire body (collective suitability), taking into account the personal changes made.

In accordance with the "Best Practice for WSE Listed Companies 2016", each of the appointed members of the Bank's Supervisory Board has made and delivered to the other members of the Supervisory Board and the Management Board a statement on meeting or not meeting the independence criteria (rule II.Z.5). According to these statements, Mariusz Andrzejewski, Grzegorz Chłopek, Zbigniew Hajłasz, Andrzej Kisielewicz, Rafał Kos, Maciej Łopiński, Krzysztof Michalski, Piotr Sadownik and Agnieszka Winnik-Kalemba meet the independence criteria indicated in the aforementioned Best Practice. Wojciech Jasiński and Dominik Kaczmarek do not meet the independence criteria.

The following committees operate within the Bank's Supervisory Board.¹⁰

The Audit Committee, consisting of:

- Agnieszka Winnik-Kalemba – Chair;
- Mariusz Andrzejewski – Deputy Chair;
- Grzegorz Chłopek;
- Dominik Kaczmarek;
- Rafał Kos.

In accordance with the assessment of suitability performed, the Audit Committee members jointly meet the following criteria:

- independence – including: the Chair of the Audit Committee Agnieszka Winnik-Kalemba, Mariusz Andrzejewski, Grzegorz Chłopek and Rafał Kos (i.e. most of the Audit Committee members);
 - qualifications (accounting and auditing skills, banking knowledge and skills);
- defined in the Act on registered auditors, audit firms and public oversight of 11 May 2017.

The Nominations and Remuneration Committee, consisting of:

- Wojciech Jasiński – Chair;
- Dominik Kaczmarek – Deputy Chair;
- Zbigniew Hajłasz;
- Andrzej Kisielewicz.

The Risk Committee, consisting of:

- Mariusz Andrzejewski – Chair;
- Grzegorz Chłopek – Deputy Chair;
- Wojciech Jasiński;
- Dominik Kaczmarek;
- Andrzej Kisielewicz;
- Krzysztof Michalski.

The Strategy Committee, consisting of:

- Dominik Kaczmarek – Chair;
- Zbigniew Hajłasz – Deputy Chair;
- Mariusz Andrzejewski;
- Andrzej Kisielewicz;
- Krzysztof Michalski;
- Piotr Sadownik.

¹⁰ The composition of the Committees as at 30 June 2021.

MANAGEMENT BOARD OF THE BANK

The following changes in the composition of the Management Board of the Bank occurred in June 2021:

- Mr Zbigniew Jagiełło resigned as President of the Bank's Management Board and from the Management Board in May 2021, with effect as at the date of closing the AGSM, which was convened for 7 June 2021;
- the Supervisory Board appointed Mr Jan Emyryk Rościszewski (formerly Vice-President of the Management Board) as President of the Management Board, subject to the approval of the Polish Financial Supervision Authority and with effect as of the date of such approval; the Supervisory Board asked Mr Jan Emyryk Rościszewski to manage the work of the Management Board until the PFSA approval is obtained;
- the Supervisory Board appointed Mr Bartosz Drabikowski and Mr Marcin Eckert to the Management Board and dismissed Mr Rafał Kozłowski from the Management Board.

In accordance with the Policy concerning the suitability of the Management Board members and key officers of the Bank and suitability assessment at the Bank's Group companies, the Nominations and Remuneration Committee of the Bank's Supervisory Board assessed the suitability of:

- the new members of the Bank's Management Board, in connection with their appointment for the current joint term Management Board;
- the other members of the Bank's Management Board, as part of the annual assessment of their suitability;
- the entire body (collective suitability), taking into the account the personal changes made;

confirming the individual suitability of the members of the Bank's Management Board and the collective suitability of the entire Management Board. The aforementioned assessment of suitability was approved by the Supervisory Board of the Bank.

As at 30 June 2021, the Bank's Management Board consisted of the following persons:¹¹

- Jan Emyryk Rościszewski – Vice-President of the Management Board of the Bank in charge of the President of the Management Board and the Retail Market;
- Rafał Antczak – Vice-President of the Management Board of the Bank in charge of the Enterprise Banking and Analyses;
- Bartosz Drabikowski – Vice-President of the Management Board of the Bank in charge of the Finance and Accounting;
- Marcin Eckert – Vice-President of the Management Board of the Bank in charge of the Corporate Banking and Administration;
- Maks Kraczkowski – Vice-President of the Management Board of the Bank in charge of International and Transactional Banking and Cooperation with Local Government Authorities and Government Agencies;
- Mieczysław Król – Vice-President of the Management Board of the Bank in charge of Operations;
- Adam Marciniak – Vice-President of the Management Board of the Bank in charge of Technology;
- Piotr Mazur – Vice-President of the Management Board of the Bank in charge of Risk Management;
- Jakub Papierski – Vice-President of the Management Board of the Bank in charge of Investment Banking.

Mr Bartosz Drabikowski was a member of the following committees: Data Quality Committee, Risk Committee, Operational Risk Committee, Strategy Committee, Transformation Committee and Assets and Liabilities Management Committee.

Mr Marcin Eckert was a member of the Strategy Committee and, in July 2021, he joined the Bank's Loan Committee, the Risk Committee and the Assets and Liabilities Management Committee.

The list of the Bank's standing committees of which the other members of the Bank's Management Board are members has not changed since 31 December 2020.

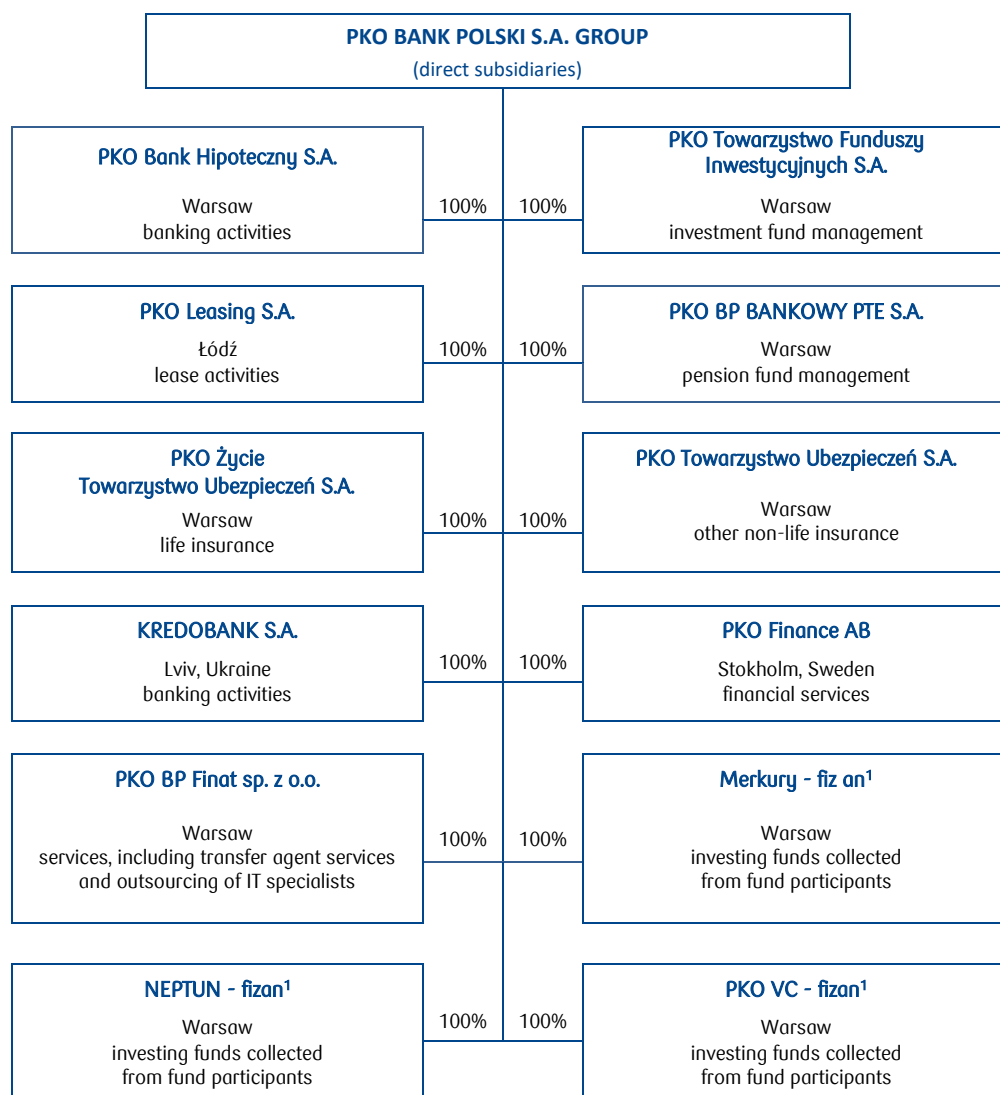
After the reporting period, on 26 July 2021, Mr Adam Marciniak resigned from his membership and functions on the Bank's Management Board with effect as of 13 August 2021.

4.2. Entities covered by the financial statements

Pursuant to the International Financial Reporting Standards (IFRS), as at 30 June 2021 the Bank's Group comprised PKO Bank Polski S.A. as the parent and 37 direct and indirect subsidiaries (at all levels).

¹¹ List of supervised areas as at 01 July 2021.

List of direct subsidiaries.



1 - PKO Bank Polski S.A. holds investment certificates of the fund.

The list presents the share of PKO Bank Polski S.A. in the company's share capital, and in the case of funds – share of the fund's investment certificates held.

All subsidiaries recognized in the condensed interim consolidated financial statements of the PKO Bank Polski S.A. Group for the six months ended 30 June 2021 (hereinafter: the financial statements of the Bank's Group for the first half of 2021) are accounted for using the acquisition accounting method.

A complete list of the Bank's subsidiaries, associates and joint ventures is presented in the consolidated financial statements of the Bank's Group for the first half of 2021 (Note 1).

There were no significant changes in the structure of the Bank's Group in the first half of 2021.

There was a reverse merger of "CENTRUM HAFNERA" sp. z o.o. as the acquired company and its subsidiary "Sopot Zdrój" sp. z o.o. as the acquiring company.

The liquidation process of ROOF Poland Leasing 2014 DAC was commenced.

Work was performed in connection with the sale of the shares in Finansowa Kompania „Idea Kapital” sp. z o.o. (a subsidiary of KREDOBANK S.A.) to Finansowa Kompania „Prywatne Inwestycje” sp. z o.o. (an indirect subsidiary through a company from the NEPTUN - fizan portfolio). The transaction was closed in July 2021.

5. DIRECTIONS OF DEVELOPMENT OF THE BANK'S GROUP

The development directions of PKO Bank Polski S.A. are set out in the Strategy for the years 2020-2022 "PKO Bank of the Future. We support the development of Poland and the Poles" ("the Strategy"), approved by the Supervisory Board on 17 November 2019.

The strategy focuses on four pillars, which PKO Bank Polski S.A. plans to develop and reinforce.

1. **Connected, mobile and personal.** Digital banking model leveraging advanced analytics to provide personalized experience in the Customers' everyday life.
2. **Open and innovative.** Leveraging open banking opportunities, strategic partnerships and cloud solutions to offer Customers innovative services.
3. **Digital and efficient.** Digital, paperless processes with minimum manual handling requirements. Fast and secure Bank in the cloud.
4. **Shaping competences of the future.** Motivated and committed team with competences tailored to new business challenges, agile, using the latest technologies.

The Bank's (consolidated) financial goals defined for 2022 are as follows:

- net profit over PLN 5 billion;
- ROE at the level of 12%;
- C/I at the level of approx. 41%;
- cost of risk in the 0.60%- 0.75% bracket;
- capability to pay out dividend.

The financial goals set out in the Strategy for 2022 remain under strong pressure from the pandemic and changes in the economic and regulatory environment, such as a drop in interest rates and the legal risk of foreign currency mortgage loans, which were not taken into account when the Strategy was prepared.

The Strategy takes into account non-financial factors (Environmental, Social and Governance – ESG).

In June 2021, the Bank's Management Board and Supervisory Board adopted ESG indicators for implementation and included them in the non-financial objectives of the Bank's Group for the following years.

PKO Bank Polski S.A. committed:

- to reduce greenhouse gas emissions by 60% by the year 2025;
- to eliminate exposures to the coal mining sector by the year 2030;
- to increase green financing by 5% y/y;
- to take into account key ESG aspects in the procurement process;
- to maintain a high percentage of women (at least 35%) on key management positions in the Bank's Group until the year 2025;
- to maintain employee turnover in the Bank's Group at a level not higher than 14%, including no more than 7% of voluntary terminations, until the year 2025.

A description of these indicators is published on the Bank's webpage <https://www.pkobp.pl/investor-relations/esg-at-pko-bank-polski-group/new-esg-initiatives/>.

The Bank will continue to work on the ESG-related indicators and non-financial objectives and the sustainable development challenges will be reflected to a greater extent in its subsequent strategy.

EFFECT OF THE PANDEMIC ON THE STRATEGY AND PLANNED ACTIVITIES

The COVID-19 pandemic intensified digital transformation trends both at PKO Bank Polski S.A. and in the whole banking sector. We are observing an accelerated evolution of service models due to the integration of sales channels, aimed at providing Customers with access to the same products through digital channels and through the physical network.

Moreover, PKO Bank Polski S.A. is more focused on the optimization of its internal processes and the related reductions in operating expenses (digitization, automation and robotics). In the environment characterized by low interest rates, the Bank invariably focuses on maintaining appropriate relations with Customers, providing high

quality service and implementing innovations to find new, non-interest sources of revenues. The possibilities in this respect are supported by advanced data analytics, artificial intelligence solutions and cloud solutions.

Taking into account the aforementioned trends and the conclusions drawn from the analysis of the effects of the pandemic, in December 2020 PKO Bank Polski S.A. established the following priority areas and actions (as part of the implemented strategy) for the current year:

- **Focus on the Customer** – segmental approach to the offer and service model, personalized Customer experience and building long-term relations, continued transformation of the network into the consultation and digital education centre for the Customers.
- **Digitization** – ensuring that Customers have an omnichannel access to banking products and services, increasing sales through remote channels, developing functionalities and innovations in IKO mobile banking, enhancing CRM and advisors' tools, intensifying the use of advanced data analytics, the Road2Cloud Project and constructing a modern platform for electronic channels, including its high accessibility, scalability and security.
- **Autonomous Bank** – accelerating the automation and robotization of processes, increasing the number of E2E processes, “slim” branches and an effective service model, simple and convenient offer and communication with the Customers, increasing the use of AI in sales and service processes, and in the organization's internal processes.

PURSUIT OF THE STRATEGY

In accordance with the Strategy, the Bank builds competitive advantages using its technological potential, going far beyond the traditional financial area. The IKO mobile application is constantly gaining popularity. The number of its users exceeded 5.6 million as at the end of the first half of 2021.

Building long-term relations with the Customers is a priority for PKO Bank Polski S.A., which wants to be the main bank of choice for its Customers. The Bank identifies its primary Customers of whom it now has 4.2 million and takes actions to increase their share in the active Customer base (an increase of 9% y/y).

The Bank creates advanced IT solutions and makes them widely available. It cooperates with the fintech market leaders and Operator Chmury Krajowej sp. z o.o. (Chmura Krajowa), a company which is developed by the Bank jointly with its other shareholder, Polski Fundusz Rozwoju S.A. PKO Bank Polski S.A. uses selected services of Chmura Krajowa and global cloud service providers. Within the next three years the Bank's key business IT systems are to operate in a computing cloud based on hybrid architecture.

The achievements of the Bank's Group in the first half of 2021 are presented in chapter 8 of the Report.

6. FINANCIAL STANDING OF THE BANK'S GROUP

6.1. Key financial indicators

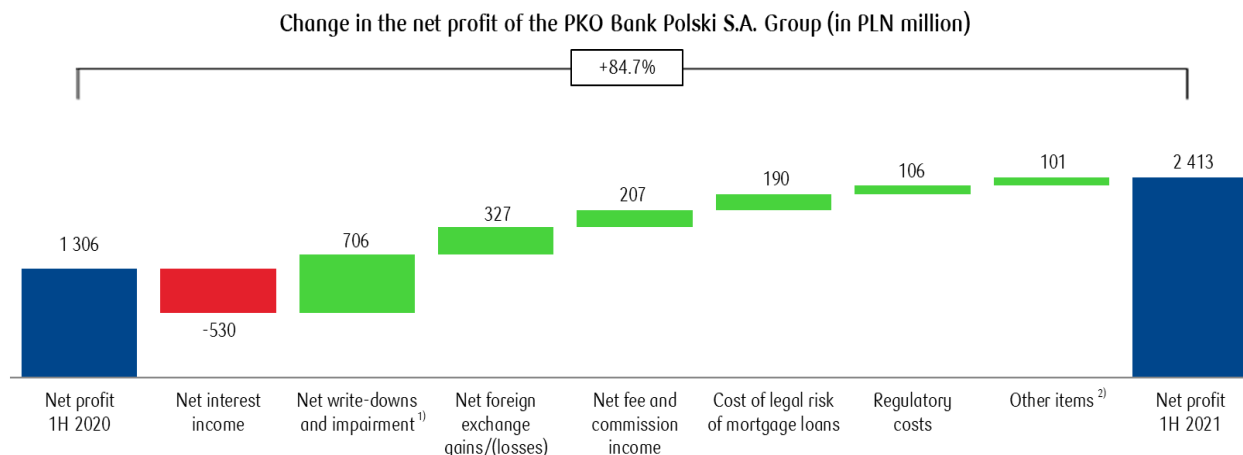
The results achieved by the PKO Bank Polski SA Group for the first half of 2021 resulted in the key financial efficiency indicators achieving the following levels:

Table 2. Financial indicators of the PKO Bank Polski S.A. Group

	30.06.2021	30.06.2020	Change
Net ROE (net profit/(loss)/average equity)	-3.4%	7.8%	-11.2 p.p.
Net ROTE (net profit/(loss)/average equity less intangible assets)	-3.7%	8.4%	-12.1 p.p.
Net ROA (net profit/(loss)/average assets)	-0.4%	0.9%	-1.3 p.p.
C/I (cost to income ratio)	39.7%	42.2%	-2.5 p.p.
Interest margin (net interest income/average interest-bearing assets)	2.75%	3.27%	-0.52 p.p.
Share of impaired exposures	4.5%	4.3%	+0.2 p.p.
Cost of credit risk	0.66%	0.54%	+0.12 p.p.
Total capital ratio (equity/total capital requirement*12.5)	18.87%	18.21%	+0.66 p.p.
Common equity Tier 1 (CET1)	17.62%	16.98%	+0.64 p.p.

6.2. Consolidated income statement

The consolidated net profit of the PKO Bank Polski S.A. Group earned in the first half of 2021 amounted to PLN 2 413 million and was PLN 1 107 million (+84.7%) higher than in the corresponding period of 2020.



1) Excluding the cost of legal risk of mortgage loans.

2) The item comprises net other income excl. net foreign exchange gains/(losses), operating expenses excl. regulatory costs, tax on certain financial institutions, corporate income tax, share in profits and losses of associates and joint ventures and profits and losses attributable to non-controlling shareholders.

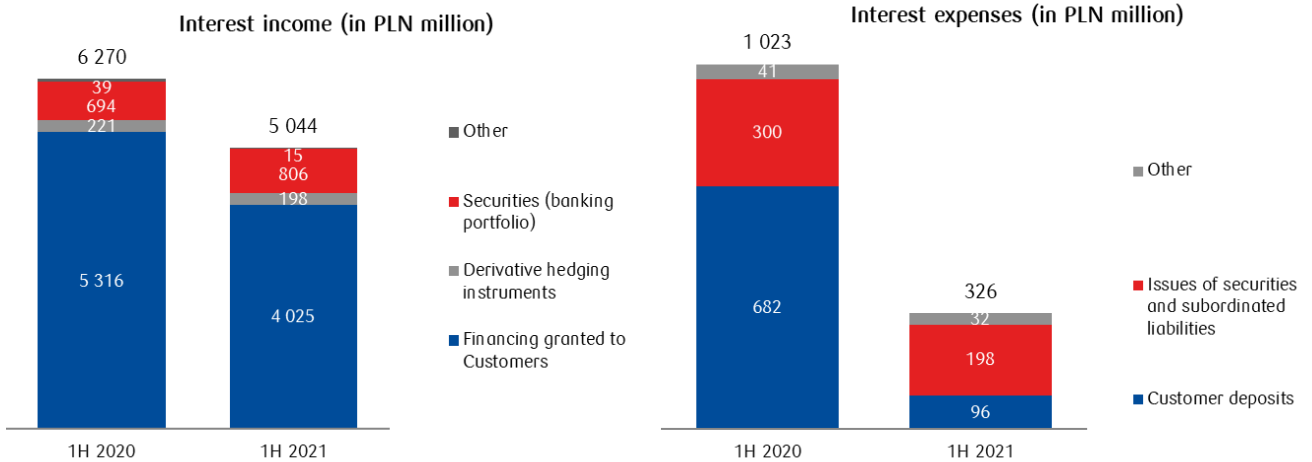
The result on business activities for the first half of 2021 amounted to PLN 7 390 million and was PLN 195 million, i.e. 2.7%, higher than in the first half of 2020, mainly due to an increase in net other income and net fee and commission income, while the net interest income decreased.

Table 3. Income statement of the PKO Bank Polski S.A. Group (in PLN millions)

	01.01-30.06.2021	01.01-30.06.2020	Change (in PLN million)	Change (in %)
Net interest income	4 717	5 247	-530	-10.1%
Net fee and commission income	2 099	1 892	207	10.9%
Net other income	574	56	518	10.2x
Dividend income	11	14	-3	-20.7%
Result on financial transactions	161	45	116	3.6x
Net foreign exchange gains/(losses)	370	43	327	8.6x
Net other operating income and expenses	32	-46	78	x
Result on business activities	7 390	7 195	195	2.7%
Operating expenses	-3 099	-3 208	109	-3.4%
Tax on certain financial institutions	-518	-533	15	-2.8%
Net operating result	3 773	3 454	319	9.2%
Net write-downs and impairment	-544	-1 440	896	-62.2%
Share in profits and losses of associates and joint ventures	8	3	5	2.6x
Profit before tax	3 237	2 017	1 220	60.5%
Income tax expense	-825	-714	-111	15.5%
Net profit (including non-controlling shareholders)	2 412	1 303	1 109	85.1%
Profit (loss) attributable to non-controlling shareholders	-1	-3	2	-81.6%
Net profit	2 413	1 306	1 107	84.7%

NET INTEREST INCOME

The net interest income for the first half of 2021 was PLN 4 717 million, i.e. PLN 530 million less than in the first half of the previous year. The decrease was mainly due to lower market interest rates, which affected the interest on the individual interest-bearing assets.

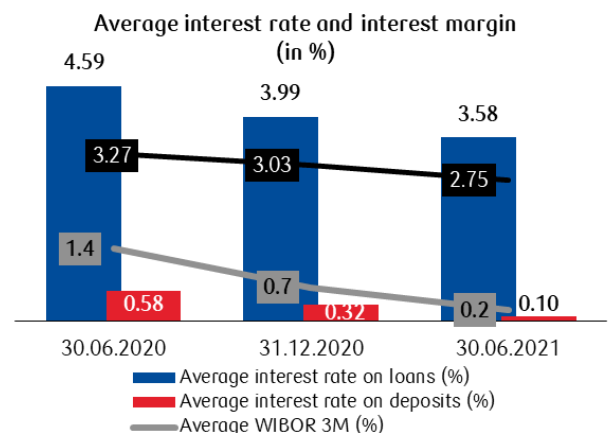


The interest income amounted to PLN 5 044 million and was PLN 1 226 million lower than in the same period of 2020, mainly as a result of:

- lower income on funding granted to Customers (PLN -1 291 million y/y) resulting from a PLN 6 billion decrease in the average volume of amounts due from Customers and lower levels of market interest rates;
- a decrease in income from hedge accounting (PLN -23 million y/y), which was mainly due to de-designation of selected CIRS transactions until April 2021, which was partly offset with an increase in the net income on IRS transactions;
- accompanied by higher revenue on securities (PLN +112 million y/y), which was mainly a result of a PLN 38 billion increase in the average volume of securities, while the market interest rates decreased.

Interest expenses amounted to PLN 326 million and were PLN 697 million lower than in the corresponding period of 2020. This was mainly due to lower interest rates accompanied by a growing deposit base, as well as transfers of funds from fixed-term deposits to current accounts.

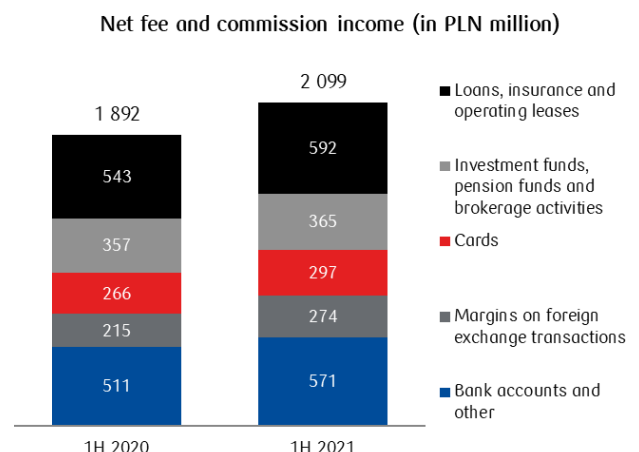
The interest margin decreased by 0.52 p.p. y/y to 2.75% as at the end of the first half of 2021. The average interest on the receivables of the PKO Bank Polski S.A. Group in respect of loans amounted to 3.58% as at the end of the first half of 2021 and the average interest on total deposits was 0.10%, compared to 4.59% and 0.58%, respectively, as at the end of the first half of 2020.



NET FEE AND COMMISSION INCOME

In the first half of 2021, the net fee and commission income amounted to PLN 2 099 million and was PLN 207 million higher than in the first half of the previous year. The level of net fee and commission income was driven by:

- a higher net income on servicing bank accounts and other income (PLN +60 million y/y), which was among other things due to higher commissions for maintaining the accounts of corporate Customers and a higher net income on foreign currency transactions and transfers;
- a higher net income from margins on foreign exchange transactions (PLN +59 million y/y) resulting from a bigger number of transactions;

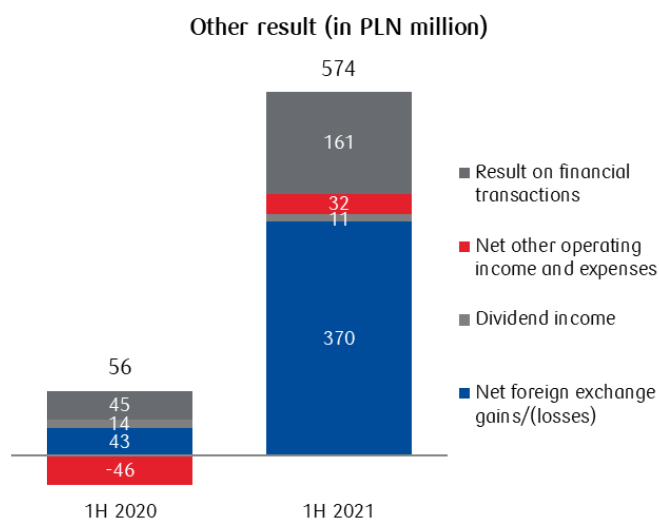


- a higher net income on loans, insurance and operating leases (PLN +49 million y/y), which was mainly due to an increase in net commission income on business loans, lower costs of granting and servicing loans and increase in the sales of insurance products linked to loans;
- a higher net income on payment and credit cards (PLN +31 million y/y), due to a higher number of transactions;
- a higher net income on investment and pension funds and brokerage activities (PLN +8 million y/y), which was mainly a result of higher commissions on stock market operations.

OTHER NET INCOME

Other net income for the first half of 2021 amounted to PLN 574 million and was PLN 518 million higher than in the first half of the previous year due to:

- higher net foreign exchange gains (PLN +327 million y/y), which was mainly a result of closing the foreign exchange position resulting from the EGSM decision to offer settlement agreements to the Customers. The Bank's Group recognized net foreign exchange gains/(losses) of approx. PLN 328 million in this respect;
- a higher result on financial transactions (PLN +116 million y/y), which, among other things, resulted from the valuation of shares (PLN +63 million y/y), in particular the VISA Inc. and BIK S.A. shares, and a higher result on the valuation of derivatives;
- an increase in other operating income and expenses of PLN 78 million y/y, mainly resulting from:
 - lower costs of provisions for reimbursements to Customers in connection with early repayment of consumer and mortgage loans of PLN 43 million;
 - an increase in revenues from other activities of the PKO Leasing S.A. Group of PLN 25 million (including sales of post-lease cars, remarketing, settlement of insurance losses and premiums).

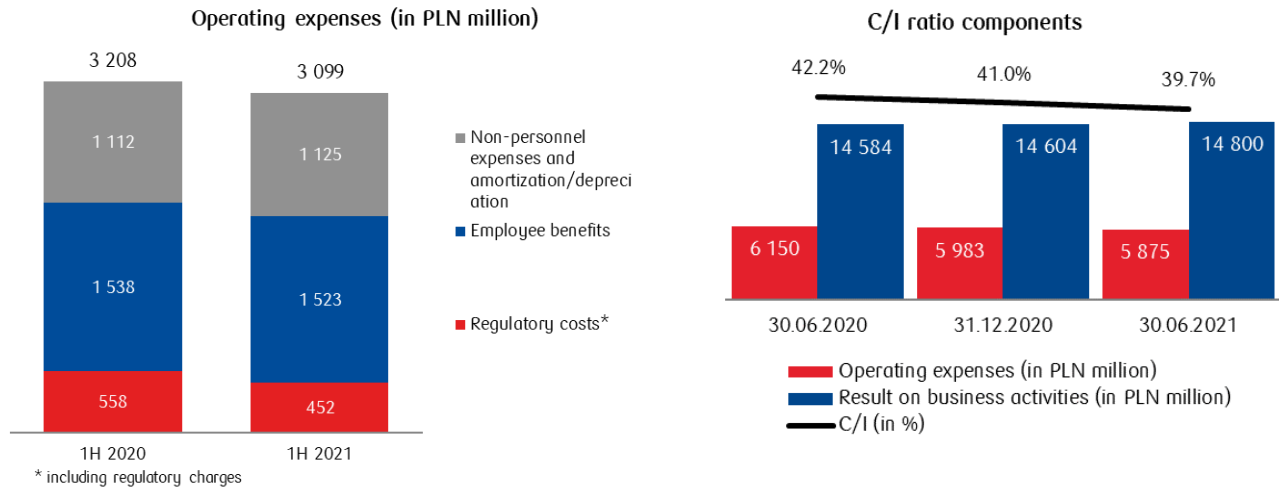


OPERATING EXPENSES

In the first half of 2021, operating expenses amounted to PLN 3 099 million (a decrease of 3.4% y/y). Their level was mainly determined by:

- a decrease in the costs of the contributions to the Bank Guarantee Fund of PLN 122 million (i.e. 25.0%) – the BGF costs amounted to PLN 367 million and included a contribution to the bank resolution fund of PLN 253 million (in the first half of the previous year, the BGF costs amounted to PLN 489 million, including a contribution to the resolution fund of PLN 318 million);
- a decrease in the costs of employee benefits of PLN 15 million, i.e. 1.0%, which was mainly due to a decrease in employment of 1 460 FTEs;
- an increase in non-personnel expenses of PLN 9 million, i.e. of 1.4%, mainly as a result of:
 - an increase in IT costs of PLN 21 million (i.e. 13.0%), which was mainly due to higher costs of cloud services, repairs and maintenance of servers;
 - an increase in the costs of projects of PLN 9 million, i.e. 45.6%;
 and the simultaneous decreases in the following expenses:
 - other non-personnel expenses of PLN 23 million (i.e. 18.3%), including a PLN 15 million decrease in the costs incurred by the Bank due to the lower costs of the purchases relating to the COVID-19 pandemic (antibacterial liquids and gels, protective masks and gloves, shields and protective partitions for Customer service desks);
 - promotion and advertising of PLN 4 million, i.e. 5.4%;

- an increase in depreciation of PLN 4 million, i.e. 0.8%, including an increase in depreciation of IT-related intangible assets of PLN 14 million and an increase in depreciation of leased properties of PLN 7 million, while residual depreciation of property, plant and equipment was PLN 12 million lower.



The operating efficiency of the Bank's Group measured with the annual C/I ratio was 39.7% (-2.5 p.p. y/y).

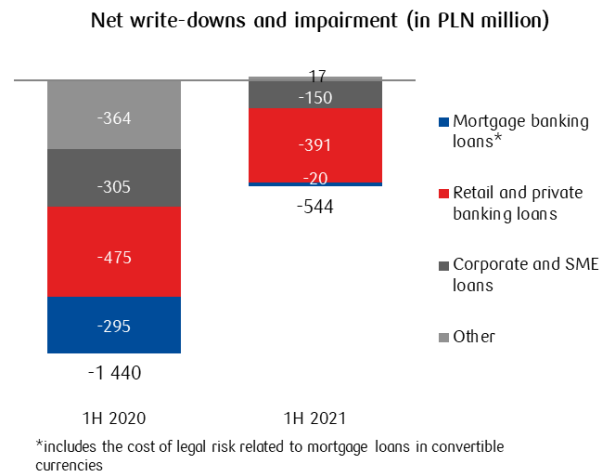
NET WRITE-DOWNS AND IMPAIRMENT

In the first half of 2021, net write-downs amounted to PLN -544 million. This result was PLN 896 million better than the result obtained in the first half of the previous year, which was due to the following write-downs recorded in 2020:

- for COVID-19 of PLN 344 million;
- for costs of legal risk of mortgage loans in convertible currencies of PLN 190 million.

No costs of legal risk were incurred in the first half of 2021.

Net write-downs for non-financial assets amounted to PLN -33 million. This result was PLN 232 million better than in the first half of the previous year mainly due to the fact that the following write-downs for non-financial assets were recorded in the year 2020: for goodwill of Nordea Bank Polska S.A. (a corporate CGU) of PLN -116 million, for shares of Bank Pocztowy S.A. of PLN -90 million, and for goodwill of PKO Leasing Pro S.A. of PLN -31 million.



The share of exposures with recognized impairment as at the end of the first half of 2021 was 4.5% (a decrease of 0.2 p.p. in relation to the first half of 2020).

The cost of risk as at the end of the first half of 2021 was 0.66%, i.e. it was 0.12 p.p. higher than in the corresponding period of the previous year.

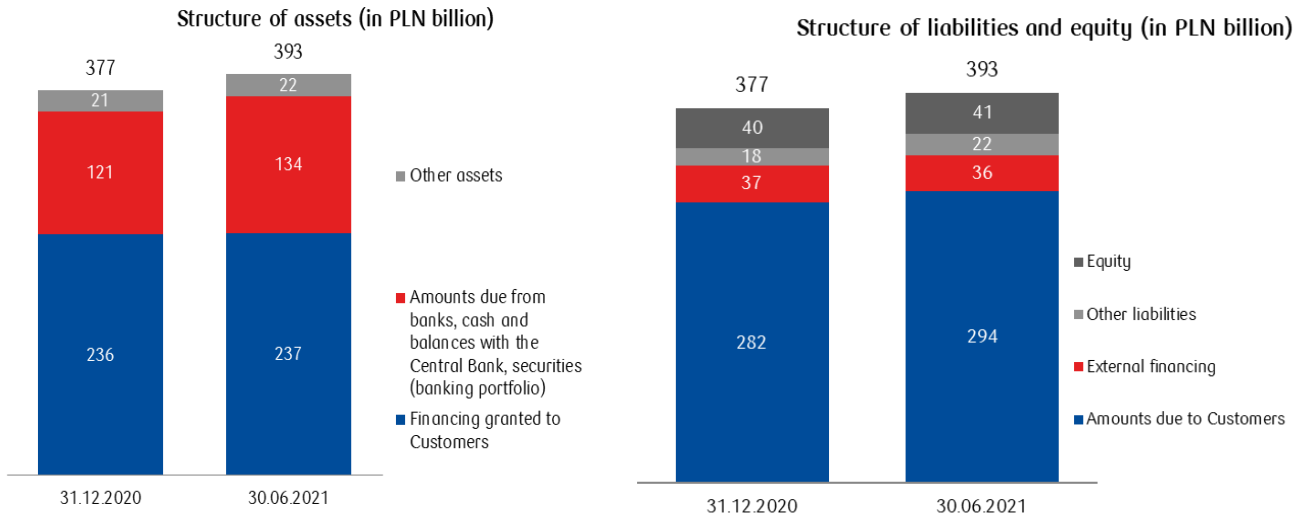
Despite the changing macroeconomic conditions, mainly relating to the COVID-19 pandemic, the Bank continues its conservative credit risk management policy and close monitoring of the portfolio of receivables.

6.3. Statement of financial position

MAIN ITEMS OF THE STATEMENT OF FINANCIAL POSITION

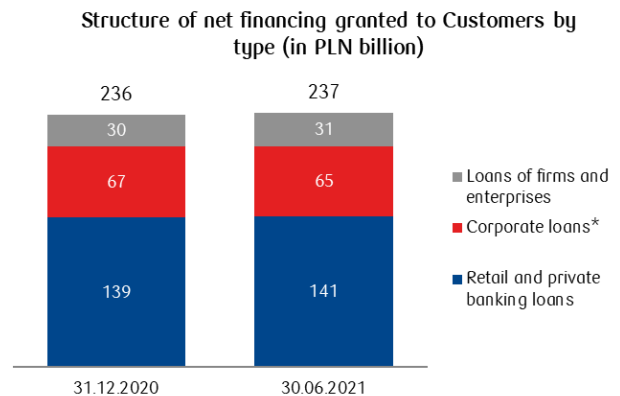
Total assets and total equity and liabilities of the PKO Bank Polski S.A. Group as at the end of the first half of 2021 amounted to nearly PLN 393 billion (an increase of nearly PLN 16 billion since the beginning of the year). Thus, the Bank's Group reinforced its leading position on the Polish banking market.

On the assets side, the Bank's Group mainly recognized an increase in liquid assets (mainly securities) and, to a smaller extent, an increase in the financing granted to Customers. As far as the sources of financing are concerned, growth mainly depends on an increase in the deposit base.



FINANCING GRANTED TO CUSTOMERS

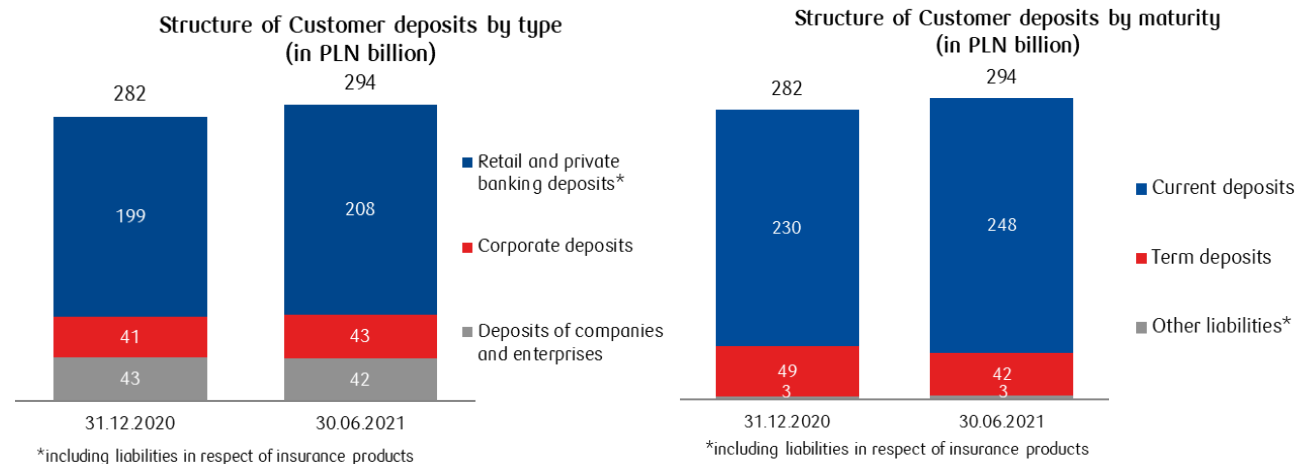
As at the end of the first half of 2021, the financing granted to Customers of the Bank's Group exceeded PLN 237 billion, which is an increase of PLN 2 billion since the beginning of the year, resulting mainly from an increase in loans of firms and enterprises (PLN +1 billion) and retail and private banking loans (PLN +1 billion), accompanied by a decrease in corporate loans (PLN -1 billion).



*including lease receivables and non-Treasury bonds

AMOUNTS DUE TO CUSTOMERS

Customer deposits constitute the basic source of financing the assets of the Bank's Group. As at the end of the first half of 2021, they amounted to PLN 294 billion, which means an increase of PLN 11 billion since the beginning of the year. The increase in the deposit base was mainly due to the increases in retail and private banking deposits (PLN +10 billion) and corporate deposits (PLN +2 billion). At the same time, deposits of firms and enterprises decreased (PLN -1 billion).



*including liabilities in respect of insurance products

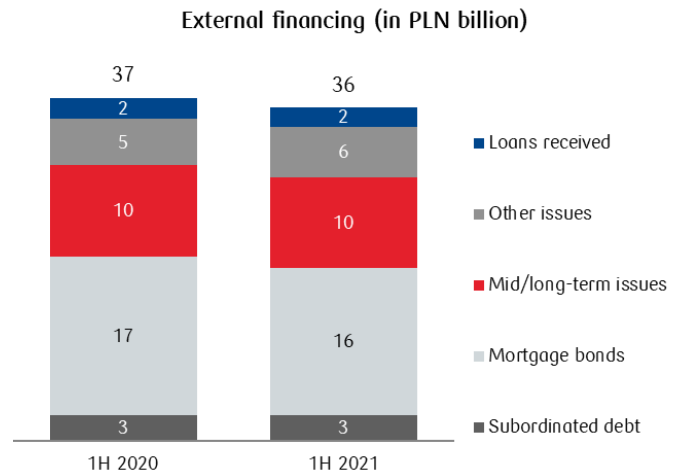
*including liabilities in respect of insurance products

The share of current deposits in total deposits was 84% (+3 p.p. in relation to the end of 2020).

EXTERNAL FINANCING

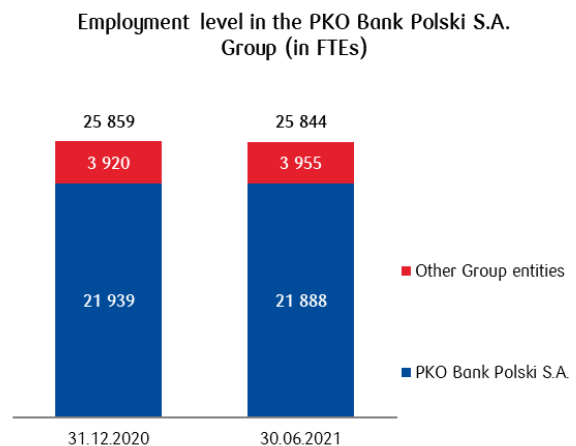
The long-term sources of financing amounted to PLN 36 billion as at the end of June 2021 (a decrease of PLN 1 billion since the beginning of the year). The change in the amount of the sources of financing was due to:

- a decrease in the value of bonds issued by PKO Bank Hipoteczny S.A. of PLN 0.2 billion;
- an increase in the value of bonds issued by the PKO Leasing SA Group of PLN 0.7 billion;
- a decrease in the value of the PKO Bank Hipoteczny S.A. mortgage covered bonds of PLN 1.3 billion;
- foreign exchange gains/(losses) resulting from an increase in the USD exchange rate (PLN +0.05) and the simultaneous decreases in the exchange rates of EUR (PLN -0.09) and CHF (PLN -0.14).



6.4. Employment level

As at the end of June 2021, the PKO Bank Polski S.A. Group had 25 844 employees (FTEs), which is 15 FTEs less than as at the end of the year 2020.



7. FINANCIAL STANDING OF THE BANK

7.1. Key financial indicators

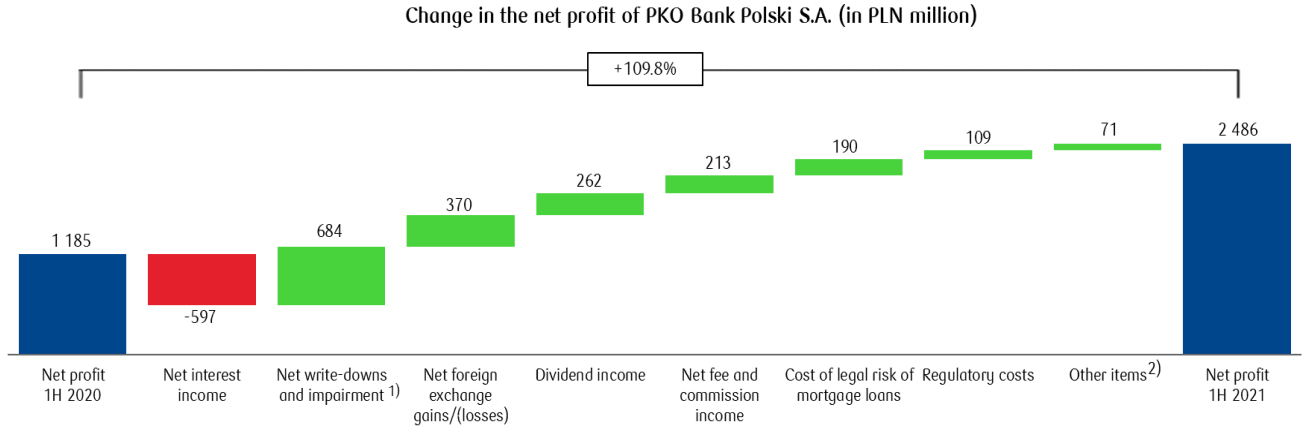
The results achieved by PKO Bank S.A. in the first half of 2021 resulted in the key financial efficiency indicators achieving the following levels:

Table 4. Financial indicators of PKO Bank Polski S.A.

	30.06.2021	30.06.2020	Change
Net ROE (net profit/(loss)/average equity)	-4.0%	7.3%	-11.3 p.p.
Net ROTE (net profit/(loss)/average equity less intangible assets)	-4.3%	7.7%	-12.0 p.p.
Net ROA (net profit/(loss)/average assets)	-0.5%	0.9%	-1.4 p.p.
C/I (cost to income ratio)	38.1%	42.0%	-3.9 p.p.
Interest margin (net interest income/average interest-bearing assets)	2.63%	3.23%	-0.60 p.p.
Share of impaired exposures	4.5%	4.4%	+0.1 p.p.
Cost of credit risk	0.65%	0.54%	+0.11 p.p.
Total capital ratio (equity/total capital requirement*12.5)	20.52%	20.08%	+0.44 p.p.
Common equity Tier 1 (CET1)	19.10%	18.69%	+0.41 p.p.

7.2. Income statement

The net profit of PKO Bank Polski S.A. earned in the first half of 2021 amounted to PLN 2 486 million and was PLN 1 301 million higher than in the corresponding period of 2020.



1) Excluding the cost of legal risk of mortgage loans.

2) The item comprises other net income excl. dividend income and net foreign exchange gains/(losses), operating expenses excl. regulatory charges, tax on certain financial institutions and corporate income tax.

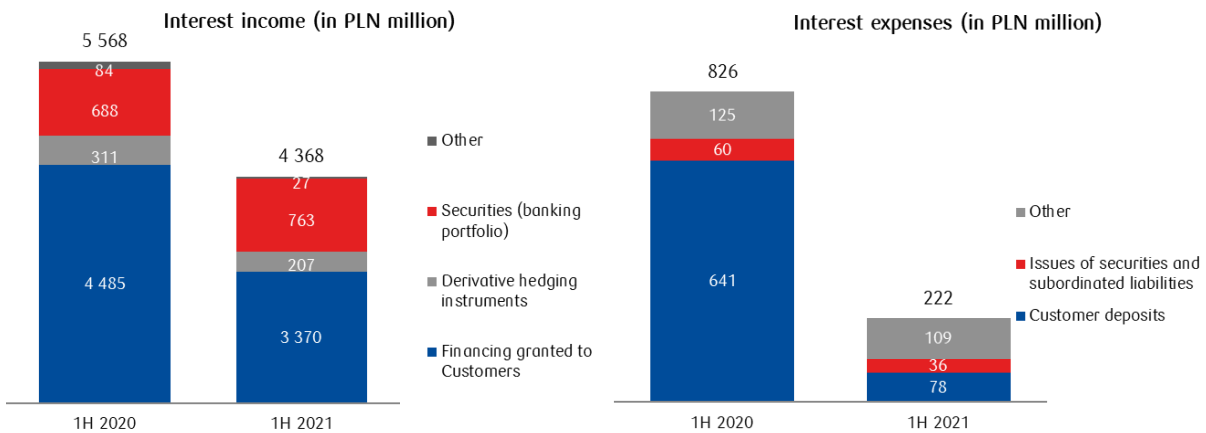
The result on business activities for the first half of 2021 amounted to PLN 6 809 million and was PLN 385 million, i.e. 6.0%, higher than in the first half of 2020, mainly due to an increase in net other income and net fee and commission income, while the net interest income decreased.

Table 5. Income statement of PKO Bank Polski S.A. (in PLN millions)

	01.01-30.06.2021	01.01-30.06.2020	Change (in PLN million)	Change (in %)
Net interest income	4 145	4 742	-597	-12.6%
Net fee and commission income	1 693	1 480	213	14.4%
Net other income	971	202	769	4.8x
Dividend income	463	201	262	2.3x
Result on financial transactions	146	37	109	4x
Net foreign exchange gains/(losses)	389	19	370	20.5x
Net other operating income and expenses	-27	-55	28	-51.4%
Result on business activities	6 809	6 424	385	6.0%
Operating expenses	-2 666	-2 788	122	-4.4%
Tax on certain financial institutions	-471	-484	13	-2.7%
Net operating result	3 672	3 152	520	16.5%
Net write-downs and impairment	-455	-1 329	874	-65.8%
Profit before tax	3 217	1 823	1 394	76.5%
Income tax expense	-731	-638	-93	14.6%
Net profit	2 486	1 185	1 301	2.1x

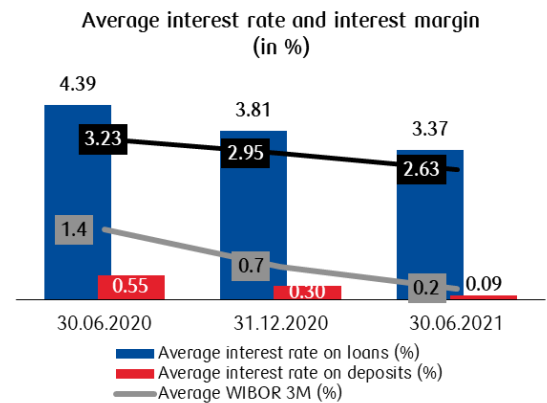
NET INTEREST INCOME

The net interest income for the first half of 2021 was PLN 4 145 million, i.e. PLN 597 million less than in the first half of the previous year. The result was lower due to a lower level of interest rates.



The interest income amounted to PLN 4 368 million and was PLN 1 200 million lower than in the first half of the year 2020, mainly as a result of:

- a PLN 1 115 million y/y lower income on financing granted to the Customers, which was due to a decrease in the average volume of loan receivables (mainly business loans) of PLN 7 billion and a decrease in market interest rates;
- a decrease in income on hedge accounting (PLN -104 million y/y), which was mainly due to de-designation of CIRS transactions until April 2021, partly offset with an increase in the net income on IRS transactions of PLN 22 billion y/y;
- accompanied by higher income on securities (PLN +75 million y/y), which was mainly due to an increase in the average volume of securities of PLN 38 billion.



Interest expenses amounted to PLN 222 million and were PLN 604 million lower than in the corresponding period of 2020. This was mainly due to the PLN 563 million lower costs of the deposit base (as a result of lower interest rates) and transfer of funds to current accounts, despite an increase in the average deposit volume of PLN 19 billion in relation to the first half of the previous year.

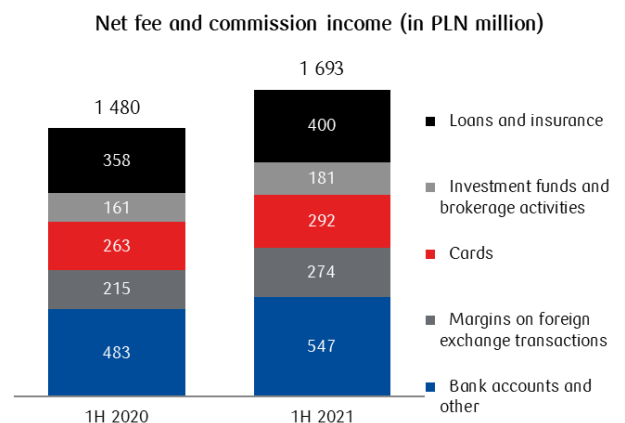
The interest margin decreased by 0.60 p.p. y/y to 2.63% as at the end of the first half of 2021. The average interest on the receivables of PKO Bank Polski S.A. in respect of loans amounted to 3.37% as at the end of the first half of 2021 and the average interest on total deposits was 0.09%, compared to 4.39% and 0.55%, respectively, at the end of the first half of 2020.

NET FEE AND COMMISSION INCOME

In the first half of 2021, the net fee and commission income amounted to PLN 1 693 million and was PLN 213 million higher than in the first half of the previous year.

The level of net fee and commission income was driven by:

- a higher net income on servicing bank accounts and other income (PLN +64 million y/y), which was, among other things, due to higher commissions for maintaining the accounts of corporate Customers and a higher net income on foreign currency transactions and transfers;
- an increase in the net margin on foreign exchange transactions (PLN +59 million y/y) resulting from a higher number of transactions;

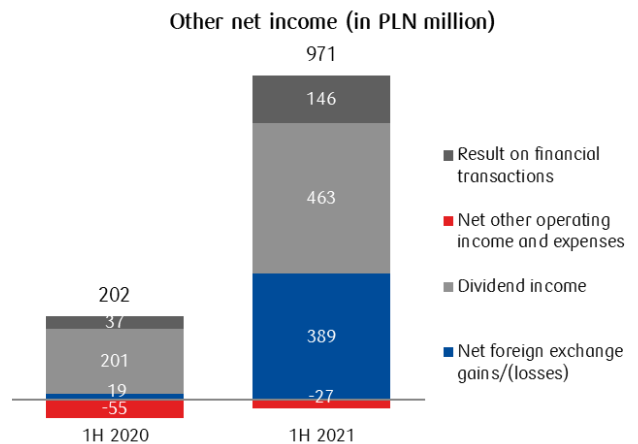


- a higher net income on loans and insurance (PLN +42 million y/y), which was mainly due to an increase in net commission income on business loans, lower costs of granting and servicing loans and increase in the sales of insurance products linked to housing loans;
- a higher net income on payment and credit cards (PLN +29 million y/y), due to a higher number of transactions;
- a higher net income on investment funds and brokerage activities (PLN +20 million y/y), which was mainly a result of higher sales of investment funds and higher commissions on stock market operations.

OTHER NET INCOME

Other net income for the first half of 2021 amounted to PLN 971 million and was PLN 769 million higher than in the first half of the previous year due to:

- higher net foreign exchange gains (PLN +370 million y/y), which was mainly a result of closing the foreign exchange position resulting from the EGSM decision to offer settlement agreements to the Customers. The Bank's Group recognized net foreign exchange gains/(losses) of approx. PLN 328 million in this respect;
- a higher result on financial transactions (PLN +109 million y/y), which, among other things, resulted from valuation of shares (PLN +64 million y/y), in particular the VISA Inc. and BIK S.A. shares, and a higher result on valuation of derivatives;
- higher net other operating income and expenses (PLN +28 million y/y), resulting from:
 - lower costs of provisions for reimbursements to the Customers in connection with the early repayment of consumer and mortgage loans of PLN 43 million;
 - lower income on settlement of debt collection costs as part of the BGK de minimis guarantee line, of PLN 11 million.

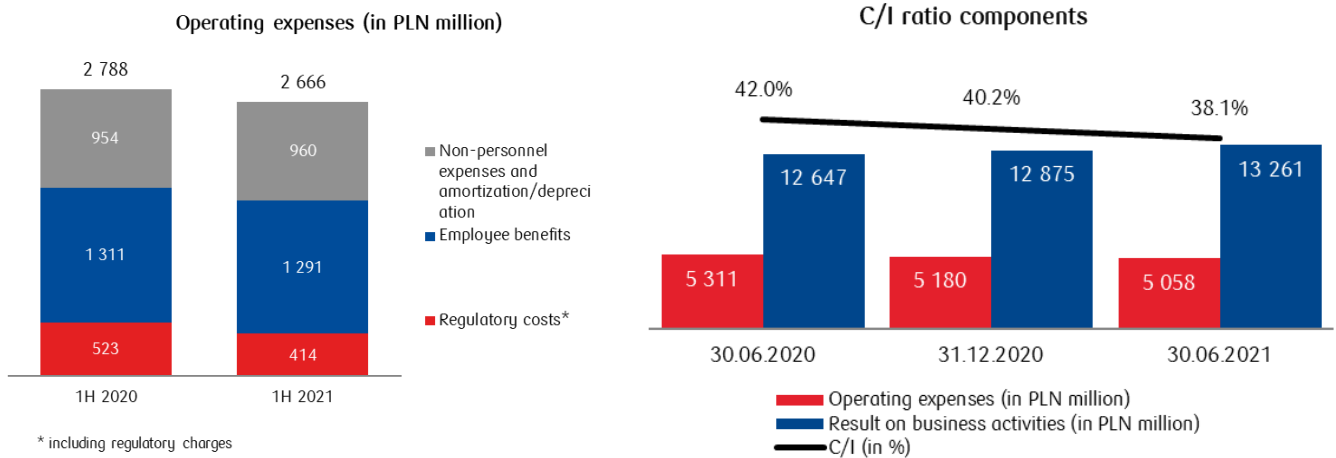


OPERATING EXPENSES

In the first half of 2021, operating expenses amounted to PLN 2 666 million (a decrease of 4.4% y/y). Their level was mainly determined by:

- a decrease in the costs of the contributions to the Bank Guarantee Fund of PLN 121 million (i.e. 25.9%) – the BGF costs amounted to PLN 346 million and included a contribution to the bank resolution fund of PLN 232 million (in the first half of the previous year, the BGF costs amounted to PLN 467 million, including a contribution to the resolution fund of PLN 296 million);
- a decrease in the costs of employee benefits of PLN 20 million, i.e. 1.5%, which was mainly due to a decrease in employment of 1 326 FTEs;
- an increase in the costs of PFSA fees of PLN 10 million, i.e. 33.7%;
- a increase in non-personnel expenses of PLN 3 million, i.e. 0.7%:
 - mainly due to an increase in IT expenses of PLN 24 million, i.e. 17.5%;
 and simultaneous decreases in the following expenses:
 - other non-personnel expenses of PLN 13 million (i.e. 17.3%), including a PLN 15 million decrease in the costs of the purchases relating to the COVID-19 pandemic (antibacterial liquids and gels, protective masks and gloves, shields and protective partitions for Customer service desks);
 - promotion and advertising of PLN 3 million, i.e. 4.7%;
 - costs of the Bank's projects of PLN 3 million, i.e. 16.5%;
- an increase in depreciation of PLN 3 million, i.e. 0.7%, mainly due to the increases in the depreciation of IT-related intangible assets and depreciation of leased properties.

In the first half of 2021 the Bank incurred representation expenses, expenditure on legal services, marketing services, public relations and social communication services and advisory services related to management totalling PLN 67 million, which represented 2.5% of the Bank's total administrative expenses.



The operating efficiency of PKO Bank Polski S.A. measured with the annual C/I ratio was 38.1% (-3.9 p.p. y/y).

NET ALLOWANCES AND IMPAIRMENT

In the first half of 2021, net write-downs amounted to PLN -455 million. This result was PLN 874 million better than the result obtained in the first half of the previous year, which was due to the write-downs in respect of COVID-19 of PLN 309 million recorded in 2020 and the costs of legal risk relating to mortgage loans in convertible currencies of PLN 190 million.

No costs of legal risk were incurred in the first half of 2021.

Net write-downs for non-financial assets amounted to PLN -33 million. This result was PLN 224 million better than in the first half of the previous year mainly due to the fact that the following write-downs for non-financial assets were recorded in the year 2020: for goodwill of Nordea Bank Polska S.A. (a corporate CGU) of PLN -116 million, for shares of Bank Pocztowy S.A. of PLN -88 million, and for shares of PKO BP BANKOWY PTE S.A. of PLN -15 million.

The share of exposures with recognized impairment as at the end of the first half of 2021 was 4.5% (a decrease of 0.1 p.p. in relation to the first half of 2020).

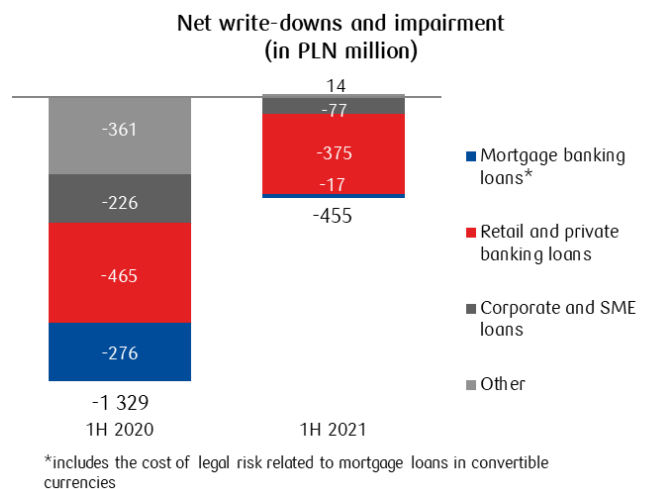
The cost of risk as at the end of the first half of 2021 was 0.65%, i.e. it was 0.11 p.p. higher than in the corresponding period of the previous year.

Despite the changing macroeconomic conditions, mainly relating to the COVID-19 pandemic, the Bank continues its conservative credit risk management policy and close monitoring of the portfolio of receivables.

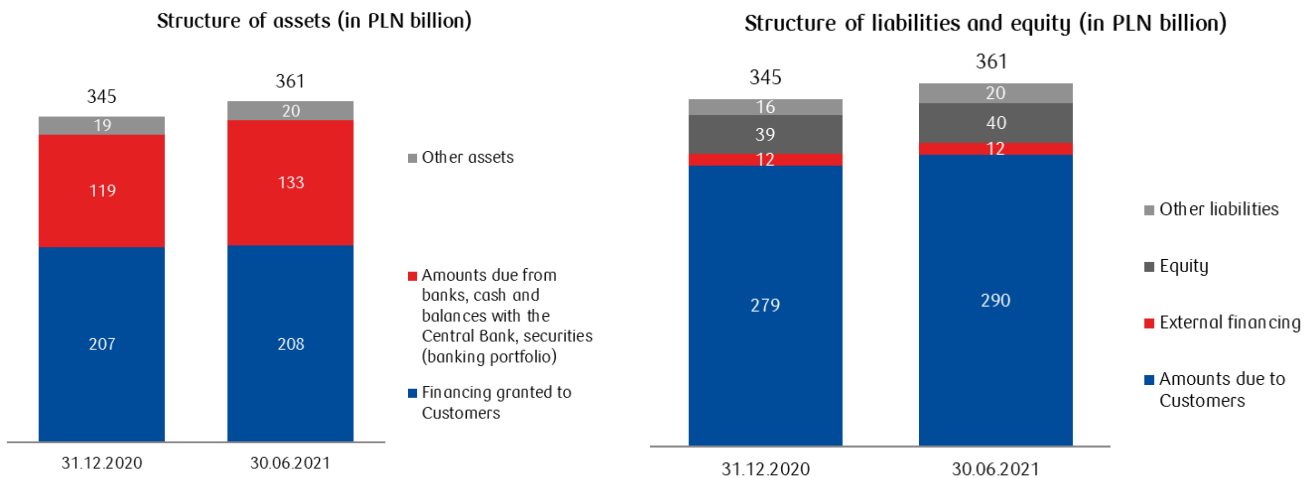
7.3. Statement of financial position

MAIN ITEMS OF THE STATEMENT OF FINANCIAL POSITION

Total assets and total equity and liabilities of PKO Bank Polski S.A. as at the end of the first six months of 2021 exceeded PLN 361 billion (an increase of approx. PLN 16 billion since the beginning of the year). Therefore, PKO Bank Polski S.A. consolidated its position of the largest institution in the Polish banking sector.

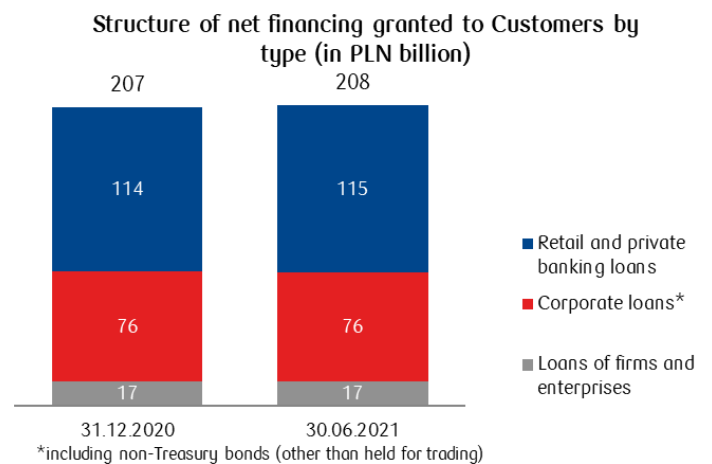


On the assets side, the Bank mainly recognized an increase in liquid assets (mainly securities) and, to a smaller extent, an increase in the financing granted to the Customers. As far as the sources of financing are concerned, growth mainly depends on an increase in the deposit base.



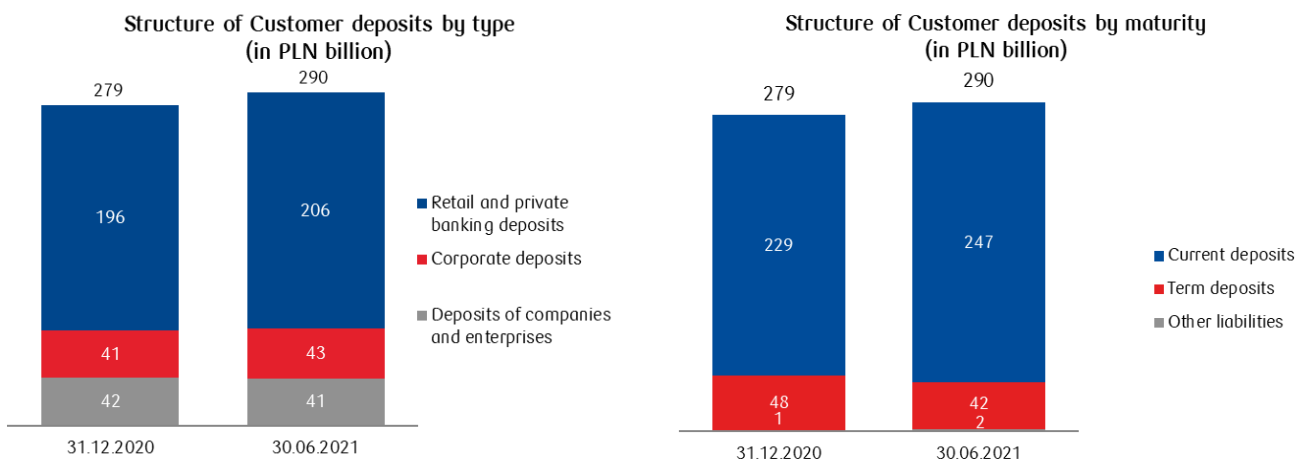
FINANCING GRANTED TO CUSTOMERS

As at the end of the first half of 2021, the financing granted to the Bank's Customers exceeded PLN 208 billion, which is an increase of PLN 1 billion since the beginning of the year, resulting mainly from an increase in retail and private banking loans (PLN +2 billion), accompanied by a decrease in corporate loans (PLN -1 billion).



AMOUNTS DUE TO CUSTOMERS

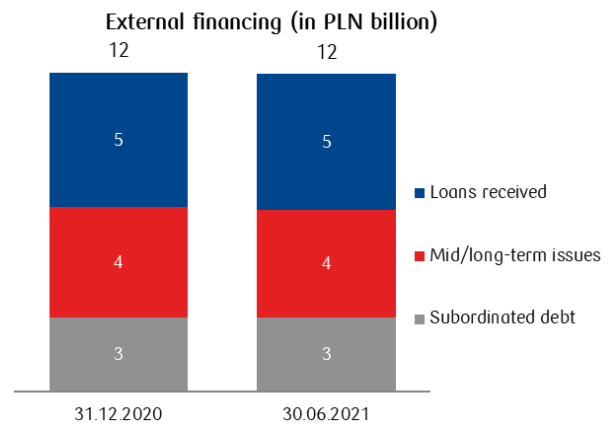
Customer deposits constitute the basic source of financing the Bank's assets. As at the end of the first half of 2021, they amounted to PLN 290 billion, which means an increase of PLN 11 billion since the beginning of the year. The increase in the deposit base was mainly due to the increases in retail and private banking deposits (PLN +10 billion) and corporate deposits (PLN +2 billion). At the same time, deposits of firms and enterprises decreased (PLN -1 billion).



The share of current deposits in total deposits was 85% (+3 p.p. in relation to the end of 2020).

EXTERNAL FINANCING

The balance of long-term funding sources as at the end of June 2021 was close to PLN 12 billion and it did not change significantly in relation to the end of 2020.



8. DEVELOPMENT OF OPERATIONS - SIGNIFICANT ACHIEVEMENTS

DEVELOPMENT OF PRODUCTS AND SERVICES

The PKO Bank Polski S.A. Group developed its services and products. The main focus was on remote channels.

Achievements of PKO Bank Polski S.A.

Development of electronic and mobile banking functionalities	
iPKO electronic banking platform	<p>Implementation of the Qlips solution – fast payment of invoices and bills. All the Customer has to do is choose the supplier and click on the invoices issued, and money transfers are processed automatically.</p> <p>Qlips allows the suppliers of services and utilities such as mobile telephony operators or power companies to send payment information directly to their customers' mailboxes through their e-banking platform.</p>
iPKO biznes electronic banking platform	<p>Introduction of the possibility to open and maintain a tax investment account.</p> <p>Implementation of a new instant payment function Express Elixir for corporate Customers and local government units with which the Customers may settle their liabilities at any time of the day.</p>
IKO mobile application	<p>Implementation of a new version of the IKO voice assistant. This new solution allows the users of devices with the iOS system to add shortcuts to Siri (the voice assistant for Apple devices). They may set up their own commands for the voice assistant or accept default ones.</p> <p>Launch of new functions:</p> <ul style="list-style-type: none"> - application to open a business account; - edition of standing orders; - biometric authentication of the authorization of mobile operations; - adding the BLIK logo to contacts on the telephone for phone money transfers; - dark mode, i.e. the possibility to adjust screen brightness; - voice assistant for blind and visually impaired persons compatible with Talkback (Android) and VoiceOver (iOS) screen readers; - payments for the A4 motorway – Customers are now able to pay for both the A1 and A4 motorways; - validation of public transport tickets in Warsaw by scanning a QR code in IKO. <p>The number of active IKO applications exceeded 5.6 million (a record level on the Polish banking market).</p>

SIRA	Shareholder Register Interface Standard (SIRA) developed jointly with ING Bank Śląski S.A., Santander Bank Polska S.A. and a wide range of partners. The purpose of SIRA is to standardize the technical conditions of the operation of different systems and allow shareholders to remotely manage their shares in the electronic registers.
PKO supermakler (super broker)	Implementation of a new version of the PKO supermakler online platform and mobile application. The platform received new functions, e.g. integrated diagrams with a technical analysis and clear presentation of information about approaching distribution of dividends by the companies held in the account. The platform was developed in the RWD technology, which means that PKO supermakler can be adjusted to any size of the Customer's computer screen or tablet.
Other	The launch of a function in e-kantor (e-currency exchange desk) which allows sending the purchased currency to an account with another bank without any extra charges.
	Introduction of an option to schedule a video or telephone call with a consultant through the Bank's webpage.
Modern cloud solutions, robotization and automation	
Cloud solutions	Implementation of a comprehensive SuccessFactors SAP system for the modern operation of HR processes. The implemented solution covers more than 23 thousand persons and is the biggest solution of this type that has been implemented in Poland to date.
	Implementation of Digital Employee Experience platform - an innovative internal communication tool. The platform develops digital experience of the Bank's employees and facilitates fast access to information, also in the mobile version.
Contact Center	Development of robotization, as a result of which: <ul style="list-style-type: none"> - every third Customer is greeted by AI, which verifies his/her intentions and transfers him/her to the best-prepared consultant available; - every third task in the joint Contact Centre and back office area is performed by a robot.
Automation	Implementation of the image recognition technology (iOCR), which supports automation of the processes based on paper documentation.
Development of corporate banking, including the Brokerage Office activities	
Corporate banking	Signing 11 syndicated loan agreements totalling PLN 14.4 billion and EUR 963 million, including the Bank's share of PLN 2.1 billion and EUR 162 million, respectively.
	Signing 3 corporate bond issue agreements for a total of PLN 2.6 billion.
	Signing 12 municipal bond issue agreements for a total of PLN 195 million.
Services of the Brokerage Office of PKO Bank Polski	Conducting, as a joint arranger, the transaction of sale of shares of Allegro.eu S.A. with a value of approx. PLN 4.6 billion on the primary market (under the ABB method).
	Conducting, as a joint bookrunner and offering agent, the IPO of Pepco Group N.V. shares with a value of approx. PLN 3.7 billion.
	Conducting, as the sole global coordinator and bookrunner, the transaction of sale of BNP Paribas Bank Polska S.A. shares with a value of approx. PLN 471 million (under the accelerated book-building method).
	Conducting, as a joint bookrunner, the IPO of Captor Therapeutics S.A. shares with a value of approx. PLN 184 million.
	Carrying out, as an intermediary, a call to subscribe for the sale and compulsory buyout of Polnord S.A. shares with a total value of approx. PLN 25 million and PragmaGO S.A. shares with a total value of approx. PLN 43 million.

Other	
Metal credit card	Launch of a metal credit card PKO VISA Business Credit Premium. It is the most prestigious card offered by the Bank.
Mortgage loans in CHF	Extension of the offer of support for the Customers having mortgage loans in CHF, aimed at mitigating the adverse effects of changes in the CHF exchange rates, until 31 December 2021;

Achievements of PKO Leasing S.A.

PKO Leasing Customer portal	The introduction, in cooperation with the Bank, of the possibility to access the PKO Leasing Customer portal directly from iPKO (without the need to log in again). The new function is available to sole traders and partners in partnerships.
PKO Leasing Online	The launch of a digital online platform – a new process for leasing assets, which is available in e-commerce outlets. PKO Leasing Online is a form of financing for persons who conduct business activities.
Automarket.pl	The sale of 1 359 vehicles through the Automarket.pl online platform in the first half of 2021 (+96% in relation to the 2nd half of 2020); the number of cars sold through the platform from the beginning of its existence exceeded 2 000. 78% of the vehicles sold in this period were financed with a financial product offered by the Bank's Group (the remaining 22% were sold for cash). The total volume of funding provided to finance transactions concluded through the Automarket.pl platform in the first six months of 2021 was PLN 67.8 million (+112% in relation to the 2nd half of 2020).

Achievements of PKO TFI S.A.

Record-breaking sales	<p>The value of assets under management of PKO Towarzystwo Funduszy Inwestycyjnych S.A. (PKO TFI S.A.) as at the end of June 2021 was PLN 39.4 billion. This means that the assets of PKO TFI S.A. reached the highest level in the company's history.</p> <p>In the first half of 2021 the Customers invested nearly PLN 4.9 billion in PKO TFI S.A. Recently there has been increased interest in the share funds, which accounted for 28% of the net sales; mixed funds accounted for 27% and debt funds – 32%.</p> <p>Additionally, in March 2021 PKO TFI S.A. took over the management of the PKP Employee Ownership Fund. Fundusz Własności Pracowniczej PKP Specjalistyczny Fundusz Inwestycyjny Otwarty (PKP Employee Ownership Fund – a Specialist Open Investment Fund) is the first fund in Poland which uses the investment fund formula to allow the employees to participate in the Company's privatization. PKP S.A. contributes 15% of the proceeds to the fund from every sale of shares of companies established by PKP S.A., real estate and the related rights and other assets that belong to the company. The value of the fund's assets as at 30 June 2021 was more than PLN 0.8 billion.</p>
Leader of the Employee Capital Plans (PPK) market	<p>Signing 28 683 PPK management agreements in the first half of 2021. The number of all PPK management agreements signed by the company was 46 703 as at the end of June 2021.</p> <p>The results obtained allow the company to maintain its leading position on the PPK market with assets of approx. PLN 1.8 billion.</p>

ESG

The Bank improved the efficiency of and optimized the resources used and took pro-environmental actions, including the following:

- installation of photovoltaic systems with a total capacity of 80.83 kWp in selected facilities of the Bank;
- obtaining Energy Savings Certificates, known as white certificates, of 197.26 toe for two investments;
- commencement of a company energy audit aimed at estimating the potential for energy efficiency improvement and the tasks serving this purpose;
- implementation of energy-efficient technologies and devices, such as e.g. LED lamps, not only for lighting of the offices but also for emergency and evacuation lighting. As part of this task, the external LED signal lighting was synchronized with sunrise and sunset;
- modernization of central heating installations by replacing furnaces with more efficient ones; the heating method was often changed (e.g. by connecting to municipal central heating or gas networks);
- providing a possibility to sign bank account agreements and private banking services agreements with an ordinary electronic signature;
- digitization of the Bank's internal regulations and other documents addressed to third parties aimed at complete elimination of the paper document flow for authorization and signing; at present, 85 out of 101 units of the Bank use Alfresco (electronic signature flow).

PKO TFI S.A. and the Brokerage Office of PKO Bank Polski published on their websites a strategy for taking sustainable development risks into account in the process of investment decision making (<https://www.pkotfi.pl/sfdr/>,

https://www.bm.pkobp.pl/media_files/9636be2e-3d5f-4b30-b4b6-9936c8ee499.pdf).

PKO Bank Polski S.A. participated in the arrangement of the issue of Climate Awareness Bonds of the European Investment Bank. It was the first ever public issue of this type of bond dedicated exclusively to Polish investors. The bonds offer an annual coupon at 1% and a rate of return for investors of 1.028%. The value of the issue was PLN 1.25 billion and the bonds will mature in February 2027.

In the 10th run of the CSR Leaves of the weekly *Polityka*, PKO Bank Polski S.A. was rewarded for its sustainable development activities, including the initiatives aimed at preventing the economic and social effects of the pandemic and reducing its adverse impact on the environment. It was awarded the White CSR Leaf. The Bank also received an honorary mention for its involvement in the *mamyklimat.pl* project.

GOOGLE CLOUD WARSAW REGION

In April 2021, Google launched the Google Cloud Warsaw region. It is the first computing infrastructure of the global public cloud provider in Central and Eastern Europe. The Warsaw Google Cloud region is the 25th such centre in the world and the only one to be opened by Google this year in Europe.

The project is the effect of the strategic partnership between Google and Operator Chmury Krajowej sp. z o.o., whose shareholders are PKO Bank Polski S.A. and Polski Fundusz Rozwoju S.A.

Every Polish firm and institution may use state-of-the-art global cloud solutions, which are available in the Google Cloud region located in Poland, which confirms the significant role of PKO Bank Polski S.A. in the digital transformation of the Polish economy.

9. NETWORK OF BRANCHES AND AGENCIES

PKO Bank Polski S.A. offers its Customers a wide network of retail branches and agencies, private banking offices, corporate branches, as well as branches located abroad.

As at 30 June 2021, the PKO Bank Polski S.A. retail network consisted of 946 branches and offices organized into 10 regional branches. Compared with the end of 2020, the total number of retail branches decreased by 16.

The corporate segment's sales network consisted of 23 regional corporate centres organized into 7 regional corporate branches, as well as the branches located in the Federal Republic of Germany, the Czech Republic and the Slovak Republic.

The branch and ATM network is complemented by the agency network. As at the end of the first half of 2021, PKO Bank Polski S.A. collaborated with 471 agencies.

Table 6. Operational data

	30.06.2021	31.12.2020	30.06.2020	Change since:	
				31.12.2020	30.06.2020
Number of branches in the retail segment	956	972	1 042	-16	-86
regional retail branches	10	10	10	0	0
retail branches	927	943	1 013	-16	-86
private banking branches	8	8	8	0	0
corporate banking branches	11	11	11	0	0
Number of branches in the corporate and investment segment:	33	32	42	1	-9
regional corporate branches	7	7	7	0	0
regional corporate centres	23	23	33	0	-10
foreign branches	3	2	2	1	1
Number of ATMs	2 984	3 022	3 056	-38	-72
Number of agencies	471	492	501	-21	-30

10. RISK MANAGEMENT

Risk management is one of the key internal processes, both in PKO Bank Polski S.A. and in other entities of the PKO Bank Polski S.A. Group. Risk management is aimed at ensuring the profitability of business activities while ensuring control over the risk level and maintaining it within the system of limits and the risk tolerance framework adopted by the Bank and the Group in the changing macroeconomic and legal environment.

The overriding priority is to ensure appropriate management of all types of risks associated with the Group's business activities.

- In the area of credit risk management, the Bank's Group monitors the Customers' situation on an ongoing basis and adjusts its lending policy with a view to ensure good quality of the loan portfolio and mitigate the effects of COVID-19 for the Customers. In the first half of 2021, the Group worked on the implementation of new regulatory requirements:

In the first half of 2021, PKO Bank Polski S.A.:

- implemented the requirements of the European Banking Authority, including a new definition of default and guidelines on loan origination and monitoring (EBA/GL/2020/06), concerning in particular leveraged loans, as well as the requirements of the PFSA's Recommendation S concerning the management of mortgage-secured loan exposures;
- in accordance with the proposal of the PFSA Chair, prepared for the introduction of a programme of settlement agreements with respect to housing loans for consumers granted or denominated in CHF, which involved offering a conversion of a CHF loan to PLN in such a manner as if the loan was originally granted in PLN;
- adjusted its lending policy to the situation in the country related to the COVID-19 pandemic.
- As far as operational risk management is concerned, the Bank's Group focused on preventing threats resulting from the pandemic to ensure the safety of Customers and employees and the continuity of business processes. In the first half of 2021, PKO Bank Polski S.A.:
- continuously monitored reports on infections among the employees, the employees' contacts with infected persons, preventive quarantines and those imposed by the sanitary authorities; the Emergency Team, the task forces and regional teams met regularly to coordinate the activities of the Bank's Group relating to the COVID-19 pandemic;
- identified threats relating to COVID-19 on an ongoing basis, monitored them and reported regularly to the Operational Risk Committee;
- took actions to mitigate the identified threats, in particular those relating to working conditions and methods, as well as to ensure the appropriate capacity and safety of the IT infrastructure;
- regularly organized educational campaigns for the Customers and employees on cybersecurity, which is particularly important given the growing popularity of remote Customer service channels.

- The Bank's Group maintains a safe liquidity level, allowing fast and effective response to potential threats.
- With respect to interest rate risk, low interest rates introduced by a decision of the central bank made in the first half of 2020 remain a challenge to the banking sector. The Bank's Group continues the process of hedging against interest rate risk by concluding IRS hedging transactions and building an appropriate structure of assets and liabilities and equity. The Bank's Group will continue its actions aimed at mitigating both Interest Income Sensitivity and Economic Value Sensitivity.
- With respect to currency risk, the Bank recognized a significant CHF position as at 31 December 2020 in the amount of approx. PLN 14.2 billion in connection with its intention to sign settlement agreements with consumers, as confirmed by a resolution of the Extraordinary General Shareholders' Meeting. At the end of April 2021, the Bank's Group hedged that currency position completely by concluding and subsequently closing option transactions, which gave the Bank the right to purchase foreign currencies, as well as concluding and settling foreign exchange transactions in which the Bank's Group purchased foreign currencies for PLN. As a result of hedging the currency position, the capital requirement in respect of market risk decreased significantly.
- The Bank's Group participated in a subsequent round of the European stress tests carried out in 2021 by the European Banking Authority with the participation of the Polish Financial Supervision Authority. The results of these tests demonstrated the strong resilience of the Bank to theoretical adverse macroeconomic scenarios.
- The Bank's Group is preparing to discontinuation, from 31 December 2021, the publication of some of the LIBOR reference rates which are used to determine the interest rates on loans or the amounts payable under other financial instruments. After discontinuing their publication, the market ratios applicable to the respective currencies will be used for new contracts. The most important ratio for the present portfolio is LIBOR CHF, which will most probably be replaced by SARON based on an implementing act of the European Commission which was submitted for consultation on 03 August 2021.

A detailed description of the risk management policies adopted by the Bank's Group is provided in the consolidated financial statements of the Bank's Group for 2020 and in the Report on Capital Adequacy and other information subject to publication by the Group as at 31 December 2020. The main objectives, principles and organization of the risk management process at the Bank's Group did not change in the first half of 2021.

11. INFORMATION FOR INVESTORS

11.1. Offset of losses for 2020, distribution of retained earnings and dividends

RESOLUTIONS ON OFFSET OF LOSS FOR 2020 AND DISTRIBUTION OF RETAINED EARNINGS

On 7 June 2021, the Annual General Shareholders' Meeting of the Bank passed the following resolutions:

1. on offsetting the loss of PKO Bank Polski S.A. for 2020 of PLN 2 943 792 603.05 from the special fund created by resolution of the Extraordinary General Shareholders' Meeting of PKO Bank Polski S.A. dated 23 April 2021 for the purpose of offsetting specific balance sheet losses which will arise as a result of recognizing the effects of financial settlements with consumers who concluded with the Bank mortgage-secured loan agreements indexed to foreign currencies or denominated in foreign currencies;
2. on retaining the retained earnings of PKO Bank Polski S.A. of PLN 5 500 000 000.

DIVIDEND POLICY

In March 2021, the Supervisory Board of the Bank adopted the "Dividend Policy of PKO Bank Polski S.A. and the PKO Bank Polski S.A. Group" (hereinafter: "the Dividend Policy"). The intention of the Dividend Policy is to ensure that the Bank pays out dividend in the long term, taking into account the principle of prudent management of the Bank and the Bank's Group in compliance with the law and the PFSA position on the assumptions of the dividend policy of commercial banks. The objective of the dividend policy is to optimally shape the Bank's and the Group's capital structure, taking into account the return on capital employed and its cost, capital requirements related to development, accompanied by the need to ensure an appropriate level of capital adequacy ratios. In accordance with the Dividend Policy, buy-out and redemption of treasury shares is an additional capital redistribution tool; however, share buy-out is possible on the condition that the book value of the shares exceeds their present market value, after obtaining a required PFSA approval.

PFSA RECOMMENDATIONS IN RESPECT OF DIVIDEND DISTRIBUTION IN 2021

In the first half of 2021, the PFSA found it necessary for commercial banks to suspend the distribution of dividend and restrain from other actions, in particular those that are not included in the scope of their current business and operating activities, which may result in a capital base decrease (without prior consultation with the regulator). This is reflected in the PFSA's position of 16 December 2020 and the individual PFSA recommendation for the Bank dated 13 January 2021. The Management Board and Supervisory Board of the Bank passed resolutions confirming that they would supervise the implementation of the PFSA's recommendation discussed above (within the scope of their competences).

On 24 June 2021 the PFSA adopted a position on the commercial banks' dividend policy for the second half of 2021, which would allow distribution of dividend from the 2020 profit provided that the terms and conditions presented in the said position had been met. The PFSA maintained its recommendation not to take (without prior consultation with the regulator) any other actions that could result in a capital base decrease, including any dividend distributions from retained earnings or treasury share buy-outs. This position was confirmed in the PFSA's letters of 30 June 2021 and 16 July 2021.

Pursuant to Article 395 § 2(2) of the Commercial Companies Code, decisions on the distribution of profit are made by the Annual General Shareholders' Meeting.

11.2. Shareholders holding directly or indirectly through subsidiaries at least 5% of the total number of votes at the General Shareholders' Meeting

According to PKO Bank Polski S.A.'s best knowledge, as at the date of this report three shareholders held directly or indirectly significant blocks of shares (at least 5%): the State Treasury, Nationale-Nederlanden Otwarty Fundusz Emerytalny and Aviva Otwarty Fundusz Emerytalny (the complete shareholding structure is presented in Note 32 to the financial statements of the Bank Polski S.A. Group for the first half of 2021).

In the first half of 2021, PKO Bank Polski S.A. did not purchase or sell its own shares on bank's behalf.

11.3. Shares of PKO Bank Polski S.A. held by members the Bank's authorities

Holdings of the PKO Bank Polski S.A. shares by members of the Management Board of the Bank as at 30 June 2021 are shown in the table below. The nominal value of each share is PLN 1.

Table 7: Holdings of the PKO Bank Polski S.A. shares by members of the Management Board of the Bank

No.	Name and function	Number of shares as at 30.06.2021	Purchase	Disposal	Number of shares as at 31.03.2021 ¹⁾	Number of shares as at 31.12.2020
1.	Jan Emeryk Rościszewski	0	0	0	0	0
2.	Rafał Antczak	2 000	0	0	2 000	2 000
3.	Bartosz Drabikowski	0	0	0	0	-
4.	Marcin Eckert	0	0	0	0	-
5.	Maks Kraczkowski	0	0	0	0	0
6.	Mieczysław Król	6 000	0	0	6 000	6 000
7.	Adam Marciniak	2 000	0	0	2 000	2 000
8.	Piotr Mazur	8 000	0	0	8 000	8 000
9.	Jakub Papierski	5 000	0	0	5 000	5 000

1) - in the case of new members of the Bank's Management Board, the number of shares as at the date of appointment.

The members of the Bank's Supervisory Board did not hold any shares of PKO Bank Polski S.A. during their term on the Supervisory Board.

In the period from 30 June 2021 to the date of the publication of this Report the Bank was not informed about any changes in the holdings of the Bank's shares by members of the Bank's Management Board and Supervisory Board.

11.4. Ratings

The financial credibility ratings of the Bank and the other members of the Bank's Group did not change in the first half of 2021.¹²

The current Environmental, social and governance (ESG) ratings are as follows:

FTSE Russell – 2.7, MSCI – BBB, Sustainalytics – 25.9 (medium risk), V.E – 47.

In the first half of 2021, the Bank improved its V.E rating from 29 in September 2020 to 47 in June 2021 (on a 0 to 100 scale; a higher score indicates better ESG management). All analysed areas improved: E (from 18 to 44), S (from 32 to 48) and G (from 28 to 47).

A decrease in the FTSE Russell rating was due to the application of a new methodology in the climate change theme from June 2021. Full revision of the rating will be performed in the second half of 2021.

11.5. WSE Good Practices 2021

The Supervisory Board of Giełda Papierów Wartościowych w Warszawie S.A. (hereinafter: "the Warsaw Stock Exchange", "WSE"), by resolution no. 13/1834/2021 of 29 March 2021, adopted a set of new corporate governance principles for joint-stock companies issuing shares, convertible bonds or bonds with pre-emptive right, which are admitted to trading on a WSE regulated market, i.e. "Good Practices for WSE Listed Companies 2021" (hereinafter: "WSE Good Practices 2021"), which entered into force in July 2021.

The WSE Good Practices 2021 are addressed to all authorities of the company. The Bank's Management Board, Supervisory Board and General Shareholders' Meeting expressed their opinion on the application of these practices – they all adopted the WSE Good Practices 2021 without any exceptions.

The application of the WSE Good Practices 2021 by companies is voluntary. The companies are only obliged to inform about the scope of their application. In July 2021, the Bank published information on the scope of the application of the WSE Good Practices 2021 in the form prescribed by the WSE Rules (<https://www.pkobp.pl/investor-relations/corporate-governance/best-practice-for-wse-listed-companies-2021/>).

12. OTHER INFORMATION

DISCLOSURE ON NON-FINANCIAL INFORMATION

The PKO Bank Polski S.A. Group prepared the Statement on non-financial information for the year 2020, which constituted a separate part of the Directors' Report on the activities of the PKO Bank Polski S.A. Group in the year 2020, and published is on the website of PKO Bank Polski S.A. The Statement was prepared in accordance with the provisions of the Accounting Act and contains all elements required by law. The Statement includes information concerning employment, social and environmental issues.

In June 2021, PKO Bank Polski S.A. adopted ESG performance indicators for implementation and included them in the non-financial objectives of the Bank's Group. Such information is presented in chapter 5 of the Report.

The Bank made a second disclosure in CDP Disclosure Insight Action. The disclosure concerns the area of climate change in the Bank's Group.

THE POSITION OF THE MANAGEMENT BOARD OF PKO BANK POLSKI S.A. ON THE ACHIEVEMENT OF THE PREVIOUSLY PUBLISHED FORECASTS CONCERNING THE RESULTS FOR THE YEAR

PKO Bank Polski S.A. did not publish forecasts of financial results for 2021.

SIGNIFICANT AGREEMENTS AND MATERIAL AGREEMENTS WITH THE CENTRAL BANK OR SUPERVISORY AUTHORITIES

PKO Bank Polski S.A. is obliged to inform in the current reports about all agreements meeting the definition of confidential information provided in Regulation (EU) no. 596/2014 of the European Parliament and of the Council on market abuse. The Bank did not sign any agreements meeting the definition of confidential information in first half of 2021 and therefore it did not publish any information on such agreements.

¹²In July 2021, Moody's Investors Service informed about changes in the rating of PKO Bank Hipoteczny S.A. The agency increased the long-term rating of the issuer, the long-term and short-term counterparty risk assessment, and the long-term and short-term opinion on counterparty risk. The issuer's short-term rating and outlook remained unchanged. The change in the ratings was a consequence of the change of methodology.

In the first half of 2021, the Bank or its subsidiaries did not conclude any material agreements with the Central Bank or with the supervisory authorities.

LOANS DRAWN AND AGREEMENTS REGARDING ADVANCES, GUARANTEES AND PLEDGES WHICH ARE NOT RELATED TO OPERATING ACTIVITIES

In the first half of 2021 neither PKO Bank Polski S.A. nor its subsidiaries drew any loans or advances or receive any guarantees or pledges which were not related to operating activities.

INFORMATION ON RELATED-PARTY TRANSACTION OR TRANSACTIONS CONCLUDED BY THE ISSUER OR ITS SUBSIDIARY ON TERMS OTHER THAN ARM'S LENGTH

In the first half of 2021 PKO Bank Polski S.A. provided services to its related (subordinated) entities within the scope of maintaining bank accounts, accepting deposits, granting loans and advances, issue of debt securities, granting guarantees and spot exchange transactions and offering units and certificates of investment funds, lease products, factoring products and insurance products of the Bank's Group companies, and services offered by the Brokerage House of PKO Bank Polski S.A.

The Bank provided services to PKO Bank Hipoteczny S.A. within the scope of intermediation in sales of housing loans for individuals, performing tasks as part of the post-transaction services in respect of these loans and support tasks under the outsourcing agreement. The Bank offered its infrastructure and information and communications technology services and rented office space to selected companies of the Bank's Group. The Bank, together with Centrum Elektronicznych Usług Płatniczych eService sp. z o.o., provided payment transaction clearing services.

The aforementioned services were provided on terms and conditions which did not deviate significantly from the arm's length basis.

In the first half of 2021, the subsidiaries of PKO Bank Polski S.A. did not conclude any material transactions with related parties on conditions other than arm's length.

INFORMATION ON SIGNIFICANT AGREEMENTS ON WARRANTING LOANS OR ADVANCES, OR GRANTING GUARANTEES BY THE ISSUER OR ITS SUBSIDIARY

In the first six months of 2021, the Bank granted another loan repayment guarantee to its subsidiary PKO Leasing S.A. The total original value of the loans received by this company, which are covered by a Bank guarantee, was PLN 674 million and EUR 320 million as at 30 June 2021. The guarantees were granted for a maximum period to May 2028.

INFORMATION ON MATERIAL PROCEEDINGS PENDING IN COURT, BEFORE AN ARBITRATION INSTITUTION OR A PUBLIC ADMINISTRATION AUTHORITY

Taking into account the value and growing number of proceedings, the Bank considered the court proceedings relating to mortgage loans in convertible currencies to be material. As at 30 June 2021, 8 968 court proceedings concerning mortgage loans granted in previous years in foreign currencies were pending against the Bank (as at 31 December 2020: 5 372), including one class action. Their combined value was PLN 2 584 million (as at 31 December 2020: PLN 1 404 million). The Bank's Customers most frequently bring claims for declaring an agreement or a part thereof invalid or for reimbursement of an allegedly undue payment in connection with the abusive nature of foreign currency clauses. None of the clauses used by the Bank in the agreements has been entered in the register of abusive clauses.

A description of the most significant disputes, including those relating to foreign currency mortgage loans, is presented in the financial statements of the Bank's Group for the first half of 2021 (Note 35).

OTHER INFORMATION WHICH IS SIGNIFICANT FOR THE ASSESSMENT OF THE HUMAN RESOURCES, ASSETS, FINANCIAL POSITION AND RESULTS OF THE ISSUER, AND THEIR RESPECTIVE CHANGES, AND INFORMATION WHICH IS SIGNIFICANT FOR THE ASSESSMENT OF THE ISSUER'S ABILITY TO FULFIL ITS OBLIGATIONS

PKO Bank Polski S.A. does not identify any information which is significant for the assessment of the situation of the Bank's Group and its ability to fulfil its obligations other than presented in this Report.

SUBSEQUENT EVENTS

- On 25 July 2021 (settlement date: 26 July 2021), the issue of PKO Bank Polski S.A.'s bonds with the nominal value of EUR 500 million (the bonds' ISIN XS1650147660) was redeemed.
- On 26 July 2021, Mr Adam Marciniak resigned from membership and functions in the Bank's Management Board with effect as of 13 August 2021.

13. GLOSSARY

Interest-bearing assets – amounts due from banks, securities and loans and advances to Customers;

CPI – consumer price index;

Customer deposits – amounts due to Customers;

Financing granted to Customers – loans and advances granted to Customers (including finance lease receivables) and municipal and corporate bonds (excluding the bonds of Polski Fundusz Rozwoju S.A., Bank Gospodarstwa Krajowego and the European Investment Bank) presented in securities, other than securities held for trading;

External financing – subordinated liabilities, liabilities in respect of issue of securities measured at amortized cost, and loans and advances received;

Other liabilities – hedging derivatives, other derivative instruments, liabilities in respect of insurance activities, other liabilities, current income tax liabilities, deferred income tax provisions, provisions, reverse repo transactions, amounts due to the Central Bank and amounts due to banks;

Operating expenses – operating expenses (including net regulatory charges);

Regulatory costs – net regulatory charges;

Total capital ratio – own funds to the total capital requirement multiplied by 12.5;

Securities (banking portfolio) – securities less municipal and corporate bonds (excluding bonds held for trading) and bonds of Polski Fundusz Rozwoju S.A., Bank Gospodarstwa Krajowego and the European Investment Bank;

Other assets – derivative hedging instruments, other derivative instruments, investments in associates and joint ventures, non-current assets held for sale, intangible assets, property, plant and equipment, insurance receivables, current income tax receivables, deferred income tax assets, other assets and repo transactions;

Risk-free rate – the average annual yield on 10-year Treasury bonds;

Average interest on loans – interest income on loans and advances to Customers on an annual basis to the average balance of loans and advances to Customers from the last 5 quarters;

Average interest on deposits – interest expense on amounts due to Customers on an annual basis to the average balance of amounts due to Customers from the last 5 quarters;

C/I ratio (costs to income ratio) – operating expenses (including net regulatory charges) to the result on business activities on an annual basis;

Tier 1 capital ratio – Tier 1 capital to the total capital requirement multiplied by 12.5;

Credit risk cost indicator – net impairment write-downs on loans and advances to Customers for the last 12 months to the average gross amounts due to Customers at the beginning and end of the reporting period and interim quarterly periods;

Interest margin ratio – net interest income on an annual basis to the average balance of interest-earning assets (including amounts due from banks, securities and loans and advances to Customers) from the last 5 quarters;

Net ROA – net profit for the year to the average balance of assets from the last 5 quarters;

Net ROA (in the period) – annualized net profit to the average balance of assets from the last 3 quarters;

Net ROE – net profit for the year to the average balance of equity from the last 5 quarters;

Net ROE (in the period) – annualized net profit to the average balance of equity from the last 3 quarters;

Net ROTE – net profit for the year to the average balance of equity less intangible assets from the last 5 quarters;

Share of exposures with recognized impairment – a portfolio with recognized impairment in the portfolio of loans and corporate and municipal bonds (not guaranteed by the State Treasury), including loans measured at fair value through profit or loss;

Net operating result – the result on business activities in the management perspective, operating expenses and tax on certain financial institutions;

Result on financial transactions – result on financial transactions and gains or losses on derecognition of financial instruments less the result on loans measured at fair value through profit or loss;

Net write-downs and impairment – result on write-downs for expected credit losses, result on impairment of non-financial assets, cost of legal risk of mortgage loans in convertible currencies and the result on loans measured at fair value through profit or loss;

Result on business activities – result on business activities less result on loans measured at fair value through profit or loss;

Net profit – net profit recognized in the consolidated income statement understood as the net profit attributable to equity holders of the parent company.

14. STATEMENT OF THE MANAGEMENT BOARD

The Management Board of PKO Bank Polski S.A. declares that in accordance with its best knowledge:

- the condensed interim financial statements of PKO Bank Polski S.A. for the six months ended 30 June 2021 and comparative data have been prepared in accordance with the applicable accounting principles, and give a true, fair and clear view of the economic and financial position of PKO Bank Polski S.A. and of its financial result;
- the condensed interim consolidated financial statements of the PKO Bank Polski S.A. Group for the six months ended 30 June 2021 and comparative data have been prepared in accordance with the applicable accounting principles, and give a true, fair and clear view of the economic and financial position of the PKO Bank Polski S.A. Group and of its financial result;
- this Directors' Report of the PKO Bank Polski S.A. Group for the first half of 2021 includes an accurate description of the development and achievements, as well as the situation of PKO Bank Polski S.A. and the PKO Bank Polski S.A. Group, including a description of the main risks and threats.

The Management Board of PKO Bank Polski S.A. declares that the entity authorized to audit financial statements, carrying out the review of the above-mentioned financial statements, has been selected in accordance with legal regulations, and that this entity and the statutory auditors carrying out the reviews satisfied the conditions to issue unbiased and independent review reports, in keeping with the binding regulations and professional standards.

This Directors' Report of the PKO Bank Polski S.A. Group for the first half of 2021 comprises 41 sequentially numbered pages.

SIGNATURES OF ALL MEMBERS OF THE BANK'S MANAGEMENT BOARD

11.08.2021	JAN EMERYK ROŚCISZEWSKI	VICE PRESIDENT OF THE MANAGEMENT BOARD MANAGING THE WORK OF THE MANAGEMENT BOARD
11.08.2021	RAFAŁ ANT CZAK	VICE-PRESIDENT OF THE MANAGEMENT BOARD
11.08.2021	BARTOSZ DRABIKOWSKI	VICE-PRESIDENT OF THE MANAGEMENT BOARD
11.08.2021	MARCIN ECKERT	VICE-PRESIDENT OF THE MANAGEMENT BOARD
11.08.2021	MAKS KRACZKOWSKI	VICE-PRESIDENT OF THE MANAGEMENT BOARD
11.08.2021	MIECZYŚŁAW KRÓL	VICE-PRESIDENT OF THE MANAGEMENT BOARD
11.08.2021	ADAM MARCINIAK	VICE-PRESIDENT OF THE MANAGEMENT BOARD
11.08.2021	PIOTR MAZUR	VICE-PRESIDENT OF THE MANAGEMENT BOARD
11.08.2021	JAKUB PAPIERSKI	VICE-PRESIDENT OF THE MANAGEMENT BOARD