



Bank Polski

Condensed interim consolidated
financial statements
of the PKO Bank Polski S.A. Group
for the six-month period
ended 30 June 2020

SELECTED CONSOLIDATED FINANCIAL DATA

SELECTED CONSOLIDATED FINANCIAL DATA	PLN million		EUR million	
	period from 01.01.2020 to 30.06.2020	period from 01.01.2019 to 30.06.2019	period from 01.01.2020 to 30.06.2020	period from 01.01.2019 to 30.06.2019
Net interest income/(expense)	5 237	4 993	1 179	1 164
Net fee and commission income	1 897	1 814	427	423
Operating profit/(loss)	2 014	2 949	453	688
Profit before tax	2 017	2 963	454	691
Net profit (including non-controlling shareholders)	1 303	2 079	293	485
Net profit attributable to the parent	1 306	2 079	294	485
Earnings per share for the period - basic (in PLN/EUR)	1,04	1,66	0,24	0,39
Earnings per share for the period - diluted (in PLN/EUR)	1,04	1,66	0,24	0,39
Total net comprehensive income	2 476	2 296	557	535
Net cash from/used in operating activities	26 650	(6 212)	6 000	(1 449)
Net cash from/used in investing activities	(36 084)	(5 885)	(8 125)	(1 372)
Net cash from/used in financing activities	(2 863)	(2 340)	(645)	(546)
Total net cash flows	(12 297)	(14 437)	(2 769)	(3 367)

SELECTED CONSOLIDATED FINANCIAL DATA	PLN million		EUR million	
	as at 30.06.2020	as at 31.12.2019	as at 30.06.2020	as at 31.12.2019
Total assets	377 196	347 897	84 459	81 695
Total equity	44 054	41 578	9 864	9 764
Capital and reserves attributable to equity holders of the parent	44 066	41 587	9 867	9 766
Share capital	1 250	1 250	280	294
Number of shares (in million)	1 250	1 250	1 250	1 250
Book value per share (in PLN/EUR)	35,24	33,26	7,89	7,81
Diluted number of shares (in million)	1 250	1 250	1 250	1 250
Diluted book value per share (in PLN/EUR)	35,24	33,26	7,89	7,81
Total capital adequacy ratio	18,21%	18,42%	18,21%	18,42%
Tier 1	37 293	36 717	8 350	8 622
Tier 2	2 700	2 700	605	634

SELECTED FINANCIAL STATEMENT ITEMS HAVE BEEN TRANSLATED INTO EUR AT THE FOLLOWING RATES	from 01.01.2020 to 30.06.2020	from 01.01.2019 to 30.06.2019
	average of NBP exchange rates at the end of monthly periods (income statement, statement of comprehensive income and statement of cash flows)	4,4413
	30.06.2020	31.12.2019
mid NBP rate at the date (statement of financial position items)	4,4660	4,2585

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED INCOME STATEMENT	Note	second quarter period from 01.04.2020 to 30.06.2020	2 quarters cumulative period from 01.01.2020 to 30.06.2020	second quarter period from 01.04.2019 to 30.06.2019	2 quarters cumulative period from 01.01.2019 to 30.06.2019
Interest income	7	2 971	6 260	3 117	6 148
Interest income calculated under the effective interest rate method on financial instruments measured		2 664	5 672	3 183	6 104
at amortized cost		2 339	5 011	2 875	5 489
at fair value through OCI		325	661	308	615
Income similar to interest income on instruments measured at fair value through profit or loss		307	588	(66)	44
Interest expense	7	(437)	(1 023)	(579)	(1 155)
Net interest income		2 534	5 237	2 538	4 993
Fee and commission income	8	1 147	2 397	1 198	2 329
Fee and commission expense	8	(229)	(500)	(272)	(515)
Net fee and commission income		918	1 897	926	1 814
Dividend income		14	14	12	12
Net gain/(loss) on financial instruments measured at fair value through profit or loss, including:	9	4	(146)	33	57
impact of COVID 19 on the loan portfolio	39	(4)	(26)		
Net foreign exchange gains/(losses)		27	43	12	66
Gains/(losses) on derecognition of financial instruments not measured at fair value through profit or loss		39	82	33	86
measured at fair value through OCI		50	106	36	86
measured at amortized cost		(11)	(24)	(3)	-
Net allowances for expected credit losses, including:	10	(385)	(876)	(319)	(644)
impact of COVID 19 on the loan portfolio	39	(112)	(318)		
Net impairment allowances on non-financial assets	11	(149)	(265)	(3)	(10)
Cost of legal risk of mortgage loans in convertible currencies	42	(105)	(190)	-	(4)
Net other operating income and expense	12	15	(41)	156	162
Administrative expenses	13	(1 313)	(2 650)	(1 354)	(2 662)
Net regulatory charges	14	(107)	(558)	(59)	(418)
Tax on certain financial institutions		(271)	(533)	(255)	(503)
Operating profit/(loss)		1 221	2 014	1 720	2 949
Share in profits and losses of associates and joint ventures		(1)	3	9	14
Profit before tax		1 220	2 017	1 729	2 963
Income tax expense	15	(416)	(714)	(511)	(884)
Net profit (including non-controlling shareholders)		804	1 303	1 218	2 079
Profit (loss) attributable to non-controlling shareholders		1	(3)	1	-
Net profit attributable to equity holders of the parent		803	1 306	1 217	2 079
Earnings per share		-	-	-	-
- basic earnings per share for the period (PLN)		0,64	1,04	0,97	1,66
- diluted earnings per share for the period (PLN)		0,64	1,04	0,97	1,66
Weighted average number of ordinary shares during the period (in million)		1 250	1 250	1 250	1 250
Weighted average diluted number of ordinary shares during the period (in million)		1 250	1 250	1 250	1 250

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	Note	second quarter period from 01.04.2020 to 30.06.2020	2 quarters cumulative period from 01.01.2020 to 30.06.2020	second quarter period from 01.04.2019 to 30.06.2019	2 quarters cumulative period from 01.01.2019 to 30.06.2019
Net profit (including non-controlling shareholders)		804	1 303	1 218	2 079
Other comprehensive income		758	1 173	340	217
Items which may be reclassified to profit or loss		758	1 173	340	217
Cash flow hedges (gross)	18	66	624	180	329
Deferred tax	15,18	(13)	(119)	(34)	(62)
Cash flow hedges (net)		53	505	146	267
Revaluation of fair value of financial assets measured at fair value through OCI, gross		927	962	270	6
Gains /losses transferred to profit or loss (on disposal)		(50)	(106)	(36)	(86)
Deferred tax	15	(166)	(161)	(41)	17
Fair value of financial assets measured at fair value through OCI (net)		711	695	193	(63)
Foreign exchange differences on translation of foreign operations		(6)	(27)	1	11
Share in other comprehensive income of associates and joint ventures		-	-	-	2
Total net comprehensive income		1 562	2 476	1 558	2 296
Total net comprehensive income, of which attributable to:		1 562	2 476	1 558	2 296
equity holders of the parent		1 561	2 479	1 557	2 296
non-controlling shareholders		1	(3)	1	-

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	30.06.2020	31.12.2019
ASSETS			
Cash and balances with the Central Bank	16	3 687	14 677
Amounts due from banks	17	2 706	4 092
Hedging derivatives	18	1 453	645
Other derivative instruments	19	5 345	2 795
Securities	20	119 802	80 573
- held for trading		2 000	1 112
- not held for trading, measured at fair value through profit or loss		1 973	2 199
- measured at fair value through OCI		75 826	63 807
- measured at amortized cost		40 003	13 455
Reverse repo transactions		153	1 081
Loans and advances to customers	21	231 230	230 206
- not held for trading, measured at fair value through profit or loss		6 878	8 286
- measured at amortized cost		224 352	221 920
Receivables in respect of insurance activities		803	858
Property, plant and equipment transferred under operating lease	22	1 373	1 300
Property, plant and equipment	22	2 880	3 142
Non-current assets held for sale		13	12
Intangible assets	22	2 984	3 178
Investments in associates and joint ventures		292	377
Current income tax receivables		38	5
Deferred income tax assets		1 846	2 243
Other assets	23	2 591	2 713
TOTAL ASSETS		377 196	347 897

CONDENSED INTERIM CONSOLIDATED FINANCIAL
STATEMENTS OF THE PKO BANK POLSKI S.A. GROUP
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2020
(IN PLN MILLION)



Bank Polski

	Note	30.06.2020	31.12.2019
LIABILITIES AND EQUITY			
Liabilities			
Amounts due to banks	24	2 100	2 135
- measured at fair value through profit or loss		11	317
- measured at amortized cost		2 089	1 818
Hedging derivatives	18	1 034	589
Other derivative instruments	19	5 397	2 924
Amounts due to customers	25	281 841	256 170
- measured at fair value through profit or loss		145	45
- measured at amortized cost		281 696	256 125
Repo transactions		60	-
Liabilities in respect of insurance activities		1 729	1 777
Loans and advances received	26	2 533	2 779
Debt securities in issue	26	29 257	31 148
Subordinated liabilities	26	2 730	2 730
Other liabilities	27	5 340	4 791
Current income tax liabilities		113	324
Deferred income tax provision		350	370
Provisions	28	658	582
TOTAL LIABILITIES		333 142	306 319
Equity			
Share capital		1 250	1 250
Other capital and reserves		35 476	34 205
Retained earnings		6 034	2 101
Net profit or loss for the year		1 306	4 031
Capital and reserves attributable to equity holders of the parent		44 066	41 587
Non-controlling interests		(12)	(9)
TOTAL EQUITY		44 054	41 578
TOTAL LIABILITIES AND EQUITY		377 196	347 897
Total capital ratio	46	18,21%	18,42%
Book value (in PLN million)		44 054	41 578
Number of shares (in million)		1 250	1 250
Book value per share (in PLN)		35,24	33,26
Diluted number of shares (in million)		1 250	1 250
Diluted book value per share (in PLN)		35,24	33,26



STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2020	Share capital	Other capital			Accumulated other comprehensive income	Total other capital and reserves	Retained earnings	Net profit for the period	Total capital and reserves attributable to equity holders of the parent	Total non-controlling interests	Total equity
		Reserves	Supplementary capital	General banking risk fund							
1 January 2020	1 250	29 429	1 070	3 237	469	34 205	2 101	4 031	41 587	(9)	41 578
Transfer of prior year profit	-	-	-	-	-	-	4 031	(4 031)	-	-	-
Total comprehensive income, of which:	-	-	-	-	1 173	1 173	-	1 306	2 479	(3)	2 476
Net profit for the year	-	-	-	-	-	-	-	1 306	1 306	(3)	1 303
Other comprehensive income	-	-	-	-	1 173	1 173	-	-	1 173	-	1 173
Transfer from retained earnings to equity	-	90	-	8	-	98	(98)	-	-	-	-
30 June 2020	1 250	29 519	1 070	3 245	1 642	35 476	6 034	1 306	44 066	(12)	44 054

FOR THE SIX MONTHS ENDED 30 JUNE 2020	Accumulated other comprehensive income					Total
	Share in other comprehensive income of associates and joint ventures	Fair value of financial assets measured at fair value through OCI	Cash flow hedges	Actuarial gains and losses	Foreign exchange differences on translation of foreign operations	
1 January 2020	(13)	456	232	(15)	(191)	469
Total comprehensive income, of which:	-	695	505	-	(27)	1 173
Other comprehensive income	-	695	505	-	(27)	1 173
30 June 2020	(13)	1 151	737	(15)	(218)	1 642

CONDENSED INTERIM CONSOLIDATED FINANCIAL
STATEMENTS OF THE PKO BANK POLSKI S.A. GROUP
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2020
(IN PLN MILLION)



Bank Polski

FOR THE SIX MONTHS ENDED 30 JUNE 2019	Share capital	Other capital			Accumulated other comprehensive income	Total other capital and reserves	Retained earnings	Net profit for the period	Total capital and reserves attributable to equity holders of the parent	Total non-controlling interests	Total equity
		Reserves									
		Supplementary capital	General banking risk fund	Other reserves							
31 December 2018	1 250	29 354	1 070	3 831	250	34 505	(385)	3 741	39 111	(10)	39 101
Changes due to IFRS 16 implementation	-	-	-	-	-	-	(111)	-	(111)	-	(111)
As at 1 January 2019 (restated)	1 250	29 354	1 070	3 831	250	34 505	(496)	3 741	39 000	(10)	38 990
Transfer from retained earnings	-	-	-	-	-	-	3 741	(3 741)	-	-	-
Dividend paid	-	-	-	-	-	-	(1 662)	-	(1 662)	-	(1 662)
Total comprehensive income, of which:	-	-	-	-	217	217	-	2 079	2 296	-	2 296
Net profit for the year	-	-	-	-	-	-	-	2 079	2 079	-	2 079
Other comprehensive income	-	-	-	-	217	217	-	-	217	-	217
Transfer of profit to equity	-	75	-	13	-	88	(88)	-	-	-	-
Offset of prior year losses	-	-	-	(606)	-	(606)	606	-	-	-	-
30 June 2019	1 250	29 429	1 070	3 238	467	34 204	2 101	2 079	39 634	(10)	39 624

FOR 6 MONTHS ENDED 30 JUNE 2019	Accumulated other comprehensive income					Total
	Share in other comprehensive income of associates and joint ventures	Fair value of financial assets measured at fair value through OCI	Cash flow hedges	Actuarial gains and losses	Foreign exchange differences on translation of foreign operations	
1 January 2019	(13)	492	22	(10)	(241)	250
Total comprehensive income, of which:	2	(63)	267	-	11	217
Other comprehensive income	2	(63)	267	-	11	217
30 June 2019	(11)	429	289	(10)	(230)	467

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	01.01- 30.06.2020	01.01- 30.06.2019
Cash flows from operating activities			
Profit before tax		2 017	2 963
Total adjustments:		24 633	(9 175)
Amortization and depreciation	13	586	496
(Gains)/losses on investing activities		5	(11)
Interest and dividends		(552)	(408)
Change in:			
amounts due from banks		80	(17)
hedging derivatives		(363)	(54)
other derivatives		(77)	(22)
securities		(1 889)	(1 062)
- held for trading		(888)	(547)
- not held for trading, measured at fair value through profit or loss		226	556
- measured at fair value through OCI		(987)	(940)
- measured at amortized cost		(240)	(131)
loans and advances to customers		(1 861)	(7 081)
- not held for trading, measured at fair value through profit or loss		1 408	78
- measured at fair value through OCI		-	(1)
- measured at amortized cost		(3 269)	(7 158)
reverse repo transactions		928	(1 833)
receivables in respect of insurance activities		55	(83)
non-current assets held for sale		(2)	6
other assets		48	31
accumulated allowances for expected credit losses		978	91
accumulated allowances for non-financial assets and other provisions		239	(32)
amounts due to the Central Bank		-	2
- measured at fair value through profit or loss		-	2
amounts due to banks		(35)	866
- measured at fair value through profit or loss		(306)	20
- measured at amortized cost		271	846
amounts due to customers		25 671	933
- measured at fair value through profit or loss		100	15
- measured at amortized cost		25 571	918
Repo transactions		60	-
liabilities due to insurance activities		(48)	228
loans and advances received		(78)	(1 649)
debt securities in issue		355	(109)
subordinated liabilities		-	(1)
other liabilities		667	1 072
Income tax paid		(860)	(767)
Other adjustments		726	229
Net cash from/used in operating activities		26 650	(6 212)

	Note	01.01- 30.06.2020	01.01- 30.06.2019
Cash flows from investing activities			
Inflows from investing activities		39 076	133 771
Redemption and interest on securities measured at fair value through other comprehensive income		38 334	127 829
Redemption and interest on securities measured at amortized cost		512	5 770
Sale of intangible assets, property, plant and equipment, including transferred under operating leases, and assets held for sale		229	136
Other inflows from investing activities (dividends)		1	36
Outflows from investing activities		(75 160)	(139 656)
Purchase of shares in subsidiaries, net of cash acquired		-	(279)
Purchase of securities measured at fair value through other comprehensive income		(47 958)	(131 039)
Purchase of securities measured at amortized cost		(26 643)	(7 934)
Purchase of intangible assets and property, plant and equipment, including transferred under operating leases		(559)	(404)
Net cash from/used in investing activities		(36 084)	(5 885)

	Note	01.01- 30.06.2020	01.01- 30.06.2019
Cash flows from financing activities			
Proceeds from issue of debt securities		2 842	7 561
Redemption of debt securities		(5 088)	(6 675)
Taking up loans and advances		100	153
Repayment of loans and advances		(268)	(2 947)
Payment of lease liabilities		(118)	(109)
Repayment of interest on long-term borrowings		(331)	(323)
Net cash from/used in financing activities		(2 863)	(2 340)
Total net cash flows		(12 297)	(14 437)
of which foreign exchange differences on cash and cash equivalents		108	(30)
Cash and cash equivalents at the beginning of the period		18 681	30 526
Cash and cash equivalents at the end of the period		6 384	16 089

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION ABOUT THE GROUP

BUSINESS ACTIVITIES OF THE GROUP

Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna (**PKO BANK POLSKI S.A.** or **THE BANK**) was established by virtue of a decree signed on 7 February 1919 by the Head of State Józef Piłsudski, Prime Minister Ignacy Paderewski and the Minister of Posts and Telegraphs Hubert Linde, first founder and first president of Poczтовая Kasa Oszczędnościowa. In 1950, the Bank began operating as Powszechna Kasa Oszczędności Bank Państwowy (state-owned bank). Pursuant to the Decree of the Council of Ministers of 18 January 2000, Powszechna Kasa Oszczędności (a State-owned bank) was transformed into a State-owned joint-stock company, Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna with its registered office in Warsaw, ul. Puławska 15, 02-515 Warsaw, Poland.

On 12 April 2000, Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna was registered and entered into the Commercial Register maintained by the District Court for the City of Warsaw, Commercial Court, 16th Registration Department. At present, the court competent for the Bank's affairs is the District Court in Warsaw, 13th Business Department of the National Court Register. The Bank was registered under the number KRS 0000026438 and was assigned the statistical number REGON 016298263.

According to the Bulletin of the Warsaw Stock Exchange (Cedula Giełdowa), the Bank is classified under the macrosector "Finance", in the "Banks" sector.

The Powszechna Kasa Oszczędnościowa Bank Polski Spółka Akcyjna Group (**THE PKO BANK POLSKI S.A. GROUP, THE BANK'S GROUP, THE GROUP**) conducts its operations within the territory of the Republic of Poland and through subsidiaries in Ukraine, Sweden and Ireland; it also has branches in the Federal Republic of Germany (the German Branch), in the Czech Republic (the Czech Branch) and in the Slovak Republic (the Slovak Branch).

PKO Bank Polski S.A., as the parent, is a universal deposit and credit bank which services both Polish and foreign individuals, legal and other entities. The Bank may hold and trade cash in foreign currencies, as well as conduct foreign exchange and foreign currency transactions, open and maintain bank accounts in banks abroad, and deposit foreign currency in those accounts.

Through its subsidiaries, the Group offers mortgage loans, provides specialized financial services related to leases, factoring, debt collection, investment funds, pension funds, insurance and fleet management services, transfer agent services, providing technological solutions, IT outsourcing and business outsourcing support to other entities, and property management services.

INFORMATION ON MEMBERS OF THE SUPERVISORY BOARD AND MANAGEMENT BOARD

As at 30 June 2020, the Supervisory Board consisted of:

- Piotr Sadownik – Chairman of the Supervisory Board
- Grażyna Ciurzyńska – Deputy Chair of the Supervisory Board
- Zbigniew Hajłasz – Secretary of the Supervisory Board
- Mariusz Andrzejewski – Member of the Supervisory Board
- Mirosław Barszcz – Member of the Supervisory Board
- Adam Budnikowski – Member of the Supervisory Board
- Wojciech Jasiński – Member of the Supervisory Board
- Andrzej Kisielewicz – Member of the Supervisory Board
- Elżbieta Mączynska-Ziemacka – Member of the Supervisory Board
- Krzysztof Michalski – Member of the Supervisory Board



As at 30 June 2020, the Bank's Management Board consisted of:

- Zbigniew Jagiełło – President of the Management Board
- Rafał Antczak – Vice-President of the Management Board
- Rafał Kozłowski – Vice-President of the Management Board
- Maks Kraczkowski – Vice-President of the Management Board
- Mieczysław Król – Vice-President of the Management Board
- Adam Marciniak – Vice-President of the Management Board
- Piotr Mazur – Vice-President of the Management Board
- Jakub Papierski – Vice-President of the Management Board
- Jan Emaryk Rościszewski – Vice-President of the Management Board

2. APPROVAL OF THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

These condensed interim consolidated financial statements of the Group (**FINANCIAL STATEMENTS**), subject to review by the Supervisory Board Audit Committee and to a review by the Supervisory Board on 4 August 2020, were approved for publication by the Bank's Management Board on 4 August 2020.

3. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements cover the six-month period ended 30 June 2020 and contain comparative data:

- for the six-month period ended 30 June 2019 with regard to the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows;
- as at 31 December 2019 with regard to the consolidated statement of financial position.

The financial data is presented in Polish zloty (PLN) in millions, unless otherwise indicated. Due to the above, differences may arise due to rounding to full PLN millions.

These financial statements were prepared in accordance with the requirements of International Accounting Standard No. 34 "Interim Financial Reporting" as endorsed by the European Union, taking into account the income tax charge calculated on the profit based on the best estimate of the weighted average of the annual tax rate that the Bank expects for the full financial year.

The accounting policies and calculation methods applied in the preparation of these condensed interim consolidated financial statements are consistent with the principles applied in the financial year ended 31 December 2019, except for the changes described in the note "Amendments to the accounting policies binding as of 1 January 2020 and an explanation of the differences between previously published financial statements and these financial statements".

The financial statements for the six months of 2020 do not contain all the information and disclosures that are required in the annual financial statements and they should be read together with the annual consolidated financial statements of the PKO Bank Polski S.A. Group for the year ended 31 December 2019 prepared in accordance with the International Financial Reporting Standards as endorsed by the European Union.

GOING CONCERN

The financial statements have been prepared on the basis of the assumption that the Group will continue as a going concern for a period of at least 12 months from the publication date, i.e. from 5 August 2020. As at the date of signing these financial statements, the Bank's Management Board is not aware of any facts or circumstances that would indicate a threat to the Bank's Group's ability to continue in operation as a going concern for 12 months following the publication date as a result of any intended or compulsory discontinuation or significant limitation of the Bank's Group's existing operations.

The impact of COVID 19 on the activities of the Group and the banking sector is described in detail in the Directors' Report of the PKO Bank Polski S.A. Group for the first half of 2020 and in the note "Credit risk management".

MANAGEMENT REPRESENTATION

The Management Board hereby represents that to the best of its knowledge, the Group's consolidated financial statements and the comparative data have been prepared in accordance with the applicable rules of accounting practice and give a true, fair and clear view of the Group's financial position and results of operations.

4. AMENDMENTS TO THE ACCOUNTING PRINCIPLES BINDING AS OF 1 JANUARY 2020 AND AN EXPLANATION OF THE DIFFERENCES BETWEEN PREVIOUSLY PUBLISHED FINANCIAL STATEMENTS AND THESE FINANCIAL STATEMENTS

The tables below present changes to the accounting policies to better reflect the operations.

RESTATEMENT OF THE STATEMENT OF FINANCIAL POSITION – ASSETS, LIABILITIES AS AT 31 DECEMBER 2019

ASSETS	31.12.2019 before restatement	Property, plant and equipment provided under operating leases	Receivables in respect of insurance activities	Reverse repo transactions	Reclassification of the potential refunds of costs to customers on expected early repayment of open consumer and mortgage loans	31.12.2019 restated
Cash and balances with the Central Bank	14 677	-	-	-	-	14 677
Amounts due from banks	4 092	-	-	-	-	4 092
Hedging derivatives	645	-	-	-	-	645
Other derivative instruments	2 795	-	-	-	-	2 795
Securities	80 573	-	-	-	-	80 573
Reverse repo transactions	-	-	-	1 081	-	1 081
Amounts due to customers	231 434	-	-	(1 081)	(147)	230 206
- not held for trading, measured at fair value through profit or loss	8 286	-	-	-	-	8 286
- measured at amortized cost	223 148	-	-	(1 081)	(147)	221 920
Receivables in respect of insurance activities	-	-	858	-	-	858
Property, plant and equipment under operating lease	-	1 300	-	-	-	1 300
Property, plant and equipment	4 442	(1 300)	-	-	-	3 142
Non-current assets held for sale	12	-	-	-	-	12
Intangible assets	3 178	-	-	-	-	3 178
Investments in associates and joint ventures	377	-	-	-	-	377
Current income tax receivables	5	-	-	-	-	5
Deferred income tax assets	2 243	-	-	-	-	2 243
Other assets	3 571	-	(858)	-	-	2 713
TOTAL ASSETS	348 044	-	-	-	(147)	347 897



LIABILITIES	31.12.2019 before restatement	Loans and borrowings received	Liabilities in respect of insurance activities	Reclassification of "current income tax liabilities" to "deferred income tax provision"	Reclassification of the potential refunds of costs to customers on expected early repayment of open consumer and mortgage loans	31.12.2019 restated
Amounts due to banks	2 885	(750)	-	-	-	2 135
- measured at fair value through profit or loss	317	-	-	-	-	317
- measured at amortized cost	2 568	(750)	-	-	-	1 818
Hedging derivatives	589	-	-	-	-	589
Other derivative instruments	2 924	-	-	-	-	2 924
Amounts due to customers	258 199	(2 029)	-	-	-	256 170
- measured at fair value through profit or loss	45	-	-	-	-	45
- measured at amortized cost	258 154	(2 029)	-	-	-	256 125
Liabilities in respect of insurance activities	1 640	-	137	-	-	1 777
Loans and advances received	-	2 779	-	-	-	2 779
Debt securities in issue	31 148	-	-	-	-	31 148
Subordinated liabilities	2 730	-	-	-	-	2 730
Other liabilities	5 075	-	(137)	-	(147)	4 791
Current income tax liabilities	455	-	-	(131)	-	324
Deferred income tax provision	239	-	-	131	-	370
Provisions	582	-	-	-	-	582
TOTAL LIABILITIES	306 466	-	-	-	(147)	306 319

RESTATEMENT OF THE INCOME STATEMENT – FOR THE PERIOD FROM TO 1 JANUARY – 30 JUNE 2019, 1 APRIL – 30 JUNE 2019

INCOME STATEMENT	01.01 - 30.06.2019 before restatement	reclassification of premium on debt securities	reclassification of transaction margin	presentation of income and costs relating to currency contracts	reclassification cost of the legal risk of mortgage loans in convertible currencies	reclassification of net income on insurance activities and net income on operating leases	01.01- 30.06.2019 restated
Interest income	6 199	(51)	-	(0,1)	-	-	6 148
Interest expenses	(1 206)	51	-	-	-	-	(1 155)
Net interest income	4 993	-	-	(0,1)	-	-	4 993
Fee and commission income	2 021	-	179	-	-	129	2 329
Fee and commission expense	(515)	-	-	-	-	-	(515)
Net fee and commission income	1 506	-	179	-	-	129	1 814
Dividend income	12	-	-	-	-	-	12
Net gain/(loss) on financial instruments measured at fair value through profit or loss	57	-	-	-	-	-	57
Net foreign exchange gains / (losses)	245	-	(179)	0,1	-	-	66
Gains/(losses) on derecognition of financial instruments not measured at fair value through profit or loss	86	-	-	-	-	-	86
Net allowances for expected credit losses	(644)	-	-	-	-	-	(644)
Net impairment allowances on non-financial assets	(10)	-	-	-	-	-	(10)
Cost of the legal risk of mortgage loans in convertible currencies other	-	-	-	-	(4)	-	(4)
Other operating income	435	-	-	-	-	(180)	255
Other operating expenses	(101)	-	-	-	4	4	(93)
Net other operating income and expense	334	-	-	-	4	(176)	162
Administrative expenses	(2 709)	-	-	-	-	47	(2 662)
Net regulatory charges	(418)	-	-	-	-	-	(418)
Tax on certain financial institutions	(503)	-	-	-	-	-	(503)
Operating profit	2 949	-	-	-	-	-	2 949
Share in profits and losses of associates and joint ventures	14	-	-	-	-	-	14
Profit before tax	2 963	-	-	-	-	-	2 963
Income tax expense	(884)	-	-	-	-	-	(884)
-	-	-	-	-	-	-	-
Net profit (including non-controlling shareholders)	2 079	-	-	-	-	-	2 079
Profit (loss) attributable to non-controlling shareholders	-	-	-	-	-	-	-
Net profit attributable to equity holders of the parent company	2 079	-	-	-	-	-	2 079



INCOME STATEMENT	01.04 - 30.06.2019 before restatement	reclassification of premium on debt securities	reclassification of transaction margin	presentation of income and costs relating to currency contracts	reclassification cost of the legal risk of mortgage loans in convertible currencies	reclassification of net income on insurance activities and net income on operating leases	01.04- 30.06.2019 restated
Interest income	3 141	(24)	-	0,2	-	-	3 117
Interest expenses	(603)	24	-	-	-	-	(579)
Net interest income	2 538	-	-	0,2	-	-	2 538
Fee and commission income	1 032	-	93	-	-	73	1 198
Fee and commission expense	(272)	-	-	-	-	-	(272)
Net fee and commission income	760	-	93	-	-	73	926
Dividend income	12	-	-	-	-	-	12
Net gain/(loss) on financial instruments measured at fair value through profit or loss	33	-	-	-	-	-	33
Net foreign exchange gains / (losses)	105	-	(93)	(0,2)	-	-	12
Gains/(losses) on derecognition of financial instruments not measured at fair value through profit or loss	33	-	-	-	-	-	33
Net allowances for expected credit losses	(319)	-	-	-	-	-	(319)
Net impairment allowances on non-financial assets	(3)	-	-	-	-	-	(3)
Cost of the legal risk of mortgage loans in convertible currencies other	-	-	-	-	-	-	-
Other operating income	304	-	-	-	-	(106)	198
Other operating expenses	(46)	-	-	-	-	4	(42)
Net other operating income and expense	258	-	-	-	-	(102)	156
Administrative expenses	(1 383)	-	-	-	-	29	(1 354)
Net regulatory charges	(59)	-	-	-	-	-	(59)
Tax on certain financial institutions	(255)	-	-	-	-	-	(255)
Operating profit	1 720	-	-	-	-	-	1 720
Share in profits and losses of associates and joint ventures	9	-	-	-	-	-	9
Profit before tax	1 729	-	-	-	-	-	1 729
Income tax expense	(511)	-	-	-	-	-	(511)
Net profit (including non-controlling shareholders)	1 218	-	-	-	-	-	1 218
Profit (loss) attributable to non-controlling shareholders	1	-	-	-	-	-	1
Net profit attributable to equity holders of the parent company	1 217	-	-	-	-	-	1 217

RESTATEMENT OF THE STATEMENT OF CASH FLOWS – FOR THE PERIOD FROM TO 1 JANUARY – 30 JUNE 2019

CONSOLIDATED STATEMENT OF CASH FLOWS	01.01 - 30.06.2019 before restatement	separate disclosure of "Loans and advances received"	separate disclosure of "Receivables in respect of insurance activities"	reclassified to "Liabilities in respect of insurance activities"	separate disclosure of "Reverse repo transactions" and "Repo transactions"	01.01- 30.06.2019 restated
Cash flows from operating activities						
Change in:						
loans and advances to customers	(8 914)	-	-	-	1 833	(7 081)
reverse repo transactions	-	-	-	-	(1 833)	(1 833)
receivables in respect of insurance activities	-	-	(83)	-	-	(83)
other assets	(52)	-	83	-	-	31
amounts due to customers	(716)	1 649	-	-	-	933
liabilities in respect of insurance activities	179	-	-	49	-	228
loans and borrowings received	-	(1 649)	-	-	-	(1 649)
other liabilities	1 121	-	-	(49)	-	1 072
TOTAL	(8 382)	-	-	-	-	(8 382)

RESTATEMENT OF THE INCOME STATEMENT – FOR THE PERIOD FROM TO 1 JANUARY – 31 MARCH 2020

CONSOLIDATED INCOME STATEMENT	01.01- 31.03.2020 published	reversal of allowances for card-related complaints	reclassification of income on insurance activities and income on operating leases	01.01- 31.03.2020 restated
Interest income	3 289	-	-	3 289
Interest expenses	(586)	-	-	(586)
Net interest income	2 703	-	-	2 703
Fee and commission income	1 157	-	93	1 250
Fee and commission expense	(271)	-	-	(271)
Net fee and commission income	886	-	93	979
Net gain/(loss) on financial instruments measured at fair value through profit or loss sheet exposure, including in respect of:	(150)	-	-	(150)
Net foreign exchange gains / (losses)	16	-	-	16
Gains/(losses) on derecognition of financial instruments not measured at fair value through profit or loss	43	-	-	43
Net allowances for expected credit losses, including in respect of:	(507)	16	-	(491)
Net impairment allowances on non-financial assets	(100)	(16)	-	(116)
Cost of the legal risk of mortgage loans in convertible currencies other	(85)	-	-	(85)
Other operating income	230	-	(164)	66
Other operating expenses	(143)	-	21	(122)
Net other operating income and expense	87	-	(143)	(56)
Administrative expenses	(1 387)	-	50	(1 337)
Net regulatory charges	(451)	-	-	(451)
Tax on certain financial institutions	(262)	-	-	(262)
Operating profit	793	-	-	793
Share in profits and losses of associates and joint ventures	4	-	-	4
Profit before tax	797	-	-	797
Income tax expense	(298)	-	-	(298)
Net profit (including non-controlling shareholders)	499	-	-	499
Profit (loss) attributable to non-controlling shareholders	(4)	-	-	(4)
Net profit attributable to equity holders of the parent company	503	-	-	503

- **CHANGES TO THE GROUP'S ACCOUNTING POLICIES**

In order to better reflect the Group's operations in the financial statements, the following changes were made to its accounting principles starting from the financial statements for the three months ended 31 March 2020.

- "Reclassification of transaction margin" the Group decided to reclassify the Forex margin accounted for in foreign exchange rates of currencies offered to the Bank's customers as part of foreign currency purchase/sale services, which had previously been presented in "Net foreign exchange gains/(losses)", to "Fee and commission income". The nature of the Forex margin is similar to other fees and commissions charged by the Group for the provision of services.



- “Presentation of foreign exchange gains/(losses) on income and costs (accrued interest, discount, premium, valuation) on financial assets and financial liabilities denominated in foreign currencies”: The Group decided to reclassify foreign exchange gains/(losses) on income and costs accrued on financial assets (e.g. loans, securities, other receivables) and financial liabilities in foreign currencies from “Interest income” to “Net foreign exchange gains/(losses)”. In accordance with the previous approach the said income and costs were recognized in the profit or loss in the currency of the contract and translated to the base currency in the process of annual closing of accounts or when interest was added or paid back by the customer, according to the NBP average fixing rate. This meant that during the financial year the said income and expenses were recognized jointly with foreign exchange gains/(losses). Currently, the said income and expenses will be recognized in the profit/(loss) at the mid NBP fixing exchange rate for a given currency as at the date of recognition, which will allow recognizing foreign exchange differences for particular income and expense items in net foreign exchange gains/(losses). The amount reclassified between the income statement items in the three-month period ended 30 June 2019 is PLN 70 thousand.

In order to better reflect its activities, as of these financial statements the Group changed its accounting policies as follows:

- “Reclassification of net income from insurance activities, operating leases, short-term rental and net income on fleet management” – in accordance with previous Group accounting policies income and costs not directly related to banking activities were shown in other operating income and expenses. The Group revised its accounting policies and market practices. In the Group’s opinion, as a rule, income and costs directly related to an entity’s operations should be shown in operating income and expenses. Both insurance income and operating leases constitute the Group’s core activities and are an element of its strategy. Therefore, the Group reclassified net gain/(loss) on insurance activities which had been presented under “Other operating income” to “Fee and commission income”, in the line “offering insurance products”. Net income on insurance activities covers premium income, ceded premium, reinsurance commission and cost of insurance activities.

The Group also reclassified net income on operating leases, short-term rental, net income on fleet management which had been presented jointly under “Other operating income” and “Other operating expenses” respectively to “Fee and commission income”, in the line “operating leases and fleet management”. The respective income covers mainly fees for the use of leased assets, short term rental and net income/costs on fleet management (including servicing the vehicles, tyre replacement, ensuring replacement cars). Operating lease income and income on fleet management were recognized in fee and commission income together with the costs of depreciation of the non-current assets transferred under operating leases which had previously been presented under “Administrative expenses”.

- “Reclassification of allowances for card claims” – The line “Settlements of transactions paid by card – card claim receivables” (in “Other assets”) had previously been fully recognized in “Other financial assets”. As of these financial statements the Bank separated the amounts receivable in respect of card claims presented in this line, as in its opinion they should be treated as other non-financial assets. This decision had an impact on the presentation of allowances for card claims which had been presented in the line “Net increase/decrease in allowances for expected credit losses” and as a result of the Bank’s decision, as of these financial statements, they are included in “Net impairment gains/losses on non-financial assets”.

- **OTHER CHANGES – RECLASSIFICATIONS IN THE INCOME STATEMENT**

In order to adjust the the Group’s comparative data presented in the Income statement, the following changes were made to the previous periods:

- “Reclassification of premium on debt securities” – As of the year 2020, the Group decided to present the costs of premium on debt securities under “Interest income” as “debt securities”. Previously the premium was presented under “Interest expenses” as “debt securities”.
- “Reclassification of the cost of legal risk related to mortgage loans in convertible currencies”: Since December 2019, the Group has presented the “Cost of legal risk related to mortgage loans in convertible currencies” as a separate line item. In the interim financial statements for 2019, these amounts were presented under “Other operating expenses”. In order to ensure consistent presentation, the comparative data was reclassified as appropriate.



- **OTHER CHANGES – RECLASSIFICATIONS IN THE STATEMENT OF FINANCIAL POSITION**

In order to better reflect the Group's operations in the financial statements, the following changes in presentation were made to its accounting principles starting from the financial statements for the three months ended 31 March 2020.

- "Property, plant and equipment transferred under operating leases": To isolate property, plant and equipment used for internal purposes from property, plant and equipment transferred to Group customers under operating leases, the Group decided to show them in a separate line "Property, plant and equipment transferred under operating leases". Comparable data was adjusted respectively.
- "Receivables in respect of insurance activities" and "Liabilities in respect of insurance activities": Previously the Group presented ceded technical reserves and reinsurance commission under "Other assets" and "Other liabilities" respectively. As of these financial statements these amounts are shown under "Receivables in respect of insurance activities" and "Liabilities in respect of insurance activities" respectively, to more fully reflect the insurance activities conducted by the Group. Comparable data was adjusted respectively.
- "Reverse repo transactions" and "Repo transactions": The Group presents "repo and reverse repo transactions" as a separate line item (previously such transactions were presented in "Amounts due from banks", "Loans and advances to customers", "Amounts due to banks" or "Amounts due to customers", respectively, depending on whether the transaction was concluded with an interbank customer or another customer. The comparative data has been adjusted accordingly. The Group did not recognize any repo transactions as at 31 December 2019.
- "Loans and advances received": Up to and including the year 2019, loans and advances received by the Group were presented as "Amounts due to banks" and "Amounts due to customers". The Group decided to present them separately in liabilities in order to achieve consistency with the presentation of interest expense on loans and advances received and due to the fact that these loans and advances represent financing activities in the statement of cash flows.

Furthermore, the Group reclassified the amount of PLN 131 million representing tax on foreign exchange differences in Sweden (see the note "Income tax expense") recognized as at 31 December 2019 in "Current income tax liabilities". The Group changed its judgment and reclassified this item to the "Deferred income tax provision".

In order to better reflect its activities, as of these financial statements the Group changed its accounting policies as follows:

- "Reclassification of potential cost refunds to customers with respect to the expected prepayment of originated consumer and mortgage loans in the future" – the Bank recognizes the impact of potential cost refunds to customers with respect to the expected prepayment of originated consumer and mortgage loans in the future as a decrease in the gross carrying amount of loans. This approach is similar to the Bank's approach to the recognition of the impact of the legal risk of mortgage loans.

5. NEW STANDARDS AND INTERPRETATIONS, AND AMENDMENTS THERETO

- STANDARDS AND INTERPRETATIONS, AND AMENDMENTS THERETO, WHICH ARE BINDING FROM 1 JANUARY 2020

STANDARDS AND INTERPRETATIONS	DATE OF ISSUE / PUBLICATION	EFFECTIVE DATE IN EU / DATE OF ENDORSEMENT BY EU	DESCRIPTION OF CHANGES AND IMPACT
AMENDMENTS TO REFERENCES TO THE CONCEPTUAL FRAMEWORK IN IFRS	29.03.2018	1.01.2020/ 29.11.2019	<p>The purpose of the amendments is to replace references to the previous conceptual framework in a number of standards and interpretations with references to the amended conceptual framework.</p> <p>The implementation of the conceptual framework did not affect the consolidated financial statements.</p>
AMENDMENTS TO IAS 1 AND IAS 8: DEFINITION OF THE TERM "MATERIAL"	31.10.2018	1.01.2020/ 29.11.2019	<p>The amendments to IAS 1 and IAS 8 standardize and clarify the definition of 'material' and contain guidelines to increase the consistency of application of this concept in the IFRS.</p> <p>The Group assesses the materiality of disclosures on a current basis, in accordance with the requirements of IAS 1, based on which it implements appropriate changes to the presentation of data in its financial statements.</p>
AMENDMENTS TO IFRS 9, IAS 39, AND IFRS 7 – IBRD REFORM	26.09.2019	1.01.2020/ 15.01.2020	<p>The amendments introduce certain transitional, narrow departures from the requirement of prospective verification of the effectiveness of hedges included in IAS 39 and IFRS 9. The amendments allow for prospective testing of hedging relationships without accounting for the effects of the implementation of the IBRD reform in the future.</p> <p>The Group accounted for the amendments in its prospective testing of hedging relationships.</p>
AMENDMENTS TO IFRS 3 BUSINESS COMBINATIONS	22.10.2018	1.01.2020/ 21.04.2020	<p>The amendments narrow down and clarify the definition of a venture. They also allow for a simplified assessment of whether a set of assets and activities is a group of assets and not a venture. The amendments will be applied prospectively.</p> <p>The Group will apply the aforementioned changes if they are relevant.</p>

- **NEW STANDARDS AND INTERPRETATIONS, AS WELL AS THEIR AMENDMENTS, WHICH WERE PUBLISHED AND HAVE NOT YET BEEN ENDORSED BY THE EUROPEAN UNION**

STANDARDS AND INTERPRETATIONS	DATE OF ISSUE / EFFECTIVE DATE	EFFECTIVE DATE IN EU / DATE OF ENDORSEMENT BY EU	DESCRIPTION OF CHANGES AND IMPACT
IFRS 17 INSURANCE CONTRACTS AND AMENDMENTS TO IFRS 17	18.05.2017/ 1.01.2023 25.06.2020/ 1.01.2023	no data	IFRS 17 "Insurance Contracts" will replace IFRS 4 "Insurance contracts" which enabled entities to continue to recognize insurance contracts according to the accounting principles in force in the national standards, which, as a result, means applying many different solutions. IFRS 17 introduces the requirement of consistent recognition of all insurance contracts with respect to: the method of measurement of insurance liabilities, recognition of profit or loss over time, recognition of reinsurance, and separate presentation of the investment component. The application of the standard should follow the full retrospective approach, with some departures. The Group is in the process of analysing the impact of IFRS 17 on the consolidated financial statements.
AMENDMENTS TO IAS 1 – CLASSIFICATION OF LIABILITIES	23.01.2020/ 1.01.2022	no data	The amendments relate to the presentation of liabilities in the statement of financial position. In particular they explain that the classification of liabilities as current or non-current should relate to the regulations existing as at the end of the reporting period. The amendments will be applied prospectively. The Group does not expect these amendments to have a material impact on the consolidated financial statements.
AMENDMENTS TO IFRS 16 LEASES	28.05.2020/ 1.06.2020	no data	These amendments stipulate the possibility of not treating the rent concessions as modifications of leases by the recipients of the concessions if they are the direct consequence of COVID-19 and meet the respective criteria. The Group does not expect these amendments to have a material impact on the consolidated financial statements.
ANNUAL IMPROVEMENTS TO IFRS STANDARDS 2018–2020	14.05.2020/ 1.01.2022	no data	<ul style="list-style-type: none"> • Amendments to IFRS 1 relate to a situation where a subsidiary applies IFRS for the first time at a later date than the parent; in such a case the subsidiary may decide to measure accumulated foreign exchange differences for all foreign transactions at amounts shown in the consolidated financial statements of the parent as at the date of the entity's transition to IFRS. • Amendments to IAS 41 adapt the requirements relating to fair value measurement set out in IAS 41 to the assumptions in IFRS 13. Not applicable to the Group. • The amendment to IFRS 9 explains which fees should be included in the "10 percent" test in the event of discontinued recognition of financial liabilities. • Amendments to examples of IFRS 16 application relating to identification of rent concessions. <p>The Group does not expect these amendments to have a material impact on the consolidated financial statements.</p>



AMENDMENTS TO IFRS 3 BUSINESS COMBINATIONS.	14.05.2020/ 1.01.2022	no data	<p>The amendments to IFRS 3 update the references to the Conceptual Framework issued in 2018. To ensure that the update does not impact assets and liabilities which are qualified for disclosure when a business combination takes place, the amendments introduce new exemptions from the recognition and measurement policies under IFRS 3.</p> <p>The Group does not expect these amendments to have a material effect on the consolidated financial statements.</p>
AMENDMENTS TO IAS 16 PROPERTY, PLANT AND EQUIPMENT	14.05.2020/ 1.01.2022	no data	<p>The amendments, among other things, prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead such proceeds should be recognized in the income statement together with the cost of manufacture.</p> <p>The Group does not expect these amendments to have a material impact on the consolidated financial statements.</p>
AMENDMENTS TO IAS 37 PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS	14.05.2020/ 1.01.2022	no data	<p>The amendments show that when assessing whether a contract is onerous the costs of performing the contract cover all costs directly related to its performance.</p> <p>The Group does not expect these amendments to have a material impact on the consolidated financial statements.</p>
IFRS 4 INSURANCE CONTRACTS	25.06.2020/ 1.01.2021	no data	<p>The amendments stipulate two optional solutions to reduce the impact of different dates of IFRS 9 and IFRS 17 coming into force.</p> <p>The Group did not estimate the respective impact.</p>

6. INFORMATION ON BUSINESS SEGMENTS

The PKO Bank Polski S.A. Group conducts business activities within the following segments: retail, corporate and investment, and the transfer & other activities centre. Information about the segments was provided in the consolidated financial statements of the Group for the year 2019.

FOR 6 MONTHS ENDED 30 JUNE 2020	Continuing operations			Total activity of the PKO Bank Polski SA Group
	Retail segment	Corporate and investment segment	Transfer centre and other	
Net interest income	4 221	1 592	(576)	5 237
Net fee and commission income	1 477	426	(6)	1 897
Other net income	(128)	56	24	(48)
Net gain/(loss) on financial instruments measured at fair value through profit or loss	(70)	(72)	(4)	(146)
Net foreign exchange gains/(losses)	(30)	63	10	43
Gains/(losses) on derecognition of financial assets and financial liabilities not measured at fair value through profit or loss	(8)	90	-	82
Dividend income	-	14	-	14
Net other operating income and expense	(33)	(26)	18	(41)
Income/(expenses) from/to internal customers	13	(13)	-	-
Allowances for expected credit losses	(635)	(241)	-	(876)
Net impairment allowances on non-financial assets	(23)	(7)	(235)	(265)
Cost of legal risk of mortgage loans in convertible currencies	(190)	-	-	(190)
Administrative expenses, of which:	(2 221)	(428)	(1)	(2 650)
depreciation and amortization	(465)	(23)	-	(488)
Net regulatory charges	(368)	(157)	(33)	(558)
Tax on certain financial institutions	(369)	(164)	-	(533)
Share in profits and losses of associates and joint ventures	-	-	-	3
Segment profit/(loss), gross	1 764	1 077	(827)	2 017
Income tax expense (tax burden)	-	-	-	(714)
Profit / (loss) attributable to non-controlling shareholders	-	-	-	(3)
Net profit attributable to equity holders of the parent	1 764	1 077	(827)	1 306

30 JUNE 2020	Retail segment	Corporate and investment segment	Transfer centre and other	Total activity of the PKO Bank Polski SA Group
Assets	183 194	186 857	5 261	375 312
Unallocated assets	-	-	-	1 884
Total assets	183 194	186 857	5 261	377 196
Liabilities	232 017	66 050	34 612	332 679
Unallocated liabilities	-	-	-	463
Total liabilities	232 017	66 050	34 612	333 142

In 2020 the Group introduced a change in the manner of determining the profit/(loss) on operating segments management by allocating the benefits from reinvesting the capital from the Transfer Centre to the Retail Segment and to the Corporate and Investment Segment. In addition, during 2019 the manner of determining the management profit/(loss) on the investment securities portfolio was changed. In connection with these changes, the respective data for the six-month period ended 30 June 2019 was adjusted so as to be comparable.

FOR 6 MONTHS ENDED 30 JUNE 2019	Continuing operations			
	Retail segment	Corporate and investment segment	Transfer centre and other	Total activity of the PKO Bank Polski SA Group
Net interest income	4 167	893	(67)	4 993
Net fee and commission income	1 453	371	(10)	1 814
Other net income	200	157	26	383
Net gain/(loss) on financial instruments measured at fair value through profit or loss	31	26	-	57
Net foreign exchange gains/(losses)	17	21	28	66
Gains/(losses) on derecognition of financial assets and financial liabilities not measured at fair value through profit or loss	2	84	-	86
Dividend income	-	12	-	12
Net other operating income and expense	137	27	(2)	162
Income/(expenses) from/to internal customers	13	(13)	-	-
Allowances for expected credit losses	(518)	(126)	-	(644)
Net impairment allowances on non-financial assets	(3)	(7)	-	(10)
Cost of regulatory risk of mortgage loans in convertible currencies	(4)	-	-	(4)
Administrative expenses, of which:	(2 226)	(436)	-	(2 662)
depreciation and amortisation	(387)	(62)	-	(449)
Net regulatory charges	(391)	(112)	85	(418)
Tax on certain financial institutions	(341)	(155)	(7)	(503)
Share in profits and losses of associates and joint ventures	-	-	-	14
Segment profit/(loss), gross	2 337	585	27	2 963
Income tax expense (tax burden)	-	-	-	(884)
Profit (loss) attributable to non-controlling shareholders	-	-	-	-
Net profit attributable to equity holders of the parent	2 337	585	27	2 079

31 December 2019	Retail segment	Corporate and investment segment	Transfer centre and other	Total activity of the PKO Bank Polski SA Group
Assets	183 815	154 769	7 065	345 649
Unallocated assets	-	-	-	2 248
Total assets	183 815	154 769	7 065	347 897
Liabilities	208 660	59 002	37 963	305 625
Unallocated liabilities	-	-	-	694
Total liabilities	208 660	59 002	37 963	306 319

7. INTEREST INCOME AND EXPENSES

INTEREST INCOME ON:	second quarter period from 01.04.2020 to 30.06.2020	2 quarters cumulative period from 01.01.2020 to 30.06.2020	second quarter period from 01.04.2019 to 30.06.2019	2 quarters cumulative period from 01.01.2019 to 30.06.2019
loans and other receivables from banks	8	29	22	49
hedging derivatives	149	221	80	169
debt securities	436	875	398	781
measured at amortized cost	103	198	76	142
measured at fair value through OCI	325	661	308	615
measured at fair value through profit or loss	8	16	14	24
loans and advances to customers (excluding finance lease receivables)	2 192	4 757	2 438	4 805
measured at amortized cost	2 042	4 406	2 429	4 785
measured at fair value through OCI	-	-	-	-
measured at fair value through profit or loss	150	351	9	20
finance lease receivables	186	378	179	344
	-	-	-	-
Total	2 971	6 260	3 117	6 148
of which: interest income on impaired financial instruments	59	137	74	138

In the six-month period ended 30 June 2020, interest income was reduced by PLN 105 million as a result of a judgment of the Court of Justice of the European Union (CJEU) concerning a consumer's right to reduce the cost of a loan in the event of its prepayment stipulated in a loan agreement.

INTEREST EXPENSE ON:	second quarter period from 01.04.2020 to 30.06.2020	2 quarters cumulative period from 01.01.2020 to 30.06.2020	second quarter period from 01.04.2019 to 30.06.2019	2 quarters cumulative period from 01.01.2019 to 30.06.2019
amounts due to banks	(2)	(5)	(4)	(8)
deposits	(3)	(7)	(5)	(8)
loans and advances received	(8)	(18)	(14)	(22)
lease	(6)	(11)	(6)	(12)
amounts due to customers	(278)	(682)	(403)	(811)
securities in issue	(117)	(255)	(124)	(249)
subordinated liabilities	(23)	(45)	(23)	(45)
Total	(437)	(1 023)	(579)	(1 155)

INTEREST INCOME BY SEGMENT ON:	second quarter period from 01.04.2020 to 30.06.2020			
	Retail segment	Corporate and investment segment	Transfer centre and other	Total
loans to and other receivables from banks	-	1	7	8
hedging derivatives	-	-	149	149
debt securities	4	457	(25)	436
loans and advances to customers (excluding finance lease receivables)	1 811	381	-	2 192
finance lease receivables	117	69	-	186
Total	1 932	908	131	2 971

INTEREST INCOME BY SEGMENT ON:	2 quarters cumulative period from 01.01.2020 to 30.06.2020			
	Retail segment	Corporate and investment segment	Transfer centre and other	Total
loans to and other receivables from banks	-	8	21	29
hedging derivatives	-	-	221	221
debt securities	9	885	(19)	875
loans and advances to customers (excluding finance lease receivables)	3 925	832	-	4 757
finance lease receivables	257	121	-	378
Total	4 191	1 846	223	6 260

INTEREST INCOME BY SEGMENT ON:	second quarter period from 01.04.2019 to 30.06.2019			
	Retail segment	Corporate and investment segment	Transfer centre and other	Total
loans to and other receivables from banks	-	16	6	22
hedging derivatives	-	-	80	80
debt securities	3	390	5	398
loans and advances to customers (excluding finance lease receivables)	1 971	467	-	2 438
finance lease receivables	125	54	-	179
Total	2 099	927	91	3 117

INTEREST INCOME BY SEGMENT ON:	2 quarters cumulative period from 01.01.2019 to 30.06.2019			
	Retail segment	Corporate and investment segment	Transfer centre and other	Total
loans to and other receivables from banks	-	33	16	49
hedging derivatives	-	-	169	169
debt securities	8	764	9	781
loans and advances to customers (excluding finance lease receivables)	3 900	905	-	4 805
finance lease receivables	242	102	-	344
Total	4 150	1 804	194	6 148

8. FEE AND COMMISSION INCOME AND EXPENSE

FEE AND COMMISSION INCOME	second quarter period from 01.04.2020 to 30.06.2020	2 quarters cumulative period from 01.01.2020 to 30.06.2020	second quarter period from 01.04.2019 to 30.06.2019	2 quarters cumulative period from 01.01.2019 to 30.06.2019
Loans, insured, operational leasing and fleet management	297	607	296	556
granting of loans and advances	177	354	183	350
offering insurance products	96	205	101	186
operational leasing and fleet management	24	48	12	20
Investment funds, pension funds and brokerage activities	164	380	179	377
maintenance of investment funds and OFE (including management fees)	89	212	134	276
handling and sale of investment and insurance products	9	18	9	21
conducting brokerage activities	66	150	36	80
Cards	295	616	335	632
Forex transaction margins	105	215	93	179
Bank accounts and other	286	579	295	585
maintenance of bank accounts	217	434	214	424
cash operations	18	38	18	37
servicing foreign mass transactions	16	33	25	48
sale and distribution of court fee stamps	-	-	-	-
customer orders	13	25	12	23
fiduciary services	1	3	2	3
other	21	46	24	50
Total	1 147	2 397	1 198	2 329

NET INCOME ON OPERATING LEASES AND FLEET MANAGEMENT	second quarter period from 01.04.2020 to 30.06.2020	2 quarters cumulative period from 01.01.2020 to 30.06.2020	second quarter period from 01.04.2019 to 30.06.2019	2 quarters cumulative period from 01.01.2019 to 30.06.2019
income on operating leases and fleet management	87	182	45	71
costs of operating leases and fleet management	(15)	(36)	(4)	(4)
costs of depreciation of property, plant and equipment transferred under operating leases	(48)	(98)	(29)	(47)
Net income on operating leases and fleet management	24	48	12	20



FEE AND COMMISSION EXPENSE	second quarter period from 01.04.2020 to 30.06.2020	2 quarters cumulative period from 01.01.2020 to 30.06.2020	second quarter period from 01.04.2019 to 30.06.2019	2 quarters cumulative period from 01.01.2019 to 30.06.2019
Loans and insurance	(27)	(69)	(45)	(81)
commission paid to external entities for product sales	(7)	(18)	(13)	(23)
cost of construction investment supervision and property valuation	(7)	(16)	(14)	(24)
fees for the Credit Information Bureau	(2)	(10)	(5)	(9)
credit service	(11)	(25)	(13)	(25)
Investment funds, pension funds and brokerage activities	(14)	(23)	(10)	(20)
Cards	(164)	(350)	(190)	(361)
Bank accounts and other	(24)	(58)	(27)	(53)
clearing services	(4)	(14)	(7)	(14)
commissions for operating services provided by banks	(1)	(5)	(2)	(5)
sending short text messages (SMS)	(8)	(19)	(8)	(16)
servicing foreign mass transactions	-	-	-	-
sales of bank products	3	-	(2)	(4)
other	(14)	(20)	(8)	(14)
Total	(229)	(500)	(272)	(515)

FEE AND COMMISSION INCOME BY SEGMENT	second quarter period from 01.04.2020 to 30.06.2020			
	Retail segment	Corporate and investment segment	Transfer centre and other	Total
Loans, insured, operational leasing and fleet management	221	76	-	297
granting of loans and advances	120	57	-	177
offering insurance products	92	4	-	96
operational leasing and fleet management	9	15	-	24
Investment funds, pension funds and brokerage activities	111	53	-	164
maintenance of investment funds and OFE (including management fees)	78	11	-	89
handling and sale of investment and insurance products	9	-	-	9
conducting brokerage activities	24	42	-	66
Cards	286	9	-	295
Forex transaction margins	73	32	-	105
Bank accounts and other	231	55	-	286
maintenance of bank accounts	189	28	-	217
cash operations	11	7	-	18
servicing foreign mass transactions	9	7	-	16
sale and distribution of court fee stamps	-	-	-	-
customer orders	7	6	-	13
fiduciary services	-	1	-	1
other	15	6	-	21
Total	922	225	-	1 147

FEE AND COMMISSION INCOME BY SEGMENT	2 quarters cumulative period from 01.01.2020 to 30.06.2020			
	Retail segment	Corporate and investment segment	Transfer centre and other	Total
Loans, insured, operational leasing and fleet management	456	151	-	607
granting of loans and advances	240	114	-	354
offering insurance products	198	7	-	205
operational leasing and fleet management	18	30	-	48
Investment funds, pension funds and brokerage activities	256	124	-	380
maintenance of investment funds and OFE (including management fees)	185	27	-	212
handling and sale of investment and insurance products	18	-	-	18
conducting brokerage activities	53	97	-	150
Cards	594	22	-	616
Forex transaction margins	145	70	-	215
Bank accounts and other	469	110	-	579
maintenance of bank accounts	376	58	-	434
cash operations	24	14	-	38
servicing foreign mass transactions	18	15	-	33
sale and distribution of court fee stamps	-	-	-	-
customer orders	14	11	-	25
fiduciary services	-	3	-	3
other	37	9	-	46
Total	1 920	477	-	2 397

FEE AND COMMISSION INCOME BY SEGMENT	second quarter period from 01.04.2019 to 30.06.2019			
	Retail segment	Corporate and investment segment	Transfer centre and other	Total
Loans, insured, operational leasing and fleet management	229	67	-	296
granting of loans and advances	127	56	-	183
offering insurance products	98	3	-	101
operational leasing and fleet management	4	8	-	12
Investment funds, pension funds and brokerage activities	138	41	-	179
maintenance of investment funds and OFE (including management fees)	117	17	-	134
handling and sale of investment and insurance products	9	-	-	9
conducting brokerage activities	12	24	-	36
Cards	320	15	-	335
Forex transaction margins	52	41	-	93
Bank accounts and other	241	54	-	295
maintenance of bank accounts	187	27	-	214
cash operations	11	7	-	18
servicing foreign mass transactions	20	5	-	25
sale and distribution of court fee stamps	-	-	-	-
customer orders	7	5	-	12
fiduciary services	-	2	-	2
other	16	8	-	24
Total	980	218	-	1 198

FEE AND COMMISSION INCOME BY SEGMENT	2 quarters cumulative period from 01.01.2019 to 30.06.2019			
	Retail segment	Corporate and investment segment	Transfer centre and other	Total
Loans, insured, operational leasing and fleet management	427	129	-	556
granting of loans and advances	238	112	-	350
offering insurance products	180	6	-	186
operational leasing and fleet management	9	11	-	20
Investment funds, pension funds and brokerage activities	285	92	-	377
maintenance of investment funds and OFE (including management fees)	241	35	-	276
handling and sale of investment and insurance products	21	-	-	21
conducting brokerage activities	23	57	-	80
Cards	606	26	-	632
Forex transaction margins	101	78	-	179
Bank accounts and other	475	110	-	585
maintenance of bank accounts	373	51	-	424
cash operations	23	14	-	37
servicing foreign mass transactions	32	16	-	48
sale and distribution of court fee stamps	-	-	-	-
customer orders	13	10	-	23
fiduciary services	-	3	-	3
other	34	16	-	50
Total	1 894	435	-	2 329

9. NET GAIN/(LOSS) ON FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

NET GAIN/(LOSS) ON FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS	second quarter period from 01.04.2020 to 30.06.2020	2 quarters cumulative period from 01.01.2020 to 30.06.2020	second quarter period from 01.04.2019 to 30.06.2019	2 quarters cumulative period from 01.01.2019 to 30.06.2019
Financial instruments held for trading	7	5	23	26
Financial instruments not held for trading, measured at fair value through profit or loss	(3)	(156)	8	30
Debt securities	11	(4)	1	(2)
Equity securities, of which:	23	(43)	15	42
Visa Inc	29	(26)	20	50
Loans	(37)	(109)	(8)	(10)
Hedge accounting	-	5	2	1
Total	4	(146)	33	57

The impact of COVID 19 on the deterioration in the quality of the loan portfolio measured at fair value through profit or loss during the six-month period ended 30 June 2020 was PLN 26 million and was recognized in the Net gain/(loss) on financial instruments measured at fair value through profit or loss (for details, see the note "Credit risk management").

10. NET GAIN/(LOSS) ON ALLOWANCES FOR EXPECTED CREDIT LOSSES

NET ALLOWANCES FOR EXPECTED CREDIT LOSSES	second quarter period from 01.04.2020 to 30.06.2020	2 quarters cumulative period from 01.01.2020 to 30.06.2020	second quarter period from 01.04.2019 to 30.06.2019	2 quarters cumulative period from 01.01.2019 to 30.06.2019
Debt securities	5	4	(7)	(5)
Loans and advances to customers	(349)	(781)	(322)	(641)
Other financial assets	1	-	(1)	(1)
Financial liabilities and guarantees granted	(42)	(99)	11	3
Total	(385)	(876)	(319)	(644)

The impact of COVID 19 on the deterioration in the quality of the loan portfolio measured at amortized cost and at fair value through OCI during the six-month period ended 30 June 2020 was PLN 318 million and was recognized in the Net gain/(loss) on allowances for expected credit losses (for details, see the note "Credit risk management").

CHANGES IN ACCUMULATED ALLOWANCES FOR EXPECTED CREDIT LOSSES	31.12.2019	Net allowances for expected credit losses	Change in allowances due to write-off and other adjustments	30.06.2020
Amounts due from banks	1	-	(1)	-
Debt securities	25	(4)	(4)	17
Loans and advances to customers	7 222	781	58	8 061
Other financial assets	92	-	46	138
Financial liabilities and guarantees granted	269	99	3	371
Total	7 609	876	102	8 587

CHANGES IN ACCUMULATED ALLOWANCES FOR EXPECTED CREDIT LOSSES	31.12.2018	Net allowances for expected credit losses	Change in allowances due to write-off and other adjustments	30.06.2019
Amounts due from banks	1	-	-	1
Debt securities	36	5	(10)	31
Loans and advances to customers	8 204	641	(545)	8 300
Other financial assets	92	1	7	100
Financial liabilities and guarantees granted	227	(3)	-	224
Total	8 560	644	(548)	8 656

11. NET IMPAIRMENT ALLOWANCES ON NON-FINANCIAL ASSETS

NET IMPAIRMENT ALLOWANCES ON NON-FINANCIAL ASSETS	second quarter period from 01.04.2020 to 30.06.2020	2 quarters cumulative period from 01.01.2020 to 30.06.2020	second quarter period from 01.04.2019 to 30.06.2019	2 quarters cumulative period from 01.01.2019 to 30.06.2019
Property, plant and equipment	10	2	-	-
Property, plant and equipment transferred under operating lease	(2)	(2)	-	-
Intangible assets	(147)	(147)	(1)	(1)
Non-current assets held for sale	(1)	(1)	-	-
Investments in associates and joint ventures	1	(89)	-	(4)
Other non-financial assets	(10)	(28)	(2)	(5)
Total	(149)	(265)	(3)	(10)

CHANGES IN ACCUMULATED IMPAIRMENT ALLOWANCES ON NON-FINANCIAL ASSETS	31.12.2019	Net impairment allowances on non-financial assets	Other	30.06.2020
Non-current assets held for sale	1	1	-	2
Property, plant and equipment transferred under operating lease	7	2	(2)	7
Property, plant and equipment	52	(2)	2	52
Intangible assets	274	147	-	421
Investments in associates and joint ventures	183	89	-	272
Other non-financial assets	192	28	-	220
Total	709	265	-	974

CHANGES IN ACCUMULATED IMPAIRMENT ALLOWANCES ON NON-FINANCIAL ASSETS	31.12.2018	Net impairment allowances on non-financial assets	Other	30.06.2019
Non-current assets held for sale	-	-	-	-
Property, plant and equipment transferred under operating lease	6	-	-	6
Property, plant and equipment	44	-	(2)	42
Intangible assets	221	1	(7)	215
Investments in associates and joint ventures	178	4	-	182
Other non-financial assets including inventories	175	5	10	190
Total	624	10	1	635

• INTANGIBLE ASSETS

The Group conducted a test on the impairment of goodwill arising:

- on the acquisition of Nordea Bank Polska S.A. by comparing the carrying amounts of Cash Generating Units (CGUs) with their recoverable amount. The Group identified two CGUs to which the goodwill was allocated – the retail and corporate CGUs. The Group calculated the residual value of a CGU by extrapolating the cash flow projections beyond the period of the forecast, using the growth rate adopted at a level of 2.6%. Cash flow projections were based on the assumptions included in the financial plan of the Bank for 2020 and accounted for the impact of COVID-19 and a decrease in interest rates on the current and forecast macro-economic conditions. For discounting future cash flows of the Group a discount rate of 8.63% was used, taking into account the risk-free rate and risk premium.

As a result of the test performed as at 30 June 2020 the Group set up an allowance for the corporate CGU of PLN 116 million.

The key factors which led to recording the allowance were the outbreak of the COVID 19 pandemic and its effects (an increase in costs of credit risk and expected slowing of business activity) and a reduction in interest rates, combined with the high level of regulatory charges (tax on certain financial institutions and costs of contributions to the BGF), which led to a significant decrease in the profitability of banking operations.

- an impairment test on the goodwill arising from the acquisition of PKO Leasing Pro S.A. was performed by the Group based on the present value of expected future cash flows generated by active contracts of PKO Leasing Pro S.A. The valuation model took into account the effect of NBP interest rate decreases introduced by the Monetary Policy Council (MPC) (140 bp in total) and the effect of the COVID-19 pandemic on the financial projections, including in particular the expected increase in the cost of credit risk. The recoverable value of the CGU to which the goodwill related, i.e. the customers derived from the acquired PKO Leasing Pro S.A., was assessed at a lower amount than the carrying amount.

As a result of the test conducted as at 30 June 2020 the Group set up an allowance of PLN 31 million.

• INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

As at 31 March 2020, the Bank tested the shares held in Bank Pocztowy S.A. for impairment. The valuation was performed using the discounted dividend method. The valuation model took into account the effect of NBP interest rate decreases introduced by the MPC in March and April 2020 (100 bp in total) and the effect of the pandemic on the financial projections, including in particular the expected increase in the cost of credit risk.

Bank Pocztowy S.A. operates on the basis of the agency model in cooperation with the Polish Post (Poczta Polska, its majority shareholder) and on the basis of its own network in the retail and corporate segment. The agency model based on cooperation with the Polish Post is permanently profitable, whereas the own network of Bank Pocztowy S.A. is not profitable. The NBP interest rate decreases and the increase in the cost of risk due to COVID-19 will make it even more unprofitable.

Despite the profitable agency model with the Polish Post, the result of the impairment test of the Bank Pocztowy S.A. shares held by the Group resulted in the recognition of a further provision for the Group's capital exposure to Bank Pocztowy S.A. in the amount of PLN 90 million.

12. OTHER OPERATING INCOME AND EXPENSES

OTHER OPERATING INCOME	second quarter period from 01.04.2020 to 30.06.2020	2 quarters cumulative period from 01.01.2020 to 30.06.2020	second quarter period from 01.04.2019 to 30.06.2019	2 quarters cumulative period from 01.01.2019 to 30.06.2019
Net sales of finished goods and services	16	31	25	45
Gains on sale or scrapping of property, plant and equipment, intangible assets and assets held for sale	7	18	14	23
Compensation, penalties and fines received	8	14	6	12
Ancillary income	3	6	2	6
Recovery of receivables expired, forgiven or written off	2	3	2	3
Release of provision for potential refund of commissions and fees to customers	-	-	58	58
Release of provision for legal claims excluding legal claims related to mortgage loans in convertible currencies	-	4	2	6
Gain from a bargain purchase	-	-	80	80
Refund of collection costs under the portfolio de minimis guarantee line by BGK	11	11	-	-
Other	4	30	9	22
Total	51	117	198	255

OTHER OPERATING EXPENSE	second quarter period from 01.04.2020 to 30.06.2020	2 quarters cumulative period from 01.01.2020 to 30.06.2020	second quarter period from 01.04.2019 to 30.06.2019	2 quarters cumulative period from 01.01.2019 to 30.06.2019
Cost of finished goods and service sold	(1)	(4)	(8)	(12)
Losses on sale or scrapping of property, plant and equipment, intangible assets and assets held for sale	(15)	(23)	(7)	(12)
Compensation, penalties and fines paid	-	-	-	(9)
Costs of donations made	(2)	(22)	(5)	(10)
Ancillary cost	(3)	(6)	(5)	(8)
Provisions for potential return of fees and commission to customers	-	(70)	-	-
Provision for future payments	-	-	(1)	(1)
Provision for legal claims excluding legal claims related to mortgage loans in convertible currencies	(1)	(4)	(3)	(5)
Other	(14)	(29)	(13)	(36)
Total	(36)	(158)	(42)	(93)

A detailed description of the provision set up was provided in the note "Legal claims".

13. ADMINISTRATIVE EXPENSES

ADMINISTRATIVE EXPENSES	second quarter period from 01.04.2020 to 30.06.2020	2 quarters cumulative period from 01.01.2020 to 30.06.2020	second quarter period from 01.04.2019 to 30.06.2019	2 quarters cumulative period from 01.01.2019 to 30.06.2019
Employee benefits	(762)	(1 538)	(798)	(1 569)
Overheads, including:	(306)	(624)	(329)	(644)
rent	(22)	(44)	(22)	(43)
IT	(84)	(165)	(77)	(152)
Depreciation and amortization	(245)	(488)	(227)	(449)
property, plant and equipment, of which:	(135)	(271)	(132)	(260)
IT	(25)	(51)	(31)	(62)
right-of-use assets	(56)	(111)	(51)	(100)
intangible assets, of which:	(109)	(216)	(95)	(189)
IT	(101)	(199)	(85)	(171)
investment properties	(1)	(1)	-	-
Total	(1 313)	(2 650)	(1 354)	(2 662)

EMPLOYEE BENEFITS	second quarter period from 01.04.2020 to 30.06.2020	2 quarters cumulative period from 01.01.2020 to 30.06.2020	second quarter period from 01.04.2019 to 30.06.2019	2 quarters cumulative period from 01.01.2019 to 30.06.2019
Wages and salaries, including:				
costs of contributions to the employee pension plan	(638)	(1 279)	(661)	(1 302)
restructuring costs	(16)	(34)	(15)	(31)
Social insurance, including:				
contributions for disability and retirement benefits	(107)	(221)	(114)	(223)
Other employee benefits	(95)	(198)	(94)	(190)
	(17)	(38)	(23)	(44)
Total	(762)	(1 538)	(798)	(1 569)

14. NET REGULATORY CHARGES

NET REGULATORY CHARGES	second quarter period from 01.04.2020 to 30.06.2020	2 quarters cumulative period from 01.01.2020 to 30.06.2020	second quarter period from 01.04.2019 to 30.06.2019	2 quarters cumulative period from 01.01.2019 to 30.06.2019
Contribution and payments to the Bank Guarantee Fund (BGF), including:				
resolution fund	(88)	(489)	(40)	(428)
banks' guarantee fund	-	(318)	-	(348)
Fees to the PFSA	(88)	(171)	(40)	(80)
Flat-rate income tax, C	-	(31)	-	(40)
withheld tax 20%	(2)	(4)	(1)	85
flat-rate income tax 3%	-	-	-	138
Other taxes and charges	(2)	(4)	(1)	(53)
	(17)	(34)	(18)	(35)
Total	(107)	(558)	(59)	(418)

Due to the fact that the Group collected 20% withholding tax on interest paid to PKO Finance AB for 2017–2018, on 12 February 2019, it filed a request to determine overpayment of tax together with corrected tax returns. The request was granted without issuing a decision in this respect. The tax authority notified the Group about granting the request and asked about the Group's decision as to the method of settlement of the overpayment. The Group recognized the overpayment in liabilities in respect of tax on certain financial institutions in the six-month period ended 30 June 2020.

The correction of the 20% withholding tax by increasing it by PLN 138 million, and recognition of the 3% tax on interest accrued for the years 2014–2018 (of PLN 50 million) are one-off events. The possibility of applying the 3% tax rate to the interest on loans granted to PKO Finance AB follows from Article 21 of the Act amending the Personal Income Tax Act, the Corporate Income Tax Act, the Tax Code and certain other acts (Journal of Laws of 2018, item 2193 as amended). The Group paid the tax within the statutory deadline, i.e. by 31 July 2019 and by 31 March 2020.

15. INCOME TAX EXPENSE

	second quarter period from 01.04.2020 to 30.06.2020	2 quarters cumulative period from 01.01.2020 to 30.06.2020	second quarter period from 01.04.2019 to 30.06.2019	2 quarters cumulative period from 01.01.2019 to 30.06.2019
Current income tax expense	(239)	(616)	(428)	(789)
Deferred income tax on temporary differences	(177)	(98)	(83)	(95)
Income tax expense recognized in the income statement	(416)	(714)	(511)	(884)
Income tax expense on temporary differences recognized in other comprehensive income	(179)	(280)	(75)	(45)
Total	(595)	(994)	(586)	(929)

EFFECTIVE TAX RATE RECONCILIATION	second quarter period from 01.04.2020 to 30.06.2020	2 quarters cumulative period from 01.01.2020 to 30.06.2020	second quarter period from 01.04.2019 to 30.06.2019	2 quarters cumulative period from 01.01.2019 to 30.06.2019
Profit / (loss) before income tax	1 220	2 017	1 729	2 963
Tax calculated using the statutory rate in force in Poland of 19%	(232)	(383)	(329)	(563)
Effect of different tax rates of foreign operations	-	-	-	(1)
Effect of permanent timing differences between profit before tax and net profit, of which:	(187)	(336)	(180)	(320)
non-tax-deductible allowances for the value of investments in subsidiaries, associates and joint ventures	-	(17)	-	-
allowances for expected credit losses and securities not constituting tax deductible costs	(14)	(26)	7	-
contribution and payments to BGF	(17)	(93)	(12)	(81)
tax on financial institutions	(52)	(102)	(49)	(96)
allowance on impairment of goodwill	(22)	(22)	-	-
cost of legal risk of mortgage loans in convertible currencies	(20)	(36)	-	-
tax on foreign exchange gains in Sweden	37	(16)	(12)	(12)
Asset on averaged tax rate	(83)	-	-	-
other permanent differences	(16)	(24)	(114)	(131)
Effect of other differences between profit before tax and taxable income, including tax relief on new technologies and donations	3	5	(2)	-
Income tax expense recognized in the income statement	(416)	(714)	(511)	(884)
Effective tax rate	34,10%	35,40%	29,55%	29,83%

The following issues were described in detail in the consolidated financial statements of the Group for the year ended 31 December 2019:

- the doubts concerning tax collected in Sweden on foreign exchange differences on the advances granted by PKO Finance AB and liabilities relating to the bond issue;
- the actions taken by the Group.

On 5 May 2020, the Swedish Supreme Administrative Court dismissed PKO Finance's appeal for formal reasons. As a result, the tax ruling dated 14 March 2019 expired. On 13 May 2020 PKO Finance AB received two decisions of the Swedish tax authority which confirmed the correctness of its tax calculations for the years 2015 and 2016. In the calculations PKO Finance AB adopted symmetrical settlement of foreign exchange differences on advances granted and matured and on liabilities in respect of the issue of Eurobonds. The decisions are favourable to the Group; however, they are inconsistent with the previous interpretation practices of the authority.

In accordance with IFRIC 23 "Uncertainty over Income Tax Treatments", the Group applied judgment as to the uncertain tax treatment of income generated in Sweden in respect of foreign exchange differences on loans granted to the Bank and liabilities relating to the bond issue. The Group applied the most likely amount method to reflect the impact of uncertainty. As at 30 June 2020, the deferred income tax provision amounted to PLN 290 million (PLN 274 million as at 31 December 2019). The Group is analysing the impact of the decision of the Swedish tax authority on the taxation of foreign exchange differences of PKO Finance AB, which may lead to changing the respective judgment in future reporting periods.

16. CASH AND CASH EQUIVALENTS

CASH AND CASH EQUIVALENTS	30.06.2020	31.12.2019	30.06.2019
Cash and balances with the Central Bank	3 687	14 677	12 091
Deposits with the Central Bank	-	-	810
Amounts due from banks (current accounts and deposits with banks)	2 443	3 768	3 033
Restricted cash and cash equivalents	254	236	155
Total	6 384	18 681	16 089

Until 29 April 2020 the mandatory reserve rate was 3.5% on on-demand and term deposits in PLN and in foreign currencies, denominated in PLN (funds obtained on repo and sell-buy-back transactions and funds obtained for at least two years are charged with a zero rate). Since 30 April 2020 the rate of the mandatory reserve is 0.5% and this change applies to the reserve maintained as of 30 April 2020. In the period from 30 June 2020 to 30 July 2020 the Bank was obliged to maintain an average monthly balance in its current account with the NBP of PLN 1 315 million (in the period from 31 December 2019 to 30 January 2020 – PLN 8 350 million).

Funds in the mandatory reserve account earn interest of 0.1%.

17. AMOUNTS DUE FROM BANKS

AMOUNTS DUE FROM BANKS	30.06.2020	31.12.2019
Measured at amortized cost	2 706	4 093
Deposits with banks	1 780	2 995
Current accounts	905	997
Loans and advances granted	20	99
Cash in transit	1	2
Total, gross	2 706	4 093
Allowances for expected credit losses	-	(1)
Total	2 706	4 092

AMOUNTS DUE FROM BANKS	30.06.2020	31.12.2019
Total, gross	2 706	4 093
Stage 1	2 706	4 093
Allowances for expected credit losses	-	(1)
Stage 1	-	(1)
Net amount	2 706	4 092
Stage 1	2 706	4 092

18. HEDGE ACCOUNTING

TYPES OF HEDGING STRATEGIES APPLIED BY THE GROUP

As at 30 June 2020, the Group had active relationships as part of:

- 9 strategies for hedging cash flow volatility
- 4 strategies for hedging fair value volatility.

In the six months of 2020, the Group implemented new fair value hedging strategies:

- “Hedging the variability of the fair value of fixed-rate PLN securities measured at fair value through other comprehensive income resulting from interest rate risk, using IRS transactions”
- “Hedging fluctuations in floating-rate loans in foreign currencies resulting from interest rate risk and hedging fluctuations in cash flows in convertible currencies from financial liabilities resulting from foreign currency risk using CIRS transactions.”

In addition, during the six-months of 2020 due to the absence of the hedged item, the Group dissolved two hedging relationships “Hedging fluctuations in floating-rate loans in foreign currencies resulting from interest rate risk and hedging fluctuations in cash flows in convertible currencies from financial liabilities resulting from foreign currency risk using CIRS transactions.” The total impact of the discontinuation of the said relationships on other comprehensive income was minus PLN 37 million.

No changes were made to any other strategies during the six-month period of 2020.

In 2019 the Group implemented two new fair value hedging strategies.

FINANCIAL INFORMATION

CARRYING AMOUNT OF HEDGING INSTRUMENTS	30.06.2020		31.12.2019	
	Assets	Liabilities	Assets	Liabilities
Cash flow hedges	1 453	964	641	582
Hedges of interest rate risk - IRS	954	9	262	10
Hedges of currency and interest rate risks - CIRS	499	955	379	572
Fair value hedges	-	70	4	7
Hedges of interest rate risk - IRS	-	70	4	7
Total	1 453	1 034	645	589

CHANGE IN OTHER COMPREHENSIVE INCOME RELATING TO CASH FLOW HEDGES AND AN INEFFECTIVE PORTION OF CASH FLOW HEDGES	second quarter period from 01.04.2020 to 30.06.2020	2 quarters cumulative period from 01.01.2020 to 30.06.2020	second quarter period from 01.04.2019 to 30.06.2019	2 quarters cumulative period from 01.01.2019 to 30.06.2019
Other comprehensive income at the beginning of the period	684	232	177	22
Impact on other comprehensive income during the period, gross, including	66	624	180	329
Gains/losses recognized in other comprehensive income during the period	365	484	80	176
Amount transferred from other comprehensive income to the income statement:	(299)	140	100	153
- interest income	(149)	(221)	(80)	(169)
- net foreign exchange gains/(losses)	(150)	361	180	322
Tax effect	(13)	(119)	(34)	(62)
Other comprehensive income at the end of the period	737	737	323	289
Ineffective portion of cash flow hedges recognized in the income statement, including in:	-	2	(25)	(20)
Net foreign exchange gains/(losses)	-	1	(24)	(20)
Net gain/(loss) on financial instruments measured at fair value	-	1	(1)	-

19. OTHER DERIVATIVE FINANCIAL INSTRUMENTS

OTHER DERIVATIVE INSTRUMENTS - TYPE OF CONTRACT	30.06.2020		31.12.2019	
	Assets	Liabilities	Assets	Liabilities
IRS	3 813	3 890	1 523	1 624
CIRS	390	405	151	145
FX Swap	239	150	217	186
Options	301	310	312	336
Commodity swap	322	324	287	283
FRA	19	19	1	1
Forward	145	185	304	348
Futures	-	-	-	1
Commodity Forward	116	114	-	-
Total	5 345	5 397	2 795	2 924

NOMINAL AMOUNTS OF UNDERLYING HEDGING INSTRUMENTS (BUY AND SELL TOGETHER) hedging instruments and other derivative instruments	30.06.2020	31.12.2019
IRS	501 368	480 513
hedging	122 922	102 808
Purchase	61 461	51 404
Sale	61 461	51 404
other	378 446	377 705
Purchase	189 223	188 853
Sale	189 223	188 852
CIRS	87 820	84 174
hedging	59 104	70 369
Purchase	31 974	36 115
Sale	27 130	34 254
other	28 716	13 805
Purchase	14 340	8 721
Sale	14 376	5 084
FX Swap	44 392	48 538
Purchase of currencies	22 242	24 305
Sales of currencies	22 150	24 233
Options	42 554	68 397
Purchase	21 205	33 965
Sale	21 349	34 432
FRA	21 166	23 211
Purchase	11 257	12 897
Sale	9 909	10 314
Forward	46 152	58 045
Purchase of currencies	23 059	29 004
Sales of currencies	23 093	29 041
Others, including Commodity swap and Futures (including on the stock index)	6 291	4 710
Purchase	3 369	2 470
Sale	2 922	2 240
TOTAL	749 743	767 588

20. SECURITIES

SECURITIES	30.06.2020	31.12.2019
Securities (excluding adjustments relating to fair value hedge accounting)	119 797	80 572
Adjustment relating to fair value hedge accounting	5	1
Total	119 802	80 573

SECURITIES (excluding adjustments relating to fair value hedge accounting) 30.06.2020	held for trading	not held for trading, measured at fair value through profit or loss			Total
		measured at fair value through profit or loss	measured at fair value through OCI	measured at amortized cost	
Debt securities	1 970	558	75 826	39 998	118 352
Treasury bonds (in PLN)	1 073	380	56 603	26 500	84 556
Treasury bonds (in foreign currencies)	2	-	2 185	40	2 227
Treasury bills (in PLN)	774	-	499	-	1 273
corporate bonds (in PLN) secured by guarantees from the State Treasury	-	-	7 543	7 487	15 030
municipal bonds (in PLN)	15	-	5 025	4 595	9 635
municipal bonds (in foreign currencies)	106	178	3 971	1 014	5 269
corporate bonds (in foreign currencies)	-	-	-	362	362
Equity securities	30	1 415	-	-	1 445
shares in other entities - not listed	-	402	-	-	402
shares in other entities - listed	28	123	-	-	151
investment certificates, rights to shares, pre-emptive rights	2	890	-	-	892
Total	2 000	1 973	75 826	39 998	119 797

SECURITIES (excluding adjustments relating to fair value hedge accounting) 31.12.2019	held for trading	not held for trading, measured at fair value through profit or loss			Total
		measured at fair value through profit or loss	measured at fair value through OCI	measured at amortized cost	
Debt securities	1 095	493	63 807	13 454	78 849
NBP money market bills	-	-	1 000	-	1 000
Treasury bonds (in PLN)	982	301	51 541	7 406	60 230
Treasury bonds (in foreign currencies)	2	-	2 520	60	2 582
municipal bonds (in PLN)	15	-	5 232	4 563	9 810
corporate bonds (in PLN)	95	192	3 514	1 083	4 884
corporate bonds (in foreign currencies)	1	-	-	342	343
Equity securities	17	1 706	-	-	1 723
shares in other entities - not listed	-	436	-	-	436
shares in other entities - listed	15	150	-	-	165
investment certificates, rights to shares, pre-emptive rights	2	1 120	-	-	1 122
Total	1 112	2 199	63 807	13 454	80 572

SECURITIES 30.06.2020	measured at fair value through OCI			measured at amortized cost		
	Gross amount	allowances for expected credit losses	Net amount	Gross amount	allowances for expected credit losses	Net amount
Debt securities	75 826	-	75 826	40 015	(17)	39 998
Treasury bonds (in PLN)	56 603	-	56 603	26 500	-	26 500
Treasury bonds (in foreign currencies)	2 185	-	2 185	41	(1)	40
Treasury bills (in PLN)	499	-	499	-	-	-
corporate bonds (in PLN) secured by guarantees from the State Treasury	7 543	-	7 543	7 487	-	7 487
municipal bonds (in PLN)	5 025	-	5 025	4 605	(10)	4 595
municipal bonds (in foreign currencies)	3 971	-	3 971	1 017	(3)	1 014
corporate bonds (in PLN)	-	-	-	365	(3)	362
corporate bonds (in foreign currencies)	-	-	-	-	-	-
Total	75 826	-	75 826	40 015	(17)	39 998

SECURITIES 31.12.2019	measured at fair value through OCI			measured at amortized cost		
	Gross amount	Allowances for expected credit losses	Net amount	Gross amount	Allowances for expected credit losses	Net amount
Debt securities	63 812	(5)	63 807	13 474	(20)	13 454
NBP money market bills	1 000	-	1 000	-	-	-
Treasury bonds (in PLN)	51 541	-	51 541	7 406	-	7 406
Treasury bonds (in foreign currencies)	2 520	-	2 520	61	(1)	60
municipal bonds (in PLN)	5 232	-	5 232	4 574	(11)	4 563
corporate bonds (in PLN)	3 519	(5)	3 514	1 087	(4)	1 083
corporate bonds (in foreign currencies)	-	-	-	346	(4)	342
Total	63 812	(5)	63 807	13 474	(20)	13 454

The item "Treasury bonds in PLN and in foreign currencies" comprises Polish Treasury bonds. As at 30 June 2020 and 31 December 2019 the item Treasury bonds in foreign currencies included Ukrainian Treasury bonds amounting to PLN 595 million and PLN 492 million respectively.

BY MEASUREMENT MODEL (excluding adjustments relating to fair value hedge accounting)	30.06.2020			31.12.2019		
	stage 1	stage 2	stage 3	stage 1	stage 2	stage 3
GROSS AMOUNT						
Measured at fair value through OCI						
NBP money market bills, Treasury bonds and bills and corporate bonds in PLN secured by guarantees from the State Treasury	66 830	-	-	55 061	-	-
corporate and municipal bonds	8 478	48	470	8 229	59	463
Total	75 308	48	470	63 290	59	463
POCI	-	-	450	-	-	464
Measured at amortized cost						
NBP money market bills, Treasury bonds and bills and corporate bonds in PLN bsecured by guarantees from the State Treasury	34 028	-	-	7 467	-	-
corporate and municipal bonds	5 978	5	4	5 983	20	4
Total	40 006	5	4	13 450	20	4
ALLOWANCES FOR EXPECTED CREDIT LOSSES						
Measured at fair value through OCI						
corporate and municipal bonds	-	-	-	-	-	(5)
Total	-	-	-	-	-	(5)
POCI	-	-	(1)	-	-	(6)
Measured at amortized cost						
NBP money market bills, Treasury bonds and bills and corporate bonds in PLN secured by guarantees from the State Treasury	(1)	-	-	(1)	-	-
corporate and municipal bonds	(13)	-	(3)	(15)	-	(4)
Total	(14)	-	(3)	(16)	-	(4)
TOTAL, NET						
Measured at fair value through OCI						
NBP money market bills, Treasury bonds and bills and corporate bonds in PLN secured by guarantees from the State Treasury	66 830	-	-	55 061	-	-
corporate and municipal bonds	8 478	48	470	8 229	59	458
Total	75 308	48	470	63 290	59	458
POCI	-	-	449	-	-	458
Measured at amortized cost						
NBP money market bills, Treasury bonds and bills and corporate bonds in PLN secured by guarantees from the State Treasury	34 027	-	-	7 466	-	-
corporate and municipal bonds	5 965	5	1	5 968	20	-
Total	39 992	5	1	13 434	20	-

21. LOANS AND ADVANCES TO CUSTOMERS

LOANS AND ADVANCES TO CUSTOMERS	30.06.2020	31.12.2019
	Net amount	Net amount
Loans and advances to customers (excluding adjustments relating to fair value hedge accounting)	231 225	230 202
Adjustment relating to fair value hedge accounting	5	4
Total loans and advances to customers	231 230	230 206

LOANS AND ADVANCES TO CUSTOMERS (excluding adjustments relating to fair value hedge accounting) 30.06.2020	not held for trading, measured at fair value through profit or loss		measured at amortized cost		Total
	Net amount	Gross amount	Allowances for expected credit losses	Net amount	Net amount
Loans	6 878	232 407	(8 060)	224 347	231 225
retail and private	6 750	140 546	(3 561)	136 985	143 735
property	11	117 031	(2 002)	115 029	115 040
finance lease receivables	-	110	(1)	109	109
consumer	6 739	23 405	(1 558)	21 847	28 586
corporate	81	59 236	(1 910)	57 326	57 407
corporate	81	52 754	(1 766)	50 988	51 069
finance lease receivables	-	4 759	(106)	4 653	4 653
property	-	403	(25)	378	378
factoring	-	1 320	(13)	1 307	1 307
firms and enterprises	47	32 625	(2 589)	30 036	30 083
corporate	47	14 974	(2 068)	12 906	12 953
property	-	5 841	(131)	5 710	5 710
finance lease receivables	-	11 651	(382)	11 269	11 269
factoring	-	159	(8)	151	151
Total	6 878	232 407	(8 060)	224 347	231 225

LOANS AND ADVANCES TO CUSTOMERS (excluding adjustments relating to fair value hedge accounting) 31.12.2019	not held for trading, measured at fair value through profit or loss		measured at amortized cost		Total
	Net amount	Gross amount	Allowances for expected credit losses	Net amount	Net amount
Loans	8 286	229 137	(7 221)	221 916	230 202
retail and private	8 138	137 078	(3 027)	134 051	142 189
property	15	114 203	(1 806)	112 397	112 412
finance lease receivables	-	116	(1)	115	115
consumer	8 123	22 759	(1 220)	21 539	29 662
corporate	94	58 934	(1 769)	57 165	57 259
corporate	94	52 615	(1 635)	50 980	51 074
finance lease receivables	-	4 881	(97)	4 784	4 784
property	-	308	(26)	282	282
factoring	-	1 130	(11)	1 119	1 119
firms and enterprises	54	33 125	(2 425)	30 700	30 754
corporate	54	15 231	(1 917)	13 314	13 368
property	-	5 903	(134)	5 769	5 769
finance lease receivables	-	11 791	(366)	11 425	11 425
factoring	-	200	(8)	192	192
Total	8 286	229 137	(7 221)	221 916	230 202

BY MEASUREMENT MODEL (excluding adjustments relating to fair value hedge accounting)	30.06.2020			31.12.2019		
	stage 1	stage 2	stage 3	stage 1	stage 2	stage 3
GROSS AMOUNT						
Total measured at fair value through other comprehensive income						
consumer loans	-	-	1	-	-	1
Total	-	-	1	-	-	1
Measured at amortized cost						
loans	191 210	15 707	8 970	191 000	12 446	8 903
property	114 509	6 586	2 180	112 498	5 806	2 110
corporate	55 775	6 676	5 277	57 503	4 837	5 506
consumer	19 715	2 200	1 490	19 801	1 722	1 236
factoring	1 211	245	23	1 198	81	51
finance lease receivables	12 789	2 876	855	13 589	2 377	822
Total measured at amortized cost	203 999	18 583	9 825	204 589	14 823	9 725
POCI	-	-	257	-	-	387
ALLOWANCES FOR EXPECTED CREDIT LOSSES						
Measured at fair value through other comprehensive income						
consumer loans	-	-	(1)	-	-	(1)
Total measured at fair value through other comprehensive income	-	-	(1)	-	-	(1)
Measured at amortized cost						
loans	(705)	(1 265)	(5 601)	(584)	(1 072)	(5 101)
property	(66)	(562)	(1 530)	(55)	(527)	(1 384)
corporate	(428)	(381)	(3 025)	(363)	(314)	(2 875)
consumer	(209)	(321)	(1 028)	(164)	(231)	(825)
factoring	(2)	(1)	(18)	(2)	-	(17)
finance lease receivables	(29)	(79)	(381)	(35)	(70)	(359)
Total measured at amortized cost	(734)	(1 344)	(5 982)	(619)	(1 142)	(5 460)
POCI	-	-	(51)	-	-	(67)
NET AMOUNT						
Measured at fair value through other comprehensive income						
loans consumer	-	-	-	-	-	-
Total measured at fair value through other comprehensive income	-	-	-	-	-	-
Measured at amortized cost						
loans	190 505	14 442	3 369	190 416	11 374	3 802
property	114 443	6 024	650	112 443	5 279	726
corporate	55 347	6 295	2 252	57 140	4 523	2 631
consumer	19 506	1 879	462	19 637	1 491	411
factoring	1 209	244	5	1 196	81	34
finance lease receivables	12 760	2 797	474	13 554	2 307	463
Total measured at amortized cost	203 265	17 239	3 843	203 970	13 681	4 265
POCI	-	-	206	-	-	320

The impact of COVID-19 on the portfolio of loans and advances to customers during the six-month period ended 30 June 2020 is described in the note "Credit risk management".

The item gross property loans measured at amortized cost includes an adjustment reducing the carrying amount of loans by the legal risk of mortgage loans in convertible currencies of PLN 577 million as at 30 June 2020 (PLN 422 million as at 31 December 2019) (for details, see the note "Legal risk related to mortgage loans in foreign currencies").

An adjustment reducing the carrying amount of loans due to the potential refunds to customers was recorded in gross consumer loans and property loans measured at amortized cost which decreased the carrying amount of loans with respect to expected the prepayment of consumer and mortgage loans in the future of PLN 149 million as at 30 June 2020 and PLN 147 million as at 31 December 2019.

- **MODIFICATIONS** To mitigate the economic effects of the spread of COVID-19, the Bank implemented several preventive actions in respect of individuals, firms, enterprises, corporates and local government entities which enable returning to regular payments after the COVID-19 epidemic has been overcome. The common element of these actions is enabling the borrowers – at their request – to suspend or extend payments of instalments for up to six months (for details see the note "Credit risk management").

Due to the fact that the above facilitating measures had an impact on the modification of contractual flows resulting from the contracts concluded with customers, the Bank assessed particular contracts in terms of their meeting the quantitative and qualitative criteria to determine whether a material modification occurred (derecognition) or

whether the modification was immaterial. The assessment was conducted in accordance with the policy disclosed in the Bank's financial statements for the year ended 31 December 2019 (note 3.10). The analysis showed that there were no criteria for assessing any modification as material. The changes in contractual flows resulting from the facilitation measures applied had the effect of immaterial modifications the impact of which was recognized by the Bank as a decrease in interest income.

CALCULATION OF ESTIMATES

ESTIMATED CHANGE IN EXPECTED CREDIT LOSSES ON LOANS AND ADVANCES RESULTING FROM MATERIALIZATION OF A SCENARIO OF DETRIORATION OR IMPROVEMENT IN THE RISK PARAMETERS, OF WHICH: ¹	30.06.2020		31.12.2019	
	+10% scenario	-10% scenario	+10% scenario	-10% scenario
changes in the present value of estimated future cash flows for the Group's portfolio of individually impaired loans and advances assessed on an individual basis	(212)	268	(235)	308
changes in the probability of default	190	(198)	157	(164)
change in recovery rates	(480)	481	(424)	426

¹ in plus – increase in allowances, in minus – decrease in allowances

22. INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

INTANGIBLE ASSETS	30.06.2020	31.12.2019
Software	1 451	1 494
Goodwill	1 053	1 200
Future profit on concluded insurance contracts	36	41
Customer relationships	59	66
Other, including capital expenditure	385	377
of which software	345	336
Total	2 984	3 178

Net goodwill	30.06.2020	31.12.2019
Nordea Bank Polska SA	747	863
PKO Życie Towarzystwo Ubezpieczeń SA	91	91
PKO Leasing Pro SA	-	31
Raiffeisen - Leasing Polska SA and its subsidiaries (PKO Leasing SA)	57	57
PKO Towarzystwo Funduszy Inwestycyjnych SA	150	150
Assets taken over from CFP Sp. z o.o.	8	8
Total	1 053	1 200

For details regarding the impairment allowance for goodwill please see the note "Net impairment allowances on non-financial assets".

PROPERTY, PLANT AND EQUIPMENT	30.06.2020	31.12.2019
Land and buildings	2 230	2 215
Machinery and equipment	394	397
including IT equipment	266	256
Fixed assets under construction	148	216
including IT equipment	46	80
Other	108	314
Total	2 880	3 142



PROPERTY, PLANT AND EQUIPMENT TRANSFERRED UNDER OPERATING LEASES	30.06.2020	31.12.2019
Land and buildings	13	15
Machinery and equipment	1	2
Other including vehicles	1 359	1 283
Total	1 373	1 300

23. OTHER ASSETS

OTHER ASSETS	30.06.2020	31.12.2019
Settlements in respect of card transactions	1 205	1 301
Settlement of financial instruments	114	73
Receivables in respect of cash settlements	110	193
Receivables and settlements in respect of trading in securities	18	3
Dividend receivables	14	-
Inventories	154	141
Assets for sale	174	140
Prepayments and deferred costs	203	186
Trade receivables	201	146
VAT receivables	229	270
Settlements with the state budget in respect of flat-rate income tax	-	115
Other	169	145
Total	2 591	2 713
of which: other financial assets	2 161	1 766

OTHER FINANCIAL ASSETS	30.06.2020	31.12.2019
Total, gross	2 299	1 858
Stage 1	2 161	1 766
Stage 3	138	92
Allowances for expected credit losses	(138)	(92)
Stage 3	(138)	(92)
Net amount	2 161	1 766
Stage 1	2 161	1 766
Stage 3	-	-

24. AMOUNTS DUE TO BANKS

AMOUNTS DUE TO BANKS	30.06.2020	31.12.2019
Measured at fair value through profit or loss	11	317
Short position in securities	11	317
Measured at amortized cost	2 089	1 818
Bank deposits	1 415	786
Current accounts	648	915
Other monetary market deposits	26	117
Total	2 100	2 135



25. AMOUNTS DUE TO CUSTOMERS

AMOUNTS DUE TO CUSTOMERS	30.06.2020	31.12.2019
Measured at fair value through profit or loss	145	45
Short position in securities	145	45
Measured at amortized cost	281 696	256 125
Amounts due to households	214 263	193 449
Cash on current accounts and overnight deposits, of which:	155 755	127 521
savings accounts and other interest bearing funds	46 983	45 177
Term deposits	57 974	65 535
Other liabilities	534	393
Amounts due to corporate entities	53 044	49 648
Cash on current accounts and overnight deposits, of which:	46 085	40 381
savings accounts and other interest bearing funds	19 946	16 799
Term deposits	5 511	8 435
Other liabilities	1 448	832
Amounts due to public entities	12 868	11 354
Current accounts and overnight deposits	12 576	10 997
Term deposits	282	331
Other liabilities	10	26
Liabilities in respect of insurance products	1 521	1 674
Total	281 841	256 170

AMOUNTS DUE TO CUSTOMERS BY SEGMENT	30.06.2020	31.12.2019
retail and private banking	191 081	175 776
corporate	52 914	49 918
firms and enterprises	37 846	30 476
Total	281 841	256 170

26. BORROWINGS RECEIVED BY THE GROUP

FINANCING RECEIVED	30.06.2020	31.12.2019
Loans and advances received from:	2 533	2 779
banks	815	750
international financial institutions	1 718	2 029
Liabilities arising from the issue of securities:	29 257	31 148
mortgage covered bonds issued by PKO Bank Hipoteczny SA	16 779	16 198
bonds issued by PKO Bank Hipoteczny SA	2 352	3 947
bonds issued by PKO Bank Polski SA	3 922	4 769
bonds issued by PKO Finance AB	3 470	4 057
bonds issued by the PKO Leasing SA Group	2 675	2 132
bonds issued by Kredobank SA	59	45
Subordinated liabilities - subordinated bonds in PLN	2 730	2 730
Total	34 520	36 657

- **LOANS AND ADVANCES FROM BANKS**

In the six-month period ended 30 June 2020 the Group drew loans totalling UAH 650 million.

Date of receipt of loans and advances	Nominal amount	Currency	Maturity	Carrying amount at 30.06.2020	Carrying amount at 31.12.2019
10.06.2019	150	PLN	13.06.2021	150	150
27.12.2018	100	PLN	28.12.2020	100	100
04.12.2019	500	PLN	04.12.2023	468	500
08.05.2020	600	UAH	25.04.2025	90	-
12.06.2020	50	UAH	06.06.2025	7	-
Total				815	750

- **LOANS AND ADVANCES FROM INTERNATIONAL FINANCIAL INSTITUTIONS**

In the six-month period ended 30 June 2020, the Group repaid the following loans and advances from international financial institutions:

Date of receipt of a loan and advance	Nominal amount	Currency	Maturity	Carrying amount at 30.06.2020	Carrying amount at 31.12.2019
28.12.2006	5	EUR	30.04.2022	-	21
28.12.2006	97	PLN	30.04.2020	-	97
28.12.2006	7	CHF	30.04.2020	-	28
23.12.2010	75	EUR	23.12.2020	67	64
25.09.2013	75	EUR	25.09.2023	268	256
11.06.2015	132	PLN	31.07.2021	33	46
11.06.2015	42	PLN	30.09.2020	2	6
11.06.2015	10	EUR	30.09.2020	2	6
11.06.2015	10	EUR	31.03.2021	7	11
11.06.2015	20	EUR	30.04.2021	18	26
25.09.2015	15	EUR	30.11.2020	8	16
25.09.2015	25	EUR	30.09.2021	35	47
25.09.2015	43	PLN	30.11.2020	5	11
16.03.2016	175	PLN	01.09.2020	17	34
18.03.2016	66	EUR	31.12.2022	84	120
28.10.2016	20	EUR	31.12.2021	27	34
28.10.2016	20	EUR	31.01.2022	31	39
28.09.2017	50	EUR	30.11.2022	140	159
28.09.2017	50	EUR	30.11.2022	195	213
08.12.2017	40	EUR	31.01.2022	116	130
23.10.2018	646	PLN	23.10.2023	648	649
10.10.2019	100	UAH	08.10.2021	15	16
Total				1 718	2 029

- **ISSUE OF MORTGAGE COVERED BONDS BY PKO BANK HIPOTECZNY S.A.**

In the six months ended 30 June 2020 PKO Bank Hipoteczny S.A. did not issue any mortgage covered bonds and no such bonds issued by the Company matured in that period.

- **BONDS ISSUED BY PKO BANK HIPOTECZNY S.A.**

In the six-month period ended 30 June 2020 the total value of matured PKO Bank Hipoteczny S.A. bond issues was PLN 3 813 million, and new issues totalled PLN 2 202 million.

Issue date	Type of interest rate	Interest rate (index + margin)	Nominal amount	Currency	Maturity	Carrying amount at 30.06.2020	Carrying amount at 31.12.2019
2018-12-21	zero coupon	-	350	PLN	2020-02-21	-	351
2019-02-05	zero coupon	-	102	PLN	2020-02-05	-	102
2019-07-10	variable	WIBOR6M + 0,30	162	PLN	2020-01-10	-	163
2019-07-11	variable	WIBOR3M + 0,60	43	PLN	2021-07-12	44	46
2019-07-23	zero coupon	-	634	PLN	2020-01-23	-	633
2019-08-23	zero coupon	-	200	PLN	2020-02-21	-	200
2019-08-28	variable	WIBOR3M + 0,60	44	PLN	2021-08-30	44	44
2019-10-02	zero coupon	-	900	PLN	2020-04-01	-	895
2019-10-17	variable	WIBOR3M + 0,60	39	PLN	2021-10-18	39	40
2019-11-06	zero coupon	-	727	PLN	2020-05-08	-	722
2019-12-06	zero coupon	-	738	PLN	2020-06-08	-	731
2019-12-18	variable	WIBOR3M + 0,60	28	PLN	2021-12-20	28	20
2020-01-23	zero coupon	-	634	PLN	2020-07-23	633	-
2020-02-05	zero coupon	-	25	PLN	2021-02-03	24	-
2020-02-21	zero coupon	-	101	PLN	2020-08-24	101	-
2020-02-24	variable	-	350	PLN	2021-02-24	350	-
2020-06-08	zero coupon	-	838	PLN	2020-12-07	835	-
2020-06-29	zero coupon	-	254	PLN	2020-10-28	254	-
Total						2 352	3 947

- **BONDS ISSUED BY PKO BANK POLSKI S.A.**

During the six-month period ended 30 June 2020 the Bank made a partial early repurchase of its bonds (which matured on 25 July 2021) in the amount of EUR 250 million. The remaining part of the nominal value of the issue amounted to EUR 500 million as at 30 June 2020.

- **BONDS ISSUED BY PKO FINANCE AB**

During the six-month period ended 30 June 2020 the Bank made a partial early repurchase of bonds issued by PKO Finance AB (which matured on 26 September 2022) from third parties in the amount of USD 195 million. The bonds repurchased by the Bank are held by PKO Bank Polski S.A., which reserved the right to resell them or to earmark them for redemption in the future. The bonds that have not be redeemed are still quoted on the Luxembourg Stock Exchange. The remaining part of the nominal value of the issue amounted to USD 805 million as at 30 June 2020.

- **BONDS ISSUED BY THE PKO LEASING S.A. GROUP COMPANIES**

In the six-month period ended 30 June 2020 the PKO Leasing S.A. Group made an early repurchase of bonds with a nominal value of PLN 146 million and repurchased a matured bond issue with a nominal value of PLN 150 million. The nominal value of the new bond issue was PLN 840 million.

- **BONDS ISSUED BY KREDOBANK S.A.**

In the six-month period ended 30 June 2020 the Company did not carry out any new bond issues and during this period there were no maturity dates for bonds issued by the Company.

27. OTHER LIABILITIES

OTHER LIABILITIES	30.06.2020	31.12.2019
Expenses to be paid	575	666
Deferred income	492	454
Liability in respect of tax on certain financial institutions	91	86
Interbank settlements	729	461
Liabilities arising from investing activities and internal operations	56	251
Amounts due to suppliers	174	204
Liabilities and settlements in respect of trading in securities	579	586
Settlements of financial instruments	35	22
Liabilities in respect of contribution to the Bank Guarantee Fund, of which:	759	394
due to the premium calculated by BFG / to be paid to BFG (compulsory resolution fund)	318	-
maintained in the form of payment commitments, of which:	441	394
to the resolution Fund	213	217
to the banks' guarantee fund	228	177
Liabilities under public law	186	158
Liabilities in respect of foreign exchange activities	292	201
Liabilities in respect of payment cards	77	20
Lease liabilities	947	894
Other	348	394
Total	5 340	4 791
of which: other financial liabilities	3 547	3 305

28. PROVISIONS

FOR 6 MONTHS ENDED 30 JUNE 2020	Provisions for financial liabilities and guarantess granted	Provisions for unsettled legal claims excluding legal claims relating to mortgage loans in convertible currencies	Provisions for potential legal claims against the Bank relating to repaid mortgage loans in convertible currencies	Provisions for reimbursement of costs to customers for early repayment of consumer loans and mortgage loans	Provision for pensions and other liabilities from defined benefit post- employment plans	Restructuring	Other provisions, including provisions for disputed employee claims	Total
1 January 2020	269	52	29	105	57	41	29	582
Increases in provisions	101	4	50	70	-	-	3	228
Utilization	-	(1)	-	(137)	(1)	(5)	(3)	(147)
Amounts not utilized released during the period	(2)	(4)	-	-	-	(2)	(2)	(10)
Other changes and reclassifications	3	-	3	-	-	-	(1)	5
30 June 2020	371	51	82	38	56	34	26	658

FOR 6 MONTHS ENDED 30 JUNE 2019	Provisions for financial liabilities and guarantees granted	Provisions for unsettled legal claims excluding legal claims relating to mortgage loans in convertible currencies	Provisions for potential legal claims against the Bank relating to repaid mortgage loans in convertible currencies	Provisions for reimbursement of costs to customers for early repayment of consumer loans and mortgage loans	Provision for pensions and other liabilities from defined benefit post- employment plans	Restructuring	Other provisions, including provisions for disputed employee claims	Total
1 January 2019	227	54	-	-	50	24	91	446
Taking control over subsidiaries	-	-	-	-	-	-	3	3
Increases in provisions	90	5	4	-	-	23	2	124
Utilization	-	(2)	-	-	(1)	(8)	(3)	(14)
Amounts not utilized released during the period	(93)	(6)	-	-	-	-	(58)	(157)
Other changes and reclassifications	-	-	-	-	-	-	-	-
30 June 2019	224	51	4	-	49	39	35	402

29. EQUITY AND SHAREHOLDING STRUCTURE OF THE BANK

According to PKO Bank Polski's information, as at the date of submitting this report, the following three shareholders hold directly or indirectly qualifying holdings (of at least 5% of the shares): The State Treasury, Nationale-Nederlanden Otworthy Fundusz Emerytalny, and Aviva Otworthy Fundusz Emerytalny.

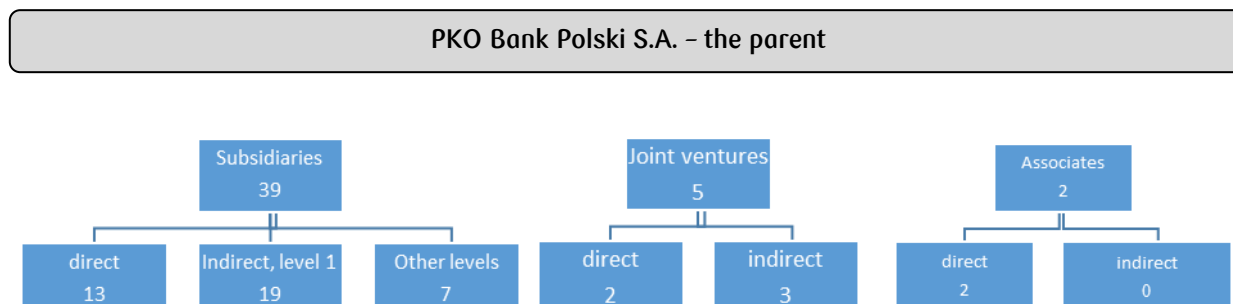
According to the information available as at 30 June 2020 and 31 December 2019 the Bank's shareholding structure is as follows:

NAME OF SHAREHOLDER	number of shares	voting rights%	Nominal value of 1 share	Interest held%
As at 30 June 2020				
State Treasury	367 918 980	29,43%	PLN 1	29,43%
Nationale Nederlanden Open Pension Fund	100 883 023	8,07%	PLN 1	8,07%
Aviva Open Pension Fund ¹	91 910 319	7,35%	PLN 1	7,35%
Other shareholders ²	689 287 678	55,15%	PLN 1	55,15%
Total	1 250 000 000	100,00%	---	100,00%
As at 31 December 2019				
State Treasury	367 918 980	29,43%	PLN 1	29,43%
Nationale Nederlanden Open Pension Fund	94 500 000	7,56%	PLN 1	7,56%
Aviva Open Pension Fund ¹	88 010 319	7,04%	PLN 1	7,04%
Other shareholders ²	699 570 701	55,97%	PLN 1	55,97%
Total	1 250 000 000	100,00%	---	100,00%

¹ Calculation of shareholdings as at the end of the year published by PTE in annual information about the structure of fund assets and quotation from the securities exchange official list (Cedula Gieldowa).

² Including Bank Gospodarstwa Krajowego which, as at 30 June 2020, held 24 487 297 shares constituting a 1.96% share of the votes at the General Shareholders' Meeting.

30. INFORMATION ABOUT MEMBERS OF THE PKO BANK POLSKI S.A. GROUP, JOINT VENTURES AND ASSOCIATES



The PKO Bank Polski S.A. Group consists of the following subsidiaries:

No.	ENTITY NAME	REGISTERED OFFICE	BUSINESS ACTIVITIES	% SHARE IN CAPITAL	
				30.06.2020	31.12.2019
DIRECT SUBSIDIARIES					
1	PKO Bank Hipoteczny S.A.	Gdynia	Banking activities	100	100
2	PKO Towarzystwo Funduszy Inwestycyjnych S.A.	Warsaw	Investment fund management	100	100
3	PKO Leasing S.A.	Łódź	Leasing and lending	100	100
4	PKO BP BANKOWY PTE S.A.	Warsaw	Pension fund management	100	100
5	PKO BP Finat sp. z o.o.	Warsaw	Services, including transfer agent services and outsourcing of IT specialists	100	100
6	PKO Życie Towarzystwo Ubezpieczeń S.A.	Warsaw	Life insurance	100	100
7	PKO Towarzystwo Ubezpieczeń S.A.	Warsaw	Other personal and property insurance	100	100
8	PKO Finance AB	Stockholm, Sweden	Financial services	100	100
9	KREDOBANK S.A.	Lviv, Ukraine	Banking activities	100	100
10	ZenCard sp. z o.o.	Warsaw	IT services and products supporting trade and services	100	100
11	Merkury - fiz an ¹	Warsaw		100	100
12	NEPTUN - fizan ¹	Warsaw	Investing money collected from fund participants	100	100
13	PKO VC - fizan ¹	Warsaw		100	100

¹ The Bank has investment certificates of the Fund; the share in the Fund's investment certificates is presented in the item "Share in equity".

No.	ENTITY NAME	REGISTERED OFFICE	BUSINESS ACTIVITIES	% SHARE IN CAPITAL*	
				30.06.2020	31.12.2019
INDIRECT SUBSIDIARIES					
PKO Leasing S.A. GROUP					
1	PKO Agencja Ubezpieczeniowa sp. z o.o.	Warsaw	Intermediation in concluding insurance contracts	100	100
	1.1 PKO Leasing Finanse sp. z o.o.	Warsaw	Sale of post-lease items	100	100
2	PKO Leasing Sverige AB	Stockholm, Sweden	Leasing	100	100
3	Prime Car Management S.A.	Gdańsk	Leasing and fleet management	100	100
	3.1 Futura Leasing S.A.	Gdańsk	Leasing and selling post-lease items	100	100
	3.2 Masterlease sp. z o.o.	Gdańsk	Leasing	100	100
	3.3 MasterRent24 sp. z o.o.	Gdańsk	Short-term car rent	100	100
4	PKO Faktoring S.A.	Warsaw	Factoring activities	100	100
5	ROOF Poland Leasing 2014 DAC ¹	Dublin, Ireland	SPV created for securitization of lease receivables	-	-
6	Polish Lease Prime 1 DAC ¹	Dublin, Ireland		-	-
	PKO Leasing Nieruchomości sp. z o.o. ²	Warsaw	Leasing	-	100
PKO Życie Towarzystwo Ubezpieczeń S.A. GROUP					
7	Ubezpieczeniowe Usługi Finansowe sp. z o.o.	Warsaw	Services	100	100
KREDOBANK S.A. GROUP					
8	Finansowa Kompania „Idea Kapital” sp. z o.o.	Lviv, Ukraine	Services	100	100
	Merkury - fiz an				
9	“Zarząd Majątkiem Górczewska” sp. z o.o.	Warsaw	Property management	100	100
10	Molina sp. z o.o.	Warsaw	General partner in the limited joint stock partnerships	100	100
11	Molina spółka z ograniczoną odpowiedzialnością 1 S.K.A.	Warsaw		100	100
12	Molina spółka z ograniczoną odpowiedzialnością 2 S.K.A.	Warsaw		100	100
13	Molina spółka z ograniczoną odpowiedzialnością 4 S.K.A.	Warsaw	Buying and selling real estate on own account, property management	100	100
14	Molina spółka z ograniczoną odpowiedzialnością 5 S.K.A.	Warsaw		100	100
15	Molina spółka z ograniczoną odpowiedzialnością 6 S.K.A.	Warsaw		100	100
	Molina spółka z ograniczoną odpowiedzialnością 3 S.K.A. w likwidacji (in liquidation) ³	Warsaw		-	100
NEPTUN - fiz an					
16	Qualia sp. z o.o.	Warsaw	Post-sale services in respect of developer products	100	100
17	Sarnia Dolina sp. z o.o.	Warsaw	Property development	100	100
18	Bankowe Towarzystwo Kapitałowe S.A.	Warsaw	Services	100	100
	18.1 „Inter-Risk Ukraina” additional liability company ⁴	Kiev, Ukraine	Debt collection	99,90	99,90
	18.2 Finansowa Kompania “Prywatne Inwestycje” sp. z o.o. ⁵	Kiev, Ukraine	Financial services	95,4676	95,4676
19	“CENTRUM HAFFNERA” sp. z o.o.	Sopot	Managing a subsidiary	72,9766	72,9766
	19.1 “Sopot Zdrój” sp. z o.o.	Sopot	Property management	100	100

* share in equity of the direct parent

¹) In accordance with IFRS 10, PKO Leasing S.A. exercises control over the company, although it does not have a capital share in it.

²) On 28 February 2020 Qualia Development sp. z o.o. (as the acquiree) was combined with PKO Leasing S.A. (as the acquirer).

³) On 18 June 2020 the company's liquidation was finalized and the company's assets were divided between the general partner and the limited partner; the company is in the process of being deleted from the National Court Register.

⁴) Finansowa Kompania “Prywatne Inwestycje” Sp. z o.o. is the second shareholder of the company.

⁵) “Inter-Risk Ukraina” (a company with additional liability) is the second shareholder of the company.

The Group has the following associates and joint ventures:

No.	ENTITY NAME	REGISTERED OFFICE	BUSINESS ACTIVITIES	% SHARE IN CAPITAL*	
				30.06.2020	31.12.2019
Joint ventures of PKO Bank Polski S.A.					
1	Operator Chmury Krajowej sp. z o.o.	Warsaw	Cloud computing services	50	50
2	Centrum Elektronicznych Usług Płatniczych eService sp. z o.o.	Warsaw	Activities supporting financial services, including processing transactions concluded using payment instruments	34	34
	1 EVO Payments International s.r.o.	Prague, the Czech Republic	Activities supporting financial services	100	100
Joint venture of NEPTUN - fiz an					
2	“Centrum Obsługi Biznesu” sp. z o.o.	Poznań	Property management	41,45	41,45
Joint venture of PKO VC - fiz an					
3	BSafer sp. z o.o. ¹	Stalowa Wola	Managing marketing consents	35,06	-
Associates of PKO Bank Polski S.A.					
1	Bank Poczty S.A.	Bydgoszcz	Banking activities	25,0001	25,0001
2	“Poznański Fundusz Poręczeń Kredytowych” Sp. z o.o.	Poznań	Sureties	33,33	33,33

* interest in share capital of the entity exercising joint control / having a significant impact / the direct parent

¹) Joint venture PKO VC - fiz an as of 18 March 2020



31. CHANGES TO COMPANIES COMPRISING THE GROUP

In the six-month period ended 30 June 2020 there were no significant changes in the structure of the PKO Bank Polski S.A. Group (detailed information on these entities is presented in the previous note).

PKO Leasing Nieruchomości sp. z o.o. (as the acquiree) was merged with PKO Leasing S.A. (as the acquirer) and Molina spółka z ograniczoną odpowiedzialnością 3 S.K.A. in liquidation ceased meeting the definition of a subsidiary within the meaning of IFRS 10 (the company's liquidation was finalized and it is currently in the process of being deleted from the National Court Register).

A plan for merging ZenCard sp. z o.o. (as the acquiree) with PKO BP Finat sp. z o.o. (as the acquirer) was announced. At the beginning of July 2020 in connection with the closing of the transaction of securitization of lease receivables of PKO Leasing S.A. performed in cooperation with the special purpose company ROOF Poland Leasing 2014 DAC, the liquidation process of the special purpose company began. On 31 July 2020, the merger was registered in the National Court Register.

32. DIVIDEND

On 9 March 2020, the Bank received an individual recommendation from the Polish Financial Supervision Authority to increase its own funds by retaining at least 50% of the profit earned from 1 January to 31 December 2019. At the same time, the PFSA confirmed that the Bank meets the requirements to pay dividend at a level of up to 50% of the net profit for 2019.

Both the Bank's Management and Supervisory Boards passed resolutions stating that they would implement the recommendation of the PFSA within the scopes of their respective competencies. At the same time, in accordance with Article 395 § 2.2 of the Commercial Companies Code, the decision about the appropriation of profit remains within the competencies of the General Shareholders' Meeting.

On 26 March 2020 the Bank received a letter from the PFSA concerning the payment of dividend by banks. In the letter, the PFSA expects that in view of the current situation related to the state of epidemic in Poland and the possible further negative business consequences of the said state and its expected impact on the banking sector, banks – irrespective of the actions already taken in this respect – will retain all the profits earned in prior years.

On 27 May, the Bank's Management Board passed a resolution on submitting a resolution to the General Shareholders' Meeting stating that the net profit earned by the Bank in prior years should be retained in full as follows:

- with respect to profit earned in 2019 – PLN 2 155 113 to be earmarked for reserves and the balance of PLN 3 832 348 976 to be retained as unappropriated profit;
- to continue to retain the retained earnings from prior years of PLN 1 667 651 024.

On 1 June 2020, the Bank's Supervisory Board issued a positive opinion with regard to the Management Board's recommendation. The recommendation to retain the profit earned by the Bank in prior years complies with the recommendations of the PFSA in its letter of 26 March 2020.

In accordance with Art. 395 § 2.2 of the Commercial Companies Code this recommendation will be submitted to the General Shareholders' Meeting which was convened for 26 August 2020.

33. CONTINGENT LIABILITIES AND OFF-BALANCE SHEET LIABILITIES RECEIVED AND GRANTED

• GUARANTEE AND UNDERWRITING LIABILITIES

Issuer of underwritten securities	Type of underwritten securities	Maximum commitment to take up securities	Contract expiry date
As at 30 June 2020			
Company C	corporate bonds	31	31.12.2022
Total		31	

Issuer of underwritten securities	Type of underwritten securities	Maximum commitment to take up securities	Contract expiry date
As at 31 December 2019			
Company C	corporate bonds	36	31.12.2022
Total		36	

All contracts relate to the Agreement for Organization, Conducting and Servicing of the Bond Issuance Programme. All securities of the Group under the underwriting programme have an unlimited transferability, are not listed on the stock exchange and are not traded on a regulated OTC market.

• **CONTRACTUAL COMMITMENTS**

VALUE OF CONTRACTUAL COMMITMENTS CONCERNING:	30.06.2020	31.12.2019
intangible assets		28
property, plant and equipment		29
Total	27	57

• **FINANCIAL AND GUARANTEE COMMITMENTS GRANTED**

FINANCIAL LIABILITIES AND GUARANTEE COMMITMENTS GRANTED AS AT 30.06.2020	Commitments granted at nominal value	Provisions for commitments granted under IFRS 9	Net financial liabilities and guarantee commitments
Financial liabilities granted:			
Credit lines and limits	53 349	(214)	53 135
property	2 130	(23)	2 107
corporate	39 268	(130)	39 138
consumer	10 147	(61)	10 086
factoring	1 703	-	1 703
finance lease	101	-	101
Other	3 894	(31)	3 863
Total	57 243	(245)	56 998
of which irrevocable commitments	25 042	(94)	24 948
Guarantees and pledges granted			
Guarantees granted in domestic and foreign trading	7 449	(123)	7 326
to financial entities	623	-	623
to non-financial entities	6 704	(123)	6 581
to public entities	122	-	122
Guarantees and pledges granted - domestic corporate bonds	31	-	31
to non-financial entities	31	-	31
Letters of credit issued	1 392	(3)	1 389
to non-financial entities	1 392	(3)	1 389
Payment guarantee to financial entities	85	-	85
Guarantees and pledges granted - domestic municipal bonds	545	-	545
Total	9 502	(126)	9 376
of which irrevocable loan commitments	5 510	(34)	5 476
of which performance bonds granted	2 680	(96)	2 584
Total financial liabilities and guarantees	66 745	(371)	66 374



FINANCIAL LIABILITIES AND GUARANTEE COMMITMENTS GRANTED AS AT 31.12.2019	Commitments granted at nominal value	Provisions for commitments granted under IFRS 9	Net financial liabilities and guarantee commitments
Financial liabilities granted:			
Credit lines and limits	51 360	(196)	51 164
property	3 329	(30)	3 299
corporate	36 428	(119)	36 309
consumer	9 765	(47)	9 718
factoring	1 551	-	1 551
finance lease	287	-	287
Other	4 008	(13)	3 995
Total	55 368	(209)	55 159
of which irrevocable commitments	22 756	(87)	22 669
	-	-	-
Guarantees and pledges granted			
Guarantees granted in domestic and foreign trading	10 137	(57)	10 080
to financial entities	595	-	595
to non-financial entities	9 383	(57)	9 326
to public entities	159	-	159
Guarantees and pledges granted - domestic corporate bonds	36	-	36
to non-financial entities	36	-	36
Letters of credit issued - to non-financial entities	1 201	(3)	1 198
Payment guarantee to financial entities	35	-	35
Guarantees and pledges granted - domestic municipal bonds	101	-	101
Total	11 510	(60)	11 450
of which irrevocable loan commitments	8 147	(56)	8 091
of which performance bonds granted	2 560	(14)	2 546
	-	-	-
Total financial liabilities and guarantees	66 878	(269)	66 609

FINANCIAL LIABILITIES AND GUARANTEE COMMITMENTS GRANTED AS AT 30.06.2020	Nominal value of liabilities (stage 1)	Provision for expected credit losses (stage 1)	Nominal value of liabilities (stage 2)	Provision for expected credit losses (stage 2)	Nominal value of liabilities (stage 3)	Provision for expected credit losses (stage 3)
Financial liabilities granted:						
Credit lines and limits	48 716	(102)	4 396	(94)	237	(18)
Other	3 894	(31)	-	-	-	-
Total financial liabilities	52 610	(133)	4 396	(94)	237	(18)
Guarantees and pledges granted						
Guarantees granted in domestic and foreign trading	6 618	(9)	466	(14)	365	(100)
Guarantees and pledges granted - domestic corporate bonds	31	-	-	-	-	-
Letters of credit issued	1 266	(1)	101	-	25	(2)
Payment guarantee to financial entities	85	-	-	-	-	-
Guarantees and pledges granted - domestic municipal bonds	545	-	-	-	-	-
Total guarantees and pledges granted	8 545	(10)	567	(14)	390	(102)



FINANCIAL LIABILITIES AND GUARANTEE COMMITMENTS GRANTED AS AT 31.12.2019	Nominal value of liabilities (stage 1)	Provision for expected credit losses (stage 1)	Nominal value of liabilities (stage 2)	Provision for expected credit losses (stage 2)	Nominal value of liabilities (stage 3)	Provision for expected credit losses (stage 3)
Financial liabilities granted:						
Credit lines and limits	48 365	(91)	2 812	(77)	183	(28)
Other	4 005	(13)	3	-	-	-
Total financial liabilities	52 370	(104)	2 815	(77)	183	(28)
Guarantees and pledges granted						
Guarantees granted in domestic and foreign trading	9 345	(6)	501	(11)	291	(40)
Guarantees and pledges granted - domestic corporate bonds	36	-	-	-	-	-
Letters of credit issued	1 188	(1)	-	-	13	(2)
Payment guarantee to financial entities	35	-	-	-	-	-
Guarantees and pledges granted - domestic municipal bonds	101	-	-	-	-	-
Total guarantees and pledges granted	10 705	(7)	501	(11)	304	(42)

• **OFF-BALANCE SHEET COMMITMENTS RECEIVED**

OFF-BALANCE SHEET LIABILITIES RECEIVED BY NOMINAL VALUE	30.06.2020	31.12.2019
Financial	91	119
Guarantee-related	15 210	2 478
Total	15 301	2 597

The increase in off-balance sheet commitments of the nature of guarantees received compared with 31 December 2019 is mainly the effect of concluding a portfolio guarantee line agreement from the Liquidity Guarantee Fund with Bank Gospodarstwa Krajowego (for details, see the note "Credit risk management").

34. LEGAL CLAIMS

As at 30 June 2020, the total value of court cases (litigation), in which the PKO Bank Polski S.A. Group companies (including the Bank) are the respondent was PLN 1 724 million (as at 31 December 2019, the aggregate value of such litigation was PLN 1 194 million), while the total value of court cases (litigation) in which PKO Bank Polski S.A. Group companies (including the Bank) are the claimant, as at 30 June 2020, was PLN 2 487 million (as at 31 December 2019, the total value of such litigation was PLN 2 527 million).

LITIGATION AGAINST THE BANK RELATING TO FOREIGN CURRENCY LOANS GRANTED

As at 30 June 2020, 3079 court proceedings relating to foreign currency loans granted were pending against the Bank (1645 court proceedings as at 31 December 2019) with a total disputed amount of PLN 776 million (PLN 392 million as at 31 December 2019), including two group proceedings regarding 73 loan agreements in the first, and 8 loan agreements in the second proceeding. The court proceedings were initiated against the Bank by its customers in connection with foreign currency mortgage loan agreements concluded. The Bank's customers' claims concerned mainly the determination of the invalidity of all or part of the agreement or payment in respect of the refund of allegedly undue benefits in connection with the abusive nature of the foreign currency clauses. None of the clauses used by the Bank in the agreements was entered in the register of abusive contractual provisions. Taking a prudent approach to the protection against the legal risk relating to the court cases which were pending as at 30 June 2020, the Bank maintained the provision for this pending litigation of PLN 294 million, of which PLN 259 million reduced the gross carrying amount of loans due to the legal risk associated with mortgage loans and PLN 35 million was recognized in "Provisions for legal claims against the Bank concerning repaid mortgage loans in convertible currencies".

On 3 October 2019 the Court of Justice of the European Union ("CJEU") handed down its judgment in Case C-260/18 initiated by requests for a preliminary ruling from the Sąd Okręgowy w Warszawie (Regional Court in Warsaw). The Bank was not a party to the proceedings before the CJEU. The detailed description of the effects such judgments may have on the Bank is shown in the Bank's financial statements for 2019.



The Group assessed the legal risk related to the whole foreign currency mortgage loans portfolio following from the potential future litigation at PLN 318 million. Due to the fact that the amount relates to a new assessment of cash flows from an active mortgage loans portfolio, in connection with the provisions of IFRS 9.B.5.4.6, the amount reduced the gross balance of the loans as at 30 June 2020 (note "Loans and advances to customers").

Furthermore, as at 30 June 2020, the Group maintained a provision for potential legal claims relating to mortgage loans in convertible currencies of PLN 48 million (see the note "Provisions", the item "Provisions for litigation against the Bank in respect of convertible currency mortgage loans repaid").

COURT PROCEEDINGS AGAINST THE BANK CONCERNING REIMBURSEMENT OF THE COMMISSION IN THE EVENT OF THE PREPAYMENT OF LOANS

As at 30 June 2020, 144 court proceedings relating to commission reimbursement in the event of the prepayment of a loan or a part thereof by a customer were pending against the Bank (102 court proceedings as at 31 December 2019) with a total disputed amount of PLN 917 thousand (PLN 640 thousand as at 31 December 2019).

The provision for such proceedings as at 30 June 2020 amounted to PLN 328 thousand (PLN 355 thousand as at 31 December 2019).

On 11 September 2019, the Court of Justice of the European Union ("CJEU") handed down its judgment in Case C-383/18 initiated by a request for a preliminary ruling from the Sąd Rejonowy Lublin-Wschód w Lublinie (Lublin-Wschód District Court in Lublin) with its seat in Świdnik. The Bank was not a party to the proceedings before the CJEU. The detailed description of the effects such judgments may have on the Bank is shown in the PKO Bank Polski S.A. Group's financial statements for 2019.

The Group assessed the potential prepayments which may occur in the future and which relate to the portfolio of consumer and mortgage loans recognizing their impact as a reduction in the gross carrying amount of consumer and property loans of PLN 149 million as at 30 June 2020. Moreover, the Group estimated the likely costs of satisfying customer complaints relating to reimbursement of commission in connection with prepayments in the past. These costs amounting to PLN 38 million were included in the balance of provisions as at 30 June 2020 (note "Provisions").

PROCEEDINGS CONDUCTED BEFORE THE PRESIDENT OF THE OFFICE OF COMPETITION AND CONSUMER PROTECTION (UOKiK)

Three proceedings have been brought before the President of UOKiK ex officio and are currently in progress:

- Proceedings initiated ex officio on 28 June 2017 on the acknowledgement that the provisions of the template contract are inadmissible. The breach, of which the Bank is being accused, involves the use of contractual provisions in template mortgage loan agreements which are revalued/indexed/denominated in foreign currencies and their appendices, presenting the method of setting the foreign currency buy and sell rates, which, according to the President of the UOKiK, may be considered inadmissible in the light of Article 385 § 1 of the Civil Code. In the opinion of the UOKiK President, a part of the provisions included in the appendix to the annexe is imprecise, and the manner of determining exchange rates on this basis depends on factors randomly adopted by the Bank. In the opinion of the President of UOKiK, such wording of the provisions may lead to the inability of consumers to verify whether the Bank accurately estimated the exchange rate at which it translates loan/mortgage loan instalments. In its letter of 9 August 2017, the Bank commented on the charges raised by the President of UOKiK. On 31 July 2018 the Bank filed a motion for the issuance of a consent decree. In his letter dated 20 September 2019 the President of UOKiK extended the term to the conclusion of the proceedings until 31 December 2019. On 23 December 2019 the Bank submitted a letter in which it informed about its will to close the proceedings by issuance of a consent decree and asked for a meeting with the representatives of UOKiK to discuss the Bank's position concerning the obligations. In his letter of 26 February 2020, the President of UOKiK informed about extending the deadline for concluding the proceedings to 30 June 2020. As at 30 June 2020, the President of UOKiK had not taken any further action in this matter, and had not extended the deadline for concluding the proceedings. As at 30 June 2020, the Group had not set up a provision for these proceedings.
- Proceedings initiated ex officio on 26 July 2017 for applying practices breaching collective consumer interests. The violation with which the Bank has been charged consists of collecting higher instalments on loans and advances to customers denominated in foreign currencies than those following from the advice about interest rate risk provided to customers before they had concluded the contracts, and transferring possible currency risk to the customers. The Bank presented its position on the claims in its letter dated 23 September 2017. In its letter of 14 March 2019, the President of UOKiK requested that the Bank present answers to 16 detailed questions in order to determine the circumstances necessary to settle the case. The Bank provided answers in a letter dated 10 May 2019. As at 30 June 2020 the President of UOKiK had not undertaken any further steps in this matter. As at 30 June 2020, the Group had not set up a provision for these proceedings.



- Proceedings initiated ex officio on 12 March 2019 on the acknowledgement that the provisions of the template contract are inadmissible. The proceedings are related to modification clauses which specify the circumstances in which the Bank is entitled to amend the terms and conditions of the agreement, including the amount of fees and commission. In the opinion of the President of UOKiK the modification clauses applied by the Bank give the Bank unilateral, unlimited and arbitrary possibilities of modifying the performance of the agreement. Consequently, the President of UOKiK is of the opinion that the clauses applied by the Bank shape the rights and obligations of the consumers in a way that is contrary to good practice and are a gross violation of their interests, which justifies the conclusion that they are abusive. In its letter of 31 May 2019, the Bank presented its position on the charges made by the President of UOKiK. By a letter dated 12 August 2019, the President of UOKiK, extended the deadline for the closure of the proceeding to 31 December 2019, and then by a letter dated 19 December 2019 to 30 April 2020. As at 30 June 2020 the President of UOKiK had not taken any further steps in this matter. As at 30 June 2020, the Group had not set up a provision for these proceedings.

PROCEEDINGS RELATING TO RESTRICTIVE PRACTICES ON THE MARKET OF PAYMENTS WITH PAYMENT CARDS IN POLAND

The Bank is a party to proceedings initiated by the President of the Competition and Consumer Protection Office (UOKiK) on the basis of a decision dated 23 April 2001 upon the request of the Polish Trade and Distribution Organization – Employers’ Association (Polska Organizacja Handlu i Dystrybucji - Związek Pracodawców - POHiD) against operators of the Visa and Europay payment systems and banks issuing Visa and Europay/ Eurocard/ Mastercard banking cards.

The claims under these proceedings relate to the use of practices limiting competition on the market of banking card payments in Poland, consisting of applying pre-agreed “interchange” fees for transactions made using the above Visa and Europay/Eurocard/Mastercard cards as well as limiting access to this market for external entities. On 29 December 2006, UOKiK decided that the practices, consisting of joint establishment of ‘interchange’ fee, did limit market competition and ordered that any such practices should be discontinued, and imposed a fine on, among others, the Bank, in the amount of PLN 16.6 million. The Bank appealed against the decision of the President of UOKiK to the Court for Competition and Consumer Protection (Sąd Ochrony Konkurencji i Konsumentów – SOKiK). By its judgment of 21 November 2013 SOKiK reduced the penalty imposed on the Bank to the amount of PLN 10.4 million. The parties to the proceedings appealed against the judgment. In its judgment of 6 October 2015, the Court of Appeal in Warsaw restored the original amount of the imposed penalties stipulated in the decision of the UOKiK, i.e. a fine amounting to PLN 16.6 million (fine imposed on PKO Bank Polski S.A.) and a fine amounting to PLN 4.8 million (fine imposed on Nordea Bank Polska S.A.; PKO Bank Polski S.A. is the legal successor of Nordea Bank Polska S.A. through a merger pursuant to Article 492 § 1.1 of the Commercial Companies Code). The fine was paid by the Bank in October 2015. As a result of the cassation complaint made by the Bank, in its judgment dated 25 October 2017, the Supreme Court revoked the appealed judgment of the Court of Appeal in Warsaw and submitted the case for re-examination. The fine paid by the Bank was reimbursed to the Bank on 21 March 2018. Currently, the case is being examined by the Court of Appeal in Warsaw. After two hearings, the Court of Appeal adjourned the trial without setting a date. As at 30 June 2020 the Bank maintained a provision for this litigation of PLN 21 million.

OTHER UNFAIR COMPETITION PROCEEDINGS

As at 30 June 2020 no proceedings were pending with respect to unfair competition practices towards other companies of the Bank’s Group.

In the six-month period ended 30 June 2020 these companies also did not engage in any arrangements with UOKiK in respect of addresses made by the President of UOKiK without instituting proceedings (pursuant to Article 49a of the Act on Competition and Consumer Protection).

CLAIMS FOR DAMAGES IN RESPECT OF THE INTERCHANGE FEE

The Bank was served four summons to participate, as an intervening party on the respondent’s side, in cases relating to the interchange fees. Other banks are respondents in the case. The claims vis-à-vis the sued banks amount to almost PLN 146 million and are pursued as damages for differences in interchange fees resulting from applying practices that restrict competition.

If the courts find the claims justified, the respondents may claim recourse from other banks in separate court proceedings, including, among others, from PKO Bank Polski S.A. The Bank entered the proceedings as a side intervener.

REPRIVATIZATION CLAIMS RELATING TO PROPERTIES USED BY THE BANK

As at the date of these consolidated financial statements there are

- three proceedings pertaining to reprivatization claims. One of the proceedings has been suspended. In the second proceeding ended with a final court judgment favourable to the Bank, the opposing party lodged a cassation complaint, and the Supreme Court accepted it for consideration; in the third proceeding the subject matter of which is to confirm invalidity of the decision refusing to grant temporary ownership of the Bank's property to the applicant, the opponent lodged a complaint with the Voivodeship Administrative Court against the final decision of discontinuing the proceedings as groundless;
- seven proceedings, including one suspended in respect of properties of other members of the Bank's Group, related to declaring invalidity of administrative decisions or refund of the property.

The Management Board of PKO Bank Polski S.A. is of the opinion that it is unlikely that serious claims may be brought against the Bank in these matters.

35. TRANSACTIONS WITH THE STATE TREASURY AND RELATED PARTIES

- **TRANSACTIONS WITH THE STATE TREASURY**

The State Treasury holds a 29.43% interest in the Bank's share capital.

Pursuant to the Act of 30 November 1995 on state support in the repayment of certain housing loans, reimbursement of guarantee bonuses paid, and amendments to certain Acts, the Bank receives payments from the State budget for the repurchase of interest receivable on housing loans.

INCOME DUE TO TEMPORARY REDEMPTION OF INTEREST ON HOUSING LOANS FROM THE 'OLD' PORTFOLIO BY THE STATE BUDGET	01.01-30.06.2020	01.01-30.06.2019
Income recognized for this period	70	81
Income received in cash	51	24
Difference - 'Loans and advances to customers'	19	57

As of 1 January 2018, based on the provisions of the Act of 30 November 1995 on state support in the repayment of certain housing loans and reimbursement of guarantee bonuses paid, the borrowers acquired the right to be forgiven the remaining debt by the State Treasury, which will result in gradual (until 2026) full settlement of the housing loan indebtedness from the so-called "old" portfolio. The Bank conducts settlements in respect of the repurchase of interest on housing loans by the State budget and in the six-month period ended 30 June 2020 and the corresponding period of 2019, it received commission of less than PLN 1 million.

As of 1 January 1996 the Bank is the general distributor of revenue stamps – and in the six-month period ended 30 June 2020 and the corresponding period of 2019 the Bank received commission of less than PLN 1 million.

Biuro Maklerskie PKO BP plays the role of an agent for the issue of retail Treasury bonds under the agreement signed with the Ministry of Finance on 11 February 2003. Under this agreement, Biuro Maklerskie PKO BP receives a fee for providing the services of an agent for the issue of bonds – in the six-month period ended 30 June 2020 in the amount of PLN 89 million, and in the six-month period ended 30 June 2019 in the amount of PLN 42 million.

- SIGNIFICANT TRANSACTIONS WITH THE STATE TREASURY'S RELATED ENTITIES**

The transactions were concluded on arm's length terms.

	BALANCE SHEET EXPOSURE, INCLUDING EXPOSURE TO LOANS AND DEBT INSTRUMENTS		OFF-BALANCE SHEET EXPOSURE		LIABILITIES IN RESPECT OF DEPOSITS	
	30.06.2020	31.12.2019	30.06.2020	31.12.2019	30.06.2020	31.12.2019
counterparty 1	-	-	2 453	2 453	352	-
counterparty 2	17 174	3 443	30	350	582	61
counterparty 3	1 104	1 726	1 905	1 193	8	94
counterparty 4	1 978	2 021	723	667	47	122
counterparty 5	512	614	2 140	2 291	382	175
counterparty 6	788	599	1 725	1 683	391	350
counterparty 7	142	240	2 208	3 520	2 134	3 686
counterparty 8	29	485	1 934	2 132	157	231
counterparty 9	829	467	733	1 080	523	50
counterparty 10	117	117	700	700	328	74

In the six-month period ended 30 June 2020, interest and commission income on the transactions with the 10 counterparties referred to above amounted to PLN 129 million PLN (in the six-month period ended 30 June 2019, PLN 86 million), and the respective interest expense amounted to PLN 17 million (in the six-month period of 2019, PLN 19 million).

As at 30 June 2020 and 31 December 2019 allowances for expected credit losses for the above mentioned receivables amounted to PLN 0 million. Other transactions with entities related to the State Treasury covered loans and advances, credit lines and guarantees granted, and deposits made.

- RELATED-PARTY TRANSACTIONS – CAPITAL LINKS**

Transactions of the Bank (as the parent) with associates and joint ventures are presented in the table below. All transactions with subsidiaries, joint ventures and associates presented below were arm's length transactions. Repayment terms are within a range of from one month to seventeen years.

AS OF 30 JUNE 2020 / ENTITY	Receivables	of which loans	Liabilities	Off-balance sheet liabilities granted
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	91		8	131
'Centrum Obsługi Biznesu' Sp z o.o.	18		18	5
'Poznański Fundusz Poręczeń Kredytowych' Sp. z o.o.	-		-	1
Operator Chmury Krajowej sp. z o.o.	-		-	10
Total joint ventures and associates	109		26	147

AS OF 31 DECEMBER 2019 / ENTITY	Receivables	of which loans	Liabilities	Off-balance sheet liabilities granted
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	80		26	43
'Centrum Obsługi Biznesu' Sp z o.o.	19		19	6
Bank Pocztowy SA	-		-	1
'Poznański Fundusz Poręczeń Kredytowych' Sp. z o.o.	-		-	1
Operator Chmury Krajowej Sp. z o.o.	-		-	59
Total joint ventures and associates	99		45	802

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2020 / ENTITY	Total income	of which interest and commission	Total expenses	of which interest and commission
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	205	203	36	35
Total joint ventures and associates	205	203	36	35

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2019 / ENTITY	Total income	of which interest and commission	Total expenses	of which interest and commission
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	225	199	50	50
'Centrum Obsługi Biznesu' Sp z o.o.	1	1	-	-
Total joint ventures and associates	226	200	50	50

• **BENEFITS FOR THE KEY MANAGEMENT (IN PLN THOUSANDS)**

COSTS OF REMUNERATION OF THE BANK'S MANAGEMENT BOARD AND SUPERVISORY BOARD	01.01-30.06.2020	01.01-30.06.2019 ⁴
Management Board of the Bank		
Short-term employee benefits ¹	3 467	3 368
Long-term benefits ²	1 896	1 340
Share-based payments settled in cash ³	1 896	2 010
Benefits to the Bank's Management Board members who ceased to perform their functions in previous years	-	172
Total	7 259	6 890
Supervisory Board of the Bank		
Short-term employee benefits ¹	643	633
Total	643	633

¹ Short-term employee benefits include: salaries, social insurance contributions, and other benefits which were or will be paid within 12 months of the end of the financial period.

² Provisions for the deferred part of wages and salaries paid in cash were recognized in long-term benefits.

³ Provisions for deferred remuneration components granted in the form of financial instruments, i.e. phantom shares (for which conversion into cash is carried out after an additional period of retention) are recognized as share-based payments settled in cash.

⁴ Data for the comparative period accounts for the change in proportion between variable remuneration in cash form and in the form of a financial instrument, where the change is an increase in the portion constituting a financial instrument, in accordance with the Resolution of the Bank's Supervisory Board from June 2020.

LOANS AND ADVANCES GRANTED BY THE BANK TO THE BANK'S MANAGEMENT BOARD AND SUPERVISORY BOARD	30.06.2020	31.12.2019
Supervisory Board of the Bank	350	376
Management Board of the Bank	1 126	1 340
Total	1 476	1 716

In the six-month period ended 30 June 2020, members of the Management Board received remuneration from the Bank's related entities in the amount of PLN 58 thousand (PLN 84 thousand in the corresponding period of 2019).

COSTS OF REMUNERATION OF THE COMPANIES MANAGEMENT BOARDS AND SUPERVISORY BOARDS	01.01- 30.06.2020	01.01- 30.06.2019 ⁴
Management Boards of the Companies		
Short-term employee benefits ¹	11 581	13 553
Long-term benefits ²	2 555	1 442
Share-based payments settled in cash ³	1 537	1 677
Benefits to the Companies' Management Board members who ceased to perform their functions in previous years	887	-
Total	16 560	16 672
Supervisory Board of the Companies		
Short-term employee benefits ¹	631	542
Total	631	542

¹ Short-term employee benefits include: salaries, social insurance contributions, and other benefits which were or will be paid within 12 months of the end of the financial period.

² Provisions for the deferred part of wages and salaries paid in cash were recognized as long-term benefits.

³ Provisions for deferred remuneration components granted in the form of financial instruments, i.e. phantom shares (for which conversion into cash is carried out after an additional period of retention) are recognized as share-based payments settled in cash.

⁴ Data for the comparative period covers the change in proportion between variable remuneration in cash form and in the form of a financial instrument comprising an increase in the portion constituting a financial instrument.

36. FAIR VALUE HIERARCHY

The classification of financial instruments and the method of determining their fair value were described in the Consolidated Financial Statements of the Group for 2019.

ASSETS MEASURED AT FAIR VALUE 30.06.2020	Carrying amount	Level 1	Level 2	Level 3
		Prices quoted on active markets	Valuation techniques based on observable market data	Other valuation techniques
Hedging derivatives	1 453	-	1 453	-
Other derivative instruments	5 345	2	5 343	-
Securities	79 799	64 316	14 086	1 397
held for trading	2 000	2 009	-	(9)
debt securities	1 970	1 979	-	(9)
shares in other entities - listed	28	28	-	-
participation units in investment funds, investment certificates, rights to shares, pre-emptive rights	2	2	-	-
not held for trading, measured at fair value through profit or loss	1 973	1 393	16	564
debt securities	558	382	13	163
shares in other entities - listed	123	123	-	-
shares in other entities - not listed	402	1	-	401
participation units in investment funds, investment certificates, rights to shares, pre-emptive rights	890	887	3	-
measured at fair value through OCI	75 826	60 914	14 070	842
debt securities	75 826	60 914	14 070	842
Loans and advances to customers	6 878	-	-	6 878
not held for trading, measured at fair value through profit or loss	6 878	-	-	6 878
Total financial assets measured at fair value	93 475	64 318	20 882	8 275

LIABILITIES MEASURED AT FAIR VALUE 30.06.2020	Carrying amount	Level 1	Level 2	Level 3
		Prices quoted on active markets	Valuation techniques based on observable market data	Other valuation techniques
Hedging derivatives	1 034	-	1 034	-
Other derivative instruments	5 397	1	5 396	-
Liabilities in respect of a short position in securities	156	156	-	-
Total financial liabilities measured at fair value	6 587	157	6 430	-

ASSETS MEASURED AT FAIR VALUE 31.12.2019	Carrying amount	Level 1	Level 2	Level 3
		Prices quoted on active markets	Valuation techniques based on observable market data	Other valuation techniques
Hedging derivatives	645	-	645	-
Other derivative instruments	2 795	1	2 794	-
Securities	67 118	57 089	7 206	2 823
held for trading	1 112	1 112	-	-
debt securities	1 095	1 095	-	-
shares in other entities - listed	15	15	-	-
participation units in investment funds, investment certificates, rights to shares, pre-emptive rights	2	2	-	-
not held for trading, measured at fair value through profit or loss	2 199	1 439	144	616
debt securities	493	301	12	180
shares in other entities - listed	150	150	-	-
shares in other entities - not listed	436	-	-	436
participation units in investment funds, investment certificates, rights to shares, pre-emptive rights	1 120	988	132	-
measured at fair value through OCI	63 807	54 538	7 062	2 207
debt securities	63 807	54 538	7 062	2 207
Loans and advances to customers	8 286	-	-	8 286
not held for trading, measured at fair value through profit or loss	8 286	-	-	8 286
Total financial assets measured at fair value	78 844	57 090	10 645	11 109

LIABILITIES MEASURED AT FAIR VALUE 31.12.2019	Carrying amount	Level 1	Level 2	Level 3
		Prices quoted on active markets	Valuation techniques based on observable market data	Other valuation techniques
Hedging derivatives	589	-	589	-
Other derivative instruments	2 924	-	2 924	-
Liabilities in respect of a short position in securities	362	362	-	-
Total financial liabilities measured at fair value	3 875	362	3 513	-

During the six-month period ended 30 June 2020 there were no changes in the valuation techniques or entry data for particular levels of fair value hierarchies.

In the six-month period ended 30 June 2020, corporate bonds in the amount of PLN 1 458 million were transferred from level 3 to level 2 due to a change in the method of calculation of the risk margin.

In the six-month period ended 30 June 2019, corporate bonds in the amount of PLN 1 466 million were transferred from level 2 to level 3 due to a change in the method of the calculation of the risk margin.

IMPACT OF ESTIMATES ON FAIR VALUE MEASUREMENT OF LEVEL 3 FINANCIAL INSTRUMENTS	30.06.2020		31.12.2019	
	Fair value under		Fair value under	
	positive scenario	negative scenario	positive scenario	negative scenario
Not held for trading, measured at fair value through profit or loss				
Loans and advances to customers ¹	7 084	6 679	8 526	8 054
Shares in Visa Inc. ²	210	188	225	199
Corporate bonds ³	163	163	180	180
Equity investments ⁴	200	181	226	204
Measured at fair value through other comprehensive income				
Corporate bonds ³	844	840	2 212	2 202

¹ Scenario assuming a change in the discount rate of +/- 0.5 p.p.

² Scenario assuming a discount rate in respect of the future conditions of converting C-series shares to ordinary shares at a level of 0%/100% respectively

³ Scenario assuming a change in credit spread of +/- 10%

⁴ Scenario assuming a change in the company's value of +/- 5%

RECONCILIATION OF CHANGES DURING THE REPORTING PERIOD TO FAIR VALUE AT LEVEL 3	01.01-30.06.2020	01.01-30.06.2019
Opening balance at the beginning of the period	11 109	3 025
Foreign exchange differences	12	(2)
Increase in exposure to equity instruments	4	-
Issues and redemptions of corporate bonds	205	(590)
Transfers from level 3 to level 2	(1 458)	-
Transfers from level 2 to level 3	-	1 466
Reclassification of credit exposures from measured at amortized cost to measured at fair value through profit or loss	9	-
Change due to new sales, repayments and write-offs during the period	(1 481)	(4)
Net gain/(loss) on financial instruments measured at fair value through profit or loss	(54)	39
Loans and advances to customers	(36)	(10)
Other equity instruments	(18)	49
Change in the valuation recognized in OCI	(71)	(197)
As at the end of the period	8 275	3 737

37. FINANCIAL ASSETS AND FINANCIAL LIABILITIES NOT PRESENTED AT FAIR VALUE IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

The methods and assumptions for determining their fair value were described in the Group's financial statements for 2019.

	level of fair value hierarchy	30.06.2020	
		carrying amount	fair value
Cash and balances with the Central Bank	n/a	3 687	3 687
Amounts due from banks	2	2 706	2 706
Securities (excluding adjustments relating to fair value hedge accounting)	1, 3	39 998	40 564
Reverse repo transactions	2	153	153
Loans and advances to customers (excluding adjustments relating to fair value hedge accounting)	3	224 347	224 351
property loans	3	121 117	119 565
corporate loans	3	63 894	65 058
consumer loans	3	21 847	22 246
factoring receivables	3	1 458	1 458
finance lease receivables	3	16 031	16 024
Other financial assets	3	2 161	2 161
Amounts due to banks	2	2 089	2 089
Amounts due to customers	3	280 175	280 149
amounts due to households	3	214 263	214 262
amounts due to business entities	3	53 044	53 019
amounts due to public entities	3	12 868	12 868
Loans and borrowings received	3	2 533	2 533
Debt securities in issue	1, 2	29 257	29 212
Subordinated liabilities	2	2 730	2 730
Other financial liabilities	3	3 547	3 547

	level of fair value hierarchy	31.12.2019	
		carrying amount	fair value
Cash and balances with Central Bank	n/a	14 677	14 677
Amounts due from banks	2	4 092	4 092
Securities (excluding adjustments relating to fair value hedge accounting)	1, 3	13 454	13 518
Reverse repo transactions	2	1 081	1 081
Loans and advances to customers (excluding adjustments relating to fair value hedge accounting)	3	221 916	220 927
property loans	3	118 448	116 405
corporate loans	3	64 294	65 074
consumer loans	3	21 539	21 809
factoring receivables	3	1 311	1 311
finance lease receivables	3	16 324	16 328
Other financial assets	3	1 766	1 766
Amounts due to banks	2	1 818	1 818
Amounts due to customers	3	254 451	254 397
amounts due to households	3	193 449	193 395
amounts due to business entities	3	49 648	49 648
amounts due to public entities	3	11 354	11 354
Loans and borrowings received	3	2 779	2 779
Debt securities in issue	1, 2	31 148	31 595
Subordinated liabilities	2	2 730	2 730
Other financial liabilities	3	3 305	3 305

38. OBJECTIVES AND PRINCIPLES OF RISK MANAGEMENT

Risk management is one of the most important internal processes in both PKO Bank Polski S.A. and other entities of the PKO Bank Polski S.A. Group. Risk management is aimed at ensuring profitability of the business activities while monitoring the risk level, keeping the risks within the risk tolerances and the system of limits adopted by the Bank and the Group in a changing macroeconomic and legal environment. The level of risk is an important part of the planning processes.

The Group identifies risks which are to be managed in its activities and analyses the impact of particular types of risk on the business operations of the Bank and entities in the Group. All the risks are managed; some of them have a material effect on the profitability and capital needed to cover them. The following risks are considered material: credit risk, currency risk of mortgage loans for households, currency risk, interest rate risk, liquidity risk (including financing risk), operational risk, business risk, risk of macroeconomic changes and model risk. The materiality of all the identified risks is assessed on a regular basis, at least annually.

In the consolidated financial statements of the Group for 2019 and in the Report on Capital Adequacy and other information subject to publication in the Group as at 31 December 2019, the following elements of the risk management system are described in detail: risk definition, objectives of managing the specific risks, identification of the risks, measurement and evaluation, control, forecasting and monitoring, reporting and management activities for identifying material types of risk.

In the six-month period ended 30 June 2020 the main objective, principles and organization of the risk management process in the Group did not change vis-à-vis the principles described in the consolidated financial statements of the Group for the year ended 2019, with the exception of the effects of the actions described below.

Specific actions in the area of risk management in the Group taken in the six-month period ended 30 June 2020 are described in detail in the PKO Bank Polski S.A. Group Directors' Report for the first half of 2020.



39. CREDIT RISK MANAGEMENT

The outbreak of the COVID-19 pandemic has a significant impact on the economic position of many enterprises and individuals, leading to financial illiquidity and difficulties in the timely payment of financial liabilities. The Group immediately took certain measures aimed at supporting the Bank's customers in their battle against the business effects of the COVID pandemic, thus minimizing the deterioration of its credit portfolio.

The actions taken by the Group to mitigate the economic effects of the spread of COVID-19 in respect of individuals, firms, enterprises, corporates and local government entities covered, among other things:

- moratoria on loan repayments pursuant to the guidelines of the European Banking Authority;
- granting loans and advances covered by public guarantee programmes in the context of the COVID-19 crisis.

- Under the loan moratoria, the Group introduced facilitations, the common element of which is to enable borrowers and lessees, at their request, to suspend or extend payments of instalments (of the principal, principal and interest or interest – depending on the form of financing) for a maximum of six months. Individuals with mortgage loans may suspend payments of instalments and individuals with cash loans or lease contracts may suspend the payment of instalments with the possibility of extending the lending period.
- Firms, enterprises and corporates (including local and central government entities) may suspend payments of instalments with the option of extending the lending period (among others: working capital loans, overdrafts, investment and investor loans, leases).
- The Bank also offered the option of suspending the payment of credit cards held by individual customers and business credit cards held by firms and enterprises.
- With respect to borrowings extended to firms, enterprises and corporates, simplified policies for extending the selected renewable products by a maximum of six months (or renewing the contractual lending period), as well as internal customer limits and restructuring agreements (this relates to products, limits and agreements that mature by 30 September 2020).
- KREDOBANK S.A. prepared credit relief programmes relating to the suspension, at the Customer's request, of part or all principal instalments by a maximum of three months and introduced fast track decisions for renewals of credit lines.
- As of 24 June 2020, under the anti-crisis shield 4.0., Customers of the Group (the Bank and PKO Bank Hipoteczny S.A.) who lost their jobs or other main sources of income after 13 March 2020 and who are indebted in the form of mortgage or consumer loans (including: cash loans/advances, renewable limits and credit cards) may suspend the performance of the agreement for a maximum of three months. During the suspension period interest is not accrued and no other fees are collected with respect to the agreement with the exception of insurance instalments paid on a monthly basis.
- The Bank's Customers (micro, small and medium enterprises) may submit requests for financial subsidies stipulated in the Polish Development Fund's Financial Shield under the government programme aimed at helping firms maintain financial viability through the Bank's electronic channels. Until 30 June 2020 total funds of PLN 9 271 million were received by approx. 57 thousand enterprises from the Bank.
- Until 16 June 2020 firms could file requests with the Polish Development Fund (Polski Fundusz Rozwoju S.A.) for preferential interest rates on liquidity and preferential borrowings under the PFR Financial Shield for large companies. The Bank's role is to maintain, among other things, accounts for disbursements of funds under the programme registering and monitoring the advances and respective security, as well as operational services.
- On 18 March 2020 the Bank concluded an Annexe to the de minimis guarantee line portfolio agreement dated 22 June 2018 (as amended), based on which in connection with the COVID-19 pandemic, Bank Gospodarstwa Krajowego implemented special terms and conditions for granting guarantees (binding until 31 December 2020):
 - 1) a commission of PLN 0 instead of the former 0.5% for new and extended de minimis guarantees securing loans;
 - 2) no annual commission will be charged for the continuation of provision of the de minimis guarantees;
 - 3) the guarantee may be granted up to 80% of the loan amount;
 - 4) the period for the guarantee remaining in force was extended from 27 months to 39 months.

- As at 10 April 2020 the Bank concluded a portfolio guarantee line agreement from the Liquidity Guarantee Fund with Bank Gospodarstwa Krajowego. Based on the agreement up to 80% of the amount of each loan which meets the requirements of the agreement may be covered by a guarantee granted by the Bank up until 31 December 2020. The limit granted under the Liquidity Guarantee Fund was PLN 18 billion.

The tables below present the exposures subject to the facilitation services referred to above:

	Number of debtors
consumer loans	49 749
property loans	31 935
corporate loans	11 143
finance lease receivables	22 835
Loans and advances subject to moratorium	115 662

Exposures subject to measures applied in response to COVID-19 crisis, of which:	with deferred repayment of principal or principal and interest instalments	loan renewals	Total
GROSS AMOUNT			
consumer loans	2 036	-	2 036
property loans	8 435	-	8 435
corporate loans	9 600	769	10 369
finance lease receivables	5 165	-	5 165
Loans and advances subject to moratorium	25 236	769	26 005
ALLOWANCES FOR EXPECTED CREDIT LOSSES			
consumer loans	90	-	90
property loans	176	-	176
corporate loans	365	6	371
finance lease receivables	121	-	121
Loans and advances subject to moratorium	752	6	758

Exposures subject to measures applied in response to COVID-19 crisis, of which:	legislative moratoria	non-legislative moratoria	Total	of which Stage 2
GROSS AMOUNT				
consumer loans	1	2 035	2 036	348
property loans	-	8 435	8 435	1 489
corporate loans	-	10 369	10 369	1 224
finance lease receivables	-	5 165	5 165	1 621
Loans and advances subject to moratorium	1	26 004	26 005	4 682
ALLOWANCES FOR EXPECTED CREDIT LOSSES				
consumer loans	-	90	90	52
property loans	-	176	176	143
corporate loans	-	371	371	92
finance lease receivables	-	121	121	52
Loans and advances subject to moratorium	-	758	758	339

Newly granted loans and advances covered by public guarantee programmes	Number of loans	Loan balance	Amount guaranteed
Loans	3 700	1 670	1 241
SME	3 600	1 126	822
corporate	100	544	419

THE INFLUENCE OF COVID-19 ON THE DERIVED QUALITY OF THE LOAN PORTFOLIO	second quarter period from 01.04.2020 to 30.06.2020	2 quarters cumulative period from 01.01.2019 to 30.06.2019
the portfolio of loans valued at amortized cost and valued at fair value through other comprehensive income - net allowances for expected credit losses	(112)	(318)
the portfolio of loans valued at fair value through profit and loss - result on financial instruments valued at fair value through profit and loss	(4)	(26)

The Group estimated the adverse impact of the COVID-19 pandemic on the quality of the Group's loan portfolio and other financial assets at PLN 344 million. Recognizing the impact of COVID-19 on the loan portfolio, the Group considered the current forecasts of development of the main macroeconomic parameters included in three scenarios. The calculation of the adverse impact of the pandemic is based on the relationship between the expected loss and the change in the macroeconomic parameters included in each of the three scenarios prepared on the basis of the Group's own internal forecasts. The forecast ratios include, among other things, GDP growth rates and the unemployment rate, since these parameters have the biggest impact on the recognized changes in the valuation of the Group's assets. In the models of risk parameters (in particular, the probability of default (PD) model), average values of these ratios over a period of 2 years have been used in order to adequately reflect the significant quarterly variability of macroeconomic parameters. The additional allowance in respect of COVID-19 results from a significant deterioration in macroeconomic forecasts in all three scenarios. The increase in PD, which results from this deterioration, causes increases in the expected losses on the individual loans and, for some of them, increased migrations to Stage 2.

The following tables present the forecasts of the main macroeconomic indicators as at 30 June 2020 and 31 December 2019 and the probabilities of their materialization.

scenario as at 30.06.2020	base	optimistic	pessimistic
probability	75%	5%	20%
	average for the following two years	average for the following two years	average for the following two years
GDP growth y/y		0.4	2.6
Unemployment rate		5.3	4.6
WIBOR 3M		0.3	0.6
real estate price index		96.1	98.8
CHF/PLN		4.2	4.0

scenario as at 31.12.2019	base	optimistic	pessimistic
probability	80%	10%	10%
	average for the following two years	average for the following two years	average for the following two years
GDP growth y/y		3.9	5.7
Unemployment rate		3.3	2.5
WIBOR 3M		1.7	2.7
real estate price index		112.1	120.7
CHF/PLN		4.0	3.7

• FINANCIAL ASSETS WRITTEN OFF DURING THE DEBT RECOVERY PERIODS

The table below presents the outstanding amounts to be repaid from financial assets which were written off during the reporting period and which are still the subject of debt recovery activities.

RECEIVABLES WRITTEN OFF	01.01-30.06.2020		01.01-30.06.2019	
	Partly written off	Fully written off	Partly written off	Fully written off
Securities				
measured at fair value through other comprehensive income	-	-	3	-
Loans and advances to customers				
measured at amortized cost				
property	10	172	52	384
corporate	2	6	28	26
consumer	2	41	15	222
finance lease receivables	6	90	9	119
Other financial assets	-	35	-	17
	-	1	-	-
Total	10	173	55	384

• **LOAN QUALITY RATIOS**

LOAN QUALITY RATIOS (excluding adjustments relating to fair value hedge accounting)	30.06.2020	31.12.2019
Share of impaired exposures ¹	4,1%	4,1%
Coverage ratio of impaired loans ²	82,2%	74,4%
Share of loans overdue for more than 90 days in gross loans and advances to customers	2,7%	2,6%

¹ The share of impaired exposures was determined for loans and securities (excluding NBP bills, Treasury bonds and debt securities secured by guarantees from the State Treasury), measured at amortized cost, and loans measured at fair value through other comprehensive income, as the ratio of the gross amount of impaired exposures to the total gross amount of loans and securities (excluding NBP bills, Treasury bonds and debt securities securities secured by guarantees from the State Treasury) measured at amortized cost and loans measured at fair value through other comprehensive income.

² The coverage ratio for impaired loans was determined as the ratio of total allowances for expected credit losses on loans and securities (excluding NBP bills, Treasury bonds and debt securities securities secured by guarantees from the State Treasury), measured at amortized cost and loans measured at fair value through other comprehensive income, to the gross amount of impaired exposures from this portfolio.

• **FINANCIAL ASSETS IMPAIRED UPON INITIAL RECOGNITION – POCI**

Principles of classifying financial assets in POCI categories are described in the note “Description of significant accounting policies” in the Group consolidated financial statements for 2019.

PURCHASED OR ORIGINATED CREDIT-IMPAIRED FINANCIAL ASSETS (POCI) – 30.06.2020	Gross amount	Impairment allowances	Net amount
Securities measured at fair value through other comprehensive income	449	-	449
Loans and advances to customers	257	(51)	206
measured at fair value through OCI	1	(1)	-
measured at amortized cost	256	(50)	206
Total	706	(51)	655

PURCHASED OR ORIGINATED CREDIT-IMPAIRED FINANCIAL ASSETS (POCI) – 31.12.2019	Gross amount	Impairment allowances	Net amount
Securities measured at fair value through other comprehensive income	463	(5)	458
Loans and advances to customers	387	(67)	320
measured at fair value through OCI	1	(1)	-
measured at amortized cost	386	(66)	320
Total	850	(72)	778



Bank Polski

• OVERDUE FINANCIAL ASSETS WHICH ARE OR MAY BE IMPAIRED

EXPOSURES PAST DUE 30.06.2020	stage 1		stage 2				stage 3				TOTAL
	up to 30 days	TOTAL	up to 30 days	30 to 90 days	over 90 days	TOTAL	up to 30 days	30 to 90 days	over 90 days	TOTAL	
Loans and advances to customers:	1 322	1 322	958	641	39	1 638	103	165	1 615	1 883	4 843
bank loans	458	458	534	182	6	722	67	88	1 425	1 580	2 760
property	224	224	400	77	-	477	26	43	256	325	1 026
corporate	91	91	60	50	6	116	22	23	937	982	1 189
consumer	143	143	74	55	-	129	19	22	232	273	545
factoring receivables	190	190	3	213	29	245	2	1	2	5	440
finance lease receivables	674	674	421	246	4	671	34	76	188	298	1 643
Total, net	1 322	1 322	958	641	39	1 638	103	165	1 615	1 883	4 843

EXPOSURES PAST DUE 31.12.2019	stage 1		stage 2				stage 3				TOTAL
	up to 30 days	TOTAL	up to 30 days	30 to 90 days	over 90 days	TOTAL	up to 30 days	30 to 90 days	over 90 days	TOTAL	
Loans and advances to customers:	2 755	2 755	1 822	803	22	2 647	255	263	1 767	2 285	7 687
bank loans	1 154	1 154	1 006	320	-	1 326	183	149	1 580	1 912	4 392
property	380	380	718	174	-	892	78	78	300	456	1 728
corporate	541	541	138	72	-	210	78	42	1 061	1 181	1 932
consumer	233	233	150	74	-	224	27	29	219	275	732
factoring receivables	132	132	4	60	17	81	33	-	-	33	246
finance lease receivables	1 469	1 469	812	423	5	1 240	39	114	187	340	3 049
Total, net	2 755	2 755	1 822	803	22	2 647	255	263	1 767	2 285	7 687

40. CONCENTRATION OF CREDIT RISK AT THE GROUP

The Group defines credit concentration risk as the risk arising from a considerable exposure to single entities or groups of entities whose repayment capacity depends on a common risk factor. The Group analyses the risk of concentration, among others, towards:

- the largest entities (customers);
 - the largest groups of related customers;
 - industry sectors;
 - geographical regions;
 - currencies;
 - exposures secured with a mortgage.
- **CONCENTRATION BY THE LARGEST ENTITIES (CUSTOMERS)**

The Polish Banking Law sets the limits of the maximum exposure of the Bank which are translated to the Group. The risk of concentration of exposures to individual customers and groups of related customers is monitored in accordance with the CRR, according to which the Group shall not assume an exposure to a customer or a group of related customers whose value exceeds 25% of the value of its recognized capital.

As at 30 June 2020 and 31 December 2019, concentration limits were not exceeded. As at 30 June 2020, the largest exposure to a single entity accounted for 43.03% of the recognized consolidated capital¹ (9.62% as at 31 December 2019).

The Group's exposure to the 20 largest non-banking customers:

30.06.2020				31.12.2019			
No.	Credit exposure includes loans, advances, purchased debt, discounted bills of exchange, realized guarantees, interest receivables and off-balance sheet and capital exposures	Share in the loan portfolio, including off-balance sheet and capital exposures	Share in the Group's recognized capital	No.	Credit exposure includes loans, advances, purchased debt, discounted bills of exchange, realized guarantees, interest receivables and off-balance sheet and capital exposures	Share in the loan portfolio, including off-balance sheet and capital exposures	Share in the Group's recognized capital
1 ¹	17 207	5,09%	43,03%	1 ¹	3 792	1,18%	9,62%
2	2 953	0,87%	7,39%	2	3 753	1,16%	9,52%
3	2 636	0,78%	6,59%	3	2 899	0,90%	7,35%
4	2 473	0,73%	6,18%	4	2 717	0,84%	6,89%
5	2 453	0,73%	6,13%	5	2 679	0,83%	6,80%
6	2 429	0,72%	6,07%	6	2 583	0,80%	6,55%
7	2 342	0,69%	5,86%	7	2 453	0,76%	6,22%
8	2 168	0,64%	5,42%	8	2 270	0,70%	5,76%
9 ¹	2 006	0,59%	5,02%	9	1 792	0,56%	4,55%
10	1 939	0,57%	4,85%	10	1 547	0,48%	3,92%
11	1 562	0,46%	3,90%	11	1 279	0,40%	3,24%
12	1 100	0,33%	2,75%	12	1 098	0,34%	2,79%
13	1 057	0,31%	2,64%	13	961	0,30%	2,44%
14	915	0,27%	2,29%	14	961	0,30%	2,44%
15	821	0,24%	2,05%	15	817	0,25%	2,07%
16	817	0,24%	2,04%	16 ¹	798	0,25%	2,02%
17	796	0,24%	1,99%	17	743	0,23%	1,88%
18	778	0,23%	1,95%	18	689	0,21%	1,75%
19	765	0,23%	1,91%	19	670	0,21%	1,70%
20	728	0,22%	1,82%	20	664	0,21%	1,68%
Total	47 945	14,18%	119,89%	Total	35 165	10,90%	89,19%

¹ exposure before accounting for exclusions from exposure concentration limit and credit risk mitigation techniques

¹ in calculating the ratio, exposures to the State Treasury which controls the customer/group of customers were not taken into account and the exposures were not reduced by the amounts eliminated from the exposure concentration limits or recognized credit risk mitigation techniques allowed by the EU Resolution No. 575/2013)



- **CONCENTRATION BY THE LARGEST GROUPS OF RELATED CUSTOMERS**

The largest concentration of the Group's exposure to a group of related borrowers amounted to 5.39% of the Group's loan portfolio (1.42% as at 31 December 2019).

As at 30 June 2020 and as at 31 December 2019, the largest concentration of the Group's exposures amounted to 45.6% and 11.7% of eligible consolidated capital respectively.¹

- **CONCENTRATION BY INDUSTRY**

The structure of the Group's exposure by industry is dominated by entities operating in the "Financial and insurance activity" and "Industrial processing" sections. The Group's exposure to these industries represents approximately 32% of the entire industry portfolio.

SECTION	SECTION NAME	30.06.2020		31.12.2019	
		EXPOSURE	NUMBER OF ENTITIES	EXPOSURE	NUMBER OF ENTITIES
K	Financial and insurance activities	26,76%	1,98%	17,10%	1,99%
C	Industrial processing	14,50%	11,17%	15,32%	11,34%
O	Public administration and national defence, mandatory social security	11,34%	0,21%	12,45%	0,24%
G	Wholesale and retail trade, repair of motor vehicles	10,19%	22,24%	11,57%	22,59%
L	Real estate administration	9,97%	13,32%	10,53%	13,85%
	Other exposures	27,24%	51,08%	33,03%	49,99%
	Total	100,00%	100,00%	100,00%	100,00%

41. FORBEARANCE PRACTICES

Forbearance is defined by the Group as actions aimed at amending contractual terms agreed with a debtor or an issuer, forced by the debtor's or issuer's difficult financial situation (restructuring activities introducing concessions that otherwise would not have been granted). The aim of forbearance activities is to restore a debtor's or an issuer's ability to settle their liabilities towards the Group and to maximize the efficiency of non-performing loans management, i.e. obtaining the highest possible recoveries while minimizing the costs incurred.

¹ in calculating the ratio exposure to the State Treasury which controls the customer/group of customers was not taken into account and the exposure was not reduced by the amount of eliminations from the exposure concentration limits or recognized credit risk mitigation techniques allowed by the EU Regulation No. 575/2013)

CONDENSED INTERIM CONSOLIDATED FINANCIAL
STATEMENTS OF THE PKO BANK POLSKI S.A. GROUP
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2020
(IN PLN MILLION)



Bank Polski

30.06.2020	Performing exposures subject to forbearance					Non-performing exposures subject to forbearance					Exposures subject to forbearance, gross	Exposures subject to forbearance, net
	Instruments with modified terms and conditions	Refinancing	Total, gross	Impairment allowance	Total, net	Instruments with modified terms and conditions	Refinancing	Total, gross	Impairment allowance	Total, net		
Not held for trading, measured at fair value through profit or loss:	19	-	19	-	19	207	-	207	-	207	226	226
Consumer loans	19	-	19	-	19	44	-	44	-	44	63	63
Corporate bonds (in PLN)	-	-	-	-	-	163	-	163	-	163	163	163
Measured at fair value through OCI:	-	-	-	-	-	470	-	470	-	470	470	470
Corporate bonds (in PLN)	-	-	-	-	-	470	-	470	-	470	470	470
Measured at amortized cost:	972	1	973	(62)	911	2 093	35	2 128	(886)	1 242	3 101	2 153
Property loans	500	-	500	(34)	466	483	-	483	(253)	230	983	696
Corporate loans	399	1	400	(21)	379	1 410	33	1 443	(582)	861	1 843	1 240
Consumer loans	67	-	67	(7)	60	122	2	124	(36)	88	191	148
Factoring receivables	-	-	-	-	-	-	-	-	-	-	-	-
Finance lease receivables	6	-	6	-	6	78	-	78	(15)	63	84	69
Corporate bonds (in PLN)	-	-	-	-	-	-	-	-	-	-	-	-
Total	991	1	992	(62)	930	2 770	35	2 805	(886)	1 919	3 797	2 849

31.12.2019	Performing exposures subject to forbearance					Non-performing exposures subject to forbearance					Exposures subject to forbearance, gross	Exposures subject to forbearance, net
	Instruments with modified terms and conditions	Refinancing	Total, gross	Impairment allowance	Total, net	Instruments with modified terms and conditions	Refinancing	Total, gross	Impairment allowance	Total, net		
Not held for trading, measured at fair value through profit or loss:	19	-	19	-	19	216	-	216	-	216	235	235
Consumer loans	19	-	19	-	19	37	-	37	-	37	56	56
Corporate bonds (in PLN)	-	-	-	-	-	179	-	179	-	179	179	179
Measured at fair value through OCI:	-	-	-	-	-	463	-	463	(5)	458	463	458
Corporate bonds (in PLN)	-	-	-	-	-	463	-	463	(5)	458	463	458
Measured at amortized cost:	1 129	1	1 130	(70)	1 060	2 068	45	2 113	(822)	1 291	3 243	2 351
Property loans	466	-	466	(27)	439	485	-	485	(226)	259	951	698
Corporate loans	600	1	601	(39)	562	1 399	42	1 441	(548)	893	2 042	1 455
Consumer loans	55	-	55	(4)	51	114	3	117	(36)	81	172	132
Factoring receivables	-	-	-	-	-	-	-	-	-	-	-	-
Finance lease receivables	8	-	8	-	8	70	-	70	(12)	58	78	66
Total	1 148	1	1 149	(70)	1 079	2 747	45	2 792	(827)	1 965	3 941	3 044

42. LEGAL RISKS RELATED TO MORTGAGE LOANS IN CONVERTIBLE CURRENCIES

The Group analyses its portfolio of property loans to individuals in a specific manner. The Group monitors the quality of the portfolio on an on-going basis and reviews the risk of deterioration in the quality of the portfolio.

PROPERTY LOANS AND ADVANCES TO INDIVIDUALS (RETAIL AND PRIVATE BANKING) BY CURRENCY	30.06.2020			31.12.2019		
	gross	allowance	net	gross	allowance	net
in local currencies	92 319	(1 145)	91 174	89 924	(1 055)	88 869
PLN	92 105	(1 126)	90 979	89 715	(1 034)	88 681
UAH	214	(19)	195	209	(21)	188
in foreign currencies	24 723	(857)	23 866	24 294	(751)	23 543
CHF	21 845	(794)	21 051	21 410	(692)	20 718
EUR	2 827	(59)	2 768	2 825	(53)	2 772
USD	42	(4)	38	50	(6)	44
OTHER	9	-	9	9	-	9
TOTAL	117 042	(2 002)	115 040	114 218	(1 806)	112 412

PROPERTY LOANS AND ADVANCES TO INDIVIDUALS IN FOREIGN CURRENCIES BY GRANTING DATE		INDEXED	DENOMINATED	Total
30.06.2020				
up to 2002	Gross amount	-	90	90
	Allowances for credit losses	-	(2)	(2)
	Net amount	-	88	88
	Number of loans granted [number of items]	-	6 221	6 221
from 2003 to 2006	Gross amount	-	4 984	4 984
	Allowances for credit losses	-	(122)	(122)
	Net amount	-	4 862	4 862
	Number of loans granted [number of items]	-	45 417	45 417
from 2007 to 2009	Gross amount	-	13 116	13 116
	Allowances for credit losses	-	(623)	(623)
	Net amount	-	12 493	12 493
	Number of loans granted [number of items]	-	53 281	53 281
from 2010 to 2012	Gross amount	3 420	3 094	6 514
	Allowances for credit losses	(45)	(64)	(109)
	Net amount	3 375	3 030	6 405
	Number of loans granted [number of items]	10 930	12 331	23 261
from 2013 to 2016	Gross amount	5	14	19
	Allowances for credit losses	-	(1)	(1)
	Net amount	5	13	18
	Number of loans granted [number of items]	18	44	62
Total	Gross amount	3 425	21 298	24 723
	Allowances for credit losses	(45)	(812)	(857)
	Net amount	3 380	20 486	23 866
	Number of loans granted [number of items]	10 948	117 294	128 242

PROPERTY LOANS AND ADVANCES TO INDIVIDUALS IN FOREIGN CURRENCIES BY GRANTING DATE		INDEXED	DENOMINATED	Total
31.12.2019				
up to 2002	Gross amount	-	98	98
	Allowances for credit losses	-	(2)	(2)
	Net amount	-	96	96
	Number of loans granted [number of items]	-	6 704	6 704
from 2003 to 2006	Gross amount	-	4 974	4 974
	Allowances for credit losses	-	(107)	(107)
	Net amount	-	4 867	4 867
	Number of loans granted [number of items]	-	47 821	47 821
from 2007 to 2009	Gross amount	-	12 756	12 756
	Allowances for credit losses	-	(544)	(544)
	Net amount	-	12 212	12 212
	Number of loans granted [number of items]	-	54 056	54 056
from 2010 to 2012	Gross amount	3 362	3 085	6 447
	Allowances for credit losses	(39)	(57)	(96)
	Net amount	3 323	3 028	6 351
	Number of loans granted [number of items]	11 115	12 709	23 824
from 2013 to 2016	Gross amount	5	14	19
	Allowances for credit losses	-	(2)	(2)
	Net amount	5	12	17
	Number of loans granted [number of items]	18	47	65
Total	Gross amount	3 367	20 927	24 294
	Allowances for credit losses	(39)	(712)	(751)
	Net amount	3 328	20 215	23 543
	Number of loans granted [number of items]	11 133	121 337	132 470

IMPACT OF LEGAL RISKS CONCERNING MORTGAGE LOANS IN CONVERTIBLE CURRENCIES	30.06.2020	31.12.2019
Loans and advances to customers - adjustment reducing the carrying amount of loans due to:		
- potential future litigation	577	422
- pending proceedings	318	281
Provisions for:	259	141
- potential future litigation	82	29
- pending proceedings	47	29
	35	-
TOTAL	659	451

IMPACT OF LEGAL RISKS CONCERNING MORTGAGE LOANS IN CONVERTIBLE CURRENCIES	second quarter period from 01.04.2020 to 30.06.2020	2 quarters cumulative period from 01.01.2020 to 30.06.2020	second quarter period from 01.04.2019 to 30.06.2019	2 quarters cumulative period from 01.01.2019 to 30.06.2019
Cost of legal risks concerning mortgage loans in convertible currencies	(105)	(190)	-	(4)

43. INTEREST RATE RISK MANAGEMENT

The Group adapted its asset and liability structure and concluded several hedging transactions with the use of IRS to adapt to the low interest rate environment. The Group continues actions aimed at immunization with respect to interest rate risk striving to minimize the following measures: sensitivity of interest income and of the economic value by appropriately shaping the product policy, the balance sheet and off-balance sheet items and actively hedging items using IRS transactions (including with the use of hedge accounting).

- **SENSITIVITY OF INTEREST INCOME**

The sensitivity of interest income in the banking book of the Group to the abrupt shift in the yield curve of -100 bp in a one-year horizon in all currencies is shown in the table below:

NAME OF SENSITIVITY MEASURE	30.06.2020	31.12.2019
Sensitivity of interest income (PLN million)	(819)	(907)

The table below presents the economic value sensitivity measure at a shift in the yield curve of the banking book of the Group of + 1 bp (BPV) in all currencies:

NAME OF SENSITIVITY MEASURE	30.06.2020	31.12.2019
Sensitivity of economic value (PLN million)	(7)	3

- **VALUE AT RISK**

The IR VaR in the Bank's trading book is shown in the table below:

NAME OF SENSITIVITY MEASURE	30.06.2020	31.12.2019
IR VaR for a 10-day time horizon at the confidence level of 99% (in PLN million):		
Average value	10	5
Maximum value	18	10
As at the end of the period	12	6

44. CURRENCY RISK MANAGEMENT

- **SENSITIVITY MEASURES**

The Bank's FX VaR, in aggregate for all currencies, is presented in the table below:

SENSITIVITY MEASURE	30.06.2020	31.12.2019
VaR for a 10-day time horizon at the confidence level of 99% (in PLN million) ¹	7	9

¹ Taking into account the nature of the operations of the other Group companies which generate material currency risk and the specific characteristics of the market in which they operate, the Group does not determine the consolidated VaR sensitivity measure. Such companies use their own risk measures to manage their interest rate risk. KREDOBANK S.A. applies the 10-day VaR which amounted to PLN 0.1 million as at 30 June 2020 and to approx. PLN 0.1 million as at 31 December 2019.

- **FOREIGN CURRENCY POSITION**

The Group's foreign currency positions are presented in the table below:

FOREIGN CURRENCY POSITION	30.06.2020	31.12.2019
EUR	53	(152)
CHF	(128)	(238)
Other (Global, Net)	111	7

Currency positions (in addition to volatility of foreign exchange rates) are a key factor determining the level of currency risk to which the Group is exposed. The foreign currency positions are determined by all foreign currency transactions concluded, both in the statement of financial position and off-balance sheet transactions. The Group's exposure to currency risk is low.

45. LIQUIDITY RISK MANAGEMENT

The Group monitors and assesses the impact of potential risks related to the impact of the COVID-19 pandemic on its liquidity position taking into account stress-test scenarios relating to: increased outflows from the deposit base, the use of the concessions offered to the Group's customers, i.e. the credit breaks, an increase in the use of off-balance sheet liabilities by the Group's customers and an increased demand for borrowings within the Group.

The Group maintains a safe level of liquidity that enables fast and effective reaction to potential threats that may occur at times of uncertainty caused by the COVID-19 pandemic. This level of liquidity ensures safety within the whole Group.

• LIQUIDITY GAP

	on demand	0-1 month	1-3 months	3-6 months	6-12 months	12-24 months	24-60 months	over 60 months
30.06.2020								
Adjusted periodic gap in real terms	2 202	70 343	(7 595)	(7 077)	6 145	2 335	18 499	(84 852)
Adjusted cumulative periodic gap in real terms	2 202	72 545	64 950	57 873	64 018	66 353	84 852	
31.12.2019								
Adjusted periodic gap in real terms	11 355	30 783	(8 092)	(7 285)	(3 317)	5 024	18 205	(46 673)
Adjusted cumulative periodic gap in real terms	11 355	42 138	34 046	26 761	23 444	28 468	46 673	

In all time horizons, the adjusted cumulative liquidity gap of the Group, determined as the sum of the adjusted liquidity gaps of the Bank, PKO Bank Hipoteczny, PKO Leasing S.A., KREDOBANK and PKO Życie Towarzystwo Ubezpieczeń S.A. and the contractual liquidity gaps of the other Group companies, was positive both as at 30 June 2020 and 31 December 2019. This means that the Group has a surplus of the assets receivable over the liabilities payable.

• SUPERVISORY LIQUIDITY MEASURES

SUPERVISORY LIQUIDITY MEASURES	30.06.2020	31.12.2019
M3 - coverage ratio of non-liquid assets to own funds	14,13	14,92
M4 - coverage ratio of non-liquid assets and liquidity-restricted assets with own funds and stable external funds	1,35	1,25
NSFR - net stable funding ratio	132,7%	123,1%
LCR - liquidity coverage ratio	194,0%	146,3%

The supervisory liquidity measures remained above their respective supervisory limits. The LCR and NSFR ratios in the table refer to the Group, while the M3-M4 indicators refer to the Bank.

46. CAPITAL ADEQUACY

• CAPITAL ADEQUACY

In accordance with Article 92 of the CRR, the minimum levels of the capital ratios to be maintained by the Group are as follows:

- total capital ratio (TCR) – 8.0%;
- Tier 1 capital ratio (T1) – 6.0%;
- Tier 1 core capital ratio (CET1) – 4.5%.

In accordance with the Act on macro-prudential supervision, the Group is obliged to maintain a combined buffer above the minimum set in Article 92 of the CRR, representing the sum of the applicable buffers, namely:

- a capital conservation buffer which applies to all banks. As at 30 June 2020, the buffer amounted to 2.5%;
- the countercyclical buffer imposed to mitigate the systemic risk arising from the credit cycle. The Group calculates the countercyclical buffer at the level specified by the relevant authority of the country where the Group has exposures. The countercyclical buffer for loan exposures on the territory of Poland is equal to 0%. Due to the fact that the Group also conducts foreign activities, the level of the countercyclical buffer specific to the Group as at 30 June 2020 is 0.01%;
- a systemic risk buffer – intended to prevent and mitigate long-term non-cyclical risk or prudential risk which may result in strong negative consequences for the financial system and the economy of a given country. On 19 March 2020, as a result of the COVID-19 epidemic, the systemic risk buffer was cancelled by decree of the Minister of Finance. As a result, as at 30 June 2020, the systemic risk buffer amounted to 0%;
- The O-SII buffer related to the Bank being identified as a systemically important institution, which has not changed, and as at 30 June 2020 it amounts to 1% of the total exposure to risk calculated in accordance with the CRR.

Furthermore, the Group is obliged to maintain own funds to cover an additional capital requirement in order to hedge the risk resulting from mortgage-secured loans and advances to households denominated in foreign currencies (“a discretionary capital requirement”) which for consolidated capital ratios as at 30 June 2020 was: 0.36 p.p. for the total capital ratio; 0.27 p.p. for Tier 1 capital ratio; and 0.20 p.p. for Tier 1 core capital ratio.

Irrespective of the above buffers, to meet the requirements for distributing 100% of the profit, the Polish Financial Supervision Authority determined an add-on in respect of the Bank’s sensitivity to an adverse macroeconomic scenario, of 0.10 p.p.

- **OWN FUNDS FOR THE PURPOSE OF CAPITAL ADEQUACY**

The Group's capital adequacy remained at a safe level, well above the supervisory limits.

	30.06.2020	31.12.2019
Total own funds	39 993	39 417
Tier 1 capital	37 293	36 717
Share capital	1 250	1 250
Supplementary capital	29 546	29 428
General banking risk fund	1 070	1 070
Other reserves	3 140	3 160
Accumulated other comprehensive income (excluding cash flow hedges)	900	238
share in other comprehensive income of associates and joint ventures	(12)	(12)
fair value of financial assets measured at fair value through OCI	1 150	459
actuarial gains and losses	(16)	(16)
foreign exchange differences on translation of foreign operations	(222)	(193)
Current period profit/loss (reduced by expected charges, as approved by the PFSA)	-	1 038
Unappropriated profit/ (including profit for 2019 as approved by the PFSA)	3 455	2 417
Intangible assets	(2 638)	(2 820)
(-) Goodwill	(961)	(1 109)
(-) Other intangible assets	(1 677)	(1 711)
Adjustments to Tier 1	570	936
fair value gains and losses arising from the institution's own credit risk related to derivative liabilities (DVA)	(14)	(10)
additional valuation adjustment (AVA)	(194)	(84)
adjustment resulting from application of temporary solutions alleviating the impact of IFRS 9 on own funds	848	1 030
securitization positions	(70)	-
Tier 2 capital	2 700	2 700
Equity instruments and subordinated loans eligible as Tier 2 capital	2 700	2 700
Requirements for own funds	17 571	17 120
Credit risk	15 933	15 835
Operational risk ¹	1 212	843
Market risk	397	419
Credit valuation adjustment risk	29	23
Total capital adequacy ratio	18,21%	18,42%
Tier 1 capital ratio	16,98%	17,16%

¹ In the six-month period ended 30 June 2020, the consolidated own funds requirement in respect of operational risk increased by PLN 369 million, mainly as a result of including the cost of legal risk associated with the convertible currency mortgage loan portfolio in the fourth quarter of 2019.

The impact of IFRS 9 on own funds and capital adequacy measures is regulated by Regulation (EU) 2017/2395 of the European Parliament and of the Council of 12 December 2017 amending Regulation (EU) No 575/2013 as regards transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds and for the large exposures treatment of certain public sector exposures denominated in the domestic currency of any Member State. In accordance with this regulation, the banks may apply transitional provisions for own funds and increase Tier 1 common equity relating to the implementation of the new impairment model over 5 consecutive years after 1 January 2018, with the scaling factor decreasing from one period to another. In addition, on 27 June 2020 the Regulation (EU) 2020/873 of the European Parliament and of the Council amending Regulations (EU) No 575/2013 and (EU) 2019/876 as regards certain adjustments in response to the COVID-19 pandemic became binding. This regulation allows mitigating the impact of the allowances set up as of 1 January 2020 on Tier 1 capital.

This solution may be applied until 2024 inclusive, and the attributed scaling factor decreases from period to period. In the light of Article 473a.(7a) of the CRR introduced by the said regulation the Bank decided to use the option in accordance with which a risk weight equal to 100% is applied to the adjustment mitigating the effect of implementing IFRS 9 on own funds and the resulting amount is added to the total exposure measure. With respect to data for December 2019 an adjusting coefficient was used to correct specific risk by which the exposure amount calculated according to the provisions of Article 473a (7b) of CRR is decreased.

As a result of the depreciation of the Polish zloty against other currencies, the Bank recognized an increase of approx. PLN 240 million in the own funds requirement in respect of credit risk relating to currency exposures compared with the fourth quarter of 2019.

For prudential consolidation purposes the Group consists of:

- PKO Bank Polski S.A.;
- PKO Leasing S.A. Group;
- PKO BP BANKOWY PTE S.A.;
- PKO Towarzystwo Funduszy Inwestycyjnych S.A.;
- KREDOBANK S.A. Group;
- PKO Finance AB;
- PKO BP Finat sp. z o.o.;
- PKO Bank Hipoteczny S.A.;
- Bankowe Towarzystwo Kapitałowe S.A. Group.

Non-financial and insurance entities are excluded from the prudential consolidation.

CONSOLIDATED INCOME STATEMENT COMPLIANT WITH THE CRR

CONSOLIDATED INCOME STATEMENT	01.01.2020- 30.06.2020	01.01.2019- 30.06.2019
Interest income	6 255	6 193
Interest expense	(1 030)	(1 216)
Net interest income	5 225	4 977
Fee and commission income	2 271	2 084
Fee and commission expense	(502)	(515)
Net fee and commission income	1 769	1 569
Dividend income	15	12
Net gain/(loss) on financial instruments measured at fair value through profit or loss	(150)	58
Net foreign exchange gains/(losses)	50	243
Gains/(losses) on derecognition of financial instruments not measured at fair value through profit or loss	66	86
Net allowances for expected credit losses, including:	(1 131)	(647)
Net impairment allowances on non-financial assets	(16)	(5)
Cost of legal risk of mortgage loans in convertible currencies	(190)	(4)
Net other operating income and expense	97	207
Administrative expenses	(2 728)	(2 664)
Net regulatory charges	(503)	(415)
Tax on certain financial institutions	(529)	(499)
Operating profit/(loss)	1 975	2 918
Share in profits and losses of associates and joint ventures	59	17
Profit before tax	2 034	2 935
Income tax expense	(720)	(863)
Net profit (including non-controlling shareholders)	1 314	2 072
Profit (loss) attributable to non-controlling shareholders	-	-
Net profit attributable to equity holders of the parent	1 314	2 072

The table below shows a reconciliation of items of the statement of financial position used to calculate own funds with the regulatory own funds as at 30 June 2020 and 31 December 2019.

30.06.2020	Statement of financial position under IFRS	Elimination of companies excluded from prudential consolidation	Prudential consolidation/ Statement of financial position under CRR	Items not included in regulatory own funds	Items included in regulatory own funds
ASSETS					
Intangible assets	2 984	(161)	2 823	(185)	2 638
LIABILITIES					
Subordinated liabilities	2 730	-	2 730	(30)	2 700
EQUITY					
Share capital	1 250	-	1 250	-	1 250
Supplementary capital	29 519	27	29 546	-	29 546
General banking risk fund	1 070	-	1 070	-	1 070
Other reserves	3 245	(105)	3 140	-	3 140
Accumulated other comprehensive income	1 642	(3)	1 639	(739)	900
share in other comprehensive income of subsidiaries, associates and joint ventures	(13)	1	(12)	-	(12)
fair value of financial assets measured at fair value through other comprehensive income	1 151	(1)	1 150	-	1 150
cash flow hedges	737	2	739	(739)	-
actuarial gains and losses	(15)	(1)	(16)	-	(16)
foreign exchange differences on translation of foreign operations	(218)	(4)	(222)	-	(222)
Net profit or loss for the year	1 306	8	1 314	(1 314)	-
Retained earnings	6 034	335	6 369	(2 914)	3 455
Non-controlling interests	(12)	12	-	-	-
TOTAL EQUITY	44 054	274	44 328	(4 967)	39 361
ADDITIONAL ADJUSTMENTS					570
fair value gains and losses arising from the institution's own credit risk related to derivative liabilities (DVA)					(14)
additional valuation adjustment (AVA)					(194)
adjustment resulting from transitional solutions to mitigate the impact of IFRS 9 adoption on equity					848
securitization positions					(70)
TOTAL OWN FUNDS FOR CALCULATION OF THE TOTAL CAPITAL RATIO					39 993

CONDENSED INTERIM CONSOLIDATED FINANCIAL
STATEMENTS OF THE PKO BANK POLSKI S.A. GROUP
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2020
(IN PLN MILLION)



Bank Polski

31.12.2019	Statement of financial position under IFRS	Elimination of companies excluded from prudential consolidation	Prudential consolidation/ Statement of financial position under CRR	Items not included in regulatory own funds	Items included in regulatory own funds
ASSETS					
Intangible assets	3 178	(164)	3 014	(194)	2 820
LIABILITIES					
Subordinated liabilities	2 730	-	2 730	(30)	2 700
EQUITY					
Share capital	1 250	-	1 250	-	1 250
Supplementary capital	29 429	(1)	29 428	-	29 428
General banking risk fund	1 070	-	1 070	-	1 070
Other reserves	3 237	(77)	3 160	-	3 160
Accumulated other comprehensive income	469	-	469	(231)	238
share in other comprehensive income of subsidiaries, associates and joint ventures	(13)	1	(12)	-	(12)
fair value of financial assets measured at fair value through other comprehensive income	456	3	459	-	459
cash flow hedges	232	(1)	231	(231)	-
actuarial gains and losses	(15)	(1)	(16)	-	(16)
foreign exchange differences on translation of foreign operations	(191)	(2)	(193)	-	(193)
Net profit or loss for the year	4 031	19	4 050	(3 012)	1 038
Retained earnings	2 101	316	2 417	-	2 417
Non-controlling interests	(9)	9	-	-	-
TOTAL EQUITY	41 578	266	41 844	(3 243)	38 601
ADDITIONAL ADJUSTMENTS					
fair value gains and losses arising from the institution's own credit risk related to derivative liabilities (DVA)					(10)
additional valuation adjustment (AVA)					(84)
adjustment resulting from transitional solutions to mitigate the impact of IFRS 9 adoption on equity					1 030
TOTAL OWN FUNDS FOR CALCULATION OF THE TOTAL CAPITAL RATIO					39 417

• **LEVERAGE RATIO**

	Leverage ratio exposures specified in CRR	
	30.06.2020	31.12.2019
Total capital and exposure measure		
Tier 1 capital	37 293	36 717
Total exposure measure for leverage ratio calculation	392 894	364 618
Leverage ratio		
Leverage ratio	9,49%	10,07%

47. SUBSEQUENT EVENTS

No events which could have a significant impact on future results of operations occurred after the date of the financial statements.

SIGNATURES OF ALL MEMBERS OF THE BANK'S MANAGEMENT BOARD

04.08.2020	ZBIGNIEW JAGIEŁŁO	PRESIDENT OF THE MANAGEMENT BOARD
04.08.2020	RAFAŁ ANTCZAK	VICE-PRESIDENT OF THE MANAGEMENT BOARD
04.08.2020	RAFAŁ KOZŁOWSKI	VICE-PRESIDENT OF THE MANAGEMENT BOARD
04.08.2020	MAKS KRACZKOWSKI	VICE-PRESIDENT OF THE MANAGEMENT BOARD
04.08.2020	MIECZYŚLAW KRÓL	VICE-PRESIDENT OF THE MANAGEMENT BOARD
04.08.2020	ADAM MARCINIAK	VICE-PRESIDENT OF THE MANAGEMENT BOARD
04.08.2020	PIOTR MAZUR	VICE-PRESIDENT OF THE MANAGEMENT BOARD
04.08.2020	JAKUB PAPIERSKI	VICE-PRESIDENT OF THE MANAGEMENT BOARD
04.08.2020	JAN EMERYK ROŚCISZEWSKI	VICE-PRESIDENT OF THE MANAGEMENT BOARD

SIGNATURE OF THE PERSON RESPONSIBLE FOR MAINTAINING
THE BOOKS OF ACCOUNT

DANUTA SZYMAŃSKA
DIRECTOR OF THE ACCOUNTING DIVISION