



Bank Polski

**Condensed interim consolidated
financial statements
of the PKO Bank Polski SA Group
for the six-month period ended
30 June 2021**

**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF THE PKO BANK POLSKI SA GROUP
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2021
(IN PLN MILLION)**

SELECTED FINANCIAL DATA	PLN million		EUR million	
	period from 01.01.2021 to 30.06.2021	period from 01.01.2020 to 30.06.2020	period from 01.01.2021 to 30.06.2021	period from 01.01.2020 to 30.06.2020
Net interest income/(expense)	4 717	5 247	1 037	1 181
Net fee and commission income	2 099	1 892	462	426
Profit before tax	3 237	2 017	712	454
Net profit (including non-controlling shareholders)	2 412	1 303	530	293
Net profit attributable to the parent company	2 413	1 306	531	294
Earnings per share for the period - basic (in PLN/EUR)	1,93	1,04	0,42	0,23
Earnings per share for the period - diluted (in PLN/EUR)	1,93	1,04	0,42	0,23
Total net comprehensive income	1 150	2 476	253	557
Net cash from operating activities	(1 933)	(12 297)	(425)	(2 575)

SELECTED FINANCIAL DATA	PLN million		EUR million	
	30.06.2021	31.12.2020	30.06.2021	31.12.2020
Total assets	392 622	376 966	86 848	81 686
Total equity	41 061	39 911	9 083	8 648
Share capital	1 250	1 250	276	271
Number of shares (in million)	1 250	1 250	1 250	1 250
Book value per share (in PLN/EUR)	32,85	31,93	7,27	6,92
Diluted number of shares (in million)	1 250	1 250	1 250	1 250
Diluted book value per share (in PLN/EUR)	32,85	31,93	7,27	6,92
Total capital adequacy ratio	18,87%	18,18%	18,87%	18,18%
Tier 1	38 016	38 816	8 409	8 411
Tier 2	2 700	2 700	597	585

SELECTED FINANCIAL STATEMENT ITEMS HAVE BEEN TRANSLATED INTO EUR AT THE FOLLOWING RATES	period from 01.01.2021 to 30.06.2021	period from 01.01.2020 to 30.06.2020
arithmetic mean of NBP exchange rates at the end of a month (income statement, statement of comprehensive income and cash flow statement items)	4,5472	4,4413
	30.06.2021	31.12.2020
NBP mid exchange rates at the date indicated (statement of financial position items)	4,5208	4,6148

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CONSOLIDATED INCOME STATEMENT

INCOME STATEMENT	Note	second quarter period from 01.04.2021 to 30.06.2021	2 quarters cumulative period from 01.01.2021 to 30.06.2021	second quarter period from 01.04.2020 to 30.06.2020	2 quarters cumulative period from 01.01.2020 to 30.06.2020
Net interest income/(expense)	9	2 405	4 717	2 539	5 247
Interest income of which:		2 563	5 043	2 976	6 270
calculated under the effective interest rate method		2 350	4 630	2 669	5 682
Interest expenses		(158)	(326)	(437)	(1 023)
Net fee and commission income	10	1 055	2 099	914	1 892
Fee and commission income		1 333	2 612	1 143	2 392
Fee and commission expense		(278)	(513)	(229)	(500)
Other net income		276	493	98	(53)
Dividend income		11	11	14	14
Gains/(losses) on financial transactions	11	(26)	(15)	4	(146)
Foreign exchange gains/ (losses)		210	370	27	43
Gains/(losses) on derecognition of financial instruments of which:	12	61	95	39	82
measured at amortized cost		2	2	(11)	(24)
Net other operating income and expense	13	20	32	14	(46)
Result on business activities		3 736	7 309	3 551	7 086
Net expected credit losses	14	(261)	(430)	(385)	(876)
Net impairment allowances on non- financial assets	15	(18)	(33)	(149)	(265)
Cost of the legal risk of mortgage loans in convertible currencies	16	-	-	(105)	(190)
Administrative expenses of which:	17	(1 444)	(3 099)	(1 420)	(3 208)
net regulatory charges		(80)	(453)	(107)	(558)
Tax on certain financial institutions		(261)	(518)	(271)	(533)
Share in profits and losses of associates and joint ventures		8	8	(1)	3
Profit before tax		1 760	3 237	1 220	2 017
Income tax expense	18	(523)	(825)	(416)	(714)
Net profit (including non-controlling shareholders)		1 237	2 412	804	1 303
Profit (loss) attributable to non-controlling shareholders		1	(1)	1	(3)
Net profit attributable to equity holders of the parent company		1 236	2 413	803	1 306
Earnings per share					
- basic earnings per share for the period (PLN)		0,99	1,93	0,64	1,04
- diluted earnings per share for the period (PLN)		0,99	1,93	0,64	1,04
Weighted average number of ordinary shares during the period (in million)		1 250	1 250	1 250	1 250

*Both in the six-month period ended 30 June 2021 and in the same period of 2020, there were no dilutive instruments. Therefore, the amount of diluted earnings per share is the same as the amount of basic earnings per share.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

STATEMENT OF COMPREHENSIVE INCOME	Note	second quarter period from 01.04.2021 to 30.06.2021	2 quarters cumulative period from 01.01.2021 to 30.06.2021	second quarter period from 01.04.2020 to 30.06.2020	2 quarters cumulative period from 01.01.2020 to 30.06.2020
Net profit / (loss) (including non-controlling shareholders)		1 237	2 412	804	1 303
Other comprehensive income		(750)	(1 262)	758	1 173
Items which may be reclassified to profit or loss		(750)	(1 262)	758	1 173
Cash flow hedges (net)		(263)	(697)	53	505
Cash flow hedges (gross)	21	(325)	(862)	66	624
Deferred income tax	19;21	62	165	(13)	(119)
Hedge of net investment in foreign operation	21	(1)	(1)	-	-
Fair value of financial assets measured at fair value through other comprehensive income (net)		(474)	(583)	711	695
Remeasurement of fair value, gross		(525)	(629)	927	962
Gains /losses transferred to the profit or loss (on disposal)		(59)	(93)	(50)	(106)
Deferred income tax	18	110	139	(166)	(161)
Foreign exchange differences on translation of foreign branches		(12)	19	(6)	(27)
Total net comprehensive income, of which attributable to:		487	1 150	1 562	2 476
equity holders of the parent		486	1 151	1 561	2 479
non-controlling interest		1	(1)	1	(3)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	30.06.2021	31.12.2020
ASSETS		392 622	376 966
Cash and balances with Central Bank		3 945	7 474
Amounts due from banks	20	3 480	2 557
Hedging derivatives	21	620	958
Other derivative instruments	22	6 341	5 501
Securities	23	138 970	123 682
Reverse repo transactions		77	-
Loans and advances to customers	24	224 624	222 603
Liabilities in respect of insurance activities		847	798
Property, plant and equipment under operating lease	25	1 263	1 168
Property, plant and equipment	25	3 097	3 161
Non-current assets held for sale		13	126
Intangible assets	25	3 253	3 281
Investments in associates and joint ventures		263	291
Current income tax receivable		25	19
Deferred income tax assets		2 862	2 543
Other assets	26	2 942	2 804

		30.06.2021	31.12.2020
LIABILITIES AND EQUITY		392 622	376 966
LIABILITIES		351 561	337 055
Amounts due to Central Bank		8	-
Amounts due to banks	27	4 407	2 626
Hedging derivatives	21	837	378
Other derivative instruments	22	6 460	6 104
Transactions for the purpose of repurchase		57	-
Amounts due to customers	28	293 784	282 356
Liabilities in respect of insurance activities		1 847	1 740
Loans and advances received	29	2 097	2 267
Debt securities in issue	29	31 244	32 098
Subordinated liabilities	29	2 716	2 716
Other liabilities	30	6 010	4 703
Current income tax liabilities		149	193
Deferred income tax provision		365	372
Provisions	31	1 580	1 502
EQUITY		41 061	39 911
Share capital		1 250	1 250
Other capital		31 140	35 089
Retained earnings		6 272	6 142
Net profit or loss for the year		2 413	(2 557)
Capital and reserves attributable to equity holders of the parent company		41 075	39 924
Non-controlling interests		(14)	(13)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR 6 MONTHS ENDED 30 JUNE 2021	Share capital	Other capital Reserves			Accumulated other comprehensive income	Total other capital and reserves	Retained earnings	Net profit or loss for the year	Capital and reserves attributable to equity holders of the parent company	Total non-controlling interests	Total equity
		Supplementary capital	General banking risk fund	Other reserves							
As at the beginning of the period	1 250	29 519	1 070	3 137	1 363	35 089	6 142	(2 557)	39 924	(13)	39 911
Transfer from retained earnings	-	-	-	-	-	-	(2 557)	2 557	-	-	-
Comprehensive income	-	-	-	-	(1 262)	(1 262)	-	2 413	1 151	(1)	1 150
Special fund set up for the purpose of covering individual balance sheet losses (notes 6.1 and 33)	-	(6 700)	-	6 700	-	-	-	-	-	-	-
Offset of accumulated losses (note 33)	-	-	-	(2 944)	-	(2 944)	2 944	-	-	-	-
Transfer from retained earnings to equity	-	183	-	74	-	257	(257)	-	-	-	-
As at the end of the period	1 250	23 002	1 070	6 967	101	31 140	6 272	2 413	41 075	(14)	41 061

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (cont.)

FOR 6 MONTHS ENDED 30 JUNE 2021	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 other comprehensive income	Cash flow hedges	Hedge of net investment in foreign operation	Actuarial gains and losses	Foreign exchange differences on translation of foreign branches	
As at the beginning of the period	(4)	1 293	355	-	(21)	(260)	1 363
Comprehensive income	-	(583)	(697)	(1)	-	19	(1 262)
As at the end of the period	(4)	710	(342)	(1)	(21)	(241)	101

FOR 6 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 other comprehensive income	Cash flow hedges	Actuarial gains and losses	Foreign exchange differences on translation of foreign branches	
As at the beginning of the period	(13)	456	232	(15)	(191)	469
Comprehensive income	-	695	505	-	(27)	1 173
As at the end of the period	(13)	1 151	737	(15)	(218)	1 642

CONSOLIDATED STATEMENT OF CASH FLOWS

	01.01.2021- 30.06.2021	01.01.2020- 30.06.2020
Cash flows from operating activities		
Profit / (loss) before tax	3 237	2 017
Income tax paid	(896)	(860)
Total adjustments:	10 497	25 493
Amortization	594	586
(Gains)/losses on investing activities	(21)	5
Interest and dividends	(1 004)	(552)
Change in:		
amounts due from banks	685	80
hedging derivatives	797	(363)
other derivative instruments	(484)	(77)
securities	(1 509)	(1 889)
loans and advances to customers	(2 084)	(1 861)
reverse repo transactions	(77)	928
receivables in respect of insurance activities	(49)	55
non-current assets held for sale	113	(2)
other assets	(136)	48
accumulated allowances for expected credit losses	(2)	978
accumulated allowances on non-financial assets and other provisions	143	239
amounts due to Central Bank	8	-
amounts due to banks	1 781	(35)
amounts due to customers	11 428	25 671
repo transactions	57	60
liabilities in respect of insurance activities	107	(48)
loan and advances received	1	(78)
liabilities in respect of debt securities in issue	(305)	355
other liabilities	1 433	667
Other adjustments	(979)	726
Net cash from/used in operating activities	12 838	26 650

CONSOLIDATED STATEMENT OF CASH FLOWS (cont.)

	01.01.2021- 30.06.2021	01.01.2020- 30.06.2020
Cash flows from investing activities		
Inflows from investing activities	37 490	39 076
Proceeds from sale of and interest on securities measured at fair value through other comprehensive income	35 487	38 334
Proceeds from sale of and interest on securities measured at amortized cost	1 614	512
Proceeds from sale of intangible assets, property, plant and equipment and assets held for sale	214	229
Other inflows from investing activities (dividends)	175	1
Outflows from investing activities	(51 337)	(75 160)
Equity increase in joint ventures	(18)	-
Purchase of securities measured at fair value through other comprehensive income	(29 575)	(47 958)
Purchase of securities measured at amortized cost	(21 116)	(26 643)
Purchase of intangible assets and property, plant and equipment, including under operating leases	(628)	(559)
Net cash flows from investing activities	(13 847)	(36 084)

	01.01.2021- 30.06.2021	01.01.2020- 30.06.2020
Cash flows from financing activities		
Proceeds from debt securities in issue	5 599	2 842
Redemption of debt securities	(6 149)	(5 088)
Taking up loans and advances	226	100
Repayment of loans and advances	(396)	(268)
Payment of lease liabilities	(126)	(118)
Repayment of interest on long-term liabilities	(78)	(331)
Net cash from financing activities	(924)	(2 863)
Total net cash flows	(1 933)	(12 297)
of which foreign exchange differences on cash and cash equivalents	(25)	108
Cash equivalents at the beginning of the period	9 701	18 681
Cash equivalents at the end of the period	7 768	6 384

GENERAL INFORMATION ABOUT THE GROUP

1. 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 Hubert Linde, post and telegraph minister and simultaneously the first president, as 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 dated 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.

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 with jurisdiction over the Bank’s affairs is the District Court in Warsaw, the 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 and tax identification number NIP 525-000-77-38 .

Country of registration	Poland
Registered office	Warsaw
Address of the registered office of the entity	ul. Puławska 15, 02-515 Warsaw

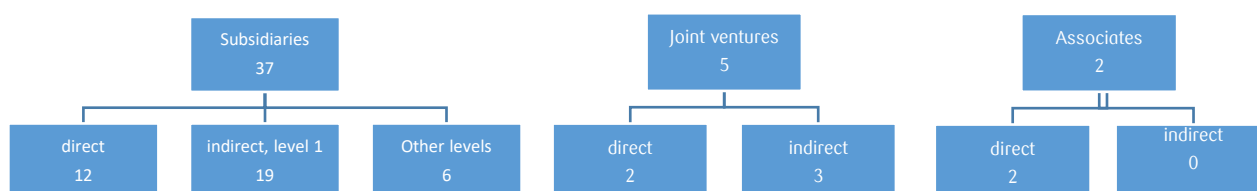
According to the Bulletin of the Warsaw Stock Exchange (Cedula Giełdowa), the Bank is classified under the macro-sector “Finance”, in the “Banks” sector.

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”), the Czech Republic (“the Czech Branch”) and in the Slovak Republic (“the Slovak Branch”).

PKO Bank Polski S.A., as the parent company, 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 and insurance, as well as provides services related to car fleet management, transfer agent, technological solutions, IT outsourcing and business support, real estate management.

PKO BANK POLSKI SA – the parent company



**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF THE PKO BANK POLSKI SA GROUP
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2021
(IN PLN MILLION)**

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

No.	ENTITY NAME DIRECT SUBSIDIARIES	REGISTERED OFFICE	ACTIVITY	% SHARE IN CAPITAL	
				30.06.2021	31.12.2020
1	PKO Bank Hipoteczny S.A.	Warsaw	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 loans	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 IT specialist outsourcing	100	100
6	PKO Życie Towarzystwo Ubezpieczeń S.A.	Warsaw	life insurance	100	100
7	PKO Towarzystwo Ubezpieczeń S.A.	Warsaw	other personal insurance 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	Merkury - fiz an ¹	Warsaw	investing funds collected from fund participants	100	100
11	NEPTUN - fizan ¹	Warsaw		100	100
12	PKO VC - fizan ¹	Warsaw		100	100

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

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FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2021
(IN PLN MILLION)**

No.	ENTITY NAME	REGISTERED OFFICE	ACTIVITY	% SHARE IN CAPITAL*	
				30.06.2021	31.12.2020
INDIRECT SUBSIDIARIES					
The PKO Leasing S.A. GROUP					
1	PKO Agencja Ubezpieczeniowa sp. z o.o.	Warsaw	intermediation in concluding insurance agreements	100	100
	1.1 PKO Leasing Finanse sp. z o.o.	Warsaw	sale of post-lease assets	100	100
2	PKO Leasing Sverige AB	Stockholm, Sweden	leasing	100	100
3	Prime Car Management S.A.	Gdańsk	leasing, fleet management	100	100
	3.1 Futura Leasing S.A.	Gdańsk	leasing and sales of post-lease assets	100	100
	3.2 Masterlease sp. z o.o.	Gdańsk	leasing	100	100
	3.3 MasterRent24 sp. z o.o.	Gdańsk	short-term lease of cars	100	100
4	PKO Faktoring S.A.	Warsaw	factoring	100	100
5	ROOF Poland Leasing 2014 DAC ¹	Dublin, Ireland	SPV established for securitization of lease receivables	-	-
6	Polish Lease Prime 1 DAC ¹	Dublin, Ireland		-	-
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 partnerships limited by shares of a fund	100	100
11	Molina spółka z ograniczoną odpowiedzialnością 1 S.K.A.	Warsaw	buying and selling real estate on own account, property management	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		100	100
14	Molina spółka z ograniczoną odpowiedzialnością 5 S.K.A. w likwidacji	Warsaw		100	100
15	Molina spółka z ograniczoną odpowiedzialnością 6 S.K.A. w likwidacji	Warsaw		100	100
NEPTUN - fiz an					
16	Qualia sp. z o.o.	Warsaw	sale services in respect of developer products	100	100
17	Sarnia Dolina sp. z o.o.	Warsaw	development activities	100	100
18	Bankowe Towarzystwo Kapitałowe S.A.	Warsaw	services	100	100
	18.1 "Inter-Risk Ukraina" additional liability company ²	Kiev, Ukraine	debt collection	99,90	99,90
	18.2 Finansowa Kompania "Prywatne Inwestycje" sp. z o.o. ³	Kiev, Ukraine	financial services	95,4676	95,4676
19	"Sopot Zdrój" sp. z o.o. ⁴	Sopot	property management	72,9769	72,9766

* share of the direct parent in the entity's equity

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 Finansowa Kompania "Prywatne Inwestycje" Sp. z o.o. is the second shareholder of the company.

³ "Inter-Risk Ukraina" – a company with additional liability – is the second shareholder of the company.

⁴ on 14 January 2021, a reverse acquisition of "CENTRUM HAFFNERA" sp. z o.o. – as the acquiree – and its subsidiary "Sopot Zdrój" sp. z o.o. – as the acquirer – was registered with the National Court Register (KRS) competent for the acquirer. As at 31 December 2020, NEPTUN - fiz an's share in the share capital of "CENTRUM HAFFNERA" sp. z o.o. was presented in the item "Share in capital".

The Group holds the following associates and joint ventures.

No.	ENTITY NAME	REGISTERED OFFICE	ACTIVITY	% SHARE IN CAPITAL*	
				30.06.2021	31.12.2020
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	financial services support activities, including handling transactions concluded using payment instruments	34	34
1	EVO Payments International s.r.o.	Prague, the Czech Republic	financial services support activities	100	100
Joint venture of NEPTUN - fizan					
2	"Centrum Obsługi Biznesu" sp. z o.o.	Poznań	property management	41.45	41.45
Joint venture PKO VC - fizan					
3	BSafer sp. z o.o.	Stalowa Wola	managing marketing consents	35.06	35.06
Associates of PKO Bank Polski S.A.					
1	Bank Pocztowy S.A.	Bydgoszcz	banking activities	25.0001	25.0001
2	"Poznański Fundusz Poręczeń Kredytowych" Sp. z o.o.	Poznań	guarantees	33.33	33.33

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

2. CHANGES TO COMPANIES COMPRISING THE GROUP

In the six-month period ended 30 June 2021, there were no significant changes in the structure of the Group.

There was a business combination of "CENTRUM HAFFNERA" sp. z o.o. as the acquiree and its subsidiary "Sopot Zdrój" sp. z o.o. as the acquirer

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

The process of the sale of interests in Finansowa Kompania "Idea Kapitał" sp. z o.o. (a subsidiary of KREDOBANK S.A.) to Finansowa Kompania "Prywatne Inwestycje" sp. z o.o. (an indirect subsidiary through a company in the portfolio of NEPTUN - fizan) was carried out. The transaction was finalized in July 2021.

3. INFORMATION ON MEMBERS OF THE SUPERVISORY BOARD AND MANAGEMENT BOARD

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

- Maciej Łopiński – Chair of the Supervisory Board – appointed on 7 June 2021
- Wojciech Jasiński – Deputy Chair of the Supervisory Board
- Dominik Kaczmarek – Secretary of the Supervisory Board – appointed on 7 June 2021
- Mariusz Andrzejewski – Member of the Supervisory Board
- Grzegorz Chłopek – Member of the Supervisory Board
- Zbigniew Hajłasz – Member of the Supervisory Board
- Andrzej Kisielewicz – Member of the Supervisory Board
- Rafał Kos – Member of the Supervisory Board
- Krzysztof Michalski – Member of the Supervisory Board
- Piotr Sadownik – Member of the Supervisory Board
- Agnieszka Winnik-Kalemba – Member of the Supervisory Board – appointed on 7 June 2021.

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

- Jan Emeryk Rosciszewski – Vice-President of the Management Board directing the work of the Management Board
- Rafał Antczak – Vice-President of the Management Board
- Bartosz Drabikowski – Vice-President of the Management Board – appointed on 15 June 2021

- Marcin Eckert – Vice-President of the Management Board – appointed on 7 June 2021
- 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

On 11 May 2021, Mr Zbigniew Jagiełło submitted his resignation as President and Member of the Management Board of the Bank, effective from 7 June 2021.

On 7 June 2021, Ms Agnieszka Winnik-Kalemba, Mr Dominik Kaczmarek and Mr Maciej Łopiński were appointed Members of the Supervisory Board, and Ms Grażyna Czurzyńska was dismissed at the same time. In addition, Mr Marcin Eckert was appointed Member of the Management Board.

On 15 June 2021 the Supervisory Board of the Bank dismissed Mr Rafał Kozłowski from the position of Vice-President of the Management Board and appointed Mr Bartosz Drabikowski Member of the Management Board.

On 26 July 2021 Mr Adam Marciniak submitted his resignation, effective from 13 August 2021, from membership in and the position occupied in the Bank's Management Board.

4. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

These condensed interim consolidated financial statements of the Group (**THE FINANCIAL STATEMENTS**) cover the six-month period ended 30 June 2021 and contain comparative data for:

- the six-month period ended 30 June 2020 (with regard to the consolidated income statement, consolidated statement of comprehensive income, statement of changes in consolidated equity, and consolidated statements of cash flows),
- as at 31 December 2020 (with regard to the consolidated statement of financial position).

The financial statements also cover the three-month period from 1 April to 30 June 2021 and 2020 with regard to the income statement and the statement of comprehensive income.

The financial data is presented in Polish zloty (PLN) in millions, unless otherwise indicated. Therefore, discrepancies may occur due to the rounding of amounts to full millions.

The Group prepared the financial statements in accordance with the requirements of the International Accounting Standard No. 34 "Interim Financial Reporting" endorsed by the European Union, taking into account the principle of recognizing income tax expense in the interim financial statements based on the best possible estimate of the weighted average annual income tax rate expected in the whole of the financial year.

To prepare the financial statements, the Group applied the accounting policies and calculation methods consistent with those applicable in the financial year ended 31 December 2020, with the exception of changes resulting from the implementation of a new hedging strategy relating to net investments in foreign operations, as described in the note "Hedge accounting".

These financial statements for the six-month period ended 30 June 2021 do not comprise all the information and disclosures which may be required in annual financial statements and should be read jointly with the annual consolidated financial statements of the PKO Bank Polski S.A. Group for the year ended 31 December 2020 that were prepared in accordance with the International Financial Reporting Standards endorsed by the European Union.

GOING CONCERN

The Group prepared the financial statements 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 preparation date, i.e. from 11 August 2021. 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 ability of the Bank's Group 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 existing operations of the Bank's Group.

MANAGEMENT REPRESENTATION

The Management Board hereby represents that, to the best of its knowledge, these financial statements of the Group 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.

5. APPROVAL OF THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The financial statements, having been reviewed by the Supervisory Board Audit Committee and by the Supervisory Board on 11 August 2021, were approved for publication by the Bank's Management Board on 11 August 2021.

6. MAJOR EVENTS IN THE FIRST HALF OF 2021

6.1. MORTGAGE LOANS IN CONVERTIBLE CURRENCIES

On 23 April 2021 the Extraordinary General Shareholders' Meeting of PKO Bank Polski S.A. decided to conclude settlements with consumers who had concluded loan or borrowing agreements with the Bank secured by mortgages indexed to foreign currencies or denominated in foreign currencies (hereinafter: settlements with consumers). Pursuant to the resolution passed:

- the Bank set up a special fund of PLN 6,700 million for offsetting particular balance sheet losses which will arise as a result of recognizing the financial effects of the settlements with consumers;
- the Bank set aside from the Bank's supplementary capital, in the part created from prior years' retained earnings available for distribution, PLN 6,700 million and transferred it to the special fund referred to above;
- the General Meeting obliged the Bank's Management Board to present for approval by the Bank's Supervisory Board the terms and conditions on which the settlements will be concluded with consumers, including the terms and conditions for forgiving debt;
- The Bank's Management Board proceeded to conclude settlements with consumers (including those containing debt release), after the Bank's Supervisory Board gave a positive opinion on the terms on which they would be concluded, including debt release (Supervisory Board Resolution of 27 May 2021).

In estimating the cost of the legal risk of mortgage loans in foreign currencies, the Group recognized the impact of the projected settlements in the consolidated financial statements of PKO Bank Polski S.A. Group for 2020.

By Resolution of 27 May 2021, the Supervisory Board accepted the terms of the settlement offer as proposed by the Chairman of the PFSA. The Bank is working on the details of the solution, including ensuring that customers can switch to a fixed interest rate in the settlement.

Currently, the Group is implementing a pilot programme of settlements as part of which the Group participates in mediation in the arbitration court of the PFSA and reaches settlements before common courts.

Additional information on the portfolio of mortgage loans in convertible currencies and consumer settlements is presented by the Bank in the notes: "Cost of the legal risk of mortgage loans in convertible currencies", "Legal claims", "Risk management of foreign currency risk associated with mortgage loans for households" and "foreign currency risk management".

6.2. IMPACT OF THE COVID-19 PANDEMIC ON THE GROUP'S OPERATIONS

The impact of COVID-19 pandemic on the operations of the Group and the banking sector and measures adopted by the Group to ensure the safety of its Customers and employees and business process continuity are described in detail in the PKO Bank Polski S.A. Group Directors' Report for 2020 and for the first half of 2021.

- **IMPACT ON ESTIMATES AND ASSUMPTIONS**

The COVID-19 pandemic increased the level of uncertainty. Its consequences for the global economy and measures adopted by governments and regulators affect and may affect the Group's financial results and position, including, among others, on the expected credit losses or goodwill recognized. The Group is monitoring the development on an ongoing basis and takes them into account in the current period.

- **MORATORIA AND PUBLIC GUARANTEES – MODIFICATIONS AND THE QUALITY OF THE LOAN PORTFOLIO**

In order to mitigate the economic effects of the spread of the COVID-19 pandemic, the Group introduced a number of corrective measures for retail customers, companies, enterprises, corporate customers and local authority units aimed at mitigating the economic effects of the spread of COVID-19:

- credit moratoria in accordance with the European Banking Authority guidelines and non-legislative moratoria;
- granting loans and advances covered by public guarantee initiatives in the context of crisis associated with COVID-19.

A detailed description of the moratoria offered to the Bank's Customers and the public guarantee initiatives is included in the consolidated financial statement of the Group for 2020 in the note "Specific risk management measures adopted by the Group in 2020", and in the "PKO Bank Polski S.A. Group Directors' Report for 2020", and in the "Directors' Report of the PKO Bank Polski S.A. Group for the first half of 2021".

Offering borrowers, at their request, the possibility of suspending or postponing the repayment of loan instalments for a maximum of 6 months is the common element of all these measures. Given the fact that these relief measures contributed to modification of contractual cash flows from contracts with customers, the Group performed an assessment of individual contract from the perspective of compliance with quantitative and qualitative criteria in order to determine, whether a modification was significant (derecognition) or insignificant. The assessment was conducted in accordance with a policy described in the note "Description of significant accounting policies", "Modifications – Changes in contractual cash flows" in the consolidated financial statements of the PKO Bank Polski S.A. Group for 2020. The analysis showed that none of the criteria of a significant modification were met. Changes in contractual cash flows as a result of the relief measures offered were insignificant modifications whose impact was recognized by the Group as a decrease in interest income.

Guarantees received by the Group as part of public guarantee initiatives under Annex to the *de minimis* guarantee line portfolio agreement of 22 June 2018 (as amended) and the portfolio guarantee line agreement of the Liquidity Guarantee Fund of 10 April 2020 concluded with Bank Gospodarstwa Krajowego meet the definition of financial guarantees and are presented in the note "Contingent liabilities and off-balance sheet commitments received and granted".

The impact of COVID-19 on the quality of the loan portfolio, including the estimated credit losses, is presented in the note "Risk management objectives and policies". The impact of COVID-19 on the deterioration in the portfolio of loans measured at fair value through profit or loss was recognized in "Net income from financial instruments designated at fair value through profit or loss", and on the portfolio of loans measured at amortized cost and at fair value through OCI – in "Allowances for expected credit losses".

- **GOODWILL AND INVESTMENT IN ASSOCIATES AND JOINT VENTURES – IMPAIRMENT TEST**

In 2020, given the fact that the COVID-19 pandemic has an adverse effect on the economic environment, the Group conducted an impairment test of goodwill arising on the acquisition of Nordea Bank Polska S.A. and in connection with taking over control of PKO Leasing Pro S.A. The results of the test are described in detail in the note "Intangible assets, property, plant and equipment under operating leases" of the consolidated financial statements of the PKO Bank Polski S.A. Group for 2020 and in the note "Impairment of non-financial assets" in these financial statements.

The COVID-19 pandemic also affected the results of an impairment test of shares in Bank Pocztowy (for further information, see the note "Investments in associates and joint ventures" of the consolidated financial statements of the PKO Bank Polski S.A. Group for 2020 and in the note "Impairment of non-financial assets" in these financial statements.

• CAPITAL ADEQUACY

The impact of COVID-19 on capital adequacy and the activities of the regulatory bodies – 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 (CRR Quick Fix) are described in the consolidated financial statements of the Group for 2020 in the note “Capital adequacy” and in the Report “Capital adequacy and other information subject to disclosure of the Group ” for 2020 and for the first half of 2021.

7. NEW STANDARDS AND INTERPRETATIONS AND THEIR AMENDMENTS

• STANDARDS AND INTERPRETATIONS AND THEIR AMENDMENTS EFFECTIVE FROM 2021

STANDARDS AND INTERPRETATIONS*	DESCRIPTION OF CHANGES AND IMPACT
AMENDMENTS TO IFRS 9, IFRS 7, IAS 39 AND IFRS 16, IFRS 4 – IBOR REFORM – PHASE 2 (1.01.2021/14.01.2021)	<p>Regulations issued under Phase 2 of the IBOR reform relate to the following:</p> <ul style="list-style-type: none"> • changes to contractual cash flows – adding to IFRS 9 a practical expedient which will enable accounting for modifications of contractual cash flows arising from the IBOR reform by updating the effective interest rate of the contract to reflect the transition to an alternative benchmark rate (there will be no obligation to derecognize or adjust carrying amounts of financial instruments); practical expedient was introduced for lessee accounting applying IFRS 16; • hedge accounting: - there will be no need to discontinue applying hedge accounting solely due to the changes required by the reform, provided that the hedge meets other hedge accounting criteria, and • disclosures - companies will be obliged to disclose information on new risks arising from the reform and on it management of the transition to alternative benchmark rates. <p>The Group does not expect these amendments to have a material effect on the consolidated financial statements.</p>
AMENDMENTS TO IFRS 4 “INSURANCE CONTRACTS” (1.01.2021/16.12.2020)	<p>The amendments move the date of termination of the temporary relief from the application of IFRS 9 from 1 January 2021 to 1 January 2023 in order to align it with the effective date of IFRS 17. The amendments provides for optional solutions in order to mitigate the impact of different effective dates of IFRS 9 and IFRS 17.</p> <p>The amendments do not apply to the Group.</p>

* the effective date in EU / date of endorsement by EU is provided in parentheses.

- NEW STANDARDS AND INTERPRETATIONS AND AMENDMENTS THERETO THAT HAVE BEEN PUBLISHED AND ENDORSED BY THE EUROPEAN UNION, BUT HAVE NOT COME INTO FORCE YET AND ARE NOT APPLIED BY THE BANK

STANDARDS AND INTERPRETATIONS*	DESCRIPTION OF CHANGES AND IMPACT
AMENDMENT TO MSSF 3 "BUSINESS COMBINATIONS" (1.01.2022/28.06.2021)	<p>Amendments to IFRS 3 have updated references to the Conceptual Framework issued in 2018. In order to ensure that this will not impact assets and liabilities which qualify for the recognition on a business combination, the amendment introduces new exceptions from the recognition and measurement principles of IFRS 3.</p> <p>The Group does not expect these amendments to have a material effect on the consolidated financial statements.</p>
AMENDMENT TO IAS 16 "PROPERTY, PLANT AND EQUIPMENT" (1.01.2022/28.06.2021)	<p>The amendment specifies that, among other things, proceeds from selling items produced while bringing an asset into the location and condition necessary for it to be capable of operating in the intended manner cannot be deducted from the cost associated with that asset. Instead, such proceeds should be recognized as cost of producing those items, in profit or loss.</p> <p>The Group does not expect these amendments to have a material effect on the consolidated financial statements.</p>
AMENDMENT TO IAS 37 "PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS" (1.01.2022/28.06.2021)	<p>The amendment clarifies that, when assessing whether or not a contract is onerous, the cost of fulfilling a contract comprises all costs that relate directly to the contract.</p> <p>The Group does not expect these amendments to have a material effect on the consolidated financial statements.</p>
ANNUAL IMPROVEMENTS TO IFRS 2018-2020 (1.01.2022/28.06.2021)	<ul style="list-style-type: none"> The amendment to IFRS 1 relates to situations when a subsidiary adopts IFRS for the first time at a later date than its parent; in such a case, the subsidiary may decide to measure cumulative translation differences for all foreign operations using the amounts reported by its parent in its consolidated financial statements, based on the parent's date of transition to IFRS. The amendment to IAS 41 aligns fair value measurement requirements set out in IAS 41 with the assumptions of IFRS 13. <p>Not applicable to the Group.</p> <ul style="list-style-type: none"> The amendment clarifies which fees should be included for the purposes of the '10 per cent' test in the case of derecognition of financial liabilities. Amendments to illustrative examples in IFRS 16 relating to identification of lease incentives. <p>The Group does not expect these amendments to have a material effect on the consolidated financial statements.</p>

* The expected effective date in EU / date of endorsement by EU is provided in parentheses.

- 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*	DESCRIPTION OF CHANGES AND IMPACT
IFRS 17 "Insurance Contracts" (1.01.2023/Q42021 and amendments to IFRS 17 (1.01.2023/Q42021	IFRS 17 will replace IFRS 4 which enabled entities to recognize insurance contracts according to the accounting principles in force in the national standards, which, as a result, meant applying many different solutions. IFRS 17 introduces the requirements to recognize all insurance agreements in a consistent manner, including, among others, with regard to the measurement of insurance liabilities, recognition of the profit or loss over time, accounting for reinsurance, separation of an investment component. The application of the standard should follow the full retrospective approach with certain departures. The Group is in the process of estimating the impact on the consolidated financial statements.
AMENDMENT TO IAS 1 – CLASSIFICATION OF LIABILITIES (1.01.2023/NO DATA)	The amendments relate to the presentation of liabilities in the statement of financial position. In particular, the amendment clarifies that classification of liabilities as current or non-current should be based on the contractual arrangements in place at the reporting date. A prospective approach will apply to these amendments. The Group is in the process of estimating the impact on the consolidated financial statements.
AMENDMENT TO IAS 1 AND IAS 8 (1.01.2023/NO DATA)	Amendments to IAS 1 contain guidelines on the application of the term "material" in disclosures of the accounting policies. Amendments to IAS 8 explain how companies should distinguish changes in accounting policies from changes in accounting estimates. The Group does not expect these amendments to have a material effect on the consolidated financial statements.
AMENDMENT TO IFRS 12 (1.01.2023/NO DATA)	The amendment clarifies uncertainty with regard to the deferred tax on transactions where entities recognize both an asset and a liability, which in turn gives rise to both taxable and deductible temporary differences at the same time. This related to transactions such as leases or decommissioning liabilities. The amendment clarifies that entities are obliged to recognize a deferred tax on such transactions. The Group does not expect these amendments to have a material effect on the consolidated financial statements.

* The expected effective date in EU / date of endorsement by EU is provided in parentheses.

8. EXPLANATION OF THE DIFFERENCES BETWEEN PREVIOUSLY PUBLISHED FINANCIAL STATEMENTS AND THESE FINANCIAL STATEMENTS

The changes to previously published data for the period from 1 January to 30 June 2020 resulted from the changes introduced by the Group in 2020:

- **RECLASSIFICATION OF FEES COLLECTED FROM THE BANK'S CUSTOMERS TO COMPENSATE NEGATIVE INTEREST RATES ON THE BANK'S FINANCIAL LIABILITIES (1)**

Starting from the financial statements for 2020, the Group presents fees collected from the Bank's customers to compensate negative interest rates on the Bank's financial liabilities (customer current accounts) in interest income. Previously, such fees were presented in commission income.

- **INCLUSION OF NET REGULATORY CHARGES IN ADMINISTRATIVE EXPENSES (2)**

In order to make the presentation of administrative expenses more consistent with the market practice, the Group combined the line "Administrative expenses" with "Net regulatory charges".

- **RECLASSIFICATION OF THE NET INCOME/(EXPENSE) ON OPERATING LEASES, SHORT-TERM RENTAL AND NET INCOME/(EXPENSES) ON THE PROVISION OF FLEET MANAGEMENT SERVICES (3)**

In the first half of 2020, the Group reclassified net income on operating leases, short-term rental and net income on the provision of fleet management services, which had previously been presented jointly in "Other operating income and "Other operating expenses" to "Fee and commission income", as a separate line of "operating leases and fleet management" In the third quarter of 2020, the Group identified additional components of income on operating leases which related to the six-month period ended 30 June 2020. In connection with the above, the comparative data for the six-month period ended 30 June 2020 were restated accordingly.

INCOME STATEMENT – selected items	01.01.2020 - 30.06.2020	(1)	(2)	(3)	01.01.2020 - 30.06.2020 restated
Net interest income	5 237	10	-	-	5 247
Interest income	6 260	10	-	-	6 270
Net fee and commission income	1 897	(10)	-	5	1 892
Fee and commission income	2 397	(10)	-	5	2 392
Other net income	(48)	-	-	(5)	(53)
Net other operating income and expenses	(41)	-	-	(5)	(46)
Administrative expenses	(2 650)	-	(558)	-	(3 208)
Net regulatory charges	(558)	-	558	-	-
Net profit attributable to equity holders of the parent company	1 306	-	-	-	1 306

- **RECLASSIFICATION OF HOLIDAY PAY PROVISIONS FROM OTHER LIABILITIES TO PROVISIONS (4)**

In the fourth quarter of 2020, the Group reclassified holiday pay provisions from other liabilities to provisions, since in the Group's judgment these provisions are of a similar nature to other provisions, and are based on estimates similarly to other employee-related provisions presented under Provisions, such as e.g. provisions for pensions and other defined post-employment benefits.

Cash flows from operating activities – selected items	01.01.2020 - 30.06.2020	(4)	01.01.2020 - 30.06.2020 restated
Total adjustments:			
Change in:			
accumulated allowances on non-financial assets and other provisions	221	18	239
other liabilities	685	(18)	667

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9. SEGMENT REPORTING

The PKO Bank Polski SA Group conducts business activities within the following segments: retail, corporate and investment segment, and the transfer centre and other activities. Information about the segments was provided in the consolidated financial statements of the Group for the year ended 2020.

Income statement by segments	Continuing operations			
	Retail segment	Corporate and investment segment	Transfer centre and other	Total activity of the Group
FOR THE SIX-MONTH PERIOD ENDED 30 June 2021				
Net interest income	3 334	899	484	4 717
Net fee and commission income	1 581	525	(7)	2 099
Other net income	(57)	189	361	493
Dividend income	-	11	-	11
Gains/(losses) on financial transactions	(70)	58	(3)	(15)
Foreign exchange gains/ (losses)	(8)	47	331	370
Gains/(losses) on derecognition of financial instruments	2	64	29	95
Net other operating income and expense	6	22	4	32
Income/(expenses) relating to internal customers	13	(13)	-	-
Result on business activities	4 858	1 613	838	7 309
Net expected credit losses	(384)	(46)	-	(430)
Net impairment allowances of non-financial assets	(4)	2	(31)	(33)
Cost of the legal risk of mortgage loans in convertible currencies	-	-	-	-
Administrative expenses, of which:	(2 526)	(547)	(26)	(3 099)
depreciation and amortization	(419)	(73)	-	(492)
net regulatory charges	(313)	(115)	(25)	(453)
Tax on certain financial institutions	(383)	(158)	23	(518)
Share in profits and losses of associates and joint ventures	-	-	-	8
Segment profit/(loss)	1 561	864	804	3 237
Income tax expense (tax burden)				(825)
Net profit (loss) (including non-controlling interest)				2 412
Profit (loss) attributable to non-controlling shareholders				(1)
Net profit attributable to equity holders of the parent company				2 413

Assets and liabilities by segments	Retail segment	Corporate and investment segment	Transfer centre and other	Total activity of the Group
30.06.2021				
Assets	181 630	111 110	96 732	389 472
Investments in associates and joint ventures	-	263	-	263
Unallocated assets	-	-	-	2 887
Total assets	181 630	111 373	96 732	392 622
Liabilities	254 489	59 936	36 612	351 047
Unallocated liabilities	-	-	-	514
Total liabilities	254 488	59 936	36 612	351 561

**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF THE PKO BANK POLSKI SA GROUP
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2021
(IN PLN MILLION)**

Income statement by segments	Continuing operations			
	Retail segment	Corporate and investment segment	Transfer centre and other	Total activity of the Group
FOR THE SIX-MONTH PERIOD ENDED 30 June 2020				
Net interest income	4 329	949	(31)	5 247
Net fee and commission income	1 479	419	(6)	1 892
Other net income	(170)	35	82	(53)
Dividend income	-	14	-	14
Gains/(losses) on financial transactions	(75)	(73)	2	(146)
Foreign exchange gains/ (losses)	(30)	37	36	43
Gains/(losses) on derecognition of financial instruments	(8)	57	33	82
Net other operating income and expense	(70)	13	11	(46)
Income/(expenses) relating to internal customers	13	(13)	-	-
Result on business activities	5 638	1 403	45	7 086
Net expected credit losses	(639)	(237)	-	(876)
Net impairment allowances of non-financial assets	(11)	(241)	(13)	(265)
Cost of the legal risk of mortgage loans in convertible currencies	(190)	-	-	(190)
Administrative expenses, of which:	(2 570)	(604)	(34)	(3 208)
depreciation and amortization	(416)	(72)	-	(488)
net regulatory charges	(368)	(157)	(33)	(558)
Tax on certain financial institutions	(369)	(175)	11	(533)
Share in profits and losses of associates and joint ventures	-	-	-	3
Segment profit/(loss)	1 859	146	9	2 017
Income tax expense (tax burden)				(714)
Net profit (loss) (including non-controlling interest)				1 303
Profit (loss) attributable to non-controlling shareholders				(3)
Net profit attributable to equity holders of the parent company				1 306

Assets and liabilities by segments	Retail segment	Corporate and investment segment	Transfer centre and other	Total activity of the Group
31.12.2020				
Assets	180 552	118 624	74 937	374 113
Investments in associates and joint ventures	-	291	-	291
Unallocated assets	-	-	-	2 562
Total assets	180 552	118 915	74 937	376 966
Liabilities	245 578	54 982	35 930	336 490
Unallocated liabilities	-	-	-	565
Total liabilities	245 578	54 982	35 930	337 055

The data for 2020 was brought to comparability to the extent covering the changes in the accounting policies and methods for determining the profit/loss of business segments.

10. INTEREST INCOME AND EXPENSE

INTEREST INCOME	second quarter period from 01.04.2021 to 30.06.2021	2 quarters cumulative period from 01.01.2021 to 30.06.2021	second quarter period from 01.04.2020 to 30.06.2020	2 quarters cumulative period from 01.01.2020 to 30.06.2020
Loans to and other receivables from banks	17	20	8	29
Hedging derivatives	110	198	149	221
Debt securities	455	889	436	875
measured at amortized cost	213	395	103	198
measured at fair value through other comprehensive income	239	488	325	661
measured at fair value through profit or loss	3	6	8	16
Loans and advances to customers (excluding finance lease receivables)	1 822	3 621	2 192	4 757
measured at amortized cost	1 722	3 412	2 042	4 406
measured at fair value through profit or loss	100	209	150	351
Finance lease receivables	155	307	186	378
Amounts due to customers	4	8	5	10
Total	2 563	5 043	2 976	6 270
of which: interest income on impaired financial instruments	59	114	59	137
Interest income calculated under the effective interest rate method on financial instruments measured at:				
amortized cost	2 350	4 630	2 669	5 682
at fair value through other comprehensive income	211	414	344	502
at fair value through profit or loss	239	488	325	661
Income similar to interest income on instruments measured at fair value through profit or loss	213	413	307	588
Total	2 563	5 043	2 976	6 270

INTEREST EXPENSE	second quarter period from 01.04.2021 to 30.06.2021	2 quarters cumulative period from 01.01.2021 to 30.06.2021	second quarter period from 01.04.2020 to 30.06.2020	2 quarters cumulative period from 01.01.2020 to 30.06.2020
Amounts due to banks	(4)	(6)	(2)	(5)
Interbank deposits	(2)	(3)	(3)	(7)
Loans and advances received	(9)	(17)	(8)	(18)
Leases	(3)	(6)	(6)	(11)
Amounts due to customers	(42)	(96)	(278)	(682)
Debt securities in issue	(86)	(174)	(117)	(255)
Subordinated liabilities	(12)	(24)	(23)	(45)
Total	(158)	(326)	(437)	(1 023)

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INTEREST INCOME BY SEGMENT	second quarter period from 01.04.2021 to 30.06.2021			
	Retail segment	Corporate and investment segment	Transfer centre and other	Total
Loans to and other receivables from banks	-	3	1	4
Hedging derivatives	-	-	110	110
Debt securities	1	112	341	454
Loans and advances to customers (excluding finance lease receivables)	1 548	288	-	1 836
Finance lease receivables	114	41	-	155
Amounts due to customers	-	4	-	4
Total	1 663	448	452	2 563

INTEREST INCOME BY SEGMENT	2 quarters cumulative period from 01.01.2021 to 30.06.2021			
	Retail segment	Corporate and investment segment	Transfer centre and other	Total
Loans to and other receivables from banks	-	5	2	7
Hedging derivatives	-	-	198	198
Debt securities	3	239	647	889
Loans and advances to customers (excluding finance lease receivables)	3 026	608	-	3 634
Finance lease receivables	225	82	-	307
Amounts due to customers	-	8	-	8
Total	3 254	942	847	5043

INTEREST 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 to and other receivables from banks	-	3	5	8
Hedging derivatives	-	-	149	149
Debt securities	4	18	414	436
Loans and advances to customers (excluding finance lease receivables)	1 811	381	-	2 192
Finance lease receivables	117	69	-	186
Amounts due to customers	-	5	-	5
Total	1 932	476	568	2 976

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INTEREST 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 to and other receivables from banks	-	13	16	29
Hedging derivatives	-	-	221	221
Debt securities	9	446	420	875
Loans and advances to customers (excluding finance lease receivables)	3 878	879	-	4 757
Finance lease receivables	257	121	-	378
Amounts due to customers	-	10	-	10
Total	4 144	1 469	657	6 270

11. FEE AND COMMISSION INCOME AND EXPENSE

FEE AND COMMISSION INCOME	second quarter period from 01.04.2021 to 30.06.2021	2 quarters cumulative period from 01.01.2021 to 30.06.2021	second quarter period from 01.04.2020 to 30.06.2020	2 quarters cumulative period from 01.01.2020 to 30.06.2020
Loans, insurance, operating leases and fleet management	333	646	298	612
lending	194	374	177	354
offering insurance products	112	217	96	205
operating leases and fleet management	27	55	25	53
Investment funds, pension funds and brokerage activities	190	394	164	380
servicing investment funds and OFE (including management fees)	114	215	89	212
servicing and selling investment and insurance products	7	15	9	18
brokerage activities	69	164	66	150
Cards	352	663	295	616
Margins on foreign exchange transactions	142	274	105	215
Bank accounts and other	316	635	281	569
servicing bank accounts	239	484	212	424
cash operations	17	33	18	38
servicing foreign mass transactions	22	41	16	33
customer orders	14	27	13	25
fiduciary services	2	4	1	3
other	22	46	21	46
Total	1 333	2 612	1 143	2 392

NET INCOME ON OPERATING LEASES AND FLEET MANAGEMENT	second quarter period from 01.04.2021 to 30.06.2021	2 quarters cumulative period from 01.01.2021 to 30.06.2021	second quarter period from 01.04.2020 to 30.06.2020	2 quarters cumulative period from 01.01.2020 to 30.06.2020
Income on operating leases and fleet management	97	193	88	187
Cost net income on operating leases and fleet management	(18)	(36)	(15)	(36)
Depreciation of property, plant and equipment under operating leases	(52)	(102)	(48)	(98)
Net income on operating leases and fleet management	27	55	25	53

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FEE AND COMMISSION EXPENSE	second quarter period from 01.04.2021 to 30.06.2021	2 quarters cumulative period from 01.01.2021 to 30.06.2021	second quarter period from 01.04.2020 to 30.06.2020	2 quarters cumulative period from 01.01.2020 to 30.06.2020
Loans and insurance	(30)	(53)	(27)	(69)
commission paid to external entities for product sales	(5)	(11)	(7)	(18)
cost of construction investment supervision and property valuation	(12)	(20)	(7)	(16)
fees to Biuro Informacji Kredytowej	(4)	(9)	(2)	(10)
loan handling	(9)	(13)	(11)	(25)
Investment funds, pension funds and brokerage activities	(14)	(29)	(14)	(23)
Cards	(201)	(368)	(164)	(350)
Bank accounts and other	(33)	(63)	(24)	(58)
clearing services	(9)	(17)	(4)	(14)
commissions for operating services provided by banks	(4)	(7)	(1)	(5)
sending short text messages (SMS)	(13)	(26)	(8)	(19)
selling banking products	-	(1)	-	(3)
servicing foreign mass transactions	(4)	(7)	-	-
other	(3)	(5)	(11)	(17)
Total	(278)	(513)	(229)	(500)

FEE AND COMMISSION INCOME BY SEGMENT	second quarter period from 01.04.2021 to 30.06.2021			
	Retail segment	Corporate and investment segment	Transfer centre and other	Total
Loans, insurance, operational leasing and fleet management	253	80	-	333
granting of loans and advances	123	71	-	194
offering insurance products	107	5	-	112
operational leasing and fleet management	23	4	-	27
Loans, insurance, operational leasing and fleet management	126	64	-	190
granting of loans and advances	98	16	-	114
offering insurance products	7	-	-	7
operational leasing and fleet management	21	48	-	69
Cards	340	12	-	352
Forex transaction margins	93	49	-	142
Bank accounts and other	242	74	-	316
maintenance of bank accounts	203	36	-	239
cash operations	7	10	-	17
servicing foreign mass transactions	12	10	-	22
customer orders	5	9	-	14
fiduciary services	-	2	-	2
other	15	7	-	22
Total	1 054	279	-	1 333

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FEE AND COMMISSION INCOME BY SEGMENT	2 quarters cumulative period from 01.01.2021 to 30.06.2021			
	Retail segment	Corporate and investment segment	Transfer centre and other	Total
Loans, insurance, operational leasing and fleet management	492	154	-	646
granting of loans and advances	237	137	-	374
offering insurance products	209	8	-	217
operational leasing and fleet management	46	9	-	55
Loans, insurance, operational leasing and fleet management	249	145	-	394
granting of loans and advances	184	31	-	215
offering insurance products	15	-	-	15
operational leasing and fleet management	50	114	-	164
Cards	640	23	-	663
Forex transaction margins	179	95	-	274
Bank accounts and other	489	146	-	635
maintenance of bank accounts	406	78	-	484
cash operations	15	18	-	33
servicing foreign mass transactions	22	19	-	41
customer orders	12	15	-	27
fiduciary services	-	4	-	4
other	34	12	-	46
Total	2 049	563	-	2 612

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, insurance, operational leasing and fleet management	230	68	-	298
granting of loans and advances	120	57	-	177
offering insurance products	92	4	-	96
operational leasing and fleet management	18	7	-	25
Loans, insurance, operational leasing and fleet management	111	53	-	164
granting of loans and advances	78	11	-	89
offering insurance products	9	-	-	9
operational leasing and fleet management	24	42	-	66
Cards	286	9	-	295
Forex transaction margins	73	32	-	105
Bank accounts and other	230	51	-	281
maintenance of bank accounts	188	24	-	212
cash operations	11	7	-	18
servicing foreign mass transactions	9	7	-	16
customer orders	7	6	-	13
fiduciary services	-	1	-	1
other	15	6	-	21
Total	930	213	-	1 143

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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, insurance, operational leasing and fleet management	476	136	-	612
granting of loans and advances	240	114	-	354
offering insurance products	198	7	-	205
operational leasing and fleet management	38	15	-	53
Loans, insurance, operational leasing and fleet management	256	124	-	380
granting of loans and advances	185	27	-	212
offering insurance products	18	-	-	18
operational leasing and fleet management	53	97	-	150
Cards	594	22	-	616
Forex transaction margins	145	70	-	215
Bank accounts and other	469	100	-	569
maintenance of bank accounts	376	48	-	424
cash operations	24	14	-	38
servicing foreign mass transactions	18	15	-	33
customer orders	14	11	-	25
fiduciary services	-	3	-	3
other	37	9	-	46
Total	1 940	452	-	2 392

12. GAINS/(LOSSES) ON FINANCIAL TRANSACTIONS

GAINS/(LOSSES) ON FINANCIAL TRANSACTIONS	second quarter period from 01.04.2021 to 30.06.2021	2 quarters cumulative period from 01.01.2021 to 30.06.2021	second quarter period from 01.04.2020 to 30.06.2020	2 quarters cumulative period from 01.01.2020 to 30.06.2020
Financial instruments held for trading, of which:	17	48	7	5
Derivative instruments	14	43	7	5
Financial instruments not held for trading, measured at fair value through profit or loss, of which:	(44)	(60)	(3)	(156)
Loans and advances to customers	(51)	(82)	(37)	(109)
Equity instruments	11	20	23	(43)
Hedge accounting	1	(3)	-	5
Total	(26)	(15)	4	(146)

13. GAINS/(LOSSES) ON DERECOGNITION OF FINANCIAL INSTRUMENTS

GAINS/(LOSSES) ON DERECOGNITION OF FINANCIAL INSTRUMENTS	second quarter period from 01.04.2021 to 30.06.2021	2 quarters cumulative period from 01.01.2021 to 30.06.2021	second quarter period from 01.04.2020 to 30.06.2020	2 quarters cumulative period from 01.01.2020 to 30.06.2020
Measured at fair value through other comprehensive income	59	93	50	106
Measured at amortized cost	2	2	(11)	(24)
Total	61	95	39	82

14. OTHER OPERATING INCOME AND EXPENSE

OTHER OPERATING INCOME	second quarter period from 01.04.2021 to 30.06.2021	2 quarters cumulative period from 01.01.2021 to 30.06.2021	second quarter period from 01.04.2020 to 30.06.2020	2 quarters cumulative period from 01.01.2020 to 30.06.2020
Net revenues from the sale of products and services	22	38	16	31
Gains on sale or scrapping of property, plant and equipment, intangible assets and assets held for sale	22	38	7	18
Damages, compensation and penalties received	18	26	8	14
Ancillary income	4	7	3	6
Recovery of receivables expired, forgiven or written off	2	3	2	3
Release of provision for future payments	-	5	-	-
Release of provision recognized for legal claims excluding legal claims relating to mortgage loans in convertible currencies	-	1	-	4
Other	17	35	19	41
Total	85	153	55	117

OTHER OPERATING EXPENSE	second quarter period from 01.04.2021 to 30.06.2021	2 quarters cumulative period from 01.01.2021 to 30.06.2021	second quarter period from 01.04.2020 to 30.06.2020	2 quarters cumulative period from 01.01.2020 to 30.06.2020
Costs of products and services sold	(1)	(2)	(1)	(4)
Losses on sale or scrapping of property, plant and equipment, intangible assets and assets held for sale	(11)	(17)	(15)	(23)
Donations made	-	(14)	(2)	(22)
Sundry expenses	(3)	(8)	(3)	(6)
Provision recognized for potential refunds of fees and commission to customers	(26)	(26)	-	(70)
Provision for future payments	(6)	(16)	-	-
Provision recognized for legal claims excluding legal claims relating to mortgage loans in convertible currencies	(3)	(5)	(1)	(4)
Other	(15)	(33)	(19)	(34)
Total	(65)	(121)	(41)	(163)

15. NET EXPECTED CREDIT LOSSES

ALLOWANCES FOR EXPECTED CREDIT LOSSES	second quarter period from 01.04.2021 to 30.06.2021	2 quarters cumulative period from 01.01.2021 to 30.06.2021	second quarter period from 01.04.2020 to 30.06.2020	2 quarters cumulative period from 01.01.2020 to 30.06.2020
Amounts due from banks	1	-	-	-
Debt securities	2	2	5	4
Loans and advances to customers	(262)	(481)	(349)	(781)
Other financial assets	-	2	1	-
Provisions for financial liabilities and guarantees granted	(2)	47	(42)	(99)
Total	(261)	(430)	(385)	(876)

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CHANGES IN ACCUMULATED ALLOWANCES FOR EXPECTED CREDIT LOSSES	As at the beginning of the period	Net allowances for expected credit losses	Change in allowances due to write-off and other adjustments	State at the end of the period
Period from 01.01 to 30.06.2021				
Debt securities	(50)	2	-	(48)
Loans and advances to customers	(8 824)	(481)	430	(8 875)
Other financial assets	(138)	2	-	(136)
Financial liabilities and guarantees granted	(629)	47	1	(581)
Total	(9 641)	(430)	431	(9 640)

CHANGES IN ACCUMULATED ALLOWANCES FOR EXPECTED CREDIT LOSSES	As at the beginning of the period	Net allowances for expected credit losses	Change in allowances due to write-off and other adjustments	State at the end of the period
Period from 01.01 to 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)

16. NET IMPAIRMENT ALLOWANCES OF NON-FINANCIAL ASSETS

NET IMPAIRMENT OF NON-FINANCIAL ASSETS	second quarter period from 01.04.2021 to 30.06.2021	2 quarters cumulative period from 01.01.2021 to 30.06.2021	second quarter period from 01.04.2020 to 30.06.2020	2 quarters cumulative period from 01.01.2020 to 30.06.2020
Property, plant and equipment under operating lease	(1)	(1)	(2)	(2)
Property, plant and equipment	-	-	10	2
Non-current assets held for sale	(2)	(2)	(1)	(1)
Intangible assets	-	-	(147)	(147)
Investments in associates and joint ventures	-	-	1	(89)
Other financial assets, including inventories	(15)	(30)	(10)	(28)
Total	(18)	(33)	(149)	(265)

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CHANGES IN ACCUMULATED IMPAIRMENT ALLOWANCES ON NON-FINANCIAL ASSETS	As at the beginning of the period	Net impairment allowances on non-financial assets	Others	State at the end of the period
Period from 01.01 to 30.06.2021				
Property, plant and equipment under operating lease	(1)	(1)	(1)	(3)
Property, plant and equipment	(101)	-	2	(99)
Non-current assets held for sale	(3)	(2)	1	(4)
Intangible assets	(415)	-	(1)	(416)
Investments in associates and joint ventures	(275)	-	-	(275)
Other financial assets, including inventories	(292)	(30)	13	(309)
Total	(1 087)	(33)	14	(1 106)

CHANGES IN ACCUMULATED IMPAIRMENT ALLOWANCES ON NON-FINANCIAL ASSETS	As at the beginning of the period	Net impairment allowances on non-financial assets	Others	State at the end of the period
Period from 01.01 to 30.06.2020				
Property, plant and equipment under operating lease	(7)	(2)	2	(7)
Property, plant and equipment	(52)	2	(2)	(52)
Non-current assets held for sale	(1)	(1)	-	(2)
Intangible assets	(274)	(147)	-	(421)
Investments in associates and joint ventures	(183)	(89)	-	(272)
Other financial assets, including inventories	(192)	(28)	-	(220)
Total	(709)	(265)	-	(974)

- INTANGIBLE ASSETS**

The Group has carried out an impairment test of goodwill arising on the acquisition of Nordea Bank Polska S.A. on the basis of a model based on the discounted dividend method, by comparing the carrying amount of the cash-generating units ("CGU") with their recoverable amount. Upon acquisition, two CGUs were identified to which goodwill was assigned – retail and corporate.

As at 30 June 2021, the Group performed the impairment tests in respect of goodwill on the acquisition of Nordea Bank Polska assigned to the retail CGU. The test conducted did not show impairment.

As at 30 June 2020, the Group wrote down the goodwill arising on the acquisition of Nordea Bank Polska S.A. assigned to the corporate CGU by PLN 116 million and the goodwill arising on taking over control over PKO Leasing Pro S.A. of PLN 31 million. The main reasons which contributed to recognizing the write-down were the COVID-19 pandemic and its impact (an increase in the cost of credit risk and the expected weakening of economic activity) and NBP interest rate cuts introduced by the Monetary Policy Council (MPC).

- INVESTMENTS IN ASSOCIATES AND JOINT VENTURES**

The Group carried out an impairment test of shares held in Bank Pocztowy SA using the discounted dividend method as at 31 March 2020. The valuation model took into account the effect of the COVID-19 pandemic on the financial projections, including in particular the expected increase in the cost of credit risk and low level of interest rates. The impairment test carried out as at 30 June 2021 did not show any need to change the existing full impairment allowance and the carrying amount of Bank Pocztowy shares as at 30 June 2021 remained at the previous level of PLN 0.00.

17. COST OF THE LEGAL RISK OF MORTGAGE LOANS IN CONVERTIBLE CURRENCIES

	second quarter period from 01.04.2021 to 30.06.2021	2 quarters cumulative period from 01.01.2021 to 30.06.2021	second quarter period from 01.04.2020 to 30.06.2020	2 quarters cumulative period from 01.01.2020 to 30.06.2020
Cost of the legal risk of mortgage loans in convertible currencies	-	-	(105)	(190)

IMPACT OF THE LEGAL RISK OF MORTGAGE LOANS IN CONVERTIBLE CURRENCIES	Gross carrying amount of mortgage loans in convertible currencies before recognition of mortgage loans in convertible currencies legal risk cost	Mortgage loans in convertible currencies legal risk cost	Gross carrying amount of mortgage loans in convertible currencies after recognition of mortgage loans in convertible currencies legal risk cost
as at 30.06.2021			
Loans and advances to customers – adjustment reducing the carrying amount of loans	20 323	5 997	14 326
Provisions (note 31)		515	
Total		6 512	
as at 31.12.2020			
Loans and advances to customers – adjustment reducing the carrying amount of loans	21 983	6 617	15 366
Provisions (note 31)		426	
Total		7 043	

As at 30 June 2021, the Group recognized in the financial statements the impact of the legal risk associated with the portfolio of mortgage loans in convertible currencies granted to households. The change in the adjustment of the gross carrying amount of mortgage loans to reflect the expected impact of potential settlements and litigation from 31 December 2020 was mainly due to the decline in the CHF rate.

Additional information on the portfolio of mortgage loans in convertible currencies is presented by the Group in notes “Legal claims” and “Risk management of foreign currency risk associated with mortgage loans for individuals”.

18. ADMINISTRATIVE EXPENSES

ADMINISTRATIVE EXPENSES	second quarter period from 01.04.2021 to 30.06.2021	2 quarters cumulative period from 01.01.2021 to 30.06.2021	second quarter period from 01.04.2020 to 30.06.2020	2 quarters cumulative period from 01.01.2020 to 30.06.2020
Employee benefits	(792)	(1 522)	(762)	(1 538)
Overheads, of which:	(324)	(632)	(306)	(624)
rent	(23)	(48)	(22)	(44)
IT	(95)	(186)	(84)	(165)
Depreciation and amortization	(248)	(492)	(245)	(488)
property, plant and equipment, of which:	(134)	(267)	(136)	(272)
Investment estates	(1)	(1)	(1)	(1)
IT	(24)	(48)	(15)	(51)
right of use assets	(60)	(118)	(56)	(111)
intangible assets, of which:	(114)	(225)	(109)	(216)
IT	(108)	(213)	(101)	(199)
Net regulatory charges	(80)	(453)	(107)	(558)
Total	(1 444)	(3 099)	(1 420)	(3 208)

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EMPLOYEE BENEFITS	second quarter period from 01.04.2021 to 30.06.2021	2 quarters cumulative period from 01.01.2021 to 30.06.2021	second quarter period from 01.04.2020 to 30.06.2020	2 quarters cumulative period from 01.01.2020 to 30.06.2020
Wages and salaries, including:	(663)	(1 269)	(638)	(1 279)
costs of contributions to the employee pension plan	(17)	(34)	(16)	(34)
Social insurance, of which:	(109)	(218)	(107)	(221)
contributions for disability and retirement benefits	(91)	(190)	(95)	(198)
Other employee benefits	(20)	(35)	(17)	(38)
Total	(792)	(1 522)	(762)	(1 538)

NET REGULATORY CHARGES	second quarter period from 01.04.2021 to 30.06.2021	2 quarters cumulative period from 01.01.2021 to 30.06.2021	second quarter period from 01.04.2020 to 30.06.2020	2 quarters cumulative period from 01.01.2020 to 30.06.2020
Contribution and payments to the Bank Guarantee Fund (BGF), including:	(58)	(367)	(88)	(489)
to the Resolution Fund	-	(253)	-	(318)
to the Banks' Guarantee Fund	(58)	(114)	(88)	(171)
Fees to PFSA	(2)	(46)	-	(31)
Flat-rate income tax	(2)	(4)	(2)	(4)
Other taxes and fees	(18)	(36)	(17)	(34)
Total	(80)	(453)	(107)	(558)

19. INCOME TAX EXPENSE

	second quarter period from 01.04.2021 to 30.06.2021	2 quarters cumulative period from 01.01.2021 to 30.06.2021	second quarter period from 01.04.2020 to 30.06.2020	2 quarters cumulative period from 01.01.2020 to 30.06.2020
Income tax expense recognized in the income statement	(523)	(825)	(416)	(714)
Current income tax expense	(460)	(847)	(239)	(616)
Deferred income tax on temporary differences	(63)	22	(177)	(98)
Income tax reported in other comprehensive income in respect of temporary differences	172	304	(179)	(280)
Total	(351)	(521)	(595)	(994)

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RECONCILIATION OF THE EFFECTIVE TAX RATE	second quarter period from 01.04.2021 to 30.06.2021	2 quarters cumulative period from 01.01.2021 to 30.06.2021	second quarter period from 01.04.2020 to 30.06.2020	2 quarters cumulative period from 01.01.2020 to 30.06.2020
Profit or loss before tax	1 760	3 237	1 220	2 017
Tax calculated using the enacted rate in force in Poland (19%)	(334)	(615)	(232)	(383)
Effect of different tax rates of foreign entities	-	1	-	-
Effect of permanent timing differences, of which:	(189)	(212)	(187)	(336)
non-deductible impairment allowance on investments in subordinated entities	-	-	-	(17)
non-deductible allowances for expected credit losses on credit exposures and securities	(15)	(26)	(14)	(26)
contributions and payments to the Bank Guarantee Fund	(11)	(70)	(17)	(93)
tax on certain financial institutions	(49)	(98)	(52)	(102)
cost of the legal risk of mortgage loans in convertible currencies	-	-	(20)	(36)
tax on foreign exchange gains in Sweden	14	1	37	(16)
asset from the average tax rate	(122)	(9)	(83)	-
dividend income	(4)	2	-	-
write-off due to identified impairment of goodwill	-	-	(22)	(22)
other permanent differences	(2)	(12)	(16)	(24)
Effect of other timing differences, including new technologies tax relief and donations	-	2	3	5
Income tax expense recognized in the income statement	(523)	(825)	(416)	(714)
Effective tax rate (in %)	29,72	25,49	34,09	35,40

When estimating the average effective tax rate in the first quarter of 2021, the release of provision for the tax liability of PKO Finance AB was taken into account. As a result of receiving an unfavourable preliminary decision of the Swedish tax authority, the estimate of the effective tax rate was adjusted and no longer includes the provision for PKO Finance AB tax liability in 2021.

Tax systems of countries in which the Bank and entities in the PKO Bank Polski S.A. Group have their registered offices or branches are often subject to amendments to laws, among other things as a result of operations aimed at tightening the tax system, both at national and international level.

In addition, understanding the regulations of the tax law, due to their ambiguity, may in practice lead to inconsistent interpretations by the tax authorities, differing from the interpretation by the taxpayer, and respective disputes may only be resolved by national or European courts. Therefore, interpretations of the tax law by the tax authorities differing from the practices implemented by the Bank or entities of the PKO Bank Polski S.A. Group cannot be eliminated and may have a significant unfavourable impact on their operations and financial condition, despite the various actions aimed at mitigating this risk, which are regularly undertaken and allowed by law.

The following issues were described in detail in the consolidated financial statements of the Group for the year ended 31 December 2020:

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

In accordance with IFRIC 23 “Uncertainty over Income Tax Treatments” entering into force, the Group made a judgment regarding the uncertain treatment of taxable income earned in the territory of Sweden in respect of foreign exchange differences on loans and liabilities relating to the bond issue. The Group reflected the effect of uncertainty by using the “most probable amount” method.

As at 30 June 2021, the deferred income tax provision amounted to PLN 278 million (PLN 279 million as at 31 December 2020). The Group is analysing the impact of the possible decision of the Swedish tax authority (STA) on the taxation of foreign exchange differences of PKO Finance AB which is preparing for the potential dispute with the tax authorities and will submit its arguments to the STA.

20. AMOUNTS DUE FROM BANKS

AMOUNTS DUE FROM BANKS	30.06.2021	31.12.2020
Measured at amortized cost	3 480	2 557
Deposits with banks	2 431	1 311
Current accounts	981	887
Loans and advances granted	66	358
Cash in transit	2	1
Gross amount	3 480	2 557
Net amount	3 480	2 557

As at 30 June 2021 and 31 December 2020 all amounts due from banks were classified as Stage 1.

21. HEDGE ACCOUNTING

TYPES OF HEDGING STRATEGIES APPLIED BY THE GROUP

As at 30 June 2021, the Group had active relationships as part of:

- 8 strategies for hedging cash flow volatility;
- 4 strategies for hedging fair value volatility;
- 1 strategy for hedging net investments in foreign operations.

In the six months of 2021, as part of the hedging strategy “Hedges against fluctuations in cash flows from floating interest rate loans in EUR, resulting from the risk of fluctuations in interest rates, using IRS transactions”, the Group closed hedging relationships:

- due to their failing to pass the prospective test of sufficient nominal amount. The effect of discontinuation of hedge accounting as part of the said relationship on the profit or loss amounted to PLN 0.4 million;

- due to the discontinuation of hedge accounting. The effect of the discontinuation of hedge accounting as part of the said relationship on the profit or loss amounted to PLN 0.6 million.

In the 6 months of 2021, the Group introduced one hedging strategy for net investment in foreign operations:

- “Hedges of net investments in foreign operations for which a foreign currency is the functional currency, against foreign exchange risk arising from translating the results of operations and the financial position of the foreign operation to PLN, in the consolidated financial statements of the PKO Bank Polski SA Group, using forward or NDF transactions”;

and three hedging strategies for cash flow hedges:

- Hedges against fluctuations in cash flows from variable interest loans in PLN of a PKO Bank Polski S.A. Group other than PKO Bank Polski S.A, arising from interest rate risk and hedges against fluctuations of cash flows from convertible currency financial liabilities of a PKO Bank Polski S.A. Group other than PKO Bank Polski S.A, arising from foreign exchange risk, using two CIRS transactions concluded by PKO Bank Polski S.A. with a counterparty from outside the Group”;
- Hedges against fluctuations in cash flows from floating interest rate loans in PLN arising from interest rate risk and hedges against fluctuations in cash flows from convertible currency financial liabilities arising from foreign exchange risk using CIRS transactions”, and
- “Hedges against fluctuations in cash flows from PLN deposits arising from interest rate risk, using IRS transactions”.

No changes were made to other hedging strategies in 2021.

In 2020, the Group introduced two new hedging strategies for fair value hedges and cash flow hedges.

NEW ACCOUNTING POLICIES – HEDGES OF NET INVESTMENTS IN FOREIGN OPERATIONS

Changes in the fair value of a derivative financial instrument designated as a hedge of net investments in a foreign operation, whose functional currency is a foreign currency, are recognized directly in other comprehensive income in respect of the effective portion of the hedge. The ineffective portion of the hedge is recognized in the income statement in “Foreign exchange gains (losses)”.

Gains and losses relating to the hedging instrument which were recognized in other comprehensive income are transferred to the income statement as a reclassification adjustment in accordance with paragraphs 48-49 of IAS 21, “The Effects of Changes in Foreign Exchange Rates”, upon disposal or partial disposal of the foreign entity.

Hedge effectiveness is verified through the use of prospective and retrospective effectiveness tests.

FINANCIAL INFORMATION

CARRYING AMOUNT OF HEDGING INSTRUMENTS	30.06.2021		31.12.2020	
	Assets	Liabilities	Assets	Liabilities
Cash flow hedges	611	816	958	324
- interest rate risk IRS	346	477	626	14
- foreign exchange risk and interest rate risk - CIRS	265	339	332	310
Fair value hedges	9	20	-	54
- interest rate risk IRS	9	20	-	54
Hedges of net investments in foreign operations	-	1	-	-
- foreign exchange risk – Forward	-	1	-	-
Total	620	837	958	378

CASH FLOW HEDGES

CHANGE IN OTHER COMPREHENSIVE INCOME RELATING TO CASH FLOW HEDGES AND AN INEFFECTIVE PORTION OF CASH FLOW HEDGES	second quarter period from 01.04.2021 to 30.06.2021	2 quarters cumulative period from 01.01.2021 to 30.06.2021	second quarter period from 01.04.2020 to 30.06.2020	2 quarters cumulative period from 01.01.2020 to 30.06.2020
Accumulated other comprehensive income at the beginning of the period, net	(79)	355	684	232
Impact on other comprehensive income during the period, gross	(325)	(862)	66	624
Gains/losses recognized in other comprehensive income during the period	(345)	(713)	365	484
Amounts transferred from other comprehensive income to the income statement:	20	(149)	(299)	140
- interest income	(114)	(206)	(149)	(221)
- net foreign exchange gains/(losses)	134	57	(150)	361
Tax effect	62	165	(13)	(119)
Accumulated other comprehensive income at the end of the period, net	(342)	(342)	737	737
Ineffective portion of cash flow hedges recognized in the income statements, including in:	1	-	-	2
Foreign exchange gains/ (losses)	1	2	-	1
Gain/(loss) on financial instruments measured at fair value	-	(2)	-	1

FAIR VALUE HEDGES

HEDGES OF INTEREST RATE RISK	30.06.2021	31.12.2020
Fair value measurement of the hedging derivative instrument - IRS	(11)	(54)
Fair value adjustment of the hedged instrument attributable to the hedged risk	7	46
Securities	1	5
Loans and advances to customers	2	4
Fair value adjustment of securities recognized in other comprehensive income	4	37

HEDGES OF NET INVESTMENTS IN FOREIGN OPERATIONS

CHANGE IN OTHER COMPREHENSIVE INCOME RELATING TO HEDGES OF NET INVESTMENTS IN FOREIGN OPERATIONS AND AN INEFFECTIVE PORTION OF CASH FLOW HEDGES	second quarter period from 01.04.2021 to 30.06.2021	2 quarters cumulative period from 01.01.2021 to 30.06.2021
Accumulated other comprehensive income at the beginning of the period, net	-	-
Impact on other comprehensive income during the period, gross	(1)	(1)
Gains/losses recognized in other comprehensive income during the period	(1)	(1)
Accumulated other comprehensive income at the end of the period, net	(1)	(1)

22. OTHER DERIVATIVE INSTRUMENTS

OTHER DERIVATIVE INSTRUMENTS - BY TYPE	30.06.2021		31.12.2020	
	Assets	Liabilities	Assets	Liabilities
IRS	2 309	2 430	3 178	3 405
CIRS	581	555	652	978
FX Swap	418	156	358	314
Options	294	516	260	383
Commodity swap	1 155	1 152	411	408
FRA	2	1	4	3
Forward	125	200	312	293
Commodity Forward	1 457	1 450	326	320
Total	6 341	6 460	5 501	6 104

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NOMINAL AMOUNTS OF UNDERLYING INSTRUMENTS (BUY AND SELL TOGETHER) hedging instruments and other derivative instruments	30.06.2021	31.12.2020
IRS	574 074	528 520
hedging instruments	162 310	151 832
Purchase	81 155	75 916
Sale	81 155	75 916
other derivative instruments	411 764	376 688
Purchase	205 882	188 344
Sale	205 882	188 344
CIRS	116 721	69 411
hedging instruments	42 819	11 042
Purchase	21 306	5 493
Sale	21 513	5 549
other derivative instruments	73 902	58 369
Purchase	36 650	29 180
Sale	37 252	29 189
FX Swap	86 752	55 370
Purchase of currencies	43 529	27 721
Sale of currencies	43 223	27 649
Options	84 498	50 193
Purchase	42 137	25 032
Sale	42 361	25 161
FRA	11 161	18 648
Purchase	4 901	9 259
Sale	6 260	9 389
Forward	54 059	47 467
hedging instruments	101	-
Purchase of currencies	48	-
Sale of currencies	53	-
other derivative instruments	53 958	47 467
Purchase of currencies	26 914	23 728
Sale of currencies	27 044	23 739
Other, including Commodity swap and Futures (including on stock exchange indices)	8 007	7 228
Purchase	4 008	3 633
Sale	3 999	3 595
Total	935 272	776 837

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23. SECURITIES

SECURITIES	held for trading	not held for trading, measured at fair value through profit or loss	measured at fair value through other comprehensive income	measured at amortized cost	Total
30.06.2021					
Debt securities	688	910	68 867	67 118	137 583
NBP money market bills	-	-	425	-	425
Treasury bonds (in PLN)	559	379	46 912	47 554	95 404
Treasury bonds (in foreign currencies)	4	347	2 893	-	3 244
corporate bonds (in PLN) secured by guarantees from the State Treasury	-	-	10 171	11 767	21 938
municipal bonds (in PLN)	16	-	4 063	5 018	9 097
corporate bonds (in PLN)	109	184	4 046	1 989	6 328
corporate bonds (in foreign currencies)	-	-	357	790	1 147
Equity securities	28	1 358	-	-	1 386
shares in other entities – not listed	-	336	-	-	336
shares in other entities – listed	26	151	-	-	177
participation units in investment funds, investment certificates, rights to shares, pre-emptive rights	2	871	-	-	873
Total (excluding adjustment relating to fair value hedge accounting)	716	2 268	68 867	67 118	138 969
Adjustment relating to fair value hedge accounting	-	-	-	1	1
Total	716	2 268	68 867	67 119	138 970

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SECURITIES	held for trading	not held for trading, measured at fair value through profit or loss	measured at fair value through other comprehensive income	measured at amortized cost	Total
31.12.2020					
Debt securities	1 151	978	73 511	46 522	122 162
Treasury bonds (in PLN)	684	430	52 930	29 647	83 691
Treasury bonds (in foreign currencies)	4	367	2 872	39	3 282
Treasury bills	349	-	500	-	849
corporate bonds (in PLN) secured with the State Treasury guarantees	-	-	8 702	9 887	18 589
municipal bonds (in PLN)	15	-	4 649	5 060	9 724
corporate bonds (in PLN)	99	181	3 835	1 518	5 633
corporate bonds (in foreign currencies)	-	-	23	371	394
Equity securities	27	1 488	-	-	1 515
shares in other entities - not listed	-	451	-	-	451
shares in other entities - listed	25	135	-	-	160
participation units in investment funds, investment certificates, rights to shares, pre-emptive rights	2	902	-	-	904
Total (excluding adjustment relating to fair value hedge accounting)	1 178	2 466	73 511	46 522	123 677
Adjustment relating to fair value hedge accounting	-	-	-	5	5
Total	1 178	2 466	73 511	46 527	123 682

The item Treasury bonds in PLN and in foreign currencies comprises Polish Treasury bonds. As at 30 June 2021 and 31 December 2020 the item "Treasury bonds in foreign currencies" also includes bonds issued by the State Treasury of Ukraine of PLN 866 and PLN 820 million, respectively.

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SECURITIES (excluding adjustments relating to fair value hedge accounting) 30.06.2021	stage 1	stage 2	stage 3	Total	including POCI
measured at fair value through OCI					
Gross amount	68 372	67	428	68 867	410
NBP money market bills	425	-	-	425	-
Treasury bonds (in PLN)	46 912	-	-	46 912	-
Treasury bonds (in foreign currencies)	2 893	-	-	2 893	-
corporate bonds (in PLN) secured by guarantees from the State Treasury	10 171	-	-	10 171	-
municipal bonds (in PLN)	3 997	66	-	4 063	-
corporate bonds (in PLN)	3 617	1	428	4 046	410
corporate bonds (in foreign currencies)	357	-	-	357	-
Net amount	68 372	67	428	68 867	410
NBP money market bills	425	-	-	425	-
Treasury bonds (in PLN)	46 912	-	-	46 912	-
Treasury bonds (in foreign currencies)	2 893	-	-	2 893	-
corporate bonds (in PLN) secured by guarantees from the State Treasury	10 171	-	-	10 171	-
municipal bonds (in PLN)	3 997	66	-	4 063	-
corporate bonds (in PLN)	3 617	1	428	4 046	410
corporate bonds (in foreign currencies)	357	-	-	357	-
Measured at amortized cost					
Gross amount	66 877	289	-	67 166	-
Treasury bonds (in PLN)	47 554	-	-	47 554	-
corporate bonds (in PLN) secured by guarantees from the State Treasury	11 770	-	-	11 770	-
municipal bonds (in PLN)	4 964	70	-	5 034	-
corporate bonds (in PLN)	1 790	219	-	2 009	-
corporate bonds (in foreign currencies)	799	-	-	799	-
Allowances for expected credit losses	(29)	(19)	-	(48)	-
corporate bonds (in PLN) secured by guarantees from the State Treasury	(3)	-	-	(3)	-
municipal bonds (in PLN)	(15)	(1)	-	(16)	-
corporate bonds (in PLN)	(2)	(18)	-	(20)	-
corporate bonds (in foreign currencies)	(9)	-	-	(9)	-
Net amount	66 848	270	-	67 118	-
Treasury bonds (in PLN)	47 554	-	-	47 554	-
corporate bonds (in PLN) secured by guarantees from the State Treasury	11 767	-	-	11 767	-
municipal bonds (in PLN)	4 949	69	-	5 018	-
corporate bonds (in PLN)	1 788	201	-	1 989	-
corporate bonds (in foreign currencies)	790	-	-	790	-
Total securities					
Gross amount	135 249	356	428	136 033	410
Allowances for expected credit losses	(29)	(19)	-	(48)	-
Net amount	135 220	337	428	135 985	410

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SECURITIES (excluding adjustments relating to fair value hedge accounting) 31.12.2020	stage 1	stage 2	stage 3	Total	including POCI
Measured at: fair value through OCI					
Gross amount	73 000	68	457	73 525	438
Treasury bonds (in PLN)	52 930	-	-	52 930	-
Treasury bonds (in foreign currencies)	2 872	-	-	2 872	-
Treasury bills	500	-	-	500	-
corporate bonds (in PLN) secured with the State Treasury guarantees	8 702	-	-	8 702	-
municipal bonds (in PLN)	4 582	67	-	4 649	-
corporate bonds (in PLN)	3 391	1	457	3 849	438
corporate bonds (in foreign currencies)	23	-	-	23	-
Allowances for expected credit losses	-	-	(14)	(14)	(14)
corporate bonds (in PLN)	-	-	(14)	(14)	(14)
Net amount	73 000	68	443	73 511	424
Treasury bonds (in PLN)	52 930	-	-	52 930	-
Treasury bonds (in foreign currencies)	2 872	-	-	2 872	-
Treasury bills	500	-	-	500	-
corporate bonds (in PLN) secured with the State Treasury guarantees	8 702	-	-	8 702	-
municipal bonds (in PLN)	4 582	67	-	4 649	-
corporate bonds (in PLN)	3 391	1	443	3 835	424
corporate bonds (in foreign currencies)	23	-	-	23	-
Measured at: amortized cost					
Gross amount	46 330	228	-	46 558	-
Treasury bonds (in PLN)	29 647	-	-	29 647	-
Treasury bonds (in foreign currencies)	39	-	-	39	-
corporate bonds (in PLN) secured with the State Treasury guarantees	9 889	-	-	9 889	-
municipal bonds (in PLN)	5 052	24	-	5 076	-
corporate bonds (in PLN)	1 331	204	-	1 535	-
corporate bonds (in foreign currencies)	372	-	-	372	-
Allowances for expected credit losses	(20)	(16)	-	(36)	-
corporate bonds (in PLN) secured with the State Treasury guarantees	(2)	-	-	(2)	-
municipal bonds (in PLN)	(16)	-	-	(16)	-
corporate bonds (in PLN)	(1)	(16)	-	(17)	-
corporate bonds (in foreign currencies)	(1)	-	-	(1)	-
Net amount	46 310	212	-	46 522	-
Treasury bonds (in PLN)	29 647	-	-	29 647	-
Treasury bonds (in foreign currencies)	39	-	-	39	-
corporate bonds (in PLN) secured with the State Treasury guarantees	9 887	-	-	9 887	-
municipal bonds (in PLN)	5 036	24	-	5 060	-
corporate bonds (in PLN)	1 330	188	-	1 518	-
corporate bonds (in foreign currencies)	371	-	-	371	-
Total securities					
Gross amount	119 330	296	457	120 083	438
Allowances for expected credit losses	(20)	(16)	(14)	(50)	(14)
Net amount	119 310	280	443	120 033	424

24. LOANS AND ADVANCES TO CUSTOMERS

LOANS AND ADVANCES TO CUSTOMERS 30.06.2021	not held for trading, measured at fair value through profit or loss	measured at amortized cost	Total
retail and private banking	5 091	135 502	140 593
housing	4	110 842	110 846
consumer	5 087	24 512	29 599
finance lease receivables	-	148	148
SME	45	31 337	31 382
housing	-	5 509	5 509
corporate	45	13 692	13 737
factoring receivables	-	164	164
finance lease receivables	-	11 972	11 972
corporate	61	52 586	52 647
housing	-	147	147
corporate	61	45 589	45 650
factoring receivables	-	1 730	1 730
finance lease receivables	-	5 120	5 120
Loans and advances to customers (excluding adjustments relating to fair value hedge accounting)	5 197	219 425	224 622
Adjustment relating to fair value hedge accounting	2	-	2
Total	5 199	219 425	224 624

LOANS AND ADVANCES TO CUSTOMERS 31.12.2020	not held for trading, measured at fair value through profit or loss	measured at amortized cost	Total
retail and private banking	5 895	133 391	139 286
housing	7	110 352	110 359
consumer	5 888	22 932	28 820
finance lease receivables	-	107	107
SME	46	29 883	29 929
housing	-	5 674	5 674
corporate	46	12 478	12 524
factoring receivables	-	144	144
finance lease receivables	-	11 587	11 587
corporate	68	53 316	53 384
housing	-	292	292
corporate	68	46 483	46 551
factoring receivables	-	1 484	1 484
finance lease receivables	-	5 057	5 057
Loans and advances to customers (excluding adjustments relating to fair value hedge accounting)	6 009	216 590	222 599
Adjustment relating to fair value hedge accounting	4	-	4
Total	6 013	216 590	222 603

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LOANS AND ADVANCES TO CUSTOMERS (excluding adjustments relating to fair value hedge accounting) 30.06.2021	Stage 1	Stage 2	Stage 3	Total	including POCI
Measured at: amortized cost					
Gross amount	184 152	33 839	10 309	228 300	312
housing loans	101 918	14 506	2 134	118 558	94
corporate loans	45 387	12 971	5 323	63 681	115
consumer loans	21 495	3 170	1 645	26 310	50
factoring receivables	1 767	120	29	1 916	-
finance lease receivables	13 585	3 072	1 178	17 835	53
Allowances for expected credit losses	(703)	(2 070)	(6 102)	(8 875)	(88)
housing loans	(64)	(548)	(1 448)	(2 060)	(34)
corporate loans	(357)	(914)	(3 129)	(4 400)	(72)
consumer loans	(228)	(513)	(1 057)	(1 798)	19
factoring receivables	(3)	-	(19)	(22)	-
finance lease receivables	(51)	(95)	(449)	(595)	(1)
Net amount	183 449	31 769	4 207	219 425	224
housing loans	101 854	13 958	686	116 498	60
corporate loans	45 030	12 057	2 194	59 281	43
consumer loans	21 267	2 657	588	24 512	69
factoring receivables	1 764	120	10	1 894	-
finance lease receivables	13 534	2 977	729	17 240	52
Loans and advances to customers, total					
Gross amount	184 152	33 839	10 309	228 300	312
Allowances for expected credit losses	(703)	(2 070)	(6 102)	(8 875)	(88)
Net amount	183 449	31 769	4 207	219 425	224

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LOANS AND ADVANCES TO CUSTOMERS (excluding adjustments relating to fair value hedge accounting) 31.12.2020	Stage 1	Stage 2	Stage 3	Total	including POCI
Measured at: amortized cost					
Gross amount	182 300	33 249	9 865	225 414	270
housing loans	102 746	13 702	1 953	118 401	85
corporate loans	44 346	13 689	5 450	63 485	57
consumer loans	20 240	2 855	1 447	24 542	53
factoring receivables	1 532	94	23	1 649	-
finance lease receivables	13 436	2 909	992	17 337	75
Allowances for expected credit losses	(602)	(2 061)	(6 161)	(8 824)	(39)
housing loans	(58)	(621)	(1 404)	(2 083)	(27)
corporate loans	(289)	(931)	(3 304)	(4 524)	(6)
consumer loans	(209)	(426)	(975)	(1 610)	(4)
factoring receivables	(2)	-	(19)	(21)	-
finance lease receivables	(44)	(83)	(459)	(586)	(2)
Net amount	181 698	31 188	3 704	216 590	231
housing loans	102 688	13 081	549	116 318	58
corporate loans	44 057	12 758	2 146	58 961	51
consumer loans	20 031	2 429	472	22 932	49
factoring receivables	1 530	94	4	1 628	-
finance lease receivables	13 392	2 826	533	16 751	73
Loans and advances to customers, total					
Gross amount	182 300	33 249	9 865	225 414	270
Allowances for expected credit losses	(602)	(2 061)	(6 161)	(8 824)	(39)
Net amount	181 698	31 188	3 704	216 590	231

25. PROPERTY, PLANT AND EQUIPMENT SENT IN OPERATING LEASES

PROPERTY, PLANT AND EQUIPMENT SENT IN OPERATING LEASES	30.06.2021	31.12.2020
Land and buildings	9	10
Machinery and equipment, including IT equipment	1	1
Other, including means of transport	1 253	1 157
Total	1 263	1 168

INTANGIBLE ASSETS	30.06.2021	31.12.2020
Software	1 607	1 679
Goodwill	1 053	1 053
Future profit on concluded insurance contracts	26	31
Customer relationships	47	53
Other, including capital expenditure	520	465
of which: software	489	433
Total	3 253	3 281

Net goodwill	30.06.2021	31.12.2020
Nordea Bank Polska S.A.	747	747
PKO Życie Towarzystwo Ubezpieczeń S.A.	91	91
Raiffeisen - Leasing Polska SA and its subsidiaries (PKO Leasing S.A.)	57	57
PKO Towarzystwo Funduszy Inwestycyjnych S.A.	150	150
Assets taken over from CFP sp. z o.o.	8	8
Total	1 053	1 053

Detailed information on impairment allowances on goodwill is presented in the note “Impairment of non-financial assets”.

PROPERTY, PLANT AND EQUIPMENT	30.06.2021	31.12.2020
Land and buildings	2 227	2 157
Machinery and equipment, including IT equipment	391	382
Assets under construction	147	286
Other, including vehicles	332	336
Total	3 097	3 161
of which of right-of-use assets	985	1 024

26. OTHER ASSETS

OTHER ASSETS	30.06.2021	31.12.2020
Other financial assets	2 003	1 937
Settlements in respect of card transactions	1 242	1 222
Settlement of financial instruments	139	164
Receivables in respect of cash settlements	131	159
Receivables and settlements in respect of trading in securities	10	9
Receivables from dividends to be received and subsidies from subsidiaries	28	-
Sale of foreign currencies	43	7
Trade receivables	232	210
Other	178	166
Other non-financial assets	939	867
Inventories	170	130
Assets for sale	114	141
Prepayments and deferred costs	151	131
VAT receivable	427	358
Receivables from settlements with KIR	5	-
Other	72	107
Total	2 942	2 804

OTHER FINANCIAL ASSETS	30.06.2021	31.12.2020
Total, gross	2 139	2 075
Stage 1	2 003	1 937
Stage 3	136	138
Allowances for expected credit losses	(136)	(138)
Stage 3	(136)	(138)
Net amount	2 003	1 937
Stage 1	2 003	1 937
Stage 3	-	-

27. AMOUNTS DUE TO BANKS

AMOUNTS DUE TO BANKS	30.06.2021	31.12.2020
Measured at amortized cost	4 407	2 626
Bank deposits	3 614	1 383
Current accounts	769	1 178
Other monetary market deposits	24	65
Total	4 407	2 626

28. AMOUNTS DUE TO CUSTOMERS

AMOUNTS DUE TO CUSTOMERS	Amounts due to households	Amounts due to corporate entities	Amounts due to public entities	Total
30.06.2021				
Measured at fair value through profit or loss	1 169	78	-	1 247
Liabilities in respect of short position in securities	-	78	-	78
Liabilities for insurance products	1 169	-	-	1 169
Measured at amortized cost	233 823	43 705	15 009	292 537
Cash on current accounts and overnight deposits of which	191 090	42 014	14 982	248 086
savings accounts and other interest-bearing assets	55 201	16 978	7 016	79 195
Term deposits	41 812	559	15	42 386
Other liabilities	604	1 132	12	1 748
Liabilities in respect of insurance products	317	-	-	317
Total	234 992	43 783	15 009	293 784

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AMOUNTS DUE TO CUSTOMERS	Amounts due to households	Amounts due to corporate entities	Amounts due to public entities	Total
31.12.2020				
Measured at fair value through profit or loss	1 216	-	-	1 216
Liabilities in respect of insurance products	1 216	-	-	1 216
Measured at amortized cost	223 691	43 705	13 744	281 140
Cash on current accounts and overnight deposits of which	174 525	42 224	13 706	230 455
savings accounts and other interest-bearing assets	53 631	16 059	7 322	77 012
Term deposits	48 354	798	18	49 170
Other liabilities	494	683	20	1 197
Liabilities in respect of insurance products	318	-	-	318
Total	224 907	43 705	13 744	282 356

AMOUNTS DUE TO CUSTOMERS BY SEGMENT	30.06.2021	31.12.2020
retail and private banking	206 996	197 003
corporate	43 319	41 095
firms and enterprises	41 971	42 712
other liabilities (including liabilities from insurance products)	1 498	1 546
Total	293 784	282 356

29. FINANCING RECEIVED

FINANCING RECEIVED	30.06.2021	31.12.2020
Loans and advances received from:	2 097	2 267
banks	670	875
international financial institutions	1 413	1 379
other financial institutions	14	13
Debt securities in issue:	31 244	32 098
mortgage covered bonds issued by PKO Bank Hipoteczny S.A.	15 943	17 201
bonds issued by PKO Bank Hipoteczny S.A.	3 838	4 036
bonds issued by PKO Bank Polski S.A.	3 928	4 020
bonds issued by PKO Finance AB	3 330	3 294
bonds issued by the PKO Leasing S.A. Group	4 152	3 496
bonds issued by KREDOBANK S.A.	53	51
Subordinated liabilities	2 716	2 716
Total	36 057	37 081

- RECEIVED FUNDING FROM BANKS**

In the six-month period ended 30 June 2021, the Group did not take out new loans from banks. At the same time, in the six-month period ended 30 June 2021, the Group repaid PLN 219 million of loans from banks.

- **RECEIVED FUNDING FROM INTERNATIONAL FINANCIAL INSTITUTIONS AND OTHER INSTITUTIONS**

In the six-month period ended 30 June 2021, the Group took out a loan from an international financial institution of PLN 226 million and repaid loans from international financial institutions and other institutions of PLN 177 million.

- **ISSUE OF MORTGAGE-COVERED BONDS AND BONDS BY PKO BANK HIPOTECZNY SA**

In the six-month period ended 30 June 2021, the company carried out new bond issues of PLN 3 456 million and redeemed bonds of PLN 4 660 million. The nominal amount of mortgage covered bonds which matured in the six-month period ended 30 June 2021 was PLN 1 billion.

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

In the six-month period ended 30 June 2021, the company did not carry out any new bond issues and no bonds issued by the company matured in this period.

- **BONDS ISSUED BY PKO FINANCE AB**

In the six-month period ended 30 June 2021, the company did not carry out any new bond issues and no bonds issued by the company matured in this period.

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

In the six-month period ended 30 June 2021, the company carried out new bond issues of PLN 2 144 million and redeemed bonds of PLN 1 489 million.

- **BONDS ISSUED BY KREDOBANK SA**

In the six-month period ended 30 June 2021, the company did not carry out any new bond issues and no bonds issued by the company matured in this period.

30. OTHER LIABILITIES

OTHER LIABILITIES	30.06.2021	31.12.2020
Other financial liabilities	4 101	3 011
Costs to be paid	592	559
Interbank settlements	901	276
Liabilities arising from investing activities and internal operations	153	379
Amounts due to suppliers	102	132
Liabilities and settlements in respect of trading in securities	456	247
Settlement of financial instruments	40	38
liabilities in respect of foreign exchange activities	629	245
Liabilities in respect of payment cards	185	31
Lease liabilities	1 027	1 090
Other	16	14
Other non-financial liabilities	1 909	1 692
Deferred income	676	663
Liability in respect of tax on certain financial institutions	87	87
Liabilities in respect of a contribution to the Bank Guarantee Fund maintained in the form of payment obligations	846	590
to the Resolution Fund	530	308
to the Banks' Guarantee Fund	316	282
Liabilities under the public law	86	83
Other	214	269
Total	6 010	4 703

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31. PROVISIONS

FOR 6 MONTHS ENDED 30 JUNE 2021	Provisions for financial liabilities and guarantees granted	Provisions for legal claims, excluding legal claims relating to repaid mortgage loans in convertible currencies	Provisions for legal claims against the bank relating to mortgage loans in convertible currencies	Provisions for reimbursement of costs to customers on early repayment of consumer and mortgage loans	Provisions for pensions and other defined post-employment benefits	Restructuring	Provision for holiday pay	Other provisions, including provisions for employee disputed claims	Total
As at the beginning of the period	629	102	426	24	63	39	96	123	1 502
Increases, including increases of existing provisions	-	5	91	26	-	-	40	19	181
Utilized amounts	-	(1)	(1)	(22)	(1)	(5)	(8)	(9)	(47)
Unused provisions reversed during the period	(47)	(1)	(1)	-	-	-	(1)	(8)	(57)
Other changes and reclassifications	(1)	-	-	1	1	(1)	1	1	2
As at the end of the period	581	105	515	29	63	33	128	126	1 580
Short-term provisions	496	7	-	28	7	33	128	2	701
Long-term provisions	85	98	515	1	56	-	-	124	879

FOR 6 MONTHS ENDED 30 JUNE 2020	Provisions for financial liabilities and guarantees granted	Provisions for legal claims, excluding legal claims relating to repaid mortgage loans in convertible currencies	Provisions for legal claims against the bank relating to mortgage loans in convertible currencies	Provisions for reimbursement of costs to customers on early repayment of consumer and mortgage loans	Provisions for pensions and other defined post-employment benefits	Restructuring	Provision for holiday pay	Other provisions, including provisions for employee disputed claims	Total
As at the beginning of the period	269	52	29	105	57	41	99	29	681
Increases, including increases of existing provisions	101	4	50	70	-	-	20	3	248
Utilized amounts	-	(1)	-	(137)	(1)	(5)	(3)	(3)	(150)
Unused provisions reversed during the period	(2)	(4)	-	-	-	(2)	(19)	(2)	(29)
Other changes and reclassifications	3	-	3	-	-	-	20	(1)	25
As at the end of the period	371	51	82	38	56	34	117	26	775
Short-term provisions	328	2	-	38	6	34	117	3	528
Long-term provisions	43	49	82	-	50	-	-	23	247

32. SHAREHOLDING STRUCTURE OF THE BANK

According to PKO Bank Polski's best knowledge, 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 Otwarty Fundusz Emerytalny, and Aviva Otwarty Fundusz Emerytalny.

According to the information available as at 30 June 2021 and 31 December 2020 the Bank's shareholding structure is as follows:

NAME OF SHAREHOLDER	number of shares	% of shares	Nominal value of 1 share	Interest in the share capital (%)
As at 30 June 2021				
State Treasury	367 918 980	29,43%	PLN 1	29,43%
Nationale Nederlanden Open Pension Fund ¹	106 857 062	8,55%	PLN 1	8,55%
Aviva Open Pension Fund ¹	90 810 319	7,26%	PLN 1	7,26%
Other shareholders ²	684 413 639	54,76%	PLN 1	54,76%
Total	1 250 000 000	100,00%	---	100,00%
As at 31 December 2020				
State Treasury	367 918 980	29,43%	PLN 1	29,43%
Nationale Nederlanden Open Pension Fund ¹	107 198 023	8,58%	PLN 1	8,58%
Aviva Open Pension Fund ¹	93 610 319	7,49%	PLN 1	7,49%
Other shareholders ²	681 272 678	54,50%	PLN 1	54,50%
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 Giełdowa).

² Including Bank Gospodarstwa Krajowego which, as at 30.06.2021, held 24 487 297 shares, constituting a 1.96% share of the votes at the General Shareholders' Meeting.

STRUCTURE OF PKO BANK POLSKI S.A.'S SHARE CAPITAL:

Series	Type of shares	Number of shares	Nominal value of 1 share	Nominal value of the series
Series A	ordinary registered shares	312 500 000	PLN 1	312 500 000
Series A	ordinary bearer shares	197 500 000	PLN 1	197 500 000
Series B	ordinary bearer shares	105 000 000	PLN 1	105 000 000
Series C	ordinary bearer shares	385 000 000	PLN 1	385 000 000
Series D	ordinary bearer shares	250 000 000	PLN 1	250 000 000
Total	---	1 250 000 000	---	1 250 000 000

As at 30 June 2021 and in 2020 there were no changes in the amount of the share capital of PKO Bank Polski S.A.. Shares of PKO Bank Polski S.A. issued are not preference shares and are fully paid up.

33. OFFSET OF THE NET LOSS FOR 2020, DISTRIBUTION OF RETAINED EARNINGS AND DIVIDENDS

- **OFFSET OF THE NET LOSS FOR 2020 AND DISTRIBUTION OF RETAINED EARNINGS**

On 7 June 2021, the Ordinary General Meeting adopted the following resolutions:

- 1) on offsetting the Bank's loss for 2020 of PLN 2 943 792 603.05 against a special fund created by resolution of the Bank's Extraordinary Shareholders Meeting of 23 April 2021 for offsetting particular balance sheet losses which will arise as a result of recognizing the financial effects of financial settlements with consumers that had concluded loan or borrowing agreements with the Bank secured by mortgages indexed to foreign currencies or denominated in foreign currencies
- 2) retaining unappropriated profits of PKO Bank Polski S.A. for prior years of PLN 5 500 000 000 as retained earnings.

- **DIVIDEND POLICY**

In March 2021, the Bank's Supervisory Board adopted the "Dividend policy of PKO Bank Polski S.A. and the PKO Bank Polski S.A. Group" (hereinafter the "Dividend Policy"). The Dividend Policy is based on an assumption of the stable execution of dividend payments over a long period in keeping with the principle of prudent management of the Bank and the Bank's Group, in accordance with the law and the PFSA positions on the assumptions for the dividend policies of commercial banks. The objective of the dividend policy is to optimally shape the Bank's and the Group's capital structure, taking into account the return on capital employed and its cost, capital requirements related to development, accompanied by the need to ensure an appropriate level of the capital adequacy ratios. Pursuant to the adopted Dividend Policy, the purchase of own shares with a view to their redemption is another instrument for redistribution of capital, and the purchase of shares may be executed when the book value of shares is higher than their current market price upon permission of the PFSA.

- **PFSA RECOMMENDATION FOR THE PAYMENT OF DIVIDEND IN 2021**

In the first half of 2021, the PFSA considered it necessary for commercial banks to suspend any payment of dividend and not to undertake, without prior consultation with the supervisory authority, other activities, in particular those outside the scope of current business and operating activities that may result in a reduction in the capital base, as reflected in the PFSA position of 16 December 2020 and in the individual recommendation for the Bank of 13 January 2021. Both the Bank's Management and Supervisory Boards passed resolutions stating that each of the authorities would implement the PFSA recommendation within the scopes of their respective responsibilities.

On 24 June 2021, the PFSA adopted a position on dividend policies of the commercial banks for the first half of 2021 which enables the payment of dividend from the 2020 profit upon meeting the conditions referred in the above-mentioned position. The PFSA maintained the recommendation not to undertake (without prior consultation with the supervisory authority) any other activities that may result in a reduction in the capital base, including the payment of dividend out of the retained earnings, and purchases of own Treasury shares. The above-mentioned position was confirmed by PFSA letters dated 30 June 2021 and 16 July 2021.

Pursuant to Art. 395.2.2 of the Commercial Companies Code, the decision on the distribution of profit remains within the competence of the Bank's Ordinary General Meeting.

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

• FINANCIAL AND GUARANTEE COMMITMENTS GRANTED

FINANCIAL AND GUARANTEE COMMITMENTS GRANTED 30.06.2021	STAGE 1		STAGE 2		STAGE 3		Total	Provisions according to IFRS 9	Net amount
	Nominal value	Provision	Nominal value	Provision	Nominal value	Provision			
credit lines and limits	54 269	(97)	5 929	(202)	122	(25)	60 320	(324)	59 996
housing	4 965	(9)	138	(6)	2	(1)	781	(16)	5 089
corporate	38 066	(69)	4 225	(152)	104	(20)	46 719	(241)	42 154
consumer	9 026	(19)	1 458	(44)	16	(4)	10 500	(67)	10 433
factoring	2 056	-	108	-	-	-	2 164	-	2 164
finance lease	156	-	-	-	-	-	156	-	156
other	3 119	-	-	-	4	-	3 123	-	3 123
Total financial commitments granted, including:	57 388	(97)	5 929	(202)	126	(25)	63 443	(324)	63 119
irrevocable commitments granted	20 905	(45)	2 783	(88)	64	(12)	23 752	(145)	23 607
POCI	-	-	-	-	25	-	25	-	25
guarantees in domestic and foreign trading	7 139	(6)	1 647	(77)	514	(170)	9 300	(253)	9 047
financial	1 593	-	-	-	-	-	1 593	-	1 593
non-financial	5 504	(6)	1 647	(77)	514	(170)	7 665	(253)	7 412
public	42	-	-	-	-	-	42	-	42
domestic municipal bonds (budgetary entities)	415	-	-	-	-	-	415	-	415
letters of credit	1 194	(1)	54	(3)	1	-	1 249	(4)	1 245
to financial entities	20	-	-	-	-	-	20	-	20
to non-financial entities	1 174	(1)	54	(3)	1	-	1 229	(4)	1 225
payment guarantees to financial entities	137	-	-	-	-	-	137	-	137
Total guarantees and pledges granted, including:	8 885	(7)	1 701	(80)	515	(170)	11 101	(257)	10 844
irrevocable commitments granted	5 266	(6)	1 647	(77)	514	(170)	7 427	(253)	7 174
performance guarantee	1 456	(2)	1 080	(51)	243	(143)	2 779	(196)	2 583
POCI	-	-	-	-	2	-	2	-	2
Total	66 273	(104)	7 630	(282)	641	(195)	74 544	(581)	73 963

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FINANCIAL AND GUARANTEE COMMITMENTS GRANTED 31.12.2020	STAGE 1		STAGE 2		STAGE 3		Total	Provisions according to IFRS 9	Net amount
	Nominal value	Provision	Nominal value	Provision	Nominal value	Provision			
credit lines and limits	52 047	(83)	6 811	(228)	119	(29)	58 977	(340)	58 637
housing	4 280	(9)	148	(5)	3	(1)	4 431	(15)	4 416
corporate	36 923	(58)	5 031	(186)	106	(25)	42 060	(269)	41 791
consumer	8 897	(16)	1 415	(37)	10	(3)	10 322	(56)	10 266
factoring	1 798	-	217	-	-	-	2 015	-	2 015
finance lease	149	-	-	-	-	-	149	-	149
other	3 001	(29)	-	-	-	-	3 001	(29)	2 972
Total financial commitments granted, including:	55 048	(112)	6 811	(228)	119	(29)	61 978	(369)	61 609
irrevocable commitments granted	21 966	(46)	2 883	(94)	42	(10)	24 891	(150)	24 741
POCI	-	-	-	-	20	-	20	-	20
guarantees in domestic and foreign trading	6 304	(4)	1 635	(88)	336	(162)	8 275	(254)	8 021
financial	960	-	-	-	-	-	960	-	960
non-financial	5 296	(4)	1 635	(88)	336	(162)	7 267	(254)	7 013
public	48	-	-	-	-	-	48	-	48
domestic municipal bonds (budgetary entities)	166	-	-	-	-	-	166	-	166
letters of credit	1 422	(1)	77	(4)	13	(1)	1 512	(6)	1 506
to financial entities	196	-	-	-	-	-	196	-	196
to non-financial entities	1 226	(1)	77	(4)	13	(1)	1 316	(6)	1 310
payment guarantee for financial entities	40	-	-	-	-	-	40	-	40
Total guarantees and pledges granted, including:	7 932	(5)	1 712	(92)	349	(163)	9 993	(260)	9 733
irrevocable commitments granted	4 320	(4)	1 635	(88)	336	(162)	6 291	(254)	6 037
performance guarantee	1 681	(1)	998	(54)	182	(135)	2 861	(190)	2 671
POCI	-	-	-	-	1	-	1	-	1
Total	62 980	(117)	8 523	(320)	468	(192)	71 971	(629)	71 342

- **OFF-BALANCE SHEET LIABILITIES RECEIVED**

OFF-BALANCE SHEET LIABILITIES RECEIVED BY NOMINAL VALUE	30.06.2021	31.12.2020
Financial	298	147
Guarantees	6 364	4 312
Total	6 662	4 459

- **SECURITIES PROGRAMMES COVERED WITH UNDERWRITING AGREEMENTS**

As at 30 June 2021 and as at 31 December 2020, no agreements covered with underwriting have been concluded.

- **CONTRACTUAL COMMITMENTS**

VALUE OF CONTRACTUAL COMMITMENTS CONCERNING	30.06.2021	31.12.2020
intangible assets	4	27
property, plant and equipment	48	76
Total	52	103

35. LEGAL CLAIMS

As at 30 June 2021, the total value of the subject matter of litigation in court proceedings (trials) pending in which the companies belonging to the PKO Bank Polski Group SA were defendants amounted to PLN 3 126 million (as at 31 December 2020: PLN 2 064 million), and the total value of the subject matter of litigation in court proceedings (trials) pending in which the companies belonging to the PKO Bank Polski Group SA were claimants as at 30 June 2021 was PLN 2 210 million (as at 31 December 2020: PLN 2 607 million).

- **LITIGATION AGAINST THE BANK RELATING TO MORTGAGE LOANS IN CONVERTIBLE CURRENCIES**

As at 30 June 2021, 8 968 legal proceedings were pending against the Bank (as at 31 December 2020: 5 372) relating to mortgage loans granted in previous years in foreign currency with a total value in dispute of PLN 2 584 million (as at 31 December 2020: PLN 1 404 million), including one group proceeding with 72 loan agreements. The Bank's customers' claims concerned mainly demands to determine the invalidity of all or part of the agreements or to receive refunds 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 prohibited contractual provisions. The number of lawsuits filed by customers against the Bank is significantly influenced by the intensive advertising campaign of law firms, which encourages borrowers to commission to them - for a fee - conducting cases against banks.

The Group is continuously monitoring the judgments issued in cases involving loans indexed to or denominated in, a foreign currency from the perspective of development and any potential changes in the line of jurisprudence.

By 30 June 2021, courts issued 101 valid judgments in cases against the Bank (including 59 judgments after 3 October 2019). 58 of these judgments (including 20 judgments issued after 3 October 2019) are favourable for the Bank. The Bank is filing cassation complaints to the Supreme Court concerning judgments which are unfavourable to the Bank.

On 29 January 2021, in connection with the discrepancies in the interpretation of legal provisions in the jurisprudence of the Supreme Court and common courts and in order to ensure the uniformity of jurisprudence, the First President of the Supreme Court submitted a request for the full panel of the Civil Chamber of the Supreme Court to resolve the following legal issues concerning the subject of loans denominated and indexed in foreign currencies (legal basis: Article 83 § 1 of the Act of 8 December 2017 on the Supreme Court):

1. If it is held that a provision of a loan agreement for a loan indexed to or denominated in, a foreign currency, which refers to how the rate of exchange of the foreign currency is to be determined constitutes a prohibited contractual provision, can it be assumed that that provision has been replaced by another manner of determining the rate of exchange of the foreign currency which results from legal or customary rules?

If the above question is answered in the negative:

2. If it is impossible to determine an exchange rate of a foreign currency binding for both parties of an agreement for a loan indexed to such a foreign currency, can the agreement remain binding with regard to other contractual provisions?
3. If it is impossible to determine an exchange rate of a foreign currency binding for both parties of an agreement for a loan denominated in such a foreign currency, can the agreement remain binding with regard to other contractual provisions?

Irrespective of the answers to questions 1-3:

4. Where a loan agreement is invalid or ineffective, but the bank, in the performance of the loan agreement, has disbursed to the borrower all or part of the amount of the credit and the borrower has made repayments on the credit, do separate claims for wrongful performance arise in favour of each of the parties, or does a single claim, equal to the difference in performance, arise in favour of the party whose total performance was higher?
5. If the loan agreement is invalid or ineffective as a result of the unlawful nature of some of its provisions, does the limitation period for the bank's claim for repayment of the sums paid under the loan begin to run from the time at which those sums were paid?
6. If, in the event that a loan agreement is invalid or ineffective, any of the parties is entitled to claim the repayment of the performance fulfilled in execution of such an agreement, can that party also claim consideration for the use of its money by the other party?

The hearing of the full panel of the Civil Chamber to consider the aforementioned motion was held on 11 May 2021. Before issuing its ruling, the Supreme Court decided to consult five public institutions. The opinions were prepared and sent to the Supreme Court. The case is scheduled to be heard on 2 September 2021.

In the first half of 2021, two important (from the perspective of the claims of borrowers of Swiss franc loans) resolutions of the Supreme Court and a judgment of the European Court of Justice were passed. On 7 May 2021, the Supreme Court, composed of seven judges of the Civil Chamber, adopted a resolution in case III CZP 6/21, which reads:

- 1) A prohibited contractual provision (Article 385 § 1 of the Civil Code) is from the outset, by operation of law, rendered ineffective in favour of the consumer, who may subsequently give his informed and free consent to the provision and thus restore its retroactive effectiveness.
- 2) If, without an ineffective provision, a credit agreement cannot be binding, the consumer and the lender have separate claims for the return of monetary performances made in performance of that agreement (Article 410 § 1 in connection with Article 405 of the Civil Code). The lender may demand repayment from the moment the loan agreement has become permanently ineffective.

The resolution was given the force of legal principle, which means that the ordinary composition of the Supreme Court cannot depart from the interpretation given in the earlier resolution, which has the force of legal principle. If any panel of the Supreme Court wishes to depart from the legal principle, it must refer the legal issue arising to the full bench for determination. When justifying the aforementioned resolution, the Supreme Court agreed with the view expressed earlier in case law (resolution III CZP 11/20 of 16 February 2021) that the running of the period of limitations for claims arising from a loan agreement that is invalid as a result of the removal of abusive provisions starts only after the consumer expresses a conscious intent not to be bound by the abusive provisions. The Supreme Court held that since the consumer is entitled to remedy a defective (abusive) contractual clause and express his or her intention to be bound by it, until this decision is taken the lender remains in uncertainty as to the validity of the agreement and the agreement itself is in a state of suspended ineffectiveness. It is only when this state of affairs ceases, which occurs as a rule as a result of a declaration by the borrower, that the lender's claims can arise and thus start to run the statute of limitations.

On 29 April 2021, the CJEU, answering legal questions formulated by the Regional Court in Gdańsk concerning a loan granted in a foreign currency, indicated, *inter alia*, that "Article 6(1) of Directive 93/13 must be interpreted as meaning that it is for the national court to find that a term in a contract concluded between a seller or supplier and a consumer is unfair, even if it has been contractually amended by those parties. Such a finding leads to the restoration of the situation that the consumer would have been in in the absence of the term found to be unfair, except where the consumer, by means of amendment of the unfair term, has waived such restoration by free and informed consent, which it is for the national court to ascertain. However, it does not follow from that provision that a finding that the original term is unfair would, in principle, lead to the annulment of the contract, since the amendment of that term made it possible to restore the balance between the obligations and rights of those parties arising under the contract and to remove the defect which vitiated it." This means that amending a contract by means of an annex does not exclude its review by a court, but may exclude the effect of annulling the contract.

- **ACTIVITIES OF THE GROUP UNDERTAKEN IN CONNECTION WITH A PROPOSAL OF THE CHAIR OF THE POLISH FINANCIAL SUPERVISION AUTHORITY AND THE EXPECTED HEARING OF THE SUPREME COURT REGARDING LOANS GRANTED IN FOREIGN CURRENCIES**

In December 2020, the Chair of the Polish Financial Supervision Authority (the “Chair of PFSA”) presented a proposal aimed at solving the problem of housing loans in Swiss francs at a systemic level. The proposed solution provides that banks would voluntarily offer their customers the possibility of entering into a settlement whereby the customers’ loans would be treated as if they had been granted in Polish zloty and had borne interest rate equal to the reference WIBOR rate plus a margin historically applied to such loans.

The Group analysed the benefits and risks associated with the possible variants of dealing with the foreign currency housing loans. In the Group’s opinion, for both the Group and its customers reaching a compromise and concluding a settlement is more favourable than engaging in lengthy court cases with an uncertain outcome.

The Group conducted a survey among its customers which showed that approximately 70% of the customers is interested in reaching a settlement with the Bank. Currently, the Group is implementing a pilot programme of settlements as part of which the Group participates in mediation in the arbitration court of the PFSA and reaches settlements before common courts.

On 23 April 2021, the Extraordinary Shareholders’ Meeting approved the possibility of offering settlements to the customer. By Resolution of 27 May 2021, the Supervisory Board accepted the terms of the settlement offer as proposed by the Chairman of the PFSA. The Bank is working on the details of the solution, including ensuring that customers can switch to a fixed interest rate in the settlement.

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

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

- Proceedings initiated on 26 July 2017 ex officio concerning using practices which violate the collective interests of customers. The violation with which the Bank has been charged consists of collecting higher instalments on loans and advances denominated in foreign currencies to customers 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 a letter dated 14 March 2019, the UOKiK President asked the Bank 16 detailed questions in order to establish the circumstances that are necessary to resolve the case. The Bank gave the answers in a letter dated 10 May 2019. In a letter dated 9 June 2021, the President of UOKiK extended the term of concluding the proceedings until 30 September 2021. As at 30 June 2021 the Bank did not set up a provision for the 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 execution 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. In a letter dated 29 June 2021, the President of UOKiK extended the term of concluding the proceedings until 30 September 2021. As at 30 June 2021 the Bank did not set up a provision for the proceedings.

PROCEEDINGS BEFORE THE COURT OF COMPETITION AND CONSUMER PROTECTION CONCERNING THE SPREAD PROVISIONS

The proceedings were initiated by the Bank’s appeal (submitted on 13 November 2020) against the decision of the President of UOKiK dated 16 October 2020. In the said decision, the President of UOKiK declared the provisions of the template agreement “Annex to the housing loan/mortgage loan agreement” in the section “Appendix to the annex ‘Rules for determining foreign exchange spreads at PKO BP SA’” as inadmissible provisions and prohibited their use. In addition, the President of UOKiK ordered to inform all consumers being the parties to the assessed annexes about the decision to declare them inadmissible and about the consequences resulting therefrom, not later than within six months from the date the decision became legally binding and ordered to submit a declaration, with the contents as indicated in the decision, not later than 1 month from the date the decision became legally binding, which is to be kept on the website for 4 months. Furthermore, the President of UOKiK imposed on the Bank a fine of PLN 41 million, payable to the Financial Education Fund.

In its appeal against that decision, the Bank requested that the decision be amended by finding that there had been no breach of the prohibition on the use of prohibited contractual clauses, or by discontinuing the proceedings. It was also requested that the decision be annulled or amended by waiving or substantially reducing the fine. The appeal raised a

number of substantive and procedural grounds of appeal. The Bank's main arguments consists in pointing out that the decision of the President of UOKiK is a manifestation of unlawful and groundless interference with the Bank's pricing policy, pointing out that there are no substantive grounds for the intervention of the President of UOKiK, i.e. there are no grounds for concluding that the Bank applied prohibited contractual provisions, and pointing out that the penalty imposed on the Bank is abnormally high. In response to the appeal, the President of UOKiK sustained the position expressed in the decision appealed against. The Bank is currently awaiting for the setting of a hearing date.

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 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 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 determination of the "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 judgement of 21 November 2013 SOKiK reduced the penalty imposed on the Bank to PLN 10.4 million. The parties to the proceedings filed appeals. The Court of Appeal in Warsaw in its ruling dated 6 October 2015 reinstated the initial amount of the imposed fines set in the decision of the UOKiK, i.e. the fine of PLN 16.6 million (the fine imposed on PKO Bank Polski S.A.) and the fine of PLN 4.8 million (the fine imposed on Nordea Bank Polska SA. PKO Bank Polski S.A. is a legal successor of Nordea Bank Polska SA through a merger in accordance with 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. On 23 November 2020, the Court of Appeal in Warsaw issued a ruling in which it revoked the ruling of the District Court in Warsaw dated 21 November 2013 and submitted it for re-examination. As at 30 June 2021 the Bank recognized a provision for this litigation of PLN 21 million (PLN 21 million as at 31 December 2020).

- **CLAIMS FOR DAMAGES IN RESPECT OF THE INTERCHANGE FEE**

The Bank was served six summons to participate, as an outside intervener on the defendant'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 the total of PLN 798 million and are pursued as damages for differences in interchange fees resulting from applying practices that limit competition. Since these proceedings are not pending against the Bank, their value was not included in the total value of the cases against the Bank.

If the courts find the claims justified, the defendants may claim recourse in separate court proceedings from other banks, including, among others, from PKO Bank Polski SA. As at 30 June 2021, the Bank entered seven proceedings as an outside intervener.

- **RE-PRIVATIZATIONS CLAIMS RELATING TO PROPERTIES HELD BY THE GROUP**

As at the date of the consolidated financial statements, there are:

- two proceedings involving reprivatization claims. In one of the proceeding ended with a final court ruling favourable to the Bank, the opposing party lodged a cassation complaint, and the Supreme Court revoked the appealed judgment of the District Court and in that part submitted the case for re-examination. In the second 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 cassation complaint has been lodged with the Voivodeship Administrative Court against the final decision discontinuing the proceedings as groundless. The claim was rejected by the Voivodeship Administrative Court but the opponent appealed against this decision. Following the annulment of the ruling by the Supreme Administrative Court, the Voivodeship Administrative Court re-examined the case and dismissed the complaint of the opposing party;
- seven proceedings, including one suspended in respect of real properties of other members of the Bank's Group, related to declaring the 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 Group in these matters.

36. 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 the state support in repayment of certain housing loans, reimbursement of guarantee bonuses paid, and amendments to certain Acts, PKO Bank Polski S.A. receives payments from the State budget as repurchase of interest receivable on housing loans.

TRANSACTIONS WITH THE STATE TREASURY	01.01.2021 - 30.06.2021	01.01.2020- 30.06.2020
Income recognized on an accruals basis	64	70
Income recognized on a cash basis	4	51
Income from temporary redemption by the State Treasury of interest on housing loans in the "old portfolio"	60	19

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, granting guarantee bonuses 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 the gradual (until 2026) full settlement of the housing loan indebtedness from the so-called "old" portfolio. The Bank conducts settlements in respect of repurchase of interest on housing loans by the State budget and in the six-month period ended 30 June 2021 and the corresponding period of 2020 received a commission below PLN 1 million in this respect.

As of 1 January 1996, the Bank became the general distributor of value marks. The Bank received in the six-month period ended 30 June 2021 and the corresponding period of 2020 a commission below PLN 1 million in this respect.

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 2021 in the amount of PLN 82 million, and in the six-month period ended 30 June 2020 in the amount of PLN 89 million.

- SIGNIFICANT TRANSACTIONS WITH ENTITIES RELATED TO THE STATE TREASURY

The transactions were concluded on arm's length terms.

SIGNIFICANT TRANSACTIONS WITH ENTITIES AFFILIATED WITH THE STATE TREASURY	BALANCE SHEET EXPOSURE, INCLUDING EXPOSURE TO LOANS AND DEBT INSTRUMENTS		OFF-BALANCE SHEET EXPOSURE		LIABILITIES IN RESPECT OF DEPOSITS	
	30.06.2021	31.12.2020	30.06.2021	31.12.2020	30.06.2021	31.12.2020
counterparty 1	-	-	2 453	2 453	25	793
counterparty 2	16 977	16 845	30	30	94	737
counterparty 3	413	1 617	2 216	2 291	807	48
counterparty 4	51	644	2 408	2 132	39	46
counterparty 5	612	623	1 709	1 683	56	63
counterparty 6	605	46	1 507	1 193	1	114
counterparty 7	408	129	1 363	667	19	41
counterparty 8	820	999	711	1 080	50	11
counterparty 9	88	465	1 282	3 520	908	98
counterparty 10	117	313	831	802	-	-

In the six-month period ended 30 June 2021, interest and commission income on the transactions with the 10 counterparties referred to above amounted to PLN 59 million (PLN 129 million in the six-month period ended 30 June 2020), and the respective interest expense amounted to PLN 1 million (PLN 16 million in the first six months of 2020).

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As at 30 June 2021 and as at 31 December 2020, the allowance for expected loan losses on these exposures amounted to PLN 0 million. The remaining transactions with parties 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 company with associates and joint ventures are presented in the table below. All transactions with joint ventures and associates described below were concluded on the arm's length basis.

AS AT 30 JUNE 2021 / ENTITY	Receivables	of which loans	Liabilities	Off-balance sheet liabilities granted	
Centrum Elektronicznych Usług Płatniczych eService sp. z o.o.	85		6	88	52
“Centrum Obsługi Biznesu” Sp. z o.o.	15		15	4	-
Bank Pocztowy S.A.	-		-	-	1
“Poznański Fundusz Poręczeń Kredytowych” sp. z o.o.	-		-	1	-
Operator Chmury Krajowej sp. z o.o.	-		-	31	776
Total joint ventures and associates	100		21	124	829

FOR THE PERIOD ENDED 30 JUNE 2021 / ENTITY	Total income	of which interest and commission expense	Total expenses	of which interest and commission expense	
Centrum Elektronicznych Usług Płatniczych eService sp. z o.o.	265		225	33	33
Total joint ventures and associates	265		225	33	33

AS AT 31 DECEMBER 2020 / ENTITY	Receivables	of which loans	Liabilities	Off-balance sheet liabilities granted	
Centrum Elektronicznych Usług Płatniczych eService sp. z o.o.	54		6	168	54
“Centrum Obsługi Biznesu” Sp. z o.o.	17		17	4	-
Bank Pocztowy S.A.	-		-	-	1
“Poznański Fundusz Poręczeń Kredytowych” Sp. z o.o.	-		-	22	-
Operator Chmury Krajowej sp. z o.o.	-		-	18	767
Total joint ventures and associates	71		23	212	822

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

• BENEFITS FOR THE KEY MANAGEMENT PERSONNEL (IN PLN '000)

COSTS OF REMUNERATION OF THE BANK'S MANAGEMENT BOARD AND SUPERVISORY BOARD	01.01.2021-30.06.2021	01.01.2020-30.06.2020
Management Board of the Bank		
Short-term employee benefits ¹	3 818	3 467
Long-term benefits ²	1 546	1 896
Share-based payments settled in cash ³	6 824	1 896
Benefits to the Bank's Management Board members who ceased to perform their functions	467	-
Total	12 655	7 259
Supervisory Board of the Bank		
Short-term employee benefits	634	643
Total	634	643

¹ Short-term employee benefits comprise: remuneration, social insurance contributions, and other benefits which were or will be settled within 12 months of the end of a reporting period;

² Long-term benefits include provisions for deferred remuneration components granted in cash;

³ Share-based payments settled in cash comprise cost of accruals for deferred remuneration components granted in the form of financial instruments, i.e. phantom shares. Phantom shares are converted into cash after the retention period.

An increase in the cost of remuneration of the Bank's Management Board in the line "Share-based payments settled in cash" in the six-month period ended 30 June 2021 in relation to the comparative period was due to remeasurement of the provision for variable remuneration component taking into account the current price of the Bank's shares.

LOANS AND LOANS GRANTED BY THE BANK FOR THE BANK'S MANAGEMENT AND SUPERVISORY BOARD	30.06.2021	31.12.2020
Supervisory Board of the Bank	2 144	902
Management Board of the Bank	763	769
Total	2 907	1 671

In the six-month period ended 30 June 2021, members of the Bank's Management Board did not receive remuneration from the Bank's related entities (in the corresponding period of 2020, they received remuneration of PLN 58 thousand).

COSTS OF REMUNERATION OF THE COMPANIES MANAGEMENT BOARDS AND SUPERVISORY BOARDS	01.01.2021-30.06.2021	01.01.2020-30.06.2020
Management boards of companies		
Short-term employee benefits ¹	11 328	11 581
Share-based payments settled in cash ²	4 077	2 555
Benefits to the Bank's Management Board members who ceased to perform their functions	2 230	1 537
Long-term benefits	124	887
Total	17 759	16 560
The supervisory Board of Companies		
Short-term employee benefits ¹	519	631
Total	519	631

¹ Short-term employee benefits comprise: remuneration, social insurance contributions, and other benefits which were or will be settled within 12 months of the end of a reporting period;

² Long-term benefits include provisions for deferred remuneration components granted in cash;

³ Share-based payments settled in cash comprise cost of accruals for deferred remuneration components granted in the form of financial instruments, i.e. phantom shares. Phantom shares are converted into cash after the retention period.

37. FAIR VALUE HIERARCHY

The classification of financial instruments and the methods of determining the fair value are described in the consolidated financial statements of the Group for 2020.

ASSETS MEASURED AT FAIR VALUE 30.06.2021	Carrying amount	Level 1	Level 2	Level 3
		Prices quoted on active markets	Measurement techniques based on observable market data	Other measurement techniques
Hedging derivatives	620	-	620	-
Other derivative instruments	6 341	-	6 341	-
Securities	71 851	58 169	12 477	1 205
held for trading	716	716	-	-
debt securities	688	688	-	-
shares in other entities – listed	26	26	-	-
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	2 268	1 741	31	496
debt securities	910	727	22	161
shares in other entities – listed	151	151	-	-
shares in other entities – not listed	336	-	1	335
participation units in investment funds, investment certificates, rights to shares, pre-emptive rights	871	863	8	-
measured at fair value through other comprehensive income - debt securities	68 867	55 712	12 446	709
Loans and advances to customers	5 197	-	-	5 197
not held for trading, measured at fair value through profit or loss	5 197	-	-	5 197
housing loans	4	-	-	4
corporate loans	106	-	-	106
consumer loans	5 087	-	-	5 087
Total	84 009	58 169	19 438	6 402

LIABILITIES MEASURED AT FAIR VALUE 30.06.2021	Carrying amount	Level 1	Level 2	Level 3
		Prices quoted on active markets	Measurement techniques based on observable market data	Other measurement techniques
Hedging derivatives	837	-	837	-
Other derivative instruments	6 460	-	6 460	-
Liabilities in respect of short position in securities	78	78	-	-
Liabilities in respect of insurance products	1 170	-	1 170	-
Total	8 545	78	8 467	-

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ASSETS MEASURED AT FAIR VALUE 31.12.2020	Carrying amount	Level 1	Level 2	Level 3
		Prices quoted on active markets	Measurement techniques based on observable market data	Other measurement techniques
Hedging derivatives	958	-	958	-
Other derivative instruments	5,501	-	5 501	-
Securities	77 155	68 647	7 174	1 334
held for trading	1 178	824	354	-
debt securities	1 151	797	354	-
shares in other entities – listed	25	25	-	-
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	2 466	1 832	26	608
debt securities	978	799	21	158
shares in other entities – listed	135	135	-	-
shares and stocks in other entities – not listed	451	-	1	450
participation units in investment funds, investment certificates, rights to shares, pre-emptive rights	902	898	4	-
measured at fair value through other comprehensive income – debt securities	73 511	65 991	6 794	726
Loans and advances to customers	6 009	-	-	6 009
not held for trading, measured at fair value through profit or loss	6 009	-	-	6 009
housing loans	7	-	-	7
corporate loans	114	-	-	114
consumer loans	5 888	-	-	5 888
Total	89 623	68 647	13 633	7 343

LIABILITIES MEASURED AT FAIR VALUE 31.12.2020	Carrying amount	Level 1	Level 2	Level 3
		Prices quoted on active markets	Measurement techniques based on observable market data	Other measurement techniques
Hedging derivatives	378	-	378	-
Other derivative instruments	6,104	-	6 104	-
Liabilities in respect of insurance products	1 216	-	1 216	-
Total	7 698	-	7 698	-

In the six-month period ended 30 June 2021 there were no changes to the measurement techniques and input data for the respective levels of the fair value hierarchy and there were no transfers between levels.

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IMPACT OF ESTIMATES ON FAIR VALUE MEASUREMENT OF LEVEL 3 FINANCIAL INSTRUMENTS	30.06.2021		31.12.2020	
	Fair value under		Fair value under	
	positive scenario	negative scenario	positive scenario	negative scenario
Shares in Visa Inc. ²	136	122	255	244
Other equity investments ⁴	206	186	203	183
Corporate bonds ³	874	871	879	876
Loans and advances to customers ¹	19 089	18 338	6 009	6 009

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

² a 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 a scenario assuming a change in credit spread of +/- 10%

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

RECONCILIATION OF CHANGES DURING THE REPORTING PERIOD TO FAIR VALUE AT LEVEL 3	01.01.2021 - 30.06.2021	01.01.2020 - 30.06.2020
Opening balance at the beginning of the period	7 343	11 109
Increase/(decrease) in exposure to equity instruments	(105)	4
Increase/(decrease) in exposure to corporate bonds	-	205
Increase/(decrease) in exposure to loans and advances to customers	(927)	(1481)
Transfers from level 3 to level 2	-	(1 458)
Reclassification of credit exposures from the category 'measured at amortized cost' to the category 'measured at fair value through profit or loss'	14	9
Net gain/(loss) in financial instruments measured at fair value through profit or loss	(82)	(54)
Change in the valuation recognized in OCI	(53)	(71)
Foreign exchange differences	212	12
As at the end of the period	6 402	8 275

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

Methods for determining the fair value are described in the Group's consolidated financial statements for 2020.

	level of fair value hierarchy	30.06.2021		31.12.2020	
		carrying amount	fair value	carrying amount	fair value
Cash and balances with Central Bank	n/a	3 945	3 945	7 474	7 474
Amounts due from banks	2	3 480	3 483	2 557	2 557
Securities (excluding adjustments relating to fair value hedge accounting)	1,2,3	67 118	67 246	46 522	47 729
Treasury bonds (in PLN)	1	47 554	47 713	29 647	30 682
Treasury bonds (in foreign currencies)	1	-	-	39	39
corporate bonds (in PLN) secured with the State Treasury guarantees	1	11 767	11 714	9 887	10 015
Municipal bonds (in PLN)	2	5 018	5 026	5 060	5 056
Corporate bonds (in PLN)	1, 2, 3	1 989	1 979	1 518	1 539
Corporate currency (in foreign currencies)	2	790	814	371	398
Reverse repo transactions	2	77	77	-	-
Loans and advances to customers (excluding adjustments relating to fair value hedge accounting)	3	219 425	220 034	216 590	216 993
housing loans	3	116 498	115 423	116 318	115 054
corporate loans	3	59 281	60 445	58 961	60 134
consumer loans	3	24 512	25 000	22 932	23 386
factoring receivables	3	1 894	1 894	1 628	1 628
finance lease receivables	3	17 240	17 272	16 751	16 791
Receivables in respect of insurance activities	3	847	847	798	798
Other financial assets	3	2 003	2 006	1 937	1 937
Amounts due to banks	2	4 407	4 407	2 626	2 626
Amounts due to customers	3	292 537	292 535	281 140	281 167
amounts due to households	3	233 823	233 821	223 691	223 689
amounts due to business entities	3	43 705	43 705	43 705	43 734
amounts due to budgetary units	3	15 009	15 009	13 744	13 744
Liabilities in respect of insurance activities	3	1 847	1 847	1 740	1 740
Loans and advances received	3	2 097	2 097	2 267	2 267
Debt securities in issue	1, 2, 3	31 244	31 632	32 098	32 584
Subordinated liabilities	2	2 716	2 752	2 716	27 678
Other financial liabilities	3	4 101	4 101	3 011	3 011

39. RISK MANAGEMENT OBJECTIVES AND POLICIES

Risk management is one of the most important internal processes in both the Bank and in other entities of the Group.

Risk management is aimed at ensuring the profitability of the business activities (in the evolving environment) while monitoring the risk level, keeping the risks within the risk tolerances and limits adopted by the Bank and the Group, in a changing macroeconomic 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 its business operations. 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 for the Group: credit risk, risk of foreign currency mortgage loans for households, foreign exchange risk, interest rate risk, liquidity risk (including financing risk), operating risk, business risk, risk of macroeconomic changes and model risk. The Group assesses the materiality of all the identified risks on a regular basis, at least annually.

In the consolidated financial statements of the Group for 2020 and in the Report on Capital Adequacy and other information subject to publication in the Group as at 31 December 2020 and 30 June 2021, the Group described in detail the following elements of the risk management system: risk definition, objectives of managing the specific risk, identification of the risk, measurement and evaluation, control, forecasting and monitoring, reporting and management activities for the material risks identified.

In the six-month period ended 30 June 2021, the Group did not change the main objectives, principles and organization of the risk management process compared with the principles described in the consolidated financial statements of the Group for 2020, with the exception of the impact of activities described below.

40. CREDIT RISK MANAGEMENT

- **IMPACT OF COVID -19 ON THE QUALITY OF LOAN PORTFOLIO**

Exposures covered by statutory and non-statutory moratoria are presented in the tables below:

a) gross carrying amount of active and expired exposures

Loans and advances covered by statutory and non-statutory moratoria by residual period of the moratoria	30.06.2021								
	Number of debtors	Carrying amount, gross			Residual period of moratoria				
			Of which: statutory moratoria	Of which: expired	<= 3 months	> 3 months <= 6 months	> 6 months <= 9 months	<= 3 months	> 1 year
Loans and advances in respect of which moratoria were offered	188 253	30 062							
Loans and advances covered by moratoria in line with the European Banking Authority (EBA) guidelines	184 597	28 934	90	28 435	323	20	12	20	199
retail and private banking		18 091	90	18 014	70	2	-	5	-
housing		14 559	62	14 536	23	-	-	-	-
finance lease receivables		2	-	2	-	-	-	-	-
consumer		3 530	28	3 476	47	2	-	5	-
SME		5 480	-	5 326	79	12	10	4	49
corporate		1 554	-	1 521	9	4	2	2	16
housing		1 254	-	1 254	-	-	-	-	-
finance lease receivables		2 672	-	2 551	70	8	8	2	33
corporate entities		5 363	-	5 095	174	6	2	11	150
corporate		3 102	-	2 937	149	3	-	10	75
finance lease receivables		1 115	-	1 012	25	3	2	1	3
housing		1 146	-	1 146	-	-	-	-	72

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Loans and advances covered by statutory and non-statutory moratoria by residual period of the moratoria	31.12.2020								
	Number of debtors	Carrying amount, gross			Residual period of moratoria				
		Of which: statutory moratoria	Of which: expired		<= 3 months	> 3 months <= 6 months	> 6 months <= 9 months	> 9 months <= 12 months	> 1 year
Loans and advances in respect of which moratoria were offered	209 024	34 491							
Loans and advances covered by moratoria in line with the EBA guidelines	206 220	33 876	42	30 729	3 022	62	3	15	45
retail and private banking		20 780	42	18 675	2 095	3	-	7	-
housing		16 441	30	14 784	1 657	-	-	-	-
finance lease receivables		3	-	3	-	-	-	-	-
consumer		4 336	12	3 888	438	3	-	7	-
SME		6 690	-	6 387	208	53	1	6	35
corporate		1 657	-	1 607	28	4	-	3	15
housing		1 546	-	1 469	77	-	-	-	-
finance lease receivables		3 487	-	3 311	103	49	1	3	20
corporate entities		6 406	-	5 667	719	6	2	2	10
corporate		3 475	-	2 915	551	4	-	2	3
finance lease receivables		1 529	-	1 351	167	2	2	-	7
housing		1 402	-	1 401	1	-	-	-	-

b) gross carrying amount of active exposures

Loans and advances covered by moratoria in line with the EBA guidelines (statutory and non-statutory)	30.06.2021						
	Carrying amount, gross						
		Performing			Non-performing		
		including: exposures covered by restructuring	of which: Stage 2		including: exposures covered by restructuring	of which: there is little probability that the liability will be repaid, but the liability is not overdue or is overdue < = 90 days	
Loans and advances covered by moratoria in line with the EBA guidelines	499	407	-	107	92	-	76
retail and private banking	77	44	-	4	33	-	21
housing	23	9	-	-	14	-	13
consumer	54	35	-	4	19	-	8
SME	153	116	-	62	37	-	36
corporate	32	28	-	14	4	-	4
finance lease receivables	121	88	-	48	33	-	32
corporate entities	269	247	-	41	22	-	19
corporate	166	163	-	37	3	-	-
finance lease receivables	103	84	-	4	19	-	19

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Loans and advances covered by moratoria in line with the EBA guidelines (statutory and non-statutory)	31.12.2020						
	Carrying amount, gross	Performing			Non-performing		
			including: exposures covered by restructuring	of which: Stage 2		including: exposures covered by restructuring	of which: there is little probability that the liability will be repaid, but the liability is not overdue or is overdue < = 90 days
Loans and advances covered by moratoria in line with the EBA guidelines	3 147	2 878	31	1 597	269	3	253
retail and private banking	2 104	2 038	31	1 310	66	3	55
housing	1 657	1 623	28	1 139	34	2	32
consumer	447	415	3	171	32	1	23
SME	303	223	-	79	80	-	78
corporate	50	46	-	29	4	-	3
housing	76	76	-	10	-	-	-
finance lease receivables	177	101	-	40	76	-	75
corporate entities	740	617	-	208	123	-	120
corporate	561	558	-	201	3	-	-
finance lease receivables	178	58	-	7	120	-	120
housing	1	1	-	-	-	-	-

c) accumulated impairment of active exposures

30.06.2021						
Accumulated impairment, accumulated loss of fair value due to credit risk						
Loans and advances covered by moratoria in line with the EBA guidelines (statutory and non-statutory)	Performing			Non-performing		
		including: exposures covered by restructuring	of which: Stage 2		including: exposures covered by restructuring	of which: there is little probability that the liability will be repaid, but the liability is not overdue or is overdue < = 90 days
Loans and advances covered by moratoria in line with the EBA guidelines	(50)	(9)	-	(6)	(41)	(30)
retail and private banking	(16)	(2)	-	(1)	(14)	(6)
housing	(3)	-	-	-	(3)	(3)
consumer	(13)	(2)	-	(1)	(11)	(3)
SME	(17)	(2)	-	(2)	(15)	(15)
corporate	(1)	-	-	-	(1)	(1)
finance lease receivables	(16)	(2)	-	(2)	(14)	(14)
corporate entities	(17)	(5)	-	(3)	(12)	(9)
corporate	(7)	(4)	-	(3)	(3)	-
finance lease receivables	(10)	(1)	-	-	(9)	(9)

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Loans and advances covered by moratoria in line with the EBA guidelines (statutory and non-statutory)	31.12.2020						
	Accumulated impairment, accumulated loss of fair value due to credit risk						
		Performing			Non-performing		
		including: exposures covered by restructuring	of which: Stage 2		including: exposures covered by restructuring	of which: there is little probability that the liability will be repaid, but the liability is not overdue or is overdue < = 90 days	
Loans and advances covered by moratoria in line with the EBA guidelines	(149)	(79)	(3)	(71)	(70)	(1)	(61)
retail and private banking	(91)	(68)	(3)	(62)	(23)	(1)	(17)
housing	(49)	(40)	(2)	(37)	(9)	(1)	(9)
consumer	(42)	(28)	(1)	(25)	(14)	-	(8)
SME	(24)	(5)	-	(3)	(19)	-	(19)
corporate	(2)	(2)	-	(2)	-	-	-
housing	(1)	(1)	-	-	-	-	-
finance lease receivables	(21)	(2)	-	(1)	(19)	-	(19)
corporate entities	(34)	(6)	-	(6)	(28)	-	(25)
corporate	(9)	(6)	-	(6)	(3)	-	-
finance lease receivables	(25)	-	-	-	(25)	-	(25)

d) gross carrying amount and maximum recognizable amount of guarantees for newly granted loans covered by guarantees

Newly granted loans and advances under new public guarantee programmes introduced in relation to the COVID-19 crisis	30.06.2021		
	Carrying amount, gross		Maximum recognizable amount of guarantees
		Including: exposures covered by restructuring	Public guarantee received in relation to the COVID-19 crisis
Newly granted loans and advances covered by public guarantee programmes	5 721	41	159
SME	4 340	21	3
corporate	4 336	21	-
factoring receivable	4	-	3
corporate entities	1 381	20	156
corporate	1 173	20	-
factoring receivable	208	-	156

Newly granted loans and advances under new public guarantee programmes introduced in relation to the COVID-19 crisis	31.12.2020		
	Carrying amount, gross		Maximum recognizable amount of guarantees
		Including: exposures covered by restructuring	Public guarantee received in relation to the COVID-19 crisis
Newly granted loans and advances covered by public guarantee programmes	3 699	22	133
SME	2 761	11	133
corporate	2 478	11	-
factoring receivable	283	-	133
corporate entities	938	11	-
corporate	938	11	-

When recognizing the impact of COVID-19 on the loan portfolio, the Group took into account three scenarios of the development of the main macroeconomic parameters. The impact of the pandemic is estimated on the basis of the dependencies between the expected loss and the change in macroeconomic parameters in each of the three scenarios developed based on the Group's internal forecasts. The scope of the ratios covered by the forecasts includes, among other things, GDP growth rates and employment rates, since these parameters have the most significant impact on the level of identified changes in the measurement of the Group's assets. In order to adequately take into account, in the risk parameter models, the high quarterly volatility of macroeconomic indicators (in particular the default probability (PD) parameter), average values of these indicators over a two-year period covering the pandemic were adopted. An additional allowance relating to COVID-19 is due to a significant deterioration in the macroeconomic forecasts in all three of the adopted scenarios and the recognition of a material increase in credit risk for exposures covered by moratoria with the highest PD values. An increase in the PD parameter translates into an increase in the expected loss on individual loans, resulting in increased migration to Stage 2 for a part of them.

The tables below present forecasts of the key macroeconomic parameters and the adopted probabilities of their realization used in the calculation of expected credit losses.

scenario as at 30.06.2021	baseline			optimistic			pessimistic		
probability	75%			5%			20%		
	2021	2022	2023	2021	2022	2023	2021	2022	2023
GDP growth y/y	5,0	4,1	8,0	10,2	9,2	8,0	-0,1	-1,0	8,0
Unemployment rate according to BAEL	3,1	8,0	2,8	2,4	1,9	2,8	5,0	6,9	2,8
WIBOR 3M	0,2	0,5	2,4	0,5	2,0	2,4	0,0	-0,4	2,4
Property price index	98,4	103,0	102,5	102,8	114,2	102,5	94,2	92,8	102,5
CHF/PLN	4,1	4,0	3,8	4,0	3,7	3,7	4,3	4,5	4,0

scenario as at 31.12.2020	baseline			optimistic			pessimistic		
probability	75%			5%			20%		
	2021	2022	2023	2021	2022	2023	2021	2022	2023
GDP growth y/y	5,4	4,7	8,0	9,9	7,0	8,0	0,8	2,4	8,0
Unemployment rate according to BAEL	5,9	4,5	3,7	5,2	3,4	3,7	8,0	5,6	3,7
WIBOR 3M	0,2	1,0	2,4	1,9	2,9	2,4	-0,2	0,3	2,4
Property price index	99,5	102,9	102,5	103,3	103,4	102,5	96,1	99,5	102,5
CHF/PLN	4,1	3,9	3,8	3,8	3,6	3,7	4,4	4,3	4,0

41. MANAGEMENT OF CURRENCY RISK ASSOCIATED WITH MORTGAGE LOANS FOR INDIVIDUALS

The Group analyses its portfolio of foreign currency mortgage loans to individuals in a specific manner. The Group monitors the quality of the portfolio on an ongoing basis and reviews the risk of deterioration in the quality of the portfolio. The Group takes into consideration the risk of foreign currency mortgage loans for individuals in the capital adequacy and own fund management.

HOUSING LOANS AND ADVANCES TO INDIVIDUALS (RETAIL AND PRIVATE BANKING) BY CURRENCY	30.06.2021			31.12.2020		
	gross	impairment allowance	net	gross	impairment allowance	net
in local currency	95 824	(1 235)	94 589	94 088	(1 207)	92 881
PLN	95 470	(1 213)	94 257	93 828	(1 188)	92 640
UAH	354	(22)	332	260	(19)	241
in foreign currency	16 959	(702)	16 257	18 198	(719)	17 479
CHF	14 326	(631)	13 695	15 366	(647)	14 719
EUR	2 591	(68)	2 523	2 787	(68)	2 719
USD	34	(3)	31	36	(4)	32
OTHER	8	-	8	9	-	9
Total	112 783	(1 937)	110 846	112 286	(1 926)	110 360

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FOREIGN CURRENCY HOUSING LOANS AND ADVANCES TO INDIVIDUALS BY THE GRANTING DATE		INDEXED	DENOMINATED	Total
30.06.2021				
up to 2002	Gross amount	-	50	50
	Allowances for credit losses	-	(1)	(1)
	Net amount	-	49	49
	Number of loans granted		4 697	4 697
from 2003 to 2006	Gross amount	-	3 310	3 310
	Allowances for credit losses	-	(102)	(102)
	Net amount	-	3 208	3 208
	Number of loans granted	-	40 706	40 706
from 2007 to 2009	Gross amount	-	7 929	7 929
	Allowances for credit losses	-	(483)	(483)
	Net amount	-	7 446	7 446
	Number of loans granted	-	50 346	50 346
from 2010 to 2012	Gross amount	2 942	2 713	5 655
	Allowances for credit losses	(45)	(70)	(115)
	Net amount	2 897	2 643	5 540
	Number of loans granted	10 369	11 664	22 033
from 2013 to 2016	Gross amount	4	11	15
	Allowances for credit losses	-	(1)	(1)
	Net amount	4	10	14
	Number of loans granted	18	38	56
Total	Gross amount¹	2 946	14 013	16 959
	Allowances for credit losses	(45)	(657)	(702)
	Net amount	2 901	13 356	16 257
	Number of loans granted	10 387	107 451	117 838

¹ Gross carrying amount including the cost of legal risk related to mortgage loans in convertible currencies.

FOREIGN CURRENCY HOUSING LOANS AND ADVANCES TO INDIVIDUALS BY THE GRANTING DATE		INDEXED	DENOMINATED	Total
31.12.2020				
up to 2002	Gross amount	-	59	59
	Allowances for credit losses	-	(1)	(1)
	Net amount	-	58	58
	Number of loans granted	-	5 444	5 444
from 2003 to 2006	Gross amount	-	3 616	3 616
	Allowances for credit losses	-	(106)	(106)
	Net amount	-	3 510	3 510
	Number of loans granted	-	42 445	42 445
from 2007 to 2009	Gross amount	-	8 464	8 464
	Allowances for credit losses	-	(491)	(491)
	Net amount	-	7 973	7 973
	Number of loans granted	-	51 166	51 166
from 2010 to 2012	Gross amount	3 137	2 904	6 041
	Allowances for credit losses	(48)	(72)	(120)
	Net amount	3 089	2 832	5 921
	Number of loans granted	10 648	11 903	22 551
from 2013 to 2016	Gross amount	5	12	17
	Allowances for credit losses	-	(1)	(1)
	Net amount	5	11	16
	Number of loans granted	18	43	61
Total	Gross amount¹	3 142	15 055	18 197
	Allowances for credit losses	(48)	(671)	(719)
	Net amount	3 094	14 384	17 478
	Number of loans granted	10 666	111 001	121 667

¹ Gross carrying amount including the cost of legal risk related to mortgage loans in convertible currencies.

42. INTEREST RATE RISK MANAGEMENT

• SENSITIVITY OF INTEREST INCOME

The sensitivity of interest income to sudden shifts in the yield curve is determined by a potential financial effect of such a shift reflected in a changed amount of interest income in a given time horizon. The change results from the mismatch between revaluation dates of assets, liabilities and off-balance sheet liabilities granted and received (in particular derivative instruments) sensitive to interest rate fluctuations.

Sensitivity of the Group's interest income in the banking portfolio to downward jumps in the income curve of 100 b.p. in a one-year horizon in all currencies is shown in the table below:

NAME OF THE MEASURE	30.06.2021	31.12.2020
Sensitivity of interest income (PLN million)	(496)	(527)

- SENSITIVITY OF ECONOMIC VALUE**

Economic value sensitivity reflects a change in the fair value of an item in the portfolio resulting from a parallel shift in yield curves of 100 b.p. upwards or downwards (the less favourable of the scenarios).

The table below presents the sensitivity measure of the economic value (stress-test) of the Group's banking portfolio in all currencies as at 30 June 2021 and 31 December 2020:

NAME OF THE MEASURE	30.06.2021	31.12.2020
Sensitivity of economic value (PLN million)	(1 542)	(443)

TRADING PORTFOLIO

- VALUE AT RISK**

The IR VaR measure is a potential amount of loss that may be incurred in normal market conditions in a specific time (i.e. horizon) and with an assumed level of probability related to changes in interest rate curves.

IR VaR in the Bank's trading portfolio is presented in the table below:

NAME OF THE MEASURE	30.06.2021	31.12.2020
IR VaR for a 10-day time horizon at the confidence level of 99% (PLN million):		
Average value	14	11
Maximum value	28	20
Value at the end of the period	11	13

43. CURRENCY RISK MANAGEMENT

- SENSITIVITY MEASURES**

The FX VaR measure is a potential value of loss that may occur in normal market conditions at a specific time (i.e. horizon) and with an assumed level of probability related to changes in foreign exchange rates.

Stress tests are used to estimate loss in an event of abrupt changes on the currency market which are not described using statistical measures by default.

The Bank's combined FX VaR for all currencies is presented in the following table:

NAME OF THE SENSITIVITY MEASURE	30.06.2021	31.12.2020
VaR for a 10-day time horizon at a confidence level of 99% (in PLN million) ¹	12	615

¹ Taking into account the nature of the operation 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 SA applies the 10-day VaR which amounted to PLN 0.1 million as at 30 June 2021 and to PLN 0.1 million as at 31 December 2020.

- FOREIGN CURRENCY POSITION**

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

FOREIGN CURRENCY POSITION	30.06.2021	31.12.2020
EUR	(131)	(326)
CHF	(2)	(14 361)
Other (Global, Net)	73	(50)

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.

In 2020, the Group recognized a material foreign exchange position in CHF of approximately PLN 14,2 billion, in connection with the Bank's intention, as confirmed by a resolution of the Extraordinary Shareholders' Meeting of 23 April 2021, to settle with consumers who had concluded mortgage loan agreements in foreign currencies with the Bank (note "Major events in the first half of 2021").

By the end of April 2021, the Group fully hedged this foreign exchange position by concluding and subsequently closing option transactions which gave the Bank the right to purchase foreign currencies, and by concluding and settling a series of foreign currency exchange transactions under which the Group purchased foreign currencies for PLN. After hedging this foreign exchange position, the capital requirement for market risk significantly decreased.

44. LIQUIDITY RISK MANAGEMENT

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
30.06.2021								
Adjusted periodic gap	3 083	83 637	(12 319)	(6 964)	4 809	11 632	33 341	(117 220)
Adjusted cumulative periodic gap	3 083	86 720	74 401	67 438	72 246	83 879	117 220	-
31.12.2020								
Adjusted periodic gap	6 920	70 393	(5 774)	(4 210)	(3 114)	3 468	18 210	(85 893)
Adjusted cumulative periodic gap	6 920	77 313	71 539	67 329	64 215	67 683	85 893	-

¹ brought to comparability with the data as at 31 December 2020.

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 2021 and 31 December 2020. This means that the Group has a surplus of assets receivable over the liabilities payable.

SUPERVISORY LIQUIDITY MEASURES

SUPERVISORY LIQUIDITY MEASURES	30.06.2021	31.12.2020
NSFR - net stable funding ratio	132,5%	134,7%
LCR - liquidity coverage ratio	218,4%	227,6%

In the periods ended 30 June 2021 and 31 December 2020, liquidity measures remained above their respective supervisory limits.

45. CAPITAL ADEQUACY

- CAPITAL ADEQUACY

The minimum levels of the capital ratios maintained by the Group in accordance with Article 92 of the CRR are as follows:		
• total capital ratio (TCR)		8.0%
• Tier 1 capital ratio (T1)		6.0%
• Common Equity Tier 1 capital ratio (CET1)		4.5%

Obligation to maintain a combined buffer above the minimum amounts specified in Article 92 of the CRR representing the sum of the applicable buffers	30.06.2021	31.12.2020
Total:	3.51%	3.51%
• conservation buffer	2.5%	2.5%
• countercyclical buffer	0.01%	0.01%
• systemic risk buffer	0% ¹	0% ¹
• a buffer due to identifying the Bank as an “other systemically important institution” (“O-SII”)	1% ³	1% ³

¹ On 19 March 2020, in connection with the COVID-19, the Regulation of the Minister of Finance cancelling the systemic risk buffer came into effect.

² The buffer is calculated for the exposure within the territory of the Republic of Poland. Due to the fact that the Group also conducts foreign activities, the systemic risk buffer specific to the Bank’s Group was 2.88% as at the end of December 2020.

³ of total exposure to the risks calculated in accordance with the CRR.

Discretionary capital requirement (an additional capital requirement in order to hedge the risk resulting from mortgage-secured loans and advances to households)	30.06.2021	31.12.2020
• for the total capital ratio:	0.24 p.p.	0.24 p.p.
• for Tier 1 capital ratio:	0.18 p.p.	0.18 p.p.
• for Common Equity Tier 1 capital ratio:	0.14 p.p.	0.14 p.p.

The total minimum capital requirements and all buffers and discretionary capital requirement for the Group is 11.75%.

• **OWN FUNDS FOR CAPITAL ADEQUACY PURPOSES AND REQUIREMENTS RELATING TO OWN FUNDS (PILLAR I)**

During the six-month period ended 30 June 2021 and in 2020, the Group's capital adequacy measures remained at a safe level, well above the supervisory limits.

	30.06.2021	31.12.2020
Equity	41 061	39 911
capital: share capital, supplementary capital, other reserves, and general risk reserve	32 289	34 976
retained earnings	6 272	6 142
net profit or loss for the year	2 413	(2 557)
other comprehensive income and non-controlling interests	87	1 350
Exclusions from equity:	1 794	76
deconsolidation - adjustments due to prudential consolidation	(253)	(279)
net profit or loss for the year	2 389	-
cash flow hedges	(342)	355
Other fund reductions:	2 685	2 671
goodwill	961	961
other intangible assets	1 330	1 264
securitization items	53	67
additional asset adjustments (AVA, DVA)	341	379
Temporary reversal of IFRS 9 impact	1 434	1 652
Tier 1 capital	38 016	38 816
Tier 2 capital (subordinated debt)	2 700	2 700
Equity	40 716	41 516
Requirements for own funds	17 262	18 273
Credit risk	15 108	14 985
Operational risk	1 812	1 629
Market risk	301	1 631
Credit valuation adjustment risk	41	28
Total capital ratio	18,87%	18,18%
Tier 1 capital ratio	17,62%	16,99%

• **PRUDENTIAL CONSOLIDATION**

Pursuant to the CRR, for capital adequacy purposes, the Group performs prudential consolidation which, unlike consolidation in accordance with IFRS, includes only subsidiaries that meet the definition of an institution, financial institution or any ancillary services enterprise. In addition, pursuant to Article 19 Paragraph 1 of the CRR, prudential consolidation may exclude entities whose total value of assets and off-balance sheet items are less than EUR 10 million. Other subsidiaries, not consolidated under the acquisition accounting method for the purposes of prudential consolidation, are measured using the equity method.

For the purposes of prudential consolidation, the Group consists of the following entities: PKO Bank Polski S.A., the PKO Leasing S.A. Group, PKO BP BANKOWY PTE S.A., PKO Towarzystwo Funduszy Inwestycyjnych S.A., the

**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF THE PKO BANK POLSKI SA GROUP
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2021
(IN PLN MILLION)**

KREDOBANK SA Group, PKO Finance AB, PKO BP Finat Sp. z o.o., PKO Bank Hipoteczny S.A., the Bankowe Towarzystwo Kapitałowe S.A. Group. Non-financial and insurance entities are not subject to prudential consolidation.

CONSOLIDATED INCOME STATEMENT in accordance with the CCR	01.01.2020- 30.06.2021	01.01.2020- 30.06.2020
Interest income	5 037	6 255
Interest expenses	(332)	(1 030)
Net interest income	4 705	5 225
Fee and commission income	2 538	2 271
Fee and commission expense	(514)	(502)
Net fee and commission income	2 024	1 769
Dividend income	11	15
Gains/(losses) on financial transactions	(19)	(150)
Net foreign exchange gains / (losses)	367	50
Gains/(losses) on derecognition of financial instruments not measured at fair value	94	66
Net other operating income and expenses	17	97
Profit/(Loss) on business activities	7 199	6 994
Net expected credit losses	(430)	(1 131)
Impairment of non-financial assets	(33)	(16)
Cost of the legal risk of mortgage loans in convertible currencies	-	(190)
Administrative expenses	(3 034)	(3 231)
Tax on certain financial institutions	(514)	(529)
Share in profits and losses of associates and joint ventures	18	59
Profit before tax	3 206	2 034
Income tax expense	(817)	(720)
Net profit (including non-controlling shareholders)	2 389	1 314
Profit (loss) attributable to non-controlling shareholders	-	-
Net profit attributable to equity holders of the parent company	2 389	1 314

• **LEVERAGE RATIO**

	Leverage ratio exposures specified in CRR	
	30.06.2021	31.12.2020
Total capital and exposure measure		
Tier 1 capital	38 016	38 816
Total exposure measure for leverage ratio calculation	418 209	394 468
Leverage ratio		
Leverage ratio	9,09%	9,84%

46. SUBSEQUENT EVENTS

- On 25 July 2021 (with settlement on 26 July 2021), an own issue of bonds of PKO Bank Polski S.A. with a nominal value of EUR 500 million was redeemed (bond ISIN XS1650147660).
- On 26 July 2021 Mr Adam Marciniak submitted his resignation, effective from 13 August 2021, from membership in and his position on the Bank's Management Board.

SIGNATURES OF ALL MEMBERS OF THE BANK'S MANAGEMENT BOARD

11.08.2021	JAN EMERYK ROŚCISZEWSKI	VICE-PRESIDENT DIRECTING THE WORK OF THE MANAGEMENT BOARD
11.08.2021	RAFAŁ ANTCZAK	VICE-PRESIDENT OF THE MANAGEMENT BOARD
11.08.2021	BARTOSZ DRABIKOWSKI	VICE-PRESIDENT OF THE MANAGEMENT BOARD
11.08.2021	MARCIN ECKERT	VICE-PRESIDENT OF THE MANAGEMENT BOARD
11.08.2021	MAKS KRACZKOWSKI	VICE-PRESIDENT OF THE MANAGEMENT BOARD
11.08.2021	MIECZYŚLAW KRÓL	VICE-PRESIDENT OF THE MANAGEMENT BOARD
11.08.2021	ADAM MARCINIAK	VICE-PRESIDENT OF THE MANAGEMENT BOARD
11.08.2021	PIOTR MAZUR	VICE-PRESIDENT OF THE MANAGEMENT BOARD
11.08.2021	JAKUB PAPIERSKI	VICE-PRESIDENT OF THE MANAGEMENT BOARD

SIGNATURE OF THE PERSON RESPONSIBLE
FOR MAINTAINING THE BOOKS OF ACCOUNT

DANUTA SZYMAŃSKA
DIRECTOR OF THE ACCOUNTING DIVISION