



Bank Polski

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

## SELECTED SEPARATE FINANCIAL DATA

SELECTED STAND-ALONE FINANCIAL DATA	PLN million		EUR million	
	period from 01.01.2020 to 30.06.2020	period from 01.01.2019 to 30.06.2019	period from 01.01.2020 to 30.06.2020	period from 01.01.2019 to 30.06.2019
Net interest income/(expense)	4 732	4 533	1 065	1 057
Net fee and commission income	1 490	1 398	335	326
Operating profit/(loss)	1 823	2 843	410	663
<b>Profit before tax</b>	<b>1 823</b>	<b>2 843</b>	<b>410</b>	<b>663</b>
<b>Net profit</b>	<b>1 185</b>	<b>2 075</b>	<b>267</b>	<b>484</b>
Earnings per share for the period - basic (in PLN/EUR)	0,95	1,66	0,21	0,39
Earnings per share for the period - diluted (in PLN/EUR)	0,95	1,66	0,21	0,39
Total net comprehensive income	2 239	2 157	504	503
Net cash from/used in operating activities	25 781	(5 154)	5 805	(1 202)
Net cash from/used in investing activities	(36 788)	(5 344)	(8 283)	(1 246)
Net cash from/used in financing activities	(1 394)	(3 908)	(314)	(911)
Total net cash flows	(12 401)	(14 406)	(2 792)	(3 360)

SELECTED STAND-ALONE FINANCIAL DATA	PLN million		EUR million	
	as at 30.06.2020	as at 31.12.2019	as at 30.06.2020	as at 31.12.2019
Total assets	348 685	316 978	78 075	74 434
Total equity	42 651	40 412	9 550	9 490
Share capital	1 250	1 250	280	294
Number of shares (in million)	1 250	1 250	1 250	1 250
Book value per share (in PLN/EUR)	34,12	32,33	7,64	7,59
Diluted number of shares (in million)	1 250	1 250	1 250	1 250
Diluted book value per share (in PLN/EUR)	34,12	32,33	7,64	7,59
Total capital adequacy ratio	20,08%	20,66%	20,08%	20,66%
Tier 1	36 358	35 890	8 141	8 428
Tier 2	2 700	2 700	605	634

SELECTED FINANCIAL STATEMENT ITEMS HAVE BEEN TRANSLATED INTO EUR AT THE FOLLOWING RATES	from 01.01.2020 to 30.06.2020	from 01.01.2019 to 30.06.2019
average of NBP exchange rates at the end of monthly periods (income statement, statement of comprehensive income and statement of cash flow items)	4,4413	4,2880
mid NBP rate at the date (statement of financial position items)	4,4660	4,2585

## SEPARATE INCOME STATEMENT

INCOME STATEMENT	Note	second quarter period from 01.04.2020 to 30.06.2020	2 quarters cumulative period from 01.01.2020 to 30.06.2020	second quarter period from 01.04.2019 to 30.06.2019	2 quarters cumulative period from 01.01.2019 to 30.06.2019
Interest income	6	2 646	5 558	2 781	5 502
Interest income calculated under the effective interest rate method on financial instruments measured		2 303	4 881	2 623	5 187
at amortized cost		1 880	4 035	2 276	4 482
at fair value through OCI		423	846	347	705
Income similar to interest income on instruments measured at fair value through profit or loss		343	677	158	315
Interest expense	6	(352)	(826)	(479)	(969)
<b>Net interest income</b>		<b>2 294</b>	<b>4 732</b>	<b>2 302</b>	<b>4 533</b>
Fee and commission income	7	942	1 966	983	1 904
Fee and commission expense	7	(215)	(476)	(267)	(506)
<b>Net fee and commission income</b>		<b>727</b>	<b>1 490</b>	<b>716</b>	<b>1 398</b>
Dividend income		201	201	361	382
Net gain/(loss) on financial instruments measured at fair value through profit or loss		(2)	(137)	35	60
Impact of COVID-19 on the loans portfolio	16	(4)	(26)	-	-
Net foreign exchange gains/(losses)		13	19	36	78
Gains/(losses) on derecognition of financial instruments not measured at fair value through profit or loss		30	65	32	84
measured at fair value through OCI		40	89	35	84
measured at amortized cost		(10)	(24)	(3)	-
Allowances for expected credit losses	8	(336)	(773)	(286)	(572)
Impact of COVID-19 on the loans portfolio	16	(86)	(283)	-	-
Net impairment allowances on non-financial assets	9	(142)	(257)	(2)	(5)
Cost of legal risks of mortgage loans in convertible currencies	10	(105)	(190)	-	(4)
<b>Net other operating income and expense</b>	11	<b>61</b>	<b>(55)</b>	<b>61</b>	<b>63</b>
Administrative expenses	12	(1 122)	(2 265)	(1 182)	(2 330)
Net regulatory charges		(102)	(523)	(55)	(384)
Tax on certain financial institutions		(247)	(484)	(232)	(460)
<b>Operating profit/(loss)</b>		<b>1 270</b>	<b>1 823</b>	<b>1 786</b>	<b>2 843</b>
<b>Profit before tax</b>		<b>1 270</b>	<b>1 823</b>	<b>1 786</b>	<b>2 843</b>
Income tax expense	13	(445)	(638)	(448)	(768)
		-	-	-	-
<b>Net profit</b>		<b>825</b>	<b>1 185</b>	<b>1 338</b>	<b>2 075</b>
Earnings per share		-	-	-	-
- basic earnings per share for the period (PLN)		0,66	0,95	1,07	1,66
- diluted earnings per share for the period (PLN)		0,66	0,95	1,07	1,66
Weighted average number of ordinary shares during the period (in million)		1 250	1 250	1 250	1 250
Weighted average diluted number of ordinary shares during the period (in million)		1 250	1 250	1 250	1 250

## SEPARATE STATEMENT OF COMPREHENSIVE INCOME

STATEMENT OF COMPREHENSIVE INCOME	second quarter period from 01.04.2020 to 30.06.2020	2 quarters cumulative period from 01.01.2020 to 30.06.2020	second quarter period from 01.04.2019 to 30.06.2019	2 quarters cumulative period from 01.01.2019 to 30.06.2019
<b>Net profit</b>	825	1 185	1 338	2 075
<b>Other comprehensive income</b>	660	1 054	222	82
<b>Items which may be reclassified to profit or loss</b>	660	1 054	222	82
Cash flow hedges (gross)	(6)	603	41	196
Deferred tax	1	(115)	(8)	(37)
Cash flow hedges (net)	(5)	488	33	159
Revaluation of fair value of financial assets measured at fair value through OCI, gross	862	788	265	(14)
Gains /losses transferred to profit or loss (on disposal)	(40)	(89)	(35)	(84)
Deferred tax	(157)	(133)	(41)	21
Fair value of financial assets measured at fair value through OCI (net)	665	566	189	(77)
<b>Total net comprehensive income</b>	<b>1 485</b>	<b>2 239</b>	<b>1 560</b>	<b>2 157</b>

## SEPARATE STATEMENT OF FINANCIAL POSITION

	Note	30.06.2020	31.12.2019
<b>ASSETS</b>			
Cash and balances with the Central Bank	14	3 586	14 602
Amounts due from banks		7 684	7 953
Hedging derivatives		1 215	594
Other derivative instruments		5 362	2 798
Securities	15	116 580	76 422
- held for trading		2 053	1 175
- not held for trading, measured at fair value through profit or loss		700	755
- measured at fair value through OCI		73 081	61 130
- measured at amortized cost		40 746	13 362
Reverse repo transactions		153	1 081
Loans and advances to customers	16	202 013	200 867
- not held for trading, measured at fair value through profit or loss		6 878	8 286
- measured at fair value through OCI		12 599	9 623
- measured at amortized cost		182 536	182 958
Property, plant and equipment		2 678	2 738
Non-current assets held for sale		13	9
Intangible assets		2 444	2 606
Investments in subsidiaries, associates and joint ventures	20	3 890	3 994
Current income tax receivables -		31	-
- of subsidiaries belonging to the Tax Group		31	-
Deferred income tax assets		1 055	1 290
Other assets		1 981	2 024
<b>TOTAL ASSETS</b>		<b>348 685</b>	<b>316 978</b>

	Note	30.06.2020	31.12.2019
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
Amounts due to banks		1 984	1 976
- measured at fair value through profit or loss		11	317
- measured at amortized cost		1 973	1 659
Hedging derivatives		1 549	668
Other derivative instruments		5 397	2 927
Amounts due to customers	17	279 072	252 943
- measured at fair value through profit or loss		145	45
- measured at amortized cost		278 927	252 898
Repo transactions		107	46
Loans and advances received	18	5 240	5 026
Debt securities in issue	18	3 922	4 769
Subordinated liabilities	18	2 730	2 730
Other liabilities		5 289	4 597
Current income tax liabilities		97	311
- of the Bank		97	282
- of the subsidiaries belonging to the Tax Group		-	29
Provisions		647	573
<b>TOTAL LIABILITIES</b>		<b>306 034</b>	<b>276 566</b>
<b>Equity</b>			
Share capital		1 250	1 250
Other capital and reserves		34 825	33 771
Retained earnings		5 391	1 556
Net profit or loss for the year		1 185	3 835
<b>TOTAL EQUITY</b>		<b>42 651</b>	<b>40 412</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>348 685</b>	<b>316 978</b>
Total capital ratio	28	20,08%	20,66%
Book value (in PLN million)		42 651	40 412
Number of shares (in million)		1 250	1 250
Book value per share (in PLN)		34,12	32,33
Diluted number of shares (in million)		1 250	1 250
Diluted book value per share (in PLN)		34,12	32,33

## SEPARATE STATEMENT OF CHANGES IN EQUITY

FOR 6 MONTHS ENDED 30 JUNE 2020	Share capital	Other capital			Accumulated other comprehensive income	Total other capital and reserves	Retained earnings	Net profit for the period	Total equity
		Reserves							
		Supplementary capital	General banking risk fund	Other reserves					
1 January 2020	1 250	29 168	1 070	3 099	434	33 771	1 556	3 835	40 412
Transfer from retained earnings	-	-	-	-	-	-	3 835	(3 835)	-
<b>Total comprehensive income, of which:</b>	-	-	-	-	1 054	1 054	-	1 185	2 239
Net profit for the year	-	-	-	-	-	-	-	1 185	1 185
Other comprehensive income	-	-	-	-	1 054	1 054	-	-	1 054
30 June 2020	1 250	29 168	1 070	3 099	1 488	34 825	5 391	1 185	42 651

FOR 6 MONTHS ENDED 30 JUNE 2020	Accumulated other comprehensive income			
	Fair value of financial assets measured at fair value through OCI	Cash flow hedges	Actuarial gains and losses	Total
1 January 2020	354	95	(15)	434
Other comprehensive income	566	488	-	1 054
30 June 2020	920	583	(15)	1 488

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



Bank Polski

FOR 6 MONTHS ENDED 30 JUNE 2019	Share capital	Other capital			Accumulated other comprehensive income	Total other capital and reserves	Retained earnings	Net profit for the period	Total equity
		Reserves							
		Supplementary capital	General banking risk fund	Other reserves					
31 December 2018	1 250	29 168	1 070	3 629	443	34 310	(535)	3 335	38 360
Changes due to IFRS 16 implementation	-	-	-	-	-	-	(111)	-	(111)
1 January 2019 (restated)	1 250	29 168	1 070	3 629	443	34 310	(646)	3 335	38 249
Transfer from retained earnings	-	-	-	-	-	-	3 335	(3 335)	-
declared dividend	-	-	-	-	-	-	(1 662)	-	-
<b>Total comprehensive income, of which:</b>	-	-	-	-	82	82	-	2 075	2 157
Net profit for the year	-	-	-	-	-	-	-	2 075	2 075
Other comprehensive income	-	-	-	-	82	82	-	-	82
Coverage of losses from previous years	-	-	-	(535)	-	(535)	535	-	-
Transfer of profit for capital	-	-	-	6	-	-	-	-	-
30 June 2019	1 250	29 168	1 070	3 100	525	33 863	1 556	2 075	38 744

FOR 6 MONTHS ENDED 30 JUNE 2019	Accumulated other comprehensive income			
	Fair value of financial assets measured at fair value through OCI	Cash flow hedges	Actuarial gains and losses	Total
1 January 2019	471	(18)	(10)	443
Other comprehensive income	(77)	159	-	82
30 June 2019	394	141	(10)	525



## SEPARATE STATEMENT OF CASH FLOWS

	01.01- 30.06.2020	01.01- 30.06.2019
<b>Cash flows from operating activities</b>		
Profit before tax	1 823	2 843
<b>Total adjustments:</b>	<b>23 958</b>	<b>(7 997)</b>
Amortization and depreciation	424	403
(Gains)/losses on investing activities	(4)	(7)
Interest and dividends	(690)	(835)
Change in:		
amounts due from banks	(1 120)	119
hedging derivatives	260	(82)
other derivatives	(94)	(23)
securities	(1 998)	(1 006)
- held for trading	(878)	(569)
- not held for trading, measured at fair value through profit or loss	55	534
- measured at fair value through OCI	(964)	(844)
- measured at amortized cost	(211)	(127)
loans and advances to customers	(1 933)	(5 333)
- not held for trading, measured at fair value through profit or loss	1 408	78
- measured at fair value through OCI	(2 976)	1 344
- measured at amortized cost	(365)	(6 755)
Reverse repo transactions	928	(1 869)
non-current assets held for sale	(5)	4
other assets	(33)	79
accumulated allowances for expected credit losses	197	(5)
accumulated allowances for non-financial assets and other provisions	941	(42)
Amounts due to the Central Bank	-	2
- measured at fair value through profit or loss		2
amounts due to banks	8	1 072
- measured at fair value through profit or loss	(306)	20
- measured at amortized cost	314	1 052
amounts due to customers	26 129	2 620
- measured at fair value through profit or loss	100	15
- measured at amortized cost	26 029	2 605
loans and advances received	214	(3 813)
Repo transactions	61	-
debt securities in issue	282	(11)
subordinated liabilities	-	(1)
other liabilities	800	1 221
Income tax paid	(835)	(625)
Other adjustments	426	135
<b>Net cash from/used in operating activities</b>	<b>25 781</b>	<b>(5 154)</b>

	01.01- 30.06.2020	01.01- 30.06.2019
<b>Cash flows from investing activities</b>		
<b>Inflows from investing activities</b>	<b>37 355</b>	<b>132 534</b>
Redemption and interest on securities measured at fair value through other comprehensive income	36 856	126 401
Redemption and interest on securities measured at amortized cost	487	5 748
Sale of intangible assets, property, plant and equipment and assets held for sale	11	26
Other inflows from investing activities (dividends)	1	359
<b>Outflows from investing activities</b>	<b>(74 143)</b>	<b>(137 878)</b>
Capital increases in subsidiaries, associates and joint ventures	(5)	(171)
Purchase of securities measured at fair value through other comprehensive income	(46 346)	(129 643)
Purchase of securities measured at amortized cost	(27 492)	(7 896)
Purchase of intangible assets and property, plant and equipment	(300)	(168)
<b>Net cash from/used in investing activities</b>	<b>(36 788)</b>	<b>(5 344)</b>

	01.01- 30.06.2020	01.01- 30.06.2019
<b>Cash flows from financing activities</b>		
Proceeds from issue of debt securities	-	596
Redemption of debt securities	(1 129)	(615)
Repayment of loans and advances	-	(3 591)
Payment of lease liabilities	(108)	(101)
Repayment of interest on long-term borrowings	(157)	(197)
<b>Net cash from/used in financing activities</b>	<b>(1 394)</b>	<b>(3 908)</b>
<b>Total net cash flows</b>	<b>(12 401)</b>	<b>(14 406)</b>
of which foreign exchange differences on cash and cash equivalents	107	(30)
Cash and cash equivalents at the beginning of the period (note 14)	17 993	30 024
Cash and cash equivalents at the end of the period (note 14)	5 592	15 618

## TABLE OF CONTENTS

SEPARATE INCOME STATEMENT .....	3
SEPARATE STATEMENT OF COMPREHENSIVE INCOME .....	4
SEPARATE STATEMENT OF FINANCIAL POSITION.....	5
SEPARATE STATEMENT OF CHANGES IN EQUITY.....	7
SEPARATE STATEMENT OF CASH FLOWS.....	9
NOTES TO THE FINANCIAL STATEMENTS.....	12
1. GENERAL INFORMATION ABOUT THE BANK .....	12
2. APPROVAL OF THE CONDENSED INTERIM FINANCIAL STATEMENTS.....	12
3. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS.....	12
4. AMENDMENTS TO THE ACCOUNTING POLICIES BINDING AS OF 1 JANUARY 2020 AND AN EXPLANATION OF THE DIFFERENCES BETWEEN PREVIOUSLY PUBLISHED FINANCIAL STATEMENTS AND THESE FINANCIAL STATEMENTS.....	13
5. NEW STANDARDS AND INTERPRETATIONS, AND AMENDMENTS THERETO.....	18
6. INTEREST INCOME AND EXPENSES.....	21
7. FEE AND COMMISSION INCOME AND EXPENSE .....	21
8. NET GAIN/(LOSS) ON ALLOWANCES FOR EXPECTED CREDIT LOSSES .....	22
9. NET IMPAIRMENT ALLOWANCES ON NON-FINANCIAL ASSETS.....	23
10. COST OF LEGAL RISKS RELATED TO MORTGAGE LOANS IN CONVERTIBLE CURRENCIES .....	24
11. OTHER OPERATING INCOME AND EXPENSES.....	25
12. ADMINISTRATIVE EXPENSES.....	25
13. INCOME TAX EXPENSE.....	26
14. CASH AND CASH EQUIVALENTS .....	26
15. SECURITIES.....	27
16. LOANS AND ADVANCES TO CUSTOMERS.....	29
17. AMOUNTS DUE TO CUSTOMERS.....	31
18. BORROWINGS RECEIVED.....	31
19. PROVISIONS .....	32
20. INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES.....	32
21. DIVIDEND.....	33
22. OFF-BALANCE SHEET COMMITMENTS RECEIVED AND GRANTED.....	34
23. LEGAL CLAIMS.....	36
24. TRANSACTIONS WITH THE STATE TREASURY AND RELATED ENTITIES .....	39
25. FAIR VALUE HIERARCHY.....	43
26. FINANCIAL ASSETS AND FINANCIAL LIABILITIES NOT PRESENTED AT FAIR VALUE IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION .....	45
27. RISK MANAGEMENT IN THE BANK.....	46
28. CAPITAL ADEQUACY .....	49
29. EVENTS THAT TOOK PLACE AFTER THE BALANCE SHEET DATE .....	50



## NOTES TO THE FINANCIAL STATEMENTS

### 1. GENERAL INFORMATION ABOUT THE BANK

#### BUSINESS ACTIVITIES OF THE BANK

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

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

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

PKO Bank Polski S.A., as the parent, is a universal deposit and credit bank which serves individuals, legal entities and other entities, both Polish and foreign. 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.

### 2. APPROVAL OF THE CONDENSED INTERIM FINANCIAL STATEMENTS

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

### 3. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

#### GOING CONCERN

These financial statements have been prepared on the assumption that the Bank will continue as a going concern in the foreseeable future, for at least 12 months of the date of publication of these financial statements, i.e. of 5 August 2020. As at the date of signing the financial statements, the Bank's Management Board has not determined any facts or circumstances which could indicate any threat to the Bank continuing as a going concern in the period of at least 12 months from the publication date as a result of planned or mandatory discontinuation, or significant limitation of the current scope of operations by the Bank.

The impact of the COVID 19 pandemic on the Bank's and the banking sector's operations is described in the Director's Report of the PKO Bank Polski S.A. Group for the first half of 2020 and in the note "Risk management in the Bank".

#### MANAGEMENT REPRESENTATION

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

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

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

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

STATEMENT OF FINANCIAL POSITION	31.12.2019 before restatement	Reverse repo transactions	Reclassification of potential refunds to customers with respect to expected early repayment of consumer and mortgage loans in the future	restated 31.12.2019
Cash and balances with the Central Bank	14 602	-	-	14 602
Amounts due from banks	7 953	-	-	7 953
Derivative hedging instruments	594	-	-	594
Other derivative instruments	2 798	-	-	2 798
Securities	76 422	-	-	76 422
Reverse repo transactions	-	1 081	-	1 081
Loans and advances to customers	202 095	(1 081)	(147)	200 867
- not held for trading measured at fair value through profit or loss	8 286	-	-	8 286
- measured at fair value through other comprehensive income	9 623	-	-	9 623
- measured at amortized cost	184 186	(1 081)	(147)	182 958
Property, plant and equipment	2 738	-	-	2 738
Fixed assets held for sale	9	-	-	9
Intangible assets	2 606	-	-	2 606
Investments in subsidiaries, associates and joint ventures	3 994	-	-	3 994
Deferred income tax assets	1 290	-	-	1 290
Other assets	2 024	-	-	2 024
	-	-	-	-
<b>TOTAL ASSETS</b>	<b>317 125</b>	<b>-</b>	<b>(147)</b>	<b>316 978</b>

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



Bank Polski

LIABILITIES	31.12.2019 before restatement	Loans and advances received	Repo transactions	Reclassification of potential refunds to customers with respect to expected early repayment of consumer and mortgage loans in the future	31.12.2019 restated
Amounts due to banks	1 976	-	-	-	1 976
- measured at fair value through profit or loss	317	-	-	-	317
- measured at amortized cost	1 659	-	-	-	1 659
Derivative hedging instruments	668	-	-	-	668
Other derivative instruments	2 927	-	-	-	2 927
Amounts due to customers	258 015	(5 026)	(46)	-	252 943
- measured at fair value through profit or loss	45	-	-	-	45
- measured at amortized cost	257 970	(5 026)	(46)	-	252 898
Repo transactions	-	-	46	-	46
Loans and advances received	-	5 026	-	-	5 026
Liabilities in respect of issues of securities	4 769	-	-	-	4 769
Subordinated liabilities	2 730	-	-	-	2 730
Other liabilities	4 597	-	-	(147)	4 597
Current income tax liabilities	311	-	-	-	311
- of the Bank	282	-	-	-	282
- of the subsidiaries belonging to the Tax Group	29	-	-	-	29
Provisions	573	-	-	-	573
	-	-	-	-	-
<b>TOTAL LIABILITIES</b>	<b>276 520</b>	<b>-</b>	<b>-</b>	<b>(147)</b>	<b>276 566</b>

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

INCOME STATEMENT	01.01 - 30.06.2019 before restatement	reclassification of premium on debt securities	reclassification of transactional margins	presentation of income and costs relating to Forex contracts	reclassification of the cost of legal risk related to mortgage loans in convertible currencies	01.01 - 30.06.2019 restated
Interest income	5 555	(53)	-	(0,1)	-	5 502
Interest expense	(1 022)	53	-	-	-	(969)
<b>Net interest income/(expense)</b>	<b>4 533</b>	<b>-</b>	<b>-</b>	<b>(0,1)</b>	<b>-</b>	<b>4 533</b>
Fee and commission income	1 725	-	179	-	-	1 904
Fee and commission expenses	(506)	-	-	-	-	(506)
<b>Net fee and commission income/(expenses)</b>	<b>1 219</b>	<b>-</b>	<b>179</b>	<b>-</b>	<b>-</b>	<b>1 398</b>
Dividend income	382	-	-	-	-	382
Net gain/(loss) on financial instruments measured at fair value through profit or loss	60	-	-	-	-	60
Net foreign exchange gains/(losses)	257	-	(179)	0,1	-	78
Gain/(loss) on derecognition of financial instruments not valued at fair value through profit or loss	84	-	-	-	-	84
Net allowances for credit losses	(572)	-	-	-	-	(572)
Net impairment of non-financial assets	(5)	-	-	-	-	(5)
Cost of legal risks of mortgage loans in convertible currencies	-	-	-	-	(4)	(4)
Other operating income	112	-	-	-	-	112
Other operating expenses	(53)	-	-	-	4	(49)
<b>Net other net operating income/expenses</b>	<b>59</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4</b>	<b>63</b>
Administrative expenses	(2 330)	-	-	-	-	(2 330)
Net regulatory charges	(384)	-	-	-	-	(384)
Tax on certain financial institutions	(460)	-	-	-	-	(460)
Net operating income/(expenses)	2 843	-	-	-	-	2 843
Share in profits and losses of subsidiaries, associates and joint ventures	-	-	-	-	-	-
<b>Profit before tax</b>	<b>2 843</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2 843</b>
Income tax expense	(768)	-	-	-	-	(768)
<b>Net profit</b>	<b>2 075</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2 075</b>

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



Bank Polski

INCOME STATEMENT	01.04 - 30.06.2019 before restatement	reclassification of premium on debt securities	reclassification of transactional margins	presentation of income and costs relating to Forex contracts	reclassification of the cost of legal risk related to mortgage loans in convertible currencies	01.04 - 30.06.2019 restated
Interest income	2 807	(26)	-	0,2	-	2 781
Interest expense	(505)	26	-	-	-	(479)
<b>Net interest income/(expense)</b>	<b>2 302</b>	<b>-</b>	<b>-</b>	<b>0,2</b>	<b>-</b>	<b>2 302</b>
Fee and commission income	890	-	93	-	-	983
Fee and commission expenses	(267)	-	-	-	-	(267)
<b>Net fee and commission income/(expenses)</b>	<b>623</b>	<b>-</b>	<b>93</b>	<b>-</b>	<b>-</b>	<b>716</b>
Dividend income	361	-	-	-	-	361
Net gain/(loss) on financial instruments measured at fair value through profit or loss	35	-	-	-	-	35
Net foreign exchange gains/(losses)	129	-	(93)	(0,2)	-	36
Gain/(loss) on derecognition of financial instruments not valued at fair value through profit or loss	32	-	-	-	-	32
Net allowances for expected credit losses	(286)	-	-	-	-	(286)
Net impairment of non-financial assets	(2)	-	-	-	-	(2)
Cost of legal risk of mortgage loans in convertible currencies	-	-	-	-	-	-
Other operating income	83	-	-	-	-	83
Other operating expenses	(22)	-	-	-	-	(22)
<b>Net other net operating income/expenses</b>	<b>61</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>61</b>
Administrative expenses	(1 182)	-	-	-	-	(1 182)
Net regulatory charges	(55)	-	-	-	-	(55)
Tax on certain financial institutions	(232)	-	-	-	-	(232)
Net operating income/(expenses)	1 786	-	-	-	-	1 786
<b>Profit before tax</b>	<b>1 786</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1 786</b>
Income tax expense	(448)	-	-	-	-	(448)
<b>Net profit</b>	<b>1 338</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1 338</b>

RESTATEMENT OF THE CASH FLOW STATEMENT – FOR THE PERIOD FROM 1 JANUARY - 30 JUNE 2019

STATEMENT OF CASH FLOWS	01.01 - 30.06.2019 before restatement	"Loans and advances received" presented as a separate item	"Reverse repo transactions" and "Repo transactions" presented as separate items	01.01 - 30.06.2019 restated
<b>Cash flows from operating activities</b>				
Change in:				
loans and advances to customers	(7 202)	-	1 869	(5 333)
reverse repo transactions	-	-	(1 869)	(1 869)
amounts due to customers	(1 193)	3 813	-	2 620
loans and advances received	-	(3 813)	-	(3 813)
<b>TOTAL</b>	<b>(8 395)</b>	<b>-</b>	<b>-</b>	<b>(8 395)</b>

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

INCOME STATEMENT	01.01- 31.03.2020 before restatement	reclassification of allowances for card complaints	01.01- 31.03.2020 restated
Interest income	2 912	-	2 912
Interest expense	(474)	-	(474)
<b>Net interest income/(expense)</b>	<b>2 438</b>	-	<b>2 438</b>
Fee and commission income	1 024	-	1 024
Fee and commission expenses	(261)	-	(261)
<b>Net fee and commission income/(expenses)</b>	<b>763</b>	-	<b>763</b>
Net gain/(loss) on financial instruments measured at fair value through profit or loss	(135)	-	(135)
impact of COVID-19 on the loan portfolio	(22)	-	(22)
Net foreign exchange gains/(losses)	6	-	6
Gain/(loss) on derecognition of financial instruments not valued at fair value through profit or loss	35	-	35
Net allowances for expected credit losses	(453)	16	(437)
impact of COVID-19 on the loan portfolio	(197)	-	(197)
Net impairment of non-financial assets	(99)	(16)	(115)
Cost of legal risk of mortgage loans in convertible currencies	(85)	-	(85)
Other operating income	(116)	-	(116)
Other operating expenses	(1 143)	-	(1 143)
Net regulatory charges	(421)	-	(421)
Tax on certain financial institutions	(237)	-	(237)
<b>Net operating income/(expenses)</b>	<b>553</b>	-	<b>553</b>
<b>Profit before tax</b>	<b>553</b>	-	<b>553</b>
Income tax expense	(193)	-	(193)
	-	-	-
<b>Net profit</b>	<b>360</b>	-	<b>360</b>

• **CHANGES TO THE BANK'S ACCOUNTING POLICIES**

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

- "Reclassification of transaction margin": the Bank decided to reclassify the Forex margin accounted for in foreign exchange rates of currencies offered to the Bank's customers as part of foreign currency purchase/sale services, which had previously been presented in "Net foreign exchange gains/(losses)", to "Fee and commission income". In the Bank's opinion the nature of the Forex margin is similar to other fees and commissions charged by the Bank for the provision of services.
- "Presentation of foreign exchange gains/(losses) on income and costs (accrued interest, discount, premium, valuation) on financial assets and financial liabilities denominated in foreign currencies": the Bank decided to reclassify foreign exchange gains/(losses) on income and costs accrued on financial assets (e.g. loans, securities, other receivables) and financial liabilities in foreign currencies from "Interest income" to "Net foreign exchange gains/(losses)". In accordance with the previous approach the said income and costs were recognized in the profit or loss in the currency of the contract and translated to the base currency in the process of annual closing of accounts or when interest was added or paid back by the customer, according to the NBP average fixing rate. This meant that during the financial year the said income and expenses were recognized jointly with foreign exchange gains/(losses). Currently, the said income and expenses will be recognized in the profit/(loss) at the mid NBP exchange fixing rate for a given currency as at the date of recognition, which will allow recognizing foreign exchange differences for particular income and expense items in net foreign exchange gains/(losses). The amount reclassified between the income statement items in the six-month period ended 30 June 2019 is PLN 70 thousand.



As of these financial statements, in order to better reflect its activities, the Bank changed its accounting policies as follows:

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

In order to better reflect the Bank’s operations in the financial statements, the following presentation changes were made to the financial statements for the three months ended 31 March 2020.

- “Reverse repo transactions” and “Repo transactions”: The Bank presents “repo and reverse repo transactions” as a separate line item (previously such transactions were presented in “Amounts due from banks”, “Loans and advances to customers”, “Amounts due to banks” or “Amounts due to customers”, respectively, depending on whether the transaction was concluded with an interbank customer or another customer. The comparative data has been adjusted accordingly.
- “Loans and advances received” up to and including the year 2019, loans and advances received by the Bank were presented as “Amounts due to banks” and “Amounts due to customers”. The Bank decided to present them separately in liabilities in order to achieve consistency with the presentation of interest expenses on loans and advances received and due to the fact that these loans and advances represent financing activities in the cash flow statement.

In order to better reflect the Bank’s operations, the Bank made the following presentation changes as of the preparation of these financial statements.

- Reclassification of potential cost refunds to customers with respect to the expected prepayment of originated consumer and mortgage loans in the future – the Bank recognizes the impact of cost refunds to customers with respect to the expected prepayment of originated consumer and mortgage loans in the future as a decrease in the carrying amount of gross loans. This approach is similar to the Bank’s approach to the recognition of the impact of the legal risk of mortgage loans.
- **OTHER CHANGES – RECLASSIFICATION IN THE INCOME STATEMENT**

In order to better reflect the Bank’s operations in the financial statements, the following changes were made to its presentation of.

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

## 5. NEW STANDARDS AND INTERPRETATIONS, AND AMENDMENTS THERETO

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

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

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

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

			<ul style="list-style-type: none"> <li>The amendment to IFRS 9 explains which fees should be included in the “10 percent” test in the event of discontinued recognition of financial liabilities.</li> <li>Amendments to examples of IFRS 16 application relating to identification of rent concessions.</li> </ul> <p>The Bank does not expect these amendments to have a material impact on the financial statements.</p>
AMENDMENTS TO IFRS 3 BUSINESS COMBINATIONS	14.05.2020/ 1.01.2022	no data	<p>The amendments to IFRS 3 update the references to the Conceptual Framework issued in 2018. To ensure that the update does not impact assets and liabilities which are qualified for disclosure when a business combination takes place, the amendments introduce new exemptions from the recognition and measurement policies under IFRS 3.</p> <p>The Bank does not expect these amendments to have a material impact on the financial statements.</p>
AMENDMENTS TO IAS 16 “PROPERTY, PLANT AND EQUIPMENT”	14.05.2020/ 1.01.2022	no data	<p>The amendments, among other things, prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead such proceeds should be recognized in the income statement together with the cost of manufacture.</p> <p>The Bank does not expect these amendments to have a material impact on the financial statements.</p>
AMENDMENTS TO IAS 37 “PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS”	14.05.2020/ 1.01.2022	no data	<p>The amendments show that when assessing whether a contract is onerous the costs of performing the contract cover all costs directly related to its performance.</p> <p>The Bank does not expect these amendments to have a material impact on the financial statements.</p>
IFRS 4 INSURANCE CONTRACTS	25.06.2020/ 1.01.2021	no data	<p>The amendments stipulate two optional solutions to reduce the impact of different dates of IFRS 9 and IFRS 17 coming into force.</p> <p>These amendments do not affect the Bank.</p>

## 6. INTEREST INCOME AND EXPENSES

INTEREST INCOME ON:	second quarter period from 01.04.2020 to 30.06.2020	2 quarters cumulative period from 01.01.2020 to 30.06.2020	second quarter period from 01.04.2019 to 30.06.2019	2 quarters cumulative period from 01.01.2019 to 30.06.2019
loans to and other receivables from banks	30	74	37	77
hedging derivatives	185	311	135	271
debt securities	455	876	379	744
measured at amortized cost	133	227	73	137
measured at fair value through OCI	314	634	292	583
measured at fair value through profit or loss	8	15	14	24
loans and advances to customers	1 976	4 297	2 230	4 410
measured at amortized cost	1 717	3 734	2 166	4 268
measured at fair value through OCI	109	212	55	122
measured at fair value through profit or loss	150	351	9	20
<b>Total</b>	<b>2 646</b>	<b>5 558</b>	<b>2 781</b>	<b>5 502</b>
of which: interest income on impaired financial instruments	51	121	67	125

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

INTEREST EXPENSE ON:	second quarter period from 01.04.2020 to 30.06.2020	2 quarters cumulative period from 01.01.2020 to 30.06.2020	second quarter period from 01.04.2019 to 30.06.2019	2 quarters cumulative period from 01.01.2019 to 30.06.2019
amounts due to banks	(2)	(5)	(3)	(6)
international deposits	(3)	(7)	(5)	(8)
loans and advances received	(53)	(105)	(50)	(104)
lease	(4)	(8)	(5)	(10)
amounts due to customers	(260)	(641)	(383)	(775)
debt securities in issue	(7)	(15)	(10)	(21)
subordinated liabilities	(23)	(45)	(23)	(45)
<b>Total</b>	<b>(352)</b>	<b>(826)</b>	<b>(479)</b>	<b>(969)</b>

## 7. FEE AND COMMISSION INCOME AND EXPENSE

FEE AND COMMISSION INCOME	second quarter period from 01.04.2020 to 30.06.2020	2 quarters cumulative period from 01.01.2020 to 30.06.2020	second quarter period from 01.04.2019 to 30.06.2019	2 quarters cumulative period from 01.01.2019 to 30.06.2019
<b>Loans and insurance</b>	<b>205</b>	<b>427</b>	<b>228</b>	<b>436</b>
granting of loans and advances	163	333	177	342
offering insurance products	42	94	51	94
<b>Investment funds and brokerage activity</b>	<b>71</b>	<b>173</b>	<b>50</b>	<b>113</b>
maintenance of investment funds and OFE (including management fees)	3	16	8	24
handling and sale of investment and insurance products	2	5	3	6
conducting brokerage activities	66	152	39	83
<b>Cards</b>	<b>290</b>	<b>604</b>	<b>329</b>	<b>620</b>
<b>Forex transaction margins</b>	<b>105</b>	<b>215</b>	<b>93</b>	<b>179</b>
<b>Bank accounts and other</b>	<b>271</b>	<b>547</b>	<b>283</b>	<b>556</b>
maintenance of bank accounts	210	420	206	410
cash operations	16	33	16	32
servicing foreign mass transactions	16	33	25	48
customer orders	13	25	12	23
fiduciary services	1	3	2	3
other	15	33	22	40
<b>Total</b>	<b>942</b>	<b>1 966</b>	<b>983</b>	<b>1 904</b>

FEE AND COMMISSION EXPENSE	second quarter period from 01.04.2020 to 30.06.2020	2 quarters cumulative period from 01.01.2020 to 30.06.2020	second quarter period from 01.04.2019 to 30.06.2019	2 quarters cumulative period from 01.01.2019 to 30.06.2019
<b>Loans and insurance</b>	(26)	(69)	(49)	(91)
commission paid to external entities for product sales	(6)	(18)	(17)	(33)
cost of construction investment supervision and property valuation	(7)	(16)	(14)	(24)
fees for the Credit Information Bureau	(2)	(10)	(5)	(9)
credit service	(11)	(25)	(13)	(25)
<b>Investment funds and brokerage activity</b>	(7)	(12)	(4)	(9)
<b>Cards</b>	(160)	(341)	(186)	(353)
<b>Bank accounts and other</b>	(22)	(54)	(28)	(53)
clearing services	(7)	(17)	(7)	(14)
commissions for operating services provided by banks	(1)	(4)	(2)	(4)
sending short text messages (SMS)	(8)	(19)	(8)	(16)
servicing foreign mass transactions	(3)	(6)	(3)	(5)
sales of bank products	-	(3)	(2)	(4)
other	(3)	(5)	(6)	(10)
<b>Total</b>	(215)	(476)	(267)	(506)

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

NET ALLOWANCES FOR EXPECTED CREDIT LOSSES	second quarter period from 01.04.2020 to 30.06.2020	2 quarters cumulative period from 01.01.2020 to 30.06.2020	second quarter period from 01.04.2019 to 30.06.2019	2 quarters cumulative period from 01.01.2019 to 30.06.2019
Amounts due from banks	(2)	(5)	-	1
Debt securities	7	8	(5)	(6)
Loans and advances to customers	(300)	(677)	(292)	(570)
Other financial assets	1	-	-	-
Financial liabilities and guarantees granted	(42)	(99)	11	3
<b>Total</b>	(336)	(773)	(286)	(572)

The impact of COVID 19 on the deterioration in the quality of the loan portfolio measured at amortized cost and at fair value through OCI during the six-month period ended 30 June 2020 was PLN 283 million and was recognized in the Net gain/(loss) on allowances for expected credit losses (for details, see the note "Risk management in the Bank").

ACCUMULATED ALLOWANCES FOR EXPECTED CREDIT LOSSES (BALANCE)	31.12.2019	Net allowances for expected credit losses	Change in allowances due to write off and other adjustments	30.06.2020
Amounts due from banks	4	5	(1)	8
Debt securities	20	(8)	2	14
Loans and advances to customers	6 443	677	110	7 230
Other financial assets	82	-	55	137
Financial liabilities and guarantees granted	268	99	2	369
<b>Total</b>	<b>6 817</b>	<b>773</b>	<b>168</b>	<b>7 758</b>

ACCUMULATED ALLOWANCES FOR EXPECTED CREDIT LOSSES (BALANCE)	31.12.2018	Net allowances for expected credit losses	Change in allowances due to write off and other adjustments	30.06.2019
Amounts due from banks	4	2	-	6
Debt securities	30	(7)	(11)	12
Loans and advances to customers	7 511	300	(568)	7 243
Other financial assets	95	(1)	2	96
Financial liabilities and guarantees granted	227	42	-	269
<b>Total</b>	<b>7 867</b>	<b>336</b>	<b>(577)</b>	<b>7 626</b>

## 9. NET IMPAIRMENT ALLOWANCES ON NON-FINANCIAL ASSETS

NET IMPAIRMENT ALLOWANCES ON NON-FINANCIAL ASSETS	second quarter period from 01.04.2020 to 30.06.2020	2 quarters cumulative period from 01.01.2020 to 30.06.2020	second quarter period from 01.04.2019 to 30.06.2019	2 quarters cumulative period from 01.01.2019 to 30.06.2019
Non-current assets held for sale	(1)	(1)	-	-
Property, plant and equipment	5	(3)	-	-
Intangible assets	(116)	(116)	-	-
Investments in subsidiaries, associates and joint ventures	(20)	(108)	-	-
Other non-financial assets	(10)	(29)	(2)	(5)
<b>Total</b>	<b>(142)</b>	<b>(257)</b>	<b>(2)</b>	<b>(5)</b>

ACCUMULATED IMPAIRMENT ALLOWANCES ON NON-FINANCIAL ASSETS (BALANCE)	31.12.2019	Net impairment allowances on non-financial assets	Other	30.06.2020
Non-current assets held for sale	1	1	-	2
Property, plant and equipment	42	3	(2)	43
Intangible assets	23	116	-	139
Investments in subsidiaries, associates and joint ventures	915	108	(28)	995
Other non-financial assets	127	29	(3)	153
<b>Total</b>	<b>1 108</b>	<b>257</b>	<b>(33)</b>	<b>1 332</b>

ACCUMULATED IMPAIRMENT ALLOWANCES ON NON-FINANCIAL ASSETS (BALANCE)	31.12.2018	Net impairment allowances on non-financial assets	Other	30.06.2019
Non-current assets held for sale	-	-	-	-
Property, plant and equipment	35	-	(2)	33
Intangible assets	25	-	-	25
Investments in subsidiaries, associates and joint ventures	915	-	-	915
Other non-financial assets	113	5	(5)	113
<b>Total</b>	<b>1 088</b>	<b>5</b>	<b>(7)</b>	<b>1 086</b>

### • INTANGIBLE ASSETS

The Bank conducted an impairment test on the goodwill on acquisition of Nordea Bank Polska S.A. by comparing the carrying amounts of cash generating units ("CGU") with their recoverable values. The Bank isolated two CGUs to which goodwill was attributed – retail and corporate.

The Bank calculated the residual value of the CGUs by extrapolating cash flow projections past the cash flow projection period using the growth rate adopted at 2.6%. The cash flow projections were based on assumptions included in the Bank's financial plans for 2020 and accounted for the impact of COVID-19 and of reduced interest rates on the current and forecast macroeconomic position. The Bank applied a 8.63% discount rate to discount future cash flows, which accounted for a risk-free rate interest rate and risk premium.

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

The key factors which led to recording the allowance were the outbreak of the COVID 19 pandemic and its effects (an increase in costs of credit risk and expected slowing of business activity) and the reduction in

interest rates together with the high level of regulatory charges (tax on certain financial institutions and costs of contributions to the BGF), which led to a significant decrease in the profitability of banking operations.

- **INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES**

As at 30 June 2020 the Bank set up an allowance for the impairment of goodwill of PKO BP BANKOWY PTE S.A. of PLN 15 million. In effect as at 30 June 2020 the Company's goodwill was reduced to PLN 136 million. The allowance is the effect of measuring the Company's goodwill using the EEV (European embedded value) method, and the key parameters that determine the change in goodwill are the proposed changes relating to the liquidation of Open Pension Funds and the situation on the financial markets caused by the COVID-19 pandemic, which translate – among other things – into a drop in the Fund's net assets.

As at 31 March 2020, the Bank tested the shares held in Bank Pocztowy S.A. for impairment. The valuation was performed using the discounted dividend method. The valuation model took into account the effect of NBP interest rate decreases introduced by the Monetary Policy Council (MPC) in March and April 2020 (100 bp in total) and the effect of the COVID-19 pandemic on the financial projections, including in particular the expected increase in the cost of credit risk.

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

Despite the profitable agency model with the Polish Post, the result of the impairment test of the Bank Pocztowy S.A. shares held by the Bank resulted in the recognition of a further allowance for the Bank's capital exposure to Bank Pocztowy S.A. in the amount of PLN 88 million.

## 10. COST OF LEGAL RISKS RELATED TO MORTGAGE LOANS IN CONVERTIBLE CURRENCIES

	second quarter period from 01.04.2020 to 30.06.2020	2 quarters cumulative period from 01.01.2020 to 30.06.2020	second quarter period from 01.04.2019 to 30.06.2019	2 quarters cumulative period from 01.01.2019 to 30.06.2019
Cost of legal risks of mortgage loans in convertible currencies	(105)	(190)	-	(4)

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



## 11. OTHER OPERATING INCOME AND EXPENSES

OTHER OPERATING INCOME	second quarter period from 01.04.2020 to 30.06.2020	2 quarters cumulative period from 01.01.2020 to 30.06.2020	second quarter period from 01.04.2019 to 30.06.2019	2 quarters cumulative period from 01.01.2019 to 30.06.2019
Gains on sale or scrapping of property, plant and equipment, intangible assets and assets held for sale	1	5	7	9
Compensation, penalties and fines received	1	2	-	-
Ancillary income	6	13	7	13
Recovery of receivables expired, forgiven or written off	1	2	1	2
Release of provisions for potential refund of fees and commission to customers	-	-	58	58
Release of provision for legal claims excluding legal claims related to mortgage loans in convertible currencies	-	4	1	5
Refund of collection costs under the de minimis guarantee line portfolio contract by BGK	1	11	-	-
Other	14	27	9	25
<b>Total</b>	<b>24</b>	<b>64</b>	<b>83</b>	<b>112</b>

OTHER OPERATING EXPENSES	second quarter period from 01.04.2020 to 30.06.2020	2 quarters cumulative period from 01.01.2020 to 30.06.2020	second quarter period from 01.04.2019 to 30.06.2019	2 quarters cumulative period from 01.01.2019 to 30.06.2019
Losses on sale or scrapping of property, plant and equipment, intangible assets and assets held for sale	-	(1)	(1)	(2)
Costs of donations made	(1)	(16)	(5)	(10)
Ancillary expenses	(3)	(6)	(5)	(8)
Provision for potential refund of fees and commission to customers	-	(70)	-	-
Provision for future payments	-	-	(1)	(1)
Provision for legal claims excluding legal claims related to mortgage loans in convertible currencies	-	(3)	(3)	(3)
Cost of additional finance for subsidiary	46	(10)	-	-
Other	(5)	(13)	(7)	(25)
<b>Total</b>	<b>37</b>	<b>(119)</b>	<b>(22)</b>	<b>(49)</b>

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

## 12. ADMINISTRATIVE EXPENSES

ADMINISTRATIVE EXPENSES	second quarter period from 01.04.2020 to 30.06.2020	2 quarters cumulative period from 01.01.2020 to 30.06.2020	second quarter period from 01.04.2019 to 30.06.2019	2 quarters cumulative period from 01.01.2019 to 30.06.2019
Employee benefits	(650)	(1 311)	(695)	(1 373)
Overheads, including:	(260)	(530)	(284)	(554)
rent	(20)	(39)	(20)	(39)
IT	(70)	(137)	(66)	(130)
Depreciation and amortization	(212)	(424)	(203)	(403)
property, plant and equipment, of which:	(118)	(236)	(115)	(230)
IT	(21)	(42)	(27)	(54)
right-of-use assets	(51)	(102)	(49)	(96)
intangible assets, of which:	(94)	(188)	(88)	(173)
IT	(92)	(183)	(86)	(169)
<b>Total</b>	<b>(1 122)</b>	<b>(2 265)</b>	<b>(1 182)</b>	<b>(2 330)</b>

EMPLOYEE BENEFITS	second quarter period from 01.04.2020 to 30.06.2020	2 quarters cumulative period from 01.01.2020 to 30.06.2020	second quarter period from 01.04.2019 to 30.06.2019	2 quarters cumulative period from 01.01.2019 to 30.06.2019
Wages and salaries, including:	(542)	(1 087)	(574)	(1 136)
costs of contributions to the employee pension plan	(15)	(31)	(15)	(30)
restructuring costs	-	-	23	-
Social insurance, including:	(92)	(190)	(100)	(197)
contributions for disability and retirement benefits	(82)	(171)	(83)	(168)
Other employee benefits	(16)	(34)	(21)	(40)
<b>Total</b>	<b>(650)</b>	<b>(1 311)</b>	<b>(695)</b>	<b>(1 373)</b>

### 13. INCOME TAX EXPENSE

TAX CHARGES	second quarter period from 01.04.2020 to 30.06.2020	2 quarters cumulative period from 01.01.2020 to 30.06.2020	second quarter period from 01.04.2019 to 30.06.2019	2 quarters cumulative period from 01.01.2019 to 30.06.2019
Current income tax expense	(335)	(650)	(377)	(688)
Deferred income tax on temporary differences	(110)	12	(71)	(80)
<b>Income tax expense recognized in the income statement</b>	<b>(445)</b>	<b>(638)</b>	<b>(448)</b>	<b>(768)</b>
Income tax expense on temporary differences recognized in other comprehensive income	(156)	(248)	(49)	(16)
<b>Total</b>	<b>(601)</b>	<b>(886)</b>	<b>(497)</b>	<b>(784)</b>

	second quarter period from 01.04.2020 to 30.06.2020	2 quarters cumulative period from 01.01.2020 to 30.06.2020	second quarter period from 01.04.2019 to 30.06.2019	2 quarters cumulative period from 01.01.2019 to 30.06.2019
Profit / (loss) before income tax	1 270	1 823	1 786	2 843
Tax calculated using the statutory rate in force in Poland of 19%	(241)	(346)	(339)	(540)
Effect of permanent timing differences between profit before tax and income for tax purposes, of which:	(185)	(297)	(102)	(223)
non-tax-deductible impairment allowances on investments in subsidiaries, associates and joint ventures	(3)	(20)	-	-
non-tax-deductible allowances for expected credit losses on credit exposures and securities	(14)	(26)	-	(7)
contribution and payments to BGF	(13)	(89)	(8)	(77)
tax on financial institutions	(47)	(92)	(44)	(87)
cost of legal risk of mortgage loans in convertible currencies	(20)	(36)	-	-
allowance on impaired goodwill of Nordea Bank Polska SA	-	(22)	-	-
cost of additional financing of a subsidiary	9	(2)	-	-
asset provision on average tax rate	(120)	(36)	-	-
other permanent differences	(15)	(12)	(46)	(52)
dividend income	38	38	(4)	-
Effect of other differences between profit before tax and taxable income, including tax relief on new technologies and donations	3	5	(2)	-
<b>Income tax expense recognized in the income statement</b>	<b>(445)</b>	<b>(638)</b>	<b>(448)</b>	<b>(768)</b>
<b>Effective tax rate</b>	<b>35,04%</b>	<b>35,00%</b>	<b>25,08%</b>	<b>27,01%</b>

### 14. CASH AND CASH EQUIVALENTS

CASH AND CASH EQUIVALENTS	30.06.2020	31.12.2019	30.06.2019
Cash and balances with the Central Bank	3 586	14 602	11 998
Deposits with the Central Bank	-	-	810
Amounts due from banks (current accounts and deposits with banks)	1 994	3 379	2 802
Restricted cash and cash equivalents	12	12	8
<b>Total</b>	<b>5 592</b>	<b>17 993</b>	<b>15 618</b>

Until 29 April 2020 the mandatory reserve rate was 3.5% on on-demand and term deposits in PLN and in foreign currencies, denominated in PLN (funds obtained on repo and sell-buy-back transactions and funds obtained for at least two years are charged with a zero rate). Since 30 April 2020 the rate of the mandatory reserve is 0.50% and this change applies to the reserve maintained as of 30 April 2020. In the period from 30 June 2020 to 30 July 2020 the Bank was obliged to maintain an average monthly balance in its current account with the NBP of PLN 1 315 million (in the period from 31 December 2019 to 30 January 2020 – PLN 8 350 million).

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

## 15. SECURITIES

SECURITIES	30.06.2020	31.12.2019
Securities (excluding adjustments relating to fair value hedge accounting)	116 575	76 421
Adjustment relating to fair value hedge accounting	5	1
<b>Total</b>	<b>116 580</b>	<b>76 422</b>

SECURITIES (excluding adjustments relating to fair value hedge accounting) 30.06.2020	held for trading	not held for trading, measured at fair value through profit or loss	measured at fair value through OCI	measured at amortized cost	Total
Debt securities	2 023	284	73 081	40 741	116 129
Treasury bonds (in PLN)	1 073	119	54 412	26 467	82 071
Treasury bonds (in foreign currencies)	2	-	1 631	-	1 633
Treasury bills (in PLN)	774	-	499	-	1 273
corporate bonds (in PLN) secured by the Treasury guarantees	-	-	7 543	7 487	15 030
municipal bonds (in PLN)	15	-	5 025	4 595	9 635
corporate bonds (in PLN)	116	165	3 971	1 014	5 266
corporate bonds (in foreign currencies)	-	-	-	1 178	1 178
mortgage covered bonds	43	-	-	-	43
Equity securities	30	416	-	-	446
shares in other entities - not listed	-	395	-	-	395
shares in other entities - listed	28	21	-	-	49
investment certificates, rights to shares, pre-emptive rights	2	-	-	-	2
<b>Total</b>	<b>2 053</b>	<b>700</b>	<b>73 081</b>	<b>40 741</b>	<b>116 575</b>

SECURITIES (excluding adjustments relating to fair value hedge accounting) 31.12.2019	held for trading	not held for trading, measured at fair value through profit or loss	measured at fair value through OCI	measured at amortized cost	Total
Debt securities	1 158	298	61 130	13 361	75 947
NBP money market bills	-	-	1 000	-	1 000
Treasury bonds (in PLN)	982	118	49 299	7 373	57 772
Treasury bonds (in foreign currencies)	2	-	2 085	-	2 087
municipal bonds (in PLN)	15	-	5 232	4 563	9 810
corporate bonds (in PLN)	111	180	3 514	1 083	4 888
corporate bonds (in foreign currencies)	1	-	-	342	343
mortgage covered bonds	47	-	-	-	47
Equity securities	17	457	-	-	474
shares in other entities - not listed	-	433	-	-	433
shares in other entities - listed	15	24	-	-	39
investment certificates, rights to shares, pre-emptive rights	2	-	-	-	2
<b>Total</b>	<b>1 175</b>	<b>755</b>	<b>61 130</b>	<b>13 361</b>	<b>76 421</b>

The item "Treasury bonds in PLN and in foreign currencies" comprises Polish Treasury bonds.

BY MEASUREMENT MODEL (excluding adjustments relating to fair value hedge accounting)	30.06.2020			31.12.2019		
	stage 1	stage 2	stage 3	stage 1	stage 2	stage 3
<b>GROSS AMOUNT</b>						
<b>Measured at fair value through OCI</b>						
NBP money market bills, Treasury bonds and bills and corporate bonds in PLN secured with State Budget guarantees	64 085	-	-	52 384	-	-
corporate and municipal bonds	8 478	48	470	8 229	59	463
<b>Total</b>	<b>72 563</b>	<b>48</b>	<b>470</b>	<b>60 613</b>	<b>59</b>	<b>463</b>
of which: financial assets impaired upon initial recognition - POCI	-	-	449	-	-	463
<b>Measured at amortized cost</b>						
NBP money market bills, Treasury bonds and bills and corporate bonds in PLN secured with State Budget guarantees	33 954	-	-	7 373	-	-
corporate and municipal bonds	6 796	5	-	5 983	20	-
<b>Total</b>	<b>40 750</b>	<b>5</b>	<b>-</b>	<b>13 356</b>	<b>20</b>	<b>-</b>
<b>ALLOWANCES FOR EXPECTED CREDIT LOSSES</b>						
<b>Measured at fair value through OCI</b>						
corporate and municipal bonds	-	-	-	-	-	(5)
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(5)</b>
of which: financial assets impaired upon initial recognition - POCI	-	-	-	-	-	(5)
<b>Measured at amortized cost</b>						
corporate and municipal bonds	(14)	-	-	(15)	-	-
<b>Total</b>	<b>(14)</b>	<b>-</b>	<b>-</b>	<b>(15)</b>	<b>-</b>	<b>-</b>
<b>TOTAL, NET</b>						
<b>Measured at fair value through OCI</b>						
NBP money market bills, Treasury bonds and bills and corporate bonds in PLN secured with State Budget guarantees	64 085	-	-	52 384	-	-
corporate and municipal bonds	8 478	48	470	8 229	59	458
<b>Total</b>	<b>72 563</b>	<b>48</b>	<b>470</b>	<b>60 613</b>	<b>59</b>	<b>458</b>
of which: financial assets impaired upon initial recognition - POCI	-	-	449	-	-	458
<b>Measured at amortized cost</b>						
NBP money market bills, Treasury bonds and bills and corporate bonds in PLN secured with State Budget guarantees	33 954	-	-	7 373	-	-
corporate and municipal bonds	6 782	5	-	5 968	20	-
<b>Total</b>	<b>40 736</b>	<b>5</b>	<b>-</b>	<b>13 341</b>	<b>20</b>	<b>-</b>

## 16. LOANS AND ADVANCES TO CUSTOMERS

LOANS AND ADVANCES TO CUSTOMERS	30.06.2020	31.12.2019
	Net amount	Net amount
Loans and advances to customers (excluding adjustments relating to fair value hedge accounting)	202 008	200 863
Adjustment relating to fair value hedge accounting	5	4
<b>Total loans and advances to customers</b>	<b>202 013</b>	<b>200 867</b>

LOANS AND ADVANCES TO CUSTOMERS (excluding adjustments relating to fair value hedge accounting) 30.06.2020	not held for trading, measured at fair value through profit or loss	measured at fair value through OCI	measured at amortized cost		Total	
	Net amount	Net amount	Gross amount	Allowances for expected credit losses	Net amount	Net amount
<b>Loans</b>	<b>6 878</b>	<b>12 599</b>	<b>189 761</b>	<b>(7 230)</b>	<b>182 531</b>	<b>202 008</b>
corporate	81	-	68 919	(1 719)	67 200	67 281
property	-	-	403	(25)	378	378
corporate	81	-	68 516	(1 694)	66 822	66 903
retail and private banking	6 750	12 599	101 349	(3 382)	97 967	117 316
property	11	12 599	78 624	(1 883)	76 741	89 351
consumer	6 739	-	22 725	(1 499)	21 226	27 965
firms and enterprises	47	-	19 493	(2 129)	17 364	17 411
property	-	-	5 841	(131)	5 710	5 710
corporate	47	-	13 652	(1 998)	11 654	11 701
<b>Total</b>	<b>6 878</b>	<b>12 599</b>	<b>189 761</b>	<b>(7 230)</b>	<b>182 531</b>	<b>202 008</b>

LOANS AND ADVANCES TO CUSTOMERS (excluding adjustments relating to fair value hedge accounting) 31.12.2019	not held for trading, measured at fair value through profit or loss	measured at fair value through OCI	measured at amortized cost		Total	
	Net amount	Net amount	Gross amount	Allowances for expected credit losses	Net amount	Net amount
	<b>8 286</b>	<b>9 623</b>	<b>189 397</b>	<b>(6 443)</b>	<b>182 954</b>	<b>200 863</b>
corporate	94	-	68 986	(1 588)	67 398	67 492
property	-	-	309	(26)	283	283
corporate	94	-	68 677	(1 562)	67 115	67 209
retail and private banking	8 138	9 623	100 638	(2 873)	97 765	115 526
property	15	9 623	78 602	(1 712)	76 890	86 528
consumer	8 123	-	22 036	(1 161)	20 875	28 998
firms and enterprises	54	-	19 773	(1 982)	17 791	17 845
property	-	-	5 902	(134)	5 768	5 768
corporate	54	-	13 871	(1 848)	12 023	12 077
<b>Total</b>	<b>8 286</b>	<b>9 623</b>	<b>189 397</b>	<b>(6 443)</b>	<b>182 954</b>	<b>200 863</b>

BY MEASUREMENT MODEL (excluding adjustments relating to fair value hedge accounting)	30.06.2020			31.12.2019		
	stage 1	stage 2	stage 3	stage 1	stage 2	stage 3
<b>GROSS AMOUNT</b>						
Measured at fair value through OCI						
property	12 339	250	10	9 438	177	8
<b>Total</b>	12 339	250	10	9 438	177	8
Measured at amortized cost						
property	77 005	5 750	2 113	77 480	5 281	2 052
corporate	70 715	6 224	5 229	72 691	4 415	5 442
consumer	19 113	2 183	1 429	19 134	1 713	1 189
<b>Total</b>	166 833	14 157	8 771	169 305	11 409	8 683
of which: financial assets impaired upon initial recognition – POCI	-	-	164	-	-	288
<b>ALLOWANCES FOR EXPECTED CREDIT LOSSES</b>						
Measured at amortized cost						
property	(49)	(494)	(1 496)	(41)	(479)	(1 352)
corporate	(424)	(369)	(2 899)	(369)	(306)	(2 735)
consumer	(198)	(315)	(986)	(147)	(226)	(788)
<b>Total</b>	(671)	(1 178)	(5 381)	(557)	(1 011)	(4 875)
of which: financial assets impaired upon initial recognition – POCI	-	-	(44)	-	-	(55)
<b>Net amount</b>						
Measured at fair value through OCI						
property	12 339	250	10	9 438	177	8
<b>Total</b>	12 339	250	10	9 438	177	8
loans and advances to customers						
property	76 956	5 256	617	77 439	4 802	700
corporate	70 291	5 855	2 330	72 322	4 109	2 707
consumer	18 915	1 868	443	18 987	1 487	401
<b>Total</b>	166 162	12 979	3 390	168 748	10 398	3 808
of which: financial assets impaired upon initial recognition – POCI	-	-	120	-	-	233

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

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

The item gross consumer and property loans includes an adjustment reducing the carrying amount of loans due to the potential refunds to customers with respect to expected early repayment of consumer and mortgage loans in the future of PLN 147 million as at 30 June 2020 and PLN 147 million as at 31 December 2019.

#### • MODIFICATIONS

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

Due to the fact that the above facilitating measures had an impact on the modification of contractual flows resulting from the contracts concluded with customers, the Bank assessed particular contracts in terms of their meeting the quantitative and qualitative criteria to determine whether a material modification occurred (derecognition) or whether the modification was immaterial. The assessment was conducted in accordance with the policy disclosed in the Bank’s financial statements for the year ended 31 December 2019. The analysis showed that there were no criteria for assessing any modification as material. The changes in contractual flows resulting from the facilitation measures applied had the effect of immaterial modifications the impact of which was recognized by the Bank as a decrease in interest income.

## 17. AMOUNTS DUE TO CUSTOMERS

AMOUNTS DUE TO CUSTOMERS	30.06.2020	31.12.2019
<b>Measured at fair value through profit or loss:</b>	<b>145</b>	<b>45</b>
Short position in securities	145	45
<b>Measured at amortized cost</b>	<b>278 927</b>	<b>252 898</b>
<b>Amounts due to households</b>	<b>212 901</b>	<b>192 391</b>
Cash on current accounts and overnight deposits, of which:		
savings accounts and other interest bearing funds	46 935	45 134
Term deposits	57 340	64 855
Other liabilities	518	377
<b>Amounts due to corporate entities</b>	<b>53 158</b>	<b>49 153</b>
Cash on current accounts and overnight deposits, of which:		
savings accounts and other interest bearing funds	19 841	16 799
Term deposits	5 454	8 486
Other liabilities	1 448	832
<b>Amounts due to public entities</b>	<b>12 868</b>	<b>11 354</b>
Current accounts and overnight deposits	12 576	10 997
Term deposits	282	331
Other liabilities	10	26
<b>Total</b>	<b>279 072</b>	<b>252 943</b>

## 18. BORROWINGS RECEIVED

FINANCING RECEIVED	30.06.2020	31.12.2019
Loans and advances received from:		
international financial institutions	5 240	5 026
other entities - PKO Finance AB	983	969
other entities - PKO Finance AB	4 257	4 057
Debt securities in issue:		
bank bonds in EUR (translated into PLN)	3 922	4 769
bank bonds in CHF (translated into PLN)	2 247	3 200
bank bonds in CHF (translated into PLN)	1 675	1 569
Subordinated liabilities - subordinated bonds in PLN	2 730	2 730
<b>Total</b>	<b>11 892</b>	<b>12 525</b>

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

## 19. PROVISIONS

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2020	Provisions for financial liabilities and guarantees granted	Provisions for unsettled legal claims excluding legal claims relating to mortgage loans in convertible currencies	Provisions for potential legal claims against the bank related to repaid mortgage loans in convertible currencies	Provisions for reimbursement of costs to customers for early repayment of consumer loans and mortgage loans	Provisions for pensions and other defined post- employment benefits	Restructuring	Other provisions, including provisions for employee disputed claims	Total
1 January 2020	268	50	29	104	55	41	26	573
Increases in provisions	99	3	50	70	-	-	-	222
Utilization	-	(1)	-	(137)	(1)	(5)	(3)	(147)
Amounts not utilized released during the period	-	(4)	-	-	-	(2)	-	(6)
Other changes and reclassifications	2	-	3	-	-	-	-	5
30 June 2020	369	48	82	37	54	34	23	647

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2019	Provisions for financial liabilities and guarantees granted	Provisions for unsettled legal claims excluding legal claims relating to mortgage loans in convertible currencies	Provisions for potential legal claims against the bank related to repaid mortgage loans in convertible currencies	Provisions for reimbursement of costs to customers for early repayment of consumer loans and mortgage loans	Provisions for pensions and other defined post- employment benefits	Restructuring	Other provisions, including provisions for employee disputed claims	Total
1 January 2019	227	51	-	-	48	24	91	441
Increases in provisions	89	3	4	-	-	23	2	121
Utilization	-	(1)	-	-	(1)	(8)	(3)	(13)
Amounts not utilized released during the period	(92)	(5)	-	-	-	-	(58)	(155)
Other changes and reclassifications	-	-	-	-	-	-	-	-
30 June 2019	224	48	4	-	47	39	32	394

## 20. INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

AS AT 30 JUNE 2020	Gross amount	Impairment allowance	Carrying amount
<b>SUBSIDIARIES</b>			
PKO Bank Hipoteczny SA	1 650	-	1 650
KREDOBANK SA	1 072	(793)	279
PKO Leasing SA	496	-	496
PKO Życie Towarzystwo Ubezpieczeń SA	241	-	241
PKO Towarzystwo Funduszy Inwestycyjnych SA	225	-	225
PKO VC - fiza <sup>1</sup>	200	-	200
PKO BP BANKOWY PTE SA	151	(15)	136
NEPTUN - fiza <sup>1</sup>	132	-	132
Merkury - fiz an <sup>1</sup>	120	-	120
PKO Towarzystwo Ubezpieczeń SA	110	-	110
PKO Finance AB	23	-	23
PKO BP Finat sp. z o.o.	21	-	21
<b>JOINT VENTURES</b>			
Centrum Elektronicznych Usług Płatniczych eService sp. z o.o.	197	-	197
Operator Chmury Krajowej sp. z o.o.	60	-	60
<b>ASSOCIATES</b>			
Bank Pocztowy SA	185	(185)	-
Poznański Fundusz Poręczeń Kredytowych sp. z o.o.	2	(2)	-
	-	-	-
<b>Total</b>	<b>4 885</b>	<b>(995)</b>	<b>3 890</b>

<sup>1</sup> The Bank holds investment certificates of the Fund which allow it to control the Fund in accordance with IFRS.



On 30 June 2020, ZenCard was reclassified from subsidiaries to fixed assets held for sale.

AS AT 31 DECEMBER 2019	Gross amount	Impairment allowance	Carrying amount
<b>SUBSIDIARIES</b>			
PKO Bank Hipoteczny SA	1 650	-	1 650
KREDOBANK SA	1 072	(793)	279
PKO Leasing SA	496	-	496
PKO Życie Towarzystwo Ubezpieczeń SA	241	-	241
PKO Towarzystwo Funduszy Inwestycyjnych SA	225	-	225
PKO VC - fizan <sup>1</sup>	200	-	200
PKO BP BANKOWY PTE SA	151	-	151
NEPTUN - fizan <sup>1</sup>	132	-	132
Merkury - fiz an <sup>1</sup>	120	-	120
PKO Towarzystwo Ubezpieczeń SA	110	-	110
PKO Finance AB	24	-	24
ZenCard sp. z o.o.	24	(23)	1
PKO BP Finat sp. z o.o.	21	-	21
<b>JOINT VENTURES</b>			
Centrum Elektronicznych Usług Płatniczych eService sp. z o.o.	197	-	197
Operator Chmury Krajowej sp. z o.o.	60	-	60
<b>ASSOCIATES</b>			
Bank Pocztowy SA	184	(97)	87
Poznański Fundusz Poręczeń Kredytowych sp. z o.o.	2	(2)	-
<b>Total</b>	<b>4 909</b>	<b>(915)</b>	<b>3 994</b>

<sup>1</sup> The Bank holds investment certificates of the Fund which allow it to control the Fund in accordance with IFRS.

## 21. DIVIDEND

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

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

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

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

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

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

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

## 22. OFF-BALANCE SHEET COMMITMENTS RECEIVED AND GRANTED

### • FINANCIAL LIABILITIES AND GUARANTEE COMMITMENTS GRANTED

FINANCIAL LIABILITIES AND GUARANTEE COMMITMENTS GRANTED AS AT 30.06.2020	Commitments granted at nominal value	Provisions for commitments granted under IFRS 9	Net financial liabilities and guarantee commitments granted
<b>Financial liabilities granted:</b>			
Credit lines and limits	56 087	(211)	55 876
property	4 416	(23)	4 393
corporate	41 610	(128)	41 482
consumer	10 061	(60)	10 001
Other	3 894	(31)	3 863
<b>Total financial liabilities granted</b>	<b>59 981</b>	<b>(242)</b>	<b>59 739</b>
of which: irrevocable commitments	29 420	(94)	29 326
<b>Guarantees and pledges granted:</b>			
Guarantees granted in domestic and foreign trading	10 117	(123)	9 994
to financial entities	3 329	-	3 329
to non-financial entities	6 666	(123)	6 543
to public entities	122	-	122
Guarantees and pledges granted - domestic corporate bonds	2 031	(1)	2 030
to financial entities	2 000	(1)	1 999
to non-financial entities	31	-	31
Letters of credit issued	1 392	(3)	1 389
to non-financial entities	1 392	(3)	1 389
Payment guarantee to financial entities	144	-	144
Guarantees and pledges granted - domestic municipal bonds	545	-	545
<b>Total guarantees and pledges granted</b>	<b>14 229</b>	<b>(127)</b>	<b>14 102</b>
of which: irrevocable commitments	10 241	(123)	10 118
of which: performance bonds granted	2 680	(96)	2 584
<b>Total financial liabilities and guarantee commitments granted</b>	<b>74 210</b>	<b>(369)</b>	<b>73 841</b>

FINANCIAL LIABILITIES AND GUARANTEE COMMITMENTS GRANTED AS AT 31.12.2019	Commitments granted at the nominal value	Provisions for commitments granted under IFRS 9	Net financial liabilities and guarantee commitments granted
<b>Financial liabilities granted:</b>			
Credit lines and limits	53 775	(194)	53 581
property	5 077	(30)	5 047
corporate	39 000	(118)	38 882
consumer	9 698	(46)	9 652
Other	4 008	(13)	3 995
<b>Total financial liabilities granted</b>	<b>57 783</b>	<b>(207)</b>	<b>57 576</b>
of which: irrevocable commitments	27 794	(87)	27 707
<b>Guarantees and pledges granted:</b>			
Guarantees granted in domestic and foreign trading	12 839	(57)	12 782
to financial entities	3 337	-	3 337
to non-financial entities	9 343	(57)	9 286
to public entities	159	-	159
Guarantees and pledges granted - domestic corporate bonds	2 036	(1)	2 035
to financial entities	2 000	(1)	1 999
to non-financial entities	36	-	36
Letters of credit issued to non-financial entities	1 201	(3)	1 198
Payment guarantee to financial entities	125	-	125
Guarantees and pledges granted - domestic municipal bonds	101	-	101
<b>Total guarantees and pledges granted</b>	<b>16 302</b>	<b>(61)</b>	<b>16 241</b>
of which: irrevocable commitments	12 941	(57)	12 884
of which: performance bonds granted	2 560	(14)	2 546
<b>Total financial liabilities and guarantee commitments granted</b>	<b>74 085</b>	<b>(268)</b>	<b>73 817</b>

FINANCIAL LIABILITIES AND GUARANTEE COMMITMENTS GRANTED AS AT 30.06.2020	Nominal amount of liabilities (stage 1)	Provision for expected credit losses (stage 1)	Nominal amount of liabilities (stage 2)	Provision for expected credit losses (stage 2)	Nominal amount of liabilities (stage 3)	Provision for expected credit losses (stage 3)
<b>Financial liabilities granted:</b>						
Credit lines and limits	51 800	(99)	4 113	(94)	174	(18)
Other	3 894	(31)	-	-	-	-
<b>Total financial liabilities granted</b>	<b>55 694</b>	<b>(130)</b>	<b>4 113</b>	<b>(94)</b>	<b>174</b>	<b>(18)</b>
<b>Guarantees and pledges granted:</b>						
Guarantees granted in domestic and foreign trading	9 286	(9)	466	(14)	365	(100)
Guarantees and pledges granted - domestic corporate bonds	2 031	(1)	-	-	-	-
Letters of credit issued	1 266	(1)	101	-	25	(2)
Payment guarantee to financial entities	144	-	-	-	-	-
Guarantees and pledges granted - domestic municipal bonds	545	-	-	-	-	-
<b>Total guarantees and pledges granted</b>	<b>13 272</b>	<b>(11)</b>	<b>567</b>	<b>(14)</b>	<b>390</b>	<b>(102)</b>

FINANCIAL LIABILITIES AND GUARANTEE COMMITMENTS GRANTED AS AT 31.12.2019	Nominal amount of liabilities (stage 1)	Provision for expected credit losses (stage 1)	Nominal amount of liabilities (stage 2)	Provision for expected credit losses (stage 2)	Nominal amount of liabilities (stage 3)	Provision for expected credit losses (stage 3)
<b>Financial liabilities granted:</b>						
Credit lines and limits	50 781	(89)	2 811	(77)	183	(28)
Other	4 005	(13)	3	-	-	-
<b>Total financial liabilities granted</b>	<b>54 786</b>	<b>(102)</b>	<b>2 814</b>	<b>(77)</b>	<b>183</b>	<b>(28)</b>
<b>Guarantees and pledges granted:</b>						
Guarantees granted in domestic and foreign trading	12 047	(6)	501	(11)	291	(40)
Guarantees and pledges granted - domestic corporate bonds	2 036	(1)	-	-	-	-
Letters of credit issued	1 188	(1)	-	-	13	(2)
Payment guarantee to financial entities	125	-	-	-	-	-
Guarantees and pledges granted - domestic municipal bonds	101	-	-	-	-	-
<b>Total guarantees and pledges granted</b>	<b>15 497</b>	<b>(8)</b>	<b>501</b>	<b>(11)</b>	<b>304</b>	<b>(42)</b>

• **OFF-BALANCE SHEET LIABILITIES RECEIVED**

OFF-BALANCE SHEET LIABILITIES RECEIVED BY NOMINAL VALUE	30.06.2020	31.12.2019
Financial	91	119
Guarantee-related	15 055	2 350
<b>Total</b>	<b>15 146</b>	<b>2 469</b>

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

**23. LEGAL CLAIMS**

As at 30 June 2020, the total value of court cases (litigation), in which the Bank is the respondent was PLN 1 689 million (as at 31 December 2019, the aggregate value of such litigation was PLN 1 158 million), while the total litigated amount in court cases which the Bank is the claimant, as at 30 June 2020, was PLN 1 258 million (as at 31 December 2019, the total such litigated amount was PLN 1 636 million).

• **LITIGATION AGAINST THE BANK RELATING TO FOREIGN CURRENCY LOANS GRANTED**

As at 30 June 2020, 3079 court proceedings relating to mortgage loans granted in foreign currencies were pending against the Bank (1 645 court proceedings as at 31 December 2019) with a total disputed amount of PLN 776 million (PLN 392 million as at 31 December 2019), including two group proceedings regarding 73 loan agreements in the first, and 8 loan agreements in the second proceeding. The court proceedings were initiated against the Bank by its customers in connection with mortgage loans in foreign currencies concluded. The Bank's customers' claims concerned mainly the determination of the invalidity of all or part of the agreement or payment in respect of the refund of allegedly undue benefits in connection with the abusive nature of the foreign currency clauses. None of the clauses used by the Bank in the agreements was entered in the register of prohibited contractual provisions. Taking a prudent approach to the protection against the legal risk relating to the court cases which were pending as at 30 June 2020, the Bank maintained the provision for this pending litigation of PLN 294 million, of which PLN 259 million reduced the gross carrying amount of loans due to the legal risk associated with mortgage loans and PLN 35 million was recognized in "Provisions for legal claims against the Bank concerning repaid mortgage loans in convertible currencies".

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

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

Furthermore, as at 30 June 2020, the Bank maintained the provision of PLN 47 million for potential litigation relating to mortgage loans repaid (note "Provisions", item "Provisions for litigation against the Bank in respect of convertible currency mortgage loans repaid").

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

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

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

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

The Bank assessed the potential prepayment which may occur in the future and which relate to the portfolio of consumer and mortgage loans recognizing their impact as a reduction in the gross carrying amount of consumer and property loans of PLN 147 million as at 30 June 2020. Moreover, the Bank estimated the likely costs of satisfying customer complaints relating to reimbursement of commission in connection with prepayments in the past. These costs amounting to PLN 37 million were included in the balance of provisions as at 30 June 2020 (note "Provisions").

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

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

- Proceedings initiated ex officio on 28 June 2017 on the acknowledgement that the provisions of the template contract are inadmissible. The breach, of which the Bank is being accused, involves the use of contractual provisions in template loan and mortgage loan agreements which are revalued/indexed/denominated in foreign currencies and their appendices, presenting the method of setting the foreign currency buy and sell rates, which, according to the President of the UOKiK, may be considered inadmissible in the light of Article 385 § 1 of the Civil Code. In the opinion of the UOKiK President, a part of the provisions included in the appendix to the annexe is imprecise, and the manner of determining exchange rates on this basis depends on factors randomly adopted by the Bank. In the opinion of the President of UOKiK, such wording of the provisions may lead to the inability of consumers to verify whether the Bank accurately estimated the exchange rate at which it translates loan/mortgage loan instalments. In its letter of 9 August 2017, the Bank commented on the charges raised by the President of UOKiK. On 31 July 2018 the Bank filed a motion to issue a consent decree. In his letter dated 20 September 2019 the President of UOKiK extended the term to the conclusion of the proceedings until 31 December 2019. On 23 December 2019 the Bank submitted a letter in which it informed about its will to close the proceedings by issuing a consent decree and asked for a meeting with the representatives of UOKiK to discuss the Bank's position concerning the obligations. In his letter of 26 February 2020, the President of the UOKiK informed about extending the deadline for concluding the proceedings to 30 June 2020. As at 30 June 2020, the President of UOKiK had not taken any further action in this matter, and had not extended the deadline for concluding the proceedings. As at 30 June 2020 the Bank had not set up a provision for these proceedings.

- Proceedings were initiated ex officio on 26 July 2017 for applying practices breaching collective consumer interests. The violation with which the Bank has been charged consisting of collecting higher instalments on loans and advances denominated in foreign currencies than those following from the advice about interest rate risk provided to customers before they had concluded the contracts, and transferring possible currency risk to the customers. The Bank presented its position on the claims in its letter dated 23 September 2017. In his letter of 14 March 2019, the President of UOKiK requested that the Bank present answers to 16 detailed questions in order to determine the circumstances necessary to settle the case. The Bank provided answers in a letter dated 10 May 2019. As at 30 June 2020 the President of UOKiK had not taken any further steps in this matter. As at 30 June 2020 the Bank had not set up a provision for these proceedings.
- Proceedings initiated ex officio on 12 March 2019 on the acknowledgement that the provisions of the template contract are inadmissible. The proceedings are related to modification clauses which specify the circumstances in which the Bank is entitled to amend the terms and conditions of the agreement, including the amount of fees and commission. In the opinion of the President of UOKiK the modification clauses applied by the Bank give the Bank unilateral, unlimited and arbitrary possibilities of modifying the performance of the agreement. Consequently, the President of UOKiK is of the opinion that the clauses applied by the Bank shape the rights and obligations of the consumers in a way that is contrary to good practice and are a gross violation of their interests, which justifies the conclusion that they are abusive. In its letter of 31 May 2019, the Bank presented its position on the charges made by the President of UOKiK. By a letter dated 12 August 2019, the President of UOKiK, extended the deadline for the closure of the proceeding to 31 December 2019, and then by a letter dated 19 December 2019 to 30 April 2020. As at 30 June 2020 the President of UOKiK had not taken any further steps in this matter. As at 30 June 2020 the Bank had not set up a provision for these proceedings.
- **PROCEEDINGS RELATING TO RESTRICTIVE PRACTICES ON THE MARKET OF PAYMENTS WITH PAYMENT CARDS IN POLAND**

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

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

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

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

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

- **REPRIVATIZATION CLAIMS RELATING TO PROPERTIES USED BY THE BANK**

As at the date of these financial statements there are three proceedings pertaining to reprivatization claims. One of the proceedings has been suspended. In the second proceeding ended with a final court judgment favourable to the Bank, the opposing party lodged a cassation complaint, and the Supreme Court accepted it for consideration; in the third proceeding the subject matter of which is to determine the invalidity of the decision refusing to grant temporary ownership of the Bank's property to the applicant, the complaint has been lodged with the Voivodeship Administrative Court against the final decision discontinuing the proceedings as groundless.

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

## 24. TRANSACTIONS WITH THE STATE TREASURY AND RELATED ENTITIES

- **TRANSACTIONS WITH THE STATE TREASURY**

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

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

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

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

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

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

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

The transactions were concluded on arm's length terms.

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

During the six-month period ended 30 June 2020 interest income and commission and fee income on transactions with the 10 counterparties listed above amounted to PLN 129 million (during the six-month period ended 30 June 2019 they amounted to PLN 86 million), and interest expense amounted to PLN 17 million (during the six-month period ended 30 June 2019 they amounted to PLN 19 million). As at 30 June 2020 and as at 31 December 2019 the allowance for expected credit losses on these exposures was PLN 0 million. Other transactions with entities related to the State Treasury covered loans and advances, credit lines and guarantees granted, and deposits made.

- **RELATED-PARTY TRANSACTIONS – CAPITAL LINKS**

The Bank provided services on an arms' length basis to its related (subordinated) entities within the scope of maintaining bank accounts, accepting deposits, granting loans and advances, issue of debt securities, granting of guarantees and spot exchange transactions and offering units and certificates of investment funds, lease products, factoring products and insurance products of the Bank's Group, and services offered by Dom Maklerski of PKO Bank Polski S.A.

The Bank provided services to PKO Bank Hipoteczny S.A. within the scope of intermediation in sales of housing loans for individuals, performing tasks as part of post-transaction services in respect of these loans and support tasks under the outsourcing agreement. The Bank offered its infrastructure and IT services and rented office space to selected companies of the PKO Bank Polski S.A. Group. Together with Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o. the Bank rendered services of payment transaction clearance.

AS AT 30 JUNE 2020 / ENTITY	Receivables	of which loans	Liabilities	Off-balance sheet liabilities granted
KREDOBANK SA and its subsidiary	69	-	6	121
Merkury - fiz an and its subsidiaries	-	-	30	-
NEPTUN - fizan and its subsidiaries	154	154	60	-
PKO Bank Hipoteczny SA	5 735	5 515	758	4 479
PKO BP BANKOWY PTE SA	-	-	32	-
PKO BP Finat sp. z o.o.	-	-	47	13
PKO Finance AB	817	-	4 550	-
PKO Leasing SA and its subsidiaries	16 913	16 912	213	5 182
PKO Towarzystwo Funduszy Inwestycyjnych SA	1	-	316	-
PKO Towarzystwo Ubezpieczeń SA	-	-	42	-
PKO Życie Towarzystwo Ubezpieczeń SA and its subsidiary	-	-	517	-
ZenCard sp. z o.o.	-	-	1	-
<b>Total subsidiaries</b>	<b>23 689</b>	<b>22 581</b>	<b>6 572</b>	<b>9 795</b>



AS AT 30 JUNE 2020 / ENTITY	Receivables	of which loans	Liabilities	Off-balance sheet liabilities granted
Centrum Elektronicznych Usług Płatniczych eService sp. z o.o.	91	8	131	-
"Centrum Obsługi Biznesu" sp. z o.o.	18	18	5	-
Bank Pocztowy SA	-	-	-	-
"Poznański Fundusz Poręczeń Kredytowych" sp. z o.o.	-	-	1	-
Operator Chmury Krajowej sp. z o.o.	-	-	10	796
<b>Total joint ventures and associates</b>	<b>109</b>	<b>26</b>	<b>147</b>	<b>796</b>

AS AT 31 DECEMBER 2019 / ENTITY	Receivables	of which loans	Liabilities	Off-balance sheet liabilities granted
KREDOBANK SA and its subsidiary	82	-	16	115
Merkury - fiz an and its subsidiaries	-	-	36	-
NEPTUN - fizan and its subsidiaries	148	148	62	-
PKO Bank Hipoteczny SA	4 681	2 282	174	4 231
PKO BP BANKOWY PTE SA	-	-	21	-
PKO BP Finat sp. z o.o.	-	-	38	13
PKO Finance AB	-	-	4 331	-
PKO Leasing SA and its subsidiaries	17 172	17 172	9	5 541
PKO Towarzystwo Funduszy Inwestycyjnych SA	38	-	245	-
PKO Towarzystwo Ubezpieczeń SA	-	-	45	-
PKO Życie Towarzystwo Ubezpieczeń SA and its subsidiary	-	-	501	-
ZenCard sp. z o.o.	4	4	1	-
<b>Total subsidiaries</b>	<b>22 125</b>	<b>19 606</b>	<b>5 479</b>	<b>9 900</b>

AS AT 31 DECEMBER 2019 / ENTITY	Receivables	of which loans	Liabilities	Off-balance sheet liabilities granted
Centrum Elektronicznych Usług Płatniczych eService sp. z o.o.	80	26	43	32
"Centrum Obsługi Biznesu" sp. z o.o.	19	19	6	-
Bank Pocztowy SA	-	-	-	1
Poznański Fundusz Poręczeń Kredytowych sp. z o.o.	-	-	1	-
Operator Chmury Krajowej sp. z o.o.	-	-	59	769
<b>Total joint ventures and associates</b>	<b>99</b>	<b>45</b>	<b>109</b>	<b>802</b>

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2020 / ENTITY	Total income	of which interest and commission	Total expense	of which interest and commission
KREDOBANK SA and its subsidiary	-	-	-	-
Merkury - fiz an and its subsidiaries	-	-	-	-
NEPTUN - fizan and its subsidiaries	1	1	-	-
PKO Bank Hipoteczny SA	163	151	1	1
PKO BP BANKOWY PTE SA	-	-	-	-
PKO BP Finat sp. z o.o.	1	-	3	-
PKO Finance AB	7	7	108	98
PKO Leasing SA and its subsidiaries	149	148	-	-
PKO Towarzystwo Funduszy Inwestycyjnych SA	5	4	1	1
PKO Towarzystwo Ubezpieczeń SA	27	27	-	-
PKO Życie Towarzystwo Ubezpieczeń SA and its subsidiary	20	20	5	5
<b>Total subsidiaries</b>	<b>373</b>	<b>358</b>	<b>118</b>	<b>105</b>

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2020 / ENTITY	Total income	of which interest and commission	Total expense	of which interest and commission
Centrum Elektronicznych Usług Płatniczych eService sp. z o.o.	205	203	36	35
"Centrum Obsługi Biznesu" sp. z o.o.	-	-	-	-
<b>Total joint ventures and associates</b>	<b>205</b>	<b>203</b>	<b>36</b>	<b>35</b>

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2019 / ENTITY	Total income	of which interest and commission	Total expense	of which interest and commission
KREDOBANK SA and its subsidiary	1	1	-	-
NEPTUN - fizan and its subsidiaries	1	1	-	-
PKO Bank Hipoteczny SA	156	144	1	1
PKO BP BANKOWY PTE	13	-	-	-
PKO BP Finat sp. z o.o.	2	-	3	-
PKO Finance AB	-	-	96	96
PKO Leasing SA and its subsidiaries	292	172	1	1
PKO Towarzystwo Funduszy Inwestycyjnych SA	172	5	1	1
PKO Towarzystwo Ubezpieczeń SA	24	-	-	-
PKO Życie Towarzystwo Ubezpieczeń SA and its subsidiary	-	-	5	5
<b>Total subsidiaries</b>	<b>661</b>	<b>323</b>	<b>107</b>	<b>104</b>

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

• **BENEFITS FOR THE PKO BANK POLSKI S.A. KEY MANAGEMENT (IN PLN THOUSANDS)**

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

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

<sup>2</sup> Provisions for the deferred part of wages and salaries paid in cash was recognized as long-term benefits;

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

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

LOANS AND ADVANCES GRANTED BY THE BANK TO THE MANAGEMENT	30.06.2020	31.12.2019
Supervisory Board of the Bank	350	376
Management Board of the Bank	1 126	1 340
<b>Total</b>	<b>1 476</b>	<b>1 716</b>

During the six-month period ended 30 June 2020 remuneration paid out to members of the Management Board received from entities related to the Bank amounted to PLN 58 thousand (during the corresponding period of 2019 it was PLN 84 thousand).

## 25. FAIR VALUE HIERARCHY

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

ASSETS MEASURED AT FAIR VALUE 30.06.2020	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	1 215	-	1 215	-
Other derivative instruments	5 362	2	5 360	-
Securities	75 834	60 919	13 516	1 399
held for trading	2 053	2 053	-	-
debt securities	2 023	2 023	-	-
shares in other entities - listed	28	28	-	-
investment certificates, rights to shares, pre-emptive rights	2	2	-	-
not held for trading, measured at fair value through profit or loss	700	143	-	557
debt securities	284	121	-	163
shares in other entities - not listed	395	1	-	394
shares in other entities - listed	21	21	-	-
measured at fair value through OCI	73 081	58 723	13 516	842
debt securities	73 081	58 723	13 516	842
Loans and advances to customers	19 477	-	-	19 477
not held for trading, measured at fair value through profit or loss	6 878	-	-	6 878
measured at fair value through OCI	12 599	-	-	12 599
<b>Total financial assets measured at fair value</b>	<b>101 888</b>	<b>60 921</b>	<b>20 091</b>	<b>20 876</b>

LIABILITIES MEASURED AT FAIR VALUE 30.06.2020	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	1 549	-	1 549	-
Other derivative instruments	5 397	1	5 396	-
Short position in securities	156	156	-	-
<b>Total financial liabilities measured at fair value</b>	<b>7 102</b>	<b>157</b>	<b>6 945</b>	<b>-</b>

ASSETS MEASURED AT FAIR VALUE 31.12.2019	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	594	-	594	-
Other derivative instruments	2 798	1	2 797	-
Securities	63 060	54 008	6 232	2 820
held for trading	1 175	1 175	-	-
debt securities	1 158	1 158	-	-
shares in other entities - listed	15	15	-	-
investment certificates, rights to shares, pre-emptive rights	2	2	-	-
not held for trading, measured at fair value through profit or loss	755	142	-	613
debt securities	298	118	-	180
shares in other entities - not listed	433	-	-	433
shares in other entities - listed	24	24	-	-
measured at fair value through OCI	61 130	52 691	6 232	2 207
debt securities	61 130	52 691	6 232	2 207
Loans and advances to customers	17 909	-	-	17 909
not held for trading, measured at fair value through profit or loss	8 286	-	-	8 286
measured at fair value through OCI	9 623	-	-	9 623
<b>Total financial assets measured at fair value</b>	<b>84 361</b>	<b>54 009</b>	<b>9 623</b>	<b>20 729</b>

LIABILITIES MEASURED AT FAIR VALUE 31.12.2019	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	668	-	668	-
Other derivative instruments	2 927	-	2 927	-
Short position in securities	362	362	-	-
<b>Total financial liabilities measured at fair value</b>	<b>3 957</b>	<b>362</b>	<b>3 595</b>	<b>-</b>

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

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

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

IMPACT OF ESTIMATES ON FAIR VALUE MEASUREMENT OF LEVEL 3 FINANCIAL INSTRUMENTS	30.06.2020		31.12.2019	
	Fair value according to		Fair value according to	
	positive scenario	negative scenario	positive scenario	negative scenario
<b>Not held for trading, measured at fair value through profit or loss</b>				
Loans and advances to customers <sup>1</sup>	7 084	6 679	8 526	8 054
Shares in Visa Inc. <sup>2</sup>	210	188	225	199
Corporate bonds <sup>3</sup>	163	163	180	180
Equity investments <sup>4</sup>	197	179	222	202
<b>Measured at fair value through OCI</b>	-	-	-	-
Corporate bonds <sup>3</sup>	844	840	2 212	2 202
Loans and advances to customers <sup>1</sup>	12 964	12 246	9 902	9 354

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

<sup>2</sup>) 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

<sup>3</sup>) Scenario assuming a change in credit spread of +/- 10%

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

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

The classification of financial instruments and the method of determining their fair value were described in the Bank's financial statements for 2019.

	level of fair value hierarchy	30.06.2020	
		carrying amount	fair value
Cash and balances with the Central Bank	nd	3 586	3 586
Amounts due from banks	2	7 684	7 684
Debt securities (excluding adjustments relating to fair value hedge accounting)	1, 3	40 741	41 306
treasury bonds	1	26 467	27 032
municipal bonds	3	12 082	12 082
corporate bonds	3	2 192	2 192
Loans and advances to customers (excluding adjustments relating to fair value hedge accounting)	3	182 531	181 696
loans for real properties	3	82 829	80 452
corporate loans	3	78 476	79 630
consumer loans	3	21 226	21 614
Reverse repo transactions	2	153	153
Other financial assets	3	1 785	1 785
Amounts due to banks	2	1 973	1 973
Amounts due to customers	3	278 927	278 901
amounts due to households	3	212 901	212 900
amounts due to corporate entities	3	53 158	53 133
amounts due to public entities	3	12 868	12 868
Repo transactions	3	107	107
Loans and advances received	3	5 240	5 469
Debt securities in issue	1, 2	3 922	3 908
Subordinated liabilities	2	2 730	2 730
Other financial liabilities	3	3 473	3 473

	level of fair value hierarchy	31.12.2019	
		carrying amount	fair value
Cash and balances with the Central Bank	nd	14 602	14 602
Amounts due from banks	2	7 953	7 953
Debt securities (excluding adjustments relating to fair value hedge accounting)	1, 3	13 361	13 425
treasury bonds	1	7 373	7 437
municipal bonds	3	4 563	4 563
corporate bonds	3	1 425	1 425
Loans and advances to customers (excluding adjustments relating to fair value hedge accounting)	3	182 954	182 610
property loans	3	82 941	81 580
corporate loans	3	79 138	79 914
consumer loans	3	20 875	21 116
Reverse repo transactions	2	1 081	1 081
Other financial assets	3	1 691	1 691
Amounts due to banks	2	1 659	1 659
Amounts due to customers	3	252 898	252 843
amounts due to households	3	192 391	192 336
amounts due to corporate entities	3	49 153	49 153
amounts due to public entities	3	11 354	11 354
Repo transactions	3	46	46
Loans and advances received	3	5 026	5 231
Debt securities in issue	1, 2	4 769	4 799
Subordinated liabilities	2	2 730	2 730
Other financial liabilities	3	3 247	3 247

## 27. RISK MANAGEMENT IN THE BANK

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

The Bank identifies risks 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: credit risk, currency risk of mortgage loans for households, currency risk, interest rate risk, liquidity risk (including financing risk), operational risk, business risk, risk of macroeconomic changes and model risk. The materiality of all the identified risks is assessed on a regular basis, at least annually.

In the standalone Financial Statements of PKO Bank Polski S.A. for 2019 and in the Report on Capital Adequacy and other information subject to publication in the Powszechna Kasa Oszczędności Banku Polskiego Spółka Akcyjna Group as at 31 December 2019, the following elements of the risk management system are described in detail: risk definition, objectives of managing the specific risks, identification of the risks, measurement and evaluation, control, forecasting and monitoring, reporting and management activities for identifying material types of risk.

In the six-month period ended 30 June 2020 the main objective, principles and organization of the risk management process did not change vis-a-vis the principles described in the Separate Financial Statements of the Bank for 2019, except for the impact of the activities described below:

Specific activities in the area of risk management undertaken by the Bank in the six-month period ended 30 June 2020 were described in detail in the Directors' Report of the PKO Bank Polski S.A. Group for the six-month period ended 2020.

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

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

- loan moratoria pursuant to the guidelines of the European Banking Authority;
- granting loans and advances covered by public guarantee programmes in the context of the COVID-19 crisis.
- Under the loan moratoria, the Bank introduced facilitations, the common element of which is to enable borrowers and lessees, at their request, to suspend or extend payments of instalments (of the principal, principal and interest or interest – depending on the form of financing) for a maximum of six months. Individuals with mortgage loans may suspend payments of instalments and individuals with cash loans or lease contracts may suspend the payment of instalments with the possibility of extending the lending period.
- Firms, enterprises and corporates (including local government entities and government entities) may suspend payments of instalments with the option of extending the lending period (among other things: working capital loans, overdrafts, investment and investor loans, leases).
- The Bank also offered the option of suspending the payment of credit cards held by individual customers and business credit cards held by firms and enterprises.

- With respect to borrowings extended to firms, enterprises and corporates, simplified policies for extending the selected renewable products by a maximum of six months (or renewing the contractual lending period), as well as internal customer limits and restructuring agreements (this relates to products, limits and agreements that mature by 30 September 2020).
- As of 24 June 2020, under the anti-crisis shield 4.0., Customers of the Bank who lost their jobs or other main sources of income after 13 March 2020 and who are indebted in the form of mortgage or consumer loans (including: cash loans/advances, renewable limits and credit cards) may suspend the performance of the agreement for a maximum of three months. During the suspension period interest is not accrued and no other fees are collected with respect to the agreement with the exception of insurance instalments paid on a monthly basis.
- The Bank's Customers (micro, small and medium-sized enterprises) may submit requests for financial subsidies stipulated in the Polish Development Fund's Financial Shield under the government programme aimed at helping firms maintain financial viability through the Bank's electronic channels.
- From 16 June 2020 firms could file requests with the Polish Development Fund (Polski Fundusz Rozwoju S.A.) for preferential interest rates on liquidity and preferential borrowings under the PFR Financial Shield for large companies. The Bank's role is to maintain, among other things, accounts for disbursements of funds under the programme, to register and monitor the advances and respective security, as well as to perform operational services.
- On 18 March 2020 the Bank concluded an Annexe to the de minimis guarantee line portfolio agreement dated 22 June 2018 (as amended), based on which in connection with the COVID-19 pandemic, Bank Gospodarstwa Krajowego implemented special terms and conditions for granting guarantees (binding until 31 December 2020):
  - 1) a commission of PLN 0 instead of the former 0.5% for new and extended de minimis guarantees securing loans;
  - 2) no annual commission will be charged for the continuation of provision of the de minimis guarantees;
  - 3) the guarantee may be granted up to 80% of the loan amount;
  - 4) the period for the guarantee remaining in force was extended from 27 months to 39 months.
- As at 10 April 2020 the Bank concluded a portfolio guarantee line agreement from the Liquidity Guarantee Fund with Bank Gospodarstwa Krajowego. Based on the agreement up to 80% of the amount of each loan which meets the requirements of the agreement may be covered by a guarantee granted by the Bank up until 31 December 2020. The limit granted under the Liquidity Guarantee Fund was PLN 18 billion.

IMPACT OF COVID-19 ON THE DETERIORATION IN THE QUALITY OF THE LOAN PORTFOLIO	second quarter period from 01.04.2020 to 30.06.2020	2 quarters cumulative period from 01.01.2019 to 30.06.2019
measured at amortized cost and at fair value through OCI - impact on allowances for expected credit losses	(86)	(283)
measured at fair value through profit or loss - impact on financial instruments valued at fair value through profit or loss	(4)	(26)

The Bank estimated the adverse impact of the COVID-19 pandemic on the quality of the Bank's loan portfolio and other financial assets at PLN 309 million. Recognizing the impact of COVID-19 on the loan portfolio, the Bank considered the current forecasts of development of the main macroeconomic parameters included in three scenarios. The calculation of the adverse impact of the pandemic is based on the relationship between the expected loss and the change in the macroeconomic parameters included in each of the three scenarios prepared on the basis of the Bank's own internal forecasts. The forecast ratios include, among other things, GDP growth rates and the unemployment rate, since these parameters have the biggest impact on the recognized changes in the valuation of the of the Bank's assets. In the models of risk parameters (in particular, the probability of default (PD) model), the average values of these ratios over a period of 2 years have been used in order to adequately reflect the significant quarterly variability of macroeconomic parameters. The additional allowance in respect of COVID-19 results from a significant deterioration in the macroeconomic forecasts in all three scenarios. The increase in PD, which results from this deterioration, causes increases in the expected losses on the individual loans and, for some of them, increased migrations to Stage 2.

- FINANCIAL ASSETS WRITTEN DOWN DURING THE DEBT RECOVERY PERIODS**

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

FINANCIAL ASSETS WRITTEN IN THE PERIOD SUBJECT TO COLLECTION	01.01- 30.06.2020		01.01- 30.06.2019	
	Partly written off	Fully written off	Partly written off	Fully written off
Securities				
measured at fair value through other comprehensive income	-	-	3	-
Loans and advances to customers				
measured at amortized cost	10	115	52	367
property	2	5	28	26
corporate	2	32	15	222
consumer	6	78	9	119
<b>Total</b>	<b>10</b>	<b>115</b>	<b>55</b>	<b>367</b>

- LOAN QUALITY RATIOS**

LOAN QUALITY RATIOS (excluding adjustments relating to fair value hedge accounting)	30.06.2020	31.12.2019
Share of exposures with recognized impairment <sup>1</sup>	4,2%	4,2%
Coverage ratio of impaired loans <sup>2</sup>	82,5%	74,3%
Share of loans overdue for more than 90 days in gross loans and advances to customers	2,7%	2,6%

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

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



## 28. CAPITAL ADEQUACY

	30.06.2020	31.12.2019
<b>Total own funds</b>	<b>39 058</b>	<b>38 590</b>
<b>Tier 1 capital</b>	<b>36 358</b>	<b>35 890</b>
Share capital	1 250	1 250
Supplementary capital	29 168	29 168
General banking risk fund	1 070	1 070
Other reserves	3 099	3 099
Accumulated other comprehensive income (excluding cash flow hedges)	905	339
Fair value of financial assets measured at fair value through OCI	920	354
Actuarial gains and losses	(15)	(15)
Current period profit/loss (reduced by expected charges, as approved by the PFSA)	-	1 042
Unappropriated profit (including part of 2019 profit as approved by the PFSA)	2 598	1 556
Intangible assets	(2 598)	(2 411)
(-) goodwill	(755)	(871)
(-) other intangible assets	(1 504)	(1 540)
Adjustments in Tier 1 capital	527	777
fair value gains and losses arising from the institution's own credit risk related to derivative liabilities (DVA)	(16)	(11)
additional value adjustments (AVA)	(185)	(91)
adjustment resulting from transitional solutions to mitigate the impact of IFRS 9 on own funds	728	884
(-) equity exposures deducted from own funds	-	(5)
<b>Tier 2 capital</b>	<b>2 700</b>	<b>2 700</b>
Equity instruments and subordinated loans eligible as Tier 2 capital	2 700	2 700
<b>Requirements as regards own funds</b>	<b>15 564</b>	<b>14 946</b>
Credit risk	14 200	13 900
Operational risk <sup>1</sup>	922	582
Market risk	413	441
Credit valuation adjustment risk	29	23
Settlement/supply risk	-	-
<b>Total capital adequacy ratio</b>	<b>20,08%</b>	<b>20,66%</b>
<b>Tier 1 capital ratio</b>	<b>18,69%</b>	<b>19,21%</b>

<sup>1</sup> In the six-month period ended 30 June 2020 the own fund requirement in respect of operational risk increased, mainly as a result of including the cost of legal risk associated with the convertible currency mortgage loan portfolio in the fourth quarter of 2019.

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

Due to the recent weakening of the Polish zloty vis-à-vis foreign currencies the Bank noted an increase in own funds requirement in respect of credit risk relating to currency exposures of PLN 240 million compared to 4Q2019.

## 29. EVENTS THAT TOOK PLACE AFTER THE BALANCE SHEET DATE

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

### SIGNATURES OF ALL MEMBERS OF THE BANK'S MANAGEMENT BOARD

04.08.2020	ZBIGNIEW JAGIEŁŁO	PRESIDENT OF THE MANAGEMENT BOARD
04.08.2020	RAFAŁ ANT CZAK	VICE-PRESIDENT OF THE MANAGEMENT BOARD
04.08.2020	RAFAŁ KOZŁOWSKI	VICE-PRESIDENT OF THE MANAGEMENT BOARD
04.08.2020	MAKS KRACZKOWSKI	VICE-PRESIDENT OF THE MANAGEMENT BOARD
04.08.2020	MIECZYŚŁAW KRÓL	VICE-PRESIDENT OF THE MANAGEMENT BOARD
04.08.2020	ADAM MARCINI AK	VICE-PRESIDENT OF THE MANAGEMENT BOARD
04.08.2020	PIOTR MAZUR	VICE-PRESIDENT OF THE MANAGEMENT BOARD
04.08.2020	JAKUB PAPIERSKI	VICE-PRESIDENT OF THE MANAGEMENT BOARD
04.08.2020	JAN EMERYK ROŚCISZEWSKI	VICE-PRESIDENT OF THE MANAGEMENT BOARD

SIGNATURE OF THE PERSON RESPONSIBLE FOR MAINTAINING  
THE BOOKS OF ACCOUNT

DANUTA SZYMAŃSKA  
DIRECTOR OF THE ACCOUNTING DIVISION