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Bank Polski



PKO Bank Polski SA Group Directors' Report for the first half of 2019

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1. RESULTS OF OPERATIONS OF THE PKO BANK POLSKI SA GROUP IN THE FIRST HALF OF 2019

1.1 THE MOST IMPORTANT EVENTS IN THE FIRST HALF OF 2019

The Powszechna Kasa Oszczędności Banku Polskiego SA Group (PKO Bank Polski SA Group, the Bank's Group) is one of the largest financial institutions in Poland and one of the largest financial groups in Central and Eastern Europe. Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna (PKO Bank Polski SA or the Bank), the Parent of the Bank's Group, is the largest commercial bank in Poland and the leading bank on the Polish market in terms of scale of operations, equity, loans, deposits, number of Customers and size of the distribution network. The Bank's Group stands out on the Polish market due to its high financial results which ensure its stable and safe development.



In 2019 PKO Bank Polski SA celebrates its centenary. The Bank's history began on 7 February 1919 when the Chief of State Józef Piłsudski, Prime Minister Ignacy Paderewski and the Minister of Post and Telegraphs Hubert Linde signed a decree based on which Poczta Kasa Oszczędnościowa was created. Since then the Bank has been the trendsetter on the Polish market, introducing attractive products and services, investing in

groundbreaking technologies and implementing innovative solutions.



BEST MOBILE BANKING IN THE WORLD

PKO Bank Polski SA delivers a state-of-the-art mobile banking system to its customers – the IKO application. As at the end of June 2019 the number of activations amounted to 3.6 million.

In February 2019, for the second time, IKO ranked first in the 100 Retail Banker International ranking of mobile applications. The ranking is based on Customer reviews from iOS and Android application stores. IKO with a total score of 4.8/5 from over 300 thousand reviews outstripped banks from all over the world.

PKO LEASING SA ACQUIRED PRIME CAR MANAGEMENT SA

As a result of a call to purchase shares PKO Leasing SA acquired 11.2 million shares in Prime Car Management SA (PCM), which is 94.4% of the Company's share capital, and the remaining shares as squeeze out. As at the end of June 2019, the Company held a 100% share in PCM. The effect of the synergy resulting from the acquisition of Prime Car Management SA and its subsidiaries will be the reinforcement of the PKO Leasing SA Group's leading position in the lease services sector (including operating leases) and expanding fleet management and car rental services. PCM's previous offer will be available throughout the PKO Bank Polski SA Group.

THE BANK'S GROUP SUPPORTS "ECO" INITIATIVES

- PKO Bank Polski SA jointly, with a consortium of foreign banks, organized and placed an issue of Polish green T-bonds of EUR 2 billion on the Euro market. Such bonds are aimed at acquiring funds to finance investments whose goal is to reduce the negative impact of human activity on the natural environment.
- PKO Bank Hipoteczny SA issued its first green covered bonds of PLN 250 million (first issue in Poland). Green covered bonds are a type of bonds, the yields on which are used exclusively to finance new or refinance existing long-term mortgage loans granted for the purchase of highly energy-efficient residential properties.
- PKO Bank Polski SA and PKO Bank Hipoteczny SA as the first banks in Poland acceded to the pilot project Energy Efficient Mortgages (EEM). The project is aimed at creating standardized pan-European solutions for mortgage loans granted to finance apartments and houses with energy-efficient solutions.
- PKO Bank Polski SA included Ekopożyczka, for the purchase and installation of photovoltaic panels up to the amount of PLN 50 thousand. in its offer.

THE BANK IMPROVES ITS POSITION IN THE ESG RATING

- PKO Bank Polski SA improved its ESG rating awarded by FTSE Russell (an increase from 1.6 to 3.3 on a scale of 1 to 5, where 5 is the highest score) confirming its commitment to environmental, social and corporate governance issues in business.

THE BANK'S GROUP PARTICIPATES IN IMPLEMENTING EMPLOYEE CAPITAL PLANS

- PKO BP Finat sp. z o.o. and Polski Fundusz Rozwoju SA concluded an agreement to create an Employee Capital Plan Records System (*System Ewidencji Pracowniczych Planów Kapitałowych*) which started operating on 1 July 2019. The system was integrated with all entities that service Employee Capital Plans so as to ensure on-going aggregation of information from the whole market.
- PKO Towarzystwo Funduszy Inwestycyjnych SA (PKO TFI SA) finds firms to accede to Employee Capital Plans – by 1 August 2019 the Company had already signed 200 management contracts in this respect. The customers appreciated, among other things, the active support in implementation, ensuring a network of post-sales servicing both on-line and in the Bank's outlets, and multi-year experience in managing funds.

THE BANK'S GROUP EXPANDS ITS PRODUCT AND SERVICE OFFER

The Bank's Group offers state-of-the-art, comprehensive solutions for individual and business customers, in consideration of their size, industry and current stage of development. It ensures professional tools that facilitate control over finances and conducting business activities to its Customers.

In effect of the actions taken in the first half of 2019, PKO Bank Polski SA:

- offered a special deposit to celebrate the Bank's centenary, with an interest rate of 1.919% p.a.; the deposit was available until 15 March 2019 and the term of the deposit was 100 days;
- offered a cash loan with a low true annual percentage rate (APR) of 5.11% in marketing campaigns under the motto "Small decisions may lead to huge life changes";
- implemented a new product – *Ekopożyczka*, i.e. a cash loan to purchase and instal photovoltaic panels up to the amount of PLN 50 thousand;
- introduced debit cards with selected club emblems of the 1st division of the Polish football league "Ekstraklasa" and debit cards with the image developed to celebrate the centenary of the Bank's existence;
- expanded its offer by Interbank Cash Pooling, which allows to actively and automatically manage funds accumulated in Group companies' accounts maintained by various Polish and foreign banks;
- launched further e-banking services for companies: e-bookkeeping (an accounting app integrated with the iPKO system that enables, among other things, invoicing, finance management, quick access to payments, analysis of current sales and costs, and forecasting expenses) and e-prawnik (e-lawyer, a tool developed by a startup, TuPrawnik, which enables remote, quick and comprehensive resolution of a legal problem);
- as the first bank in Poland, it enabled payments of income tax from the Government portal www.epodatki.gov.pl using the Paybynet system;
- launched a service, via iPKO, enabling the purchase of gift cards with codes to provide continued access to selected platforms (e.g. Google Play, Office 365 or Netflix).

1.2 SELECTED FINANCIAL DATA

The activities in which the PKO Bank Polski SA Group engaged in the first half of 2019 allowed it to achieve very good financial results and to reinforce its leading position among the largest financial institutions in Poland.

Table 1. Basic financial data of the PKO Bank Polski SA Group (in PLN million)

	30.06.2019	30.06.2018	Change (y/y)
Net profit	2,079	1,690	+23.0%
Net interest income	4,993	4,499	+11.0%
Net fee and commission income	1,506	1,482	+1.6%
Result on business activities	7,233	6,481	+11.6%
Administrative expenses	-3,127	-3,009	+3.9%
Tax on certain financial institutions	-503	-461	+9.1%
Net impairment allowance	-654	-710	-7.9%
Total assets	328,992	298,667	+10.2%
Equity	39,624	36,776	+7.7%
ROA net	1.3%	1.2%	+0.1 p.p.
ROE net	10.7%	9.5%	+1.2 p.p.
ROTE net	11.6%	10.5%	+1.1 p.p.
C/I (cost to income ratio)	42.7%	45.3%	-2.6 p.p.
Net interest margin	3.43%	3.39%	+0.04 p.p.
Share of impaired loans	4.5%	5.2%	-0.7 p.p.
Cost of risk	-0.55%	-0.67%	+0.12 p.p.
Capital adequacy ratio	18.57%	17.42%	+1.15 p.p.
Tier 1 capital ratio	17.26%	16.12%	+1.14 p.p.

Net profit realized by the PKO Bank Polski Group SA in the first half of 2019 amounted to PLN 2,079 million and was 23.0% higher than in the corresponding period of the prior year. The more than two-digit net profit growth was determined by:

- 1) an improvement in the result on business activities – PLN 7,233 million (+11.6% y/y), mainly in effect of an increase in net interest income of 11.0% y/y, realized as a result of an increase in volumes and in interest margins;
- 2) an increase in operating expenses (of 3.9% y/y), mainly regulatory, related to an increase in mandatory contributions to the Bank Guarantee Fund (BGF),
- 3) a drop in net allowances and impairment and a reduction in the cost of risk to 0.55%.

In effect of the actions taken in the first half of 2019 the scale of the Bank's Group's operations increased significantly:

- total assets amounted to approx. PLN 329 billion (+PLN 30 billion y/y);
- loans and advances to Customers increased to PLN 238 billion (+PLN 17 billion y/y);
- amounts due to Customers increased to PLN 238 billion (+PLN 22 billion y/y).

In the first half of 2019 the Bank's Group:

- retained a high share in the loans and savings market at a level of 17.9% and 17.8% respectively;
- maintained its leading position on the individuals' investment fund market and achieved a market share of 21.4%;
- ranked first on the sales market of housing loans for individuals¹ with a share of 27.0%.

¹ Data of the Polish Bank Association

1.3 DEVELOPMENT TRENDS OF THE PKO BANK POLSKI SA GROUP

Mission: "We support the development of Poland and the Poles"
 PKO Bank Polski SA strategy for the years 2016 – 2020
 Strategic goals
 Pursuit of the Strategy



Bank Polski

MISSION: "WE SUPPORT THE DEVELOPMENT OF POLAND AND THE POLES"

For 100 years we have been delivering financial solutions to our Customers; therefore, we understand the needs of Poles and Polish firms.

We are consistently changing, investing in development, and we responsibly implement modern technologies to enable easy finance management at any place or time. We are proud of our history and of our Polish roots.

We wish to continue exerting a positive influence on Poland – its people, firms, culture and the environment. As one of the largest banks in Central and Eastern Europe we responsibly care for the interests of the shareholders, Customers, employees, and local communities.

PKO BANK POLSKI SA STRATEGY FOR THE YEARS 2016 – 2020

The strategy is our response to the changing market environment and the need for our organization to adapt to the new challenges facing the banking sector and the Polish economy. The direction of transformations of the Bank's business model remains closely related to the digitization of the social life and to Poland's economic development strategy.

PKO Bank Polski SA reinforces its position as the unchallenged leader of the Polish banking market, systematically develops the scope and quality of its services, and enhances its processes and organizational agility.

STRATEGIC GOALS

Already in 2018 the PKO Bank Polski SA Group achieved its financial goals under its Strategy for the years 2016–2020, two years ahead of schedule:

- achievement of the return on equity (ROE) above 10%;
- reduction in the cost to income ratio (C/I) to below 45%;
- maintenance of the cost of risk below the 75-85 b.p. range;
- effective and rational management of capital adequacy so as to ensure that TCR and Tier1 ratios exceed the regulatory and supervisory requirements, and at the same time enable the distribution of dividend.

	2018	H1 2019	2020	Realization
ROE	10.0%	10.7%	>10%	✓
C/I	44.2%	42.7%	<45%	✓
Cost of risk	0.59%	0.55%	0.75%-0.85%	✓
Equity	TCR: 18.88%	TCR: 18.57%	Dividend capability	✓
	Tier1: 17.54%	Tier1: 17.26%		

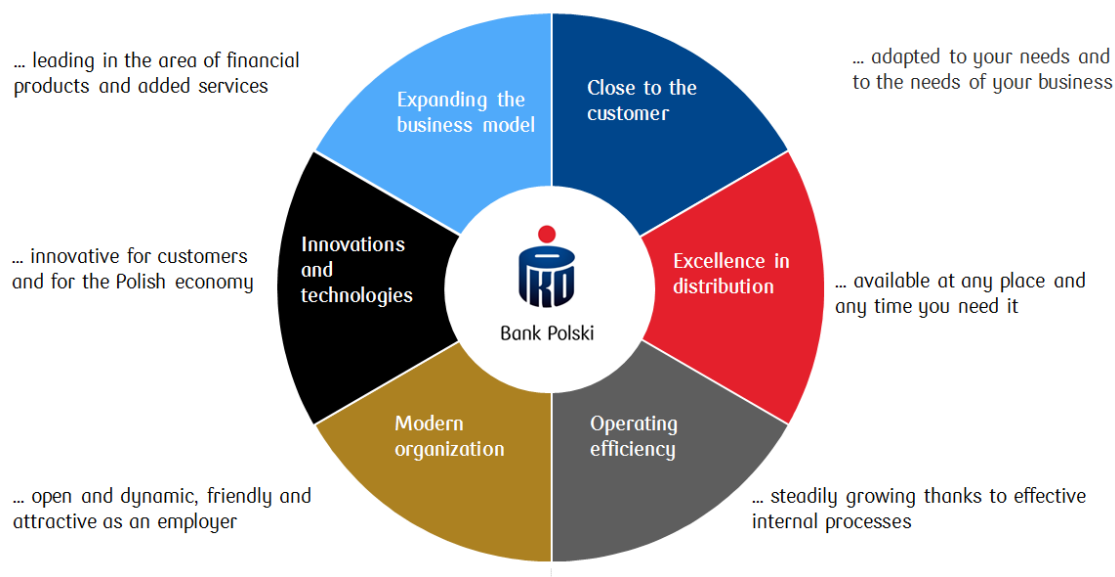
The Bank's main challenges relating to its strategic goals until 2020:

1. Customer satisfaction;
2. Increase in the number of digital customers;
3. Simple and efficient processes – "faster and paperless";
4. Best employer;
5. Innovation and new sources of revenue;
6. Leader in cooperation in the area of cybersafety.

PURSUIT OF THE STRATEGY

The Bank is consistently changing, investing in its development and becoming more and more digital. It also responsibly implements new technologies. At the same time, it is increasing its business scale, developing solid, highest profits in the banking sector, and strengthening its leading market position.

PKO Bank Polski SA's strategic goals are achieved through six levers of sustainable development:



The effects of the pursuit of strategic goals in the first half of 2019 in the area of strategic levers included:

1. BEING CLOSE TO THE CUSTOMER

- PKO's offer of Konto dla Młodych (Account for the Young) – a modern form of cash management using internet and mobile banking earmarked for individuals of 18 to 26 years of age;
- PKO Business account “e-Biznes”, earmarked for individuals engaged in business activities, covering access to tools supporting online sales;
- e-Prawnik – a new service for small- and medium-sized enterprises enabling a fast and totally remote and comprehensive resolution of a Customer's legal problem;
- e-Księgowość – tools and solutions for small- and medium-sized enterprises that facilitate independent management of the finances and accounting systems of a business, integrated with other electronic banking services;
- Implementing new solutions and facilitations in servicing the deaf in all branches and agencies of PKO Bank Polski SA.

2. DISTRIBUTION EXCELLENCE

- Mobile authorization of transactions; a new method of authorizing transactions commissioned in the iPKO internet service, Inteligo and on the hotline using the IKO application;
- Comprehensive servicing of foreign exchange transactions in IKO – foreign currency accounts with a multi-currency card and activation of eKantor (electronic currency exchange office) were placed under one mobile service;
- Google Play, Netflix and other gift cards available through the iPKO internet service – a new service enabling Customers to top-up their platforms with entertainment and applications;
- Introducing the “mojeID” (my ID) service (in effect of the cooperation with the National Clearing House), that enables remote confirmation of identity;
- Further optimization of the network of branches based on the economic feasibility of their operation which includes both changing the character of the outlets and reducing their number.

3. OPERATING EFFICIENCY

- First use of SAF (Standard Audit Files) on the market by PKO Bank Polski SA in the area of enhancing and digitizing Customer service processes;
- Completion of another stage of digitization of sales and service processes;
- Making available a new solution in the network of branches which enables authorization of selected transactions and orders using SMS (text messages) – material paper savings in the Bank;
- Achieving a level of over half a million Trusted Profiles in the Bank's transaction service sites and promoting quick and easy access to public e-administration services;
- Implementing the first automated processes in the RPA (Robotic Process Automation) technology to increase effectiveness of back-office processes without the need to increase the number of employees.

4. MODERN ORGANIZATION

- Continuation of the Digital Transformation Programme “New Organization and Cooperation” aimed at changing the corporate culture into a more modern, effective and constantly improving one.

5. INNOVATIONS AND TECHNOLOGIES

- Development of the “Let’s Fintech” programme, which enables PKO Bank Polski SA to develop cooperation with start-ups and to engage in searching for new technological solutions available on the market;
- Continuation of work on implementing solutions based on AI (Artificial Intelligence), in particular advanced data analytics and voice assistant;
- Commencing operations by the cloud operator Operator Chmury Krajowej sp. z o.o.

6. EXPANDING THE BUSINESS MODEL

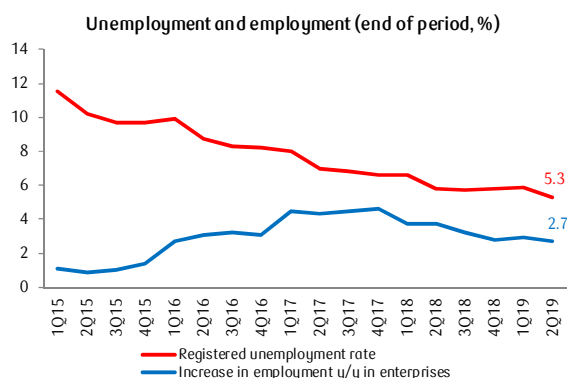
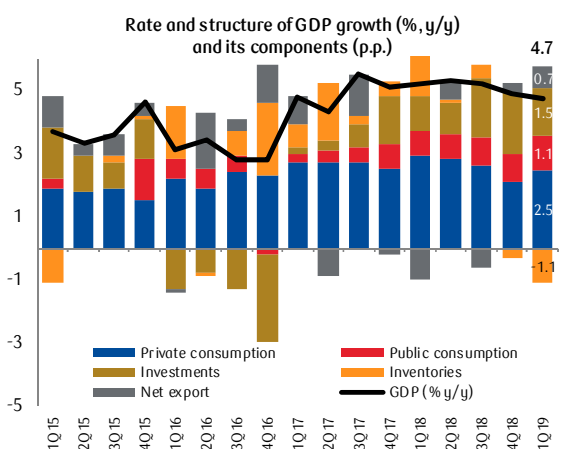
- Acquisition of Prime Car Management SA by PKO Leasing SA;
- Accession of PKO Bank Polski SA and PKO Bank Hipoteczny SA (as the first banks in Poland) to the pilot project Energy Efficient Mortgages (EEM).

2. EXTERNAL BUSINESS CONDITIONS

Macroeconomic environment
Situation on the financial market
Position of the Polish banking sector
Position of the Polish non-banking sector
Ukrainian market
Regulatory environment
Factors with an impact on the financial results of the Bank’s Group in the second half of 2019

2.1 MACROECONOMIC ENVIRONMENT

Macroeconomic factors which shape the national economy in the first half of 2019:



STABILIZATION OF ECONOMIC GROWTH RATE

Available monthly data for the period April-June 2019 show that economic growth in the second quarter of 2019 stabilized at approx. 4.7% y/y, as noted in the first quarter of 2019.

Data shows revival of capital expenditure activities, in particular in the private sector (in the first quarter of 2019 capital expenditure increase in enterprises employing more than 49 people was 21.7% y/y, and was the highest since 2007). At the same time, consumption grew at a high rate as a result of improvement on the labour market, positive sentiments in households (the highest registered levels of current and forward-looking consumer confidence indices), and the social transfers, both already performed and those further expected. Export remains immune to recession in European industry due to the zloty being undervalued, the relative drop in unit costs of labour and the specific nature of Polish export (among other things, a relatively high share of consumer goods and a relatively small share of automotive industry goods in export).

CONTINUING IMPROVEMENT ON THE LABOUR MARKET

The unemployment rate registered in June 2019 was 5.3% compared with 5.9% in March and 5.8% at the end of 2018. After accounting for the seasonal effects, the annual rate of decrease in unemployment slowed down to -0.5 p.p. in the second quarter from -0.7 p.p. in the first quarter. This is mainly the reflection of supply limitations on the labour market, but to some extent also

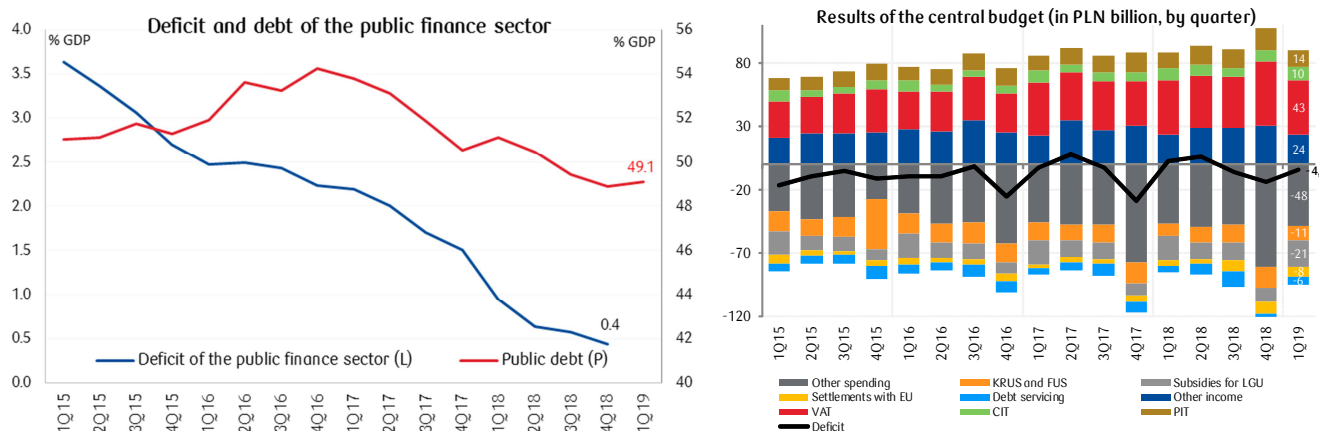
of the lower demand for work. The BAEL² unemployment rate increased to 3.9% in the first quarter of 2019 compared to 3.8% in the fourth quarter of 2018. Despite a slight drop in the demand for labour, as suggested – among other things – by business surveys of enterprises and the dropping number of vacancies, the rate of increase in wages and salaries is still growing. In April and May average remuneration in the enterprise sector increased by 7.4% y/y compared to the increase of 6.9% y/y in the first quarter of 2019 and of 7.1% in 2018. Business climate surveys indicate that in the next quarters the increase in remuneration should be relatively stable.

INFLATION ABOVE TARGET

In June 2019 for the first time since November 2012 CPI exceeded the target set by the National Bank of Poland (NBP) and amounted to 2.6% y/y compared to 1.7% y/y in March and 1.1% as at the end of 2018. The acceleration in the inflation rate was the consequence of the dynamic increase in food prices and acceleration of core inflation. In June 2019 CPI, after eliminating the effect of the price increases in food and energy, amounted to 1.9% y/y compared to 0.6% y/y at the end of 2018. The increase to a large extent related to prices of services that are much more sensitive to the increase in labour costs than the prices of goods. In consecutive months CPI may stabilize, mainly as a result of the high reference base effect. CPI may once again accelerate at the turn of the year as a result of changes in administrative prices. In the first quarter of 2020 CPI may reach the maximum level, probably above the ceiling for acceptable deviations from the target (3.5%).

GOOD RESULTS OF THE PUBLIC SECTOR FINANCES

Available data on the results of the State and local governments' budgets indicate that in the first quarter of 2019 the general government deficit (according to EU methodology ESA2010) increased slightly from the lowest historical level (0.4% GDP) noted at the end of 2018. In the first quarter of 2019 public debt (according to the EU ESA2010 methodology) increased to 49.1% GDP from 48.9% GDP as at the end of 2018 as a result of satisfying a large part of the State budget's borrowing requirements at the beginning of the year. The central budget continues to be in a very good position. At the end of May 2019 the budget noted a small deficit of PLN 1.9 billion, despite the start of a new fiscal program in May (payment of an add-on to pensions in the total amount of approx. PLN 10 billion).



STABILIZATION OF THE MONETARY POLICY

In the first half of 2019 base NBP interest rates remained unchanged, at the lowest historical levels. Therefore, the Monetary Policy Council (MPC) emphasizes that as there are no signs of increased macroeconomic imbalances, in particular no threats for the inflation target in the medium term, NBP interest rates may remain unchanged even to the end of MPC's current term of office. A turnaround in the policies of the key central banks (forecast reductions in interest rates by the Fed and ECB) is another argument against increasing interest rates by the NBP.

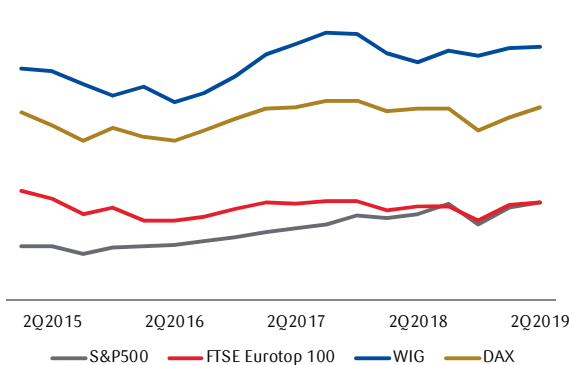
NBP's interest rates:

- Reference 1.50%
- Bills of exchange rediscount 1.75%
- Lombard 2.50%
- Deposit 0.50%

² BAEL – Survey of Economic Activity of the Population

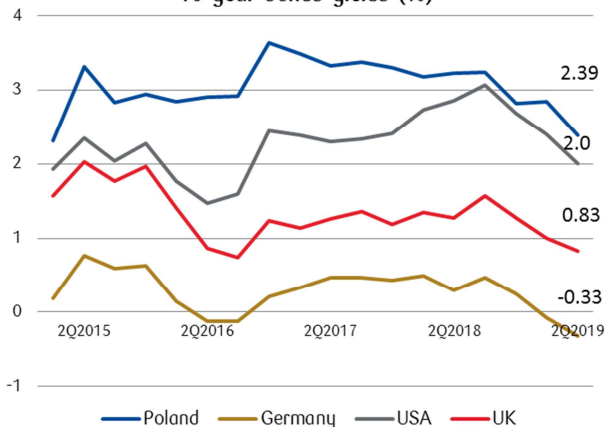
2.2 SITUATION ON THE FINANCIAL MARKET

Global stock market



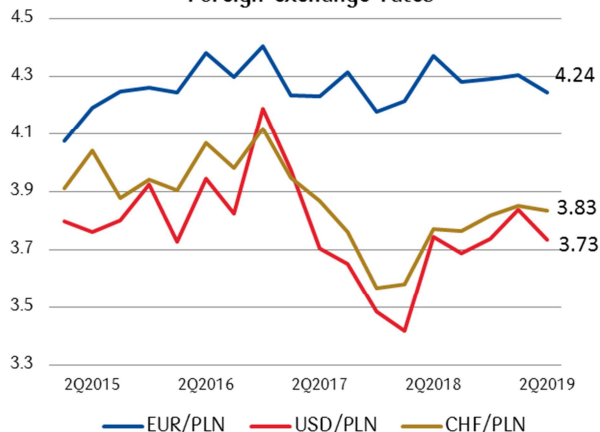
increased economic activity. On the Polish market, despite the increase in GDP at a rate of almost 5%, the results on the stock exchange were worse, which was, to a large extent, the result of a high share of energy sector companies in the key exchange indices. Small enterprises' index fared well; small companies best reflected the good economic situation and additionally were perceived by investors as undervalued after last year's sales caused by problems of certain investment fund management companies (sWIG80 increased by 11.8%).

10-year bonds yields (%)



USA and in the euro area. The ECB even suggested the possibility of reverting to purchasing financial assets, which led to a strong drop in returns on German bonds to historical lows. Expectations as to more lenient monetary policies led to a drop in returns on 10-year German Bunds of 57 b.p., and US Treasuries of 68 b.p. in the first half of the year. The increase in global demand for securities had an indirect positive impact on the Polish debt market and supported an increase in bond prices.

Foreign exchange rates



STOCK MARKET

In the first half of 2019 investors on the WSE realized profits, however, the 4.3% WIG index increase was much lower than the American S&P 500 index (17.3%), or the European Euro Stoxx 50 (15.7%). Profits on the global stock exchanges resulted partly from the reaction to the poor results at the end of the previous year, but mainly reflected a deep change in the attitude of key central banks. The concerns about an economic slow-down in the USA and in the euro area led not only to the Fed and ECB to withdraw their forecast increases in interest rates, but also to suggest that they be lowered or to announce other stimulative actions. This led to a relative increase in the attractiveness of shares as a class of investment assets and was received by the market as an action contributing to

INTEREST RATE MARKET

In the first half of 2019 returns on 2-year T-bonds increased by 28 b.p. to 1.62%, and of 10-year T-bonds dropped by 45 b.p. to 2.39%. The reason for the large drop in differences between the short- and long-term securities was - on the one hand - increased concern about growing inflation in Poland, and on the other - a strong drop in returns on bonds on the main global markets. Growing inflation expectations accompanied by high economic activity caused part of the MPC members to suggest the need to increase interest rates during the next two years. Such comments weakened valuations of short-term bonds. In respect of 10-year securities, deteriorating prospects of the global economy had a larger impact on the price of bonds. As a result, financial markets started measuring drops in interest rates both in the

CURRENCY MARKET

At the beginning of 2019 the EUR/USD exchange rate was 1.15. Due to the gradual slow-down of euro area economies and the lenient messages from the ECB, till mid-May the US dollar increased its value to the euro to 1.11. In the following step the Fed changed its attitude and suggested potential reductions in interest rates in the event of a further drop in inflation and slowing of the economy (as a result of the prolonged trade dispute with China). This led to the weakening of the dollar to the euro to 1.14 as at the end of June. At the beginning of 2019 the EUR/PLN exchange rate was 4.29, and 4.24 as at the end of the first half of 2019.

2.3 POSITION OF THE POLISH BANKING SECTOR

Net profit and returns
Loan and Deposit Market

NET PROFIT AND RETURNS

In the period from January to May 2019 the banks operated in conditions of stable economic growth, good financial condition of households and enterprises, and maintained low interest rates.

PLN 5.9 billion

net profit of the banking sector
in the period January-May 2019

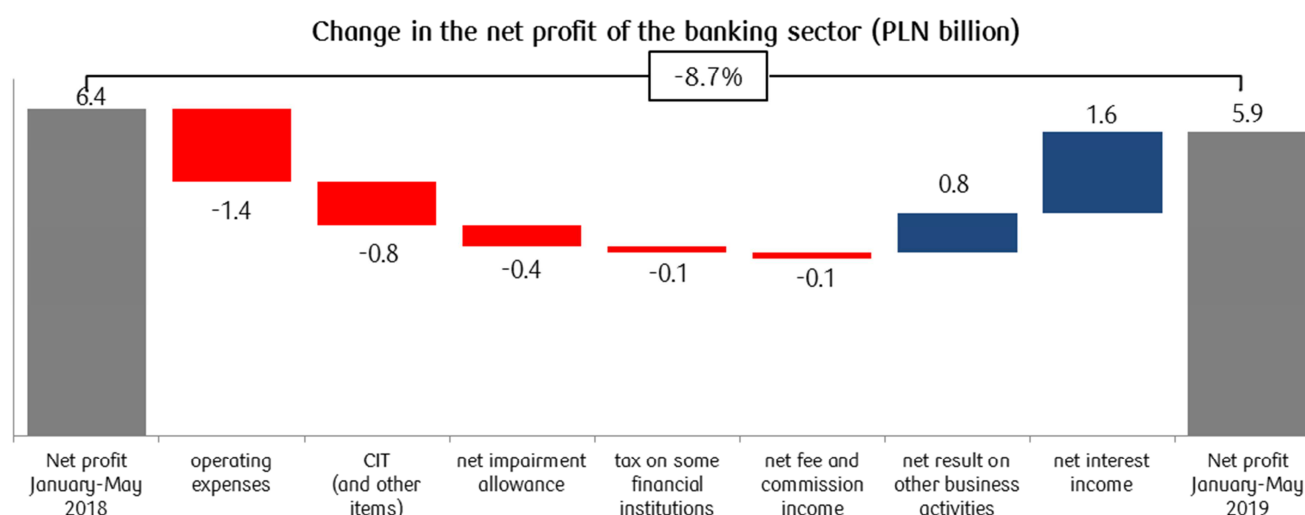
-8.7% y/y

rate of decrease of net profit of the banking
sector in the period January-May 2019

6.1% (-1.4 p.p. y/y)

return on equity of the banking sector (ROE) as
at the end of May 2019

During the period, the banking sector earned net profit of PLN 5.9 billion, i.e. nearly - 8.7% lower than in the corresponding period of 2018. The increase in operating expenses, determined in particular by a large increase of charges payable to the BGF had the largest impact on the drop in net profit. Apart from an increase in operating expenses, also the deterioration of net impairment allowances which were impacted by an increase in the loan portfolio and an increased share of higher-risk products (mainly consumer loans) in the structure of the loan portfolio, had a negative impact on net profit. The following factors had an opposite impact: an increase in the net interest income and net income on other business activities (mainly dividend income).



Source: last available PFSA data (as at 1 August 2019), calculations by PKO Bank Polski SA

As at the end of May 2019 y/y the quality of the loan portfolio materially improved. The share of non-performing loans of the non-financial sector dropped to 6.7% compared with 7.6% as at the end of May 2018; this result was due to an improvement in the quality of all main loan categories (business, housing and consumer loans). The quality of loans improved mainly in the second half of 2018, and since the beginning of 2019 the quality of the loan portfolio improved only slightly (-0.1 p.p.).

As at the end of May 2019 return on equity of the banking sector dropped (ROE³), also due to the poor financial results of individual banks; ROE dropped to 6.1% compared with 6.4% as at the end of December 2018 and 7.5% as at the end of May 2018.

³ ROE – rate of net profit in the banking sector for the last 12 months to average equity

LOAN AND DEPOSIT MARKET⁴

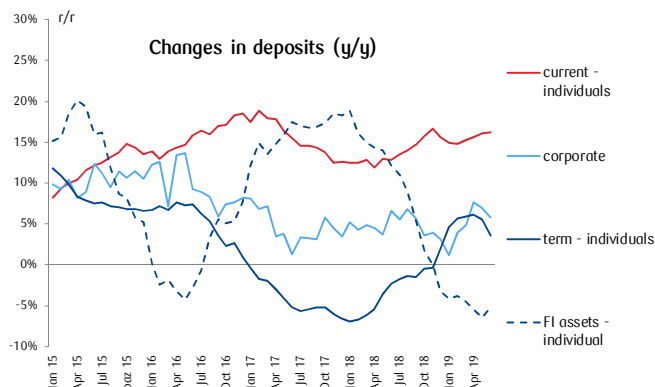
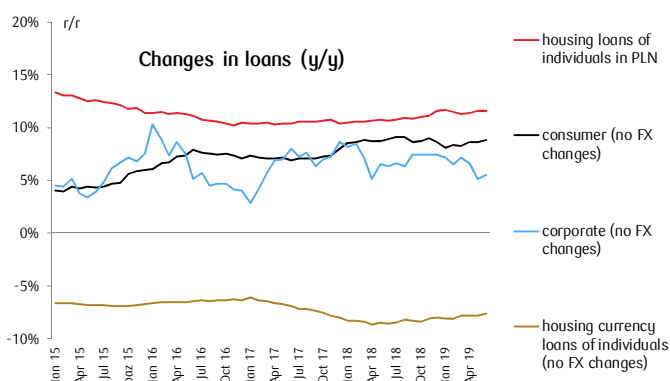
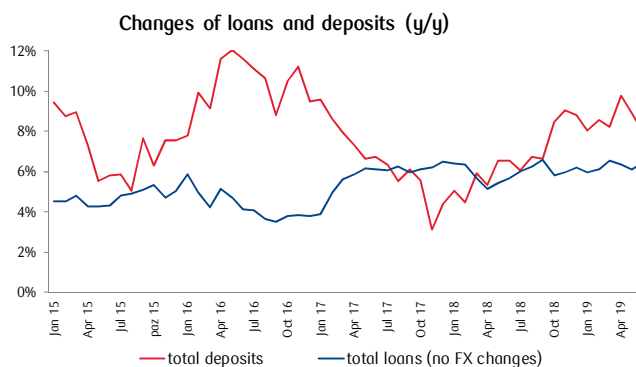
In the first half of 2019 the position of the banking sector remained stable, which was supported by the maintained high rate of economic growth, good situation on the labour market and consumer optimism.

As at the end of the first half of 2019 the annual average rate of increase in total loans (net of changes in exchange rates) was higher than that earned as at the end of 2018 (6.5% and 6.2% respectively), and in deposits it was lower (8.0% compared with 8.8% as at the end of 2018).

The good financial position of households, supported by an increase in wages and salaries, and low unemployment, contributed to a high rate of growth of consumer loans (+8.8% y/y, net of changes in exchange rates) and PLN-denominated housing loans (+11.6% y/y). Own funds remained a material source of financing enterprises' investments. This is reflected in the rate of increase in loans granted to enterprises, which dropped to 5.5% as at the end of the first half of 2019 (7.4% as at the end of December 2018).

In the first half of 2019 risk aversion of households (which was the effect, among other things, of low/negative rates of return on investment funds⁵) was maintained. This led to an acceleration of the annual rate of growth of individual customers' deposits to 11.1% (9.9% as at the end of December 2018), and in particular of term deposits (+3.6% compared with +2.0% as at the end of December 2018). In conditions of growing enterprise investments, deposits increased at an annual rate of 5.8% (3.1% as at the end of 2018).

The situation on the investment fund market contributed to an inflow of deposits to the banking sector and had a positive impact on its liquidity, therefore, the loan to deposit ratio dropped to 96.0% as at the end of the first half of 2019 (-0.9 p.p. compared with the end of 2018).



2.4 POSITION OF THE POLISH NON-BANKING SECTOR

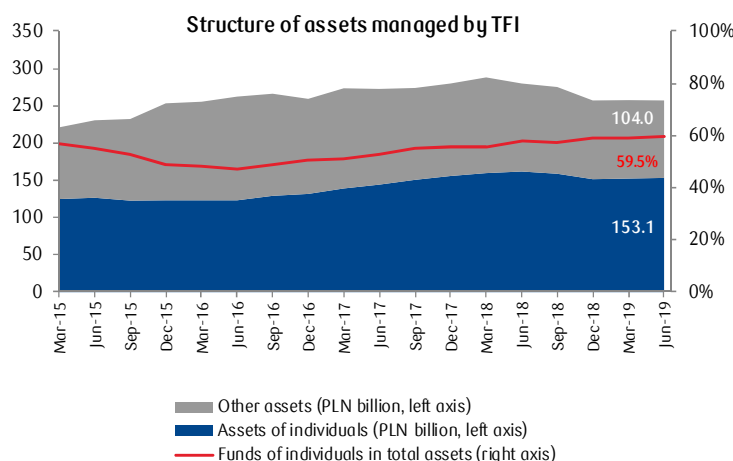
INVESTMENT FUNDS MARKET

In the first half of 2019 the situation on the investment funds market was impacted, among other things, by the improvement in the conditions on the Warsaw Stock Exchange (WSE). As at the end of the first half of 2019 average annual rates of return in key segments of the individuals' market were higher than at the end of 2018. At the same time, the low level of average annual rates of return in the first months of the first half of 2019 determined the outflow of individuals' funds from the investment fund market during this period.

⁴ Based on NBP and *Analizy Online* service

⁵ In June 2019 12M rates of return from investment funds increased, which may weaken the rate of growth of individual customers' deposits in consecutive periods.

In the first half of 2019 the balance of payments and amortizations of the individuals on the investment fund market was negative. The amount of outflowing funds was, however, lower than in the second half of 2018 (PLN -1.4 billion compared with PLN -7.1 billion). Total net assets of TFI in the first half of 2019 increased by PLN 0.1 billion to PLN 257.1 billion, including: assets of individuals' investment funds increased by PLN 1.8 billion (+1.2%); assets of institutional entities' investment funds dropped by PLN -1.7 billion (-1.6%).



OPEN PENSION FUNDS MARKET

In the first half of 2019 assets of Open Pension Funds (OFE) increased by +2.8% (PLN +4.5 billion) to PLN 161.8 billion. At the same time the number of OFE participants dropped (by 119 thousand, to 15.8 million). The OFE market remained under the influence of: an improvement in the labour market conditions, supported by an increase in wages and salaries and a drop in unemployment, social programmes, improving conditions on the WSE (increase in WIG of 4.3%), and uncertainty as to the future regulations governing operations (Government project recommending the transfer of funds accumulated in OFE to IKE or ZUS). Shares continued to dominate OFE assets (approx. 84%).

INSURANCE MARKET

In the first quarter of 2019⁶ insurance companies earned net profit of PLN 1.1 billion (+8.6% y/y), which was the result of an increase in y/y net profit in the non-life insurance segment (+9.0% to PLN 0.6 billion) and an increase in y/y net profit in the life insurance segment (+8.2% to PLN 0.5 billion).

The y/y increase in gross written premium⁷ to PLN 16.4 billion (+0.6%), and small drop in y/y claims to PLN 10.0 billion (-0.4%) had an impact on the financial results of insurance companies as a whole. Costs of insurance activities were +3.5% higher y/y (an increase of PLN 3.5 billion).

In the life insurance segment, gross written premium dropped by -6.9% y/y (to PLN 5.2 billion), with a drop in claims of -6.8% y/y (to PLN 5.0 billion). Insurance costs in the life insurance segment dropped by -3.2% to PLN 1.2 billion.

The non-life insurance segment noted a y/y increase in gross written premium of 5.1% (to PLN 11.1 billion), with an increase in claims of +6.9% (to PLN 5.0 billion). Costs of insurance activities in the other personal and property insurance segment increased by +7.4% (to PLN 2.3 billion).

In the first quarter of 2019 total assets of insurance companies increased to PLN 197.2 billion (+2.4%), which was the effect of an increase in assets in the non-life insurance segment (+4.2%) and an increase in the life insurance segment (+0.6%) y/y.

FACTORING MARKET

In the first half of 2019 a high demand for factoring services prevailed. Sales of companies associated in the Polish Factors Association increased by approx. 21% (after adjustment by mergers conducted) achieving PLN 132 billion. Over 16.6 thousand business entities used the services of factoring firms. The largest demand on the part of enterprises was for factoring without recourse, whose share in sales of factoring firms was approx. 51%. The share of the second largest market segment, i.e. recourse factoring, was 32%. Manufacturing and distribution companies remained the entities that most often used factoring services.

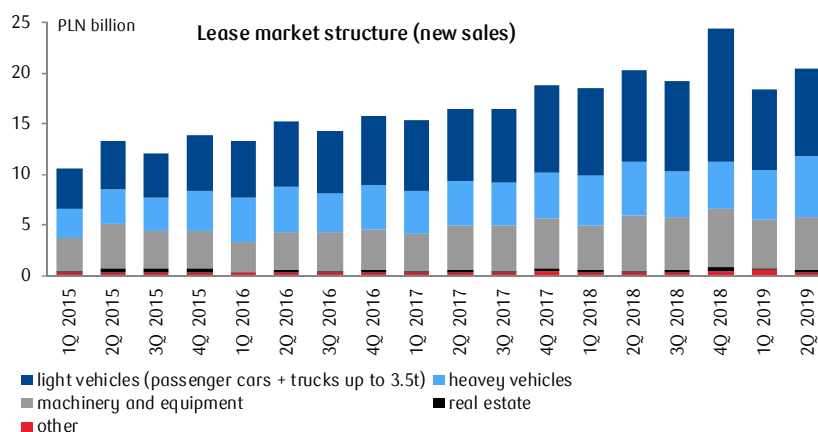
⁶ According to the latest available data

⁷ Gross written premium – premium obtained by an insurance company in the reporting period (including the portion of the premium transferred to reinsurers for reinsurance cover). In respect of life insurance gross written premium covers all premiums receivable in the reporting period. In respect of property insurance gross written premium covers amounts due throughout the period of liability for the contracts underwritten in the reporting period.

LEASE MARKET

In the first half of 2019 the lease market noted a drop. The lease industry financed assets with a value of PLN 38.7 billion (-0.6% y/y). The drop in leases of light vehicles was caused by amendments to tax regulations which became binding as of 1 January 2019.

Both the heavy vehicles, and plant and equipment leases noted an increase. The value of new contracts in the heavy vehicles segment was PLN 10.8 billion (+4.4% y/y), and in the plant and equipment segment PLN 10.2 billion (+3.5% y/y).



2.5 UKRAINIAN MARKET

ECONOMIC CONDITIONS

In the first months of 2019 the rate of growth of the Ukrainian economy decreased (2.5% y/y in the first quarter of 2019 compared to 3.3% in 2018). The monthly data for the second quarter published to-date suggest that the Ukrainian economy could have accelerated slightly. Internal demand remains strong. Private consumption continues to oscillate around 10% y/y, and the dynamics of capital expenditure have remained on a two-digit level incessantly for three years. The main driver of the Ukrainian economy is consumption. The quick increase in retail sales (8.7% y/y in the period January-May compared with 6.3% y/y in 2018) is stimulated by a strong growth in wages and salaries (20.1% y/y in the period January-May compared with 25.0% in the previous year) and increased inflows of cash sent in by Ukrainians working abroad.

The acceleration of GDP growth, strong increases in retail sales, wages and salaries, and improved collection of taxes translate into an improvement in the condition of public finances. After May the central budget noted an excess of inflows, and the debt of the whole public finance sector dropped to 57.6% of GDP (compared with 60.9% as at the end of 2018 and 62.4% in 2017). Almost half of the debt is financed by the Central Bank, but interest of foreign investors is increasing (their share in the group of Treasury securities holders increased to 7.3% as at the end of June compared with 0.8% as at the end of 2018).

CPI remains stable (9.6% y/y in May compared to 9.8% y/y in December) and is above the inflation target of the National Bank of Ukraine (NBU). However, this is the result of growing food, fuel and energy prices. Core inflation fell to 7.4% y/y in May 2019 compared to 8.7% y/y in December 2018. Standardization of core inflation accompanied by strengthening of the exchange rate of the hryvna (USD/UAH at 26.17 as at the end of June 2019 compared with 27.69 as at the end of 2018) allowed NBU to lower the discount rate from 18.0% to 17.5% as of 26 April 2019. The declining trend should continue in the further part of the year. The PLN/UAH exchange rate amounted to 6.97 as at the end of June 2019 compared to 7.37 as at the end of 2018.

UKRAINIAN BANKING SECTOR

In accordance with the NBU data, the number of banks engaged in operations in Ukraine dropped from 77 as at the end of December 2018 to 76 as at the end of May 2019. The value of total assets in the Ukrainian banking system dropped since the beginning of the year by UAH 20 billion, and equity increased by UAH 4.8 billion. As a result, financial leverage (the equity to assets ratio) increased by 0.6 p.p.

The volume of loans as at 31 May 2019 was UAH 1,078.8 billion (a drop of UAH -45.2 billion as of the beginning of the year, among other things due to the negative impact of the strengthening of the hryvna – the volume of foreign currency loans dropped by UAH 31.7 billion). The volume of loans to households increased (an increase of UAH +7.2 billion to UAH 208.3 billion), and the volume of loans to enterprises dropped (by UAH -51.5 billion to UAH 808.2 billion). At the same time the total volume of deposits increased by UAH 5.7 billion (to UAH 961.5 billion) due to the increase in the value of Government deposits. Therefore, the loan to deposit ratio dropped to 109.5% compared with 115.0% as at the end of December.

ROA and ROE improved (4.17% vs 1.69% in 2018 and 34.28% vs 14.67% in 2018 respectively). The increase in own funds and the drop in the loans volume translated into an increase in the capital adequacy ratio (to 17.65% as at the end of May compared with 15.52% as at the end of December and the 10% required by the regulator).

2.6 REGULATORY AND LEGAL ENVIRONMENT

New legal and regulatory solutions, which became binding in the first half of 2019, had an impact on the financial and organizational position of the PKO Bank Polski SA Group and financial sector entities, including:

SOLUTION	IMPACT
CHARGES ON BEHALF OF BGF	
<p>The resolutions of the BGF Board from February 2019 (9/2019 and 11/2019), which implemented a change in the charge payable by the banking sector to the system of protection of deposits and mandatory restructuring by approx. 27% in total, including:</p> <ul style="list-style-type: none"> - an increase in the contribution to the mandatory restructuring fund of 108%; - reduction in contributions to the guarantee fund of -36%. 	Increase in operating expenses, decrease in profit
PRUDENTIAL AND CAPITAL REQUIREMENTS	
<p>Act on macroprudential supervision over the financial system and on crisis management (Journal of Laws of 2017, item 1934, as amended), which among other things increased the capital conservation buffer from 1.875% to 2.5% as of 1 January 2019.</p>	An increase in minimum capital adequacy ratio
NEW ACCOUNTING STANDARD	
<p>IFRS 16 which became binding on 1 January 2019, which introduces new principles for identifying and recognizing leases in the lessees' books of account; in effect the division between operating and finance leases disappears.</p>	An increase in total assets, in debt ratios, decrease in capital ratios
INVESTMENT FUNDS	
<p>Regulation of the Minister of Finance dated 13 December 2018 which introduced – as of 1 January 2019 – a maximum amount of the investment fund company's fixed fee for managing open-ended investment funds and specialist open-ended investment funds (Journal of Laws of 2018, item 2380).</p>	An impact on the level of revenues of investment fund management companies
<p>The Act on Employee Capital Funds of 4 October 2018 (Journal of Laws of 2018, item 2215), which introduced an additional, voluntary system of long-term savings for pension purposes.</p>	An impact on the level of revenues and costs of investment fund management companies
LEASES	
<p>The Act of 23 October 2018 amending the Personal Income Tax Act, the Corporate Income Tax Act, the Tax Ordinance and certain other acts, which introduced tax changes to PIT and CIT taxation of leases and the use of passenger cars (Journal of Laws of 2018, item 2193).</p>	Impact on business activities
SEALING THE TAX SYSTEMS	
<p>Amendments to the Act on sharing tax information with other states (Journal of Laws of 2017, item 648, as amended) which obliges banks, brokerage houses, investment funds, insurance companies to receive tax residency declarations from customers that had opened accounts with the entities in the period from 1 January 2016 to 30 April 2017, by 30 June 2019.</p>	Increase in operating expenses, increase in operating tasks
CHANGES IN TAXES	
<p>Act of 23 October 2018 amending the Personal Income Tax Act, the Corporate Income Tax Act, the Tax Ordinance and certain other acts (Journal of Laws of 2018, item 2193), which introduced – as of 1 January 2019 – among other things:</p> <ul style="list-style-type: none"> - new duties for identifying and reporting information on tax plans to the Chief of the National Revenue Administration (mandatory disclosure rules - MDR); - new principles for charging certain income paid to non-residents with withholding tax – WHT, including: <ul style="list-style-type: none"> • the option of an alternative to WHT method of taxing – a 3% tax on interest on bonds issued before 1 January 2019 and interest on certain loans granted before 1 January 2019; • interest income and discounts on certain bonds issued after 1 January 2019, earned in Poland, were exempted from taxation; • the requirements to be met by a non-resident to be considered to be a “rightful owner of receivables received in order to be exempt from WHT” were expanded; - new transfer pricing regulations; 	Diverse impacts on financial results and increase in operating expenses

- changes to taxation of so-called commercial properties.

The Act of 23 October 2018 amending the Personal Income Tax Act, the Corporate Income Tax Act, the Tax Ordinance and certain other acts (Journal of Laws of 2018, item 2159) changed the principles for accounting for expenses on passenger cars as tax-deductible.

In the first half of 2019 new legal solutions implemented in the Ukraine (where, among others, the subsidiary KREDOBANK SA operates) had an impact on the operations and results of the PKO Bank Polski SA Group, including:

BASE INTEREST RATES

Resolutions of the Ukrainian Central Bank (NBU) No. 88/2018 and 199/2019 which maintained the discount rate at the level of 18% and No. 311/2019 and 393/2019, based on which the discount rate was reduced to 17.5% as of 26 April 2019.

Impact on banks' net interest income and their returns

NEW ACCOUNTING STANDARD

NBU Resolutions Nos. 22/219 and 51/2019 on the gradual transition to the new IFRS 16 and therefore the use of new lease identification and recognition principles by lessees, as a consequence of which among other things leases will no longer be classified into finance and operating leases.

An increase in total assets, in debt ratios, decrease in capital ratios

2.7 FACTORS WITH AN IMPACT ON THE FINANCIAL RESULTS OF THE BANK'S GROUP IN THE SECOND HALF OF 2019

The following external factors will have an impact on the financial results of the Bank's Group in the second half of 2019:

IN THE GLOBAL ECONOMY

- a decrease in the rate of growth of the global economy, including a drop in activity in German industry (with a moderately strong consumer demand and services sector);
- expected decrease in Fed interest rates and more lenient ECB policy (with a potential lowering of the deposit rate);
- potential escalation of tensions in trade policy;
- uncertainty related to the ultimate form and date of Brexit;
- effects of loosening economic policy in China, which may be visible in the second half of 2019;
- potential further escalation of geopolitical tension, in particular in the Persian Gulf (between the USA and Iran);
- the political and economic position of Ukraine (after the presidential and parliamentary elections).

IN THE POLISH ECONOMY

- growing absorption of EU funds and peak of capital investment activity;
- decrease in demand for Polish exports related to the slowing of the German economy;
- a fiscal impulse which may increase the rate of consumption and GDP;
- positive consumer sentiments and further growth in real disposable income in households;
- weakening of tensions on the labour market: the low supply (demographic factors, reducing retirement age) may be accompanied by a little lower demand for work in the services sector;
- possible maintenance of the high level of wages and salaries, and simultaneous turnaround of the falling trend in unemployment rates;
- stabilization of CPI growth around the inflation target by October and its acceleration above the target at the turn of 2019, among other things, as a result of deferred increase in electricity prices;
- high probability of maintaining unchanged NBP interest rates at least until the end of 2020;
- maintaining high interest in deposit and credit products (in particular in the retail segment);
- stable situation on the property market with a strong increase in prices caused both by supply (costs) and demand factors.

NEW REGULATORY SOLUTIONS

- potential regulatory solutions that relate to foreign currency housing loans, including the judgment of CJEU which deemed the provisions relating to the indexation of loans while retaining the validity of the other contractual provisions to be invalid;
- potential statutory resolutions relating to the transfer of the funds accumulated in OFE to IKE or to ZUS;
- The Act on Employee Capital Funds of 4 October 2018 (Journal of Laws of 2018, item 2215), which – among other things – introduces the duty to establish Employee Capital Funds as of 1 July 2019 and regulates the principles for making payments;
- the draft act on amending certain acts to counteract usury;
- the Regulation of the European Parliament and of the Council amending the Regulation (EC) No. 924/2009 as regards certain charges on cross-border payments in the Union and currency conversion as of 15 December 2019;
- potential position of the Financial Ombudsman and the President of UOKiK regarding the interpretation of Article 49 of the Act on consumer loans, which results in a proportionate refund of the costs relating to the loan in the event of prepayment.
- Act of 9 November 2018 on amendments to certain Acts in connection with reinforcement of supervision over the financial market and protection of investors on this market (Journal of Laws of 2018, item 2243), which introduced, from 1 July 2019, changes in respect of, among other things, dematerialization of mortgage covered bonds and bonds, and registration of such securities;
- Draft Act on amendments to the Act on tax on goods and services (VAT) and certain other Acts in respect of changes in the functioning of the split payment mechanism, implementing, among other things, an obligation to apply this mechanism to payments for specific types of goods and services, and a possibility to pay several invoices with a single transfer. The planned effective date: the fourth quarter of 2019.
- The Act of 12 April 2019 on amendments to the Act on goods and services (VAT) and certain other Acts (Journal of Laws of 2019, item 108), which levies on the Head of KAS (National Fiscal Administration) an obligation to maintain a register of VAT taxpayers (so-called white list). The Act will come into force as of 1 September 2019. As of 1 January 2020, taxpayers will be obliged to verify whether bank accounts to which they make payments for goods and services purchased are specified in the aforesaid register.
- Potential judgments of the CJEU in respect of loans granted in foreign currency and relating to early repayment of loans.

3. FINANCIAL STANDING OF THE PKO BANK POLSKI SA GROUP⁸

Basic financial ratios Consolidated income statement Consolidated statement of financial position

3.1 BASIC FINANCIAL RATIOS

The results achieved by the PKO Bank Polski SA Group for the first half of 2019 enabled the key financial efficiency indicators to achieve the following levels:

⁸ Potential differences in sums, shares and dynamics in this chapter result from rounding of amounts to PLN millions and rounding of percentage shares to one decimal place

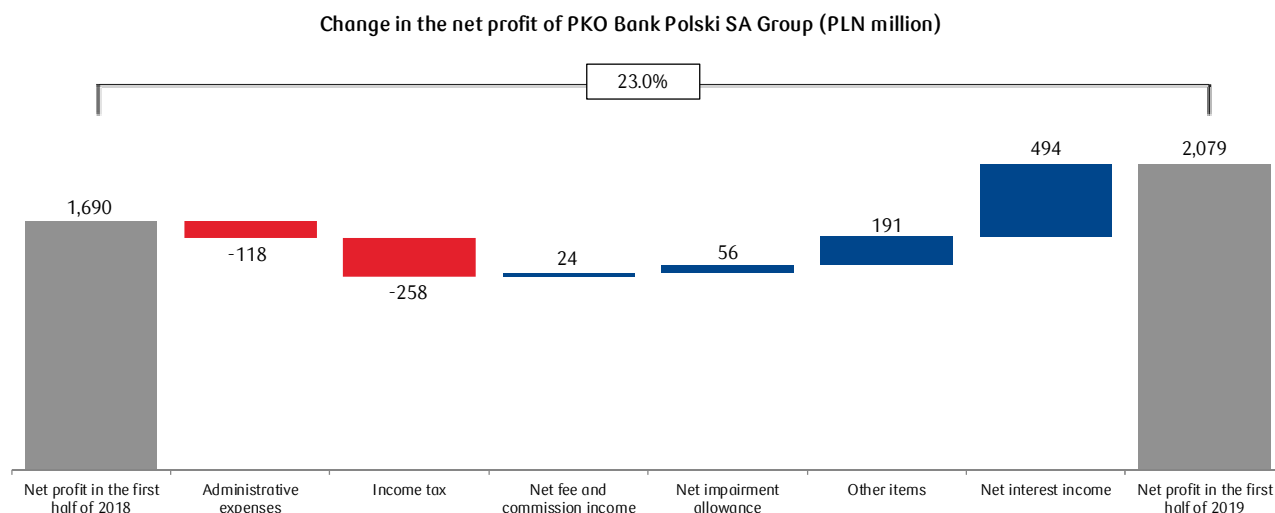
Table 2. Financial ratios of the PKO Bank Polski SA Group

	30.06.2019	30.06.2018	Change
ROA net (net profit/average total assets)	1.3%	1.2%	+0.1 p.p.
ROE net (net profit/average total equity)	10.7%	9.5%	+1.2 p.p.
ROTE net (net profit/average equity less intangible assets)	11.6%	10.5%	+1.1 p.p.
C/I (cost to income ratio)	42.7%	45.3%	-2.6 p.p.
Net interest margin (net interest income/average interest-bearing assets)	3.43%	3.39%	+0.04 p.p.
Share of impaired loans	4.5%	5.2%	-0.7 p.p.
Cost of risk	-0.55%	-0.67%	+0.12 p.p.
Capital adequacy ratio (own funds/total capital requirement*12.5)	18.57%	17.42%	+1.15 p.p.
Tier 1 ratio	17.26%	16.12%	+1.14 p.p.

3.2 CONSOLIDATED INCOME STATEMENT

Net interest income
 Net fee and commission income
 Other income, net
 Operating expenses
 Net write-downs and impairment

The consolidated net profit of the PKO Bank Polski SA Group earned in the first half of 2019 amounted to PLN 2,079 million and was PLN 389 million (+23.0%) higher than in the corresponding period of 2018.



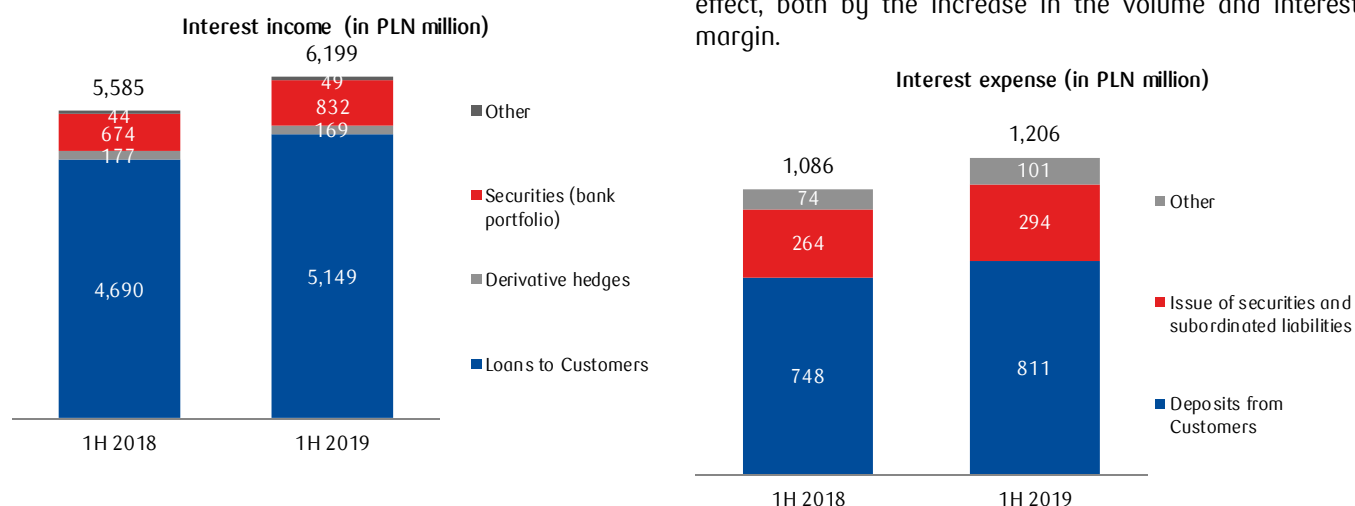
Profit on business activities in the first half of 2019 amounted to PLN 7,233 million and was PLN 752 million, i.e. 11.6% higher than in the first half of 2018, mainly in effect of an increase in net interest income and other operating income and costs.

Table 3. Income statement of the PKO Bank Polski SA Group (in PLN million)

	01.01-30.06.2019	01.01-30.06.2018	Change (in PLN million)	Change (in %)
Net interest income	4,993	4,499	494	11.0%
Net fee and commission income	1,506	1,482	24	1.6%
Net other income	734	500	234	46.8%
Dividend income	12	11	1	9.1%
Result on financial transactions	143	109	34	31.2%
Foreign exchange result	245	247	-2	-0.8%
Net other operating income and expenses	334	133	201	2.5x
Result on business activities	7,233	6,481	752	11.6%
Administrative expenses	-3,127	-3,009	-118	3.9%
Tax on certain financial institutions	-503	-461	-42	9.1%
Net operating profit/(loss)	3,603	3,011	592	19.7%
Net impairment allowance and write-downs	-654	-710	56	-7.9%
Share in profits and losses of associates and joint ventures	14	14	0	0.0%
Profit before tax	2,963	2,315	648	28.0%
Corporate income tax	-884	-626	-258	41.2%
Net profit (including non-controlling interests)	2,079	1,689	390	23.1%
Profits and losses attributable to non-controlling shareholders	0	-1	1	x
Net profit for the year	2,079	1,690	389	23.0%

NET INTEREST INCOME

In the first half of 2019 net interest income amounted to PLN 4,993 million, i.e. PLN 494 million more than in the corresponding period of the previous year. The higher net interest income y/y was determined mainly by an increase in income on loans and advances to Customers, and in effect, both by the increase in the volume and interest margin.

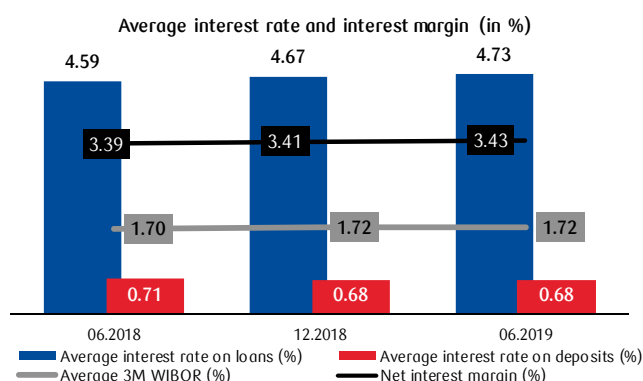


Interest income amounted to PLN 6,199 million and was PLN 614 million higher than in the previous year, mainly in effect of:

- an increase in loans and advances to Customers of PLN 459 million y/y – related to the increase in the average amounts due from loans of PLN 15 billion and lease receivables of PLN 2 billion, with a change in their structure (an increase in the share of consumer loans and lease receivables compared to a decrease in foreign currency housing loans), at unchanged market interest rates for PLN, CHF and EUR;
- higher income on securities (PLN +158 million y/y), mainly as a result of the increase in the average volume of PLN 9 billion, which resulted from purchases of T-bonds.

Interest costs amounted to PLN 1,206 million and compared with the corresponding period of 2018 they were PLN 120 million higher. The higher interest expense was mainly the effect of an increase in the costs of the deposit base of PLN 63 million y/y, related to acquiring funds in term deposits (the independence placement and the anniversary placement), as well as an increase in costs of issue of securities and subordinated liabilities of PLN 30 million y/y connected with an increase in the level of issue, mainly of mortgage-covered bonds.

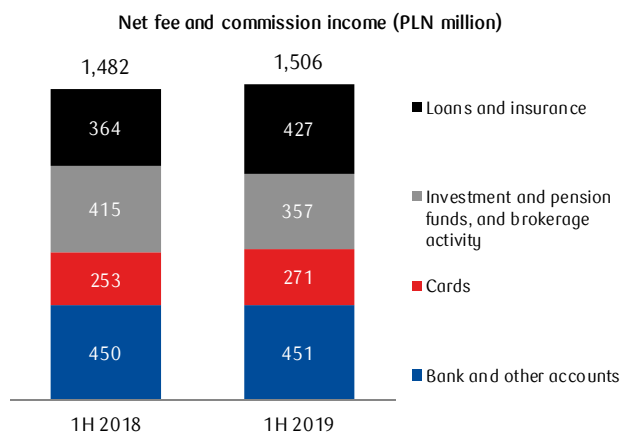
The interest margin increased by approx. 0.04 p.p. y/y to 3.43% as at the end of the first half of 2019. Average interest on loan receivables of the PKO Bank Polski SA Group as at the end of the first half of 2019 amounted to 4.73%, and the average interest on total deposits amounted to 0.68%, compared to 4.59% and 0.71% respectively as at the end of the first half of 2018.



NET FEE AND COMMISSION INCOME

Net fee and commission income earned in the first half of 2019 was PLN 1,506 million and was PLN 24 million higher than in the corresponding period of the previous year. The level of the net commission income was determined – among other things – by:

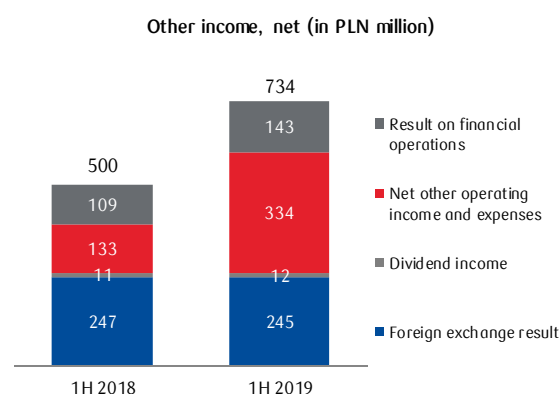
- higher net income on loans and insurance (PLN +63 million y/y), mainly in effect of an increase in commission on business loans and sales of insurance products linked to housing loans;
- higher net income on bank cards (PLN +18 million y/y), mainly in effect of a higher number of cards and higher volumes of non-cash transactions;
- lower net income on investment funds, pension funds and brokerage activities (PLN -58 million y/y), mainly due to a change in the funds' structure of sales and a drop in their volume, and reducing commission for managing funds due to the implementation of MIFID II.



OTHER INCOME, NET

Other income, net, earned in the first half of 2019 was PLN 734 million and was PLN 234 million higher than in the corresponding period of the previous year, among other things, as an effect of:

- other operating income and costs, net, PLN 201 million y/y higher, among other things, in effect of partially releasing the provision for proceedings before the President of the Office for Competition and Consumer Protection concerning practices which violate the collective interests of consumers⁹ (PLN 58 million and recognition of profit on the bargain purchase of Prime Car Management SA of PLN 80 million);
- a higher net income on financial operations (PLN +34 million y/y) – mainly as a result of a higher net income on the remeasurement of the Bank's investment securities and net income on embedded derivatives.



⁹ Information on setting up the provision was published on 27 June 2018 in current report No. 24/2018.

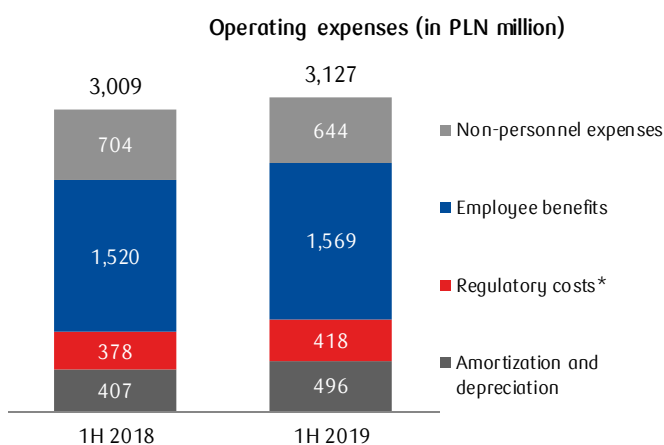
OPERATING EXPENSES

In the first half of 2019 operating expenses amounted to PLN 3,127 million and were 3.9% y/y higher. Their level was mainly determined by:

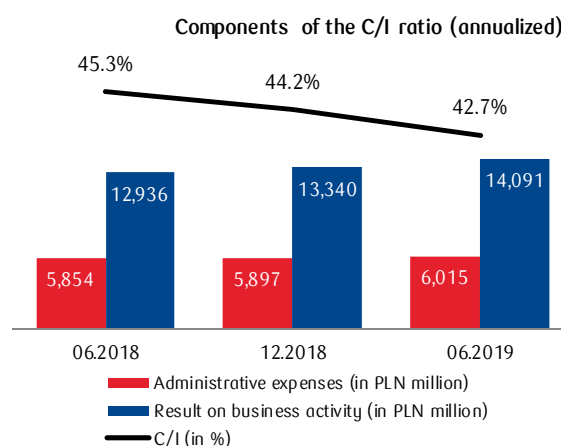
- an increase in employee benefits of PLN 49 million, i.e. of 3.2%;
- a decrease in tangible costs of PLN 60 million, i.e. of 8.5%, mainly in connection with a decrease in the following expenses:
 - costs of maintenance and lease of fixed assets (of PLN 96 million, mainly lower costs of property management related to introducing IFRS 16 as of January 2019);
 - with simultaneously higher expenses on:
 - marketing (of PLN 30 million),
 - IT (of PLN 11 million – mainly higher costs of software services);
- an increase of PLN 130 million, i.e. of 43.8% in contributions to the Bank Guarantee Fund (BGF) – BGF costs amounted to PLN 428 million, of which PLN 348 million constituted the contribution to the fund for the mandatory restructuring of banks. In the corresponding period of the prior year costs in respect of the BGF were PLN 298 million, of which the contribution for mandatory restructuring was PLN 167 million;
- an increase of PLN 15 million, i.e. of 63.1% of payments to the Polish Financial Supervision Authority (PFSA) which mainly related to payments for covering the cost of banking supervision;
- an increase of PLN 89 million, i.e. of 21.9% in depreciation, mainly in effect of implementing IFRS 16 in respect of the lease of property and cars, with a simultaneous drop in amortization of intangible assets related to the computerization of the Bank, which resulted mainly from extending the period of using the Integrated IT System (ZSI) from the end of 2023 to the end of 2030;
- a drop of PLN 110 million in the costs of withheld tax on the issue of foreign bonds related to adjustments in gross-ups of interest for the years 2017-2018 and accounting for the 3% tax on interest paid for the period 2014 – second quarter of 2019).

As a result of the implementation of IFRS 16, non-personnel costs were not charged with the lease instalments of approx. PLN 109 million. The costs of lease instalments were allocated to depreciation in the amount of approx. PLN 100 million and to the interest expenses of PLN 12 million.

The effectiveness of operations of PKO Bank Polski SA measured with the C/I ratio on an annual basis was 42.7% and improved by 2.6 p.p. y/y in consequence of materially better results on business activities (+11.6% y/y), with a limited increase in operating expenses (+3.9% y/y).



*includes net regulatory costs



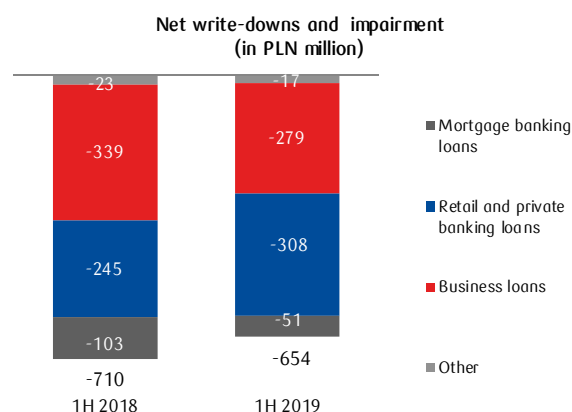
NET WRITE-DOWNS AND IMPAIRMENT

In the first half of 2019 net allowances and impairment amounted to PLN (-)654 million which was an improvement compared with the previous year of PLN 56 million. The improvement in respect of mortgage and business loans was partly offset by a deterioration in respect of retail loans.

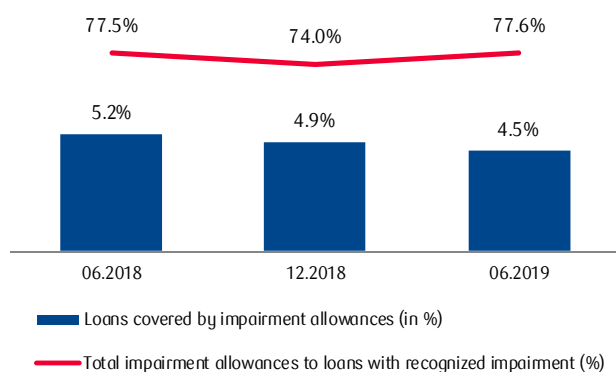
The impaired loans ratio as at the end of the first half of 2019 amounted to 4.5% (a 0.7 p.p. decrease compared with the end of the first half of 2018).

The cost of risk was 0.55% as at the end of 2019, which is a 0.12 p.p. improvement compared with the corresponding period of the prior year.

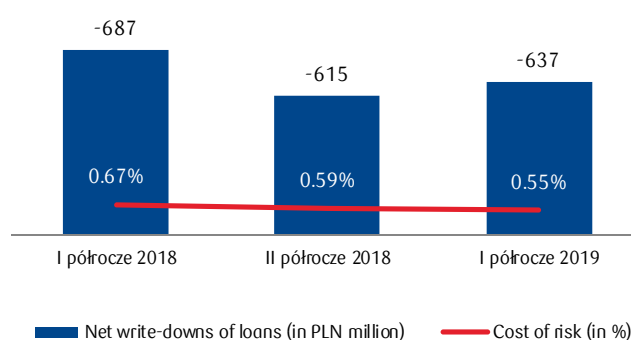
The improvement in risk ratios with a simultaneous increase in the gross amounts due by Customers of 7% y/y is the effect of the continuation of the current conservative credit risk management policy of the Bank's Group and of strict monitoring of the receivables portfolio.



Quality of the Group's loan portfolio



Cost of risk of the Group



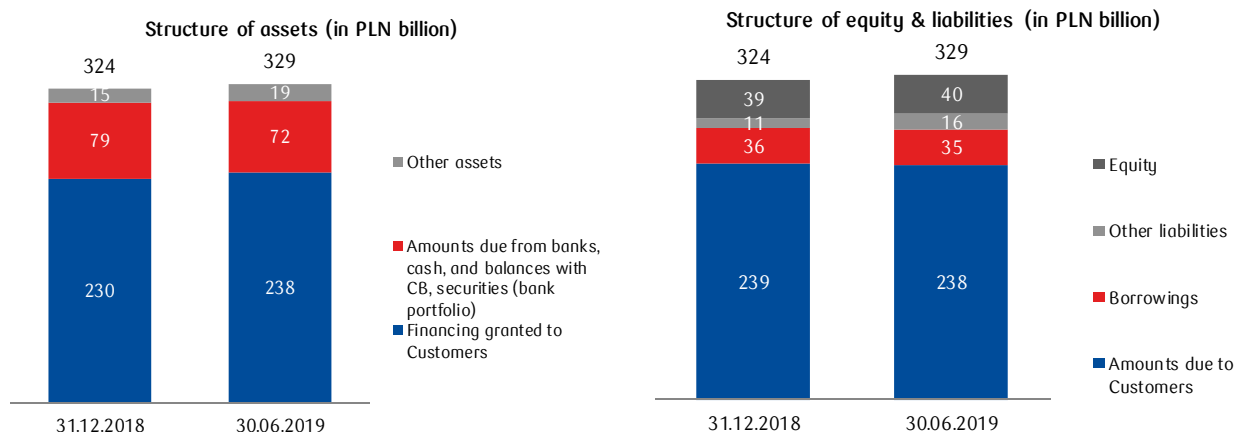
3.3 CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Main items of the Statement of financial position
 Loans and advances to Customers
 Amounts due to Customers
 Borrowings

MAIN ITEMS OF THE STATEMENT OF FINANCIAL POSITION

As at the end of the first half of 2019 the PKO Bank Polski SA total assets amounted to approx. PLN 329 billion and increased by approx. PLN 4.8 billion as of the beginning of the year. The PKO Bank Polski SA Group once again reinforced its leading position on the Polish banking market.

On the assets side of the statement of financial position, the Bank's Group noted an increase in financing granted to Customers. In respect of the sources of financing, as of the beginning of the year, there was an increase in other liabilities due to also including in this item funds for payment of dividend from the 2018 profit and lease liabilities connected with the implementation of IFRS 16 as of the beginning of the year with a similar level of borrowing and amounts due to Customers.



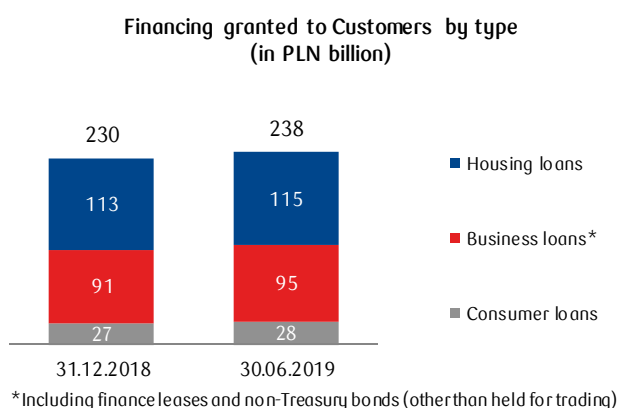
FINANCING GRANTED TO CUSTOMERS

As at the end of the first half of 2019, the value of financing granted to Customers of the Bank's Group exceeded PLN 238.0 billion and it increased by PLN 7.6 billion since the beginning of the year.

Housing loans and business loans were the main item in the structure of net loan portfolio by type (48.5% and 39.8%, respectively, of the portfolio as at the end of June 2019).

In the first half of 2019 a further increase was noted in the loans and advances to business entities (of PLN 3.5 billion) and housing loans (of PLN 2.5 billion).

In the term structure of financing granted to Customers long-term loans dominate, which is mainly due to the high share of housing loans in the loan portfolio.

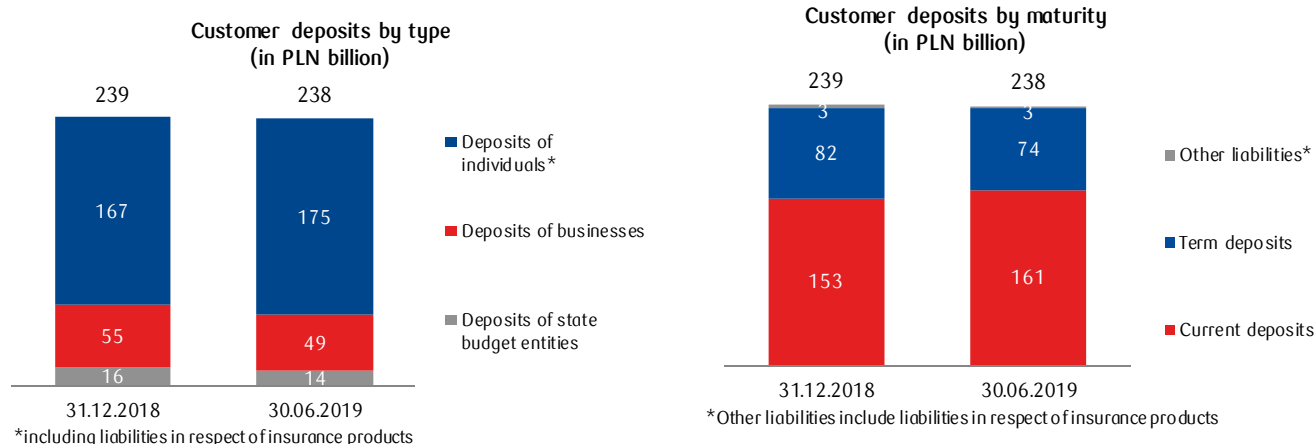


*Including finance leases and non-Treasury bonds (other than held for trading)

CUSTOMER DEPOSITIS

Customer deposits constitute the basic source of financing the Bank's Group's assets. As at the end of the first half of 2019 customer deposits amounted to PLN 238.0 billion, which is a decrease of PLN 0.7 billion since the beginning of the year. The main factor that contributed to the drop in the deposit base was a decrease in deposits to business entities (PLN -6.2 billion) and State budget entities (PLN -2.9 billion), accompanied by an increase in deposits of individuals (PLN +8.4 billion).

In the term structure of customer deposits, the main item is deposits of individuals (74% as at the end of June 2019). Deposits of business entities are the second largest category of customer deposits (21% of the portfolio as at the end of June 2019).



*including liabilities in respect of insurance products

*Other liabilities include liabilities in respect of insurance products

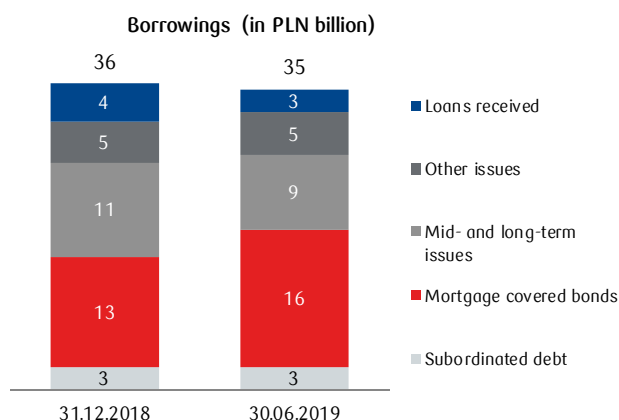
The share of current deposits in the break-down of total deposits increased and amounted to 68% (+4 p.p. compared with the end of 2018).

BORROWINGS

The PKO Bank Polski SA Group is an active participant of the debt securities markets, both Polish and international. Such activities are aimed at diversifying the sources of financing operations and adapting them to the regulatory requirements.

As at the end of June 2019 the level of long-term borrowings was approx. PLN 35.1 billion and dropped by PLN 0.6 billion compared with the beginning of the year. The following factors had an impact on the level of borrowings:

- continuation of the issue of mortgage-covered bonds by PKO Bank Hipoteczny SA (with a nominal value of EUR 700 million and PLN 250 million);
- redemption of bonds issued by PKO Finance AB of EUR 500 million in January 2019;
- repayment of loans received from international financial institutions.



4. FINANCIAL STANDING OF THE PKO BANK POLSKI SA GROUP¹⁰

Basic financial ratios
Income statement
Statement of financial position

4.1 BASIC FINANCIAL RATIOS

The results achieved by PKO Bank Polski SA in the first half of 2019 resulted in the key financial efficiency indicators at the levels shown in the table below.

Table 4. Financial ratios of PKO Bank Polski SA

	30.06.2019	30.06.2018	Change
ROA net (net profit/average total assets)	1.3%	1.1%	+0.2 p.p.
ROE net (net profit/average total equity)	10.3%	8.5%	+1.8 p.p.
ROTE net (net profit/average equity less intangible assets)	11.0%	9.2%	+1.8 p.p.
C/I (cost to income ratio)	41.1%	44.3%	-3.2 p.p.
Net interest margin (net interest income/average interest-bearing assets)	3.41%	3.33%	+0.08 p.p.
Share of impaired loans	4.6%	5.4%	-0.8 p.p.
Cost of risk	-0.56%	-0.68%	+0.12 p.p.
Capital adequacy ratio (own funds/total capital requirement*12.5)	20.82%	19.50%	+1.32 p.p.
Tier 1 ratio	19.33%	18.03%	+1.30 p.p.

¹⁰ In this chapter potential differences in totals, shares and dynamics result from rounding of amounts to PLN millions and rounding of percentage shares in structures, to one decimal place.

4.2 INCOME STATEMENT

Net interest income
Net fee and commission income
Other income, net
Operating expenses
Net allowances and impairment

In the first half of 2019 PKO Bank Polski SA generated net profit of PLN 2,075 million (37.4%, i.e. PLN 565 million higher y/y), mainly as a result of higher profit realized on business activities and a better net write-downs and impairment balance, with higher administrative expenses.

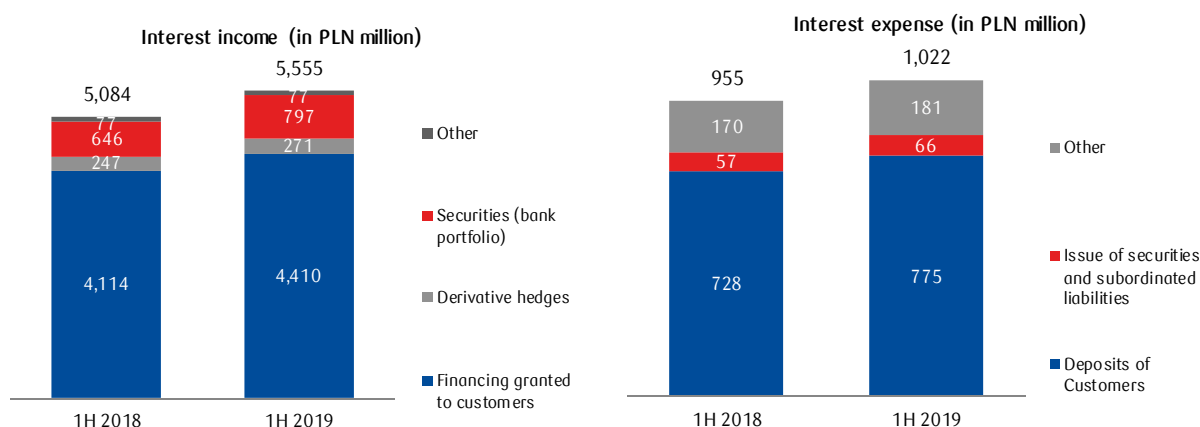
The result on business activities in the first half of 2019 amounted to PLN 6,594 million and was PLN 780 million, i.e. 13.4% higher than in the first half of 2018, mainly in effect of an increase in net interest income of PLN 404 million y/y, dividend income of PLN 231 million y/y and other net operating income and expenses of PLN 110 million y/y, with a drop in net fee and commission income of PLN 11 million y/y.

Table 5. Income statement of PKO Bank Polski SA (in PLN million)

	01.01-30.06.2019	01.01-30.06.2018	Change (in PLN million)	Change (in %)
Net interest income	4,533	4,129	404	9.8%
Net fee and commission income	1,219	1,230	-11	-0.9%
Net other income	842	455	387	85.1%
Dividend income	382	151	231	2.5x
Result on financial transactions	144	117	27	23.1%
Foreign exchange result	257	238	19	8.0%
Net other operating income and expenses	59	-51	110	x
Result on business activities	6,594	5,814	780	13.4%
Administrative expenses	-2,714	-2,676	-38	1.4%
Tax on certain financial institutions	-460	-431	-29	6.7%
Net operating profit/(loss)	3,420	2,707	713	26.3%
Net impairment allowance and write-downs	-577	-662	85	-12.8%
Profit before tax	2,843	2,045	798	39.0%
Corporate income tax	-768	-535	-233	43.6%
Net profit for the year	2,075	1,510	565	37.4%

NET INTEREST INCOME

In the first half of 2019 net interest income amounted to PLN 4,533 million, i.e. PLN 404 million more than in the previous year. The higher net interest income y/y was determined mainly by an increase in income on loans and financing granted to Customers, and in effect, both by the increase in the volume and interest margin.



Interest income amounted to PLN 5,555 million and was PLN 471 million higher than in the corresponding period of the previous year, mainly in effect of:

- an increase in income from financing granted to Customers of PLN 296 million y/y – related to the increase in the average volume of financing granted to Customers of PLN 10 billion, with a change in their structure (an increased

share of consumer and business loans and a decrease in the share of foreign currency housing loans), with unchanged levels of market interest rates for PLN, CHF and EUR;

- higher income on securities (PLN +151 million y/y), mainly as a result of the increase in the average volume of PLN 9 billion, which resulted from purchases of T-bonds.
- at a PLN 24 million higher adjustment in respect of hedge accounting.

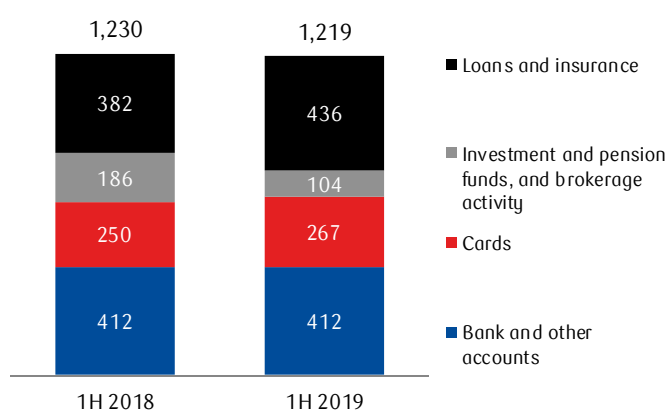
Interest expense amounted to PLN 1,022 million and compared with the corresponding period of 2018 was PLN 67 million higher. The higher interest expense was mainly the effect of an increase in the costs of the deposit base of PLN 47 million y/y, related to acquiring funds in term deposits (the independence placement and the anniversary placement).

NET FEE AND COMMISSION INCOME

Net fee and commission income earned in the first half of 2019 was PLN 1,219 million and was PLN 11 million lower than in the corresponding period of the previous year. The level of the net commission income was determined – among other things – by:

- lower result on servicing investment funds and brokerage activities (PLN -82 million y/y), resulting mainly from a transfer of the commission for managing investment funds recognized by the Bank to a subsidiary as a result of the implementation of MIFID II and a decrease in the commission for distribution of participation units in connection with a decrease in funds' volume of sale, and a promotional campaign for the purchase of units in selected funds;
- higher net income on loans and insurance (PLN +54 million y/y), mainly in effect of an increase in commission on business and housing loans and sales of insurance products linked to housing loans;
- higher net income on payment and credit cards (PLN +17 million y/y) in effect of a higher number of cards and higher volumes of non-cash transactions.

Net fee and commission income (in PLN million)

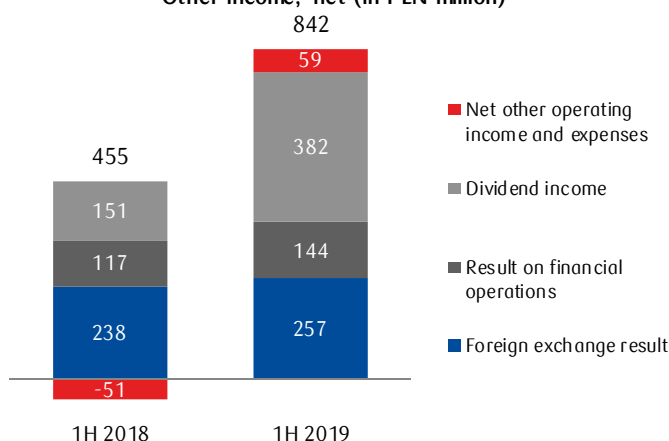


OTHER INCOME, NET

Other income, net, earned in the first half of 2019 was PLN 842 million and was PLN 387 million higher than in the corresponding period of the previous year, among other things as an effect of:

- higher dividend income (PLN +231 million);
- higher other operating income and costs, net, (PLN +110 million y/y), among other things, in effect of partially releasing the provision for proceedings before the President of the Office for Competition and Consumer Protection concerning practices which violate the collective interests of consumers¹¹ (PLN 58 million);
- a higher net income on financial operations (PLN +27 million y/y) – mainly as a result of a higher net income on the remeasurement of the Bank's investment securities and net income on embedded derivatives;
- higher net foreign exchange income (PLN +19 million y/y) – mainly due to a better result on embedded derivatives and customer activities.

Other income, net (in PLN million)

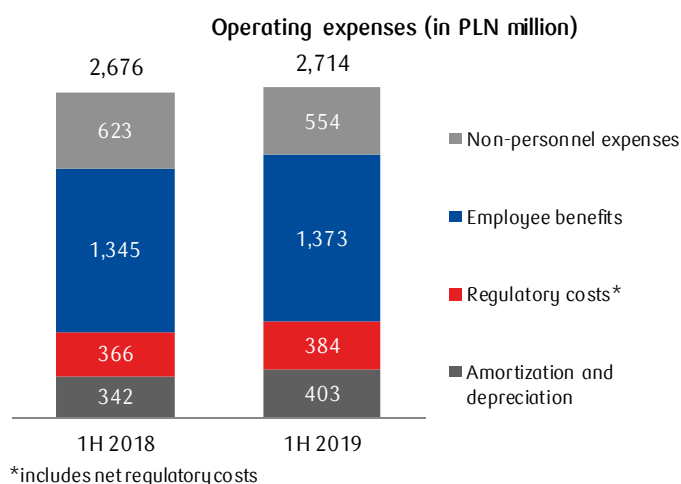


¹¹ Information on setting up the provision was published on 27 June 2018 in the current report No. 24/2018.

OPERATING EXPENSES

In the first half of 2019 operating expenses amounted to PLN 2,714 million and were 1.4% y/y higher. Their level was mainly determined by:

- an increase in employee benefits of PLN 28 million, i.e. of 2.1%;
- a decrease in non-personnel costs of PLN 69 million, i.e. of 11.2%, mainly in connection with lower expenses on the costs of maintenance and lease of fixed assets (mainly lower costs of property management related to introducing IFRS 16 as of January 2019);
- an increase of PLN 113 million, i.e. 38.5% in contributions to the Bank Guarantee Fund (BGF);
- an increase of PLN 16 million, i.e. 74.5% of payments to the Polish Financial Supervision Authority (PFSA);
- an increase of PLN 61 million, i.e. of 17.8% in depreciation, mainly in effect of implementing IFRS 16 in respect of the lease of property and cars, with a simultaneous drop in amortization of intangible assets related to the computerization of the Bank which resulted mainly from extending the period of using the Integrated IT System (ZSI) from the end of 2023 to the end of 2030;
- a drop of PLN 110 million in the costs of withheld tax on the issue of foreign bonds related to adjustments in gross-ups of interest for the years 2017-2019 and accounting for the 3% tax on interest paid for the period 2014 – first quarter of 2019).



In the first half of 2019 the Bank incurred entertainment costs, expenditure on legal services, marketing services, public relations and social communication services, and advisory services related to management totalling PLN 107 million, which represented 3.9% of the Bank's total administrative expenses.

The effectiveness of operations of PKO Bank Polski SA measured with the C/I ratio on an annual basis was 41.1% and improved by 3.2 p.p. y/y in consequence of materially better results on business activities (+13.4% y/y), with a limited increase in operating expenses (+1.4% y/y).

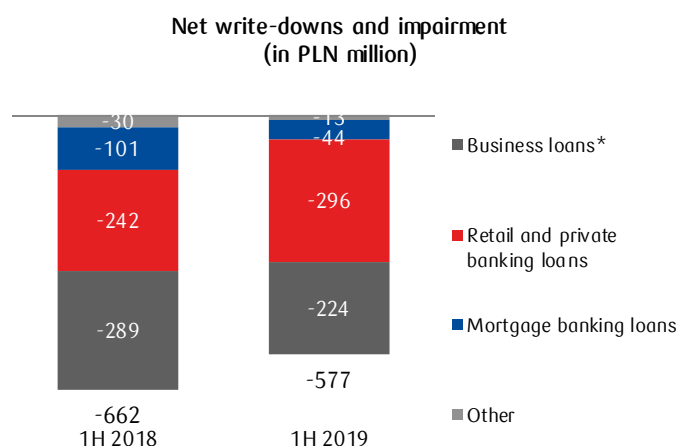
NET WRITE-DOWNS AND IMPAIRMENT

In the first half of 2019 net write-downs and impairment amounted to PLN -577 million which was an improvement compared with the previous year by PLN 85 million. The improvement in respect of mortgage and business loans was partly offset by deterioration in respect of retail loans.

The impaired loans ratio as at the end of the first half of 2019 amounted to 4.6% (a 0.8 p.p. decrease compared with the end of the first half of 2018).

The cost of risk was 0.56% as at the end of 2019, which is a 0.12 p.p. improvement compared with the corresponding period of the prior year.

The improvement in risk ratios with a simultaneous increase in the gross loans and financing granted to Customers of 7% y/y is the effect of the continuation of the current conservative credit risk management policy of the Bank's Group and of strict monitoring of the receivables portfolio.



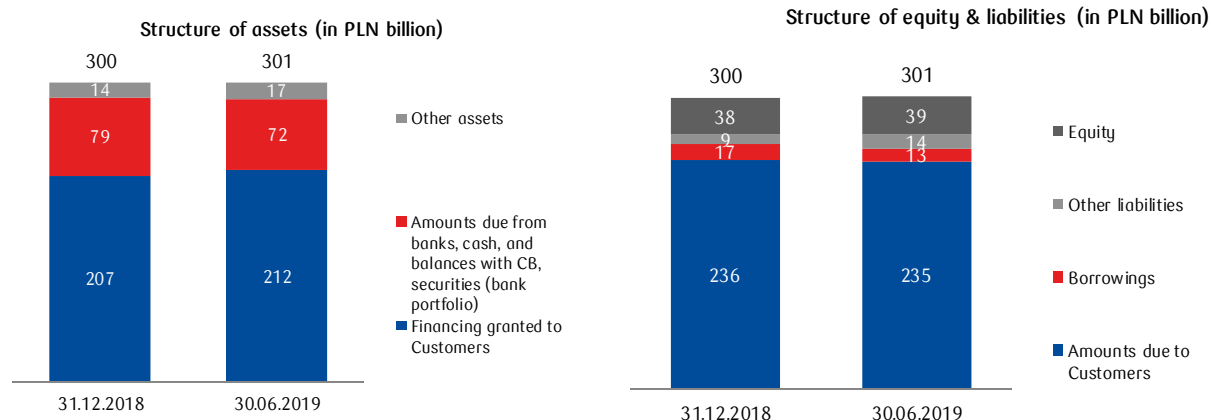
4.3 STATEMENT OF FINANCIAL POSITION

Main items of the Statement of financial position
 Loans and advances to Customers
 Amounts due to Customers
 Borrowings

MAIN ITEMS OF THE STATEMENT OF FINANCIAL POSITION

As at the end of the first half of 2019 the PKO Bank Polski SA total assets amounted to PLN 301.4 billion and increased by approx. PLN 1.0 billion as of the beginning of the year. Therefore, PKO Bank Polski SA strengthened its leading position on the Polish banking market.

On the assets side of the Bank's statement of financial position the Bank noted an increase in financing granted to Customers. In respect of the sources of financing, as of the beginning of the year other liabilities increased, connected with the recognition in this item of funds for distribution of dividend from 2018 profit and lease liabilities in connection with the implementation of IFRS 16, with a lower level of borrowings and Customer deposits, mainly in respect of business entities.

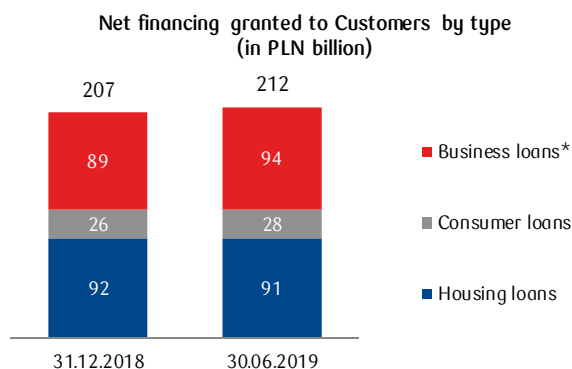


FINANCING GRANTED TO CUSTOMERS

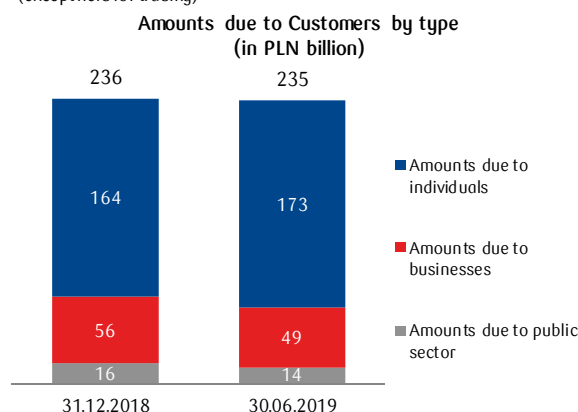
As at the end of the first half of 2019, the value of financing granted to Customers exceeded PLN 212.3 billion and it increased by PLN 5.2 billion since the beginning of the year.

Business loans and housing loans were the main items in the structure of net loan portfolio by type, with shares of 44.3% and 42.8% of the portfolio as at the end of June 2019.

In the term structure of financing granted to Customers long-term loans dominate, which is mainly due to the high share of housing loans in the loan portfolio.



*including lease receivables and non-Treasury bonds (except held for trading)



AMOUNTS DUE TO CUSTOMERS

Amounts due to Customers constitute the basic source of financing of the Bank's assets. As at the end of the first half of 2019 amounts due to Customers amounted to PLN 235.3 billion, which is a decrease of PLN 1.1 billion since the beginning of the year. The main factor that contributed to the drop in the deposit base was a decrease in deposits to business entities (PLN -6.5 billion) and State budget entities (PLN -2.9 billion), accompanied by an increase in deposits from individuals (PLN +8.3 billion).

In the structure of amounts due to Customers by type, the main item is deposits of individuals (73% as at the end of June 2019). Deposits of business entities are the second largest category of Customer deposits (21% as at the end of June 2019).

The share of current deposits in the break-down of total

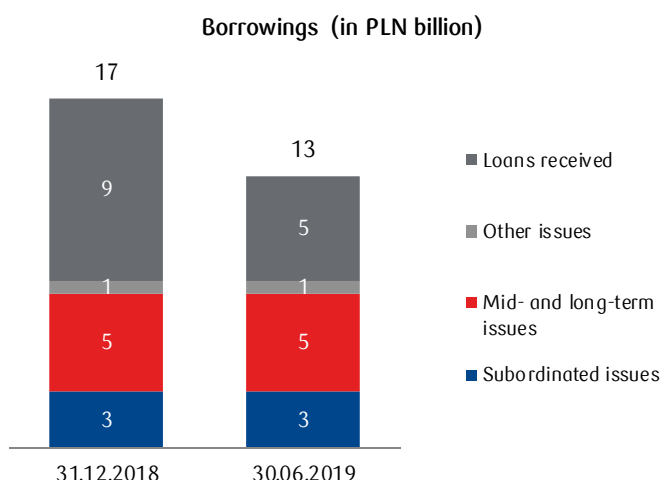
deposits increased and amounted to 68% (+3 p.p. compared with the end of 2018).

BORROWINGS

PKO Bank Polski SA is an active participant of the debt securities markets, both Polish and international. Such activities are aimed at diversifying the sources of financing operations and adapting them to the regulatory requirements in respect of long-term financial stability.

In the first half of 2019 borrowings decreased by PLN 3.7 billion, including:

- loans received from non-monetary financial institutions including primarily from the subsidiary PKO Finance AB went down by PLN 2.2 billion.
- loans received from international financial institutions decreased by PLN 1.5 billion.



5. EQUITY AND ADEQUACY MEASURES

Equity and return on equity
Capital adequacy measures
Dividend

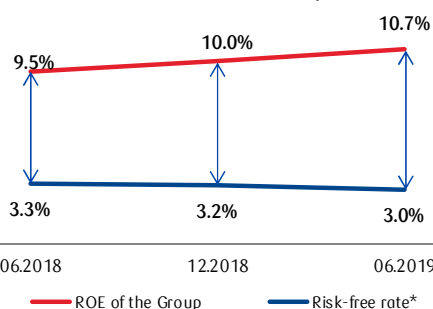
5.1 EQUITY AND RETURN ON EQUITY

Equity of the PKO Bank Polski SA Group went up by 1.4% since the beginning of the year.

Table 6. Equity and total capital adequacy ratio of the PKO Bank Polski SA Group (in PLN million)

	30.06.2019	31.12.2018	Change (in PLN million)	Change (in %)
Equity, including:	39,624	39,101	523	+1.4%
Share capital	1,250	1,250	0	+0.0%
Supplementary capital	29,429	29,354	75	+7.7%
General banking risk fund	1,070	1,070	0	+0.0%
Other reserves	3,238	3,831	-593	+1.8%
Accumulated other comprehensive income	467	250	217	86.8%
Retained earnings	2,101	-385	2,486	x
Net profit/loss for the year	2,079	3,741	-1,662	-44.4%
Non-controlling interests	-10	-10	0	+9.1%
Equity	38,343	37,850	493	+5.6%
Total capital ratio	18.57%	18.88%		-0.31 p.p.

ROE of the PKO Bank Polski SA Group



* risk-free rate calculated as the average annual of the yield on 10-year Treasury bonds.

Reinforcement of the capital base (an increase in average capitals of 7.6% y/y) with an increase of annualized profit of 21.0% y/y translated into an increase in the rate of return on equity (ROE) to 10.7 p.p.

5.2 CAPITAL ADEQUACY MEASURES

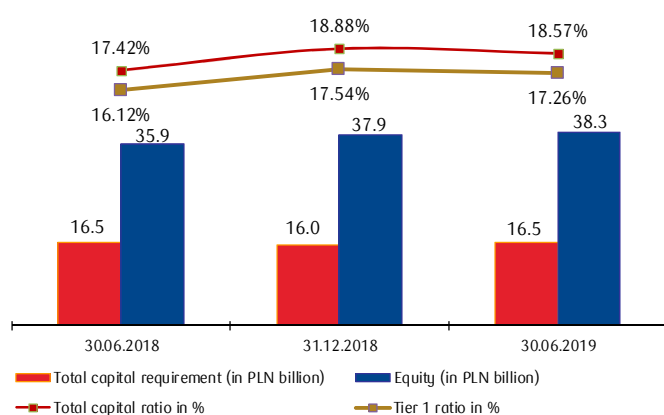
The capital adequacy of the PKO Bank Polski SA Group in the first half of 2019 remained significantly above the supervisory limits. As at 30 June 2019 the capital adequacy measures of the PKO Bank Polski SA Group were calculated based on the provisions of the CRR, taking account of prudential consolidation.

As at the end of the first half of 2019 the total capital ratio of the PKO Bank Polski SA Group amounted to 18.57% and compared with the end of 2018 it dropped by 0.31 p.p., and the core capital T1 ratio amounted to 17.26% and dropped by 0.28 p.p.

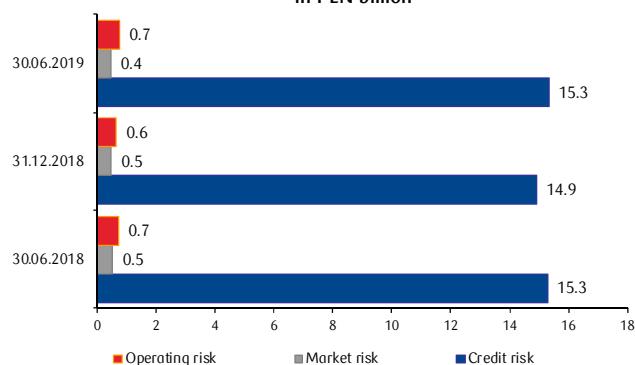
The decrease in the capital ratios was mainly due to an increase in capital requirements of approx. PLN +0.5 billion (mainly with respect to credit risk as a result of an increase in total assets), with an increase in own funds of approx. PLN 0.5 billion. The following factors had an impact on the increase in own funds: accumulation of profits of the Bank's Group companies and accumulation of 50% of the Bank's profit from 2018 of PLN 1.7 billion (which in effect led to an increase in equity of PLN 0.03 billion as part of the profit for 2018 of PLN 1.6 billion had already been included in own funds with the consent of the PFSA).

As at the end of the first half of 2019 IFRS 16, which was implemented as of 1 January 2019, also had an impact on the equity ratios, as it led to an increase in requirements of PLN 0.08 billion and to a decrease in own funds of approx. PLN -0.11 billion as a result of writing off the rights to perpetual usufruct of land, which in turn led to a decrease in the total capital ratio of approx. 15 b.p. and of the T1 core capital ratio of approx. 14 b.p.

Capital adequacy measures of PKO Bank Polski SA Group

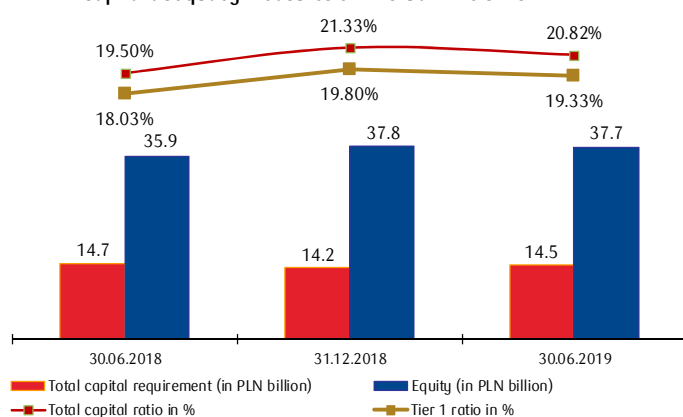


Capital requirements of the PKO Bank Polski SA Group in PLN billion

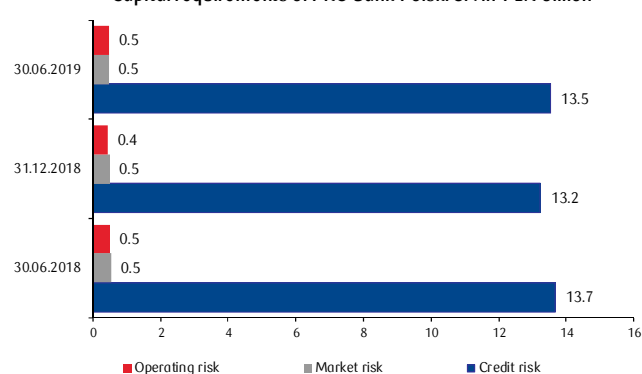


As at 30 June 2019 compared with 31 December 2018 the total capital ratio of PKO Bank Polski SA dropped by 0.51 p.p. to 20.82%, and the core capital T1 ratio went down by 0.47 p.p. to 19.33%. The drop in the T1 ratio mainly resulted from an increase in capital requirements.

Capital adequacy measures of PKO Bank Polski SA



Capital requirements of PKO Bank Polski SA in PLN billion



5.3 DIVIDEND

On 6 May 2019 the Ordinary General Shareholders' Meeting of PKO Bank Polski SA passed a resolution on appropriation of the PKO Bank Polski SA profit earned in 2018 and offsetting the accumulated losses (6/2019). In accordance with the resolution the net profit of PLN 3,335 million was earmarked as follows:

- dividend to shareholders: PLN 1,662.5 million
- reserves: PLN 5.2 million

The remaining part of the profit of PLN 1,667.7 million remained unappropriated.

Dividend amounted to 1.33% gross per share. The Ordinary General Shareholders' Meeting of PKO Bank Polski SA set the dividend date (date of vesting rights to dividend) at 31 July 2019, and the dividend payment date at 14 August 2019. Dividend will be distributed among all 1,250 million shares.

The Resolution of the Bank's Ordinary General Shareholders' Meeting on the appropriation of the Bank's profit for 2018 complies with the individual recommendation of the PFSA of 25 February 2019 to increase own funds by retaining at least 50% of the profit earned in the period from 1 January to 31 December 2018 unappropriated. At the same time, the PFSA confirmed that the Bank meets the requirements to pay dividend at the level of 50% of net profit earned in 2018.

DIVIDEND POLICY

The dividend policy of the Bank and the Bank's Group is specified in the "Principles for management of capital adequacy and equity in PKO Bank Polski SA and in the PKO Bank Polski SA Group."

The objective of the dividend policy is to optimally shape the Bank's and the Bank's Group's capital structure, taking into account the return on capital and its cost, and capital requirements related to development, while taking into consideration the necessity to ensure an appropriate level of the capital adequacy ratios.

The dividend policy assumes stable dividend payments in the long term, in keeping with the principle of prudent management of the Bank and the Bank's Group, and a policy for making payments out of the capital surplus above the minimum capital adequacy ratios arising from the universally binding provisions of the law and regulatory requirements, and the minimum level of capital ratios set by the Polish Financial Supervision Authority for the purpose of dividend payment by the Bank with Tier 1 capital ratio at 14.62%. Regulatory requirements should also be understood as the position of the Polish Financial Supervision Authority, as the supervisory authority, with respect to the possibilities of paying dividend by financial institutions, which includes the Bank.

6. ORGANIZATION OF THE PKO BANK POLSKI SA GROUP

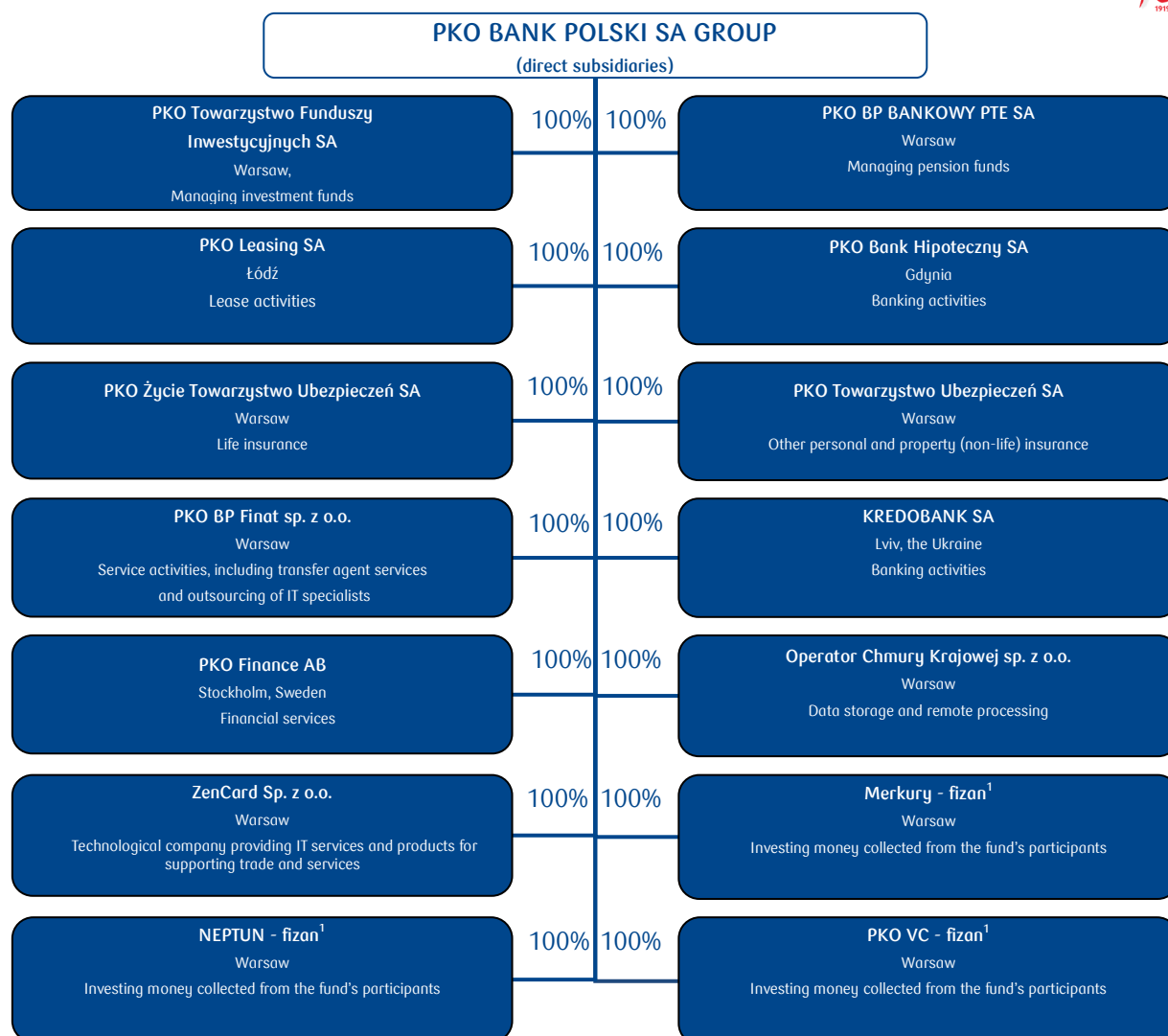
Entities covered by the financial statements Key changes to the structure of Bank's Group Transactions with related entities
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6.1 ENTITIES COVERED BY THE FINANCIAL STATEMENTS

As at 30 June 2019 the PKO Bank Polski SA Group was composed of the Bank, which was the parent, and 41 direct or indirect subsidiaries.¹² The consolidated financial data included PKO Bank Polski SA – the parent of the PKO Bank Polski SA Group – and its subsidiaries within the meaning of IFRS 10 "Consolidated financial statements".

The PKO Bank Polski SA Group comprises the following direct subsidiaries:

¹² The number of subsidiaries includes all levels of subsidiaries.



1) PKO Bank Polski SA holds investment certificates of the fund

The list presents the share of PKO Bank Polski SA in the company's share capital, and in the case of funds – share of the fund's investment certificates held. All subsidiaries listed in the consolidated financial statements of the Bank's Group are accounted for using the acquisition accounting method.

6.2 KEY CHANGES TO THE STRUCTURE OF BANK'S GROUP

In the first half of 2019 the following significant events affected the structure of the PKO Bank Polski SA Group.

ACQUISITION OF PRIME CAR MANAGEMENT SA BY PKO LEASING SA

PKO Leasing SA (the Bank's subsidiary) acquired in total 100% of shares in a public company, Prime Car Management SA (PCM), including:

- on 27 May 2019, it acquired 11,244,402 shares of PCM (which accounted for 94.4% of the Company's share capital carrying 94.4% of votes at the General Shareholders' Meeting) as a result for a call to subscribe for the sale of PCM shares announced by PKO Leasing SA on 18 April 2019 in accordance with Art. 74 (1) of the Act dated 29 July 2005 on public offering and on the conditions of introducing financial instruments to the organized trading system and on public companies (Act on Public Offering), by settling the acquisition of shares covered by the subscription under phase 1 of the call;
- on 24 June 2019, it acquired 664,438 shares of PCM (the remaining shares) as part of a squeeze-out procedure in accordance with Art. 82 (1) of the Act on Public Offering and Regulation of the Minister of Finance of 14 November 2005 on acquiring shares in a public company through a squeeze-out.

The total acquisition price amounted to PLN 283 million. The purchase of shares was financed from an overdraft facility granted to PKO Leasing SA by PKO Bank Polski SA.

The business operations of the acquired company consist of conducting leasing activities (finance and operating leases) and managing a car fleet.

From 17 June 2019, PCM shares were traded on the Main Market of the Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie SA). PKO Leasing SA intends to take necessary actions to reverse the dematerialization and withdraw PCM shares from trading on the regulated market.

Due to the purchase of PCM, its subsidiaries joined the PKO Leasing SA Group: Masterlease sp. z o.o., MasterRent24 sp. z o.o. and Futura Leasing SA, whose core business consists primarily of car rental, finance lease, sales of motor vehicles and maintenance and repair of motor vehicles.

The effect of synergy resulting from the acquisition of Prime Car Management SA and its subsidiaries will be the reinforcement of the PKO Leasing SA Group's leading position in the lease sector (including operating leases) and the expansion of fleet management and car rental services. At the same time, in June 2019, PKO Bank Polski SA granted two loans totalling PLN 1,890 million to PCM to change the financing structure of PCM and its Group (refinancing the existing liabilities of PCM resulting from loan agreements concluded and bonds issued, and financing and refinancing current operations). The value of early repayments of loans made by PCM as at 30 June 2019 totalled PLN 1,305 million.

MERGER OF QUALIA DEVELOPMENT SP. Z O.O. AND PKO LEASING SA

On 28 June 2019, the National Court Register with jurisdiction over the acquirer registered the merger between Qualia Development sp. z o.o. (the Bank's subsidiary) as the acquiree, and PKO Leasing SA as the acquirer. The merger took place in accordance with Article 492 § 1 item 1 of the Commercial Companies Code (merger by acquisition) by transferring all the assets of the acquiree to the acquirer, with a simultaneous increase in share capital of the acquirer and conversion of the shares in the acquiree into the shares of the acquirer.

After the merger, PKO Bank Polski SA holds shares of PKO Leasing SA constituting 100% of the company's share capital carrying 100% of the votes at the General Shareholders' Meeting.

6.3 TRANSACTIONS WITH RELATED ENTITIES

In the first half of 2019 PKO Bank Polski SA provided services to its related (subordinated) entities within the scope of maintaining bank accounts, accepting deposits, granting loans and advances, issue of debt securities, granting guarantees and spot exchange transactions and offering units and certificates of investment funds, lease products, factoring products and insurance products of the Bank's Group, and services offered by Dom Maklerski of PKO Bank Polski SA, all on an arm's length basis.

The Bank provided the following services to PKO Bank Hipoteczny SA: intermediation in sales of housing loans for individuals, performing tasks as part of the after sales services in respect of these loans and support tasks under the outsourcing agreement. PKO Bank Polski SA offered its infrastructure and IT services and rented office space to selected companies of the Bank's Group. The Bank together with Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o. provided payment transaction clearing services.

A summary of the significant transactions between PKO Bank Polski SA and its subordinated entities, including these companies' indebtedness vis-à-vis the Bank as at 30 June 2019 is presented in the condensed interim financial statements of the PKO Bank Polski SA for the six month-period ended 30 June 2019 (Note 26).

7. ACTIVITIES OF THE PKO BANK POLSKI SA GROUP¹³

Operating segments of the Bank's Group
 Other services
 Market position of the Bank's Group
 Distribution network and access channels
 Operations of other PKO Bank Polski SA Group companies
 Sponsorship and charity activities
 Prizes and awards granted to the PKO Bank Polski SA Group

7.1 OPERATING SEGMENTS OF THE BANK'S GROUP¹⁴

Retail segment
 Corporate and investment segment

The PKO Bank Polski SA Group conducts business activities in segments which offer products and services addressed to specific groups of Customers. The manner in which the business segments are divided ensures consistency with the sales management model and offers Customers a comprehensive product mix. Currently, the Bank's Group conducts its business activities in the retail segment as well as in the corporate and investment segments.

RETAIL SEGMENT

The retail segment offers a full range of banking products and services to individuals and as part of retail and private banking. Furthermore, it also comprises transactions concluded with companies and enterprises, developers, co-operatives and real estate managers. The products and services offered to Customers in this segment include, amongst others: current accounts, savings accounts, term deposits, private banking services, investment and insurance products, credit and debit cards, electronic banking and mobile banking services, consumer and housing loans, business loans and leases, and factoring.

NUMBER OF CUSTOMERS: 10.8 MILLION
 FINANCING GRANTED: PLN 175 BILLION
 SAVINGS VOLUME: PLN 243 BILLION

CORPORATE AND INVESTMENT SEGMENT

The corporate and investment segment includes transactions concluded with corporate Customers, local government authorities and financial institutions. Products and services offered to Customers comprise: transactional banking (including operating accounts), deposit products and other products used for managing liquidity, trade financing, treasury products, loan-related products which finance both the current needs and investment needs (including lease and factoring). This segment also comprises brokerage activities and own activities, i.e. managing the Bank's liquidity and investment activities.

NUMBER OF CUSTOMERS: 15.5 THOUSAND
 FINANCING GRANTED: PLN 72 BILLION
 DEPOSITS VOLUME: PLN 46 BILLION

¹³ The financial data of the PKO Bank Polski SA Group companies is presented in accordance with the IAS/IFRS financial statements of those companies.

¹⁴ The management information of the Bank is presented in this sub-chapter; any differences in the sums, shares and rates of increase/decrease arise from rounding.

7.1.1 RETAIL SEGMENT

Segment Customers
 Business volumes
 Activities conducted in the first half of 2019

In the first half of 2019 the PKO Bank Polski SA Group continued to build strong and long-term relationships with Customers and focused on adapting the products to Customer needs and on developing access tools and channels, enabling Customers convenient finance management from any place and at any time.

The PKO Bank Polski SA Group offer covers a wide range of credit, deposit and insurance products.

Individuals can take advantage of the financing offered under consumer products available as cash advances, mortgage loans, revolving loans, credit cards and housing loans. The credit offer for companies and enterprises is available in the form of investment and investor loans, revolving loans, lease and factoring.

The deposit and investment offer is addressed to retail Customers and comprises, among other things, regular saving products, term deposits, investment products of PKO Towarzystwo Funduszy Inwestycyjnych SA, and Treasury savings bonds.

The Bank's Group's offer provides insurance services, both those related and not related directly to bank products, to all Customers in the retail segment. Insurance connected with Bank products is offered to Customers in connection with, among other things, consumer loans and mortgage loans, savings and settlement accounts and bank cards. The offer of insurance independent of Bank products includes, among other things, life insurance, insurance of real estate, travel, oncological insurance policy OnkoPlan, or insurance of the leased assets.

SEGMENT CUSTOMERS

As at the end of June 2019 the Retail Segment serviced over 10.8¹⁵ million Customers, including:

- 10.3 million individuals;
- nearly 0.5 million companies and enterprises.

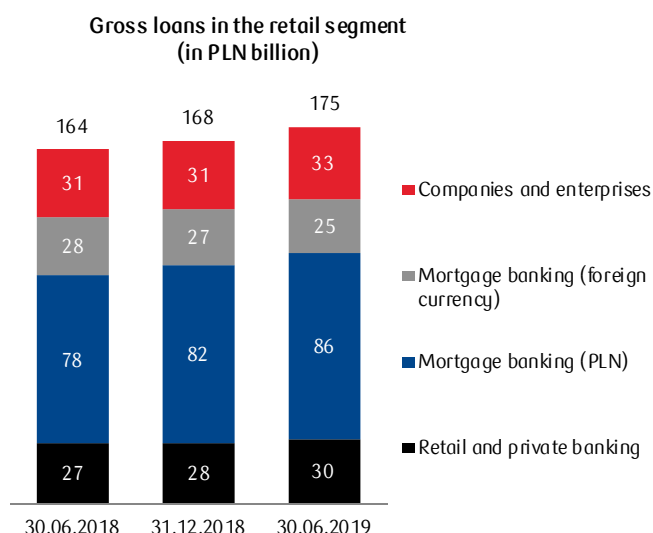
Since the beginning of 2019 the number of Customers serviced by the segment increased by 125 thousand.

BUSINESS VOLUMES

As at the end of June 2019, the total loans and advances to retail segment Customers amounted to nearly PLN 175 billion and went up by approx. PLN 6.7 billion (i.e. 4.0%) since the start of the year. This was mainly due to the growth of the portfolio of PLN-denominated mortgage banking loans (PLN +3.7 billion), loans for companies and enterprises (PLN +2.4 billion), and retail and private banking (PLN +1.7 billion), accompanied by a decrease in the portfolio of foreign currency mortgage loans (PLN -1.1 billion).

As at the end of the first half of 2019 lease receivables in the retail segment amounted to PLN 12.9 billion and from the beginning of the year, grew by 16%.

As at 30 June 2019, savings in the retail segment amounted to PLN 244 billion and increased as of the beginning of the year by PLN 9.4 billion (i.e. 4.0%). This was partly due to an increase in the level of retail and private banking deposits (mainly current deposits) and Treasury savings bonds.



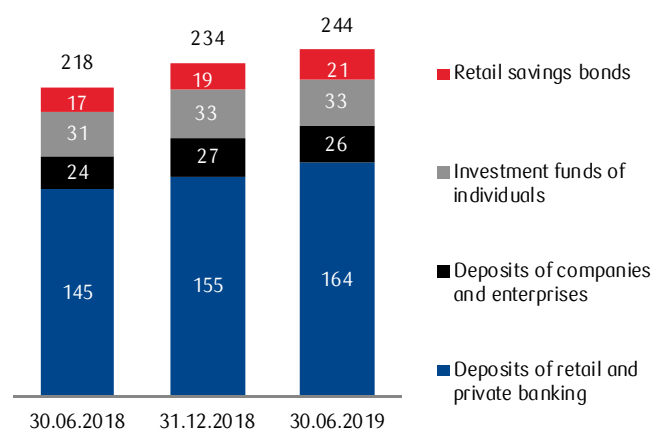
¹⁵ In 2019, the method of presentation of the number of segment Customers changed. The former approach was from the point of the products and individual business lines, and the new methodology focuses on Customers and the Bank's potential.

As at the end of June 2019, the Bank's Group reinforced its position as leader on the market in terms of current accounts maintained, which amounted to 7.6 million and went up by 324 thousand during the year.

The Bank's Group offers its retail and private banking Customers 55 individual funds and subfunds, in which assets amounting to PLN 32.8 billion¹⁶ have been accumulated.

In the first half of the year, the Bank's Group sold nearly 71 million Treasury savings bonds (i.e. 22% more than in the first half of 2018), and the debt in respect of the Treasury savings for savings purposes issued to the domestic market amounted to PLN 20.7 billion¹⁷ and was more than PLN 3.5 billion higher than in the corresponding period of the prior year.

Savings of Customers in the retail segment
 (in PLN billion)



ACTIVITIES CONDUCTED IN THE FIRST HALF OF 2019

In the first half of 2019, among other things, the PKO Bank Polski SA Group:

- with regard to the activities on the housing loans market:
 - granted loans to individuals for a total of PLN 7.8 billion, which allowed it to maintain top position on the market with the share of 27% over the entire first half of 2019;
 - in its new offer, replaced 3M WIBOR with 6M WIBOR (reference ratio for mortgage loans and advances);
 - made available in the iPKO service an order to disburse another tranche of mortgage loans;
- with regard to consumer loans:
 - cancelled the requirement to apply security for a revolving loan up to PLN 200 thousand of the Bank's total exposure to the Customer in respect of consumer transactions;
 - expanded the offer to include a loan with a low APR of even as low as 5.11% to finance the purchase and installation of photovoltaic panels;
 - increased the maximum available amount of the loan for the basic segment Customers – the amount went up from PLN 120 thousand to PLN 200 thousand;
- with regard to the transactions and savings offer:
 - upon the Bank's centenary, it introduced in its offer a deposit for new funds with an interest rate of 1.919% p.a.;
 - as the first Bank in Poland, it launched the possibility to pay income tax from governmental portal www.epodatki.gov.pl with application of system Paybynet;
 - carried out a subscription for structured deposits, such as: 18-month structured deposits based on the EUR/PLN exchange rate (3 subscriptions) and 25-month structured deposits based on the basket of shares of Swiss, Spanish, Dutch, pharmaceutical and luxury goods sector;
- with regard to the investment offer:
 - reduced the fee for the purchase of the PKO Portfele Inwestycyjne fund in the Bank's Branches from 2% to 1% (valid till end of March) and cancelled fees for purchasing participation units in the PKO TFI funds through iPKO;
 - also carried out a promotion of PKO Papierów Dłużnych Plus and PKO Obligacji Długoterminowych subfunds, which involved the possibility of purchasing them in the Branches with no commission;
- with regard to the digitization of Customer services, a virtual car rental centre was launched at www.autowynajem.pkoleasing.pl.

¹⁶ Source: Analityz Online

¹⁷ Nominal value; source: Dom Maklerski PKO Banku Polskiego SA.

7.1.2 CORPORATE AND INVESTMENT SEGMENT

Segment Customers
 Business volumes
 Activities conducted in the first half of 2019

Thanks to the constant improvement of management standards in the corporate sales network, the PKO Bank Polski SA Group was consequently developing its relationships with Customers, extending its scope based on the wide range of products offered.

The Bank's Customers interested in expanding into international markets may avail themselves of a wide range of products and services, such as: transaction banking products, including international cash pooling, e-banking, treasury products, trade finance and corporate loans, offered by the Bank's foreign branches.

SEGMENT CUSTOMERS

At the end of June 2019, the Corporate and Investment Segment served more than 15.5 thousand Customers, including:

- 8.5 thousand corporate Customers;
- 1.2 thousand strategic Customers;
- more than 4.8 thousand local and central government institutions, including budget-dependent and other related entities;
- nearly 0.8 thousand foreign Customers;
- more than 0.3 thousand financial Customers.

The Bank maintains its position as the leader on the market of servicing the largest local government units: handles the budgets of 9 voivodeships and 9 voivodeship cities. The Bank has been systematically reinforcing its leading position in the financing of the Polish economy, both on its own and as a major member of banking syndicates, with a share commensurate with its market position.

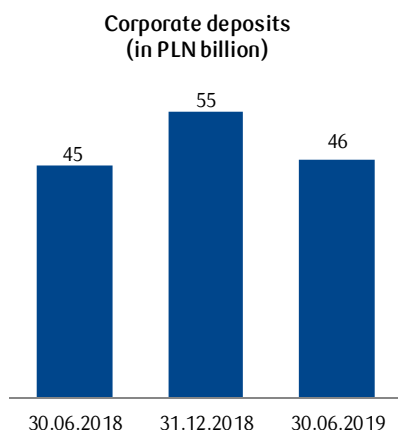
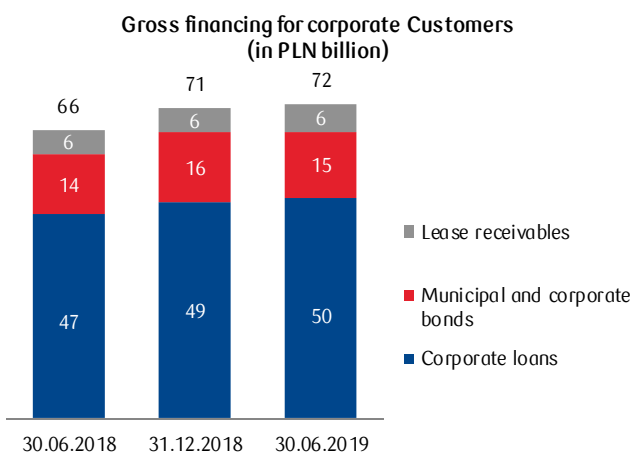
As part of the product offer of the Bank's Group, corporate Customers may avail themselves of lease and factoring products and services. Any fixed assets are financed with leases, depending on Customers' needs. In addition to standard products, the product and service range comprises car fleet leasing services and cooperation with suppliers.

BUSINESS VOLUMES

The Bank supports the Polish economy and participates in the financing of strategic investment projects and local government investments. Such financing takes the form of syndicated and bilateral loans or issues of securities.

At the end of June 2019, the total financing of corporate Customers, including loans, bonds issued and lease receivables, amounted to PLN 72 billion, and since the beginning of the year has increased by PLN 1.0 billion (i.e. by 1.4%). The increase was mainly related to loan and lease receivables.

The Bank maintains securities accounts for Customers and facilitates Polish and foreign market transactions, and acts as a depositary for pension and investment funds.



As at the end of the first half of 2019, the value of the Customers' assets held on fiduciary accounts was more than PLN 119 billion and it was slightly higher than at the end of 2018.

The PKO Bank Polski SA Group offers wide access to funds to its Customers for the financing of complex investment projects, and the services of advisors focused on selecting optimum financing and repayment terms.

The level of corporate deposits at the end of June 2019 amounted to nearly PLN 46 billion and decreased by more than PLN 9 billion from the beginning of the year, mainly due to the drop in term deposits.

In 2019, the Bank's Group intensified its activities in respect of the PPE and PPK retirement products offered to corporate Customers.

ACTIVITIES CONDUCTED IN THE FIRST HALF OF 2019

In the first half of 2019, among other things, the PKO Bank Polski SA Group:

- with regard to Customer service and transaction banking:
 - Implemented the Cash Pooling service for its largest Customers;
 - Started transaction-related cooperation with 41 new Polish and foreign financial companies;
- with regard to financing corporate Customers in the form of banking syndicates and organization of bond issues, it concluded:
 - 9 loan agreements in a banking syndicate for a total of PLN 22.9 billion, where the Bank's share amounted to PLN 4.1 billion, and 3 bilateral agreements for entities related to the Bank totalling PLN 1.9 billion;
 - 4 agreements for the arrangement of corporate bond issues without underwriting in the amount of PLN 6.5 billion and one issue programme agreement with underwriting amounting to PLN 100 million;
 - 97 agreements on the issue of municipal bonds totalling PLN 0.7 billion.
- with regard to brokerage activities (Dom Maklerski PKO Banku Polskiego SA):
 - turnover on the secondary market of shares reached PLN 17 billion, which accounted for 8.3% of the market turnover, and placed Dom Maklerski PKO Banku Polskiego SA as leader in the ranking of brokerage houses;
 - arranged, among other things, under an IPO by Deutsche Bank, the sale of Santander Bank Polska SA shares amounting to approx. PLN 560 million, a transaction of bond issues by ECHO Investment SA for approx. PLN 34 million and the distribution of Ghelamco Invest Sp. z o.o. bonds for PLN 35 million;
 - maintained nearly 125 thousand securities and cash accounts and over 204 thousand register accounts. In terms of the number of securities accounts (according to KDPW data), DM is ranked 4th out of the forty market players;
 - provided services concerning units in 389 funds and sub-funds managed by 13 fund management companies.

7.2 OTHER SERVICES

Online currency exchange service
Apple Pay and Garmin Pay in PKO Bank Polski SA
Sign language online translator at PKO Bank Polski SA branches
Energy-effective mortgages – pan-European project with the participation of PKO Bank Polski SA and PKO Bank Hipoteczny SA
e-Księgowość (electronic accounting)
e-Prawnik (electronic lawyer)

ONLINE CURRENCY EXCHANGE SERVICE

PKO Bank Polski SA makes available an online currency exchange service in the iPKO transaction service and in the IKO mobile application as a simple and intuitive tool enabling fast and safe online currency exchange. The currency exchange service handles 10 foreign currencies - EUR, GBP, USD, CHF, DKK, NOK, SEK, CZK, HRK, HUF.

Individual Customers holding a foreign currency account with PKO Bank Polski SA may:

- exchange currencies in real time, with immediate settlement of the transaction;
- transact at attractive rates and free of charge for accessing the service (the possibility to trade in respect of several dozen currency pairs including such currencies as: US dollar, Swiss franc, Euro, pound Sterling, and Swedish, Norwegian and Danish kronas/krones);
- follow currency charts online and use text message notifications when the exchange rate reaches a certain level;
- in combination with other products such as a multi-currency card, manage their finances more effectively and handle daily payments in foreign currencies.



APPLE PAY AND GARMIN PAY IN PKO BANK POLSKI SA

From August 2018, the Bank's Customers can use the Apple Pay and Garmin Pay services.

The Apple Pay service allows to use an Apple mobile phone instead of a payment card and make cashless transactions using Apple devices which are charged to the account of a PKO Bank Polski SA credit card.

As a result of the Garmin Pay service, individual Customers of the Bank who have smartwatches with this function can make pay pass transactions charged to their payment cards.

SIGN LANGUAGE ONLINE TRANSLATOR AT PKO BANK POLSKI SA BRANCHES

In each facility of PKO Bank Polski SA, an institution breaking down barriers, focused on modern technologies, people with impaired hearing can freely communicate with employees and handle all banking matters. They can use the assistance of Migam, an online sign language translator which participates in the conversation between the advisor and the Customer. This form allows breaking down the language barrier and offering services at the same level to all Customers. The online translator service is available to Customers during branch working hours. Meetings with the use of online Polish sign language translators do not have to be arranged in advance.

ENERGY-EFFECTIVE MORTGAGES – PAN-EUROPEAN PROJECT WITH THE PARTICIPATION OF PKO BANK POLSKI SA AND PKO BANK HIPOTECZNY SA

PKO Bank Polski SA and PKO Bank Hipoteczny SA, were the first banks in Poland to join the pilot project Energy Efficient Mortgages (EEM). The project is aimed at creating standardized, pan-European solutions for mortgage loans granted for financing apartments and houses which use energy-saving solutions.

The purpose of the EEM project is, among other things, to build a package of preferential terms for lenders which will encourage them to buy energy-efficient real estate, or to improve the energy efficiency of existing buildings. In the long term, the activities conducted under the programme may result in a reduction in risk weights for banks. This should be an incentive for banks to play the key role in stimulating activities addressing climate change in the European construction sector. 45 banks in various European countries are currently participating in the initiative.

E-KSIĘGOWOŚĆ (ELECTRONIC ACCOUNTING)

The e-Księgowość service which was made available in the first half of 2019, addressed to companies and enterprises facilitates, among other things, invoicing, corporate finance management, quick access to payments, analysis of current sales and costs, and forecasting expenses. This tool is integrated with the iPKO online banking system, and Asystent Firmowy (a company assistant) and allows to manage finance in respect of accounts and settlements.

E-PRAWNIK (ELECTRONIC LAWYER)

In the first half of 2019, PKO Bank Polski SA provided a new service, e-Prawnik, addressed to Customers in the companies and enterprises sector. The tool allows an entirely remote, quick and comprehensive resolution of legal problems. The e-Prawnik service helps quickly find a lawyer who will perform the legal service requested for a pre-agreed fee. The Customer receives offers of legal assistance with the best matching specializations, and can select the one that best suits his needs. The new solution will help smaller companies overcome development barriers.

7.3 MARKET POSITION OF THE BANK'S GROUP

The PKO Bank Polski SA Group has a lead position on the Polish banking market for loans and deposits, on the Polish lease market and the Polish retail investment funds market.

The companies in the Bank's Group have leading positions in individual sectors of the financial services market.

Table 7. Market shares

	30.06.2019	31.12.2018	30.06.2018	Change since:	
				31.12.2018	30.06.2018
Loans for:	17.9%	17.6%	17.6%	0.3 p.p.	0.3 p.p.
individuals, of which:	22.9%	22.9%	22.9%	0,0 p.p.	0,0 p.p.
housing	26.0%	26.1%	26.0%	-0.1 p.p.	0,0 p.p.
PLN	28.0%	28.3%	28.4%	-0.3 p.p.	-0.4 p.p.
foreign currency	21.0%	21.0%	21.1%	0,0 p.p.	-0.1 p.p.
consumer and other	16.0%	15.8%	15.9%	0.2 p.p.	0.1 p.p.
in current account	31.9%	31.8%	31.3%	0.1 p.p.	0.6 p.p.
institutional entities	13.2%	12.7%	12.6%	0.5 p.p.	0.6 p.p.
Non-Treasury debt securities (indebtedness)	31.4%	32.5%	31.0%	-1.1 p.p.	0.4 p.p.
Leasing (sale)*	13.0%	11.2%	11.3%	1.8 p.p.	1.7 p.p.
Mortgage loans (sale)	27.0%	28.9%	28.3%	-1.9 p.p.	-1.3 p.p.
Total savings**	17.8%	18.4%	16.9%	-0.6 p.p.	0.9 p.p.
savings of individuals***	22.2%	22.1%	21.4%	0.1 p.p.	0.8 p.p.
Deposits for:	17.3%	18.1%	16.9%	-0.8 p.p.	0.4 p.p.
individuals	20.3%	20.2%	19.9%	0.1 p.p.	0.4 p.p.
institutional entities	13.0%	15.2%	12.8%	-2.2 p.p.	0.2 p.p.
TFI assets - funds of individuals	21.4%	22.1%	19.4%	-0.7 p.p.	2.0 p.p.
Brokerage activities - transactions on secondary market	8.3%	7.7%	8.0%	0.6 p.p.	0.3 p.p.

Source: NBP, WSE, Polish Leasing Association, PBS, Analityz Online

* Does not consider PCM

** Total savings include total deposits, TFI assets and saving Treasuring bonds

*** Savings of individuals include deposits of individuals, funds of individuals and saving Treasury bonds

7.4 DISTRIBUTION NETWORK AND ACCESS CHANNELS

IKO mobile banking
Electronic banking
PKO Bank Polski SA's Contact Centre
Branch network and agencies
Private Banking Centre
Corporate Banking Centre
Self-service points

IKO MOBILE BANKING

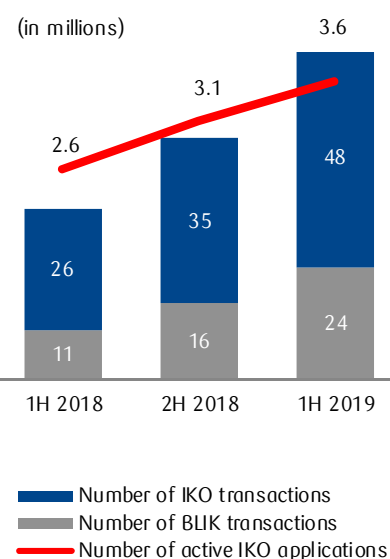


PKO Bank Polski SA offers advanced technological solutions to its Customers, providing them with complete, simple, functional and at the same time safe access to banking services using telephones.

IKO is the most popular and best developed system of mobile payments in Poland. It combines the functions of mobile banking with the ability to make mobile payments.

As at the end of the first half of 2019, the total number of IKO activations reached over 3.6 million. The application, which is constantly enhanced by new functionalities, constitutes a "bank in a smartphone" for its users. The share of the segment's Customers using mobile and Internet banking is also growing. At the end of the first half of 2019, more than 3 million of the Bank's Customers logged in to the Bank from a mobile device¹⁸ at least once a month, i.e. 23% more than a year before.

The youngest Customers of PKO Bank Polski SA, under 13 years of age, can use the PKO Junior mobile application to access their accounts. The application is the mobile equivalent of the PKO Junior service. It is additionally enhanced with



¹⁸ Logging in via IKO mobile application, a mobile version of the iPKO service or the full version of iPKO.

functions supporting financial education and the development of an entrepreneurial spirit in children.

In the first half of 2019, the IKO app was enhanced, among other things, with:

- mobile authorization which enables faster and safer approval of operations in the IKO mobile application using PIN codes for transactions which are ordered in iPKO, Inteligo, mobile IKO application or using the telephone helpline;
- the “Pomagaj z nami” (“Help us help”) function which makes it possible for Customers to transfer funds to areas supported by the Fundacja PKO Banku Polskiego foundation or any other non-governmental organization. Under Fundacja PKO Banku Polskiego, Customers can provide help in areas such as: Education, Hope, Health, PKO Bieg Charytatywny (PKO Charity Run);
- application for a currency account within which Customers can also activate an online currency exchange office and attach the newly-opened account to a multi-currency account;
- application for an overdraft, after the submission of which the Customer can accept the Bank’s offer and sign an agreement directly in the IKO application;
- application for a credit card and possibility to apply for changing the limit of the credit card, which allows Customers to quickly and easily submit applications in the IKO, without the need to log into the online service or leave home.

In addition to mobile banking and payment functions, IKO is becoming an important sales channel. Three out of four loans in remote channels are sold via the mobile banking application.

At the beginning of 2019, the IKO application again won first place as the most appreciated by Customers in the Retail International Banker ranking which covers 100 bank applications worldwide. The ranking is based on Customer ratings, given in application stores for iOS and Android. The average score of the application was 4.8/5 stars with over 150 thousand positive user opinions.

ELECTRONIC BANKING

The Bank’s Customers can use a package of electronic banking services as part of the iPKO service, and enterprises can avail themselves of iPKO Biznes electronic banking services.

These services provide Customers with access to information on their accounts and products, and enable them to effect transactions through the Internet, self-service points and by telephone.

The Bank constantly promotes remote use of internet bank accounts, self-management of accounts and banking products in the transaction service, which allows Customers to access their products faster and more easily, and to reduce the costs of using banking services.

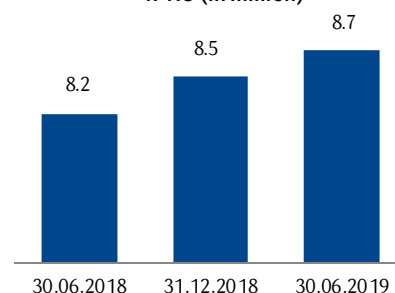
In the first half of 2019, the Bank introduced the following novelties in the iPKO offer:

- New design and functionalities of the Rachunki (Accounts) section and reorganized transaction history;
- It made it possible for children and youth aged 13-18 to file an application for a card to the PKO Konto Pierwsze account – the application is accepted in iPKO by a parent or legal guardian;
- e-Paragon, a new service – pilot implementation of a functionality corresponding to collecting a cash receipt by electronic means in respect of payments with a debit card at selected ORLEN fuel stations;
- e-Tożsamość, a new service – a function implemented in iPKO and Inteligo for creating e-Identities (Electronic Identification) and releasing the data stored in the e-Tożsamość for the purposes of public and commercial service providers;
- Oficjalna Karta Ekstraklasy and two new images of debit cards prepared on the occasion of the Bank’s centenary, which are available in an application for an account, a debit card, and a change of the image on the existing card.

Moreover, facilitating features were implemented in iPKO, such as:

- update of a 500+ application – a modified application for benefits under the Rodzina 500+ programme launched in iPKO and Inteligo (implemented in June, made available to Customers as of 1 July 2019);
- alerts about the coming expiry date of the identity document and expired identity document;
- cyclical alert confirming the data in iPKO;
- an update of the consent registration model – possibility of blocking all consents for direct debit and for specific recipients, as well as managing initiating consents;

Number of Customers in the retail segment with access to iPKO (in million)*



30.06.2018 31.12.2018 30.06.2019

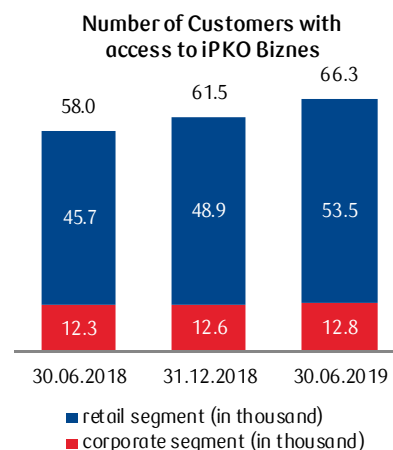
* from 2Q 2019 change in the definition - number of retail Customers who have an active product relationship in iPKO

- new mechanisms steering the display of offers in the Transakcje (Transactions) section and in the account history, which allow to adapt the contents of ads to the current needs of the Customer.

The iPKO biznes electronic banking system is addressed to all institutional Customers interested in an online channel of access to the standard products and specialist bank services, also via a mobile application.

In the first half of 2019, PKO Bank Polski SA made available to the iPKO biznes users new functionalities, such as:

- handling the Standard Audit File-Tax (ASF-T);
- to make it easier for Customers to apply additional mechanisms securing the use of accounts, default transaction limits were assigned to accounts available in the service;
- a function of unblocking a user by the administrator directly in iPKO biznes to facilitate the process of handling the account;
- history on accounts connected with loans;
- in respect of ordering foreign transfers - a function of defining foreign standing orders as well as a mechanism of waiting for funds, which allows ordering foreign transfers despite insufficient funds on the account - the system automatically monitors the balance and performs the transfer when sufficient funds arrive on the account.



PKO BANK POLSKI SA'S CONTACT CENTRE

The Contact Centre (CC) of PKO Bank Polski SA plays an important role in serving retail Customers. Its purpose is to sell the Bank's products during incoming and outgoing calls and to provide efficient and effective Customer service by means of remote communication.

PKO Bank Polski SA's hotline employs several hundred consultants who remain at the Customers' service 24 hours a day, seven days a week. The consultants not only handle telephone calls but also answer Customers' questions electronically - e-mails and website requests. Customers may also send messages in the iPKO or Inteligo transaction service and through a special Facebook tab.

BRANCH NETWORK AND AGENCIES

PKO Bank Polski SA, with an eye to providing convenient access to its products and services, provides its Customers with a wide network of retail branches and agencies, private banking offices, corporate branches, as well as branches located abroad.

As at the end of June 2019, the network of branches of PKO Bank Polski SA consisted of 1 060 of retail branches clustered in 11 regional divisions, 8 private banking offices and 11 corporate banking offices. Compared with the end of 2018, the total number of retail branches decreased by 23.

The optimization of the branch network is carried out on a continuous basis, and the decision on the branch's operation in a particular micro-market is made by reference to economic criteria, taking into account the growth potential of that micro-market. The Bank is constantly improving Customer service conditions in the branch network as part of projects performed in the Bank based on the Nowy Format Oddziałów (NFO) model which assumes creating a modern bank facility which is friendly to Customers and the Bank employees. The new standard has been supported by the availability of new technologies - the WIFI zone, self-service cash windows, possibility of charging mobile phones, LCD monitors, tablets, authorization of selected Customer orders at the counter using text messages, which firmly support the process of providing services with regard to educating Customers and changing their habits.

The sales network of the corporate segment comprises 33 Regional Corporate Centres clustered in seven Corporate regions and branches in the Federal Republic of Germany and the Czech Republic.

Table 8. Operating data of the retail and corporate segment

	30.06.2019	31.12.2018	30.06.2018	Change since:	
				31.12.2018	30.06.2018
Number of branches in the retail segment:	1,090	1,113	1,146	-23	-56
regional retail branches	11	11	11	0	0
retail branches	1,060	1,083	1,116	-23	-56
private banking branches	8	8	8	0	0
corporate banking branches	11	11	11	0	0
Number of branches in the corporate and investment segment:	42	42	41	0	1
regional corporate branches	7	7	7	0	0
regional corporate centres	33	33	32	0	1
foreign branches	2	2	2	0	0
Number of ATMs	3,106	3,133	3,185	-27	-79
Number of agencies	535	577	600	-42	-65

The branch and ATM network is complemented by the agency network. As at the end of June 2019, PKO Bank Polski SA collaborated with 535 agencies. Since the beginning of the year, the number of agencies dropped by 42 as a result of continued efforts to increase the sales network's effectiveness, i.e. to implement a new agency agreement.

The decrease in the number of agencies and retail branches is also a result of the digital transformation, which is one of the key elements of the consistently implemented development strategy of PKO Bank Polski SA. The digital transformation supports Customers switching to remote service channels and at the same time implements the assumptions of the government project "Od papierowej do cyfrowej Polski".

PRIVATE BANKING CENTRE

PKO Bank Polski SA is constantly developing its Private Banking and enables Customers to access a wide range of products and financial instruments.

The Private Banking Offices serve Customers in the largest Polish cities: Warsaw, Gdańsk, Kraków, Katowice, Poznań, Wrocław, Łódź, Szczecin and Bydgoszcz. As at the end of the first half of 2019, the Private Banking Centre managed a portfolio of assets with a value of PLN 28.7 billion (as at the end of 2018, the value of the portfolio amounted to PLN 25 billion).

CORPORATE BANKING CENTRE

The Corporate Banking Centre of PKO Bank Polski SA is an optimum environment created for the development of businesses with revenues ranging from PLN 5 million to PLN 30 million and similar product and service needs.

A separate Corporate Banking Centre makes it possible to project the image of PKO Bank Polski SA as a reliable business partner for Polish businesses, thanks to:

- a dedicated service team;
- creation of a specialized group of mobile advisors cooperating directly with the credit analyst;
- introducing improvements in the credit process, enhancing the advisors' credit skills, better matching of the product and price range tailored to Customer needs, and reducing the time required to make credit decisions;
- limiting paper documentation in relations with the Bank, using remote methods of direct communication with Customers, as well as automating processes using the iPKO.

SELF-SERVICE POINTS

From 2017, all individual and corporate Customers of PKO Bank Polski SA who have cards for their bank accounts can use self-service cash windows with touch screens.

Customers may avail themselves, among other things, of the function of cash deposits into their own account, cash withdrawals, transfers between their own accounts, transfers to any account, setting up a deposit account, checking or printing out the account balance and other transactions currently available in ATMs.

7.5 OPERATIONS OF PKO BANK POLSKI SA GROUP COMPANIES

Apart from strictly banking activities, the Bank's Group provides specialized financial services related to leases, factoring, investment funds, pension funds, insurance and provides car fleet management services, transfer agent services, provides technological solutions, IT outsourcing, debt collection, business support services, and also real estate management.

CHARACTERISTICS OF SELECTED PKO BANK POLSKI SA GROUP COMPANIES¹⁹

PKO BANK HIPOTECZNY SA

PKO Bank Hipoteczny SA is the leader of the Polish mortgage bank market in terms of total assets and balance of mortgage loans. The Company is also the largest and most active issuer of mortgage-covered bonds in Poland.

PKO Bank Hipoteczny SA specializes in granting residential mortgage loans to individual Customers; it also purchases receivables in respect of such loans from PKO Bank Polski SA. PKO Bank Hipoteczny SA acquires loans for its portfolio based on its strategic cooperation with PKO Bank Polski SA.

In the first half of 2019, PKO Bank Hipoteczny SA generated a net profit of PLN 30.6 million (vs. PLN 42.6 million in the corresponding period of 2018).

In the first half of 2019, under the Receivables Sale Framework Agreement signed with PKO Bank Polski SA in 2015, PKO Bank Hipoteczny SA acquired further portfolios of residential loans secured with mortgages, of PLN 2.5 billion in total. The total gross value of the PKO Bank Hipoteczny SA loan portfolio as at 30 June 2019 amounted to PLN 24.6 billion, including PLN 14.2 billion of mortgage-secured housing loans purchased from PKO Bank Polski SA.

The basic task of the company is issuing mortgage-covered bonds which constitute one of the main sources of long-term financing of loans secured with mortgages in the PKO Bank Polski SA Group. The mortgage-covered bond issues are based exclusively on housing loans in PLN which meet conservative criteria of granting, both in terms of the borrower's creditworthiness and in terms of valuation of the real estate used as collateral.

In the first half of 2019, the company carried out:

- foreign issues of EUR-denominated mortgage-covered bonds, addressed to institutional investors, with a total nominal value of EUR 700 million;
- domestic issues of PLN-denominated green mortgage-covered bonds, addressed to institutional investors, with a total nominal value of PLN 250 million.

The foreign issues were mainly carried out as part of the International Mortgage-Covered Bond Issue Programme addressed to the European market on the basis of the Base Prospectus approved by the Commission de Surveillance du Secteur Financier (CSSF) in Luxembourg.

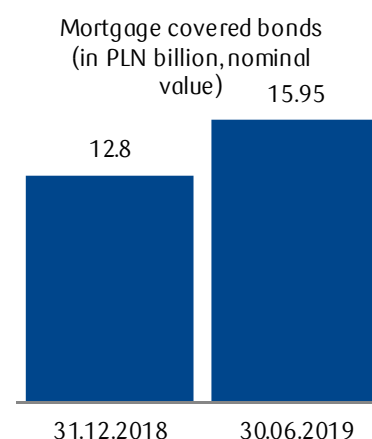
Domestic issues, including green mortgage-covered bonds, are issued under the Domestic Mortgage-Covered Bond Issue Programme addressed to the domestic market on the basis of the Base Prospectus approved by the Polish Financial Supervision Authority.

Green mortgage-covered bonds are bonds the proceeds from which are only used to finance or refinance new and/or existing projects classified as low-emission projects. Such bonds should meet the criteria laid down by the International Capital Market Association (ICMA) as the Green Bond Principles (GBP). The Principles constitute a set of guidelines for transparency, publicity and reporting, which are used to promote the consistency of the Green Bonds market.

PKO Bank Hipoteczny SA has developed criteria of energy efficiency which were approved by the Climate Bonds Initiative and are recommended as Low Carbon Building Criteria in Poland.

The green mortgage-covered bonds of PKO Bank Hipoteczny SA are certified by the Climate Bonds Initiative the certificates of which are granted to bonds which meet the highest international green standards.

The total value of mortgage-covered bonds issued by PKO Bank Hipoteczny SA and outstanding (at nominal value) as at the end of June 2019 amounted to PLN 15.95 billion.



¹⁹The results of operations presented in the description are derived from the financial statements of each company prepared according to IFRS, and for insurance companies, according to PAS.

PKO Bank Hipoteczny SA is a member of The European Covered Bond Council (ECBC). In 2018, it was the first in Poland to join the Covered Bond Label which is a quality certificate, the aim of which is to create an awareness of necessary security and high quality of mortgage bond assets among their issuers;

PKO TOWARZYSTWO FUNDUSZY INWESTYCYJNYCH SA

The core business of the company is the creation and management of investment funds (including intermediation in the purchase and sale of participation units), and representation vis-à-vis third parties and the management of the Customers' portfolios, which include one or more financial instruments. The company also offers specialized investment programs and conducts, among other things, employee pension programs (PPE) and employee capital programs (PPK).

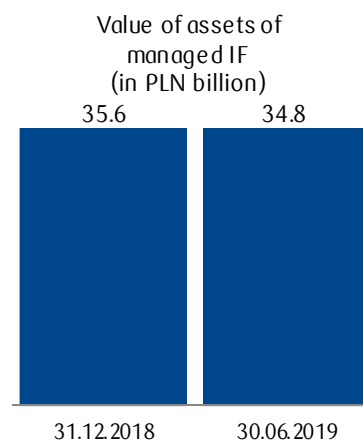
In the first half of 2019, the company generated a net profit of PLN 151.4 million (PLN 119.4 million in the first half of 2018). The increase in the profit was the effect of a change in the rules for assessing remuneration for distributors in accordance with recommendations of the Polish Financial Supervision Authority.

The value of the funds' net assets under the company's management amounted to PLN 34.8 billion as at the end of June 2019, which represents a 2.2% decrease in assets compared with the end of 2018.

PKO Towarzystwo Funduszy Inwestycyjnych SA (PKO TFI SA) ranks second in terms of net asset value and has a 13.9% share in the market of investment funds; and it ranks first with a 21.4% share in terms of assets of individuals in non-dedicated funds under management.²⁰

As at 30 June 2019, PKO TFI SA managed 58 investment funds and sub-funds.

PKO TFI SA conducts activities in respect of seeking companies for PPK. The company launched in its online service a function for signing agreements electronically. By 1 August 2019, it signed 200 management agreements.



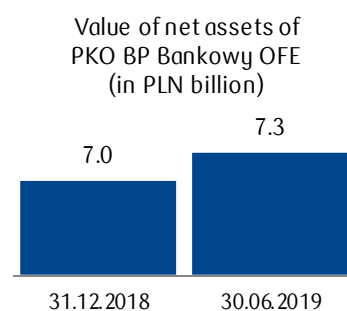
PKO BP BANKOWY PTE SA

The company manages PKO BP Bankowy Otwarty Fundusz Emerytalny (OFE) and PKO Dobrowolny Fundusz Emerytalny (DFE), within which the Individual Retirement Account (Indywidualne Konto Emerytalne – IKE) and Individual Retirement Security Account (Indywidualne Konto Zabezpieczenia Emerytalnego – IKZE) are offered.

In the first half of 2019, PKO BP BANKOWY PTE SA generated a net profit of PLN 6.2 million (PLN 8.5 million in the corresponding period of 2018).

Results of operations of the Open Pension Fund (OFE):²¹

- as at the end of June 2019, the net asset value of PKO BP Bankowy OFE amounted to PLN 7.3 billion, which is an increase of 3.7% compared with the end of 2018;
- as at the end of June 2019 PKO BP Bankowy OFE had approximately 906 thousand members;
- PKO BP Bankowy OFE ranks 9th on the pension fund market in terms of net asset value and in terms of the number of members.



According to the ranking of the Polish Financial Supervision Authority, in the period from 31 March 2016 to 29 March 2019, PKO BP Bankowy OFE achieved a rate of return of 20.995%, compared with the average weighted rate of return for all funds of 19.700%, and ranked 3rd among pension funds operating on the market.

²⁰ Source: Analizy Online

²¹ Source: www.knf.gov.pl

PKO LEASING SA GROUP

In 2019, PKO Leasing SA acquired in total 100% of shares of Prime Car Management SA. As a result of this transaction, the PKO Leasing SA Group was extended by the aforesaid company and companies controlled by it, i.e. Futura Leasing SA, Masterlease sp. z o.o., and MasterRent24 sp. z o.o.

In June 2019, Qualia Development sp. z o.o. combined, as the acquiree, with PKO Leasing SA, as the acquirer.

The PKO Leasing SA Group (i.e. PKO Leasing SA and its subsidiaries) offers financial services in respect of lease, factoring and insurance and provides fleet management and vehicle rental services.

In the first half of 2019, the PKO Leasing SA Group earned a net profit of PLN 147.3 million. This result takes into consideration the settlement of acquisition of Prime Car Management SA (PCM) and the result of the Prime Car Management SA Group (PCM Group) obtained in June 2019. In the first half of 2018, the PKO Leasing SA Group earned a net profit of PLN 50.9 million.

Lease activities

In the first half of 2019, leasing companies in the PKO Leasing SA Group (except companies in the PCM Group) financed fixed assets with a total value of PLN 5.0 billion, which represented growth of 14.1% y/y. Worth noting is an increase in financing movables in the group of cars and trucks up to 3.5t (10.9% y/y), and machines and equipment (24.0% y/y).

In the first half of 2019, companies in the PCM Group financed fixed assets of PLN 0.3 billion in total, including PLN 0.06 billion in June.

As at the end of June 2019, the carrying amount of receivables from Customers from financing fixed assets (due and not yet due) and the carrying amount of fixed assets under operating leases of the PKO Leasing SA Group totalled PLN 20.2 billion, including companies in the PCM Group PLN 1.8 billion.

According to the data of the Polish Lease Association, as at 30 June 2019, the PKO Leasing SA Group (excluding the PCM Group) had a 13.0% share in the lease market in terms of funds provided to Customers.²²

Factoring activities

In the first half of 2019 factoring revenue amounted to PLN 9.4 million. As at the end of June 2019, the number of Customers amounted to 575 (535 Customers at the end of 2018).

As at 30 June 2019, PKO Faktoring SA ranked 7th (by turnover) among the factoring companies associated in the Polish Factors' Association, with a market share of 7.1%.

PKO ŻYCIE TOWARZYSTWO UBEZPIECZEŃ SA GROUP

The PKO Życie Towarzystwo Ubezpieczeń SA Group consists of PKO Życie Towarzystwo Ubezpieczeń SA and its subsidiary, Ubezpieczeniowe Usługi Finansowe sp. z o.o.

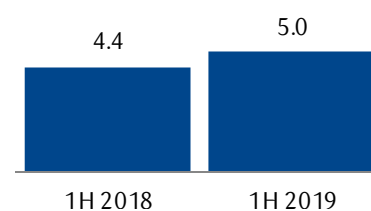
The PKO Życie Towarzystwo Ubezpieczeń SA Group generated a net profit of PLN 10.9 million in the first half of 2019 (in the first half of 2018, the Group's net profit was PLN 13.5 million). The decrease is a result of one-off "writing off" a deferred tax asset of PLN 8.5 million.

PKO Życie Towarzystwo Ubezpieczeń SA's business consists of insurance activities in the scope of Section I: life insurance.

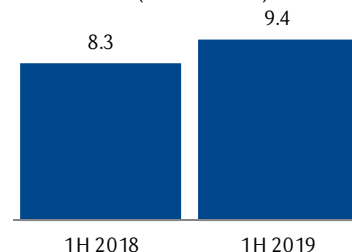
PKO Życie Towarzystwo Ubezpieczeń SA offers a wide range of insurance products. The Company focuses on insuring the life and health of its Customers, it offers standalone products and products linked to the banking products offered by PKO Bank Polski SA.

Gross written premiums from insurance contracts written by the company were PLN 268.2 million in the first half of 2019.

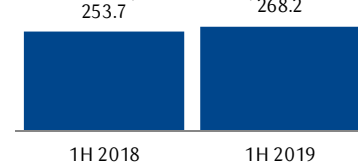
Value of financed fixed assets (in PLN billion)



Value of factoring turnover (in PLN billion)



Gross written premium (in PLN million)



²² Data published by the Polish Lease Association starting from 2019 does not provide results of individual lease companies, and therefore does not allow specifying the market position of individual firms.

As at the end of June 2019, the company insured 931 thousand people (847 thousand people as at the end of June 2018).

Ubezpieczeniowe Usługi Finansowe sp. z o.o. provides support services.

PKO TOWARZYSTWO UBEZPIECZEŃ SA

In the first half of 2019, the company reported a net profit of PLN 24.2 million (in the corresponding period of 2018, the company's net profit amounted to PLN 14.5 million). The increase in the financial profit is due to an increase in the scale of the company's operations, which is reflected by a significantly higher number of Customers who have insurance policies.

The company's core business consists of insurance activities in respect of insurance sector II – other personal insurance and property insurance.

PKO Towarzystwo Ubezpieczeń SA focuses on insuring the risk of loss of income, personal accidents and sickness, and on insuring properties for borrowers and mortgage borrowers. The company offers a wide range of insurance products addressed to Customers of the Bank and other members of the Bank's Group.

In the first half of 2019, the Polish Financial Supervision Authority approved a change in the scope of the company's activities by extending it to comprise insurance activities in group 3 (accident and theft insurance in respect of land vehicles) and 10 (third-party liability of owners of mechanical vehicles, including shipper's liability) in Section II.

In the first half of 2019, the company introduced in its offer Truck Assistance and Car Assistance for Customers of the PKO Leasing SA Group.

Gross written premiums from insurance contracts written by the company were PLN 332.7 million in the first half of 2019.

As at the end of June 2019, the company insured 908.5 thousand people (as at the end of June 2018: 804 thousand people).

THE KREDOBANK SA GROUP (DATA ACCORDING TO IFRS, APPLIED BY THE PKO BANK POLSKI SA GROUP)

The KREDOBANK SA Group consists of KREDOBANK SA and its subsidiary, Finansowa Kompania "Idea Kapital" sp. z o.o.

KREDOBANK SA is a universal bank, focused on services for retail Customers and companies and enterprises which operate mainly in the western part of Ukraine and in Kiev. At the same time the company strives to attract corporate Customers with high creditworthiness.

The company offers services including maintaining bank accounts of individuals and businesses, collecting deposits, lending, issuing warranties and guarantees, leases, checks and bills trading, operations on the currency market, as well as operations on the securities market.

The core business of Finansowa Kompania "Idea Kapital" sp. z o.o. consists of legal services in respect of acquired money claims related to loan agreements.

In the first half of 2019, the KREDOBANK SA Group's net profit amounted to UAH 196 million (PLN 27.7 million). In the first half of 2018, the Group's net profit amounted to UAH 255.8 million (PLN 33.9 million).

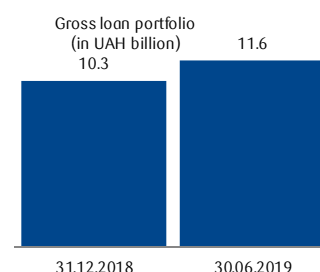
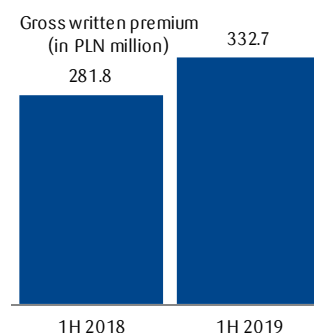
The loan portfolio of the KREDOBANK SA Group (gross) increased by UAH 1 247 million, i.e. 12.1%, in the first half of 2019, and amounted to UAH 11 576 million (the gross credit portfolio expressed in PLN amounted to PLN 1 652 million). The increase in the loan portfolio in UAH is mainly the result of new loans.

Term deposits of Customers of the KREDOBANK SA Group increased by UAH 529 million, i.e. 9.4%, in the first half of 2019, and amounted to UAH 6 151 million (term deposits expressed in PLN amounted to PLN 878 million). The level of UAH-denominated deposits results from the level of credibility and ranking of KREDOBANK SA on the banking market in the Ukraine.

As at 30 June 2019, the network of KREDOBANK SA outlets comprised the Head Office in Lviv and 84 branches in 22 of the 24 provinces of Ukraine. In the first half of 2019, the location of 1 branch was changed and 9 branches were closed down.

PKO BP FINAT SP. Z O.O.

PKO BP Finat sp. z o.o. provides comprehensive services to companies in the financial sector, among other things, in respect of providing technological solutions, transfer agent, fund and company accounting and also manages group



insurance dedicated to the products offered by PKO Bank Polski SA. It also specializes in outsourcing skilled IT specialists, project teams and IT processes. On the basis of the authorization of the Polish Financial Supervision Authority, the Company also provides services as a national payment institution.

In the first half of 2019, the company reported a net profit of PLN 18.6 million (in the corresponding period of 2018, the company's net profit amounted to PLN 22.4 million). The decrease results, among other things, from phasing off the services of group insurance intermediation.

In March 2019 the company and Polski Fundusz Rozwoju SA signed an agreement on creating System Ewidencji Pracowniczych Planów Kapitałowych (PPK). The system was launched by the company on 1 July 2019. As part of this cooperation, PKO BP Finat sp. z o.o. will also maintain and operate the entire records of PPK.

OPERATOR CHMURY KRAJOWEJ SP. Z O.O.

The company was established in November 2018 and registered in the National Register on 4 February 2019. The scope of activities of the company includes providing comprehensive data storage and remote data processing activities.

The company closed the first half of 2019 with a net loss of PLN 9.3 million, which results from expenditure connected with the dynamic development of its activities (capital expenditure and increase in the number of employees).

At the end of March 2019, the company achieved operational capability to provide cloud services based on its own infrastructure and started servicing its first Customer, namely PKO Bank Polski SA. The Bank uses the services for outsourcing the test environment based on the IaaS and PaaS (Infrastructure as a Service, and Platform as a Service) models. In June 2019 it found a Customer from outside the PKO Bank Polski SA Group.

In the process of launching the activities, it started cooperation with Exatel SA and Krajowa Izba Rozliczeniowa SA in respect of the use of safe data centres in the Masovian region.

Also other partners were found to support Operator Chmury Krajowej sp. z o.o. in providing services to its Customers, also in respect of digital transformation of Customers: DXC Technology Polska sp. z o.o., Asseco Data Systems SA and Accenture sp. z o.o., as well as in respect of technological partnership: VMware Poland sp. z o.o. through its distributor, Comtegra SA, as well as Oracle Polska sp. z o.o., Asseco Poland SA and Sygnity SA. The company purchased "credits" of VMware, which in the subsequent periods will be exchanged for products (licences) and services (support and possibility to use software), and therefore, the company's Customers will be able to use solutions such as backup data centre, additional computing power, a platform dedicated to applications such as Cloud Native, virtual workplaces, or managing equipment and data safety on mobile devices.

7.6 SPONSORSHIP AND CHARITY ACTIVITIES

Sponsorship activities Charity activities of the PKO Bank Polski SA Foundation

SPONSORSHIP ACTIVITIES

Sponsorship activities of PKO Bank Polski SA, are to reinforce the Bank's image as the leader on the financial market, an institution engaged in the development of the country and society, socially responsible, innovative and trustworthy. The Bank's sponsorship activities are carried out in keeping with the Polish character of the Company, the universal profile of its operations and the expectations of its stakeholders – Customers, investors, the Bank's employees and the public.

The Bank implements sponsorship projects both at national and local level and focuses on the following areas:

- culture and art – protection of Polish cultural heritage, popularisation of high culture;
- science and education – promotion of sciences, care for economic education of young Poles, supporting educational projects which promote digital solutions in the area of finance;
- sports – encouraging physical activity, promoting mass sports, including running (often combined with charity events and events commemorating important events from the history of Poland) and football - through partnership of the Bank with Ekstraklasa;
- business – supporting Polish entrepreneurs, developing entrepreneurship and promoting innovativeness;
- events important for local communities – promotion of the Bank's image as an important and active partner of business communities, local governments and cultural centres.

In each of these areas, the Bank also tries to promote patriotic attitudes and values.

CULTURE AND ART

PKO Bank Polski SA collaborates with national and local cultural institutions. Its support involves specific events or the artistic season of a given cultural institution, on an annual basis or over several years. The cultural centres sponsored by the Bank are frequented by spectators of all age groups, which makes it possible for the Bank to communicate its role to a wide range of Customers.

In the first half of 2019, PKO Bank Polski SA continued its support for exhibitions organized by important cultural institutions in respect of the centenary of Poland's independence: "Krzyżąc: Polska! Niepodległa 1918", presented by the National Museum in Warsaw, and "Niepodległość. Wokół myśli historycznej Józefa Piłsudskiego", organized by the National Museum in Kraków.

In order to celebrate the centenary of PKO Bank Polski SA's establishment, the National Museum in Warsaw opened an exhibition "Sztuka to wartość. Z Kolekcji sztuki PKO Banku Polskiego", which presents a selection of over 30 works of art from the collection of contemporary art accumulated by the Bank. These included, among other things, paintings and sculptures by artists such as Krzysztof Bednarski, Tomasz Ciecierski, Stefan Gierowski, Marek Chlanda, Łukasz Korolkiewicz, Zofia Kulik and artists who used to be connected with the Gruppa formation. Usually, their works decorate rooms in the Bank's headquarters and are not available to the general public.

In the middle of the year, the third showing of the exhibition "Karol Śliwka. Polskie Projekty Polscy Projektanci" took place (after Gdynia and Kielce). It is an exceptional exhibition, organized by the Museum of the City of Gdynia, which won a prize at the prestigious competition "2018 Historical Event of the Year". The exhibition presents the achievements of an outstanding Polish designer, author of the logo of PKO Bank Polski. The famous "savings box" of PKO appeared for the first time at the end of 1960', promoting the slogan "Październik miesiącem oszczędzania" ("October - the month of savings") and is now one of the most recognized graphic signs in Poland designed by the famous artist.

The following were also important partners of the Bank as part of the sponsorship programme for culture: The National Philharmonic in Warsaw, Polish Theater in Warsaw, Opera Nova in Bydgoszcz, Kraków Opera, Warmia and Mazury Philharmonic in Olsztyn, Łódź Philharmonic, Silesia Philharmonic, Poznań Philharmonic, Podlasie Opera and Philharmonic - European Art Centre in Białystok, Music Theater in Poznań, AUKSO Chamber Orchestra of the City of Tychy, Kraków Opera, Gdynia Filmmaking School, Museum of Cinematography in Łódź. The institutions listed above carried out many artistic projects important for Polish culture to which the Bank was able to invite its Customers.

SCIENCE AND EDUCATION

As a socially responsible company, the Bank supports projects related to science and education, promotes the development of knowledge and skills, entrepreneurship and innovation among children and young people. In the first half of 2019, the Bank continued its cooperation regarding the educational project "Knowledge Competitions about Poland and the Contemporary World" - one of the oldest thematic Competitions, organized by Warsaw University and the EUROPEA Foundation, as well as regarding the historical competition for junior high school students called "Patria Nostra". As part of its cooperation with universities, the Bank once again supported IT teams from the following universities: Warsaw University and Wrocław University, who took part in the Final of the Academic World Championships in Team Programming 2019 - the most prestigious IT competition in the world. The Bank also continued its cooperation as part of the "Economy for Sure" project carried out by the University of Silesia in Katowice. One of the elements of the project was a series of workshops and lectures by experts from the Bank. The Bank also continued its cooperation with Fundacja Lesława A. Pagi on the Akademia Liderów Rynku Kapitałowego project, a programme of training sessions and internships, through which the participants gain practical knowledge and experience on the capital market.

Moreover, in order to promote mathematics among primary and secondary school pupils, the Bank once again participated in the Warmia and Mazury Mathematics Competition organized by the University of Warmia and Mazury in Olsztyn.

The Bank participated in events in the area of IT and software development, among other things, such as: NOMAD (Niezależne Ogólnopolskie Mistrzostwa w Analizie Danych), Dzień Kariery Kobiety w IT, or Warsaw Java Meetup.

PKO Bank Polski SA actively supports undertakings which are aimed at promoting modern technologies and start-ups. Examples of such activities include the Infoshare conference which has been sponsored for several years - one of the largest technological conferences in Poland, creating an ecosystem which combines fintech with business. In 2019, it hosted over 6 000 people and over 300 start-ups. As part of the Infoshare conference, the Bank promoted the innovation development platform "Let's fintech with PKO Bank Polski", it presented the existing commercial implementations of start-ups, engaged in discussions with start-ups participating in the conference and participated in seeking long-term technological solutions.

SPORTS

PKO Bank Polski SA has been involved in important sports events for many years. Under the “PKO Bank Polski Race Along” programme, the Bank encourages Poles to engage in physical activities and supports dozens of various running events across Poland. The most important of these are: Bieg Konstytucji 3 Maja (The Constitution of 3 May 1791 Run), which is a part of Warszawska Triada Biegowa (The Warsaw Running Triad), PKO Białystok Półmaraton, PKO Bydgoski Festiwal Biegowy, PKO Nocny Wrocław Półmaraton, PKO Poznań Półmaraton, PKO Półmaraton Rzeszów, and the runs and the PKO Grand Prix Gdynia series – Bieg Urodzinowy z PKO Bankiem Polskim (Birthday Run with PKO Bank Polski), Bieg Europejski z PKO Bankiem Polskim (The European Run with PKO Bank Polski), Bieg Świętojański z PKO Bankiem Polskim (The Midsummer Run with PKO Bank Polski). The Bank also sponsored Tropem Wilczym Bieg Pamięci Żołnierzy Wyklętych – a unique sports and historical event held simultaneously in 300 Polish towns and cities. This year, more than 70 thousand people participated in the run. As part of the banking running programme, “Biegajmy razem”, free-of-charge runs take place at more than 100 athletic grounds throughout Poland and PKO Bank Polski SA is the strategic partner. The activities are managed by professional trainers and they are open to all those who want to keep in shape and maintain their well-being.

Apart from the running events, the Bank also supported other prestigious sports events, such as: Cavaliada – a series of International Show Jumping Contests and the Szczecin Sail Days of the Sea 2019.

Since July 2018, PKO Bank Polski has been the Main Partner of Ekstraklasa – the highest class of Polish league, men's football. Several initiatives were launched under this cooperation, among other things, dedicated social media channels, cooperation with a TV show “Magazyn GOL”, and the players were escorted onto the pitch by children before the start of matches, as well as numerous competitions, in which it was possible to win two invitations to each match. Through its involvement in the long-term cooperation with Ekstraklasa, the Bank wants to pro-actively support the development of the league and young football talents in Poland. One of the tasks which support this aim is the election of Młodzieżowiec Miesiąca (U21 of the Month) of PKO Bank Polski, i.e. the best Polish footballer below 21 years of age in a given month. At the beginning of the year, the Official Ekstraklasa Cards were made available – with images of individual football clubs – the only such product on the market, which was enthusiastically welcomed by Customers and the media. The cards ensure several benefits for football fans, such as the possibility to win an invitation to matches of one's favourite teams, also to the special Football Fan's Seats located near the side line of the field. It will be available at all stadiums of Ekstraklasa in this season.

BUSINESS

PKO Bank Polski SA actively participated in organizing business and financial congresses and conferences, which create space for discussion, talks and developing plans for the economic development of the country. The most important of such events were: European Financial Congress in Sopot, WallStreet 23, the Conference of the Chamber of Brokerage Houses, the Polish Chemistry Congress, the Gdynia Business Plan, the Cities on the Internet Conference, the Congress of Family Firms, and the World Milk Day. The Bank also actively participated in the second Vision for Development Forum.

The Bank cooperates with numerous chambers of commerce and industry, which work intensively for the benefit of their members, by undertaking business initiatives, holding meetings and conferences that enhance the knowledge and skills of business people. PKO Bank Polski SA cooperates, among other things, with: Bytom Chamber of Commerce and Industry, Racibórz Chamber of Commerce, Regional Chamber of Commerce in Katowice, Chamber of Commerce in Wodzisław Śląski, Northern Chamber of Commerce and Chamber of Commerce and Industry in Białystok. For several years now, the Bank has also cooperated with the Polish-German Chamber of Commerce (AHK), which represents the interests of about 1 000 member companies and promotes the development of Polish-German economic relations, as well as with the Scandinavian-Polish Chamber of Commerce (SPCC), which has over 400 members and makes it possible to establish contacts with thriving Scandinavian companies.

The Bank also supported smaller-scale events for entrepreneurs and local governments, important for local communities. These included regional harvest festivals, city day celebrations, festivals, meetings with entrepreneurs and important regional events related to the areas supported by the Bank.

CHARITY ACTIVITIES OF THE PKO BANK POLSKI SA FOUNDATION

OBJECTIVES OF THE FOUNDATION

The objective of the PKO Bank Polski Foundation is to strengthen Customer relationships, understood as the co-financing of projects aimed at building social solidarity and strengthening the emotional bond of all stakeholders with the Bank's brand. The creation of good will also contribute to employer branding. The Foundation sees mutual good in building a civil society and participates in projects, often initiated by the Bank's employees – volunteers. The

Foundation technically and financially supports projects of various circles and communities that are important for the development of Poland.

ACTIVITIES OF THE FOUNDATION

The main source of financing of the Foundation are donations from the Bank, provided in accordance with the Foundation's Financial Plan. Additional funds for charitable purposes, transferred based on other agreements, are derived from the profit generated on non-cash transactions made by the Customers of Inteligo and associated with the affinity card Goodness brings profit (Dobro procentuje) (since 2013). PKO Bank Polski SA shares the profit from each non-cash transaction made using the charity card.

In the 8 years from the start of its operations, the Foundation has spent more than PLN 100 million on social activities. Subsidized initiatives are divided into seven programme areas: EDUCATION, TRADITION, HOPE, HEALTH, CULTURE, ECOLOGY and SPORT.

From the beginning of 2019, the Foundation earmarked over PLN 5.1 million for the performance of 32 strategic projects. They include 3 strategic own projects: Busola na start, Integracyjne Spotkania Mikołajkowe (Santa Clause's Integration Meetings) (preparatory work) and the Bank's Honorary Blood Donation Action which was distinguished for its long-term activities in the new publication of *Forum Odpowiedzialnego Biznesu* among projects for "social involvement and development of local communities". The Foundation makes every effort to ensure that the strategic projects evolve and reach as many beneficiaries as possible.

At local level, in the first half of 2019, the Foundation supported 135 projects, and transferred nearly PLN 1.4 million. The Foundation earmarked more than PLN 1.2 million for the aid to individuals, both children and adults (the number of individual beneficiaries amounted to 108). 50 received individual aid under Charity Runs.

The Foundation also started the performance of the **Pomoc na start** (Aid at the start) project. The project is performed using funds generated during the Bank's charity campaign "Pomaganie przez zbliżanie" ("Aid by PayPass"), in which Customers of the Bank using the IKO application participated. The purpose of the aid is to support the process of empowerment and equalization of social opportunities of young adults leaving orphanages, care and educational institutions and foster care facilities. The project involves 52 volunteers (employees of the Bank) throughout Poland. As a result of the activities, the Foundation received 257 applications, of which 128 were approved and granted a total of PLN 500 thousand. The aid granted under these decisions was directed to secure the basic needs in the process of empowerment (mainly courses and training enhancing job-related skills and purchase of necessary household articles).

The Foundation is also a go-between in the transfer of donations in kind in the form of IT equipment and furniture no longer used by the Bank's branches.

7.7 PRIZES AND AWARDS GRANTED TO THE PKO BANK POLSKI SA GROUP

In the first half of 2019, the PKO Bank Polski SA Group received many prizes and awards. The most important of which included:

FAST GROWTH AND EXCELLENT RESULTS OF OPERATIONS

MOST CREDIBLE IN THE POLISH ECONOMY

PKO Bank Polski SA was unrivalled in the competition for "Most credible entities in the Polish economy" ("Najbardziej wiarygodni w polskiej gospodarce") organized by ISBNews news agency. It has won two prizes in the category of "Most Credible Company" and "Most Credible Financial Institution". The jury appreciated the Bank for its record-breaking financial results, business development, implementation of technologically advanced solutions and safety.

The purpose of the competition is to distinguish entrepreneurs and companies which co-create the economic success of Poland - active, reliable, trustworthy business partners and reliable employers.

BEST BANK 2019

PKO Bank Polski SA won the main award in the large commercial bank category in the 27th Best Bank competition held by Gazeta Bankowa. The leader of the Polish banking sector was appreciated for its results, rate of growth, structure of its portfolio and effectiveness.

The competition is organized with the support of BDO, an advisory company.

LEADER IN MODERN TECHNOLOGIES

THE HEART CORPORATE INNOVATION AWARDS 2018!

In The Heart Corporate Innovation Awards 2018! competition, PKO Bank Polski SA received two awards. In the "Transformation Team" category the jury recognized the Bank's New Work Model - NOW! consistent with the idea of digitization, and in the category "Collaboration of the Year" - in cooperation with the Coinfirm startup, as a result of which the Bank applied blockchain technology - within the largest scope in the European banking sector.

The Heart Corporate Innovation Awards is a competition for enterprises which introduce innovations, build new undertakings and cooperate with the startup ecosystem.

LEADER 2018

PKO Bank Polski SA was awarded first place in the technological competition Leader 2018, in the banking category. It was awarded for the blockchain platform – a solution which allows remotely verifying the authenticity of Bank documents. This technology was provided by PKO Bank Polski SA to more than 5 million Customers and this implementation is on the largest scale in European banking.

The purpose of the competition organized by “Gazeta Bankowa” is to grant awards to companies and institutions in the most dynamically developing sectors of the Polish economy, which distinguish themselves due to particular achievements in the area of modern and innovative technologies.

GOLDEN BANKER

In the 10th edition of the Złoty Bankier (Golden Banker) ranking, PKO Bank Polski SA was granted two prizes. In the category of fin-tech innovation – for the largest implementation of blockchain in the European banking sector and in the category of advertising spots. The Bank was also appreciated in the credit cards category.

Złoty Bankier is the largest competition in Poland in which banks are rewarded, among other things, for the quality of service, innovative products, social involvement, advertising communication and social media presence. It is organized by Bankier.pl, “Puls Biznesu”, Kantar TNS and Obserwatorium.biz.

FINTECH & INSURTECH AWARDS

PKO Bank Polski SA became a double winner in the FinTech & InsurTech Awards competition. It was appreciated for implementing subsequent innovative solutions. In the StartUp Award category, PKO Bank Polski SA, together with a startup TuPrawnik, was awarded for a digital tool for additional services available at the level of the iPKO service to SME Customers – e-Prawnik. In the FinTech Award category, together with a startup Quantum CX – for the technology which enables the recognition of emotions in the form of a smile.

The FinTech & InsurTech Awards competition is an initiative of MMC Polska. Its purpose is to promote technological solutions which impact innovations in the financial and insurance industries.

BEST PRODUCTS AND SERVICES

IKO - THE BEST MOBILE APP IN THE WORLD

The IKO mobile application was yet again the best in the prestigious ranking of banking applications of the British “Retail Banker International” financial monthly. The application developed by PKO Bank Polski SA has left behind the solutions of such global banking giants as JP Morgan Chase, Barclays or Bank of America. For the second time, IKO turned out to be the best evaluated application worldwide according to its Customers. In the two largest application shops Customers have already given IKO more than 300 thousand assessments, with an average of 4.8 out of the 5 available stars.

BEST ONLINE BANKING

In the Best Online Banking for Entrepreneurs 2019 ranking, PKO Bank Polski SA was awarded second prize for solutions used in the iPKO service, and in the Best Online Banking for Companies 2019 ranking – it was third, after iPKO Biznes. The solutions in the electronic banking service iPKO were appreciated, in particular the following modules: Asystent Firmowy, e-Sklep, e-Prawnik, or e-Księgowość.

The Best Online Banking 2019 was organized by SME Banking Club. This is a new initiative in which electronic banking solutions important for the companies and enterprises segment, offered by 25 banks in the CEE region, were analysed.

STRONG BRAND

SUPERBRANDS 2019

In the 13th edition of the Superbrands Polska competition, PKO Bank Polski SA won the title of Superbrand 2019. The award received confirms the strength of its brand, attractiveness of its image and its high quality.

The title is granted based on the results of voting by the Expert Board and examination of the Brand Strength Index (Indeks Siły Marki) performed by the ARC Rynek i Opinia research institute.

ACTIONS AWARDED IN THE AREA OF CORPORATE SOCIAL RESPONSIBILITY (CSR)

PKO BANK POLSKI SA – ETHICAL FIRM OF THE YEAR 2018

PKO Bank Polski SA was awarded in the fifth Ethical Company competition for its practices concerning fair and transparent business in compliance with ethical standards and the systemic approach to reinforcement of the organizational culture in line with corporate social responsibility principles. The purpose of the competition is to promote companies which endeavour to build and reinforce ethic-based organizational culture in a systemic manner.

The competition is organized by “Puls Biznesu” with the technical support of PwC.

CSR LEAF

In the eighth edition of the CSR Leaves of the weekly *Polityka*, PKO Bank Polski SA was awarded the White Leaf. It was awarded for responsible business and social involvement, among other

things, corporate governance, initiatives addressed to its Customers and employees, business fair-play and social involvement.

The ranking is prepared in collaboration with Deloitte and the Responsible Business Forum. Leaves are awarded to socially responsible and engaged companies.

BENEFACTOR OF THE YEAR

Fundacja PKO Banku Polskiego foundation ranked first in the 12th edition of the Benefactor of the Year (Dobroczyńca Roku) competition in the "Corporate Foundation" category. The jury recognized its cooperation with the association for aid to disabled drivers (Stowarzyszenie Pomocy Niepełnosprawnym Kierowcom SPiNKa).

The competition is organized by the Philanthropy Development Academy in Poland. It promotes good practices of large corporations and charity initiatives of small companies and foundations.

EXCELLENT COMMUNICATION WITH THE MARKET

PKO BANK POLSKI SA APPRECIATED BY INDIVIDUAL INVESTORS

In the research on investor relations in the WIG30 companies, PKO Bank Polski SA was appreciated by individual investors. It was second in the ranking prepared by Gazeta Giełdy "Parkiet" and Brokerage Houses Chamber. PKO Bank Polski SA builds relations with its investors based on transparency, openness and dialogue. It is therefore perceived as a credible and reliable partner, and its financial results and business strategy are positively evaluated.

TRANSPARENT COMPANY OF THE YEAR

PKO Bank Polski SA was awarded the title of Transparent Company of the Year 2019 from the WIG 20 index in the third ranking of communication of public companies with the market. What was appreciated was its financial and other reporting, investor relations and the corporate governance principles.

The ranking is prepared by Instytut Rachunkowości i Podatków (Institute of Accounting and Taxes) and Gazeta Giełdy "Parkiet". Its aim is to raise the quality of companies' communication with the market and promote transparent business.

GOLDEN BANKER

In the 10th issue of the Złoty Bankier (Golden Banker) ranking, PKO Bank Polski SA was granted two prizes. In the advertising spot category it was recognized for a film "100 lat śmiałych decyzji PKO Banku Polskiego" ("100 years of bold decisions of PKO Bank Polski"), which highlighted the scale of changes which occurred inside and outside the Bank over the last century, and an award in the fin-tech innovation category. The Bank was also appreciated in the category of credit cards.

Złoty Bankier is the largest competition in Poland in which banks are rewarded, among other things, for the quality of service, innovative products, social involvement, advertising communication and social media presence. It is organized by Bankier.pl, "Puls Biznesu", Kantar TNS and Obserwatorium.biz.

BEST SPECIALISTS ON THE MARKET

SUPER WEKTOR FOR ZBIGNIEW JAGIEŁŁO, THE PRESIDENT OF THE MANAGEMENT BOARD OF PKO BANK POLSKI SA

Zbigniew Jagiełło, the President of the Management Board of PKO Bank Polski SA was awarded the Super Wektor 2018 prize which is granted by Employers of the Republic of Poland. He was appreciated for building an effective and flexible organization oriented towards ambitious goals, ready to compete with the largest international rivals, and for developing a distinctive team of associates.

The Super Wektor prize is granted for significant achievements, and its benefits extend to supporting the development of Polish entrepreneurship, economy and the entire State.

BULLS AND BEARS

Zbigniew Jagiełło, the President of the Management Board of PKO Bank Polski SA – was distinguished with a special prize, Bulls and Bears, in the 25th. competition organized by Gazeta Giełdy "Parkiet" for his achievements in the financial sector, the success of the Bank managed by him, and his contribution to the development of the capital market.

VISIONARY OF FINANCE

Zbigniew Jagiełło, the President of the Management Board of PKO Bank Polski SA was awarded a prize in the Visionary of Finance category in the competition "Leader of the Banking and Insurance World". He was appreciated for the implementation of an ambitious idea of transformation of the bank sector, creating innovations which are beneficial to the sector, national economy, entrepreneurship and society.

The competition is an initiative of MMC Polska. Its purpose is to award prizes to entrepreneurs who are outstanding due to their authority, bold decisions, engagement and effective management.

AMBASSADOR OF THE ELECTRONIC ECONOMY

The jury of the 14th Congress of the Electronic Economy granted to Szymon Wałach, the Director of the Digital Strategy and Transformation Line in PKO Bank Polski SA, the title of the Digital Economy Ambassador. He was appreciated for his involvement in the process of digital transformation of the Bank. Szymon Wałach, together with his team, bet on the constant technological development and improvement, and promotes this approach all over the organization.

The title of the Digital Economy Ambassador is granted for active promotion, propagation of IT technologies and education in respect of their use in modern economy.

AWARDS WON BY THE BROKERAGE HOUSE AND COMPANIES IN THE BANK'S GROUP

BULLS AND BEARS

Dom Maklerski PKO Banku Polskiego SA received a Bull and Bear statuette for the best brokerage house. The victory was, among other things, due to the number and value of IPO and SPO transactions on the capital market and a rich offer of services for all groups of Customers.

The purpose of the competition is to distinguish institutions and professionals who contribute to the development, popularization and extension of the capital market.

DOM MAKLEKSKI PKO BANKU POLSKIEGO SA THE BROKER OF THE YEAR 2018

The WSE awarded two prizes to Dom Maklerski PKO Banku Polskiego SA. It was awarded the main prize – Broker of the Year 2018 for the highest involvement on the WSE markets, the highest share in the trade in shares on the Main Market of the local broker in session and package transactions, the highest turnover in non-Treasury and Treasury bonds on Catalyst, and for supporting liquidity on the largest number of classes of assets listed on the WSE. It was also awarded for the highest share in turnover in bonds on the Catalyst market.

BEST EXCHANGE ANALYSTS

The team of Dom Maklerski PKO Banku Polskiego SA was the winner in the seventeenth ranking of stock exchange analysts prepared by Gazeta Giełdy "Parkiet". It was the second subsequent year in which it won the first prize. Also our experts for stock exchange analyses and recommendations in individual sectors were distinguished, and were granted prizes in 9 out of 13 categories. The selection was performed by experts from TFI and OFE from 35 financial institutions.

"ALFA 2018" FOR PKO TFI SA AND ITS FUNDS

In the sixth competition, the "Alfa" prizes went to PKO Obligacji Skarbowych subfund in the "best-selling fund of the year 2018" category and to PKO Akcji Plus subfund in the "best fund of Polish shares in 2018" category. At the same time, distinctions were granted to: PKO TFI SA in the "best TFI in 2018" category and subfunds: PKO Stabilnego Wzrostu (stable growth), PKO Akcji Małych i Średnich Spółek (SME), and PKO Zrównoważony (sustainable) in the categories analogous to the funds' names.

The Alfa award is granted by Analizy Online. Its purpose is to distinguish those products which, against the background of the comparative group, provide Customers with above-average rates of return adjusted for the level of risk incurred.

PKO LEASING SA A TRUSTWORTHY BRAND OF 2019

In the Trustworthy Brand of 2019 research carried out by the publisher of "My Company Polska" monthly, PKO Leasing SA won a prize in the Lease Firm category and was granted the title of the "Trustworthy Brand".

The prize was granted on the basis of independent opinion poll among the magazine's readers – entrepreneurs, experts and management staff of companies. The purpose of the poll was to determine the level of trust of Polish entrepreneurs in brands, products and services addressed to businesses. In each category, only one brand could be selected. The respondent's choices were fully based on their personal knowledge and experience.

8. RISK MANAGEMENT

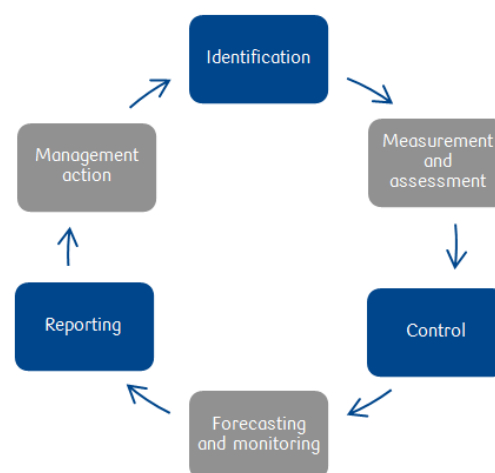
8.1 PRINCIPLES OF RISK MANAGEMENT

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

The primary objective of risk management of the PKO Bank Polski SA Group is to ensure adequate management of all types of risk related to its business. As part of the risk management system, the PKO Bank Polski SA Group manages risk by identifying, measuring or assessing, controlling, forecasting, monitoring and reporting risk, and by management activities.

The risk management system covers:

- organizational structure, allocation of duties and responsibilities;
- internal regulation system;



- tools, including databases.

The Bank's Group identifies risks which are to be managed in its activities and analyses the impact of particular types of risk on the business operations of the Bank and entities in the Group. All the risks are managed; some of them have a material effect on the profitability and capital needed to cover them. The materiality of all the identified risks is assessed on a regular basis, at least annually. All risks classified as material for the Bank are also considered material for the Group. Credit risk, risk of foreign currency mortgage loans, interest rate risk, currency risk, liquidity risk, including financing risk, operational risk, business risk, model risk and macroeconomic risk are considered material in the Bank, whereas capital risk, exposure risk, risk related to derivative instruments, reputational risk, compliance and procedural risk and risk of excessive leverage are subject to monitoring. The Bank's Group entities may consider types of risks other than those listed above to be material, taking into account the specific nature and scale of their operations and the market on which they operate.

The risk management process supports the implementation of the Bank's strategy, in particular regarding the level of risk tolerance. Risk management is integrated into the planning and controlling systems.

The organizational structure of the Bank's Group is adapted to the risk level and profile.

The risk management process is performed on three independent, complementary levels:

- the first level consists of the product management organization structures selling products and supporting Customers, as well as other structures performing operational tasks that generate risk;
- the second level encompasses the activities of the compliance unit, as well as the identification, measurement, assessment or control, monitoring and reporting of material risks, as well as the threats and irregularities that are identified – the tasks are performed by specialized organizational structures operating on the basis of the Bank's internal regulations. The objective of these structures is to ensure that the activities implemented at the first level are properly designed in the Bank's internal regulations and effectively reduce risk, support the measurement, assessment and analysis of risk and business effectiveness;
- the third level is the operation of the internal audit, which performs independent audits of elements of the Bank's management system, including the risk management system, as well as the internal control system. The internal audit operates separately from the first and second levels.

In respect of risk management, the Management Board is responsible for strategic risk management, including supervising and monitoring actions taken by the Bank. It makes the most important decisions that affect the Bank's risk profile and adopts the Bank's internal rules on risk management. The Management Board is supported in risk management by the following committees: the Risk Committee, the Asset and Liability Management Committee, the Bank's Credit Committee, the Operational Risk Committee.

The risk management process is supervised by the Supervisory Board, which regularly receives information on the Bank's and the Group's risk profile and the most important actions taken in the area of risk management. The Supervisory Board is supported, *among other things*, by the following committees: the Risk Committee of the Supervisory Board, the Audit Committee of the Supervisory Board, and the Nominations and Remuneration Committee of the Supervisory Board.

THE GROUP'S RISK MANAGEMENT

The Bank supervises the functioning of individual entities in the Bank's Group. The Bank supervises their risk management systems and supports their development. In addition, the Bank takes into account the level of risk in particular Group companies for the purposes of risk monitoring and the reporting system at the Bank's Group level.

The principles and methods of evaluating individual risks in entities in the Bank's Group are defined in the internal regulations. Entities in the Bank's Group create and update internal regulations concerning the management of specific risks, upon consultation with the Bank and taking into account recommendations issued by the Bank and the Risk Management Strategy in PKO Bank Polski SA and the Bank's Group.

The principles for managing the significant types of risk are discussed below.

8.2 CREDIT RISK, INCLUDING THE RISK OF FOREIGN CURRENCY MORTGAGE LOANS

DEFINITION

Credit risk is defined as the risk of the occurrence of losses due to the Customer's default in payments to the Bank's Group or as a risk of a decrease in the economic value of amounts due to the Bank's Group as a result of deterioration in the Customer's ability to repay amounts due to the Bank.

**MANAGEMENT
OBJECTIVE**

The objective of credit risk management is to minimize losses on the loan portfolio as well as minimize the risk of the occurrence of loans at risk of impairment, while maintaining the expected level of profitability and value of the loan portfolio.

RISK IDENTIFICATION

Credit risk identification involves the identification of current and potential sources and factors of credit risk, which result from current and planned lending activities of the Bank's Group.

As part of credit risk identification, those types of risk which are considered material in the Bank's Group activities are taken into consideration and their potential impact on the operations of the Bank's Group is estimated.

Credit risk is identified for:

- existing credit products offered to Customers of the Bank's Group, the processes of implementation of these products using IT tools and databases;
- designed credit products for Customers, internal regulations, and IT tools and databases.

The Bank's Group analyses its portfolio of foreign currency mortgage loans to households in a specific manner.

Foreign currency mortgage loans are cyclically monitored, the risk profile of the mortgage loan portfolio is regularly reported, taking into account the categorization into LTV, DTI, granting generations and loan amount.

**MEASUREMENT,
ESTIMATION AND
ASSESSMENT OF RISK**

Credit risk is measured, estimated and assessed at the level of the Customer, a single credit transaction and at the level of the loan portfolios of the Bank's Group, using scoring or rating methods, which ensure a uniform and objective assessment of the Customer's credibility in the creditworthiness assessment process.

As part of credit risk measurement or estimation at the level of loan portfolios, stress tests of the risk, taking into account, among other things, exchange rate fluctuations.

Measurement, estimation and assessment of portfolio credit risk includes periodical assessment of this risk taking into account all credit exposures of Customers, as well as various aspects of the portfolio, such as Customer groups or groups of credit products.

In order to assess the level of credit risk and profitability of loan portfolios, the Bank's Group uses different credit risk measurement and valuation methods, including:

- probability of default (PD);
- loss given default (LGD);
- credit conversion factor (CCF);
- expected credit loss (EL);
- credit value at risk (CVaR);
- the share and structure of impaired credit exposures;
- coverage ratio of impaired loans;
- cost of credit risk;
- stress tests.

The Bank's Group performs analyses and stress-tests regarding the influence of potential changes in the macroeconomic environment on the quality of the Bank's Group loan portfolio and the results are presented to the Bank's authorities. The above-mentioned information enables identifying and taking measures to limit the negative influence of unfavourable market events on the Bank's Group performance.

CONTROL

Credit risk control involves the definition of the tools used to diagnose the level of credit risk, use of credit risk controls to mitigate that risk, and compliance with controls, as part of credit risk management in credit processes and at the portfolio level.

In particular, the Bank uses the following to manage the Bank's Group credit risk:

- strategic credit risk tolerance limits;
- internal credit risk limits:
 - portfolio credit risk limits;
 - industry limits;
 - competence limits;
- thresholds for providing financing to individual or institutional Customers;
- minimum transaction requirements or credit risk covenants determined depending on the level of risk associated with financing the Customer in a specific form.

**FORECASTING AND
MONITORING**

Credit risk forecasting and monitoring involves preparing risk level forecasts and monitoring variances from the forecasts or the adopted benchmarks (e.g. limits, thresholds, plans, prior period measurements, recommendations and instructions issued by external supervisory and regulatory authorities), and performing (specific and comprehensive) stress tests. Risk level

forecasts are subject to backtesting.

Credit risk is monitored at individual credit transaction level and at portfolio level.

The monitoring of credit risk at the individual credit transaction level is governed, in particular, by the Bank's Group internal regulations concerning:

- principles of assessment of the Bank's credit risk related to Customer financing;
- ways and methodologies of Customer assessment;
- identification of groups of related entities;
- evaluation of collateral and inspection of investments;
- recognition of allowances for expected credit losses;
- Early Warning System;
- operating procedures within the lending system.

Credit risk monitoring at the portfolio level consists of:

- supervising the level of the portfolio credit risk based on the tools used for measuring credit risk, taking into consideration the identified sources of credit risk and analysing the effects and actions taken as part of systemic management;
- recommending preventive measures in the event of identifying an increased level of credit risk.

The Bank's Group analyses and monitors its portfolio of foreign currency mortgage loans to households in a specific manner. The Bank's Group monitors the quality of the portfolio on an on-going basis and reviews the risk of deterioration in the quality of the portfolio. Currently, the quality of the portfolio is at an acceptable level. The Bank takes into consideration the risk of foreign currency mortgage loans for households in the capital adequacy and own fund management.

REPORTING

Credit risk reporting includes periodical reporting of the loan portfolio's risk exposure (including the portfolio of foreign currency mortgage loans to households). The reports are addressed mainly to: The Risk Committee (RC), the Bank's Credit Committee (BCC) the Management Board, the Supervisory Board's Risk Committee, the Supervisory Board.

The Bank's Group prepares monthly and quarterly credit risk reports. In addition to the information concerning the Bank, the reports also contain information about the credit risk level for the Bank's Group entities in which significant credit risk levels have been identified: (among others: the KREDOBANK SA Group, the PKO Leasing SA Group, PKO Bank Hipoteczny SA).

MANAGEMENT ACTIONS

The purpose of management actions is to shape and optimize the credit risk management system and credit risk level at the Bank's Group.

The credit risk management actions include in the first instance:

- issuing internal regulations governing the credit risk management system at the Bank and the Bank's Group;
- issuing recommendations, guidelines for conduct, explanations and interpretation of the Bank's and the Bank's Group internal regulations;
- taking decisions regarding the acceptable level of credit risk, including in particular lending decisions;
- developing and improving credit risk control tools and mechanisms which make it possible to maintain the credit risk level within the limits acceptable to the Bank and the Bank's Group;
- developing and monitoring the operation of credit risk management controls;
- developing and improving credit risk assessment methods and models;
- developing and improving IT tools used in credit risk management;
- planning actions and issuing recommendations.

USE OF CREDIT RISK MITIGATION TECHNIQUES – COLLATERAL

The collateral management policy plays a significant role in establishing transaction terms. The Bank's Group collateral management policy is intended to properly protect it against credit risk to which the Bank's Group is exposed, including above all by establishing collateral that is as liquid as possible. Collateral may be considered liquid if it can be sold without a significant decrease in its price and at a time which does not expose the Bank to a change in the collateral value due to price fluctuations typical for a given asset.

The Bank's Group strives to diversify collateral in terms of its forms and assets used as collateral. The type of collateral depends on the level of risk of a given Customer or transaction.

The Bank's Group evaluates collateral from the perspective of the actual possibility of using it to satisfy its claims.

8.3 INTEREST RATE RISK

DEFINITION	Interest rate risk is the risk of incurring losses on the Bank's Group statement of financial position and off-balance sheet items sensitive to interest rate fluctuations, as a result of changes in interest rates on the market.
MANAGEMENT OBJECTIVE	To mitigate potential losses arising from market interest rate fluctuations to an acceptable level by appropriately shaping the structure of the statement of financial position and off-balance sheet items.
RISK IDENTIFICATION, MEASUREMENT AND ASSESSMENT	<p>Identification of the interest rate risk consists of identifying the current and potential sources of the risk and on assessing the materiality of its potential impact on the Bank's and the Bank's Group's operations.</p> <p>The Bank's Group utilizes such interest rate risk measures as:</p> <ul style="list-style-type: none"> • sensitivity of interest income; • sensitivity of economic value; • value at risk (VaR); • stress testing; • repricing gap.
CONTROL	Control of the interest rate risk covers determining the interest rate limits and threshold values tailored to the scale and complexity of the Bank's Group's operations, in particular the strategic limit of interest rate risk tolerance.
FORECASTING AND MONITORING	<p>The following are monitored by the Bank's Group on a regular basis:</p> <ul style="list-style-type: none"> • the level of interest rate risk measures; • the degree of utilization of the strategic limit of interest rate risk tolerance; • the degree of utilization of internal limits and thresholds of interest rate risk.
REPORTING	The reports on interest rate risk are developed on a daily, weekly, monthly and quarterly basis. The reports are addressed mainly to: The Risk Committee, the Asset and Liability Management Committee, the Management Board, the Supervisory Board's Risk Committee, the Supervisory Board.
MANAGEMENT ACTIONS	<p>The main tools used in interest rate risk management in the Bank's Group include:</p> <ul style="list-style-type: none"> • procedures for interest rate risk management; • limits and thresholds for interest rate risk. <p>The Bank's Group established limits and thresholds for interest rate risk comprising, among other things, the following: sensitivity of interest income, sensitivity of the economic value.</p>

8.4 CURRENCY RISK

DEFINITION	Currency risk is the risk of incurring losses due to exchange rate changes. The risk is generated by maintaining open currency positions.
MANAGEMENT OBJECTIVE	To mitigate potential losses arising from foreign exchange rate fluctuations to an acceptable level by appropriately shaping the currency structure of the statement of financial position and off-balance sheet items.
RISK IDENTIFICATION, MEASUREMENT AND ASSESSMENT	<p>Identification of currency risk consists of identifying the current and potential sources of the risk and on assessing the materiality of its potential impact on the Bank's and the Bank's Group's operations.</p> <p>The Bank's Group utilizes the following currency risk measures:</p> <ul style="list-style-type: none"> • value at risk (VaR); • stress tests.
CONTROL	Control of currency risk covers determining currency risk limits and thresholds tailored to the scale and complexity of the Bank's Group's operations, in particular the strategic limit of tolerance to currency risk.
FORECASTING AND MONITORING	<p>The following are monitored by the Bank's Group on a regular basis:</p> <ul style="list-style-type: none"> • the level of currency risk measures; • the degree of utilization of the strategic limit of currency risk tolerance; • the degree of utilization of internal limits and threshold values relating to currency risk.

REPORTING The reports on currency risk are developed on a daily, weekly, monthly and quarterly basis. The reports are addressed mainly to: The Risk Committee, the Asset and Liability Management Committee, the Management Board, the Supervisory Board's Risk Committee, the Supervisory Board.

MANAGEMENT ACTIONS The main tools used in currency risk management in the Bank's Group include:

- procedures for currency risk management;
- currency risk limits and threshold values;
- defining allowable types of transactions in foreign currencies and the exchange rates used in such transactions.

The Bank's Group has set limits and threshold values for currency risk for among other things currency positions, Value at Risk calculated for a 10-day time horizon and loss on the currency market.

8.5 LIQUIDITY RISK

DEFINITION Liquidity risk is defined as the lack of possibility to pay debts on time due to the lack of liquid assets. Lack of liquidity may result from an inappropriate structure of the statement of financial position, mismatch of cash flows, payments not received from counterparties, sudden withdrawal of cash by Customers or other market events.

The Bank's Group also manages the financing risk, which takes into account the risk of loss of financing sources and the lack of opportunities to renew matured funding, or loss of access to new financing sources.

MANAGEMENT OBJECTIVE To ensure the necessary level of funds to pay present and future (also potential) debts, taking into account the nature of the activities performed and requirements which may occur due to changes in the market environment, by appropriately shaping the structure of the statement of financial position and off-balance sheet liabilities.

RISK IDENTIFICATION, MEASUREMENT AND ASSESSMENT Identification of currency risk consists of identifying the current and potential sources of the risk and on assessing the materiality of its potential impact on the Bank's and the Bank's Group's operations.

The Bank's Group utilizes the following liquidity risk measures:

- contractual and adjusted liquidity gap;
- liquidity reserve;
- liquidity surplus;
- liquidity coverage ratio (LCR);
- net stable funding ratio (NSFR);
- national supervisory ratios M3-M4;
- measures of stability of deposit and loan portfolios;
- stress tests (liquidity stress tests).

CONTROL Control of liquidity risk covers determining strategic liquidity risk tolerance limits adapted to the scale and complexity of the Bank's Group's operations, as well as other limits and threshold values determining the acceptable level of exposure of the Bank's Group's companies to short-term, medium-term and long-term liquidity risk.

FORECASTING AND MONITORING The following are monitored by the Bank's Group on a regular basis:

- the degree of utilization of the strategic limits of liquidity risk tolerance;
- the degree of utilization of European and national supervisory liquidity standards;
- the degree of utilization of internal limits and threshold values relating to liquidity risk;
- concentration of sources of financing;
- early warning signals – monitoring their level is aimed at the early discovery of unfavourable phenomena which could have a negative impact on the Bank's Group or the financial sector's liquidity position (which, when exceeded, trigger Liquidity Contingency Plans).

The Bank's Group also performs cyclic forecasts of liquidity risk levels, in consideration of the current developments in the Bank's Group's operations. Liquidity forecasts account mainly for the level of particular liquidity risk measures in conditions of materialization of the statement of financial position forecasts and materialization of selected stress-test scenarios.

REPORTING The reports on liquidity risk are developed on a daily, weekly, monthly and quarterly basis. Once a year an in-depth long-term liquidity analysis is performed. The reports are addressed mainly to: The Risk Committee, the Asset and Liability Management Committee, the Management Board, the

Supervisory Board's Risk Committee, the Supervisory Board.

MANAGEMENT ACTIONS

The main tools used in liquidity risk management in the Bank's Group include:

- procedures for liquidity risk management, in particular Liquidity Emergency Plans;
- limits and threshold values for mitigating liquidity risk;
- deposit and investment transactions, derivative transactions, including structured Forex transactions, and purchase and sales transactions of securities;
- transactions ensuring the long-term financing of lending activities.

The Bank's Group's policy concerning liquidity is based on maintaining an appropriate level of liquidity surplus through increasing its portfolio of liquid securities and stable sources of financing (a stable deposit base, in particular). Money market instruments, including NBP open market operations, are also used in liquidity risk management.

8.6 OPERATIONAL RISK

DEFINITION

Operational risk is defined as the risk of occurrence of a loss due to the non-compliance or unreliability of internal processes, people and systems or external events. Operational risk takes into account legal risk, and does not include reputational risk and business risk.

MANAGEMENT OBJECTIVE

The objective of operational risk management is to enhance the security of the operational activity pursued by the Bank's Group by improving effective, tailored to the profile and the scale of operations mechanisms of identifying, assessing, measuring, controlling, monitoring, mitigating and reporting operational risk.

RISK IDENTIFICATION, MEASUREMENT AND ASSESSMENT

In order to manage the operational risk, the Bank gathers internal and external data about operational events and the causes and consequences of their occurrence, data on the factors of the business environment, results of operational risk self-assessment, data on operational risk indicators and data related to the quality of internal control.

The operational risk self-assessment comprises the identification and assessment of operational risk for the Bank's products, processes and applications as well as organizational changes and it is conducted cyclically and before implementing new or changed Bank's products, processes and applications, using the data gathered on operational events and information obtained during the measurement, monitoring, cooperation with Bank Group's entities and operational risk reporting, including internal audits and security audits.

The measurement of operational risk comprises:

- calculating operational risk indicators: Key Risk Indicators (KRI) and Risk Indicators (RI);
- calculating the operational risk requirement relating to own funds in accordance with the AMA approach (the Bank, including the operations conducted by the branch in Germany) and the BIA approach (the branch in the Czech Republic, and the Bank's Group companies covered by prudential consolidation);
- stress testing;
- calculating Bank Group's internal capital.

CONTROL

Control of operational risk includes determining risk control mechanisms in the form of operational risk limits tailored to the scale and complexity of the Bank's and the Bank's Group's activities, in particular the strategic limits of tolerance of operational risk, loss limits, operational risk indicators with threshold and critical values.

FORECASTING AND MONITORING

The following are monitored by the Bank's Group on a regular basis:

- the degree of utilization of strategic tolerance limits for the Bank and the Bank's Group and operational risk loss limits for the Bank;
- operational events and their consequences;
- results of self-assessment of operational risk;
- the operational risk requirement relating to own funds;
- the results of stress tests, including reverse stress tests;
- operational risk indicator values in relation to thresholds and critical values;
- the level of risk for the Bank and the Bank's Group, and the areas and tools for managing operational risk in the Bank such as self-assessment, operational risk indicators, loss limits;
- effectiveness and timeliness of management actions taken to reduce or transfer operational risk;
- management actions related to the presence of elevated or high levels of operational risk and their effectiveness in reducing the level of operational risk.

REPORTING

Information relating to operational risk is reported to senior management, the Operational Risk

Committee, the Risk Committee, the Management Board and the Supervisory Board in monthly and quarterly cycles. What is prepared on a monthly basis is information on operational risk reported to the Operational Risk Committee, senior management and the Bank's organizational units responsible for systemic operational risk management. The scope of information is diversified and adapted to the scope of responsibilities of particular addressees.

Management actions are taken on the initiative of the Operational Risk Committee or the Management Board, on the initiative of organizational units of the Bank managing operational risk when operational risk has exceeded the levels described by the Management Board or the Operational Risk Committee.

Especially when the operational risk level is elevated or high, the Bank uses the following approaches and instruments to manage operational risk:

MANAGEMENT ACTIONS

- risk reduction – mitigating the impact of risk factors or the consequences of its materialization by introducing or strengthening various types of instruments for managing operational risk such as: control instruments, human resource management instruments, determination or verification of threshold values and critical operational risk indicators, determination or verification of operational risk limits and contingency plans;
- risk transfer – transfer of responsibility for covering potential losses to a third-party: insurance and outsourcing;
- risk avoidance – resignation from activity that generates risk or elimination of the probability of the occurrence of a risk factor.

8.7 BUSINESS RISK

DEFINITION

Business (strategic) risk is the risk of failing to achieve the adopted financial targets, including incurring losses, due to adverse changes in the business environment, taking bad decisions, incorrectly implementing the decisions made, or not taking appropriate actions in response to changes in the business environment.

MANAGEMENT OBJECTIVE

Maintaining, at an acceptable level, potential adverse financial consequences resulting from adverse changes in the business environment, making adverse decisions, improper implementation of adopted decisions or lack of appropriate actions which would be a response to changes in the business environment.

RISK IDENTIFICATION, MEASUREMENT AND ASSESSMENT

Identification consists of recognizing and determining factors, both current and potential, resulting from current and planned activities of the Bank's Group, which may significantly affect the financial position of the Bank's Group, generating or changing the amount of the Bank's Group's revenues and expenses. Business risk is identified through a qualitative assessment of business risk and identification and analysis of factors that contributed to significant deviations in the generation of revenues and expenses from their forecast values.

The measurement of business risk is aimed at defining the scale of threats related to the existence of business risk using the adopted risk measures. The measurement of business risk includes: calculating internal capital and conducting stress tests.

CONTROL

Control of business risk is aimed at maintaining it at an acceptable level. It involves setting and periodic review of the risk controls in the form of tolerance limits on business risk along with its threshold and critical values, tailored to the scale and complexity of the Bank's Group operations.

FORECASTING AND MONITORING

Forecasting business risk is aimed at determining an anticipated scenario of the degree of achievement of planned results by the Bank's Group.

Business risk is monitored to diagnose areas which require management action. Business risk monitoring includes:

- strategic limits of business risk tolerance;
- stress test results;
- reverse stress test results;
- level of internal capital;
- variances in business risk materialization from the forecast;
- results of qualitative assessment of the business risk.

REPORTING

Reporting is performed on a quarterly basis. The reports on the business risk level are addressed to the Asset and Liability Management Committee, the Risk Committee, the Management Board, the Risk Committee of the Supervisory Board and the Supervisory Board.

MANAGEMENT ACTIONS	<p>Management actions involve, in particular:</p> <ul style="list-style-type: none"> • verifying and updating quarterly financial forecasts, including actions aimed at mitigating the business risk level in accordance with the limits; • monitoring the level of the strategic limit of tolerance to business risk.
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8.8 MODEL RISK

DEFINITION	<p>Model risk is the risk of incurring losses resulting from taking incorrect business decisions based on the models in place. Model risk is managed within the Bank's Group both at the level of the given member of the Group (the model owner) and at the level of the Bank as the Group's parent company.</p>
MANAGEMENT OBJECTIVE	<p>To mitigate the risk of losses resulting from taking incorrect business decisions on the basis of the models in place at the Bank's Group, using a well-defined and implemented model management process. One of the elements of the model management process is to regularly perform independent validation of all significant models in the Bank's Group.</p>
RISK IDENTIFICATION, MEASUREMENT AND ASSESSMENT	<p>Model risk identification in the first instance involves collecting information about the models which are in place or which are intended to be implemented, and periodically determining their significance.</p> <p>Model risk assessment is intended to gauge the scale of threats posed by model risk. The assessment makes it possible to determine the risk profile and identify the models which generate the highest risk and expose the Bank's Group to potential losses. Model risk is assessed at the level of each model and in aggregate, at the level of each member of the Bank's Group.</p>
CONTROL	<p>Model risk control is intended to maintain an aggregated model risk assessment at a level which is acceptable to the Bank's Group. Model risk control involves establishing the mechanisms used to diagnose the level of model risk and tools for reducing the level of such risk. The tools used to diagnose model risk include a strategic limit of tolerance to model risk, and model risk thresholds.</p>
MONITORING	<p>Periodical model risk monitoring is aimed at diagnosing the areas which require management actions and includes:</p> <ul style="list-style-type: none"> • model risk level updates; • assessing the utilization of the strategic limit of tolerance to model risk and the model risk thresholds; • verifying the status of implementation and evaluating the effectiveness of model risk mitigation activities.
REPORTING	<p>Model risk monitoring results are periodically presented in reports intended for the Risk Committee, the Management Board, the Risk Committee of the Supervisory Board, and the Supervisory Board.</p>
MANAGEMENT ACTIONS	<p>The purpose of management actions is to influence the model risk management process and the level of such risk, by setting acceptable risk levels and taking decisions to use risk management support tools.</p>

8.9 MACROECONOMIC RISK

DEFINITION	<p>Macroeconomic risk is the risk of deterioration in the Bank's Group's financial position as a result of an adverse impact of changes in macroeconomic conditions.</p>
MANAGEMENT OBJECTIVE	<p>The objective of macroeconomic risk management is to identify macroeconomic factors which have a significant impact on the Bank's Group activities and take action to reduce the adverse impact of potential changes in the macroeconomic situation on the financial situation of the Bank's Group.</p>
RISK IDENTIFICATION, MEASUREMENT AND ASSESSMENT	<p>Macroeconomic risk identification involves determining scenarios of potential macroeconomic changes and risk factors having the greatest impact on the financial situation of the Bank's Group. Macroeconomic risk arises from the interaction of factors dependent on the Group's activities (in the first instance, the statement of financial position structure and response plans developed for stress scenario purposes) and independent thereof (macroeconomic factors). The Bank's Group identifies factors which contribute to the level of macroeconomic risk when conducting comprehensive stress tests.</p> <p>Macroeconomic risk measurement is intended to gauge the scale of threats posed by macroeconomic risk. The level of macroeconomic risk is assessed on an annual basis using the results of periodical comprehensive stress tests. Macroeconomic risk level may be moderate, increased or high.</p>

CONTROL	<p>The objective of macroeconomic risk control is to attempt to reduce the adverse impact of potential changes in the macroeconomic situation on the financial situation of the Bank's Group.</p> <p>Macroeconomic risk control involves determining an acceptable risk level commensurate with the scale of the Group's operations and its impact on the operation and financial situation of the Bank's Group.</p>
FORECASTING AND MONITORING	<p>The objective of macroeconomic risk forecasting is to determine the anticipated impact of materialization of an adverse scenario on the Bank's results of operations, including its capital level.</p> <p>Macroeconomic risk monitoring involves analysing the macroeconomic situation, the macroeconomic factors to which the Bank's Group is sensitive, the level of macroeconomic risk, and the results of comprehensive stress tests.</p>
REPORTING	<p>Macroeconomic risk is reported on a quarterly basis. Reports on the level of macroeconomic risk are addressed to the Asset and Liability Management Committee, the Risk Committee, the Management Board, the Risk Committee of the Supervisory Board and the Supervisory Board.</p>
MANAGEMENT ACTIONS	<p>Management actions in the first instance involve setting acceptable risk levels and taking steps to reduce the level of risk in the event of increased or high macroeconomic risk.</p>

8.10 COMPREHENSIVE STRESS TESTS

Comprehensive stress tests are an integral part of the Bank Group's risk management process and they complement stress tests specific to particular risk types. They collectively take account of the risks identified, in the first instance the risks considered by the Bank or the Group to be material. They include an analysis of the impact of changes in the macroeconomic environment and the functioning of the Bank's Group on the Bank's Group's financial position, in particular: the income statement, statement of financial position, own funds, capital adequacy (including capital requirements), internal capital, capital adequacy measures, quality of the loan portfolio and selected liquidity measures. Calculations are made using the Bank's internal models, taking into account the macroeconomic assumptions adopted.

Reverse stress tests (RST) complement the results of comprehensive stress tests and are aimed at assessing the Bank's resilience to macroeconomic changes. RST are conducted in the form of a sensitivity analysis and consist in defining potential negative scenarios in respect of liquidity or capital adequacy of the Bank, and defining potential events which contribute to their materialization.

8.11 CAPITAL ADEQUACY²³

Capital adequacy management is a process intended to ensure that the level of risk which the Bank assumes in relation to the development of its business activities may be covered with its capital, taking into account a specific risk tolerance level and time horizon. The process of managing capital adequacy comprises, in particular, compliance with the applicable regulations of the supervisory and control authorities, as well as the risk tolerance level determined within the Bank and the capital planning process, including the policy concerning the sources of acquisition of capital.

The objective of capital adequacy management is to maintain own funds at all times at a level that is adequate for the scale and risk profile of the Bank Group's business.

The key regulations applicable to assessing capital adequacy are:

- Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms, amending Regulation (EU) No 648/2012 (CRR);
- Banking Act of 29 August 1997;
- Act on Macroprudential Supervision over the Financial System and on Crisis Management in the Financial System of 5 August 2015 (hereinafter referred to as "the Act on Macroprudential Supervision").

The key capital adequacy measures are:

- total capital ratio (TCR);
- ratio of own funds to internal capital;

²³ Own funds are calculated for capital adequacy purposes on the basis of the Banking Act and Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012.

- Common Equity Tier 1 capital ratio (CET1);
- Tier 1 capital ratio (T1);
- Leverage ratio.

As required by Article 92 of the CRR, the minimum levels of the Bank Group's capital ratios are:

- total capital ratio – 8.0%;
- Tier 1 capital ratio – 6.0%;
- Common Equity Tier 1 capital ratio (CET1) – 4.5%

As required by the CRR and the Act on Macroprudential Supervision, the Group must meet the combined buffer requirement, which is the sum of the applicable buffers, i.e.:

- the capital conservation buffer - of 2.5% (effective from 1 January 2019);
- the countercyclical buffer - it is equal to 0% for credit exposures in the Republic of Poland;
- the systemic risk buffer - set at 3%;
- the buffer of another systemically important institution - 1%.

Moreover, the Bank's Group must maintain own funds for the additional capital requirement against the risk of foreign currency mortgage loans for households, of 0.42 pp above the consolidated total capital ratio. The additional capital requirement should be composed of at least 75% of Tier 1 capital, i.e. at the level of 0.31 pp above the consolidated Tier 1 capital ratio.

The add-on required by the Polish Financial Supervision Authority in respect of the Bank's sensitivity to an unfavourable macroeconomic scenario, required to meet the conditions required to pay out 100% of profits, amounts to 0.66 p.p.

The realization of capital adequacy measures is monitored and reported in a monthly and quarterly cycle. The reports on the capital adequacy level are addressed to the Asset and Liability Management Committee, the Risk Committee, the Management Board, the Risk Committee of the Supervisory Board and the Supervisory Board.

9. INFORMATION FOR INVESTORS

Shareholders holding directly or indirectly through subsidiaries at least 5% of the total number of votes at the General Shareholders' Meeting
Shares of PKO Bank Polski SA held by members of the Bank's governing authorities
Assessment of the creditworthiness of PKO Bank Polski SA
Corporate governance policies and scope of application
Controls in the process of preparing financial statements
The Articles of Association of PKO Bank Polski SA

9.1 SHAREHOLDERS HOLDING DIRECTLY OR INDIRECTLY THROUGH SUBSIDIARIES AT LEAST 5% OF THE TOTAL NUMBER OF VOTES AT THE GENERAL SHAREHOLDERS' MEETING

According to PKO Bank Polski SA's best knowledge, as at the date of this report, three shareholders: The State Treasury, Nationale-Nederlanden Otwarty Fundusz Emerytalny, and Aviva Otwarty Fundusz Emerytalny held, directly or indirectly, significant blocks of shares (at least 5%).

Table 9. Shareholding structure of PKO Bank Polski SA

	As at 30.06.2019		As at 31.12.2018		Change of the share in the number of votes at the GM
	Number of shares	Share in the number of votes at the GM	Number of shares	Share in the number of votes at the GM	
State Treasury	367,918,980	29.43%	367,918,980	29.43%	-
Aviva Otwarty Fundusz Emerytalny ¹⁾	87,991,840	7.04%	89,163,966	7.13%	-0.09 p.p.
Nationale-Nederlanden Otwarty Fundusz Emerytalny (until 23.06.2015, ING Otwarty Fundusz Emerytalny) ¹⁾	94,257,435	7.54%	95,472,008	7.64%	-0.1 p.p.
Other shareholders ²⁾	699,831,745	55.99%	697,445,046	55.80%	+0.19 p.p.
Total	1,250,000,000	100.00%	1,250,000,000	100.00%	-

1) Calculated taking into account the number of shares held as at the end of 1H 2019 and 1H 2018, published by PTE in the bi-annual information on the structure of assets of the fund and the price from the stock exchange list.

2) Including Bank Gospodarstwa Krajowego, which as at 30.06.2019 held 24 487 297 shares, representing 1.96% of the votes at the General Meeting.

Shares of PKO Bank Polski SA do not give any special controlling rights to their holders.

9.2 SHARES OF PKO BANK POLSKI SA HELD BY MEMBERS OF THE BANK'S GOVERNING AUTHORITIES

The number of shares held by members of the Bank's Management and Supervisory Boards as at 30 June 2019 are shown in the table below. The nominal value of each share is PLN 1.

Table 10. Shareholdings of PKO Bank Polski SA

No.	Name and surname	Number of shares as at 30.06.2019	Purchase	Sale	Number of shares as at 31.03.2019
Management Board of the Bank					
1.	Zbigniew Jagiełło, President of the Board	11,000	0	0	11,000
2.	Rafał Antczak, Vice-President	0	0	0	0
3.	Rafał Kozłowski, Vice-President	0	0	0	0
4.	Maks Kraczkowski, Vice-President	0	0	0	0
5.	Mieczysław Król, Vice-President	5,000	0	0	5,000
6.	Adam Marciniak, Vice-President	0	0	0	0
7.	Piotr Mazur, Vice-President	4,500	0	0	4,500
8.	Jakub Papierski, Vice-President	3,000	0	0	3,000
9.	Jan Emeryk Rościszewski, Vice-President	0	0	0	0

As at 30 June 2019 and as at 31 March 2019 members of the Supervisory Board of PKO Bank Polski SA did not hold any shares in PKO Bank Polski SA.

9.3 ASSESSMENT OF CREDITWORTHINESS

Ratings of PKO Bank Polski SA
Rating of PKO Bank Hipoteczny SA
Rating of KREDOBANK SA
Rating of the PKO Leasing SA Group

RATINGS OF PKO BANK POLSKI SA

FINANCIAL RATING BY MOODY'S INVESTORS SERVICE

PKO Bank Polski SA cooperates with Moody's Investors Service rating agency which awards creditworthiness ratings to the Bank. The ratings were paid for and carried out in accordance with the Bank assessment procedure. The most recent update of the ratings was performed in 2018.

On 18 June 2018, Moody's Investors Service rating agency notified of changing the Counterparty Risk Rating (CRR) for PKO Bank Polski SA. The agency set the Bank's long-term counterparty risk at A2 and the short-term counterparty risk rating at P-1. In its notification Moody's did not refer to the Bank's other present ratings. Granting new ratings was related to the agency updating its Bank assessment methodology in June 2018. At the same time the agency assigned new ratings to 32 other banks in the CEE region.

Counterparty risk assessments reflect the entities' capability to pay back the unsecured portion of counterparty financial liabilities which are not related to debt (CRR liabilities), and reflect expected financial losses in the event that such liabilities are not paid. For example, CRR liabilities cover the unsecured portion of liabilities following from transactions in derivatives and the unsecured portion of liabilities resulting from sale and buy-back contracts.

Table 11. Ratings of PKO Bank Polski SA as at 30 June 2019 (paid ratings)

Moody's Investors Service	
Long-term deposit rating	A2 with stable outlook
Short-term deposit rating	P-1
Senior unsecured debt rating	A3 with stable outlook
MTN Programme rating	(P)A3
Other short-term Programme rating	(P)P-2
Counterparty risk assessment rating - long-term	A2
Counterparty risk assessment rating - short-term	P-1
Opinion on counterparty risk - long-term	A2(cr)
Opinion on counterparty risk - short-term	P-1(cr)

ESG FTSE RUSSELL RATING

In 2018, PKO Bank Polski SA was the only Polish company on the FTSE Russell index of large companies in the developed markets, following reclassification of the Polish market to developed market status. As a result of this decision, on 18 March 2019 the Bank obtained the ESG (environmental, social, governance) rating awarded by FTSE Russell, amounting to 1.6 (on a scale of 1 to 5, with 5 being the top rating). Additionally, the Bank was included in the FTSE4Good index which assesses the institution's approach to non-financial (environmental, social and corporate governance) issues. The Bank regularly improves management in these areas, which was reflected in increasing the ESG rating to 3.3 (on 24 June 2019).

RATING OF PKO BANK HIPOTECZNY SA

As at 30 June 2019, PKO Bank Hipoteczny SA had the following ratings granted by Moody's Investors Service rating agency:

Table 12. Ratings of PKO Bank Hipoteczny SA as at 30 June 2019 (paid ratings)

Moody's Investors Service	
Long-term issuer rating	Baa1 with stable outlook
Short-term issuer rating	P-2
Opinion on counterparty risk - long-term	A3(cr)
Opinion on counterparty risk - short-term	P-2(cr)
Counterparty risk assessment rating - long-term	A3
Counterparty risk assessment rating - short-term	P-2
Rating for mortgage covered bonds issued in PLN	Aa3
Rating for mortgage covered bonds issued in EUR	Aa3

Ratings for mortgage-covered bonds issued are confirmed for every issue.

RATING OF KREDOBANK SA

As at 30 June 2019 KREDOBANK SA had the following ratings granted by Ukrainian rating agencies:

Table 13. Ratings of KREDOBANK SA as at 30 June 2019 (paid ratings)

"Expert-Rating" Rating Agency	
Credit rating - country-wide scale	uaAAA with stable outlook
Rating for A and B Series bonds issued - country-wide scale	uaAAA with stable outlook
"Standard-Rating" Rating Agency	
Long-term credit rating - country-wide scale	uaAAA with stable outlook
Short-term credit rating - country-wide scale	uaK1 with stable outlook
Deposit rating - country-wide scale	ua1 with stable outlook
Rating for A and B Series bonds issued - country-wide scale	uaAAA with stable outlook

The above-mentioned ratings awarded by “Expert-Rating” agency were confirmed in May 2019, and ratings awarded by “Standard-Rating” agency were confirmed in June 2019.

The long-term credit rating of KREDOBANK SA on a country-wide scale reflects the investment level, and thus meets Ukrainian statutory requirements regarding investing funds from insurance reserves by insurers and investing pension fund assets.

RATING OF THE PKO LEASING SA GROUP

As at 30 June 2019, bonds issued by ROOF Poland Leasing 2014 DAC, a special purpose vehicle established within the PKO Leasing SA Group for the purposes of the asset securitization programme, had the following ratings:

Table 14. Ratings of the PKO Leasing SA Group as at 30 June 2019 (paid ratings)

	Fitch Agency	Scope Agency
Rating of B-class bonds issued in 2015	AA	AAA

The above-mentioned ratings were updated by Scope Agency in April 2019.

9.4 CORPORATE GOVERNANCE POLICIES AND SCOPE OF APPLICATION

Corporate governance principles included in the document titled “Best Practice for WSE Listed Companies 2016”
Corporate governance principles for supervised institutions issued by the PFSA

CORPORATE GOVERNANCE PRINCIPLES INCLUDED IN THE DOCUMENT TITLED “BEST PRACTICE FOR WSE LISTED COMPANIES 2016”

In relation to the Best Practice for WSE Listed Companies 2016 coming into force as of 1 January 2016, the Bank adopted the principles and recommendations contained in this document, with the reservation that recommendation IV.R.2., which concerns enabling the shareholders to participate in the General Shareholders’ Meeting using means of electronic communication would not be applied, unless the General Shareholders’ Meeting makes appropriate amendments to the Bank’s Articles of Association which will authorize the Management Board to convene a General Shareholders’ Meeting using means of electronic communication. The Bank applies recommendation IV.R.2 in the part concerning the real-time broadcast of General Shareholders’ Meetings. PKO Bank Polski SA enables participation by shareholders, who are interested in taking part in General Shareholders’ Meetings, by setting convenient dates and times for such meetings.

Since 1 January 2016, PKO Bank Polski SA provided information on the status of its application of recommendations and principles included in the Best Practice for GPW Listed Companies 2016 on its website, at (<http://www.pkobp.pl/grupa-pko-banku-polskiego/relacje-inwestorskie/lad-korporacyjny/dobre-praktyki-spolek-notowanych-na-gpw-2016>).

The Bank prepared this information on the form determined by the Warsaw Stock Exchange which shows the detailed status of compliance or non-compliance with each of the recommendations and principles, and results directly from the application of principle I.Z.1.13.

CORPORATE GOVERNANCE PRINCIPLES FOR SUPERVISED INSTITUTIONS ISSUED BY THE PFSA

The Bank adopted for use the “Principles of Corporate Governance for Supervised Institutions” (adopted by the Polish Financial Supervision Authority on 22 July 2014) with respect to the responsibilities and duties of the Management Board, i.e. managing the Bank’s affairs and its representation, in compliance with the generally binding laws and the Bank’s Articles of Association. The Bank made the reservation that §8 (4) of the Principles, insofar as it relates to allowing the shareholders the possibility of participating in the meetings of the decision-making authority electronically, will not be applied unless the General Shareholders’ Meeting makes appropriate amendments to the Bank’s Articles of Association which would authorize the Management Board to convene a General Shareholders’ Meetings using means of electronic communication. The Bank will not apply chapter 9 of the Principles, which concerns the managing of assets at the Customer’s risk, due to the fact that the Bank does not conduct such activities.

The Bank’s Supervisory Board adopted for use the “Corporate Governance Principles for supervised institutions” concerning the responsibilities and duties of the Supervisory Board, i.e. supervising the conducting of the Bank’s affairs in compliance with the generally binding laws and the Bank’s Articles of Association.

In Resolution no. 50/2015, the General Shareholders’ Meeting declared that, acting in line with its responsibilities, it will follow the “Principles of corporate governance for supervised institutions” issued by the Polish Financial Supervision Authority, although it ruled out the application of the principles set out in:

- § 8 (4) of the Principles, within the scope pertaining to ensuring the possibility of shareholders participating by means of electronic communication in meetings of the governing authority;

- § 10 (2) of the Principles, with respect to the introduction of personal rights or other special rights for shareholders;
- § 12 (1) of the Principles pertaining to the responsibility of shareholders for immediate recapitalization of the supervised institution;
- § 28 (4) of the Principles with respect to assessing by the governing authority whether the determined remuneration policy promotes the development and security of the supervised institution.

Waiving the application of the principle set out in § 8 (4) was in line with the prior decision of the Ordinary General Shareholders' Meeting of PKO Bank Polski SA of 30 June 2011, reflected in not adopting the resolution on amendments to the Articles of Association of the Bank, the aim of which was to make possible participation in the General Shareholders' Meeting through means of electronic communication. The decision not to apply this principle was taken because of the legal and organizational and technical risks, which could jeopardize the proper conduct of the General Shareholders' Meeting. Exclusion of the application of this principle by the General Shareholders' Meeting was consistent with the opinion of the Bank's Management Board not to apply it, adopted due to the fact that the current rules of the Bank about participation in General Shareholders' Meetings allow shareholders the effective enforcement of all rights from shares, and protect the interests of all shareholders.

The application of other "Principles of Corporate Governance for supervised institutions" was waived based on the presentation of these proposals by an eligible shareholder of the Bank - the State Treasury, and their subsequent acceptance by the General Shareholders' Meeting by passing Resolution no. 50/2015. In accordance with the justification presented by the State Treasury together with the proposed draft resolution of the Ordinary General Shareholders' Meeting, waiving the application of the principle specified in § 10 (2) and § 12 (1) was justified by the uncompleted process of the Bank's privatisation by the State Treasury.

Waiving the application of the principle set out in § 28 (4) was justified, in accordance with the motion of the State Treasury, by the excessive scope of the remuneration policy in question, which was subject to the assessment of the governing authority. In the opinion of the above-mentioned shareholder, the policy for remunerating employees who perform key functions but are not members of the supervisory and management authorities should be assessed by the employer or the principal, i.e. the Bank represented by the Management Board, the activities of which are supervised by the Supervisory Board.

According to its duty following from § 27 of the Principles, the Bank's Supervisory Board positively assessed the application "Principles of Corporate Governance for supervised institutions" by the Bank in 2015, 2016, 2017 and 2018.

The text of the Principles is published on the Polish Financial Supervision Authority's website at the address:

https://www.knf.gov.pl/dla_rynku/Zasady_ladu_korporacyjnego.

9.5 CONTROLS IN THE PROCESS OF PREPARING FINANCIAL STATEMENTS

Internal control system Controls in the process of preparing the financial statements
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PKO Bank Polski has an internal control system functioning as part of the Bank's management system. The Management Board is responsible for its design, implementation and operation. The Supervisory Board supervises the implementation and operation of the system and performs an annual assessment of this system.

The objectives of the internal control system are as follows:

- ensuring the efficiency and effectiveness of the Bank's operations;
- reliability of the financial reporting;
- compliance with risk management principles in the Bank;
- compliance of the Bank's activities with the generally binding legal regulations, internal regulations of the Bank, supervisory recommendations and market standards adopted in the Bank.

INTERNAL CONTROL SYSTEM

The following are distinguished within the internal control system of PKO Bank Polski SA:

- the control function which ensures compliance with controls, in particular risk management at the Bank, and which covers all units of the Bank and the organizational positions in these units responsible for the performance of tasks allocated to this function;
- the compliance unit, the objective of which is to develop compliance solutions and to manage compliance risk, as well as to identify, evaluate, control, monitor and report compliance risk;

- the independent internal audit unit which is responsible for ensuring the assessment of adequacy and effectiveness of the risk management system and internal control system as part of assurance activities, as well as for adding value and improving the effectiveness of processes at the Bank as part of advisory activities.

To reduce the probability of the materialization of banking risk and its potential impact on achieving the objectives by PKO Bank Polski SA, its financial position, goals and internal processes, the Bank uses controls. These controls are adjusted to the specificity of the Bank's operations and are to ensure the achievement of internal control goals of PKO Bank Polski SA.

Information on irregularities identified in individual elements of the internal control system, assessment results and other material issues pertaining to the functioning of this system are presented in the reports for the Management Board of PKO Bank Polski SA, the Audit Committee of the Supervisory Board and the Supervisory Board of PKO Bank Polski SA.

Subsidiaries of PKO Bank Polski SA have an internal control system adapted to the specific nature of the given entity's operations.

The internal regulations of subsidiaries of PKO Bank Polski SA define the internal control systems of those entities. The subsidiaries develop and update these regulations after obtaining the opinion of PKO Bank Polski SA and in consideration of its recommendations. The Bank periodically asks the subsidiaries to submit information or documents about the functioning of the internal control system within those entities.

CONTROLS IN THE PROCESS OF PREPARING THE FINANCIAL STATEMENTS

To ensure the reliability and correctness of the process of preparing the financial statements, the Bank designed and implemented a number of controls that are built into the reporting systems and internal regulations concerning this process. These controls involve, among others things, the use of continuous verification and reconciliation of reporting data to the accounting records, sub-ledger accounts and other documents providing the basis for financial statements.

The process of preparing financial statements is subjected to regular multi-level verification, in particular with regard to the correctness of the account reconciliation, substantive analysis and reliability of the information. In accordance with the internal regulations, the financial statements are approved by the Management Board of PKO Bank Polski SA and reviewed by the Supervisory Board and the Audit Committee of the Supervisory Board appointed by the Supervisory Board of PKO Bank Polski SA in 2006.

The tasks of the Audit Committee of the Supervisory Board include, among other things, monitoring the financial reporting process including the review of separate and consolidated interim and annual financial statements, with particular emphasis on:

- information on substantial changes in the accounting and reporting policy and the method of making management estimates and judgments material to financial reporting, as well as compliance of the financial reporting process with the applicable law;
- significant adjustments which result from the audit and the auditor's opinion, discussion of any issues, qualifications and doubts from the audit of financial statements and analysis of the external auditor's recommendations addressed to the Management Board and responses of the Management Board in this regard.

A description of the cooperation between the Audit Committee and the external auditor and its assessment is included in the report on activities of the Audit Committee drawn up on an annual basis and attached to the report on activities of the Supervisory Board.

9.6 THE ARTICLES OF ASSOCIATION OF PKO BANK POLSKI SA

PRINCIPLES FOR AMENDING THE ARTICLES OF ASSOCIATION OF PKO BANK POLSKI SA

Amendments to the Articles of Association of PKO Bank Polski SA fall within the competence of the General Shareholders' Meeting and require passing a resolution by a majority of three-quarters of the votes, the consent of the Polish Financial Supervision Authority and making an entry in the register of businesses in the National Court Register. Moreover, in accordance with Article § 10 (14) of the Articles of Association of PKO Bank Polski SA resolutions of the General Shareholders' Meeting on share preferences and issues concerning the Bank's merger by transferring all of its assets to another company, its liquidation, reduction in the share capital by redeeming some of its shares without a simultaneous increase in the share capital or changing the scope of the Bank's activities which leads to the Bank ceasing its banking activities require a 90% majority of the votes cast.

AMENDMENTS INTRODUCED IN THE FIRST HALF OF 2019

On 9 January 2019, the District Court for the capital city of Warsaw in Warsaw, 13th Business Department, registered the amendments to the Bank's Articles of Association. From that date, the Bank can provide new payment services that arise from the Act of 10 May 2018 on amendments to the Act on payment services, i.e. the payment transaction initiation service and the account information access service (an amendment was made to § 4 (1)(9)(e) and addition of letters (g-h).

10. OTHER INFORMATION

Identification data Governing bodies of PKO Bank Polski SA in the reporting period Representation on non-financial information Significant agreements and material agreements with the Central Bank or with the supervisory authorities Published forecasts of financial results for 2019 Loans drawn and agreements regarding advances, guarantees and pledges which are not related to operating activities Underwriting agreements and guarantees granted to subsidiaries Significant agreements on granting a pledge on loans and advances or granting a guarantee by subsidiaries Benefits for management and supervisory staff Number of employees in PKO Bank Polski SA and in the PKO Bank Polski SA Group Information on proceedings before the court, competent arbitration body or public administration body Disclosures on disputes concerning loans in Swiss franc Seasonality or cyclicity of activities during the reporting period Information on related-party transactions or transactions concluded by the issuer or its subsidiary if it is or they are material and was / were concluded on terms other than on an arm's length basis Other information significant to the assessment of the HR and financial situation, the results of operation and changes therein, and information that is of significance to the evaluation of the ability to settle liabilities Significant post balance sheet events
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IDENTIFICATION DATA

Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna with its registered office in Warsaw, at the address: Puławska Str. 15, 02-515 Warsaw, has been registered at the District Court for the Capital City of Warsaw in Warsaw, 13th Business Department of the National Court Register under the number KRS 0000026438, REGON statistical number: 016298263, NIP: 525-000-77-38, share capital (paid up) of PLN 1,250,000,000.

GOVERNING BODIES OF PKO BANK POLSKI SA IN THE REPORTING PERIOD

Table 15. Composition of the Management of PKO Bank Polski SA as at 30 June 2019

ZBIGNIEW JAGIEŁŁO	
PRESIDENT OF THE MANAGEMENT BOARD	
IN CHARGE AS PRESIDENT OF THE MANAGEMENT BOARD	Re-appointed President of the Management Board of PKO Bank Polski SA on 14 June 2017 for a joint term of office of the Management Board which began on 2 July 2017.
RAFAŁ ANT CZAK	
VICE-PRESIDENT OF THE MANAGEMENT BOARD OF THE BANK IN CHARGE OF ENTERPRISE BANKING, ANALYSES AND ADMINISTRATION	
	Appointed Vice-President of the Management Board of PKO Bank Polski SA on 14 June 2017 for a joint term of office of the Management Board which began on 2 July 2017.
RAFAŁ KOZŁOWSKI	
VICE-PRESIDENT OF THE MANAGEMENT BOARD OF THE BANK IN CHARGE OF FINANCE AND ACCOUNTING	
	Appointed Vice-President of the Management Board of PKO Bank Polski SA on 21 December 2017, with effect from 1 January 2018, for a joint term of office of the Management Board which began on 2 July 2017.
MAKS KRACZKOWSKI	
VICE-PRESIDENT OF THE MANAGEMENT BOARD OF THE BANK IN CHARGE OF INTERNATIONAL AND TRANSACTION BANKING, AND COOPERATION WITH LOCAL GOVERNMENT AUTHORITIES AND GOVERNMENT AGENCIES	
	Re-appointed Vice-President of the Management Board of PKO Bank Polski SA on 14 June 2017 for a joint term of office of the Management Board which began on 2 July 2017.

MIECZYŚLAW KRÓL

VICE-PRESIDENT OF THE MANAGEMENT BOARD OF THE BANK IN CHARGE OF OPERATIONS Re-appointed Vice-President of the Management Board of PKO Bank Polski SA on 14 June 2017 for a joint term of office of the Management Board which began on 2 July 2017.

ADAM MARCINIAK

VICE-PRESIDENT OF THE MANAGEMENT BOARD OF THE BANK IN CHARGE OF IT Appointed Vice-President of the Management Board of PKO Bank Polski SA on 21 September 2017, with the effect from 1 October 2017, for a joint term of office of the Management Board which began on 2 July 2017.

PIOTR MAZUR

VICE-PRESIDENT OF THE MANAGEMENT BOARD OF THE BANK IN CHARGE OF RISK MANAGEMENT Re-appointed Vice-President of the Management Board of PKO Bank Polski SA on 14 June 2017 for a joint term of office of the Management Board which began on 2 July 2017.

JAKUB PAPIERSKI

VICE-PRESIDENT OF THE MANAGEMENT BOARD OF THE BANK IN CHARGE OF CORPORATE AND INVESTMENT BANKING Re-appointed Vice-President of the Management Board of PKO Bank Polski SA on 14 June 2017 for a joint term of office of the Management Board which began on 2 July 2017.

JAN EMERYK ROŚCISZEWSKI

VICE-PRESIDENT OF THE MANAGEMENT BOARD OF THE BANK IN CHARGE OF THE RETAIL MARKET Re-appointed Vice-President of the Management Board of PKO Bank Polski SA on 14 June 2017 for a joint term of office of the Management Board which began on 2 July 2017.

Table 16. Composition of the Supervisory Board of PKO Bank Polski SA as at 30 June 2019

PIOTR SADOWNIK

CHAIRMAN OF THE BANK'S SUPERVISORY BOARD Member of the Supervisory Board since 25 February 2016.
Re-appointed to the Supervisory Board for the current term of office on 22 June 2017 and appointed Chairman of the Supervisory Board on the same day by the State Treasury.

GRAŻYNA CIURZYŃSKA

VICE-CHAIRMAN OF THE SUPERVISORY BOARD Member of the Supervisory Board since 30 June 2016.
Re-appointed to the Supervisory Board for the current term of office on 22 June 2017 and appointed Vice-Chairman of the Supervisory Board on the same day by the State Treasury.

ZBIGNIEW HAJŁASZ

SECRETARY OF THE SUPERVISORY BOARD Member of the Supervisory Board since 30 June 2016.
Re-appointed to the Supervisory Board for the current term of office on 22 June 2017. On 24 August 2017 re-appointed Secretary of the Supervisory Board.

MARIUSZ ANDRZEJEWSKI

MEMBER OF THE SUPERVISORY BOARD Appointed to the Supervisory Board for the current term of office which began on 22 June 2017.

MIROŚLAW BARSZCZ

MEMBER OF THE SUPERVISORY BOARD Member of the Supervisory Board since 25 February 2016.
Re-appointed to the Supervisory Board for the current term of office which began on 22 June 2017.

ADAM BUDNIKOWSKI

MEMBER OF THE SUPERVISORY BOARD Member of the Supervisory Board since 25 February 2016.
Re-appointed to the Supervisory Board for the current term of office which began on 22 June 2017.

DARIUSZ GÓRSKI

MEMBER OF THE SUPERVISORY BOARD Appointed to the Supervisory Board on 6 May 2019 for the current joint term of office which began on 22 June 2017.

WOJCIECH JASIŃSKI

MEMBER OF THE SUPERVISORY BOARD Member of the Supervisory Board since 25 February 2016.
Re-appointed to the Supervisory Board for the current term of office on 22 June 2017.

ANDRZEJ KISIELEWICZ

MEMBER OF THE SUPERVISORY BOARD Member of the Supervisory Board since 25 February 2016.
Re-appointed to the Supervisory Board for the current term of office on 22 June 2017.

ELŻBIETA MAĆZYŃSKA-ZIEMACKA

MEMBER OF THE SUPERVISORY BOARD Member of the Supervisory Board since 20 June 2013.
Re-appointed to the Supervisory Board for the current term of office on 22 June 2017.

On 6 May 2019, based on the provisions of the Commercial Companies Code, the Ordinary General Shareholders' Meeting of PKO Bank Polski SA dismissed Mr Janusz Ostaszewski from the Supervisory Board of PKO Bank Polski SA and appointed Mr Dariusz Górski as member of the Supervisory Board.

STATEMENT ON NON-FINANCIAL INFORMATION

The PKO Bank Polski SA Group prepared the Statement on non-financial information for 2018, which this year formed a separate part of the Directors' Report of the PKO Bank Polski SA Group for 2018 and published it on the website of PKO Bank Polski SA. The statement has been prepared in accordance with the provisions of the Accounting Act and contains all the elements required by the law. The Statement presents key non-financial performance indicators related to the entity's operations and information concerning employee matters and environmental issues.

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

In the first half of 2019 the Bank did not conclude significant agreements with the Central Bank or with the supervisory authorities. The subsidiaries of PKO Bank Polski SA did not conclude significant agreements or material agreements with the Central Bank or with the supervisory authorities in the first half of 2019.

PUBLISHED FORECASTS OF FINANCIAL RESULTS FOR 2019

PKO Bank Polski SA did not publish forecasts of financial results for 2019.

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

In the first half of 2019 PKO Bank Polski SA and subsidiaries of PKO Bank Polski SA did not draw any loans or advances and did not receive any guarantees or pledges which were not related to operating activities.

UNDERWRITING AGREEMENTS AND GUARANTEES GRANTED TO SUBSIDIARIES

On 30 August 2017, PKO Bank Hipoteczny SA concluded an amending agreement to the agreement of 9 November 2015 on the National Mortgage Bond Issue Programme with PKO Bank Polski SA, based on which it entrusted the PKO Bank Polski SA Brokerage House with the function of underwriter (until August 2017, the aforementioned mortgage-covered bonds were offered according to standard-issue procedures).

In the first half of 2019, as part of the underwriting agreement rendered by the Brokerage House, PKO Bank Hipoteczny SA issued mortgage-covered bonds (at nominal value) totalling PLN 250 million. The total value of all issued mortgage-covered bonds (at nominal value) under the underwriting agreement was PLN 2,340 million. As at 30 June 2019, the Brokerage House had mortgage-covered bonds in its portfolio with a total nominal value of PLN 42.5 million.

As at 30 June 2019, bonds of PKO Bank Hipoteczny SA issued as part of the Non-Public Bond Issue Programme were governed by the Agreement on the Bond Issue Programme of 30 September 2015, signed with PKO Bank Polski SA (acting as, among other things, the issue agent, depository and dealer), pursuant to which the maximum value of bonds issued and not redeemed based on the programme is PLN 3.5 billion, and the Guarantee Agreement of 30 September 2015, pursuant to which PKO Bank Polski SA is the underwriter of the bonds issued up to a total of PLN 2 billion.

The company's liability in respect of the bonds issued at nominal value as part of the above-mentioned programme was PLN 3.5 billion as at the end of June 2019. In its portfolio PKO Bank Polski SA had bonds with a nominal value of PLN 365.7 million, and there were no bonds acquired under the Guarantee Agreement.

On 31 May 2019, PKO Bank Hipoteczny SA concluded a Programme Agreement with PKO Bank Polski SA and the Brokerage House concerning the Public Bond Issue Programme (National Bond Issue Programme) set up on 11 April 2019. PKO Bank Polski SA acts as the underwriter and calculation agent, and the Brokerage House acts as the offeror and underwriter. Until 30 June 2019, a subscription of bonds was carried out with a nominal value of PLN 50 million - the subscription was not carried out under the underwriting agreement.

In the first half of 2019, PKO Bank Polski SA also granted guarantees related to the operations and functioning of its subsidiaries, including:²⁴

- a guarantee to Polski Fundusz Rozwoju SA in the form of a performance bond for PKO BP Finat sp. z o.o. with respect to the contract for the maintenance and servicing of the Employee Equity Plan Recording System (for the period until 1 January 2023);
- a guarantee and an annex to the guarantee in respect of the repayment of office space rental liabilities by a subsidiary (for the maximum period until September 2024).

SIGNIFICANT AGREEMENTS ON GRANTING A PLEDGE ON LOANS AND ADVANCES OR GRANTING A GUARANTEE BY SUBSIDIARIES

In the first half of 2019, the subsidiaries of PKO Bank Polski SA did not conclude any significant agreements related to granting pledges with respect to loans and advances or granting guarantees.

BENEFITS FOR MANAGEMENT AND SUPERVISORY STAFF

The information on remuneration and other benefits paid and payable to members of the Management Board of PKO Bank Polski SA and of the Supervisory Board of PKO Bank Polski SA in the reporting period is shown in Note 35 of the condensed interim consolidated financial statements of the PKO Bank Polski SA Group for the six-month period ended 30 June 2019.

NUMBER OF EMPLOYEES IN PKO BANK POLSKI SA AND IN THE PKO BANK POLSKI SA GROUP

On 30 June 2019, the PKO Bank Polski SA Group employed 28,057 FTEs, which is a drop of 468 FTEs y/y. The number of employees of PKO Bank Polski SA dropped by 598 FTEs y/y, and in the other Group companies (apart from PKO Bank Polski SA) the number of employees grew by 129 FTEs y/y.

Table 17. Number of employees in PKO Bank Polski SA and in the PKO Bank Polski SA Group

	30.06.2019	31.12.2018	30.06.2018	Change in FTEs y/y
PKO Bank Polski SA	24,081	24,192	24,678	-598
Other Group companies	3,976	3,664	3,847	129
Total	28,057	27,856	28,525	-468

* The number of employees in the remaining companies of the Bank's Group as at 30 June 2019 comprises 219 FTEs in the Prime Car Management SA Group

INFORMATION ON PROCEEDINGS AT COURT, BEFORE A COMPETENT ARBITRATION BODY OR PUBLIC ADMINISTRATION BODY

On 30 June 2019 the total amount disputed in court where the PKO Bank Polski SA Group companies (including the Bank) are respondents was PLN 1,168 million, including PLN 40 million in respect of litigation in Ukraine (as at 31 December 2018, the total amount of the said litigation was PLN 1,784 million), and the total amount of litigation (suits) as at 30 June 2019 where the PKO Bank Polski SA Group companies (including the Bank) are claimants was PLN 2,207 million, including PLN 28 million in respect of litigation in Ukraine (as at 31 December 2018 the total amount under the said litigation was PLN 1,838 million).

In the first half of 2019 the Bank and the Bank's Group companies were not parties to any material²⁵ (from the perspective of the Bank's Group) proceedings in court, before an arbitration body or public administration body with respect to liabilities and receivables.

²⁴ The information covers guarantees active as at 30 June 2019

²⁵ Liabilities and receivables of at least 5% of PKO Bank Polski SA's equity were considered material

DISCLOSURES ON DISPUTES CONCERNING LOANS IN SWISS FRANC

Proceedings are in progress before the Court of Justice of the European Union (CJEU), initiated by a request for a preliminary ruling by the Regional Court in Warsaw concerning the action brought by individuals against one of the banks. Bank PKO BP SA is not a party to these proceedings. The case concerns a loan indexed to the Swiss franc granted in November 2008 by another bank. On 14 May 2019, the CJEU Advocate General issued an opinion on the case with a proposed preliminary ruling. The opinion of the CJEU Advocate General will be taken into account by the Court of Justice of the European Union in its preliminary rulings but it is not decisive for the content of the ruling. Its contents may have an effect on the judicature of the Polish courts concerning loans granted in a foreign currency, in particular with reference to loans indexed to a foreign currency, but the courts will in each instance examine the facts of the case and its legal status, including the contents of the loan agreement.

SEASONALITY OR CYCLICALITY OF ACTIVITIES DURING THE REPORTING PERIOD

The Bank's and the other PKO Bank Polski SA Group companies' activities do not show significant cyclic or seasonal changes.

INFORMATION ON RELATED-PARTY TRANSACTIONS OR TRANSACTIONS CONCLUDED BY THE ISSUER OR ITS SUBSIDIARY IF IT IS OR THEY ARE MATERIAL AND WAS / WERE CONCLUDED ON TERMS OTHER THAN ON AN ARM'S LENGTH BASIS

In the first half of 2019 PKO Bank Polski SA Group subsidiaries did not conclude any material transactions with related parties on terms other than on an arm's length basis.

A summary of the significant transactions between PKO Bank Polski SA and its subordinated entities, including these companies' indebtedness vis-à-vis the Bank as at 30 June 2019 is presented in the condensed interim consolidated financial statements of the PKO Bank Polski SA Group for the six months ended 30 June 2019.

OTHER INFORMATION SIGNIFICANT TO THE ASSESSMENT OF THE HR AND FINANCIAL SITUATION, THE RESULTS OF OPERATION AND CHANGES THEREIN, AND INFORMATION THAT IS OF SIGNIFICANCE TO THE EVALUATION OF THE ABILITY TO SETTLE LIABILITIES

On 18 January 2019, the Bank received a letter from the Polish Financial Supervision Authority concerning an additional charge in connection with the Bank's sensitivity to an adverse macroeconomic scenario of 0.66 p.p. The amount of the said charge has been set by the PFSA in December 2017 at 2.86 p.p.

In the first half of 2019, the Bank incurred costs of contributions to the Bank Guarantee Fund totalling PLN 406,010,748.60. The annual contribution to the bank mandatory restructuring fund calculated for the Bank for 2019 was PLN 325,758,660.07, whereas the Bank's contributions to the guarantee fund were set by the Fund at PLN 40,277,700.95 for the first quarter and PLN 39,974,387.58 for the second quarter of 2019.

The cost of contributions to the BGF in the Bank's Group in the first half of 2019, including the charges of PKO Bank Hipoteczny SA, amounted to PLN 428,068,251.60.

SIGNIFICANT POST BALANCE SHEET EVENTS

On 10 July 2019, PKO Bank Polski SA concluded a current account revolving working capital facility agreement of up to PLN 1 billion for a period of 3 years with PKO Bank Hipoteczny SA. The facility is designated for servicing the redemption of bonds issued by the company as part of the Non-Public Bond Issue Programme, in connection with the obligation to register the settlement of issues of non-public securities with the National Deposit of Securities as of 1 July 2019, and the inability to redeem them and received funds from a new issue on the same day.

PKO Bank Hipoteczny SA carried out the first issues of the bonds as part of the Public Issue Programme established on 11 April 2019, including the issue of bonds of PLN 161.5 million conducted on 10 July 2019 underwritten by Dom Maklerski PKO Banku Polskiego SA with are to be redeemed in 6 months, and on 11 July 2019 an issue addressed mainly to retail investors, of PLN 50 million and period to redemption 2 years.

11. GLOSSARY

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

CPI - consumer price index;

Customer deposits – amounts due to Customers, excluding repo transactions and loans and advances received;

Financing granted to Customers – loans and advances to Customers (including finance leases) less receivables in respect of reverse repo agreements and municipal and corporate bonds presented in securities (excluding bonds held for trading);

Borrowings – subordinated liabilities, own issues of debt securities measured at amortized cost, loans and advances received presented in amounts due to banks and loans and advances received presented in amounts due to Customers;

Other liabilities – derivative hedging instruments, other derivatives, liabilities in respect of insurance activities, other liabilities, current income tax liabilities, deferred income tax provisions, provisions, repo transactions recorded as amounts due to banks and Customers, amounts due to the Central Bank and other liabilities to banks (other than loans received);

Administrative expenses – general administrative expenses and net regulatory charges;

Regulatory costs – net regulatory charges and taxes and fees from general administrative expenses;

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

Securities (banking portfolio) – securities less municipal and corporate bonds (excluding bonds held for trading);

Other assets – derivative hedging instruments, other derivative instruments, investments in associates and joint ventures, non-current assets held for sale, intangible assets, property, plant and equipment, current corporate income tax receivables, deferred tax asset, other assets and sell-back transactions presented in loans and advances to Customers;

Risk-free rate – calculated as the annual average of returns on 10-year Treasury bonds;

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

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

C/I ratio (cost to income ratio) – general administrative expenses net taxation on interest paid to non-residents to the result on business activities on an annual basis;

Financing granted to Customers to deposits – financing granted to Customers (loans and advances granted to Customers (including amounts due in respect of finance leases) less reverse repo transactions and municipal and corporate bonds presented in securities, excluding securities held for trading) to amounts due to Customers;

Financing granted to Customers to stable sources of financing – financing granted to Customers (loans and advances granted to Customers (including amounts due in respect of finance leases) less reverse repo transactions and municipal and corporate bonds presented in securities, excluding securities held for trading) to stable sources of finance (amounts due to Customers and borrowings);

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

Cost of risk ratio – calculated by dividing net credit loss allowances for the last 12 months by the average balance of loans and advances to Customers, gross, at the beginning and at the end of the reporting period, and interim quarterly periods;

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

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

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

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

Ratio of loans with recognized impairment – defined as the portfolio with recognized impairment on the exposures portfolio measured at amortized cost and on the portfolio of loans measured at fair value through other comprehensive income;

Result on business activities – results of operations net of general administrative expenses, tax on certain financial institutions, net loan loss allowances and the result on impairment of non-financial assets

Net operating result – result on operating activities excluding net allowances on loans and net impairment losses on non-financial assets;

Other results – dividend income + result on financial instruments measured at fair value through profit or loss + result on investment securities + foreign exchange result + gains or losses on derecognition of financial assets or liabilities not measured at fair value through profit or loss + other net operating income/expenses;

Result on financial operations – result on financial instruments measured at fair value through profit or loss + result on investment securities + gains or losses on derecognition of financial assets or liabilities not measured at fair value through profit or loss;

Net allowances and impairment – result on allowances for credit losses + result on impairment of non-financial assets;

Net profit – net profit in the consolidated statement of profit or loss is understood as net profit attributable to the shareholders of the parent company.

12. STATEMENT OF THE MANAGEMENT BOARD

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

- the condensed interim consolidated financial statements of the PKO Bank Polski SA Group for the six-month period ended 30 June 2019 and comparative data have been prepared in accordance with the applicable accounting principles, and give a true, fair and clear view of the economic and financial position of the PKO Bank Polski SA Group, and of its financial result;
- this Directors' Report of the PKO Bank Polski SA Group for the first half of 2019 includes an accurate description of the development and achievements, as well as the situation of the PKO Bank Polski SA Group, including a description of the main risks and threats.

The Management Board of PKO Bank Polski SA declares that the entity entitled to audit financial statements, carrying out the review of the condensed interim consolidated financial statements for the six-month period ended 30 June 2019 has been selected in accordance with legal regulations, and that this entity and the statutory auditors carrying out the review satisfied the conditions to issue an unbiased and independent report on the review, in keeping with the binding regulations and professional standards.

This Directors' Report of the PKO Bank Polski SA Group for the first half of 2019 comprises 79 (Polish version) sequentially numbered pages.

SIGNATURES OF ALL THE MEMBERS OF THE MANAGEMENT BOARD

12.08.2019	RAFAŁ ANT CZAK	VICE-PRESIDENT OF THE MANAGEMENT BOARD (SIGNATURE)
12.08.2019	RAFAŁ KOZŁOWSKI	VICE-PRESIDENT OF THE MANAGEMENT BOARD (SIGNATURE)
12.08.2019	MAKS KRACZKOWSKI	VICE-PRESIDENT OF THE MANAGEMENT BOARD (SIGNATURE)
12.08.2019	MIECZYŚŁAW KRÓL	VICE-PRESIDENT OF THE MANAGEMENT BOARD (SIGNATURE)
12.08.2019	ADAM MARCINI AK	VICE-PRESIDENT OF THE MANAGEMENT BOARD (SIGNATURE)
12.08.2019	PIOTR MAZUR	VICE-PRESIDENT OF THE MANAGEMENT BOARD (SIGNATURE)
12.08.2019	JAKUB PAPIERSKI	VICE-PRESIDENT OF THE MANAGEMENT BOARD (SIGNATURE)
12.08.2019	JAN EMERYK ROŚCISZEWSKI	VICE-PRESIDENT OF THE MANAGEMENT BOARD (SIGNATURE)

SIGNATURE OF THE PERSON RESPONSIBLE
FOR MAINTAINING THE BOOKS OF ACCOUNT

DANUTA SZYMAŃSKA
DIRECTOR OF ACCOUNTING

.....
(SIGNATURE)

Zbigniew Jagiełło, the President of the Management Board of the Bank, did not sign the PKO Bank Polski SA Group Directors' Report for the first half of 2019 because of an excused absence on the day of approval of the Report.