



Bank Polski

PKO Bank Polski S.A. Group Directors' Report for the first half of 2020

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1. UNUSUAL EVENTS AND THE REACTION OF THE BANK'S GROUP

The most important event in the first half of 2020 is the COVID-19 pandemic, an illness caused by the SARS-CoV-2 virus. The PKO Bank Polski S.A. Group ([the Bank's Group](#)) took actions aimed at preventing the spread of the coronavirus and the socio-economic consequences of the pandemic.

ACTIONS TAKEN FOR THE COMMUNITY

The total amount of aid provided by the Bank's Group companies was more than PLN 23 million (excluding the costs of purchase of protective materials for the employees and Customers, as at 30 June 2020).

The Bank's Group took the following actions to support the community:

- granted cash donations totalling more than PLN 6 million to hospitals, including those specializing in the treatment of COVID-19 patients, and laboratories, to help them to purchase medical and protective equipment necessary to fight COVID-19;
- made donations in kind to hospitals, healthcare institutions, social care institutions and orphanages in all parts of Poland, including 360 thousand protective masks, nearly 9 thousand protective overalls, 141 cars for hospitals, the Chief Sanitary Inspectorate and the Territorial Defence Force;
- cooperated with government institutions in matters relating to the Anti-Crisis Shield in a number of ways, including:
 - seconded several advisors and bank analysts to support the Ministry of Development's Anti-Crisis Shield hotline;
 - participated in the development of the information system for collecting information, providing services and calculating subsidies as part of the Anti-Crisis Shield, as well as its integration with the public administration systems, and provided solutions for the mass payment of subsidies by Polski Fundusz Rozwoju S.A. (the Polish Development Fund);
- based on the agreement between the PKO Bank Polski Foundation and Warsaw Genomics, the Foundation purchased and ordered free of charge diagnostic tests for SARS-CoV-2, which comply with the guidelines of the Ministry of Health; furthermore, the Foundation made its account number available to the coalition of employers initiated by Warsaw Genomics and used the funds collected from companies and private individuals to finance another batch of diagnostic tests;
- in cooperation with Operator Chmury Krajowej sp. z o.o., implemented a system for medical video consultations;
- equipped its branches with personal protection equipment, including masks, gloves, disinfectants, acrylic glass partitions for workstations, in order to protect its employees and Customers using the Bank's branches;
- provided specialist and protective equipment to healthcare institutions in Ukraine; e.g. the PKO Bank Polski Foundation supported the transport of sanitary equipment to Ukraine organized by the Polish Ministry of Foreign Affairs.

The institutional involvement in the fight against COVID-19 was supplemented with the efforts of volunteers – employees of the Bank's Group.

The PKO Bank Polski S.A. ([the Bank](#)) received an honorary mention in the 4th edition of the Business Awards granted by the Polish Radio in the Polish Philanthropist category for fighting the COVID-19 pandemic and saving the Polish economy and healthcare.

ACTIONS TAKEN FOR THE CUSTOMERS

The Bank's Group is supporting its Customers during the COVID-19 pandemic and offers them special solutions. The actions taken by PKO Bank Polski S.A. and its subsidiaries located in Poland are consistent with the guidelines of the European Banking Authority (EBA).

- PKO Bank Polski S.A., PKO Bank Hipoteczny S.A., PKO Leasing S.A. and Prime Car Management S.A. introduced certain solutions to allow the borrowers and lessees, at their request, to suspend or prolong the repayment of instalments (principal, principal-and-interest, or interest – depending on the form of financing) for a period of up to 6 months.¹

1. The solutions are available to Customers who have no overdue debt or, depending on the type of product and the offering entity, Customers whose liabilities are overdue by not more than 30 or 60 days. The suspensions do not apply in particular to loans subsidized by the Agency for Restructuring and Modernization of Agriculture.

The Bank's Group offers suspending the repayment of instalments to individual Customers who have residential loans and mortgage loans, and suspending the repayment with the possibility of extending the loan period to Customers that have cash loans or lease contracts.

Firms, businesses and corporate Customers (including local authority units and central government units) may suspend the repayment of instalments and extend the loan period. This applies e.g. to working capital loans, overdrafts, investment and investor loans, and lease contracts.

The Customers may apply for the suspension of repayments using a simplified procedure, in terms of both documents and the process, and sign annexes using remote means of communication.

- As part of the services of providing financing to firms, businesses and corporate entities, PKO Bank Polski S.A. introduced simplified procedures² for extending selected revolving products by up to 6 months (or renewing for the contractual loan period), as well as internal customer limits and restructuring agreements. The extensions and renewals either result from the Bank's own initiative (in the form of a proposal addressed to the Customer) or are provided at the Customer's request.
- KREDOBANK S.A. prepared loan relief programmes on the basis of which the Customers, upon request, will be able to suspend all or a part of their instalments or principal instalments for a period of up to 3 months. Additionally, a fast decision-making track was implemented for renewing credit lines.
- As at the end of June 2020, more than 115 thousand Customers of the Bank's Group had loans, advances or lease contracts with active suspension or renewal, and the total amount of suspensions and renewals (gross) was PLN 26 billion.

The Customers of PKO Bank Polski S.A. may also use aid provided under the anti-crisis shields, including the aid offered by Bank Gospodarstwa Krajowego (BGK) and Polski Fundusz Rozwoju S.A. (The Polish Development Fund, PFR).

- The Bank's Customers (micro firms, small and medium-sized enterprises) may use a guarantee securing a loan and advances repayment provided as part of the de minimis portfolio guarantee line by BGK in a higher amount and on new, better terms. The Bank does not charge commission on the applications. In the first half of 2020, 6.6 thousand of the Bank's Customers used this form of aid (on both the previous and the new terms), and the total guarantees received amounted to PLN 1.8 billion.
- The Bank's Customers may use the Liquidity Guarantees Fund established by BGK to help medium- and large-sized firms affected by the pandemic. The applications may be filed through the Bank's remote channel iPKO Biznes. To date, the total amount of guarantees granted to the Bank's Customers was PLN 871 million³ out of the total amount of guarantees allocated to the Bank of PLN 18 billion.
- The Bank provided its Customers (micro-, small- and medium-sized enterprises) with an opportunity to use remote channels (iPKO and iPKO biznes) to apply for financial aid under the PFR (Polish Development Fund) Financial Shield – a government programme established to help firms maintain financial continuity. To date, 66.6 thousand enterprises employing 503 thousand people have received PLN 10.5 billion of funds through the Bank³.
PKO Bank Polski S.A. is the leader among banks in distributing this form of aid.
- Firms may apply to the Polish Development Fund (PFR S.A.) for liquidity loans with preferential interest rates and preferential loans under the PFR Financial Shield for large-sized enterprises from 16 June 2020. The total value of both these financial instruments is PLN 17.5 billion. PKO Bank Polski S.A. is the only bank which will service these loans provided under the Shield. The Bank's role includes: maintaining the accounts established to disburse the funds granted under the programme, registration and monitoring of the loans and collateral, and providing operating services.
- In accordance with the anti-crisis shield 4.0, the Bank's Customers who have lost their jobs or another main source of income after 13 March 2020 may suspend the execution of their mortgage loan or consumer loan agreements for up to 3 months from 24 June 2020. During the suspension period the Bank does not accrue interest or charge any other fees relating to the agreements other than insurance premiums. Customers of PKO Bank Hipoteczny S.A. are also entitled to suspend their mortgage loans.

2. In accordance with the terms and conditions, an automatic or simplified decision-making process is available for selected products with respect to renewals of agreements or limits.

3. Data as of end of July 2020.

ACTIONS TAKEN FOR THE EMPLOYEES

The total expenditure on the employees incurred by the Bank's Group connected with functioning during the pandemic and mitigating its consequences in the first half of 2020 was PLN 48.3 million.

The Bank took the following actions to protect its employees:

- it provided the employees with the necessary means of protection, such as disinfectant gels and liquids, masks, gloves and face shields, and prepared instructions for disinfecting Customer service desks;
- it protected the advisors' desks with special plastic shields, ensured that branches are cleaned with the use of disinfectants and, if necessary, ozonized;
- it offered the employees an opportunity to work remotely (about 50% of the employees), offered a rotational system of work for Customer advisors and introduced special protection for employees who are exposed to a higher risk due to their health;
- it provided cars for employees to travel between home and work and offered reimbursement of the costs of parking their private cars in front of the workplace;
- it adjusted the model of healthcare for employees and provided continuous access to telemedical services and psychological support;
- It launched a special pandemic-related information campaign for the employees;
- it published instructions, good practices and guidelines concerning the organization of remote work on the internal website;
- it conducted a survey of the employees' opinions and experiences concerning remote work during the pandemic, which showed that as many as 82% of them are satisfied with the model and consider remote work to be as efficient as work performed in the office. The challenges include difficult contact with colleagues and maintaining a work-life balance.

The other companies of the Bank's Group took similar actions, which were tailored to the nature of their activities and their employment structure.

EFFECT OF THE PANDEMIC ON THE STRATEGY AND PLANNED ACTIVITIES

The COVID-19 pandemic intensified digital transformation trends in the banking sector. We are observing an accelerated evolution of service models due to the integration of sales channels, aimed at providing the customers with access to the same products through digital channels and through the physical network. Moreover, during the pandemic the banks are more focused on optimizing their internal processes and the related reductions in operating costs (digitization, automation and robotics). The significant sources of savings include changes to the branch network aimed at optimizing space as a consequence of reduced customer traffic, as well as adjustment of the network range to the potential of the local micro markets. In view of the recent series of interest rate decreases, the innovations implemented by banks to find new, non-interest sources of revenues remain very important. These innovations make use of the potential resulting from providing e-commerce or open banking services. The range of possibilities in this respect includes the technologies based on voice and face biometrics, remote authentication, blockchain, cloud and advanced data analytics.

Such things as access to financing supported by a broad range of remote service processes, high skills of advisors and quality of their services, as well as fast response to the individual needs of the customers resulting e.g. from their personal financial situation or exposure of their employer's or firm's industry to the effects of the pandemic, are becoming more and more important in the new reality. Therefore, given the limited physical contact with customers, it is important to equip advisors with appropriate tools that will enable them to provide remote services smoothly. From the customer's perspective, it is important to be able to use the essential banking services and products, such as accounts or loans, in a fully remote manner (without the need to leave home) and easily (with a few clicks, without the need to provide the same information many times), as well as to have access to a personalized offer. In the case of the customers who faced the need to use online or mobile banking for the first time due to the pandemic, appropriate support and education are essential in order to permanently redirect their activity to digital channels.

Taking into account the above-mentioned trends and the conclusions drawn from the analysis of the effects of the pandemic, in April 2020 PKO Bank Polski S.A. commenced the process of adapting the Bank's operations to the new reality and established the following strategic priorities for the following quarters:

1. accelerating the digitization of services and sales, simplifying the offer of products and adapting it to the needs of remote channels, digitization of processes, digital marketing and digital sales aimed at maximizing the share of remote channels;

2. seeking non-interest sources of revenues, in particular through the implementation of new, innovative services and products;
3. operational efficiency – accelerating the optimization and automation of internal processes, strengthening the technological foundations of digital development, a new model of work.

2. RESULTS OF OPERATIONS OF THE BANK'S GROUP FOR THE FIRST HALF OF 2020

FINANCIAL RESULTS

The net profit of the PKO Bank Polski S.A. Group for the first half of 2020 amounted to PLN 1 306 million, which represents a 37.2% decrease in relation to the first half of the previous year. The decrease in net profit was due to the following:

- 1) a decrease in net write-downs and impairment⁴ of PLN 782 million, including the costs of legal risk associated with mortgage loans denominated in convertible currencies;
- 2) an increase in operating expenses, mainly regulatory charges and amortization/depreciation, of PLN 128 million;
- 3) an improvement in the result on business activities, which amounted to PLN 7 195 million (+0.1% y/y), mainly due to the increase in net interest income of 4.9% y/y and the increase in net fee and commission income of 4.6%, while the other result decreased by 84.1%.

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

	30.06.2020	30.06.2019	Change (y/y)
Net profit	1,306	2,079	-37.2%
Net interest income	5,237	4,993	+4.9%
Net fee and commission income	1,897	1,814	+4.6%
Result on business activities	7,195	7,190	+0.1%
Operating expenses	-3,208	-3,080	+4.2%
Tax on certain financial institutions	-533	-503	+6.0%
Net write-downs and impairment	-1,440	-658	+118.8%
Total assets	377,196	328,992	+14.7%
Total equity	44,054	39,624	+11.2%
Net ROE	7.8%	10.7%	-2.9 p.p.
Net ROTE	8.4%	11.6%	-3.2 p.p.
Net ROA	0.9%	1.3%	-0.4 p.p.
C/I (cost to income ratio)	42.2%	42.3%	-0.1 p.p.
Interest margin	3.27%	3.43%	-0.16 p.p.
Share of impaired exposures	4.3%	4.5%	-0.2 p.p.
Cost of credit risk ¹⁾	-0.54%	-0.55%	0.01 p.p.
Total capital ratio	18.21%	18.57%	-0.36 p.p.
Common equity Tier 1 (CET1)	16.98%	17.26%	-0.28 p.p.

1) After excluding the impact of COVID-19 the cost of credit risk as at 30 June 2020 would be -0.42%. (+0.13 p.p. y/y).

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

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

- recognition of the effect of COVID-19 on the deterioration in the quality of the Bank's Group loan portfolio and other financial assets of PLN -344 million;
- recognition of an impairment allowance in respect of the shares of Bank Pocztowy S.A. of PLN -90 million;
- recognition of an impairment allowance in respect of the Nordea Bank Polska S.A. corporate CGU⁵ of PLN -116 million and recognition of an impairment allowance of goodwill on the acquisition of PKO Leasing Pro S.A. of PLN -31 million, resulting from the outbreak of the COVID-19 pandemic and its effects (an increase in the costs of credit risk and an expected decrease in economic activity) and an interest rate decrease, together with the high level of regulatory charges (tax on certain financial institutions and fees to the Bank Guarantee Fund), which caused a significant decrease in the expected profitability of banking activities;
- recognition of the costs resulting from the Court of Justice of the European Union (CJEU) judgment concerning the consumer's right to reduce the costs of a loan in the case of its repayment before the deadline set in the loan agreement totalling PLN -175 million, of which PLN -105 million was charged to net interest income as a result of the recognition of automatic repayments and PLN -70 million was charged to other operating income and expenses as the provision for the potential return of fees and commission to Customers;
- recognition of the costs of legal risk associated with mortgage loans denominated in convertible currencies in the amount of PLN -190 million;
- a PLN 88 million increase in the costs of withholding tax on foreign bond issues in connection with the adjustment to grossing up of interest for the years 2017-2019 recognized in the first quarter of 2019 and the recognition of a 3% tax on the interest paid for the period from 2014 to the first quarter of 2019;
- recognition of the valuation of VISA Inc. shares in the amount of PLN -26 million in the result on financial transactions;
- recognition of a profit of PLN 80 million on the bargain acquisition of Prime Car Management S.A. in June 2019;
- recognition of the impact of Prime Car Management S.A., a company acquired in June 2019, on the consolidated result for 2020 - mainly the effect on net fee and commission income of PLN +36 million and the effect on operating expenses of PLN -28 million (of which the impact on personnel expenses amounted to PLN -20 million, and the impact on non-personnel expenses amounted to PLN -6 million).

As a result of the actions taken in the first half of 2020, the scale of the Group's operations increased significantly, both in relation to the first half of the previous year and to the end of the year 2019:

- total assets reached the level of approx. PLN 377 billion, which is PLN 48 billion more than in the first half of the previous year and PLN 29 billion more than as at the end of the year 2019;
- the financing granted to Customers increased to approx. PLN 245 billion, which is PLN 7 billion more than as at the end of June 2019 and PLN 1 billion more than as at the end of 2019. This increase was mainly due to the increases in financing granted to retail and private banking Customers;
- amounts due to Customers increased to almost PLN 282 billion, which is PLN 44 billion more than as at the end of June 2019 and PLN 26 billion more than as at the end of December 2019. This was mainly the effect of an increase in deposits of individuals.

In the first half of 2020, the Bank's Group:

- retained a high share in the loans and savings market of 17.7% and 17.9%, respectively;
- was the leader of the market of investment funds for private individuals with a market share of 19.1%.

ESG

The Bank took pro-environmental efforts and actions to improve the efficiency and optimize the use of resources, such as: replacement of air conditioners and heating systems, implementing equipment standards for organizational units, installing filters and water dispensers, and reducing the use of paper.

The Bank performed a Gap Analysis, which was necessary to define further actions associated with the implementation of the Energy Management System and the ISO500001 standard.

Together with the Ministry of Climate and the National Fund for Environmental Protection and Water Management, the Bank took part in a campaign promoting the development of photovoltaics, the purpose of which was to build awareness of the opportunities associated with the use of renewable energy in Polish single family houses and to develop the market of photovoltaic micro installations.

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

ACTIVITIES IN THE AREA OF TECHNOLOGICAL INNOVATION

In the first half of 2020, PKO Bank Polski S.A. worked on preparations for the implementation of an online platform for selling cars “Automarket” – one of the initiatives included in the Bank’s strategy for the years 2020–2022. The platform provided the Bank’s Customers with access to selected cars with warranty and technical inspection performed, with the option to choose a convenient transaction model and financing consistent with personal preferences. It is the first solution available on the market, which transfers the whole process of purchasing a car and its financing to a digital platform.

The Bank also continued work aimed at developing remote Customer service processes. The effects include the implementation, in cooperation with Operator Chmury Krajowej sp. z o.o. and Google, of the video advisor service for Customers (firms and enterprises). The cloud technology used in the project enables entrepreneurs to maintain a continuous relationship with their bank advisor irrespective of the external circumstances. Ultimately, all Customers of the Bank will be able to use the video advisor platform.

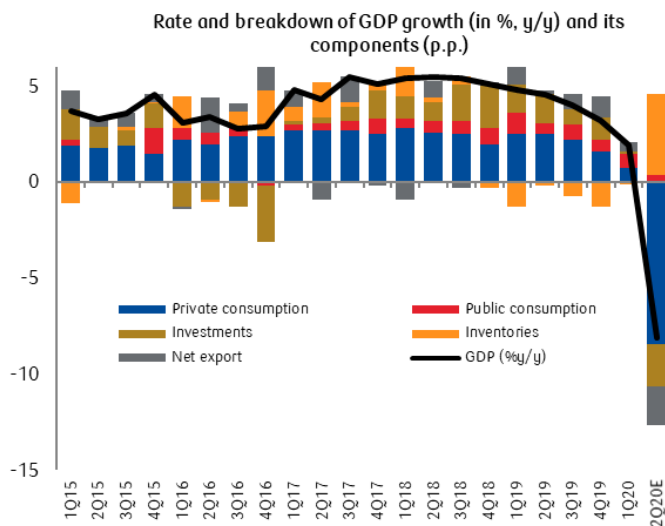
Adding the “Talk2IKO” voice interface to the IKO application is another example of the Bank’s development activity. By using artificial intelligence mechanisms, IKO processes natural language in a manner that brings interaction with the bank application to a level which, until now, has been reserved for solutions developed by leading technological firms.

PKO Bank Polski S.A. cooperates with technological start-ups in its development activities. A specialized team monitors the market environment and is responsible for selecting innovative solutions which add value for the Bank and its Customers. In the first half of 2020, through the PKO VC – pecif fund, PKO Bank Polski S.A. invested e.g. in Autenti sp. z o.o. a Polish start-up which develops a proprietary platform for digital signing of contracts and digital flow of documents. The start-up’s solution is being implemented at PKO Bank Polski S.A.

The development activities of the Bank also include promoting the culture of innovation in the FinTech area. As part of this initiative, the Bank participated in the creation and publication of the “Startup the Bank” report, which presents the Polish FinTech market from the perspective of 100 innovative start-ups. This publication helps to understand the impact of new technologies on the transformation of the internal processes of the financial sector. It met with a significant, positive response among start-ups and in the business media.

3. EXTERNAL BUSINESS CONDITIONS

3.1. Macroeconomic environment

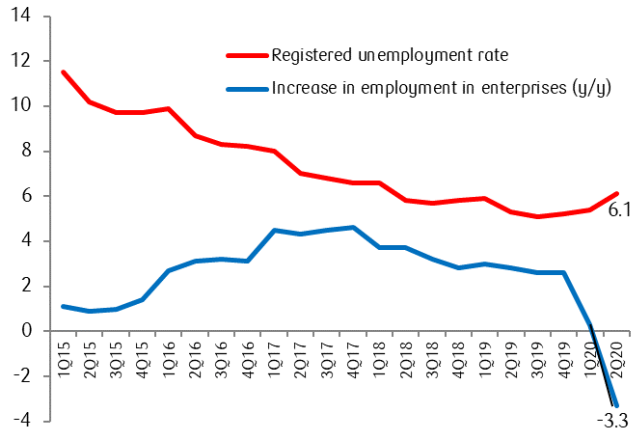


A DEEP, BUT SHORT-LASTING RECESSION

In the first quarter of 2020, the economic growth was maintained in annual terms (+2.0% y/y) due to the very good results achieved by the economy in the first two months of the year, with the positive contribution of consumption and investments. The introduction of pandemic-related restrictions in the middle of March 2020 contributed to a dramatic drop in business activities and probably caused the first recession since the transformation (an estimated GDP decrease of approx. 8% y/y in the second quarter of 2020). The economy touched bottom in April 2020, when the decreases in industrial production and retail sales exceeded 20% y/y. According to the available data, economic activity has been growing since May, and

the deepest-ever recession will probably be brief.

Unemployment and employment (end of period, %)



THE LABOUR MARKET PROTECTED BY THE SHIELDS

The labour market's reaction to the recession caused by the pandemic is mitigated by the Anti-Crisis Shield and the PFR Financial Shield. The registered unemployment rate was 6.1% in June 2020, compared to 5.2% as at the end of 2019 and 5.4% in March 2020. Unemployment increased in spring, which contradicts the seasonal pattern; however, the scale of this increase (117.1 thousand in the second quarter of 2020) is insignificant.

The decrease in employment in the enterprise sector (-3.3% y/y in June 2020) is largely due to absences (childcare and sick leave) and working time reductions (combined with salary subsidies from the Anti-Crisis Shield) rather than the liquidation of jobs. The firms

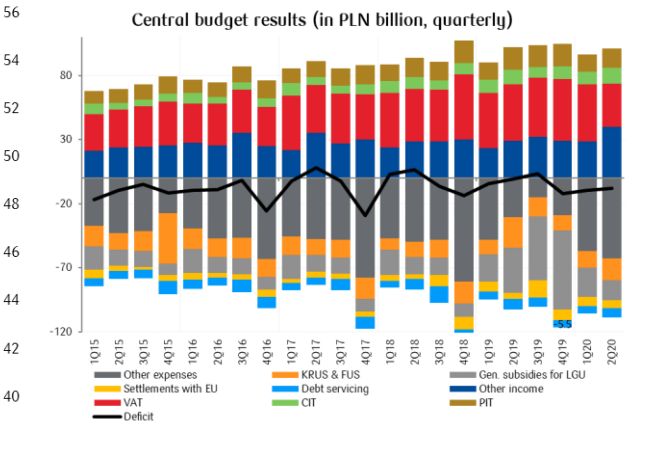
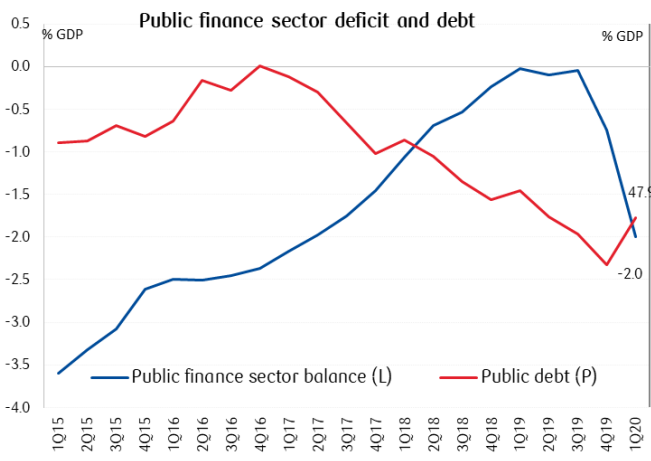
maintain jobs, but they do it at the cost of salary decreases - in the enterprise sector, salary growth slowed down to 1.2% y/y in May 2020 and 3.6% y/y in June 2020 (compared to 6.6% y/y in April 2020). However, from the point of view of reducing the depth of the recession in 2020 and building the foundation for a quick return to economic growth in 2021, this scenario is better than layoffs.

TEMPORARY INCREASE IN INFLATION

In the first half of 2020, CPI inflation exceeded the target set by the National Bank of Poland (NBP) - after reaching a peak of 4.7% y/y in February 2020 it dropped to 2.9% y/y in May. In June 2020, CPI inflation increased to 3.3% y/y and core inflation (excluding food and energy prices) reached its highest level since 2001 of 4.1% y/y. The increase in core inflation was primarily due to one-off factors. In the following months, inflation should decrease as a result of the disinflationary effects of the crisis caused by the pandemic (a significant drop in demand).

GOOD STARTING POINT FOR THE PUBLIC FINANCE SECTOR

The balance of the public finance sector (ESA) as at the end of the first quarter of 2020 amounted to -2.0% of GDP. The fiscal result adjusted for capital expenditure on new infrastructure amounted to 0.0% of GDP. The Polish public finance sector started the crisis in a good condition in relation to other European Union countries. As at the end of June 2020, the state budget deficit amounted to PLN 17.1 billion, and the budget reflected the results of both the economic slow-down and the anti-crisis efforts (a decrease in tax revenues of 6.6% y/y, an increase in expenditure). Poland responded to the crisis with one of the largest direct fiscal packages in Europe; therefore, the fiscal balance will deteriorate significantly in 2020. The state budget deficit may amount to PLN 60-70 billion, and the deficit of the government and local authority institutions -8.4% of GDP. The public debt may increase to 55.2% of GDP in the current year, compared to 46% of GDP in 2019.



3.2. Situation on the financial market

INTEREST RATE MARKET

In the first half of 2020 the return on Polish 2-year Treasury bonds dropped by 132 b.p. to 0.17%, and on the 10-year T-bonds by 75 b.p. to 1.39%. The reason for such a dramatic drop in the yield curve was the strong easing of the monetary policy by the central banks all over the world in response to the economic breakdown caused by the coronavirus pandemic and the resulting increase in demand for safe assets. In Poland, the Monetary Policy Council (MPC) decreased the reference rate by a total of 140 b.p. to 0.1%, and the National Bank of Poland redeemed Treasury bonds and bonds issued by the Polish Development Fund (Polski Fundusz Rozwoju S.A.) and Bank Gospodarstwa Krajowego with a total nominal value of PLN 96 billion.

NBP interest rates:

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

CURRENCY MARKET

In the first half of 2020, the EUR/USD exchange rate fluctuated between 1.06 and 1.15 to close the period at a level similar to that recorded at the beginning of the year (1.12), whereas the EUR/PLN exchange rate fluctuated between 4.21 and 4.63 (4.44 at the end of the half-year period). The EUR/USD exchange rate increased when the decisions about easing the fiscal and monetary policy in USA and Europe brought an improvement in global investments moods, and decreased during lockdowns and when the expectations as to the further development of the global economic situation deteriorated. The EUR/PLN exchange rate increased in the first half of 2020 due to the outflow of foreign capital from Poland. The interest rate decreases and redemption of domestic assets by the NBP also contributed to the depreciation of the Polish zloty.

SHARE MARKET

Most holders of shares traded on the Warsaw Stock Exchange incurred losses in the first half of 2020, as the WIG index dropped by 13.6%. The market moods were very unstable during this period. The beginning of the year was quiet, and then the share prices dropped dramatically due to the panic associated with the outbreak of the pandemic. This was followed by a growth trend, which lasted more than three months, but did not manage to offset the previous losses. Deep share drops on the stock exchange were a consequence of the fears about the effect of the pandemic on the condition of the listed companies. After an initial panic, the investors noticed that the condition of the companies should improve with time e.g. due to the bold actions taken by central banks and governments to save economies. It should be noted, however, that some sectors (e.g. the banking sector) were affected by the crisis more strongly than others, which was reflected in the stock exchange prices.

LEASE MARKET

In the first half of 2020, the lease market recorded a decrease of approx. 24% in relation to the corresponding period of the previous year. The lease sector financed the assets with a value of approx. PLN 29.8 billion. The biggest drop was recorded in the segment of heavy vehicles (-49% y/y).

FACTORING MARKET

In the first half of 2020, the turnover of the members of the Polish Factors Association increased by approx. 2% in relation to the first half of the previous year to approx. PLN 135 billion. At the end of the first half of 2020, approx. 15.9 thousand entities used the services of factoring firms.

The entrepreneurs still preferred non-recourse factoring whose share in the turnover of factoring firms was approx. 49%.

3.3. Situation in the banking sector⁶

In the first half of 2020, the operating, business and financing activities of the banking sector were affected by the COVID-19 pandemic. The economic situation in Poland and in the world deteriorated significantly, directly affecting the financial situation in the banking sector. The government institutions and regulators took a number of steps to mitigate the recession, including various aid programmes.

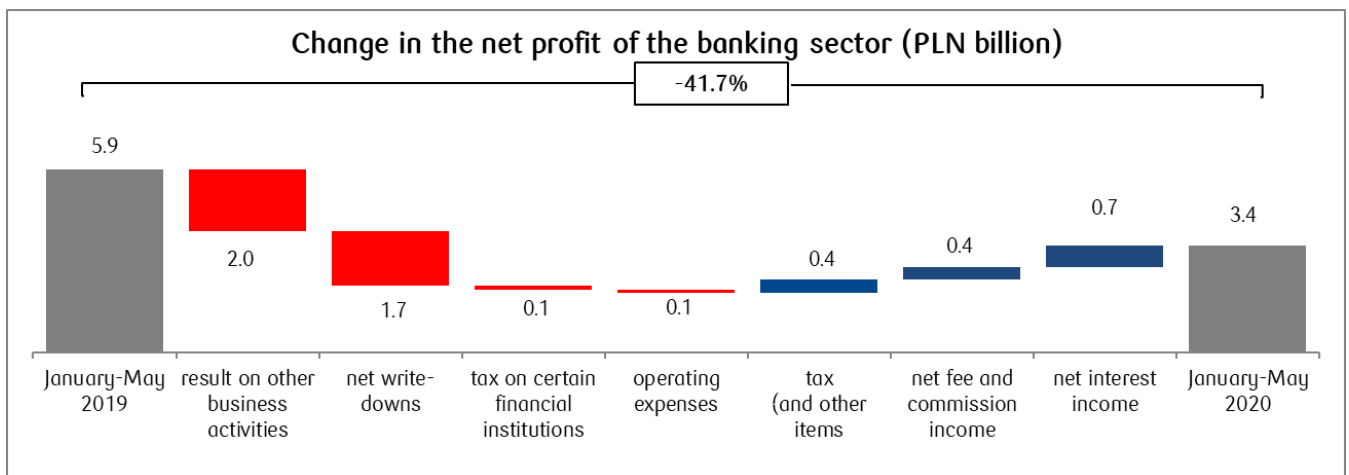
6. Based on the latest available data of the Polish Financial Supervision Authority, calculations by PKO Bank Polski S.A.

In the period from January to May 2020, the impact of the pandemic on the banking sector took the form of a strong decrease in the net profit (-41.7% y/y) and in return on equity (ROE dropped from 6.7% in 2019 to 5.4%).

The rate of net interest income growth slowed down significantly, mainly as a result of the interest rate decreases by the Monetary Policy Council. The net interest income was also adversely affected by the deteriorating consumer moods causing a lower demand for credit, as well as the stricter lending policies introduced by banks (as at the end of June the lending growth rate slowed down to 1.7% from 4.9% as at the end of 2019, without taking into account the effect of changes in exchange rates). The decrease in the financial result of the banking sector was even deeper as a result of making provisions for legal risk of residential loans and the growing cost of risk (in the period from the beginning of the year to the end of May, the increase in non-performing loans was the greatest in the segment of consumer loans and corporate loans).⁷

Unlike the other components of the financial result of the banking sector, fee and commission income increased due to a larger number of transactions concluded by the customers, mainly in the areas of brokerage activities and foreign exchange transactions.

The capital situation of banks was good. The total capital ratio was 18.3%.⁸ The sector's capital adequacy was affected by waiving the obligation of banks to apply the systemic risk buffer (3%), which should have a positive effect on the financing of the economy by banks and offset of banks' losses in the following quarters.



3.4. Regulatory and legal environment

The financial and organizational situation of the PKO Bank Polski S.A. Group and other financial sector entities was affected significantly by new legal and regulatory solutions implemented in the first half of 2020, including:

SOLUTION	IMPACT
EFFECT OF COVID-19 ON THE REGULATORY ENVIRONMENT, ANTI-CRISIS SHIELDS AND OTHER SUPPORTING ACTIVITIES	
Decrees of the Minister of Health: - of 13 March 2020 on announcing a state of epidemic emergency in the territory of the Republic of Poland (Journal of Laws of 2020, item 433); and - of 20 March 2020 on announcing a state of epidemic in the territory of the Republic of Poland (Journal of Laws of 2020, item 491 as amended). The four anti-crisis shields: the Acts of 2 March 2020, 16 April 2020, 14 May 2020 and the Act of 19 June 2020 on interest subsidies for bank loans granted to enterprises affected by COVID-19 and the simplified composition approval procedure in connection with COVID-19, which introduce a number of rights and obligations for employees and employers.	Restrictions in the functioning of certain institutions or workplaces, including the Bank's and its Group's Customers and contractors A decrease in net interest income ("loan repayment holiday") An increase in corporate deposit volumes A decrease in the credit risk of entrepreneurs.

7. The ratio of non-performing loans was 11.2% for consumer loans (+1.0 p.p. from the beginning of the year) and 11.6% for corporate loans (+0.4% p.p. from the beginning of the year).

8. As at the end of March 2020 - the latest Polish Financial Supervision Authority data available.

<p>The announcement of the Polish Financial Supervision Authority (PFSA) of 20 March 2020 on engaging other banks to assess on behalf of BGK the repayment ability and analyse the risk of repayment of liabilities in respect of loans covered by BGK guarantees (execution of one of the elements of the Anti-Crisis Shield).</p>	<p>An increase in credit risk security</p>
<p>RISK</p>	
<p>#PIN – the Supervisory Impulse Package for Safety and Development in the capital market area announced by the PFSA Office and the PFSA Office Statement on the financing of corporate Customers by banks in the situation of the coronavirus pandemic issued as part of the Supervisory Impulse Package.</p>	<p>Reducing regulatory charges, extending reporting deadlines, maintaining continuity of insurance cover granted to Customers based on insurance contracts signed</p>
<p>The announcement of the NBP Management Board of 16 March 2020 issued in connection with the coronavirus epidemic in Poland, informing e.g. about operations aimed at providing banks with liquidity, purchase of Treasury bonds on the secondary market, introduction of bill discount facilities for banks.</p>	<p>An increase in the Bank's liquidity</p>
<p>Decree of the Minister of Finance of 18 March 2020 repealing the decree on the systemic risk buffer (Journal of Laws of 2020, item 473).</p>	<p>A decrease in the minimum solvency ratio</p>
<p>INTEREST RATES</p>	
<p>Decisions of the Monetary Policy Council of 17 March 2020, 8 April 2020 and 28 May 2020, as a result of which the NBP reference rate was decreased by a total of 1.4 p.p. to 0.10%. The Council also decided to decrease the mandatory reserve rate from 3.5% to 0.5% and to decrease the interest rate on the funds maintained on the mandatory reserve from 0.5% to the NBP reference rate level.</p>	<p>A decrease in net interest income</p>
<p>PAYMENTS TO THE BANK GUARANTEE FUND</p>	
<p>Resolutions of the Bank Guarantee Fund (BGF) Board of February 2020 (15/2020 and 17/2020), which changed the obligations of the banking sector towards the bank deposit guarantee system and the resolution system.</p>	<p>An increase in operating expenses, a decrease in profit, lower profitability</p>
<p>Announcement of the Bank Guarantee Fund of 26 March 2020 on actions taken as part of MREL in response to the events associated with the COVID-19 pandemic; the BGF is planning to adjust the amount of MREL for banks, establish the first binding interim MREL target for 1 January 2022 and apply an extended (due to the BRRD2 implementation) target deadline for satisfying MREL (an extension of 1 year until 1 January 2024).</p>	<p>A decrease in the minimum solvency ratio</p>
<p>MINIMUM WAGE</p>	
<p>Decree of the Council of Ministers of 10 September 2019 on the amount of minimum wage for work and the minimum hourly rate in 2020 (Journal of Laws of 2019, item 1778).</p>	<p>An increase in operating expenses</p>
<p>RECOMMENDATIONS OF THE EUROPEAN CENTRAL BANK</p>	
<p>On 27 March 2020, the European Central Bank (ECB) updated its recommendation to banks not to pay dividends – the banks should not pay dividends for the years 2019 and 2020 at least until 1 October 2020 and they should refrain from share buy-backs.</p>	<p>An increase in the Bank's liquidity</p>
<p>TAX CHANGES</p>	
<p>The Act amending the Act on support to residential loan borrowers in a difficult financial situation and certain other acts of 4 July 2019 (Journal of Laws of 2019, item 1358) adds payments to the Borrowers' Support Fund and amounts spent on supporting debt repayment or loans for debt repayment within the meaning of Article 8a (7) of the Act on support to residential loan borrowers in a difficult financial situation to the list of non-tax deductible costs. The Act entered into force on 1 January 2020.</p>	<p>An increase in tax obligations</p>

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

The following external factors will have a significant impact on the operations of the Bank's Group in the second half of 2020:

THE WORLD

- the global economic crisis associated with the outbreak of the COVID-19 pandemic, including deep recession in countries which are the main export markets for Polish enterprises;
- the emergency fiscal solutions announced by the individual governments and the European Commission, aimed at maintaining employment, protecting the liquidity of firms and stimulating demand;
- the risk of the collapse of the corporate bond market.

POLAND

- a rapid decrease in GDP growth to sub-zero levels (the first recession in almost 30 years) and quite fast recovery of economic activity in the second half of the year;
- a deterioration in the situation on the labour market, including an increase in the unemployment rate, a decrease in employment and slowdown of the wage growth;
- probable stabilization of the NBP interest rates at a historically low level;
- a significant decrease in trade turnover and currency exchange in connection with the crisis;
- a persistent high level of uncertainty (e.g. as to the further development of the pandemic and its effect on the economy), which leads to risk aversion and increased variability (in terms of market and economic trends);
- a significant decrease in demand for loans, accompanied by a significant increase in deposits (effects of anti-crisis actions).

NEW REGULATORY SOLUTIONS

- possible further solutions implemented by the government as part of the Anti-Crisis Shields;
- planned amendments to the Decree of the Minister of Finance concerning the risk management system and the internal control system, the payroll policy and a detailed method for assessing internal capital of banks; the changes mainly relate to the market risk and payroll policy areas;
- a draft act on amending the Act on the Bank Guarantee Fund, deposit guarantee scheme and resolution and certain other acts, transposing BRRD2 to the Polish legal system;
- planned amendments to the Decree of the Minister of Finance on the criteria and methods for performing the Supervisory Review and Evaluation Process at banks. The aim of the project is to make the necessary changes to the Polish legal system in connection with the implementation of the European legal regulations concerning the capital requirements for financial institutions, i.e. the CRD V/CRR II package;
- potential implementation of a package of quick changes to CRR, which was adopted by the European Commission on 28 April 2020 and by the European Parliament on 18 June 2020 (known as the CRR quick fix), aimed at making it easier for banks to grant loans to households and enterprises in the European Union and, consequently, reducing the significant adverse effect of the coronavirus pandemic on the economy;
- draft guidelines of the European Central Bank concerning the climate and environmental risks, containing a number of supervisory expectations in the area of risk management and disclosures;
- potential statutory solutions concerning transfer of funds accumulated in Open Pension Funds (OFE) to Individual Pension Accounts (IKE) or the Social Insurance Institution (ZUS);
- potential regulatory solutions concerning foreign currency-denominated residential loans of households, including the solutions resulting from the CJEU judgment of 3 October 2019 setting the line of interpretation in the event that a national courts find an abusive clause in a loan agreement;
- potential regulatory solutions concerning the consumer credit legislation.

4. FINANCIAL STANDING OF THE BANK'S GROUP

4.1. Key financial indicators

The results achieved by the PKO Bank Polski S.A. Group for the first half of 2020 resulted in the key financial efficiency indicators achieving the following levels:

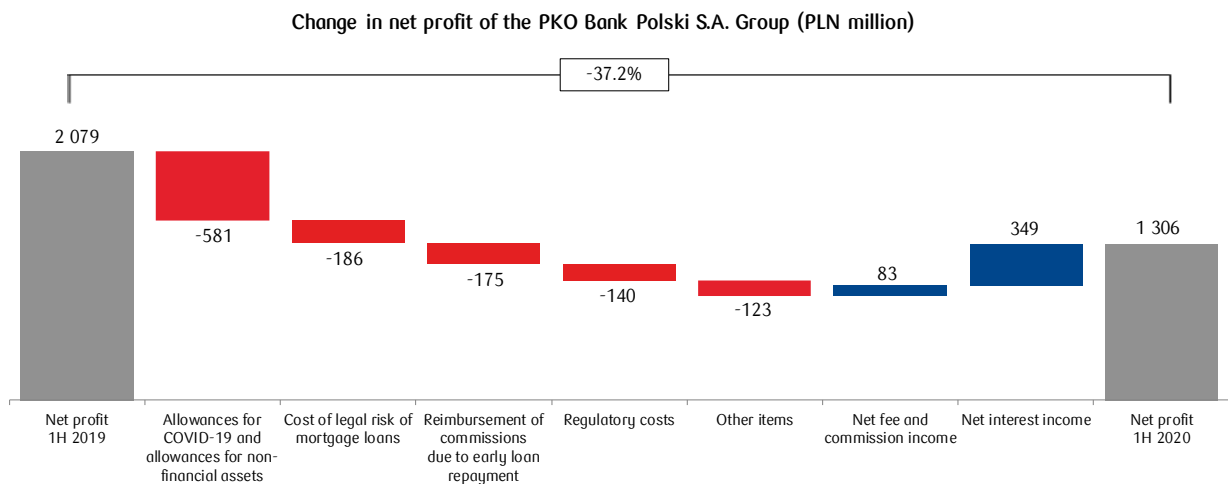
Table 2. Financial indicators of the PKO Bank Polski S.A. Group

	30.06.2020	30.06.2019	Change
Net ROE (net profit/(loss)/average equity)	7.8%	10.7%	-2.9 p.p.
Net ROTE (net profit/(loss)/average equity less intangible assets)	8.4%	11.6%	-3.2 p.p.
Net ROA (net profit/(loss)/average assets)	0.9%	1.3%	-0.4 p.p.
C/I (cost to income ratio)	42.2%	42.3%	-0.1 p.p.
Interest margin (net interest income/average interest-bearing assets)	3.27%	3.43%	-0.16 p.p.
Share of impaired exposures	4.3%	4.5%	-0.2 p.p.
Cost of credit risk ¹⁾	-0.54%	-0.55%	0.01 p.p.
Total capital ratio (own funds/total capital requirement*12.5)	18.21%	18.57%	-0.36 p.p.
Common equity Tier 1 (CET1)	16.98%	17.26%	-0.28 p.p.

1) After excluding the impact of COVID-19 the cost of credit risk as at 30 June 2020 would be -0.42%. (+0.13 p.p. y/y).

4.2. Consolidated income statement

The consolidated net profit of the PKO Bank Polski S.A. Group earned in the first half of 2020 amounted to PLN 1 306 million and was PLN 773 million (-37.2%) lower than in the corresponding period of 2019.



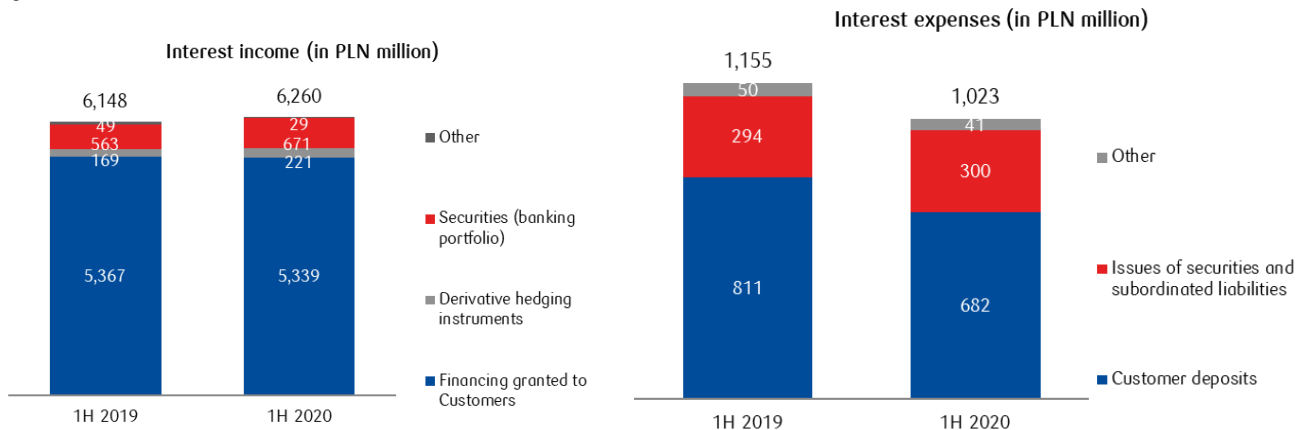
The result on business activities for the first half of 2020 amounted to PLN 7 195 million and was PLN 5 million, i.e. 0.1%, higher than in the first half of 2019, mainly due to an increase in net interest income and net fee and commission income, while the other result decreased.

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

	01.01-30.06.2020	01.01-30.06.2019	Change (in PLN million)	Change (in %)
Net interest income	5 237	4 993	244	4.9%
Net fee and commission income	1 897	1 814	83	4.6%
Net other income	61	383	-322	-84.1%
Dividend income	14	12	2	16.7%
Result on financial transactions	45	143	-98	-68.5%
Net foreign exchange gains/(losses)	43	66	-23	-34.8%
Net other operating income and expense	-41	162	-203	x
Result on business activities	7 195	7 190	5	0.1%
Operating expenses	-3 208	-3 080	-128	4.2%
Tax on certain financial institutions	-533	-503	-30	6.0%
Net operating result	3 454	3 607	-153	-4.2%
Net write-downs and impairment	-1 440	-658	-782	2.2x
<i>including the impact of COVID-19 on the loan portfolio</i>	-344	0	-344	x
Share in profits and losses of associates and joint ventures	3	14	-11	-78.6%
Profit before tax	2 017	2 963	-946	-31.9%
Income tax expense	-714	-884	170	-19.2%
Net profit (including non-controlling shareholders)	1 303	2 079	-776	-37.3%
Profit (loss) attributable to non-controlling shareholders	-3	0	-3	x
Net profit	1 306	2 079	-773	-37.2%

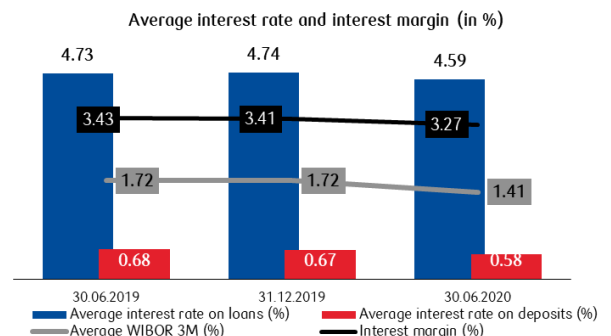
NET INTEREST INCOME

The net interest income for the first half of 2020 amounted to PLN 5 237 million, i.e. PLN 244 million more than in the first half of the previous year. The increase was mainly due to an increase in volumes, which was accompanied by lower interest rates.



The interest income amounted to PLN 6 260 million and was PLN 112 million higher than in the corresponding period of 2019 mainly as a result of:

- a higher income on securities (+PLN 108 million y/y) resulting from a PLN 26 billion increase in the average volume of securities, which was partly offset by recognition of the settlement of premium on early redemption of bonds (PLN -30 million);
- an increase in income from hedge accounting (PLN +52 million y/y) resulting from an increase in the difference (a positive amount) between the fixed rate received on IRS hedging transactions and the variable rate payable by the Bank and from the reversal of a link associated with the early redemption of bonds (PLN +33 million);



- given the lower level of income on financing granted to Customers (PLN -28 million y/y), the increase in the average volume of loan and lease receivables of PLN 17 billion was offset by lower levels of market interest rates.

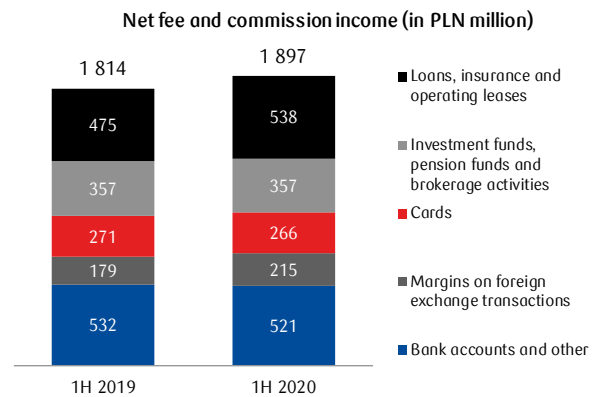
Interest expenses amounted to PLN 1 023 million and were PLN 132 million lower than in the corresponding period of 2019. This was mainly due to lower interest rates accompanied by a growing deposit base.

The interest margin decreased by 0.17 p.p. y/y to 3.27% as at the end of the first half of 2020. The average interest on the receivables of the PKO Bank Polski S.A. Group in respect of loans amounted to 4.59% as at the end of the first half of 2020 and the average interest on total deposits was 0.58%, compared to 4.73% and 0.68%, respectively, as at the end of the first half of 2019.

NET FEE AND COMMISSION INCOME

In the first half of 2020, the net fee and commission income amounted to PLN 1 897 million and was PLN 83 million higher than in the first half of the previous year. The level of net fee and commission income was driven by:

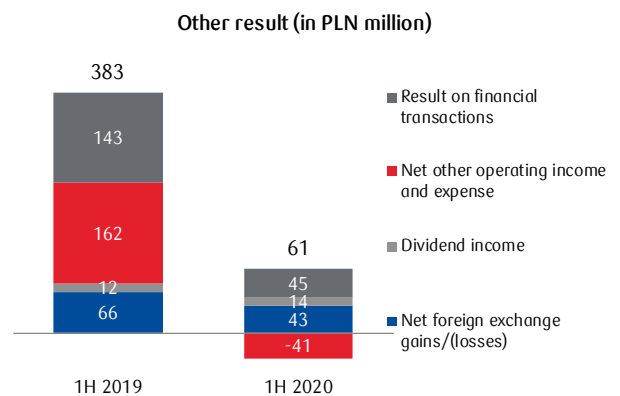
- an increase in the result on loans, insurance and operating leases (PLN +63 million y/y), which mainly resulted from an increase in commissions on business loans, an increase in the sales of insurance products associated with residential loans and a higher result on operating leases, which was achieved mainly due to the acquisition of Prime Car Management S.A. in June 2019;
- an increase in the net margin on foreign exchange transactions (PLN +36 million) resulting from a larger number of transactions;
- a comparable result on investment funds, pension funds and brokerage activities, partly resulting from an increase in the commission on sales of Savings Treasury Bonds (due to higher sales), which was accompanied by a decrease in the commission on investment fund management (due to a drop in the value of assets and a decrease in the management commission);
- a lower result on cards (PLN -5 million y/y) resulting from higher costs of servicing the cards and processing the transactions;
- a lower net income on servicing bank accounts and other income (PLN -11 million y/y), among other things due to lower commissions on foreign currency transactions and a change in the structure of the accounts of Customers who opt for less expensive accounts.



OTHER NET INCOME

Other net income for the first half of 2020 amounted to PLN 61 million and was PLN 322 million lower than in the first half of the previous year due to:

- a lower result on financial transactions (PLN -98 million y/y) – mainly resulting from revaluation of shares (PLN -87 million y/y), in particular the VISA Inc. shares (PLN -76 million y/y; a change from PLN 50 million in the first half of 2019 to PLN -26 million in the first half of 2020);
- lower net foreign exchange gains/(losses) (PLN -23 million y/y), mainly due to a lower result on embedded derivatives (PLN -24 million y/y);
- a decrease in other operating income and expenses of PLN 203 million y/y, mainly resulting from:
 - recording a provision for cost reimbursements to the Customers with respect to the early repayment of consumer and mortgage loans of PLN 70 million;



- reversal in the second quarter of 2019 of a provision for the costs of fulfilling an obligation to provide free of charge services to Customers in connection with the proceedings concerning the practices infringing collective consumer interests, in the amount of PLN 58 million;
- recognition of a gain of PLN 80 million resulting from the bargain acquisition of Prime Car Management S.A. in the second quarter of 2019.

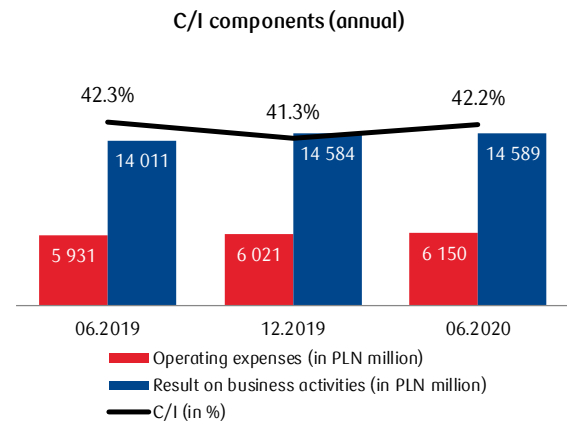
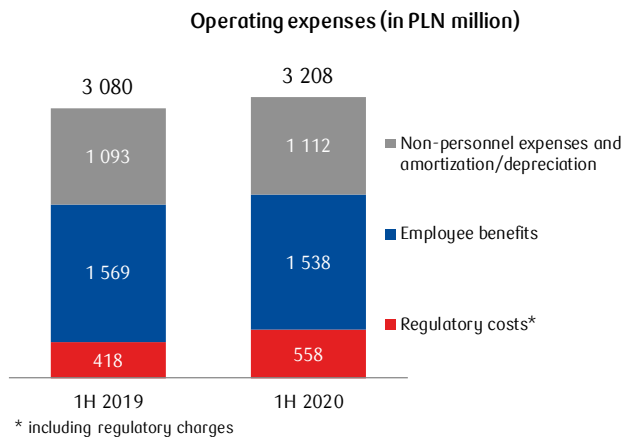
OPERATING EXPENSES

In the first half of 2020, operating expenses amounted to PLN 3 208 million (an increase of 4.2% y/y). Their level was mainly determined by:

- a PLN 89 million increase in the costs of withholding tax on foreign bond issues in connection with the adjustment to grossing up of interest for the years 2017-2019 recognized in the first quarter of 2019 and the recognition of a 3% tax on the interest paid for the period from 2014 to the first quarter of 2019;
- an increase in the costs of the contributions to the Bank Guarantee Fund of PLN 61 million (i.e. 14.3%) – the BGF costs amounted to PLN 489 million and included a contribution to the bank resolution fund of PLN 318 million (in the first half of the previous year, the BGF costs amounted to PLN 428 million, including a contribution to the resolution fund of PLN 348 million);
- a decrease in the costs of employee benefits of PLN 31 million, i.e. of 2.0%;
- a decrease in non-personnel expenses of PLN 20 million, i.e. of 3.1%:
 - mainly due to a decrease in marketing expenditure of PLN 47 million, i.e. of 41.2%;

and the simultaneous increases in the following expenses:

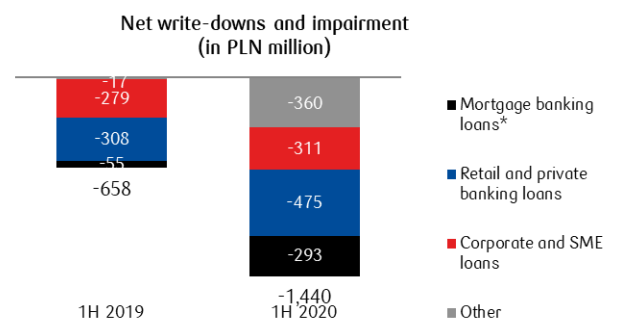
- other non-personnel expenses of PLN 16 million, i.e. 13.9%, including a PLN 19 million increase resulting from purchases relating to the COVID-19 pandemic (antibacterial liquids and gels, protective masks and gloves, shields and protective partitions for customer service desks and insurance of additional cash transports);
- IT expenditure of PLN 12 million, i.e. 7.7%, mainly resulting from an increase in the costs of software services and licence fees for using the software;
- an increase in amortization and depreciation of PLN 39 million, i.e. 8.7%, including an increase in amortization of IT-related intangible assets of PLN 27 million and an increase in depreciation of PLN 11 million.



The operating efficiency of the PKO Bank Polski S.A. Group measured with the annual C/I ratio was 42.2% (-0.1 p.p. y/y).

NET WRITE-DOWNS AND IMPAIRMENT

In the first half of 2020, net write-downs amounted to PLN -1 440 million (including the costs of legal risk of mortgage loans in convertible currencies of PLN -190 million and recognition of the write-downs in respect of the impact of COVID-19 on the loan portfolio of PLN -344 million) and this result was PLN 782 million worse than the result achieved in the first half of the previous year.



*Cost of legal risk of mortgage loans in convertible currencies of PLN 190 million was recognized in the first half of 2020. The result for the first half of 2020 also includes allowances in respect of the impact of COVID-19 on the loan portfolio in the amount of PLN 344 million.

Net write-downs for credit risk, excluding the write-downs for COVID-19, amounted to PLN -641 million and were comparable to those recorded in the first half of 2019.

Net write-downs for non-financial assets amounted to PLN -265 million. This result was PLN 255 million worse than in the first half of the previous year mainly due to creation of additional write-downs for: Bank Poczty S.A. of PLN -90 million, goodwill of the Nordea Bank Polska S.A. (corporate CGU) of PLN -116 million and goodwill of PKO Leasing Pro S.A. of PLN -31 million.

The share of impaired loans as at the end of the first half of 2020 was 4.3% (a decrease of 0.2 p.p. in relation to the first half of 2019).

The cost of risk as at the end of the first half of 2020 was 0.54%, i.e. it was 0.03 p.p. lower than in the first half of the previous year. After excluding the write-downs for COVID-19, it was 0.42%, which reflects an improvement of 0.15 p.p.

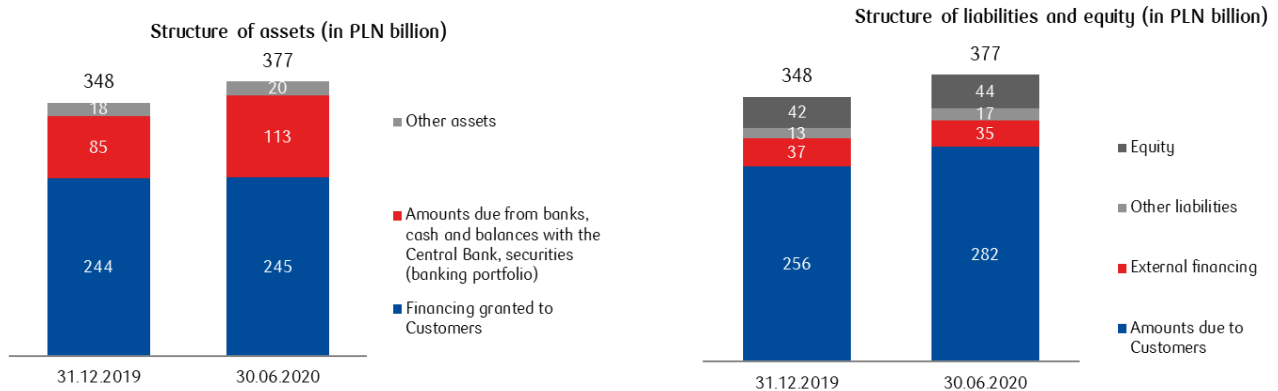
The improvement in the risk ratios, accompanied by an increase in the gross amount of financing granted to Customers of approx. 3% y/y, is a result of the continuation of the conservative credit risk management policy of the Bank's Group and careful monitoring of the portfolio of receivables.

4.3. Statement of financial position

MAIN ITEMS OF THE STATEMENT OF FINANCIAL POSITION

Total assets and total equity and liabilities of the PKO Bank Polski S.A. Group as at the end of the first half of 2020 exceeded PLN 377 billion (an increase of more than PLN 29 billion since the beginning of the year). Therefore, the PKO Bank Polski S.A. Group consolidated its position of the largest institution in the Polish banking sector.

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

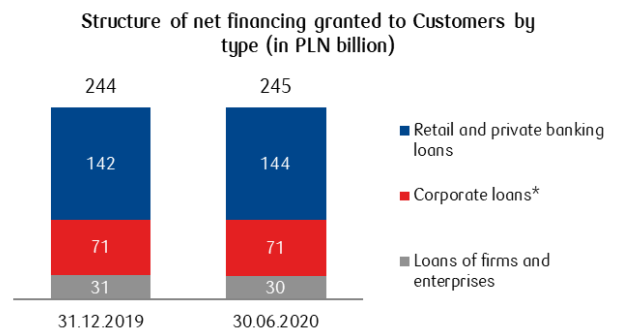


FINANCING GRANTED TO CUSTOMERS

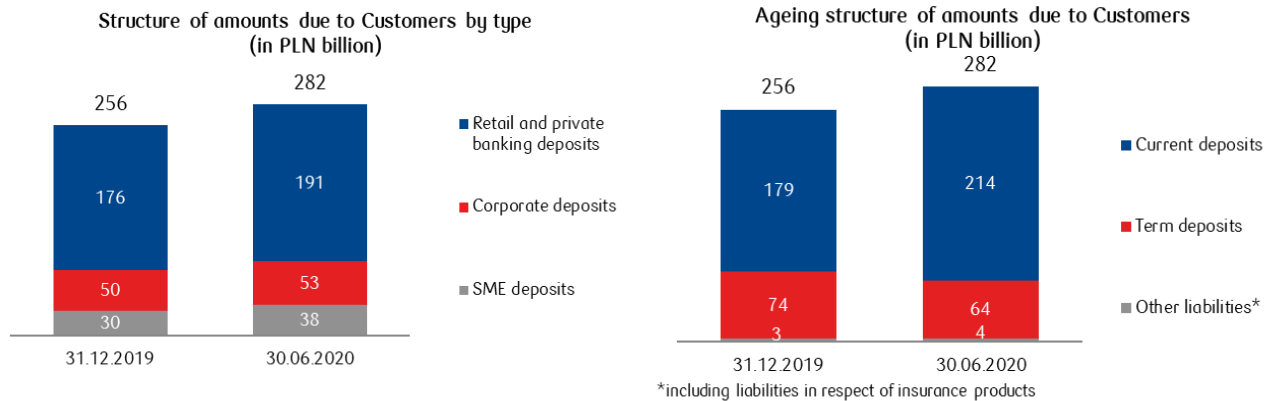
As at the end of the first half of 2020, the financing granted to Customers of the Bank's Group amounted to nearly PLN 245 billion, which is an increase of PLN 1 billion since the beginning of the year.

AMOUNTS DUE TO CUSTOMERS

Amounts due to Customers constitute the basic source of financing the assets of the Bank's Group. As at the end of the first half of 2020, they amounted to PLN 282 billion, which means an increase of PLN 26 billion since the beginning of the year. The increase in the deposit base was due to the increases in retail and private banking deposits (PLN +15 billion), deposits of firms and enterprises (PLN +7 billion) and corporate deposits (PLN +3 billion).



*including non-Treasury bonds (other than held for trading)

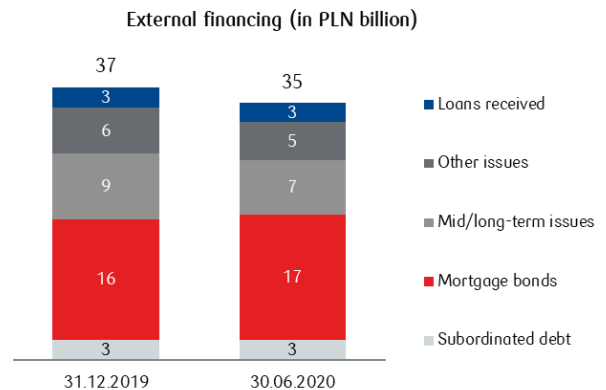


The share of current deposits in total deposits was 76% (+6 p.p. in relation to the end of 2019).

EXTERNAL FINANCING

The long-term sources of financing amounted to nearly PLN 35 billion as at the end of June 2020 (a decrease of PLN 2 billion since the beginning of the year). The change in the amount of the sources of financing was due to:

- early redemption of the Bank's EMTN bonds with a nominal value of EUR 250 million and issue of PKO Finance AB bonds with a nominal value of USD 195.41 million;
- issue and redemption of bonds by PKO Bank Hipoteczny S.A. with a total nominal value of PLN 2.2 billion and PLN 3.8 billion, respectively;
- sale by PKO Leasing S.A. to a third party of bonds with a nominal value of PLN 0.64 billion issued in 2019 under the lease receivables securitization programme;
- the foreign exchange effect (PLN 1 billion) resulting from the increases in the exchange rates of EUR (PLN +0.21), USD (PLN +0.18) and CHF (PLN +0.26).



4.4. Network of branches and agencies

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

As at 30 June 2020, the PKO Bank Polski S.A. retail network consisted of 1 032 branches and offices organized into 10 regional branches. Compared with the end of 2019, the total number of retail branches decreased by 30 branches and one regional branch.

The corporate segment's sales network consists of 33 Regional Corporate Centres organized into seven Regional Corporate Branches, as well as the branches located in the Federal Republic of Germany and the Czech Republic. The Bank plans to open a branch in the Slovak Republic in September.

The branch and ATM network is complemented by the agency network. As at the end of the first half of 2020, PKO Bank Polski S.A. collaborated with 501 agencies.

Table 4. Operating data

	30.06.2020	31.12.2019	30.06.2019	Change since:	
				31.12.2019	30.06.2019
Number of branches in the retail segment:	1,042	1,073	1,090	-31	-48
regional retail branches	10	11	11	-1	-1
retail branches	1,013	1,043	1,060	-30	-47
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	42	0	0
regional corporate branches	7	7	7	0	0
regional corporate centres	33	33	33	0	0
foreign branches	2	2	2	0	0
Number of ATMs	3,056	3,080	3,106	-24	-50
Number of agencies	501	538	535	-37	-34
Number of employees in the Bank's Group:	27,304	27,708	28,057	-404	-753
PKO Bank Polski S.A.	23,214	23,639	24,081	-425	-867
Bank Group companies	4,090	4,069	3,976	21	113

5. FINANCIAL STANDING OF THE BANK

5.1. Key financial indicators

The results achieved by PKO Bank S.A. in the first half of 2020 resulted in the key financial efficiency indicators achieving the following levels:

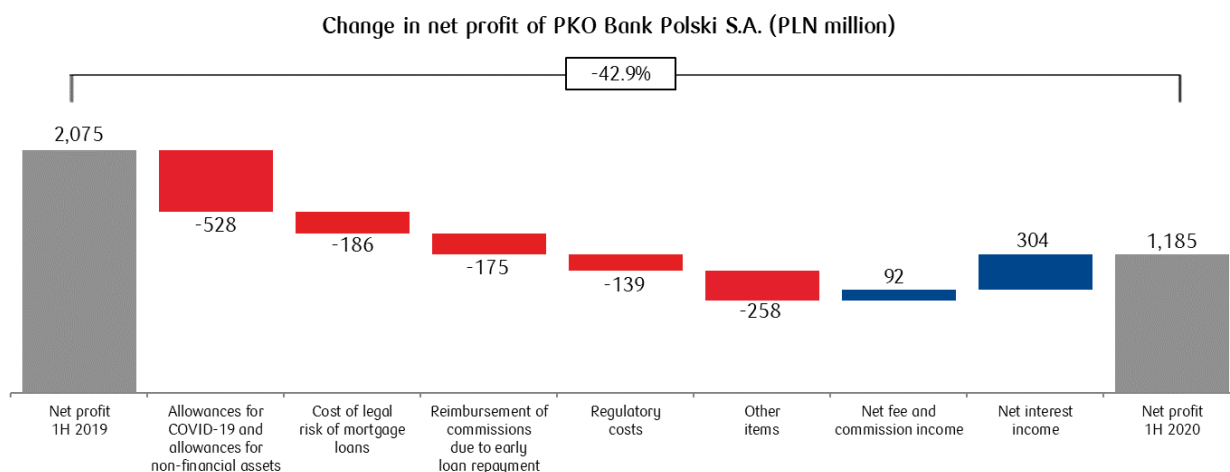
Table 5. Financial indicators of PKO Bank Polski S.A.

	30.06.2020	30.06.2019	Change
Net ROE (net profit/(loss)/average equity)	7.3%	10.3%	-3.0 p.p.
Net ROTE (net profit/(loss)/average equity less intangible assets)	7.7%	11.0%	-3.3 p.p.
Net ROA (net profit/(loss)/average assets)	0.9%	1.3%	-0.4 p.p.
C/I (cost to income ratio)	42.0%	41.1%	+0.9 p.p.
Interest margin (net interest income/average interest-bearing assets)	3.23%	3.41%	-0.18 p.p.
Share of impaired exposures	4.4%	4.6%	-0.2 p.p.
Cost of credit risk ¹⁾	-0.54%	-0.56%	+0.02 p.p.
Total capital ratio (own funds/total capital requirement*12.5)	20.08%	20.82%	-0.74 p.p.
Common equity Tier 1 (CET1)	18.69%	19.33%	-0.64 p.p.

1) After excluding the impact of COVID-19 the cost of credit risk as at 30 June 2020 would be -0.41%. (+0.15 p.p. y/y).

5.2. Income statement

The net profit of PKO Bank Polski S.A. earned in the first half of 2020 amounted to PLN 1 185 million and was PLN 890 million (-42.9%) lower than in the corresponding period of 2019.



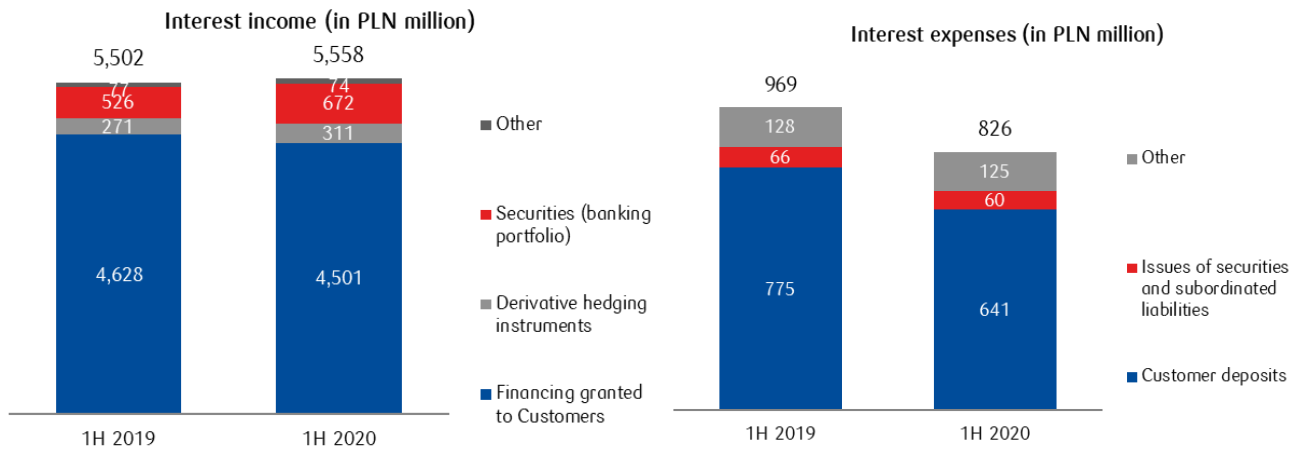
The result on business activities for the first half of 2020 amounted to PLN 6 424 million and was PLN 174 million, i.e. 2.6%, lower than in the first half of 2019, mainly due to a decrease in other income, which was accompanied by an increase in net interest income and fee and commission income.

Table 6. Income statement of PKO Bank Polski S.A. (in PLN million)

	01.01-30.06.2020	01.01-30.06.2019	Change (in PLN million)	Change (in %)
Net interest income	4,732	4,533	199	4.4%
Net fee and commission income	1,490	1,398	92	6.6%
Net other income	202	667	-465	-69.7%
Dividend income	201	382	-181	-47.4%
Result on financial transactions	37	144	-107	-74.3%
Net foreign exchange gains/(losses)	19	78	-59	-75.6%
Net other operating income and expense	-55	63	-118	x
Result on business activities	6,424	6,598	-174	-2.6%
Operating expenses	-2,788	-2,714	-74	2.7%
Tax on certain financial institutions	-484	-460	-24	5.2%
Net operating result	3,152	3,424	-272	-7.9%
Net write-downs and impairment	-1,329	-581	-748	2.3x
<i>including the impact of COVID-19 on the loan portfolio</i>	-309	0	-309	x
Profit before tax	1,823	2,843	-1,020	-35.9%
Income tax expense	-638	-768	130	-16.9%
Net profit	1,185	2,075	-890	-42.9%

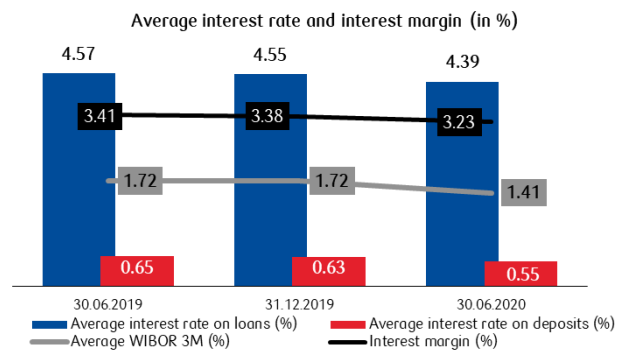
NET INTEREST INCOME

The net interest income for the first half of 2020 amounted to PLN 4 732 million, i.e. PLN 199 million more than in the first half of the previous year. The increase was due to an increase in volumes, which was accompanied by lower interest rates.



The interest income amounted to PLN 5 558 million and was PLN 56 million higher than in the same period of 2019 mainly as a result of:

- higher income on securities (PLN +146 million y/y), mainly due to an increase in the average volume of securities of PLN 26 billion;
- higher hedge accounting income (PLN +40 million y/y), resulting from the recognition of a reversal of a hedge relationship due to early redemption of bonds (PLN + 33 million);
- a lower level of income on financing granted to Customers of PLN 127 million y/y – the increase in the average volume of loan receivables of PLN 16 billion was offset by a decrease in the market interest rates.



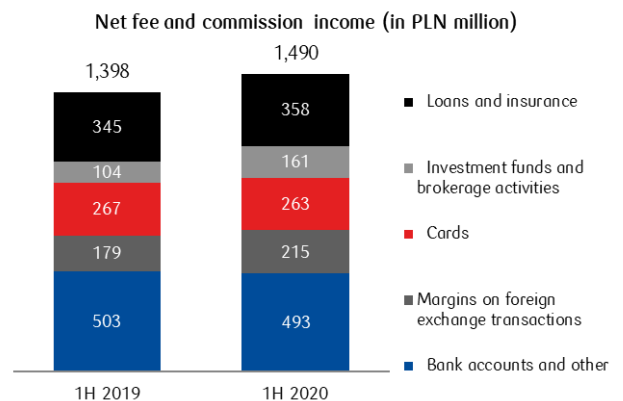
Interest expenses amounted to PLN 826 million and they were PLN 143 million lower than in the corresponding period of 2019. This was mainly due to the fact that the costs of the deposit base were PLN 134 million lower due to lower interest rates, despite an increase in the average deposit volume of nearly PLN 35 billion in relation to the first half of the previous year.

The interest margin decreased by 0.18 p.p. y/y to 3.23% as at the end of the first half of 2020. The average interest on the receivables of PKO Bank Polski S.A. in respect of loans amounted to 4.39% as at the end of the first half of 2020 and the average interest on total deposits was 0.55%, compared to 4.57% and 0.65%, respectively, as at the end of the first half of 2019.

NET FEE AND COMMISSION INCOME

In the first half of 2020, the net fee and commission income amounted to PLN 1 490 million and was PLN 92 million higher than in the first half of the previous year. The level of net fee and commission income was driven by:

- a higher result on investment funds and brokerage activities (PLN +57 million y/y), mainly as a result of increase in sale of Savings Treasury Bonds, accompanied by fall in sale of investment funds units;
- an increase in the net margin on foreign exchange transactions (PLN +36 million) resulting from a larger number of transactions;
- a higher net income on loans and insurance (PLN +13 million y/y), mainly due to an increase in commissions on business loans and sales of insurance products linked to housing loans;
- a lower result on cards (PLN -4 million y/y) resulting from higher costs of servicing the cards and processing the transactions;

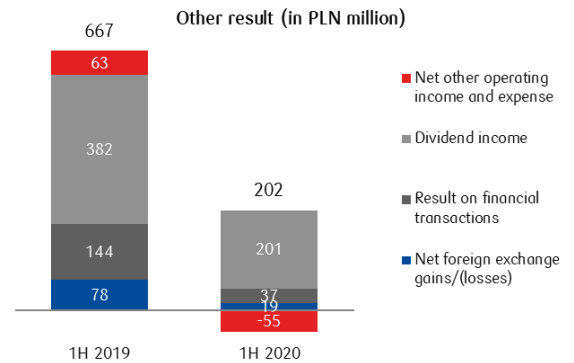


- a lower net income on servicing bank accounts and other income (PLN -10 million y/y), among other things due to lower commissions on foreign currency transactions and a change in the structure of the accounts of Customers who opt for less expensive accounts.

OTHER NET INCOME

Other net income for the first half of 2020 amounted to PLN 202 million and was PLN 465 million lower than in the first half of the previous year due to:

- a lower result on financial transactions (PLN -107 million y/y) – mainly resulting from the revaluation of shares (PLN -87 million y/y), in particular the VISA Inc. shares (PLN -76 million y/y; a change from PLN 50 million in the first half of 2019 to PLN -26 million in the first half of 2020);
- lower net foreign exchange gains/(losses) (PLN -59 million y/y), mainly due to a lower result on embedded derivatives (PLN -24 million y/y);
- a decrease in net other operating income and expenses of PLN 118 million y/y, mainly resulting from:
 - recording a provision for cost reimbursements to the Customers with respect to the early repayment of consumer and mortgage loans of PLN 70 million in the first quarter of 2020;
 - reversal in the second quarter of 2019 of a provision for the costs of fulfilling an obligation to provide free of charge services to Customers in connection with the proceedings concerning the practices infringing collective consumer interests, amounting to PLN 58 million.

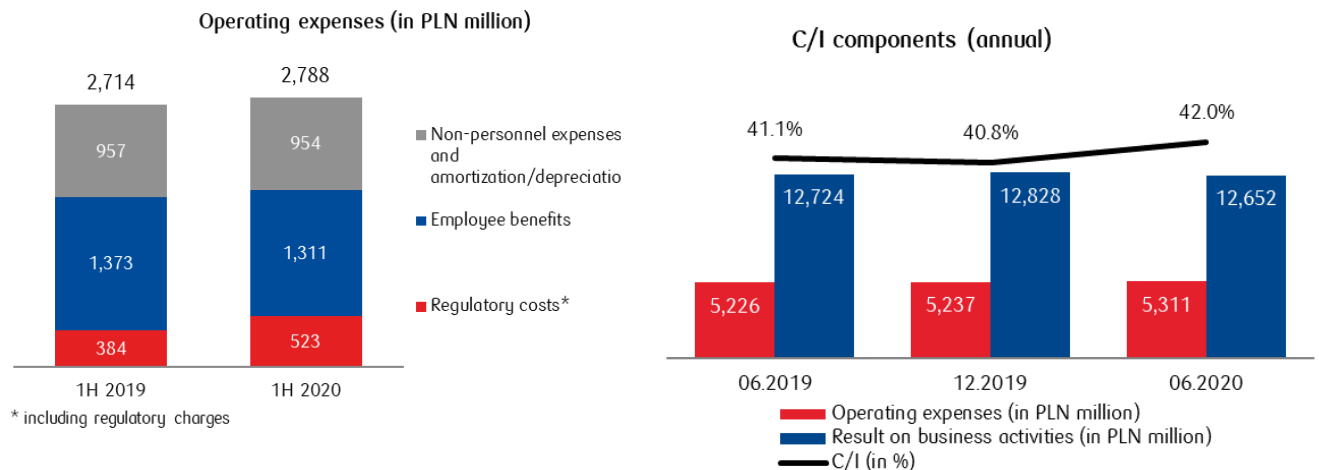


OPERATING EXPENSES

In the first half of 2020, operating expenses amounted to PLN 2 788 million (an increase of 2.7% y/y). Their level was mainly determined by:

- a PLN 89 million increase in the costs of withholding tax on foreign bond issues in connection with the adjustment to grossing up of interest for the years 2017–2019 recognized in the first quarter of 2019 and the recognition of a 3% tax on the interest paid for the period from 2014 to the first quarter of 2019;
- an increase in the costs of the contributions to the Bank Guarantee Fund of PLN 61 million (i.e. 15%) – the BGF costs amounted to PLN 467 million and included a contribution to the bank resolution fund of PLN 296 million (in the first half of the previous year, the BGF costs amounted to PLN 406 million, including a contribution to the resolution fund of PLN 326 million);
- a decrease in the costs of employee benefits of 62 million, i.e. of 4.5%;
- a decrease in non-personnel expenses of PLN 23 million, i.e. of 4.2%:
 - mainly due to a decrease in marketing expenditure of PLN 47 million, i.e. of 44.2%; and the simultaneous increases in the following expenses:
 - other non-personnel expenses of PLN 10 million i.e. 15.1%, including a PLN 19 million increase resulting from the purchases relating to the COVID-19 pandemic (antibacterial liquids and gels, protective masks and gloves, shields and protective partitions for customer service desks and insurance of additional cash transports);
 - costs of maintenance and rental of fixed assets of PLN 8 million, i.e. 7.4%, including a PLN 7.7 million increase in the costs of preventing COVID-19;
 - IT costs of PLN 6 million, i.e. 5%, including mainly the costs of software services;
- an increase in amortization and depreciation of PLN 21 million, i.e. 5.2%, mainly due to an increase in the amortization of IT-related intangible assets and a review of the useful lives of buildings and structures.

In the first half of 2020 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 66 million, which represented 2.4% of the Bank's total administrative expenses.



The operating efficiency of PKO Bank Polski S.A. measured with the annual C/I ratio was 42.0% (+0.9 p.p. y/y).

NET WRITE-DOWNS AND IMPAIRMENT

In the first half of 2020, net write-downs amounted to PLN -1 329 million (including the costs of legal risk of mortgage loans in convertible currencies of PLN -190 million and recognition of the write-downs in respect of the impact of COVID-19 on the loan portfolio of PLN -309 million) and this result was PLN 747 million worse than the result achieved in the first half of the previous year.

Net write-downs for credit risk, excluding the write-downs for COVID-19, amounted to PLN -573 million and were comparable to those recorded in the first half of 2019.

Net write-downs for non-financial assets amounted to PLN -257 million. This result was PLN 251 million worse than in the first half of the previous year mainly due to recording additional write-downs for non-financial assets, i.e.: an write-downs for goodwill of Nordea Bank Polska S.A. (a corporate CGU) of PLN -116 million, an write-downs for Bank Pocztowy S.A. of PLN -88 million and an write-downs for PKO BP BANKOWY PTE S.A. of PLN -15 million.

The share of impaired loans as at the end of the first half of 2020 was 4.4% (a decrease of 0.2 p.p. in relation to the first half of 2019).

The cost of risk as at the end of the first half of 2020 was 0.54%, i.e. it was 0.02 p.p. lower than in the first half of the previous year. After excluding the write-downs for COVID-19, it was 0.41%, which reflects an improvement of 0.13 p.p.

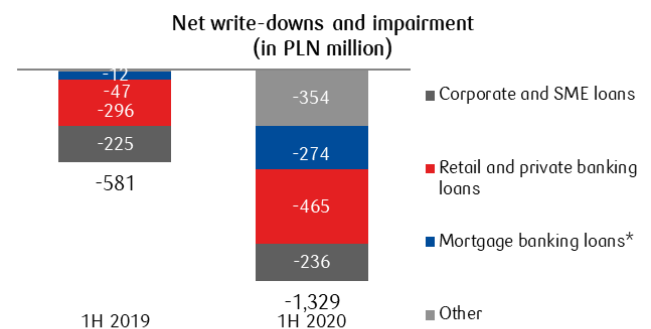
The improvement in the risk ratios, accompanied by an increase in the gross amount of financing granted to Customers of approx. 2% y/y, is a result of the continuation of the conservative credit risk management policy of the Bank's Group and careful monitoring of the portfolio of receivables.

5.3. Statement of financial position

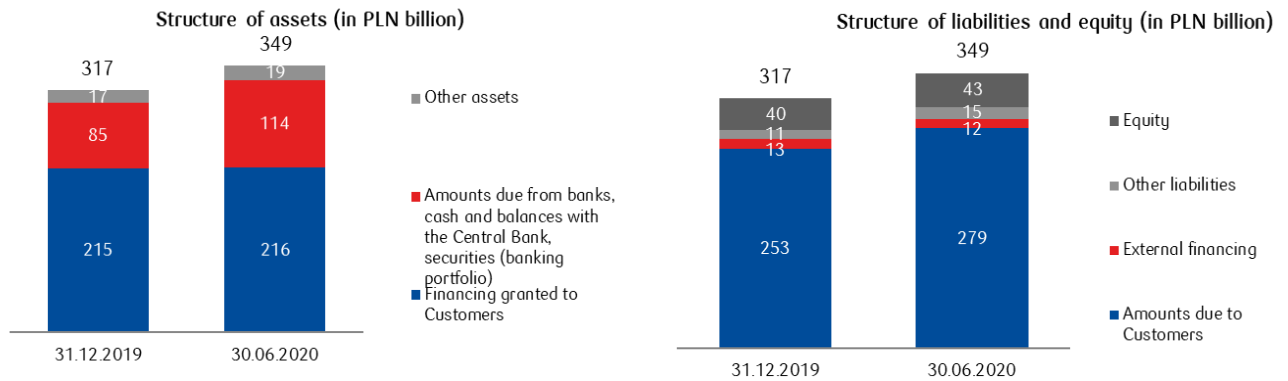
MAIN ITEMS OF THE STATEMENT OF FINANCIAL POSITION

Total assets and total equity and liabilities of PKO Bank Polski S.A. as at the end of the first half of 2020 amounted to nearly PLN 349 billion (an increase of approx. PLN 32 billion since the beginning of the year). Therefore, PKO Bank Polski S.A. consolidated its position of the largest institution in the Polish banking sector.

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



*Cost of legal risk of mortgage loans in convertible currencies of PLN 190 million was recognized in the first half of 2020. The result for the first half of 2020 also includes allowances in respect of the impact of COVID-19 on the loan portfolio in the amount of PLN 309 million.



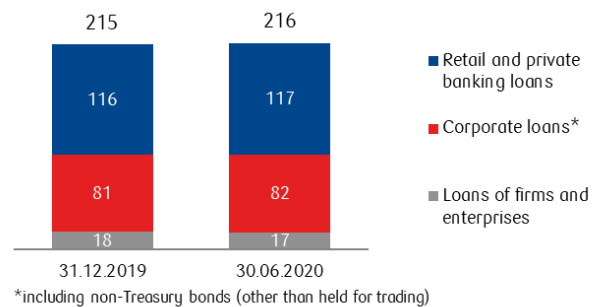
FINANCING GRANTED TO CUSTOMERS

As at the end of the first half of 2020, the financing granted to Customers of the Bank exceeded PLN 216 billion, which is an increase of PLN 1 billion since the beginning of the year.

AMOUNTS DUE TO CUSTOMERS

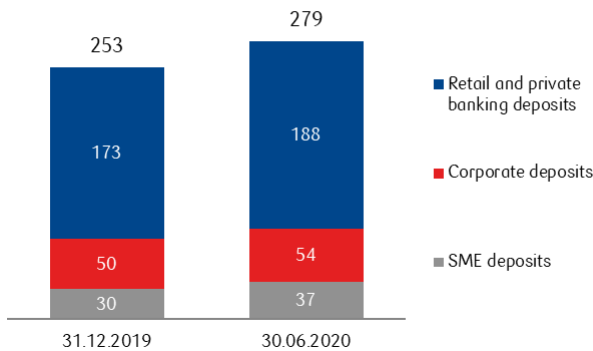
Customer deposits constitute the basic source of financing the Bank's assets. As at the end of the first half of 2020, they amounted to PLN 279 billion, which means an increase of PLN 26 billion since the beginning of the year. The increase in the deposit base was mainly due to the increases in retail and private banking deposits (PLN +15 billion), deposits of firms and enterprises (PLN +7 billion) and corporate deposits (PLN +3 billion).

Structure of net financing granted to Customers by type (in PLN billion)

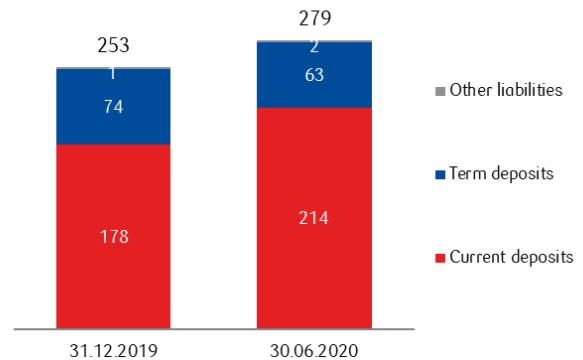


enterprises (PLN +7 billion) and corporate deposits

Structure of amounts due to Customers by type (in PLN billion)



Ageing structure of Customer deposits (in PLN billion)



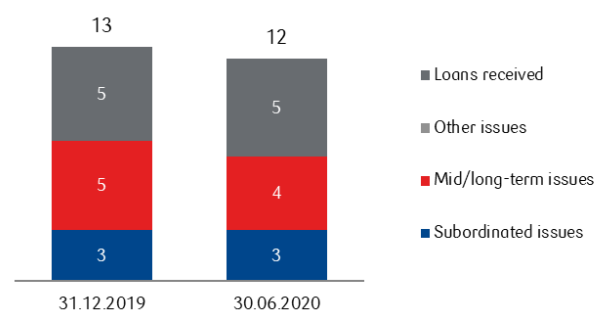
The share of current deposits in total deposits was 77% (+6 p.p. in relation to the end of 2019).

EXTERNAL FINANCING

The long-term sources of financing amounted to nearly PLN 12 billion as at the end of June 2020 (a decrease of PLN 0.6 billion since the beginning of the year). The change in the amount of the sources of financing was due to:

- early redemption of EMTN own bonds with a nominal value of EUR 250 million;
- the foreign exchange effect (PLN 0.4 billion) resulting from the increases in the exchange rates of EUR (PLN +0.21), USD (PLN +0.18) and CHF (PLN +0.26).

External financing (in PLN billion)



6. RISK MANAGEMENT

PKO Bank Polski S.A. monitors the situation of its Customers on an ongoing basis and adjusts its credit policy to mitigate the effects of COVID-19 for the Customers and to secure the good quality of the Bank's loan portfolio.

- In the first half of 2020, the Bank developed credit risk management tools and techniques. It took the following actions:
 - approved the implementation of a new tool for assessing the quality of the branches' work, based on the quality of the loan portfolio, audit results and verification of the quality of processes;
 - implemented a Stability Rating optimizing the lending policy addressed to individual Customers, which evaluates the Customers on the basis of daily behavioural data;
 - implemented new scoring models and adjusted cut-off points to the present profitability of consumer loans;
 - developed the digitization of lending processes;
 - calibrated the credit risk models, e.g. in connection with the COVID-19 pandemic;
 - in connection with a new credit risk factor (COVID-19), increased the frequency of monitoring and adjusted the lending policy on an ongoing basis.
- In the following months the Bank will continue monitoring the effect of the macroeconomic situation, including the operation of the Government Anti-Crisis Shield, on the situation of its Customers, and, depending on the assessment, adjust its credit risk management tools and techniques.
- During the COVID-19 pandemic, the Bank's Group has maintained a safe liquidity level, allowing fast and effective response to potential threats. For example, it took advantage of good market conditions to make an early repayment of a part of its liabilities in respect of securities issued in EUR and USD totalling approx. PLN 2 billion, reducing the concentration of future liabilities.
- With respect to interest rate risk, in the following months the banking sector will face low interest rates introduced by a decisions of the central bank made in the first half of 2020. The Bank's Group has prepared for the new reality by concluding IRS hedging transactions and building an appropriate structure of assets and liabilities and equity. The Bank's Group will continue actions aimed at achieving resilience to interest rate risk by seeking to mitigate both Interest Income Sensitivity and Economic Value Sensitivity.

A detailed description of the risk management policies adopted by the PKO Bank Polski S.A. Group is provided in the consolidated financial statements of the Bank's Group for 2019 and in the Report on Capital Adequacy and other information subject to publication by the Group as at 31 December 2019. The main objectives, principles and organization of the risk management process at the Bank's Group did not change in the first half of 2020.

Information of hedge accounting, material types of risk and capital adequacy is presented in the condensed interim consolidated financial statements of the PKO Bank Polski S.A. Group for the first half of 2020 (in notes 18, 38-45 and 46).

7. INFORMATION FOR INVESTORS

7.1. Ratings

The financial credibility ratings of the Bank and the other members of the Bank's Group did not change in the first half of 2020.

The current ESG ratings are the following: FTSE Russell – 3.1, MSCI – BBB, Sustainalytics (medium risk).

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

According to PKO Bank Polski S.A.'s best knowledge, as at the date of this report three shareholders held directly or indirectly significant blocks of shares (at least 5%): the State Treasury, Nationale-Nederlanden Otworthy Fundusz Emerytalny, and Aviva Otworthy Fundusz Emerytalny (the complete shareholding structure is presented in note 29 to the condensed interim consolidated financial statements of the PKO Bank Polski S.A. Group for the first half of 2020).

PKO Bank Polski S.A. did not purchase or sell any treasury shares on its own account during the period covered by the report.

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

Holdings of the Bank's shares by members of the Management Board and Supervisory Board of PKO Bank Polski S.A. as at 30 June 2020 are shown in the table below. The nominal value of each share is PLN 1.

Table 7: Shares of PKO Bank Polski S.A. held by the Bank's authorities

No.	Name and function	Number of shares as at 30.06.2020	Purchase	Disposal	Number of shares as at 31.03.2020	Number of shares as at 31.12.2019
Management Board of the Bank						
1.	Zbigniew Jagiełło, President of the Management Board	14,000	0	0	14,000	11,000
2.	Rafał Antczak, Vice-President of the Management Board	2,000	0	0	2,000	0
3.	Rafał Kozłowski, Vice-President of the Management Board	2,000	0	0	2,000	0
4.	Maks Kraczkowski, Vice-President of the Management Board	0	0	0	0	0
5.	Mieczysław Król, Vice-President of the Management Board	6,000	0	0	6,000	5,000
6.	Adam Marciniak, Vice-President of the Management Board	2,000	0	0	2,000	0
7.	Piotr Mazur, Vice-President of the Management Board	8,000	0	0	8,000	4,500
8.	Jakub Papierski, Vice-President of the Management Board	5,000	0	0	5,000	3,000
9.	Jan Emeryk Rościszewski, Vice-President of the Management Board	0	0	0	0	0

As at 30 June 2020 and as at 31 December 2019 members of the Supervisory Board of PKO Bank Polski S.A. did not hold any shares of PKO Bank Polski S.A.

8. OTHER INFORMATION

SUBSIDIARIES PRESENTED IN THE FINANCIAL STATEMENTS AND CHANGES IN THE GROUP

As at 30 June 2020, the PKO Bank Polski S.A. Group consisted of PKO Bank Polski S.A. as the parent entity and 39 direct and indirect subsidiaries (at all levels). All subsidiaries are accounted for in the consolidated financial statements of the Bank's Group using the acquisition method.

There were no significant changes in the structure of the Bank's Group in the first half of 2020. A full list of the Bank's subsidiaries and a description of changes in the structure of the Bank's Group are presented in the condensed interim consolidated financial statements of the PKO Bank Polski S.A. Group for the first half of 2020, in notes 30 and 31.

KEY NON-FINANCIAL PERFORMANCE INDICATORS ASSOCIATED WITH THE ENTITY'S OPERATIONS AND INFORMATION ON THE ISSUES CONCERNING EMPLOYEES AND THE NATURAL ENVIRONMENT

The PKO Bank Polski S.A. Group prepared the Statement on the non-financial information for 2019, which constituted a separate part of the PKO Bank Polski S.A. Group Directors' Report for 2019, and published it on the website of PKO Bank Polski S.A. The Statement was prepared in accordance with the provisions of the Accounting Act and it contains all elements required by law. The Statement presents the key non-financial performance indicators associated with the entity's operations and information on issues concerning employees and the natural environment.

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

PKO Bank Polski S.A. did not publish forecasts of financial results for 2020. In the current reports Nos. 13/2020 dated 20 March 2020, 19/2020 dated 20 April 2020 and 25/2020 dated 1 June 2020, the Bank informed about the impact of the proliferation of the coronavirus, the decision of the Monetary Policy Council and other institutions affecting the operations of the Bank's Group.

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

PKO Bank Polski S.A. is obliged to inform in the current reports about all agreements meeting the definition of confidential information provided in Regulation (EU) No. 596/2014 of the European Parliament and of the Council on market abuse. The Bank did not sign any agreements meeting the definition of confidential information in the first half of 2020 and therefore it did not publish any information on such agreements.

In the first half of 2020, the Bank or its subsidiaries did not conclude any material agreements with the Central Bank or with the supervisory authorities. KREDOBANK S.A. received loans from the National Bank of Ukraine totalling UAH 650 million (PLN 97 million at the average NBP exchange rate from 30 June 2020).

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

In the first half of 2020 neither PKO Bank Polski S.A. nor its subsidiaries drew any loans or advances or received any guarantees or pledges which were not related to operating activities.

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

In the first half of 2020 neither PKO Bank Polski S.A. or the subsidiaries of PKO Bank Polski S.A. concluded any material transactions with related parties on terms other than arm's length.

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

In the first half of 2020 neither PKO Bank Polski S.A. nor the subsidiaries of PKO Bank Polski S.A. concluded any significant agreements relating to guaranteeing the repayment of loans or advances or warranting the repayment of loans or advances outside their normal operations.

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

In the first half of 2020 the Bank and the other entities of the Bank's Group were not parties to any material (from the perspective of the Bank's Group) proceedings in court, before an arbitration institution or a public administration authority with respect to liabilities or receivables. Liabilities or debts whose value represents at least 5% of PKO Bank Polski S.A.'s equity are considered material.

A description of the most significant disputes is presented in note 34 to the condensed interim consolidated financial statements of the PKO Bank Polski S.A. Group for the first half of 2020.

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

On 1 June 2020, PKO Bank Polski S.A. updated the information about the impact of the decisions of the Monetary Policy Council on the operations of the Bank and its Group. The Bank assessed that the impact of the NBP interest rate combined decrease of 1.40 p.p., changes in the mandatory reserve and certain decisions of other monetary and supervisory institutions on the net profit of the Bank's Group in 2020 will amount to PLN 850 to 900 million and it will materialize mainly in the second half of the year. The actual impact will depend on the yield curve and the execution of business assumptions. The above-mentioned estimations and assumptions may change.

9. GLOSSARY

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

CPI (Consumer Price Index) – consumer price index;

Customer deposits – amounts due to Customers;

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

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

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

Operating expenses – administrative expenses and net regulatory charges;

Regulatory costs – net regulatory charges;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Result on business activities – result on operating activities excluding administrative expenses, net regulatory charges, tax on certain financial institutions, cost of legal risk of mortgage loans in convertible currencies, net write-downs for credit risk, impairment of non-financial assets and net result on loans measured at fair value through profit or loss;

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

Other result – dividend income, net gain/(loss) on financial instruments measured at fair value through profit or loss (less result on loans measured at fair value through profit or loss), net foreign exchange gains/(losses), gains/(losses) on derecognition of financial instruments not measured at fair value through profit or loss and net other operating income and expenses;

Result on financial transactions – net gain/loss on financial instruments measured at fair value through profit or loss (less result on loans measured at fair value through profit or loss) and gains/losses on derecognition of financial instruments not measured at fair value through profit or loss;

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

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

10. STATEMENT OF THE MANAGEMENT BOARD

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

- the condensed interim consolidated financial statements of the PKO Bank Polski S.A. Group for the six months ended 30 June 2020 and comparative data have been prepared in accordance with the applicable accounting principles, and give a true, fair and clear view of the economic and financial position of the PKO Bank Polski S.A. Group, and of its financial result;
- this Directors' Report of the PKO Bank Polski S.A. Group for the first half of 2020 includes an accurate description of the development and achievements, as well as the situation of the PKO Bank Polski S.A. Group, including a description of the main risks and threats.

The Management Board of PKO Bank Polski S.A. declares that the entity authorized to audit financial statements, carrying out the review of the condensed interim consolidated financial statements for the six months ended 30 June 2020, 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 S.A. Group for the first half of 2020 comprises 32 sequentially numbered pages.



SIGNATURES OF ALL THE MEMBERS OF THE MANAGEMENT BOARD

4.08.2020	ZBIGNIEW JAGIEŁŁO	PRESIDENT OF THE MANAGEMENT BOARD
4.08.2020	RAFAŁ ANTCZAK	VICE-PRESIDENT OF THE MANAGEMENT BOARD
4.08.2020	RAFAŁ KOZŁOWSKI	VICE-PRESIDENT OF THE MANAGEMENT BOARD
4.08.2020	MAKS KRACZKOWSKI	VICE-PRESIDENT OF THE MANAGEMENT BOARD
4.08.2020	MIECZYŚŁAW KRÓL	VICE-PRESIDENT OF THE MANAGEMENT BOARD
4.08.2020	ADAM MARCINIAK	VICE-PRESIDENT OF THE MANAGEMENT BOARD
4.08.2020	PIOTR MAZUR	VICE-PRESIDENT OF THE MANAGEMENT BOARD
4.08.2020	JAKUB PAPIERSKI	VICE-PRESIDENT OF THE MANAGEMENT BOARD
4.08.2020	JAN EMERYK ROŚCISZEWSKI	VICE-PRESIDENT OF THE MANAGEMENT BOARD