INFORMATION ON THE PRELIMINARY UNAUDITED CONSOLIDATED FINANCIAL RESULTS OF THE PKO BANK POLSKI S.A. GROUP FOR THE FOURTH QUARTER OF 2020 AND YEAR 2020

The selected financial results presented below are preliminary and estimated. They may change and differ from the data which will be disclosed in the annual report of PKO Bank Polski S.A. (the "Bank") for the year ended 31 December 2020 and the consolidated annual report of the PKO Bank Polski S.A. Group (the "Group") for the year ended 31 December 2020 (the "Annual Report for 2020"). In particular, the estimates contained in this report may be significantly affected by events which may occur before the publication date of the Annual Report for 2020, including those relating to foreign currency mortgage loans to households.

The financial results of the Bank and the Group will be presented in the Annual Report of PKO Bank Polski S.A. for the year ended 31 December 2020 and the Consolidated Annual Report of the PKO Bank Polski S.A. Group for the year ended 31 December 2020 which will be published on 30 April 2021.

1. THE KEY FINANCIAL AND BUSINESS DATA OF THE PKO BANK POLSKI S.A. GROUP IN THE FOURTH QUARTER OF 2020

In 2020, the consolidated net profit of PKO Bank Polski S.A. Group attributable to shareholders of the Parent Company amounted to PLN 2,645 million, which represents a decrease of 34% compared with the same period of the prior year.

The most significant factors which contributed to the Group's net profit for 2020 compared with the prior year included:

- a decrease in the profit/(loss) on business activities of PLN 305 million to PLN 14,238 million, combined with an improvement in the fee and commission income of PLN 173 million and in net foreign exchange gains/(losses) of PLN 65 million. The main results of the operating results:
  - a decrease in interest income of PLN 139 million y/y - the cuts in the NBP interest rates of 1.4 pp;
  - a decrease in gains/(losses) on financial transactions of PLN 278 million y/y, of which - PLN 143 million related to a decrease on the remeasurement of shares in the Bank's investment portfolio and PLN 99 million related to the portfolio of loans measured at fair value through profit or loss;
  - recognition in other operating expenses of a PLN 41 million penalty imposed by the Competition and Consumer Protection Office (*Urząd Ochrony Konkurencji i Konsumentów* – UOKiK);
  - recognition of a gain from a bargain purchase of Prime Car Management S.A. of PLN 102 million in 2019;
- an improvement in cost effectiveness resulting in a decrease in administrative expenses of PLN 37 million;
- a strong deterioration in allowances for expected credit losses of PLN 757 million (to PLN 1,905 million) mainly due to allowances recognized in connection with COVID-19;
- an increase in the cost of the legal risk of mortgage loans in convertible currencies of PLN 454 million y/y (to PLN 905 million).
- a deterioration in the impairment of non-financial assets of PLN 287 million (to PLN 400 million), as a result of recognizing an impairment allowance of:
  - PLN 100 million on the shares held in Bank Pocztowy S.A.;
  - PLN 116 million on the Nordea Bank Polska S.A. corporate CGU;
  - PLN 31 million on goodwill on the acquisition of PKO Leasing PRO S.A., and
  - PLN 49 million on capitalized costs of acquisition of OFE customers.

The Group's total assets as at the end of 2020 amounted to PLN 382 billion (+ PLN 34 billion y/y). It means that regardless of the difficult economic situation in Poland and abroad, the Group recorded a strong growth of the scale of its operations in 2020.

of the PKO Bank Polski S.A. Group for the fourth quarter of 2020 and year 2020 (in PLN million)

The increase in assets was driven mainly by an increase in liquid assets of PLN 34 billion (mainly securities), combined with a decrease of PLN 2 billion in loans and advances to customers.

On the equity and liabilities side, an increase in amounts due to customers reached over 10% (PLN 26 billion) and equity increased by 9% (PLN 4 billion).

The Group's total capital ratio amounted to 20.20% as at the end of 2020 and was higher by 0.32 pp compared with the end of 2019. The increase in the total capital ratio was mainly due to:

- an increase in equity of PLN 5.1billion as a result of accumulating the consolidated (under the prudential regulations) net profit of the Group for 2019 and for the first half of 2020,
- an increase in other comprehensive income of PLN 827 million due to changes in the fair value of financial assets measured at fair value through other comprehensive income.

	31.12.2020	31.12.2019	Change
Consolidated data			
Net ROE (net financial result / average equity)	6,1%	10,0%	-3,9 p.p.
Net ROTE (net profit/(loss)/average equity less intangible assets)	6,5%	10,9%	-4,4 p.p.
Net ROA (net profit/(loss)/average assets)	0,7%	1,2%	-0,5 p.p.
C/I (cost to income ratio)	41,6%	41,3%	+0,3 p.p.
Total capital ratio (own funds / total capital requirement * 12.5)	20,20%	19,88%*	+0,32 p.p.

* In connection with the above, the capital ratio presented in the table takes into account the appropriation of the profit for 2019 by the Bank's Ordinary General Shareholders' Meeting. Legal basis: in accordance with Article 26(2) of the CRR, institutions may include interim or year-end profits in Common Equity Tier 1 capital before the institution has taken a formal decision confirming the final profit or loss of the institution for the year with a prior permission of the competent authority. In May 2020, the European Banking Authority (EBA) published, as part of the single rulebook Q&A, its position on the timing of recognition of annual and interim profits in the capital adequacy data (Q&A 2018_3822 and Q&A 2018_4085). In accordance with the position, starting from the moment when the Group has formally complied with the criteria which allow for including the profit for a given period to Tier 1 capital, it is assumed that the profit should have been recognized retrospectively (the date of the profit rather than the date of complying with the criterion), and equity should be adjusted as at the date to which the profit relates.

of the PKO Bank Polski S.A. Group for the fourth quarter of 2020 and year 2020 (in PLN million)

2. CONSOLIDATED INCOME STATEMENT

INCOME STATEMENT	Note	fourth quarter period 01.10.2020 to 31.12.2020	2020	fourth quarter period 01.10.2019 to 31.12.2019	2019
Net interest income	6	**2 458**	**10 151**	**2 630**	**10 290**
Interest income		2 652	11 606	3 230	12 637
Interest expense		(194)	(1 455)	(600)	(2 347)
Net fee and commission income	7	**1 024**	**3 904**	**971**	**3 731**
Fee and commission income		1 293	4 953	1 260	4 814
Fee and commission expense		(269)	(1 049)	(289)	(1 083)
Net other income		**192**	**183**	**118**	**522**
Dividend income		-	15	1	14
Net gain/(loss) on financial instruments		55	(103)	126	175
including impact of COVID -19 on loan porfolio		(4)	(48)	-	-
Net foreign exchange gains/(losses)		88	169	18	104
Gains/(losses) on derecognition of financial instruments		31	181	2	145
measured at amortized cost		5	(22)	(14)	(13)
Net other operating income and expense		18	(79)	(29)	84
Result on business activities		**3 674**	**14 238**	**3 719**	**14 543**
Net allowances for expected credit losses	8	(659)	(1 905)	(231)	(1 148)
including impact of COVID -19 on loan porfolio		(374)	(758)	-	-
Net impairment allowances on non-financial assets	9	(64)	(400)	(82)	(113)
Cost of legal risk of mortgage loans in convertible currencies		(370)	(905)	(446)	(451)
Administrative expenses	10	(1 417)	(5 984)	(1 523)	(6 021)
including net regulatory charges		(111)	(778)	(60)	(537)
Tax on certain financial institutions		(261)	(1 055)	(258)	(1 022)
Share in profits and losses of associates and joint ventures		5	20	8	31
Profit before tax		**908**	**4 009**	**1 187**	**5 819**
Income tax expense		(282)	(1 368)	(463)	(1 787)
Net profit (including non-controlling shareholders)		**626**	**2 641**	**724**	**4 032**
Profit (loss) attributable to non-controlling shareholders		(1)	(4)	1	1
Net profit attributable to equity holders of the parent		627	2 645	723	4 031

The financial data presented in the table above is preliminary and estimated data. It may change and differ from the data which will be disclosed in the Annual Report for 2020. In particular, the estimates contained in this table may be significantly affected by events which may occur before the publication date of the Annual Report for 2020, including events relating to foreign currency mortgage loans to households.

Information on the preliminary unaudited consolidated financial results of the PKO Bank Polski S.A. Group for the fourth quarter of 2020 and year 2020 (in PLN million)

3. CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

STATEMENT OF COMPREHENSIVE INCOME	fourth quarter period 01.10.2020 to 31.12.2020	2020	fourth quarter period 01.10.2019 to 31.12.2019	2019
Net profit (including non-controlling shareholders)	**626**	**2 641**	**724**	**4 032**
Other comprehensive income:	**(101)**	**1 082**	**(166)**	**219**
Items which may be reclassified to profit or loss	**(96)**	**1 087**	**(161)**	**224**
Cash flow hedges (gross)	(145)	383	(163)	259
Deferred tax	27	(73)	31	(49)
Cash flow hedges (net)	(118)	310	(132)	210
Revaluation of fair value of financial assets measured at fair value through OCI, gross	61	1 233	(17)	115
Gains /losses transferred to profit or loss (on disposal)	(26)	(203)	(16)	(158)
Deferred tax	(7)	(194)	4	7
Fair value of financial assets measured at fair value through OCI (net)	28	836	(29)	(36)
Foreign exchange differences on translation of foreign operations	(7)	(68)	-	50
Share in other comprehensive income of associates and joint ventures	1	9	-	-
Items which cannot be reclassified to profit or loss	**(5)**	**(5)**	**(5)**	**(5)**
Actuarial gains and losses (gross)	(6)	(6)	(7)	(7)
Deferred tax	1	1	2	2
Actuarial gains and losses (net)	(5)	(5)	(5)	(5)
Total net comprehensive income	**525**	**3 723**	**558**	**4 251**
Total net comprehensive income, of which attributable to:	525	3 723	544	4 251
equity holders of the parent	526	3 727	543	4 250
non-controlling shareholders	(1)	(4)	1	1

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Information on the preliminary unaudited consolidated financial results of the PKO Bank Polski S.A. Group for the fourth quarter of 2020 and year 2020 (in PLN million)

4. CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	31.12.2020	31.12.2019
ASSETS		**381 793**	**347 897**
Cash and balances with the Central Bank		7 474	14 677
Amounts due from banks		2 557	4 092
Hedging derivatives		1 070	645
Other derivative instruments		5 239	2 795
Securities	11	123 694	80 573
Reverse repo transactions		-	1 081
Loans and advances to customers	12	228 112	230 206
Receivables in respect of insurance activities		798	858
Property, plant and equipment under operating lease		1 168	1 300
Property, plant and equipment		3 161	3 142
Non-current assets held for sale		126	12
Intangible assets		3 280	3 178
Investments in associates and joint ventures		291	377
Current income tax receivables		19	5
Deferred income tax assets		2 000	2 243
Other assets		2 804	2 713

	Note	31.12.2020	31.12.2019
LIABILITIES AND EQUITY		**381 793**	**347 897**
LIABILITIES		**336 492**	**306 319**
Amounts due to banks		2 626	2 135
Hedging derivatives		811	589
Other derivative instruments		5 521	2 924
Amounts due to customers	13	282 356	256 170
Liabilities in respect of insurance activities		1 740	1 777
Loans and advances received	14	2 267	2 779
Debt securities in issue	14	32 098	31 148
Subordinated liabilities	14	2 716	2 730
Other liabilities		4 689	4 692
Current income tax liabilities		174	324
Deferred income tax provision		372	370
Provisions		1 122	681
EQUITY		**45 301**	**41 578**
Share capital		1 250	1 250
Other capital		35 277	34 205
Retained earnings		6 142	2 101
Net profit or loss for the year		2 645	4 031
Capital and reserves attributable to equity holders of the parent		45 314	41 587
Non-controlling interests		(13)	(9)

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of the PKO Bank Polski S.A. Group for the fourth quarter of 2020 and year 2020 (in PLN million)

5. CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the period ended 31.12.2020	Share capital	Other capital					Retained earnings	Net profit for the period	Capital and reserves attributable to equity holders of the parent company	Total non-controlling interests	Total equity
		Reserves			Accumulated other comprehensive income	Total other capital and reserves					
		Supplementary capital	General banking risk fund	Other reserves							
Value at the beginning of the period	1 250	29 429	1 070	3 237	469	34 205	2 101	4 031	41 587	(9)	41 578
Transfer from retained earnings	-	-	-	-	-	-	4 031	(4 031)	-	-	-
Total comprehensive income	-	-	-	-	1 082	1 082	-	2 645	3 727	(4)	3 723
Coverage of losses from previous years	-	-	-	(110)	-	(110)	110	-	-	-	-
Transfer from retained earnings to equity	-	90	-	10	-	100	(100)	-	-	-	-
Value at the end of the period	1 250	29 519	1 070	3 137	1 551	35 277	6 142	2 645	45 314	(13)	45 301

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for the period ended 31.12.2019	Share capital	Other capital					Retained earnings	Net profit for the period	Capital and reserves attributable to equity holders of the parent company	Total non-controlling interests	Total equity
		Reserves			Accumulated other comprehensive income	Total other capital and reserves					
		Supplementary capital	General banking risk fund	Other reserves							
Value at the beginning of the period	1 250	29 354	1 070	3 831	250	34 505	(385)	3 741	39 111	(10)	39 101
Changes in accounting principles	-	-	-	-	-	-	(111)	-	(111)	-	**(111)**
Value at the beginning of the period after changes to the rules	1 250	29 354	1 070	3 831	250	34 505	(496)	3 741	39 000	(10)	38 990
Transfer from retained earnings	-	-	-	-	-	-	3 741	(3 741)	-	-	-
Dividend	-	-	-	-	-	-	(1 663)	-	(1 663)	-	**(1 663)**
Total comprehensive income	-	-	-	-	219	219	-	4 031	4 250	1	**4 251**
Coverage of losses from previous years	-	-	-	(606)	-	(606)	606	-	-	-	-
Transfer from retained earnings to equity	-	75	-	12	-	87	(87)	-	-	-	-
Value at the end of the period	1 250	29 429	1 070	3 237	469	34 205	2 101	4 031	41 587	(9)	41 578

Information on the preliminary unaudited consolidated financial results of the PKO Bank Polski S.A. Group for the fourth quarter of 2020 and year 2020 (in PLN million)

6. NET INTEREST INCOME

INTEREST INCOME ON:	fourth quarter period 01.10.2020 to 31.12.2020	2020	fourth quarter period 01.10.2019 to 31.12.2019	2019
loans to and other receivables from banks	4	34	22	97
hedging derivatives	172	578	74	324
debt securities	456	1 794	430	1 595
measured at amortized cost	176	537	88	305
measured at fair value through OCI	277	1 234	333	1 253
measured at fair value through profit or loss	3	23	9	37
loans and advances to customers (excluding finance lease receivables)	1 861	8 520	2 489	9 877
measured at amortized cost	1 747	7 930	2 337	8 928
measured at fair value through profit or loss	114	590	152	949
finance lease receivables	154	660	210	732
amounts due to customers (excluding loans and advances received)	5	20	5	12
Total	**2 652**	**11 606**	**3 230**	**12 637**
of which: interest income on impaired financial instruments	67	260	74	268
INTEREST INCOME				
Interest income calculated under the effective interest rate method	2 363	10 415	2 995	11 327
on financial instruments measured at amortized cost	2 086	9 181	2 662	10 074
on financial instruments measuredat fair value through OCI	277	1 234	333	1 253
Income similar to interest income on instruments measured at fair value through profit or loss	289	1 191	235	1 310
Total	**2 652**	**11 606**	**3 230**	**12 637**

INTEREST EXPENSE ON:	fourth quarter period 01.10.2020 to 31.12.2020	2020	fourth quarter period 01.10.2019 to 31.12.2019	2019
amounts due to banks	(8)	(15)	-	(11)
interbank deposits	(1)	(9)	(9)	(20)
loans and advances received	(7)	(31)	(7)	(44)
lease	(5)	(20)	(7)	(26)
amounts due to customers	(69)	(865)	(413)	(1 640)
debt securities in issue	(91)	(439)	(141)	(516)
subordinated liabilities	(13)	(76)	(23)	(90)
Total	**(194)**	**(1 455)**	**(600)**	**(2 347)**

Information on the preliminary unaudited consolidated financial results of the PKO Bank Polski S.A. Group for the fourth quarter of 2020 and year 2020 (in PLN million)

7. NET FEE AND COMMISSION INCOME

FEE AND COMMISSION INCOME	fourth quarter period 01.10.2020 to 31.12.2020	2020	fourth quarter period 01.10.2019 to 31.12.2019	2019
Loans, insurance, operational leasing and fleet management	**306**	**1 237**	**337**	**1 192**
granting of loans and advances	188	726	185	711
offering insurance products	96	411	104	386
operational leasing and fleet management	22	100	48	95
Investment funds, pension funds and brokerage activities	185	720	184	740
maintenance of investment funds and OFE (including management fees)	105	412	137	545
handling and sale of investment and insurance products	7	34	11	43
conducting brokerage activities	73	274	36	152
Cards	**337**	**1 325**	**346**	**1 340**
Forex transaction margins	**134**	**476**	**94**	**370**
Bank accounts and other	**331**	**1 195**	**299**	**1 172**
maintenance of bank accounts	256	900	212	838
cash operations	16	71	19	75
servicing foreign mass transactions	21	73	25	99
customer orders	16	53	13	48
fiduciary services	1	6	2	6
other	21	92	28	106
Total	**1 293**	**4 953**	**1 260**	**4 814**

FEE AND COMMISSION EXPENSE	fourth quarter period 01.10.2020 to 31.12.2020	2020	fourth quarter period 01.10.2019 to 31.12.2019	2019
Loans and insurance	**(28)**	**(132)**	**(45)**	**(164)**
commission paid to external entities for product sales	(5)	(33)	(14)	(46)
cost of construction investment supervision and property valuation	(9)	(36)	(11)	(46)
fees for the Credit Information Bureau	(4)	(16)	(5)	(18)
credit service	(10)	(47)	(15)	(54)
Investment funds, pension funds and brokerage activities	**(18)**	**(49)**	**(8)**	**(34)**
Cards	**(189)**	**(744)**	**(207)**	**(775)**
Bank accounts and other	**(34)**	**(124)**	**(29)**	**(110)**
clearing services	(10)	(35)	(8)	(29)
commissions for operating services provided by banks	(2)	(7)	(4)	(11)
sending short text messages (SMS)	(12)	(41)	(8)	(33)
sales of bank products	(2)	(7)	(5)	(11)
servicing foreign mass transactions	(4)	(13)	(3)	(10)
other	(4)	(21)	(1)	(16)
Total	**(269)**	**(1 049)**	**(289)**	**(1 083)**

Information on the preliminary unaudited consolidated financial results of the PKO Bank Polski S.A. Group for the fourth quarter of 2020 and year 2020 (in PLN million)

8. NET ALLOWANCES FOR EXPECTED CREDIT LOSSES

NET ALLOWANCES FOR EXPECTED CREDIT LOSSES	fourth quarter period 01.10.2020 to 31.12.2020	2020	fourth quarter period 01.10.2019 to 31.12.2019	2019
Amounts due from banks	1	1	1	-
Debt securities	(7)	(25)	(7)	(3)
Loans and advances to customers	(648)	(1 700)	(206)	(1 104)
Other financial assets	-	-	1	1
Provisions for financial liabilities and guarantees granted	(5)	(181)	(20)	(42)
Total	**(659)**	**(1 905)**	**(231)**	**(1 148)**

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9. NET IMPAIRMENT ALLOWANCES ON NON-FINANCIAL ASSETS

NET IMPAIRMENT ALLOWANCES ON NON-FINANCIAL ASSETS	fourth quarter period 01.10.2020 to 31.12.2020	2020	fourth quarter period 01.10.2019 to 31.12.2019	2019
Property, plant and equipment under operating lease	1	4	-	-
Property, plant and equipment	(7)	(58)	(15)	(15)
Non-current assets held for sale	(2)	(4)	-	-
Intangible assets	(6)	(153)	(50)	(51)
Investments in associates and joint ventures	1	(98)	(1)	(5)
Other non-financial assets	(51)	(91)	(16)	(42)
Total	**(64)**	**(400)**	**(82)**	**(113)**

10. OPERATING COSTS

OPERATING COSTS	fourth quarter period 01.10.2020 to 31.12.2020	2020	fourth quarter period 01.10.2019 to 31.12.2019	2019
Employee benefits	(730)	(2 974)	(850)	(3 215)
Overheads, including:	(327)	(1 253)	(374)	(1 347)
rent	(30)	(96)	(21)	(78)
IT	(98)	(349)	(93)	(321)
Depreciation and amortization	(249)	(979)	(239)	(922)
property, plant and equipment, of which:	(133)	(541)	(137)	(531)
IT	(25)	(100)	(31)	(124)
right-of-use assets	(66)	(229)	(51)	(206)
intangible assets, of which:	(116)	(438)	(102)	(391)
IT	(109)	(409)	(96)	(358)
Net regulatory charges	(111)	(778)	(60)	(537)
Total	**(1 417)**	**(5 984)**	**(1 523)**	**(6 021)**

NET REGULATORY CHARGES	fourth quarter period 01.10.2020 to 31.12.2020	2020	fourth quarter period 01.10.2019 to 31.12.2019	2019
Contribution and payments to the Bank Guarantee Fund (BGF), including:	(90)	(668)	(41)	(509)
resolution fund	-	(318)	-	(348)
banks' guarantee fund	(90)	(350)	(41)	(161)
Fees to the PFSA	(1)	(36)	(1)	(41)
Flat-rate income tax, of which:	(2)	(7)	(2)	81
withheld tax 20%	-	-	-	138
flat-rate income tax 3%	(2)	(7)	(2)	(57)
Other taxes and charges	(18)	(67)	(16)	(68)
Total	(111)	**(778)**	**(60)**	**(537)**

Information on the preliminary unaudited consolidated financial results of the PKO Bank Polski S.A. Group for the fourth quarter of 2020 and year 2020 (in PLN million)

11. SECURITIES

SECURITIES at 31.12.2020	held for trading	not held for trading, measured at fair value through profit or loss	measured at fair value through OCI	measured at amortized cost	Total
Debt securities	**1 151**	**978**	**73 511**	**46 533**	**122 173**
Treasury bonds (in PLN)	685	430	52 929	29 647	83 691
Treasury bonds (in foreign currencies)	4	367	2 872	39	3 282
Treasury bills (in PLN)	349	-	500	-	849
corporate bonds (in PLN) secured by guarantees from the State Treasury	-	-	8 703	9 887	18 590
municipal bonds (in PLN)	14	-	4 649	5 060	9 723
corporate bonds (in PLN)	99	181	3 835	1 529	5 644
corporate bonds (in foreign currencies)	-	-	23	371	394
Equity securities	**27**	**1 488**	**-**	**-**	**1 515**
shares in other entities - not listed	-	451	-	-	451
shares in other entities - listed	25	135	-	-	160
investment fund units and investment certificates, rights to shares, pre-emptive rights	2	902	-	-	904
Total (excluding adjustments relating to fair value hedge accounting)	**1 178**	**2 466**	**73 511**	**46 533**	**123 688**
Fair value hedge accounting adjustment	-	-	-	6	6
Total	**1 178**	**2 466**	**73 511**	**46 539**	**123 694**

SECURITIES at 31.12.2019	held for trading	not held for trading, measured at fair value through profit or loss	measured at fair value through OCI	measured at amortized cost	Total
Debt securities	**1 095**	**493**	**63 807**	**13 454**	**78 849**
NBP money market bills	-	-	1 000	-	1 000
Treasury bonds (in PLN)	982	301	51 541	7 406	60 230
Treasury bonds (in foreign currencies)	2	-	2 520	60	2 582
municipal bonds (in PLN)	15	-	5 232	4 563	9 810
corporate bonds (in PLN)	95	192	3 514	1 083	4 884
corporate bonds (in foreign currencies)	1	-	-	342	343
Equity securities	**17**	**1 706**	**-**	**-**	**1 723**
shares in other entities - not listed	-	436	-	-	436
shares in other entities - listed	15	150	-	-	165
investment fund units and investment certificates, rights to shares, pre-emptive rights	2	1 120	-	-	1 122
Total (excluding adjustments relating to fair value hedge accounting)	**1 112**	**2 199**	**63 807**	**13 454**	**80 572**
Fair value hedge accounting adjustment	-	-	-	1	1
Total	**1 112**	**2 199**	**63 807**	**13 455**	**80 573**

of the PKO Bank Polski S.A. Group for the fourth quarter of 2020 and year 2020 (in PLN million)

12. LOANS AND ADVANCES TO CUSTOMERS

LOANS AND ADVANCES TO CUSTOMERS 31.12.2020	not held for trading, measured at fair value through profit or loss	measured at amortized cost	Total
property loans	7	121 410	121 417
corporate loans	115	59 280	59 395
consumer loans	5 888	23 029	28 917
factoring receivables	-	1 629	1 629
finance lease receivables	-	16 751	16 751
Loans and advances to customers (excluding adjustments relating to fair value hedge accounting)	**6 010**	**222 099**	**228 109**
Fair value hedge accounting adjustment	3	-	3
Total	**6 013**	**222 099**	**228 112**

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LOANS AND ADVANCES TO CUSTOMERS 31.12.2019	not held for trading, measured at fair value through profit or loss	measured at amortized cost	Total
property loans	15	118 448	118 463
corporate loans	148	64 294	64 442
consumer loans	8 123	21 539	29 662
factoring receivables	-	1 311	1 311
finance lease receivables	-	16 324	16 324
Loans and advances to customers (excluding adjustments relating to fair value hedge accounting)	**8 286**	**221 916**	**230 202**
Fair value hedge accounting adjustment	4	-	4
Total	**8 290**	**221 916**	**230 206**

13. AMOUNTS DUE TO CUSTOMERS

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

AMOUNTS DUE TO CUSTOMERS at 31.12.2019	Amounts due to households	Amounts due to corporate entities	Amounts due to public entities	Total
Measured at fair value through profit or loss	**1 353**	**46**	-	**1 399**
Short position in securities	-	46	-	46
Liabilities in respect of insurance products	1 353	-	-	1 353
Measured at amortized cost	**193 769**	**49 648**	**11 354**	**254 771**
Cash on current accounts and overnight deposits, of which:	127 520	40 381	10 997	178 898
savings accounts and other interest bearing funds	45 177	16 799	-	61 976
Term deposits	65 535	8 435	331	74 301
Other liabilities	393	832	26	1 251
Liabilities in respect of insurance products	321	-	-	321
Total	**195 122**	**49 694**	**11 354**	**256 170**

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14. FINANCING RECEIVED

FINANCING RECEIVED	31.12.2020	31.12.2019
Loans and advances received from:	2 267	2 779
banks	875	750
international financial institutions	1 379	2 029
other financial institutions	13	-
Debt securities in issue:	32 098	31 148
mortgage covered bonds issued by PKO Bank Hipoteczny SA	17 201	16 198
bonds issued by PKO Bank Hipoteczny SA	4 036	3 947
bonds issued by PKO Bank Polski SA	4 020	4 769
bonds issued by PKO Finance AB	3 294	4 057
bonds issued by the PKO Leasing SA Group	3 496	2 132
bonds issued by Kredobank SA	51	45
Subordinated liabilities - subordinated bonds in PLN	2 716	2 730
Total	**37 081**	**36 657**

15. LITIGATIONS AGAINST THE BANK RELATING TO MORTGAGE LOANS IN CONVERTIBLE CURRENCIES

As at 31 December 2020, there were 5,372 court proceedings pending against the Bank (1,645 as at 31 December 2019) concerning mortgage loans granted in foreign currencies in prior years, with a total disputed amount of PLN 1,404 million (PLN 392 million as at 31 December 2019), including one class action covering 72 loan agreements. The Bank's customers' claims concerned mainly the determination of the invalidity of all or part of the agreement or payment in respect of the refund of allegedly undue benefits in connection with the abusive nature of the foreign currency clauses. None of the clauses used by the Bank in the agreements was entered in the register of prohibited contractual provisions. The number of legal claims submitted by customers against the Bank was significantly affected by an intense advertising campaign among law firms which encouraged borrowers to engage them, against a fee, in bringing a case to court against the Bank.

On 3 October 2019, the European Court of Justice (ECJ) issued its judgment in Case C 260/18 concerning a request for a preliminary ruling from the Sąd Okręgowy w Warszawie (Regional Court, Warsaw, Poland). The Bank was not a party to the proceedings before the ECJ. A detailed description of the potential impact of this judgment on the Bank's affairs is presented in the consolidated financial statements of the PKO Bank Polski S.A. Group for 2019.

By 31 December 2020, courts issued 75 valid judgments in cases against the Bank (including 33 judgments issued after 3 October 2019). Of these judgments, 48 judgments (including 10 issued after 3 October 2019) are favourable for the Bank. The Bank is filing cassation complaints to the Supreme Court concerning judgments which are unfavourable for the Bank.

Given the fact that: 1) no representative sample of the final court judgments exists to enable estimating the cost of the legal risk of mortgage loans in foreign currencies, and 2) there are a large number of complex legal issues arising from these cases, the Group is taking into account an expert judgment on the probable outcome of the future rulings of common courts. In the Group's opinion, the jurisprudence will evolve and will be materially affected by judgments of the ECJ relating to specific circumstances and judgments and resolutions of the Polish Supreme Court, which will take into account the various constructions of a loan agreement, the specific circumstances relating to granting a loan and fulfilment of the agreement, as well as the good practices and principles of social justice. The Group believes that jurisprudence of the common court will evolve towards socially acceptable principles which exclude the possibility of applying the law in such a way that puts borrowers who concluded loan agreements in Polish zloty in a position whereby they carry a far heavier burden than those borrowers who, at the same time, concluded loan agreements in foreign currencies.

Assuming a prudential approach to covering the legal risk of the court cases not yet resolved as at 31 December 2020, the Group retained a provision for these court cases of PLN 571 million (PLN -141 million as at 31 December 2019), of which PLN 497 million (PLN -141 million as at 31 December 2019) reduced the gross carrying amount of loans as an allowance for the legal risk of mortgage loans, and PLN 74 million was recognized as provisions.

The Group measured the legal risk relating to the entire portfolio of mortgage loans granted in foreign currencies and resulting from potential future court cases at PLN 690 million (PLN - 281 million as at 31 December 2019). Given the fact that these amounts relate to a new estimate of cash from the active portfolio of mortgage loans, based on the provision of IFRS 9.b.5.4.6, they reduced the gross balance of these loans.

In addition, as at 31 December 2020, the Group maintained a provision of PLN 136 million (PLN - 29 million as at 31 December 2019) for potential disputes relating to repaid mortgage loans.

At each reporting date, the Group estimates the legal risk relating to the entire portfolio of mortgage loans granted in foreign currencies using the statistical method of expected value which is the sum of the products of probabilities of specific outcomes of the court cases and the loss calculated for various scenarios of dispute resolutions, taking into account the predicted number of disputes over a 3-year horizon. In addition, the Group took into consideration in its calculations the impact of the customers' characteristics on the value of the expected loss.

The final costs of the legal risk of mortgage loans in foreign currencies affect the carrying amounts presented and may differ from the information disclosed as at the date of publication of this information due to a high degree of judgment that accompanies such estimates, the short time horizon of historical data and the significant uncertainty about the direction of development of legal solutions.

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

On 9 February 2021, the National Bank of Poland issued a statement on the possible involvement in the operation of currency conversion of mortgage loans in convertible currencies. The NBP Management Board welcomes the banks' initiatives aimed at limiting the legal risk of mortgage loans in convertible currencies through agreements with borrowers. The NBP Management Board is considering a possible involvement in the process of converting mortgage loans in convertible currencies into zlotys, on the terms and at market rates.

The Capital Group initially estimated the impact on equity of the conversion to PLN (on terms consistent with the proposal of the Chairman of the Polish Financial Supervision Authority) of the entire portfolio of mortgage loans denominated and indexed to foreign currencies. As at 31 December 2020, it would amount to approximately PLN 6.1-6.7 billion, including PLN 4.9-5.5 billion for the portfolio of active exposures, due to the excess of own funds over the applicable regulatory minimums in the amount of: 18.6 PLN billion in relation to the total capital adequacy ratio and PLN 20.5 billion in relation to the Tier 1 capital ratio. The impact was estimated using the average NBP rates as of 31 December 2020. The value of the above estimate depends on the value of foreign exchange rates and tax implications related to the number of borrowers who meet the conditions set out in the Ordinance of the Minister of Finance of 27 March 2020 on waiving the collection of income tax on certain income (revenues) related to a mortgage loan granted on housing purposes.

As at the date of preparing this information, the Group was analyzing the proposals of the Chair of PFSA from the legal, economic and operating perspectives. To this end, the Group has been entering into pilot settlements in accordance with the proposal of the Chair of PFSA. After the pilot programme has been completed, the Bank plans to convene an Extraordinary Shareholders' Meeting. Any further activities for resolving the Swiss franc loans by settlement will depend upon the decision taken by the Extraordinary Shareholders' Meeting.

On 29 January 2021, in view of the discrepancies in the interpretation of the law by the Supreme Court and common courts in jurisprudence, in order to ensure the uniformity of jurisprudence, the First President of the Supreme Court presented a request for the following legal questions concerning the subject of loans denominated in and indexed to foreign currencies to be resolved by the Civil Chamber of the Supreme Court deliberating in its full composition (acting pursuant to Article 83(1) of the Act on the Supreme Court of 8 December 2017):

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

If the answer to this question is negative:

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

Irrespective of the answers to questions 1-3:

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

A meeting of the full composition of the Civil Chamber for the consideration of the above-mentioned application is scheduled for 25 March 2021.

16. RISK MANAGEMENT

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

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

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

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

16.1. SPECIFIC RISK MANAGEMENT MEASURES ADOPTED BY THE GROUP IN 2020

The Group has been supporting its Customers during the COVID-19 pandemic.

In 2020, the Group offered dedicated solutions to help Customers maintain liquidity (by temporarily reducing their financial charges and offering facilities for prolonging or signing contracts). The scope of assistance was modified in line with and adapted to the pandemic situation, restrictions in conducting business activities and regulatory guidelines. Measures undertaken by PKO Bank Polski S.A. and its subsidiaries with registered offices in Poland are consistent with the guidelines of the European Banking Authority (EBA).

- The Bank, PKO Bank Hipoteczny S.A., PKO Leasing S.A. and Prime Car Management S.A. introduced facilities which offered, as a common feature, the possibility for borrowers and lessees to request the suspension or deferral of the repayment of instalments (principal, principal and interest or interest only, depending on the type of financing) for a period of up to six months;
- The Bank, as part of financing companies, enterprises and corporations, implemented simplified rules (including an automated or simplified decision-making) for prolonging, for up to six months, or renewing for another contractual period the selected credit products of a revolving nature, as well as internal customer limits and restructuring agreements. Prolongation and renewals were either initiated by the Bank (as an offer addressed to a Customer) or at a Customer's request;
- KREDOBANK S.A. applied credit relief programmes which consisted of suspending, at a Customer's request, a part or the whole of the instalments or principal instalments for a period of up to three months, and implemented fast-track decision-making for credit line renewals;
- The Group introduced the possibility to temporarily suspend the repayment of credit cards for retail customers and business credit cards for companies and enterprises (the Bank), to return vehicles early on preferencial terms as part of lease and subscription agreements (companies in the Prime Car Management S.A. Group), and introduced facilities for factoring payments (PKO Factoring S.A.).

The deadline for submitting applications for the repayment of loans from the Bank and PKO Bank Hipoteczny S.A. was 30 September 2020.

Towards the end of 2020, taking into account the impact of the second wave of the pandemic and the related restrictions, the Bank started preparing to resume the assistance tools, in particular those relating to supporting the groups of borrowers most affected by COVID-19.

In 2020, the Group's Customers were able to take advantage of statutory moratoria, including, in particular:

- starting from 24 June 2020, Customers of the Bank or PKO Bank Hipoteczny S.A. who lost their jobs or another main source of income after 13 March 2020, could, respectively, in the case of mortgage loans and consumer loans: suspend the agreement for up to three months; during the suspension period, the banks did not accrue interest or charge another fees relating to the execution of the agreement, other than insurance premiums;
- starting from 30 July 2020, the Bank's Customers who had preferential student loans under repayment could, without any additional charges, suspend repayment of the loan including interest, for up to six months, and simultaneously prolong the loan repayment period; interest due for the period of suspension was fully covered from the Student Loans Fund.

The Group's customers could also use support tools introduced as part of the Anti-crisis Shields also offered by Bank Gospodarstwa Krajowego (BGK) and Polski Fundusz Rozwoju S.A. (PFR):

- The Bank's customers (micro, small- and medium-sized enterprises) could take advantage of a guarantee securing the repayment of loans or advances under the de minimis portfolio guarantee line from BGK which has been offered at higher amounts and on more favourable terms in 2020 (since March). In addition, in December 2020, the Bank concluded an annex to the agreement with BGK which will allow Customers to use this form of collateral also for foreign currency loans in the first half of 2021. The total value of the guarantees in 2020 amounted to PLN 4.2 billion.

- The Bank's Customers were able to use BGK's Liquidity Guarantees Fund established to assist the medium and large enterprises affected by the impact of the pandemic. The Bank initiated changes aimed at developing more favourable terms and conditions of the guarantee (the possibility of also covering loans in foreign currencies with guarantees was introduced and the minimum amount of a single guarantee was abolished). The Bank concluded an agreement setting out the principles of cooperation in granting guarantees for the repayment of loans under syndicated financing. In December 2020, the Bank signed an annex to the agreement prolonging the possibility of using the guarantee instruments until 30 June 2021. The total value of guarantees granted to the Bank's Customers in 2020 amounted to PLN 2.1 billion (out of PLN 18 billion available).
- Until the end of July 2020, the Bank's Customers could receive through the Bank a subsidy from the Financial Shield PFR 1.0 addressed to micro, small- and medium-sized enterprises. In total, funds amounting to PLN 10.5 billion were channelled through the Bank to approximately 67 thousand enterprises employing 0.5 million employees. The Bank had the largest share in distributing this type of assistance.
- Since June 2020, entrepreneurs could apply for preferential interest rates on the liquidity-providing loan and for preferential loans under the PFR Financial Shield addressed to large firms. The total amount of both financial instruments was PLN 17.5 billion. The Bank is the only bank servicing such loans under the shield programme. The Bank's role includes, but is not limited to, maintaining accounts for disbursement of the funds granted under the programme, registering and monitoring the loans and their collateral, and operational handling;
- Entrepreneurs were able to apply to the Bank for subsidies for interest on working capital loans. The support is addressed to enterprises which, due to the economic situation caused by the COVID-19 pandemic, lost or are facing the risk of losing their financial liquidity. One entrepreneur may use the subsidy for only one working capital loan, either a new one or one that has already been drawn. BGK is covering part of the interest on a loan for up to 12 months. Entrepreneurs were able to apply for support until the end of 2020 or until the funds available to all banks cooperating with BGK, namely PLN 565 million, have been exhausted. In February 2021, the Bank signed an annex to the agreement with BGK extending the subsidy program until 30 June 2021;
- PKO Faktoring S.A. became one of the first factors in Poland to sign a portfolio guarantee line agreement with BGK. In accordance with the agreement, starting from September 2020, the Company has been offering its Customers the possibility of securing up to 80% of the factoring limit granted under recourse-factoring or reverse factoring. The maximum amount of the guarantee which PKO Factoring S.A. may grant under the guarantee line is PLN 200 million. By 31 December 2020, the total amount of the guarantees granted to the Company's Customers was PLN 135 million. The possibility of signing an agreement with a guarantee from BGK will be offered until 30 June 2021;
- Since October 2020, the existing Customers (small- and medium-sized enterprises) of PKO Leasing S.A. and the Bank may use reverse liquidity factoring with a Cosme-Covid guarantee granted by the European Investment Fund. The offer is addressed to owners of cars and vans of up to 3.5 tonnes (with a value of up to PLN 150 thousand) who have had an active lease agreement or business account with the Bank for at least six months. Through a leasing transaction, Customers can recover the funds spent to purchase a vehicle while still being able to use it. The lessor is financing the leased asset for up to 80% of its value as per the valuation. The offer is valid until 30 June 2021 or until the total amount of the guarantee (PLN 500 million) has been exhausted.
- In November 2020, PKO Leasing S.A. signed a cooperation agreement with a company belonging to Agencja Rozwoju Przemysłu S.A., ARP Leasing sp. z o.o. The agreement relates to the principles of refinancing by ARP Leasing sp. z o.o. of lease contracts for enterprises in the transportation and coach sector affected by the impact of the COVID-19 pandemic. Small and medium enterprises are able to take a grace period of up to 12 months in the repayment of liabilities resulting from lease contracts concluded. The agreement is for an unspecified period, and the first applications were considered in November 2020;
- Until the end of February 2021, the Bank's Customers are able to submit applications for subsidies under the Financial Shield PFR 2.0 through the online platforms iPKO and iPKO Business. The Financial Shield PFR 2.0 is dedicated to micro, small- and medium-sized enterprises from 45 sectors, which had to restrict their business activities due to the COVID-19 epidemiological situation. The financial support will amount to up to PLN 13 billion.

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

a) gross carrying amount of open and expired exposures

Breakdown of loans and advances covered by statutory and non-statutory moratoria according to the residual term of moratoria	31.12.2020								
	Number of obligors	Gross carrying amount							
			of which: legislative moratoria	Of which: expired	Residual maturity of moratoria				
					<= 3 months	> 3 months <= 6 months	> 6 months <= 9 months	> 9 months <= 12 months	> 1 year
Credits and loans on which moratoria have been proposed	**209 024**	34 491							
Loans and advances subject to moratoria in line w	**206 220**	33 876	42	30 729	3 022	62	3	15	45
retail and private		20 780	42	18 675	2 095	3	-	7	-
property		16 441	30	14 784	1 657	-	-	-	-
finance lease receivables		3	-	3	-	-	-	-	-
consumer		4 336	12	3 888	438	3	-	7	-
firms and enterprises		6 690	-	6 387	208	53	1	6	35
corporate		1 657	-	1 607	28	4	-	3	15
property		1 546	-	1 469	77	-	-	-	-
finance lease receivables		3 487	-	3 311	103	49	1	3	20
corporate		6 406	-	5 667	719	6	2	2	10
corporate		3 475	-	2 915	551	4	-	2	3
finance lease receivables		1 529	-	1 351	167	2	2	-	7
property		1 402	-	1 401	1	-	-	-	-

b) gross carrying amount of open exposures

Information on loans and advances subject to moratoria in line with EBA guidelines (legislative and non-legislative)	31.12.2020						
	Gross carrying amount						
		Performing			Non performing		
			of which: exposures with forbearance measures	stage 2		of which: exposures with forbearance measures	of which: unlikely to pay that are not past-due or past-due <= 90 days
Loans and advances subject to moratorium in line with EBA guidelines	3 147	2 878	31	1 597	269	3	253
retail and private	2 104	2 038	31	1 310	66	3	55
property	1 657	1 623	28	1 139	34	2	32
consumer	447	415	3	171	32	1	23
firms and enterprises	303	223	-	79	80	-	78
corporate	50	46	-	29	4	-	3
property	76	76	-	10	-	-	-
finance lease receivables	177	101	-	40	76	-	75
corporate	740	617	-	208	123	-	120
corporate	561	558	-	201	3	-	-
finance lease receivables	178	58	-	7	120	-	120
property	1	1	-	-	-	-	-

c) accumulated impairment of open exposures

Information on loans and advances subject to moratoria in line with EBA guidelines (legislative and non-legislative)	31.12.2020						
	Accumulated impairment, cumulative negative changes in fair value due to credit risk						
		Performing			Non performing		
			of which: exposures with forbearance measures	stage 2		of which: exposures with forbearance measures	of which: unlikely to pay that are not past-due or past-due <= 90 days
Loans and advances subject to moratorium	(149)	(79)	(3)	(71)	(70)	(1)	(61)
retail and private	(91)	(68)	(3)	(62)	(23)	(1)	(17)
property	(49)	(40)	(2)	(37)	(9)	(1)	(9)
consumer	(42)	(28)	(1)	(25)	(14)	-	(8)
firms and enterprises	(24)	(5)	-	(3)	(19)	-	(19)
corporate	(2)	(2)	-	(2)	-	-	-
property	(1)	(1)	-	-	-	-	-
finance lease receivables	(21)	(2)	-	(1)	(19)	-	(19)
corporate	(34)	(6)	-	(6)	(28)	-	(25)
corporate	(9)	(6)	-	(6)	(3)	-	-
finance lease receivables	(25)	-	-	-	(25)	-	(25)

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d) gross carrying amount and maximum eligible guarantee amount of the newly guaranteed loans

Information on newly originated loans and advances provided under newly applicable public guarantee schemes introduced in response to COVID-19 crisis	31.12.2020		
	Gross carrying amount		Maximum amount of the guarantee that can be considered
		of which: forborne	Public guarantees received in connection with COVID-19 crisis
New loans and advances granted under public guarantee schemes	3 699	23	133
firms and enterprises	2 761	12	133
corporate	2 478	12	-
finance lease receivables	283	-	133
corporate	938	11	-
corporate	938	11	-

The financial data presented in the table above is preliminary and estimated data. It may change and differ from the data which will be disclosed in the Annual Report for 2020. In particular, the estimates contained in this table may be significantly affected by events which may occur before the publication date of the Annual Report for 2020, including events relating to foreign currency mortgage loans to households.

The Group estimated the impact of the COVID-19 pandemic on the deterioration in the Group's loan portfolio and other financial assets at PLN 806 million, of which impact on allowances for expected credit losses amounted to PLN 758 million, and on gains/(losses) on financial transactions PLN 48 million.

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

The tables below present forecasts of the key macroeconomic parameters adopted as at 31 December 2020 and 31 December 2019, and the adopted probabilities of their realization.

scenario for 31.12.2020	base	optimistic	pessimistic
probability	75%	5%	20%
	average over the period 4Q2020-3Q2022	average over the period 4Q2020-3Q2022	average over the period 4Q2020-3Q2022
Dynamics GDP y/y	1,9	5,7	(1,9)
Unemployment rate	5,2	4,5	6,5
WIBOR 3M	0,4	2,1	(0,2)
Index of changes in real estate prices	100,6	102,9	97,3
CHF/PLN	4,0	3,8	4,4

The financial data presented in the table above is preliminary and estimated data. It may change and differ from the data which will be disclosed in the Annual Report for 2020. In particular, the estimates contained in this table may be significantly affected by events which may occur before the publication date of the Annual Report for 2020, including events relating to foreign currency mortgage loans to households.

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scenario for 31.12.2019	base	optimistic	pessimistic
probability	80%	10%	10%
	average over the period 4Q2019-3Q2021	average over the period 4Q2019-3Q2021	average over the period 4Q2019-3Q2021
Dynamics GDP y/y	3,9	5,7	2,1
Unemployment rate	3,3	2,5	4,5
WIBOR 3M	1,7	2,7	0,9
Index of changes in real estate prices	112,1	120,7	91,5
CHF/PLN	4,0	3,7	4,2

16.2. LEGAL RISK OF MORTGAGE LOANS IN CONVERTIBLE CURRENCIES

The Group pays particular attention to the analyzis of its portfolio of foreign currency mortgage loans for individuals. The Group monitors the quality of the portfolio on an ongoing basis and analyzes the risk of deterioration in the quality of the portfolio.

PROPERTY LOANS AND ADVANCES TO INDIVIDUALS (RETAIL AND PRIVATE BANKING) BY CURRENCY	31.12.2020			31.12.2019		
	gross	impairment allowance	net	gross	impairment allowance	net
in local currencies	**94 087**	**(1 207)**	**92 880**	**89 924**	**(1 055)**	**88 869**
PLN	93 827	(1 188)	92 639	89 715	(1 034)	88 681
UAH	260	(19)	241	209	(21)	188
in foreign currencies	**23 516**	**(946)**	**22 570**	**24 294**	**(751)**	**23 543**
CHF	20 685	(874)	19 811	21 410	(692)	20 718
EUR	2 787	(68)	2 719	2 825	(53)	2 772
USD	36	(4)	32	50	(6)	44
OTHER	8	-	8	9	-	9
TOTAL	**117 603**	**(2 153)**	**115 450**	**114 218**	**(1 806)**	**112 412**

PROPERTY LOANS AND ADVANCES TO INDIVIDUALS IN FOREIGN CURRENCIES BY GRANTING DATE 31.12.2020		INDEXED	DENOMINATED	Total
up to 2002	Gross amount	-	76	**76**
	Allowances for credit losses	-	(2)	**(2)**
	Net amount	-	74	**74**
	Number of loans granted [number of items]	-	5 444	**5 444**
from 2003 to 2006	Gross amount	-	4 626	**4 626**
	Allowances for credit losses	-	(130)	**(130)**
	Net amount	-	4 496	**4 496**
	Number of loans granted [number of items]	-	42 445	**42 445**
from 2007 to 2009	Gross amount	-	12 436	**12 436**
	Allowances for credit losses	-	(688)	**(688)**
	Net amount	-	11 748	**11 748**
	Number of loans granted [number of items]	-	51 166	**51 166**
from 2010 to 2012	Gross amount	3 321	3 039	**6 360**
	Allowances for credit losses	(51)	(74)	**(125)**
	Net amount	3 270	2 965	**6 235**
	Number of loans granted [number of items]	10 648	11 903	**22 551**
from 2013 to 2016	Gross amount	5	14	**19**
	Allowances for credit losses	-	(2)	**(2)**
	Net amount	5	12	**17**
	Number of loans granted [number of items]	18	43	**61**
Total	**Gross amount**	**3 326**	**20 191**	**23 517**
	Allowances for credit losses	**(51)**	**(896)**	**(947)**
	Net amount	**3 275**	**19 295**	**22 570**
	Number of loans granted [number of items]	**10 666**	**111 001**	**121 667**

The financial data presented in the tables above is preliminary and estimated data. It may change and differ from the data which will be disclosed in the Annual Report for 2020. In particular, the estimates contained in these tables may be significantly affected by events which may occur before the publication date of the Annual Report for 2020, including events relating to foreign currency mortgage loans to households.

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

IMPACT OF LEGAL RISK CONCERNING MORTGAGE LOANS IN CONVERTIBLE CURRENCIES	31.12.2020	31.12.2019
Loans and advances to customers - adjustment reducing the carrying amount of loans due to:	**1 187**	**422**
- potential future court cases	690	281
- pending proceedings	497	141
Provisions due to:	**210**	**29**
- potential future court cases	136	29
- pending proceedings	74	-
TOTAL	**1 397**	**451**

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16.3. INTEREST RATE RISK MANAGEMENT

BANKING PORTFOLIO

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

NAME OF SENSITIVITY MEASURE	31.12.2020	31.12.2019
Sensitivity of interest income (PLN million)	(617)	(907)

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

The table below presents the sensitivity measure of the economic value of the Group's banking portfolio in all currencies as at 31 December 2020 and 31 December 2019:

NAME OF SENSITIVITY MEASURE	31.12.2020	31.12.2019
Sensitivity of economic value (PLN million)	(451)	(266)

TRADING PORTFOLIO

In order to monitor interest rate risk in the trading portfolio, the Bank uses value-at-risk (VaR). IR VaR in the Bank's trading portfolio is presented in the table below:

NAME OF SENSITIVITY MEASURE	31.12.2020	31.12.2019
IR VaR for a 10-day time horizon at the confidence level of 99% (in PLN million):		
Average value	11	5
Maximum value	20	10
As at the end of the period	13	6

16.4. CURRENCY RISK MANAGEMENT

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

SENSITIVITY MEASURE	31.12.2020	31.12.2019
VaR for a 10-day time horizon at the confidence level of 99% (in PLN million)[1]	17	9

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

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

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

FOREIGN CURRENCY POSITION	31.12.2020	31.12.2019
EUR	(132)	(152)
CHF	(383)	(238)
Other (Global, Net)	(21)	7

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16.5. LIQUIDITY RISK MANAGEMENT

	on demand	0-1 month	1-3 months	3-6 months	6-12 months	12-24 months	24-60 months	over 60 months
31.12.2020								
The Group - adjusted periodic gap in real terms	9 760	63 736	(5 733)	(5 041)	(2 873)	4 134	20 103	(84 085)
The Group - adjusted cumulative periodic gap in real terms	9 760	73 495	67 762	62 721	59 849	63 983	84 085	
31.12.2019								
The Group - adjusted periodic gap in real terms	11 355	30 783	(8 092)	(7 285)	(3 317)	5 024	18 205	(46 673)
The Group - adjusted cumulative periodic gap in real terms	11 355	42 138	34 046	26 761	23 444	28 468	46 673	

of the PKO Bank Polski S.A. Group for the fourth quarter of 2020 and year 2020 (in PLN million)

NADZORCZE MIARY PŁYNNOŚCI	31.12.2020	31.12.2019
M3 - współczynnik pokrycia aktywów niepłynnych funduszami własnymi	14,02	14,92
M4 - współczynnik pokrycia aktywów niepłynnych i aktywów o ograniczonej płynności funduszami własnymi i środkami obcymi stabilnymi	1,41	1,25
NSFR - wskaźnik pokrycia stabilnego finansowania	133,8%	123,1%
LCR - wskaźnik pokrycia płynności	227,7%	146,3%

17. CAPITAL ADEQUACY

	31.12.2020	31.12.2019 published	31.12.2019 restated
Total equity	**45 301**	**41 578**	**41 578**
share capital, supplementary capital, other reserves, general banking risk fund	34 976	34 986	34 986
retained earnings	6 142	2 101	2 101
net profit for the period	2 645	4 031	4 031
accumulated other comprehensive income and non-controlling interests	1 538	460	460
Total equity exclusions	**2 914**	**4 015**	**4 015**
adjustments for prudential consolidation	(279)	(267)	(267)
net profit for the period	2 651	4 050	4 050
cash flow hedges	542	232	232
Other funds adjustments	**2 671**	**2 914**	**2 909**
goodwill	961	1 109	1 109
other intangible assets	1 264	1 711	1 711
securitization positions	67	-	-
additional asset adjustments (AVA, DVA)	379	94	89
Temporary reverse impact of IFRS 9	**1 085**	**1 030**	**926**
Net profit for the period	**1 019**	**1 038**	**4 050**
		-	-
Tier 1 capital	**41 820**	**36 717**	**39 630**
Tier 2 capital (subordinated debt)	**2 700**	**2 700**	**2 700**
Own Funds	**44 520**	**39 417**	**42 330**
Requirements as regards own funds	**17 628**	**17 120**	**17 034**
Credit risk	15 604	15 835	15 749
Operational risk[1]	1 629	843	843
Market risk	367	419	419
Credit valuation adjustment risk	28	23	23
Total capital adequacy ratio	**20,20%**	**18,42%**	**19,88%**
Tier 1 capital ratio	**18,98%**	**17,16%**	**18,61%**

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In accordance with Article 26(2) of the CRR, institutions may include interim or year-end profits in Common Equity Tier 1 capital before the institution has taken a formal decision confirming the final profit or loss of the institution for the year with at prior permission of the competent authority.

of the PKO Bank Polski S.A. Group for the fourth quarter of 2020 and year 2020 (in PLN million)

In May 2020, the European Banking Authority (EBA) published, as part of the single rulebook Q&A, its position on the timing of recognition of annual and interim profits in the capital adequacy data (Q&A 2018_3822 and Q&A 2018_4085). In accordance with that position, starting from the moment when the Group has formally complied with the criteria which allow for including the profit for a given period to Tier 1 capital, it is assumed that the profit should have been recognized retrospectively (the date of the profit rather than the date of complying with the criterion), and equity should be adjusted as at the date to which the profit relates. Consequently, the "restated data" column presents own funds, capital requirements and capital ratios taking into account the appropriation of the profit for 2019 by the Bank's Ordinary General Shareholders' Meeting.

The Bank calculates the leverage ratio as one of its capital adequacy measures.

	Leverage ratio exposures specified in CRR		
	31.12.2020	31.12.2019	31.12.2019
Total capital and exposure measure		published	restated
Tier 1 capital	41 820	36 717	39 631
Total exposure measure for leverage ratio calculation	399 983	364 618	363 733
Leverage ratio			
Leverage ratio	10,46%	10,07%	10,90%

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Warsaw, 17 February 2021