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Bank Polski

REPORT OF
THE PKO BANK POLSKI S.A. GROUP
FOR THE FIRST QUARTER OF 2023

SELECTED CONSOLIDATED FINANCIAL DATA

SELECTED FINANCIAL DATA	PLN million 01.01-31.03.2023	01.01-31.03.2022	Change % (A-B)/B	EUR million 01.01-31.03.2023	01.01-31.03.2022	Change % (D-E)/E
	A	B	C	D	E	F
Net interest income	4 187	3 092	35.4%	891	665	34.0%
Net fee and commission income	1 103	1 083	1.8%	235	233	0.9%
Net expected credit losses and net impairment allowances on non-financial assets	(339)	(504)	(32.7%)	(72)	(108)	(33.3%)
Administrative expenses	(1 985)	(1 828)	8.6%	(422)	(393)	7.4%
Profit before tax	1 965	1 879	4.6%	418	404	3.5%
Net profit (including non-controlling shareholders)	1 453	1 425	2.0%	309	307	0.7%
Net profit attributable to the parent company	1 454	1 426	2.0%	309	307	0.7%
Earnings per share for the period - basic (in PLN/EUR)	1,16	1,14	1.8%	0,25	0,25	-
Earnings per share for the period - diluted (in PLN/EUR)	1,16	1,14	1.8%	0,25	0,25	-
Net comprehensive income	3 536	(1 952)	(281.2%)	752	(420)	(279.1%)
Total net cash flows	(4 036)	(2 422)	66.6%	(859)	(521)	64.9%

SELECTED FINANCIAL DATA	PLN million 31.03.2023	31.12.2022	Change % (A-B)/B	EUR million 31.03.2023	31.12.2022	Change % (D-E)/E
	A	B	C	D	E	F
Total assets	443 982	431 447	2.9%	94 959	91 995	3.2%
Total equity	39 243	35 707	9.9%	8 393	7 614	10.2%
Share capital	1 250	1 250	-	267	267	-
Number of shares (in million)	1 250	1 250	-	1 250	1 250	-
Book value per share (in PLN/EUR)	31,39	28,57	9.9%	6,71	6,09	10.2%
Diluted number of shares (in million)	1 250	1 250	-	1 250	1 250	-
Diluted book value per share (in PLN/EUR)	31,39	28,57	9.9%	6,71	6,09	10.2%
Total Capital Ratio (%)	18,58	17,79	4.5%	18,58	17,79	4.5%
Tier 1	37 327	38 255	(2.4%)	7 984	8 157	(2.1%)
Tier 2	2 486	2 584	(3.8%)	532	551	(3.5%)

SELECTED SEPARATE FINANCIAL DATA

SELECTED FINANCIAL DATA	PLN million			EUR million		
	01.01-31.03.2023	01.01-31.03.2022	Change % (A-B)/B	01.01-31.03.2023	01.01-31.03.2022	Change % (D-E)/E
	A	B	C	D	E	F
Net interest income	3 920	2 878	36.2%	834	619	34.7%
Net fee and commission income	931	931	-	198	200	(1.0%)
Net expected credit losses and net impairment allowances on non-financial assets	(274)	(288)	(4.9%)	(58)	(62)	(6.5%)
Administrative expenses	(1 742)	(1 600)	8.9%	(371)	(344)	7.9%
Profit before tax	1 667	1 698	(1.8%)	355	365	(2.7%)
Net profit	1 256	1 312	(4.3%)	267	282	(5.3%)
Earnings per share for the period - basic (in PLN/EUR)	1.00	1.05	(4.8%)	0.21	0.23	(8.7%)
Earnings per share for the period - diluted (in PLN/EUR)	1.00	1.05	(4.8%)	0.21	0.23	(8.7%)
Net comprehensive income	3 193	(1 869)	(270.8%)	679	(402)	(268.9%)
Total net cash flows	(3 656)	(1 604)	127.9%	(778)	(345)	125.5%

SELECTED FINANCIAL DATA	PLN million			EUR million		
	31.03.2023	31.12.2022	Change % (A-B)/B	31.03.2023	31.12.2022	Change % (D-E)/E
	A	B	C	D	E	F
Total assets	419 436	405 168	3.5%	89 709	86 392	3.8%
Total equity	37 277	34 084	9.4%	7 973	7 268	9.7%
Share capital	1 250	1 250	-	267	267	-
Number of shares (in million)	1 250	1 250	-	1 250	1 250	-
Book value per share (in PLN/EUR)	29,82	27,27	(9.4%)	6,38	5,81	9.8%
Diluted number of shares (in million)	1 250	1 250	-	1 250	1 250	-
Diluted book value per share (in PLN/EUR)	29,82	27,27	(9.4%)	6,38	5,81	9.8%
Total Capital Ratio (%)	20,04	18,86	6.2%	20,04	18,86	6.2%
Tier 1	33 765	34 810	(3.0%)	7 222	7 422	(2.7%)
Tier 2	2 486	2 584	(3.8%)	532	551	(3.5%)

SELECTED FINANCIAL STATEMENT ITEMS HAVE BEEN TRANSLATED INTO EUR AT THE FOLLOWING RATES	01.01-31.03.2023	01.01-31.03.2022
arithmetic mean of the NBP exchange rates at the end of a month (income statement, statement of comprehensive income and cash flow statement items)	4,7005	4,6472
	31.03.2023	31.12.2022
NBP mid exchange rates at the date indicated (statement of financial position items)	4,6755	4,6899

Bank Polski

Directors' Commentary to the financial results of the PKO Bank Polski S.A. Group for the three-month period ended 31 March 2023

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The Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna Group (PKO Bank Polski S.A. Group or the Bank's Group or Group) is one of the largest groups of financial institutions in Poland and in Central and Eastern Europe.

Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna (PKO Bank Polski S.A. or Bank), the parent company of the Group, is the largest commercial bank in Poland and the leading bank on its home market in terms of the scale of operations, equity, loans, savings, number of customers and size of the distribution network.

I. SUMMARY OF OPERATIONS IN THE FIRST QUARTER OF 2023

A. MAJOR EVENTS, INCLUDING NON-TYPICAL EVENTS

1. PKO BANK POLSKI S.A.'S STABLE LIQUIDITY AND CAPITAL POSITION

PKO Bank Polski S.A analyses market information on an ongoing basis, including recent developments in the US and European banking sectors. It monitors the situation of high-risk counterparties and analyses the risks that financial problems are passed on to the Bank.

Analysis of the Bank's liquidity position shows that it has a safe level of liquid assets, while maintaining a stable, dispersed deposit base, mainly from retail customers, which is characterised by moderate concentration of entities and is largely covered by guarantees from the Bank Guarantee Fund. Consequently, the Bank maintains both supervisory and internal measures of liquidity risk at safe levels (significantly above internal and supervisory limits for liquidity risk). At the same time, the Bank, in accordance with supervisory requirements, has a broad range of remedial actions defined that can be triggered in the event of emergencies.

In light of the bankruptcies and problems of US and European banks, the Bank has not identified any negative impact on its capital position. The Bank is characterised by a strong capital position, the Bank's capital adequacy level remains safe, significantly above supervisory and regulatory limits, and the Bank's capital position is monitored on an ongoing basis with potential events that could lead to its deterioration being identified.

2. MORTGAGE LOANS IN FOREIGN CURRENCIES

Settlement programme

In the first quarter of 2023, PKO Bank Polski S.A. continued offering settlements to its retail customers who had active loans in Swiss Francs (CHF), which were intended for satisfying their own housing needs. The settlement involves converting CHF loans into PLN loans as if it had been a PLN loan from the start subject to interest rate at the WIBOR reference rate increased by the margin historically applied to such loans. The settlements are offered during mediation proceedings conducted by the Mediation Centre of the Polish Financial Supervision Authority. The Bank also offers settlements on a large scale for loans subject to litigation.

In February 2023, the Advocate General of the Court of Justice of the European Union (CJEU) published an opinion concerning the possibility for consumers and banks to claim beyond the consideration provided under a loan agreement that has been declared invalid by the Court[1]. As regards claims by banks, the Advocate General found that provisions of Directive 93/13 preclude the banks from bringing such claims against consumers. The Advocate General's opinion is not beneficial to banks, but the CJEU is not bound by this opinion.

Following the above opinion, the Bank has not observed a change in customer behaviour – new applications continue to be received, and new settlements are signed. The Bank encourages all customers to engage in discussions about their loans. The mediation formula is free of charge. The customer can come to an agreement with the Bank or terminate the mediation proceedings completely without consequences without reaching an understanding. The dynamics of the settlements indicate that the Bank's proposals are attractive enough to make a significant proportion of customers decide to conclude a settlement.

In order to mitigate the interest rate risk borne by the customer, since the implementation of the programme the Bank has offered borrowers the possibility to choose a fixed rate option for 5 years. If the period of loan repayment remaining after concluding the settlement is shorter than 5 years, the fixed interest rate will apply until the end of the term of the agreement. Fixed-rate loans are more and more popular – this option was selected in the settlement process in the first quarter of 2023 alone by 87% of customers who continue to repay the loan after signing the settlement. and a total of 77% of customers who continue to repay the loan since the beginning of offering settlements.

[1] The opinion was issued in the context of proceedings related to a question from the District Court for Warsaw-Śródmieście – case C-520/21.

By the end of the first quarter of 2023, 48.1 thousand mediation applications were registered, 28 564 mediations concluded with a positive outcome, 10 005 mediations concluded with a negative outcome. The total number of settlements concluded as at 31 March 2023 was 27 405, of which 26 585 were concluded in mediation proceedings and 820 in court proceedings.

Increased cost of legal risk

In the first quarter of 2023, PKO Bank Polski S.A. increased the cost of legal risk associated with mortgage loans denominated in and indexed to CHF by PLN 967 million. The decision was prompted by an update in the parameters of the legal risk assessment model for these loans.

3. Anniversary of the IKO mobile app

PKO Bank Polski S.A. has been developing the IKO mobile app for 10 years. The app currently has more than 100 features and offers a wide range of services, including non-banking ones.

At the end of March 2023, the number of active IKO apps exceeded 7.4 million. Since its launch, users have logged in to the application more than 6.9 billion times and made about 2 billion transactions for a total amount of more than PLN 526 billion. On average, IKO sees 7 online mobile payments every second, 326 transfers every minute, 237 thousand logins every hour and 22.5 million screen touches every day.

In 2023, the IKO app won, for the second consecutive year, the top prize in internet voting at the Mobile Trends Awards. To mark the anniversary, the Bank organised a competition for customers.

4. Offering for farmers and agriculture

PKO Bank Polski S.A has updated its offering for the individual farmer running a farm. The changes included:

- with regard to the deposit offering – waiving the fee for: account maintenance, debit card use and cash deposits in PLN made at branches and agencies to the agricultural account,
- with regard to the loan offering – increasing the collateral-free limit to PLN 300 thousand for a farmer loan and an overdraft facility; in addition, an individual farmer who carries out agricultural production characterised by long production cycles may benefit from a six-month grace period for repayment or semi-annual principal repayments.

Farmers sourcing products distributed by Agrochem Puławy sp. z o.o. can benefit from an SME loan (loan for farmers) and an overdraft facility on special terms.

The Bank has also introduced a facility for customers who conduct their official business with the Agency for the Restructuring and Modernisation of Agriculture (ARiMR) – the possibility to navigate to the ARiMR Electronic Services Platform directly from the iPKO website.

On 31 March 2023, PKO Bank Polski S.A entered into an agreement with Bank Gospodarstwa Krajowego (BGK) for a portfolio guarantee line of the Agricultural Guarantee Fund. Under the agreement, the Bank will be able to provide Small and Medium Enterprises (SMEs) – farmers and processors – with repayment guarantees for overdrafts, the SME loan and the investment loan of up to 80% of their value. In addition, with the guarantee, entities can access subsidised interest rates on working capital facilities (i.e. overdrafts and SME loans) of 5% per annum[2]. This support is offered until the end of 2023.

The PKO Leasing S.A. Group also offers financing for agricultural machinery and equipment. In addition, a new tool has been made available for agro sector loans in 2022, in which an offering to the customer is prepared and the loan process is carried out in a simple manner.

5. PKO Pay later

Since the end of November 2022, the Bank has been offering a new deferred payment service, "PKO Pay later". Customers can shop within their limit and pay it off within 30 days – interest-free.

In the first quarter of 2023, the service was gradually made available to further customer groups. As part of the promotion for the new service, customers who activated or made at least one transaction received discount codes for purchases at CCC and HalfPrice outlets. At the end of March 2023, 42.7 thousand customers made use of the service, and the total amount of limits granted was over PLN 34.6 million.

[2] Whereby, if the annual interest rate on the working capital facility is lower, the amount of the subsidy is equal to the interest charged by the Bank.

As of mid-April 2023, the service is already offered to all creditworthy customers. It only needs to be activated on the iPKO website, the IKO mobile app, during a conversation with a consultant on the helpline or at any Bank branch.

6. PKO Moto motor insurance

In March 2023, the Bank, in cooperation with PKO Towarzystwo Ubezpieczeń S.A., introduced PKO Moto motor insurance, which includes: compulsory third-party liability, accident and theft insurance, Auto Assistance, personal accident insurance and Green Card. As additional insurances, customers can choose accident and theft insurance in three options, where the highest option offers, along with all-risk coverage, a guarantee that the vehicle will be repaired using original parts. As part of the service (with the exception of Auto Assistance), customers can use the "Tracking Module" functionality, which allows them to monitor the status of the claim during the settlement process, upload documents and communicate with the claims handler via chat (without the need for text messages or emails).

7. Support for borrowers

Credit holidays

The Bank's Group continues to provide the so-called statutory credit holidays, i.e. it allows the suspension of repayment of mortgage loans or advances used to meet one's own housing needs, if the agreement was concluded in PLN before 1 July 2022 and the term of the loan ends after 31 December 2022 - one agreement per customer.

The Act of 7 July 2022 on the crowdfunding of business ventures and on assistance for borrowers enables the suspension of loans for one month per quarter in 2023.

The option to suspend repayment can also be used by customers who have reached settlements for loans in Swiss francs and the current currency of the loan is the zloty.

Customers of PKO Bank Polski S.A. and PKO Bank Hipoteczny S.A. can apply through the iPKO website, the Bank's branches or by mail.

By the end of March 2023, 292.6 thousand customers of PKO Bank Polski S.A. and PKO Bank Hipoteczny S.A. applied for a suspension of their mortgage loan or advance repayment, and the total number of suspensions applied for was 1 999 thousand, representing 46% of the maximum number of instalments to be suspended for all eligible customers.

The Bank's Group has assessed the adequacy of the level of credit holiday loss recognised in the financial result for 2022. The results of the above analysis confirmed that the loss recognised in the amount of PLN 3 111 million is at a sufficient level. The Group will continue to monitor the sufficiency of the loss.

Housing loans

Since September 2022, PKO Bank Polski S.A. has been offering a housing loan with family repayment granted under the terms of the "Housing without own contribution" program, which allows financing of up to 100% of expenses related to the acquisition or construction of a property. Individuals who are creditworthy but do not have sufficient savings for own contribution can apply for the loan. A part of the amount financed is guaranteed by BGK.

8. Deposit offering of the Bank[3]

PKO Bank Polski S.A., operating in an environment of persistently high inflation and high interest rates, maintained the attractiveness of its deposit offering – it has introduced new products and changed the terms and conditions of existing products.

In the first quarter of 2023, the Bank for individual customers (natural persons) in particular:

- introduced new products:
  - ✓ Deposit for Personal Banking customers and Private Banking customers, which allows funds to be deposited for 3 months with an interest rate of 4.5% and 5% respectively at the end of March,
  - ✓ PKO TFI Investor Deposit for Private Banking customers who invest in funds managed by PKO Towarzystwo Funduszy Inwestycyjnych S.A. (PKO TFI S.A.) – It is a 3-month deposit with an interest rate of 6.5%, non-renewable, opened up to the maximum amount of funds accumulated by the customer in open-ended investment funds and in an account for Employee Capital Plans (ECPs)/Employee Pension Schemes (EPSs),
  - ✓ Term deposit with an 18-month contractual term – customers can earn 4.5%,

[3] The interest rates listed are per annum.

  - ✓ Deposit for customers on active service in the Armed Forces of the Republic of Poland, Police, Border Guard, Customs Service, State Fire Service, Military Fire Protection – offered for a period of 3 months with an interest rate of 4.5%; the deposit is non-renewable,
  - ✓ A 25-month non-renewable structured term deposit based on a basket of shares of sustainable companies II – the companies selected have high sustainability (ESG) ratings; interest for the customer depends on the change in the companies' share prices during the term of the deposit,
  - ✓ 25-month, non-renewable structured deposits based, among other things, on baskets of shares: American, German or Asian companies,
- shortened the period for which it offers the 60+ deposit aimed at customers aged 60 and over – from 24 to 12 months.

In the first quarter of 2023, the Bank launched three editions (January, February and March) of the New Funds promotion for the Plus Savings Account with an interest rate of 5.5% and extended the increased interest rate to 2% for savings accounts until the end of June (the increased interest rate applies to all funds accumulated in the savings account). For new funds in the Plus Savings Account, the total interest rate was 7.5%. In addition, the Bank has extended the promotion on the First Savings Account (an account for people up to the age of 18) until the end of June with an interest rate of up to 8% for systematic saving.

The average interest rate on new term deposits in PLN (for individuals and businesses) in the first quarter of 2023 was 5.8%. The average interest rate on all term deposits in PLN placed with PKO Bank Polski S.A was 4.9% in the first quarter of 2023, compared to 4.4% in the fourth quarter of 2022 and 0.82% in the first quarter of 2022.

9. Issue of Eurobonds to cover the minimum level of own funds and eligible liabilities (MREL) requirement

On 1 February 2023, PKO Bank Polski S.A, as part of its inaugural MREL issue allowing it to cover the senior portion of the requirement (being the difference between the MREL requirements denominated on a consolidated basis and the MREL on a stand-alone basis), issued 3-year Senior Preferred Notes with a total value of EUR 750 million, with the possibility of early redemption two years after the issue. The coupon of the issue is fixed, at 5.625%, payable annually until the early redemption date, and variable thereafter, with quarterly payments. The issue is part of the Euro Medium Term Notes Programme (EMTN Programme)[4]. The rating agency Moody's Investors Service has assigned a rating of A3 to the issued bonds. The bonds were admitted to trading on a regulated market on the Luxembourg Stock Exchange (in February 2023) and on the Warsaw Stock Exchange (in April 2023).

10. Conclusion of the first transaction based on the WIRON interest rate index

In January 2023, PKO Bank Polski S.A. and ING Bank Śląski S.A. executed the first transaction in the Polish financial market for which the WIRON interest rate index has been applied. The financial instrument being traded was an interest-rate derivative contract – Overnight Index Swap (OIS).

With the transaction, the banks have tested the operational and technological ability for applying WIRON in financial instruments.

11. Support for Ukraine and the situation of Ukrainian companies from the Bank's Group

PKO Bank Polski S.A continued to support aid campaigns and offered a package of financial services to Ukrainian citizens, particularly refugees. The Bank monitored developments in international sanctions imposed in particular on Russia and Belarus on an ongoing basis and took appropriate measures. Companies that are members of the PKO Bank Polski S.A. Group operate in Ukraine.

Humanitarian aid

The Bank's Group continued its efforts to support Ukrainian citizens, coordinated by the PKO Bank Polski Foundation.

In the first quarter of 2023, the PKO Bank Polski Foundation donated a total of nearly PLN 1.5 million, including:

- more than PLN 1 million to continue providing accommodation and food in Poland for refugees from Russian-occupied areas,
- around PLN 0.4 million to support five NGOs and entities carrying out aid activities.

[4] EMTN Programme – PKO Bank Polski S.A's Eurobond issue programme established in August 2022.

Activities of Ukrainian companies

PKO Bank Polski S.A. Group companies, including KREDOBANK S.A. with its registered office in Lviv, and debt collection and financial companies with their registered offices in Kyiv and Lviv, continue to operate in Ukraine.

KREDOBANK S.A. is a universal bank which services customers mainly in the western part of Ukraine and in Kyiv. As at the end of March 2023, the Company's head office was in Lviv, there were 67 branches, 13 of which are located in regions most affected by warfare.

KREDOBANK S.A.'s priority is to ensure the safety of its employees and maintain uninterrupted operations servicing customers on an on-going basis. In December 2022, 32 branches of KREDOBANK S.A. became part of POWER BANKING, that is, a joint banking network established at the initiative of the National Bank of Ukraine, with the aim of providing customers with a specific list of urgent banking services, also in the event of a power outage.

The management monitors the Company's operations on a daily basis and ensures quick reaction to incidents and changes in the situation. The Company's Management Board estimates potential losses at a level which has no impact on KREDOBANK S.A.'s ability to continue its operations.

Based on guarantees received from the European Bank for Reconstruction and Development and European Commission funds deposited with the BGK (guaranteeing coverage of potential losses), KREDOBANK S.A. expanded lending in the first quarter of 2023. In February 2023, KREDOBANK S.A. signed a cooperation agreement with BGK, which covers the endorsement and discounting of letters of credit issued by the company and their post-financing within the established limit. The above transactions are available to importers who are customers of KREDOBANK S.A. and will be accepted by BGK on a case-by-case basis.

The financial and organizational situation of the other Ukrainian companies in the Group was stable at the end of March 2023.

B. Changes in the Management Board and Supervisory Board of PKO Bank Polski S.A.

Changes in the composition of the Bank's Management Board

Changes in the first quarter of 2023

Mr Andrzej Kopyrski joined the Bank's Management Board on 1 January 2023, pursuant to a decision of the Bank's Supervisory Board of 15 December 2022.

The composition of the Bank's Management Board as at 31 March 2023 was as follows:

1) Paweł Gruza - Vice-President of the Management Board managing the work of the Management Board and supervising the Management Board President area,
2) Maciej Brzozowski – Vice-President of the Management Board in charge of the Strategic Client and Investment Banking Area,
3) Marcin Eckert – Vice-President of the Management Board in charge of the Finance and Accounting Area,
4) Wojciech Iwanicki – Vice-President of the Management Board in charge of the Administration Area,
5) Andrzej Kopyrski – Vice-President of the Management Board in charge of the Business and Enterprise Banking and Corporate Client Area,
6) Maks Kraczkowski – Vice-President of the Management Board in charge of the Retail Market Area and International Banking,
7) Mieczysław Król – Vice-President of the Management Board in charge of the Operations Area,
8) Artur Kurcweil – Vice-President of the Management Board in charge of the Technology Area,
9) Piotr Mazur – Vice-President of the Management Board in charge of the Risk Management Area.

Subsequent events

Mr Paweł Gruza resigned, effective at the end of 12 April 2023, from managing of the Bank's Management Board works and from applying for the position of President of the Bank's Management Board. The resignation tendered does not imply the resignation of Mr Paweł Gruza from the Bank's Management Board or from his position as Vice-President of the Bank's Management Board.

Mr Mieczysław Król resigned as a member of the Bank's Management Board with effect from 13 April 2023.

The Supervisory Board of the Bank:

- dismissed Mr Maks Kraczkowski from the Bank's Management Board with effect from 13 April 2023,
- appointed Mr Dariusz Szwed as Vice-President of the Bank's Management Board, effective 14 April 2023, for the current joint term of office of the Bank's Management Board, which commenced on 3 July 2020, and at the same time appointed Mr Dariusz Szwed as President of the Bank's Management Board, subject to the approval of the Polish Financial Supervision Authority and as of the date of such approval,
- approved amendments to the internal division of responsibilities on the Bank's Management Board, which came into effect on 14 April 2023.

As at 14 April 2023, the internal division of responsibilities within the Bank's Management Board was as follows:

1) Dariusz Szwed – Vice-President of the Management Board managing the work of the Management Board and supervising the Management Board President area,
2) Maciej Brzozowski – Vice-President of the Management Board in charge of the Retail Banking Area,
3) Marcin Eckert – Vice-President of the Management Board in charge of the Finance and Accounting Area,
4) Paweł Gruza – Vice-President of the Management Board in charge of the Operations and International Banking Area,
5) Wojciech Iwanicki – Vice-President of the Management Board in charge of the Administration Area,
6) Andrzej Kopyrski – Vice-President of the Management Board in charge of the Business and Enterprise Banking and Corporate Banking Area,
7) Artur Kurcweil – Vice-President of the Management Board in charge of the Technology Area,
8) Piotr Mazur – Vice-President of the Management Board in charge of the Risk Management Area.

Following changes in the composition of the Bank's Management Board and changes in the division of responsibilities, the Appointments and Remuneration Committee of the Bank's Supervisory Board carried out an assessment, as a result of which it confirmed:

- the individual suitability of the new member of the Bank's Management Board, Mr Dariusz Szwed, and of the members of the Bank's Management Board affected by the change in responsibilities, i.e. Messrs: Maciej Brzozowski, Marcin Eckert, Paweł Gruza and Andrzej Kopyrski,
- collective suitability of the entire Management Board of the Bank.

The suitability assessment was approved by the Bank's Supervisory Board.

CHANGES IN THE COMPOSITION OF THE BANK'S SUPERVISORY BOARD

In the first quarter of 2023:

- with effect from 24 March 2023, Mr Maciej Łopiński resigned as Chair of the Bank's Supervisory Board,
- the Minister of State Assets, acting as an Authorised Shareholder within the meaning of § 11(2) of the Bank's Articles of Association, in consideration of § 35(1) of the Bank's Articles of Association, in accordance with § 12(1) of the Bank's Articles of Association, appointed Mr Robert Pietryszyn as Chair of the Bank's Supervisory Board as of 24 March 2023.

The composition of the Bank's Supervisory Board as at 31 March 2023 was as follows:

1) Robert Pietryszyn – Chair of the Supervisory Board,
2) Wojciech Jasiński – Deputy Chair of the Supervisory Board,
3) Dominik Kaczmarski – Secretary of the Supervisory Board,
4) Mariusz Andrzejewski – Member of the Supervisory Board,
5) Andrzej Kisielewicz – Member of the Supervisory Board,
6) Rafał Kos – Member of the Supervisory Board,
7) Tomasz Kuczur – Member of the Supervisory Board,
8) Maciej Łopiński – Member of the Supervisory Board,
9) Krzysztof Michalski – Member of the Supervisory Board,
10) Bogdan Szafrański – Member of the Supervisory Board,
11) Agnieszka Winnik-Kalemba – Member of the Supervisory Board.

C. DIVIDEND

On 17 March 2023, PKO Bank Polski S.A. received the recommendation from the Polish Financial Supervision Authority (PFSA) in which the PFSA confirmed that the Bank fulfils the criteria for the payment of dividend up to 50% of the net profit for 2022.

At the same time, the PFSA advised the Bank to mitigate the risks inherent in its operations by:

- limiting the amount of dividend that can be paid from the profit earned in 2022 to 50% of such profit,
- not paying by the Bank a dividend from the profit earned in 2022 until The Court of Justice of the European Union issues a judgment on the return of additional funds over and above those paid out while executing an agreement cancelled on the basis of unfair terms of contract (abusive clauses) of the CHF loan agreement (in connection with the question of the District Court for Warsaw-Śródmieście – case C-520/21),
- not paying by the Bank a dividend from the profit earned in 2022 after issuing the judgment of the Court of Justice of the European Union, referred to in the point above, without prior consultation with the PFSA,
- not conducting any other activities, in particular those beyond the scope of current business and operating activities, which may result in a reduction of own funds, including possible dividend payments from undistributed profits from previous years and buybacks or buyouts of own shares, without prior consultation with the supervisory authority.

Both the Bank's Management and Supervisory Boards passed resolutions stating that they would supervise the implementation of the aforementioned recommendation of the PFSA within the scopes of their respective responsibilities.

12 April 2023, the Bank's Management Board, considering the recommendation from the PFSA, decided to submit to the Bank's Annual General Meeting a recommendation for the distribution of net profit earned in 2022:

- allocate the amount of PLN 1 629 138 013.50 to reserve capital for the payment of dividends, including interim dividends,
- retain amount of PLN 1 629 138 013.50 as undistributed.

In addition, the Bank's Management Board recommends that the undistributed profit from previous years in the amount of PLN 7 808 836 372 remains undistributed.

The recommended method of profit distribution for 2022 does not preclude the Bank's Management Board from deciding (with the approval of the Bank's Supervisory Board) to distribute profit to shareholders in the form of an interim dividend and to use the reserve capital for this purpose, provided that the Bank's Annual General Meeting authorises the use of this capital. It will be contingent in particular on the positive opinion of the PFSA once the CJEU takes a decision on case C-520/21 as well as current economic situation and market conditions.

D. BUSINESS CONDITIONS

MACROECONOMIC ENVIRONMENT

Activity in the Polish economy declined in the first quarter of 2023, with monthly data showing negative year-on-year growth in retail sales and industrial output, and continued increases in construction output. Business climate studies indicate that investment continued to increase moderately in the first quarter. As in the fourth quarter of 2022, when fixed capital formation increased by 5.4% y/y, higher investment activity was characteristic of the private sector, with growth occurring mainly in expenditure on machinery and equipment. This reflects companies' efforts to reduce the negative effects of rising energy costs (efficiency improvements, investment in alternative energy sources). Negative retail sales growth indicates that private consumption in the first quarter aggravated the decline started in the fourth quarter of 2022 when it was 1.1% lower year-on-year. From March 2023 onwards, the number of consumers increased by the influx of refugees no longer masks the weakness in consumer spending caused by the fall in real incomes in year-on-year comparisons. The situation on the labour market continued to be good. Concerns about an increase in unemployment evident in the surveys have not yet been backed up by the data. The increase in unemployment recorded in the first quarter was of a seasonal nature, while wages continued to grow at a solid pace. At the same time, data on employment and vacancies in the economy indicate a slight reduction in labour demand.

CPI inflation peaked in February at 18.4% y/y, before falling to 16.1% y/y in March, beginning a process of disinflation, caused – for the time being – mainly by the normalisation of energy prices and the effects of a high statistical base. Core inflation (CPI excluding food and energy prices) continued to rise, to a record high of 12.3% y/y in March, reflecting the 'second round effects' of earlier cost shocks, as part of a large inertia in price processes. The increase in inflation occurred on a global scale, with CEE economies still struggling with particularly high inflation.

NBP interest rates in the first quarter of 2023 (in %)

- reference rate 6.75
- bill discount rate 6.85
- bill rediscount rate 6.80
- Lombard rate 7.25
- deposit rate 6.25

The Monetary Policy Council (MPC) has kept interest rates of the National Bank of Poland (NBP) unchanged since October 2022. However, the MPC has not announced a definitive end to the monetary tightening cycle and is making further decisions conditional on incoming data and projections.

SITUATION ON THE FINANCIAL MARKET

In the first quarter of 2023, financial markets continued to experience high volatility due to uncertainties regarding the economy, monetary policy, geopolitics and, additionally, unexpected turbulence in the US and European banking sectors.
Investors' projections on the evolution of monetary policy and economic activity indicators have played a key role in the development of financial instrument prices. The stock market index (WIG) was up 2% on the back of solid economic data and the belief that the MPC has completed the interest rate hike cycle and major central banks such as the Fed and ECB are close to doing so.

March saw the onset of disinflation in Poland, reinforcing expectations for interest rates to stabilise and possibly be cut by the end of the year, allowing bond yields to fall by 70-80 bp. The exchange rate of the zloty remained below the level of 4.70 against the euro for most of the period and appreciated by around PLN 0.10 against the dollar, supported by stronger-than-expected trade data reflected in the current account balance.

E. BUSINESS DEVELOPMENT AND FINANCING

DEVELOPMENT OF SERVICES, PRODUCTS AND TOOLS

The Bank's Group developed modern services and products, including those offered via remote channels.

For information on significant achievements, see Section "Major events, including non-typical events". Other achievements of the Group are presented below.

Achievements of PKO Bank Polski S.A.

Development of corporate banking and the services of the Brokerage Office	
Corporate banking	Conclusion of eight syndicated loan agreements totalling nearly PLN 10.4 billion and EUR 1.15 billion, USD 100.0 million, where the Bank's share was more than PLN 2.5 billion, EUR 63 million, USD 10 million respectively. Sustainability-related funding accounted for 90% of the value of these agreements.
	Conclusion of eight municipal bond issue agreements with a total amount of PLN 152 million.
	Execution, as co-arranger of the issue and joint bookrunner, the issue of 7-year bonds of Cyfrowy Polsat S.A. totalling PLN 2.67 billion. This is the largest corporate bond issue by a private entity in the history of the Polish equity market. The issue is Poland's first issuance of Sustainability-Linked Bonds, in accordance with the international ICMA (International Capital Market Association) standard.
	Signing of an agreement with the National Fund for Environmental Protection and Water Management for environmental projects. As part of the cooperation, the Bank will work out proposals for financing projects subsidised by the National Fund for Environmental Protection and Water Management, including those related to thermo-modernisation and support for individuals to get out of energy poverty.

Services of the Brokerage Office (Biuro Maklerskie PKO Banku Polskiego)	Execution, as a member of the distribution syndicate, one issue of Kruk S.A. bonds with a total value of PLN 50 million.
	Achieving the largest-ever session market share of 10.2% in the Bank's history in the first quarter of 2023.
Development of retail banking products	
Sales of mortgage loans	PKO Bank Polski S.A and PKO Bank Hipoteczny S.A granted housing loans to individuals with a total value of more than PLN 2.5 billion, which allowed PKO Bank Polski S.A to maintain its leading position on the new sales market with a share of nearly 35.2%.
Cash loan for uniformed services	Implementation of a special cash advance for the uniformed services.
Development of insurance products	
Sales of motor insurance	In the first quarter of 2023, 51.7 thousand motor insurance policies were sold – up 19% year-on-year. At the end of the first quarter of 2023, the portfolio comprised of 182 thousand customers.
Home insurance PKO Dom	In the first quarter of 2023, nearly 104.4 thousand PKO Dom insurance policies were sold. Increase in sales in the first quarter of 2023 by 90% (in terms of premiums written) year-on-year.
Development of IT projects, technology and robotisation	
Voicebots	Launch of a new bot for measuring customer loyalty NPS (Net Promoter Score) after a customer visit to a Bank branch.
	More than 3 million calls were made by bots in the quarter – up 11% from the previous quarter.
	Nearly 1.5 million virtual assistant conversations with customers in inbound traffic in the quarter. More than 10.8 million calls in total at the end of March 2023.
Collaboration with the Fintech Poland Foundation	Joining the FinTech Poland community in the development of technology-based services. The aim of the initiative is to integrate the financial innovation community in Poland. The Foundation has published a report entitled "How to do fintech in Poland", portraying the industry in the context of the overall economy and the financial sector. PKO Bank Polski S.A was the strategic partner of the project.
Development of functionalities in electronic and mobile banking channels	
IKO mobile application	Implementation of new functionalities: • alerts about potential fraud in the Interactive Voice Response (IVR) message during the IKO application activation process, • information on rates of return for investment products, • the "Daily" panel, which allows personalised shortcuts to the most frequently used options to be set up on the main screen, • digital spouse consent for selected products offered by the Bank, • purchase of gold at the Mint of Poland, • NPS customer loyalty surveys following the completion of various transactions and operations.
	550 thousand calls conducted by voice assistant in the quarter – up 23% year-on-year.

Electronic banking service iPKO	Implementation of new functionalities: • PKO Moto motor insurance package, • price microservice – a new section has been added to the product details with information on fees and commissions, • information on rates of return for investment products, • option to change the amount in foreign transfers in the event of a charge exceeding the amount of the transfer, • option to navigate to the ARMA Electronic Services Platform, • "Telemedicine" and "Telemedicine+" – the first value-added services using VAS HUB technology, • a new method of communication with Krajowa Izba Rozliczeniowa S.A. (National Clearing House), • Push, text message and e-mail communication channels with customers.
Electronic banking service iPKO biznes	Launch of new functionalities: • integration with Enterprise Resources Planning (ERP) systems – customers can retrieve account history, statements and order transfers directly from their ERP system, without having to log on to iPKO business, • the tender accounts module, where it is possible to control the main and linked tender accounts, as well as to manage payments of counterparty tender deposits and submit tender settlement instructions, • the SWIFT Tracker module for foreign transfers, where the customer can access, among other things, the status of the transfer, costs and information on reasons for rejection or cancellation, • authorisation of biometric confirmation of instructions using a smartphone in a mobile application, • dark mode.

Achievements of the PKO Leasing S.A. Capital Group (PKO Leasing Group)

Expansion of financing for luxury brands	Becoming a partner of Inchcape JLR Poland sp. z o.o. in terms of financing of Jaguar, Range Rover, Defender and Discovery luxury brands in Poland with a gross vehicle weight of up to 3.5 tonnes. The agreement provides for the wholesale financing of stock and retail financing of new and used cars in the form of leases, lease advances, a subscription programme, long and short-term rentals.
Fast Car (Szybkie Auto)	Extension of the pilot "Fast Car" ("Szybkie Auto") procedure, which is designed to finance vehicles from authorised dealers and enables a financing decision to be made within one business day.
Development of digital processes and remote channels	Extension of the pilot programme to provide digital process tools (PKO Leasing Online) to suppliers in the machinery and equipment segment, enabling customers to obtain lease financing at suppliers' stationary and online shops. There is great interest in the tool being offered, with an increasing number of cooperation agreements signed.

Achievements of PKO Towarzystwo Funduszy Inwestycyjnych S.A.

Leading positions in the investment fund market	Net assets of funds managed by the company reached PLN 33.5 billion at the end of March 2023, including net assets of retail funds of PLN 31.6 billion, which allowed the company to maintain its 2nd place (with a share of 12.1%) and 1st place (with a share of 20.4%) in the market, respectively.*
ECP market leader	Maintaining a leading position in the Employee Capital Plans (ECP) market with a market share of 31.4%* and with more than 60 different types of funds and schemes on offer. Assets of PLN 4.4 billion were accumulated in ECP accounts managed by the company at the end of March 2023.

Sustainable investment offering	PKO TFI S.A. published the information resulting from Article 10 of the SFDR for the "PKO Ekologii i Odpowiedzialności Społecznej Globalny" fund separated within PKO Parasolowy - fio and thus expanded its offering to include the first product meeting the requirements of Article 8 of the SFDR (investments promoting environmental and/or social aspects, not having sustainable investments as an objective, but making such investments to a certain extent), commonly referred to as "light-green plus".

* Source: Analizy Online

Achievements of PKO Bank Hipoteczny S.A.

Issue of covered bonds	Issue of mortgage covered bonds with a total nominal value of PLN 500 million under the International Mortgage Covered Bond Programme. The mortgage covered bonds issued were introduced to trading on a regulated market in Luxembourg and in Warsaw.

CREDIT PROTECTION GUARANTEE

On 27 February 2023, PKO Bank Polski S.A. concluded a guarantee agreement providing unfunded credit protection in respect of a portfolio of selected corporate credit receivables of the Bank, in accordance with the CRR. The total value of the Bank's debt portfolio covered by this guarantee is PLN 12 292 million, and the portfolio consists of the bond portfolio of PLN 1 515 million ("Portfolio A") and the portfolio of other receivables of PLN 10 777 million ("Portfolio B"). The coverage ratio is 100% for Portfolio A and 80% for Portfolio B, therefore the total Guarantee amount is PLN 10 137 million. The maximum term of the guarantee is 60 months, provided that the Bank is entitled to terminate it before the expiry of its term.

GUARANTEES FOR ENTERPRISES

In view of strong customer interest, PKO Bank Polski S.A and Bank Gospodarstwa Krajowego signed an annex to the agreement on the portfolio guarantee line of the crisis guarantee fund, whereby the limit for guarantees for medium and large entrepreneurs to ensure financial liquidity or to finance investment projects was increased by PLN 4 billion (i.e. up to PLN 5 billion).

The guarantees cover up to 80% of the amount of the loan, and the maximum amount which can be guaranteed is PLN 250 million. The purpose of the guarantee is to help the entrepreneurs affected by the adverse economic effects of the Russian aggression against Ukraine, including the effects of the sanctions imposed by the European Union and its economic partners and the retaliatory measures introduced in response to them, maintain financial liquidity. The support is offered until 31 December 2023. At the end of the first quarter of 2023, the total value of guarantees issued amounted to more than PLN 1 014 million.

At the same time, in the first quarter of 2023, PKO Bank Polski S.A was honoured by BGK with an award for the highest value of de minimis guarantees among commercial banks in loans and advances granted to SMEs. Since 2013, the Bank has granted over PLN 30.6 billion worth of SME loans and advances with de minimis guarantees to entrepreneurs.

De minimis guarantees have been introduced to improve access to finance for companies in the SME sector. They can be used by micro, small and medium-sized enterprises to secure the repayment of a working capital facility for day-to-day operations, an advance or an investment loan. With the de minimis guarantee, the entrepreneur is able, among other things, to benefit from an extended lending period for an overdraft facility and incur lower overall loan costs.

MODIFICATION OF THE BANK'S RULES FOR THE MANAGEMENT OF PRODUCTS COVERED BY MIFID

- Alignment of the content of the Bank's MIFID Product Management Rules with the changes to IT systems introduced in November 2022 to incorporate customer sustainability objectives and sustainability factors (ESG) into the product management process.
- Extension of the Bank's criteria for defining a negative target group.

PRO-ENVIRONMENTAL EFFORTS

The Bank has been improving the efficiency of the resources used and has continued the following measures: replacement of windows, replacement of lighting with energy-efficient lighting and installation of automatic light controls, installation of ventilation with recuperation, installation of time switches on electric water heaters, fitting of heating boilers with controls. The Bank has completed measures to optimise the operation of air handling units. The aim of these measures is to achieve energy savings and obtain energy efficiency certificates.

ESG RATINGS

As at the end of the first quarter of 2023, the Bank's ESG ratings were as follows: 3.3 (FTSE Russell), A (MSCI), 23,5 (Sustainalytics) and 46 (V.E). In the first quarter of 2023, Sustainalytics downgraded the Bank's rating from 21 to 23.5 as a result of increased risk exposure for the banking sector and a deterioration in the Bank's ESG risk management ratings across all categories.

F. RISK MANAGEMENT

The risk management system is aimed at ensuring the profitability of business activities while ensuring control over the risk level and maintaining it within the system of limits and risk tolerance limits adopted by the Bank and the Bank's Group in the changing macroeconomic and legal environment. The primary objective is to ensure adequate management of all types of risk related to its business.

PKO Bank Polski S.A. has been monitoring the situation of its customers on an ongoing basis and adjusting its credit policy with a view to securing a good quality loan portfolio. As part of the measurement of credit exposures, the Bank specifically considers information on customers' economic ties with counterparties in Ukraine, Belarus and Russia.

The PKO Bank Polski S.A. Group (Polish entities) applies guidelines for the financing of and providing banking services to:

- customers conducting business whose business model is based on the benefits of active operation in the markets of Russia and Belarus or through significant links (e.g. economic, personal),
- customers on whom sanctions have been or can be imposed in connection with Russia's war in Ukraine.

PKO Bank Polski S.A has procedures in place to manage counterparty credit risk, including a system of limits, designed to limit the Bank's exposure to each individual entity. If a financial institution is identified that has a high probability of experiencing financial difficulties in the future, the Bank decides to reduce the limits or to set them to zero. PKO Bank Polski S.A identifies risks of deterioration in the counterparty's situation by, among other things, analysing:

- signals from the Early Warning System, whereby the Bank keeps track of market parameters relating to the entity's credit risk,
- counterparty credit analysis and reviews of limits and thresholds for pre-settlement, settlement and delivery risks,
- the results of stress tests of the Bank's exposures to counterparties,
- counterparty behaviour, in particular non-standard behaviour, and monitoring the timeliness of transaction cash flows,

and tracking negative market information in news websites.

In terms of interest rate risk, the banking sector is challenged by the benchmark reform, including in particular the roadmap for replacing the WIBID/WIBOR indices with the WIRON index proposed by the National Working Group. The reform could have a significant impact on the valuation of financial instruments and the effectiveness of hedging relationships held as part of interest rate risk management. The reform will also have a significant impact on the products offered to customers and on the structure of revaluation of the Bank's assets, liabilities and off-balance sheet items, determining the level of interest rate risk to which the Group is exposed.

The Group has maintained a safe level of liquidity, allowing for a quick and effective response to potential threats. In the first quarter of 2023, PKO Bank Polski S.A. structured its sources of funding accordingly by adjusting its deposit offering (in particular deposit interest rates) to meet current needs and by raising long-term funds from the financial market through the issue of bonds. KREDOBANK S.A.'s liquidity position, despite the ongoing war in Ukraine, remained stable and secure. The company did not experience a decline in liquidity measures or deposit outflows.

At the same time, in connection with the war in Ukraine, the Bank has had a Support Group, chaired by the Head of Crisis Staff, in place since 2022 to, among other things, prevent the disruption of the Bank's critical processes, exchange information within the Bank's Group and coordinate the aid provided. The Bank takes actions to mitigate the threats associated with the war in Ukraine on an ongoing basis, in particular with respect to ensuring access to the Bank's systems and cyber security.

G. Employment and diversity

As at 31 March 2023, the Bank Group's headcount remains largely unchanged from that at the end of 2022.

Headcount at the Bank's Group as at 31 March 2023.

	31.03.2023	31.12.2022	y/y (%)
The Bank	21 187	21 230	-0.2
Other entities	3 878	3 842	0.9
Bank's Group	25 065	25 071	0.0

In the first quarter of 2023, the Bank adopted the "Common Labour Market Policy of PKO Bank Polski S.A. Group Companies". The aim of the policy is to implement guiding objectives to ensure that the Group companies operate on the internal and external labour market as entities sharing a uniform employment and remuneration policy, a coherent organisational culture, a stable and safe working environment, without creating competition for each other in attracting employees, but creating a consistent image of the Group as an employer. Among other things, the policy is intended to implement effective tools for the recruitment and development of relevant employee competences. The policy was made available to the Bank's subsidiaries for adoption and implementation.

At the same time, in the area of diversity policy, the Bank verified the quantitative employment data by position, age, working time and gender for 2022 in relation to those presented in the PKO Bank Polski S.A. Group Directors' Report for 2022. The verified data is provided in the table below.

Employees by position, age, working time, contract type, location and gender as at 31 December 2022*

	BANK			THE BANK'S GROUP		
	2022			2022		
	total	women	men	total	women	men
by position and gender						
regular employees	86.4%	75%	25%	85.6%	74%	26%
middle management	7.8%	64%	36%	8.0%	62%	38%
managers	5.5%	59%	41%	6.0%	55%	45%
MRT (Material Risk Takers)	0.3%	23%	77%	0.5%	24%	76%
by age group and gender						
up to 30 years	11%	71%	29%	12%	70%	30%
from 30 to 50 years	62%	71%	29%	64%	70%	30%
above 50 years	27%	80%	20%	24%	78%	22%
by full-time and part-time employment and gender						
full-time	99%	73%	27%	97%	72%	28%
part-time	1%	78%	22%	3%	64%	36%
by contract terms and gender						
indefinite period	87%	73%	27%	87%	72%	28%
definite period	13%	76%	24%	13%	75%	25%
by region and gender						
in EU countries	100%	74%	26%	94%	72%	28%
in third countries (Ukraine)	-	-	-	6%	69%	31%
Total employment	**100%**	**74%**	**26%**	**100%**	**72%**	**28%**

* The share in the number of employees of a given group or in the total number of employees.

II. FINANCIAL POSITION AFTER THE FIRST QUARTER OF 2023

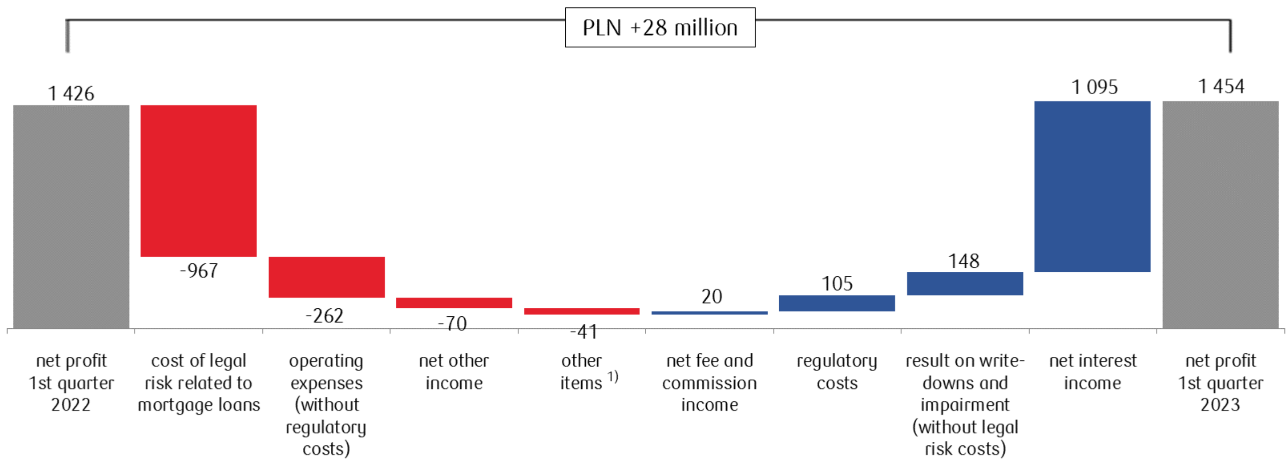
Financial data is presented on a management basis. For definitions of major items (with reference to items from the income statement and statement of financial position), see footnotes. The figures include the impact of the implementation of International Financial Reporting Standard 17 "Insurance contracts".

The consolidated net profit of the PKO Bank Polski S.A. Group earned for the first quarter of 2023 amounted to PLN 1 454 million and was PLN 28 million higher year-on-year.

The change in net profit was determined by:

1) an improvement in the result on business activities[5], which reached PLN 5 545 million (up by PLN 1 045 million y/y), mainly due to an increase in net interest income by PLN 1 095 million, and in net fee and commission income by PLN 20 million y/y, with a decrease in net other income by PLN 70 million,
2) deterioration in net write-downs and impairment[6] of PLN 819 million as a result of recognition in the first quarter of 2023 of the cost of legal risk related to mortgage loans in convertible currencies of PLN 967 million,
3) an increase in administrative expenses by PLN 157 million, including an increase in employee benefit expenses by PLN 154 million y/y, material costs by PLN 95 million y/y and depreciation and amortisation expenses by PLN 13 million y/y, with a decrease in regulatory costs by PLN 105 million y/y, partly due to the absence in the first quarter of 2023 of a contribution to the Bank Guarantee Fund (in the first quarter of 2022, PLN 116 million was recognised on this account).

Change in the net profit of the PKO Bank Polski S.A. Group (PLN million)



1) This item includes tax on certain financial institutions, share of profits/(losses) of associates and joint ventures, income tax expenses and profit (loss) attributable to non-controlling shareholders.

Events which had a significant impact on the net profit of the Bank's Group in the first quarter of 2023 compared with the corresponding period of 2022:

Result on business activities

- an increase in net interest income driven by an increase in interest income related mainly to increases in market interest rates and increase in loan portfolio, with a simultaneous increase in financing costs,
- an increase in net fee and commission income, driven by higher results generated on card, leasing, lending activities and account commissions, with a decrease in commissions from investment funds, pensions and brokerage activities, as well as margins on foreign exchange transactions,

[5] The result on business activities does not account for the result on financial transactions with respect to loans measured at fair value through profit or loss.

[6] Net write-downs and impairment: net allowances for expected credit losses, net impairment losses on non-financial assets, net result on loans measured at fair value through profit or loss and cost of legal risk of mortgage loans in convertible currencies.

- a decrease in other net income due to a decrease in the net income from insurance business and a decrease in the result on financial transactions[7],

Administrative expenses

- an increase in the cost of employee benefits by PLN 154 million y/y (mainly as a result of wage regulations), an increase in material costs by PLN 95 million y/y (mainly as a result of higher maintenance and rental costs of non-current assets by PLN 38 million, promotion and advertising costs by PLN 25 million and IT costs by PLN 9 million) as well as depreciation and amortisation expenses by PLN 13 million y/y,
- a decrease in regulatory costs by PLN 105 million y/y, partly due to the absence in the first quarter of 2023 of a contribution to the Bank Guarantee Fund (in the first quarter of 2022, PLN 116 million was recognised on this account),

Net write-downs and impairment

- recognition of the cost of legal risk related to mortgage loans in convertible currencies of PLN 967 million, as a result of updating the parameters of the legal risk assessment model,
- improvement in net credit risk allowances by PLN 154 million, mainly as a result of the recognition of allowances related to the war in Ukraine in the first quarter of 2022 in the amount of PLN -314 million, with a simultaneous deterioration in the result on business and consumer loans, reflecting customers' repayment problems due to increases in interest rates, inflation and the rising cost of living for households.

As a result of measures taken in the first quarter of 2023, there was an increase in the scale of operations both year-on-year and by the end of 2022:

- total assets reached approximately PLN 444 billion, which represents an increase by PLN 22 billion year-on-year and by PLN 13 billion compared to the end of 2022,
- customer deposits[8] stood at PLN 350 billion, i.e. an increase by PLN 29 billion compared to the end of March 2022 (as a result of an increase in retail and private banking deposits) and by PLN 11 billion compared to the end of December 2022,
- financing granted to customers[9] stood at around PLN 252 billion and increased by more than PLN 1 billion year-on-year (mainly as a result of an increase in financing granted to businesses in the form of both loans as well as bond issues and leases, with a decrease in mortgage banking loans due to, among other factors, recognition of additional provisions for legal risk and the recognition of the effects of so-called "credit holidays" in the total amount of nearly PLN 6 billion, which reduced the gross carrying amount of these loans) and increased by nearly PLN 5 billion compared to the end of December 2022 (also driven by an increase in financing granted in the corporate segment with a decrease in retail and private banking loans),
- the banking portfolio of securities[10] amounted to approximately PLN 131 billion, up by PLN 11 billion relative to the end of March 2022 and by PLN 10 billion relative to the end of December 2022.

The structure of the Group's balance sheet, both relative to the corresponding period of the previous year and the end of 2022, was also driven by changes in the fair value of the portfolio of securities and derivatives, which translated into a decrease in other assets and liabilities and an increase in equity by more than PLN 2 billion.

As at 31 March 2023, the Group:

- held a high share of the loan and savings market at 17.6% and 20.2% respectively,
- held the leading position in the investment funds market for individuals with a market share of 20.4%,
- was the leader in terms of the number of current accounts maintained for individual customers (over 9.1 million accounts).

[7] Result on financial transactions – result on financial transactions and gains or losses on derecognition of financial instruments less the result on loans measured at fair value through profit or loss.

[8] Customer deposits – amounts due to customers.

[9] Financing granted to customers – loans and advances granted to customers (including finance lease receivables) and municipal and corporate bonds (excluding the bonds of international financial organizations) presented in securities, other than securities held for trading.

[10] Securities (banking portfolio) – securities less municipal and corporate bonds (excluding bonds held for trading) and bonds of international financial organizations.

III. FACTORS THAT DETERMINE FUTURE PERFORMANCE

PKO Bank Polski S.A notes a growing risk arising from macroeconomic trends and regulatory changes. The following external factors may impact the operations and future financial performance of the Bank's Group:

In the global economy:

- the war in Ukraine and its economic consequences,
- the response of the global economy and financial system to the significant monetary tightening already implemented, including the condition of the global banking sector and the ability of countries and businesses to refinance their debt,
- a slowdown in global economic growth, in particular possible stagnation in Germany,
- changes in global supply chains, related to reshoring, i.e. moving production closer to markets (nearshoring) and moving production to countries within broad alliance blocs (friendshoring),
- changes in climate policy, including the accelerating energy transition and the increasing stringency and importance of environmental requirements.

In the Polish economy:

- the path of further changes in NBP interest rates and the level and interest rate of the reserve requirement,
- the intensity and persistence of external factors driving inflation and regulatory measures aimed at limiting the magnitude of inflation growth,
- economic slow-down resulting from a decline in global demand, high inflation and the tightening of monetary policy,
- migration flows, including their impact on labour supply and aggregate demand in the economy,
- the burden on the public finance sector due to the cost of protective measures in the face of the energy crisis and expenditure on defence and energy transformation, with uncertainty over the inflow of funds from the European Union under the National Recovery Program,
- the situation in the financial markets, which may reflect, among other things, an increase in geopolitical risks due to a possible escalation of the armed conflict in Ukraine,
- the response of the household sector to the increased level of NBP interest rates, including, among other things, the evolution of consumer demand, demand for loans and the ability to service already contracted liabilities,
- the CJEU's decisions on mutual settlements between the parties to a credit agreement after its collapse, including in particular in relation to the question from the District Court for Warsaw-Śródmieście - Case C-520/21,
- the planned changes to corporate income tax (CIT) and personal income tax (PIT), as part of the draft act on the Slim VAT 3 amendment package, including in particular: (i) new PIT regulations governing the taxation of capital gains on bond redemptions by the issuer, (ii) provisions that significantly limit the application of the payer's general CIT and PIT exemption on interest or discount on mortgage bonds and bonds with a maturity of less than one year admitted to trading on a regulated market or introduced into an alternative trading system,
- the risk that the Office for Competition and Consumer Protection (OCCP) will initiate proceedings against the Bank for violating the collective interests of consumers, including, among other things, the handling of complaints of the so-called unauthorized transactions, proportional reimbursement of loan costs upon early repayment of mortgage loans and the process of handling the so-called statutory credit holidays, and proceedings to declare unlawful the Bank's interest rate adjustment clauses in template consumer loan agreements; as well as the risk of imposing a penalty by the President of the OCCP in proceedings concerning modification clauses in the contractual templates used by the Bank,
- the PFSA's loosening of its recommendations for assessing the creditworthiness of mortgage applicants,
- the introduction of the "2% Secure Loan" for the purchase of a first apartment as of 1 July 2023,
- further court decisions on the issue of foreign-currency housing loans and PLN loans based on WIBOR rates,
- the risk of extending the statutory credit holiday to 2024.

INTEREST RATE BENCHMARKS REFORM IN POLAND

Future performance will also be affected by developments in the interest rate benchmark reform in Poland. The work is being carried out by the National Working Group on Benchmark Reform (NWG), appointed by the Office of the Polish Financial Supervision Authority.

On 13 February 2023, the Office of the Polish Financial Supervision Authority announced that WIRON had become an interest rate benchmark. Banks may also apply the WIRON benchmark to determine interest rate on consumer loans or mortgage loans.

In the first quarter of 2023, the Steering Committee of the NWG endorsed the following recommendations:

- on the standard Overnight Index Swap (OIS) transaction based on WIRON,
- on the application of the WIRON index in issues of floating-rate debt securities,
- on the rules and methods of applying the WIRON benchmark (or benchmarks from the WIRON Compound Indices Family) when entering into new contracts for benchmark-based products in PLN offered by financial market entities,
- on the rules and methods of applying the WIRON interest rate index (or indices from the WIRON Compound Indices Family) when entering into new contracts in PLN for factoring products (with exception of discounted products) for benchmark-based products in PLN offered by financial market entities,
- on the methods of applying the WIRON interest rate index (or indices from the WIRON Compound Indices Family) when entering into new contracts in PLN for leasing products for benchmark-based products in PLN offered by financial market entities.

This marked the completion of the NWG's work on the recommendations on new products. This allows financial institutions to prepare and implement a series of new arrangements using WIRON index, including mortgage loans, being of key importance to households.

Since 2020, the PKO Bank Polski S.A. Group has been carrying out an interdisciplinary project related to the adaptation to the changes introduced by the benchmark reform, supervised by members of the Bank's Management Board, with the participation of representatives from the subsidiaries: PKO Bank Hipoteczny S.A., PKO Leasing S.A and PKO Faktoring S.A.

Bank Polski

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF THE PKO BANK POLSKI S.A. GROUP FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2023

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CONSOLIDATED INCOME STATEMENT

INCOME STATEMENT	Note	01.01-31.03.2023	01.01-31.03.2022 (restated)**
Net interest income	13	**4 187**	**3 092**
Interest and similar income		7 346	3 758
of which calculated under the effective interest rate method		7 198	3 647
Interest expense		(3 159)	(666)
Net fee and commission income	14	**1 103**	**1 083**
Fee and commission income		1 494	1 411
Fee and commission expense		(391)	(328)
Other net income		**242**	**329**
Net income from insurance business	29	166	199
Dividend income		1	-
Gains/(losses) on financial transactions	15	34	72
Foreign exchange gains/ (losses)		4	1
Gains/(losses) on derecognition of financial instruments	16	17	7
of which measured at amortized cost		4	4
Net other operating income and expense	17	20	50
Result on business activities		**5 532**	**4 504**
Net expected credit losses	18	(328)	(499)
Net impairment losses on non-financial assets	19	(11)	(5)
Cost of legal risk of mortgage loans in convertible currencies	20	(967)	-
Administrative expenses	21	(1 985)	(1 828)
of which net regulatory charges		(378)	(483)
Tax on certain financial institutions		(299)	(307)
Share in profits and losses of associates and joint ventures		23	14
Profit before tax		**1 965**	**1 879**
Income tax expense	22	(512)	(454)
Net profit (loss) (including non-controlling interest)		**1 453**	**1 425**
Profit (loss) attributable to non-controlling shareholders		(1)	(1)
Net profit attributable to equity holders of the parent company		**1 454**	**1 426**
Earnings per share			
– basic earnings per share for the period (PLN)		1.16	1.14
– diluted earnings per share for the period (PLN)		1.16	1.14
Weighted average number of ordinary shares during the period (in million)*		1 250	1 250

* Both in the first quarter of 2023 and in the corresponding period of 2022, there were no dilutive instruments. Therefore, the amount of diluted earnings per share is the same as the amount of basic earnings per share.

** The income statement for the 3- month period ended 31 March 2022 was restated due to the implementation of IFRS 17 "Insurance Contracts" (see note 9 "IFRS 17 Insurance Contracts")

(IN PLN MILLION)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

STATEMENT OF COMPREHENSIVE INCOME	Note	01.01-31.03.2023	01.01-31.03.2022 (restated)*
Net profit (including non-controlling shareholders)		**1 453**	**1 425**
Other comprehensive income		2 083	(3 377)
Items which may be reclassified to profit or loss		**2 083**	**(3 377)**
Cash flow hedges (net)	24	1 152	(1 940)
Cash flow hedges (gross)	24	1 422	(2 390)
Deferred tax		(270)	450
Hedges of net investments in foreign operations	24	-	3
Share in other comprehensive income of associates and joint ventures		(13)	(6)
Fair value of financial assets measured at fair value through other comprehensive income (net)		955	(1 416)
Remeasurement of fair value, gross		1 192	(1 744)
Gains /losses transferred to the profit or loss (on disposal)		(13)	(3)
Deferred tax		(224)	331
Currency translation differences on foreign operations		(1)	(35)
Finance income and costs from insurance business, gross		(12)	21
Deferred tax		2	(4)
Finance income and costs from insurance business, net		(10)	17
Items which cannot be reclassified to profit or loss		-	-
Total net comprehensive income		3 536	(1 952)
Total net comprehensive income, of which attributable to:		3 536	(1 952)
equity holders of the parent		3 537	(1 951)
non-controlling interest		(1)	(1)

* The statement of comprehensive income for the 3- month period ended 31 March 2022 was restated due to the implementation of IFRS 17 “Insurance Contracts” (see note 9 “IFRS 17 Insurance Contracts")

(IN PLN MILLION)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	31.03.2023	31.12.2022 (restated)*	31.12.2022 (published)
ASSETS		443 982	431 447	430 683
Cash and balances with Central Bank		14 568	15 917	15 917
Amounts due from banks	23	13 521	16 101	16 101
Hedging derivatives	24	729	1 042	1 042
Other derivative instruments	24	10 860	13 162	13 162
Securities	25	145 965	135 632	135 632
Reverse repo transactions		4 776	7	7
Loans and advances to customers	26	237 492	232 959	231 721
Assets in respect of insurance activities	29	104	115	555
Property, plant and equipment under operating lease		1 837	1 764	1 764
Property, plant and equipment		2 881	2 917	2 917
Non-current assets held for sale		9	10	10
Intangible assets		3 474	3 512	3 527
Investments in associates and joint ventures		263	285	285
Current income tax receivable		98	52	52
Deferred tax assets		4 522	5 187	5 187
Other assets		2 883	2 785	2 804

* The statement of financial position as at 31 December 2022 was restated due to the implementation of IFRS 17 “Insurance Contracts” (see note 9 “IFRS 17 Insurance Contracts")

(IN PLN MILLION)

	Note	31.03.2023	31.12.2022 (restated)*	31.12.2022 (published)
LIABILITIES AND EQUITY		443 982	431 447	430 683
Liabilities		404 739	395 740	395 248
Amounts due to Central bank		40	9	9
Amounts due to banks		3 751	3 011	3 011
Hedging derivatives	24	5 743	7 469	7 469
Other derivative instruments	24	10 796	12 978	12 978
Amounts due to customers	27	349 673	338 868	339 582
Liabilities in respect of insurance activities	29	2 841	2 878	1 732
Loans and advances received	28	2 235	2 294	2 294
Securities in issue	28	17 297	15 510	15 510
Subordinated liabilities	28	2 720	2 781	2 781
Other liabilities		6 884	7 010	7 014
Current income tax liabilities		578	765	765
Deferred tax liabilities		86	77	13
Provisions	30	2 095	2 090	2 090
EQUITY		39 243	35 707	35 435
Share capital		1 250	1 250	1 250
Reserves and accumulated other comprehensive income		24 322	22 239	22 215
Retained earnings		12 232	8 920	8 651
Net profit or loss for the year		1 454	3 312	3 333
Capital and reserves attributable to equity holders of the parent company		**39 258**	**35 721**	**35 449**
Non-controlling interests		(15)	(14)	(14)

* The statement of financial position as at 31 December 2022 was restated due to the implementation of IFRS 17 “Insurance Contracts” (see note 9 “IFRS 17 Insurance Contracts")

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF THE PKO BANK POLSKI S.A. GROUP FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2023 (IN PLN MILLION)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR 3 MONTHS ENDED 31 MARCH 2023	Share capital	Reserves and accumulated other comprehensive income					Retained earnings	Net profit or loss for the period	Total capital and reserves attributable to equity holders of the parent company	Total non-controlling interests	Total equity
		Reserves			Accumulated other comprehensive income	Reserves and accumulated other comprehensive income					
		Supplementary capital	General banking risk fund	Other reserves							
As at the beginning of the period, after changes in accounting policies*	1 250	23 085	1 070	7 091	(9 007)	22 239	8 920	3 312	35 721	(14)	35 707
Transfer from retained earnings	-	-	-	-	-	-	3 312	(3 312)	-	-	-
Comprehensive income	-	-	-	-	2 083	**2 083**	-	1 454	**3 537**	(1)	**3 536**
As at the end of the period	**1 250**	**23 085**	**1 070**	**7 091**	**(6 924)**	**24 322**	**12 232**	**1 454**	**39 258**	**(15)**	**39 243**

*For the effects of implementation of IFRS 17 on the Group's equity, see note "IFRS 17 Insurance contracts"

FOR 3 MONTHS ENDED 31 MARCH 2022	Share capital	Reserves and accumulated other comprehensive income					Retained earnings	Net profit or loss for the period	Total capital and reserves attributable to equity holders of the parent company	Total non-controlling interests	Total equity
		Reserves			Accumulated other comprehensive income	Reserves and accumulated other comprehensive income					
		Supplementary capital	General banking risk fund	Other reserves							
As at the beginning of the period	1 250	23 003	1 070	6 968	(5 728)	25 313	6 270	4 874	37 707	(14)	37 693
Changes in accounting policies*	-	-	-	-	17	**17**	269	-	**286**	-	286
As at the beginning of the period, after policy changes	1 250	23 003	1 070	6 968	(5 711)	25 330	6 539	4 874	37 993	(14)	37 979
Transfer from retained earnings	-	-	-	-	-	-	4 874	(4 874)	-	-	-
Comprehensive income	-	-	-	-	(3 377)	**(3 377)**	-	1 426	**(1 951)**	(1)	**(1 952)**
As at the end of the period	**1 250**	**23 003**	**1 070**	**6 968**	**(9 088)**	**21 953**	**11 413**	**1 426**	**36 042**	**(15)**	**36 027**

*For the effects of implementation of IFRS 17 on the Group's equity, see note "IFRS 17 Insurance contracts"

(IN PLN MILLION)

FOR 3 MONTHS ENDED 31 MARCH 2023	Accumulated other comprehensive income							
	Share in other comprehensive income of associates and joint ventures	Fair value of financial assets measured at fair value through other comprehensive income	Cash flow hedges	Hedge of net investment in foreign operation	Finance income and costs from insurance business	Actuarial gains and losses	Currency translation differences on foreign operations	Total
As at the beginning of the period, after changes in accounting policies*	(35)	(3 461)	(5 218)	-	24	(21)	(296)	(9 007)
Comprehensive income	(13)	955	1 152	-	(10)	-	(1)	2 083
As at the end of the period	(48)	(2 506)	(4 066)	-	14	(21)	(297)	(6 924)

*For the effects of implementation of IFRS 17 on the Group's equity, see note "IFRS 17 Insurance contracts"

FOR 3 MONTHS ENDED 31 MARCH 2022	Accumulated other comprehensive income							
	Share in other comprehensive income of associates and joint ventures	Fair value of financial assets measured at fair value through other comprehensive income	Cash flow hedges	Hedge of net investment in foreign operation	Finance income and costs from insurance business	Actuarial gains and losses	Currency translation differences on foreign operations	Total
As at the beginning of the period	(17)	(1 785)	(3 699)	(4)	-	(14)	(209)	(5 728)
Changes in accounting policies*	-	-	-	-	17	-	-	17
As at the beginning of the period, after policy changes	(17)	(1 785)	(3 699)	(4)	17	(14)	(209)	(5 711)
Comprehensive income	(6)	(1 416)	(1 940)	3	17	-	(35)	(3 377)
As at the end of the period	(23)	(3 201)	(5 639)	(1)	34	(14)	(244)	(9 088)

*For the effects of implementation of IFRS 17 on the Group's equity, see note "IFRS 17 Insurance contracts"

(IN PLN MILLION)

CONSOLIDATED STATEMENT OF CASH FLOWS

	01.01-31.03.2023	01.01-31.03.2022 (restated)*
Cash flows from operating activities		
Profit before tax	**1 965**	**1 879**
Income tax paid	**(389)**	**(287)**
Total adjustments:	**283**	**(3 240)**
Depreciation and amortization	327	304
(Gains)/losses on investing activities	(4)	(1)
Interest and dividends received	(559)	(271)
Interest paid	290	133
Change in:		
amounts due from banks	(95)	(247)
hedging derivatives	(1 413)	2 386
other derivative instruments	120	(255)
securities	(1 453)	(637)
loans and advances to customers	(4 902)	(2 872)
reverse repo transactions	(4 769)	(24)
assets in respect of insurance activities	11	11
property, plant and equipment under operating lease	(73)	(92)
non-current assets held for sale	1	6
other assets	(87)	(110)
accumulated allowances for expected credit losses	304	461
accumulated allowances on non-financial assets and other provisions	41	(72)
amounts due to the Central Bank	31	-
amounts due to banks	740	15
amounts due to customers	10 805	(315)
liabilities in respect of insurance activities	(37)	(158)
loan and advances received	(3)	(9)
liabilities in respect of debt securities in issue	4	(190)
subordinated liabilities	(61)	(3)
other liabilities	(57)	1 210
other adjustments	1 122	(2 510)
Net cash from/used in operating activities	1 859	(1 648)

(IN PLN MILLION)

	01.01-31.03.2023	01.01-31.03.2022 (restated)*
Cash flows from investing activities		
Inflows from investing activities	**78 369**	**37 005**
Redemption of securities measured at fair value through other comprehensive income	75 960	36 544
Redemption of securities measured at amortized cost	1 822	162
Interest received on securities measured at fair value through other comprehensive income	452	179
Interest received on securities measured at amortized cost	107	92
Proceeds from disposal of intangible assets, property, plant and equipment and assets held for sale	28	28
Outflows on investing activities	**(85 630)**	**(36 009)**
Purchase of securities measured at fair value through other comprehensive income	(83 227)	(35 795)
Purchase of securities measured at amortized cost	(2 245)	(53)
Purchase of intangible assets and property, plant and equipment	(158)	(161)
Net cash from/used in investing activities	**(7 261)**	**996**

	01.01-31.03.2023	01.01-31.03.2022 (restated)*
Cash flows from financing activities		
Proceeds from debt securities in issue	5 458	1 254
Redemption of debt securities	(3 676)	(2 642)
Repayment of loans and advances	(57)	(182)
Payment of lease liabilities	(69)	(67)
Repayment of interest on long-term liabilities	(290)	(133)
Net cash from financing activities	**1 366**	**(1 770)**
Total net cash flows	**(4 036)**	**(2 422)**
of which foreign exchange differences on cash and cash equivalents	86	60
Cash and cash equivalents at the beginning of the period	31 995	20 775
Cash and cash equivalents at the end of the period	**27 959**	**18 353**

* The statement of cash flows for the 3-month period ended 31 March 2022 was restated mainly due to the implementation of IFRS 17 “Insurance Contracts” (see note 9 “IFRS 17 Insurance Contracts")

(IN PLN MILLION)

GENERAL INFORMATION ABOUT THE GROUP

1. ACTIVITIES OF THE GROUP

Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna (**PKO BANK POLSKI S.A.** or **THE BANK**) was established by virtue of a decree signed on 7 February 1919 by the Head of State Józef Piłsudski, Prime Minister Ignacy Paderewski and Hubert Linde, post and telegraph minister and simultaneously the first president, as Pocztowa Kasa Oszczędnościowa. In 1950, the Bank began operating as Powszechna Kasa Oszczędności Bank Państwowy (state-owned bank). Pursuant to the Decree of the Council of Ministers dated 18 January 2000, Powszechna Kasa Oszczędności (a state-owned bank) was transformed into a state owned joint-stock company, Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna.

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

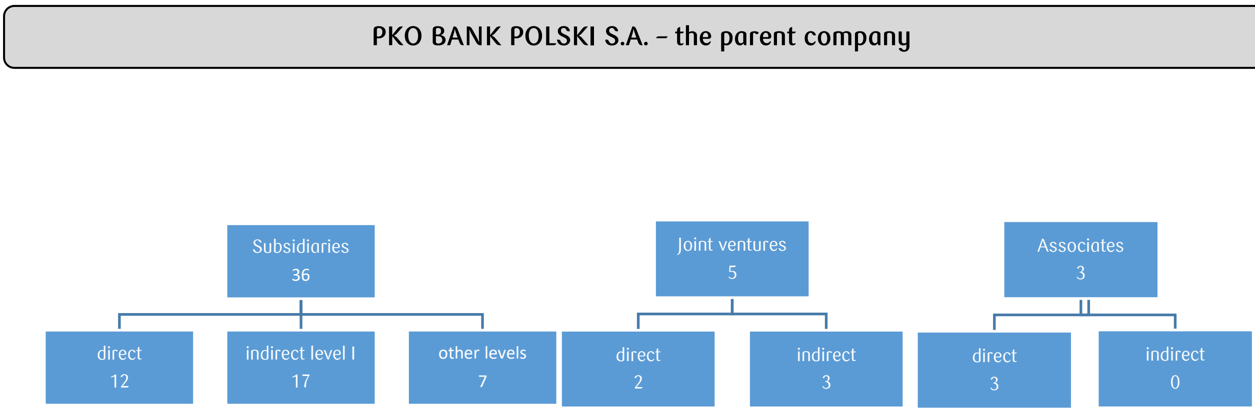
Country of registration	Poland
Registered office	Warsaw
Address of the registered office of the entity	Puławska street 15, 02-515 Warsaw

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

The Powszechna Kasa Oszczędnościowa Bank Polski Spółka Akcyjna Group (**"THE PKO BANK POLSKI S.A. GROUP", "THE BANK'S GROUP", "THE GROUP"**) conducts its operations within the territory of the Republic of Poland and through subsidiaries in Ukraine, Sweden and Ireland; it also has branches in the Federal Republic of Germany ("the German Branch"), the Czech Republic ("the Czech Branch") and in the Slovak Republic ("the Slovak Branch").

PKO Bank Polski S.A., as the parent company, is a universal deposit and credit bank which services both Polish and foreign individuals, legal and other entities. The Bank may hold and trade in cash in foreign currencies, as well as conduct foreign exchange and foreign currency transactions, open and maintain bank accounts in banks abroad, and deposit foreign currency in those accounts.

Through its subsidiaries, the Group offers mortgage loans, provides specialized financial services related to leases, factoring, debt collection, investment funds, pension funds and insurance, as well as provides services related to car fleet management, transfer agent, technological solutions, IT outsourcing and business support, real estate management and also conducts banking operations and provides debt collection and financing services in Ukraine.



(IN PLN MILLION)

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

No.	ENTITY NAME DIRECT SUBSIDIARIES	REGISTERED OFFICE	ACTIVITY	OWNERSHIP INTEREST (%) 31.03.2023	 31.12.2022
1	PKO Bank Hipoteczny S.A.	Warsaw	banking activities	100	100
2	PKO Towarzystwo Funduszy Inwestycyjnych S.A.	Warsaw	investment fund management	100	100
3	PKO Leasing S.A.	Łódź	leases and loans	100	100
4	PKO BP BANKOWY PTE S.A.	Warsaw	pension fund management	100	100
5	PKO BP Finat sp. z o.o.	Warsaw	services, including transfer agent services and outsourcing of IT specialists	100	100
6	PKO Życie Towarzystwo Ubezpieczeń S.A.	Warsaw	life insurance	100	100
7	PKO Towarzystwo Ubezpieczeń S.A.	Warsaw	other personal insurance and property insurance	100	100
8	PKO Finance AB	Sollentuna, Sweden	financial services	100	100
9	KREDOBANK S.A.	Lviv, Ukraine	banking activities	100	100
10	Merkury - fiz an[1]	Warsaw	investing funds collected from fund participants	100	100
11	NEPTUN - fizan[1]	Warsaw		100	100
12	PKO VC - fizan[1]	Warsaw		100	100

[1] PKO Bank Polski S.A. holds investment certificates of the Fund; the percentage of the Fund's investment certificates held is presented in the item "Share in capital".

No.	ENTITY NAME INDIRECT SUBSIDIARIES	REGISTERED OFFICE	ACTIVITY	OWNERSHIP INTEREST (%)* 31.03.2023	 31.12.2022
	PKO Leasing S.A. GROUP				
1	PKO Agencja Ubezpieczeniowa sp. z o.o.	Warsaw	intermediation in concluding insurance agreements	100	100
	1.1 PKO Leasing Finanse sp. z o.o.	Warsaw	sale of post-lease assets	100	100
2	PKO Leasing Sverige AB	Stockholm, Sweden	leasing	100	100
3	Prime Car Management S.A.	Gdańsk	leasing, fleet management	100	100
	3.1 Futura Leasing S.A.	Gdańsk	leasing and sales of post-lease assets	100	100
	3.2 Masterlease sp. z o.o.	Gdańsk	leasing	100	100
	3.3 MasterRent24 sp. z o.o.	Gdańsk	short-term lease of cars	100	100
4	PKO Faktoring S.A.	Warsaw	factoring	100	100
5	Polish Lease Prime 1 DAC[1]	Dublin, Ireland	SPV established for securitization of lease receivables	-	-
	PKO Życie Towarzystwo Ubezpieczeń S.A. GROUP				
6	Ubezpieczeniowe Usługi Finansowe sp. z o.o.	Warsaw	services	100	100
	KREDOBANK S.A. GROUP				
7	"KREDOLEASING" sp. z o.o.	Lviv, Ukraine	in organization	100	100
	Merkury - fiz an				
8	"Zarząd Majątkiem Górczewska" sp. z o.o.	Warsaw	property management	100	100

(IN PLN MILLION)

9	Molina sp. z o.o.	Warsaw	general partner in partnerships limited by shares of a fund	100	100
10	Molina spółka z ograniczoną odpowiedzialnością 1 S.K.A.	Warsaw	buying and selling real estate on own account, real estate management	100	100
11	Molina spółka z ograniczoną odpowiedzialnością 2 S.K.A. w likwidacji (in liquidation)	Warsaw		100	100
12	Molina spółka z ograniczoną odpowiedzialnością 4 S.K.A. w likwidacji (in liquidation)	Warsaw		100	100
13	Molina spółka z ograniczoną odpowiedzialnością 6 S.K.A. w likwidacji (in liquidation)	Warsaw		100	100
	NEPTUN - fizan				
14	Qualia sp. z o.o.	Warsaw	after-sale services in respect of developer products	100	100
15	Sarnia Dolina sp. z o.o.	Warsaw	development activities	100	100
16	Bankowe Towarzystwo Kapitałowe S.A.	Warsaw	services	100	100
	16.1 “Inter-Risk Ukraina" spółka z dodatkową odpowiedzialnością[2]	Kiev, Ukraine	debt collection	99.90	99.90
	16.2 Finansowa Kompania “Prywatne Inwestycje" sp. z o.o.[3]	Kiev, Ukraine	financial services	95.4676	95.4676
	16.2.1 Finansowa Kompania “Idea Kapitał" sp. z o.o.	Lviv, Ukraine	services	100	100
17	“Sopot Zdrój" sp. z o.o.	Sopot	property management	72.9769	72.9769

* share of direct parent in the entity's equity

1) In accordance with IFRS 10, PKO Leasing S.A. exercises control over the company, although it does not have a capital share In it.
2) Finansowa Kompania “Prywatne Inwestycje" sp. z o.o. is the second shareholder of the company.
3) “Inter-Risk Ukraina" – a company with additional liability – is the second shareholder of the company.

The Group has the following associates and joint ventures:

No	ENTITY NAME	REGISTERED OFFICE	ACTIVITY	OWNERSHIP INTEREST (%)*	
				31.03.2023	31.12.2022
	Joint ventures of PKO Bank Polski S.A.				
1	Operator Chmury Krajowej sp. z o.o.	Warsaw	cloud computing services	50	50
2	Centrum Elektronicznych Usług Płatniczych eService sp. z o.o.	Warsaw	financial services support activities, including handling transactions concluded using payment instruments	34	34
	1 EVO Payments International s.r.o.	Prague, the Czech Republic	financial services support activities	100	100
	Joint venture NEPTUN - fizan				
	2 “Centrum Obsługi Biznesu" sp. z o.o.	Poznań	property management	41.45	41.45
	Joint venture PKO VC - fizan				
	3 BSafer sp. z o.o.	Stalowa Wola	managing marketing consents	35.06	35.06
	Associates of PKO Bank Polski S.A.				
1	Bank Pocztowy S.A.	Bydgoszcz	banking activities	25.0001	25.0001
2	Poznański Fundusz Poręczeń Kredytowych sp. z o.o.	Poznań	guarantees	33.33	33.33
3	System Ochrony Banków Komercyjnych S.A.	Warsaw	manager of the security system referred to in Article 130e of the Banking Law	21.11	21.11

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

2. CHANGES IN THE GROUP COMPANIES

In the first quarter of 2023, there were no significant changes to the Group's structure. In January 2023, the placing of Molina spółka z ograniczoną odpowiedzialnością 2 S.K.A. w likwidacji (in liquidation) and Molina spółka z ograniczoną odpowiedzialnością 4 S.K.A. w likwidacji (in liquidation) was entered in the National Court Register.

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

Composition of the Bank's Supervisory Board as at 31 March 2023:

- Robert Pietryszyn – Chair of the Supervisory Board
- Wojciech Jasiński – Deputy Chair of the Supervisory Board
- Dominik Kaczmarski – Secretary of the Supervisory Board
- Mariusz Andrzejewski – Member of the Supervisory Board
- Andrzej Kisielewicz – Member of the Supervisory Board
- Rafał Kos – Member of the Supervisory Board
- Tomasz Kuczur – Member of the Supervisory Board
- Maciej Łopiński – Member of the Supervisory Board
- Krzysztof Michalski – Member of the Supervisory Board
- Bogdan Szafrański – Member of the Supervisory Board
- Agnieszka Winnik-Kalemba – Member of the Supervisory Board

With effect from 24 March 2023, Mr Maciej Łopiński resigned as Chair of the Bank's Supervisory Board, while remaining a member of the Bank's Supervisory Board. The Minister of State Assets, acting as an Authorised Shareholder within the meaning of § 11(2) of the Bank's Articles of Association, in consideration of § 35(1) of the Bank's Articles of Association, in accordance with § 12(1) of the Bank's Articles of Association, appointed Mr Robert Pietryszyn as Chair of the Bank's Supervisory Board as of 24 March 2023.

Composition of the Bank's Management Board as at 31 March 2023:

- Paweł Gruza – Vice-President of the Management Board managing the work of the Management Board – until 12 April 2023
- Maciej Brzozowski – Vice-President of the Management Board
- Marcin Eckert – Vice-President of the Management Board
- Wojciech Iwanicki – Vice-President of the Management Board
- Andrzej Kopyrski – Vice-President of the Management Board
- Maks Kraczkowski – Vice-President of the Management Board – until 13 April 2023
- Mieczysław Król – Vice-President of the Management Board – until 13 April 2023
- Artur Kurcweil – Vice-President of the Management Board
- Piotr Mazur – Vice-President of the Management Board

On 6 April 2023, Mr Paweł Gruza resigned, effective at the end of 12 April 2023, from leading the Bank's Management Board and from applying for the position of President of the Bank's Management Board. Simultaneously, Mr Paweł Gruza did not resign from his membership of the Bank's Management Board or from his position as Vice-President of the Bank's Management Board.

With effect from 13 April 2023, Mr Mieczysław Król resigned as a member of the Bank's Management Board.

The Bank's Supervisory Board dismissed Mr Maks Kraczkowski from the Bank's Management Board with effect from 13 April 2023.

The Bank's Supervisory Board resolved to appoint Mr Dariusz Szwed as Vice-President of the Bank's Management Board, effective 14 April 2023, for the current joint term of office of the Bank's Management Board, which commenced on 3 July 2020, and at the same time appointed Mr Dariusz Szwed as President of the Bank's Management Board, subject to the approval of the Polish Financial Supervision Authority and as of the date of such approval. Until the approval by the Polish Financial Supervision Authority, the Supervisory Board has entrusted Mr Dariusz Szwed with directing the work of the Management Board.

(IN PLN MILLION)

CHANGES IN THE OWNERSHIP STRUCTURE OF THE PKO BANK POLSKI S.A. SHARES AND THE RIGHTS ATTACHED TO THEM BY MEMBERS OF THE MANAGEMENT AND SUPERVISORY STAFF

No	Name and surname	Number of shares as at the date of publication of the report	Number of shares as at 31.03.2023	Purchase	Disposal	Number of shares as at 31.12.2022
	Management Board of the Bank					
1	Dariusz Szwed, Vice-President of the Management Board managing the work of the Management Board – as of 14 April 2023	-	-	-	-	-
2	Maciej Brzozowski, Vice-President of the Management Board	-	-	-	-	-
3	Marcin Eckert, Vice-President of the Management Board	-	-	-	-	-
4	Paweł Gruza, Vice-President of the Management Board until 12 April 2023 managing the work of the Management Board	-	-	-	-	-
5	Wojciech Iwanicki, Vice-President of the Management Board	-	-	-	-	-
6	Andrzej Kopyrski, Vice-President of the Management Board	496	496	-	-	-
7	Artur Kurcweil, Vice-President of the Management Board			-	-	-
8	Piotr Mazur, Vice-President of the Management Board	8 000	8 000	-	-	8 000
	Mieczysław Król, Vice-President of the Management Board, until 13 April 2023	-	6 000	-	-	6 000
	Maks Kraczkowski, Vice-President of the Management Board, until 13 April 2023	-	-	-	-	-

Following the resignation of Mr Mieczyslaw Król as Vice-President of the Bank's Management Board as of 13 April 2023, the number of shares held by members of the Bank's Management Board decreased by 6,000 shares in the period from 31 March 2023 to the date of publication of this report.

As at 31 March 2023 and as at the date of publication, the members of the Supervisory Board did not hold any shares in PKO Bank Polski S.A.

4. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements of the Group (**THE FINANCIAL STATEMENTS**), subject to review by the Audit Committee and adoption by the Supervisory Board of the Bank on 17 May 2023, were approved for publication by the Management Board on 17 May 2023.

5. REPRESENTATION BY THE MANAGEMENT BOARD

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

6. STATEMENT OF COMPLIANCE

The financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as endorsed by the European Union (EU) as at 31 March 2023, and in the areas not regulated by these standards, in accordance with the requirements of the Accounting Act of 29 September 1994 and the respective secondary legislation issued on its basis, as well as the requirements relating to issuers of securities registered or applying for registration on an official listing market.

7. GOING CONCERN

The financial statements have been prepared on the basis of the assumption that the Bank's Group will continue as a going concern for a period of at least 12 months from the date of approval for publication by the Management Board, i.e from 17 May 2023. As at the date of signing of these financial statements, the Management Board of the Bank did not identify any facts or circumstances which would indicate any threats to the Group's ability to continue in operation as a going concern for at least 12 months after the publication as a result of intended or forced discontinuing or significantly curtailing the existing operations of the Bank's Group.

The Bank's Management Board considered the impact of: current situation in Ukraine, legal risk of mortgage loans in convertible currencies and credit holidays introduced by the Act of 7 July 2022 on crowdfunding for business ventures and assistance to borrowers and assessed that these factors do not cause significant uncertainty regarding the Group's ability to continue as a going concern.

Disclosures concerning: the situation in Ukraine are presented in the note "Impact of the geopolitical situation in Ukraine on the PKO Bank Polski S.A. Group", the legal risk of mortgage loans in convertible currencies in the notes "The costs of legal risk of mortgage loans in convertible currencies" and credit holidays in the note "Loans and advances to customers".

8. THE BASIS FOR PREPARATION OF THE FINANCIAL STATEMENTS

The consolidated financial statements of the PKO Bank Polski S.A. Group cover the three-month period ended 31 March 2023 and contains comparative figures:

- the three-month period ended 31 March 2022 with regard to the consolidated income statement, consolidated statement of comprehensive income, statement of changes in consolidated equity, and consolidated statement of cash flows
- as at 31 December 2022 with regard to the consolidated statement of financial position

The financial data is presented in millions of Polish zlotys (PLN), unless otherwise indicated.

To prepare the financial statements, the Group applied the accounting policies and calculation methods consistent with those applicable in the financial year ended 31 December 2022, with the exception of changes described in note "IFRS 17 INSURANCE CONTRACTS" concerning the implementation of new IFRS 17 "Insurance Contracts" as of 1 January 2023 and note **"CHANGES IN THE ACCOUNTING POLICIES APPLICABLE FROM 1 JANUARY 2023 AND EXPLANATION OF THE DIFFERENCES BETWEEN PREVIOUSLY PUBLISHED FINANCIAL STATEMENTS AND THESE FINANCIAL STATEMENTS".** In addition, the Group has taken into account the principle of recognising income tax expense based on the best estimate of the weighted average annual income tax rate expected by the Group for the full financial year.

These financial statements for the three-month period ended 31 March 2023 do not comprise all the information and disclosures which may be required in annual financial statements and should be read jointly with the annual consolidated financial statements of the PKO Bank Polski S.A. Group for the year ended 31 December 2022 that were prepared in accordance with the International Financial Reporting Standards endorsed by the European Union.

9. IFRS 17 "INSURANCE CONTRACTS"

International Financial Reporting Standard 17 Insurance Contracts ('IFRS 17') was published by the International Accounting Standards Board in May 2017 and amended by it in June 2020 and on 9 December 2021[1]. IFRS 17 was endorsed for use in European Union countries on 19 November 2021 by Regulation 2021/2036 of the European Union.

The objective of the new standard is to introduce new coherent rules for the measurement of insurance and reinsurance contracts, ensuring greater comparability of reporting between providers of insurance products, and to provide a number of new disclosures for the use of financial statement users.

This standard is mandatorily applicable from 1 January 2023. IFRS 17 replaced IFRS 4 "Insurance Contracts", which enabled entities to recognize insurance contracts according to the accounting principles based on the national standards.

IFRS 17 changed the recognition, measurement, presentation and disclosure of insurance contracts distributed by Group companies, both as products linked to, among others, mortgage loans, cash loans and leasing products, and as stand-alone products.

The Group has implemented the standard in the retrospective full and modified approach for the part of the portfolio.

[1]The amendment to the transition requirements in IFRS 17 allows companies to overcome one-time classification differences of comparative information of the previous reporting period upon initial application of IFRS 17 and IFRS 9 Financial Instruments.

The implementation of IFRS 17 as at 1 January 2022 resulted in an increase in the Group's assets by PLN 582 million, liabilities by PLN 296 million and equity by PLN 286 million. For a detailed description of the impact of adjustments due to the implementation of IFRS 17, see Section 9.2. IMPACT ASSESSMENT - CLASSIFICATION AND MEASUREMENT.

9.1. MEASUREMENT AND PRESENTATION OF INSURANCE PRODUCTS

The key differences in the measurement and presentation of insurance products that apply to the Group and that came into effect upon implementation of IFRS 17 are presented below.

9.1.1. IFRS 17 KEY ASSUMPTIONS

IFRS 17, as a new accounting standard, changed the recognition, measurement, presentation and disclosure of insurance contracts. The standard applies to insurance contracts, reinsurance contracts and investment contracts with discretionary profit-sharing.

The new standard defines an insurance contract as a contract in which one party accepts a significant insurance risk from the policyholder and undertakes to compensate the insured for an adverse effect arising from, an uncertain future event. This definition is in principle consistent with the definition in IFRS 4

The standard does not apply to, among others, investment contracts, product guarantees issued by the manufacturer, loan guarantees, catastrophe bonds and so-called weather derivatives (contracts that require a payment based on a climatic, geological or other physical variable that is not specific to a party to the contract).

The biggest impact on the occurrence of differences compared to the current IFRS 4 have:

- the valuation of liabilities and assets under insurance contracts, which:
  - is based on the value of the best estimate of future cash flows;
  - reflects the time value of money;
  - includes the risk adjustment for non-financial risk;
  - includes the expected value of future profits;
- recognition of expected profits for the group of insurance contracts over time, in proportion to the so-called coverage units, corresponding to the level of service provided by the insurance company in each reporting period;
- recognition of entire expected loss on insurance contracts at the point at which the entity assesses that the contract is onerous, which may be at the date of initial recognition of that contract or at subsequent measurement;
- separate (from direct business contracts) measurement of liabilities and assets for outward reinsurance.

For measurement purposes, insurance contracts are aggregated into groups of contracts. Groups of contracts are defined by first identifying portfolios comprising contracts subject to similar insurance risks and managed together. Each portfolio is then divided into quarterly cohorts (i.e. by policy recognition date) and each quarterly cohort into the following three groups:

- a group of contracts that are onerous at initial recognition;
- a group of contracts that at initial recognition have no significant possibility of becoming onerous subsequently; and
- a group of the remaining contracts in the portfolio.

Cash flows within the boundary of an insurance contract are those that relate directly to the fulfilment of the contract, including cash flows for which the entity has discretion over the amount or timing.

The cash flows within the boundary include:

- premiums (including premium adjustments and instalment premiums) from a policyholder and any additional cash flows that result from those premiums;

- payments to (or on behalf of) a policyholder, including claims that have already been reported but have not yet been paid (i.e. reported claims), incurred claims for events that have occurred but for which claims have not been reported and all future claims for which the entity has a substantive obligation;
- an allocation of insurance acquisition cash flows attributable to the portfolio to which the contract belongs;
- claim handling costs;
- costs the entity will incur in providing contractual benefits paid in kind;
- policy administration and maintenance costs;
- taxes on transactions.

Separate presentation of outward reinsurance contracts and insurance and reinsurance contracts is required under the new standard.

Within each of these two groups, separate presentation is required for assets and liabilities of portfolios depending on whether the sum of the balance sheet items making up the insurance portfolio measurement is a net asset or liability.

9.1.2. THE MODEL FOR THE MEASUREMENT AND RECOGNITION OF INSURANCE PRODUCTS, INCLUDING THOSE LINKED TO LOANS AND ADVANCES APPLIED UNTIL 31 DECEMBER 2022

Until the implementation of the new standard, the Group recognised net income on insurance activities under commission income – in the line “offering insurance products” which comprised premium income, costs of insurance activities, claims and change in technical reserves, and the impact of the reinsurer’s share in the aforementioned items.

Due to the fact that the Group offers insurance products along with loans and advances and lease products and it is impossible to purchase from the Group an insurance product that is identical as to the legal form, conditions and economic content without purchasing a loan, an advance or a lease product, the payments received by the Group for the insurance products sold were treated as an integral part of the remuneration for the financial instruments offered. All premium received by the Group split in accordance with Recommendation U on the basis of the relative fair value model into a portion relating to:

- the insurance product - measured using an actuarial model in accordance with the requirements of IFRS 4 (recognised in commission income, line "offering insurance products")
- the portion relating to the credit product – settled using the effective interest rate method and recognized in interest income and, in the part corresponding to the performance of the agency service, if the insurer is a Group company, accounted for using the straight line method during the term of the insurance product and is recognized as commission income (line: offering insurance products).

Costs directly attributable to selling insurance products were accounted for as a component of the amortized cost of a financial instrument or on a one-off basis. The provision for future refunds was allocated to the financial instrument and insurance service in accordance with the relative fair value model.

The Group presented its insurance activities under the following headings in the statement of financial position (see the note "Assets and liabilities from insurance activities" for details):

- **ASSETS FROM INSURANCE ACTIVITIES** – receivables on account of reinsurance and share of reinsurers in technical reserves.
- **LIABILITIES IN RESPECT OF INSURANCE ACTIVITIES** – technical reserves to cover current and future claims and costs which may arise from the insurance contracts concluded, i.e. unearned premium and unexpired risk reserves, outstanding claims and benefits reserve, reserve for bonuses and discounts for the insured, life insurance reserve, and other, as well as deferred reinsurance commission and reinsurance related liabilities.
- **AMOUNTS DUE TO CUSTOMERS – “LIABILITIES IN RESPECT OF INSURANCE PRODUCTS”:** liabilities from unit-linked products, safe capital product, structured products and insurance deposits.

9.1.3. MEASUREMENT AND RECOGNITION OF INSURANCE PRODUCTS OFFERED BY THE GROUP, INCLUDING THOSE LINKED TO LOANS AND ADVANCES IN ACCORDANCE WITH IFRS 17

In accordance with IFRS 17, all insurance products offered by the Group are recognized and measured under this standard as insurance products. At the consolidated Group level, the premium received by the Group is no longer split in accordance with Recommendation U on the basis of the relative fair value model (this model was maintained for the Bank's separate financial statements).

The components of the net insurance income, including the portion that formed part of the Group's interest income, commission income or administrative expenses and related directly to insurance contracts, is measured using an actuarial model and presented in the "Net income from insurance business".

The implementation of IFRS 17 at the consolidated level also affects the carrying amount of loans and advances to customers. The premium element recognised under the relative fair value model, adjusting the gross carrying amount of loans at the Bank level, at the consolidated level is an element of the assets and liabilities arising from insurance activities, measured in accordance with the principles set out in IFRS 17.

Starting from 1 January 2023, products i.e. liabilities from unit-linked products, “safe capital”, previously recognised under IFRS 9, are measured under IFRS 17 as part of liabilities from insurance activities (this applies to the item “Amounts due to customers” – “Liabilities in respect of insurance products”). On the other hand, structured products and insurance deposits, as investment products, continue to be recognised in accordance with IFRS 9 in the line “Amounts due to customers”.

9.1.4. MEASUREMENT PRINCIPLES FOR INSURANCE CONTRACTS

Under IFRS 17, contracts may be measured according to the following methods:

1) **GMM – general measurement model** – the basic measurement model, wherein the total value of the insurance liability is calculated as the sum of:
   a) discounted value of the best estimate of future cash flows - expected (probability-weighted) cash flows from premiums, claims, benefits, acquisition expenses and costs;
   b) risk adjustment for non-financial risk, RA – an individual estimate of the financial value of the offset for uncertainty related to the amount and timing of future cash flows, and
   c) contractual service margin, CSM – representing an estimate of future profits recognized during the policy term. The CSM value is sensitive to changes in estimates of cash flows, resulting e.g. from changed non-economic assumptions. CSM cannot be a negative value – any losses on the contracts shall be recognized immediately in the income statement (an exception is made for outward reinsurance contracts, for which the CSM may be negative);
2) **PAA – premium allocation approach**

   The premium allocation approach (PAA), is a simplified approach where the measurement of liability for remaining coverage (LRC) is analogous to the provision for unearned premiums mechanism (without separate presentation of RA and CSM). The PAA method is applied for short-term contracts of up to 1 year and longer, as long as the relevant qualifying criteria for applying the simplification are satisfied, as specified in paragraphs 53 or 69 of IFRS 17. The measurement of liability for incurred claims (LIC) is carried out using the GMM model (without CSM calculations). At the time of implementation of IFRS 17, the PAA method is not used by the Group to measure insurance liabilities/assets;
3) **VFA – variable fee approach**

   The liability measurement method used for IFRS 17 reporting of insurance contracts with direct profit sharing, where the measurement of liabilities is performed similarly to the GMM approach with the difference that changes in the contract margin component of the CSM in subsequent periods also include the impact of changes in economic factors, not just insurance factors.

Due to the specific nature of the insurance and reinsurance contracts in non-life insurance offered within the Group (insurance of several years), the criteria for applying the simplified valuation method based on premium allocation - PAA - were not met at the date of transition.

Accordingly, both life insurance contracts and non-life insurance and reinsurance contracts are measured using the general model - GMM. The exception to this is direct profit-sharing insurance contracts, for which the Group uses the VFA model.

9.1.5. IDENTIFICATION AND AGGREGATION OF INSURANCE CONTRACTS

In order to identify insurance contracts and inward reinsurance contracts that are within the scope of IFRS 17, the Group verifies whether, under a given contract, the entity accepts a significant insurance risk from the policyholder and undertakes to compensate the policyholder for an adverse effect defined as an uncertain future insurable event.

For measurement purposes, insurance contracts should be aggregated into the so-called groups of insurance contracts described in Section 9.1.1 IFRS 17 MAIN ASSUMPTIONS. Grouping of contracts should be done taking into account the following three dimensions:

- portfolio dimension - contracts with similar risk characteristics and managed jointly;
- profitability dimension - contracts belonging to the same profitability group (one of the three defined by the standard);
- cohort dimension - contracts issued no more than one year apart.

The purpose of this aggregation is to ensure that profits are recognized over time in proportion to the insurance services provided, and losses are recognized immediately when the entity assesses that the concluded contract gives rise to a burden.

At the same time, the above aggregation makes it impossible to offset gains and losses between identified groups of insurance contracts, even within a single portfolio.

Grouping of insurance contracts occurs upon initial recognition, and the Group will not reassess the groups in subsequent periods unless there is a rationale for discontinuing contract recognition as specified in IFRS 17.

In the Group, the division of the portfolio into groups of insurance contracts will be determined taking into account the above dimensions:

- portfolio dimension - based on the risk characteristics of individual insurance contracts and based on existing insurance portfolio management processes;
- profitability dimension:
    - for life insurance - at the level of a single contract by measuring the given insurance contract;
    - for non-life insurance - all contracts are treated as profitable, unless there are facts or circumstances that indicate that they are not profitable. Profitability is assessed at the level of the IFRS 17 portfolio, while it is permissible to move the assessment to the level of the quarter or year cohorts;
- cohort dimension - the Group decided to use quarterly cohorts for both life and non-life insurance and reinsurance. The Group does not expect to apply the exemption from reporting under the requirement for annual cohorts.

9.1.6. MAIN ELEMENTS OF MEASUREMENT ACCORDING TO IFRS 17

The most significant elements of the IFRS 17 measurement and the main methodological decisions made by the Group are presented below.

9.1.6.1. CONTRACT BOUNDARIES

For the purpose of measurement of liabilities, the value of financial flows within the contract boundaries is estimated. Contract boundaries cover the period during which the Group is obliged to provide the services covered by the insurance contract. This period may arise from premiums already paid or premiums in respect of which the insured may be liable to pay. Cash flows are treated as flows within the contract boundaries if they result from the insurance cover provided during the above period, even if the physical payment goes beyond the contract boundaries.

The service obligation defining the contract boundaries expires when there is a realistic possibility of a risk reassessment and tariff change. If there is no such practical possibility, the measurement of liabilities includes all future expected premiums.

In the Group the contract boundary approach is largely consistent with the Solvency II measurement approach used to date. The exceptions are contract boundaries applied in unit-linked products, where the guidelines for future cash flows derived from the "PFSA Office's Position on the Contract Boundary for the Purpose of Determining Insurance or Reinsurance Liabilities" are used for measurement for the needs of Solvency II. In contrast, for the needs of IFRS 17, in unit-linked products with regular premiums, the future premium is modelled in accordance with the policyholder's liabilities described in the general terms and conditions of insurance and in the policy.

9.1.6.2. DISCOUNTING AND ADJUSTMENT FOR NON-FINANCIAL RISK

The Group uses discount rate curves determined under the bottom-up approach (IFRS 17 paragraph B80), which assumes that discount curves are determined as liquid risk-free rate curves.

Base discount curves are set at risk-free discount rates published by EIOPA. As part of the simplification adopted, no illiquidity premium was applied.

The Group includes a risk adjustment for non-financial risks in the measurement of insurance contracts. Due to the different risk characteristics for the portfolio of life and non-life insurance and for the future flows arising from the liabilities of payable claims and those arising from the remaining insurance period, the adjustment for non-financial risk for these liabilities is estimated independently.

For non-life insurance, the adjustment for future coverage is determined using the Value at Risk (VaR) method, using a modified Solvency Capital Requirement (SCR) calculation according to the Solvency II standard formula. Two approaches are used to determine the adjustment for the loss reserve: the VaR method analogous to the approach for future coverage and the bootstrap method.

For life insurance, for liabilities arising from the remaining insurance period, the adjustment is determined using the cost of capital (CoC) method, and for liabilities for payable claims using the bootstrap method. The risk adjustment for non-financial risks at the entity level is determined as a simple sum of adjustments determined at the level of individual groups of contracts or business lines, and diversification is taken into account when determining the level of materiality at the entity level (bottom-up approach). At the Group level, the adjustment for non-financial risk is determined as a simple sum of adjustments for individual entities, and diversification between entities is not taken into account.

9.1.6.3. CONTRACTUAL SERVICE MARGIN

The contractual service margin is part of the liabilities (or assets) under insurance and reinsurance contracts. The contractual srvice margin reflects the outstanding profit for a group of insurance contracts and is therefore released as income in the income statement. The amount of margin release in a reporting period is determined as the value of unrecognised expected future profit attributable to the period in accordance with a pattern of so-called coverage units, which determine the volume of insurance service provided in each period.

The pattern of coverage units provided was estimated on the basis of sums insured (life insurance) or premiums earned assuming a pro rata approach (property insurance)

9.1.6.4. FINANCIAL COSTS OF INSURANCE OPERATIONS

Under IFRS 17, the Group has the option to split the financial expenses of its insurance operations into the portions recognized in profit or loss and other comprehensive income. The Group took advantage of this opportunity for all IFRS 17 portfolios. In accordance with IFRS 4 technical provisions were not calculated on the basis of current economic assumptions. Hence this is a new element introduced by IFRS 17.

9.1.6.5. TRANSITION DATE

The Group applied IFRS 17 for the first time in the period beginning 1 January 2023. Due to the need to prepare comparative data, 1 January 2022 is assumed as the date of transition to the new standard.

(IN PLN MILLION)

The standard allows the use of 3 methods for the purpose of measuring financial items at the transition date:

- full retrospective approach (FRA) - a method in which an entity measures groups of insurance contracts as if the standard had been applied from the beginning for those contracts;
- modified retrospective approach (MRA) - a method that allows to apply simplifications to the FRA method if its full application is not feasible in practice;
- fair value approach - a method that is permitted, if the MRA method is not feasible in practice or if the entity has decided not to use the MRA method.

In accordance with the provisions of IFRS17 paragraph C3, unless it is impracticable to do so, the Group applies the full retrospective approach to the measurement of insurance contracts. In cases where the application of the full retrospective approach has been assessed as impracticable, the Group uses the modified retrospective approach or the fair value approach, and the choice of approach is made individually for each group of contracts. Factors such as group characteristics, the availability of historical data, materiality and whether the group of contracts belongs to the portfolio offered for sale by the Group as of the transition date are taken into account in the selection.

The Group used the full retrospective approach for most groups of contracts and, in a few cases, the MRA method. However, the fair value approach was not used for the valuation.

9.2. Impact assessment - classification and measurement

The following tables present the cumulative effect of adjustments resulting from the implementation of IFRS 17 on:

- the Group's assets, liabilities and equity as at 1 January 2022, 31 March 2022 and 31 December 2022
- items of comprehensive income including the income statement for the three-month period of 2022.

	31.12.2021 (pursuant to IFRS 4)	Adjustment due to implementation of IFRS 17	01.01.2022 (pursuant to IFRS 17)
TOTAL ASSETS, of which:	418 086	582	418 668
Loans and advances to customers	234 300	1 395	235 695
Assets in respect of insurance activities	911	(783)	128
Intangible assets	3 463	(20)	3 443
Other assets	2 605	(10)	2 595

	31.12.2021 (pursuant to IFRS 4)	Adjustment due to implementation of IFRS 17	01.01.2022 (pursuant to IFRS 17)
TOTAL LIABILITIES AND EQUITY	418 086	582	418 668
TOTAL LIABILITIES, of which:	380 393	296	380 689
Amounts due to customers	322 296	(1 030)	321 266
Liabilities in respect of insurance activities	2 008	1 309	3 317
Other liabilities	5 366	(6)	5 360
Deferred tax liabilities	356	23	379
TOTAL EQUITY, of which:	37 693	286	37 979
Other reserves	25 313	17	25 330
Unappropriated profit (taking into account profit or loss for 2021)	11 144	269	11 413
Capital and reserves attributable to equity holders of the parent company	**37 707**	**286**	**37 993**

- The increase in equity by PLN 286 million results from a retrospective change in the recognition of historically collected insurance premiums and a change in the measurement methodology for insurance liabilities. Until the implementation of IFRS 17, as described in Section 9.1.2 THE MODEL FOR THE MEASUREMENT AND RECOGNITION OF INSURANCE PRODUCTS, INCLUDING THOSE LINKED TO LOANS AND ADVANCES, APPLIED UNTIL 31 DECEMBER 2022 the entire premium received by the Group was split in accordance with Recommendation U on the basis of the relative fair value model into an insurance product portion - measured using an actuarial model in accordance with the requirements of IFRS 4 - and a credit product portion - accounted for using the effective interest rate method. With the implementation of IFRS 17, insurance premiums were recognised in full as insurance component measured using the GMM model. As a consequence, the rate of revenue recognition and therefore the historically recognised profit included in retained earnings has changed.
- Loans and advances to customers increased by PLN 1 395 million, due to the discontinuation of the premium element accounted for using the effective interest rate method and adjusting the gross carrying amount of loans. The value of this premium previously recognised as a component of the gross carrying amount of loans and advances to customers is now part of the insurance business measured using the new methodology under IFRS 17, thereby translating into an increase in the balance of liabilities in respect of insurance activities.
- In accordance with IFRS 17, the liability from insurance operations as at 1 January 2022 increased by PLN 1 309 million to PLN 3 317 million, of which liability for remaining coverage (LRC) is PLN 3 143 million and liability for incurred claims (LIC) is PLN 174 million.
- There was also a decrease of PLN 783 million in the line of assets in respect of insurance activities, which is primarily due to the adoption of a different method of determining insurance assets and liabilities with the reinsurer's share. In accordance with IFRS 17, the value of assets in respect of insurance activities as at 1 January 2022 amounts to 128 million, of which liability for remaining coverage (LRC) amounts to PLN - 107 million and liability for incurred claims (LIC) amounts to PLN -21 million.
- In intangible assets, the Group recognised future gains on insurance contracts (hereinafter Value in force, VIF) resulting from the settlement of the acquisition on 1 April 2014 of "Nordea Polska Towarzystwo Ubezpieczeń na Życie" SA (currently PKO Życie Towarzystwo Ubezpieczeń S.A.). Following the implementation of IFRS 17, VIF amounts to PLN 2 million as at 1 January 2022 (negative adjustment of PLN 20 million). The remeasurement is due to the fact that a significant part of the products for which VIF has been recognised are subject to the requirements of IFRS 17, so that VIF for this part of the portfolio is replaced by the contractual service margin (CSM). The amount of contractual service margin from the acquired portfolio subject to measurement in accordance with IFRS 17 is higher than the value of the recognised VIF, due to the prudential valuation that was applied for liability measurement purposes at the time of the transaction. The new VIF value has been limited to policies subject to measurement in accordance with IFRS 9 and has been calculated in line with the original recognition of the VIF (i.e. measurement of the VIF at the time of the transaction and adoption of an amortisation pattern based on the distribution of projected future profits).
- From 1 January 2023 onwards, a significant part of the products, i.e. the liabilities from the majority of unit-linked products and the "safe capital" product, will be measured in accordance with IFRS 17 as part of liabilities from insurance activities (this applies to the item "Amounts due to customers" – "Liabilities in respect of insurance products"). The remainder will be measured in accordance with IFRS 9. The value of the adjustment to the item "Amounts due to customers" amounted to a negative PLN 1 030 million. The carrying amount of the liabilities in respect of insurance products presented under "Amounts due to customers" amounts to PLN 175 million after adjustments.

(IN PLN MILLION)

	31.03.2022 (published)	Adjustment due to implementation of IFRS 17	31.03.2022 (restated)
ASSETS, of which:	421 576	683	422 259
Loans and advances to customers	236 730	1 379	238 109
not held for trading, measured at fair value through profit or loss	4 256	22	4 278
- measured at fair value through other comprehensive income	2	-	2
- measured at amortized cost	232 472	1 357	233 829
Assets in respect of insurance activities	785	(667)	118
Intangible assets	3 425	(19)	3 406
Other assets	2 711	(10)	2 701

	31.03.2022 (published)	Adjustment due to implementation of IFRS 17	31.03.2022 (restated)
LIABILITIES AND EQUITY	421 576	683	422 259
Liabilities, of which:	385 862	370	386 232
Amounts due to customers	321 871	(920)	320 951
- measured at fair value through profit or loss	989	(804)	185
- measured at amortized cost	320 882	(116)	320 766
Liabilities in respect of insurance activities	1 894	1 265	3 159
Other liabilities	6 509	(5)	6 504
Deferred tax liabilities	253	30	283
TOTAL EQUITY, of which:	35 714	313	36 027
Other reserves	21 919	34	21 953
Retained earnings	11 144	269	11 413
Net profit or loss for the year	1 416	10	1 426
Capital and reserves attributable to equity holders of the parent company	**35 729**	**313**	**36 042**

	31.12.2022 (published)	Adjustment due to implementation of IFRS 17	31.12.2022 (restated)
ASSETS, of which:	430 683	764	431 447
Loans and advances to customers	231 721	1 238	232 959
- not held for trading, measured at fair value through profit or loss	3 565	25	3 590
- measured at amortized cost	228 156	1 213	229 369
Assets in respect of insurance activities	555	(440)	115
Intangible assets	3 527	(15)	3 512
Other assets	2 804	(19)	2 785

(IN PLN MILLION)

	31.12.2022 (published)	Adjustment due to implementation of IFRS 17	31.12.2022 (restated)
LIABILITIES AND EQUITY	430 683	764	431 447
Liabilities, of which:	395 248	492	395 740
Amounts due to customers	339 582	(714)	338 868
- measured at fair value through profit or loss	783	(629)	154
- measured at amortized cost	338 799	(85)	338 714
Liabilities in respect of insurance activities	1 732	1 146	2 878
Other liabilities	7 014	(4)	7 010
Deferred tax liabilities	13	64	77
TOTAL EQUITY, of which:	35 435	272	35 707
Other reserves	22 215	24	22 239
Retained earnings	8 651	269	8 920
Net profit or loss for the year	3 333	(21)	3 312
Capital and reserves attributable to equity holders of the parent company	**35 449**	**272**	**35 721**

INCOME STATEMENT (selected items)	1.01-31.03.2022 (published)	Adjustment due to implementation of IFRS 17	01.01-31.03.2022 (restated)
Net interest income	**3 200**	**(108)**	**3 092**
Interest and similar income	3 866	(108)	3 758
of which calculated under the effective interest rate method	3 754	(108)	3 646
Net fee and commission income	**1 179**	**(96)**	**1 083**
Fee and commission income	1 509	(98)	1 411
Fee and commission expense	(330)	2	(328)
Other net income	**130**	**199**	**329**
Net income from insurance business		199	199
Result on business activities	**4 509**	**(5)**	**4 504**
Administrative expenses	(1 846)	18	(1 828)
of which net regulatory charges	(484)	1	(483)
Profit before tax	**1 866**	**13**	**1 879**
Income tax expense	(451)	(3)	(454)
		-	
Net profit (including non-controlling shareholders)	1 415	10	1 425
Net profit attributable to equity holders of the parent company	**1 416**	**10**	**1 426**

(IN PLN MILLION)

STATEMENT OF COMPREHENSIVE INCOME (selected items)	1.01-31.03.2022 (published)	Adjustment due to implementation of IFRS 17	01.01-31.03.2022 (restated)
Net profit (including non-controlling shareholders)	**1 415**	**10**	**1 425**
Other comprehensive income	**(3 394)**	**17**	**(3 377)**
Items which may be reclassified to profit or loss	**(3 394)**	**17**	**(3 377)**
Finance income and costs from insurance business, gross	-	21	21
Deferred tax	-	(4)	(4)
Finance income and costs from insurance business, net	-	17	17
Total net comprehensive income	**(1 979)**	**27**	**(1 952)**
Total net comprehensive income, of which attributable to:	(1 979)	27	(1 952)
equity holders of the parent	(1 978)	27	(1 951)

The restatement of the consolidated statement of cash flows is presented in note **"CHANGES IN ACCOUNTING POLICIES APPLICABLE FROM 1 JANUARY 2023 AND EXPLANATION OF THE DIFFERENCES BETWEEN PREVIOUSLY PUBLISHED FINANCIAL STATEMENTS AND THESE FINANCIAL STATEMENTS".**

9.3. IMPACT OF IFRS 17 ON OWN FUNDS AND CAPITAL ADEQUACY MEASURES

According to CRR Regulation, prudential consolidation is used for capital adequacy purposes, which unlike consolidation in accordance with IFRS, covers only subsidiaries that meet the definition of an institution, financial institution or any ancillary services enterprise. Therefore, the following insurance companies of the Group are excluded from prudential consolidation: PKO Towarzystwo Ubezpieczeń S.A. and PKO Życie Towarzystwo Ubezpieczeń S.A. The insurance companies are measured using the equity method. In accordance with the above consolidation, the Group's investment in insurance companies was initially recognised at cost after the date of acquisition and its value is subsequently adjusted by the change in the Group's share of the net assets of the insurance companies, as appropriate. The Group's profit or loss includes its share of the profit or loss of the Group's insurance companies (item "Share in profit or loss of associates and joint ventures") and other comprehensive income includes its share of other comprehensive income of the Group's insurance companies (item "Share in other comprehensive income of associates and joint ventures"). The impact of intercompany transactions between Group entities is eliminated.

Thus, the implementation of IFRS 17 at the date of the opening balance sheet affects the value of equity investments recognised (own funds requirements for credit risk), as well as retained earnings and accumulated other comprehensive income from the remeasurement of insurance companies measured using the equity method.

The total impact of the adjustments on the total capital ratio is +0.01 b.p. as at 31 December 2022.

(IN PLN MILLION)

10. Changes in accounting policies applicable from 1 January 2023 and explanation of the differences between previously published financial statements and these financial statements

The Group implemented the new IFRS 17 "Insurance Contracts" with effect from 1 January 2023. The impact of implementation and an explanation of the differences between the previously published statements and these financial statements with regard to the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position are presented in the note "IFRS 17 Insurance Contracts". The explanation of the differences in the consolidated statement of cash flows is presented below.

In addition, in order to better reflect its operations and ensure comparability with the banking sector, the Group made the following changes in its accounting policies with respect to:

From the financial statements for 2022 onwards:

- the item "interest and dividends" in the section on cash flows from operating activities has been split into "interest and dividends received" and "interest paid" (1). In addition, redemptions of securities and interest received are presented separately under investing activities.
- cash flows from property assets leased under operating leases were reclassified from investing activities to operating activities (2).

CASH FLOWS – SELECTED DATA	01.01-31.03.2022 before restatement	IFRS 17	(1)	(2)	01.01-31.03.2022 restated
Profit before tax	1 866	13	-	-	1 879
Total adjustments	(3 095)	(13)	-	(132)	(3 240)
Gains/losses on investing activities	-	-	-	19	-
Interest and dividends (old item)	(138)	-	138	-	-
Interest and dividends received (new items)	-	-	(271)	-	(271)
Interest paid (new items)	-	-	133	-	133
Change in loans and advances to customers	(2 888)	16	-	-	(2 872)
Change in asset in respect of insurance activities	127	(116)	-	-	11
property, plant and equipment under operating lease (new item)	-	-	-	(92)	(92)
change in amounts due to customers	(425)	110	-	-	(315)
change in liabilities in respect of insurance activities	(114)	(44)	-	-	(158)
Change in other liabilities	1 209	1	-	-	1 210
Other adjustments	(2 471)	20	-	(59)	(2 510)
Net cash from/used in operating activities	**(1 516)**	-	-	**(132)**	**(1 648)**
Inflows from investing activities	**37 076**	-	-	**(71)**	**37 005**
Redemption of securities measured at fair value through other comprehensive income	36 723	-	(179)	-	36 544
Redemption of securities measured at amortized cost	254	-	(92)	-	162
Interest received on securities measured at fair value through other comprehensive income	-	-	179	-	179
Interest received on securities measured at amortized cost	-	-	92	-	92
Proceeds from disposal of intangible assets, property, plant and equipment and assets held for sale	99	-	-	(71)	28
Outflows on investing activities	**(36 212)**	-	-	**203**	**(36 009)**
Purchase of intangible assets and property, plant and equipment	(364)	-	-	203	(161)
Net cash from/used in investing activities	**864**	-	-	**132**	**996**

(IN PLN MILLION)

11. New standards and interpretations and their amendments

- **Standards and interpretations and their amendments effective from 1 January 2023**

Standards and interpretations *	Description of changes and impact
IFRS 17 "Insurance contracts" (1.01.2023/ 19.11. 2021) and amendments to IFRS 17 (1.01.2023/ 8.09.2022)	For details, see Chapter IFRS 17 "Insurance contracts"
Amendments to IAS 1 "Presentation of financial statements" and IAS 8 "Accounting policies, changes in accounting estimates and errors" (1.01.2023/2.03.2022))	Amendments to IAS 1 contain guidelines on the application of the term "material" in disclosures of the accounting policies. Instead of significant accounting policies, the amendments require disclosure of material information about accounting policies, with explanations and examples of how an entity can identify material information about accounting policies. The amendments to IAS 8 introduce a new definition of accounting estimates. Under the new definition, accounting estimates are monetary amounts in the financial statements that are subject to measurement uncertainty. The introduction of the definition of accounting estimates and other amendments to IAS 8 are intended to help entities distinguish between changes in accounting policies and changes in accounting estimates. These amendments will affect the scope of information presented in the Bank's and the Group's annual financial statements for 2023.
Amendments to IAS 12 "Income taxes" (1.01.2023/11.08.2022)	Amendments to IAS 12 require that the entities recognise in the financial statements deferred tax assets and liabilities resulting from transactions, other than business combinations, in which equal amounts of deductible and taxable temporary differences arise on initial recognition. The amendment is presentational in nature.

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

- **New standards and interpretations, and amendments thereto, which have been published but have not been endorsed by the European Union**

Standards and interpretations *	Description of changes and impact
Amendments to IAS 1 - classification of liabilities (1.01.2024/ no data)	The changes relate to the classification of liabilities in the statement of financial position as short-term or long-term. They clarify that the classification of liabilities as short-term or long-term should take into account, as at the classification date, the existence of a debt extension, regardless of the entity's intention to use it for a period longer than 12 months, and should take into account the fulfillment of the conditions of such extension as at the date of assessment, if it is conditional. The amendment will be presentational in nature.
Amendment to IFRS 16 "Leases" (1.01.2024/ no data)	The amendments clarify how a seller-lessee should measure sale and leaseback transactions that meet the requirements of IFRS 15 to recognise an asset as a sale. In particular, the measurement of the lease liability should not take into account gains and losses associated with the retained right of use. The seller-lessee may still recognise in profit or loss the gains and losses associated with the partial or total termination of a lease. A retrospective approach will apply to these amendments. The Group is currently evaluating the impact on the consolidated financial statements.

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

(IN PLN MILLION)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. SEGMENT REPORTING

The PKO Bank Polski S.A. Group conducts business activities within segments offering specific products and services addressed to specific groups of customers. The manner in which the business segments are divided ensures consistency with the sales management model and offers customers a comprehensive product mix comprising both traditional banking products and more complex investment products, as well as services provided by the Group entities. Information about the segments was described in the consolidated financial statements of the Group for 2022.

The figures for 2022 include the impact of the implementation of International Financial Reporting Standard 17 "Insurance contracts".

FINANCIAL INFORMATION

Income statement by segment	Continuing operations			
FOR 3 MONTHS ENDED 31 MARCH 2023	Retail segment	Corporate and investment segment	Transfer center and other	Total operations of the Group
Net interest income	3 681	1 287	(781)	4 187
Net fee and commission income	824	281	(2)	1 103
Other net income	240	76	(74)	242
Net income from insurance business	163	3	-	166
Dividend income	-	1	-	1
Gains/(losses) on financial transactions	11	26	(3)	34
Foreign exchange gains/ (losses)	27	22	(45)	4
Gains/(losses) on derecognition of financial instruments	6	11	-	17
Net other operating income and expense	27	19	(26)	20
Income/(expenses) relating to internal customers	6	(6)	-	-
Result on business activities	4 745	1 644	(857)	5 532
Net expected credit losses	(223)	(105)	-	(328)
Net impairment losses on non-financial assets	(1)	-	(10)	(11)
Cost of legal risk of mortgage loans in convertible currencies	(967)	-	-	(967)
Administrative expenses, of which:	(1 567)	(416)	(2)	(1 985)
depreciation and amortization	(221)	(36)	-	(257)
net regulatory charges	(228)	(149)	(1)	(378)
Tax on certain financial institutions	(185)	(104)	(10)	(299)
Share in profits and losses of associates and joint ventures	-	-	-	23
Segment profit/(loss)	1 802	1 019	(879)	1 965
Income tax expense (tax burden)				(512)
Net profit (including non-controlling shareholders)				1 453
Profit (loss) attributable to non-controlling shareholders				(1)
Net profit attributable to equity holders of the parent company				**1 454**

(IN PLN MILLION)

Income statement by segment	Continuing operations			
FOR 3 MONTHS ENDED 31 MARCH 2022	Retail segment	Corporate and investment segment	Transfer center and other	Total operations of the Group
Net interest income	2 126	641	325	3 092
Net fee and commission income	796	289	(2)	1 083
Other net income	296	73	(40)	329
Net income from insurance business	198	1	-	199
Gains/(losses) on financial transactions	48	24	-	72
Foreign exchange gains/ (losses)	9	36	(44)	1
Gains/(losses) on derecognition of financial instruments	4	3	-	7
Net other operating income and expense	30	16	4	50
Income/(expenses) relating to internal customers	7	(7)	-	-
Result on business activities	3 218	1 003	283	4 504
Net expected credit losses	(266)	(233)	-	(499)
Net impairment losses on non-financial assets	-	(3)	(2)	(5)
Administrative expenses, of which:	(1 445)	(370)	(13)	(1 828)
depreciation and amortization	(209)	(35)	-	(244)
net regulatory charges	(320)	(150)	(13)	(483)
Tax on certain financial institutions	(186)	(103)	(18)	(307)
Share in profits and losses of associates and joint ventures	-	-	-	14
Segment profit/(loss)	1 321	294	250	1 879
Income tax expense (tax burden)				(454)
Net profit (including non-controlling shareholders)				1 425
Profit (loss) attributable to non-controlling shareholders				(1)
Net profit attributable to equity holders of the parent company				**1 426**

Assets and liabilities by segment 31.03.2023	Retail segment	Corporate and investment segment	Transfer center and other	Total operations of the Group
Assets	173 845	174 852	90 402	439 099
Investments in associates and joint ventures	-	263	-	263
Unallocated assets	-	-	-	4 620
Total assets	**173 845**	**175 115**	**90 402**	**443 982**
Liabilities	299 271	77 376	27 428	404 075
Unallocated liabilities	-	-	-	664
Total liabilities	**299 271**	**77 376**	**27 428**	**404 739**

(IN PLN MILLION)

Assets and liabilities by segment 31.12.2022	Retail segment	Corporate and investment segment	Transfer center and other	Total operations of the Group
Assets	176 656	157 849	91 419	425 924
Investments in associates and joint ventures	-	285	-	285
Unallocated assets	-	-	-	5 238
Total assets	**176 656**	**158 134**	**91 419**	**431 447**
Liabilities	288 718	79 423	26 757	394 898
Unallocated liabilities	-	-	-	842
Total liabilities	**288 718**	**79 423**	**26 757**	**395 740**

INFORMATION ON GEOGRAPHICAL AREAS

The PKO Bank Polski S.A. Group also divides its operations into geographical segments. The Group conducts its operations in the Republic of Poland, as well as in Ukraine (through the KREDOBANK S.A. Group, "Inter-Risk Ukraina" company with additional liability, Finansowa Kompania "Prywatne Inwestycje" sp. z o.o. and Finansowa Kompania "Idea Kapitał" sp. z o.o.), in Sweden (through PKO Finance AB and PKO Leasing Sverige AB) and in Ireland (through Polish Lease Prime 1 DAC1). PKO Bank Polski S.A. also has foreign corporate branches in the Federal Republic of Germany, the Czech Republic and the Slovak Republic.

For presentation purposes, the results of the companies operating in Sweden and Ireland and of the Bank's branches operating in Germany, the Czech Republic and Slovakia were recognized in the segment "Poland" due to their impact on the scale of the operations of the PKO Bank Polski S.A. Group.

(IN PLN MILLION)

The results of the companies recognized in the segment "Ukraine" include intercompany transactions with other companies of the PKO Bank Polski S.A. Group operating in Ukraine. Intercompany transactions with other companies of the PKO Bank Polski S.A. Group and consolidation adjustments are presented in the results of the segment "Poland".

FOR 3 MONTHS ENDED 31 MARCH 2023	Poland	Ukraine	Total
Net interest income	**4 097**	**90**	**4 187**
Net fee and commission income	**1 071**	**32**	**1 103**
Other net income	**241**	**1**	**242**
Net income from insurance business	166	-	166
Dividend income	1	-	1
Gains/(losses) on financial transactions	34	-	34
Foreign exchange gains/ (losses)	4	-	4
Gains/(losses) on derecognition of financial instruments	17	-	17
Net other operating income and expense	19	1	20
Result on business activities	**5 409**	**123**	**5 532**
Net expected credit losses	(292)	(36)	(328)
Net impairment losses on non-financial assets	(11)	-	(11)
Cost of legal risk of mortgage loans in convertible currencies	(967)	-	(967)
Administrative expenses, of which:	(1 938)	(47)	(1 985)
depreciation and amortization	(248)	(9)	(257)
net regulatory charges	(375)	(3)	(378)
Tax on certain financial institutions	(299)	-	(299)
Share in profits and losses of associates and joint ventures	23	-	23
Segment profit/(loss)	**1 925**	**40**	**1 965**
Income tax expense (tax burden)			(512)
Net profit (including non-controlling shareholders)			1 453
Profit (loss) attributable to non-controlling shareholders			(1)
Net profit attributable to equity holders of the parent company			**1 454**

31.03.2023	Poland	Ukraine	Total
Assets, of which:	438 607	5 112	443 719
Loans and advances to customers	236 035	1 457	237 492
Investments in associates and joint ventures	263	-	263
Total assets	**438 870**	**5 112**	**443 982**
Liabilities, of which:	400 181	4 558	404 739
Amounts due to customers	345 257	4 416	349 673
Total liabilities	**400 181**	**4 558**	**404 739**

(IN PLN MILLION)

FOR 3 MONTHS ENDED 31 MARCH 2022	Poland	Ukraine	Total
Net interest income	**3 017**	**75**	**3 092**
Net fee and commission income	**1 064**	**19**	**1 083**
Other net income	**331**	**(2)**	**329**
Net income from insurance business	199	-	199
Gains/(losses) on financial transactions	72	-	72
Foreign exchange gains/ (losses)	1	-	1
Gains/(losses) on derecognition of financial instruments	7	-	7
Net other operating income and expense	52	(2)	50
Result on business activities	**4 412**	**92**	**4 504**
Net expected credit losses	(297)	(202)	(499)
Net impairment losses on non-financial assets	(5)	-	(5)
Administrative expenses, of which:	(1 778)	(50)	(1 828)
depreciation and amortization	(232)	(12)	(244)
net regulatory charges	(480)	(3)	(483)
Tax on certain financial institutions	(307)	-	(307)
Share in profits and losses of associates and joint ventures	14	-	14
Segment profit/(loss)	**2 039**	**(160)**	**1 879**
Income tax expense (tax burden)			(454)
Net profit (including non-controlling shareholders)			1 425
Profit (loss) attributable to non-controlling shareholders			(1)
Net profit attributable to equity holders of the parent company			**1 426**

31.12.2022	Poland	Ukraine	Total
Assets, of which:	426 283	4 879	431 162
Loans and advances to customers	232 959	-	232 959
Investments in associates and joint ventures	285	-	285
Total assets	426 568	4 879	431 447
Liabilities, of which:	391 374	4 366	395 740
Amounts due to customers	334 729	4 139	338 868
Total liabilities	391 374	4 366	395 740

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF THE PKO BANK POLSKI S.A. GROUP FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2023 (IN PLN MILLION)

13. Interest income and expense

INTEREST AND SIMILAR INCOME	01.01-31.03.2023	01.01-31.03.2022
Loans and other amounts due from banks[1]	406	85
Debt securities:	1 438	632
measured at amortized cost	461	287
measured at fair value through other comprehensive income	968	340
measured at fair value through profit or loss	9	5
Loans and advances to customers (excluding finance lease receivables)[2]	5 116	2 803
measured at amortized cost	4 977	2 697
measured at fair value through profit or loss	139	106
Finance lease receivables[2]	386	236
Amounts due to customers (excluding loans and advances received)	-	2
Total	**7 346**	**3 758**
of which: interest income on impaired financial instruments	136	70
Interest income calculated using the effective interest rate method on financial instruments measured:	7 198	3 647
at amortized cost	6 230	3 307
at fair value through other comprehensive income	968	340
Income similar to interest income on instruments measured at fair value through profit or loss	148	111
Total	**7 346**	**3 758**

[1] Under loans and other receivables from banks, the Group recognised interest income on funds in call accounts (central clearing through a clearing broker) of PLN 75 million as at 31 March 2023 (PLN 23 million as at 31 March 2022) and interest income on funds in the current account with the National Central Bank of PLN 185 million (PLN 41 million as at 31 March 2022).

[2] Interest income on loans advanced to customers and finance lease receivables for the period of 3 months ended 31 March 2022 has been adjusted for the implementation of IFRS 17 "Insurance Contracts" (see note 9 "IFRS 17 Insurance Contracts")

INTEREST EXPENSE	01.01-31.03.2023	01.01-31.03.2022
Hedging derivatives	(1 155)	(268)
Amounts due to banks	(25)	(24)
Interbank deposits	-	(2)
Loans and advances received	(26)	(18)
Leases	(7)	(3)
Amounts due to customers	(1 716)	(213)
Issues of securities	(172)	(117)
Subordinated liabilities	(58)	(21)
Total	**(3 159)**	**(666)**

(IN PLN MILLION)

14. FEE AND COMMISSION INCOME AND EXPENSES

FEE AND COMMISSION INCOME	01.01-31.03.2023	01.01-31.03.2022
Loans, insurance, operating leases and fleet management	**300**	**274**
lending[1]	219	211
offering insurance products[1]	30	30
operating leases and fleet management	51	33
Investment funds, pension funds and brokerage activities	**195**	**219**
servicing investment funds and OFE (including management fees)	89	107
servicing and selling investment and insurance products[1]	1	1
brokerage activities	105	111
Cards	**481**	**411**
Margins on foreign exchange transactions	**179**	**187**
Bank accounts and other	**339**	**320**
servicing bank accounts	237	234
cash operations	20	21
servicing foreign mass transactions	29	23
customer orders	14	15
fiduciary services	2	2
Other	37	25
Total, of which:	**1 494**	**1 411**
income from financial instruments not measured at fair value through profit or loss	1 381	1 191

[1] Fee and commission income from offering insurance products and servicing and selling investment and insurance products for the period of 3 months ended 31 March 2022 has been adjusted for the implementation of IFRS 17 "Insurance Contracts" (see note 9 "IFRS 17 Insurance Contracts").

FEE AND COMMISSION EXPENSE	01.01-31.03.2023	01.01-31.03.2022
Loans and insurance	**(27)**	**(28)**
commission paid to external entities for product sales	(5)	(6)
cost of construction project supervision and property appraisal	(6)	(7)
fees to Biuro Informacji Kredytowej	(11)	(9)
loan handling	(5)	(6)
Investment funds, pension funds and brokerage activities	**(11)**	**(12)**
Cards	**(308)**	**(252)**
Bank accounts and other	**(45)**	**(36)**
clearing services	(14)	(13)
commissions for operating services provided by banks	(4)	(3)
sending short text messages (SMS)	(13)	(11)
servicing foreign mass transactions	(5)	(4)
other	(9)	(5)
Total	**(391)**	**(328)**

(IN PLN MILLION)

NET INCOME ON OPERATING LEASES AND FLEET MANAGEMENT	01.01-31.03.2023	01.01-31.03.2022
Income on operating leases and fleet management	135	112
Costs of operating leases and fleet management	(16)	(22)
Depreciation of property, plant and equipment under operating leases	(68)	(57)
Net income on operating leases and fleet management	51	33

15. Gains/(losses) on financial transactions

GAINS/(LOSSES) ON FINANCIAL TRANSACTIONS	01.01-31.03.2023	01.01-31.03.2022
Financial instruments held for trading, of which:	28	99
Derivatives[1]	24	97
Equity instruments	(1)	2
Debt securities	5	-
Financial instruments not held for trading, measured at fair value through profit or loss, of which:	17	(28)
Equity instruments	30	(15)
Debt securities	-	(17)
Loans and advances to customers	(13)	4
Hedge accounting	(11)	1
Total	34	72

[1] Of which due to stock options and stock exchange indices PLN 25 million (PLN 44 million as at 31 March 2022).

16. Gains/(losses) on derecognition of financial instruments

GAINS/(LOSSES) ON DERECOGNITION OF FINANCIAL INSTRUMENTS	01.01-31.03.2023	01.01-31.03.2022
Measured at fair value through other comprehensive income	13	3
Measured at amortized cost	4	4
Total	17	7

(IN PLN MILLION)

17. OTHER OPERATING INCOME AND EXPENSES

OTHER OPERATING INCOME	01.01-31.03.2023	01.01-31.03.2022
Net revenues from the sale of products and services	28	23
Gains on sale or scrapping of property, plant and equipment, property, plant and equipment leased out under operating lease, intangible assets and assets held for sale	24	24
Damages, compensation and penalties received	11	11
Ancillary income	3	4
Recovery of receivables expired, forgiven or written off	1	1
Reversal of provision recognized for legal claims excluding legal claims relating to repaid mortgage loans in convertible currencies	1	1
Income from sale of CO_2 emission allowances	2	3
Inne[1]	23	23
Total	**93**	**90**

[1] including, with regard to leasing activities, revenue from early termination of contracts of PLN 3 million (PLN 3 million as at 31 March 2022), revenue from the sale of coins for collectors' purposes of PLN 1 million (PLN 3 million as at 31 March 2022).

OTHER OPERATING EXPENSES	01.01-31.03.2023	01.01-31.03.2022
Losses on sale or scrapping of property, plant and equipment, property, plant and equipment leased out under operating lease, intangible assets and assets held for sale	(2)	(4)
Damages, compensation and penalties paid	(1)	-
Donations made	-	(4)
Sundry expenses	(5)	(5)
Recognition of provision for legal claims excluding legal claims relating to repaid mortgage loans in convertible currencies	(3)	(1)
Costs from sale of CO_2 emission allowances	(25)	(7)
Inne[1]	(37)	(19)
Total	**(73)**	**(40)**

[1] including the costs of external services for the recovery of PLN 8 million (PLN 5 million as at 31 March 2022), remarketing costs of PLN 5 million (PLN 4 million as at 31 March 2022).

(IN PLN MILLION)

18. NET ALLOWANCES FOR EXPECTED CREDIT LOSSES

NET ALLOWANCES FOR EXPECTED CREDIT LOSSES	01.01-31.03.2023	01.01-31.03.2022
Amounts due from banks	(1)	-
Debt securities	(3)	9
measured at fair value through other comprehensive income	(8)	6
measured at amortized cost	5	3
Loans and advances to customers[1]	(368)	(496)
measured at amortized cost	(368)	(496)
Other financial assets	1	-
Provisions for financial liabilities and guarantees granted	43	(12)
Total	**(328)**	**(499)**

[1] of which for consumer loans in the amount of PLN 179 million (PLN 244 million as at 31 March 2022) and property loans in the amount of PLN 20 million (PLN 94 million as at 31 March 2022).

CHANGE IN ACCUMULATED ALLOWANCES FOR EXPECTED CREDIT LOSSES	Opening balance	Net allowances for expected credit losses	Change in allowances due to write-offs and other adjustments	Closing balance
FOR 3 MONTHS ENDED 31 MARCH 2023				
Amounts due from banks	(2)	(1)	1	**(2)**
Debt securities	(68)	(3)	11	**(60)**
Loans and advances to customers	(9 748)	(368)	14	**(10 102)**
Other financial assets	(147)	1	-	**(146)**
Financial liabilities and guarantees granted	(833)	43	3	**(787)**
Total	**(10 798)**	**(328)**	**29**	**(11 097)**

CHANGE IN ACCUMULATED ALLOWANCES FOR EXPECTED CREDIT LOSSES	Opening balance	Net allowances for expected credit losses	Change in allowances due to write-offs and other adjustments	Closing balance
FOR 3 MONTHS ENDED 31 MARCH 2022				
Amounts due from banks	-	-	(1)	**(1)**
Debt securities	(108)	9	6	**(93)**
Loans and advances to customers	(8 688)	(496)	38	**(9 146)**
Other financial assets	(136)	-	(1)	**(137)**
Financial liabilities and guarantees granted	(675)	(12)	(1)	**(688)**
Total	**(9 607)**	**(499)**	**41**	**(10 065)**

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF THE PKO BANK POLSKI S.A. GROUP FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2023 (IN PLN MILLION)

The tables below present projections of the key macroeconomic parameters and their assumed probabilities of materialization.

scenario as at 31.03.2023	Baseline			optimistic			pessimistic		
probability	75%			5%			20%		
	2023	2024	2025	2023	2024	2025	2023	2024	2025
GDP growth y/y	0.0	3.1	3.1	5.5	8.6	7.4	(5.4)	(2.3)	(0.7)
Unemployment rate	3.4	4.2	3.7	2.9	3.2	2.9	3.9	5.0	4.2
Property price index	99.5	101.6	104.1	104.4	115.3	118.1	94.8	89.4	91.6
WIBOR 3M (%)	6.8	5.6	4.6	7.5	7.2	6.0	6.0	4.1	3.1
CHF/PLN	4.6	4.2	4.1	4.4	4.0	3.9	5.1	5.3	5.0

scenario as at 31.12.2022	Baseline			optimistic			pessimistic		
probability	75%			5%			20%		
	2023	2024	2025	2023	2024	2025	2023	2024	2025
GDP growth y/y	(0.3)	2.8	2.9	5.2	8.2	6.2	(5.8)	(2.5)	(0.4)
Unemployment rate	3.9	4.7	3.9	2.9	3.4	3.1	4.3	5.3	4.3
Property price index	97.0	96.1	98.2	103.9	110.8	114.9	90.6	83.1	83.6
WIBOR 3M (%)	6.8	5.8	4.6	7.3	6.1	4.7	6.2	4.6	3.8
CHF/PLN	4.6	4.2	4.1	4.4	4.1	4.0	5.1	5.3	4.9

19. IMPAIRMENT OF NON-FINANCIAL ASSETS

NET IMPAIRMENT OF NON-FINANCIAL ASSETS	01.01-31.03.2023	01.01-31.03.2022
Intangible assets	(1)	-
Other non-financial assets, including inventories	(10)	(5)
Total	**(11)**	**(5)**

CHANGE IN ACCUMULATED IMPAIRMENT LOSSES ON NON-FINANCIAL ASSETS	Opening balance	Impairment of non-financial assets	Other	Closing balance
FOR 3 MONTHS ENDED 31 MARCH 2023				
Property, plant and equipment under operating lease	(4)	-	1	(3)
Property, plant and equipment	(102)	-	-	(102)
Non-current assets held for sale	(1)	-	1	-
Intangible assets	(382)	(1)	-	(383)
Investments in associates and joint ventures	(263)	-	-	(263)
Other non-financial assets, including inventories	(337)	(10)	(4)	(351)
Total	**(1 089)**	**(11)**	**(2)**	**(1 102)**

(IN PLN MILLION)

CHANGE IN ACCUMULATED IMPAIRMENT LOSSES ON NON-FINANCIAL ASSETS	Opening balance	Impairment of non-financial assets	Other	Closing balance
FOR 3 MONTHS ENDED 31 MARCH 2022				
Property, plant and equipment under operating lease	(3)	-	-	(3)
Property, plant and equipment	(100)	-	-	(100)
Non-current assets held for sale	(1)	-	-	(1)
Intangible assets	(396)	-	12	(384)
Investments in associates and joint ventures	(264)	-	-	(264)
Other non-financial assets, including inventories	(354)	(5)	2	(357)
Total	(1 118)	(5)	14	(1 109)

20. Cost of the legal risk of mortgage loans in convertible currencies

Accounting policies and estimates and judgments:

The costs of legal risk related to mortgage loans in convertible currencies were estimated using a statistical method taking into account the effect of customer characteristics as the sum of the products of:

- probabilities of specific outcomes of legal disputes and the amount of loss in the event of various dispute outcome scenarios, taking into account the current and expected number of court cases throughout the period of the Group's exposure to such risk; and
- probability of acceptance of settlement by the customer and the amount of loss resulting from the settlement.

The Group also estimates the probabilities of adverse outcomes for the actual and potential claims. Such probabilities are different for mortgage loans indexed to foreign currencies and denominated in foreign currencies. In the evaluation of such probabilities, the Group uses the support of third party law firms. In the Group's opinion, the level of estimated costs of legal risk is also affected by such factors as: duration of legal proceedings and growing costs which must be incurred to initiate and conduct legal proceedings.

The Group has also taken into account, as an impact on the probability of settlements, the tax preferences of customers falling within the scope of the Regulation of the Minister of Finance of 11 March 2022 on suspending the collection of income tax on certain types of income (revenue) related to a mortgage loan granted for residential purposes, as amended by the Regulation of 20 December 2022, which is in force until 31 December 2024.

Given the short horizon of the historical data available and a significant uncertainty as to the direction in which the legal solutions will evolve, the adopted methodology of assessing losses in respect of the legal risk is periodically reviewed in the subsequent reporting periods. The uncertainty in the estimates relates both to the number of future lawsuits and court decisions in this regard, including the remuneration to which the Bank is entitled for the customer's non-contractual use of capital in the event of a cancellation scenario (currently the model takes into account a probability of non-recovery of the cost of capital of 70%, thus the probability of recovery of the cost of capital is 30%) and to the expected number of settlements, which may be influenced in particular by changes in the jurisprudential line on mortgages denominated or indexed to foreign currencies, an increase in underlying interest rates or a change in the PLN/CHF exchange rate.

The Group regularly, on a quarterly basis, monitors the model's adequacy by comparing the actual key model parameters with the calculated values. In addition, new empirical data (more accurate or resulting from a longer observation) were gradually modifying or replacing previous assumptions. The model is also adjusted to the new processes launched by the Group in the area of mortgage loans denominated in or indexed to foreign currencies granted in the past.

(IN PLN MILLION)

During the 3 months ended 31 March 2023, the Group updated the probability of signing a settlement or filing a lawsuit based on empirical data.

Accordingly, the Group recognised the cost of legal risk associated with mortgage loans denominated in and indexed to CHF amounting to PLN 967 million in the first quarter of 2023.

On 16 February 2023, the Opinion of the Advocate General was published in Case C-520/21 concerning the possibility for consumers and banks to claim beyond the consideration provided under a loan agreement that has been declared invalid by the Court (for details see not "LEGAL CLAIMS").

In the Group's view, the Advocate's opinion cannot form the basis for recognising its effects in the cost of legal risk on mortgage loans in CHF in these financial statements.

However, in the opinion of the Group:

- The level of additional legal risk costs will depend primarily on customer behaviour, i.e. whether the number of lawsuits brought by customers is in line with current model assumptions or whether the opinion of the CJEU ombudsman will have a significant impact on increasing the number of lawsuits. The Advocate's opinion and the subsequent ruling of the CJEU may result in negative trends affecting the level of estimated risk, resulting from an increased propensity of customers to file lawsuits.
- As at the date of publication of these financial statements, the Group is not able to estimate the potential impact of these factors or the impact of potential customers' claims that exceed return of cash benefits.

In the opinion of the Bank's Management Board, the information available to it as at 31 March 2023 does not indicate any risk of a breach of the legally required minimum levels of capital adequacy or a threat to the going concern assumption adopted in these financial statements.

FINANCIAL INFORMATION

Starting from 4 October 2021, following a decision of 23 April 2021 of the Extraordinary General Meeting of PKO Bank Polski S.A., the Group has been concluding settlements with consumers who concluded loan agreements or cash advance agreements with the Bank secured by mortgages and indexed to foreign currencies or denominated in foreign currencies (hereinafter: settlements with consumers).

As at 31 March 2023, nearly 48.1 thousand applications for mediation were recorded (as at 31 December 2022 – more than 37.5 thousand applications). The total number of settlements concluded as at 31 March 2023 was 27 405, of which 26 585 were concluded in mediation proceedings and 820 in court proceedings. The total number of settlements concluded as at 31 December 2022 was 20 396, of which 19 786 were concluded in mediation proceedings and 610 in court proceedings. Starting from 20 June 2022, the Bank enabled concluding settlement agreements with respect to MIX mortgage loans granted in CHF designated for housing purposes (for details see not "LEGAL CLAIMS").

IMPACT OF LEGAL RISK OF MORTGAGE LOANS IN CONVERTIBLE CURRENCIES	Gross carrying amount of mortgage loans in convertible currencies net of the cost of legal risk of mortgage loans in convertible currencies	Accumulated cost of legal risk of mortgage loans in convertible currencies	Gross carrying amount of mortgage loans in convertible currencies including the cost of legal risk of mortgage loans in convertible currencies
as at 31.03.2023			
Loans and advances to customers – adjustment reducing the carrying amount of loans	17 500	7 356	10 144
- related to the portfolio of mortgage loans in CHF	15 291	7 356	7 935
Provisions (note 30) and adjustment to the gross carrying amount of other assets		1 065	
Total		**8 421**	

(IN PLN MILLION)

as at 31.12.2022			
Loans and advances to customers – adjustment reducing the carrying amount of loans	19 015	7 378	11 637
- related to the portfolio of mortgage loans in CHF	16 731	7 378	9 353
Provisions (note 30)		945	
Total		**8 323**	

Change in the accumulated cost of legal risk of mortgage loans in convertible currencies during the period	01.01-31.03.2023	01.01-31.03.2022
Carrying amount at the beginning of the period	**8 323**	**7 023**
revaluation of loss for the period	(205)	208
offset of settlements and judgments for the period against accumulated losses	(664)	(565)
Increase in adjustment to gross carrying amount of loans and advances to customers and other assets, increase in provisions for legal risk	967	-
Carrying amount at the end of the period	**8 421**	**6 666**

Revaluation of the loss in respect of the legal risk is associated with the effect of changes in foreign exchange rates on the part of the loss which is recognized in the convertible currency as adjustment to the gross carrying amount of loans.

(IN PLN MILLION)

21. Administrative expenses

ADMINISTRATIVE EXPENSES[1]	01.01-31.03.2023	01.01-31.03.2022
Employee benefits	(942)	(788)
Overheads, of which:	(408)	(313)
Rent	(28)	(22)
IT	(98)	(89)
Depreciation and amortization	(257)	(244)
property, plant and equipment, of which:	(131)	(131)
right-of-use assets	(58)	(57)
IT	(30)	(29)
intangible assets, of which:	(126)	(113)
IT	(125)	(111)
Costs of regulatory charges	(378)	(483)
Total	**(1 985)**	**(1 828)**

[2] Administrative expenses for the period of 3 months ended 31 March 2022 have been adjusted for the implementation of IFRS 17 "Insurance Contracts" (see note 9 "IFRS 17 Insurance Contracts")

EMPLOYEE BENEFITS	01.01-31.03.2023	01.01-31.03.2022
Wages and salaries, including:[1]	(775)	(653)
costs of contributions to the employee pension plan	(21)	(18)
Social security, of which:[1]	(139)	(116)
contributions for disability and retirement benefits	(128)	(109)
Other employee benefits	(28)	(19)
Total	**(942)**	**(788)**

[2] Employee benefit expense for the period of 3 months ended 31 March 2022 has been adjusted for the implementation of IFRS 17 "Insurance Contracts" (see note 9 "IFRS 17 Insurance Contracts")

COSTS OF REGULATORY CHARGES	01.01-31.03.2023	01.01-31.03.2022
Contribution and payments to the Bank Guarantee Fund, of which:	(280)	(407)
to the Resolution Fund	(280)	(291)
to the Bank Guarantee Fund	-	(116)
Fees to the PFSA[1]	(51)	(45)
Flat rate income tax	-	(2)
Other taxes and fees	(47)	(29)
Total	**(378)**	**(483)**

[2] Fees to the PFSA for the period of 3 months ended 31 March 2022 have been adjusted for the implementation of IFRS 17 "Insurance Contracts" (see note 9 "IFRS 17 Insurance Contracts")

(IN PLN MILLION)

22. INCOME TAX

- TAX EXPENSE

TAX EXPENSE	01.01-31.03.2023	01.01-31.03.2022
Income tax expense recognized in the income statement	**(512)**	**(454)**
Current income tax expense	(320)	(526)
Deferred income tax on temporary differences	(192)	72
Income tax expense recognized in other comprehensive income in respect of temporary differences	(492)	777
Total	(1 004)	323

- RECONCILIATION OF THE EFFECTIVE TAX RATE

RECONCILIATION OF THE EFFECTIVE TAX RATE	01.01-31.03.2023	01.01-31.03.2022
Profit or loss before tax	1 965	1 879
Tax at the statutory rate in force in Poland (19%)	(373)	(357)
Effect of different tax rates of foreign entities	-	-
Effect of permanent differences between profit before income tax and taxable income, including:	(139)	(98)
non-deductible impairment losses on investments in subordinates	-	(10)
non-deductible allowances for expected credit losses on credit exposures and securities	(4)	(38)
contributions and payments to the Bank Guarantee Fund	(53)	(77)
tax on certain financial institutions	(57)	(58)
cost of legal risk of mortgage loans in convertible currencies	(184)	-
interest on foreign exchange gains in Sweden	-	(7)
asset/liability on the average tax rate	163	73
other permanent differences	(4)	19
Effect of other differences between profit before income tax and taxable income, including donations	-	1
Income tax expense recognized in the income statement	(512)	(454)
Effective tax rate (%)	26.06	24.16

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

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

On 23 December 2021, PKO Finance AB (hereinafter “Company”) received from the Swedish tax authorities a negative decision concerning the long-standing dispute relating to doubts about taxation in Sweden of foreign exchange gains on loans granted to the Bank and liabilities in respect of the issue. Based on this decision, the Company must pay SEK 160 726 808 in additional income tax and interest for the fiscal year 2019.

(IN PLN MILLION)

The company did not have funds for the payment of this tax liability, which was due by 26 January 2022. Pursuant to the guarantee agreement concluded on 15 May 2020 between the Bank and PKO Finance AB, the Company asked the Bank to pay SEK 160 726 808 to its current account with the Swedish tax office. Despite having made the payment, the Company disagrees with the verdict of the Swedish tax office and intends to use the appeal procedure to regain the amount mentioned above. The tax consultancy from Sweden was engaged for this purpose.

As potential tax liabilities of PKO Finance AB for 2015-2016 have become time-barred, the Group has decided to reverse the deferred tax liabilities for 2015-2016 in the amount of PLN 74 million in 2022.

On 13 February 2022, the Company paid the tax (after receiving the transfer from the Bank, on account of the guarantee) following the interpretation of the Swedish tax authorities in order to avoid potential penalty interest of 3.75 p.a. However, the Company disagrees with this interpretation and will pursue its claim through an overpayment procedure.

23. AMOUNTS DUE FROM BANKS

For more information on credit risk exposures, see note "CREDIT RISK – FINANCIAL INFORMATION".

AMOUNTS DUE FROM BANKS	31.03.2023	31.12.2022
Measured at amortized cost	**13 523**	**16 103**
Deposits with banks	11 093	13 374
Current accounts	1 916	2 215
Loans and advances granted	512	513
Cash in transit	2	1
Gross carrying amount	**13 523**	**16 103**
Allowances for expected credit losses	(2)	(2)
Net carrying amount	**13 521**	**16 101**

(IN PLN MILLION)

24. HEDGE ACCOUNTING AND OTHER DERIVATIVE INSTRUMENTS

TYPES OF HEDGING STRATEGIES APPLIED BY THE GROUP

As at 31 March 2023, the Group had had active relationships as part of:

- 7 strategies for hedging cash flow volatility;
- 5 strategies for hedging fair value volatility.

In the period of 3 months ended 31 March 2023, the Group terminated the hedging relationships as part of the hedging strategy "Hedging fair value volatility of fixed-interest-rate security measured at fair value through other comprehensive income in convertible currencies resulting from interest rate risk, using IRS transactions", due to failure to meet the prospective effectiveness test. The effect of discontinuing hedge accounting in the above relationships on profit or loss was PLN 5.9 million.

In the period of 3 months ended 31 March 2023, the Group implemented a new hedging strategy – hedges against fluctuations in cash flows on variable interest PLN loans, resulting from interest rate risk, and hedging against fluctuations in cash flows on a fixed-rate financial liability in a convertible currency resulting from foreign currency risk, using a CIRS transaction.

In the period of 3 months ended 31 March 2023, no other changes were made to other active hedging strategies.

In 2022, the Group introduced two new hedging strategies to hedge fair value volatility.

The tables below summarize the types of strategies applied by the Group.

CARRYING AMOUNT OF HEDGING INSTRUMENTS	31.03.2023		31.12.2022	
	Assets	Liabilities	Assets	Liabilities
Cash flow hedges	**489**	**5 641**	**888**	**7 336**
interest rate risk – IRS	42	5 098	31	6 507
foreign exchange risk and interest rate risk – CIRS	447	543	857	829
Fair value hedges	**240**	**102**	**154**	**133**
interest rate risk – IRS	240	102	154	133
Total	729	5 743	1 042	7 469

- ### CASH FLOW HEDGES

CHANGE IN OTHER COMPREHENSIVE INCOME RELATING TO CASH FLOW HEDGES AND AN INEFFECTIVE PORTION OF CASH FLOW HEDGES	01.01-31.03.2023	01.01-31.03.2022
Accumulated other comprehensive income at the beginning of the period, net	**(5 218)**	**(3 699)**
Impact on other comprehensive income during the period, gross	**1 422**	**(2 390)**
Gains/losses recognized in other comprehensive income during the period	(5)	(2 444)
Amounts transferred from other comprehensive income to the income statement, of which:	1 427	54
- net interest income	1 150	265
- net foreign exchange gains/ (losses)	277	(211)
Tax effect	**(270)**	**450**
Accumulated other comprehensive income at the end of the period, net	(4 066)	(5 639)
Ineffective portion of cash flow hedges recognized in the income statements, including in:	**(4)**	**2**
Foreign exchange gains/ (losses)	(4)	2
Gains/(losses) on financial transactions	-	-

(IN PLN MILLION)

- **FAIR VALUE HEDGES**

INTEREST RATE AND FOREIGN EXCHANGE RISK HEDGES	31.03.2023	31.12.2022
Fair value measurement of the hedging derivative instrument	138	20
Interest rate risk hedge – fixed - float IRSs	138	20
Fair value adjustment of the hedged instrument attributable to the hedged risk	**(152)**	**(51)**
Interest rate risk hedge, of which:	(152)	(51)
Securities	(29)	(30)
Loans and advances to customers	(4)	(8)
Fair value adjustment recognized in OCI	(53)	(69)
Amounts due to customers	(66)	56

- **OTHER DERIVATIVE INSTRUMENTS**

OTHER DERIVATIVE INSTRUMENTS - BY TYPE	31.03.2023		31.12.2022	
	Assets	Liabilities	Assets	Liabilities
IRS	6 961	6 851	8 275	8 101
CIRS	265	294	408	350
FX Swap	1 219	1 079	1 245	1 039
Options	802	866	842	926
Commodity swap[1]	545	540	1 380	1 384
FRA	23	22	24	24
Forward	608	741	577	799
Commodity Forward[2]	437	402	404	355
Other	-	1	7	-
Total	**10 860**	**10 796**	**13 162**	**12 978**

[1] The item includes valuation of gas market participation contracts: assets of PLN 444 million (PLN 1 229 million as at 31 December 2022) – and liabilities of PLN 444 million (PLN 1 237 million as at 31 December 2022).
[2] The item includes valuation of contracts for CO_2 emission allowances.

(IN PLN MILLION)

NOMINAL AMOUNTS OF UNDERLYING INSTRUMENTS (BUY AND SELL TOGETHER) hedging instruments and other derivative instruments	31.03.2023	31.12.2022
IRS	**586 666**	**574 054**
hedging instruments	**187 358**	**177 294**
Purchase	93 679	88 647
Sale	93 679	88 647
other	399 308	396 760
Purchase	199 654	198 380
Sale	199 654	198 380
CIRS	**57 671**	**76 704**
hedging instruments	**21 885**	**26 522**
Purchase	11 014	13 426
Sale	10 871	13 096
other	35 786	50 182
Purchase	17 745	24 906
Sale	18 041	25 276
FX Swap	**111 771**	**132 796**
Purchase of currencies	55 853	66 527
Sale of currencies	55 918	66 269
Options	**129 323**	**162 158**
Purchase	64 686	80 922
Sale	64 637	81 236
FRA	**44 711**	**40 823**
Purchase	23 565	20 948
Sale	21 146	19 875
Forward	**59 647**	**70 009**
other	**59 647**	**70 009**
Purchase of currencies	29 839	34 919
Sale of currencies	29 808	35 090
Other, including commodity swap, commodity forward and futures	**10 608**	**10 390**
Purchase	5 359	5 212
Sale	5 249	5 178
Total	1 000 397	1 066 934

(IN PLN MILLION)

25. SECURITIES

For more information on credit risk exposures, see note "CREDIT RISK – FINANCIAL INFORMATION".

SECURITIES	held for trading	not held for trading, measured at fair value through profit or loss	measured at fair value through other comprehensive income	measured at amortized cost	Total
31.03.2023					
Debt securities	312	566	74 514	69 422	144 814
NBP money bills	-	-	6 991	-	6 991
Treasury bonds (in PLN)	226	191	45 034	46 138	91 589
Treasury bonds (in foreign currencies)	2	306	4 453	890	5 651
corporate bonds (in PLN) secured with the State Treasury guarantees	5	56	9 723	12 147	21 931
municipal bonds (in PLN)	14	-	5 156	6 320	11 490
corporate bonds (in PLN)[1]	65	13	2 773	2 253	5 104
corporate bonds (in foreign currencies)	-	-	384	1 674	2 058
Equity securities	30	1 150	-	-	1 180
shares in other entities - not listed	-	299	-	-	299
shares in other entities - listed	29	201	-	-	230
participation units in investment funds, investment certificates, rights to shares, pre-emptive rights	1	650	-	-	651
Total (excluding adjustment relating to fair value hedge accounting)	342	1 716	74 514	69 422	145 994
Adjustment relating to fair value hedge accounting (note "Hedge accounting and other financial instruments")	-	-	-	(29)	(29)
Total	**342**	**1 716**	**74 514**	**69 393**	**145 965**

[1] The item includes bonds of international financial organizations of PLN 3 594 million.

(IN PLN MILLION)

SECURITIES	held for trading	not held for trading, measured at fair value through profit or loss	measured at fair value through other comprehensive income	measured at amortized cost	Total
31.12.2022					
Debt securities	164	578	65 211	68 556	134 509
NBP money bills	-	-	80	-	80
Treasury bonds (in PLN)	89	191	43 066	45 893	89 239
Treasury bonds (in foreign currencies)	2	321	4 397	713	5 433
corporate bonds (in PLN) secured with the State Treasury guarantees	3	-	9 373	12 100	21 476
municipal bonds (in PLN)	14	-	5 054	6 182	11 250
corporate bonds (in PLN)[1]	56	66	2 852	1 989	4 963
corporate bonds (in foreign currencies)	-	-	389	1 679	2 068
Equity securities	29	1 124	-	-	1 153
shares in other entities - not listed	-	358	-	-	358
shares in other entities - listed	27	115	-	-	142
participation units in investment funds, investment certificates, rights to shares, pre-emptive rights	2	651	-	-	653
Total (excluding adjustment relating to fair value hedge accounting)	193	1 702	65 211	68 556	135 662
Adjustment relating to fair value hedge accounting (note "Hedge accounting and other financial instruments")	-	-	-	(30)	(30)
Total	**193**	**1 702**	**65 211**	**68 526**	**135 632**

[1] The item includes bonds of international financial organizations of PLN 3 550 million.

The item "Treasury bonds in PLN and in foreign currencies" comprises Polish Treasury bonds. As at 31 March 2023, the item "Treasury bonds in foreign currencies" also includes Treasury bonds of Ukraine in the amount of PLN 755 million (PLN 420 million as at 31 December 2022), Treasury bonds of the United States in the amount of PLN 2 770 million (PLN 2 804 million as at 31 December 2022), Treasury bonds of Germany in the amount of PLN 122 million (none as at 31 December 2022) and Treasury bonds of France in the amount of PLN 122 million (none as at 31 December 2022).

26. LOANS AND ADVANCES TO CUSTOMERS

The Group adjusts the gross carrying amount of housing loans measured at amortised cost by recognizing the effect of:

- legal risk related to potential litigation for the portfolio of mortgage loans in convertible currencies and existing legal claims related to loan exposures recognized as at the balance sheet date in the statement of financial position (see "Cost of legal risk of mortgage loans in convertible currencies")
- the so-called statutory credit holidays, recognized in the second half of 2022.

THE STATUTORY CREDIT HOLIDAYS were introduced by the Act of 7 July 2022 on the crowdfunding of business ventures and on assistance for borrowers of 14 July 2022 (hereinafter: the "Act"), containing a package of assistance for mortgage borrowers. According to the Act, statutory credit holidays apply to mortgage loans granted in Polish zloty and provide the possibility to suspend loan repayment for up to 8 months between 2022 and 2023 – two months in each of Q3 and Q4 of 2022 and one month in each of the four quarters of 2023. The loan repayment suspension can be used by the customer if the agreement was concluded before 1 July 2022 and the loan period ends after 31 December 2022. Credit holidays can only be used for one loan. The repayment schedule of loan instalments is extended by the number of credit holiday months used.

The Group believes that the entitlement of customers to benefit from the suspension of loan repayments is a statutory cash flow modification that occurs on the date the Act has been signed by the President, i.e. 14 July 2022.

In the second half of 2022, the Group adjusted the gross carrying amount of mortgage loans by deducting interest income. The value of the adjustment was determined as the difference between the present value of the estimated cash flows resulting from the loan agreements, taking into account the suspension of instalment payments, and the present gross carrying amount of the loan portfolio. The loss calculation is based on the assumption that approximately 63% of customers holding a PLN-denominated mortgage loan will choose to benefit from credit holidays (customer participation rate).

By the end of March 2023, 292.6 thousand of the Group's customers applied for a suspension of mortgage repayment, representing 53% of the total number of loans and 67% of the gross carrying amount of total loans eligible for credit holidays. The total number of suspensions applied for as at 31 March 2023 was 1 999 thousand (including suspensions in Q2-Q4 2023 amounting to 702.8 thousand), representing 46% of the maximum number of instalments to be suspended for all eligible customers.

As at 31 March 2023, the Group has assessed the adequacy of the level of credit holiday loss in terms of value, using the following assumptions:

1) the level of customer participation in credit holidays in 2023 will be similar to that in 2022 – this analysis is based on a breakdown of customers into 4 groups illustrating their level of activity to date, on the basis of which the potential level of activity for 2023 has been determined;
2) for the group of customers who applied for credit holidays in 2022 and in the first quarter of 2023 but did not apply for suspensions of principal and interest instalments for subsequent quarters of 2023 at the end of the year, an interest rate revaluation effect was taken into account, calculated on the basis of the change in base rates between the date of recognition of the loss on credit holidays and 31 March 2023;
3) the loss on all principal and interest instalment suspensions effected in 2022 and in the first quarter of 2023 and requested for subsequent quarters 2023 was reduced by the effect of prepayments witnessed on the basis of customer behaviour in the second half of 2022and in the first quarter of 2023 and projected for Q2-Q4 2023, prudentially adjusted for uncertainty regarding possible prepayments in Q2-Q4 2023;
4) on the basis of monthly data on the inflow of new applications in 2022 and in the first quarter of 2023, using an extrapolation function, the trend of applications that may arrive by the end of the programme was established on the basis of which, using interest rates as at 31 March 2023, the potential loss was estimated.

(IN PLN MILLION)

The results of the above analysis confirmed that the credit holiday loss recognised by the Group in the amount of PLN 3 111 million is at an sufficient level. The Group will continue to monitor the sufficiency of the loss.

The sensitivity of the loss amount to a +/- 10 pp change in the customer participation rate is presented in the table below:

IMPACT ON CREDIT HOLIDAY LOSS	increase in customer participation rate by 10 pp	decrease in customer participation rate by 10 pp
("+" increase; "()" decrease)	482	(482)

In addition, the Group adjusts the gross carrying amount of residential and consumer loans measured at amortised cost by recognising the impact of potential reimbursements to customers for the expected early repayment of active consumer and mortgage loans in the future.

Financial information

For more information on credit risk exposures, see note "Credit risk – financial information".

LOANS AND ADVANCES TO CUSTOMERS 31.03.2023	not held for trading, measured at fair value through profit or loss	measured at amortized cost	Total
retail and private banking	3 231	129 523	132 754
real estate	2	101 974	101 976
consumer	3 229	27 458	30 687
finance lease receivables	-	91	91
companies and enterprises	49	31 294	31 343
real estate	-	5 288	5 288
business	49	13 429	13 478
factoring receivables	-	247	247
finance lease receivables	-	12 330	12 330
corporate	27	73 372	73 399
real estate	-	133	133
business	27	63 535	63 562
factoring receivables	-	3 535	3 535
finance lease receivables	-	6 169	6 169
Loans and advances to customers (excluding adjustment relating to fair value hedge accounting)	**3 307**	**234 189**	**237 496**
Adjustment relating to fair value hedge accounting (note "Hedge accounting and other financial instruments")	-	(4)	(4)
Total	3 307	234 185	237 492

(IN PLN MILLION)

LOANS AND ADVANCES TO CUSTOMERS 31.12.2022	not held for trading, measured at fair value through profit or loss	measured at amortized cost	Total
retail and private banking	3 505	131 112	134 617
real estate[1]	4	103 637	103 641
konsumpcyjne[1]	3 501	27 382	30 883
finance lease receivables[1]	-	93	93
companies and enterprises	44	31 316	31 360
real estate	-	5 382	5 382
business	44	13 496	13 540
factoring receivables	-	243	243
finance lease receivables[1]	-	12 195	12 195
corporate	41	66 949	66 990
real estate	-	118	118
business	41	57 607	57 648
factoring receivables	-	3 348	3 348
finance lease receivables[1]	-	5 876	5 876
Loans and advances to customers (excluding adjustment relating to fair value hedge accounting)	**3 590**	**229 377**	**232 967**
Adjustment relating to fair value hedge accounting (note "Hedge accounting and other financial instruments")	-	(8)	(8)
Total	**3 590**	**229 369**	**232 959**

[1] Loans and advances to customers as at 31 March 2022 have been adjusted for the implementation of IFRS 17 "Insurance Contracts" (see note 9 "IFRS 17 Insurance Contracts")

(IN PLN MILLION)

27. AMOUNTS DUE TO CUSTOMERS

AMOUNTS DUE TO CUSTOMERS	Amounts due to households	Amounts due to business entities	Amounts due to state budget entities	Total
31.03.2023				
Measured at fair value through profit or loss	**161**	**6**	**-**	**167**
Liabilities in respect of a short position in securities	-	6	-	6
Liabilities in respect of insurance products	161	-	-	161
Measured at amortized cost	**275 358**	**59 570**	**14 512**	**349 440**
Cash on current accounts and overnight deposits of which	179 822	41 396	12 070	233 288
savings accounts and other interest-bearing assets	42 231	13 772	5 789	61 792
Term deposits	95 079	17 603	2 434	115 116
Other liabilities	439	571	8	1 018
Liabilities in respect of insurance products	18	-	-	18
Amounts due to customers (excluding adjustment relating to fair value hedge accounting)	**275 519**	**59 576**	**14 512**	**349 607**
Adjustment relating to fair value hedge accounting (note "Hedge accounting and other financial instruments")	66	-	-	66
Total	**275 585**	**59 576**	**14 512**	**349 673**

AMOUNTS DUE TO CUSTOMERS	Amounts due to households	Amounts due to business entities	Amounts due to state budget entities	Total
31.12.2022				
Measured at fair value through profit or loss	**149**	**5**	**-**	**154**
Liabilities in respect of a short position in securities	-	5	-	5
Liabilities in respect of insurance products[1]	149	-	-	149
Measured at amortized cost	**262 948**	**58 634**	**17 188**	**338 770**
Cash on current accounts and overnight deposits of which	180 298	40 290	16 224	236 812
savings accounts and other interest-bearing assets	41 953	12 933	11 615	66 501
Term deposits	82 127	17 748	913	100 788
Other liabilities	505	596	51	1 152
Liabilities in respect of insurance products[1]	18	-	-	18
Amounts due to customers (excluding adjustment relating to fair value hedge accounting)	**263 097**	**58 639**	**17 188**	**338 924**
Adjustment relating to fair value hedge accounting (note "Hedge accounting and other financial instruments")	(56)	-	-	(56)
Total	**263 041**	**58 639**	**17 188**	**338 868**

[1]Liabilities in respect of insurance products as at 31 March 2022 have been adjusted for the implementation of IFRS 17 "Insurance Contracts" (see note 9 "IFRS 17 Insurance Contracts").

(IN PLN MILLION)

AMOUNTS DUE TO CUSTOMERS BY SEGMENT	31.03.2023	31.12.2022
Amounts due to customers (excluding adjustment relating to fair value hedge accounting)	349 607	338 924
retail and private banking	248 793	234 382
corporate	56 034	55 812
companies and enterprises	44 600	48 562
other liabilities (including liabilities in respect of insurance products)	180	168
Adjustment relating to fair value hedge accounting (note "Hedge accounting and other financial instruments")	66	(56)
Total	349 673	338 868

28. Financing received

FINANCING RECEIVED	31.03.2023	31.12.2022
Loans and advances received from:	**2 235**	**2 294**
banks	277	309
international financial organisations	1 945	1 972
other financial institutions	13	13
Liabilities in respect of debt securities in issue:	**17 297**	**15 510**
mortgage covered bonds issued by PKO Bank Hipoteczny S.A.	10 183	12 057
bonds issued by PKO Bank Hipoteczny S.A.	1 323	1 265
bonds issued by PKO Bank Polski S.A.	3 526	-
bonds issued by the PKO Leasing S.A. Group	2 265	2 188
Subordinated liabilities	**2 720**	**2 781**
Total	22 252	20 585

- **Financing received from banks**

In the three-month period ended 31 March 2023, the Group did not contract loans from banks and repaid loans amounting to PLN 31 million.

- **Financing received from International Financial Institutions and other financial institutions**

In the three-month period ended 31 March 2023, the Group did not contract loans from international financial institutions and repaid loans amounting to PLN 26 million.

- **Covered bonds and bonds issued by PKO Bank Hipoteczny S.A.**

In the three-month period ended 31 March 2023, the company carried out new bond issues amounting to PLN 768 million and redeemed bonds amounting to PLN 2 591 million.

- **Bonds issued by PKO Bank Polski S.A.**

On 8 August 2022, the Management Board of the Bank approved the establishment of a programme for the issue of Eurobonds by the Bank as the issuer (the Euro Medium Term Notes Programme – the "EMTN Programme") of up to EUR 4 billion. Under the EMTN Programme, it is possible to issue unsecured Eurobonds in any currency, including those in respect of which obligations may be classified as eligible liabilities or as the Bank's own funds. Bonds issued under the EMTN Programme will be registered with the international central securities depository (ICSD) operated by Euroclear Bank SA/NV or Clearstream Banking société anonyme. The Bank may apply for admission of individual series of Eurobonds to trading on a regulated market operated by the Luxembourg Stock Exchange, the Warsaw Stock Exchange.

(IN PLN MILLION)

On 16 December 2022, the Moody's Investors Service rating agency assigned a (P)Baa3 rating to the EMTN Programme, for the unsecured bonds designated as Senior Non Preferred.

On 20 December 2022, the Prospectus for the EMTN Programme was approved by the Commission de Surveillance du Secteur Financier (CSSF) in Luxembourg. On 20 January 2023, the CSSF approved the first Supplement to the prospectus for the EMTN Programme.

On 1 February 2023, PKO Bank Polski S.A, as part of its inaugural MREL issue allowing it to cover the senior portion of the requirement (being the difference between the MREL requirements denominated on a consolidated basis and the MREL on a stand-alone basis), issued 3-year Senior Preferred Notes with a total value of EUR 750 million, with the possibility of early redemption two years after the issue. The coupon of the issue is fixed, at 5.625%, payable annually until the early redemption date, and variable thereafter, with quarterly payments. The issue is part of the Euro Medium Term Notes Programme (EMTN Programme). The rating agency Moody's Investors Service has assigned a rating of A3 to the issued bonds. The bonds were admitted to trading on a regulated market on the Luxembourg Stock Exchange (in February 2023) and on the Warsaw Stock Exchange (in April 2023).

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

In the three-month period ended 31 March 2023, the company issued new bonds amounting to PLN 1 159 million and redeemed bonds amounting to PLN 1 085 million.

- **BONDS ISSUED BY KREDOBANK SA**

In the three-month period ended 31 March 2023, the company did not issue any new bonds and no bonds issued by the company matured during the period.

- **SUBORDINATED LIABILITIES OF PKO BANK POLSKI S.A.**

Type of liability	Notional amount	Interest rate	Currency	Period	Carrying amount	
					31.03.2023	31.12.2022
Subordinated bonds	1 000	6M WIBOR +0.0150	PLN	05.03.2018 - 06.03.2028	1 006	1 029
Subordinated bonds	1 700	6M WIBOR +0.0155	PLN	28.08.2017 - 28.08.2027	1 714	1 752
TOTAL					2 720	2 781

29. ASSETS AND LIABILITIES IN RESPECT OF INSURANCE ACTIVITIES AND NET INCOME FROM INSURANCE BUSINESS

NET INCOME FROM INSURANCE BUSINESS	01.01-31.03.2023	01.01-31.03.2022
Insurance revenue (net of reinsurance)	280	283
Cost of insurance activities/ Insurance service expenses (net of reinsurance)	(88)	(72)
Investment components excluded from insurance revenue and insurance service expenses (net of reinsurance)	(39)	34
Net income from reinsurance business	(8)	(8)
Change in fair value of underlying assets for contracts with direct profit sharing	21	(38)
Net income from insurance business (Income statement)	**166**	**199**
Finance income and costs from insurance business recognised in other comprehensive income (net of reinsurance)	(13)	22
Finance income and costs from reinsurance business recognised in other comprehensive income	1	(1)
Changes in the period recognised in the income statement and in other comprehensive income	**154**	**220**

(IN PLN MILLION)

INSURANCE (EXCLUDING REINSURANCE)	Liability for remaining coverage (LRC)		Liability for incurred claims (LIC)	Total
31.03.2023	Excluding the loss component	Loss component		
Liabilities in respect of insurance activities (excluding reinsurance)	2 650	17	174	2 841
Property – protection insurance	1 204	-	62	1 266
Life – protection insurance	860	17	52	929
Other	586	-	60	646

REINSURANCE	Assets on account of reinsurance (for remaining coverage, LRC)		Assets for losses incurred (LIC)	Total
31.03.2023	Excluding the loss component	Loss component		
Assets in respect of insurance activities (reinsurance)	73	-	31	104
Property – protection insurance	70	-	26	96
Life – protection insurance	3	-	5	8

INSURANCE (EXCLUDING REINSURANCE)	Liability for remaining coverage (LRC)		Liability for incurred claims (LIC)	Total
31.12.2022	Excluding the loss component	Loss component		
Liabilities in respect of insurance activities (excluding reinsurance)	2 690	19	169	2 878
Property – protection insurance	1 242	0	59	1 301
Life – protection insurance	849	19	47	915
Other	599	0	63	662

REINSURANCE	Assets on account of reinsurance (for remaining coverage, LRC)		Assets for losses incurred (LIC)	Total
31.12.2022	Excluding the loss component	Loss component		
Assets in respect of insurance activities (reinsurance)	86	-	29	115
Property – protection insurance	81	-	25	106
Life – protection insurance	5	-	4	9

(IN PLN MILLION)

30. Provisions

FOR 3 MONTHS ENDED 31 MARCH 2023	Provisions for financial liabilities and guarantees granted[1]	Provisions for legal claims, excluding legal claims relating to repaid mortgage loans in convertible currencies	Provisions for legal claims against the bank relating to mortgage loans in convertible currencies	Provisions for refunds of costs to customers on early repayment of consumer and mortgage loans	Provisions for pensions and other defined post-employment benefits	Restructuring	Provision for accrued holiday entitlements	Other provisions, including provisions for employee disputed claims	Total
As at the beginning of the period	**833**	**103**	**851**	**18**	**66**	**35**	**119**	**65**	**2 090**
Increases, including increases of existing provisions	4	3	148	-	-	-	6	1	162
Utilized amounts	-	(1)	(78)	(3)	(3)	(2)	(4)	(15)	(106)
Unused provisions reversed during the period	(47)	(1)	-	-	-	-	(1)	(1)	(50)
Other changes and reclassifications	(3)	1	-	1	-	-	-	-	(1)
As at the end of the period	787	105	921	16	63	33	120	50	2 095
Short-term provisions	655	6	-	15	8	33	120	7	844
Long-term provisions	132	99	921	1	55	-	-	43	1 251

[1] See note “Credit risk – financial information”.

(IN PLN MILLION)

FOR 3 MONTHS ENDED 31 MARCH 2022	Provisions for financial liabilities and guarantees granted[1]	Provisions for legal claims, excluding legal claims relating to repaid mortgage loans in convertible currencies	Provisions for legal claims against the bank relating to mortgage loans in convertible currencies	Provisions for refunds of costs to customers on early repayment of consumer and mortgage loans	Provisions for pensions and other defined post-employment benefits	Restructuring	Provision for accrued holiday entitlements	Other provisions, including provisions for employee disputed claims	Total
As at the beginning of the period	**675**	**106**	**595**	**17**	**57**	**47**	**111**	**49**	**1 657**
Increases, including increases of existing provisions	14	1	35	-	1	-	6	2	59
Utilized amounts	-	-	(33)	(4)	(2)	(3)	(3)	(4)	(49)
Unused provisions reversed during the period	(2)	(1)	-	-	-	-	(1)	(4)	(8)
Other changes and reclassifications	1	-	-	-	-	-	-	2	3
As at the end of the period	688	106	597	13	56	44	113	45	1 662
Short-term provisions	596	6	-	12	7	44	113	8	786
Long-term provisions	92	100	597	1	49	-	-	37	876

[1] See note “Credit risk – financial information”.

(IN PLN MILLION)

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

- CONTRACTUAL COMMITMENTS

VALUE OF CONTRACTUAL COMMITMENTS CONCERNING	31.03.2023	31.12.2022
intangible assets	3	81
property, plant and equipment	192	141
Total	195	222

- FINANCIAL AND GUARANTEE COMMITMENTS GRANTED

FINANCIAL AND GUARANTEE COMMITMENTS GRANTED 31.03.2023	Total	Provisions per IFRS 9	Net carrying amount
Credit lines and limits	69 919	(553)	69 366
real estate	3 417	(17)	3 400
business	52 277	(381)	51 896
consumer	10 800	(155)	10 645
in respect of factoring	2 808	-	2 808
in respect of finance leases	617	-	617
Other	3 753	-	3 753
Total financial commitments granted, including:	73 672	(553)	73 119
irrevocable commitments granted	29 347	(260)	29 087
Guarantees and sureties granted			
guarantees in domestic and foreign trading	10 806	(229)	10 577
to financial entities	2 868	-	2 868
to non-financial entities	7 888	(229)	7 659
to public entities	50	-	50
domestic corporate bonds to non-financial entities	177	-	177
domestic municipal bonds (state budget entities)	495	(1)	494
letters of credit to non-financial entities	1 474	(4)	1 470
payment guarantees to financial entities	62	-	62
Total guarantees and sureties granted, including:	13 014	(234)	12 780
irrevocable commitments granted, including:	4 988	(228)	4 760
performance guarantee	3 275	(199)	3 076
Total financial and guarantee commitments granted	86 686	(787)	85 899

(IN PLN MILLION)

FINANCIAL AND GUARANTEE COMMITMENTS GRANTED 31.12.2022	Total	Provisions per IFRS 9	Net carrying amount
Credit lines and limits	70 380	(590)	69 790
real estate	3 683	(21)	3 662
business	52 455	(414)	52 041
consumer	10 650	(155)	10 495
in respect of factoring	2 749	-	2 749
in respect of finance leases	843	-	843
Other	2 825	-	2 825
Total financial commitments granted, including:	73 205	(590)	72 615
irrevocable commitments granted	30 579	(301)	30 278
Guarantees and sureties granted			
guarantees in domestic and foreign trading	10 578	(236)	10 342
to financial entities	2 735	-	2 735
to non-financial entities	7 772	(236)	7 536
to public entities	71	-	71
domestic municipal bonds (state budget entities)	315	-	315
letters of credit to non-financial entities	1 514	(7)	1 507
payment guarantees to financial entities	71	-	71
Total guarantees and sureties granted, including:	12 478	(243)	12 235
irrevocable commitments granted, including:	4 812	(234)	4 578
performance guarantee	3 640	(203)	3 437
Total financial and guarantee commitments granted	85 683	(833)	84 850

For more information on credit risk exposures, see note "CREDIT RISK – FINANCIAL INFORMATION". OFF-BALANCE SHEET LIABILITIES RECEIVED

OFF-BALANCE SHEET LIABILITIES RECEIVED BY NOMINAL VALUE	31.03.2023	31.12.2022
Financial	284	110
Gwarancyjne1	19 667	9 516
Total	19 951	9 626

[1]the increase in off-balance sheet guarantee liabilities received is due, among other things, to the guarantee agreement entered into by the Group on 27 February 2023, as described in note "OTHER INFORMATION"

32. LEGAL CLAIMS

As at 31 March 2023, the total value of the subject matter of litigation in court proceedings (trials) pending in which the companies belonging to the PKO Bank Polski S.A. Group were defendants amounted to PLN 9 229 million (as at 31 December 2022: PLN 8 254 million), and the total value of the subject matter of litigation in court proceedings (trials) pending in which the companies belonging to the PKO Bank Polski S.A. Group were claimants as at 31 March 2023 was PLN 2 989 million (as at 31 December 2022: PLN 2 808 million).

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

As at 31 March 2023, 22 193 on court proceedings were pending against the Bank (as at 31 December 2022: 19 522) relating to mortgage loans granted in previous years in foreign currency with a total value in dispute of PLN 9 047 million (as at 31 December 2022: PLN 7 725 million), including one group proceeding with 72 loan agreements. The subject matter of the Bank's clients' actions is mainly claims for declaration of invalidity of an agreement or for payment of amounts paid by the client to the Bank in performance of an invalid agreement. Customers allege abusive provisions or that the agreements are contrary to the law. None of the clauses used by the Bank in the agreements was entered in the register of prohibited contractual clauses. The number of lawsuits filed by customers against the Bank is significantly influenced by the intensive advertising campaign of law firms, which encourages borrowers to commission to them – for a fee – conducting cases against banks.

The Group monitors the status of court rulings in cases indexed or denominated in foreign currencies on an ongoing basis with respect to the shaping and possible changes in rulings.

As at 31 March 2023, 1 411 final rulings have been issued by the courts in cases against the Bank (including 1 367 rulings after 3 October 2019). 119 of these rulings (including in 77 rulings issued after 3 October 2019) are favourable for the Bank.

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

1. If a provision of an indexed or denominated loan agreement relating to the method of determining the foreign currency exchange rate is found to constitute an illicit contractual provision and is not binding on the consumer – is it then possible to assume that another method of determining the foreign currency exchange rate resulting from law or custom takes its place?

If the above question is answered in the negative:

2. In the event that it is impossible to establish a foreign currency exchange rate binding on the parties in a loan agreement indexed to such a currency, can the remainder of the agreement still be binding for the parties?
3. If it is not possible to establish a binding rate for a foreign currency in a loan agreement denominated in a foreign currency, can the remainder of the agreement still be binding for the parties?

Notwithstanding the content of the answers to questions 1 to 3:

4. In the event of the invalidity or ineffectiveness of a loan agreement, in the performance of which the bank disbursed to the borrower all or part of the amount of the loan and the borrower made repayments of the loan, do separate claims for wrongful performance arise for each of the parties, or does only a single claim arise, equal to the difference in performance, for the party whose total performance was higher?
5. Where a loan agreement is invalid or ineffective as a result of the unlawful nature of certain of its terms, 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 case of the invalidity or ineffectiveness of a loan agreement, either party has a claim for repayment of a performance made in performance of that agreement, may that party also claim a fee for the use of its funds by the other party?

A session of the full composition of the Civil Chamber for the examination of the aforementioned application was held on 11 May 2021. Before passing its resolution, the Supreme Court decided to consult five public institutions. Their opinions were prepared and sent to the Supreme Court. On 2 September 2021, the Supreme Court decided to apply to the CJEU for preliminary rulings on questions relating to the judicial system, which do not directly concern the issue of foreign currency loans.

In 2021, two resolutions of the Supreme Court and one ruling of the Court of Justice of the European Union were issued, which are significant from the perspective of the claims of Swiss franc borrowers. On 7 May 2021, the Supreme Court, represented by 7 judges of the Civil Chamber, passed the following resolution in case III CZP 6/21:

1) A prohibited contractual clause (Article 385^1 § 1 of the Civil Code) is, from the beginning, by operation of law, ineffective in favour of the consumer, who may however subsequently grant an informed and voluntary consent for such a clause and thus make it effective retrospectively.
2) If a loan agreement cannot be binding without the ineffective clause, the consumer and the lender are entitled to bring separate claims for repayment of the benefits provided in the performance of the agreement (Article 410 § 1 in conjunction with Article 405 of the Civil Code). The lender may claim repayment of the benefit from the moment the loan agreement became permanently ineffective.

The resolution has the force of a legal rule, which means that an ordinary panel of the Supreme Court may not withdraw from the interpretation presented in an earlier resolution that has the force of a legal rule. If any panel of the Supreme Court intends to withdraw from a legal rule, it must present the legal issue for resolution to the full panel of the Chamber. In its justification for the said resolution, the Supreme Court referred to an earlier opinion (resolution III CZP 11/20 dated 16 February 2021) that the period of limitation of claims resulting from a loan agreement which is invalid due to the elimination of abusive clauses commences after the consumer has expressed informed consent not to be bound by the abusive clauses. The Supreme Court decided that since a consumer has the right to remedy an abusive contractual clause and express his/her willingness to be bound by it, the lender cannot be certain whether the agreement is effective until the consumer makes such a decision, and the agreement is ineffective (suspended) until such time. The lender's claims may not arise before such ineffectiveness (suspension) ceases to exist (which generally occurs as a result of the borrower's statement), and therefore the period of limitation commences at that moment.

Taking into account the content of the Supreme Court's resolution III CZP 6/21 and the non-uniform decisions of the common courts made against it, the Bank has filed lawsuits against customers whose agreements have been validly annulled, or whose lawsuits were served on the Bank before 31 December 2019, for the return of the capital paid out and the cost of using the capital. The issue of the mutual settlement of the parties to a credit agreement after its collapse is the subject of preliminary questions to the CJEU in Case C-520/21, to which another bank is a party. The questions referred in this case relate, inter alia, to the right of banks to recover from their customers the benefits received by the latter in connection with the provision of capital by the bank to them and the nonrecovery of that capital for the duration of the loan agreement. On 16 February 2023, an opinion of the Advocate General was delivered. The Advocate General took the view that the provisions of Directive 93/13 do not preclude a consumer, in addition to reimbursing funds paid under an invalid contract, from also claiming additional benefits from a bank, but that it is nevertheless for the national court to determine, in the light of national law, whether consumers are entitled to pursue such claims and, if so, to rule on their merits. The Advocate General did not rule out that such claims may constitute an abuse of law. With respect to analogous claims of banks exceeding the performance (paid-up capital), the Advocate General found that they conflict with the provisions of Directive 93/13. The Advocate General's opinion is not beneficial to banks, but the CJEU is not bound by this opinion. It needs to be noted that the case in which the questions referred for a preliminary ruling in Case C-520/21 were raised does not concern the bank's claims. The Bank's claims against the customer were raised in another case, which also raised preliminary questions of a similar content to Case C-520/21. This case is registered under reference C-756/22. The Bank is not a party to these proceedings.

The bank is a party to other proceedings before the CJEU. In the Bank's case, a preliminary question was put to the CJEU regarding the possibility for the Authorities entitled to do so to bring extraordinary complaints to the Supreme Court in cases that ended with a final and favourable decision for the Bank. The case was registered at the CJEU under reference C-720/21. The bank has filed a written position in the case and is awaiting action on the part of the CJEU.

- **LITIGATION AGAINST THE BANK CONCERNING MORTGAGE LOANS BEARING INTEREST AT A FLOATING RATE**

As at 31 March 2023, 12 court proceedings were pending against the Bank, in which customers challenge that the mortgage agreement was based on a floating interest rate structure and the rules for setting the WIBOR benchmark rate. The Bank disputes the validity of the claims raised in these cases.

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

In December 2020, the Chair of the Polish Financial Supervision Authority (hereinafter: the PFSA Chair) made a proposal aimed at providing a systemic solution to the problem of housing loans in Swiss francs. In accordance with this solution, the banks would voluntarily offer settlement agreements to their customers. Under such agreements, the customers would repay their loans to the bank as if they had been originally granted in PLN with interest at WIBOR plus a historical margin applied to such loans.

The Group has analysed the benefits and risks associated with the possible approaches to the issue of foreign currency housing loans. In the Group's opinion, for both the Bank and its customers it is better to reach a compromise and conclude a settlement agreement than engage in long legal disputes whose outcome is uncertain.

On 23 April 2021, the Extraordinary General Shareholders' Meeting approved the possibility of offering settlement agreements to the customers. Subsequently, by a resolution dated 27 May 2021, the Supervisory Board approved the terms and conditions for offering settlement agreements proposed by the PFSA Chair. The process of amicable resolution of disputes concerning the validity of housing loan agreements was launched on 4 October 2021. The settlements are offered during mediation proceedings conducted by the Mediation Centre of the PFSA Court of Arbitration, during court proceedings and during proceedings initiated by a motion for settlement.

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

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

- Proceedings initiated on 26 July 2017 ex officio concerning using practices which violate the collective interests of customers. The Bank is charged with collecting higher instalments on loans and advances denominated in foreign currencies than those arising from the information on foreign exchange risk presented to the consumers before concluding agreements and transferring potential foreign exchange risk to the consumers. The Bank responded to the charges in its letter of 23 September 2017. In a letter dated 14 March 2019, the President of UOKiK asked the Bank 16 detailed questions in order to establish the circumstances that are necessary to resolve the case to which the Bank replied by letter dated 10 May 2019. In a letter of 9 June 2021, the President of UOKiK extended the deadline for concluding the proceedings until 30 September 2021. By the decision of 18 November 2021, the President of UOKiK called on the Bank to provide further information, extending the deadline for concluding the proceedings to 31 December 2021. The Bank fulfilled the UOKiK President's request on 6 December 2021. As at 31 March 2023, the Group had not set up a provision for these proceedings.
- Proceedings initiated ex officio on 12 March 2019 on the acknowledgement that the provisions of the template agreement are inadmissible. The proceedings are related to modification clauses which specify the circumstances in which the Bank is entitled to amend the terms and conditions of the agreement, including the amount of fees and commission. In the opinion of the President of UOKiK the modification clauses applied by the Bank give the Bank unilateral unlimited and arbitrary possibilities of modifying the execution of the agreement. Consequently, the President of UOKiK is of the opinion that the clauses applied by the Bank shape the rights and obligations of the consumers in a way that is contrary to good practice and are a gross violation of their interests, which justifies the conclusion that they are abusive. In a letter of 31 May 2019, the Bank commented on the allegations of the President of UOKiK, indicating that they are unfounded. The Bank pointed out, among other things, that the contested clauses are specific and they precisely define the circumstances entitling the Bank to change the template. By order of 7 June 2022, UOKiK summoned the Bank to provide a range of information regarding the disputed clauses, the Bank's turnover and the revenue generated from changes in fees and commissions based on the disputed clauses. The UOKiK summons was implemented on 11 July and 30 September 2022. By order of 13 January 2023, the President of UOKiK extended the deadline for completion of the proceedings until 28 April 2023. As at 31 March 2023, the Group had not set up a provision for these proceedings.

- **PROCEEDINGS BEFORE THE COURT OF COMPETITION AND CONSUMER PROTECTION**

Two proceedings involving the Bank are pending before the Court of Competition and Consumer Protection:

- **PROCEEDINGS ON SPREAD CLAUSES**

The proceedings were initiated by the Bank's appeal (submitted on 13 November 2020) against the decision of the President of UOKiK dated 16 October 2020. In the said decision, the President of UOKiK declared the provisions of the template agreement "Annex to the housing loan/mortgage loan agreement" in the section "Appendix to the annex 'Rules for determining foreign exchange spreads at PKO BP S.A.'" as inadmissible provisions and prohibited their use. In addition, the President of UOKiK ordered that all consumers being parties to the assessed annexes about the decision to declare them inadmissible and its consequences be informed no later than within nine months from the effective date of the decision and ordered that a declaration be published whose text was indicated in the decision on the Bank's website not later than 1 month from the effective date of the decision and to keep it there for 4 months. Furthermore, the President of UOKiK imposed a fine on the Bank of PLN 41 million, payable to the Financial Education Fund. In its appeal against that decision, the Bank requested that the decision be amended by finding that there had been no breach of the ban on the use of prohibited contractual clauses, or by discontinuing the proceedings. It was also requested that the decision be annulled or amended by waiving or substantially reducing the fine. The appeal raised a number of substantive and procedural grounds of appeal. The Bank's main arguments consist in pointing out that the decision of the President of UOKiK is a manifestation of unlawful and groundless interference with the Bank's pricing policy, pointing out that there are no substantive grounds for the intervention of the President of UOKiK, i.e. there are no grounds for concluding that the Bank applied prohibited contractual provisions, and pointing out that the penalty imposed on the Bank is abnormally high. In response to the appeal, the President of UOKiK sustained the position expressed in the decision appealed against. The Bank is currently waiting for a hearing date to be set. As at 31 March 2023 the Group recorded a provision for this litigation of PLN 41 million.

- **PROCEEDINGS RELATED TO RESTRICTIVE PRACTICES ON THE MARKET OF PAYMENTS WITH PAYMENT CARDS IN POLAND**

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

The claims under these proceedings relate to the use of practices limiting competition on the market of banking card payments in Poland, consisting of applying pre-agreed "interchange" fees for transactions made using the Visa and Europay/Eurocard/Mastercard cards as well as limiting access to this market for external entities. On 29 December 2006, the UOKiK recognised practices involving the joint determination of interchange fees as restrictive of competition and ordered them to be abandoned, at the same time imposing, inter alia, a fine of PLN 16.6 million on the Bank. The Bank appealed against the decision of the President of UOKiK to the Court for Competition and Consumer Protection (Sąd Ochrony Konkurencji i Konsumentów - SOKiK). In its ruling dated 21 November 2013, SOKiK reduced the penalty imposed on the Bank to PLN 10.4 million. The parties to the proceedings appealed against the ruling. The Court of Appeal in Warsaw in its ruling dated 6 October 2015 reinstated the initial amount of the imposed fines set in the decision of the UOKiK, i.e. the fine of PLN 16.6 million (the fine imposed on PKO Bank Polski S.A.) and the fine of PLN 4.8 million (the fine imposed on Nordea Bank Polska S.A., and PKO Bank Polski S.A. is a legal successor of Nordea Bank Polska SA through a merger under Article 492 § 1(1) of the Commercial Companies Code). The Bank paid the fine in October 2015. As a result of a cassation appeal brought by the Bank, the Supreme Court in a ruling dated 25 October 2017 annulled the contested ruling of the Court of Appeal in Warsaw and submitted the case for re-examination. The fine paid by the Bank was reimbursed to the Bank on 21 March 2018. On 23 November 2020, the Court of Appeal in Warsaw issued a ruling in which it revoked the ruling of the District Court in Warsaw dated 21 November 2013 and submitted it for re-examination. As at 31 March 2023 the Group recorded a provision for this litigation of PLN 21 million.

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

The Bank was served eight summons to participate, as an outside intervener on the defendant's side, in cases relating to the interchange fees. Other banks are defendants in the case and, in some cases, also card organisations. The claims vis-à-vis the sued banks total PLN 903 million and are pursued as damages for differences in interchange fees resulting from applying practices that restrict competition. Since these proceedings are not pending against the Bank, their value was not included in the total value of the cases against the Bank.

(IN PLN MILLION)

If the courts find the claims justified, the defendants may claim recourse in separate court proceedings from other banks, including, among others, from PKO Bank Polski S.A. As at 31 March 2023, the Bank joined eight proceedings as an outside intervener. Two of these proceedings resulted in final judgments in favour of the defendants dismissing the plaintiffs' claims, another two in non-final judgments dismissing the claim in its entirety and one in a non-final judgment dismissing the claim to a significant extent. The claims were dismissed as the statute of limitations was upheld.

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

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

- two proceedings to which the Bank is a party. In one proceeding, the Bank filed a cassation appeal against an unfavourable final judgment dismissing the Bank's claims. The second proceeding, concerning the annulment of the decision refusing to grant the applicant temporary ownership of the Bank's property, is pending before the Supreme Administrative Court, as the other party has filed a cassation appeal.
- three proceedings, two of which are suspended, to which the other Bank Group companies are parties. Two proceedings are at the administrative stage, one at the judicial and administrative stage.

The probability of serious claims arising against the Group as a result of the aforesaid proceedings is low.

33. SHAREHOLDING STRUCTURE OF THE BANK

According to information held by PKO Bank Polski S.A, as at the date of the report, there are three shareholders holding directly or indirectly significant blocks of shares (at least 5%): The State Treasury, Nationale Nederlanden Open Pension Fund and the Allianz fund group.

According to the information available as at 31 March 2023, the Bank's shareholding structure is as follows:

ENTITY NAME	number of shares	% of votes	Nominal value of 1 share	Ownership interest (%)
As at 31 March 2023				
State Treasury	367 918 980	29.43%	PLN 1	29.43%
Nationale Nederlanden Otwarty Fundusz Emerytalny[1]	108 266 112	8.66%	PLN 1	8.66%
Allianz fund group[1,2]	106 567 559	8.53%	PLN 1	8.53%
Other shareholders[3]	667 247 349	53.38%	PLN 1	53.38%
Total	**1 250 000 000**	**100%**	---	**100%**
As at 31 December 2022				
State Treasury	367 918 980	29.43%	PLN 1	29.43%
Nationale Nederlanden Otwarty Fundusz Emerytalny[1]	108 266 112	8.66%	PLN 1	8.66%
Allianz fund group[1,2]	106 567 559	8.53%	PLN 1	8.53%
Other shareholders[3]	667 247 349	53.38%	PLN 1	53.38%
Total	**1 250 000 000**	**100%**	---	**100%**

[1] Calculation of shareholdings as at the end of the year published by PTE in bi-annual and annual information about the structure of fund assets and quotation from the WSE Statistic Bulletin.

[2] The group includes: Allianz Polska Open Pensions Fund, Allianz Polska Voluntary Pension Fund, Drugi Allianz Polska Open Pension Fund.

[3] Including Bank Gospodarstwa Krajowego, which as at 31 March 2023 and 31 December 2022 held 24 487 297 shares carrying 1.96% of the votes at the GSM.

(IN PLN MILLION)

The Bank's shares are listed on the Warsaw Stock Exchange.

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

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

In the first quarter of 2023 and in 2022, there were no changes in the amount of the share capital of PKO Bank Polski S.A. Shares of PKO Bank Polski S.A. issued are not preference shares and are fully paid up.

FAIR VALUE OF FINANCIAL INSTRUMENTS

34. FAIR VALUE HIERARCHY

ASSETS MEASURED AT FAIR VALUE 31.03.2023	Carrying amount	Level 1	Level 2	Level 3
		Prices quoted on active markets	Valuation techniques based on observable market data	Other valuation techniques
Hedging derivatives	729	-	729	-
Other derivative instruments	10 860	1	10 859	-
Securities	**76 572**	**67 055**	**8 655**	**862**
held for trading	**342**	**339**	**-**	**3**
debt securities	312	309	-	3
shares in other entities - listed	29	29	-	-
participation units in investment funds, investment certificates, rights to shares, pre-emptive rights	1	1	-	-
not held for trading, measured at fair value through profit or loss	**1 716**	**1 248**	**123**	**345**
debt securities	566	497	22	47
shares in other entities - listed	201	201	-	-
shares in other entities - not listed	299	-	1	298
participation units in investment funds, investment certificates, rights to shares, pre-emptive rights	650	550	100	-
measured at fair value through other comprehensive income (debt securities)	**74 514**	**65 468**	**8 532**	**514**
Loans and advances to customers	3 307	-	-	3 307
not held for trading, measured at fair value through profit or loss	3 307	-	-	3 307
housing loans	2	-	-	2
business loans	76	-	-	76
consumer loans	3 229	-	-	3 229
Total financial assets measured at fair value	91 468	67 056	20 243	4 169

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF THE PKO BANK POLSKI S.A. GROUP FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2023 (IN PLN MILLION)

LIABILITIES MEASURED AT FAIR VALUE 31.03.2023	Carrying amount	Level 1 Prices quoted on active markets	Level 2 Valuation techniques based on observable market data	Level 3 Other valuation techniques
Hedging derivatives	5 743	-	5 743	-
Other derivative instruments	10 796	-	10 796	-
Liabilities in respect of a short position in securities	16	16	-	-
Liabilities in respect of insurance products	161	-	161	-
Total financial liabilities measured at fair value	16 716	16	16 700	-

ASSETS MEASURED AT FAIR VALUE 31.12.2022	Carrying amount	Level 1 Prices quoted on active markets	Level 2 Valuation techniques based on observable market data	Level 3 Other valuation techniques
Hedging derivatives	1 042	-	1 042	-
Other derivative instruments	13 162	1	13 161	-
Securities	**67 106**	**52 864**	**13 198**	**1 044**
held for trading	**193**	**193**	**-**	**-**
debt securities	164	164	-	-
shares in other entities - listed	27	27	-	-
participation units in investment funds, investment certificates, rights to shares, pre-emptive rights	2	2	-	-
not held for trading, measured at fair value through profit or loss	**1 702**	**1 180**	**120**	**402**
debt securities	578	511	22	45
shares in other entities - listed	115	115	-	-
shares in other entities - not listed	358	-	1	357
participation units in investment funds, investment certificates, rights to shares, pre-emptive rights	651	554	97	-
measured at fair value through other comprehensive income (debt securities)	**65 211**	**51 491**	**13 078**	**642**
Loans and advances to customers	**3 590**	**-**	**-**	**3 590**
not held for trading, measured at fair value through profit or loss	**3 590**	**-**	**-**	**3 590**
housing loans	4	-	-	4
business loans	85	-	-	85
consumer loans	3 501	-	-	3 501
Total financial assets measured at fair value	84 900	52 865	27 401	4 634

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF THE PKO BANK POLSKI S.A. GROUP FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2023 (IN PLN MILLION)

LIABILITIES MEASURED AT FAIR VALUE 31.12.2022	Carrying amount	Level 1 Prices quoted on active markets	Level 2 Valuation techniques based on observable market data	Level 3 Other valuation techniques
Hedging derivatives	7 469	-	7 469	-
Other derivative instruments	12 978	-	12 978	-
Liabilities in respect of a short position in securities	7	7	-	-
Liabilities in respect of insurance products	149	-	149	-
Total financial liabilities measured at fair value	20 603	7	20 596	-

IMPACT OF ESTIMATES ON FAIR VALUE MEASUREMENT OF LEVEL 3 FINANCIAL INSTRUMENTS	31.03.2023		31.12.2022	
	Fair value in		Fair value in	
	positive scenario	negative scenario	positive scenario	negative scenario
Shares in Visa Inc.[1]	76	66	145	133
Other equity investments[2]	202	182	189	171
Corporate bonds[3]	559	556	681	679
Loans and advances to customers[4]	3 324	3 290	3 608	3 572

[1] scenario assuming a discount rate in respect of the future conditions of converting C-series shares to ordinary shares at a level of 0%/100% respectively

[2] Scenario assuming a change in the discount rate of +/- 0.5 p.p.

[3] scenario assuming a change in the credit spread of +/-10%

[4] scenario assuming a change in the company's value of +/-0.5%

RECONCILIATION OF CHANGES DURING THE REPORTING PERIOD TO FAIR VALUE AT LEVEL 3	01.01-31.03.2023	01.01-31.03.2022
Opening balance at the beginning of the period	**4 610**	**5 711**
Increase in exposure to equity instruments	22	3
Decrease in exposure to equity instruments	(79)	(17)
Increase in exposure to corporate bonds	3	9
Decrease in exposure to corporate bonds	(1)	(4)
Increase in exposure to loans and advances to customers	426	481
Decrease in exposure to loans and advances to customers	(636)	(738)
Reclassification from "measured at fair value through profit or loss" to "measured at amortised cost"	(57)	-
Reclassification from "measured at amortised cost" to "measured at fair value through profit or loss"	-	(73)
Net gain/(loss) on financial instruments measured at fair value through profit or loss	(136)	1
Change in the valuation recognized in OCI	-	(16)
Foreign exchange differences	19	4
Other	(2)	(37)
Closing balance	4 169	5 324

(IN PLN MILLION)

35. Financial assets and financial liabilities not presented at fair value in the consolidated statement of financial position

31.03.2023	carrying amount	fair value		
		Level 1	Level 2	Level 3
Cash and balances with Central Bank	14 568	4 316	10 252	-
Amounts due from banks	13 521	-	13 543	-
Securities (excluding adjustments relating to fair value hedge accounting)	**69 422**	**52 374**	**8 071**	**2 118**
Treasury bonds (in PLN)	46 138	40 642	-	-
Treasury bonds (in foreign currencies)	890	886	-	-
corporate bonds (in PLN) secured with the State Treasury guarantees	12 147	10 846	-	-
municipal bonds (in PLN)	6 320	-	6 590	-
corporate bonds (in PLN)	2 253	-	-	2 118
corporate bonds (in foreign currencies)	1 674	-	1 481	-
Reverse repo transactions	4 776	-	4 776	-
Loans and advances to customers (excluding adjustment relating to fair value hedge accounting)	**234 189**	**-**	**-**	**235 376**
housing loans	107 395	-	-	106 824
business loans	76 964	-	-	78 956
consumer loans	27 458	-	-	27 274
factoring receivables	3 782	-	-	3 781
finance lease receivables	18 590	-	-	18 541
Other financial assets	1 739	-	-	1 739
Amounts due to Central bank	40	-	40	-
Amounts due to banks	3 751	-	3 752	-
Amounts due to customers (excluding adjustment relating to fair value hedge accounting)	**349 506**	**-**	**-**	**348 679**
amounts due to households	275 424	-	-	274 543
amounts due to business entities	59 570	-	-	59 625
amounts due to public sector	14 512	-	-	14 511
Loans and advances received	2 235	-	-	2 221
Securities in issue	17 297	9 960	5 084	2 028
Subordinated liabilities	2 720	-	2 674	-
Other financial liabilities	4 069	-	-	4 069

(IN PLN MILLION)

31.12.2022	carrying amount	fair value		
		Level 1	Level 2	Level 3
Cash and balances with Central Bank	15 917	4 215	11 702	-
Amounts due from banks	16 101	-	16 098	-
Securities (excluding adjustments relating to fair value hedge accounting)	**68 556**	**49 891**	**7 779**	**1 733**
Treasury bonds (in PLN)	45 893	38 773	-	23
Treasury bonds (in foreign currencies)	713	708	-	-
corporate bonds (in PLN) secured with the State Treasury guarantees	12 100	10 410	-	-
municipal bonds (in PLN)	6 182	-	6 332	-
corporate bonds (in PLN)	1 989	-	-	1 710
corporate bonds (in foreign currencies)	1 679	-	1 447	-
Reverse repo transactions	7	-	7	-
Loans and advances to customers (excluding adjustment relating to fair value hedge accounting)	**229 377**	-	-	**230 438**
housing loans	109 137	-	-	108 642
business loans	71 103	-	-	72 955
consumer loans	27 382	-	-	27 152
factoring receivables	3 591	-	-	3 592
finance lease receivables	18 164	-	-	18 097
Other financial assets	1 850	-	-	1 850
Amounts due to Central bank	9	-	9	-
Amounts due to banks	3 011	-	3 009	-
Amounts due to customers (excluding adjustment relating to fair value hedge accounting)	**338 770**	-	-	**337 983**
amounts due to households	262 948	-	-	262 128
amounts due to business entities	58 634	-	-	58 667
amounts due to public sector	17 188	-	-	17 188
Loans and advances received	2 294	-	-	2 283
Securities in issue	15 510	11 798	1 265	2 187
Subordinated liabilities	2 781	-	2 603	-
Other financial liabilities	4 385	-	-	4 385

RISK MANAGEMENT WITHIN THE GROUP

36. Risk management within the Group

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

It is aimed at ensuring (in the changing environment) the profitability of business activities while ensuring an appropriate level of control and keeping the risk level within the risk tolerances and limits system adopted by the Bank and the Group, in a changing macroeconomic environment. The level of risk is an important part of the planning processes.

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

A detailed description of the management policies for material risks is presented in the consolidated financial statements of the PKO Bank Polski S.A. Group for the year ended 31 December 2022 and in the report "Report on capital adequacy and other information subject to publication by the PKO Bank Polski S.A. Group".

In the period of 3 months ended 31 March 2023:

- The Group monitored the situation of its customers and adjusted its credit policy with a view to securing a good quality loan portfolio. As part of the measurement of credit exposures, the Group specifically took into account information on customers' economic ties with counterparties in Ukraine, Belarus and Russia. For specific actions taken by the Group in the area of risk management in relation to the situation in Ukraine, see note "Impact of the geopolitical situation in Ukraine on PKO Bank Polski SA Group" Section "Risk management in relation to the situation in Ukraine".
- In terms of interest rate risk, the banking sector is challenged by the benchmark reform, in particular by replacing the WIBID/WIBOR indices with the WIRON index. The reform may have a significant impact on the valuation of financial instruments and the effectiveness of interest rate hedging transactions held. The reform will also have a significant impact on the products offered to customers and on the structure of revaluation of the Group's assets, liabilities and off-balance sheet items, determining the level of interest rate risk to which the Group is exposed.
- The Group maintained a safe level of liquidity, allowing for a quick and effective response to potential threats. The Group structured its sources of funding accordingly by adjusting its deposit offering (in particular deposit interest rates) to meet current needs and by repaying maturing funds raised from the financial market through issuance,
- The tasks aimed at expanding the IT systems that enable the collection of ESG data, in particular on environmental risks, and preparing for the systemic disclosure of this data were carried out.

37. Credit risk – financial information

- **Amounts due from banks**

As at 31 March 2023 and 31 December 2022 all amounts due from banks were classified as Stage 1.

(IN PLN MILLION)

- **SECURITIES**

SECURITIES (excluding adjustments relating to fair value hedge accounting) 31.03.2023	Stage 1	Stage 2	Stage 3	Total	of which POCI
Measurement method: measured at fair value through other comprehensive income					
Gross carrying amount	**73 864**	**398**	**247**	**74 509**	**233**
NBP money bills	6 991	-	-	6 991	-
Treasury bonds (in PLN)	45 034	-	-	45 034	-
Treasury bonds (in foreign currencies)	4 058	395	-	4 453	-
corporate bonds (in PLN) secured with the State Treasury guarantees	9 723	-	-	9 723	-
municipal bonds (in PLN)	5 154	2	-	5 156	-
municipal bonds (in foreign currencies)	-	-	-	-	-
corporate bonds (in PLN)	2 520	1	247	2 768	233
corporate bonds (in foreign currencies)	384	-	-	384	-
Allowances for expected credit losses	-	-	**5**	**5**	**5**
corporate bonds (in PLN)	-	-	5	5	5
Net carrying amount	**73 864**	**398**	**252**	**74 514**	**238**
NBP money bills	6 991	-	-	6 991	-
Treasury bonds (in PLN)	45 034	-	-	45 034	-
Treasury bonds (in foreign currencies)	4 058	395	-	4 453	-
corporate bonds (in PLN) secured with the State Treasury guarantees	9 723	-	-	9 723	-
municipal bonds (in PLN)	5 154	2	-	5 156	-
corporate bonds (in PLN)	2 520	1	252	2 773	238
corporate bonds (in foreign currencies)	384	-	-	384	-
Measurement method: at amortized cost					
Gross carrying amount	**69 151**	**336**	-	**69 487**	-
Treasury bonds (in PLN)	46 144	-	-	46 144	-
Treasury bonds (in foreign currencies)	890	-	-	890	-
corporate bonds (in PLN) secured with the State Treasury guarantees	12 150	-	-	12 150	-
municipal bonds (in PLN)	6 345	-	-	6 345	-
corporate bonds (in PLN)	2 081	194	-	2 275	-
corporate bonds (in foreign currencies)	1 541	142	-	1 683	-
Allowances for expected credit losses	**(40)**	**(25)**	-	**(65)**	-
Treasury bonds (in PLN)	(6)	-	-	(6)	-
corporate bonds (in PLN) secured with the State Treasury guarantees	(3)	-	-	(3)	-
municipal bonds (in PLN)	(25)	-	-	(25)	-
corporate bonds (in PLN)	(3)	(19)	-	(22)	-
corporate bonds (in foreign currencies)	(3)	(6)	-	(9)	-
Net carrying amount	69 111	311	-	69 422	-
Treasury bonds (in PLN)	46 138	-	-	46 138	-
Treasury bonds (in foreign currencies)	890	-	-	890	-
corporate bonds (in PLN) secured with the State Treasury guarantees	12 147	-	-	12 147	-
municipal bonds (in PLN)	6 320	-	-	6 320	-
corporate bonds (in PLN)	2 078	175	-	2 253	-

(IN PLN MILLION)

corporate bonds (in foreign currencies)	1 538	136	-	1 674	-
Total securities					
Gross carrying amount	143 015	734	247	143 996	233
Allowances for expected credit losses	(40)	(25)	5	(60)	5
Net carrying amount	142 975	709	252	143 936	238

SECURITIES (excluding adjustments relating to fair value hedge accounting) 31.12.2022	Stage 1	Stage 2	Stage 3	Total	of which POCI
Measurement method: measured at fair value through other comprehensive income					
Gross carrying amount	64 413	422	374	65 209	359
NBP money bills	80	-	-	80	-
Treasury bonds (in PLN)	43 066	-	-	43 066	-
Treasury bonds (in foreign currencies)	3 977	420	-	4 397	-
corporate bonds (in PLN) secured with the State Treasury guarantees	9 373	-	-	9 373	-
municipal bonds (in PLN)	5 052	2	-	5 054	-
corporate bonds (in PLN)	2 476	-	374	2 850	359
corporate bonds (in foreign currencies)	389	-	-	389	-
Allowances for expected credit losses	-	-	2	2	2
corporate bonds (in PLN)	-	-	2	2	2
Net carrying amount	64 413	422	376	65 211	361
NBP money bills	80	-	-	80	-
Treasury bonds (in PLN)	43 066	-	-	43 066	-
Treasury bonds (in foreign currencies)	3 977	420	-	4 397	-
corporate bonds (in PLN) secured with the State Treasury guarantees	9 373	-	-	9 373	-
municipal bonds (in PLN)	5 052	2	-	5 054	-
corporate bonds (in PLN)	2 476	-	376	2 852	361
corporate bonds (in foreign currencies)	389	-	-	389	-
Measurement method: at amortized cost					
Gross carrying amount	68 290	336	-	68 626	-
Treasury bonds (in PLN)	45 898	-	-	45 898	-
Treasury bonds (in foreign currencies)	713	-	-	713	-
corporate bonds (in PLN) secured with the State Treasury guarantees	12 108	-	-	12 108	-
municipal bonds (in PLN)	6 206	-	-	6 206	-
corporate bonds (in PLN)	1 817	195	-	2 012	-
corporate bonds (in foreign currencies)	1 548	141	-	1 689	-
Allowances for expected credit losses	(45)	(25)	-	(70)	-
Treasury bonds (in PLN)	(5)	-	-	(5)	-
corporate bonds (in PLN) secured with the State Treasury guarantees	(8)	-	-	(8)	-
municipal bonds (in PLN)	(24)	-	-	(24)	-
corporate bonds (in PLN)	(4)	(19)	-	(23)	-
corporate bonds (in foreign currencies)	(4)	(6)	-	(10)	-
Net carrying amount	68 245	311	-	68 556	-
Treasury bonds (in PLN)	45 893	-	-	45 893	-

(IN PLN MILLION)

Treasury bonds (in foreign currencies)	713	-	-	713	-
corporate bonds (in PLN) secured with the State Treasury guarantees	12 100	-	-	12 100	-
municipal bonds (in PLN)	6 182	-	-	6 182	-
corporate bonds (in PLN)	1 813	176	-	1 989	-
corporate bonds (in foreign currencies)	1 544	135	-	1 679	-
Total securities					
Gross carrying amount	132 703	758	374	133 835	359
Allowances for expected credit losses	(45)	(25)	2	(68)	2
Net carrying amount	132 658	733	376	133 767	361

- LOANS AND ADVANCES TO CUSTOMERS

LOANS AND ADVANCES TO CUSTOMERS (excluding adjustment relating to fair value hedge accounting) 31.03.2023	Stage 1	Stage 2	Stage 3	Total	of which POCI
Measurement method: measured at fair value through other comprehensive income					
Gross carrying amount	-	-	1	1	1
consumer loans	-	-	1	1	1
Allowances for expected credit losses	-	-	(1)	(1)	(1)
consumer loans	-	-	(1)	(1)	(1)
Measurement method: at amortized cost					
Gross carrying amount	199 260	35 954	9 076	244 290	246
housing loans	97 055	10 886	1 766	109 707	91
business loans	61 223	16 165	4 147	81 535	90
consumer loans	24 439	3 278	2 104	29 821	61
factoring receivables	3 738	23	49	3 810	-
finance lease receivables	12 805	5 602	1 010	19 417	4
Allowances for expected credit losses	(1 001)	(3 546)	(5 554)	(10 101)	21
housing loans	(119)	(908)	(1 285)	(2 312)	(13)
business loans	(424)	(1 702)	(2 445)	(4 571)	(2)
consumer loans	(366)	(707)	(1 290)	(2 363)	37
factoring receivables	(6)	-	(22)	(28)	-
finance lease receivables	(86)	(229)	(512)	(827)	(1)
Net carrying amount	198 259	32 408	3 522	234 189	267
housing loans	96 936	9 978	481	107 395	78
business loans	60 799	14 463	1 702	76 964	88
consumer loans	24 073	2 571	814	27 458	98
factoring receivables	3 732	23	27	3 782	-
finance lease receivables	12 719	5 373	498	18 590	3
Loans and advances to customers, total					
Gross carrying amount	199 260	35 954	9 077	244 291	247
Allowances for expected credit losses	(1 001)	(3 546)	(5 555)	(10 102)	20
Net carrying amount	198 259	32 408	3 522	234 189	267

(IN PLN MILLION)

LOANS AND ADVANCES TO CUSTOMERS (excluding adjustment relating to fair value hedge accounting) 31.12.2022	Stage 1	Stage 2	Stage 3	Total	of which POCI
Measurement method: measured at fair value through other comprehensive income					
Gross carrying amount	-	-	1	1	1
consumer loans	-	-	1	1	1
Allowances for expected credit losses	-	-	(1)	(1)	(1)
consumer loans	-	-	(1)	(1)	(1)
Measurement method: at amortized cost					
Gross carrying amount	196 241	33 964	8 919	239 124	213
housing loans	98 541	11 033	1 860	111 434	94
business loans	57 136	14 283	4 118	75 537	58
consumer loans	24 447	3 231	1 895	29 573	57
factoring receivables	3 562	19	38	3 619	-
finance lease receivables	12 555	5 398	1 008	18 961	4
Allowances for expected credit losses	(959)	(3 287)	(5 501)	(9 747)	16
housing loans	(118)	(837)	(1 342)	(2 297)	(14)
business loans	(398)	(1 586)	(2 450)	(4 434)	(3)
consumer loans	(356)	(654)	(1 181)	(2 191)	34
factoring receivables	(6)	-	(22)	(28)	-
finance lease receivables	(81)	(210)	(506)	(797)	(1)
Net carrying amount	195 282	30 677	3 418	229 377	229
housing loans	98 423	10 196	518	109 137	80
business loans	56 738	12 697	1 668	71 103	55
consumer loans	24 091	2 577	714	27 382	91
factoring receivables	3 556	19	16	3 591	-
finance lease receivables	12 474	5 188	502	18 164	3
Loans and advances to customers, total					
Gross carrying amount	196 241	33 964	8 920	239 125	214
Allowances for expected credit losses	(959)	(3 287)	(5 502)	(9 748)	15
Net carrying amount	195 282	30 677	3 418	229 377	229

- **OTHER FINANCIAL ASSETS**

OTHER FINANCIAL ASSETS	Stage 1	Stage 2	Stage 3	Total	of which POCI
31.03.2023					
Gross amount	1 739	1	145	1 885	-
Allowances for expected credit losses	(1)	-	(145)	(146)	-
Net carrying amount	1 738	1	-	1 739	-

OTHER FINANCIAL ASSETS	Stage 1	Stage 2	Stage 3	Total	of which POCI
31.12.2022					
Gross amount	1 851	-	146	1 997	-
Allowances for expected credit losses	-	-	(147)	(147)	-
Net amount	1 851	-	(1)	1 850	-

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF THE PKO BANK POLSKI S.A. GROUP FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2023 (IN PLN MILLION)

- **FINANCIAL AND GUARANTEE COMMITMENTS GRANTED**

FINANCIAL AND GUARANTEE COMMITMENTS GRANTED 31.03.2023	STAGE 1		STAGE 2		STAGE 3		Total	Provisions per IFRS 9	Net carrying amount
	Notional amount	Provision	Notional amount	Provision	Notional amount	Provision			
Credit lines and limits	63 749	(139)	6 081	(387)	89	(27)	69 919	(553)	69 366
real estate	3 243	(10)	168	(5)	6	(2)	3 417	(17)	3 400
business	48 083	(101)	4 130	(261)	64	(19)	52 277	(381)	51 896
consumer	9 000	(28)	1 781	(121)	19	(6)	10 800	(155)	10 645
in respect of factoring	2 806	-	2	-	-	-	2 808	-	2 808
in respect of finance leases	617	-	-	-	-	-	617	-	617
Other	3 753	-	-	-	-	-	3 753	-	3 753
Total financial commitments granted, including:	67 502	(139)	6 081	(387)	89	(27)	73 672	(553)	73 119
irrevocable commitments granted	26 133	(63)	3 175	(187)	39	(10)	29 347	(260)	29 087
POCI	-	-	1	-	4	(1)	5	(1)	4
Guarantees and sureties granted									
guarantees in domestic and foreign trading	8 630	(5)	1 439	(69)	737	(155)	10 806	(229)	10 577
to financial entities	2 868	-	-	-	-	-	2 868	-	2 868
to non-financial entities	5 712	(5)	1 439	(69)	737	(155)	7 888	(229)	7 659
to public entities	50	-	-	-	-	-	50	-	50
domestic corporate bonds to non-financial entities	177	-	-	-	-	-	177	-	177
domestic municipal bonds (state budget entities)	495	(1)	-	-	-	-	495	(1)	494
letters of credit to non-financial entities	1 326	-	148	(4)	-	-	1 474	(4)	1 470
payment guarantees to financial entities	62	-	-	-	-	-	62	-	62
Total guarantees and sureties granted, including:	10 690	(6)	1 587	(73)	737	(155)	13 014	(234)	12 780
irrevocable commitments granted, including:	3 003	(5)	1 292	(68)	693	(155)	4 988	(228)	4 760
performance guarantees, of which:	2 123	(2)	848	(50)	304	(147)	3 275	(199)	3 076
POCI	-	-	-	-	275	(3)	275	(3)	272
Total financial and guarantee commitments granted	78 192	(145)	7 668	(460)	826	(182)	86 686	(787)	85 899

(IN PLN MILLION)

FINANCIAL AND GUARANTEE COMMITMENTS GRANTED 31.12.2022	STAGE 1		STAGE 2		STAGE 3		Total	Provisions per IFRS 9	Net carrying amount
	Notional amount	Provision	Notional amount	Provision	Notional amount	Provision			
Credit lines and limits	62 990	(137)	7 250	(406)	140	(47)	70 380	(590)	69 790
real estate	3 568	(13)	107	(5)	8	(3)	3 683	(21)	3 662
business	47 016	(97)	5 332	(281)	107	(36)	52 455	(414)	52 041
consumer	8 818	(27)	1 807	(120)	25	(8)	10 650	(155)	10 495
in respect of factoring	2 745	-	4	-	-	-	2 749	-	2 749
in respect of finance leases	843	-	-	-	-	-	843	-	843
Other	2 824	-	-	-	1	-	2 825	-	2 825
Total financial commitments granted, including:	**65 814**	**(137)**	**7 250**	**(406)**	**141**	**(47)**	**73 205**	**(590)**	**72 615**
irrevocable commitments granted	27 050	(60)	3 429	(211)	100	(30)	30 579	(301)	30 278
POCI	-	-	1	-	4	(1)	5	(1)	4
Guarantees and sureties granted									
guarantees in domestic and foreign trading	8 539	(5)	1 360	(72)	679	(159)	10 578	(236)	10 342
to financial entities	2 735	-	-	-	-	-	2 735	-	2 735
to non-financial entities	5 733	(5)	1 360	(72)	679	(159)	7 772	(236)	7 536
to public entities	71	-	-	-	-	-	71	-	71
domestic municipal bonds (state budget entities)	315	-	-	-	-	-	315	-	315
letters of credit to non-financial entities	1 343	(1)	171	(6)	-	-	1 514	(7)	1 507
payment guarantees to financial entities	71	-	-	-	-	-	71	-	71
Total guarantees and sureties granted, including:	**10 268**	**(6)**	**1 531**	**(78)**	**679**	**(159)**	**12 478**	**(243)**	**12 235**
irrevocable commitments granted, including:	2 903	(5)	1 262	(71)	647	(158)	4 812	(234)	4 578
performance guarantees, of which:	2 499	(2)	860	(54)	281	(147)	3 640	(203)	3 437
POCI	-	-	-	-	284	(5)	284	(5)	279
Total financial and guarantee commitments granted	**76 082**	**(143)**	**8 781**	**(484)**	**820**	**(206)**	**85 683**	**(833)**	**84 850**

(IN PLN MILLION)

38. Management of currency risk associated with mortgage loans for individuals

The Group analyses its portfolio of convertible currency mortgage loans to individuals in a specific manner. The Group monitors the quality of the portfolio on an on-going basis and reviews the risk of deterioration of the portfolio quality. Currently, the quality of the portfolio is at an acceptable level. The Group takes the risk into consideration in the capital adequacy and equity management.

HOUSING LOANS AND ADVANCES TO INDIVIDUALS (RETAIL AND PRIVATE BANKING) BY CURRENCY	31.03.2023			31.12.2022		
	gross	impairment loss	net	gross	impairment loss	net
in local currency	**94 014**	**(1 457)**	**92 557**	**94 169**	**(1 400)**	**92 769**
PLN	93 705	(1 400)	92 305	93 836	(1 353)	92 483
UAH	309	(57)	252	333	(47)	286
in foreign currency	**10 144**	**(725)**	**9 419**	**11 637**	**(765)**	**10 872**
CHF	7 935	(627)	7 308	9 353	(677)	8 676
EUR	2 170	(92)	2 078	2 244	(83)	2 161
USD	33	(6)	27	34	(5)	29
OTHER	6	-	6	6	-	6
Total	104 158	(2 182)	101 976	105 806	(2 165)	103 641

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Convertible currency housing loans and advances to individuals by the granting date		Indexed	Denominated	Total	Indexed	Denominated	Total
		31.03.2023			31.12.2022		
up to 2002	Gross amount	-	23	**23**	-	28	**28**
	Allowances for credit losses	-	(1)	**(1)**	-	(1)	**(1)**
	Net amount	-	22	**22**	-	27	**27**
	Number of loans granted	-	2 451	**2 451**	-	2 737	**2 737**
from 2003 to 2006	Gross amount	-	1 590	**1 590**	-	1 976	**1 976**
	Allowances for credit losses	-	(98)	**(98)**	-	(111)	**(111)**
	Net amount	-	1 492	**1 492**	-	1 865	**1 865**
	Number of loans granted	-	27 677	**27 677**	-	30 771	**30 771**
from 2007 to 2009	Gross amount	-	4 089	**4 089**	-	4 911	**4 911**
	Allowances for credit losses	-	(448)	**(448)**	-	(490)	**(490)**
	Net amount	-	3 641	**3 641**	-	4 421	**4 421**
	Number of loans granted	-	31 599	**31 599**	-	35 811	**35 811**
from 2010 to 2012	Gross amount	2 275	2 155	**4 430**	2 439	2 268	**4 707**
	Allowances for credit losses	(81)	(95)	**(176)**	(76)	(85)	**(161)**
	Net amount	2 194	2 060	**4 254**	2 363	2 183	**4 546**
	Number of loans granted	8 476	10 137	**18 613**	8 741	10 344	**19 085**
from 2013 to 2016	Gross amount	4	8	**12**	4	11	**15**
	Allowances for credit losses	-	(2)	**(2)**	-	(2)	**(2)**
	Net amount	4	6	**10**	4	9	**13**
	Number of loans granted	17	30	**47**	18	34	**52**
Total	**Gross carrying amount**	**2 279**	**7 865**	**10 144**	**2 443**	**9 194**	**11 637**
	Allowances for credit losses	**(81)**	**(644)**	**(725)**	**(76)**	**(689)**	**(765)**
	Net carrying amount	**2 198**	**7 221**	**9 419**	**2 367**	**8 505**	**10 872**
	Number of loans granted	**8 493**	**71 894**	**80 387**	**8 759**	**79 697**	**88 456**

39. MANAGEMENT OF INTEREST RATE RISK, CURRENCY RISK AND LIQUIDITY RISK

• INTEREST RATE RISK MANAGEMENT

Sensitivity of interest income in the banking book of the Group to the abrupt shift in the yield curve of 100 bp down in a one-year horizon in all currencies	31.03.2023	31.12.2022
Sensitivity of interest income (PLN million)	(801)	(769)

The economic value sensitivity measure (stress-test) of the banking book of the Group in all currencies	31.03.2023	31.12.2022
Sensitivity of economic value (PLN million)	(1 287)	(891)

IR VaR in the Bank's trading book	31.03.2023	31.12.2022
IR VaR for a 10-day time horizon at a confidence level of 99% (PLN million):		-
Average value	68	37
Maximum value	121	86
Value at the end of the period	114	56

• CURRENCY RISK MANAGEMENT

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

The Bank's FX VaR, in aggregate for all currencies	31.03.2023	31.12.2022
VaR for a 10-day time horizon at a confidence level of 99% (in PLN million)[1]	24	128

[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 0.2 million as at 31 March 2023 and to PLN 0.1 million as at 31 December 2022.

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

FOREIGN CURRENCY POSITION	31.03.2023	31.12.2022
EUR	49	(206)
CHF	(486)	(1 625)
Other (Global, Net)	(4)	3

Currency positions (in addition to volatility of foreign exchange rates) are a key factor determining the level of currency risk to which the Group is exposed. The foreign currency positions are determined by all foreign currency transactions concluded, both in the statement of financial position and off-balance sheet transactions, with the exception of structural positions in UAH (PLN 537.3 million) and in EUR (PLN 23.5 million), for which the Bank obtained approval from the PFSA to exclude them from the calculation of the currency positions.

(IN PLN MILLION)

- **LIQUIDITY RISK MANAGEMENT**

	on demand	0 - 1 month	1 - 3 months	3 - 6 months	6 - 12 months	12 - 24 months	24 - 60 months	more than 60 months
31.03.2023								
Adjusted periodic gap	8 925	82 880	(17 548)	(1 392)	556	17 918	24 879	(116 218)
Adjusted cumulative periodic gap	8 925	91 805	74 257	72 865	73 421	91 339	116 218	
31.12.2022								
Adjusted periodic gap	9 400	69 449	(8 423)	(576)	(316)	20 757	25 046	(115 337)
Adjusted cumulative periodic gap	9 400	78 849	70 426	69 850	69 534	90 291	115 337	

[1] brought to comparability with the data as at 31 December 2022.

In all time horizons, the adjusted cumulative liquidity gap of the Group, determined as the sum of the adjusted liquidity gaps of the Bank, PKO Bank Hipoteczny SA, PKO Leasing SA, KREDOBANK SA and PKO Życie Towarzystwo Ubezpieczeń SA and the contractual liquidity gaps of the other Group companies, was positive both as at 31 March 2023 and 31 December 2022. This means that the Group has a surplus of the assets receivable over the liabilities payable.

SUPERVISORY LIQUIDITY MEASURES	31.03.2023	31.12.2022
NSFR - net stable funding ratio	138.3%	131.5%
LCR - liquidity coverage ratio	190.9%	169.1%

In the period ended 31 March 2023 and 31 December 2022, liquidity measures remained above their respective supervisory limits.

CAPITAL MANAGEMENT AT THE GROUP

40. CAPITAL ADEQUACY

- **OWN FUNDS FOR CAPITAL ADEQUACY PURPOSES**

In the first quarter of 2023 and in 2022, the Group's capital adequacy level remained at a safe level, well above the supervisory limits. The minimum capital requirements were satisfied over the entire period.

(IN PLN MILLION)

	31.03.2023	31.12.2022 (restated)	31.12.2022 (published)
Equity	**39 243**	**35 707**	**35 435**
capital: share capital, supplementary capital, other reserves, and general risk reserve	32 496	32 496	32 496
retained earnings	12 232	8 920	8 651
net profit or loss for the year	1 454	3 312	3 333
other comprehensive income and non-controlling interests	(6 939)	(9 021)	(9 045)
Exclusions from equity:	**617**	**(1 987)**	**(2 154)**
deconsolidation - adjustments due to prudential consolidation	(101)	(107)	(224)
net profit or loss for the year	1 443	3 340	3 290
unappropriated profit for the prior year	3 341	-	-
cash flow hedges	(4 066)	(5 220)	(5 220)
Other fund reductions:	**3 164**	**3 393**	**3 404**
goodwill	961	961	961
other intangible assets	1 446	1 508	1 508
securitization items	9	12	12
additional asset adjustments (AVA, DVA, NPE)	748	912	923
Provisional treatment of unrealized gains and losses on securities measured at fair value through OCI according to Art. 468 of the CRR	-	**1 357**	**1 357**
Temporary reversal of IFRS 9 impact	**919**	**1 651**	**1 651**
Profit/(loss) for the current year	**946**	**946**	**946**
Tier 1 capital	**37 327**	**38 255**	**38 139**
Tier 2 capital (subordinated debt)	**2 486**	**2 584**	**2 584**
Own funds	**39 813**	**40 839**	**40 723**
Requirements for own funds	**17 138**	**18 361**	**18 328**
Credit risk	15 259	15 627	15 594
Operational risk[1]	1 641	2 358	2 358
Market risk[2]	189	339	339
Credit valuation adjustment risk	49	37	37
Total capital ratio	**18.58**	**17.79**	**17.78**
Tier 1 capital ratio	**17.42**	**16.67**	**16.65**

[1] In the first quarter of 2023, there was a decrease in the own funds requirement for operational risk by PLN 717 million mainly due to the implementation of individual scaling of the legal risk costs of mortgage loans in CHF in the AMA approach in accordance with the PFSA decision obtained on 22 February 2023. The purpose of the change is to ensure that the historically incurred costs of the portfolio of mortgage loans in CHF are taken into account in the AMA model at an appropriate scale in relation to the risks that the Bank may potentially still incur as a result.

[2] The decrease in the value of the market risk-related requirement by PLN 150 million in the first quarter of 2023 comprised mainly the currency risk-related requirement of PLN 135 million at the end of 2022, whereas the requirement was PLN 0 at the end of March 2023.

If the transitional arrangements for the partial reversal of the impact of IFRS 9 under Article 473a of the CRR had not been applied, the Group's Tier 1 capital would have amounted to PLN 36 348 million, the total capital would have amounted to PLN 38 834 million, the Tier 1 capital ratio would have been 17.05%, the total capital ratio would have been 18.22% and the leverage ratio 7.72%.

(IN PLN MILLION)

At the end of March 2023, the provisions for the provisional treatment of unrealized gains and losses measured at fair value through OCI according to Art. 468 of the CRR were no longer in force.

41. Leverage ratio

Leverage ratio exposures specified in CRR related to capital requirements	31.03.2023	31.12.2022 (restated)	31.12.2022 (published)
Total capital and exposure measure			
Tier 1 capital	37 327	38 255	38 139
Total exposure measure for leverage ratio calculation	471 988	454 588	454 373
Leverage ratio			
Leverage ratio	7.91	8.42	8.39

42. Dividends and distribution of retained earnings

On 15 of December 2022, PKO Bank Polski adopted a dividend policy for the Bank and the Group ("Dividend policy"). The Dividend policy takes into account the Bank's intention to provide stable dividend payments in the long term, in accordance with the principle of prudent management of the Bank and the Group, in compliance with the law and the PFSA position on the dividend policy assumptions of commercial banks. The objective of the Dividend policy is to optimize the capital structure of the Bank and the Group, while considering the return on equity, the cost of capital and the capital needs for development, and maintaining an appropriate level of the capital adequacy ratios and meeting the minimum requirement for own funds and eligible liabilities (MREL). The repurchase of treasury shares for cancellation is an additional tool for capital redistribution. The General Meeting gives its consent to the acquisition of treasury shares by the Bank, after prior approval of the Supervisory Board, specifying the terms of the acquisition, including the maximum number of shares to be acquired, the period of authorization to acquire shares, which may not exceed five years and the maximum and minimum amount of consideration for the acquired shares, if the acquisition takes place for consideration. Purchase of treasury shares for cancellation in each case requires the Bank to obtain the prior consent of the Polish Financial Supervision Authority.

- ### The PFSA's recommendations regarding dividend payments in 2023

On 6 December 2022, the PFSA adopted a position on the 2023 dividend policy of commercial banks, cooperative and associating banks, insurance companies, reinsurance companies, insurance and reinsurance companies, investment fund companies, universal pension companies and brokerage houses.

The dividend payment criteria for commercial banks, which should be met at both the stand-alone and consolidated level, as indicated in the PFSA's positions, are as follows:

1. an amount of up to 50% of the profit for 2022 may only be paid out by banks that fulfil all of the following criteria:
    - not implementing a recovery programme;
    - positively assessed in the supervisory review and assessment process (BION) – final BION score not worse than 2.5;
    - having a leverage ratio (LR) of more than 5%;
    - having a Tier 1 core capital ratio (CET1) of not less than the required minimum: 4.5% +56%* P2R requirement + combined buffer requirement (including 3% systemic risk buffer);
    - having a Tier 1 capital ratio (T1) not lower than the required minimum: 6% +75%* P2R requirement + combined buffer requirement (including 3% systemic risk buffer);
    - having a total capital ratio (TCR) not lower than the required minimum: 8% + P2R requirement + combined buffer requirement (including 3% systemic risk buffer);

(IN PLN MILLION)

2. An amount of up to 75% of the profit for 2022 may be paid only by banks meeting at the same time the criteria for payment of 50% taking into account, as part of the capital criteria, the bank's sensitivity to an adverse macroeconomic scenario (P2G recommendation).
3. An amount of up to 100% of the profit for 2022 may be paid only by banks meeting at the same time the criteria for payment of 75% and whose portfolio of receivables from the non-financial sector is characterised by good credit quality (share of NPLs, including debt instruments, not exceeding 5%).

Additionally, the PFSA indicated that the banks which have considerable portfolios of foreign currency housing loans should adjust the rate of dividend distribution based on two additional criteria, depending on the portfolio held by the bank:

Criterion 1 – based on the share of foreign currency housing loans for households in the total portfolio of amounts due from the non-financial sector;	
Banks with a share exceeding:	**Adjustment of the dividend yield by:**
5%	20 p.p.
10%	40 p.p.
20%	60 p.p.
30%	100 p.p.
Criterion 2 – based on the share of foreign currency housing loans granted in 2007 and 2008 in the foreign currency housing loans for households' portfolio.	
Banks with a share exceeding	**Adjustment of the dividend yield by:**
20%	30 p.p.
50%	50 p.p.

whereas the total value of the adjustment (maximum 100%) is the sum of adjustments resulting from both criteria.

On 17 March 2023, the Bank received an individual dividend recommendation from the PFSA, in which the PFSA confirmed that the Bank fulfils the criteria for the payment of dividend up to 50% of the net profit for 2022. In the same letter, the PFSA advised the Bank to mitigate the risks inherent in its operations by:

1. limiting the amount of dividend that can be paid from the profit earned in the period from 1 January to 31 December 2022 to 50% of such profit,
2. not paying by the Bank a dividend from the profit earned in the period from 1 January to 31 December 2022 until The Court of Justice of the European Union issues a judgment on the return of additional funds over and above those paid out while executing an agreement canceled on the basis of unfair terms of contract (abusive clauses) of the CHF loan agreement (in connection with the question of the District Court for Warsaw-Śródmieście in Warsaw – case C-520/21),
3. not paying by the Bank a dividend from the profit earned in the period from 1 January to 31 December 2022 after issuing the judgment of the Court of Justice of the European Union, referred to in point 2, without prior consultation with the PFSA,
4. not conducting any other activities, in particular those beyond the scope of current business and operating activities, which may result in a reduction of own funds, including possible dividend payments from undistributed profits from previous years and buybacks or buyouts of own shares, without prior consultation with the supervisory authority.

Both the Bank's Management and Supervisory Boards passed resolutions stating that they would supervise the implementation of the aforementioned recommendation of the PFSA within the scopes of their respective responsibilities.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF THE PKO BANK POLSKI S.A. GROUP FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2023 (IN PLN MILLION)

The Bank's intention is to pay dividends, however, taking into account the PFSA's position on the dividend policy, as well as the dynamic changes in the banking sector environment and the risks to which the Bank is exposed, including in particular the risk related to the CJEU's ruling in case C-520/21 and the potential deterioration in the quality of loans related to increased inflation, reduced economic growth, as well as high debt servicing costs for borrowers, the Bank's Management Board decided on 12 April 2023 to submit to the Bank's Annual General Meeting a recommendation for the distribution of the net profit achieved in 2022 in the amount of PLN 3 258 276 027.00 which reads as follows:

1. the amount of PLN 1 629 138 013.50 is allocated to reserve capital for the payment of dividends, including interim dividends,
2. the amount of PLN 1 629 138 013.50 is left as unapportioned.

In addition, the Bank's Management Board recommended that the unappropriated profit from previous years in the amount of PLN 7 808 836 372 remain unappropriated.

Pursuant to Article 395 § 2(2) of the Commercial Companies Code, the decision on profit distribution remains within the competences of the Bank's Annual General Meeting.

OTHER NOTES

43. Transactions with the State Treasury

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

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

TRANSACTIONS WITH THE STATE TREASURY	01.01.-31.03.2023	01.01-31.03.2022
Income recognized on an accruals basis	64	64
Income recognized on a cash basis	-	1
Income from temporary redemption by the State Treasury of interest on housing loans in the "old portfolio"	64	63

As of 1 January 2018 based on the provisions of the Act of 30 November 1995 on state support in the repayment of certain housing loans, granting guarantee bonuses and reimbursement of guarantee bonuses paid, the borrowers acquired the right to be forgiven the remaining debt by the State Treasury, which will result in gradual (until 2026) full settlement of the housing loan indebtedness from the so-called "old" portfolio. The Bank conducts settlements in respect of repurchase of interest on housing loans by the State Budget and on this account the Bank received commission in the three-month period ended 31 March 2023 and in the corresponding period of 2022 amounting to under PLN 1 million.

As of 1 January 1996, the Bank became the general distributor of value marks. The Bank receives commissions in this respect from the State Treasury – in the three-month period ended 31 March 2023 and in the corresponding period of 2022, the Bank received commission on this account of under PLN 1 million.

Biuro Maklerskie PKO BP plays the role of an agent for the issue of retail Treasury bonds under the agreement signed with the Ministry of Finance on 11 February 2003. Under this agreement, Biuro Maklerskie PKO BP receives a fee for providing the services of an agent for the issue of bonds – in the three-month period ended 31 March 2023 in the amount of PLN 67 million, and in the three-month period ended 31 March 2022 in the amount of PLN 65 million.

44. IMPACT OF THE GEOPOLITICAL SITUATION IN UKRAINE ON THE PKO BANK POLSKI S.A. GROUP

• UKRAINIAN COMPANIES IN THE PKO BANK POLSKI S.A. GROUP

The PKO Bank Polski S.A. Group conducts activities in Ukraine through the KREDOBANK S.A. Group, "Inter-Risk Ukraina" spółka z dodatkową odpowiedzialnością (company with additional liability), Finansowa Kompania "Prywatne Inwestycje" sp. z o.o. and Finansowa Kompania "Idea Kapitał" sp. z o.o. (hereinafter "the Ukrainian companies").

As at 31 March 2023, the Ukrainian companies are continuing to operate. As at 31 March 2023, the Group is continuing to exercise control over the Ukrainian companies and accounts for them using the acquisition accounting method in the financial statements.

The share of Ukrainian companies in the results, assets and liabilities of the Group for the 3 months ended 31 March 2023 and as at 31 March 2023 (including comparatives) is presented in the note "Information on operating segments".

For a detailed description of the impact of the war on the operations of the Ukrainian companies, see the consolidated financial statements of the PKO Bank Polski S.A. Group for the year ended 31 December 2022 in the note "Impact of the geopolitical situation in Ukraine on the PKO Bank Polski S.A. Group".

• RISK MANAGEMENT IN CONNECTION WITH THE SITUATION IN UKRAINE

The Group monitors sanction regulations on an ongoing basis and implements them to the extent appropriate to its specific business.

The entire Group has introduced guidelines for the financing of and providing banking services to:

- customers conducting business whose business model is based on the benefits of active operation in the markets of Russia and Belarus or through significant links (e.g. economic, personal),
- customers on whom sanctions have been or can be imposed in connection with Russia's aggression in Ukraine.

Following the outbreak of the armed aggression of the Russian Federation against Ukraine, restrictions were imposed on the credit policy of Ukrainian companies of the Group (Kredobank S.A). Granting of new financing was focused, as a priority, on existing customers and was implemented through the analysis of each individual transaction by the bank's analysts, incorporating additional criteria into the analysis process, such as:

- location of the place of business, ability to continue business during martial law and current restrictions; potential threat of hostile takeover, where the customer is registered and doing business
- credit operations carried out with tangible and/or intangible collateral (e.g. pledge of shares, pledge of real estate, pledge of vehicles, machinery and equipment, sureties and guarantees), also using risk-sharing instruments;
- priority is given to the financing of agricultural customers with a positive pre-war history;

In the first quarter of 2023, the Group maintained a safe level of liquidity, allowing for a quick and effective response to potential threats. Analysis of the Group's liquidity position confirms that it has a safe level of liquid assets, while maintaining a stable, dispersed deposit base, mainly from retail customers, which is characterised by moderate concentration of entities and is largely covered by guarantees from the BGF. Consequently, the Group maintains both supervisory and internal measures of liquidity risk at safe levels. KREDOBANK S.A.'s liquidity position, despite the ongoing conflict in Ukraine, remained stable and secure; the company did not experience a decline in liquidity measures or significant deposit outflows (LCR of around 200%, NSFR of nearly 200%).

At the same time, in connection with the war in Ukraine, the Group formed a Support Group led by the Head of the Crisis Staff, whose tasks include preventing disruption to the critical processes of the PKO Bank Polski S.A. Group, exchange of information within the Group and coordination of the aid provided. The Group takes actions to mitigate the threats associated with the war in Ukraine on an ongoing basis, in particular with respect to ensuring access to the Group's systems, cyber security and the continuity of cash services and other processes.

45. Interest rate benchmarks reform

- **Legal environment**

A new standard has been developed in the European Union for designing, providing and applying interest rate benchmarks. The legal basis for the said standard is the Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No 596/2014 (hereinafter: "BMR"). The BMR:

- sets the rules for development and application of transparent, reliable and fair benchmarks;
- provides extensive controls over the set-up of benchmarks;
- expects the benchmarks to be determined, generally, on the basis of the actual transactions executed on a given market.

In October 2020, ISDA, an international organization setting standards for trading in derivative instruments, published the ISDA Protocol describing the procedure for replacing IBORs used in the current and new derivative transactions with new risk-free benchmarks. The Bank joined the Protocol in November 2020.

On 10 February 2021, the European Union published an amendment to the BMR, granting the European Commission and the Member States competences to designate replacements for benchmarks in cessation, if such cessation could threaten the stability of the EU market or a Member State market. By law, such a replacement will replace all references to a benchmark which ceased to be published in all contracts and financial instruments which do not contain fallback provisions or whose fallback provisions do not address the permanent cessation of a benchmark.

In the case of EURIBOR, the process of adjustment to the BMR requirements was completed in June 2019 by extending the scope of transactions used to determine the ratio and implementing the waterfall model, which allows designating a transitional benchmark in the event of absence of transactions.

On 5 March 2021, the Financial Conduct Authority (FCA) announced that after 31 December 2021 it will no longer publish selected LIBORs due to the fact that they cannot be adapted to the BMR requirements. For the purposes of their continued use in contracts and financial instruments concluded by the end of 2021, the 1M, 3M and 6M LIBOR USD rates will be published until 30 June 2023 with a consultation on publishing these rates in synthetic form until the end of September 2024, the 1M and 6M LIBOR GBP rates in synthetic form will be published until the end of March 2023 and for the 3M term until the end of March 2024, the 1M, 3M and 6M LIBOR JPY rates in synthetic form were published until the end of 2022.

The European Commission, in Implementing Regulation (EU) 2021/1847 of 14 October 2021 on the designation of a statutory replacement for certain settings of CHF LIBOR, which is in force by operation of law and directly applicable in all Member States of the European Union as of 1 January 2022, has determined substitutes for the CHF LIBOR rates. These substitutes are the 1-month or 3-month SARON compound rate with an indicated value of the adjustment spread, respectively. The SARON rate replaced the CHF LIBOR rate in every contract and financial instrument within the European Union, so this also applied to Polish borrowers.

The WIBOR reform and its adjustment to the BMR requirements were completed in 2020. It involved the same change in the benchmark calculation methodology as in the case of EURIBOR. On 16 December 2020, the PFSA granted GPW Benchmark S.A. permission to perform the function of administrator of the key benchmarks WIBID and WIBOR.

- **Announcement on the use of a replacement for WIBOR**

The Act of 7 July 2022 on the crowdfunding of business ventures and on assistance for borrowers initiated the reform of the WIBOR index. The WIBOR index will be discontinued and replaced by a replacement. The law contains a legal delegation to promulgate it by means of a regulation. The process of determining a replacement for WIBOR will be regulated by law. According to the regulation of the Minister of Finance, the replacement of the WIBOR rate will apply to contracts and financial instruments that meet the requirements of the BMR Regulation. The regulation of the Minister of Finance will also specify the corrective margin and the date from which the conversion will be effective.

In July 2022, the National Working Group on Benchmark Reform (NWG) has been established to ensure the credibility, transparency and reliability of the development and application of the new benchmark interest rate.

The National Working Group comprises representatives of the Ministry of Finance, the National Bank of Poland, the Office of the Financial Supervision Authority, the Bank Guarantee Fund, the Polish Development Fund, the Warsaw

Stock Exchange, the National Depository for Securities, Bank Gospodarstwa Krajowego, the WSE Benchmark, as well as representatives of banks, investment fund companies, insurance companies, factoring and leasing companies, entities that are issuers of bonds, including corporate and municipal bonds, and clearing houses.

The work of the National Working Group shall be coordinated and supervised by the Steering Committee, composed of representatives of key institutions: the Polish Financial Supervision Authority, the National Bank of Poland, the Ministry of Finance, the Bank Guarantee Fund, the Polish Development Fund, as well as the WSE Benchmark – the administrator of benchmark rates – and the Association of Polish Banks.

NGR's activities are carried out in a project formula in which project streams have been identified and in which representatives of PKO Bank Polski S.A. actively participate.

On 1 September 2022, the Steering Committee of the National Working Group appointed in connection with the planned benchmark reform (NWG SC) decided to choose the WIRON® index as an alternative interest rate benchmark, calculated based on the actual overnight (ON) transactions concluded with large enterprises and financial institutions. The selection of the benchmark and the parameters to be taken into account in its development was preceded by public consultations with financial and non-financial market entities. The administrator of WIRON®, within the meaning of BMR, is GPW Benchmark, which is entered in the register maintained by the European Securities and Markets Authority (ESMA). WIRON® is intended to become a critical interest rate benchmark within the meaning of BMR, which will be applied in financial agreements and instruments.

On 27 September 2022, the NWG SC adopted a Road Map specifying a schedule of actions aimed at replacing WIBOR with WIRON® in accordance with the BMR. The Road Map indicates that the benchmark reform will be implemented by the end of 2024. At the same time, a new offer of financial products based on WIRON® will be implemented in 2023-2024 and the full readiness to discontinue the development and publication of the WIBOR and WIBID® benchmarks will be reached at the beginning of 2025.

In January 2023, PKO BP S.A. and ING Bank Śląski S.A. executed the first transaction in the Polish financial market for which the WIRON interest rate index has been applied. The financial instrument being traded was an interest-rate derivative contract – Overnight Index Swap (OIS). With the transaction, the banks have tested the operational and technological capacity for applying WIRON in financial instruments. Interest-rate derivative contracts, including OISs, may be used by banks to hedge interest rate risk of their own and clients' positions. The transaction is part of the "Implementation Phase" of the benchmark reform as described in the Roadmap which involves the accumulation of liquidity in the market of financial instruments being derivative contracts that meet the criteria of an OIS for which WIRON is to be the interest rate benchmark.

On 13 February 2023, the Office of the Polish Financial Supervision Authority announced that WIRON had become an interest rate benchmark. Banks may also apply the WIRON benchmark to determine interest rate on consumer loans or mortgage loans.

In the first quarter of 2023, the Steering Committee of the National Working Group on benchmark reform endorsed the following recommendations:

- on the standard OIS transaction based on WIRON,
- on the application of the WIRON index in issues of floating-rate debt securities,
- on the rules and methods of applying the WIRON benchmark (or benchmarks from the WIRON Compound Indices Family) when entering into new contracts for benchmark-based products in PLN offered by financial market entities,
- on the rules and methods of applying the WIRON interest rate index (or indices from the WIRON Compound Indices Family) when entering into new contracts in PLN for factoring products (excluding discounting products) for benchmark-based products in PLN offered by financial market entities,
- on the methods of applying the WIRON interest rate index (or indices from the WIRON Compound Indices Family) when entering into new contracts in PLN for leasing products for benchmark-based products in PLN offered by financial market entities.

This marks the completion of work on the recommendations on new banking, leasing and factoring products as well as the previously published recommendations on bonds and derivatives. This also represents the achievement of the absolutely crucial milestone of the Reform Roadmap that allows financial institutions to use the NWG's expertise to prepare and implement a series of new arrangements using WIRON index, including mortgage loans, being of key importance to households.

- **ADAPTATION OF THE CAPITAL GROUP AND THE BANK**

Evolution of the legal environment and benchmark market migration in accordance with BMR affect the Group's operations through the agreements signed with the customers and business partners, changes in the valuation of financial instruments and the need to adjust IT processes and systems.

Since the third quarter of 2020, the Group has conducted an interdisciplinary project aimed at its adaptation to the requirements of the BMR, including the WIBOR reform, as well as the PFSA interpretations and guidelines, in particular in the area of:

- development of a contingency plan and its implementation in the Bank's contracts and rules and regulations;
- adjustment of the offer of products and services;
- adjustment of the Bank's transactional, accounting, analytical, risk and reporting systems;
- adjustment of the use of hedge accounting;
- annexing the contracts and implementing the standards adopted by the markets;
- cooperation with the banking sector aimed at developing a uniform interpretation of the regulations and standards of their implementation.

Representatives of many organisational units of the Bank, including in particular those responsible for product areas, as well as issues related to risk and financial management, participate in the project's works. On the part of the companies, representatives of PKO Bank Hipoteczny, PKO Leasing S.A and PKO Faktoring S.A participate. The structure of the project takes into account the division into streams covering products and processes where there is an element of applying the WIBOR reference index and the cyclical reporting of statuses with regard to individual streams. In the current phase of the project, intensive work is underway at the Bank to adapt the technological infrastructure, as well as involving the preparation of internal processes and documentation (including rules and regulations).

Since 1 January 2022, the Group continued servicing the loan portfolios and new loan agreements using WIBOR and EURIBOR without any changes.

The Group is working on analysing the risks and monitoring them on an ongoing basis; however, due to the early stage of the reform, more detailed information on the transition process will be provided as the WIBOR reform work progresses. Moreover, due to the lack of formal information on the potential regulatory event referred to in Article 23c(1) of the BMR, the lack of the Regulation of the Minister of Finance referred to in Article 61c of the Act of 5 August 2015 on macro-prudential oversight of the financial system and crisis management in the financial system concerning the replacement, or even for the draft of such a regulation, lack of information on the amount of adjustment spread or the method of calculating this spread as well as the lack of the market for hedging instruments and taking into account the current stage of work of the National Working Group and implementation of the roadmap, currently, it is not possible to estimate the financial impact of the WIBOR rate reform.

With respect to the loan agreements using LIBOR which were concluded before 1 January 2022, a replacement designated by the European Commission for CHF and the "bridge" rates available until 30 June 2023 for USD and until 31 December 2022 for GBP are used. The few agreements which used LIBOR EUR were annexed to EURIBOR. For new variable interest loans granted to corporate customers in foreign currencies, new benchmarks (referred to as risk-free rates) are used, such as SARON for CHF, SOFR for USD, SONIA for GBP. Depending on the nature of the product, interest is calculated daily or using compound interest rates – either "in advance" (based on historical rates) or "in arrears" (at the end of an interest period). As far as the financial market transactions are concerned, the Bank (as mentioned above) has joined the ISDA Protocol and executes and settles transactions in accordance with that standard, i.e. using compound risk-free rates.

- **HEDGE ACCOUNTING**

The amendments to IFRS allow for the assumption that future cash flows – although subject to changes in the future as a result of the transition to alternative benchmark rates – are still highly probable and thus the existing hedging relationships can be maintained.

46. OTHER INFORMATION

- **SEASONALITY OR CYCLICALITY OF ACTIVITIES IN THE REPORTING PERIOD**

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

- **THE POSITION OF THE MANAGEMENT BOARD OF PKO BANK POLSKI S.A. ON THE POSSIBILITY OF THE ACHIEVEMENT OF PREVIOUSLY PUBLISHED FORECASTS OF THE RESULTS FOR THE YEAR**

PKO Bank Polski S.A. did not publish forecasts of financial results for 2023.

- **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. In the three-month period ended 31 March 2023, The Bank has entered into and published information about a guarantee agreement entered into on 27 February 2023, which provides unfunded credit protection in respect of the Bank's portfolio of selected corporate credit receivables, in accordance with the CRR. The total value of the Bank's debt portfolio covered by this guarantee is over PLN 12 292 million, and the portfolio consists of the bond portfolio of PLN 1 515 million ("Portfolio A") and the portfolio of other receivables of PLN 10 777 million ("Portfolio B"). The coverage ratio is 100% for Portfolio A and 80% for Portfolio B, therefore the total Guarantee amount is PLN 10 137 million. The maximum time of coverage under the Guarantee is 60 months, however the Bank is entitled to terminate the Guarantee prior to the expiry of this period.

In March 2023, PKO Bank Polski S.A signed an agreement with the National Bank of Poland for the Bank's participation in the Target-NBP system for euro-denominated payments.

PKO Bank Polski S.A's subsidiaries did not enter into any significant agreements or material agreements with the central bank or supervisory authorities in the three-month period ended 31 March 2023.

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

In the three-month period ended 31 March 2023, neither PKO Bank Polski S.A nor PKO Bank Polski S.A's subsidiaries took out any loans or advances or received any guarantees or pledges which were not related to their operating activities.

- **INFORMATION ON NON-PAYMENT OF A LOAN OR ADVANCE OR BREACHING MATERIAL PROVISIONS OF A LOAN OR ADVANCE AGREEMENT WITH RESPECT OF WHICH NO REMEDIAL ACTION WAS PERFORMED UNTIL THE END OF THE REPORTING PERIOD**

The Group has not identified any unpaid loans or advances or any breach of material provisions of a loan or advance agreement where the Group acts as a borrower with regard to which no remedial action had been taken until 31 March 2023.

- **INFORMATION ON TRANSACTION(S) WITH RELATED PARTIES CONCLUDED BY THE ISSUER OR ITS SUBSIDIARY, IF THEY HAVE BEEN CONCLUDED ON TERMS OTHER THAN ON AN ARM'S LENGTH BASIS**

The Bank's Group does not identify transactions with subordinates that deviate materially from arm's length conditions.

- **INFORMATION ON SIGNIFICANT AGREEMENTS CONCERNING THE ISSUER OR ITS SUBSIDIARY GRANTING SURETIES FOR LOANS OR ADVANCES OR GRANTING GUARANTEES**

In the three-month period ended 31 March 2023, neither PKO Bank Polski S.A nor PKO Bank Polski S.A's subsidiaries have entered into significant agreements to guarantee the repayment of a loan or advance and to grant guarantees for the repayment of a loan or advance.

- **INFORMATION ON MATERIAL PROCEEDINGS AT COURT, BEFORE A COMPETENT ARBITRATION TRIBUNAL OR A PUBLIC ADMINISTRATION BODY**

Taking into consideration the value of and an increase in the number of court proceedings, PKO Bank Polski S.A. considered as material the court proceedings relating to mortgage loans in convertible currencies. A description of the main disputes, including those relating to mortgage loans in convertible currencies, is presented in note "LEGAL CLAIMS".

- **OTHER INFORMATION RELEVANT TO THE ASSESSMENT OF THE ISSUER'S PERSONNEL, ASSETS, FINANCIAL POSITION, FINANCIAL PERFORMANCE AND CHANGES THEREIN**

In the three-month period ended 31 March 2023, PKO Bank Polski S.A and PKO Bank Polski S.A's subsidiaries did not experience any other significant events relevant to the assessment of their personnel, assets, financial position and financial performance.

SEPARATE FINANCIAL DATA

SEPARATE INCOME STATEMENT

INCOME STATEMENT	Note	01.01-31.03.2023	01.01-31.03.2022
Net interest income		3 920	2 878
Interest and similar income	47	6 775	3 393
of which calculated under the effective interest rate method		6 628	3 281
Interest expense	47	(2 855)	(515)
Net fee and commission income		931	931
Fee and commission income	48	1 307	1 243
Fee and commission expense	48	(376)	(312)
Other net income		81	63
Dividend income		32	-
Gains/(losses) on financial transactions		13	73
Foreign exchange gains/ (losses)		45	(16)
Gains/(losses) on derecognition of financial instruments		14	7
of which measured at amortized cost		4	4
Net other operating income and expense		(23)	(1)
Result on business activities		4 932	3 872
Net expected credit losses		(261)	(233)
Net impairment losses on non-financial assets		(13)	(55)
Cost of legal risk of mortgage loans in convertible currencies		(967)	-
Administrative expenses		(1 742)	(1 600)
of which net regulatory charges		(350)	(446)
Tax on certain financial institutions		(282)	(286)
Profit before tax		1 667	1 698
Income tax expense		(411)	(386)
Net profit		**1 256**	**1 312**
Earnings per share			
– basic earnings per share for the period (PLN)		1.00	1.05
– diluted earnings per share for the period (PLN)		1.00	1.05
Weighted average number of ordinary shares during the period (in million)*		1 250	1 250

*Both in the first quarter of 2023 and in the corresponding period of 2022, there were no dilutive instruments. Therefore, the amount of diluted earnings per share is the same as the amount of basic earnings per share.

(IN PLN MILLION)

SEPARATE STATEMENT OF COMPREHENSIVE INCOME

STATEMENT OF COMPREHENSIVE INCOME	01.01-31.03.2023	01.01-31.03.2022
Net profit	**1 256**	**1 312**
Other comprehensive income	**1 937**	**(3 181)**
Items which may be reclassified to profit or loss	**1 937**	**(3 181)**
Cash flow hedges (net)	1 174	(1 852)
Cash flow hedges (gross)	1 450	(2 286)
Deferred tax	(276)	434
Fair value of financial assets measured at fair value through other comprehensive income (net)	763	(1 329)
Remeasurement of fair value, gross	953	(1 638)
Gains /losses transferred to the profit or loss (on disposal)	(10)	(3)
Deferred tax	(180)	312
Total net comprehensive income	**3 193**	**(1 869)**

SEPARATE STATEMENT OF FINANCIAL POSITION

	Note	31.03.2023	31.12.2022
ASSETS		419 436	405 168
Cash and balances with Central Bank		14 413	15 719
Amounts due from banks		17 999	19 442
Hedging derivatives		349	217
Other derivative instruments		11 148	13 745
Securities	49	141 145	130 986
Reverse repo transactions		4 776	7
Loans and advances to customers	50	213 961	208 918
Property, plant and equipment		2 459	2 505
Assets held for sale		13	10
Intangible assets		2 887	2 933
Investments in subsidiaries	52	3 560	3 560
Investments in associates and joint ventures	52	275	275
Current income tax receivable		92	47
- of the subsidiaries belonging to the Tax Group		92	47
Deferred tax assets		4 129	4 694
Other assets		2 230	2 110

(IN PLN MILLION)

		31.03.2023	31.12.2022
LIABILITIES AND EQUITY		419 436	405 168
Liabilities		382 159	371 084
Amounts due to Central bank		40	9
Amounts due to banks		3 731	2 928
Hedging derivatives		5 348	6 727
Other derivative instruments		11 347	14 002
Amounts due to customers	51	345 852	334 856
Loans and advances received		725	726
Securities in issue		3 526	-
Subordinated liabilities		2 720	2 781
Other liabilities		6 298	6 480
Current income tax liabilities		521	527
- of the Bank		521	379
- of the subsidiaries belonging to the Tax Group		-	148
Provisions		2 051	2 048
EQUITY		37 277	34 084
Share capital		1 250	1 250
Reserves and accumulated other comprehensive income		23 705	21 768
Retained earnings		11 066	7 808
Net profit or loss for the year		1 256	3 258

(IN PLN MILLION)

SEPARATE STATEMENT OF CHANGES IN EQUITY

FOR 3 MONTHS ENDED 31 MARCH 2023	Share capital	Reserves and accumulated other comprehensive income					Retained earnings	Net profit or loss for the period	Total equity
		Reserves			Accumulated other comprehensive income	Total reserves and accumulated other comprehensive income			
		Supplementary capital	General banking risk fund	Other reserves					
As at the beginning of the period	1 250	22 468	1 070	6 746	(8 516)	21 768	7 808	3 258	34 084
Transfer from retained earnings	-	-	-	-	-	-	3 258	(3 258)	-
Comprehensive income	-	-	-	-	1 937	1 937	-	1 256	3 193
As at the end of the period	1 250	22 468	1 070	6 746	(6 579)	23 705	11 066	1 256	37 277

FOR 3 MONTHS ENDED 31 MARCH 2022	Share capital	Reserves and accumulated other comprehensive income					Retained earnings	Net profit or loss for the period	Total equity
		Reserves			Accumulated other comprehensive income	Total reserves and accumulated other comprehensive income			
		Supplementary capital	General banking risk fund	Other reserves					
As at the beginning of the period	1 250	22 468	1 070	6 746	(5 557)	24 727	5 500	4 596	36 073
Transfer from retained earnings	-	-	-	-	-	-	4 596	(4 596)	-
Comprehensive income	-	-	-	-	(3 181)	(3 181)	-	1 312	(1 869)
As at the end of the period	1 250	22 468	1 070	6 746	(8 738)	21 546	10 096	1 312	34 204

(IN PLN MILLION)

FOR 3 MONTHS ENDED 31 MARCH 2023	Accumulated other comprehensive income			
	Fair value of financial assets measured at fair value through other comprehensive income	Cash flow hedges	Actuarial gains and losses	Total
As at the beginning of the period	(3 469)	(5 028)	(19)	(8 516)
Total comprehensive income	763	1 174	-	1 937
As at the end of the period	(2 706)	(3 854)	(19)	(6 579)

FOR 3 MONTHS ENDED 31 MARCH 2022	Accumulated other comprehensive income			
	Fair value of financial assets measured at fair value through other comprehensive income	Cash flow hedges	Actuarial gains and losses	Total
As at the beginning of the period	(1 842)	(3 702)	(13)	(5 557)
Total comprehensive income	(1 329)	(1 852)	-	(3 181)
As at the end of the period	(3 171)	(5 554)	(13)	(8 738)

(IN PLN MILLION)

SEPARATE STATEMENT OF CASH FLOWS

	01.01-31.03.2023	01.01-31.03.2022
Cash flows from operating activities		
Profit before tax	**1 667**	**1 698**
Income tax paid	**(360)**	**(242)**
Total adjustments:	**(1 143)**	**(2 951)**
Depreciation and amortization	231	216
(Gains)/losses on investing activities	(4)	(1)
Interest and dividends received	(542)	(329)
Interest paid	133	121
Change in:		
amounts due from banks	(896)	695
hedging derivatives	(1 511)	2 362
other derivative instruments	(58)	(251)
securities	(1 633)	(728)
loans and advances to customers	(5 347)	(4 375)
reverse repo transactions	(4 769)	(24)
non-current assets held for sale	(3)	6
other assets	(124)	(16)
accumulated allowances for expected credit losses	240	203
accumulated allowances on non-financial assets and other provisions	50	42
amounts due to the Central Bank	31	-
amounts due to banks	803	543
amounts due to customers	10 996	(299)
loan and advances received	(1)	83
liabilities in respect of debt securities in issue	(5)	-
subordinated liabilities	(61)	(3)
other liabilities	(116)	1 114
Other adjustments	1 443	(2 310)
Net cash from/used in operating activities	**164**	**(1 495)**

(IN PLN MILLION)

	01.01-31.03.2023	01.01-31.03.2022
Cash flows from investing activities		
Inflows from investing activities	**77 313**	**28 213**
Redemption of securities measured at fair value through other comprehensive income	75 151	27 742
Interest received on securities measured at fair value through other comprehensive income	405	153
Redemption of securities measured at amortized cost	1 612	136
Interest received on securities measured at amortized cost	105	92
Proceeds from disposal of intangible assets, property, plant and equipment and assets held for sale	8	5
Other inflows from investing activities including dividends	32	85
Outflows on investing activities	**(84 465)**	**(28 139)**
Purchase of securities measured at fair value through other comprehensive income	(82 470)	(27 974)
Purchase of securities measured at amortized cost	(1 868)	(29)
Purchase of intangible assets and property, plant and equipment	(127)	(136)
Net cash from/used in investing activities	**(7 152)**	**74**

	01.01-31.03.2023	01.01-31.03.2022
Cash flows from financing activities		
Proceeds from debt securities in issue	3 531	-
Payment of lease liabilities	(66)	(62)
Repayment of interest on long-term liabilities	(133)	(121)
Net cash from financing activities	**3 332**	**(183)**
Total net cash flows	**(3 656)**	**(1 604)**
of which foreign exchange differences on cash and cash equivalents	86	59
Cash and cash equivalents at the beginning of the period	29 611	19 128
Cash and cash equivalents at the end of the period	25 955	17 524

(IN PLN MILLION)

SELECTED NOTES TO THE SEPARATE FINANCIAL STATEMENTS

47. INTEREST INCOME AND EXPENSE

INTEREST AND SIMILAR INCOME	01.01-31.03.2023	01.01-31.03.2022
Loans and other amounts due from banks[1]	**461**	**126**
Debt securities:	**1 375**	**604**
measured at amortized cost	454	292
measured at fair value through other comprehensive income	914	307
measured at fair value through profit or loss	7	5
Loans and advances to customers	**4 939**	**2 654**
measured at amortized cost	4 540	2 397
measured at fair value through other comprehensive income	259	150
measured at fair value through profit or loss	140	107
Amounts due to customers (excluding loans and advances received)	**-**	**9**
Total	6 775	3 393
of which: interest income on impaired financial instruments	116	55
Interest income calculated using the effective interest rate method on financial instruments measured:	6 628	3 281
at amortized cost	5 455	2 824
at fair value through other comprehensive income	1 173	457
Income similar to interest income on instruments measured at fair value through profit or loss	147	112
Total	6 775	3 393

[1] Under loans and other receivables from banks, the Bank recognised interest income on funds in call accounts (central clearing through a clearing broker) of PLN 75 million as at 31 March 2023 (PLN 23 million as at 31 March 2022) and interest income on funds in the current account with the NBP of PLN 185 million (PLN 41 million as at 31 March 2022).

INTEREST EXPENSE	01.01-31.03.2023	01.01-31.03.2022
Hedging derivatives	(1 042)	(215)
Amounts due to banks[1]	(25)	(24)
Interbank deposits	-	(2)
Loans and advances received	(13)	(55)
Leases	(6)	(3)
Amounts due to customers	(1 679)	(195)
issues of securities	(32)	-
subordinated liabilities	(58)	(21)
Total	(2 855)	(515)

[1] As at 31 March 2023, the Bank did not recognize interest expenses on cash on call accounts with a negative interest rate in amounts due to banks (as at 31 March 2022: PLN 6 million).

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF THE PKO BANK POLSKI S.A. GROUP FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2023 (IN PLN MILLION)

48. FEE AND COMMISSION INCOME AND EXPENSES

FEE AND COMMISSION INCOME	01.01-31.03.2023	01.01-31.03.2022
Loans and insurance	**243**	**234**
lending	192	185
offering insurance products	51	49
Investment funds, pension funds and brokerage activities	**110**	**119**
servicing investment funds and OFE (including management fees)	2	5
servicing and selling investment and insurance products	2	2
brokerage activities	106	112
Cards	**475**	**404**
Margins on foreign exchange transactions	**163**	**181**
Bank accounts and other	**316**	**305**
servicing bank accounts	229	228
cash operations	18	19
servicing foreign mass transactions	29	23
customer orders	14	15
fiduciary services	2	2
other	24	18
Total, of which:	**1 307**	**1 243**
income from financial instruments not measured at fair value through profit or loss	1 282	1 205

FEE AND COMMISSION EXPENSE	01.01-31.03.2023	01.01-31.03.2022
Loans and insurance	**(26)**	**(26)**
commission paid to external entities for product sales	(7)	(5)
cost of construction project supervision and property appraisal	(6)	(6)
fees to Biuro Informacji Kredytowej	(10)	(10)
loan handling	(3)	(5)
Investment funds, pension funds and brokerage activities	**(8)**	**(9)**
Cards	**(300)**	**(246)**
Bank accounts and other	**(42)**	**(31)**
clearing services	(14)	(13)
commissions for operating services provided by banks	(3)	(2)
sending short text messages (SMS)	(13)	(11)
servicing foreign mass transactions	(5)	(4)
other	(7)	(1)
Total	**(376)**	**(312)**

(IN PLN MILLION)

49. SECURITIES

SECURITIES 31.03.2023	held for trading	not held for trading, measured at fair value through profit or loss	measured at fair value through other comprehensive income	measured at amortized cost	Total
Debt securities	**323**	**354**	**71 591**	**68 510**	**140 778**
NBP money bills	-	-	6 991	-	6 991
Treasury bonds (in PLN)	226	1	42 875	46 116	89 218
Treasury bonds (in foreign currencies)	2	306	3 698	-	4 006
corporate bonds (in PLN) secured with the State Treasury guarantees	5	-	9 722	12 147	21 874
municipal bonds (in PLN)	14	-	5 148	6 320	11 482
corporate bonds (in PLN)[1]	68	47	2 773	2 253	5 141
corporate bonds (in foreign currencies)	-	-	384	1 674	2 058
mortgage covered bonds	8	-	-	-	8
Equity securities	**30**	**366**	**-**	**-**	**396**
shares in other entities - not listed	-	267	-	-	267
shares in other entities - listed	29	99	-	-	128
participation units in investment funds, investment certificates, rights to shares, pre-emptive rights	1	-	-	-	1
Total (excluding adjustment relating to fair value hedge accounting)	**353**	**720**	**71 591**	**68 510**	**141 174**
Adjustment relating to fair value hedge accounting	-	-	-	(29)	(29)
Total	**353**	**720**	**71 591**	**68 481**	**141 145**

[1] The item includes bonds of international financial organizations of PLN 3 594 million

(IN PLN MILLION)

SECURITIES 31.12.2022	held for trading	not held for trading, measured at fair value through profit or loss	measured at fair value through other comprehensive income	measured at amortized cost	Total
Debt securities	171	366	62 286	67 821	130 644
Treasury bonds (in PLN)	89	-	40 649	45 870	86 608
Treasury bonds (in foreign currencies)	2	321	3 977	-	4 300
corporate bonds (in PLN) secured with the State Treasury guarantees	3	-	9 373	12 100	21 476
municipal bonds (in PLN)	14	-	5 046	6 182	11 242
corporate bonds (in PLN)[1]	56	45	2 852	1 990	4 943
corporate bonds (in foreign currencies)	-	-	389	1 679	2 068
mortgage covered bonds	7	-	-	-	7
Equity securities	28	344	-	-	372
shares in other entities - not listed	-	324	-	-	324
shares in other entities - listed	27	20	-	-	47
participation units in investment funds, investment certificates, rights to shares, pre-emptive rights	1	-	-	-	1
Total (excluding adjustment relating to fair value hedge accounting)	**199**	**710**	**62 286**	**67 821**	**131 016**
Adjustment relating to fair value hedge accounting	-	-	-	(30)	(30)
Total	**199**	**710**	**62 286**	**67 791**	**130 986**

[1] The item includes bonds of international financial organizations of PLN 3 550 million

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

50. LOANS AND ADVANCES TO CUSTOMERS

LOANS AND ADVANCES TO CUSTOMERS 31.03.2023	not held for trading, measured at fair value through profit or loss	measured at fair value through other comprehensive income	measured at amortized cost	Total
retail and private banking	3 210	11 458	97 768	112 436
real estate	2	11 458	71 390	82 850
consumer	3 208	-	26 378	29 586
companies and enterprises	49	-	16 938	16 987
real estate	-	-	5 287	5 287
business	49	-	11 651	11 700
corporate	27	-	84 515	84 542
real estate	-	-	133	133
business	27	-	84 382	84 409
Loans and advances to customers (excluding adjustment relating to fair value hedge accounting)	**3 286**	**11 458**	**199 221**	**213 965**
Adjustment relating to fair value hedge accounting	-	-	(4)	(4)
Total	**3 286**	**11 458**	**199 217**	**213 961**

(IN PLN MILLION)

LOANS AND ADVANCES TO CUSTOMERS 31.12.2022	not held for trading, measured at fair value through profit or loss	measured at fair value through other comprehensive income	measured at amortized cost	Total
retail and private banking	3 480	11 895	98 475	113 850
real estate	4	11 895	72 274	84 173
consumer	3 476	-	26 201	29 677
companies and enterprises	44	-	17 011	17 055
real estate	-	-	5 381	5 381
business	44	-	11 630	11 674
corporate	41	-	77 980	78 021
real estate	-	-	118	118
business	41	-	77 862	77 903
Loans and advances to customers (excluding adjustment relating to fair value hedge accounting)	**3 565**	**11 895**	**193 466**	**208 926**
Adjustment relating to fair value hedge accounting	-	-	(8)	(8)
Total	3 565	11 895	193 458	208 918

51. AMOUNTS DUE TO CUSTOMERS

AMOUNTS DUE TO CUSTOMERS 31.03.2023	Amounts due to households	Amounts due to business entities	Amounts due to state budget entities	Total
Measured at fair value through profit or loss	-	**6**	-	**6**
Liabilities in respect of a short position in securities	-	6	-	6
Measured at amortized cost	**273 069**	**58 199**	**14 512**	**345 780**
Cash on current accounts and overnight deposits of which	178 165	40 198	12 070	230 433
savings accounts and other interest-bearing assets	42 115	13 195	5 789	61 099
Term deposits	94 472	17 431	2 434	114 337
Other liabilities	432	570	8	1 010
Amounts due to customers (excluding adjustment relating to fair value hedge accounting)	**273 069**	**58 205**	**14 512**	**345 786**
Adjustment relating to fair value hedge accounting	66	-	-	66
Total	273 135	58 205	14 512	345 852

(IN PLN MILLION)

AMOUNTS DUE TO CUSTOMERS 31.12.2022	Amounts due to households	Amounts due to business entities	Amounts due to state budget entities	Total
Measured at fair value through profit or loss	-	**5**	-	**5**
Liabilities in respect of a short position in securities	-	5	-	5
Measured at amortized cost	**260 729**	**56 990**	**17 188**	**334 907**
Cash on current accounts and overnight deposits of which	178 629	38 931	16 224	233 784
savings accounts and other interest-bearing assets	41 877	12 452	11 615	65 944
Term deposits	81 600	17 481	913	99 994
Other liabilities	500	578	51	1 129
Amounts due to customers (excluding adjustment relating to fair value hedge accounting)	**260 729**	**56 995**	**17 188**	**334 912**
Adjustment relating to fair value hedge accounting	(56)	-	-	(56)
Total	260 673	56 995	17 188	334 856

52. INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

31.03.2023	Gross carrying amount	Impairment	Net carrying amount
SUBSIDIARIES			
PKO Bank Hipoteczny S.A.	1 650	-	1 650
KREDOBANK S.A.	1 072	(845)	227
PKO Leasing S.A.	496	-	496
PKO Życie Towarzystwo Ubezpieczeń S.A.	241	-	241
PKO Towarzystwo Funduszy Inwestycyjnych S.A.	225	-	225
PKO VC - fizan[1]	200	-	200
PKO BP BANKOWY PTE S.A.	151	(37)	114
NEPTUN - fizan[1]	132	-	132
Merkury - fiz an[1]	120	-	120
PKO Towarzystwo Ubezpieczeń S.A.	110	-	110
PKO Finance AB	24	-	24
PKO BP Finat sp. z o.o.	21	-	21
JOINT VENTURES			
Centrum Elektronicznych Usług Płatniczych eService sp. z o.o.	197	-	197
Operator Chmury Krajowej sp. z o.o.	78	-	78
ASSOCIATES			
Bank Pocztowy S.A.	184	(184)	-
Poznański Fundusz Poręczeń Kredytowych sp. z o.o.	2	(2)	-
Total	4 903	(1 068)	3 835

[1] The Bank holds investment certificates of the Fund which allow it to control the Fund in accordance with IFRS.

(IN PLN MILLION)

31.12.2022	Gross carrying amount	Impairment	Net carrying amount
SUBSIDIARIES			
PKO Bank Hipoteczny S.A.	1 650	-	1 650
KREDOBANK S.A.	1 072	(845)	227
PKO Leasing S.A.	496	-	496
PKO Życie Towarzystwo Ubezpieczeń S.A.	241	-	241
PKO Towarzystwo Funduszy Inwestycyjnych S.A.	225	-	225
PKO VC - fizan[1]	200	-	200
PKO BP BANKOWY PTE S.A.	151	(37)	114
NEPTUN - fizan[1]	132	-	132
Merkury - fiz an[1]	120	-	120
PKO Towarzystwo Ubezpieczeń S.A.	110	-	110
PKO Finance AB	24	-	24
PKO BP Finat sp. z o.o.	21	-	21
JOINT VENTURES			
Centrum Elektronicznych Usług Płatniczych eService sp. z o.o.	197	-	197
Operator Chmury Krajowej sp. z o.o.	78	-	78
ASSOCIATES			
Bank Pocztowy S.A.	184	(184)	-
Poznański Fundusz Poręczeń Kredytowych sp. z o.o.	2	(2)	-
Total	**4 903**	**(1 068)**	**3 835**

[1] The Bank holds investment certificates of the Fund which allow it to control the Fund in accordance with IFRS.

In 2022, the Bank recognised an additional impairment loss on its investment in KREDOBANK SA of PLN 52 million (see "Financial statements of PKO Bank Polski S.A. for the year ended 31 December 2022" note: Impact of the geopolitical situation in Ukraine on PKO Bank Polski S.A..)

53. RELATED-PARTY TRANSACTIONS – CAPITAL LINKS

Transactions between the Bank as the parent and its subsidiaries, associates and joint ventures are presented in the table below. All transactions presented below were arm's length transactions. Repayment terms are within a range of from one month to seventeen years.

31.03.2023 Company Name	Receivables	of which loans	Liabilities	Off-balance sheet liabilities granted
KREDOBANK SA and its subsidiary	-	-	32	337
Merkury - fiz an and its subsidiaries	-	-	18	-
NEPTUN - fizan and its subsidiaries	150	150	25	-
PKO Bank Hipoteczny S.A.	6 453	6 372	280	6 130
PKO BP BANKOWY PTE S.A.	-	-	23	-
PKO BP Finat sp. z o.o.	-	-	20	15
PKO Leasing SA and its subsidiaries	22 547	22 308	27	5 232
PKO Towarzystwo Funduszy Inwestycyjnych S.A.	-	-	271	-
PKO Towarzystwo Ubezpieczeń S.A.	-	-	209	1
PKO Życie Towarzystwo Ubezpieczeń SA and its subsidiary	-	-	281	1
Total subsidiaries	**29 150**	**28 830**	**1 186**	**11 716**

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF THE PKO BANK POLSKI S.A. GROUP FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2023 (IN PLN MILLION)

FOR 3 MONTHS ENDED 31 MARCH 2023 Company Name	Total income	of which interest and commission income	Total expense	of which interest and commission expense
NEPTUN - fizan and its subsidiaries	2	2	-	-
PKO Bank Hipoteczny S.A.	237	233	-	-
PKO BP Finat sp. z o.o.	1	-	3	-
PKO Leasing SA and its subsidiaries	360	359	-	-
PKO Towarzystwo Funduszy Inwestycyjnych S.A.	1	-	3	3
PKO Towarzystwo Ubezpieczeń S.A.	13	13	-	-
PKO Życie Towarzystwo Ubezpieczeń SA and its subsidiary	9	9	1	1
Total subsidiaries	623	616	7	4

31.12.2022 Company Name	Receivables	of which loans	Liabilities	Off-balance sheet liabilities granted
KREDOBANK SA and its subsidiary	-	-	39	345
Merkury - fiz an and its subsidiaries	-	-	21	-
NEPTUN - fizan and its subsidiaries	151	151	30	-
PKO Bank Hipoteczny S.A.	5 506	5 470	509	7 735
PKO BP BANKOWY PTE S.A.	-	-	15	-
PKO BP Finat sp. z o.o.	-	-	38	15
PKO Finance AB	-	-	190	-
PKO Leasing SA and its subsidiaries	21 805	21 778	27	5 305
PKO Towarzystwo Funduszy Inwestycyjnych S.A.	-	-	223	-
PKO Towarzystwo Ubezpieczeń S.A.	-	-	16	1
PKO Życie Towarzystwo Ubezpieczeń SA and its subsidiary	-	-	129	-
Total subsidiaries	27 462	27 399	1 237	13 401

FOR 3 MONTHS ENDED 31 MARCH 2022 Company Name	Total income	of which interest and commission income	Total expense	of which interest and commission expense
NEPTUN - fizan and its subsidiaries	1	1	-	-
PKO Bank Hipoteczny S.A.	111	107	-	-
PKO BP Finat sp. z o.o.	1	-	1	-
PKO Finance AB	9	9	50	50
PKO Leasing SA and its subsidiaries	137	136	-	-
PKO Towarzystwo Funduszy Inwestycyjnych S.A.	1	1	-	1
PKO Towarzystwo Ubezpieczeń S.A.	13	13	-	-
PKO Życie Towarzystwo Ubezpieczeń SA and its subsidiary	9	9	1	1
Total subsidiaries	282	276	52	52

(IN PLN MILLION)

31.03.2023 Company Name	Receivables	of which loans	Liabilities	Off-balance sheet liabilities granted
Centrum Elektronicznych Usług Płatniczych eService sp. z o.o.	115	18	81	47
"Centrum Obsługi Biznesu" sp. z o.o.	11	22	3	-
Bank Pocztowy S.A.	-	-	-	1
Poznański Fundusz Poręczeń Kredytowych sp. z o.o.	-	-	1	-
Operator Chmury Krajowej sp. z o.o.	2	2	3	893
Total associates and joint ventures	128	42	88	941

FOR 3 MONTHS ENDED 31 MARCH 2023 Company Name	Total income	of which interest and commission income	Total expense	of which interest and commission income
Centrum Elektronicznych Usług Płatniczych eService sp. z o.o.	131	161	43	43
"Centrum Obsługi Biznesu" sp. z o.o.	1	1	-	-
Operator Chmury Krajowej sp. z o.o.	-	-	8	-
Total associates and joint ventures	132	162	51	43

31.12.2022 Company Name	Receivables	of which loans	Liabilities	Off-balance sheet liabilities granted
Centrum Elektronicznych Usług Płatniczych eService sp. z o.o.	64	-	206	63
"Centrum Obsługi Biznesu" sp. z o.o.	11	10	2	-
Bank Pocztowy S.A.	-	-	-	1
Operator Chmury Krajowej sp. z o.o.	-	-	31	917
Total associates and joint ventures	75	10	239	981

FOR 3 MONTHS ENDED 31 MARCH 2022 Company Name	Total income	of which interest and commission income	Total expense	of which interest and commission income
Centrum Elektronicznych Usług Płatniczych eService sp. z o.o.	167	130	32	32
Operator Chmury Krajowej sp. z o.o.	-	-	7	-
Total associates and joint ventures	167	130	39	32

(IN PLN MILLION)

54. CAPITAL ADEQUACY

Capital adequacy	31.03.2023	31.12.2022
Equity	**37 277**	**34 084**
capital: share capital, supplementary capital, other reserves, and general risk reserve	31 534	31 534
retained earnings	11 066	7 808
net profit or loss for the year	1 256	3 258
other comprehensive income	(6 579)	(8 516)
Exclusions from equity:	**660**	**(1 770)**
net profit or loss for the year	1 256	3 258
unappropriated profit for the prior year	3 258	-
cash flow hedges	(3 854)	(5 028)
Other fund reductions:	**4 519**	**4 692**
goodwill	755	755
other intangible assets	1 317	1 390
additional asset adjustments (AVA, DVA, NPE, capital exposures and DTA above the thresholds specified in Art. 48 of the CRR)	2 447	2 547
Provisional treatment of unrealized gains and losses on securities measured at fair value through OCI according to Art. 468 of the CRR	-	**1 360**
Temporary reversal of IFRS 9 impact	**772**	**1 393**
Current period profit/loss, included by permission from the PFSA	**895**	**895**
Tier 1 capital	**33 765**	**34 810**
Tier 2 capital (subordinated debt)	**2 486**	**2 584**
Own funds	**36 251**	**37 394**
Requirements for own funds	**14 472**	**15 858**
Credit risk	12 915	13 423
Operational risk[1]	1 319	2 043
Market risk[2]	189	342
Credit valuation adjustment risk	49	50
Total capital ratio	**20.04**	**18.86**
Tier 1 capital ratio	**18.67**	**17.56**

[1] In the first quarter of 2023, there was a decrease in the own funds requirement for operational risk by PLN 724 million mainly due to the implementation of individual scaling of the legal risk costs of mortgage loans in CHF in the AMA approach in accordance with the PFSA decision obtained on 22 February 2023. The purpose of the change is to ensure that the historically incurred costs of the portfolio of mortgage loans in CHF are taken into account in the AMA model at an appropriate scale in relation to the risks that the Bank may potentially still incur as a result.

[2.] The decrease in the value of the market risk-related requirement as at the end of March 2023 comprised mainly the currency risk-related requirement of PLN 138 million at the end of 2022, whereas the requirement was PLN 0 at the end of March 2023.

55. SUBSEQUENT EVENTS

- On 6 April 2023, Mr Paweł Gruza resigned, effective at the end of 12 April 2023, from leading the Bank's Management Board and from applying for the position of President of the Bank's Management Board. Simultaneously, Mr Paweł Gruza did not resign from his membership of the Bank's Management Board or from his position as Vice-President of the Bank's Management Board.
- With effect from 13 April 2023, Mr Mieczysław Król resigned as a member of the Bank's Management Board.
- The Bank's Supervisory Board dismissed Mr Maks Kraczkowski from the Bank's Management Board with effect from 13 April 2023.
- The Bank's Supervisory Board resolved to appoint Mr Dariusz Szwed as Vice-President of the Bank's Management Board, effective 14 April 2023, for the current joint term of office of the Bank's Management Board, which commenced on 3 July 2020, and at the same time appointed Mr Dariusz Szwed as President of the Bank's Management Board, subject to the approval of the Polish Financial Supervision Authority and as of the date of such approval. Until the approval by the Polish Financial Supervision Authority, the Supervisory Board has entrusted Mr Dariusz Szwed with directing the work of the Management Board.

SIGNATURES OF ALL MEMBERS OF THE BANK'S MANAGEMENT BOARD

Dariusz Szwed	Vice President of the Management Board managing the work of the Management Board
Maciej Brzozowski	Vice-President of the Management Board
Marcin Eckert	Vice-President of the Management Board
Paweł Gruza	Vice-President of the Management Board
Wojciech Iwanicki	Vice-President of the Management Board
Andrzej Kopyrski	Vice-President of the Management Board
Artur Kurcweil	Vice-President of the Management Board
Piotr Mazur	Vice-President of the Management Board

SIGNATURE OF A PERSON WHO IS RESPONSIBLE FOR MAINTAINING THE ACCOUNTING RECORDS

Danuta Szymańska	Director of the accounting division

The original Polish document is signed with a qualified electronic signatures