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Bank Polski

**Condensed interim separate financial statements of
PKO Bank Polski S.A.
for the six-month period ended
30 June 2023**

SELECTED FINANCIAL DATA	PLN million			EUR million		
	01.01- 30.06.2023	01.01- 30.06.2022	Change % (A-B)/B	01.01- 30.06.2023	01.01- 30.06.2022	Change % (D-E)/E
	A	B	C	D	E	F
Net interest income	8,043	6,207	29.6%	1,744	1,337	30.4%
Net fee and commission income	1,879	1,888	(0.5%)	407	407	-
Net expected credit losses and net impairment allowances on non-financial assets	(505)	(469)	7.7%	(109)	(101)	7.9%
Administrative expenses	(3,259)	(3,749)	(13.1%)	(706)	(808)	(12.6%)
Profit before tax	2,815	2,594	8.5%	610	559	9.1%
Net profit	1,948	1,782	9.3%	422	384	9.9%
Earnings per share for the period - basic (in PLN/EUR)	1.56	1.43	9.1%	0.34	0.31	9.7%
Earnings per share for the period - diluted (in PLN/EUR)	1.56	1.43	9.1%	0.34	0.31	9.7%
Net comprehensive income	5,137	(4,422)	(216.2%)	1,114	(952)	(217.0%)
Total net cash flows	(3,866)	6,681	(157.9%)	(838)	1,439	(158.2%)

SELECTED FINANCIAL DATA	PLN million			EUR million		
	30.06.2023	31.12.2022	Change % (A-B)/B	30.06.2023	31.12.2022	Change % (D-E)/E
	A	B	C	D	E	F
Total assets	435,986	405,168	7.7%	97,968	86,392	13.4%
Total equity	39,221	34,084	15.1%	8,813	7,268	21.3%
Share capital	1,250	1,250	-	281	267	5.2%
Number of shares (in million)	1,250	1,250	-	1,250	1,250	-
Book value per share (in PLN/EUR)	31.38	27.27	15.1%	7.05	5.81	21.3%
Diluted number of shares (in million)	1,250	1,250	-	1,250	1,250	-
Diluted book value per share (in PLN/EUR)	31.38	27.27	15.1%	7.05	5.81	21.3%
Total Capital Ratio (%)	21.30	18.86	12.9%	21.30	18.86	12.9%
Tier 1	37,361	34,811	7.3%	8,395	7,423	13.1%
Tier 2	2,352	2,584	(9.0%)	529	551	(4.0%)

SELECTED FINANCIAL STATEMENT ITEMS HAVE BEEN TRANSLATED INTO EUR AT THE FOLLOWING RATES	01.01- 30.06.2023	01.01- 30.06.2022
arithmetic mean of the NBP exchange rates at the end of a month (income statement, statement of comprehensive income and cash flow statement items)	4.6130	4.6427
	30.06.2023	31.12.2022
NBP mid exchange rates at the date indicated (statement of financial position items)	4.4503	4.6899

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SEPARATE INCOME STATEMENT

	Note	2 nd quarter period from 01.04.2023 to 30.06.2023	2 quarters period from 01.01.2023 to 30.06.2023	2 nd quarter period from 01.04.2022 to 30.06.2022	2 quarters period from 01.01.2022 to 30.06.2022
Net interest income		4,123	8,043	3,329	6,207
Interest and similar income	10	7,241	14,016	4,859	8,252
of which calculated under the effective interest rate method		7,097	13,725	4,724	8,005
Interest expense	10	(3,118)	(5,973)	(1,530)	(2,045)
Net fee and commission income		948	1,879	957	1,888
Fee and commission income	11	1,349	2,656	1,335	2,578
Fee and commission expense	11	(401)	(777)	(378)	(690)
Other net income		594	675	415	478
Dividend income		599	631	465	465
Gains/(losses) on financial transactions	12	(7)	6	112	185
Foreign exchange gains/ (losses)		(21)	24	(111)	(127)
Gains/(losses) on derecognition of financial instruments		9	23	(24)	(17)
of which measured at amortized cost		4	8	3	7
Net other operating income and expense	13	14	(9)	(27)	(28)
Result on business activities		5,665	10,597	4,701	8,573
Net allowances for expected credit losses	14	(219)	(480)	(171)	(404)
Net impairment losses on non-financial assets	15	(12)	(25)	(10)	(65)
Cost of legal risk of mortgage loans in convertible currencies	16	(2,474)	(3,441)	(1,176)	(1,176)
Administrative expenses	17	(1,517)	(3,259)	(2,149)	(3,749)
of which net regulatory charges		(44)	(394)	(899)	(1,345)
Tax on certain financial institutions		(295)	(577)	(299)	(585)
Profit before tax		1,148	2,815	896	2,594
Income tax expense	18	(456)	(867)	(426)	(812)
Net profit		692	1,948	470	1,782
Earnings per share					
- basic earnings per share for the period (PLN)		0.55	1.56	0.38	1.43
- diluted earnings per share for the period (PLN)*		0.55	1.56	0.38	1.43
Weighted average number of ordinary shares during the period (in million)*		1,250	1,250	1,250	1,250

* Both in the period of six months ended 30 June 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.

SEPARATE STATEMENT OF COMPREHENSIVE INCOME

	Note	2 nd quarter period from 01.04.2023 to 30.06.2023	2 quarters period from 01.01.2023 to 30.06.2023	2 nd quarter period from 01.04.2022 to 30.06.2022	2 quarters period from 01.01.2022 to 30.06.2022
Net profit		692	1,948	470	1,782
Other comprehensive income		1,252	3,189	(3,023)	(6,204)
Items which may be reclassified to profit or loss		1,252	3,189	(3,023)	(6,204)
Cash flow hedges (net)		908	2,082	(1,808)	(3,660)
Cash flow hedges (gross)	21	1,120	2,570	(2,233)	(4,519)
Deferred tax	18	(212)	(488)	425	859
Fair value of financial assets measured at fair value through other comprehensive income (net)		345	1,108	(1,215)	(2,544)
Remeasurement of fair value, gross		430	1,383	(1,528)	(3,166)
Gains /losses transferred to the profit or loss (on disposal)		(5)	(15)	27	24
Deferred tax	18	(80)	(260)	286	598
Currency translation differences on foreign operations		(1)	(1)	-	-
Net comprehensive income		1,944	5,137	(2,553)	(4,422)

SEPARATE STATEMENT OF FINANCIAL POSITION

	Note	30.06.2023	31.12.2022
ASSETS		435,986	405,168
Cash and balances with Central Bank	19	13,767	15,719
Amounts due from banks	20	18,245	19,442
Hedging derivatives	21	727	217
Other derivative instruments	21	10,951	13,745
Securities	22	158,464	130,986
Reverse repo transactions		5,143	7
Loans and advances to customers	23	212,730	208,918
Property, plant and equipment	27	2,510	2,505
Non-current assets held for sale		11	10
Intangible assets	27	3,095	2,933
Investments in subsidiaries	28	3,560	3,560
Investments in associates and joint ventures	28	275	275
Current income tax receivable		18	47
- of the Bank		-	-
- of the subsidiaries belonging to the Tax Group		18	47
Deferred tax assets		4,093	4,694
Other assets	29	2,397	2,110

		30.06.2023	31.12.2022
LIABILITIES AND EQUITY		435,986	405,168
Liabilities		396,765	371,084
Amounts due to Central bank		42	9
Amounts due to banks	24	2,956	2,928
Hedging derivatives	21	4,290	6,727
Other derivative instruments	21	11,177	14,002
Repo transactions		100	-
Amounts due to customers	25	361,710	334,856
Loans and advances received	26	722	726
Securities in issue	26	3,402	-
Subordinated liabilities	26	2,777	2,781
Other liabilities	30	6,533	6,480
Current income tax liabilities		414	527
- of the Bank		414	379
- of the subsidiaries belonging to the Tax Group		-	148
Provisions	31	2,642	2,048
EQUITY		39,221	34,084
Share capital		1,250	1,250
Reserves and accumulated other comprehensive income		26,586	21,768
Retained earnings		9,437	7,808
Net profit or loss for the year		1,948	3,258

SEPARATE STATEMENT OF CHANGES IN EQUITY

FOR 6 MONTHS ENDED 30 JUNE 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	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)	-
Distribution of profit to be used for dividend payments, including interim dividends	-	-	-	1,629	-	1,629	(1,629)	-	-
Comprehensive income	-	-	-	-	3,189	3,189	-	1,948	5,137
As at the end of the period	1,250	22,468	1,070	8,375	(5,327)	26,586	9,437	1,948	39,221

FOR 6 MONTHS ENDED 30 JUNE 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	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)	-
Dividend	-	-	-	-	-	-	(2,287)	-	(2,287)
Comprehensive income	-	-	-	-	(6,204)	(6,204)	-	1,782	(4,422)
As at the end of the period	1,250	22,468	1,070	6,746	(11,761)	18,523	7,809	1,782	29,364

Accumulated other comprehensive income					
FOR 6 MONTHS ENDED 30 JUNE 2023	Fair value of financial assets measured at fair value through other comprehensive income	Cash flow hedges	Actuarial gains and losses	Currency translation differences on foreign operations	Total
As at the beginning of the period	(3,469)	(5,028)	(19)	-	(8,516)
Comprehensive income	1,108	2,082	-	(1)	3,189
As at the end of the period	(2,361)	(2,946)	(19)	(1)	(5,327)

Accumulated other comprehensive income				
FOR 6 MONTHS ENDED 30 JUNE 2022	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)
Comprehensive income	(2,544)	(3,660)	-	(6,204)
As at the end of the period	(4,386)	(7,362)	(13)	(11,761)

SEPARATE STATEMENT OF CASH FLOWS

	01.01- 30.06.2023	01.01- 30.06.2022
Cash flows from operating activities		
Profit before tax	2,815	2,594
Income tax paid	(978)	(605)
Total adjustments:	10,741	(3)
Depreciation and amortization	468	442
(Gains)/losses on investing activities	(9)	(3)
Interest and dividends received	(3,264)	(1,831)
Interest paid	146	127
Change in:		
amounts due from banks	(728)	(1,757)
hedging derivatives	(2,947)	4,345
other derivative instruments	(31)	(440)
securities	(3,731)	(1,885)
loans and advances to customers	(4,177)	(3,522)
reverse repo transactions	(5,136)	(40)
non-current assets held for sale	-	7
other assets	(273)	(54)
accumulated allowances for expected credit losses	226	281
accumulated allowances on non-financial assets and other provisions	725	259
amounts due to the Central Bank	32	1
amounts due to banks	28	1,347
amounts due to customers	26,854	4,209
repo transactions	100	-
loan and advances received	(4)	451
liabilities in respect of debt securities in issue	(129)	-
subordinated liabilities	(4)	34
other liabilities	182	2,507
Other adjustments	2,413	(4,481)
Net cash from/used in operating activities	12,578	1,986

	01.01- 30.06.2023	01.01- 30.06.2022
Cash flows from investing activities		
Inflows from investing activities	293,924	48,984
Redemption of securities measured at fair value through other comprehensive income	288,096	44,562
Interest received on securities measured at fair value through other comprehensive income	2,085	702
Redemption of securities measured at amortized cost	2,464	2,582
Interest received on securities measured at amortized cost	908	604
Proceeds from disposal of intangible assets, property, plant and equipment and assets held for sale	22	10
Other inflows from investing activities including dividends	349	524
Outflows on investing activities	(313,626)	(44,041)
Purchase of securities measured at fair value through other comprehensive income	(307,588)	(43,655)
Purchase of securities measured at amortized cost	(5,427)	(117)
Purchase of intangible assets and property, plant and equipment	(611)	(269)
Net cash from/used in investing activities	(19,702)	4,943

	01.01- 30.06.2023	01.01- 30.06.2022
Cash flows from financing activities		
Proceeds from debt securities in issue	3,531	-
Payment of lease liabilities	(128)	(121)
Repayment of interest on long-term liabilities	(146)	(127)
Net cash from financing activities	3,257	(248)
Total net cash flows	(3,867)	6,681
of which foreign exchange differences on cash and cash equivalents	(149)	91
Cash and cash equivalents at the beginning of the period	29,611	19,129
Cash and cash equivalents at the end of the period	25,744	25,810

GENERAL INFORMATION ABOUT THE BANK

1. BUSINESS ACTIVITIES OF THE BANK

Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna (**PKO BANK POLSKI S.A.** or **THE BANK**) was established by virtue of a decree signed on 7 February 1919 by the Head of State Józef Piłsudski, Prime Minister Ignacy Paderewski and Hubert Linde, post and telegraph minister and simultaneously the first president, as Poczta 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.

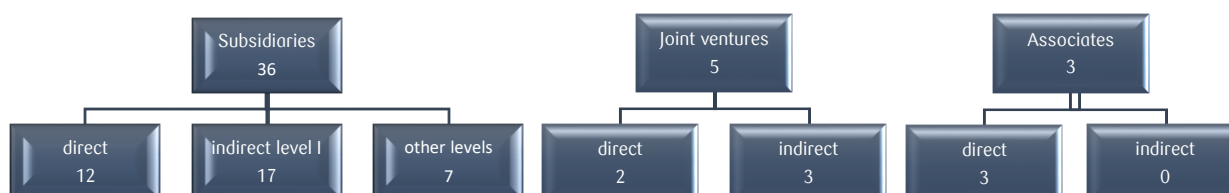
Country of registration	Poland
Registered office	Warsaw
Address of the registered office of the entity	Puławska street 15, 02-515 Warsaw

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

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.

The Bank conducts its operations within the territory of the Republic of Poland and through 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. – the parent company



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

No.	ENTITY NAME DIRECT SUBSIDIARIES	REGISTERED OFFICE	ACTIVITY	OWNERSHIP INTEREST (%)	
				2023-06-30	2022-12-31
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	leasing and lending	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 - fizan 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	REGISTERED OFFICE	ACTIVITY	OWNERSHIP INTEREST (%) [*]	
				2023-06-30	2022-12-31
INDIRECT SUBSIDIARIES					
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	leasing	100	100
Merkury - fiz an					
8	"Zarząd Majątkiem Górczewska" sp. z o.o.	Warsaw	property management	100	100
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		100	100
11	Molina spółka z ograniczoną odpowiedzialnością 2 S.K.A. w likwidacji (in liquidation)	Warsaw	buying and selling real estate on own account, real estate management	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 - fiz an					
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 (%) [*]	
				2023-06-30	2022-12-31
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 six-month period ended 30 June 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.

"KREDOLEASING" sp. z o.o. commenced leasing activities. The company launched operations to a limited extent due to the war in Ukraine.

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

Composition of the Bank's Supervisory Board as at 30 June 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 Szafrąński – 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 30 June 2023:

- 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

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.

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.

On 6 April 2023, Mr Paweł Gruza resigned, effective at the end of 12 April 2023, from heading the Bank's Management Board and from applying for the position of President of the Bank's Management Board. At the same time, 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.

4. APPROVAL OF THE CONDENSED INTERIM FINANCIAL STATEMENTS

These condensed interim separate financial statements of PKO Bank Polski S.A. (the **FINANCIAL STATEMENTS**), reviewed by the Audit Committee of the Supervisory Board and reviewed by the Supervisory Board on 23 August 2023, were approved for publication by the Management Board on 23 August 2023.

5. REPRESENTATION BY THE MANAGEMENT BOARD

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

6. THE BASIS FOR PREPARATION OF THE FINANCIAL STATEMENTS AND 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 30 June 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.

The Bank has prepared its financial statements in accordance with the requirements of International Accounting Standard 34 "Interim Financial Reporting" as endorsed by the European Union.

These financial statements of the Bank for the six-month period ended 30 June 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 financial statements of PKO Bank Polski S.A. for the year ended 31 December 2022 that were prepared in accordance with the International Financial Reporting Standards endorsed by the European Union.

The financial statements of PKO Bank Polski S.A. cover the six-month period ended 30 June 2023 and contains comparative figures:

- the six-month period ended 30 June 2022 with regard to the income statement, statement of comprehensive income, statement of changes in consolidated equity, and statement of cash flows,
- as at 31 December 2022 with regard to the statement of financial position

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

To prepare the financial statements, the Bank 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 [“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 Bank 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 Bank for the full financial year (see note [“Income tax”](#)).

7. GOING CONCERN

The financial statements have been prepared on the basis of the assumption that the Bank 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 23 August 2023. As at the date of signing these financial statements, the Bank's Management Board is not aware of any facts or circumstances that would indicate a threat to the Bank's ability to continue in operation as a going concern for 12 months following the publication date as a result of any intended or compulsory discontinuation or significant limitation of the Bank's existing operations.

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 Bank'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 PKO Bank Polski S.A.”](#), 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. CHANGES IN ACCOUNTING POLICIES APPLICABLE FROM 1 JANUARY 2023 AND EXPLANATION OF THE DIFFERENCES BETWEEN PREVIOUSLY PUBLISHED FINANCIAL STATEMENTS AND THESE FINANCIAL STATEMENTS

To better reflect its operations and ensure comparability with the banking sector, the Bank has made the following changes starting with the financial statements for 2022:

- 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).
- redemptions of securities and interest received from securities are presented separately under cash flows from investing activities (2).

CASH FLOWS – SELECTED DATA	01.01- 30.06.2022 before restatement	(1)	(2)	01.01- 30.06.2022 restated
Cash flows from operating activities				
Interest and dividends (old item)	(1,704)	1,704	-	-
Interest and dividends received (new item)	-	(1,831)	-	(1,831)
Interest paid (new item)	-	127	-	127
Cash flows from investing activities				
Redemption and interest from securities measured at fair value through other comprehensive income (old item)	45,264	-	(45,264)	-
Redemption and interest from securities measured at amortized cost (old item)	3,186	-	(3,186)	-
Redemption of securities measured at fair value through other comprehensive income (new item)	-	-	44,562	44,562
Redemption of securities measured at amortized cost (new item)	-	-	2,582	2,582
Interest received on securities measured at fair value through other comprehensive income (new item)	-	-	702	702
Interest received on securities measured at amortized cost (new item)	-	-	604	604

9. 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)	IFRS 17 replaced IFRS 4 "Insurance Contracts", which enabled entities to recognize insurance contracts according to the accounting principles based on the national standards. The aim of the new standard was to introduce new uniform 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. The new standard has no impact on the Bank's separate financial statements.
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)	<p>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.</p> <p>The amendment will be presentational in nature.</p>
AMENDMENT TO IFRS 16 "LEASES" (1.01.2024/ NO DATA)	<p>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.</p> <p>The Bank is in the process of analysing the impact of these amendments on the financial statements.</p>
AMENDMENTS TO IAS 7 "STATEMENT OF CASH FLOWS" AND AMENDMENTS TO IFRS 7 "FINANCIAL INSTRUMENTS: DISCLOSURES" (1.01.2024/ NO DATA)	<p>The amendments require additional disclosures for reverse factoring agreements. Entities will be required to disclose information in financial statements to enable users of financial statements:</p> <ul style="list-style-type: none"> • an assessment of how the aforementioned agreements affect the entity's liabilities and cash flows; and • understanding the impact of the aforementioned agreements on the entity's exposure to liquidity risk and the impact when the agreements expire. <p>In addition, the amendments complement the current IFRS requirements by adding additional disclosure requirements to IAS 7 on, among other things:</p> <ul style="list-style-type: none"> • terms and conditions of reverse factoring agreements; • disclosures at the beginning and end of the reporting period of the carrying amount of the aforementioned liabilities, the value of liabilities paid, the timing of payments. <p>The IASB has decided that, in most cases, entities can present aggregated information on the above matters.</p> <p>The amendment will be presentational in nature.</p>
AMENDMENTS TO IAS 12 "INCOME TAXES" (1.01.2023/NO DATA)	<p>The amendments apply to entities for which OECD Pillar 2 tax regulations apply, i.e. the introduction of global minimum taxation for the largest groups earning profits in different tax jurisdictions.</p> <p>Among other things, the amendments introduce an exception to the requirements of IAS 12, whereby entities do not recognise and disclose deferred tax assets and liabilities related to the OECD Pillar 2. The application of the exception must be disclosed by entities.</p> <p>In addition, the amendments also introduce, among other things, a requirement for separate disclosure of current tax expense related to the OECD Pillar 2.</p> <p>The Bank is in the process of analysing the impact of these amendments on the financial statements.</p>

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

SUPPLEMENTARY NOTES TO THE INCOME STATEMENT

10. INTEREST INCOME AND EXPENSE

INTEREST AND SIMILAR INCOME	2 nd quarter period from 01.04.2023 to 30.06.2023	2 quarters period from 01.01.2023 to 30.06.2023	2 nd quarter period from 01.04.2022 to 30.06.2022	2 quarters period from 01.01.2022 to 30.06.2022
Loans and other amounts due from banks and the Central Bank ¹	497	958	323	449
Debt securities:	1,645	3,020	796	1,400
measured at amortized cost	515	969	346	638
measured at fair value through other comprehensive income	1,118	2,032	443	750
measured at fair value through profit or loss	12	19	7	12
Loans and advances to customers	5,099	10,038	3,730	6,384
measured at amortized cost	4,726	9,266	3,395	5,792
measured at fair value through other comprehensive income	241	500	207	357
measured at fair value through profit or loss	132	272	128	235
Amounts due to customers	-	-	10	19
Total	7,241	14,016	4,859	8,252
of which: interest income on impaired financial instruments	123	239	69	124
Interest income calculated using the effective interest rate method on financial instruments measured:	7,097	13,725	4,724	8,005
at amortized cost	5,738	11,193	4,074	6,898
at fair value through other comprehensive income	1,359	2,532	650	1,107
Income similar to interest income on instruments measured at fair value through profit or loss	144	291	135	247
Total	7,241	14,016	4,859	8,252

¹ Under this item, in the six-month period ended 30 June 2023, the Bank recognised interest income on funds in call accounts (central clearing through a clearing broker) of PLN 140 million (PLN 100 million in the corresponding period) and interest income on funds in the current account with the NBP of PLN 379 million (PLN 180 million in the corresponding period).

INTEREST EXPENSE	2 nd quarter period from 01.04.2023 to 30.06.2023	2 quarters period from 01.01.2023 to 30.06.2023	2 nd quarter period from 01.04.2022 to 30.06.2022	2 quarters period from 01.01.2022 to 30.06.2022
Amounts due to banks	(21)	(46)	(36)	(60)
Hedging derivatives ¹	(975)	(2,017)	(754)	(969)
Interbank deposits	-	-	(3)	(5)
Loans and advances received	(13)	(26)	(62)	(117)
Leases	(7)	(13)	(3)	(6)
Amounts due to customers ²	(1,996)	(3,675)	(635)	(830)
Issues of securities	(49)	(81)	-	-
Subordinated liabilities	(57)	(115)	(37)	(58)
Total	(3118)	(5973)	(1,530)	(2,045)

¹ The increase in interest expense related to hedging derivatives of PLN 1 048 million relates mainly to IRS transactions (payments made at a floating rate exceed those received at a fixed rate)

² The increase in expenses by PLN 2 844 million results from interest rate increases leading to an adjustment of the deposit offering to the market situation and the conversion of funds into term deposits, accompanied by an increase in the average volume of deposits by PLN 22 billion compared to the corresponding period of 2022

INTEREST AND SIMILAR INCOME BY SEGMENT	2 nd quarter period from 01.04.2023 to 30.06.2023			
	Retail segment	Corporate and investment segment	Transfer center and other	Total
loans and other amounts due from banks and the Central Bank	-	303	194	497
debt securities	-	1,126	519	1,645
loans and advances to customers	3,563	1,536	-	5 099
Total	3,563	2,965	713	7,241

INTEREST AND SIMILAR INCOME BY SEGMENT	2 quarters from 01.01.2023 to 30.06.2023			
	Retail segment	Corporate and investment segment	Transfer center and other	Total
loans and other amounts due from banks and the Central Bank	-	579	379	958
debt securities	-	2,064	956	3,020
loans and advances to customers	7,084	2,954	-	10,038
Total	7,084	5,597	1,335	14,016

INTEREST AND SIMILAR INCOME BY SEGMENT	2 nd quarter period from 01.04.2022 to 30.06.2022			
	Retail segment	Corporate and investment segment	Transfer center and other	Total
loans and other amounts due from banks and the Central Bank	-	184	139	323
debt securities	-	403	393	796
loans and advances to customers	2,802	928	-	3,730
amounts due to customers	-	10	-	10
Total	2,802	1,525	532	4,859

INTEREST AND SIMILAR INCOME BY SEGMENT	2 quarters from 01.01.2022 to 30.06.2022			
	Retail segment	Corporate and investment segment	Transfer center and other	Total
loans and other amounts due from banks and the Central Bank	-	269	180	449
debt securities	-	610	790	1,400
loans and advances to customers	4,869	1,515	-	6,384
amounts due to customers	-	19	-	19
Total	4,869	2,413	970	8,252

11. FEE AND COMMISSION INCOME AND EXPENSES

FEE AND COMMISSION INCOME	2 nd quarter period from 01.04.2023 to 30.06.2023	2 quarters period from 01.01.2023 to 30.06.2023	2 nd quarter period from 01.04.2022 to 30.06.2022	2 quarters period from 01.01.2022 to 30.06.2022
Loans, insurance	254	497	247	481
lending	200	392	190	375
offering insurance products	54	105	57	106
Investment funds, pension funds and brokerage activities	69	179	110	229
servicing investment funds and OFE (including management fees)	3	5	5	10
servicing and selling investment and insurance products	1	3	-	2
brokerage activities	65	171	105	217
Cards	519	994	488	892
Margins on foreign exchange transactions	181	344	176	357
Bank accounts and other	326	642	314	619
servicing bank accounts	231	460	231	459
cash operations	23	41	18	37
servicing foreign mass transactions	31	60	24	47
customer orders	13	27	16	31
fiduciary services	3	5	3	5
Other	25	49	22	40
Total	1,349	2,656	1,335	2,578
income from financial instruments not measured at fair value through profit or loss	1,328	2,610	1,308	2,513

FEE AND COMMISSION EXPENSE	2 nd quarter period from 01.04.2023 to 30.06.2023	2 quarters period from 01.01.2023 to 30.06.2023	2 nd quarter period from 01.04.2022 to 30.06.2022	2 quarters period from 01.01.2022 to 30.06.2022
Loans and insurance	(22)	(48)	(23)	(49)
commission paid to external entities for product sales	(9)	(16)	(7)	(12)
cost of construction project supervision and property appraisal	(8)	(14)	(9)	(15)
fees to Biuro Informacji Kredytowej	(1)	(11)	-	(10)
loan handling	(4)	(7)	(7)	(12)
Investment funds, pension funds and brokerage activities	(7)	(15)	(6)	(15)
Cards	(320)	(620)	(311)	(557)
Bank accounts and other	(52)	(94)	(38)	(69)
clearing services	(15)	(29)	(13)	(26)
commissions for operating services provided by banks	(3)	(6)	(3)	(5)
sending short text messages (SMS)	(14)	(27)	(14)	(25)
servicing foreign mass transactions	(6)	(11)	(6)	(10)
other	(14)	(21)	(2)	(3)
Total	(401)	(777)	(378)	(690)

FEE AND COMMISSION INCOME BY SEGMENT	2 nd quarter period from 01.04.2023 to 30.06.2023			
	Retail segment	Corporate and investment segment	Transfer center and other	Total
Loans, insurance	167	87	-	254
lending	113	87	-	200
offering insurance products	54	-	-	54
Investment funds, pension funds and brokerage activities	47	22	-	69
servicing investment funds and OFE (including management fees)	1	2	-	3
servicing and selling investment and insurance products	1	-	-	1
brokerage activities	45	20	-	65
Cards	511	8	-	519
Margins on foreign exchange transactions	134	47	-	181
Bank accounts and other	255	71	-	326
servicing bank accounts	201	30	-	231
cash operations	11	12	-	23
servicing foreign mass transactions	19	12	-	31
customer orders	3	10	-	13
fiduciary services	-	3	-	3
Other	21	4	-	25
Total	1,114	235	-	1,349

FEE AND COMMISSION INCOME BY SEGMENT	2 quarters from 01.01.2023 to 30.06.2023			
	Retail segment	Corporate and investment segment	Transfer center and other	Total
Loans, insurance	331	166	-	497
lending	226	166	-	392
offering insurance products	105	-	-	105
Investment funds, pension funds and brokerage activities	119	60	-	179
servicing investment funds and OFE (including management fees)	2	3	-	5
servicing and selling investment and insurance products	3	-	-	3
brokerage activities	114	57	-	171
Cards	976	18	-	994
Margins on foreign exchange transactions	251	93	-	344
Bank accounts and other	503	139	-	642
servicing bank accounts	401	59	-	460
cash operations	17	24	-	41
servicing foreign mass transactions	37	23	-	60
customer orders	9	18	-	27
fiduciary services	-	5	-	5
Other	39	10	-	49
Total	2,180	476	-	2,656

FEE AND COMMISSION INCOME BY SEGMENT	2 nd quarter period from 01.04.2022 to 30.06.2022			
	Retail segment	Corporate and investment segment	Transfer center and other	Total
Loans, insurance	175	72	-	247
lending	118	72	-	190
offering insurance products	57	-	-	57
Investment funds, pension funds and brokerage activities	80	30	-	110
servicing investment funds and OFE (including management fees)	3	2	-	5
brokerage activities	77	28	-	105
Cards	480	8	-	488
Margins on foreign exchange transactions	123	53	-	176
Bank accounts and other	248	66	-	314
servicing bank accounts	202	29	-	231
cash operations	7	11	-	18
servicing foreign mass transactions	14	10	-	24
customer orders	7	9	-	16
fiduciary services	-	3	-	3
Other	18	4	-	22
Total	1,106	229		1,335

FEE AND COMMISSION INCOME BY SEGMENT	2 quarters from 01.01.2022 to 30.06.2022			
	Retail segment	Corporate and investment segment	Transfer center and other	Total
Loans, insurance	343	138	-	481
lending	237	138	-	375
offering insurance products	106	-	-	106
Investment funds, pension funds and brokerage activities	153	76	-	229
servicing investment funds and OFE (including management fees)	5	5	-	10
servicing and selling investment and insurance products	2	-	-	2
brokerage activities	146	71	-	217
Cards	879	13	-	892
Margins on foreign exchange transactions	254	103	-	357
Bank accounts and other	492	127	-	619
servicing bank accounts	402	57	-	459
cash operations	16	21	-	37
servicing foreign mass transactions	27	20	-	47
customer orders	14	17	-	31
fiduciary services	-	5	-	5
Other	33	7	-	40
Total	2,121	457	-	2,578

12. GAINS/(LOSSES) ON FINANCIAL TRANSACTIONS

GAINS/(LOSSES) ON FINANCIAL TRANSACTIONS	2 nd quarter period from 01.04.2023 to 30.06.2023	2 quarters period from 01.01.2023 to 30.06.2023	2 nd quarter period from 01.04.2022 to 30.06.2022	2 quarters period from 01.01.2022 to 30.06.2022
Financial instruments held for trading, of which:	(19)	4	134	233
Derivatives	(24)	(6)	118	215
Equity instruments	2	2	(4)	(2)
Debt securities	3	8	20	20
Financial instruments not held for trading, measured at fair value through profit or loss, of which:	3	14	(23)	(50)
Equity instruments	15	40	(14)	(28)
Debt securities	3	2	3	(14)
Loans and advances to customers	(15)	(28)	(12)	(8)
Hedge accounting	9	(12)	1	2
Total	(7)	6	112	185

13. OTHER OPERATING INCOME AND EXPENSES

OTHER OPERATING INCOME	2 nd quarter period from 01.04.2023 to 30.06.2023	2 quarters period from 01.01.2023 to 30.06.2023	2 nd quarter period from 01.04.2022 to 30.06.2022	2 quarters period from 01.01.2022 to 30.06.2022
Gains on sale or scrapping of property, plant and equipment, intangible assets and assets held for sale	5	9	2	5
Damages, compensation and penalties received	1	3	4	7
Ancillary income	8	16	8	17
Recovery of receivables expired, forgiven or written off	-	1	-	-
Reversal of provision recognized for legal claims excluding legal claims relating to mortgage loans in convertible currencies	1	1	-	1
Income from sale of CO ₂ emission allowances	10	12	11	14
Other	21	40	13	25
Total	46	82	38	69

OTHER OPERATING EXPENSES	2 nd quarter period from 01.04.2023 to 30.06.2023	2 quarters period from 01.01.2023 to 30.06.2023	2 nd quarter period from 01.04.2022 to 30.06.2022	2 quarters period from 01.01.2022 to 30.06.2022
Losses on sale or scrapping of property, plant and equipment, intangible assets and assets held for sale	-	-	(1)	(2)
Damages, compensation and penalties paid	(3)	(4)	-	-
Donations made	(1)	(1)	(11)	(14)
Sundry expenses	(4)	(9)	(3)	(8)
Recognition of provision for potential refunds of fees and commission to customers	-	-	(13)	(13)
Recognition of provision for future payments	(1)	(1)	-	-
Recognition of provision for legal claims excluding legal claims relating to repaid mortgage loans in convertible currencies	(4)	(6)	(2)	(3)
Costs of financial support to a subsidiary	-	-	(31)	(39)
Costs from sale of CO ₂ emission allowances	(1)	(26)	-	(7)
Other	(18)	(44)	(4)	(11)
Total	(32)	(91)	(65)	(97)

14. NET ALLOWANCES FOR EXPECTED CREDIT LOSSES

NET ALLOWANCES FOR EXPECTED CREDIT LOSSES	2 nd quarter period from 01.04.2023 to 30.06.2023	2 quarters period from 01.01.2023 to 30.06.2023	2 nd quarter period from 01.04.2022 to 30.06.2022	2 quarters period from 01.01.2022 to 30.06.2022
Amounts due from banks	(7)	(10)	(6)	(4)
Debt securities measured:	(12)	-	56	68
at fair value through other comprehensive income	(10)	(3)	57	66
at amortized cost	(2)	3	(1)	2
Loans and advances to customers, measured:	(281)	(595)	(184)	(418)
at fair value through other comprehensive income	(7)	(12)	(14)	(21)
at amortized cost	(274)	(583)	(170)	(397)
housing loans	32	29	(24)	(65)
business loans	(144)	(289)	(16)	(49)
consumer loans	(162)	(323)	(130)	(283)
Other financial assets	(4)	(3)	(13)	(13)
Provisions for financial liabilities and guarantees granted	85	128	(24)	(37)
Total	(219)	(480)	(171)	(404)

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 6 MONTHS ENDED 30 JUNE 2023				
Amounts due from banks	(16)	(10)	-	(26)
Debt securities	(68)	-	2	(66)
Loans and advances to customers	(8,349)	(595)	229	(8,715)
Other financial assets	(144)	(3)	17	(130)
Financial liabilities and guarantees granted	(829)	128	6	(695)
Total	(9,406)	(480)	254	(9,632)

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 6 MONTHS ENDED 30 JUNE 2022				
Amounts due from banks	(15)	(4)	-	(19)
Debt securities	(108)	68	5	(35)
Loans and advances to customers	(7,656)	(418)	121	(7,953)
Other financial assets	(134)	(13)	(1)	(148)
Financial liabilities and guarantees granted	(672)	(37)	(2)	(711)
Total	(8,585)	(404)	123	(8,866)

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

scenario as at 30.06.2023	Baseline			optimistic			pessimistic		
	probability			probability			probability		
	75%			5%			20%		
	2023	2024	2025	2023	2024	2025	2023	2024	2025
GDP growth y/y	0.6	3.4	3.4	4.8	8.9	7.7	(3.5)	(2.1)	(1.0)
Unemployment rate	3.1	3.2	2.9	2.6	2.5	2.3	3.5	4.7	4.8
Property price index	101.2	105.9	109.1	104.1	117.6	123.6	98.3	95.1	96.1
WIBOR 3M (%)	6.9	5.8	3.8	7.4	7.6	5.6	6.5	4.3	2.1
CHF/PLN	4.5	4.1	4.0	4.4	3.9	3.7	5.0	5.1	4.8

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

15. IMPAIRMENT OF NON-FINANCIAL ASSETS

NET IMPAIRMENT OF NON-FINANCIAL ASSETS	2 nd quarter period from 01.04.2023 to 30.06.2023	2 quarters period from 01.01.2023 to 30.06.2023	2 nd quarter period from 01.04.2022 to 30.06.2022	2 quarters period from 01.01.2022 to 30.06.2022
Intangible assets	-	(1)	-	-
Investments in subsidiaries	-	-	-	(52)
Other non-financial assets	(12)	(24)	(10)	(13)
Total	(12)	(25)	(10)	(65)

CHANGE IN ACCUMULATED IMPAIRMENT LOSSES ON NON-FINANCIAL ASSETS	Opening balance	Impairment of non-financial assets	Other	Closing balance
FOR 6 MONTHS ENDED 30 JUNE 2023				
Property, plant and equipment	(94)	-	-	(94)
Non-current assets held for sale	(1)	-	1	-
Intangible assets	(132)	(1)	1	(132)
Investments in subsidiaries	(882)	-	-	(882)
Investments in associates and joint ventures	(186)	-	-	(186)
Other non-financial assets	(268)	(24)	26	(266)
Total	(1,563)	(25)	28	(1,560)

CHANGE IN ACCUMULATED IMPAIRMENT LOSSES ON NON-FINANCIAL ASSETS	Opening balance	Impairment of non-financial assets	Other	Closing balance
FOR 6 MONTHS ENDED 30 JUNE 2022				
Property, plant and equipment	(91)	-	-	(91)
Non-current assets held for sale	(1)	-	-	(1)
Intangible assets	(134)	-	-	(134)
Investments in subsidiaries	(830)	(52)	-	(882)
Investments in associates and joint ventures	(186)	-	-	(186)
Other non-financial assets	(264)	(13)	(36)	(313)
Total	(1,506)	(65)	(36)	(1,607)

16. 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 Bank's exposure to such risk; and
- probability of the customer reaching a settlement and the amount of loss from the settlement.

In view of the judgment of the Court of Justice of the European Union (CJEU) in Case C-520/21 of 15 June 2023 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 note "[LEGAL CLAIMS](#)") and the associated additional uncertainty regarding the choice of course of action by the bank's customers, the expected future number of disputes was statistically modelled with the introduction of expert elements reflecting the fact that the impact of the aforementioned non-recurring event will be observed only in subsequent periods.

The Bank also estimates the probabilities of adverse outcomes for the actual and potential claims. In the evaluation of such probabilities, the Bank uses the support of third party law firms. In the Bank's opinion, the level of estimated costs of legal risk is also affected by such factors as: duration of legal proceedings and high costs which must be incurred to initiate and conduct legal proceedings.

The Bank 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 significant uncertainty as to the assumptions made, the methodology of assessing losses in respect of the legal risk is periodically reviewed in the subsequent reporting periods. Uncertainty of estimates relates both to the number of future lawsuits, the court decisions in this respect and to the expected number of settlements, which can be affected in particular by changes in the judicial decisions concerning mortgage loans denominated in or indexed to foreign currencies, a change in base interest rates or a change in the PLN/CHF exchange rate.

In its judgment in Case C-520/21, the CJEU indicated, among other things, that the EU rules preclude a judicial construction of national law whereby a credit institution is entitled to demand compensation from a consumer that goes beyond the reimbursement of the principal paid for the performance of that agreement and beyond the payment of statutory default interest from the date of the call for payment. In this respect, the model's parameters have been adjusted in line with the judgment.

In the judgment referred to above, the CJEU also indicated that, as regards analogous claims by consumers against banks, the provisions of the Directive do not preclude consumers from bringing such claims against banks, provided that the objectives of Directive 93/13 and the principle of proportionality are respected. In the Bank's opinion, on the grounds of national legislation and the principle of proportionality, the customers cannot make additional claims against the Bank, primarily because they have not provided the Bank with a financial service consisting in the provision of capital. Nor is it reasonable to conclude that the Bank has enriched itself at the expense of the customer and the consumer has been impoverished. With the funds obtained, the customer met its housing needs and the Bank bore the costs of raising the funds, making them available and servicing the loan over the years. The Bank assesses that, at this stage, the likelihood of outcomes that are favourable to consumers, including a claim for additional compensation, generating a material adverse financial impact is difficult to estimate and, in addition, there are uncertainties as to how the level of such compensation to the customer should be calculated. This approach is supported by the fact that there have been no adverse court decisions for the Bank relating to this issue.

In contrast, in this judgment, the CJEU did not explicitly and directly address the admissibility of banks' indexation claims. According to the Bank, the CJEU judgment does not deprive the Bank of the right to claim reimbursement from the borrower for the present equivalent of the loan amount disbursed. Such a claim is not a demand for additional compensation from the borrower, but is a demand for the return of that capital at its present value. Bearing in mind that the case law of the Polish courts in relation to this issue has not yet been formed, and given that the awarding of an indexation depends on the discretion of the court, which takes into account not only the facts at the adjudication stage, but also refers to the principles of social co-existence, the Bank, despite its legal analyses of the issue, has assumed the absence of indexation of the principal disbursed with the time value of money in the model for the court scenario where the loan agreement is declared invalid.

The Bank 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) gradually modify or replace previous assumptions. The model is being adapted to the current settlement offer and changes made in this respect. During the six months ended 30 June 2023, the Bank updated the probability of signing a settlement or filing a lawsuit based on empirical data.

In the period of six months ended 30 June 2023, the Bank recognised the cost of legal risk of PLN 3 441 million.

The level of legal risk costs will depend primarily on customer behaviour. The CJEU judgment may result in negative trends affecting the level of estimated risk due to an increased propensity of clients to file lawsuits and a reduced propensity to settle.

In the opinion of the Bank's Management Board, the information available to it as at 30 June 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 Bank 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 30 June 2023, nearly 52.2 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 30 June 2023 was 31,373, of which 30,250 were concluded in mediation proceedings and 1,123 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. In the first half of 2023, the Bank continued to encourage customers to join the programme.

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 30.06.2023			
Loans and advances to customers – adjustment reducing the carrying amount of loans	16,081	8,247	7,834
- related to the portfolio of mortgage loans in CHF	14,056	8,247	5,809
Provisions (note 31)		1,604	
Total		9,851	
as at 31.12.2022			
Loans and advances to customers – adjustment reducing the carrying amount of loans	19,012	7,378	11,634
- related to the portfolio of mortgage loans in CHF	16,731	7,378	9,353
Provisions (note 31)		851	
Adjustment to the gross carrying amount of other assets (note 29)		94	
Total		8,323	

Change in the accumulated cost of legal risk of mortgage loans in convertible currencies during the period	01.01-30.06.2023	01.01-30.06.2022
Carrying amount at the beginning of the period	(8,323)	(7,023)
revaluation of loss for the period	515	(653)
offset of settlements and judgments for the period against accumulated losses*	1,398	895
Increase in adjustment to gross carrying amount of loans and advances to customers and other assets, increase in provisions for legal risk	(3,441)	(1,176)
Carrying amount at the end of the period	(9,851)	(7,957)

The item also includes the effects of final judgements invalidating loan agreements, which amount to PLN 434 million for the six months ended 30 June 2023, including PLN 264 million in relation to the derecognition of receivables from cost of use of capital (in the period of six months ended 30 June 2022: PLN 64 million)

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.

The Bank has analysed the model's sensitivity to changes in key parameters:

ANALYSIS OF THE MODEL'S SENSITIVITY TO CHANGES IN KEY PARAMETERS	Increase/decrease of cost of legal risk of mortgage loans in convertible currencies	
	30.06.2023	31.12.2022
1 p.p. decrease in the likelihood of the Bank winning in court (instead of a 1 p.p. increase in the probability of declaring an agreement invalid)	93	63
1 p.p. decrease in the number of settlements	34	22
1 p.p. decrease in the likelihood of compensation for the principal amount	-	40
1 p.p. increase in the number of lawsuits (at the cost of inactive customers)	97	64
1 p.p. increase in the lawsuit to settlement conversion ratio	(33)	(26)

17. ADMINISTRATIVE EXPENSES

ADMINISTRATIVE EXPENSES	2 nd quarter period from 01.04.2023 to 30.06.2023	2 quarters period from 01.01.2023 to 30.06.2023	2 nd quarter period from 01.04.2022 to 30.06.2022	2 quarters period from 01.01.2022 to 30.06.2022
Employee benefits	(852)	(1,662)	(731)	(1,405)
Overheads, of which:	(384)	(735)	(293)	(557)
rent	(28)	(54)	(23)	(43)
IT	(93)	(175)	(82)	(157)
Depreciation and amortization	(237)	(468)	(226)	(442)
property, plant and equipment, of which:	(118)	(233)	(116)	(231)
IT	(26)	(51)	(26)	(50)
right-of-use assets	(58)	(113)	(54)	(108)
intangible assets, of which:	(119)	(235)	(110)	(211)
IT	(119)	(234)	(109)	(209)
Net regulatory charges	(44)	(394)	(899)	(1,345)
Total	(1,517)	(3,259)	(2,149)	(3,749)

EMPLOYEE BENEFITS	2 nd quarter period from 01.04.2023 to 30.06.2023	2 quarters period from 01.01.2023 to 30.06.2023	2 nd quarter period from 01.04.2022 to 30.06.2022	2 quarters period from 01.01.2022 to 30.06.2022
Wages and salaries, including:	(704)	(1,371)	(606)	(1,164)
costs of contributions to the employee pension plan	(19)	(38)	(16)	(33)
Social security, of which:	(124)	(244)	(106)	(206)
contributions for disability and retirement benefits	(105)	(216)	(90)	(185)
Other employee benefits	(24)	(47)	(19)	(35)
Total	(852)	(1,662)	(731)	(1,405)

NET REGULATORY CHARGES	2 nd quarter period from 01.04.2023 to 30.06.2023	2 quarters period from 01.01.2023 to 30.06.2023	2 nd quarter period from 01.04.2022 to 30.06.2022	2 quarters period from 01.01.2022 to 30.06.2022
Contribution and payments to the Bank Guarantee Fund (BFG), of which:	-	(262)	-	(380)
to the Resolution Fund	-	(262)	-	(264)
to the Bank Guarantee Fund	-	-	-	(116)
Fees to PFSA	(1)	(48)	-	(41)
Fee for the assistance fund operated by System Ochrony Banków Komercyjnych S.A.	-	-	(872)	(872)
Flat rate income tax	-	-	(1)	(3)
Other taxes and fees	(43)	(84)	(26)	(49)
Total	(44)	(394)	(899)	(1,345)

18. INCOME TAX

- TAX EXPENSE

	2 nd quarter period from 01.04.2023 to 30.06.2023	2 quarters period from 01.01.2023 to 30.06.2023	2 nd quarter period from 01.04.2022 to 30.06.2022	2 quarters period from 01.01.2022 to 30.06.2022
Income tax expense recognized in the income statement	(456)	(867)	(426)	(812)
Current income tax expense	(713)	(1,014)	(298)	(716)
Deferred income tax on temporary differences	257	147	(128)	(96)
Income tax expense recognized in other comprehensive income in respect of temporary differences	(292)	(748)	711	1,457
Total	(748)	(1,615)	285	645

- RECONCILIATION OF THE EFFECTIVE TAX RATE

RECONCILIATION OF THE EFFECTIVE TAX RATE	2 nd quarter period from 01.04.2023 to 30.06.2023	2 quarters period from 01.01.2023 to 30.06.2023	2 nd quarter period from 01.04.2022 to 30.06.2022	2 quarters period from 01.01.2022 to 30.06.2022
Profit or loss before tax	1,148	2,815	896	2,594
Tax at the statutory rate in force in Poland (19%)	(218)	(535)	(170)	(493)
Effect of permanent differences between profit before income tax and taxable income, including:	(238)	(332)	(256)	(319)
non-deductible impairment losses on investments in subordinates	-	-	-	(10)
non-deductible allowances for expected credit losses on credit exposures and securities	(3)	(6)	(26)	(31)
contributions and payments to the Bank Guarantee Fund	-	(50)	-	(72)
tax on financial institutions	(57)	(110)	(57)	(111)
cost of legal risk of mortgage loans in convertible currencies	(496)	(680)	(307)	(307)
interest on foreign exchange gains in Sweden	-	-	(6)	(7)
asset/liability on the average tax rate	233	424	83	150
reversal of assets from reclassification of temporary differences to permanent differences	(19)	(19)	(18)	(18)
dividend income	114	120	88	88
other permanent differences	(10)	(11)	(13)	(1)
Income tax expense recognized in the income statement	(456)	(867)	(426)	(812)
Effective tax rate (%)	39.72	30.80	47.54	31.30

SUPPLEMENTARY NOTES TO THE STATEMENT OF FINANCIAL POSITION – FINANCIAL INSTRUMENTS

19. CASH AND BALANCES WITH THE CENTRAL BANK

CASH AND BALANCES WITH THE CENTRAL BANK	30.06.2023	31.12.2022
Current account with the Central Bank	9,170	7,690
Cash	4,597	4,078
Deposits with the Central Bank	-	3,951
Total	13,767	15,719

20. AMOUNTS DUE FROM BANKS

For more information on credit risk exposures, see note "[CREDIT RISK – FINANCIAL INFORMATION](#)".

AMOUNTS DUE FROM BANKS	30.06.2023	31.12.2022
Measured at amortized cost	18,271	19,458
Deposits with banks	11,163	13,098
Current accounts	833	865
Loans and advances granted	6,275	5,495
Gross carrying amount	18,271	19,458
Allowances for expected credit losses	(26)	(16)
Net carrying amount	18,245	19,442

21. HEDGE ACCOUNTING AND OTHER DERIVATIVE INSTRUMENTS

TYPES OF HEDGING STRATEGIES USED BY THE BANK

As at 30 June 2023, the Bank had had active relationships as part of:

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

In the period of six months ended 30 June 2023, the Bank 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 positive at PLN 5.9 million.

In the period of six months ended 30 June 2023, the Bank 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 six months ended 30 June 2023, no other changes were made to other active hedging strategies.

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

CARRYING AMOUNT OF HEDGING INSTRUMENTS	30.06.2023		31.12.2022	
	Assets	Liabilities	Assets	Liabilities
Cash flow hedges	257	4,201	64	6,595
interest rate risk – IRS	58	3,969	44	6,557
foreign exchange risk and interest rate risk – CIRS	199	232	20	38
Fair value hedges	470	89	153	132
interest rate risk – IRS	470	89	153	132
Total	727	4,290	217	6,727

• **CASH FLOW HEDGES**

CHANGE IN OTHER COMPREHENSIVE INCOME RELATING TO CASH FLOW HEDGES AND AN INEFFECTIVE PORTION OF CASH FLOW HEDGES	2 nd quarter period from 01.04.2023 to 30.06.2023	2 quarters period from 01.01.2023 to 30.06.2023	2 nd quarter period from 01.04.2022 to 30.06.2022	2 quarters period from 01.01.2022 to 30.06.2022
Accumulated other comprehensive income at the beginning of the period, net	(3,854)	(5,028)	(5,554)	(3,702)
Impact on other comprehensive income during the period, gross	1,120	2,570	(2,233)	(4,519)
Gains/losses recognized in other comprehensive income during the period	148	921	(2,513)	(4,916)
Amounts transferred from other comprehensive income to the income statement, of which:	972	1,649	280	397
- net interest income	955	1,992	753	965
- net foreign exchange gains/ (losses)	17	(343)	(473)	(568)
Tax effect	(212)	(488)	425	859
Accumulated other comprehensive income at the end of the period, net	(2,946)	(2,946)	(7,362)	(7,362)
Ineffective portion of cash flow hedges recognized in the income statements:	-	(1)	4	1
Foreign exchange gains/ (losses)	(8)	1	3	-
Gains/(losses) on financial transactions	8	(2)	1	1

• **FAIR VALUE HEDGES**

INTEREST RATE AND FOREIGN EXCHANGE RISK HEDGES	30.06.2023	31.12.2022
Fair value measurement of the hedging derivative instrument – Interest rate risk hedge – fixed – float IRSs	381	20
Fair value adjustment of the hedged instrument attributable to the hedged risk – Interest rate risk hedge	(248)	(51)
Securities	(28)	(30)
Loans and advances to customers	(4)	(8)
Fair value adjustment recognized in OCI	(46)	(69)
Amounts due to customers	(170)	56

• OTHER DERIVATIVE INSTRUMENTS

OTHER DERIVATIVE INSTRUMENTS - BY TYPE	30.06.2023		31.12.2022	
	Assets	Liabilities	Assets	Liabilities
IRS	5,865	5,714	8,275	8,101
CIRS	359	632	991	1,374
FX Swap	1,578	2,131	1,245	1,039
Options	1,113	1,071	842	926
Commodity swap ¹	348	341	1,380	1,384
FRA	16	14	24	24
Forward	1,317	950	577	799
Commodity Forward ²	354	318	404	355
Other	1	6	7	-
Total	10,951	11,177	13,745	14,002

¹ The item includes valuation of gas market participation contracts: assets of PLN 233 million (PLN 1 229 million as at 31 December 2022) – and liabilities of PLN 233 million (PLN 1 237 million as at 31 December 2022).

² The item includes valuation of contracts for CO₂ emission allowances.

22. SECURITIES

For more information on credit risk exposures, see note “[CREDIT RISK – FINANCIAL INFORMATION](#)”.

SECURITIES 30.06.2023	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	865	340	85,301	71,654	158,160
NBP money bills	-	-	19,975	-	19,975
Treasury bonds (in PLN)	758	1	44,843	49,342	94,944
Treasury bonds (in foreign currencies)	2	294	1,439	-	1,735
corporate bonds (in PLN) secured with the State Treasury guarantees	7	-	9,786	12,037	21,830
municipal bonds (in PLN)	14	-	5,189	6,334	11,537
corporate bonds (in PLN) ¹	76	45	2,551	2,291	4,963
corporate bonds (in foreign currencies)	-	-	1,518	1,650	3,168
mortgage covered bonds	8	-	-	-	8
Equity securities	34	298	-	-	332
shares in other entities - not listed	-	277	-	-	277
shares in other entities - listed	32	21	-	-	53
participation units in investment funds, investment certificates, rights to shares, pre-emptive rights	2	-	-	-	2
Total (excluding adjustment relating to fair value hedge accounting)	899	638	85,301	71,654	158,492
Adjustment relating to fair value hedge accounting (note “ Hedge accounting and other derivative instruments ”)	-	-	-	(28)	(28)
Total	899	638	85,301	71,626	158,464

¹ The item includes bonds of international financial organizations of PLN 4,768 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 (note " Hedge accounting and other derivative instruments ")	-	-	-	(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

As at 30 June, the item "Treasury bonds in PLN and in foreign currencies" comprises Polish Treasury bonds. As at 31 December 2022, the item "Treasury bonds in foreign currencies" comprised US Treasury bonds in the amount of PLN 2,164 million.

23. LOANS AND ADVANCES TO CUSTOMERS

The Bank 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 Bank 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 Bank 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 June 2023, 226.8 thousand of the Bank's customers applied for a suspension of mortgage repayment, representing 52% of the total number of loans and 66% of the gross carrying amount of total loans eligible for credit holidays. The total number of suspensions applied for as at 30 June 2023 was 1 571 thousand (including suspensions in Q3-Q4 2023 amounting to 375 thousand), representing 45% of the maximum number of instalments to be suspended for all eligible customers.

As at 30 June 2023, the Bank has estimated 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 half of 2023 but did not apply for suspensions of principal and interest instalments for the second half of 2023 at, an interest rate revaluation effect was taken into account;
- 3) the loss on all principal and interest instalment suspensions effected in 2022 and in the first half 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 2022 and in the first half of 2023 and projected for Q3-Q4 2023, prudentially adjusted for uncertainty regarding possible prepayments in Q3-Q4 2023;
- 4) on the basis of monthly data on the inflow of new applications in 2022 and in the first half 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 the potential loss was estimated.

The total effect recognised in the Bank's accounting records amounted to PLN 2 443 million, unchanged from the effect recognised at 31 December 2022.

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	decrease in customer participation rate
"+" increase; "()" decrease by 10 p.p.	482	(482)
"+" increase; "()" decrease by 5 p.p.	241	(241)
"+" increase; "()" decrease by 3 p.p.	147	(147)

In addition, the Bank adjusts the gross carrying amount of residential and consumer loans measured at amortised cost by recognising the impact of potential commission 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 30.06.2023	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	3,090	10,830	97,749	111,669
real estate	2	10,830	70,603	81,435
consumer	3,088	-	27,146	30,234
companies and enterprises	51	-	17,052	17,103
real estate	-	-	5,199	5,199
business	51	-	11,853	11,904
corporate	28	-	83,934	83,962
real estate	-	-	125	125
business	28	-	83,809	83,837
Loans and advances to customers (excluding adjustment relating to fair value hedge accounting)	3,169	10,830	198,735	212,734
Adjustment relating to fair value hedge accounting (note " Hedge accounting and other derivative instruments ")	-	-	(4)	(4)
Total	3,169	10,830	198,731	212,730

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 (note " Hedge accounting and other derivative instruments ")	-	-	(8)	(8)
Total	3,565	11,895	193,458	208,918

24. AMOUNTS DUE TO BANKS

AMOUNTS DUE TO BANKS	30.06.2023	31.12.2022
Measured at fair value through profit or loss:	-	2
Liabilities in respect of a short position in securities	-	2
Measured at amortized cost	2,956	2,926
Deposits from banks	1,350	1,936
Current accounts	1,601	974
Other monetary market deposits	5	16
Total	2,956	2,928

25. AMOUNTS DUE TO CUSTOMERS

AMOUNTS DUE TO CUSTOMERS 30.06.2023	Amounts due to households	Amounts due to business entities	Amounts due to state budget entities	Total
Measured at fair value through profit or loss	-	75	-	75
Liabilities in respect of a short position in securities	-	75	-	75
Measured at amortized cost	290,806	57,941	12,718	361,465
Cash on current accounts and overnight deposits of which	184,067	40,930	10,860	235,857
savings accounts and other interest-bearing assets	44,291	14,377	5,081	63,749
Term deposits	106,436	16,456	1,847	124,739
Other liabilities	303	555	11	869
Amounts due to customers (excluding adjustment relating to fair value hedge accounting)	290,806	58,016	12,718	361,540
Adjustment relating to fair value hedge accounting (note " Hedge accounting and other derivative instruments ")	170	-	-	170
Total	290,976	58,016	12,718	361,710

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 (note " Hedge accounting and other derivative instruments ")	(56)	-	-	(56)
Total	260,673	56,995	17,188	334,856

AMOUNTS DUE TO CUSTOMERS BY SEGMENT	30.06.2023	31.12.2022
Amounts due to customers (excluding adjustment relating to fair value hedge accounting)	361,540	334,912
retail and private banking	263,852	232,858
corporate	53,775	55,115
companies and enterprises	43,913	46,939
Adjustment relating to fair value hedge accounting (note " Hedge accounting and other derivative instruments ")	170	(56)
Total	361,710	334,856

26. FINANCING RECEIVED

FINANCING RECEIVED	30.06.2023	31.12.2022
Loans and advances received from international financial organisations	722	726
Liabilities in respect of debt securities in issue (bonds)	3,402	-
Subordinated liabilities	2,777	2,781
Total	6,901	3,507

- LOANS AND ADVANCES RECEIVED**

In the six-month period ended 30 June 2023, the Bank did not contract or repay any loans.

- BONDS ISSUED BY PKO BANK POLSKI S.A.**

Notional amount	Currency	Interest rate	Period	Carrying amount	
				30.06.2023	31.12.2022
750	EUR	5.625	01.02.2023 - 01.02.2026	3,402	-

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.

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, the Bank, as part of its inaugural EMTN 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. Moody's Investors Service has assigned a rating of A3 to the issue. The bonds were admitted to trading on a regulated market on the Luxembourg Stock Exchange and the Warsaw Stock Exchange.

- SUBORDINATED LIABILITIES OF PKO BANK POLSKI S.A. (SUBORDINATED BONDS)**

Notional amount	Currency	Interest rate	Period	Carrying amount	
				30.06.2023	31.12.2022
1,000	PLN	6M WIBOR +0.0150	05.03.2018 - 06.03.2028	1,028	1,029
1,700	PLN	6M WIBOR +0.0155	28.08.2017 - 28.08.2027	1,749	1,752
TOTAL				2,777	2,781

OTHER SUPPLEMENTARY NOTES TO THE STATEMENT OF FINANCIAL POSITION AND CONTINGENT LIABILITIES

27. PROPERTY, PLANT AND EQUIPMENT, INTANGIBLE ASSETS

PROPERTY, PLANT AND EQUIPMENT	30.06.2023	31.12.2022
Land and buildings	1,841	1,793
Machinery and equipment	373	365
including: IT equipment	273	259
Fixed assets under construction	111	155
including: IT equipment	54	102
Other, including vehicles	185	192
Total, of which:	2,510	2,505
right-of-use assets	883	814

INTANGIBLE ASSETS	30.06.2023	31.12.2022
Software	1,852	1,569
Goodwill	755	755
Customer relations	2	3
Other, including capital expenditure	486	606
of which: software	482	602
Total	3,095	2,933

Net goodwill	30.06.2023	31.12.2022
Nordea Bank Polska S.A.	747	747
Assets taken over from CFP sp. z o.o.	8	8
Total	755	755

28. INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

FINANCIAL INFORMATION

30.06.2023	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.

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.

29. OTHER ASSETS

OTHER ASSETS	30.06.2023	31.12.2022
Other financial assets	1,685	1,654
Settlements in respect of card transactions	810	620
Settlement of financial instruments	144	134
Receivables in respect of cash settlements	184	340
Receivables and settlements in respect of trading in securities	4	24
Dividends receivable	359	-
Sale of foreign currencies	28	118
Trade receivables	147	97
Other	9	321
Other non-financial assets	712	456
Inventories	140	19
Assets for sale	58	31
Prepayments and deferred costs	139	81
VAT receivable	-	-
Receivables from the State Budget in respect of flat-rate income tax	1	12
Receivables from settlements with the National Clearing House	13	-
Other*	361	313
Total	2,397	2,110

* the item "Other" as at 30 June 2023 includes an amount of PLN 218 million of the Bank's receivables from customers for whom the agreements have been legally declared invalid in respect of the principal originally disbursed to these customers. As at 31 December 2022, these receivables amounted to PLN 146 million. In addition, as at 31 December 2022, this item also includes an amount of PLN 40 million (PLN 134 million gross value and PLN 94 million gross value adjustment) for the Bank's claims for reimbursement of costs for non-contractual use of capital.

30. OTHER LIABILITIES

OTHER LIABILITIES	30.06.2023	31.12.2022
Other financial liabilities	4,116	4,176
Costs to be paid	508	538
Interbank settlements	716	868
Liabilities arising from investing activities and internal operations	182	134
Amounts due to suppliers	75	71
Liabilities and settlements in respect of trading in securities	616	354
Settlement of financial instruments	36	41
liabilities in respect of foreign exchange activities	797	761
Costs of financial support to a subsidiary	-	190
Liabilities in respect of payment cards	232	314
Lease liabilities	915	864
Other	39	41
Other non-financial liabilities	2,417	2,304
Deferred income	611	596
Liabilities from subsidiaries belonging to the Tax Group	18	83
Liability in respect of tax on certain financial institutions	98	100
Liabilities in respect of a contribution to the Bank Guarantee Fund maintained in the form of payment obligations	1,080	818
to the Resolution Fund	694	432
to the Bank Guarantee Fund	386	386
Liabilities under the public law	328	460
Other*	282	247
Total	6,533	6,480

* The item "Other" as at 30 June 2023 mainly includes an amount of PLN 167 million due to the recognition of a liability relating to the reimbursement of principal and interest instalments paid by customers on invalidated mortgage loan agreements in convertible currencies (as at 31 December 2022, an amount of PLN 132 million was recognised).

31. PROVISIONS

FOR 6 MONTHS ENDED 30 JUNE 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 ²	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	829	97	851	17	64	35	97	58	2,048
Increases, including increases of existing provisions	-	6	866	-	1	-	21	1	895
Utilized amounts	-	(1)	(113)	(5)	(3)	(3)	(4)	(33)	(162)
Unused provisions reversed during the period	(128)	(1)	-	-	(1)	-	-	-	(130)
Other changes and reclassifications	(6)	(1)	-	-	-	-	(1)	(1)	(9)
As at the end of the period	695	100	1,604	12	61	32	113	25	2,642
Short-term provisions	551	-	-	12	8	32	113	-	716
Long-term provisions	144	100	1,604	-	53	-	-	25	1,926

¹ See note "[Credit risk – financial information](#)".

² See note "[Cost of legal risk of mortgage loans in convertible currencies](#)".

FOR 6 MONTHS ENDED 30 JUNE 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 ²	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	672	99	595	15	55	47	91	42	1,616
Increases, including increases of existing provisions	37	3	202	13	1	-	25	12	293
Utilized amounts	-	(1)	(67)	(7)	(2)	(5)	(4)	(12)	(98)
Unused provisions reversed during the period	-	(1)	-	-	(1)	-	-	-	(2)
Other changes and reclassifications	2	1	-	1	-	-	-	-	4
As at the end of the period	711	101	730	22	53	42	112	42	1,813
Short-term provisions	622	-	-	22	7	42	112	-	805
Long-term provisions	89	101	730	-	46	-	-	42	1,008

¹ See note "[Credit risk – financial information](#)".

² See note "[Cost of legal risk of mortgage loans in convertible currencies](#)".

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

• CONTRACTUAL COMMITMENTS

VALUE OF CONTRACTUAL COMMITMENTS CONCERNING	30.06.2023	31.12.2022
intangible assets	52	76
property, plant and equipment	1	-
Total	53	76

• FINANCIAL AND GUARANTEE COMMITMENTS GRANTED

FINANCIAL AND GUARANTEE COMMITMENTS GRANTED 30.06.2023	Total	Provisions per IFRS 9	Net carrying amount
Credit lines and limits	77,300	(596)	76,704
real estate	3,711	(18)	3,693
business	62,964	(428)	62,536
consumer	10,625	(150)	10,475
Other	3,915	-	3,915
Total financial commitments granted, including:	81,215	(596)	80,619
irrevocable commitments granted	38,492	(298)	38,194
Guarantees and sureties granted			
guarantees in domestic and foreign trading	11,938	(94)	11,844
to financial entities	4,687	-	4,687
to non-financial entities	7,202	(94)	7,108
to public entities	49	-	49
domestic corporate bonds	2,175	-	2,175
to financial entities	2,000	-	2,000
to non-financial entities	175	-	175
domestic municipal bonds (state budget entities)	1,065	(3)	1,062
letters of credit to non-financial entities	1,417	(2)	1,415
payment guarantees to financial entities	77	-	77
Total guarantees and sureties granted, including:	16,672	(99)	16,573
irrevocable commitments granted	7,952	(92)	7,860
performance guarantee	3,147	(66)	3,081
Total financial and guarantee commitments granted	97,887	(695)	97,192

FINANCIAL AND GUARANTEE COMMITMENTS GRANTED 31.12.2022	Total	Provisions per IFRS 9	Net carrying amount
Credit lines and limits	75,496	(586)	74,910
real estate	3,646	(21)	3,625
business	61,242	(412)	60,830
consumer	10,608	(153)	10,455
Other	2,825	-	2,825
Total financial commitments granted, including:	78,321	(586)	77,735
irrevocable commitments granted	39,391	(301)	39,090
Guarantees and sureties granted			
guarantees in domestic and foreign trading	12,634	(236)	12,398
to financial entities	4,839	-	4,839
to non-financial entities	7,724	(236)	7,488
to public entities	71	-	71
domestic corporate bonds to financial entities	2,000	-	2,000
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	76	-	76
Total guarantees and sureties granted, including:	16,539	(243)	16,296
irrevocable commitments granted	8,897	(234)	8,663
performance guarantee	3,640	(203)	3,437
Total financial and guarantee commitments granted	94,860	(829)	94,031

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	30.06.2023	31.12.2022
Financial	126	109
Guarantees	19,104	8,579
Total	19,230	8,688

The increase in off-balance sheet guarantee liabilities received is due, among other things, to the guarantee agreement entered into by the Bank on 27 February 2023, 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 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.

33. LEGAL CLAIMS

As at 30 June 2023, the total value of the subject matter of litigation in court proceedings (trials) pending in which PKO Bank Polski S.A. is a defendant amounted to PLN 10,697 million (as at 31 December 2022: PLN 8,212 million), and the total value of the subject matter of litigation in court proceedings (trials) pending in which the Bank was a claimant as at 30 June 2023 was PLN 2,336 million (as at 31 December 2022: PLN 2,225 million).

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

As at 30 June 2023, 24,751 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 9,830 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 Bank 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 30 June 2023, 1,773 final rulings have been issued by the courts in cases against the Bank (including 1,729 rulings after 3 October 2019). 120 of these rulings (including in 78 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 385¹ § 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 reimbursement of amounts disbursed in connection with the conclusion of an agreement whose validity has been questioned.

In its ruling of 15 June 2023 in Case C-520/21, the CJEU ruled that if a loan agreement containing unfair terms is declared invalid, Directive 93/13: (i) does not preclude a judicial construction of national law whereby a consumer is entitled to claim compensation from a credit institution that goes beyond reimbursement of the monthly instalments and fees paid for performance of that agreement and beyond payment of the statutory interest for late payment from the date of the call for payment, provided that the objectives of Directive 93/13 and the principle of proportionality are complied with, and that (ii) precludes a judicial construction of national law whereby a credit institution is entitled to demand compensation from a consumer that goes beyond the reimbursement of the principal paid for the performance of that agreement and beyond the payment of statutory default interest from the date of the call for payment.

In the Bank's opinion, on the grounds of national legislation and the principle of proportionality, the customers cannot make additional claims against the Bank, primarily because they have not provided the Bank with a financial service consisting in the provision of capital. Nor is it reasonable to conclude that the Bank has enriched itself at the expense of the customer and the consumer has been impoverished. With the funds obtained, the customer met its housing needs and the Bank bore the costs of raising the funds, making them available and servicing the loan over the years. Even if it were to be considered that there were legal grounds for the customers' claims, the customer's claims would not necessarily be upheld and the courts may exercise their jurisdiction to dismiss the action when it constitutes an abuse of rights. At present, there is no case law on such customer claims. At the same time, according to the Bank, the CJEU judgment does not deprive the Bank of the right to claim reimbursement from the borrower for the present equivalent of the loan amount disbursed. Such a claim is not a demand for additional compensation from the borrower, but is a demand for the return of that capital at its present value.

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

As at 30 June 2023, 31 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 Bank has analysed the benefits and risks associated with the possible approaches to the issue of foreign currency housing loans. In the Bank'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 (see note: **COST OF LEGAL RISK OF MORTGAGE LOANS IN CONVERTIBLE CURRENCIES**).

- **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 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 30 June 2023, the Bank had not set up a provision for these proceedings.
- Proceedings initiated 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 subsequent order, the President of UOKiK extended the deadline for the completion of the proceedings. The current deadline indicated by the President of UOKiK is 29 September 2023. As at 30 June 2023, the Bank 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 30 June 2023 the Bank 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 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. The case is currently proceeding at first instance before the Warsaw District Court. As at 30 June 2023 the Bank recorded a provision for this litigation of PLN 21 million.

- **PROCEEDINGS BEFORE THE POLISH FINANCIAL SUPERVISION AUTHORITY**

- Administrative proceedings initiated ex officio by the Polish Financial Supervision Authority (PFSA) are pending against the Bank. According to the PFSA's letters, irregularities have been identified which indicate that the Bank (as an insurance agent) has breached the legislation on the organisation and supervision of agency activities at the insurance agent's premises, to the extent related to the fulfilment of the obligation of professional development by individuals performing agency activities on behalf of the Bank. In the course of the proceedings, the Bank took steps to rectify the irregularities in the area of supervision of the performance of agency activities by individuals acting on behalf of the Bank, including with regard to compliance with the fulfilment of continuing professional development obligations by such individuals in subsequent years. The proceedings have been extended several times, most recently by an order of 31 May 2023 for an additional period of three months. Formally, the PFSA has not formulated the specific allegations underlying the proceedings.
- By letter of 20 March 2023, the PFSA notified the Bank of the initiation of administrative proceedings to impose a monetary penalty on the Bank pursuant to Article 73(1)(11) in conjunction with paragraph 3(10) of the Act of 5 July 2018 on the National Cyber Security System (hereinafter: the "UKSC"), for failure to ensure that a security audit of the IT system used to provide the key service was carried out within the deadline referred to in Article 15(1) of the UKSC. The Bank conducted the audit in the period from 15 November 2021 to 25 February 2022. In its decision of 21 July 2023, the PFSA imposed a penalty of PLN 45 000 on the Bank for breach of Article 15(1) of the UKSC by failing to ensure that a security audit of the IT system used to provide the key service was conducted at least once every 2 years. According to the PFSA, the audit should have been conducted by 21 October 2021.
- The PFSA is conducting proceedings to impose an administrative penalty on the Bank, which conducts brokerage activities through an organisationally separate unit - the Brokerage Office - in connection with a suspected failure to comply with its obligations in the area of anti-money laundering and terrorist financing (hereinafter: "AML"). The Bank responded to the PFSA's request for written explanations regarding the scale of benefits achieved or losses avoided by the Bank in connection with violations of the AML Act, losses incurred by third parties in connection with violations of the AML Act, possible administrative penalties imposed under the provisions of the AML Act. In addition, the PFSA forwarded to the Bank's attention a letter addressed to the General Inspectorate of Financial Information (GIIF) requesting information on the Bank's violations of the AML Act to date. On 4 July 2023, the PFSA communicated a notice that, due to the need for an in-depth analysis of the evidence collected, the administrative proceedings are scheduled to be completed by 30 August 2023.

- **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. At present, the claims vis-à-vis the sued banks total PLN 898 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.

If the courts find the claims justified, the defendants may claim recourse in separate court proceedings from other banks, including from PKO Bank Polski S.A. As at 30 June 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 USED BY THE BANK**

As at the date of the 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.

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

34. 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 Open Pension Fund group.

According to the information available as at 30 June 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 30 June 2023				
State Treasury	367,918,980	29.43%	PLN 1	29.43%
Nationale Nederlanden Open Pension Fund ¹	113,978,220	9.12%	PLN 1	9.12%
Allianz Open Pension Fund Group ¹	104,137,594	8.33%	PLN 1	8.33%
Other shareholders ³	663,965,206	53.12%	PLN 1	53.12%
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 Open Pension Fund 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 30 June 2023 and 31 December 2022 held 24 487 297 shares carrying 1.96% of the votes at the GSM.

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 six-month period ended 30 June 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

35. FAIR VALUE HIERARCHY

ASSETS MEASURED AT FAIR VALUE 30.06.2023	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	727	-	727	-
Other derivative instruments	10,951	1	10,950	-
Securities	86,838	78,412	7,833	593
held for trading	899	897	-	2
debt securities	865	863	-	2
shares in other entities - listed	32	32	-	-
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	638	316	1	321
debt securities	340	295	-	45
shares in other entities - listed	21	21	-	-
shares in other entities - not listed	277	-	1	276
measured at fair value through other comprehensive income (debt securities)	85,301	77,199	7,832	270
Loans and advances to customers	13,999	-	-	13,999
not held for trading, measured at fair value through profit or loss	3,169	-	-	3,169
housing loans	2	-	-	2
business loans	79	-	-	79
consumer loans	3,088	-	-	3,088
measured at fair value through other comprehensive income - housing loans	10,830	-	-	10,830
Total financial assets measured at fair value	112,515	78,413	19,510	14,592

LIABILITIES MEASURED AT FAIR VALUE 30.06.2023	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	4,290	-	4,290	-
Other derivative instruments	11,177	-	11,177	-
Liabilities in respect of a short position in securities	75	75	-	-
Total financial liabilities measured at fair value	15,542	75	15,467	-

ASSETS MEASURED AT FAIR VALUE 31.12.2022	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	217	-	217	-
Other derivative instruments	13,745	1	13,744	-
Securities	63,195	49,614	12,578	1,003
held for trading	199	199	-	-
debt securities	171	171	-	-
shares in other entities - listed	27	27	-	-
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	710	341	1	368
debt securities	366	321	-	45
shares in other entities - listed	20	20	-	-
shares in other entities - not listed	324	-	1	323
measured at fair value through other comprehensive income (debt securities)	62,286	49,074	12,577	635
Loans and advances to customers	15,460	-	-	15,460
not held for trading, measured at fair value through profit or loss	3,565	-	-	3,565
housing loans	4	-	-	4
business loans	85	-	-	85
consumer loans	3,476	-	-	3,476
measured at fair value through other comprehensive income - housing loans	11,895	-	-	11,895
Total financial assets measured at fair value	92,617	49,615	26,539	16,463

LIABILITIES MEASURED AT FAIR VALUE 31.12.2022	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	6,727	-	6,727	-
Other derivative instruments	14,002	-	14,002	-
Liabilities in respect of a short position in securities	7	7	-	-
Total financial liabilities measured at fair value	20,736	7	20,729	-

IMPACT OF ESTIMATES ON FAIR VALUE MEASUREMENT OF LEVEL 3 FINANCIAL INSTRUMENTS	30.06.2023		31.12.2022	
	Fair value in		Fair value in	
	positive scenario	negative scenario	positive scenario	negative scenario
Shares in Visa Inc. ¹	80	72	145	133
Other equity investments ²	208	188	189	171
Corporate bonds ³	319	316	681	679
Loans and advances to customers ⁴	14,699	13,299	16,233	14,687

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 company's value of +/-5%

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

⁴ scenario assuming a change in the discount rate of +/- 0.5 p.p.

RECONCILIATION OF CHANGES DURING THE REPORTING PERIOD TO FAIR VALUE AT LEVEL 3	01.01-30.06.2023	01.01-30.06.2022
Opening balance at the beginning of the period	16,463	19,215
Increase in exposure to equity instruments	36	1
Decrease in exposure to equity instruments	(79)	(27)
Increase in exposure to corporate bonds	2	43
Decrease in exposure to corporate bonds	(13)	(61)
Increase in exposure to loans and advances to customers	718	1,773
Decrease in exposure to loans and advances to customers	(1,794)	(3,091)
Reclassification from "measured at amortized cost" to "measured at fair value through other comprehensive income"	45	44
Reclassification from "measured at fair value through profit or loss" to "measured at amortised cost"	(98)	(139)
Net gain/(loss) on financial instruments measured at fair value through profit or loss	(361)	(48)
Change in the valuation recognized in OCI	(307)	(65)
Foreign exchange differences	(4)	12
Other	(16)	4
Closing balance	14,592	17,661

36. FINANCIAL ASSETS AND FINANCIAL LIABILITIES NOT PRESENTED AT FAIR VALUE IN THE SEPARATE STATEMENT OF FINANCIAL POSITION

30.06.2023	carrying amount	fair value		
		Level 1	Level 2	Level 3
Cash and balances with Central Bank	13,767	4,597	9,170	-
Amounts due from banks	18,245	-	18,245	-
Securities (excluding adjustments relating to fair value hedge accounting)	71,654	55,417	7,957	2,125
Treasury bonds (in PLN)	49,342	44,615	-	-
corporate bonds (in PLN) secured with the State Treasury guarantees	12,037	10,802	-	-
municipal bonds (in PLN)	6,334	-	6,495	-
corporate bonds (in PLN)	2,291	-	-	2,125
corporate bonds (in foreign currencies)	1,650	-	1,462	-
Reverse repo transactions	5,143	-	5,143	-
Loans and advances to customers (excluding adjustment relating to fair value hedge accounting)	198,735	-	-	201,665
housing loans	75,927	-	-	76,215
business loans	95,662	-	-	97,699
consumer loans	27,146	-	-	27,751
Other financial assets	1,685	-	-	1,685
Amounts due to Central bank	42	-	42	-
Amounts due to banks	2,956	-	2,956	-
Repo transactions	100	-	100	-
Amounts due to customers (excluding adjustment relating to fair value hedge accounting)	361,465	-	-	361,201
amounts due to households	290,806	-	-	290,542
amounts due to business entities	57,941	-	-	57,941
amounts due to public sector	12,718	-	-	12,718
Loans and advances received	722	-	-	722
Securities in issue	3,402	-	3,437	-
Subordinated liabilities	2,777	-	2,764	-
Other financial liabilities	4,116	-	-	4,116

31.12.2022	carrying amount	fair value		
		Level 1	Level 2	Level 3
Cash and balances with Central Bank	15,719	4,078	11,641	-
Amounts due from banks	19,442	-	19,440	-
Securities (excluding adjustments relating to fair value hedge accounting)	67,821	49,183	7,779	1,710
Treasury bonds (in PLN)	45,870	38,773	-	-
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)	1,990	-	-	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)	193,466	-	-	196,253
housing loans	77,773	-	-	78,069
business loans	89,492	-	-	91,398
consumer loans	26,201	-	-	26,786
Other financial assets	1,654	-	-	1,654
Amounts due to Central bank	9	-	9	-
Amounts due to banks	2,926	-	2,926	-
Amounts due to customers (excluding adjustment relating to fair value hedge accounting)	334,907	-	-	334,006
amounts due to households	260,729	-	-	259,829
amounts due to business entities	56,990	-	-	56,989
amounts due to public sector	17,188	-	-	17,188
Loans and advances received	726	-	-	726
Subordinated liabilities	2,781	-	2,603	-
Other financial liabilities	4,176	-	-	4,176

RISK MANAGEMENT IN THE BANK

37. RISK MANAGEMENT IN THE BANK

Risk management is one of the most important internal processes in Bank.

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, in a changing macroeconomic environment. The level of risk is an important part of the planning processes.

The Bank 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 Bank: 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 Bank assesses the materiality of all the identified risks on a regular basis, at least annually.

A detailed description of the management policies for material risks is presented in the financial statements of PKO Bank Polski S.A. 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 six-month period ended 30 June 2023:

- The Bank 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 Bank specifically took into account information on customers' economic ties with counterparties in Ukraine, Belarus and Russia. For specific actions taken by the Bank 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](#)".
- 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 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 Bank's assets, liabilities and off-balance sheet items, determining the level of interest rate risk to which the Bank is exposed (for details, see note: "[Interest rate benchmarks reform](#)").
- The Bank maintained its liquidity ratios at a high, safe level, well above the supervisory limit, and a level of liquidity that enabled it to respond quickly and effectively to potential risks. The Bank 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 (for details, see note: "[Management of interest rate risk, currency risk and liquidity risk](#)").
- 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.

38. CREDIT RISK – FINANCIAL INFORMATION

- AMOUNTS DUE FROM BANKS

As at 30 June 2023 and 31 December 2022 all amounts due from banks were classified as Stage 1.

- SECURITIES

SECURITIES (excluding adjustments relating to fair value hedge accounting) 30.06.2023 Measurement method: measured at fair value through other comprehensive income	Stage 1	Stage 2	Stage 3	Total	of which POCI
Gross carrying amount = net carrying amount	84,996	291	14	85,301	-
NBP money bills	19,975	-	-	19,975	-
Treasury bonds (in PLN)	44,843	-	-	44,843	-
Treasury bonds (in foreign currencies)	1,439	-	-	1,439	-
corporate bonds (in PLN) secured with the State Treasury guarantees	9,786	-	-	9,786	-
municipal bonds (in PLN)	4,928	261	-	5,189	-
corporate bonds (in PLN)	2,507	30	14	2,551	-
corporate bonds (in foreign currencies)	1,518	-	-	1,518	-

SECURITIES (excluding adjustments relating to fair value hedge accounting) 30.06.2023 Measurement method: at amortized cost	Stage 1	Stage 2	Stage 3	Total	of which POCI
Gross carrying amount	71,308	412	-	71,720	-
Treasury bonds (in PLN)	49,348	-	-	49,348	-
corporate bonds (in PLN) secured with the State Treasury guarantees	12,040	-	-	12,040	-
municipal bonds (in PLN)	6,200	161	-	6,361	-
corporate bonds (in PLN)	2,191	115	-	2,306	-
corporate bonds (in foreign currencies)	1,529	136	-	1,665	-
Allowances for expected credit losses	(47)	(19)	-	(66)	-
Treasury bonds (in PLN)	(6)	-	-	(6)	-
corporate bonds (in PLN) secured with the State Treasury guarantees	(3)	-	-	(3)	-
municipal bonds (in PLN)	(25)	(2)	-	(27)	-
corporate bonds (in PLN)	(4)	(11)	-	(15)	-
corporate bonds (in foreign currencies)	(9)	(6)	-	(15)	-
Net carrying amount	71,261	393	-	71,654	-
Treasury bonds (in PLN)	49,342	-	-	49,342	-
corporate bonds (in PLN) secured with the State Treasury guarantees	12,037	-	-	12,037	-
municipal bonds (in PLN)	6,175	159	-	6,334	-
corporate bonds (in PLN)	2,187	104	-	2,291	-
corporate bonds (in foreign currencies)	1,520	130	-	1,650	-

TOTAL SECURITIES (excluding adjustments relating to fair value hedge accounting) 30.06.2023	Stage 1	Stage 2	Stage 3	Total	of which POCI
Gross carrying amount	156,304	703	14	157,021	-
Allowances for expected credit losses	(47)	(19)	-	(66)	-
Net carrying amount	156,257	684	14	156,955	-

SECURITIES (excluding adjustments relating to fair value hedge accounting) 31.12.2022 Measurement method: measured at fair value through other comprehensive income	Stage 1	Stage 2	Stage 3	Total	of which POCI
Gross carrying amount	61,908	2	374	62,284	359
Treasury bonds (in PLN)	40,649	-	-	40,649	-
Treasury bonds (in foreign currencies)	3,977	-	-	3,977	-
corporate bonds (in PLN) secured with the State Treasury guarantees	9,373	-	-	9,373	-
municipal bonds (in PLN)	5,044	2	-	5,046	-
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	61,908	2	376	62,286	361
Treasury bonds (in PLN)	40,649	-	-	40,649	-
Treasury bonds (in foreign currencies)	3,977	-	-	3,977	-
corporate bonds (in PLN) secured with the State Treasury guarantees	9,373	-	-	9,373	-
municipal bonds (in PLN)	5,044	2	-	5,046	-
corporate bonds (in PLN)	2,476	-	376	2,852	361
corporate bonds (in foreign currencies)	389	-	-	389	-

SECURITIES (excluding adjustments relating to fair value hedge accounting) 31.12.2022 Measurement method: at amortized cost	Stage 1	Stage 2	Stage 3	Total	of which POCI
Gross carrying amount	67,555	336	-	67,891	-
Treasury bonds (in PLN)	45,875	-	-	45,875	-
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)	1,818	195	-	2,013	-
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	67,510	311	-	67,821	-
Treasury bonds (in PLN)	45,870	-	-	45,870	-
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)	1,814	176	-	1,990	-
corporate bonds (in foreign currencies)	1,544	135	-	1,679	-

TOTAL SECURITIES (excluding adjustments relating to fair value hedge accounting) 31.12.2022	Stage 1	Stage 2	Stage 3	Total	of which POCI
Gross carrying amount	129,463	338	374	130,175	359
Allowances for expected credit losses	(45)	(25)	2	(68)	2
Net carrying amount	129,418	313	376	130,107	361

• LOANS AND ADVANCES TO CUSTOMERS

LOANS AND ADVANCES TO CUSTOMERS (excluding adjustment relating to fair value hedge accounting) 30.06.2023	Stage 1	Stage 2	Stage 3	Total	of which POCI
Measurement method: measured at fair value through other comprehensive income – housing loans					
Gross carrying amount = Net carrying amount	10,248	556	26	10,830	1
Measurement method: at amortized cost					
Gross carrying amount	172,263	27,619	7,568	207,450	274
housing loans	68,029	8,381	1,544	77,954	81
business loans	80,056	16,049	3,955	100,060	136
consumer loans	24,178	3,189	2,069	29,436	57
Allowances for expected credit losses	(961)	(3,124)	(4,630)	(8,715)	34
housing loans	(84)	(789)	(1,154)	(2,027)	(12)
business loans	(484)	(1,680)	(2,234)	(4,398)	3
consumer loans	(393)	(655)	(1,242)	(2,290)	43
Net carrying amount	171,302	24,495	2,938	198,735	308
housing loans	67,945	7,592	390	75,927	69
business loans	79,572	14,369	1,721	95,662	139
consumer loans	23,785	2,534	827	27,146	100
Loans and advances to customers, total					
Gross carrying amount	182,511	28,175	7,594	218,280	275
Allowances for expected credit losses	(961)	(3,124)	(4,630)	(8,715)	34
Net carrying amount	181,550	25,051	2,964	209,565	309

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 – housing loans					
Gross carrying amount = Net carrying amount	11,372	502	21	11,895	1
Measurement method: at amortized cost					
Gross carrying amount	168,347	25,972	7,496	201,815	195
housing loans	68,579	9,542	1,727	79,848	90
business loans	76,267	13,447	4,009	93,723	55
consumer loans	23,501	2,983	1,760	28,244	50
Allowances for expected credit losses	(855)	(2,853)	(4,641)	(8,349)	20
housing loans	(90)	(710)	(1,275)	(2,075)	(15)
business loans	(418)	(1,542)	(2,271)	(4,231)	(1)
consumer loans	(347)	(601)	(1,095)	(2,043)	36
Net carrying amount	167,492	23,119	2,855	193,466	215
housing loans	68,489	8,832	452	77,773	75
business loans	75,849	11,905	1,738	89,492	54
consumer loans	23,154	2,382	665	26,201	86
Loans and advances to customers, total					
Gross carrying amount	179,719	26,474	7,517	213,710	196
Allowances for expected credit losses	(855)	(2,853)	(4,641)	(8,349)	20
Net carrying amount	178,864	23,621	2,876	205,361	216

• OTHER FINANCIAL ASSETS

OTHER FINANCIAL ASSETS	Stage 1	Stage 2	Stage 3	Total	of which POCI
30.06.2023					
Gross amount	1,684	-	131	1,815	-
Allowances for expected credit losses	-	-	(130)	(130)	-
Net carrying amount	1,684	-	1	1,685	-

OTHER FINANCIAL ASSETS	Stage 1	Stage 2	Stage 3	Total	of which POCI
31.12.2022					
Gross amount	1,653	-	145	1,798	-
Allowances for expected credit losses	-	-	(144)	(144)	-
Net amount	1,653	-	1	1,654	-

• FINANCIAL AND GUARANTEE COMMITMENTS GRANTED

FINANCIAL AND GUARANTEE COMMITMENTS GRANTED 30.06.2023	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	69,466	(147)	7,708	(422)	126	(27)	77,300	(596)	76,704
real estate	3,580	(12)	126	(4)	5	(2)	3,711	(18)	3,693
business	56,986	(108)	5,873	(300)	105	(20)	62,964	(428)	62,536
consumer	8,900	(27)	1,709	(118)	16	(5)	10,625	(150)	10,475
Other	3,915	-	-	-	-	-	3,915	-	3,915
Total financial commitments granted, including:	73,381	(147)	7,708	(422)	126	(27)	81,215	(596)	80,619
irrevocable commitments granted	34,336	(73)	4,099	(215)	57	(10)	38,492	(298)	38,194
POCI	-	-	1	-	3	(1)	4	(1)	3
Guarantees and sureties granted									
guarantees in domestic and foreign trading	9,769	(6)	1,652	(67)	517	(21)	11,938	(94)	11,844
to financial entities	4,687	-	-	-	-	-	4,687	-	4,687
to non-financial entities	5,033	(6)	1,652	(67)	517	(21)	7,202	(94)	7,108
to public entities	49	-	-	-	-	-	49	-	49
domestic corporate bonds	2,175	-	-	-	-	-	2,175	-	2,175
to financial entities	2,000	-	-	-	-	-	2,000	-	2,000
to non-financial entities	175	-	-	-	-	-	175	-	175
domestic municipal bonds (state budget entities)	1,065	(3)	-	-	-	-	1,065	(3)	1,062
letters of credit to non-financial entities	1,408	(2)	9	-	-	-	1,417	(2)	1,415
payment guarantees to financial entities	77	-	-	-	-	-	77	-	77
Total guarantees and sureties granted, including:	14,494	(11)	1,661	(67)	517	(21)	16,672	(99)	16,573
irrevocable commitments granted	6,007	(6)	1,464	(65)	481	(21)	7,952	(92)	7,860
performance guarantees	2,162	(3)	825	(47)	160	(16)	3,147	(66)	3,081
POCI	-	-	-	-	220	(1)	220	(1)	219
Total financial and guarantee commitments granted	87,875	(158)	9,369	(489)	643	(48)	97,887	(695)	97,192

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	68,144	(135)	7,220	(406)	132	(45)	75,496	(586)	74,910
real estate	3,531	(13)	107	(5)	8	(3)	3,646	(21)	3,625
business	55,832	(96)	5,310	(281)	100	(35)	61,242	(412)	60,830
consumer	8,781	(26)	1,803	(120)	24	(7)	10,608	(153)	10,455
Other	2,824	-	-	-	1	-	2,825	-	2,825
Total financial commitments granted, including:	70,968	(135)	7,220	(406)	133	(45)	78,321	(586)	77,735
irrevocable commitments granted	35,862	(60)	3,429	(211)	100	(30)	39,391	(301)	39,090
POCI	-	-	1	-	4	(1)	5	(1)	4
Guarantees and sureties granted									
guarantees in domestic and foreign trading	10,598	(5)	1,357	(72)	679	(159)	12,634	(236)	12,398
to financial entities	4,839	-	-	-	-	-	4,839	-	4,839
to non-financial entities	5,688	(5)	1,357	(72)	679	(159)	7,724	(236)	7,488
to public entities	71	-	-	-	-	-	71	-	71
domestic corporate bonds to financial entities	2,000	-	-	-	-	-	2,000	-	2,000
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	76	-	-	-	-	-	76	-	76
Total guarantees and sureties granted, including:	14,332	(6)	1,528	(78)	679	(159)	16,539	(243)	16,296
irrevocable commitments granted	6,988	(5)	1,262	(71)	647	(158)	8,897	(234)	8,663
performance guarantees	2,499	(2)	860	(54)	281	(147)	3,640	(203)	3,437
POCI	-	-	-	-	284	(5)	284	(5)	279
Total financial and guarantee commitments granted	85,300	(141)	8,748	(484)	812	(204)	94,860	(829)	94,031

39. MANAGEMENT OF CURRENCY RISK ASSOCIATED WITH MORTGAGE LOANS FOR INDIVIDUALS

The Bank analyses its portfolio of convertible currency mortgage loans to individuals in a specific manner. The Bank 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 Bank takes the risk into consideration in the capital adequacy and equity management.

HOUSING LOANS AND ADVANCES TO INDIVIDUALS (RETAIL AND PRIVATE BANKING) BY CURRENCY	30.06.2023			31.12.2022		
	Gross carrying amount	Allowance for expected credit losses	Net carrying amount	Gross carrying amount	Allowance for expected credit losses	Net carrying amount
in local currency	75,492	(1,273)	74,219	74,481	(1,179)	73,302
PLN	75,492	(1,273)	74,219	74,481	(1,179)	73,302
in foreign currency	7,834	(618)	7,216	11,634	(763)	10,871
CHF	5,809	(522)	5,287	9,353	(677)	8,676
EUR	1,991	(92)	1,899	2,243	(82)	2,161
USD	28	(4)	24	32	(4)	28
OTHER	6	-	6	6	-	6
Total	83,326	(1,891)	81,435	86,115	(1,942)	84,173

Convertible currency housing loans and advances to individuals by the granting date		30.06.2023			31.12.2022		
		Indexed	Denominated	Total	Indexed	Denominated	Total
up to 2002	Gross amount	-	17	17	-	28	28
	Allowances for credit losses	-	-	-	-	(1)	(1)
	Net amount	-	17	17	-	27	27
	Number of loans granted	-	2,286	2,286	-	2,737	2,737
from 2003 to 2006	Gross amount	-	1,038	1,038	-	1,976	1,976
	Allowances for credit losses	-	(79)	(79)	-	(111)	(111)
	Net amount	-	959	959	-	1,865	1,865
	Number of loans granted	-	25,647	25,647	-	30,771	30,771
from 2007 to 2009	Gross amount	-	2,950	2,950	-	4,911	4,911
	Allowances for credit losses	-	(368)	(368)	-	(490)	(490)
	Net amount	-	2,582	2,582	-	4,421	4,421
	Number of loans granted	-	29,326	29,326	-	35,811	35,811
from 2010 to 2012	Gross amount	1,894	1,925	3,819	2,436	2,268	4,704
	Allowances for credit losses	(76)	(93)	(169)	(74)	(85)	(159)
	Net amount	1,818	1,832	3,650	2,362	2,183	4,545
	Number of loans granted	8,063	9,991	18,054	8,741	10,344	19,085
from 2013 to 2016	Gross amount	3	7	10	4	11	15
	Allowances for credit losses	-	(2)	(2)	-	(2)	(2)
	Net amount	3	5	8	4	9	13
	Number of loans granted	15	30	45	18	34	52
Total	Gross amount*	1,897	5,937	7,834	2,440	9,194	11,634
	Allowances for credit losses	(76)	(542)	(618)	(74)	(689)	(763)
	Net carrying amount	1,821	5,395	7,216	2,366	8,505	10,871
	Number of loans granted	8,078	67,280	75,358	8,759	79,697	88,456

* The gross carrying amount of the above loan portfolio includes an adjustment for 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 notes "Cost of legal risk of mortgage loans in convertible currencies", "Loans and advances to customers")

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

- INTEREST RATE RISK MANAGEMENT

Sensitivity of interest income in the banking book of the Bank to the abrupt shift in the yield curve of 100 bp down in a one-year horizon in all currencies	30.06.2023	31.12.2022
Sensitivity of interest income (PLN million)	(753)	(712)

The economic value sensitivity measure (stress-test) of the banking book of the Bank in all currencies	30.06.2023	31.12.2022
Sensitivity of economic value (PLN million)	(1,240)	(886)

IR VaR in the trading book	30.06.2023	31.12.2022
IR VaR for a 10-day time horizon at a confidence level of 99% (PLN million):		
Average value	72	37
Maximum value	133	86
Value at the end of the period	83	56

- CURRENCY RISK MANAGEMENT

The Bank's FX VaR, in aggregate for all currencies	30.06.2023	31.12.2022
VaR for a 10-day time horizon at a confidence level of 99% (in PLN million) ¹	57	128

FOREIGN CURRENCY POSITION	30.06.2023	31.12.2022
EUR	320	(70)
CHF	(1,013)	(1,625)
Other (Global, Net)	(16)	(18)

Currency positions (in addition to volatility of foreign exchange rates) are a key factor determining the level of currency risk to which the Bank 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 1,072.3 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.

• 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
30.06.2023								
Adjusted periodic gap	7,515	104,204	(17,574)	(5,273)	10,048	12,114	23,119	(134,154)
Adjusted cumulative periodic gap	7,515	111,719	94,145	88,873	98,921	111,035	134,154	
31.12.2022								
Adjusted periodic gap	8,548	67,153	(10,815)	(2,012)	(350)	24,862	23,609	(110,995)
Adjusted cumulative periodic gap	8,548	75,701	64,886	62,874	62,524	87,386	110,995	-

SUPERVISORY LIQUIDITY MEASURES	30.06.2023	31.12.2022
NSFR - net stable funding ratio	151.2%	131.8%
LCR - liquidity coverage ratio	203.2%	155.8%

In the period ended 30 June 2023 and 31 December 2022, liquidity measures remained above their respective supervisory limits.

CAPITAL MANAGEMENT AT THE BANK

41. CAPITAL ADEQUACY

Minimum level of capital ratios maintained by the Bank in accordance with Art. 92 of the CRR Regulation	
• total capital ratio (TCR)	8.0%
• Tier 1 capital ratio (T1)	6.0%
• Tier 1 core capital ratio (CET1)	4.5%

Obligation to maintain a combined buffer above the minimum amounts specified in Art. 92 of the CRR, representing the sum of the applicable buffers	30.06.2023	31.12.2022
Total:	4.54%	4.52%
• conservation buffer	2.5%	2.5%
• countercyclical buffer	0.04%	0.02%
• systemic risk buffer ¹	0%	0%
• due to identifying the Bank as another systemically important institution ("O-SII")	2%	2%

¹ On 19 March 2020, in connection with the COVID-19, the Regulation of the Minister of Finance cancelling the systemic risk buffer came into effect. Nevertheless, the previously applicable buffer of 3% is taken into account in the calculation of the required level of ratios to meet dividend payment conditions.

Capital adequacy	30.06.2023	31.12.2022
Equity	39,221	34,085
capital: share capital, supplementary capital, other reserves, and general risk reserve	33,163	31,536
retained earnings	9,437	7,809
net profit or loss for the year	1,948	3,258
other comprehensive income	(5,327)	(8,518)
Exclusions from equity:	(998)	(1,770)
net profit or loss for the year	1,948	3,258
cash flow hedges	(2,946)	(5,028)
Other fund reductions:	3,926	4,692
goodwill	755	755
other intangible assets	1,290	1,390
additional asset adjustments (AVA, DVA, NPE, capital exposures and DTA above the thresholds specified in Art. 48 of the CRR) ¹	1,880	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	1,067	1,393
Current period profit/loss, included by permission from the PFSA	-	895
Tier 1	37,361	34,811
Tier 2 capital (subordinated debt)	2,352	2,584
Own funds	39,713	37,395
Requirements for own funds	14,915	15,858
Credit risk	12,956	13,423
Operational risk ²	1,670	2,043
Market risk ³	238	342
Credit valuation adjustment risk	51	50
Total capital ratio	21.30	18.86
Tier 1 capital ratio	20.04	17.56

¹ AVA - additional valuation adjustment, DVA - debt valuation adjustment, NPE - adjustment for non-performing exposures, DTA - surplus of capital exposures and deferred assets deferred tax assets

² In the first half of 2023, there was a decrease in the own funds requirement for operational risk by PLN 373 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 March 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.

³ The decrease in the value of the market risk-related requirement as at the end of June 2022 relative to 31 December 2023 was mainly due to a decrease in the currency risk-related requirement, which amounted to PLN 70 million as at the end of June 2023 compared to PLN 138 million as at the end of December 2022.

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 Bank's Tier 1 capital would have amounted to PLN 36,106 million, the total capital would have amounted to PLN 38,458 million, the Tier 1 capital ratio would have been 19.53%, the total capital ratio would have been 20.80% and the leverage ratio 8.18%.

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 in force until 31 December 2022.

42. DIVIDENDS AND PROFIT APPROPRIATION

On 21 June 2023, the Annual General Meeting of the Bank (AGM) passed a resolution on distribution of profit of the Bank for 2022, in accordance with which amount:

- the amount of PLN 1,629,138,013.50 was allocated to reserve capital for the payment of dividends, including interim dividends, in accordance with § 30 of the Bank's Articles of Association,
- the amount of PLN 1,629,138,013.50 was left as unapportioned.

At the same time, the AGM passed a resolution to leave the Bank's retained earnings, in the amount of PLN 7,808 836,372, undistributed.

The above resolutions are consistent with the individual recommendation of the Polish Financial Supervision Authority ("PFSA") received on 17 March 2023, in which the PFSA confirmed that the Bank fulfils the requirements for the payment of dividends at a level of up to 50% of the net profit for 2022 but, at the same time, recommended that the Bank mitigate the risks present in its operations by:

- 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,
- 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 (CJEU) 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),
- 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 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.

The distribution of profit for 2022 adopted by the AGM does not preclude the Bank's Management Board from deciding to distribute profit to shareholders in the form of an interim dividend and to use the reserve capital for this purpose.

As a result of consultations initiated by the Bank with the Office of the Polish Financial Supervision Authority ("PFSA") relating to the possibility for the Bank to pay out part of its profit from reserve capital, on 21 July 2023 the Bank received a negative opinion from the PFSA in this regard. Taking into account numerous risks, including among others the continuing high uncertainty related to the potential costs of legal risk related to mortgage loans in CHF, possible deterioration of the credit quality of the portfolio driven by increased inflation, possible limitation of economic growth, as well as high costs of debt servicing by borrowers as well as aiming at ensuring the stability of the Bank's operations in subsequent periods, and its further development, the PFSA Office maintains a cautious approach towards the dividend policy and actions that may result in a reduction of the capital base and does not consider the possibility of accepting actions resulting in a reduction in the Bank's capital base at the level of PLN 1.6 billion or less.

OTHER NOTES

43. TRANSACTIONS WITH THE STATE TREASURY AND RELATED PARTIES

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.- 30.06.2023	01.01.- 30.06.2022
Income recognized on an accruals basis	65	64
Income recognized on a cash basis	3	5
Income from temporary redemption by the State Treasury of interest on housing loans in the "old portfolio"	62	59

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 six-month period ended 30 June 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 six-month period ended 30 June 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 period of six months ended 30 June 2023 in the amount of PLN 108 million, and in the period of six months ended 30 June 2022 in the amount of PLN 140 million.

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

Transactions with entities related to the State Treasury include loans advanced, lines of credit, debt securities purchased, lines of credit, guarantees issued and deposits made. The transactions were arm's length transactions.

SIGNIFICANT TRANSACTIONS WITH THE STATE TREASURY'S RELATED PARTIES	BALANCE SHEET EXPOSURE, INCLUDING EXPOSURE TO LOANS AND DEBT SECURITIES		OFF-BALANCE SHEET EXPOSURE		LIABILITIES IN RESPECT OF CURRENT ACCOUNTS AND TERM DEPOSITS	
	30.06.2023	31.12.2022	30.06.2023	31.12.2022	30.06.2023	31.12.2022
counterparty 1	-	-	3,150	2,453	35	2,820
counterparty 2	16,272	16,097	31	31	176	87
counterparty 3	614	245	1,066	1,081	120	5
counterparty 4	2,069	422	4,271	3,807	1,820	2,087
counterparty 5	731	833	2,506	2,096	1	6
counterparty 6	118	118	1,500	1,500	424	275
counterparty 7	336	1,643	3,158	4,610	1,594	1,088
counterparty 8	463	751	1,178	557	-	-
counterparty 9	1,223	608	652	1,320	439	59
counterparty 10	1,010	841	611	816	-	-

	30.06.2023	30.06.2022
Interest and commission income	312	159
Interest and commission expense	(114)	(163)

As at 30 June 2023, the allowance for expected credit losses for the above exposures amounted to PLN 1 million (as at 31 December 2022 it amounted to PLN 1 million).

- 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.

30.06.2023 Company Name	Receivables	of which loans	Liabilities	Off-balance sheet liabilities granted
KREDOBANK SA and its subsidiary	2	-	110	322
Merkury - fiz an and its subsidiaries	-	-	48	-
NEPTUN - fizan and its subsidiaries	143	143	55	-
PKO Bank Hipoteczny S.A.	6,475	6,243	79	6,249
PKO BP BANKOWY PTE S.A.	-	-	20	-
PKO BP Finat sp. z o.o.	-	-	19	15
PKO Leasing SA and its subsidiaries	23,790	23,407	21	5,247
PKO Towarzystwo Funduszy Inwestycyjnych S.A.	-	-	128	-
PKO Towarzystwo Ubezpieczeń S.A.	5	-	122	1
PKO Życie Towarzystwo Ubezpieczeń SA and its subsidiary	-	-	128	1
Total subsidiaries	30,415	29,793	730	11,835

FOR 6 MONTHS ENDED 30 JUNE 2023 Company Name	Total income	of which interest and commission income	Total expense	of which interest and commission income
KREDOBANK SA and its subsidiary	1	1	-	-
NEPTUN - fizan and its subsidiaries	4	4	-	-
PKO Bank Hipoteczny S.A.	305	296	3	-
PKO BP BANKOWY PTE S.A.	8	1	-	-
PKO BP Finat sp. z o.o.	2	-	4	-
PKO Leasing SA and its subsidiaries	1,092	738	23	-
PKO Towarzystwo Funduszy Inwestycyjnych S.A.	191	-	6	6
PKO Towarzystwo Ubezpieczeń S.A.	35	35	3	3
PKO Życie Towarzystwo Ubezpieczeń SA and its subsidiary	60	25	3	3
Total subsidiaries	1,698	1,100	42	12

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 6 MONTHS ENDED 30 JUNE 2022 Company Name	Total income	of which interest and commission income	Costs Total	of which interest and commission expense
KREDOBANK SA and its subsidiary	1	1	-	-
NEPTUN - fizan and its subsidiaries	1	1	-	-
PKO Bank Hipoteczny S.A.	310	302	-	-
PKO BP Finat sp. z o.o.	2	-	4	-
PKO Finance AB	19	19	102	102
PKO Leasing SA and its subsidiaries	380	378	-	-
PKO Towarzystwo Funduszy Inwestycyjnych S.A.	145	2	2	2
PKO Towarzystwo Ubezpieczeń S.A.	22	22	-	-
PKO Życie Towarzystwo Ubezpieczeń SA and its subsidiary	49	19	1	1
Total subsidiaries	929	744	109	105

30.06.2023 Company Name	Receivables	of which loans	Liabilities	Off-balance sheet liabilities granted
Centrum Elektronicznych Usług Płatniczych eService sp. z o.o.	124	18	101	64
"Centrum Obsługi Biznesu" sp. z o.o.	11	21	4	-
Bank Pocztowy S.A.	-	-	-	1
Operator Chmury Krajowej sp. z o.o.	2	2	3	443
Total associates and joint ventures	137	41	108	508

FOR 6 MONTHS ENDED 30 JUNE 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.	500	359	87	85
"Centrum Obsługi Biznesu" sp. z o.o.	1	1	-	-
Operator Chmury Krajowej sp. z o.o.	-	-	20	-
Total associates and joint ventures	501	360	107	85

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 6 MONTHS ENDED 30 JUNE 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.	402	319	84	84
Operator Chmury Krajowej sp. z o.o.	-	-	12	-
Total associates and joint ventures	402	319	96	84

44. BENEFITS FOR THE KEY MANAGEMENT

COST OF REMUNERATION OF THE BANK'S MANAGEMENT AND SUPERVISORY BOARDS (in PLN thousand)	01.01.2023- 30.06.2023	01.01.2022- 30.06.2022
Management Board of the Bank		
Short-term employee benefits ¹	5,655	5,040
Long-term employee benefits ²	3,415	2,051
Share-based payments settled in cash ³	3,778	(694)
Benefits to members of the Bank's Management Board who ceased to perform their functions ⁴	1,833	754
Total	14,681	7,151
Supervisory Board of the Bank		
Short-term employee benefits ¹	1,047	936
Total	1,047	936

¹ "Short-term employee benefits" includes: wages and salaries, social security contributions and other benefits which have been or will be settled within 12 months of the end of the reporting period.

² "Long-term benefits" includes provisions for deferred components of remuneration awarded in cash.

³ "Share-based payments settled in cash" includes non-deferred and deferred remuneration components granted in the form of financial instruments i.e. Phantom shares (for which conversion into cash is carried out after an additional period of retention). "Share-based payments settled in cash" includes both costs of variable remuneration in the form of a financial instrument for the current period, as well as the effect of revaluation of provisions for variable remuneration components in the form of a financial instrument for previous years based on the current price of the Bank's shares. Negative costs in the period of six months ended 30 June 2022 result from the revaluation of prior years' provisions for variable remuneration components.

⁴ "Benefits to members of the Bank's Management Board who ceased to perform their functions" includes severance pay and non-competes benefits.

In the six-month period ended 30 June 2023, members of the Management Board of the Bank received remuneration from the Bank's related entities in the amount of PLN 28 thousand (PLN 42 thousand in the corresponding period).

LOANS AND ADVANCES GRANTED BY THE BANK TO THE MEMBERS OF THE MANAGEMENT AND SUPERVISORY BOARDS	30.06.2023	31.12.2022
Supervisory Board of the Bank	-	-
Management Board of the Bank	81	101
Total	81	101

No new loans or advances were granted to Management Board and Supervisory Board members in the first half of 2023. The interest rates and repayment terms do not differ from the arm's-length conditions and repayment terms for similar banking products.

The Bank provides the key management personnel, members of the Supervisory Board and their families with standard financial services which comprise, among other things, operating bank accounts, accepting term deposits, granting loans and providing other financial services. All these transactions are also concluded on an arm's length basis.

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

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 30 June 2023, the Ukrainian companies are continuing to operate.

The test performed as 31 March 2022, taking into account the effect of the war in Ukraine and an additional discount of 25% associated with uncertainty as to the further developments in this regard, revealed a need to increase the impairment loss by PLN 52 million and reduce the net carrying amount of shares in KREDOBANK S.A. to PLN 227 million. Subsequent tests carried out in 2022 and 2023, including a test prepared as at 30 June 2023, did not indicate a need to increase the level of impairment losses, thus confirming the correctness of the main assumptions previously used in the valuation model.

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

In the six-month period ended 30 June 2023, the Bank maintained a safe level of liquidity, allowing for a quick and effective response to potential threats.

The Bank 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 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, cyber security and the continuity of cash services and other processes.

46. 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.

The Financial Conduct Authority (FCA) has announced that 1M, 3M and 6M LIBOR USD rates will be published in synthetic form until the end of September 2024, 1M and 6M LIBOR GBP rates will be published in synthetic form until the end of March 2023 and 3M LIBOR GBP rates until the end of March 2024.

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 PFS A 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. 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, the Bank 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 half 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,
- on the use of a replacement rate for the WIBOR benchmark in interest rate derivatives.

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.

The NGR is working intensively on a recommendation on the principles and methods for replacing the WIBOR/WIBID benchmarks with the WIRON benchmark (or a benchmark from the WIRON Compound Index Family) for the existing portfolio of PLN products with regard to financial market entities.

- **ADJUSTMENT OF THE BANK**

Evolution of the legal environment and benchmark market migration in accordance with BMR affect the Bank'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 Bank 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 Bank continued servicing the loan portfolios and new loan agreements using WIBOR and EURIBOR without any changes.

The Bank 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.

The following tables present the Bank's exposure to significant types of interest rates affected by the interest rate benchmark reform, which had not been replaced as at 30 June and 31 December 2022.

Financial assets	
30.06.2023	WIBOR PLN
Amounts due from banks	3,316
Securities	13,515
Reverse repo transactions	2,347
Loans and advances to customers	145,433
Total assets	164,611

Financial liabilities and off-balance sheet liabilities	
30.06.2023	WIBOR PLN
Repo transactions	100
Amounts due to customers	6,194
Subordinated liabilities	2,777
Provisions for financial liabilities and guarantees granted	263
Total liabilities	9,334
Financial liabilities and guarantees granted	32,325

Financial assets	
31.12.2022	WIBOR PLN
Amounts due from banks	3,674
Securities	12,660
Loans and advances to customers	142,029
Total assets	158,363

Financial liabilities and off-balance sheet liabilities	
31.12.2022	WIBOR PLN
Amounts due to customers	6,830
Subordinated liabilities	2,781
Provisions for financial liabilities and guarantees granted	412
Total liabilities	10,023
Financial liabilities and guarantees granted	32,051

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.

47. SUBSEQUENT EVENTS

As a result of consultations initiated by the Bank with the Office of the Polish Financial Supervision Authority ("PFSA") relating to the possibility for the Bank to pay out part of its profit from reserve capital, on 21 July 2023 the Bank received a negative opinion from the PFSA in this regard. Taking into account numerous risks, including among others the continuing high uncertainty related to the potential costs of legal risk related to mortgage loans in CHF, possible deterioration of the credit quality of the portfolio driven by increased inflation, possible limitation of economic growth, as well as high costs of debt servicing by borrowers as well as aiming at ensuring the stability of the Bank's operations in subsequent periods, and its further development, the PFSA Office maintains a cautious approach towards the dividend policy and actions that may result in a reduction of the capital base and does not consider the possibility of accepting actions resulting in a reduction in the Bank's capital base at the level of PLN 1.6 billion or less.

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