



Bank Polski

Directors' Report on the operations of PKO Bank Polski S.A. Group for the first half of 2023

This document is a translation of a document originally issued in Polish.
The only binding version is the original Polish version.

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1. INTRODUCTION

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

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

PKO Bank Polski S.A. is an universal bank that provides services to individuals, legal entities and other domestic and foreign entities.

Apart from strictly banking operations, the PKO Bank Polski S.A. Group also provides services in respect of leases, factoring, investment funds, pension funds and insurance, car fleet management services, transfer agent services, delivers technological solutions, and outsources IT professionals.

PKO Bank Polski S.A. Group conducts banking activities and provides financial services also outside Poland – mainly through branches in Germany, the Czech Republic and Slovakia, as well as through its subsidiaries in Ukraine.

PKO Bank Polski S.A. Group stands out on the Polish market with good financial performance, which ensures its stable and safe development.

2. RESULTS OF THE GROUP'S OPERATIONS IN THE FIRST HALF OF 2023

2.1. MAJOR EVENTS, INCLUDING NON-TYPICAL EVENTS

2.1.1. MORTGAGE LOANS IN FOREIGN CURRENCIES

Settlement programme

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

PKO Bank Polski S.A. settlement programme still meets its assumptions, i.e. it is a real aid for people repaying mortgage loans in CHF. The mediation formula is free of charge. The customer can come to an agreement with the Bank and/or terminate the mediation proceedings without consequences without reaching an understanding. The programme completely eliminates the materialised and future foreign exchange risk of customers and is a convenient and certain alternative to long-term and costly litigation. According to the assumptions, the Bank bears all the financial consequences of restoring to the consumer the actual and legal status in which the consumer would find themselves if they did not enter into a Swiss Franc loan agreement with the Bank. In the opinion of the Bank, this action fully implements the requirements of Directive 93/13¹ and complies with previous case law of the Court of Justice of the European Union (CJEU).

In order to mitigate the interest rate risk borne by the customer, since the implementation of the programme, the Bank has offered borrowers the possibility to choose a fixed rate option for 5 years. If the period of loan repayment remaining after concluding the settlement is shorter than 5 years, the fixed interest rate will apply until the end of the term of the agreement. Fixed-rate loans are more and more popular – this option was selected in the settlement process in the first half of 2023 alone by 88% customers who continue to repay the loan after signing the settlement, and a total of 78% customers who sign a settlement agreement providing for continuing the loan since the beginning of offering settlements.

In the first half of 2023, the Bank conducted actions encouraging customers to join the programme.

¹ Council Directive 93/13/EEC of 5 April 1993 on unfair terms in consumer contracts

By 30 June 2023, 52 thousand mediation applications were registered, 32,051 mediations concluded with a positive outcome, 11,347 mediations concluded with a negative outcome. The total number of settlements concluded as of 30 June 2023 was 31,373, of which 30,250 were concluded in mediation proceedings and 1,123 in court proceedings.

Ruling of the CJEU of 15 June 2023 in Case C-520/21

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 of 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. Case law on this type of customer's claims has not yet shaped. At the same time, according to the Bank, the CJEU ruling 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.

Increase in the legal risk cost

In the first half of 2023, PKO Bank Polski S.A. Group increased the write-downs on legal risk related to mortgage loans denominated and indexed to CHF by PLN 3,441 million. The increase in costs of risk resulted from the update of parameters of the legal risk assessment model for those loans, considering, inter alia, the expected impact of the CJEU ruling of 15 June 2023 in case C-520/21 on future case law of Polish courts and a change in the likely behaviour of customers.

Detailed information on the write-downs for legal risk in the first half of 2023 was presented in the condensed consolidated financial statements of PKO Bank Polski S.A. Group for the period of six months ended 30 June 2023 (Financial statements of the Bank's Group for the first half of 2023) – note 18 “Cost of legal risk of mortgage loans in convertible currencies”.

2.1.2. BUSINESS DEVELOPMENT

In the first half of 2023, the Bank's Group was developing products and services (also offered remotely).

The Bank's Group:

- enabled, since 3 July 2023, to file applications for mortgage loans under the Government Safe Loan programme 2%,
- introduced PKO Moto motor insurance, which includes: compulsory third-party liability, accident and theft insurance, Auto Assistance, personal accident insurance and Green Card,
- introduced the green loan for infrastructure modernisation and expanded the offer of financing products for SMEs,
- updated the offer for individual farmers running agricultural holdings,
- increased the attractiveness of the deposit offer, e.g. introduced the IKO birthday deposit with an interest rate of 10% p.a.

In the first half of 2023, the Bank's Group recorded a further increase in the scale of operations, in particular increasing the following figures since the beginning of the year:

- the number of customers by nearly 125 thousand to 11.8 million, mainly in the retail customer segment,

- the number of current accounts serviced by 133 thousand units to nearly 9.2 million units,
- the deposit base by more than PLN 27 billion, introducing attractive term deposits for private individuals,
- sales of housing loans, which amounted to nearly PLN 6 billion, which constituted 32.5% of the market share of new sales,
- sales of consumer loans, which amounted to more than PLN 8 billion, which allowed to increase the market share in sales to the level of 16.1%.

As of 30 June 2023, the Group maintained a high share in the market of loans and savings (deposits, TFI assets and retail savings bonds) at 17.7% and 20.5%, respectively.

2.1.3. ANNIVERSARY OF THE IKO MOBILE APP

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

As of 30 June 2023, the number of active IKO applications was nearly 7.6 million. Since its launch, users have logged in to the application more than 7.4 billion times and made approx. 2.17 billion transactions for a total amount of more than PLN 583 billion. On average, IKO sees 7 online mobile payments every second, 332 transfers every minute, 257 thousand logins every hour and 24.7 million screen touches every day.

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

2.1.4. JUBILEE OF THE ACCOUNT FOR CHILDREN – PKO JUNIOR

PKO Bank Polski S.A. was the first on the Polish market to offer accounts for children, including transactional service and mobile app PKO Junior. The offer is available since 1 July 2013 (an application since May 2016). Junior offers: PKO Konto Dziecka (PKO Child's Account) with attractive interest rates, PKO Junior card, mobile application and PKO Junior web service, attractive interest rates on Pierwsze Konto Oszczędnościowe (First Savings Account), accident insurance for children and young people, and educational materials.

To date, 730 thousand children aged 12 and below have benefited from the offer. On average, 9 non-cash transactions are made by children each month and 98.7% of all their transactions are card payments. The application has the possibility to log in with PIN and biometrics.

Parents who hold an account with PKO Bank Polski S.A. may open a child's account remotely in the IKO application and iPKO service and at any Bank's branch.

2.1.5. ISSUE OF EUROBONDS TO COVER THE MINIMUM LEVEL OF OWN FUNDS AND ELIGIBLE LIABILITIES (MREL) REQUIREMENT

On 1 February 2023, PKO Bank Polski S.A. as part of its inaugural MREL issue allowing it to cover the senior portion of the requirement (being the difference between the MREL requirements denominated on a consolidated basis and the MREL on a stand-alone basis), issued 3-year Senior Preferred Notes with a total value of EUR 750 million, with the possibility of early redemption two years after the issue. The coupon of the issue is fixed, at 5.625%, payable annually until the early redemption date, and variable thereafter, with quarterly payments. The issue is part of the Euro Medium Term Notes Programme (EMTN Programme)². The rating agency Moody's Investors Service has assigned a rating of A3 to the issued bonds. The bonds were admitted to trading on a regulated market on the Luxembourg Stock Exchange (in February 2023) and on the Warsaw Stock Exchange (in April 2023).

² EMTN Programme – PKO Bank Polski S.A.'s Eurobond issue programme established in August 2022.

2.2. SELECTED FINANCIAL DATA

In the Directors' Report on the operations of the Group, the financial data are presented on a management basis. For definitions of individual items (for items from the statement of financial position and the income statement) please refer to the chapter "Glossary"³.

The consolidated net profit of the PKO Bank Polski S.A. Group earned for the first half of 2023 amounted to PLN 2,041 million and was PLN 194 million higher than in the first half of 2022.

The increase in net profit was driven by:

- 1) the improvement in the result on business activities, which reached the level of PLN 11,339 million (increase by PLN 1,889 million y/y), mainly as a result of an increase in net interest income by PLN 1,945 million, with a decrease in the net other income by PLN 53 million and net commission and fee income by PLN 4 million,
- 2) worsening of net write-downs and impairment by PLN 2,120 million, mainly as a result of higher cost of legal risk of mortgage loans in convertible currencies, by PLN 2,265 million
- 3) operating expenses lower by PLN 437 million, including regulatory costs lower by PLN 959 million, accompanied by an increase in employee benefits by PLN 301 million and material costs by PLN 200 million.

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

	30.06.2023	30.06.2022	Change
Net profit	2,041	1,847	10.5%
Net interest income	8,579	6,634	29.3%
Net fee and commission income	2,214	2,218	-0.2%
Other net income	545	598	-8.8%
Result on business activities	11,339	9,450	20.0%
Operational expenses	-3,731	-4,168	-10.5%
Tax on certain financial institutions	-610	-626	-2.5%
Net write-downs and impairment	-4,034	-1,914	1.1x
Total assets	460,842	429,581	7.3%
Total equity	41,125	31,265	31.5%
ROE net	9.8%	11.5%	-1.7 p.p.
ROA net	0.8%	1.0%	-0.2 p.p.
C/I (cost to income ratio)	38.3%	41.9%	-3.6 p.p.
Interest margin	4.17%	3.13%	+1.04 p.p.
Share of impaired exposures	3.64%	3.84%	-0.20 p.p.
Cost of credit risk	0.53%	0.58%	-0.05 p.p.
Total capital ratio	19.83%	17.33%	+2.50 p.p.
Common equity Tier 1 (CET 1)	18.75%	16.14%	+2.61 p.p.

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

Result on business activities

- an increase in net interest income, driven by an increase in interest income related mainly to the higher level of market interest rates and an increase in the securities portfolio, with a simultaneous increase in financing costs, mainly of customer deposits (as a result of adjusting the deposit offer to the market situation, conversion of funds to term accounts and an increase in the average volume of deposits) and higher interest costs resulting from derivative hedging instruments,
- slight decrease in net commission and fee income due to lower margins on foreign exchange transactions as well as commissions from investment funds, pension funds and brokerage activity, with higher results on lending, leasing and card business,
- a decrease in net other income, mainly as a result of a decrease in result on financial transactions and insurance profit, with an increase in foreign exchange income.

³ Any differences in specific items, totals, shares and growth rates result from rounding off amounts to millions of PLN and rounding off percentages in the presented structures to one and/or two "decimal" places.

Operational expenses

- a decrease in regulatory costs by PLN 959 million, mainly as a result of inclusion in the first half of 2022 of costs related to the initial contribution to the aid fund in the company System Ochrony Banków Komercyjnych S.A. in the amount of PLN 872 million, with a lower cost of contributions to the Bank Guarantee Fund by PLN 127 million,
- an increase in employee benefits by PLN 301 million and material costs by PLN 200 million.

Net write-downs and impairment

- an increase in the cost of legal risk of mortgage loans in convertible currencies by PLN 2,265 million mainly as a result of the update of the parameters of the legal risk assessment model, considering, inter alia, the expected impact of the ruling of the Court of Justice of the European Union of 15 June 2023 in case C-520/21 on the future case law of Polish courts and a possible change of customer behaviour,
- improvement of the result on credit risk write-downs by PLN 154 million, mainly as a result of the release of write-downs on foreign currency housing loans, as a result of reducing the gross carrying value due to an increase in the adjustment for legal risk and a more favourable result on corporate off-balance sheet liabilities.

As a result of measures taken in the first half of 2023, there was an increase in the scale of the Group's operations both compared to the corresponding period of the previous year and to the end of 2022:

- total assets reached the level of nearly PLN 461 billion, which means an increase of PLN 31 billion as compared to the corresponding period of the previous year and by PLN 29 billion as compared to the level of assets at the end of 2022,
- customer deposits stood at PLN 366 billion, i.e. an increase by PLN 40 billion compared to the end of June 2022 (as a result of an increase in private banking, company and enterprise deposits, with a decrease in corporate deposits) and by PLN 27 billion compared to the end of December 2022,
- financing granted to customers amounted to nearly PLN 251 billion and increased by PLN 3 billion both compared to the end of December 2022 and compared to the end of June 2022; on an annual basis, there was an increase in financing granted to economic entities, both in the form of a loan as well as in the form of leasing and factoring, with a decrease in the value of housing loans driven by an increase in the adjustment for legal risk and introduction of the possibility of suspending the repayment of mortgage loans granted in Polish currency (statutory loan holidays),
- the banking portfolio of securities amounted to approx. PLN 149 billion, up by PLN 31 billion compared to the end of June 2022 and by PLN 28 billion compared to the end of December 2022.

The structure of the Group's balance sheet, both compared to the corresponding period of the previous year, was also driven by: the increase in fair value of the securities portfolio and a decrease in valuation of derivatives, which translated into a decrease in other assets and liabilities and an increase in equity.

3. EXTERNAL BUSINESS CONDITIONS

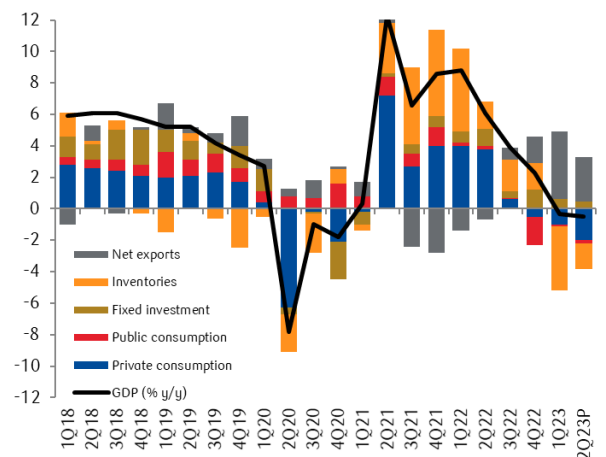
3.1. MACROECONOMIC ENVIRONMENT

THE CONSUMER'S RECESSION IMPACTS THE ECONOMY'S RESULTS

The beginning of 2023 was a period of decrease in activity in the national economy. In the first quarter, gross domestic product (GDP) was 0.3% lower than in the corresponding period of 2022, and in the second quarter this decrease was likely to deepen. The decrease in real income of the population adversely affected consumer expenditure, as a result, consumer demand remains in the already 3 quarters recession. The dynamics of GDP were also negatively affected by inventories, the abnormally high accumulation of which was one of the drivers of economic growth at the turn of 2021 and 2022.

In the first half of the year, investments proved full of positive surprises, in particular, the expenditure of enterprises on means of transport, machinery and equipment, as a result of which total investments continued to increase slightly. Net exports also had a significant positive contribution, which resulted from two factors – a drop in imports due to the weakening of consumption and a reduction in inventories growth, as well as sound export performance, which managed to sustain the growth of sales despite the unfavourable external environment and the decline in global trade. A sharp improvement in *terms-of-trade* (a rapid decrease in the dynamics of import prices with lower changes in export prices) helped quickly reduce the current account deficit, emphasizing the lack of dependence of the Polish economy on external sources of financing.

The pace and decomposition of GDP growth (% y/y) and its components (p.p.)

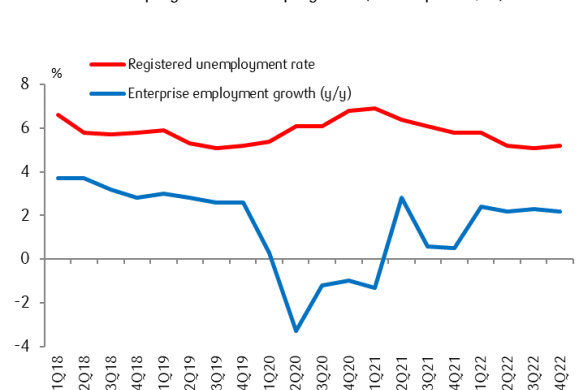


LABOUR MARKET RESISTANT TO DOWNTURN

The national labour market remains resilient to economic slowdown. Adjustment to the lower level of economic activity takes place through a decrease in the number of vacancies and reduced recruitment activity of companies, with record low unemployment rate. The unemployment rate registered in June was 5.0%, against 5.2% in December 2022, and its slight increase observed in the first quarter was purely seasonal in nature.

The number of unemployed persons in the register amounted to 785 thousands and was the lowest since July 1990. During the first half of the year salaries in the enterprise sector increased at a solid, two-digit pace, which remained below inflation rate until June. In June, after 10 months of decline, wages rose in real terms – their nominal growth was 11.9% y/y, while inflation was 11.5% y/y. Recurring real growth in wages, with a good situation on the labour market and improving consumer sentiment, is the basis for the recovery in consumer demand expected in the second half of 2023, which will be the basis for the return of the entire economy onto the growth trajectory.

Unemployment and employment (end of period, %)

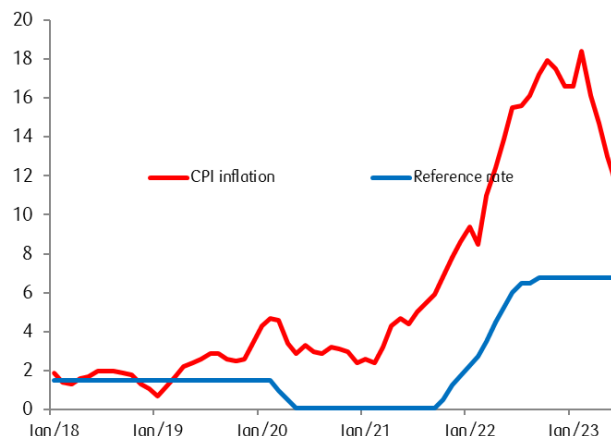


PROGRESSIVE DISINFLATION

In February 2023, the increase in consumer prices reached a maximum of 18.4% y/y after which the process of rapid disinflation started.

CPI inflation fell within 4 months by almost 7 p.p. and stood at 11.5% y/y in June. A decrease in inflation resulted from a constant normalisation of fuel and food prices as well as a slight decrease in core inflation. Non-food and energy CPI inflation was 11.1% y/y in June, while at a peak in March 2023, it amounted to 12.3% y/y. So far, disinflation tendencies are intensified in the prices of goods rather than services. PPI inflation fell in June to 0.5% y/y from 2.8% y/y in May and prices from producers in processing were 4.1% lower than in the previous year in June.

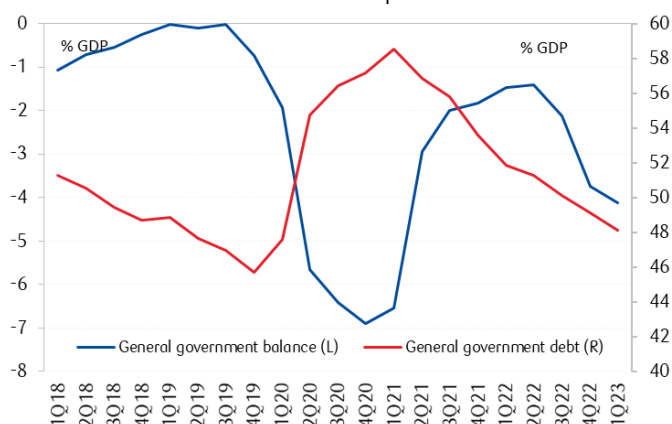
Inflation (% y/y) and reference rate (% monthly data)



SOUND PUBLIC FINANCES DESPITE CRISIS CHALLENGES

Fiscal deficit (ESA) increased after the first quarter of 2023 to 4.1% of GDP as compared to 3.7% of GDP after the fourth quarter of 2022. Public finance expenditure continued to increase, including the burden of fighting with the energy crisis, supporting Ukraine and increased defence investments. At the same time, in the first quarter 2023 there was an improvement on the revenue side. As a result of maintaining solid nominal economic growth, government debt compared to GDP remains on a downward path. In the first quarter, the debt of the general government sector decreased to 48.1% GDP from 49.1% GDP at the end of 2022.

Deficit and debt of the public sector



INTEREST RATES AT AN UNCHANGED LEVEL

In the first half of 2023, the Monetary Policy Council (MPC) maintained basic interest rates of the National Bank of Poland (NBP) on an unchanged level. During the first half of the year, the MPC has not formally ended the interest rate increase cycle under which the NBP's reference rate was increased by a total of 665 b.p. between October 2021 and September 2022. The formal end of the cycle was announced only after the MPC meeting in July 2023.

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

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

It was accompanied by increasingly strong announcements of the first rate cuts, driven by a decrease in current inflation below 10% y/y and prospects for further deceleration of prices.

SITUATION ON THE FINANCIAL MARKET

In the first half of 2023, there still was a high volatility in financial markets related to uncertainty regarding economic growth, disinflation rate, monetary policy, geopolitics, and in addition with unexpected changes in the U.S. and European banking sector. In the development of prices of financial instruments, investors' projections regarding decisions of central banks and ongoing economic situation and evolution of expectations regarding the future played a key role.

INTEREST RATE MARKET

In March 2023, a strong process of disinflation began in Poland, strengthening expectations for interest rate cuts in the second half of the year, which contributed to the decline in yields on government bonds by approx. 100 b.p. At the end of June, two-, five- and ten-year yields were 5.8%, 5.6% and 5.7%, respectively.

CURRENCY MARKET

PLN has significantly strengthened against major currencies, as the exchange rate with EUR dropped to 4.43, and exchange rate with USD dropped to 4.06. The Polish currency was supported by the improvement of current account balances. On the international market, the US dollar weakened, the index of this currency fell by 0.6%.

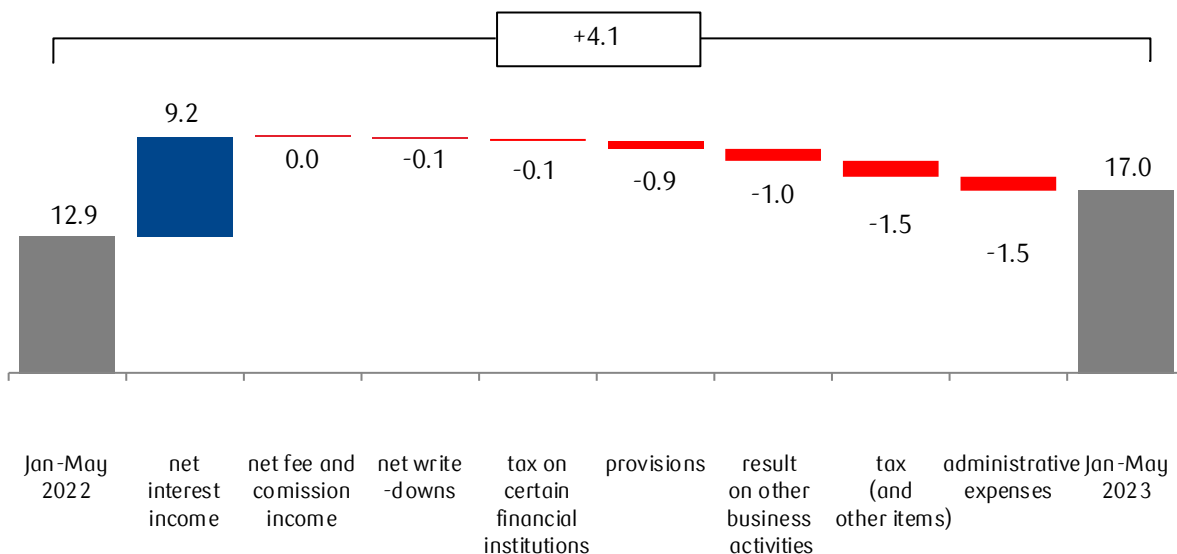
STOCK MARKET

The first half of 2023 proved profitable for the shareholders – WIG index increased by 17%, due to solid, compared to earlier fears, economic data and the belief that the MPC will start a cycle of interest rate cuts in the second half of the year. Exchanges in the world have also produced double-digit returns. Owners of US technology companies had the most reasons to be satisfied, as they strongly increased, riding the wave of expectations for future profits from business applications of artificial intelligence.

3.2. POSITION OF THE POLISH BANKING AND NON-BANKING SECTOR⁴

NET PROFIT AND RETURNS

Change in the net profit of the banking sector (PLN billions)



Between January and May 2023, the banking sector recorded net profit of PLN 17 billion, compared with the profit of PLN 12.9 billion in the corresponding period of 2022. The rolling return on equity (12M ROE) was 7.8%.

The increase in net profit resulted from the increase in net interest income, which was a direct result of the cycle of NBP interest rate increases, which took place from October 2021 to September 2022. Slowdown in economic growth and deterioration of sentiments translated into a reduction in the number of transactions and demand for loans, as a result of which the commission income decreased slightly.

Rising prices, in particular energy, as well as increase in wages, translated into higher operating expenses. At the same time, regulatory burdens decreased at the beginning of the year, which was related to the suspension of contributions to the deposit guarantee fund (due to last year's establishment of the System Ochrony Banków Komercyjnych S.A.).

⁴ Analysis based on available data as of the reporting date. Descriptions based on the latest available data of the PFSA (banking sector, insurance), Online Analysis (investment funds), the Polish Leasing Association and the Polish Factors Association.

The capital situation of the banks was good, and at the beginning of the year it improved as a result of growing profitability and higher valuation of debt instruments in the balance sheet. As of the end of March 2023, the total capital ratio amounted to 20.2%.

LOAN AND DEPOSIT MARKET

As of the end of June 2023, the total volume of loans (without changes in exchange rates) was stable y/y (vs. 1.7% at the end of 2022 and 5.7% as of the end of June last year). In the case of deposits, annual growth accelerated to 8.1%, compared to 6.2% at the end of 2022, while remaining affected by the inflow of funds from households and enterprises. The deposits of government institutions and local governments decreased.

Housing loans in PLN declined by 2.9% y/y in June (vs. a 1.6% y/y fall at the end of 2022 and increase by 8.6% y/y in June last year). However, a reversal of the downward trend could be noticed in the analysed period (in June for the first time in 15 months the volume of these loans increased m/m), where the constant higher sales of this type of loans. The growth rate of consumer loans (excluding exchange rate changes) continued to be negative (-0.7% y/y in June vs. -3.3% y/y at the end of 2022), but the first signs of recovery have also appeared in this market. Loans to enterprises continued to rise (2.7% y/y in June, compared to 9.0% y/y in December 2022), however there is a reduction in demand for current financing related to inventory cycle reversal.

The growth rate of deposits of private individuals accelerated to 13.3% y/y in June (vs. 4.1% at the end of 2022), with a marked change in their structure (current deposits fell 4.4% y/y in June, while term deposits grew 65.8% y/y). As of the end of June 2023, the assets of private individuals (FI) were 15.1% y/y higher than in June 2022, which was affected by the improvement of the stock market situation and a decrease in bond yields and the related increase in their valuation. FI also recorded a positive balance of deposits. Cash in circulation decreased in June by 2.7% y/y (+3.9% y/y at the end of 2022).

Liquidity of the banking sector remained high – the ratio of loans/deposits decreased to 72.6% at the end of June, as compared to 76.2% at the end of 2022.

INVESTMENT FUNDS MARKET

In the first half of 2023, assets under management of Investment Fund Companies (TFI) increased to PLN 291.5 billion (+8.2%), including the growth of assets of individuals to PLN 168 billion (+14.6%). As of the end of June, the value of funds accumulated in funds of defined Employee Capital Plans (PPK) amounted to PLN 14.5 billion (+40%).

In the first half of 2023, the market recorded a balance of deposits and write-downs in the amount of PLN 8.6 billion as compared to PLN -20 billion in the corresponding period of 2022. The balance was largely driven by a noticeable increase in the demand of individuals for Polish debt funds units in the second quarter of 2023. In the first half of 2023 natural persons paid net PLN 8.8 billion to the market, including PLN 7.2 billion in Poland's debt funds, and PLN 2.5 billion into the defined PPK date. Equity funds recorded a small net outflow of natural persons' funds in the analysed period, in the amount of PLN -0.2 billion.

LEASE MARKET

In the first half of 2023, the leasing market financed assets with the total value of PLN 47.8 billion, which means an increase of 14.9% compared to the corresponding period of 2022. The largest share of the assets financed in this period was light vehicles (mainly passenger cars) with 46.9%, machinery and equipment (25.2%) and heavy vehicles (23.3%). As of the end of June, 72.1% of the customers of leasing companies were micro and small companies with a turnover below PLN 20 million (an increase by 1.4 p.p. in comparison to the corresponding period last year). The share of individual customers was 0.7%. Total value of active lease portfolio at the end of the first half of 2023 was 13.7% higher y/y and amounted to PLN 196.3 billion.

FACTORING MARKET

In the first half of 2023, the total turnover of the companies associated with the Polish Factoring Union amounted to PLN 225.7 billion and were 1.2% higher than in the corresponding period of 2022. Number of business entities using factoring services increased by 9.4% y/y to 24.2 thousand. The number of debtors decreased by 11.3% y/y. The number of invoices in trading was 17.7% higher compared to the first half of 2022, while the average value of the invoice decreased by 7.5% y/y.

The largest demand on the part of enterprises was for factoring without recourse, whose share in sales of factoring firms was approx. 51%. The share of domestic factoring in the market was 83.7%.

OPEN PENSION FUNDS MARKET

In the first half of 2023, net assets of Open Pension Funds (OFE) increased by 14.7% (+PLN 23.9 billion) up to PLN 179.3 billion. During this period the number of OFE participants recorded a slight decrease by 1.4% (-203.1 thousand up to 14.7 million). The structure of net assets of OFE includes shares of companies listed on the domestic market (approx. 82%) – hence the increase in net assets was driven by the improved economic situation on the Warsaw Stock Exchange. In the first half of 2023, the WIG index increased by 17% and WIG20 increased by 15%. Indices of medium and smaller entities, i.e. WIG40 and WIG80 increased by 16.8% and 24%, respectively.

INSURANCE MARKET

In the first quarter of 2023, total insurance companies generated a net profit of PLN 2.2 billion (+192% y/y) with a decrease in technical result from insurance by 45% y/y (to PLN 1.6 billion). The financial performance of insurance companies was influenced by an increase in gross premium written by 10.9% y/y (to PLN 20.1 billion), with a decrease in the costs of compensations and benefits paid (-3.4% y/y to PLN 10.6 billion). Insurance activity costs were 11.7% y/y higher (PLN 4.6 billion).

In the life insurance segment, gross premium written was 5.4% y/y higher (PLN 5.5 billion) with a 17.4% decrease in compensation and benefits costs (to PLN 4.4 billion). Costs of insurance activities in the life insurance segment increased by 7.8% y/y (to PLN 1.5 billion).

The other non-life insurance segment posted a y/y increase in gross premiums written of 13.1% (to PLN 14.6 billion), with an increase in the cost of claims paid of 9.5% y/y (up to PLN 6.2 billion). Costs of insurance activities in the other personal and property insurance segment increased by 13.6% (to PLN 3.1 billion).

3.3. REGULATORY AND LEGAL ENVIRONMENT

The financial position and operations of the PKO Bank Polski S.A. Group were affected by new legal and regulatory solutions and supervisory recommendations that came into force in the first half of 2023, including in particular:

RELATED TO LOANS

Ruling of the CJEU of 15 June 2023 in which 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. This ruling affects the form of settlements with CHF borrowers who received a ruling stating the invalidity of the agreement and the scope of restitution claims initiated by the Bank.

The Act of 26 May 2023 on state aid in saving for residential purposes and amending the Act of 1 October 2021 on family housing loans (present name of the act: a family housing loan and a safe 2% loan), under which on 3 July 2023 the Bank introduced a product Safe 2% Loan. Safe 2% Loan is provided under the government's First Home Programme. Its purpose is to help in the acquisition of the first apartment for people aged up to 45. The main assumption is a contribution from the Government Housing Fund to loan instalments during the first 10 years of loan repayment.

Standing of the Office of the Polish Financial Supervision Authority (PFSA Office) of 7 February 2023 on creditworthiness assessment when granting loans bearing variable and periodically fixed rates which softened the current rules of calculation of creditworthiness in housing loans, reducing the interest rate buffer to calculate creditworthiness in the case of loans with a periodically fixed rate from 4% to 2.5%.

Amendment to Recommendation S of the PFSA with regard to the calculation of creditworthiness of 19 June 2023, introducing countercyclical system for calculating the interest rate buffer. It led to a reduction in the buffer for loans with variable interest rates under the current macroeconomic conditions, as well as the reduction of the buffer for loans with a periodical fixed interest rate and the period of determination of this rate for more than 5 years. Higher creditworthiness of customers supports the sale of mortgage loans.

The Act of 6 October 2022 amending the acts to counteract predatory lending, obliging, inter alia, lending institutions to examine creditworthiness and make provision of financing subject to a positive assessment in this respect. Therefore, since 18 May 2023, these companies were obliged to submit and update information on the

loan granted to the Credit Information Bureau. The new regulations contribute to less diversification of the bank's and non-banking entities' activities on the debt product market for retail customers.

CONCERNING INSURANCE

International Financial Reporting Standard 17 Insurance Contracts (IFRS 17) published by the International Accounting Standards Board in May 2017 and amended in June 2020 and on 9 December 2021⁵. IFRS 17 was endorsed for use in European Union countries on 19 November 2021 by Regulation 2021/2036 of the European Union.

The aim of the new standard is 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. This standard is mandatory as of 1 January 2023.

IFRS 17 changed the recognition, measurement, presentation and disclosure of insurance contracts distributed by Group companies, both as products linked to, among others, mortgage loans, cash loans and leasing products, and as stand-alone products. The implementation of IFRS 17 as of 1 January 2022 resulted in an increase in the Group's assets by PLN 581 million, liabilities by PLN 295 million and equity by PLN 286 million. A detailed description of the impact of the implementation of IFRS 17 is described in note 8 "IFRS 17 Insurance Contracts" of the financial statements of the Bank's Group for the first half of 2023.

WITH RESPECT TO RISK MANAGEMENT

Rulings of the Court of Justice of the European Union in Cases C-520/21 and C-287/22 increasing costs related to ongoing and possible lost proceedings in cases concerning foreign currency mortgage loans, which requires the creation of provisions for legal risk.

RELATING TO TERM AND OTHER DEPOSITS

The Act of 1 December 2022 on the Financial Information System (SInF) defines the principles of functioning of SInF, information collected in SInF, among others on open and closed accounts with banks, entities authorised to obtain information collected in this system. SInF is used, among others, in counteracting money laundering and terrorist financing. It is implemented using the ICT system. The competent authority in SInF cases is the Head of the National Revenue Administration.

WITH RESPECT TO TAXES

Act of 16 November 2022 amending the Act on tax on selected financial institutions and certain other acts, which introduces, for selected taxpayers of a tax on certain financial institutions, including domestic banks, the right to reduce, as of 1 January 2023, the tax base by the value of assets in the form of securities covered by the statutory guarantee of the State Treasury and by the value of assets resulting from repo/reverse repo transactions specified in the regulations. The Bank uses the regulation, reducing the tax base for tax on certain financial institutions, among others by the value of assets (i) in the form of securities lawfully covered by the State Treasury guarantee and (ii) resulting from reverse repo transactions.

Regulation of the Minister of Finance of 28 December 2022 on the exclusion of the obligation to collect flat-rate CIT and PIT, which in 2023 excludes the application of the mandatory collection of flat-rate income tax by entities keeping securities accounts or collective accounts (the so-called technical payers) in the case of making payments by them in excess of PLN 2 million to non-residents on amounts due from securities recorded on those accounts. The effect of the regulation is the possibility for the Bank to apply, as an entity keeping securities accounts, preferential, i.e. resulting from double taxation agreements, the principles of taxation of receivables paid to non-residents, regardless of their amount.

⁵ The amendment to the transition requirements in IFRS 17 allows enterprises to overcome one-time classification differences of comparative information of the previous reporting period upon initial application of IFRS 17 and IFRS 9 Financial Instruments.

3.4. FACTORS THAT WILL AFFECT THE FINANCIAL PERFORMANCE OF THE GROUP IN THE SECOND HALF OF THE YEAR

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

IN THE GLOBAL ECONOMY:

- the war in Ukraine and its economic consequences,
- the response of the global economy and financial system to the significant monetary tightening already implemented, including the condition of the global banking sector and the ability of countries and businesses to refinance their debt,
- a slowdown in global economic growth, in particular a possible stagnation and/or even recession in Germany,
- the impact of China's economic slowdown on the dynamics of global economic processes,
- the possibility of access to investors from the European market due to debt issuance in the context of the regulatory requirements for minimum own funds and eligible liabilities (if necessary),
- changes in global supply chains, related to reshoring, i.e. moving production closer to markets (nearshoring) and moving production to countries within broad alliance blocs (friendshoring),
- changes in climate policy, including the accelerating energy transition and the increasing stringency and importance of environmental requirements.

IN THE POLISH ECONOMY:

- the path of further changes in NBP interest rates and the level and interest rate of the reserve requirement,
- the intensity and persistence of external factors driving inflation and regulatory measures aimed at limiting the magnitude of price growth,
- economic slowdown resulting from a decline in global demand, high inflation and the tightening of monetary policy,
- the situation in the financial markets, which may reflect an increase in geopolitical risk due to a possible escalation of the armed conflict in Ukraine,
- migration flows, including their impact on labour supply and aggregate demand in the economy,
- the burden on the public finance sector due to the cost of protective measures in the face of the energy crisis and expenditure on defence and energy transformation, with uncertainty over the inflow of funds from the European Union under the National Recovery Programme,
- the shape of economic policy in the context of the 2023 parliamentary elections,
- the response of the household sector to the increased level of NBP interest rates, including, among other things, the evolution of consumer demand, demand for loans and the ability to service already contracted liabilities,
- the impact of the government's Safe 2% Loan programme on the demand (and supply) in the housing loans market,
- the risk of incurring an additional fiscal burden if additional provisions are introduced to cover extraordinary profits that could be imposed on enterprises, including banks,
- entry into force of the European Banking Authority Regulatory Technical Standard (EBA) 2022/09 and 2022/10 and their impact on capital requirements and interest rate risk management in banks,
- applicable and planned regulations resulting in the need to raise additional equity or long-term financing by banks, including:
 - ✓ MREL requirement,
 - ✓ long-term financing ratio,
- the risk of the CJEU ruling, as a result of questions referred for a preliminary ruling addressed to the Court, that it is not possible to charge interest on the so-called consumer credit costs which are not "hand-delivered" to the borrower,
- the risk that the Office for Competition and Consumer Protection (OCCP) will initiate proceedings against the Bank for violating the collective interests of consumers, including, among others, in the handling of complaints

- of the so-called “unauthorised transactions”, as well as the risk of imposing a penalty by the President of the OCCP in pending proceedings concerning modification clauses in the contractual templates used by the Bank,
- further court decisions on the issue of foreign-currency housing loans and PLN loans based on WIBOR rates,
 - the risk of extending the statutory loan holidays to 2024.
-

3.5. INTEREST RATE BENCHMARKS REFORM IN POLAND

The results of PKO Bank Polski S.A. Group will also be affected by the interest rate benchmark reform in Poland. The work is being carried out by the National Working Group on Benchmark Reform (NWG), appointed by the PFSA Office.

On 13 February 2023, the PFSA Office announced that WIRON had become an interest rate benchmark. Banks may 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 NWG endorsed the following recommendations:

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

The NGR is working intensively on a recommendation on the principles and methods for replacing the WIBOR/WIBID benchmarks with the WIRON benchmark.

Since the third quarter of 2020, the PKO Bank Polski S.A. Group, starting with the reform of LIBOR benchmarks, has been running an inter-disciplinary project supervised by members of the Management Board of the Bank with the participation of subsidiaries' representatives from PKO Bank Hipoteczny, PKO Leasing S.A. and PKO Faktoring S.A. related to the adjustment of the Bank and its subsidiaries to changes introduced as part of the benchmark reform.

Detailed information on the interest rate benchmark reform is provided in the Financial statements of the Bank's Group for the first half of 2023 – note 49 “Interest rate benchmark reform”.

4. ORGANISATION OF THE GROUP

4.1. COMPOSITION OF THE SUPERVISORY BOARD AND MANAGEMENT BOARD OF THE BANK

CHANGES IN THE COMPOSITION OF THE BANK'S SUPERVISORY BOARD

In the first half of 2023:

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

The composition of the Bank's Supervisory Board as of 30 June 2023 was as follows:

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

In accordance with the Policy on the Assessment of Suitability of Candidates for Members and Members of the Supervisory Board of Powszechna Kasa Oszczędności Bank Polski S.A., on 21 June 2023, the Bank's Annual General Meeting conducted a periodic assessment of the suitability of the Bank's Supervisory Board, confirming the individual suitability of the Supervisory Board members and the collective suitability of the entire body.

CHANGES IN THE COMPOSITION OF THE BANK'S MANAGEMENT BOARD

- Mr Andrzej Kopyrski joined the Bank's Management Board on 1 January 2023, pursuant to a decision of the Bank's Supervisory Board of 15 December 2022,
- Mr Paweł Gruza resigned, effective at the end of 12 April 2023, from managing the work of the Bank's Management Board and from applying for the position of President of the Bank's Management Board; the resignation submitted did not mean Mr Paweł Gruza's resignation from participation in the composition of the Management Board of the Bank or from the function of the Vice-President of the Management Board of the Bank,
- Mr Mieczysław Król resigned as a member of the Bank's Management Board with effect from 13 April 2023.

In the first half of 2023, the Bank's Supervisory Board:

- dismissed Mr Maks Kraczkowski from the Bank's Management Board with effect from 13 April 2023,
- appointed Mr Dariusz Szwed as Vice-President of the Bank's Management Board, effective 14 April 2023, for the current joint term of office of the Bank's Management Board, which commenced on 3 July 2020, and at the same time appointed Mr Dariusz Szwed as President of the Bank's Management Board, subject to the approval of the Polish Financial Supervision Authority and as of the date of such approval,
- approved the changes to the internal division of responsibilities within the Management Board of the Bank:
 - ✓ related to changes in the composition of the Management Board, which entered into force on 14 April 2023,
 - ✓ not related to the change in the composition of the Management Board, which entered into force on 1 July 2023.

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

- the individual suitability of the new member of the Bank's Management Board, Mr Dariusz Szwed, and of the members of the Bank's Management Board affected by the above change in responsibilities, including: Mr Maciej Brzozowski (in April and additionally in June 2023), Mr Marcin Eckert, Mr Paweł Gruza, and Mr Andrzej Kopyrski, and
- collective suitability of the entire Management Board of the Bank.

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

Additionally, in connection with the Vice-President Marcin Eckert taking up a function in the Supervisory Board of Bank Pocztowy, the Appointments and Remuneration Committee of the Bank's Supervisory Board carried out an assessment of the impact of the above circumstances on the individual assessment of suitability of the Vice-President, as a result of which the continued suitability of the Vice-President to perform the function in the Bank's Management Board was confirmed. The suitability assessment was approved by the Bank's Supervisory Board.

Composition of the Bank's Management Board and division of responsibilities as of 30 June 2023:

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

Subsequent events:

Due to the change in the division of responsibilities of the Bank's Management Board made in the reporting period but effective as of 1 July 2023, the composition of the Management Board together with the division of responsibilities as of 1 July 2023 is presented below.

The composition of the Bank's Management Board and division of responsibilities as of 1 July 2023 were as follows:

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

4.2. ENTITIES COVERED BY THE FINANCIAL STATEMENTS

Pursuant to the International Financial Reporting Standards (IFRS), as of 30 June 2023 the Bank's Group comprised PKO Bank Polski S.A. as the parent and 36 direct and/or indirect subsidiaries (at all levels).

List of direct subsidiaries:



1 – PKO Bank Polski S.A. holds investment certificates of the Fund.

The list presents the share of PKO Bank Polski S.A. in the company's share capital, and in the case of funds – share of the fund's investment certificates held.

All subsidiaries in the condensed interim consolidated financial statements of PKO Bank Polski S.A. Group for the six-month period ended 30 June 2023 are fully recognised. A full list of the Bank's subsidiaries, associates and joint ventures is presented in the Financial statements of the Bank's Group for the first half of 2023 in note 1 "Activities of the Group".

There were no significant changes in the structure of the Bank's Group in the first half of 2023. In January 2023 the following companies were registered as being in liquidation in the National Court Register:

- Molina spółka z ograniczoną odpowiedzialnością 2 S.K.A. w likwidacji (in liquidation),
- Molina spółka z ograniczoną odpowiedzialnością 4 S.K.A. w likwidacji (in liquidation).

“KREDOLEASING” sp. z o.o. started its leasing activity. The company launched operations to a limited extent due to the war in Ukraine.

5. THE PKO BANK POLSKI S.A. GROUP DEVELOPMENT PATHS

PKO BANK POLSKI S.A.'S STRATEGY FOR 2023-2025

On 8 December 2022, the Bank's Management Board adopted a new development strategy for PKO Bank Polski S.A. for 2023-2025 “Ready for the challenges, focused on the future”, that was authorised by the Supervisory Board of the Bank.

The strategy for 2023-2025 provides for the achievement of ambitious business goals:

- improving customer satisfaction and reaching the TOP3 in 2025 in terms of the NPS (Net Promoter Score) index, which is used to measure customer loyalty and satisfaction - for each customer group,
- improving employee satisfaction as measured by an increase in the eNPS (Employee Net Promoter Score), i.e. the index used to measure employee satisfaction and engagement, by a minimum of 20 points in 2025 compared to 2022,
- the largest volume of new ESG financing in Poland in 2025,
- a minimum of 30% female Material Risk Takers in 2025,
- the rate of process digitisation for the individual customer close to 100% in 2025,
- an increase in the base of primary customers (i.e. customers characterised by three types of activity: logging in to remote channels, transactions and cyclical account replenishment) under the age of 35 by 25% by 2025 (vs. historical performance),
- 20% growth in revenue of non-banking the Bank's Group companies over the three years covered by the strategy.

In addition to the business objectives, financial objectives were also set for the Bank's Group:

- ROE: target of over 12% in 2025, assuming an increase in the Bank's Group's equity by approx. 60% over the strategy horizon and the NBP reference rate in 2025 at the level of 3.0%,
- the C/I ratio of less than 45% in 2025,
- cost of risk in 2025 in the range of 0.70%-0.90%,
- the Bank's capability to pay dividends / buy back shares.

DIRECTIONS OF THE NEW STRATEGY

The strategy is based on PKO Bank Polski S.A.'s main competitive advantages: scale of operations, digital and technological competence, as well as security and stability. It will be implemented through measures in 7 strategic pillars.

- **PILLAR 1 – CUSTOMER AT THE CENTRE – A SIMPLE, FRIENDLY AND ACCESSIBLE BANK** – means an organisation focused on customers and increasing NPS – by the end of 2025, PKO Bank Polski intends to become one of the top three institutions with the highest NPS among Polish banks for each customer group. The Bank wants to achieve this by simplifying the offer, hyper-personalisation and better adapting the banking method to customer preferences, so that in 2025 all services will be available in remote channels, and a visit to a branch will be the customer's choice.
- **PILLAR 2 – LIFESTYLE BANKING: BANK OF THE FUTURE FOCUSED ON MODERN ACQUISITION OF CLIENTS** – Bank will develop an ecosystem of non-banking services and expand the VAS offer available in the application. The created ecosystem will also be available to people who do not have an account with PKO Bank Polski S.A. This is to translate into strengthening the Bank's image as an innovation bank, focused on the future and ultimately on the growth of the young customer base.
- **PILLAR 3 – THE BEST VALUE PROPOSITION FOR BUSINESS CUSTOMERS THANKS TO THE SIZE OF THE BANK'S GROUP** – the Bank focuses on creating value for corporate customers by increasing the use of synergies in the PKO Bank Polski S.A. Group and creating the best product multi-platform on the Polish market. The Bank wants to be the first choice partner for companies that are looking for support in the field of energy transformation, international expansion and for exporters. It also intends to build a new value proposition for business and enterprises, thanks to a simple digital offer and a lightweight service model. Within the horizon of the new strategy, the Bank

wants to use its expertise and presence in the Ukrainian market to support the reconstruction of Ukraine in cooperation with international institutions and private entities.

- **PILLAR 4 – LEADER OF THE ESG TRANSITION IN THE POLISH BANKING SECTOR** – the new strategy is also a much stronger emphasis of the Bank on the implementation of ESG goals – both in aspects related to sustainable financing and reduction of own emissions, the social aspect and internal organisational governance. The Bank intends to implement unique solutions in the field of financing the energy transformation to support the competitiveness of Polish companies in the face of high energy prices, business and regulatory requirements. The Bank will continue to engage in pro-social activities and support diversity and equal treatment of employees, regardless of their age, gender and origin.
- **PILLAR 5 – AGILE TECHNOLOGIES AND FUTURE-READY OPERATIONS** – the strategy assumes IT development focused around 4 key areas: Data management to use the full scale potential of data owned by the Bank and build the most advanced analytics on the market, cyber security, increasing the scale of Agile methodologies, DevSecOps and selective cloud migration. In the area of operations, the Bank intends to continue automating repetitive processes, and the key optimisation levers will be: operations integrated into direct service provision, hyper-automation and centralisation of operational activities in the Bank's Group.
- **PILLAR 6 – CULTURE OF INNOVATION AND AGILITY** – PKO Bank of Talents – The Bank puts strong emphasis on the employee aspect, which is the key to implementation of an ambitious strategy. By 2025, the Bank intends to increase the eNPS of employees by 20 points by creating an environment of continuous development, transformation of organisational culture and further development of agile working methods.
- **PILLAR 7 – USING THE BANK'S STRONG POSITION FOR INORGANIC GROWTH** – the Bank's strong capital position makes it possible for the Bank to see inorganic growth within the horizon of the new strategy. The Bank will look at the opportunities offered by the market in the context of potential acquisition targets in the banking sector and among companies from outside the sector with high potential for synergy with the banking business.

IMPLEMENTATION OF THE STRATEGY

CUSTOMER SATISFACTION

The Bank focused its activities on operationalising its strategic commitments. In terms of improving customer satisfaction:

- particular emphasis was placed on identifying the most important areas for improvement in customer service paths, and strengthening pro-customer attitudes and culture in the organisation. Improved satisfaction in customer processes concerned a number of improvements, including the creation of personalised tables of fees and commissions improving price transparency, increasing the number of customer assistants and modernisation of branches, as well as implementation of processes of digitalisation of customer service,
- including, among others, NPS ratios targets for management bonus goals and carried out initiatives for the development of competences among the Bank's employees,
- a project aimed at simplifying communication language within the organisation as well as with customers and stakeholders has been started.

EMPLOYEE SATISFACTION

The Bank's strategic objectives are primarily based on the involvement of its employees, maintaining and acquiring talents and creating a friendly environment for development. Activities in this respect were performed through:

- programmes strengthening competences related to the change of organisational culture to a more agile, innovative, customer-centric,
- implementation of the experience study process (eNPS) and work with the results of these research,
- extension of the benefit offer by the elements expected by employees and continued digitalisation of employee processes. The Bank supported the well-being of employees through numerous initiatives and forms of communication in the field of nutrition, movement, mental health, stress or sleep,
- organising the first virtual work fair on the market in the Metaverse.

SUSTAINABLE DEVELOPMENT

The Bank, together with companies from the Bank's Group within the environmental (E) area, supports Poland's energy transformation by complementing a green product offer and co-financing sustainable projects. In the first half of 2023, the Bank:

- expanded the offer for companies by adding a green loan and implemented guarantee schemes for the housing market related to thermal renovation bonuses and green payment cards,
- granted syndicated financing to Enea Group, in accordance with the strategic objective of increasing the sustainable financing. The total amount is PLN 2.5 billion, with PKO Bank Polski's share being the largest and amounting to PLN 750 million. The term loan will be used, inter alia, to finance renewable energy sources and includes the ESG component – i.e. the commitment to maintain specific levels of two ESG ratios during the whole lending period,
- in the area of social responsibility (S), the Bank organised the “Sztuka Pomagania (The Art of Helping)” auction, which is the culmination of the “Bank Dobrych Serc (Good-Hearted Bank)” campaign. In the Christmas campaign under this password, the Bank encouraged to provide a donation to 48 Centres for Single Mothers throughout Poland. 11 images of the outstanding Polish painters from the Bank's collection were listed at the auction. The total amount of nearly PLN 350 thousand was obtained from it,
- in the area of corporate governance (G), the Bank continued works on the implementation of the operating model of the organisational structure and the creation of the central team responsible for coordination of knowledge exchange and promotion of ESG.

INCREASING THE BASE OF YOUNG CUSTOMERS

In the first half of 2023, the Bank, as regards the growth of the young customers' base:

- continued development of the offer for the youngest customers by implementing the new process of selling accounts of PKO Konto Pierwsze (PKO First Account) in iPKO/IKO, offerings for families implementing 500+ Rodzina – Rodzinny Pakiet Oszczędnościowy (500+ Family – Family Savings Package) account and Pierwsze Konto Oszczędnościowe (First Savings Account) with an interest rate of 8%. PKO Bank Polski was ranked second in the “Account for Children” category in the “Golden Banker 2023” ranking,
- conducted campaigns promoting its image as a bank that is “proven in action”, a campaign promoting remote services in the IKO application and the acquisition campaign for Konto Dziecka (Child's Account).

DIGITALISATION OF PROCESSES

In the area of digitalisation of processes in the first half of 2023, the Bank:

- developed the service platform VAS⁶. Granted the PKO Płacę później (PKO Pay Later) limit, reaching 86 thousand products at the end of June. Currently, 4 services are available via VAS HUB: Telemedycyna (Telemedicine), Telemedycyna+ (Telemedicine+), Bezpieczny ekran (Safe Screen), Bezpiecznie w Internecie (Safe in the Internet) – both in iPKO and IKO, and further implementations will continue in the coming quarters,
- developed digital channels from a technological and product perspective. The Bank's achievements in this respect were recognised in domestic and international competitions,
- continued implementations in the scope of multi-product platform for corporate customer by providing new modules and functions in iPKO biznes as well as further digitalisation of external and internal processes.

NON-BANKING INCOME OF THE BANK'S GROUP COMPANIES

As part of the development of the ecosystem of non-bank services, the Bank expands the offer based on cooperation with external companies as well as on the basis of group companies. In the first half of 2023, the Bank:

- continued works related to the integration of processes and service systems with PKO TFI,
- started the process of development of employee and customer satisfaction measurement system (eNPS/NPS) in the companies of the group in accordance with the standards applicable at the Bank.

Achievements of the Group in the first half of 2023 were presented in the chapter “Development of business – significant achievements”.

⁶ VAS – value added services

6. FINANCIAL STANDING OF THE BANK'S GROUP

6.1. KEY FINANCIAL INDICATORS OF THE GROUP

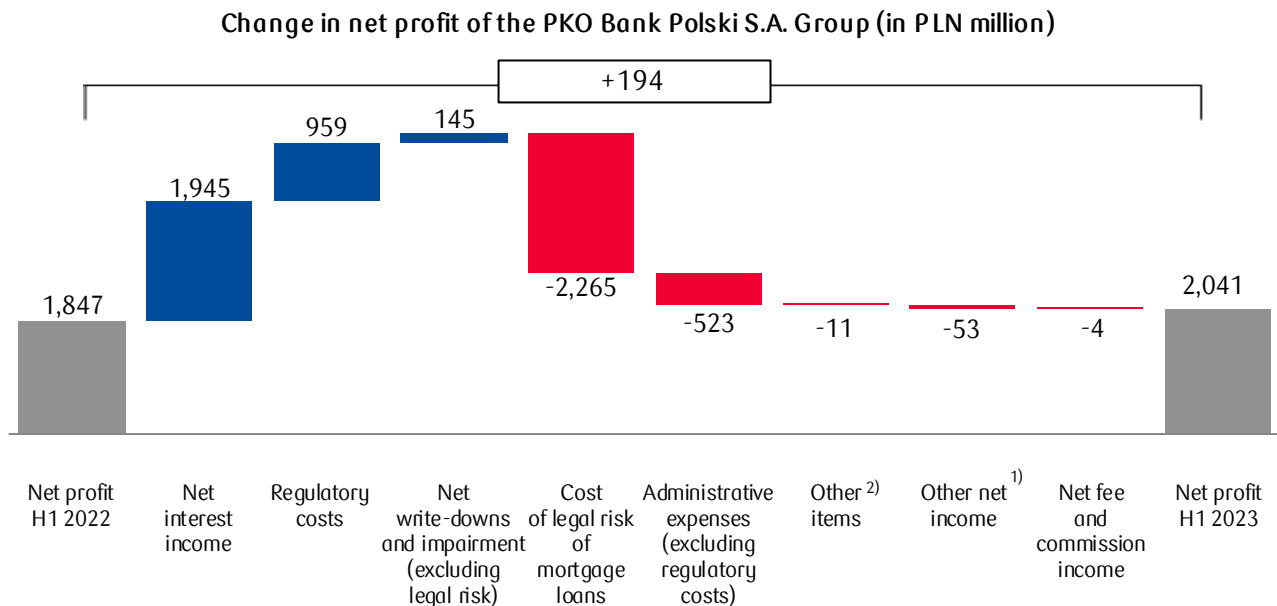
As a result of the PKO Bank Polski S.A. Group's performance in the first half of 2023, the main financial performance indicators reached the following levels:

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

	30.06.2023	30.06.2022	Change
ROE net (net profit/average total equity)	9.8%	11.5%	-1.7 p.p.
ROA net (net profit/average total assets)	0.8%	1.0%	-0.2 p.p.
C/I (cost to income ratio)	38.3%	41.9%	-3.6 p.p.
Interest margin (net interest income/average interest-bearing assets)	4.17%	3.13%	+1.04 p.p.
Share of impaired exposures	3.64%	3.84%	-0.20 p.p.
Cost of credit risk	0.53%	0.58%	-0.05 p.p.
Total capital ratio (own funds/total capital requirement*12.5)	19.83%	17.33%	+2.50 p.p.
Common equity Tier 1 (CET 1)	18.75%	16.14%	+2.61 p.p.

6.2. FINANCIAL PERFORMANCE OF THE GROUP

The consolidated net profit of PKO Bank Polski S.A. Group generated in the first half of 2023 amounted to PLN 2,041 million and was PLN 194 million (+10.5%) higher than in the corresponding period of 2022, which was driven by an increase in the result on business activity and lower regulatory costs with an increase in the cost of legal risk of mortgage loans in convertible currencies.



1) Net other income reflects dividend income, result on insurance, result on financial transactions, net foreign exchange gains/(losses) and other net operating income and expense.

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

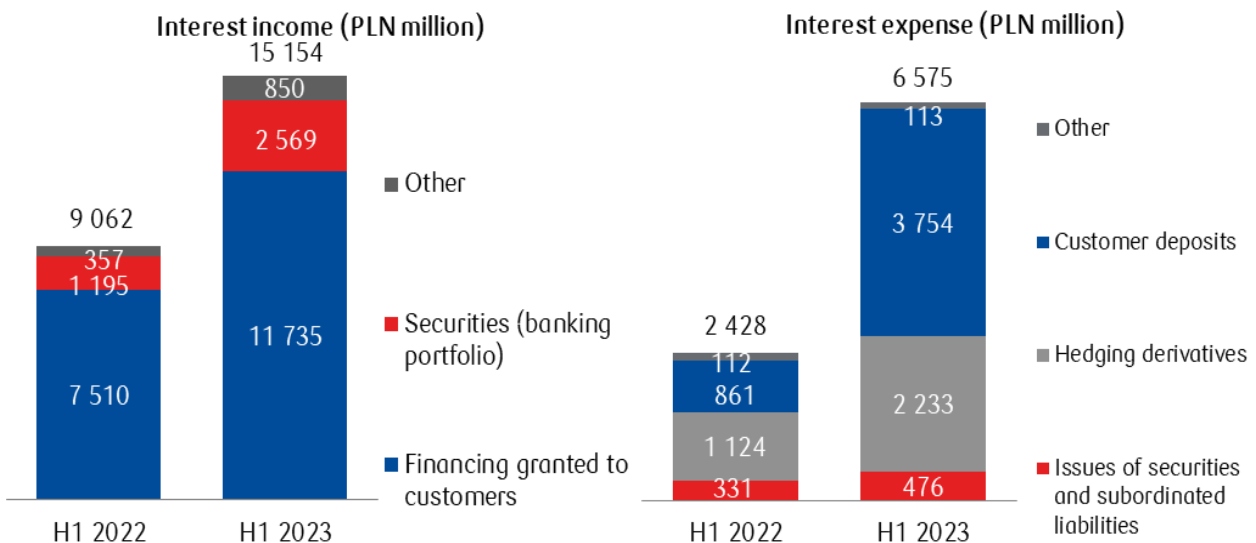
The result on business activities in the first half of 2023 amounted to PLN 11,339 million and was PLN 1,889 million, i.e. 20.0% higher than in the first half of 2022, mainly as a result of an increase in net interest income.

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

	01.01- 30.06.2023	01.01- 30.06.2022	Change (in PLN million)	Change (%)
Net interest income	8,579	6,634	1,945	29.3%
Net fee and commission income	2,214	2,218	-4	-0.2%
Other net income	545	598	-53	-8.9%
Net insurance income	353	394	-41	-10.3%
Dividend income	12	11	1	11.4%
Gains/(losses) on financial transactions	83	157	-74	-47.4%
Foreign exchange gains/ (losses)	12	-66	78	1.2x
Net other operating income and expense	85	102	-17	-16.5%
Result on business activities	11,339	9,450	1,889	20.0%
Administrative expenses	-3,731	-4,168	437	-10.5%
Tax on certain financial institutions	-610	-626	16	-2.5%
Net operating result	6,998	4,656	2,342	50.3%
Net write-downs and impairment	-4,034	-1,914	-2,120	1.1x
Share in profits and losses of associates and joint ventures	36	28	8	28.9%
Profit before tax	2,999	2,770	229	8.3%
Income tax expense	-957	-924	-33	3.6%
Net profit (including non-controlling shareholders)	2,042	1,846	196	10.6%
Profit (loss) attributable to non-controlling shareholders	1	-1	2	2.1x
Net profit	2,041	1,847	194	10.5%

NET INTEREST INCOME

The net interest income in the first half of 2023 amounted to PLN 8,579 million, i.e. by PLN 1,945 million more than in the corresponding period of the previous year. The higher result was driven mainly by an increase in market interest rates, supported by an increase in volumes.

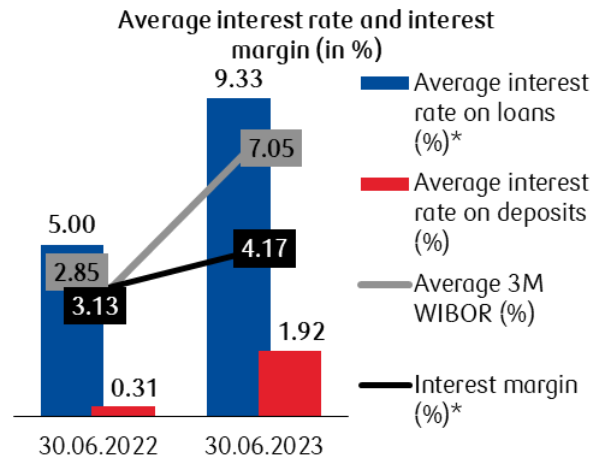


Interest income amounted to PLN 15,154 million and compared to the corresponding period of 2022 was PLN 6,092 million higher, mainly as a result of:

- higher income from financing granted to customers (PLN +4,224 million y/y), as a result of higher market levels of interest rates (both PLN and currency) and an increase in the average volume of receivables from customers by more than PLN 2 billion,
- higher income on securities (PLN +1,375 million y/y), resulting from higher market interest rates and an increase of PLN 11 billion of average volume.

Interest expenses amounted to PLN 6,575 million and, compared to the corresponding period of 2022, were PLN 4,147 million higher, in particular as a result of:

- deposit base costs higher by PLN 2,893 million as a result of adjusting the deposit offer to interest rate increases and the conversion of funds to term accounts, accompanied by an increase in the average volume of deposits by over PLN 22 billion compared to the corresponding period of 2022,
- interest costs on derivative hedging instruments higher by PLN 1,109 million, mainly related to IRS transactions (as a result of an increase in market rates, variable rate payments exceeded payments received at a fixed rate).



*In 2023 ratios were calculated excluding the impact of the recognition of statutory loan holidays in the amount of PLN 3,111 million.

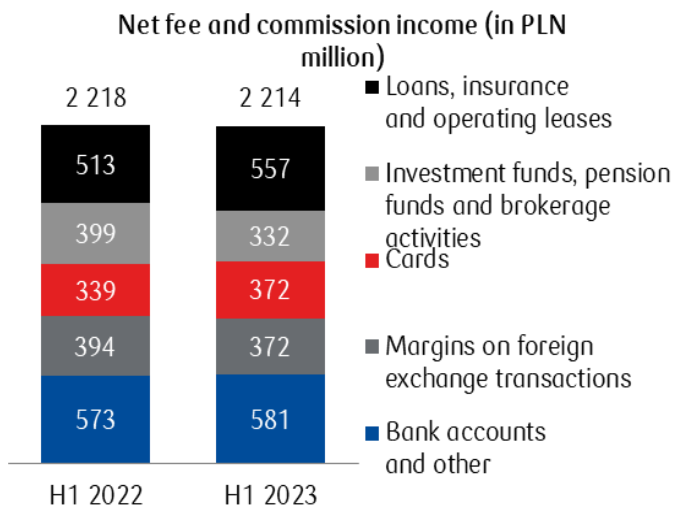
Net interest margin increased by 1.04 p.p. y/y to 4.17% at the end of the first half of 2023. The average interest on loan receivables at the end of the first half of 2023 was 9.33%, and the average interest on deposits amounted to 1.92%, compared to 5.00% and 0.31%, respectively, at the end of the first half of 2022.

NET FEE AND COMMISSION INCOME

Net fee and commission income obtained in the first half of 2023 amounted to PLN 2,214 million and was PLN 4 million lower than in the corresponding period of the previous year.

The level was determined – among other things – by

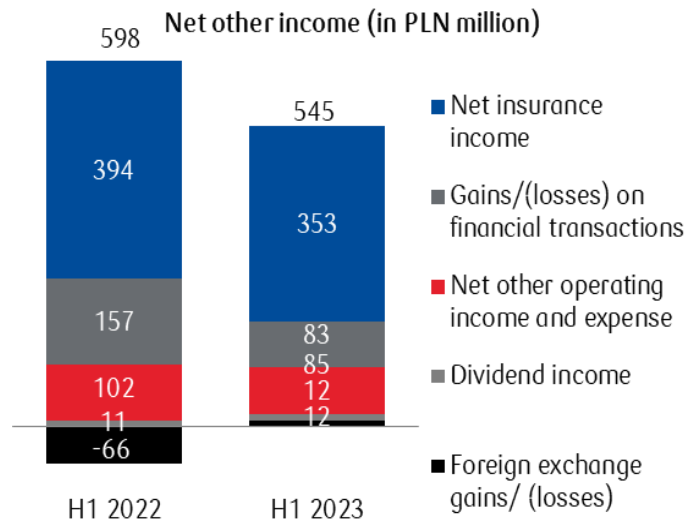
- lower result on investment funds, pension funds and brokerage activity (PLN -67 million y/y), mainly due to lower commissions for the sale of State Treasury bonds, commissions from the primary market and exchange trading and pension funds,
- lower result on margins on foreign exchange transactions (PLN -22 million y/y), mainly as a result of a high number of transactions generated by people who came from Ukraine and the result in Kredobank in the second quarter of 2022,
- higher result on loans, insurance and operating leases (PLN 44 million y/y), mainly as a result of an increase in commission income on business loans and operating leases,
- higher net income on cards (PLN +33 million y/y), due to a higher number of transactions,
- higher result on bank account servicing and other (PLN 8 million y/y) related, among others, to the increase in commissions for foreign operations, transfers and cash operations.



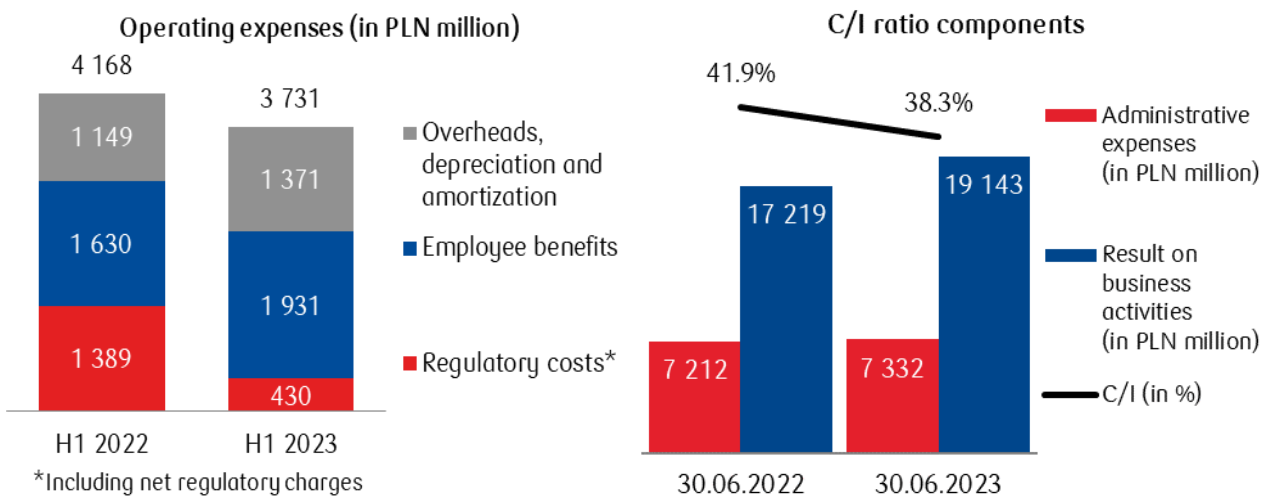
OTHER NET INCOME

The remaining result in the first half of 2023 amounted to PLN 545 million and was lower by PLN 53 million than in the corresponding period of the previous year, including as a result of:

- lower result on financial transactions (PLN -74 million y/y), e.g. due to a decrease in result on derivatives (including those executed on incorporated instruments in structured deposits), with an increase in the result on the valuation of shares and improvement of the result on derecognition of assets,
- lower insurance result (PLN -41 million y/y), mainly as a result of a decrease in sales of insurance to mortgage loan,
- lower other net operating income and expenses (by PLN 17 million y/y), i.a. due to the result on the sale of CO₂ emission allowances offset by a positive result on customer derivatives related to these allowances, recognised in the result on financial transactions,
- improvement of foreign exchange result (PLN +78 million y/y), mainly the result on foreign exchange derivatives, while the result on hedge accounting ineffectiveness deteriorates.



OPERATING EXPENSES



In the first half of 2023, operating expenses amounted to PLN 3,731 million and were lower by PLN 437 million y/y (10.5%). The change was mainly driven by:

- a decrease of PLN 959 million, i.e. 69.1% of regulatory costs, mainly due to the recognition in the corresponding period of the previous year of the cost of initial payment for the aid fund in System Ochrony Banków Komercyjnych S.A., in the amount of PLN 872 million, with a simultaneous decrease, by PLN 127 million, of the contribution costs for the Bank Guarantee Fund – these costs constituted a contribution to the fund for compulsory restructuring of banks in the amount of PLN 280 million (in the corresponding period of the previous year the Bank Guarantee Fund's costs amounted to PLN 407 million, of which 291 million amounted to a contribution to the compulsory restructuring fund),
- an increase by PLN 301 million, i.e. 18.4%, in the cost of employee benefits, mainly as a result of wage regulations,
- an increase of PLN 200 million, i.e. of 30.7% of tangible costs, mainly as a result of:
 - an increase in the cost of maintenance and rental of real estate by PLN 70 million, or 49.9%,
 - an increase in promotion and advertising costs by PLN 51 million, or 89.2%,

- an increase in IT costs by PLN 30 million, or 16.1%,
- an increase in cash management costs by PLN 11 million, or 25.4%,
- an increase in legal costs by PLN 16 million, or 37.4%, mainly due to the management of the settlement programme for Swiss franc borrowers,
- an increase in depreciation and amortisation expense by PLN 22 million, or 4.4%, as a result of increased amortisation of IT intangible assets, alongside a decrease in amortisation of buildings and structures.

The effectiveness of the Bank's Group, measured by the C/I ratio on an annual basis, amounted to 38.3% (-3.6 p.p. y/y).

NET WRITE-DOWNS AND IMPAIRMENT

In the first half of 2023, net write-downs and impairment (including the cost of legal risk) amounted to PLN -4,034 million and deteriorated by PLN 2,120 million compared to that recorded in the corresponding period of the previous year, mainly as a result of:

- an increase in the cost of legal risk of mortgage loans in convertible currencies by PLN 2,265 million mainly as a result of the update of the parameters of the legal risk assessment model, considering, inter alia, the expected impact of the CJEU ruling of 15 June 2023 in Case C-520/21 on future case law of Polish courts and a possible change of customer behaviour,
- reversal of write-downs on foreign currency housing loans as a result of reducing the gross carrying value due to an increase in the adjustment for legal risk,
- improvement of result on corporate off-balance sheet liabilities.

At the end of the first half of 2023, the share of exposures with recognised impairment amounted to 3.64% (an improvement by 0.20 p.p. as compared to the first half of 2022).

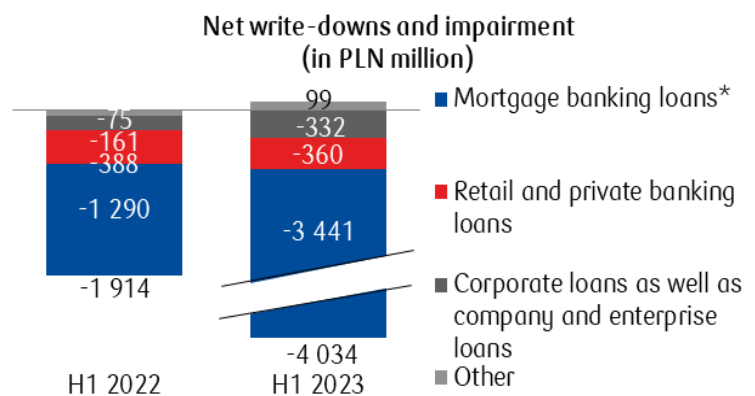
As of the end of the first half of 2023, the credit risk cost indicator amounted to 0.53% and was more favourable by 0.05 p.p. than the one achieved in the corresponding period of the previous year.

6.3. STATEMENT OF FINANCIAL POSITION OF THE GROUP

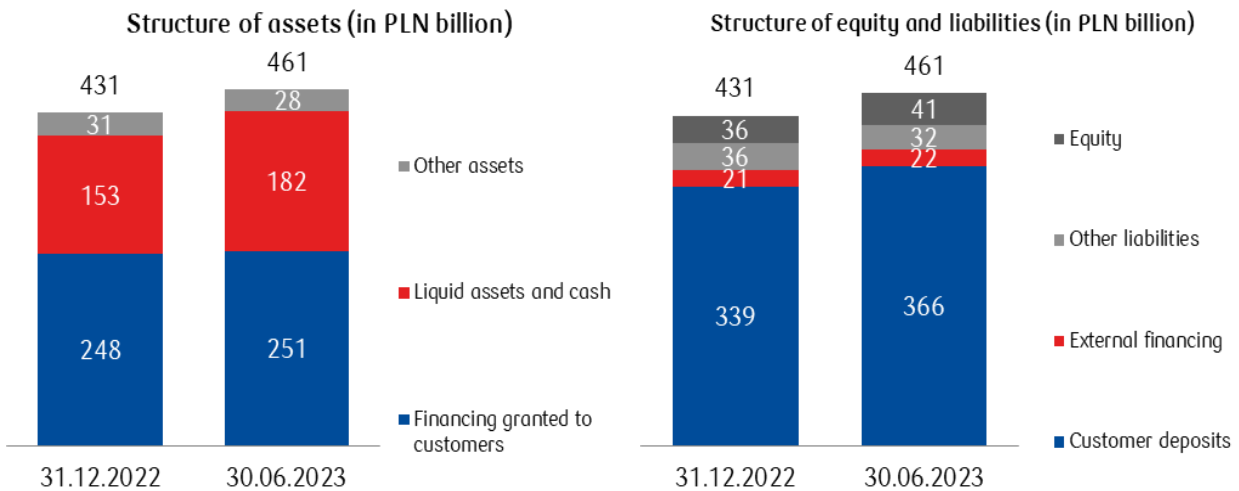
MAIN ITEMS OF THE STATEMENT OF FINANCIAL POSITION

As of the end of the first half of 2023, the Bank's Group's total assets amounted to nearly PLN 461 billion and increased by approx. PLN 29 billion since the beginning of the year. Thus, the Bank's Group reinforced its leading position on the Polish banking market.

The change in the balance sheet total in the first half of 2023, on the asset side, had been primarily impacted by the increase in securities. An increase in the financing granted to customers and amounts due from banks was also noted. In terms of financing sources, customer deposits, equity, and external financing increased. The decrease in valuation of derivative instruments resulted in a decrease in other assets and other liabilities.



*Includes cost of legal risk of mortgage loans in convertible currencies of PLN -3,441 million in the first half of 2023 and PLN -1,176 million in the first half of 2022

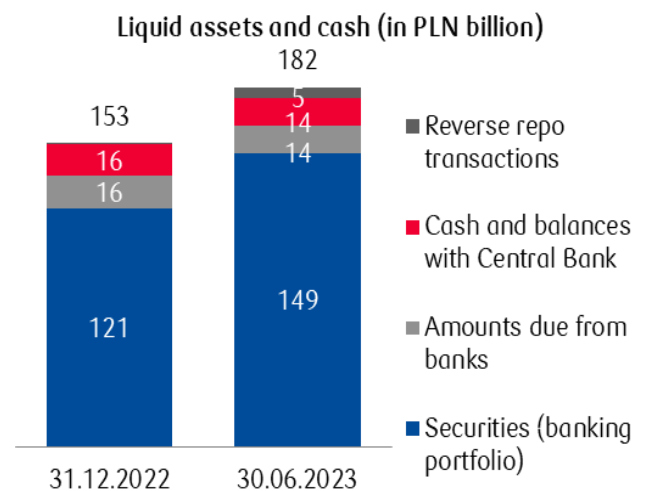


LIQUID ASSETS AND CASH

As of the end of the first half of 2023, the value of liquid assets and cash in the Group was approx. PLN 182 billion, which means an increase of PLN 29 billion since the beginning of the year.

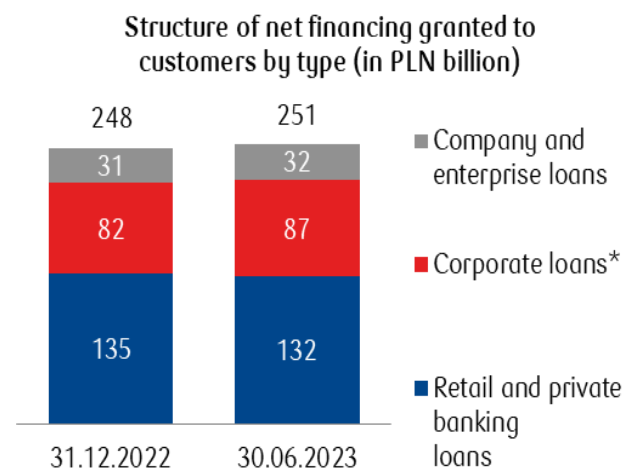
An increase of PLN 28 billion was recorded on securities (banking portfolio), in particular money bills of the National Bank of Poland and treasury bonds in PLN. In terms of repo transactions, an increase of PLN 5 billion was recorded.

Amounts due from banks and cash and balances at the Central Bank decreased jointly by PLN 4 billion since the beginning of the year.



FINANCING GRANTED TO CUSTOMERS

As of the end of the first half of 2023, the value of financing granted to customers in the Group was approx. PLN 251 billion, an increase of PLN 3 billion since the beginning of the year, which resulted from an increase in corporate loans (PLN +6 billion), with a decrease in retail and private banking loans (PLN -3 billion). The decrease in retail and private banking loans was mainly due to a decrease in mortgage loans in foreign currencies (PLN -4 billion) as a result of repayment of settlements concluded, and an increase in the carrying value of legal risk with an increase in mortgage loans in PLN (PLN +1 billion) and stable level of consumer loans.

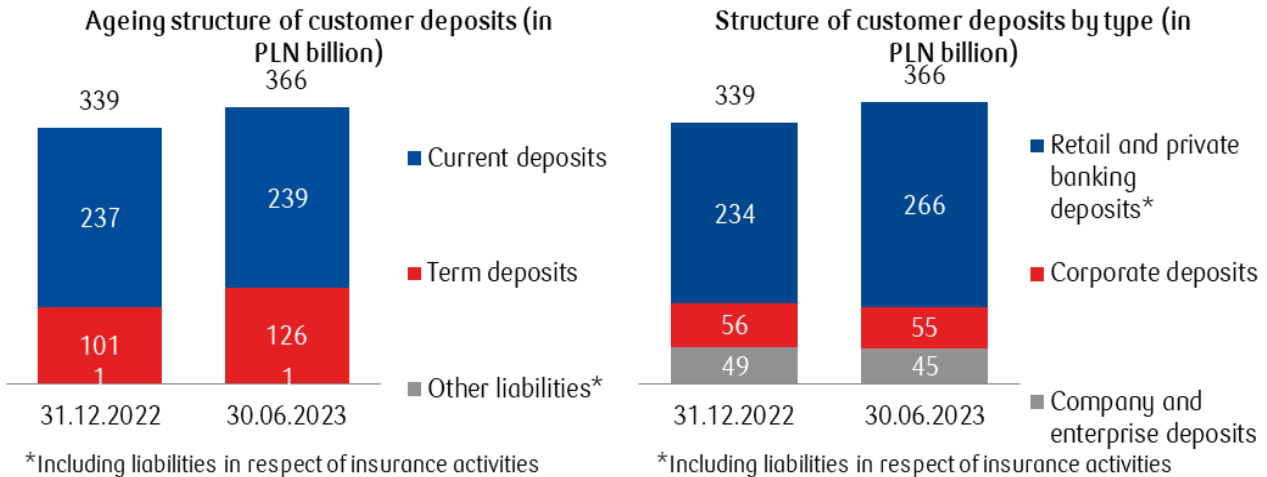


*Including lease receivables and non-Treasury bonds

CUSTOMER DEPOSITS

Customer deposits constitute the basic source of financing the Group's assets. Their level as of the end of the first half of 2023 was over PLN 366 billion, an increase of PLN 27 billion since the beginning of the year.

Increase of deposit base was mainly driven by growth of retail and private banking deposits (PLN +31 billion), with decrease of business and enterprise deposits (PLN -3 billion) and corporate deposits (PLN -1 billion).

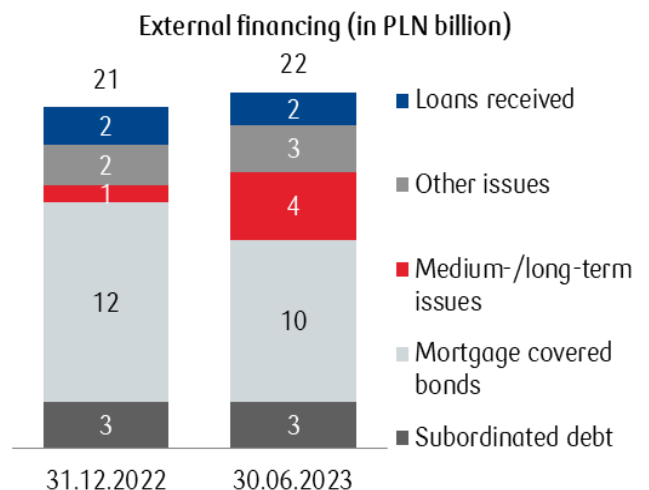


The share of current deposits in the total deposit structure amounted to 65% (-5 p.p. as compared to the end of 2022 year) mainly due to a large increase in term deposits (PLN +25 billion) resulting from the adjustment of the deposit offer to interest rate increases.

EXTERNAL FINANCING

The level of long-term financing sources as of the end of June 2023 amounted to almost PLN 22 billion and increased by PLN 1 billion since the beginning of the year. The change in the level of financing was determined by:

- issue of 3-year senior notes in the "Senior Preferred Notes" format, valued at EUR 750 million,
- stable level of notes issued by PKO Bank Hipoteczny S.A. and by PKO Leasing S.A. Group,
- a decrease in mortgage covered bonds of PKO Bank Hipoteczny S.A. by PLN 2.2 billion, related to the January and June 2023 maturity dates of issues worth EUR 500 million and PLN 500 million, as well as a new issue in February and June 2023, with a total value of PLN 1 billion.



EQUITY

The level of equity as of the end of the first half of 2023 was over PLN 41 billion and increased by over PLN 5 billion since the beginning of the year, which mainly resulted from:

- accumulation of the current result of PLN 2.0 billion,
- improvement in valuation of securities and other instruments valued by equity of PLN 3.5 billion.

7. FINANCIAL POSITION OF THE BANK

7.1. KEY FINANCIAL INDICATORS OF THE BANK

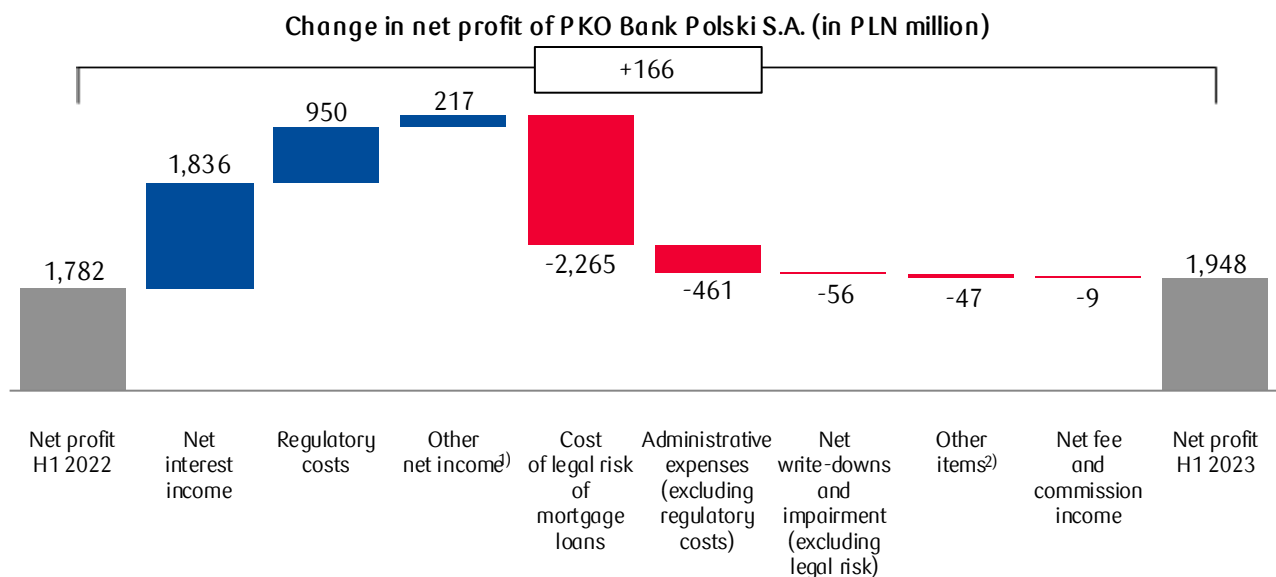
As a result of PKO Bank Polski S.A.'s performance in the first half of 2023, the main financial performance indicators reached the following levels:

Table 4. Financial indicators of PKO Bank Polski S.A.

	30.06.2023	30.06.2022	Change
ROE net (net profit/average total equity)	10.0%	10.9%	-0.9 p.p.
ROA net (net profit/average total assets)	0.8%	1.0%	-0.2 p.p.
C/I (cost to income ratio)	36.0%	41.5%	-5.5 p.p.
Interest margin (net interest income/average interest-bearing assets)	4.18%	3.08%	+1.1 p.p.
Share of impaired exposures	3.43%	3.71%	-0.28 p.p.
Cost of credit risk	0.54%	0.47%	+0.07 p.p.
Total capital ratio (own funds/total capital requirement*12.5)	21.30%	18.20%	+3.10 p.p.
Common equity Tier 1 (CET 1)	20.04%	16.83%	+3.21 p.p.

7.2. INCOME STATEMENT OF THE BANK

Net profit of PKO Bank Polski S.A. generated in the first half of 2023 amounted to PLN 1,948 million and was PLN 166 million higher than in the corresponding period of 2022, which was driven by an increase in the result on business activity and lower regulatory costs with an increase in the cost of legal risk of mortgage loans in convertible currencies.



1) Net other income reflects dividend income, result on financial transactions, net foreign exchange gains/(losses) and other net operating income and expense.

2) The item includes tax on certain financial institutions and income tax.

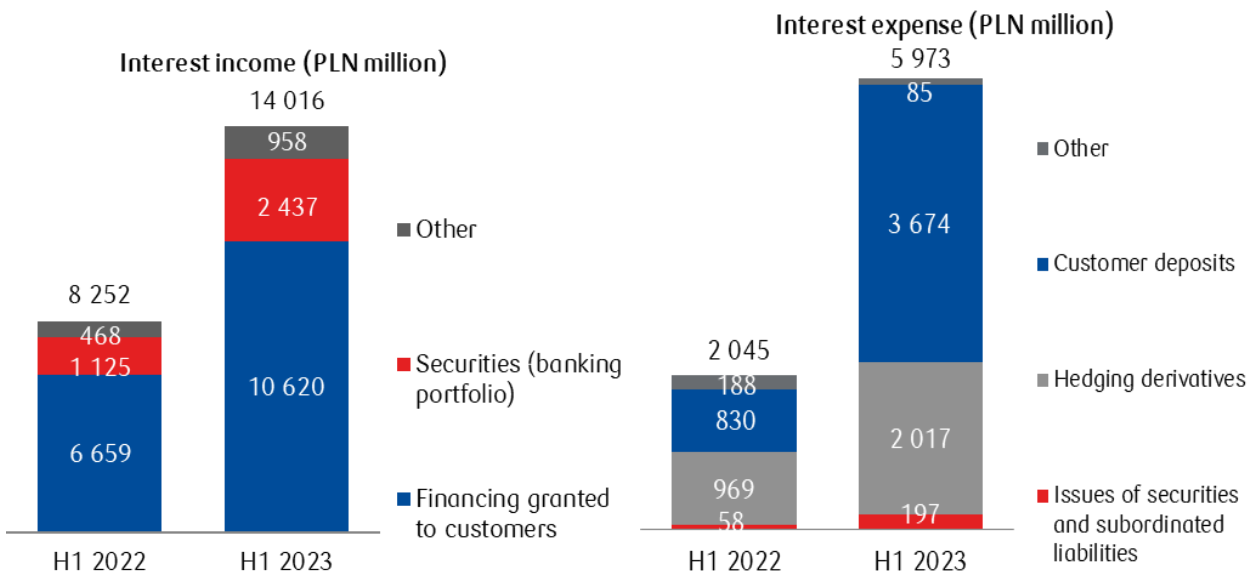
The result on business activities in the first half of 2023 amounted to PLN 10,625 million and was PLN 2,044 million, i.e. 23.8% higher than in the first half of 2022, mainly as a result of an increase in net interest income and other income.

Table 5. Income statement of PKO Bank Polski S.A. (in PLN millions)

	01.01- 30.06.2023	01.01- 30.06.2022	Change (in PLN million)	Change (%)
Net interest income	8,043	6,207	1,836	29.6%
Net fee and commission income	1,879	1,888	-9	-0.5%
Other net income	703	486	217	44.6%
Dividend income	631	465	166	35.6%
Gains/(losses) on financial transactions	57	176	-119	-67.3%
Foreign exchange gains/ (losses)	24	-127	151	1.2x
Net other operating income and expense	-9	-28	19	-66.2%
Result on business activities	10,625	8,581	2,044	23.8%
Administrative expenses	-3,259	-3,749	490	-13.1%
Tax on certain financial institutions	-577	-585	8	-1.4%
Net operating result	6,789	4,247	2,542	59.9%
Net write-downs and impairment	-3,974	-1,653	-2,321	1.4x
Profit before tax	2,815	2,594	221	8.5%
Income tax expense	-867	-812	-55	6.8%
Net profit	1,948	1,782	166	9.3%

NET INTEREST INCOME

The net interest income in the first half of 2023 amounted to PLN 8,043 million, i.e. by PLN 1,836 million more than in the corresponding period of the previous year. The higher result was driven mainly by a higher level of market interest rates, supported by an increase in volumes.

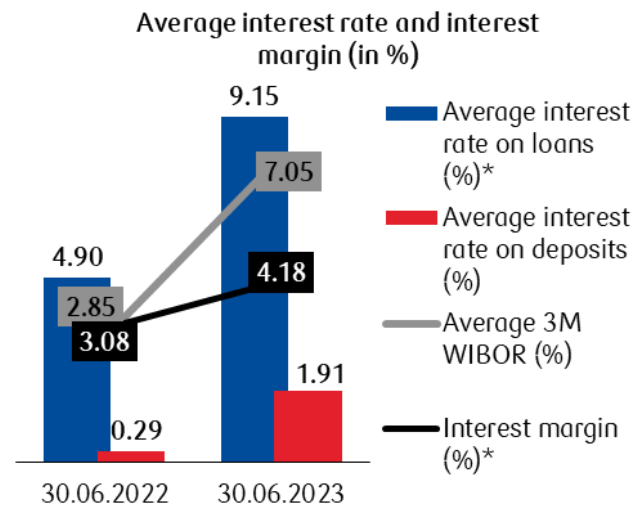


Interest income amounted to PLN 14,016 million and compared to the corresponding period of 2022 was PLN 5,764 million higher, mainly as a result of:

- income from financing granted to customers higher by PLN 3,961 million – effect of an increase in the market level of interest rates (both PLN and foreign currency) and an increase by PLN 7 billion of the average volume of credit receivables, mainly of economic loans,
- income on securities higher by PLN 1,312 million, resulting from higher market interest rates and an increase of PLN 12 billion of average volume.

Interest expenses amounted to PLN 5,973 million and compared to the corresponding period of 2022, they were PLN 3,928 million higher. This was mainly due to:

- deposit base costs higher by PLN 2,844 million as a result of interest rate increases leading to the adjustment of the deposit offer to the market situation and the conversion of funds to term accounts, while increasing the average volume of deposits by PLN 22 billion in comparison to the corresponding period of 2022,
- interest costs related to derivative hedging instruments higher by PLN 1,048 million, mainly related to IRS transactions (payments made at a variable rate exceed those received at a fixed rate).



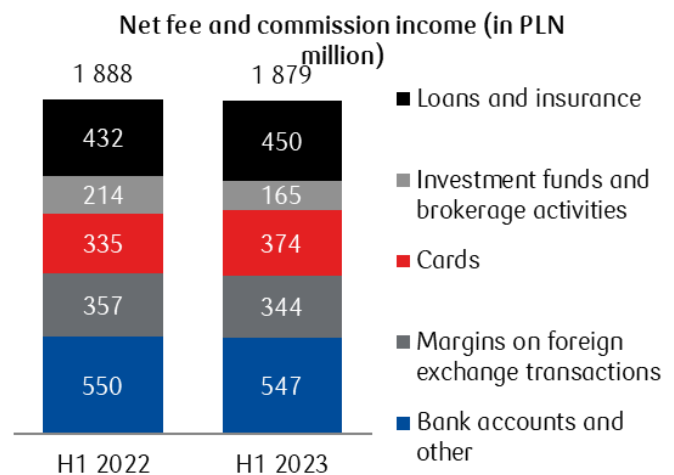
*In 2023 ratios were calculated excluding the impact of the recognition of statutory loan holidays in the amount of PLN 2,443 million.

Net interest margin increased by 1.10 p.p. y/y to 4.18% at the end of the first half of 2023. The average interest on loan receivables at the end of the first half of 2023 was 9.15%, and the average interest on deposits amounted to 1.91%, compared to 4.90% and 0.29%, respectively at the end of the first half of 2022.

NET FEE AND COMMISSION INCOME

Net fee and commission income obtained in the first half of 2023 amounted to PLN 1,879 million and was PLN 9 million lower than in the corresponding period of the previous year. The level was determined - i.a. by:

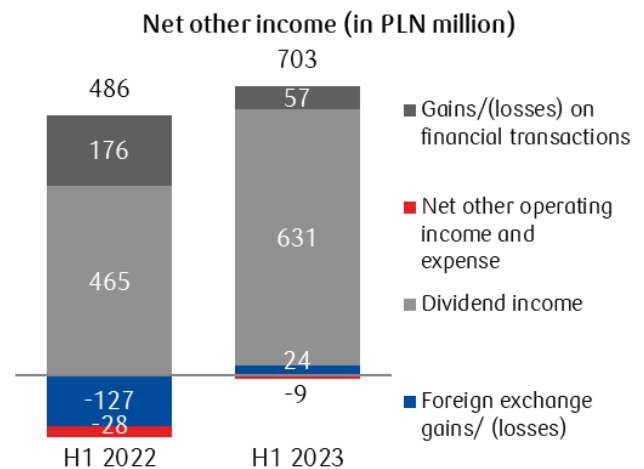
- lower result on investment funds and brokerage activity (PLN -49 million y/y), mainly as a result of lower commissions for the sale of State Treasury Bonds, primary market commission and exchange trading,
- lower result on margins on foreign exchange transactions (PLN -13 million y/y), mainly as a result of a high number of transactions generated by people who came from Ukraine in the second quarter of 2022,
- lower result on bank account service and other (PLN -3 million y/y), related, among others, to the recognition of BGK guarantee costs, alongside an increase in commissions for foreign operations, transfers and cash operations,
- higher net income on cards (PLN +39 million y/y), due to a higher number of transactions,
- higher result on loans and insurance (PLN +18 million y/y), mainly as a result of an increase in commission income on business loans.



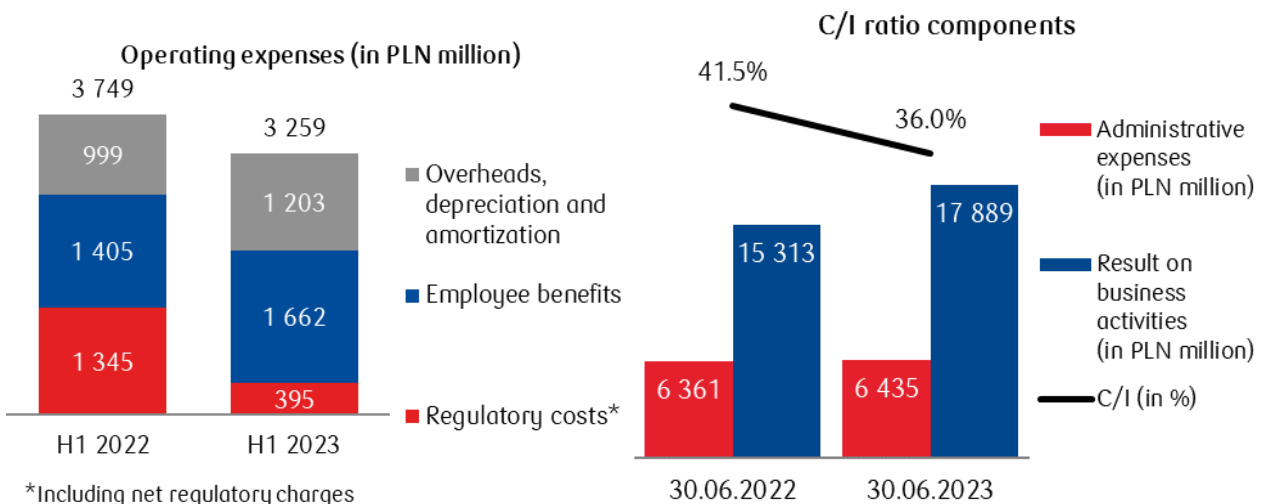
NET OTHER INCOME

The net other income in the first half of 2023 amounted to PLN 703 million and was PLN 217 million higher than in the corresponding period of the previous year, i.a. as a result of:

- dividend income higher by PLN 166 million,
- increase in net foreign exchange income by PLN 151 million, mainly due to improved foreign exchange derivative result,
- higher other net operating income and expenses (PLN +19 million y/y), e.g. as a result of lower costs from co-financing of the subsidiary and due to the result on the sale of CO₂ emission allowances offset by a positive result on customer derivatives related to these allowances, recognised as a result of financial operations,
- lower result on financial transactions (PLN -119 million y/y), i.a. due to a decrease in result on derivatives (including those executed on instruments incorporated in structured deposits), with a higher result on the valuation of shares and improvement of the result on derecognition of assets.



OPERATING EXPENSES



In the first half of 2023, operating expenses amounted to PLN 3,259 million and were lower by PLN 490 million y/y (13.1%). The change was mainly driven by:

- decrease by PLN 950 million, i.e. 70.7% of regulatory costs, mainly due to the recognition in the corresponding period of the previous year of the cost of initial payment for the aid fund in System Ochrony Banków Komercyjnych S.A., in the amount of PLN 872 million, with a simultaneous decrease, by PLN 118 million, of the contribution costs for the Bank Guarantee Fund – these costs constituted a contribution to the fund for compulsory restructuring of banks in the amount of PLN 262 million (in the corresponding period of the previous year the Bank Guarantee Fund's costs amounted to PLN 380 million, of which 264 million amounted to a contribution to the compulsory restructuring fund),
- an increase by PLN 257 million, or 18.3%, in the cost of employee benefits, mainly as a result of wage regulations,
- an increase of PLN 178 million, i.e. of 31.9% of tangible costs, mainly as a result of:
 - an increase in the cost of maintenance and rental of real estate by PLN 66 million, or 51.8%,
 - an increase in promotion and advertising costs by PLN 46 million, or 93.2%,
 - an increase in IT costs by PLN 20 million, or 13.1%,

- an increase in IT costs by PLN 20 million, or 13.1%,
- an increase in cash management costs by PLN 11 million, or 25.3%,
- an increase in legal costs by PLN 16 million, or 38.3%, mainly due to the management of the settlement programme for Swiss franc borrowers,
- an increase in depreciation and amortisation expense by PLN 26 million, or 5.9%, as a result of increased amortisation of IT intangible assets, alongside a decrease in amortisation of buildings and structures.

In the first half of 2023 the Bank incurred hospitality costs, expenditure on legal services, marketing services, public relations and social communication services, and advisory services related to management totalling PLN 165 million, which represented 5.1% of the Bank's administrative expenses.

The operating effectiveness of PKO Bank Polski S.A. measured by the C/I ratio on a yearly basis was at the level of 36.0% (-5.5 p.p. y/y), owing to the improvement of the result on business activities.

NET WRITE-DOWNS AND IMPAIRMENT

In the first half of 2023, net write-downs and impairment (including the cost of legal risk) amounted to PLN -3,974 million and deteriorated by PLN 2,321 million compared to that recorded in the corresponding period of the previous year. The result was driven mainly by:

- an increase in the cost of legal risk of mortgage loans in convertible currencies by PLN 2,265 million mainly as a result of the update of the parameters of the legal risk assessment model, considering, inter alia, the expected impact of the CJEU ruling of 15 June 2023 in Case C-520/21 on future case law of Polish courts and a possible change of customer behaviour,
- reversal of write-downs on foreign currency housing loans as a result of reducing the gross carrying value due to an increase in the adjustment for legal risk,
- deterioration of write-downs on business loans.

At the end of the first half of 2023, the share of exposures with recognised impairment amounted to 3.43% (a decrease by 0.28 p.p. as compared to the first half of 2022).

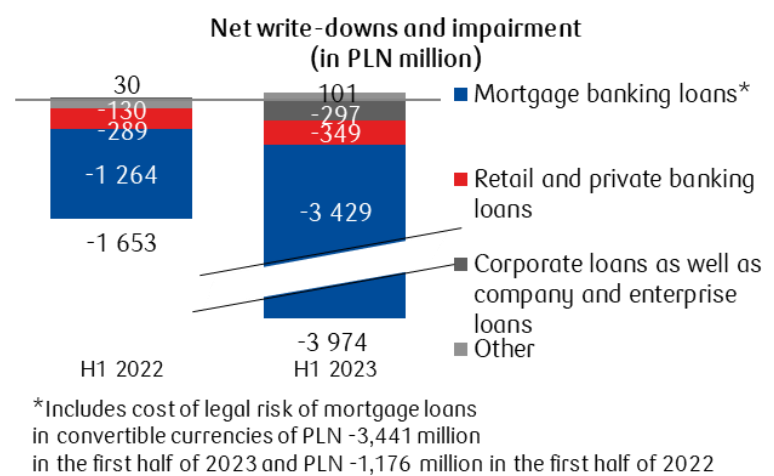
As of the end of the first half of 2023, the credit risk cost indicator amounted to 0.54% and was 0.07 p.p. higher than the one achieved in the corresponding period of the previous year.

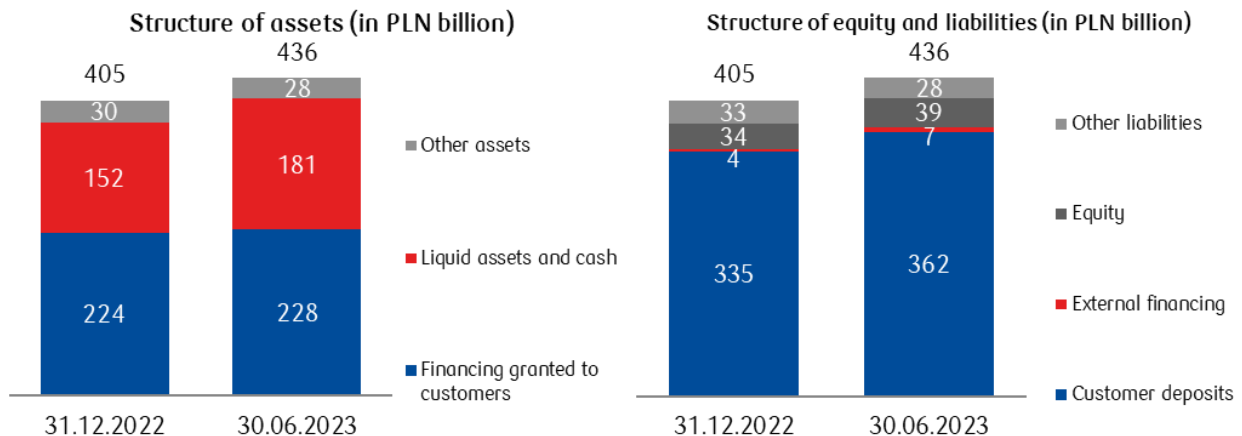
7.3. STATEMENT OF FINANCIAL POSITION OF THE BANK

MAIN ITEMS OF THE STATEMENT OF FINANCIAL POSITION

As of the end of the first half of 2023, PKO Bank Polski S.A.'s total assets amounted to almost PLN 436 billion and increased by approx. PLN 31 billion since the beginning of the year. Therefore, the Bank reinforced its position as the largest institution in the Polish banking sector.

The change in the balance sheet total in the first half of 2023, on the asset side, had been primarily impacted by the increase in securities. The Bank also noted an increase in financing granted to customers, with a decrease in amounts due from banks. On the liabilities side there was an increase in customer deposits, equity, and issue of securities. The reduction in valuation of derivative instruments contributed to a decrease in other assets and other liabilities.



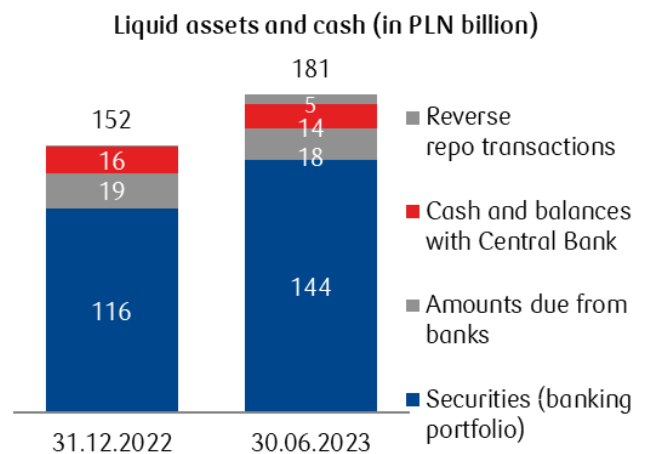


LIQUID ASSETS AND CASH

As of the end of the first half of 2023, the value of liquid assets and cash in the Bank was approx. PLN 181 billion, an increase of PLN 29 billion since the beginning of the year.

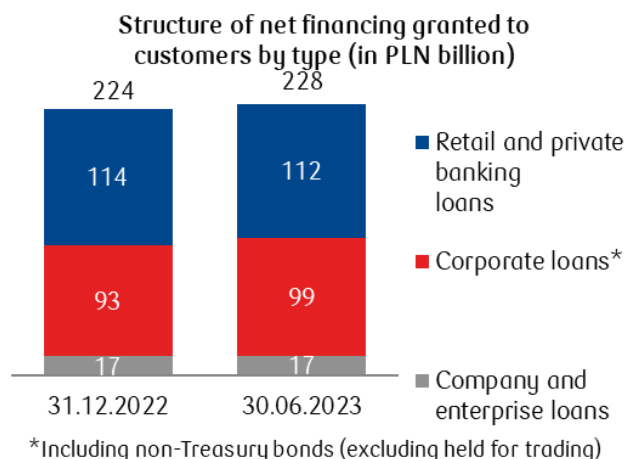
The increase in liquid assets was primarily influenced by the growth of securities (banking portfolio) by PLN 27 billion, in particular for National Bank of Poland money bills and treasury bonds. In terms of repo transactions, an increase of PLN 5 billion was recorded.

There was also a decrease in amounts due from banks by PLN 1 billion and cash and balances at the Central Bank by PLN 2 billion.



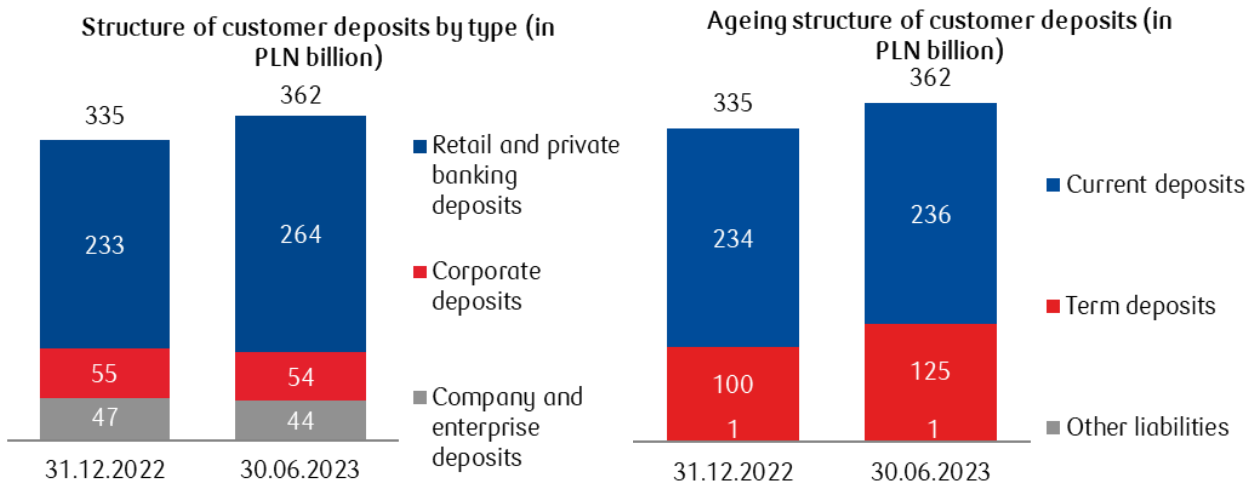
FINANCING GRANTED TO CUSTOMERS

At the end of the first half of 2023, the value of financing granted to customers at the Bank amounted to approx. PLN 228 billion, which means an increase of PLN 4 billion since the beginning of the year, mainly due to increase in corporate loans (PLN +6 billion) with decrease in retail and private banking (PLN -2 billion). The decrease in retail and private banking loans was mainly due to a decrease in mortgage loans in foreign currencies (PLN -4 billion) as a result of repayment, settlements concluded and impact of legal risk, with an increase in mortgage loans in PLN (PLN +1 billion) and consumer loans (PLN +1 billion).



CUSTOMER DEPOSITS

Customer deposits constitute the basic source of financing of the Bank's assets. Their level as of the end of the first half of 2023 was PLN 362 billion, which means an increase of PLN 27 billion since the beginning of the year. Increase of deposit base was mainly driven by growth of retail and private banking deposits (PLN +31 billion), with decrease of business and enterprise deposits (PLN -3 billion) and corporate deposits (PLN -1 billion).

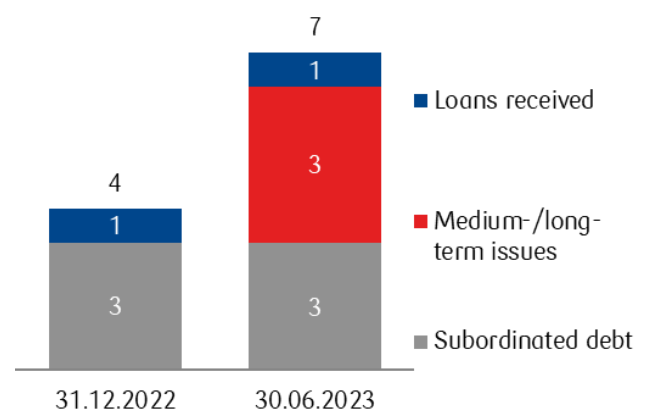


The share of current deposits in the total deposit structure amounted to 65% (-5 p.p. as compared to the end of 2022 year) mainly due to a large increase in term deposits (PLN +25 billion) resulting from the adjustment of the deposit offer to interest rate increases.

EXTERNAL FINANCING

The level of long-term financing sources as of the end of June 2023 amounted to approx. PLN 7 billion and was PLN 3 billion higher compared to the end of 2022, mainly due to the issue of 3-year senior notes in the “Senior Preferred Notes” format of EUR 750 million.

External financing (in PLN billion)



EQUITY

The level of equity as of the end of the first half of 2023 was over PLN 39 billion and increased by PLN 5 billion since the beginning of the year, which mainly resulted from:

- accumulation of the current result of PLN 1.9 billion,
- improvement of valuation of securities and other instruments recognised in equity by PLN 3.1 billion.

8. PERSONNEL MANAGEMENT

8.1. EMPLOYMENT

As of 30 June 2023, the Bank's Group's headcount has increased compared to the end of 2022.

Table 6. Headcount at the Bank's Group as of 30 June 2023 (in FTEs)

	30.06.2023	31.12.2022	change (%)
	A	B	(A-B)/B
Bank	21 364	21 230	0.6
Other entities	3 917	3 842	2.0
Bank's Group	25 281	25 071	0.8

In the first half of 2023, the Bank adopted the “Common Labour Market Policy of PKO Bank Polski S.A. Group Companies”. The aim of the policy is to implement guiding objectives to ensure that the Group companies operate on the internal and external labour market as entities sharing a uniform employment and remuneration policy, a coherent organisational culture, a stable and safe working environment, without creating competition for each other in attracting employees, but creating a consistent image of the Group as an employer. Among other things,

the policy is intended to implement effective tools for the recruitment and development of relevant employee competences. The policy was made available to the Bank's subsidiaries for adoption and implementation.

Moreover, in the first half of 2023, the Bank adopted the following significant regulations, in accordance with the requirements of external regulations:

- agreement on the principles of remote work at PKO Bank Polski S.A., which sets out the rules for the performance of remote working by employees of the Bank, in particular using means of remote communication,
- updated Principles of remuneration for employees whose activities have a material impact on the Bank's risk profile – Material Risk Takers at the Bank and the new List of Positions Material Risk Takers, among others due to changes made in the Bank's organisational structure and changes in external regulations.

In the first half of 2023, the Bank implemented e-Teczka (e-File), thus enabling the handling and circulation of personnel documentation in electronic form. The implemented functionalities enable employees: to track their employee records on an ongoing basis in the form of electronic personal files, accept personnel actions online according to agreed paths of document circulation, use qualified electronic signature by the employer's representatives and employees in respect of the part of documents where this is necessary. Electronic document flow implemented within e-Teczka (e-File) simplifies the processes, automates, or eliminates administrative activities, allows for better monitoring of the status of documents and eliminates hard copies and physical mail, which is part of the Bank's activity in the ESG field.

The Bank has been offering the Employee Pension Scheme (PPE) to employees for 10 years. When creating the plan, the Bank organises additional pension security for employees by systematically financing basic contributions amounting to 3.5% of remuneration, and the funds paid into the plan become the property of the employee and are subject to inheritance. Following the round anniversary of the PPE, internal training activities for employees have been launched, aimed at increasing awareness and knowledge of the PPE, i.e. dissemination of an anniversary film, articles on the internal portal, training and other events, which will be continued until the end of 2023.

9. BUSINESS DEVELOPMENT AND OTHER SIGNIFICANT EVENTS

9.1. DEVELOPMENT OF PRODUCTS AND SERVICES AND NEW SOLUTIONS

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

For information on significant achievements, see item "Major events, including non-typical events". Below we present the achievements of the Group.

Achievements of PKO Bank Polski S.A.

Development of retail banking products	
Mortgage banking	<p>The sales of housing loans to natural persons in the first half of 2023 were nearly PLN 6 billion, which allowed to maintain the 1st position on the new sales market with a share of 32.5%.</p> <p>Increase in the share of fixed interest rate loans.</p> <p>In the first half of 2023, the share of fixed-rate loans in new sales (granted by PKO Bank Polski S.A. and PKO Bank Hipoteczny S.A.) reached 38.2%, and their total share in the portfolio of PLN mortgage loans increased to 19.9% as of 30 June 2023 (compared to 17.9% as of the end of 2022).</p>
Deposit offering	<p>Increase in the attractiveness of the deposit offer, i.a. by introducing the IKO birthday deposit in June with an interest rate of 10% p.a. (provided that certain conditions are met). High sales of deposits to individuals allowed to achieve dynamic growth in the market of term deposits, which amounted to 27.30% (+6.70 p.p. y/y) as of the end of June 2023.</p>
Development of SME banking products	
Company accounts	<p>Launching the promotion for the sale of company accounts in remote channels – abolishing the account maintenance fee for 24 months.</p>

Offer for farmers	<p>Updating the offer for individual farmers running agricultural holdings,</p> <ul style="list-style-type: none"> with regard to the deposit offering – waiving the fee for: account maintenance, debit card use and cash deposits, with regard to the loan offering – increasing the collateral-free loan limit to PLN 300 thousand for a farmer loan and an overdraft facility, providing access to Agricultural Guarantee Fund (FGR) guarantees in June 2023. Under the agreement with Bank Gospodarstwa Krajowego (BGK), the Bank will be able to grant repayment guarantees for current account working capital loans, the SME loan and the investment loan of up to 80% of their value. In addition, with the guarantee, entities can access subsidised interest rates on working capital loans (i.e. overdrafts and SME loans) of 5% per annum. This support will be offered until the end of 2023.
Financing	<p>Making the new green loan available in cooperation with BGK for infrastructure modernisation (e.g. buildings, machinery and equipment). The aim of the investment is to reduce energy consumption by at least 30%.</p>
	<p>Extension of the thermal modernisation loan offer with BGK premium to all corporate customers. The loan is intended for the purpose of improving the energy efficiency of public buildings, increasing thermal insulation of buildings and saving energy.</p>
	<p>Extension of the offer to include loans in EUR (auxiliary account overdrafts, non-revolving working capital loans, investment loans) with the possibility of establishing a de minimis guarantee.</p>
	<p>Introduction of micro-factoring limits for new customers.</p>
	<p>Introduction of a special offer for loan for debt refinancing with 0% commission for granting overdraft facility and/or loan with 0.5% commission with the possibility of applying individual conditions for margins.</p>
	<p>Introduction of a promotion for the Bank's customers without a loan – within the framework of the promotion, the commission for granting an overdraft facility/loan was reduced to 0%.</p>
Development of corporate banking and the services of the Brokerage Office	
Corporate banking	<p>Conclusion of twenty-six syndicated loan agreements, including 5 annexes to the agreements, with a total value of over PLN 27.3 billion, over EUR 3.8 billion and USD 400 million with the Bank's share of nearly PLN 5.7 billion, close to EUR 335 billion and USD 60 million respectively. Sustainability-related funding accounted for 43% of the value of these agreements.</p>
	<p>Conclusion of thirty-five municipal bond issue agreements for the total amount of more than PLN 1 billion.</p>
	<p>Execution, as co-arranger of the issue and joint bookrunner, the issue of 7-year bonds of Cyfrowy Polsat S.A. totalling PLN 2.67 billion. This is the largest corporate bond issue by a private entity in the history of the Polish equity market. The issue is Poland's first issuance of Sustainability-Linked Bonds, in accordance with the international ICMA (International Capital Market Association) standard.</p>
	<p>Signing a comprehensive agreement for providing banking management of the budget of the Małopolskie Voivodeship and organisational units of the Voivodeship not being legal entity and budget of the City of Szczecin and its organisational units.</p>
	<p>Signing an agreement with the National Fund for Environmental Protection and Water Management (NFEPWM) in the field of ecological projects. As part of the cooperation, the Bank will work out proposals for financing projects subsidised by the NFEPWM, including those related to thermal modernisation and support for individuals to get out of energy poverty.</p>
Services of the Brokerage Office (Biuro Maklerskie	<p>Conducting, as the joint bookrunner, offers in the Accelerated Book Building (ABB Procedure), an offer of Allegro.eu shares worth more than PLN 1.7 billion.</p>

PKO Banku Polskiego)	Conducting, as co-offering agent, global coordinator, and offer manager, offers in the Book Building (BB) Procedure of CCC S.A. with a value of approx. PLN 505 million.
	Reaching PLN 28.2 billion of turnover on the secondary market of shares in the first half of 2023. This represents 10.06% of the market turnover and places Brokerage Office – Biuro Maklerskie PKO Banku Polskiego at 2 nd position in the ranking of brokerage offices.
	Maintenance of 150.1 thousand securities and cash accounts as of the end of the first half of 2023 and 532.3 thousand registered accounts.
	At the end of the first half of 2023, conducting services for participation units in 399 funds and sub-funds managed by 10 fund management companies.
Development of insurance products	
Home insurance PKO Dom	An increase in the value of gross premium written in the first half of 2023 to PLN 59.3 million, which means an increase by 75% compared to the corresponding period of 2022.
PKO Moto motor insurance	Introduction of PKO Moto motor insurance, which includes: compulsory third-party liability, accident and theft insurance, Auto Assistance, personal accident insurance and Green Card. PKO Moto's offer is available in the omnichannel formula, in all sales channels of the Bank. In the first half of 2023, 41 thousand third party liability insurance policies were sold, 9 thousand Autocasco policies and nearly 29 thousand Auto Assistance policies. The premium collected amounted to PLN 37.5 million at the end of the first half of 2023.
Development of IT projects and other services	
PKO Pay Later	Making deferred payments available in the second quarter of 2023 to all customers of PKO Bank Polski who are creditworthy. It is possible to activate the service in the IKO mobile application, iPKO website, a Bank branch, and via a helpline. At the end of the first half of 2023, approx. 86 thousand customers had an active service, and the total amount of limits granted was PLN 67.6 million. Customers have so far executed close to 463 thousand transactions for the total amount of PLN 64.4 million. 97% of transactions were executed with a BLIK code.
Digital Mortgage	Providing a calculator of the amount of the monthly loan instalment and creditworthiness on the Bank's website – a component adapted to the Safe 2% Loan. In the first five days, the Bank registered nearly 40 thousand users' inputs to the calculator.
Voicebots	Launch of a new bot for measuring customer loyalty NPS (Net Promoter Score) after a customer visit to a Bank branch.
	Launch of the information service on the Government Safe 2% Loan programme.
	In the first half of 2023, nearly 6.5 million virtual assistant talks were made with customers, which represents an increase of 19% compared to the second half of 2022.
	Execution of more than 3 million virtual assistant dialogues with customers within the Helpline's incoming traffic in the first half of 2023.
Automation and robotisation	Completion of over 2.4 million Voicebot dialogues with customers in outgoing traffic in the first half of 2023.
	As part of the strategy implementation, launch for employees of the Citizen Development (Robotisation Academy) programme, which develops digital competences, as well as skills in robotisation and simple programming. Implementation of automatic opening of auxiliary accounts for corporate customers, thanks to which an instruction ordered via iPKO Biznes is executed

	<p>within a few hours.</p> <p>The number of tasks carried out by robots at the end of June 2023 was close to 212 million.</p>
Collaboration with the Fintech Poland Foundation	<p>Joining the FinTech Poland community in the development of technology-based services. The aim of the initiative is to integrate the financial innovation community in Poland. The Foundation has published a report entitled "How to do fintech in Poland", portraying the industry in the context of the overall economy and the financial sector. PKO Bank Polski S.A was the strategic partner of the project.</p>
Cloud technologies	<p>Launch of new functionalities of the IKO mobile application in cloud computing, including full support for establishing and maintaining the session and operation history.</p> <p>Migration and activation of the eBankart system (responsible for Bank's debit cards). Implementation of the system on the new platform is part of Road 2 Cloud strategy.</p>
ESG in the risk area	<p>Development of algorithms for determining climate hazard and a database of climate risks. The scope of data covers, among other things, flood risks, substrates and droughts in the Bank's systems to the addresses of mortgage collateral and address of the registered office of companies.</p> <p>Automatic acquisition of data on the actual energy efficiency of the real estate (EP) from the Central Register of Building Characteristics to the credit risk database for real estate collateral.</p>
ESG in the payment area	<p>Implementation of cards produced at 70% from processed plastics from oceanic waste.</p>
Anti-spoofing service	<p>Implementation of a solution enabling the detection in real time of interconnectors, i.e. cases in which the criminal – impersonating the Bank's employee – "covers" their telephone number with the authentic helpline number of our Bank. On this basis the customer is identified and access to their account in electronic channels is secured. An SMS message sent to the customer with information on further procedures was introduced: the suggestion of termination of the conversation with the fraudster and the information on blocking the access by the Bank.</p>
<p>Development of functionalities in electronic and mobile banking channels</p>	
IKO mobile application	<p>Implementation of new functionalities:</p> <ul style="list-style-type: none"> ● alerts about potential fraud in the Interactive Voice Response (IVR) message during the IKO application activation process, ● information on rates of return for investment products, ● the "Daily" panel, which allows personalised shortcuts to the most frequently used options to be set up on the main screen, ● digital spouse consent for selected products offered by the Bank, ● purchase of gold at the Mint of Poland, ● NPS customer loyalty surveys following the completion of various transactions and operations, ● opening of PKO Konto Pierwsze (PKO First Account), ● management of tax recipients, ● adding information on the promotional interest rate in the savings account, ● service of additional cards. <p>Approx. 995 thousand talks with voice assistant were held in the first half of 2023 – an increase of 11% compared to the second half of 2022. In total, at the end of June, nearly 3.6 million calls from more than 1.2 million customers.</p>

<p>Electronic banking service iPKO</p>	<p>Implementation of new functionalities:</p> <ul style="list-style-type: none"> ● enabling the first value-added services using VAS technology: Telemedycyna (Telemedicine), Telemedycyna+ (Telemedicine+), Bezpieczny ekran (Safe Screen), Bezpiecznie w Internecie (Safe in the Internet), and Legimi, ● price microservice – a new section has been added to the product details with information on fees and commissions, ● PKO Moto motor insurance package, ● summary of the portfolio of investment funds, i.e. its value, result and rate of return from the beginning of the investment and implementation of notifications of changes in the portfolio, ● application for financial support for farmers – access to the entry point for logging into the ARiMR platform, ● possibility of opening PKO Konto Pierwsze (PKO First Account), ● adding a view of the IKO jubilee deposit in iPKO, ● placing satisfaction surveys in messages, with the ability to direct them to specific customer groups. <p>Implementation of changes:</p> <ul style="list-style-type: none"> ● Open Banking – provision of the function of adding accounts from other banks and managing the AIS service⁷, ● new notification icon and the appearance of the message inbox, along with providing convenient service on mobile devices, ● a new, responsive process of temporary blocking and unblocking of cards, ● changes in filtering and displaying the history of operations considering customer comments, ● expansion of selected functions by other language versions, ● adding a message to customers using a list of one-time passwords about upcoming end of the list and necessity to order a new one, ● option to change the amount in foreign transfers in the event of a charge exceeding the amount of the transfer, ● presenting the exact time of the card operation in the transaction details.
<p>Electronic banking service iPKO biznes</p>	<p>Launch of new functionalities:</p> <ul style="list-style-type: none"> ● integration with new popular financial and accounting systems – customers can retrieve account history, statements and order transfers directly from their ERP system, without having to log on to iPKO biznes, ● the tender accounts module, where it is possible to control the main and linked tender accounts, as well as to manage payments of counterparty tender deposits and submit tender settlement instructions, ● the SWIFT Tracker module for foreign transfers, where the customer can access, i.a. the status of the transfer, costs and information on reasons for rejection or cancellation, <p>Implementation of changes:</p> <ul style="list-style-type: none"> ● mobile authorisation tools, ● ability to generate and send confirmations of financial operations directly from the application, present blockades (unsettled transactions) on debit cards, and add information on the sum of blockades on debit and prepaid cards, ● dark mode in the application.

⁷ AIS (account information services) – access to account information.

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

Expansion of financing for luxury brands	The PKO Leasing Group became a partner of Inchcape JLR Poland sp. z o.o. for the financing of Jaguar, Range Rover, Defender and Discovery luxury brands in Poland with a gross vehicle weight of up to 3.5 tonnes. The agreement provides for the wholesale financing of stock and retail financing of new and used cars in the form of leases, lease loans, a subscription programme, long and short-term rentals.
Szybkie Auto (Fast Car)	Extension of the pilot "Szybkie Auto (Fast Car)" procedure, which is designed to finance vehicles from authorised dealers and enables a financing decision to be made within one business day.
Development of other vehicle financing	Establishing cooperation with KROSS and enabling business customers of 36 KROSS stores throughout Poland to use the PKO Leasing offer in the field of universal bicycle leasing as well as those supported by an electric engine.
Development of digital processes and remote channels	Extension of the pilot programme to provide digital process tools (PKO Leasing Online) to suppliers in the machinery and equipment segment, enabling customers to obtain lease financing at suppliers' stationary and online shops. There is great interest in the tool being offered, with an increasing number of cooperation agreements signed.
Offer for agriculture	Signing an agreement with Bauer Group Polska sp. z o.o., a nationwide supplier of agricultural machinery and equipment for their financing.

Achievements of PKO Towarzystwo Funduszy Inwestycyjnych S.A.

Top places on the investment funds market	Net assets of funds managed by the company reached PLN 35.5 billion at the end of June 2023, including net assets of retail funds of PLN 33.6 billion, which allowed the company to maintain its 2 nd place (with a share of 12.2%) and 1 st place (with a share of 20.0%) in the market, respectively*.
PPK market leader	Maintaining a leading position in the Employee Capital Plans (PPK) with a market share of 31.5%* and with more than 60 different types of funds and schemes on offer. Assets of PLN 5.2 billion were accumulated in PPK accounts managed by the company at the end of June 2023.
Sustainable investment offering	PKO TFI S.A. published the information resulting from Article 10 of the SFDR for the "PKO Ekologii i Odpowiedzialności Społecznej Globalny" fund separated within PKO Parasolowy - fio and thus expanded its offering to include the first product meeting the requirements of Article 8 of the SFDR (investments promoting environmental and/or social aspects, not having sustainable investments as an objective, but making such investments to a certain extent), commonly referred to as "light-green plus".

* Source: Analizy Online

Achievements of PKO Bank Hipoteczny S.A.

Issue of covered bonds	Conducting two issues of mortgage covered bonds under the International Bond Issue Programme. The total nominal value of covered bonds issued amounted to PLN 1 billion (each issue of PLN 500 million). Mortgage covered bonds issued are listed on the Luxembourg Stock Exchange and on the parallel market of the WSE regulated in Warsaw.
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DEPOSIT OFFERING

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

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

- introduced new products:

- ✓ IKO birthday deposit with interest of 10% p.a., thanks to which customers could allocate their funds up to PLN 50 thousand for 6 months, provided that the mobile application is active (the implementation of at least one of the three conditions in IKO – purchase of investment funds, purchase of insurance, establishment of a standing order). The deposit was active from 1 June to 30 June 2023,
 - ✓ Deposit for Personal Banking customers and Private Banking customers, which allows funds to be deposited for 3 months with an interest rate of 4.5% and 5% respectively at the end of March,
 - ✓ PKO Towarzystwo Funduszy Inwestycyjnych S.A. (PKO TFI) Investor Deposit for Private Banking customers who invest in funds managed by PKO TFI – it is a 3-month deposit with an interest rate of 6.5%, non-revolving, opened up to the maximum amount of funds accumulated by the customer in open-ended investment funds and in an account for PPK/PPE,
 - ✓ Term deposit with an 18-month contractual term – customers can earn 4.5%,
 - ✓ A 25-month non-revolving structured term deposit based on a basket of shares of sustainable companies II – the companies selected have high sustainability (ESG) ratings; interest for the customer depends on the change in the companies' share prices during the term of the deposit,
 - ✓ 25-month, non-revolving structured term deposits based i.a. on baskets of shares: American, German or Asian companies,
 - ✓ 25-month structured term deposits, non-revolving, based on i.a. baskets of shares: telecommunications companies, biotechnology, related to e-commerce and lifestyle.
- shortened the period for which it offers the 60+ Deposit aimed at customers aged 60 and over – from 24 to 12 months,
 - unified the interest rate on the Deposit for new funds regardless of the term of the agreement – 6% for individual customers and 6.5% for Private Banking and Private Banking customers. The deposit is non-revolving and limited to 1 account and PLN 200 thousand (for each period) at the same time.

The average interest on new term deposits in PLN (for individuals and enterprises) in the first half of 2023 was 5.9%. The average interest on all term deposits in PLN placed with PKO Bank Polski S.A was 5.05% in the first half of 2023, compared to 1.47% in the first half of 2022 and 4.08% in the second half of 2022.

In the first half of 2023, the Bank launched five editions (January, February, March, April, May) of a promotion for new funds for Rachunek Oszczędnościowy Plus (Savings Account Plus) with an interest rate of 5.5% p.a. and in June launched another edition of the promotion for new funds for the Savings Account Plus with an interest rate of 6.5% p.a. Until 28 September 2023, the Bank extended the interest rate to 2% for savings accounts (the increased interest rate applies to all funds accumulated in the savings account). The total interest rate for new funds in the Rachunek Oszczędnościowy Plus (Savings Account Plus) was 8.5%. In addition, the Bank has extended the promotion on Pierwsze Konto Oszczędnościowe (First Savings Account – an account for people up to the age of 18) until the end of November with an interest rate of up to 8% p.a. for systematic saving.

9.2. SUPPORT FOR BORROWERS

Government Programme – Safe 2% Loan

On 3 July 2023 PKO Bank Polski S.A. enabled applications for mortgage loans under the Government Programme called Safe 2% Loan. This loan is granted on the terms of the “First Home” programme, which allows to receive subsidies for loan instalments and financing up to 100% of expenditures related to the purchase or construction of the first property. According to the programme, loan instalments for 10 years will be reduced by contributions of the Government Housing Fund. Loans up to PLN 500 thousand for a single and/or PLN 600 thousand for marriage and a couple or single with a child will be covered by additional payments. During the effective term of additional instalments, the loan shall bear interest at a fixed interest rate, which the Bank determines once every 5 years. This programme does not have a limit on the price per 1 sqm.

A loan may be sought by persons who did not have an apartment and/or a house, who have not reached 45 years of age and are creditworthy. Part of the financed amount may be covered by BGK guarantee. Cooperation agreement with BGK as part of the Safe 2% Loan Programme was signed on 28 June 2023, effective from 1 July 2023.

The loan can be used, for example, to purchase an apartment or a house, construct and finish a house, and even purchase a plot along with the construction of a house.

An application for a Safe 2% loan at PKO Bank Polski S.A. can be submitted in 516 mortgage branches and 94 Bank agencies and intermediaries. 7,942 applications were submitted between 3 and 31 July 2023.

Loan holidays

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

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

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

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

By the end of June 2023, 295.7 thousand customers of the Group applied for a suspension of their mortgage loan or advance repayment, and the total number of suspensions applied for was 2,055 thousand, representing 47% of the maximum number of instalments to be suspended for all eligible customers.

As of 30 June 2023, the Bank's Group has estimated the level of loan holidays loss in terms of value. The total effect recognised in the Group's accounting records amounted to PLN 3,111 million, unchanged from the effect recognised on 31 December 2022.

Detailed information is presented in the Financial statements of the Bank's Group for the first half of 2023 – note 25 "Loans and advances to customers".

Housing loans

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

Since the beginning of the programme, the offer has been used by 236 Bank's Customers, and the total value of housing loans with family repayments granted to natural persons as of 30 June 2023 amounted to PLN 75 million.

Guarantees for enterprises

Customers of PKO Bank Polski S.A., as of 1 July 2022, have been able to use the guarantee under the cooperation with BGK in the Crisis Guarantee Fund, securing repayment of loans for the financing of everyday business activities or capital expenditure in order to improve the borrower's financial liquidity. The programme is designed for medium and large enterprises.

The guarantees cover up to 80% of the amount of the loan, and the maximum amount which can be guaranteed is PLN 250 million. The purpose of the guarantee is to help the entrepreneurs affected by the adverse economic effects of the Russian aggression against Ukraine, including the effects of the sanctions imposed by the European Union and its economic partners and the retaliatory measures introduced in response to them, maintain financial liquidity. The support is offered until 31 December 2023. At the end of the first half of 2023, the total value of guarantees issued amounted to PLN 1,280 million.

Customers of PKO Bank Polski S.A. (medium and large enterprises) also benefited from guarantees aimed at minimising the effects of the COVID-19 pandemic. As of 30 June 2023, the total value of active guarantees amounted to PLN 1 billion.

At the same time, in the first half of 2023, PKO Bank Polski S.A. was honoured by BGK with an award for the highest value of de minimis guarantees among commercial banks in loans and advances granted to SMEs. Since 2013, the Bank has granted over PLN 33.8 billion worth of SME loans and advances with de minimis guarantees to entrepreneurs. In the first half of 2023, it was possible to include the de minimis guarantee also for loans granted in convertible currency in EUR.

De minimis guarantees have been introduced to improve access to finance for companies in the SME sector. They can be used by micro-enterprises, SMEs to secure the repayment of a working capital loan for day-to-day operations, an advance or an investment loan. With the de minimis guarantee, the entrepreneur is able i.a. to benefit from an extended lending period for an overdraft facility and incur lower overall loan costs. Preferential conditions for granting de minimis guarantees were extended until 31 December 2023.

9.3. CREDIT PROTECTION GUARANTEE FOR THE BANK'S PORTFOLIO

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

9.4. PRO-ENVIRONMENTAL EFFORTS

The Bank has been improving the efficiency of the resources used and has continued the following measures: replacement of windows, replacement of lighting with energy-efficient lighting and installation of automatic light controls, replacement of heaters and change of heating method to gas heating, installation of ventilation with recuperation, installation of time switches on electric water heaters, fitting of heating boilers with controls, modernisation of climate solutions.

After completion of activities related to automation, the Bank applied to the ERO with applications for energy efficiency certificates (concerns: modernisation of control automation of mechanical ventilation systems – 82 facilities, modernisation of boiler automation in sources powered with natural gas and fuel oil – 52 facilities, and application of automation in water heaters – 420 objects).

The Bank marked projects supporting environmental objectives in its portfolio of replacement and investment projects.

9.5. SUPPORT FOR UKRAINE AND THE SITUATION OF UKRAINIAN COMPANIES FROM THE BANK'S GROUP

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

Humanitarian aid

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

In the first half of 2023, the PKO Bank Polski Foundation donated a total of PLN 3.4 million, including:

- approx. PLN 2.5 million to continue providing accommodation and food in Poland for refugees from Russian-occupied areas,
- PLN 0.9 million to support eleven NGOs and entities carrying out aid activities.

KREDOBANK S.A. provided 1.8 million Ukrainian hryvnia (UAH) (approx. PLN 200 thousand) in the form of a cash donation intended for the installation of the water treatment system in the Lviv oblast hospital of war veterans.

Economic situation on the Ukrainian market

In the first quarter of 2023 Ukraine remained in recession – GDP dropped by 10.5% y/y, but the economy is gradually adapting to activity during the war. The National Bank of Ukraine forecasts that in 2023 GDP will grow by approx. 2% after the drop of 29.1% in 2022. Improving consumer sentiment and increased public expenditure (partly financed by foreign support) causes drive towards economic stabilisation. The moods of business entities, production and export capacities have been negatively impacted by the detonation of a dam in Nova Kakhovka and Russia's termination of the grain agreement. Despite high deficit in trade of goods (-27.8% of GDP in the first quarter 2023), external balance is ensured by the steady inflow of international assistance and foreign loans. The situation is even improving – in June 2023 foreign reserves reached a record USD 39 billion. Inflation is also improving, with CPI inflation of 12.8% y/y in May 2023 (compared to a peak of 22.7% y/y registered in December 2022) and remains in a downward trend, which could allow monetary easing in the future (currently the NBU base rate is 25%). The UAH exchange rate remains fixed against the dollar (as of 21 July 2022 at UAH 36.4686 per USD). In the labour market, there are some signs of recovery in demand for employees with stable labour supply.

The situation of internal migrants has not changed significantly since the end of 2022 – without employment there is still approx. 30% of the previously employed migrants.

Ukrainian Banking Sector

According to data from the National Bank of Ukraine, the number of banks which conducted operating activities in Ukraine, as of the end of June 2023, fell to 65 compared to 69 in June 2022. The value of the sector's assets as of the end of June 2023 increased by 24.9% y/y to UAH 2.49 trillion and equity by 21.4% y/y, up to UAH 0.25 trillion. The ratio of equity to assets in June 2023 amounted to 10.1% and increased as compared to the previous two quarters.

Measures of stability of the banking sector in Ukraine have improved over the last quarters. Capital adequacy ratio R2 at the beginning of July increased to 23.8% from 19.7% at the beginning of 2023 and 18.0% at the beginning of 2022 (a requirement of 10%). Banks remain very liquid, supported by a high growth of deposits (in May 2023 by 36.1% y/y to UAH 2.09 trillion) with a decrease in the volume of loans (in May 2023 by 7.7% y/y to UAH 0.99 trillion). The ratio of loans/deposits among residents systematically decreased, in May it amounted to 46.4%, as compared to 72.2% in January 2022 (last month before the war). In May 2023, the volume of loans to enterprises decreased by 6.9% y/y and to households by 14.4% y/y. Enterprise loans remain weaker than before the outbreak of the war. New sales of loans to households in April 2023 ceased to decline for the first time since the outbreak of the war, but, depending on the segment, stabilised at levels 25-50% lower than before war. The consumer loan segment shows signs of rebound. The sale of mortgage loans was again discontinued, after the funds launched in October 2022 under the government's 3% interest rate programme, eOselia, were exhausted.

In June 2023, the National Bank of Ukraine, in its Financial Stability Report, assessed that all risk measures for the financial system improved as compared to December 2022 (except for liquidity risk, which remained unchanged). In May 2023, the return on assets (ROA) was 5.31% and return on equity (ROE) 53.9%, compared to -0.2% and -1.4% in June 2022, respectively.

Activities of Ukrainian companies

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

KREDOBANK S.A. is a universal bank which services customers mainly in the western part of Ukraine and in Kyiv. As of the end of June 2023, the Company had a head office in Lviv and 67 branches, including 13 branches located in areas most affected by war.

KREDOBANK S.A.'s priority is to ensure the safety of its employees and maintain business continuity, servicing customers on an on-going basis. 32 branches of KREDOBANK S.A., which are part of POWER BANKING (joint banking network, established at the initiative of the National Bank of Ukraine), continue to provide customers with services from a specific list of urgent banking services.

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

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

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

9.6. SIGNIFICANT AWARDS

In the first half of 2023 PKO Bank Polski S.A. Group received numerous awards and distinctions. The most important are:

- **European Digital Banking Leader:** PKO Bank Polski S.A. won the Finnoscore 2023 ranking and became the European Digital Banking Leader; it received the highest notes for online banking and mobile application. This year's ranking was created after the analysis of publicly available information from 230 banks from 26 countries in Europe and North America. PKO Bank Polski S.A.'s victory in this ranking confirms its strong

position as a technology leader, not only in the Polish banking sector, but also in comparison the world's leading banks,

- **Mobile Trends Awards:** IKO – mobile application of the PKO Bank Polski S.A., won the grand prize in a vote of Internet users, who appreciate it for innovation and practical functions,
- **Golden Banker 2023:** PKO Bank Polski S.A. won in the mortgage loan category, distinguishing i.a. attractive price offer for mortgage loans. PKO Bank Polski S.A. took second place in the Account for Children category for the favourable savings offer for children,
- **Top Employer 2023:** PKO Bank Polski S.A. received the title and certificate of Top Employer. It confirms a pragmatic personal strategy of the Bank, high quality work environment and responsibility in shaping the organisational culture,
- **Broker of the Year 2022:** The WSE granted the Broker of the Year 2022 prize to the Brokerage Office – Biuro Maklerskie PKO Banku Polskiego,
- **Best in Cloud:** PKO Bank Polski S.A. received distinction for the Advanced Data Analytics Platform ML Ops. The state-of-the-art solution in the Polish banking sector has been appreciated, i.a. for flexibility and impact on the creation of new business solutions,
- **Cashless Pay 2022:** “PKO Płacę później (PKO Pay Later)” – the deferred payment service of PKO Bank Polski S.A. won in the category of the Most Interesting Payment Project 2022 by the votes of Internet users.

10. NETWORK OF BRANCHES AND AGENCIES

PKO Bank Polski S.A. provides its customers a wide network of retail branches and agencies, private banking offices, corporate branches and branches abroad.

As of 30 June 2023, PKO Bank Polski S.A.'s retail chain comprised 896 retail branches concentrated in 10 regional branches, 8 private banking offices and 11 enterprise banking offices. Compared to the end of 2022, the total number of retail branches decreased by 9.

The corporate segment sales network covered 23 regional concentrated corporate centres in 7 regional corporate offices and branches in the Federal Republic of Germany, in the Czech Republic, the Slovak Republic. In the first half of 2023, the Branch was opened in Romania, which started marketing and hospitality activities. The operational launch of the Bucharest branch is planned for 2024.

The branch and ATM network is complemented by the agency network. As of the end the first half of 2023, PKO Bank Polski SA collaborated with 298 agencies.

Table 7. Operational data

	30.06.2023	31.12.2022	30.06.2022	Change since:	
				31.12.2022	30.06.2022
Number of branches in the retail segment	925	934	937	-9	-12
regional retail branches	10	10	10	0	0
retail branches	896	905	908	-9	-12
private banking branches	8	8	8	0	0
corporate banking branches	11	11	11	0	0
Number of branches in the corporate and investment segment:	34	33	33	1	1
regional corporate branches	7	7	7	0	0
regional corporate centres	23	23	23	0	0
foreign branches	4	3	3	1	1
Number of agencies	298	349	400	-51	-102
Number of ATMs	3 034	3 011	2 995	23	39

PKO Bank Polski S.A. continued the process of modernisation of its branches. In the first half of 2023, the Bank upgraded and modernised 11 outlets, including:

- 5 comprehensive branch modernisations (in Nowy Sącz, Krynica Zdrój, Gryfice, Katowice, Siemiatycze),
- 6 relocations of branches to the most attractive location (in Krakow, Wieleń, Ozorków, Grodzisk Wlkp. and two branches in Katowice) and a Private Banking Branch in Katowice.

PKO Bank Polski S.A. has been consistently implementing a new model for serving retail customers based on the role of a Customer Assistant, i.e. an employee responsible for initially identifying the customer's needs as soon as they enter the branch and arranging the visit as efficiently as possible. At the same time, branches switching to the new service model are being equipped with Internet workstations with access to the electronic banking portals

of PKO Bank Polski and other banks. At the end of the first half of 2023, approx. 150 branches of the Bank were adapted to the new model.

11. RISK MANAGEMENT

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

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

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

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

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

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

as well as tracking negative market information in news websites.

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

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

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

A detailed description of the principles of risk management in the Group was presented in the Financial statements of the Bank's Group for the first half of 2023 – note 39 "Risk management in the Group", note 41 "Management of foreign exchange risk of mortgage loans for private individuals", note 42 "Management of interest rate, currency and liquidity risk" and in the report entitled "Capital adequacy and other information of the Group of Powszechna Kasa Oszczędnościowy Bank Polski Spółka Akcyjna to be published as of 31 December 2022".

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

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

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

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

12. INFORMATION FOR INVESTORS

12.1. DIVIDEND AND PROFIT APPROPRIATION

On 21 June 2023, the Annual General Meeting of PKO Bank Polski S.A. (The Bank's AGM) passed a resolution on distribution of profit of PKO Bank Polski S.A. for 2022, in accordance with which:

- the amount of PLN 1,629,138,013.50 was allocated to reserve capital earmarked for the dividend, including interim dividend payments, in accordance with § 30 of the Bank's Articles of Association,
- the amount of PLN 1,629,138,013.50 was left undistributed.

At the same time, the Bank's AGM passed a resolution to leave PKO Bank Polski S.A.'s retained earnings from the previous years, in the amount of PLN 7,808,836,372, undistributed.

The above resolutions are compliant with the individual recommendation of the 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,
- the Bank not paying a dividend from the profit earned in the period from 1 January to 31 December 2022 until the CJEU issues a judgment on the return of additional funds over and above those paid out while executing an agreement cancelled on the basis of unfair terms of agreement (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 a dividend from profit earned in the period from 1 January to 31 December 2022 after the CJEU ruling referred to in the item above is issued, 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 and buyouts of own shares, without prior consultation with the supervisory authority.

The distribution of profit for 2022 adopted by the Bank's 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.

On 21 July 2023, the Bank received a negative opinion from the PFSA concerning the possibility of the Bank paying out a part of the profit from reserve capital.

DIVIDEND POLICY

On 15 of December 2022, PKO Bank Polski S.A. adopted a dividend policy for the Bank and the Bank's Group (Dividend policy). The Dividend policy considers the Bank's intention to provide stable dividend payments in the long term, in accordance with the principle of prudent management of the Bank and the Bank's Group, in compliance with the law and the PFSA position on the dividend policy assumptions of commercial banks. The

objective of the Dividend policy is to optimise the capital structure of the Bank and the Bank's Group, while considering the return on equity, the cost of capital and the capital needs for development, and maintaining an appropriate level of the capital adequacy ratios and meeting the minimum requirement for own funds and eligible liabilities subject to write-down or conversion (MREL).

In accordance with the Dividend policy, the buyback of own shares for cancellation is an additional tool for capital redistribution. The General Meeting gives its consent to the acquisition of own shares by the Bank, after prior approval of the Supervisory Board, specifying the terms of the acquisition, including the maximum number of shares to be acquired, the period of authorisation to acquire shares, which may not exceed five years and the maximum and minimum amount of consideration for the acquired shares, if the acquisition takes place for consideration. Purchase of own shares for cancellation in each case requires the Bank to obtain the prior consent of the Polish Financial Supervision Authority.

12.2. AMENDMENT OF SIGNIFICANT CORPORATE DOCUMENTS OF THE BANK

AMENDMENT TO THE ARTICLES OF ASSOCIATION AND REGULATIONS OF THE SUPERVISORY BOARD AND THE GENERAL MEETING OF THE BANK

Amendment to the Bank's Articles of Association

On 21 June 2023, the Bank's AGM adopted a resolution on amending the Articles of Association of PKO Bank Polski S.A. The changes were introduced in § 4 and § 7 of the Bank's Articles of Association:

1) in § 4 section 2 in item 15, after letter d, the following letter e was added:

“e) executing orders to buy and/or sell financial instruments on behalf of the principal,”

2) § 7 section 4 reads as follows:

“4. Purchase of own shares by the Bank for cancellation shall require a resolution of the General Meeting and consent of the Polish Financial Supervision Authority.”

Amendments to the Bank's Articles of Association require consent of the PFSA and registration with the National Court Register.

Amendment to the Regulations of the Supervisory Board of the Bank

The Bank's AGM approved the Regulations of the Supervisory Board of the Bank, which introduced changes in the scope of:

- 1) § 3 item 1 – the provision on the Supervisory Board issuing opinions on matters put on the agenda of the General Meeting was introduced, consistent with Best Practice for GPW listed companies 2021,
- 2) § 7 – the standard resulting from Article 382¹ of the Code of Commercial Companies was incorporated, which regulates the cooperation of the Supervisory Board with external advisors,
- 3) § 8 section 2 – the time limit for convening meetings at the request of a Member of the Supervisory Board and/or the Management Board was adjusted to the time limit of 2 weeks required by the Code,
- 4) adding § 8 section 5 – the possibility for the Supervisory Board to hold meeting even without formal convening was introduced, in accordance with Article 389 § 6 of the Code of Commercial Companies.

Amendment to the Regulations of the General Meeting of Shareholders of the Bank

The Bank's AGM approved the Regulations of the General Meeting of Shareholders, introducing, apart from amendments of an editorial nature, the amendments resulting from the amendment to the Code of Commercial Companies made by the Act of 18 November 2020 on electronic services.

ASSESSMENT OF ADEQUACY OF INTERNAL REGULATIONS CONCERNING THE FUNCTIONING OF THE BANK'S SUPERVISORY BOARD

The Bank's AGM, pursuant to Article 395 § 5 of the Code of Commercial Companies, in connection with item 8.9 of the PFSA's Recommendation Z, positively assessed the adequacy of internal regulations concerning the functioning of the Supervisory Board of PKO Bank Polski S.A. and the effectiveness of its operation, after having read the legal opinion of an external advisor on the subject matter.

12.3. SHAREHOLDERS HOLDING, DIRECTLY OR INDIRECTLY THROUGH SUBSIDIARIES, AT LEAST 5% OF THE TOTAL NUMBER OF VOTES AT THE GENERAL MEETING

According to PKO Bank Polski S.A.'s knowledge, as of the date of the report, there are three shareholders holding directly and/or indirectly significant blocks of shares (at least 5%): State Treasury, Nationale-Nederlanden Otwarty Fundusz Emerytalny, and Allianz Polska Otwarty Fundusz Emerytalny.

Detailed information is presented in the Financial statements of the Bank's Group for the first half of 2023 – note 36 "Bank's Shareholders".

PKO Bank Polski S.A. did not purchase or sell any own shares on its own account in the first half of 2023.

12.4. SHARES OF PKO BANK POLSKI S.A. HELD BY MEMBERS OF THE BANK'S GOVERNING BODIES

As of the date of publication of financial reports for the periods ended 30 June 2023, 31 March 2023, and 31 December 2022 none of the members of the Bank's Supervisory Board held any shares or rights to shares of PKO Bank Polski S.A.

The number of shares of PKO Bank Polski S.A. held by members of the Management Board of the Bank as of the date of publication of the abovementioned reports is presented in the table below. The nominal value of each share is PLN 1. During the period in question, the Management Board members of the Bank did not hold rights to shares.

Table 8. Shares of PKO Bank Polski S.A. held by members of the Bank's Management Board

No.	Name	Ownership of shares as at the date of publication of the financial report for the period ending					
		30.06.2023		31.03.2023		31.12.2022	
		number of shares	nominal value	number of shares	nominal value	number of shares	nominal value
1	Dariusz Szwed, Vice-President of the Management Board - from 14th April 2023 roku	0	0	0	0	-	-
2	Maciej Brzozowski, Vice-President of the Management Board	0	0	0	0	0	0
3	Marcin Eckert, Vice-President of the Management Board	0	0	0	0	0	0
4	Paweł Gruza, Vice-President of the Management Board	0	0	0	0	0	0
5	Wojciech Iwanicki, Vice-President of the Management Board	0	0	0	0	0	0
6	Andrzej Kopyrski, Vice-President of the Management Board - from 1st January 2023 roku	496	496	496	496	496	496
7	Artur Kurcweil, Vice-President of the Management Board	0	0	0	0	0	0
8	Piotr Mazur, Vice-President of the Management Board	8000	8000	8 000	8 000	8 000	8 000
	Mieczysław Król, Vice-President of the Management Board - from 13th April 2023 roku	-	-	-	-	6 000	6 000
	Maks Kraczkowski, Vice-President of the Management Board - from 13th April 2023 roku	-	-	-	-	0	0

12.5. MANAGEMENT OF ESG FACTORS

The Bank took actions which ordered the process of managing ESG factors and their impact on the environment. Department of Sustainable Development ESG was appointed under the supervision of the President of the Management Board, which will become ESG's competence centre coordinating activities in the Bank's Group. The Management Board appointed the Vice President of the Management Board managing the work of the Management Board to supervise and coordinate ESG risk management activities. In order to fulfil the commitment under the Strategy to become the leader of new financing of sustainable and transformation projects, the Bank has created a new department that will develop new ESG products and support the sale of existing ones.

At the beginning of July 2023, the Bank established the Sustainable Development Committee, which aims to take decisions necessary for the implementation of the Bank's and the Bank's Group's strategic objectives in the area of sustainable development and supervising the management of the impact of ESG factors on the Bank and the

Group of the Bank. The Committee is composed of all members of the Management Board and heads of most areas. The Committee's activities are chaired by the President of the Management Board or the Vice-President of the Management Board managing the work of the Bank's Management Board, and their deputy is the Vice President of the Management Board supervising the Risk Management Area. The first meeting of the Committee was held in July 2023, and subsequent meetings will be held as needed, at least once every two months.

12.6. RATINGS

ESG RATINGS

As of the end of the first half of 2023, the Bank's ESG ratings were as follows: 3.3 (FTSE Russell), A (MSCI), 23.5 (Sustainalytics) and 46 (V.E). In the first quarter of 2023, Sustainalytics downgraded the Bank's rating from 21 to 23.5 as a result of increased risk exposure for the banking sector and a deterioration in the Bank's ESG risk management scoring across all categories. In the second quarter of 2023, the rating values did not change.

13. OTHER INFORMATION

DISCLOSURE OF NON-FINANCIAL INFORMATION

PKO Bank Polski S.A. Group prepared a Statement on non-financial information, which constituted a separate part of the Directors' Report on the operations of the PKO Bank Polski S.A. Group for 2022 and published it on PKO Bank Polski S.A.'s website. The statement was prepared in accordance with the provisions of the Accounting Act and contains all elements required by law. The Statement presents information on labour, social, and environmental issues.

The Bank verified quantitative data on employment by groups of positions, age, contract type and gender for 2022 and published them in the Commentary of the Management Board to the results of the PKO Bank Polski S.A. Group for the three-month period ended 31 March 2023, chapter I.G.

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

PKO Bank Polski SA did not publish forecasts of financial performance for 2023. In current reports, the Bank communicated information on significant events that affected the Bank's and the Bank's Group's results.

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

PKO Bank Polski S.A. is obliged to inform in the current reports about all agreements meeting the definition of confidential information provided in Regulation (EU) No 596/2014 of the European Parliament and of the Council on market abuse. In the first half of 2023, the Bank has entered into and published information about a guarantee agreement entered into on 27 February 2023, which provides unfunded credit protection in respect of the Bank's portfolio of selected corporate credit receivables, in accordance with the CRR (detailed information provided in chapter 9.3).

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

PKO Bank Polski S.A.'s subsidiaries did not enter into any significant agreements and material agreements with the central bank or supervisory authorities in the first half of the year.

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

In the first half of 2023, neither PKO Bank Polski S.A. nor PKO Bank Polski S.A.'s subsidiaries took out any loans or advances or received any guarantees or pledges, which were not related to their operating activities.

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

The Group has not identified any unpaid loans or advances and any breach of material provisions of a loan or advance agreement where the Group acts as a borrower with regard to which no remedial action had been taken until 30 June 2023.

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

The Bank's Group does not identify transactions with subordinates that deviate materially from arm's length basis. Subsidiaries of PKO Bank Polski S.A. did not conclude any transactions with related parties which differ significantly from arm's length basis.

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

In the first half of 2023, neither PKO Bank Polski S.A nor PKO Bank Polski S.A's subsidiaries have entered into significant agreements to guarantee the repayment of a loan or advance and to grant guarantees for the repayment of a loan or advance.

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

Taking into consideration the value of and an increase in the number of court proceedings, PKO Bank Polski S.A. considered as material the court proceedings relating to mortgage loans in convertible currencies. As of 30 June 2023, 24,751 court proceedings were pending against the Bank (as of 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 of 31 December 2022: PLN 7,725 million), including one group proceeding with 72 loan agreements. The subject matter of the Bank's customers' actions are mainly claims for declaration of invalidity of an agreement or for payment of amounts paid by the customer to the Bank in performance of an invalid agreement. Customers allege abusive provisions and/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.

Information on the value of all legal proceedings of the Bank and Bank's Group, as well as a description of the main disputes, including those relating to mortgage loans in convertible currencies, is presented in the Financial statements of the Bank's Group and the Bank for the first half of 2023 - in note 35 "Disputes" and in note 20 "Income taxes", respectively.

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

In the first half of 2023, PKO Bank Polski S.A and PKO Bank Polski S.A's subsidiaries did not experience any other significant events relevant to the assessment of their personnel, assets, financial position and financial performance.

14. GLOSSARY

Interest-bearing assets - amounts due from banks, securities and loans and advances to customers,

Liquid assets and cash - amounts due from banks, cash, balances with the Central Bank, securities (banking portfolio), repo transactions,

CPI - consumer price index,

Customer deposits - amounts due to customers,

Financing granted to customers - loans and advances granted to customers (including amounts due from finance lease) and municipal and corporate bonds (excluding the bonds of international financial organisations) presented in securities, other than securities held for trading,

External financing - subordinated liabilities, liabilities in respect of issue of securities measured at amortised cost, and loans and advances received,

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

Operational expenses - operational expenses (including net regulatory charges),

Regulatory costs - net regulatory charges,

Total capital ratio - own funds to the total capital requirement multiplied by 12.5,

Securities (banking portfolio) – securities less municipal and corporate bonds (excluding bonds held for trading) and bonds of international financial organisations,

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

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

Average interest on loans – interest income on loans and advances to customers on an annual basis, excluding the impact of statutory loan holidays, to the average balance of loans and advances to customers from the last 5 quarters,

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

C/I ratio (costs to income ratio) – operating expenses (including net regulatory charges) to the result on business activities on an annual basis,

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

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

Interest margin ratio – net interest income, excluding impact of statutory loan holidays, on an annual basis to the average balance of interest-bearing assets (including amounts due from banks, securities and loans and advances to customers) from the last 5 quarters,

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

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

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

Net operating result – result on business activities on a management basis, operating expenses and tax on certain financial institutions,

Result on financial transactions – result on financial transactions and gains and/or losses on derecognition of financial instruments less the result on loans measured at fair value through profit and/or loss,

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

Result on business activities – result on business activities less result on loans measured at fair value through profit or loss,

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

15. STATEMENT OF THE MANAGEMENT BOARD

The Management Board of PKO Bank Polski S.A. declares that to the best of its knowledge:

- the condensed interim financial statements of PKO Bank Polski S.A. for the period of six months ended 30 June 2023 and comparative data have been prepared in accordance with the applicable accounting principles and truly, fairly, and clearly reflect the asset and financial standing of PKO Bank Polski S.A. and its financial performance,
- the condensed interim consolidated financial statements of the PKO Bank Polski S.A. Group for the period of six months ended 30 June 2023 and comparative data have been prepared in accordance with the applicable accounting principles and truly, fairly, and clearly reflect the asset and financial standing of the PKO Bank Polski S.A. Group and its financial performance,
- this Directors' Report on the operations of PKO Bank Polski S.A. Group for the first half of 2023 provides a true view of the development, achievements, and situation of PKO Bank Polski S.A. and PKO Bank Polski S.A. Group, including a description of basic threats and risks.

The Management Board of PKO Bank Polski S.A. declares that the entity authorised to audit financial statements, reviewing the above financial statements has been selected in accordance with the provisions of law, and that this entity and the statutory auditors carrying out such reviews have met the conditions for issuing impartial and independent inspection reports, in accordance with applicable regulations and professional standards.

This Directors' Report on the activities of PKO Bank Polski S.A. Group for the first half of 2023 consists of 56 consecutively numbered pages.

SIGNATURES OF ALL MEMBERS OF THE BANK'S MANAGEMENT BOARD

24.08.2023	DARIUSZ SZWED	Vice-President of the Management Board managing the work of the Management Board
24.08.2023	MACIEJ BRZOZOWSKI	Vice-President of the Management Board
24.08.2023	MARCIN ECKERT	Vice-President of the Management Board
24.08.2023	PAWEŁ GRUZA	Vice-President of the Management Board
24.08.2023	WOJCIECH IWANICKI	Vice-President of the Management Board
24.08.2023	ANDRZEJ KOPYRSKI	Vice-President of the Management Board
24.08.2023	ARTUR KURCWEIL	Vice-President of the Management Board
24.08.2023	PIOTR MAZUR	Vice-President of the Management Board

The original Polish document is signed with a qualified electronic signatures.