



Bank Polski

## **PKO Bank Polski S.A. Group Directors' Report for the first half of 2022**

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

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

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

PKO Bank Polski S.A. is a universal bank that serves individuals, legal entities and other Polish 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, and provides car fleet management services, transfer agent services, provides technological solutions, outsources IT professionals and supports other entities' operations and manages properties.

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

The PKO Bank Polski S.A. Group stands out on the Polish market due to its good financial results, which ensure its stable and safe growth.

## 2. RESULTS OF THE GROUP'S OPERATIONS IN THE FIRST HALF OF 2022

### 2.1. THE MOST IMPORTANT EVENTS, INCLUDING UNUSUAL ONES

#### 2.1.1. THE WAR IN UKRAINE AND ITS EFFECT ON THE GROUP'S OPERATIONS

On 24 February 2022, the Russian Federation (Russia) invaded Ukraine. The outbreak of a military conflict just outside the Polish border caused a rapid growth in risk aversion, as well as significantly bigger withdrawals from ATMs and increased purchases of fuel and groceries. In response to Russian aggression, the Western countries introduced unprecedented economic sanctions and tried to cut connections with the Russian economy as far as possible. The war is a strong supply shock for the global (mainly European) economy due to a limited supply and growing prices of energy, agricultural and industrial resources and broken supply chains. This is accompanied by the increased volatility of financial markets and increased risk aversion, which mainly affect the assets of the countries bordering with Russia and Ukraine. The countries of the region, including in particular Poland, have provided shelter to millions of Ukrainian refugees, and the current refugee crisis is unprecedented in the history of the European Union in terms of its scale.

The PKO Bank Polski S.A. Group companies, including KREDOBANK S.A. with its registered office in Lviv and the debt collection and financial companies based in Kiev and Lviv, continue their operations in Ukraine.



Since the first moments of the invasion, the Group has been engaged in various forms of aid. It helps the employees of its Ukrainian companies and their families. It has joined the #PomocDlaUkrainy (#HelpForUkraine) campaign. The Bank and its Foundation were the first institutions in Poland to make available an account for making voluntary payments for war refugees. PKO Bank Polski S.A. offered Ukrainian citizens assistance in using the basic banking services in the territory of Poland.

#### **Help for the employees of the Ukrainian companies of the Group**

PKO Bank Polski S.A. provided direct support to the employees of the Group companies operating in Ukraine and their families. They were offered transport after crossing the Polish border, accommodation, health care, legal assistance and articles of everyday use. Employees of the PKO Leasing S.A. Group transported refugees in company cars.

The total number of persons who had arrived in Poland by 30 June 2022 and used the Bank's help or support was 880.

### Humanitarian aid

Until 30 June 2022, the account opened by the Bank's Foundation for collecting aid for Ukraine was credited with PLN 11.9 million, of which PLN 3 million was paid by PKO Bank Polski S.A. Of this amount, PLN 7.4 million was transferred by the Foundation to non-government organizations and entities helping Ukrainian civilians (including mainly refugees). This money was used e.g. to buy an ambulance, special medical equipment, transportation vehicles, medicines and food.

Additionally, the Foundation made donations in kind: decommissioned assets received from the Group companies (including 5 buses, furniture, computers/laptops) with a total value of PLN 0.5 million.

The Group also organized and financed transport to Poland for 300 war refugees from eastern Ukraine, mainly women and children.

KREDOBANK S.A. donated UAH 3 million worth of donations, comprising cash, medical equipment, medicines and food, partly through the Kredo Foundation. Together with the Foundation, it organized a shelter in Lviv for refugees from the regions affected by the war. The shelter is run by the company's employees who work there on a voluntary basis. Until 30 June 2022, more than 750 refugees used the shelter. The Company also helps its employees and their families, in particular with evacuation and finding accommodation.

### Voluntary work

The employees of the PKO Bank Polski S.A. Group work with various institutions, local government and non-government organizations on a voluntary basis. They pursue their own initiatives and encourage the business and local communities to cooperate. They have been involved in thousands of aid projects conducted in all parts of Poland, including work on border crossings, railway stations and reception points, collections of food, clothes, cleaning products or toys for children, and transport of refugees. Many employees of the Group hosted Ukrainians in their homes.

### The product offer

PKO Bank Polski S.A. introduced a package of amenities for Ukrainian citizens, including:

- a special bank account offer for individuals – it comprises the standard PKO Konto Bez Granic with a multi-currency card offered free of charge for a period of 12 months, with access through the Internet and telephone, or its temporary version – Czasowe Konto Bez Granic – for customers who do not have an identity document required to open a PKO Konto Bez Granic or another account offered by the Bank; in the period from 24 February 2022 to 30 June 2022 the Bank opened more than 266 thousand savings accounts for Ukrainian citizens, including 41 thousand temporary accounts (Czasowe Konto Bez Granic);
- a free of charge debit card (known as an instant card), which the citizens of Ukraine who open a savings account with PKO Bank Polski S.A. can obtain on request in selected branches;
- free of charge cash transfers to banks in Ukraine;
- UAH to PLN exchange at the rate determined by the National Bank of Ukraine without a fee or spread; as at 30 June 2022 hryvnias were bought in 100 branches of the Bank; 86 532 transactions were executed for more than UAH 616 million;<sup>1</sup>
- the possibility of withdrawal of the benefits listed in the Act on aid for Ukrainian citizens from the PKO Bank Polski S.A. ATMs using the PKO Awizo service;
- dedicated help desks available in selected branches of the Bank, where consultants assist refugees;
- the following services in Ukrainian: the IKO mobile application, the iPKO electronic banking platform, a section of the Bank's webpage, ATM screen, IVR communications and selected bank documents and materials.

Firms were offered a promotional business account. The offer is addressed to customers who will open a PKO Konto Firmowe (PKO Business Account) or a PKO Konto Firmowe Premium (PKO Premium Business Account) by 30 September 2022.

Until 9 June 2022, banking services were offered at the PGE Narodowy Stadium in Warsaw, where almost 13.5 thousand accounts were opened in a period of more than 2.5 months.

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<sup>1</sup>The hryvnias purchased by the Bank are transferred to the National Bank of Poland at the same exchange rate. The hryvnia exchange process was extended until 10 September 2022.

Non-profit institutions engaged in helping Ukraine may apply for exemption from fees and commissions, e.g. for maintaining a bank account used for the purposes of "Help for Ukraine", transfers and cash deposits, until 30 September 2022.

### **Operations of the Ukrainian companies of the PKO Bank Polski S.A. Group**

KREDOBANK S.A. is a universal bank which mainly serves customers in western Ukraine and in Kiev. As at the end of June 2022, the company had its head office in Lviv and 73 branches, 17 of which were located in the regions most affected by the war.

Since February 2022, due to the Russian invasion, the priorities of KREDOBANK S.A. are to guarantee the safety of its employees, maintain the continuity of its operations and to continue to provide services to the customers. The Company provides services in regions in which there is no military activity. The management monitors the Company's operations on a daily basis and ensures a prompt response to incidents and changes in the situation. One of the Company's branches in Kiev was damaged in the 1<sup>st</sup> quarter.

According to estimations of the Company's Management Board, the potential losses do not affect the ability of KREDOBANK S.A. to continue its operations. In accordance with an assessment based on the generally available, official information, approximately 20% of the Company's loan portfolio is located directly in or close to the war zones, of which less than 4% is located in areas under temporary occupation or active military action.

The other Ukrainian companies of the Group are engaged in debt collection activities or transactions on the market of non-performing debt, and have their registered offices in Kiev and in Lviv. The financial and organizational situation of the companies as at the end of the 1<sup>st</sup> half of 2022 was stable. The companies did not experience any liquidity problems; they maintain their existing business relations. The service restrictions and organization of work have been adjusted to wartime conditions.

### **Implementation of the sanctions imposed on Russia and Belarus**

PKO Bank Polski S.A. monitors the changes in international sanctions imposed on Russia and Belarus on an ongoing basis and takes adequate actions in this respect. In particular, the Bank:

- has introduced guidelines for the financing of and providing banking services to persons and entities having business dealings with Russia and Belarus, including those customers on whom sanctions have been or can be imposed; the main principles applied by the Bank are unavailability, limitation or withdrawal of financing and financial services;
- has changed the directions of settlements with the banks to which the sanctions do not apply, changed the correspondent in Russian roubles (RUB) and terminated the nostro and loro account agreements with the banks covered by sanctions; as a result, the payments in all currencies to and from Russian and Belorussian banks covered by the sanctions have been blocked.

PKO Bank Polski S.A. takes appropriate actions when it finds its customer on the list of persons and entities covered by special restrictions issued by the Minister of Internal Affairs and Administration, known as the Polish sanctions list. In the event of any changes in the restrictions, the Bank implements the competent authority's decisions on an ongoing basis, in accordance with the provisions of the Act on special solutions aimed at preventing support for the aggression on Ukraine and maintaining national security, as of 13 April, 2022.

## **2.1.2. MORTGAGE LOANS IN FOREIGN CURRENCIES**

### **Settlement agreements offered to customers**

In the first half of 2022, PKO Bank Polski S.A. continued offering settlement agreements for retail customers having active Swiss franc (CHF) loans for satisfying their own housing needs. A settlement agreement consists of conversion of a CHF loan to a PLN loan on the terms that would apply had the loan been initially granted in PLN with interest based on WIBOR plus a historical margin applicable to such loans. In June, the scope of products for which settlements were available was extended to include MIX mortgage loans granted in CHF for satisfying housing needs (purchase of real estate or repayment of other liabilities).

The settlements are offered during mediation proceedings conducted by the Mediation Centre of the PFSA Court of Arbitration, during court proceedings and during proceedings initiated by a motion for settlement.

In order to mitigate the currency risk, 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 chosen by 74% of the customers who continued to repay their loans after signing the settlement agreement.

Nearly 27.6 thousand applications for mediation were registered by the end of the 1<sup>st</sup> half of 2022. 15,993 mediations were successful. 5,780 mediations were concluded with a negative outcome. In total, 15,461 settlement agreements were concluded until 30 June 2022, of which 15,151 were concluded during mediation proceedings and 310 were concluded in court.

In recognition of its actions, PKO Bank Polski S.A. received the title of a "Mediation-Friendly Financial Institution". PFSA grants this title for promoting the idea of mediation and amicable dispute resolution.

### **Increased cost of legal risk**

In the first half of 2022, PKO Bank Polski S.A. increased the cost of legal risk associated with mortgage loans denominated in and indexed to CHF by PLN 1,176 million. This decision was a result of a significant change in the market environment, which affects the estimated number of legal claims and the estimated number of settlement agreements.

### **2.1.3. THE SYSTEM OF PROTECTION OF COMMERCIAL BANKS**

On 14 June 2022, PKO Bank Polski S.A. and 7 other commercial banks, i.e. Alior Bank S.A., BNP Paribas Bank Polska S.A., ING Bank Śląski S.A., mBank S.A., Millennium Bank S.A., Bank Polska Kasa Opieki S.A. and Santander Bank Polska S.A. (the Participating Banks) formed a system of protection of commercial banks, which is referred to in Article 130c of the Banking Law. The system is supervised by the PFSA. The aim of the protection system is to ensure the liquidity and solvency of the Participating Banks on the terms and conditions and to the extent specified in the protection system agreement, as well as to support the resolution regime carried out by the Bank Guarantee Fund (BGF). The Participating Banks formed the company System Ochrony Banków Komercyjnych S.A. (as at 30 June 2022, System Ochrony Banków Komercyjnych S.A. in organization) as the system's Management Entity with a share capital of PLN 1 million. The Bank acquired 21,113 shares of the Company with a total nominal value of PLN 211,130, representing 21.1% of its share capital.

The Management Entity formed an aid fund for the financing of the protection system's tasks, which will be funded with payments made by the Participating Banks. Each Participating Bank was obliged to pay an amount equal to 0.40% of the guaranteed funds as at the end of the 1<sup>st</sup> quarter of 2022.

The Bank's contribution to the aid fund was PLN 872 million and the funds were transferred on 2 August 2022. The contribution is treated as a tax-deductible cost and, pursuant to IFRIC 21 "Levies", it is charged to the income statement upon the occurrence of an obligating event. Therefore, it was recognized in the Bank's profit and loss as at 30 June 2022.

Further payments to the aid fund will require a unanimous resolution of the General Shareholders' Meeting of the Managing Entity. Other domestic banks can join the protection system if they satisfy the terms specified in the applicable regulations and in the protection system agreement. In accordance with the BGF Act, the BGF Council may decide to decrease the target amount of the bank deposit guarantee system taking into account, among other things, the amount of funds accumulated in the protection system.<sup>2</sup>

The liability of each Participating Bank for the obligations associated with its participation in the protection system is limited to the amount of contributions which the particular Participating Bank is obliged to make to acquire shares of the Managing Entity and the payments which it is obliged to make to the aid fund. Each Participating Bank may terminate the protection system agreement with 24-months' notice. After such termination, the agreement shall remain in force with respect to the other Participating Banks.

### **2.1.4. DEPOSIT OFFER AND SUPPORT FOR BORROWERS**

#### **The Bank's deposit offer<sup>3</sup>**

In view of the fact that it operates in a high inflation and high interest rates environment, PKO Bank Polski S.A., in an effort to meet the customers' expectations, prepared and updated regularly its deposit offer – from the beginning of the year, the Bank was launching new products and increasing the interest rates on existing ones.

<sup>2</sup>At the same time, pursuant to Article 34 of the Act on the amendment to the Act on mortgage covered bonds and mortgage banks and certain other acts of 7 April 2022, the obligation to make contributions to the BGF's mandatory deposit guarantee system due for the year 2022 was suspended until 31 October 2022. The contributions due for the 2nd and 3rd quarter of 2022 will be determined and paid in the 4th quarter of 2022.

<sup>3</sup>The interest rate is determined on an annual basis. The changes described relate to the period until the end of July 2022.

As part of its offer for retail customers (private individuals), in the 1st half of 2022 the Bank in particular:

- added new products to its offer:
  - a mobile deposit available in the IKO mobile application – a three-month non-renewable deposit with interest rate of 5.75% and a limit to PLN 50 thousand was available as at the end of June;
  - a deposit for persons from the 60+ age group for a period of 24 months – up to PLN 50 thousand, interest rate of 5.75%;
  - a three-month deposit “lokata z licznikiem” – up to PLN 50 thousand, interest rate of 5%; 10,000 deposits were available for sale;
  - deposits for personal and private banking customers – a term deposit for 3 months with an interest rate of 1.5% as at the end of June, and a deposit for new customers for 6 months with 5.75% interest and a limit of PLN 300 thousand;
- re-introduced a deposit for new funds and adjusted its terms, including interest; as at the end of June, the Bank offered a three-month deposit with 2% interest rate for retail customers and 2.5% for personal and private banking customers, and a twelve-month deposit with interest rates of 4% and 5%, respectively, and a limit of PLN 200 thousand;
- increased interest rates and extended the fixed-term deposit offer – as at the end of June, deposits for 1, 3, 6 and 12 months were offered with interest rates of up to 1.20%.

In July, PKO Bank Polski S.A. introduced a progressive 18-month deposit with interest which changes every 6 months from 3% through 6% to 9%. The Bank also increased the interest on its existing deposits, e.g. a deposit for new funds (up to 6% for 6 months) and a fixed-term deposit (up to 2.5% for 12 months).

The offer of deposits for the companies and enterprises segment (i.e. small- and medium-sized enterprises) was also changed. In April, standard and negotiated deposits were reintroduced. The Bank increased the interest rates on the deposits – as of 22 July, the following rates were applied: a one-month deposit – 0.75%, a three-month deposit – 1.5%, a six-month deposit – 2% and a one-year deposit – 2.5%; at the same time, the minimum amount of the deposits was decreased from PLN 750 thousand to PLN 250 thousand. In July, the Bank introduced a progressive 12-month deposit with interest which changes every 4 months from 2% through 4% to 6%.

In the corporate customers segment, in June the Bank introduced a new deposit product – a dynamic account. Its purpose is to provide the possibility of making automatic and effective overnight deposits. The minimum amount is PLN 500 thousand, and the interest is 1%.

#### **Guarantees for enterprises from the BGK Crisis Guarantees Fund**

PKO Bank Polski S.A. signed an agreement with Bank Gospodarstwa Krajowego (BGK) for a portfolio guarantee line securing repayment of loans for the financing of everyday business activities or capital expenditure in order to improve the borrower's financial liquidity.

PKO Faktoring S.A. signed with BGK a portfolio guarantee line securing a factoring limit for the financing of everyday business activity of the entrepreneur (in the form of recourse factoring or reverse factoring without assignment of rights under an insurance policy) and helps to improve its financial liquidity.

The programme is dedicated to medium and large companies (in the case of loans) and to all enterprises (in the case of factoring).<sup>4</sup>

The guarantees cover up to 80% of the amount of the loan/the factoring limit, 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 aforementioned agreements allow to grant BGK crisis guarantees in the period from 1 July to 31 December 2022.

#### **Housing loans without the customer's own contribution**

PKO Bank Polski S.A. signed an agreement with BGK as part of the programme “A flat without the customer's own contribution”. The customers will be able to receive mortgage loans without the need to provide their own contribution – this part of the loan amount will be covered by the BGK guarantee. The Bank plans to introduce the complete product to its offer after the summer holidays.

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<sup>4</sup>In both cases, with the exception of financial institutions.



## 2.2. SELECTED FINANCIAL DATA

In the Directors' Report of the Group financial data is presented under the management accounting approach. The individual items of the statement of financial position and income statement are defined in the "Glossary".<sup>5</sup>

The consolidated net profit of the PKO Bank Polski S.A. Group earned in the first half of 2022 was PLN 1,838 million, i.e. PLN 575 million less than in the first half of 2021.

The decrease in the net profit was due to the following:

- 1) an improvement in the result on business activities to PLN 9,471 million (an increase of PLN 2,095 million y/y), which was mainly due to the increases in net interest income of PLN 2,122 million and in net fee and commission income of PLN 353 million y/y, accompanied by a decrease in net foreign exchange gains of PLN 436 million;
- 2) a decrease in net write-downs and impairment of PLN 1,359 million, resulting partly from the recognition of the cost of the legal risk of mortgage loans in convertible currencies of PLN 1,176 million in the first half of 2022;
- 3) an increase in operating expenses of PLN 1,131 million, including an increase in regulatory charges of PLN 938 million y/y (comprising the initial payment to the aid fund maintained by System Ochrony Banków Komercyjnych S.A. of PLN 872 million) and an increase in employee benefit costs of PLN 132 million y/y.

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

	30.06.2022	30.06.2021	Change
Net profit	1,838	2,413	-23.8%
Net interest income	6,839	4,717	+45.0%
Net fee and commission income	2,428	2,075	+17.0%
Result on business activities	9,471	7,376	+28.4%
Operating expenses	-4,205	-3,074	+36.8%
Tax on certain financial institutions	-626	-518	+20.8%
Net write-downs and impairment	-1,914	-555	2.4x
Total assets	428,843	392,622	+9.2%
Total equity	30,940	41,061	-24.6%
Net ROE	11.5%	-3.4%	+14.9 p.p.
Net ROTE	12.6%	-3.7%	+16.3 p.p.
Net ROA	1.0%	-0.4%	+1.4 p.p.
C/I (cost to income ratio)	42.1%	39.5%	+2.6 p.p.
Interest margin	3.19%	2.75%	+0.44 p.p.
Share of impaired loans	3.86%	4.54%	-0.68 p.p.
Cost of credit risk	0.58%	0.66%	-0.08 p.p.
Total capital ratio	17.30%	18.87%	-1.57 p.p.
Common equity Tier 1 (CET 1)	16.11%	17.62%	-1.51 p.p.

Events having a significant effect on the net profit earned by the Group in the first half of 2022 in relation to the first half of 2021:

### Result on business activities

- an increase in net interest income/(expense) due to an increase in interest income resulting mainly from the increases in market interest rates and a growth of the loan portfolio, accompanied by an increase in the cost of financing;
- improvement in the net fee and commission income achieved due to better results realized on foreign currency exchange transactions, card operations, brokerage, lending and insurance activities;
- a decrease in the net foreign exchange gains of PLN 436 million, mainly due to the recognition of a foreign currency result of approx. PLN 328 million resulting from a decision of the Extraordinary General Shareholders'

<sup>5</sup> Any differences in the individual items, such as sums, shares or movements, arise from the rounding of amounts to full PLN millions and rounding of percentage shares in structures to one or two decimal places.



Meeting of the Bank dated 23 April 2021 on offering settlement agreements to customers, and a deterioration in the net foreign exchange gains/(losses) resulting from PLN interest rate increases in 2022;

- recognition of the costs resulting from the verdict of the Court of Justice of the European Union concerning the consumer's right to reduce the cost of a loan if the loan is repaid before the contractual repayment deadline in the net interest income in the amount of PLN -223 million (the amount recognized in the first half of 2021 was PLN -163 million) and in the net other result in the amount of PLN -13 million (the amount recognized in the first half of 2021 was PLN -26 million);

#### Operating expenses

- an increase in regulatory costs of PLN 938 million, mainly resulting from the recognition of the initial payment to the aid fund in the company System Ochrony Banków Komercyjnych S.A. of PLN 872 million and an increase in the contribution to the resolution fund maintained by the Bank Guarantee Fund of PLN 38 million;

#### Net write-downs and impairment

- recognition of the cost of legal risk associated with mortgage loans denominated in convertible currencies of PLN 1,176 million due to a significant change in the market environment affecting the expected number of claims and settlements;
- a deterioration in net write-downs for credit risk of PLN 213 million, mainly resulting from the recognition of materialization of such risk in connection with the war in Ukraine of approx. PLN 333 million in the result for the first half of the year 2022.

As a result of the actions taken in the first half of 2022, the scale of the Group's operations increased, both in relation to the first half of the previous year and to the end of the year 2021:

- total assets reached a level of nearly PLN 429 billion, which is PLN 36 billion more than in the first half of the previous year and PLN 11 billion more than as at the end of the year 2021;
- customer deposits amounted to PLN 326 billion, i.e. PLN 33 billion more than as at the end of June 2021 (this comprised increases in both corporate and retail and private banking deposits) and PLN 4 billion more than as at the end of December 2021;
- the amount of financing granted to customers was nearly PLN 247 billion, i.e. PLN 10 billion more than as at the end of June 2021 (which was mainly due to an increase in the financing granted to business entities in the form of loans, leases and factoring), but almost PLN 1 billion less than as at the end of December 2021 (which was due to the fact that the retail and private banking segment loans decreased and a provision was recognized for legal risk, while at the same time the business loans increased);
- the banking portfolio of securities amounted to approx. PLN 117 billion, i.e. PLN 9 billion less than as at the end of June 2021 and PLN 5 billion less than as at the end of December 2021. At the same time, amounts due from banks increased by PLN 13 billion and PLN 7 billion, respectively.

The structure of the Group's balance sheet, in particular in relation to the first half of the previous year, was also affected by changes in the fair value of the securities and derivatives portfolio, which contributed to an increase in the amount of the other assets and liabilities and a decrease in equity.

As at 30 June 2022, the Group:

- retained a high share in the loans and savings market of 17.0% and 19.3%, respectively;
- was the leader of the market of investment funds for private individuals with a market share of 20.2%;
- was the leader in terms of the number of current accounts maintained for retail customers (nearly 8.9 million accounts).

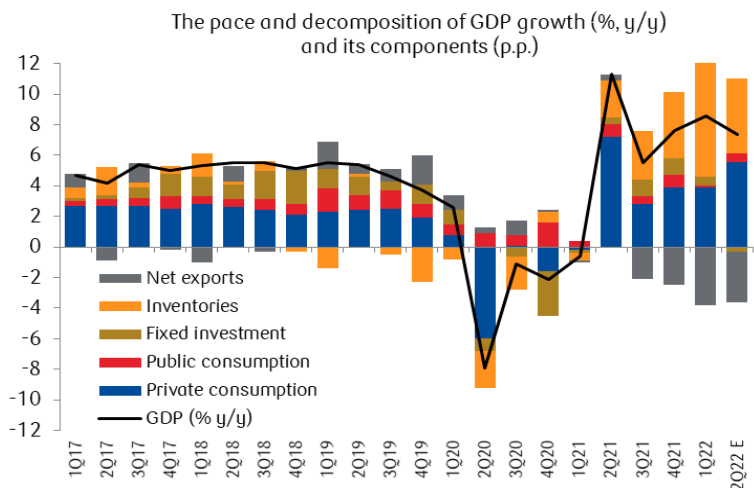
## 3. EXTERNAL BUSINESS CONDITIONS

### 3.1. MACROECONOMIC ENVIRONMENT

#### VERY STRONG START OF THE YEAR IN THE ECONOMY

The beginning of 2022 was a period of extremely high activity in the Polish economy. In the 1st quarter, GDP increased by 8.5% y/y as a result of a solid growth in consumption and a considerable accumulation of inventories in the economy, which was due to a prudential increase in stock levels by entrepreneurs in response to continuing shortages of key raw materials and components.

In the 2<sup>nd</sup> quarter, the economy slowed down as a result of a slower growth in consumption, which was due to the shrinking purchasing power of consumer incomes, limitation of investments in response to growing uncertainty after the attack of Russia on Ukraine, and a deterioration in the condition of the global economy. Despite a decrease in real income levels, consumption continued to grow, which was partly due to the inflow of Ukrainian refugees, changes in the tax regime and utilization of the “forced savings” accumulated during the pandemic. Despite the slow-down, the economic growth remained strong in the 2<sup>nd</sup> quarter.



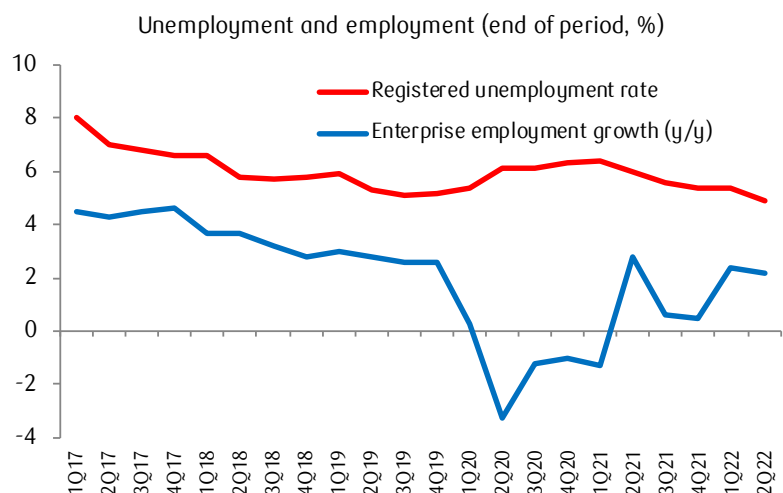
### HISTORICALLY LOW UNEMPLOYMENT LEVEL

The situation on the labour market was very good in the 1<sup>st</sup> half of the year of 2022. In June, the registered unemployment rate decreased to 4.9% (the lowest level since the early 1990s) to reach 5.4% at the end of the year 2021.

After the outbreak of the war in Ukraine an estimated 1.5 million refugees (mainly women and children) fled to Poland. The refugees became active on the labour market quite quickly and currently more than 40% of the Ukrainians at working age are employed. Their inflow to the labour market filled in the gaps reported by the entrepreneurs.

The high inflation rate resulted in intensified demands of higher wages and salaries, which at least in part were satisfied. The annual rate of growth of wages and salaries in the enterprise sector accelerated significantly - in the first half of 2022 the average pay was 12.4% higher than in the first half of 2021.

In the other sectors of the economy, in particular the public sector and micro firms, the wages and salaries were somewhat lower. In May and June, the average pay in the enterprise sector was not growing as fast as consumer prices, which means that its purchasing power in real terms decreased.

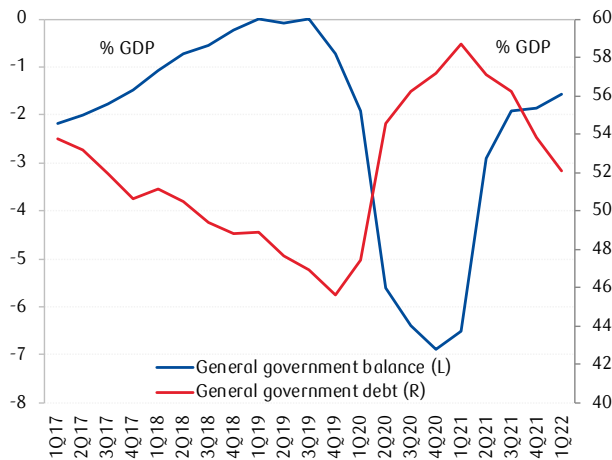


June was also the third month in which the number of job offers submitted to job centres decreased y/y, which may indicate a certain cooling off of demand for labour. However, in view of the demographic situation and shrinking labour force resources, even with economic slowdown and fall in labour demand the unemployment rate in Poland should not increase noticeably.

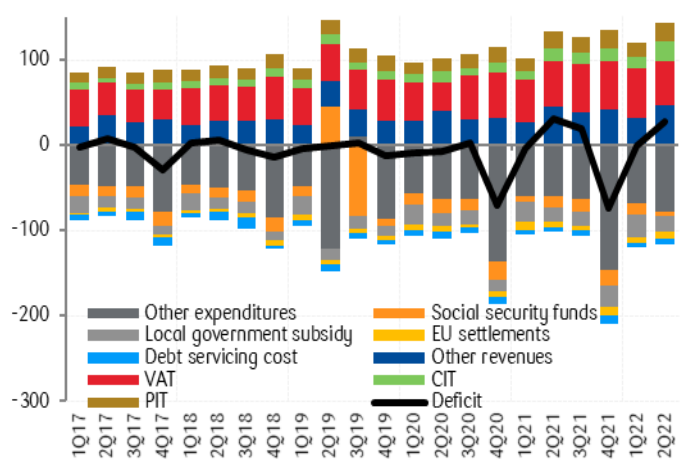
### PUBLIC FINANCES READY FOR THE WAR

The fiscal deficit (ESA) amounted to 1.6% of GDP after the 1<sup>st</sup> quarter of 2022, and decreased compared to 1.9% of GDP in 2021. The public debt also showed a downward trend - in the first quarter of 2022 it amounted to 52.1% of the annual GDP compared to 53.8% of GDP in 2021. The state budget benefits from a strong nominal growth of the tax base (consumption, financial results of enterprises) and the transfer of the National Bank of Poland (NBP) profit - in consequence, despite the costs of the Anti-Inflation Shield (a drop in the proceeds from tax) and aid provided to Ukraine, a considerable budget surplus has been maintained.

### Public finance sector deficit and debt



### Central budget results (in PLN billion, quarterly)



## HISTORICALLY HIGH INFLATION LEVELS

In the first half of 2022 inflation was growing rapidly in response to post-pandemic supply shocks and Russia's attack on Ukraine, which caused significant increases in the prices of energy resources, industrial raw materials, and food. In June the inflation rate reached 15.5% y/y (compared to 8.6% y/y in December 2021), which was the highest level in almost 25 years. Consumer prices were growing exponentially despite the Anti-Inflation Shields being in force, which decreased the inflation rate by approx. 2-3 p.p. The base inflation (excluding food and energy prices) also reached record-breaking levels in the period analysed. It reflected the domestic inflation pressure and the "second round effects" of the cost shocks – the high demand in the economy and the stretched labour market make it possible to transfer higher costs to end customers. The slightly better situation on the oil market and adverse effect of high prices on demand, which is noticeable in the slight slow-down of the base inflation growth rate in June, suggest a possible stabilization or decrease in the rate of growth of prices in the following months.

## RAPID SERIES OF INTEREST RATE INCREASES

In the first half of 2022, the Monetary Policy Council (MPC) continued a series of interest rate increases in response to a deterioration in the inflation prospects. The reference rate increased from 1.75% at the end of 2021 to 6.00% in June 2022. At first, the MPC increased the rates in a series of steps of 50 bp; however, the PLN depreciation after Russia's attack on Ukraine made the monetary policy authorities increase the scale of the increases to 75 bp in March and 100 bp in April. In May and June, the MPC increased the rates by 75 bp to return to 50 bp in July, suggesting that the policy of quantitative tightening is coming to an end and will last only as long as inflation grows. In the period from October 2021 to July 2022, the reference rate increased from 0.1% to 6.5%, and the scale of increases was the fastest and the biggest ever.

### NBP interest rates as at 30 June 2022:

● reference	6.00%
● Lombard	6.50%
● deposit	5.50%
● bills of exchange rediscount	6.05%
● bills of exchange discount	6.10%

## 3.2. SITUATION ON THE FINANCIAL MARKET

### INTEREST RATE MARKET

In the first half of 2022 the return on Polish 2-year Treasury bonds increased by 420 bp to 7.54%, and on the 10-year T-bonds by 323 bp to 6.94%, which meant a rapid drop in their prices. Growing inflation was the main reason for this, as the central bank had to respond by increasing the reference interest rate by 425 bp to 6.0%. As inflation pressure continued, the financial markets assumed that the MPC would continue to increase the cost of money further during the year. The domestic debt instrument market was also adversely affected by the low demand from local financial institutions and the bond sales on foreign markets, in particular in the USA.

### CURRENCY MARKET

In the first half of 2022, the Polish zloty depreciated considerably, which was reflected in the EUR/PLN rate of 4.70 and USD/PLN rate of 4.48. The Polish currency suffered mainly as a result of an increased geopolitical risk following the outbreak of the war in Ukraine, which caused flows towards the safest currencies on the global

financial markets. In addition, the American central bank commenced a series of interest rate increases, which encouraged outflow of capital from the emerging markets to the USA. The interest rate increases by the NBP and the continued good condition of the Polish economy helped stop further depreciation of the Polish zloty.

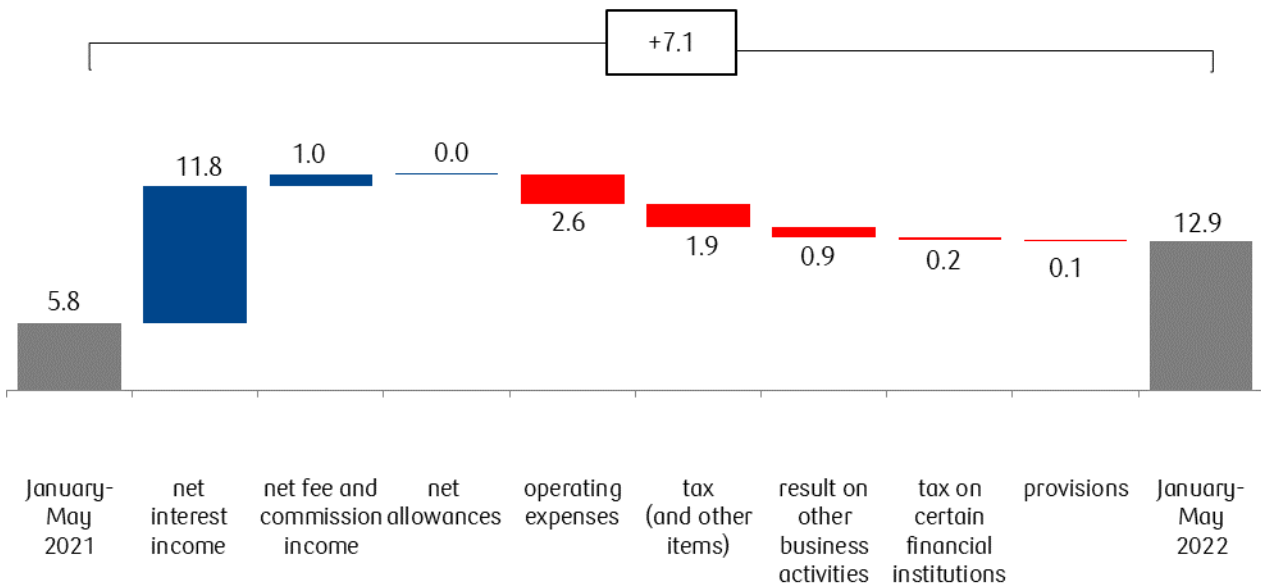
### STOCK MARKET

The first half of the year 2022 was very bad for shareholders, as the WIG index dropped by almost 23%. Even though the start of the year was good, optimism soon finished due to fears about the economic effects of the war in Ukraine and the need to increase the interest rates in view of growing inflation. These factors caused a rapid increase in risk aversion and sell-off of shares. The financial markets became seriously afraid of the stagflation scenario, in which slower economic growth would affect the companies' profits and, at the same time, high inflation would force central banks to further tighten their monetary policy.

## 3.3. SITUATION IN THE POLISH BANKING AND NON-BANKING SECTOR<sup>6</sup>

### THE BANKING SECTOR

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



The item "provisions" comprises e.g. a part of the provisions associated with the legal risk of foreign currency mortgage loans.

In the first 5 months of 2022, the banking sector recognized a net profit of PLN 12.9 billion, compared to a profit of PLN 5.8 billion in the corresponding period of 2021. The rolling return on equity (12-month ROE) was 6.9%.

The improvement in the net profit was mainly due to a y/y improvement in net interest income, which was due to growing interest rates in Poland. The other factor that contributed to the improvement was the net commission income whose growth reflected the post-lockdown economic revival and the associated increase in consumer activity, as well as the growing inflation and increased turnover in foreign trade (foreign exchange commissions). The net allowances also contributed positively to the sector's net financial result – since the economic situation remained good at the beginning of the year, relatively fewer allowances were recognized.

Higher tax expenses had the opposite effect. The provisions associated with the legal risk of foreign currency mortgage loans also had a negative effect on the results of the banking sector. Operating expenses were also growing, which was due to high inflation and a dynamic growth in wages and salaries.

<sup>6</sup> Descriptions based on the most recent data available from the PFSA (the banking sector, insurance), Analityz Online (investment funds), the Polish Leasing Association and the Polish Factors Association.

The banks' equity remained on a good level, even though it deteriorated in relation to the previous quarters. The total capital ratio as at the end of March 2022 was 18.5% (the most recent data available). The shrinking equity had an adverse effect on capital adequacy. This was a result of a decrease in the value of T-bonds, which was due to the fast increase in NBP interest rates.

### INVESTMENT FUNDS MARKET

In the first half of 2022, the amount of assets under management of the Investment Fund Companies decreased to PLN 262.3 billion (-13.1%), including the assets held by individuals, which decreased to PLN 146.0 billion (-12.8%). As at the end of June the amount on deposit with PPK (Employee Capital Plans) Defined Maturity Date Funds exceeded PLN 7.7 billion (+18% in relation to the balance as at the end of 2021).

In the first half of 2022, the negative balance of payments and redemptions was PLN 20 billion. The high negative balance was due to the continued strong outflow of funds of individuals in the total amount of PLN 19.3 billion. The biggest amount of funds of individuals, more than PLN 15.8 billion, was withdrawn from the debt fund market. Some groups of raw materials and non-public assets funds were the only ones that recognized a small inflow of funds.

### LEASE MARKET

The lease market financed assets with a total value of PLN 41.6 billion in the first half of 2022, i.e. 2.8% less than in the first half of 2021. The assets financed in this period comprised mainly light vehicles, mainly cars (46.7%), plant and equipment (29.4%), and trucks (23.1%). As at the end of June, micro and small firms with sales below PLN 20 million constituted 70.7% of the customers of lease companies. The share of retail customers was 0.7%. The total value of the active lease portfolio as at the end of the first half of 2022 increased by 7.1% y/y to PLN 172.7 billion.

### FACTORING MARKET

In the first half of 2022, the turnover of members of the Polish Factors Association amounted to PLN 223 billion and was 33.1% higher than in the corresponding period of 2021. As at the end of June, the number of business entities using the services of factoring firms was 22.3 thousand (3.4% less than as at the end of June 2021). The number of outstanding invoices was 8% larger than in the first half of 2021. The number of debtors increased by 9% y/y. The entrepreneurs still preferred non-recourse factoring whose share in the turnover of factoring firms was approx. 52%. Domestic factoring maintained its dominant share in the turnover (65%).

### INSURANCE MARKET

During the first quarter of 2022 insurers earned a net profit of PLN 0.8 billion (-32% y/y), and their technical profit was 12% lower y/y (down to PLN 1.1 billion). The financial result of insurers was affected by an increase in the costs of claims and benefits paid (+11% y/y, to PLN 11.0 billion) accompanied by an increase in gross written premium of 3% y/y (to PLN 18.1 billion).

In the life insurance segment, gross written premium dropped by 5% y/y (to PLN 5.2 billion), with a growth in claims paid of 11% y/y (to PLN 5.3 billion). The costs of insurance activities in the life insurance segment increased by 6% to PLN 1.4 billion.

The segment of other personal and property insurance noted a y/y increase in gross written premium of 7% (to PLN 12.9 billion), with a simultaneous increase in the cost of claims paid of +12% y/y (to PLN 5.7 billion). The costs of insurance activities in the other personal and property insurance segment increased by 10% (to PLN 2.8 billion).

## 3.4. REGULATORY AND LEGAL ENVIRONMENT

The financial position and operations of the PKO Bank Polski S.A. Group were also affected by new legal and regulatory solutions and supervisory recommendations implemented in the first half of 2022, including in particular:

#### WITH RESPECT TO THE BANKS PROTECTION SYSTEM

The Act on amendment to the act on mortgage covered bonds and mortgage banks and certain other acts of 7 April 2022 (Journal of Laws of 2022, item 872).

The Act amended e.g. the Banking Law, allowing commercial banks operating in the form of joint-stock companies to create an institutional protection system. It also introduced related amendments to the Act on the Bank Guarantee Fund, the system of deposit guarantees and resolution, e.g. an option of decreasing the target level of funds of the bank deposit guarantee system by the Fund Council.

#### WITH RESPECT TO LOANS

The position of the Polish Financial Supervision Authority dated 7 March 2022 on actions aimed at mitigating credit risk. The recommendation concerns, among other things, the parameters applied by banks to assess creditworthiness, e.g. a minimum interest rate change of 5 p.p.

The Act on guaranteed housing loans of 1 October 2021 (Journal of Laws of 2021, item 2133), which is aimed at eliminating the barrier of a lack of own funds for the required own contribution in connection with housing loans.

#### WITH RESPECT TO RISK MANAGEMENT

The PFSA letter of 10 February 2022 on imposing an additional capital add-on under pillar II (P2G). The PFSA recommended that the Bank should maintain, both at separate and consolidated level, own funds to cover additional capital add-on to absorb potential losses resulting from stress conditions at the level of 0.29 p.p. over the combined value of the capital ratio. The capital add-on should entirely consist of the core equity T1.

The Regulation of the Minister of Finance of 18 March 2022 amending the Regulation in respect of a higher risk weight for exposures secured with mortgages on real estate.

Impact: a decrease in capital requirements due to the application of preferential risk weights.

#### WITH RESPECT TO TAXES

The Act amending the Personal Income Tax Act, the Corporate Income Tax Act and certain other acts of 29 October 2021 (known as "the Polish Deal"; Journal of Laws of 2021, item 2105), and the subsequent regulations constituting the Polish Deal, which change, e.g. the principles for calculating personal income tax advances on wages and salaries and the principles for performing the obligations of WHT remitters, exempt residential buildings and units from tax depreciation, extend the CFC tax obligations (i.e. tax on income of controlled foreign corporations), introduce tax on transferred earnings and minimum tax, and make the exemption from VAT of financial services provided exclusively to entrepreneurs (VAT taxpayers) optional.

The Act on aid for Ukrainian citizens in connection with the military conflict in the territory of Ukraine of 12 March 2022 (Journal of Laws of 2022, item 583) and other regulations which introduce tax preferences for providing aid to Ukrainian citizens.

At the same time, the business environment in which the Group operates, including the economic standing of its customers, was affected by the Anti-Inflation Shields, which introduced in particular a temporary reduction in VAT and excise tax rates on selected products (mainly those having a strong effect on prices), including in particular electricity and motor fuels, and exempted electricity provided to households from excise tax.

### 3.5. FACTORS WHICH WILL AFFECT THE FINANCIAL RESULTS OF THE GROUP IN THE SECOND HALF OF THE YEAR

The financial results of the PKO Bank Polski S.A. Group in the second half of 2022 will be affected in particular by the implementation of the Act on crowdfunding for business ventures and aid for borrowers, which:

- allows customers to suspend the repayment of one mortgage loan granted in PLN for the purchase of real estate for the purpose of satisfying the borrower's own housing needs for two months per quarter in the period from 1 August 2022 to 30 September 2022 and from 1 October 2022 to 31 December 2022 and for one month per quarter in the period from 1 January 2023 to 31 December 2023 ("a loan repayment holiday");
- supplements the Borrowers Support Fund with additional contributions from banks totalling PLN 1.4 billion, which should be made by the end of 2022.



In accordance with the PKO Bank Polski S.A. Group's estimates:

- the gross carrying amount of the PLN mortgage loans granted by the Group will be adjusted by approx. PLN 3 billion due to the implementation of the "loan repayment holiday";<sup>7</sup> the loss estimation is based on the assumption that approx. 63% of the borrowers will take advantage of this opportunity; if 100% of the borrowers took the loan repayment holiday, the loss would be estimated at PLN 4.8 billion; the actual amount of the loss will depend on the number of customers who use the proposed solution, the number of instalments suspended by each of those customers, and the moment when they start their "loan repayment holiday";
- the cost of the additional contribution of the Group to the Borrowers Support Fund will amount to PLN 0.3 billion, with the reservation that the ultimate amount of the contributions will be determined by the Borrowers Support Fund Council.

PKO Bank Polski S.A. also notes a growing regulatory risk and a risk of macroeconomic changes. The following external factors may impact the operations and future financial results of the Group:

#### IN THE GLOBAL ECONOMY:

- the war in Ukraine, the economic sanctions against Russia and their economic consequences, mainly including the likely limited availability of energy resources, which may force power supply rationing;
- response of the global economy to the more and more common process of tightening the monetary policy, including significant interest rate increases in the USA and the beginning of interest rate increases in the euro zone;
- a possible continuation or even intensification of supply limitations (shortages of production components, high prices or limited availability of energy resources and food), leading to a stronger cost pressure and lower rate and scale of economic growth;
- global trade disturbances associated with the continuation of a "zero COVID" policy in China;
- possible new waves of the pandemic, whose impact on the economy is hard to predict;
- potential access to investors from the European market in connection with debt issue in the context of the regulatory requirements concerning the minimum amount of own funds and qualified liabilities.

#### IN THE POLISH ECONOMY:

- the scale and path of further changes in the NBP interest rates and mandatory reserve level;
- the intensity and durability of external factors that increase inflation;
- economic slow-down resulting from a decline in global demand, high inflation and the tightening of monetary policy;
- intensification of actions subsidized with European funds from the National Recovery and Resilience Plan (NRP) and standard EU budget policies;
- response of the household sector to increased NBP interest rates, e.g. in the area of consumer demand, demand for credit and ability to repay existing liabilities, as well as the potentially higher cost of risk of banks;
- further deterioration in the creditworthiness of households following the implementation of the Polish Financial Supervision Authority position of 7 March 2022 on actions mitigating credit risk;
- further tax changes under the Polish Deal, comprising the changes in WHT, revoking the "hidden dividend" regulations, and changes in the regulations concerning: CFC (i.e. tax on earnings of controlled foreign corporations), tax on transferred income, the obligation to document so-called "tax haven transactions", as well as the amendment to and postponement of the entry into force of minimum tax;
- reducing the limits of non-interest costs of consumer credit (fees and commissions) and higher capital requirements with respect to lending institutions under the planned "anti-usury" regulations;
- a draft amendment to the Banking Law concerning a mandatory refund of the costs of bridging insurance after registration of the mortgage in the land and mortgage register;
- a risk of the proceedings being initiated by the Office of Competition and Consumer Protection against PKO Bank Polski S.A. with respect to a breach of the consumers' collecting interest in connection with the

<sup>7</sup> The said carrying amount adjustment was recognized in July in correspondence with a decrease in interest income.



consideration of claims concerning unauthorized transactions;

- potential future court decisions concerning mortgage loans in foreign currencies, which may affect the level of interest in the settlement programme.

## 4. ORGANIZATION OF THE GROUP

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

#### SUPERVISORY BOARD OF THE BANK

There were no changes in the composition of the Bank's Supervisory Board in the first half of 2022.

As at 30 June 2022, the Bank's Supervisory Board consisted of the following persons:

1. Maciej Łopiński – Chair;
2. Wojciech Jasiński – Deputy Chair;
3. Dominik Kaczmarek – Secretary;
4. Mariusz Andrzejewski;
5. Grzegorz Chłopek;
6. Andrzej Kisielewicz;
7. Rafał Kos;
8. Tomasz Kuczur;
9. Krzysztof Michalski;
10. Bogdan Szafranski;
11. Agnieszka Winnik-Kalemba.

In the first half of 2022, Mr Bogdan Szafranski was appointed Deputy Chair of the Strategy Committee of the Supervisory Board (previously he was a member of this Committee). The compositions of the other Committees did not change.<sup>8</sup>

#### Suitability assessment of the Bank's Supervisory Board.

On 12 May 2022, the Annual General Shareholders' Meeting of PKO Bank Polski S.A., having performed an annual review, adopted changes to the Policy concerning the suitability of candidates for members and members of the Supervisory Board of Powszechna Kasa Oszczędności Bank Polski S.A. (the Policy).

The changes made reflect the updated joint Guidelines on the assessment of the suitability of members of the management body and key function holders issued by the European Banking Authority (EBA) and the European Securities and Markets Authority (ESMA).

The major changes concern the need to stress, in accordance with the said Guidelines:

- the powers of the Supervisory Board in the areas of combating money laundering and terrorist financing and supervising ESG (environmental, social, governance) risk;
- the importance of ongoing monitoring of the situations which could potentially and significantly affect the current assessment of a Supervisory Board member's individual suitability or the collective suitability of the Bank's Supervisory Board;
- a precise definition of the minimum level of involvement of a member of the Bank's Supervisory Board in the performance of his/her duties, including the possibility of extending the scope of such duties in periods of increased activity due to, e.g., restructuring, transfer, acquisition, merger or crisis.

Taking into account the changes made to the Policy, the AGSM of the Bank performed a periodical 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 Bank's Supervisory Board as a whole.

<sup>8</sup>The compositions of the Committees of the Bank's Supervisory Board are presented in the Directors' Report of the PKO Bank Polski S.A. Group for 2021.

## MANAGEMENT BOARD OF THE BANK

In the first half of 2022:

- On 26 January 2022, the Polish Financial Supervision Authority gave unanimous consent to the appointment of Ms. Iwona Duda as President of the Management Board of PKO Bank Polski S.A.; therefore, Ms. Iwona Duda took over as President of the Bank's Management Board as of 26 January 2022;<sup>9</sup>
- As of 25 March 2022, the Bank's Supervisory Board appointed Mr Maciej Brzozowski as Vice President of the Management Board; the Nominations and Remuneration Committee of the Bank's Supervisory Board performed an assessment and confirmed the individual suitability of the new Management Board member and the collective suitability of the Management Board; the suitability assessment was approved by the Bank's Supervisory Board.

Due to the change in the composition of the Bank's Management Board, the internal division of responsibilities in the Management Board as at 30 June 2022 was as follows:

1. The President of the Management Board Area – Iwona Duda, President of the Management Board;
2. The Area of Analyses, Enterprise Banking and Wealthy Customers – Maciej Brzozowski, Vice-President of the Management Board;
3. The Finance and Accounting Area – Bartosz Drabikowski, Vice-President of the Management Board;
4. The Corporate and Investment Banking Area – Marcin Eckert, Vice-President of the Management Board;
5. The Administration Area – Wojciech Iwanicki, Vice-President of the Management Board;
6. The Retail Market and International Banking Area – Maks Kraczkowski, Vice-President of the Management Board;
7. The Operations Area – Mieczysław Król, Vice-President of the Management Board;
8. The Technology Area – Artur Kurcweil, Vice-President of the Management Board;
9. The Risk Management Area – Piotr Mazur, Vice-President of the Management Board.

As the President of the Management Board, Ms. Iwona Duda is Chair of the following committees: the Strategy Committee (previously she was a member), the Assets and Liabilities Management Committee, the Risk Committee, the Transformation Committee and the IT Security Committee.

Mr Maciej Brzozowski joined the Strategy Committee as of the date of his appointment to the Bank's Management Board.

On 3 June 2022, Mr Maciej Brzozowski and Mr Maks Kraczkowski joined the Bank's Loan Committee to participate in making decisions concerning the models and reports associated with the supervised area.

Apart from the changes discussed above, the participation of the Management Board members in the Bank's standing committees remained the same in the first half of 2022 as described in the Directors' Report of the PKO Bank Polski S.A. Group for 2021.

Changes after the reporting date:

On 9 August, 2022, further changes in the composition of the Bank's Management Board took place - detailed information is described in the chapter "Other information", in the section "Events that occurred after the date on which the financial statements were prepared".

## 4.2. ENTITIES COVERED BY THE FINANCIAL STATEMENTS

Pursuant to the International Financial Reporting Standards (IFRS), as at 30 June 2022 the Group comprised PKO Bank Polski S.A. as the parent and 37 direct and indirect subsidiaries (at all levels).

<sup>9</sup>Until 25 January 2022, Ms Iwona Duda was Vice President of the Bank's Management Board responsible for managing the work of the Management Board.

The 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 – the share of the fund's investment certificates held.

All subsidiaries recognized in the condensed interim consolidated financial statements of the PKO Bank Polski S.A. Group for the six months ended 30 June 2022 (hereinafter: the Financial statements of the Bank's Group for the first half of 2022) are accounted for using the acquisition accounting method.

A complete 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 2022 (Note "Activities of the Group").

There were no significant changes in the Group structure in the first half of 2022. The liquidation of ROOF Poland Leasing 2014 DAC – a PKO Leasing S.A. Group entity was completed.

In June 2022 the Bank has joined the System of Protection of Commercial Banks S.A. As of 30 June, 2022 the company was in the organization phase. On 1 August, 2022 the company was registered in the National Court Register and from that date was classified as an associate.

## 5. DIRECTIONS OF DEVELOPMENT OF THE GROUP

The development paths of PKO Bank Polski S.A. are set out in the Strategy for the years 2020–2022 “PKO Bank of the Future. We support the development of Poland and the Poles” (“the Strategy”), approved by the Supervisory Board on 17 November 2019.

The strategy focuses on four pillars, which PKO Bank Polski S.A. develops and reinforces.

1. **Connected, mobile and personal.** Digital banking model leveraging advanced analytics to provide personalized experience in the customers' everyday life.
2. **Open and innovative.** Leveraging open banking opportunities, strategic partnerships and cloud solutions to offer customers innovative services.
3. **Digital and efficient.** Digital, paperless processes with minimum manual handling requirements. Fast and secure Bank in the cloud.
4. **Shaping competences of the future.** Motivated and committed team with competences tailored to new business challenges, agile, using the latest technologies.

The Bank's mid-term financial goals defined in the Strategy for 2022 are as follows:

- net profit over PLN 5 billion;
- ROE at the level of 12%;
- C/I at the level of approx. 41%;
- cost of risk in the 0.60% – 0.75% bracket;
- capability to pay out dividend.

The Strategy takes into account non-financial factors (Environmental, Social and Governance – ESG).

PKO Bank of the Future:

- it is aware of the challenges resulting from climate changes;
- it gradually eliminates activities that are harmful for the environment;
- it supports environmental education;
- it follows the principle of social responsibility;
- it takes into account the impact of its actions on the general public, customers, suppliers, employees and shareholders;
- it improves corporate governance;
- it ensures transparency of the principles of the Bank's management.

The Bank is preparing its strategy for the following years.

### PURSUIT OF THE STRATEGY

The financial goals for 2022 defined in the Strategy are influenced by macroeconomic changes, changes in the geopolitical situation and regulatory factors, such as the interest rate levels, the war in Ukraine, the legal risk of mortgage loans in foreign currencies and other regulatory solutions, which have not been taken into account when the Strategy was prepared.

The COVID-19 pandemic intensified the process of the Bank's digital transformation. The priorities included the development of remote channels and improving the availability of digital products and services, while maintaining a high level of customer satisfaction. PKO Bank Polski S.A. was consistently building an ecosystem of non-banking services provided in remote channels, including in particular the IKO application, which was extended by new functionalities. The Bank continued the optimization of its internal processes, which included a reduction in the operating expenses (through digitization, automation and robotics), and external processes, by increasing the use of artificial intelligence and robo-advisors. The newly implemented solutions make it possible to establish deeper relations with customers and ensure positive customer experience in all channels. The possibilities in this respect are supported by the innovations implemented and advanced data analytics.

Taking into account the changes in the market environment caused by the pandemic, PKO Bank Polski S.A. established the following priority areas and actions (as part of the implemented strategy) for the year 2021 and continued them in the first half of 2022:

- **Focus on the Customer** – segmental approach to the offer and service model, personalized customer experience and building long-term relations, continued transformation of the network into the consultation and digital education centre for customers;
- **Digitization** – ensuring that customers have an omnichannel access to banking products and services, increasing sales through remote channels, developing functionalities and innovations in IKO mobile banking, enhancing CRM and advisor tools, intensifying the use of advanced data analytics, the Road2Cloud project and constructing a modern platform for electronic channels, including its high accessibility, scalability and security;
- **Autonomous Bank** – accelerating the automation and robotization of processes, increasing the number of E2E processes, “slim” outlets and an effective service model, simple and convenient offer and communication with customers, increasing the use of AI in sales and service processes, and in the organization’s internal processes.

PKO Bank Polski S.A. and the Group companies support Poland’s energy transformation by developing their offer of green products and financing sustainable projects. The Bank also mitigates the adverse effect of its operating activities on the environment. The Bank’s activities are reflected in an improvement of its ESG ratings.

PKO Bank Polski S.A. is the undisputed leader of the Polish banking sector and the most mobile bank in Poland, providing services to nearly 6.8 million users via its IKO mobile application. The Bank builds its long-term relationship with its customers and remains the bank of first choice for 4.6 million primary customers (an increase of 9% y/y).

In accordance with the Strategy, PKO Bank Polski S.A. builds competitive advantage using its technological potential, going far beyond the traditional financial area. It cooperates with fintech market leaders and initiated the establishment of Operator Chmury Krajowej sp. z o.o., with which it builds strategic partnerships with worldwide technology leaders – Google and Microsoft. This cooperation enables the Bank to use the most recent cloud technology which actively supports the development of modern and safe solutions for customers.

The achievements of the Group in the first half of 2022 are presented in the chapter “Development of operations – significant achievements”.

## 6. FINANCIAL STANDING OF THE GROUP

### 6.1. KEY FINANCIAL INDICATORS

The results achieved by the PKO Bank Polski S.A. Group in the first half of 2022 led to obtaining the key financial efficiency indicators at the following levels:

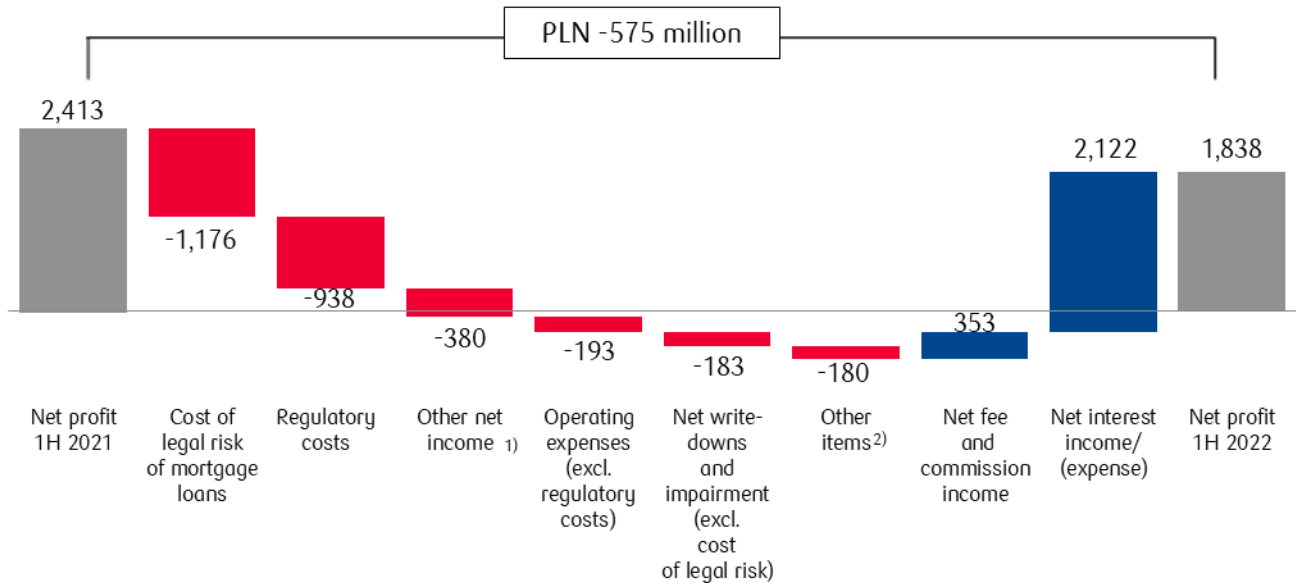
Table 2. Financial indicators of the PKO Bank Polski S.A. Group

	30.06.2022	30.06.2021	Change
<b>Net ROE</b> (net profit/(loss)/average equity)	11.5%	-3.4%	+14.9 p.p.
<b>Net ROTE</b> (net profit/(loss)/average equity less intangible assets)	12.6%	-3.7%	+16.3 p.p.
<b>Net ROA</b> (net profit/(loss)/average assets)	1.0%	-0.4%	+1.4 p.p.
<b>C/I</b> (cost to income ratio)	42.1%	39.5%	+2.6 p.p.
<b>Interest margin</b> (net interest income/average interest-bearing assets)	3.19%	2.75%	+0.44 p.p.
<b>Share of impaired exposures</b>	3.86%	4.54%	-0.68 p.p.
<b>Cost of credit risk</b>	0.58%	0.66%	-0.08 p.p.
<b>Total capital ratio</b> (own funds/total capital requirement*12.5)	17.30%	18.87%	-1.57 p.p.
<b>Common equity Tier 1 (CET1)</b>	16.11%	17.62%	-1.51 p.p.

### 6.2. CONSOLIDATED INCOME STATEMENT

In the first half of 2022, the PKO Bank Polski S.A. Group earned a consolidated net profit of PLN 1,838 million, i.e. PLN 575 million (-23.8%) less than in the first half of 2021, which was a result of the recognition of the cost of the aid fund maintained by the company System Ochrony Banków Komercyjnych S.A. and additional allowances for the legal risk of mortgage loans in convertible currencies. At the same time, the result on business activities improved.

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



1) Other income comprises dividend income, result on financial transactions, foreign exchange gains/(losses) and other operating income and expenses.

2) This item comprises tax on certain financial institutions, share in profits and losses of associates and joint ventures, corporate income tax and profits and losses of non-controlling shareholders.

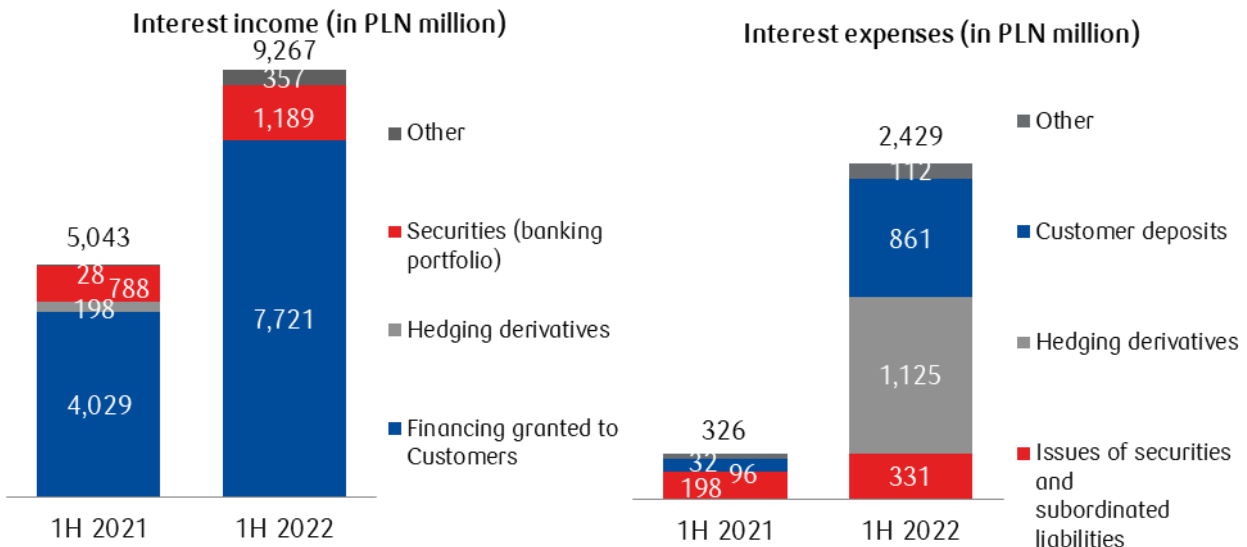
The result on business activities for the first half of 2022 amounted to PLN 9,471 million and was PLN 2,095 million, i.e. 28.4%, higher than in the first half of 2021, mainly due to an increase in net interest income and net fee and commission income, while the other net income decreased.

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

	01.01-30.06.2022	01.01-30.06.2021	Change (PLN million)	Change (%)
<b>Net interest income</b>	<b>6,839</b>	<b>4,717</b>	<b>2,122</b>	<b>45.0%</b>
<b>Net fee and commission income</b>	<b>2,428</b>	<b>2,075</b>	<b>353</b>	<b>17.0%</b>
<b>Net other income</b>	<b>204</b>	<b>584</b>	<b>-380</b>	<b>-65.1%</b>
Dividend income	11	11	0	3.7%
Result on financial transactions	156	162	-6	-3.6%
Net foreign exchange gains/(losses)	-66	370	-436	-1.2x
Net other operating income and expenses	102	41	61	1.5x
<b>Result on business activities</b>	<b>9,471</b>	<b>7,376</b>	<b>2,095</b>	<b>28.4%</b>
Operating expenses	-4,205	-3,074	-1,131	36.8%
Tax on certain financial institutions	-626	-518	-108	20.8%
<b>Net operating result</b>	<b>4,640</b>	<b>3,784</b>	<b>856</b>	<b>22.6%</b>
Net write-downs and impairment	-1,914	-555	-1,359	2.4x
Share in profits and losses of associates and joint ventures	28	8	20	2.5x
<b>Profit before tax</b>	<b>2,753</b>	<b>3,237</b>	<b>-484</b>	<b>-14.9%</b>
Income tax expense	-917	-825	-92	11.1%
<b>Net profit (including non-controlling shareholders)</b>	<b>1,837</b>	<b>2,412</b>	<b>-575</b>	<b>-23.9%</b>
Profit (loss) attributable to non-controlling shareholders	-1	-1	0	18.5%
<b>Net profit</b>	<b>1,838</b>	<b>2,413</b>	<b>-575</b>	<b>-23.8%</b>

NET INTEREST INCOME

The net interest income for the first half of 2022 amounted to PLN 6,839 million, i.e. PLN 2,122 million more than in the first half of the previous year. The increase was mainly due to an increase in market interest rates and an increase in volumes.



The interest income amounted to PLN 9,267 million and was PLN 4,224 million higher than in the same period of 2021 mainly as a result of:

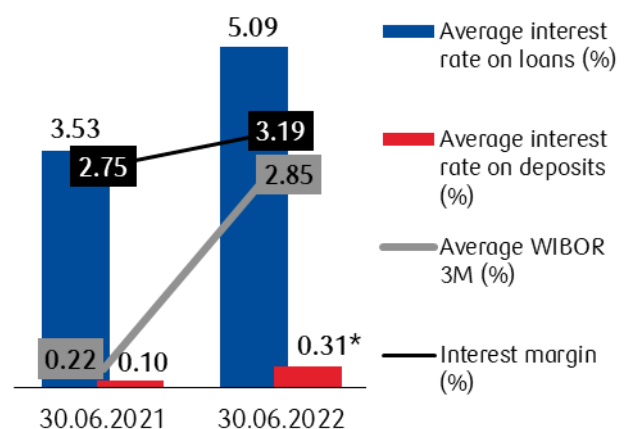
- higher income from financing granted to customers (+ PLN 3,692 million y/y) due to higher levels of market interest rates and an increase in the average volume of amounts due from customers of nearly PLN 13 billion;
- a higher income on securities (+ PLN 401 million y/y) due to higher market interest rates and an increase in the average volume of PLN 5 billion.

The interest costs amounted to PLN 2,429 million and were PLN 2,103 million higher than in the same period of 2021 mainly as a result of:

- recognition of a negative result on hedging derivatives of PLN 1,125 million, which comprised mainly IRS transactions (payments made at variable rates exceeded payments received at a fixed rate);
- an increase in the deposit base costs of PLN 765 million due to interest rate increases leading to the adjustment of the deposit offer to the market and the conversion of funds to fixed-term accounts, accompanied by an increase in the average volume of deposits of PLN 38 billion in relation to the first half of 2021.

The interest margin increased by 0.44 p.p. y/y to 3.19% as at the end of the first half of 2022. The average interest on the receivables of the PKO Bank Polski S.A. Group in respect of loans amounted to 5.09% as at the end of the first half of 2022 and the average interest on total deposits was 0.31%, compared to 3.53% and 0.10%, respectively, as at the end of the first half of 2021.

Average interest rate and interest margin (in %)



\* The Group expects an increase in the average interest rate on deposits in the following quarters due to the introduction to the offer the deposits with significantly higher interest rates. Information on significant changes to the offer until the end of July 2022 is described in section 2.1.4 "Deposit offer and support for borrowers".

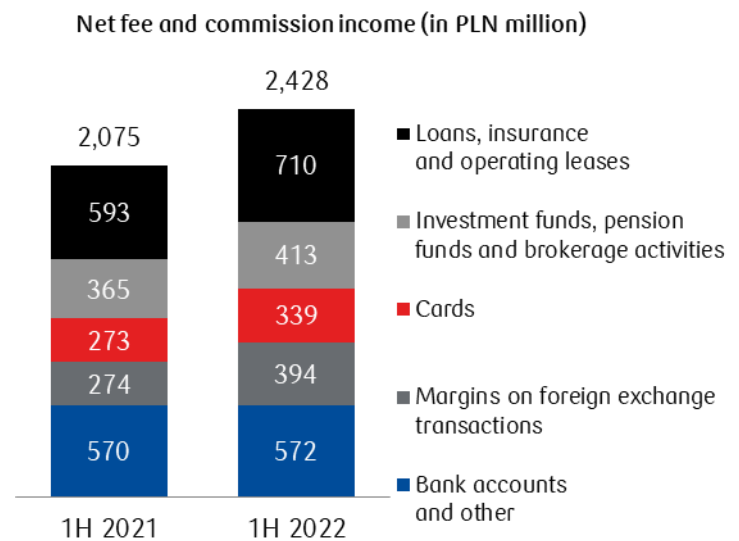


## NET FEE AND COMMISSION INCOME

In the first half of 2022, the net fee and commission income amounted to PLN 2,428 million and was PLN 353 million higher than in the first half of the previous year.

The level of net fee and commission income was driven by:

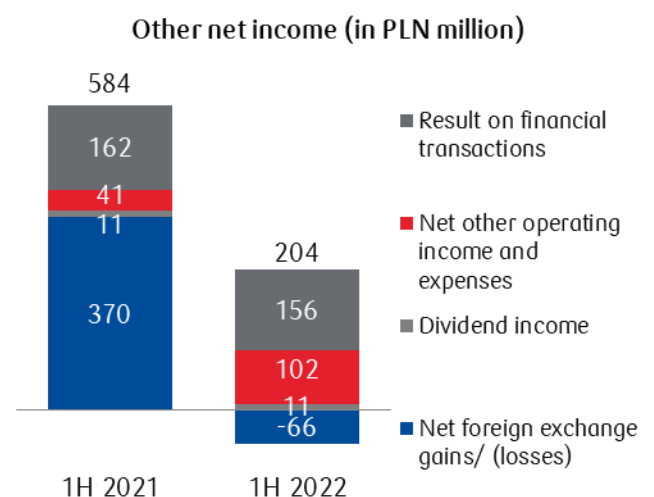
- higher net income on loans, insurance and operating leases (+ PLN 117 million y/y), mainly due to an increase in commission income from business customers, lease and factoring receivables, an increase in income from insurance products offered and a decrease in the costs of controlling investments and real estate appraisal;
- higher net income from margins on foreign exchange transactions (PLN +120 million y/y), mainly resulting from a larger number of transactions;
- higher net income on cards (+ PLN 66 million y/y), due to a higher number of transactions and an increase in the number of cards of more than 6% y/y;
- higher net income on investment and pension funds and brokerage activities (+ PLN 48 million y/y), which was mainly a result of higher commissions on the sales of Treasury bonds;
- higher net income on servicing bank accounts and other income (+ PLN 2 million y/y), which was, among other things, due to higher commissions for money transfers, maintaining accounts, cash transactions and foreign currency transactions.



## OTHER NET INCOME

Other net income for the first half of 2022 amounted to PLN 204 million and was PLN 380 million lower than in the first half of the previous year due to:

- a decrease in net foreign exchange gains (- PLN 436 million y/y), which was mainly due to the recognition in the first half of 2021 of a foreign currency result of approx. PLN 328 million resulting from a decision of the Extraordinary General Shareholders' Meeting of the Bank dated 23 April 2021 on offering settlement agreements to customers, and a deterioration in the net foreign exchange gains/(losses) resulting from PLN interest rate increases in 2022;
- a decrease in the result on financial transactions (- PLN 6 million y/y), which was, among other things, due to a decrease in the result on derecognition of assets (mainly in connection with a high profit on the sale of securities realized in the first half of 2021) and a decrease in the result on the valuation of shares, accompanied by an increase in the result on derivatives (included derivatives embedded in structured deposits);
- an increase in other net operating income and expenses of PLN 61 million y/y, mainly resulting from:
  - lower costs of provisions for reimbursements to customers in connection with the early repayment of consumer and mortgage loans of PLN 13 million;
  - an increase in revenues from other activities of the PKO Leasing S.A. Group of PLN 24 million y/y (including sales of post-lease cars, remarketing, settlement of insurance losses and premiums);
  - an increase in revenues from the hotel activities of Sopot Zdrój sp. z o.o. of PLN 17 million.

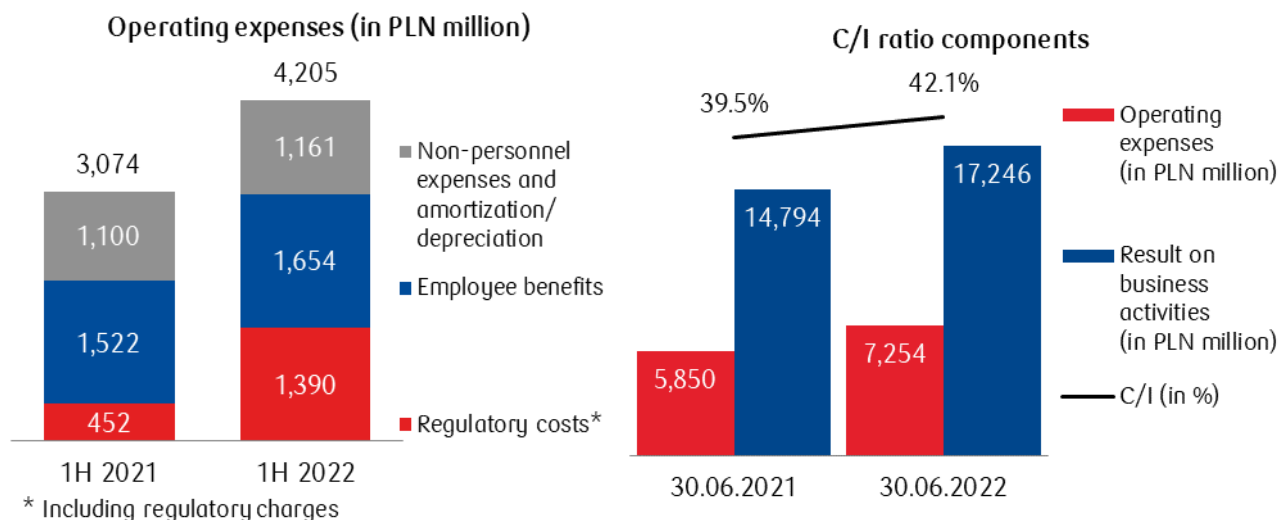


## OPERATING EXPENSES

In the first half of 2022, operating expenses amounted to PLN 4,205 million (an increase of PLN 1,131 million y/y, i.e. 36.8%).

Their level was mainly determined by:

- an increase in regulatory charges of PLN 938 million, i.e. 207.5%, mainly due to the recognition of the cost of the initial payment to the aid fund maintained by System Ochrony Banków Komercyjnych S.A. of PLN 872 million and an increase in the contributions to the Bank Guarantee Fund of PLN 40 million – the BGF costs amounted to PLN 407 million and included a contribution to the bank resolution fund of PLN 291 million (in the first half of the previous year, the BGF costs amounted to PLN 367 million, including a contribution to the resolution fund of PLN 253 million);
- an increase in the costs of employee benefits of PLN 132 million, i.e. 8.7%, mainly due to the payroll regulations implemented;
- an increase in non-personnel expenses of PLN 51 million, i.e. of 8.3%, mainly as a result of:
  - an increase in legal consultancy costs of PLN 19 million, i.e. 81.1%, mainly associated with the settlement programme for CHF borrowers;
  - an increase in the costs of maintenance and rental of real estate of PLN 8 million, i.e. 6.1%;
  - an increase in the costs of cash management of PLN 7 million, i.e. 21.5%;
 and simultaneous decreases in the following expenses:
  - promotion and advertising of PLN 6 million, i.e. 10.1%;
- an increase in amortization and depreciation of PLN 11 million, i.e. 2.2%, due to an increase in the amortization of IT-related intangible assets and a simultaneous decrease in the depreciation of buildings and structures.

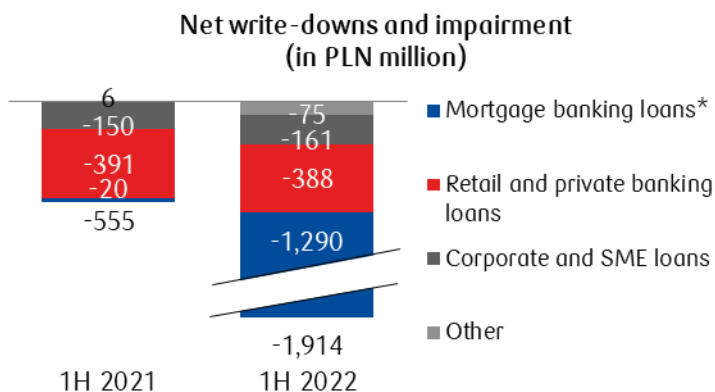


The operating efficiency of the PKO Bank Polski S.A. Group measured with the annual C/I ratio was 42.1% (+2.6 p.p. y/y).

## NET WRITE-DOWNS AND IMPAIRMENT

In the first half of 2022, net write-downs and impairment (including the cost of legal risk) amounted to - PLN 1,914 million and were PLN 1,359 million lower than in the first half of 2021, which was mainly due to:

- recognition of the cost of legal risk associated with mortgage loans denominated in convertible currencies of PLN 1,176 million due to a significant change in the market environment affecting the expected number of claims and settlements; and



\*Includes the cost of legal risk associated with mortgage loans in convertible currencies in the amount of PLN -1 176 million in the first half of 2022

- recognition of the effects of risk materialization due to the war in Ukraine – PLN 333 million.

The share of exposures with recognized impairment as at the end of the first half of 2022 was 3.86% (an improvement of 0.68 p.p. in relation to the first half of 2021).

The cost of risk as at the end of the first half of 2022 was 0.58%, i.e. it was 0.08 p.p. lower than in the corresponding period of the previous year.

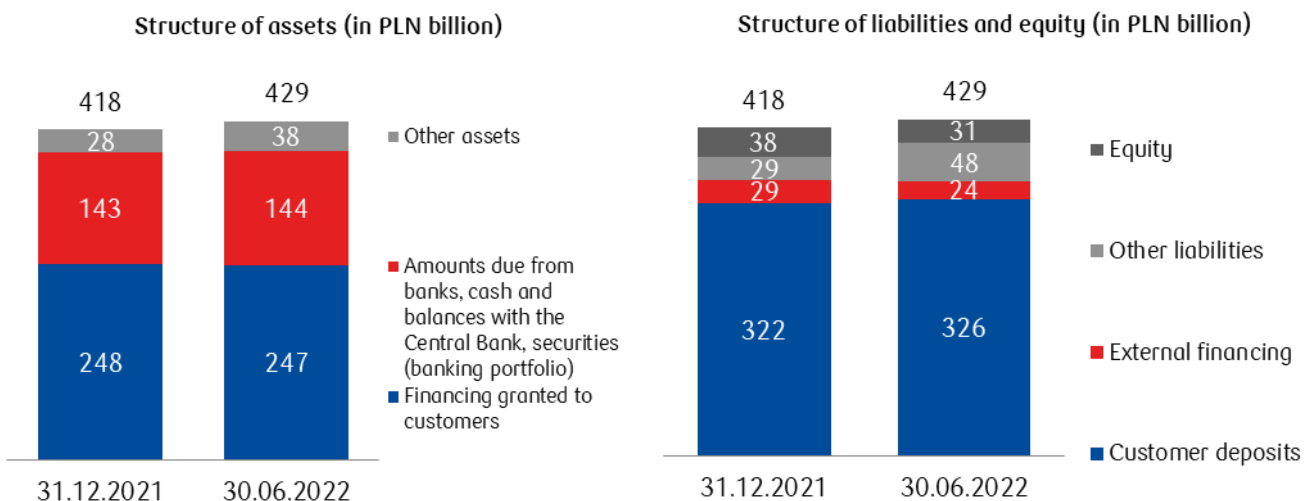
In view of the changing macroeconomic conditions associated with the war in Ukraine and the COVID-19 pandemic, the Bank continues its conservative policy of managing the Group's credit risk and close monitoring of the portfolio of receivables.

### 6.3. STATEMENT OF FINANCIAL POSITION

#### MAIN ITEMS OF THE STATEMENT OF FINANCIAL POSITION

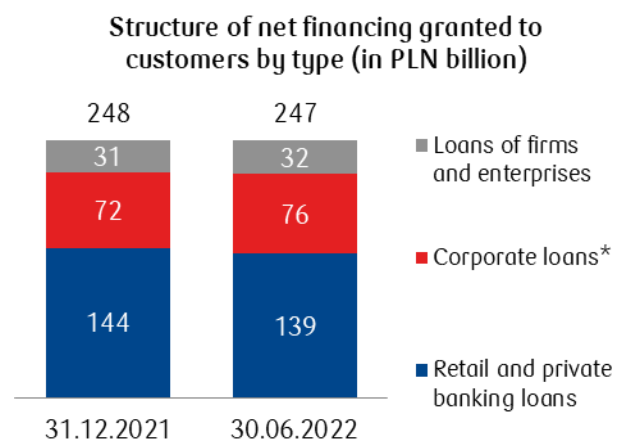
Total assets and total equity and liabilities of the PKO Bank Polski S.A. Group as at the end of the first half of 2022 amounted to nearly PLN 429 billion (an increase of approx. PLN 11 billion since the beginning of the year). Thus, the Group reinforced its leading position in the Polish banking sector.

The change in total assets and total equity and liabilities in the first half of 2022 was mainly due to an increase in the valuation of derivatives (both interest rate and commodity), which caused an increase in the amount of other assets and other liabilities. On the assets side, no significant changes were noted in the total level of financing granted to customers. There was an increase in the amounts due from banks since the beginning of the year and a corresponding decrease in securities. As far as the sources of financing are concerned, the role of equity and external financing decreased, and the role of customer deposits increased.



#### FINANCING GRANTED TO CUSTOMERS

As at the end of the first half of 2022, the financing granted to customers of the Group amounted to approximately PLN 247 billion, which is a decrease of PLN 1 billion since the beginning of the year, resulting from the increases in corporate loans (+ PLN 4 billion) and loans of firms and enterprises (+ PLN 1 billion), accompanied by a decrease in retail and private banking loans (- PLN 5 billion) and recognition of a provision for costs of legal risk.

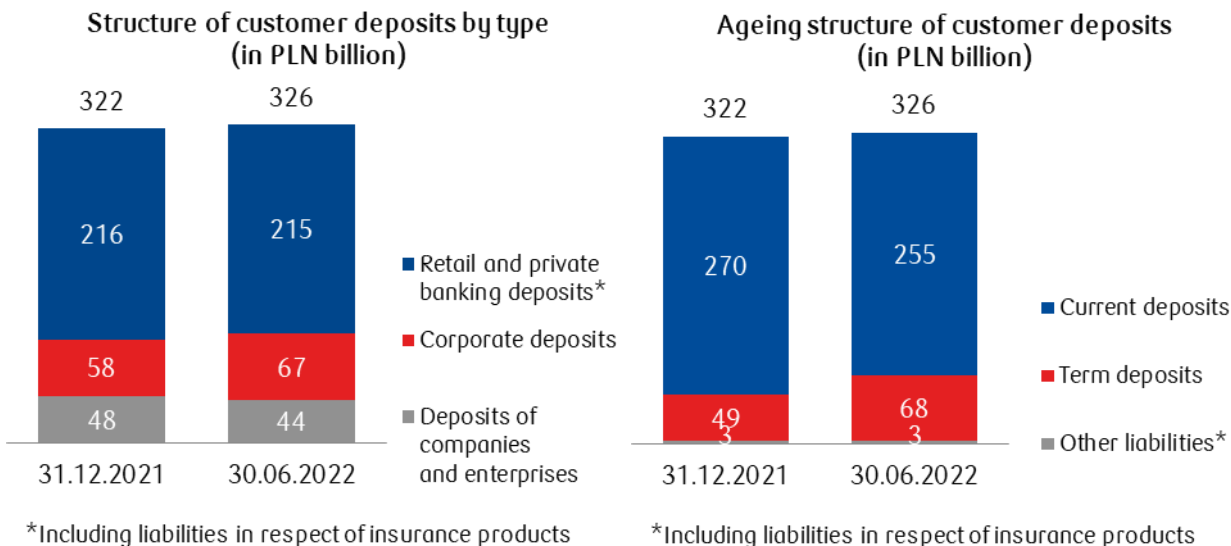


\*Including lease receivables and non-Treasury bonds

## CUSTOMER DEPOSITS

Customer deposits constitute the basic source of financing of the Group's assets. As at the end of the first half of 2022, they exceeded PLN 326 billion, which means an increase of PLN 4 billion since the beginning of the year.

The increase in the deposit base was mainly due to an increase in corporate deposits (+ PLN 9 billion), which was accompanied by a decrease in deposits of firms and enterprises (- PLN 3 billion) and retail and private banking deposits (- PLN 2 billion).

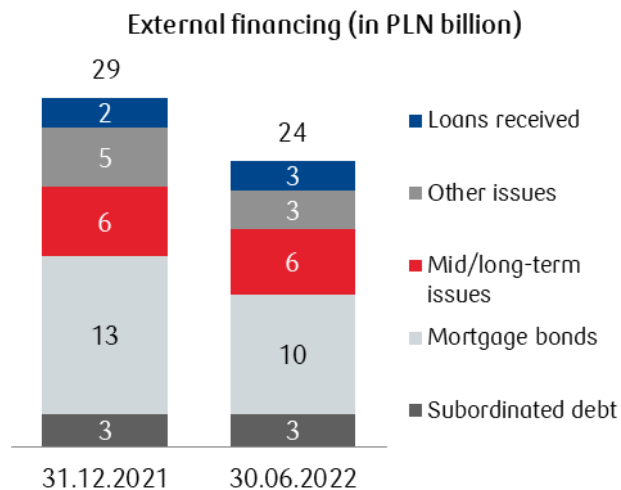


The share of current deposits in total deposits was 78% (-6 p.p. in relation to the end of 2021).

## EXTERNAL FINANCING

The long-term sources of financing amounted to nearly PLN 24 billion as at the end of June 2022 (a decrease of PLN 5 billion since the beginning of the year). The change was due to:

- a decrease in the value of bonds issued by PKO Bank Hipoteczny S.A. of PLN 1.6 billion;
- a decrease in the value of bonds issued by the PKO Leasing S.A. Group of PLN 0.8 billion;
- a decrease in the value of the PKO Bank Hipoteczny S.A. mortgage covered bonds of PLN 3.2 billion, which was due to the fact that a bond issue with a value of EUR 600 million matured in June 2022.



## EQUITY

Equity as at the end of the first half of 2022 amounted to nearly PLN 31 billion and was PLN 7 billion lower than as at the beginning of the year, which was mainly due to:

- accumulation of the current result - PLN 1.8 billion;
- a decision to pay out dividend and a transfer of PLN 2.3 billion from equity to liabilities;
- measurement of securities and other instruments through equity - PLN 6.0 billion.

## 7. FINANCIAL STANDING OF THE BANK

### 7.1. KEY FINANCIAL INDICATORS

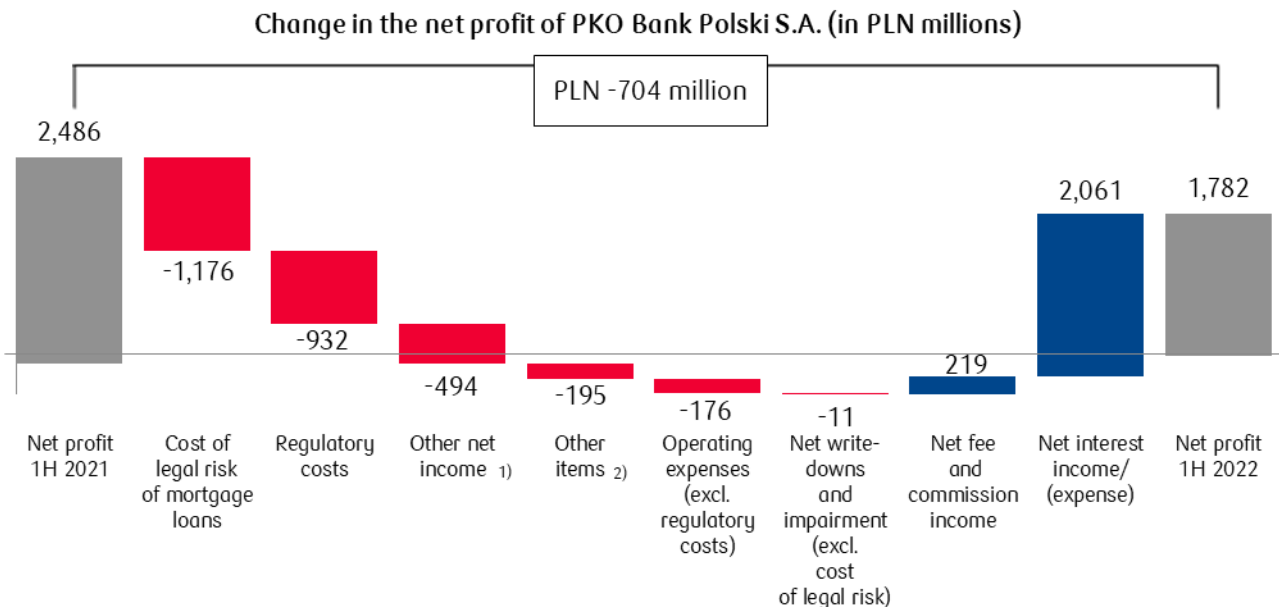
The results achieved by PKO Bank Polski S.A. in the first half of 2022 resulted in the key financial efficiency indicators achieving the following levels:

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

	30.06.2022	30.06.2021	Change
Net ROE (net profit/(loss)/average equity)	10.9%	-4.0%	+14.9 p.p.
Net ROTE (net profit/(loss)/average equity less intangible assets)	11.8%	-4.3%	+16.1 p.p.
Net ROA (net profit/(loss)/average assets)	1.0%	-0.5%	+1.5 p.p.
C/I (cost to income ratio)	41.5%	38.0%	+3.5 p.p.
Interest margin (net interest income/average interest-bearing assets)	3.08%	2.63%	+0.45 p.p.
Share of impaired exposures	3.71%	4.51%	-0.80 p.p.
Cost of credit risk	0.47%	0.65%	-0.18 p.p.
Total capital ratio (own funds/total capital requirement*12.5)	18.20%	20.52%	-2.32 p.p.
Common equity Tier 1 (CET1)	16.83%	19.10%	-2.27 p.p.

### 7.2. INCOME STATEMENT

In the first half of 2022, PKO Bank Polski S.A. earned a net profit of PLN 1,782 million, i.e. PLN 704 million less than in the first half of 2021, which was a result of the recognition of the cost of the aid fund maintained by the company System Ochrony Banków Komercyjnych S.A. and additional allowances for the legal risk of mortgage loans in convertible currencies. At the same time, the result on business activities improved.



1) Other income comprises dividend income, result on financial transactions, foreign exchange gains/(losses) and other operating income and expenses.

2) This item comprises tax on certain financial institutions and corporate income tax.

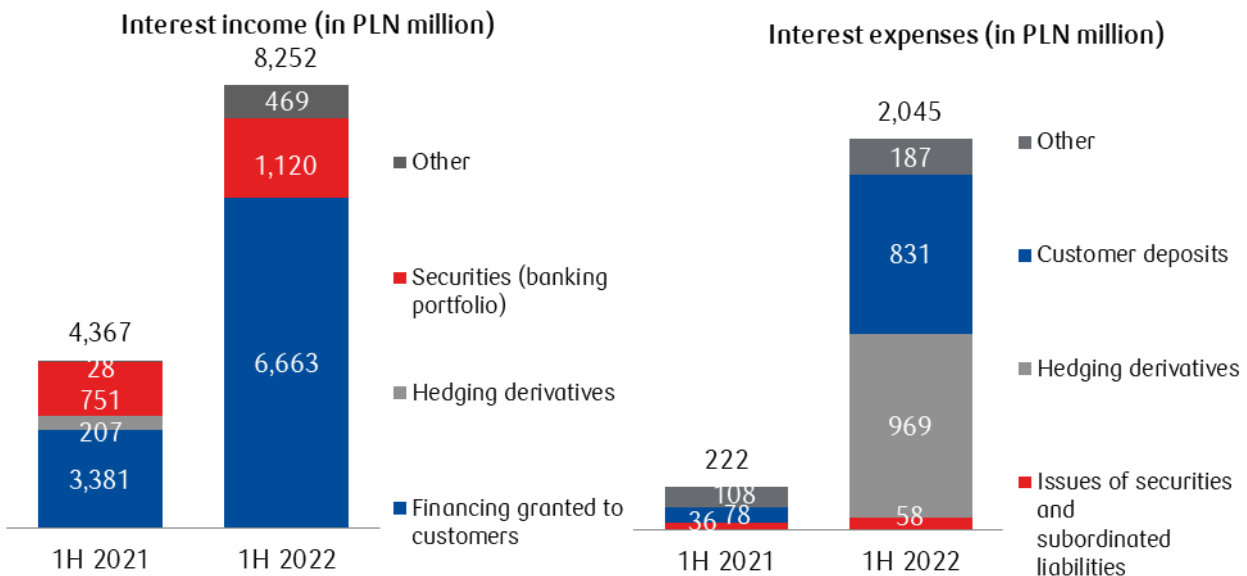
The result on business activities for the first half of 2022 amounted to PLN 8,581 million and was PLN 1,787 million, i.e. 26.3%, higher than in the first half of 2021, mainly due to an increase in net interest income and net fee and commission income, while the net foreign exchange gains decreased.

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

	01.01- 30.06.2022	01.01- 30.06.2021	Change (PLN million)	Change (%)
Net interest income	6,206	4,145	2,061	49.7%
Net fee and commission income	1,888	1,669	219	13.1%
Net other income	486	980	-494	-50.4%
Dividend income	465	463	2	0.4%
Result on financial transactions	175	147	28	19.1%
Net foreign exchange gains/(losses)	-127	388	-515	-1.3x
Net other operating income and expenses	-27	-18	-9	51.4%
<b>Result on business activities</b>	<b>8,581</b>	<b>6,794</b>	<b>1,787</b>	<b>26.3%</b>
Operating expenses	-3,749	-2,641	-1,108	42.0%
Tax on certain financial institutions	-585	-471	-114	24.2%
<b>Net operating result</b>	<b>4,246</b>	<b>3,682</b>	<b>564</b>	<b>15.3%</b>
Net write-downs and impairment	-1,652	-465	-1,187	2.6x
<b>Profit before tax</b>	<b>2,593</b>	<b>3,217</b>	<b>-624</b>	<b>-19.4%</b>
Income tax	-812	-731	-81	11.1%
<b>Net profit</b>	<b>1,782</b>	<b>2,486</b>	<b>-704</b>	<b>-28.3%</b>

### NET INTEREST INCOME/(EXPENSE)

The net interest income/(expense) for the first half of 2022 amounted to PLN 6,206 million, i.e. PLN 2,061 million more than in the first half of the previous year. The increase was a result of higher interest rates and an increase in volumes.



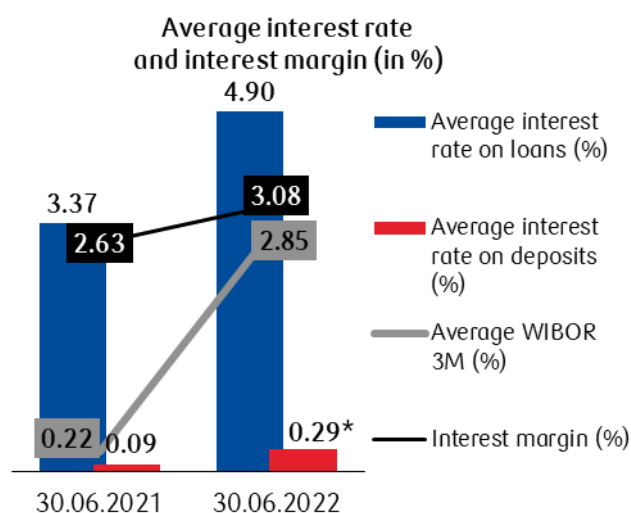
The interest income amounted to PLN 8,252 million and was PLN 3,885 million higher than in the same period of 2021 mainly as a result of:

- higher income from financing granted to customers (+ PLN 3,282 million y/y) due to increased levels of market interest rates and an increase in the average volume of loan receivables (mainly business loans) of PLN 19 billion;
- an increase in income on securities of PLN 369 million y/y due to higher market interest rates and an increase in the average volume of PLN 5 billion.

Interest expenses amounted to PLN 2,045 million and were PLN 1,823 million higher than in the corresponding period of 2021. This was mainly due to:

- recognition of a negative result on hedging derivatives of PLN 969 million, which comprised mainly IRS transactions (payments made at variable rates exceeded payments received at a fixed rate);
- an increase in the deposit base costs of PLN 753 million due to interest rate increases leading to the adjustment of the deposit offer to the market and conversion of funds to fixed-term accounts, accompanied by an increase in the average volume of deposits of PLN 38 billion in relation to the first half of 2021.

The interest margin increased by 0.45 p.p. y/y to 3.08% as at the end of the first half of 2022. The average interest on the receivables of PKO Bank Polski S.A. in respect of loans was 4.90% as at the end of the first half of 2022 and the average interest on total deposits was 0.29%, compared to 3.37% and 0.09%, respectively, as at the end of the first half of 2021.

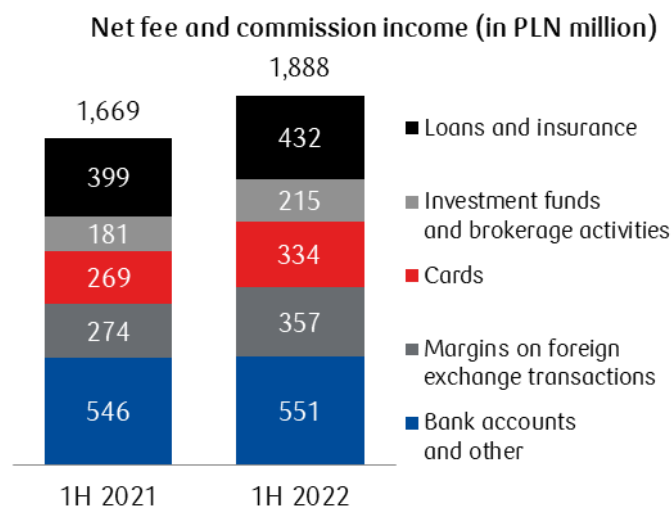


\* The Bank expects an increase in the average interest rate on deposits in the following quarters due to the introduction to the offer the deposits with significantly higher interest rates. Information on significant changes to the offer until the end of July 2022 is described in section 2.1.4 "Deposit offer and support for borrowers".

## NET FEE AND COMMISSION INCOME

In the first half of 2022, the net fee and commission income amounted to PLN 1,888 million and was PLN 219 million higher than in the first half of the previous year. The level of net fee and commission income was driven by:

- higher net income from margins on foreign exchange transactions (+ PLN 83 million y/y), mainly resulting from a higher number of transactions;
- higher net income on cards (+ PLN 65 million y/y), due to a higher number of transactions and an increase in the number of cards of more than 6% y/y;
- higher net income on investment funds and brokerage activities (+ PLN 34 million y/y), which was mainly the result of higher commissions on sales of Treasury bonds;
- higher net income on loans and insurance (+ PLN 33 million y/y), which was mainly due to an increase in commission income on business loans and a decrease in the costs of investment control and real estate appraisal;
- higher net income on servicing bank accounts and other income (+ PLN 5 million y/y), which was, among other things, due to higher commissions for money transfers, maintaining accounts, cash transactions and foreign currency transactions.

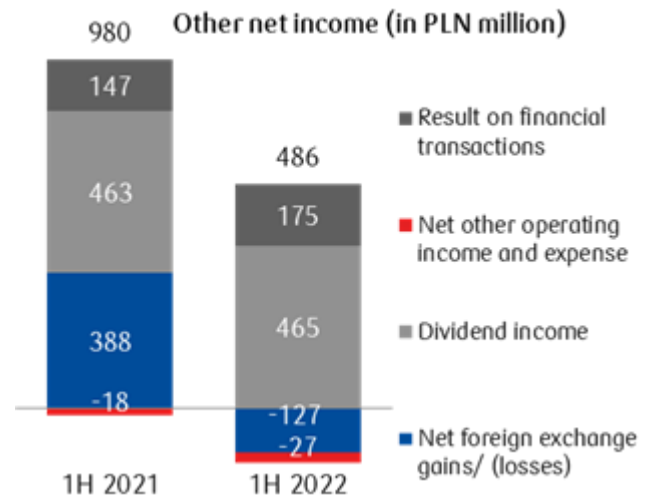




## OTHER NET INCOME

Other net income for the first half of 2022 amounted to PLN 486 million and was PLN 494 million lower than in the first half of the previous year due to:

- a decrease in net foreign exchange gains of PLN 515 million, mainly due to the recognition of a foreign currency result of approx. PLN 328 million resulting from a decision of the Extraordinary General Shareholders' Meeting of the Bank dated 23 April 2021 on offering settlement agreements to customers, and a deterioration in the net foreign exchange gains/(losses) resulting from PLN interest rate increases in 2022;
- a higher result on financial transactions (+ PLN 28 million y/y), resulting from, among other things, an increase in the result on derivative instruments (including the income realized on derivatives embedded in structured deposits), which was accompanied by a lower result on the derecognition of assets (mainly due to high income realized on sales of securities in the first half of 2021) and a lower result on the valuation of shares;
- a decrease in other net operating income and expenses (- PLN 9 million y/y), resulting from, among other things, an increase of PLN 30 million in the liability in respect of increasing the share capital of a subsidiary, accompanied by a decrease in the costs of provisions for reimbursements to the customers in connection with the early repayment of consumer and mortgage loans of PLN 13 million.



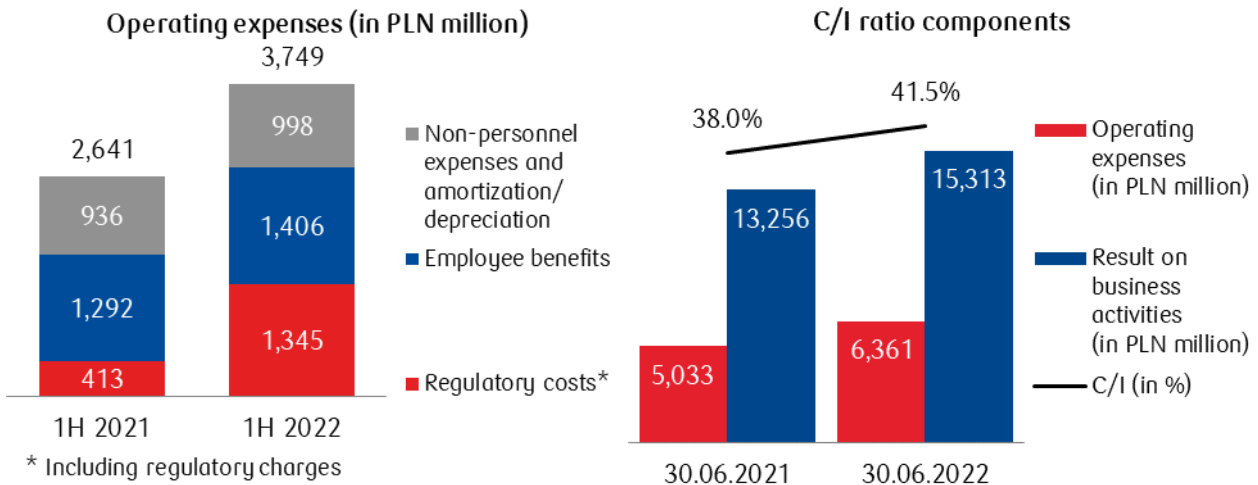
## OPERATING EXPENSES

In the first half of 2022, operating expenses amounted to PLN 3,749 million (an increase of PLN 1,108 million y/y, i.e. 42.0%).

Their level was mainly determined by:

- an increase in regulatory charges of PLN 932 million, i.e. 225.7%, mainly due to the recognition of the cost of the initial payment to the aid fund maintained by the company System Ochrony Banków Komercyjnych S.A. of PLN 872 million and an increase in the contributions to the Bank Guarantee Fund of PLN 34 million - the BGF costs amounted to PLN 380 million and included a contribution to the bank resolution fund of PLN 264 million (in the first half of the previous year, the BGF costs amounted to PLN 346 million, including a contribution to the resolution fund of PLN 232 million);
- an increase in the costs of employee benefits of PLN 114 million, i.e. 8.8%, mainly due to the payroll regulations implemented;
- an increase in non-personnel expenses of PLN 48 million, i.e. of 9.4%, mainly as a result of:
  - an increase in legal consultancy costs of PLN 21 million, i.e. 105.6%, mainly associated with the settlement programme for CHF borrowers;
  - an increase in the costs of maintenance and rental of real estate of PLN 8 million, i.e. 6.5%;
  - an increase in the costs of cash management of PLN 7 million, i.e. 20.6%;
 and simultaneous decreases in the following expenses:
  - promotion and advertising of PLN 7 million, i.e. 12.0%;
- an increase in amortization and depreciation of PLN 15 million, i.e. 3.4%, including an increase in amortization of IT-related intangible assets of PLN 17 million and an increase in depreciation of computer hardware of PLN 10 million, while depreciation of buildings and structures was PLN 6 million lower and depreciation resulting from real estate rental was PLN 2 million lower.

In the first half of 2022 the Bank incurred entertainment costs, expenditure on legal services, marketing services, public relations and social communication services and advisory services related to management totalling PLN 79 million, which represented 2.1% of the Bank's total administrative expenses.

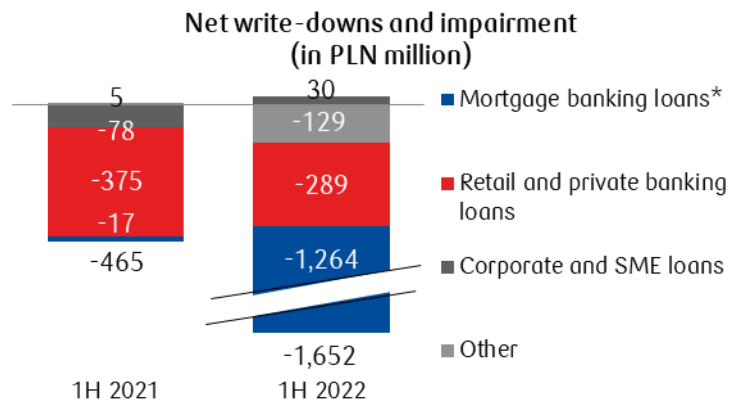


The operating efficiency of PKO Bank Polski S.A. measured with the annual C/I ratio was 41.5% (+3.5 p.p. y/y).

### NET WRITE-DOWNS AND IMPAIRMENT

In the first half of 2022, net write-downs and impairment (including the cost of legal risk) amounted to - PLN 1,652 million and were PLN 1,187 million lower than in the first half of 2021. This result was mainly driven by:

- recognition of the cost of legal risk associated with mortgage loans denominated in convertible currencies of - PLN 1,176 million due to a significant change in the market environment affecting the expected number of claims and settlements; and
- recognition of the effects of risk materialization due to the war in Ukraine of PLN 109 million.



\*Includes the cost of legal risk associated with mortgage loans in convertible currencies in the amount of PLN -1 176 million in the first half of 2022

The share of exposures with recognized impairment as at the end of the first half of 2022 was 3.71% (a decrease of 0.80 p.p. in relation to the first half of 2021).

The cost of risk as at the end of the first half of 2022 was 0.47%, i.e. it was 0.18 p.p. lower than in the corresponding period of the previous year.

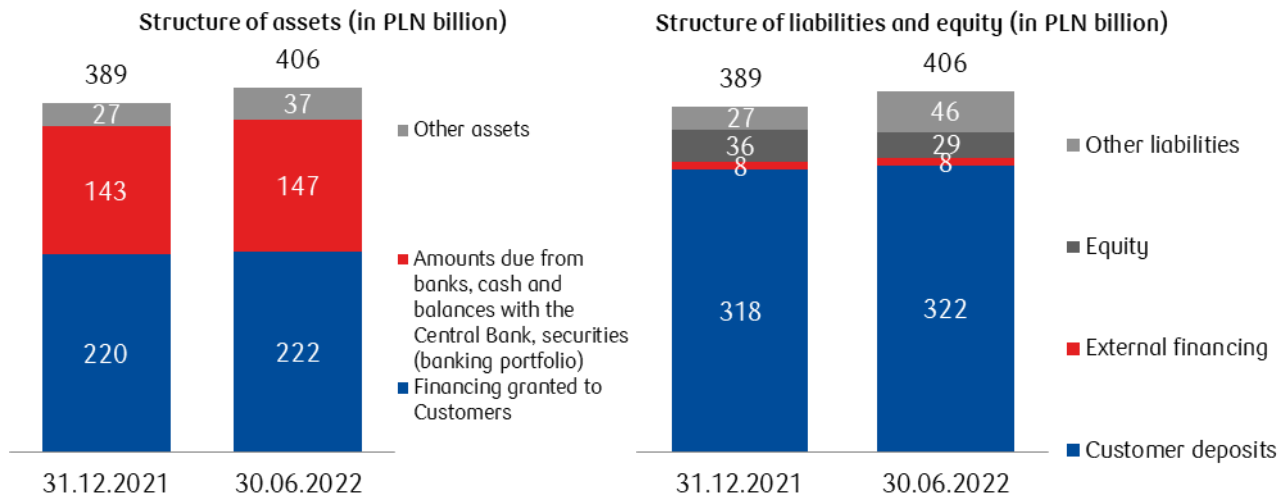
In view of the changing macroeconomic conditions associated with the war in Ukraine and the COVID-19 pandemic, the Bank is continuing its conservative policy of managing its credit risk and close monitoring of the portfolio of receivables.

## 7.3. STATEMENT OF FINANCIAL POSITION

### MAIN ITEMS OF THE STATEMENT OF FINANCIAL POSITION

Total assets and total equity and liabilities of PKO Bank Polski S.A. as at the end of the first half of 2022 amounted to nearly PLN 406 billion (an increase of approx. PLN 17 billion since the beginning of the year). Therefore, PKO Bank Polski S.A. consolidated its position of the largest institution in the Polish banking sector.

The change in total assets and total equity and liabilities in the first half of 2022 was mainly due to an increase in the valuation of derivatives (both interest rate and commodity), which caused an increase in the amount of other assets and other liabilities. On the assets side, the Bank also recognized the increases in financing granted to customers and in the most liquid assets, i.e. the amounts due from banks. On the equity and liabilities side, the scope of financing with equity decreased, and the amount of customer deposits (both corporate and retail and private banking) increased.

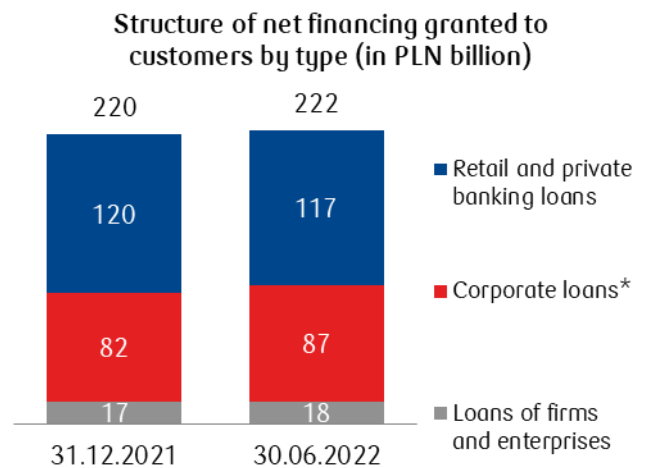


### FINANCING GRANTED TO CUSTOMERS

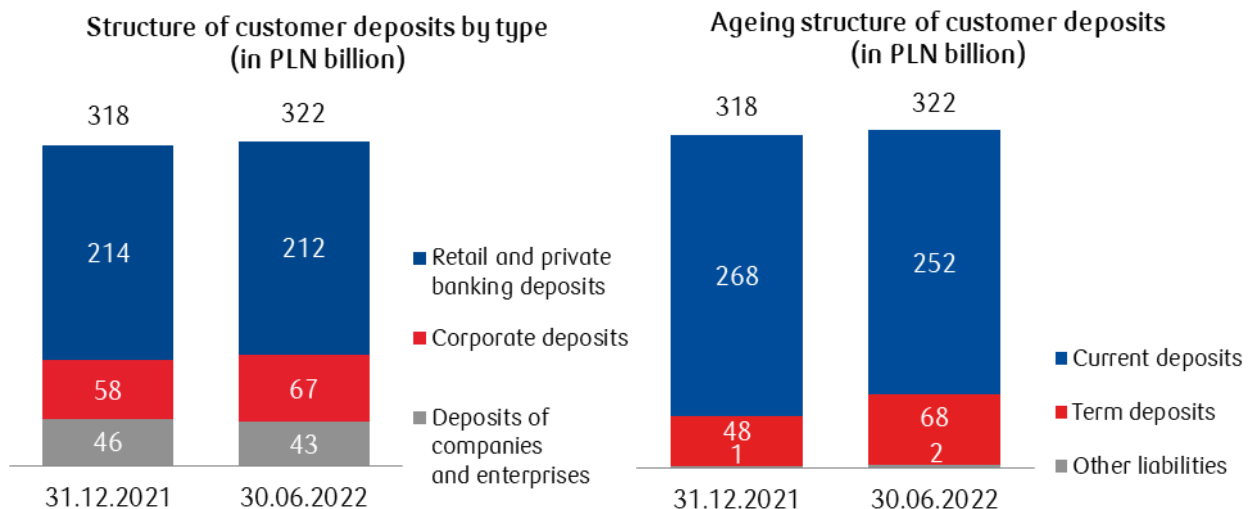
As at the end of the first half of 2022, the financing granted to customers of the Bank exceeded PLN 222 billion, which is an increase of PLN 2 billion since the beginning of the year, mainly resulting from an increase in corporate loans (+ PLN 5 billion), accompanied by a decrease in retail and private banking loans (- PLN 3 billion) and recognition of a provision for the costs of legal risk.

### CUSTOMER DEPOSITS

Customer deposits constitute the basic source of financing the Bank's assets. As at the end of the first half of 2022, they amounted to PLN 322 billion, which means an increase of PLN 4 billion since the beginning of the year. The increase in the deposit base was mainly due to an increase in corporate deposits (+ PLN 9 billion), which was accompanied by the decreases in retail and private banking deposits (- PLN 1 billion) and the deposits of companies and enterprises (- PLN 3 billion).



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



The share of current deposits in total deposits was 78% (-6 p.p. in relation to the end of 2021).

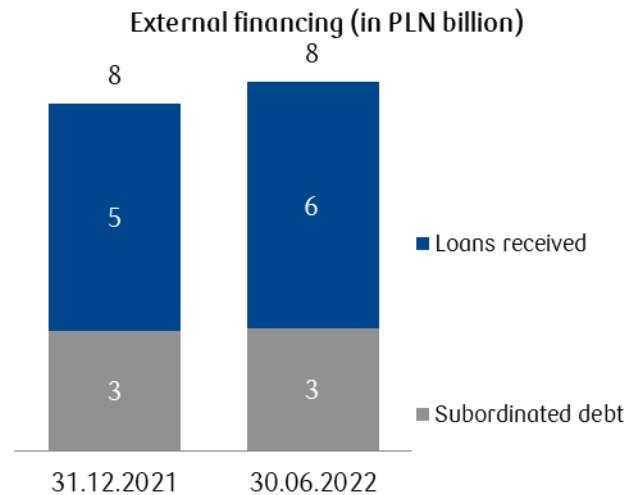
## EXTERNAL FINANCING

The balance of long-term sources of financing as at the end of June 2022 was approx. PLN 8 billion and did not change significantly in relation to the end of 2021.

### EQUITY

Equity as at the end of the first half of 2022 exceeded PLN 29 billion and was nearly PLN 7 billion lower than as at the beginning of the year, which was mainly due to:

- accumulation of the current result - PLN 1.8 billion;
- a decision to pay out dividend and a transfer of PLN 2.3 billion from equity to liabilities;
- measurement of securities and other instruments through equity - PLN 6.0 billion.



## 8. PERSONNEL MANAGEMENT

### EMPLOYMENT LEVEL

Table 6. Employment level in the PKO Bank Polski S.A. Group (in FTEs)

	30.06.2022	31.12.2021	y/y (%)
Bank	21,578	21,686	-0.5
Other entities	3,925	3,970	-1.1
The Group	25,503	25,656	-0.6

As at the end of June 2022, the PKO Bank Polski S.A. Group had 25,503 employees (FTEs), which is 153 FTEs less than as at the end of the year 2021.

### HYBRID WORK MODEL

PKO Bank Polski S.A. has a hybrid work model in place, which allows a flexible approach and adjustment to the circumstances and business goals. Decisions about the proportions of work from the office and from home are made by the managers of the respective business units. The solution was implemented in those areas of the Bank's operations whose tasks can be performed by persons working either from home or from the office. The assumptions of the model were adopted in response to the employees' expectations communicated during meetings, workshops and regular surveys.

The model takes into account the specific tasks and processes of a particular business unit, the effects and goals achieved and the space available (in buildings with a specified turnover rate). The employees may benefit from various forms of support aimed at improving the management of a team and its work. A number of supporting tools were implemented, including an application for the planning of work at home and in the office, a system for booking desks at selected locations and internal communication tools facilitating the organization of online meetings. Inspirational meetings with external and internal experts are organized to explain good practices and guidelines, as well as experience sharing sessions for managers.

The hybrid work model is also applied by most Group companies.

### SUPPORT FOR UKRAINIAN REFUGEES

From the beginning of the conflict in Ukraine, PKO Bank Polski S.A. supported persons seeking refuge in Poland, including the employees of the Group's Ukrainian companies and their families, also by offering them jobs. As at 30 June 2022, the Bank employs 188 persons from Ukraine under various forms of cooperation. The offers were addressed mainly to persons interested in work in customer service and the Contact Centre, where a knowledge of Ukrainian was important. Those Ukrainian citizens who did not know Polish received induction training in their native language.

The Bank also carried out a number of other actions addressed to prospective Ukrainian employees, such as the publication of job offers in Ukrainian addressed to specialists in technology in the social media and in temporary shelters for refugees.

## 9. DEVELOPMENT OF OPERATIONS – SIGNIFICANT ACHIEVEMENTS

### DEVELOPMENT OF PRODUCTS AND SERVICES

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

Achievements of PKO Bank Polski S.A.

<b>Development of electronic and mobile banking functionalities, automation and robotics</b>	
IKO mobile application	Making it possible to verify the identity of a Bank employee who calls a customer. The new solution significantly increases the level of security of the customers who can make sure that they are really talking to a Bank employee, not a fraudster.
	Making the online currency exchange 'iPKO dealer' available to companies.
	Allowing users who do not have accounts with PKO Bank Polski S.A. to use currency exchange.
	Offering the possibility of buying motorway e-tickets in the E-toll system. With this new function, customers will be able to drive on paid sections of the A2 (Konin-Stryków) and A4 (Wrocław-Sośnica) more comfortably. IKO is the first banking application on the Polish market to offer such a function.
	Providing deposit account applications to business customers.
	The possibility of managing the PKO Dom insurance policy and viewing the motor insurance instalment timetable.
	Presentation of the margin for currency exchange for card transactions.
	Providing information on the amount of transaction fees or commissions before a customer orders an ordinary money transfer, a transfer to his/her own account or a tax payment.
	The possibility to analyse card payments made to a specific seller using the Voice Assistant.
	The number of active IKO applications as at the end of June 2022 was close to 6.8 million, and the number of transactions concluded in IKO in the first half of 2022 was the biggest ever (almost 303 million).
iPKO electronic banking platform	Launch of the English language version of the platform. The functionalities which are available in English include: the log in page (including the help section), the home page that appears after logging in, navigation, account details, transfer forms and the list of recipients and transaction history.
	A pilot launch of deferred payment services offered for the purposes of online shopping.
	The possibility to file applications under the Family 500+ programme for a new financial period and applications for subsidies for nursery, kindergarten or day care, and the possibility to file applications for 500+ and Family Care Capital (Rodzinny Kapitał Opiekuńczy, RKO) benefits with the Social Insurance Institution (ZUS) in iPKO and Inteligo for parents who earn income abroad.
	The possibility to schedule meetings with advisors.
	Implementation of additional protection for logging in to the system from non-trusted devices.
	Implementation of a live search engine for platform navigation.
	Rearrangement of the "Settings" section to allow e.g. micropersonalization, i.e. selection of a default account and context visible after logging in.

	<p>Implementation of a new process for buying and handling investment funds in iPKO and the mobile application IKO.</p> <p>The possibility to buy Polish Mint products.</p> <p>Making the services offered by Biuro Informacji Kredytowej S.A. available to users.</p>
iPKO biznes electronic banking platform	<p>Providing access to the online currency exchange 'iPKO dealer'.</p> <p>Launch of credit and debit card applications and making prepaid cards available through API in iPKO biznes Integra.</p> <p>Increasing transaction security by introducing additional confirmation for all transfers ordered to accounts not listed as recipients.</p> <p>Allowing authorization of applications made.</p>
Cloud technologies	<p>The launch of customer data processing in Google Cloud Platform, which consists of tools which standardize and automate the implementation of machine learning and obtaining multi-format data from various sources in the streaming, online and offline mode, as well as providing such data for predictive modelling.</p> <p>Technical preparation for the launch of various systems in the cloud, including the PKO Bank Polski S.A. information service, the intranet service for the Bank's employees and the first functionalities of the IKO mobile application.</p>
Contact Center	<p>The voicebot, on incoming line, which supports the work of the Contact Centre consultants, exceeded 6.4 million conversations with customers, of which 1.67 million took place in the 2nd quarter of 2022. It helps answer simple questions asked by the customers, choose the employee with the right qualifications to talk about a particular issue, or carry out simple customer service tasks. A process for unblocking access to the Bank's electronic services by a customer using the BOT has been launched recently.</p>
Automation	<p>Automation of the process of handling purchase invoices using document digitization techniques, including iOCR, i.e. a technology for the automated reading of data from document scans and recording it in the Bank's systems.</p> <p>The number of tasks executed by robots exceeded 137 million in June 2022.</p>
<b>Development of retail banking</b>	
Mortgage banking	<p>Decreasing the margin applicable to the standard mortgage loan offer and launch of a promotional offer decreasing fixed interest for a period of 5 years.</p> <p>Extension of the offer of support for borrowers with mortgage loans in CHF, aimed at mitigating the adverse effects of changes in the CHF exchange rates, until 31 December 2022. The offer includes a decrease in the currency spread, resignation from charging some commissions and fees, resignation from demanding new security and insurance from customers who repay the loan in a timely manner.</p> <p>An increase in the share of fixed interest rate loans.                  In the 2<sup>nd</sup> quarter of 2022, the share of fixed interest rate loans in new sales (granted both by PKO Bank Polski S.A. and by PKO Bank Hipoteczny S.A.) reached 79%, and their share in the portfolio of PLN mortgage loans as at 30 June 2022 was 13.8%. In the first half of 2022, more than 33.7 thousand annexes to mortgage loan agreements were signed (the annexes convert the existing variable interest rate loans to fixed interest rate loans).                  Fixed interest rate loans protect customers from interest rate increases, stabilizing the amount of instalments and making household expenses more predictable.</p>
New loan offer	<p>The launch of an offer of a fixed interest rate cash loan.</p> <p>The introduction of automated orders to suspend instalments, which can be made either at a branch or in remote channels.</p>
New deposit offer	<p>Re-introduction of the offer of fixed term loans at the Bank. The information on significant changes in the Bank's deposit offer is presented in the chapter "The most important events, including unusual ones".</p>



PowerB@nk	The launch of a new service – PowerB@nk for a start, which supports entrepreneurs commencing business activities with a package of tools for creating a webpage and accounting consultations.
Contactless BLIK	By the end of June 2022, more than 9.3 million transactions were concluded in the IKO application with the use of contactless BLIK.
<b>Development of corporate banking and Brokerage Office services</b>	
Corporate banking	Signing five syndicated loan agreements totalling PLN 1,100.4 million and EUR 378 million, including the Bank's share of PLN 554.9 million and EUR 56 million, respectively (excluding agreements for green financing, which are discussed separately).
	Extending the term of an agreement for more than PLN 1.7 billion.
	Signing 20 municipal bond issue agreements totalling PLN 189 million and two corporate bond issue agreements as part of a consortium of banks totalling PLN 5.5 billion, including the Bank's share of PLN 1.4 billion.
	Providing two syndicated guarantees for a total of PLN 460 million, including the Bank's share of PLN 240 million.
	Signing three agreements for the financing of capital expenditure projects by Port Czystej Energii sp. z o.o. for a total of PLN 117 million.
Green financing	The Bank's share in the financing of the construction of solar power stations by a Polish photovoltaic project developer with a total target capacity of 299 MWp and a total value of PLN 864 million.
	Syndicated financing up to a total of PLN 763 million (of which the Bank contributed a third) for the construction of a photovoltaic farm with a total target capacity of 286 MW.
Sustainable financing	Signing an annex to a syndicated loan for a media and technology company. ESG clauses and indicators were added to the agreement (Sustainability Linked Loan). The margin amount was linked to the achievement of the Company's ESG objectives. The total amount of financing (close to PLN 1 billion) did not change.
Services of the Brokerage Office of PKO Bank Polski	Conducting, as the global coordinator, offering agent and bookrunner, one of the biggest secondary public offerings in the history of the Warsaw Stock Exchange – for shares of Polska Grupa Energetyczna S.A. with a value of approx. PLN 3.2 billion.
	Conducting, as the offering agent, three issues of Echo Investment S.A. bonds with a total value of PLN 140 million.
	Conducting, as a distributing syndicate member, two issues of Kruk S.A. bonds with a total value of PLN 100 million.
	Selling State Treasury savings bonds with a record-breaking value of PLN 14 billion in June 2022.
<b>Development of insurance services</b>	
PKO Dom insurance	Continued big sales of a new home insurance PKO Dom. More than 200 thousand policies were sold by the end of June 2022.
Sales of motor insurance	More than 400 thousand policies were sold by the end of June 2022. As at the end of the 2nd quarter of 2022, the Bank had nearly 165 thousand active motor insurance packages in its portfolio.
<b>Support by the Operations Area</b>	
Cash management	After the Russian aggression on Ukraine, due to the lack of foreign currency on the market and the central bank's inability to provide it, the Bank organized the supply of foreign currency to the market at the request of other commercial banks. In the period from 24 February to 31 March 2022, the Bank supplied foreign currency with a value of PLN 3.3 billion, of which an amount equal to PLN 1 billion was supplied to its competitors – other commercial banks.



Achievements of PKO Bank Hipoteczny S.A.

Issue of green mortgage covered bonds	<p>Conducting a subscription of green mortgage covered bonds in EUR with a nominal value of EUR 500 million and issue date scheduled for 4 July 2022.</p> <p>It was the first foreign issue of green mortgage covered bonds secured only with high-quality housing loans in PLN carried out in Poland or CEE. The Company consolidated its position of a trusted mortgage covered bond issuer on the international market, which is demonstrated by a reduction in subscriptions of more than 40%.</p>
Amendment to the principles of green mortgage covered bond issues	<p>The preparation and publication of updated principles of green mortgage covered bond issues – the PKO Bank Hipoteczny S.A. Green Covered Bond Framework. The principles are consistent with the Green Bond Principles, as confirmed in June 2022 by Sustainalytics in its Second Party Opinion.</p> <p>In accordance with those principles, the green issues conducted by PKO Bank Hipoteczny S.A. are secured with mortgages, which comply with the highest standards of energy consumption and carbon emissions.</p>

Achievements of PKO TFI S.A.

Leading positions on the investment fund market	<p>Maintaining leading positions on the investment fund market.</p> <p>The net asset value of the funds managed by the company as at the end of June 2022 was PLN 31.5 billion, including the net asset value of retail funds of PLN 29.5 billion, giving the company 2<sup>nd</sup> place (with a market share of nearly 12%) and 1<sup>st</sup> place (with a share of 20.2%) on the market, respectively*.</p>
PPK (Employee Pension Plans) market leader	<p>Maintaining the leading position on the Employee Pension Plans (PPK) market with a market share of 31.8%*. The assets accumulated on the PPK accounts managed by the company as at the end of June 2022 exceeded PLN 2.8 billion.</p>
Implementation of a new product	<p>Implementation, together with the Bank, of the Autolokacja III Investment Programme in June – under this programme, the funds deposited with the Bank are regularly transferred to an investment sub-fund selected by the programme participant. The term of the deposit is 6 months and the interest rate was 6.5% p.a. (due to regular, monthly transfers of funds from the deposit to a selected fund, interest is calculated on the current value of the deposit).</p>

\* Source: Anality Online

Achievements of the PKO Leasing S.A. Group

Automarket.pl	<p>During the two years of the Automarket.pl platform's operation, customers have bought more than 5,700 cars. In the first half of 2022, sales grew by as much as 40% compared to the first half of the previous year. The number of available vehicles has grown from 1,350 at the beginning of the year to as many as 1,850 at present. On average, 700 new offers appear on the platform every month.</p>
The "My e-car" ("Mój elektryk") programme	<p>In the first half of 2022, every fourth applicant selected PKO Leasing S.A. Group companies as intermediaries for the process of obtaining subsidies under the "My e-car" programme, and every third application approved by the National Fund for Environmental Protection and Water Management was submitted through one of the Group companies.</p> <p>The PKO Leasing S.A. Group submitted nearly 1,000 applications for subsidies. 750 agreements for subsidies were signed with customers and more than 600 electric cars were provided for use.</p>
Development of the offer, including environmentally-friendly products	<p>The launch of:</p> <ul style="list-style-type: none"> <li>- new products: financing of charge points for electric vehicles (with a capacity of up to 22kW) and charging stations and power banks for electric vehicles (with a capacity exceeding 22 kW), as well as camper vans and caravans;</li> <li>- a new offer: financing of motorbikes, scooter bikes and quads registered by Liberty Corporation sp. z o.o. and financing of cranes with a possible high residual value, which can be paid in instalments.</li> </ul>

Development of remote functionalities	Making balance confirmations available in the Customer Portal.
	Offering the possibility of signing lease agreements remotely to customers who do not have a qualified signature and would like to obtain it, with the use of video verification (in cooperation with Autenti sp. z o.o.).

## AWARDS

In the first half of 2022, the PKO Bank Polski S.A. Group received many prizes and awards.

The most important ones include:

- **Banking Stars:** in the 8<sup>th</sup> edition of the Banking Stars ranking organized by *Dziennik Gazeta Prawna* and PwC, PKO Bank Polski S.A. received awards in two categories: innovation – for solutions supporting digital transformation, and in the main category – for general activity;
- **European Digital Banking Leader:** PKO Bank Polski S.A. won the Finnoscore 2022 ranking and became the European digital banking leader; it received the top score in the “mobile application” category;
- **Mobile Trends Awards:** in the 11<sup>th</sup> edition of the Mobile Trends Awards competition, IKO (a mobile application of PKO Bank Polski S.A.) won the main prize with the largest number of votes (over 15 thousand) of Internet users who appreciated its innovative and user-friendly solutions and dynamic development;
- **Consumer Quality Leader:** The editors of *Strefa Gospodarki*, a supplement to *Dziennik Gazeta Prawna*, gave PowerB@nk na start the title of Consumer Quality Leader – Début of the Year 2022 in the “Financial Services for Companies” category;
- **Sector leader in investor relations:** PKO Bank Polski S.A. was ranked first among financial institutions in the 8<sup>th</sup> edition of the WIG30 investor relations survey conducted by the Chamber of Brokerage Houses and *Gazeta Giełdy i Inwestorów “Parkiet”*;
- **Broker of the Year 2021:** in the Summary of the Year 2021 on the Stock Exchange, the Warsaw Stock Exchange awarded the Broker of the Year 2021 statue to the Brokerage Office of PKO Bank Polski.

## PERFORMANCE INDICATORS IN THE PROCUREMENT PROCESS

In 2021, the Bank adopted non-financial goals, including the “preparation of a Supplier Code of Ethics by the end of the first quarter of 2022”. On 30 March 2022, the Bank’s Management Board adopted the “Code of Ethics for Suppliers or Offerors cooperating with PKO Bank Polski S.A. in the procurement process”.

The document was implemented as of 1 April. The Code was taken into account in the requests for proposal. Every Supplier or Offeror participating in procurement proceedings must accept the Code of Ethics and adhere to it. The Procurement Department shall be obliged to present an annual report on the application of the Code. The Code of Ethics organizes the requirements in the Bank-Supplier/Offeror-external environment relations, taking into account corporate social responsibility, e.g. in the area of information security, preventing corruption and conflicts of interest, environmental protection and supply chain relations. The Bank does not accept any forms or manifestations of forced labour, forbidden child labour or non-compliance with HSE regulations. Suppliers/Offerors should analyse their activities with due care and diligence with respect to environmental protection (e.g. CO<sub>2</sub> emissions, waste water management, solid waste removal, noise reduction, protection of biodiversity). At present, the Bank works with Group companies on the implementation of the Code of Ethics in order to harmonize requirements within the Group.

## THE NEW HEAD OFFICE OF THE BANK

PKO Bank Polski S.A. signed a lease agreement with Polski Holding Nieruchomości S.A. for an office building on ul. Świętokrzyska 36 in Warsaw for 10 years with the right of first refusal should the building be put up for sale. Employees of the Bank’s head office and several offices of Group companies located in Warsaw will move to the building. The building received a prestigious BREEAM award at top level, confirming its environmentally-friendly and sustainable characteristics, i.e. the fact that its impact on the environment is limited.

## ACTIONS AIMED AT PROTECTING THE ENVIRONMENT

The Bank improved the efficiency of the resources used and took the following actions:

- launch of a pilot project of using e-cars in five selected locations of the Bank;
- installation of photovoltaic systems in subsequent 10 locations of the Bank (in progress);

- optimization and the related reduction of heat consumption (ordered capacity) in selected locations of the Bank by selecting appropriate volumes of heat (capacities) to be provided to those locations under the agreements.

## 10. NETWORK OF BRANCHES AND AGENCIES

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

As at 30 June 2022, the PKO Bank Polski S.A. retail network consisted of 927 branches and offices organized into 10 regional branches. Compared with the end of 2021, the total number of retail branches decreased by 5.

The corporate segment's sales network consisted of 23 regional corporate centres organized into 7 regional corporate branches, as well as branches located in the Federal Republic of Germany, the Czech Republic and the Slovak Republic.

The branch and ATM network is complemented by the agency network. As at the end of first half of 2022, PKO Bank Polski SA collaborated with 400 agencies.

Table 7. Operational data

	30.06.2022	31.12.2021	30.06.2021	Change since:	
				31.12.2021	30.06.2021
<b>Number of branches in the retail segment:</b>	<b>937</b>	<b>942</b>	<b>956</b>	<b>-5</b>	<b>-19</b>
regional retail branches	10	10	10	0	0
retail branches	908	913	927	-5	-19
private banking branches	8	8	8	0	0
corporate banking branches	11	11	11	0	0
<b>Number of branches in the corporate and investment segment:</b>	<b>33</b>	<b>33</b>	<b>33</b>	<b>0</b>	<b>0</b>
regional corporate branches	7	7	7	0	0
regional corporate centres	23	23	23	0	0
foreign branches	3	3	3	0	0
<b>Number of ATMs</b>	<b>2,995</b>	<b>2,976</b>	<b>2,984</b>	<b>19</b>	<b>11</b>
<b>Number of agencies</b>	<b>400</b>	<b>447</b>	<b>471</b>	<b>-47</b>	<b>-71</b>

PKO Bank Polski S.A. continued the process of modernizing its locations, In total, in the first half of 2022 the Bank modernized 11 locations. These modernizations included:

- 5 comprehensive modernizations of branches (in Bieruń, Głogów, Hajnówka, Bydgoszcz and Jaworzno);
- 6 transfers to more attractive locations (in Opoczno, Gorzów Wielkopolski, Kluczbork, Gdańsk, Świdnik and Warsaw – to the Norblin Plant (PKO Koncept)).

PKO Koncept is an innovative project redefining a bank branch, with modern space arrangement, prototypical technological solutions and friendly customer service.

## 11. RISK MANAGEMENT

The aim of the risk management system is to ensure the profitability of business activities while ensuring control over the risk level and maintaining it within the system of limits and risk tolerance framework adopted by the Bank and the Group in the changing macroeconomic and legal environment. The overriding priority is to ensure appropriate management of all types of risks associated with the Group's business activities.

In the area of credit risk management:

- the Bank's Group monitors the customers' situation on an ongoing basis and adjusts its lending policy with a view to ensuring the good quality of the loan portfolio. In the valuation of credit exposures, the Bank took into account in particular information on the business relations of its customers with business partners from Ukraine, Belarus and Russia. The Group recorded a write-down for the portfolio of loans granted in the territory of Ukraine.

- The Bank implemented in the Group (for Polish entities) the guidelines for providing financing and banking services to:
  - customers conducting business activities, whose business model is based on gains derived from active operation on the markets of Russia and Belarus or through significant relations with such markets (e.g. business, personal);
  - customers who are or can be affected by sanctions or restrictions introduced in connection with the Russian aggression on Ukraine.
- In order to mitigate the level of credit risk resulting from interest rate increases and inflation, PKO Bank Polski S.A. and PKO Bank Hipoteczny S.A. made changes to the parameters used in the assessment of the creditworthiness of individual borrowers applying for housing loans (in accordance with Recommendation S and PFSA position of 7 March 2022 addressed to banks and branches of credit institutions). Among other things, they increased the minimum value of the interest rate buffer to 5 p.p. and the minimum subsistence costs and changed the maximum acceptable DSTI (debt service to income) values that define share of income intended for debt servicing.

The Bank performs tasks aimed at extending its computer systems to allow the collection of ESG data, including in particular environmental risk data, and preparing for the systemic disclosure of such data for reporting purposes for 2022 and the following years, in accordance with the requirements of European authorities. The key disclosure requirements for the Bank primarily include Taxonomy<sup>10</sup> and the CRR<sup>11</sup> (Article 449a), as well as the final version of implementing technical standards (ITS) on pillar III disclosures in the area of ESG.

The Group maintains a safe liquidity level, allowing fast and effective response to potential threats. In the first half of 2022:

- PKO Bank Polski S.A. monitored the cash volumes in the Bank's branches and ATMs on an ongoing basis due to a temporarily increased interest in cash withdrawals (in response to the outbreak of the war in Ukraine) and used its best efforts to allow customers to withdraw cash;
- despite the ongoing conflict in Ukraine, KREDOBANK S.A. maintained its solvency at a stable, safe level; the company did not report a decrease in solvency measures or an outflow of deposits.

KREDOBANK S.A. was classified by the National Bank of Ukraine as a systemically important bank in Ukraine. In June 2022, the company ranked first in the bank deposit reliability ranking of the Ukrainian agency "Standard-Ranking".

As far as the interest rate risk is concerned, higher-than-expected interest rate increases were a challenge to the banking sector in the first half of 2022. In a series of increases commenced in the fourth quarter of 2021, the reference rate was increased to 6% as at the end of the first half of 2022, causing a deeper decline in the valuation of debt instruments and derivative instruments hedging interest income. At the same time, customers' interest in mortgage loans temporarily based on fixed interest rates increased significantly, affecting both interest income sensitivity measures and the Bank's economic value sensitivity measures.

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

A detailed description of the risk management policies applied by the Group is provided in the Consolidated financial statements of the PKO Bank Polski S.A. Group for the year ended 31 December 2021 and in the report Capital adequacy and other information of the Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna Group subject to disclosure as at 31 December 2021.

The main objectives, principles and organization of the risk management process in the Bank's Group did not change in the first half of 2022.

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<sup>10</sup> The method of disclosing information by credit institutions is defined in the Commission Delegated Regulation (EU) 2021/2178 of 6 July 2021.

<sup>11</sup> Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012, as amended by the Regulation (EU) 2019/876 of the European Parliament and of the Council of 20 May 2019.

## 12. INFORMATION FOR INVESTORS

### 12.1. DIVIDEND AND PROFIT DISTRIBUTION

#### RESOLUTIONS ON THE DISTRIBUTION OF PROFIT FOR 2021 AND RETAINED EARNINGS

On 12 May 2022, the Annual General Shareholders' Meeting of PKO Bank Polski S.A. (AGSM of the Bank) passed a resolution on the distribution of profit of PKO Bank Polski S.A. for 2021, in accordance with which:

- PLN 2,287,500,000 (i.e. 49.77% of the Bank's net profit) was earmarked for the payment of dividend;
- the remaining net profit of PLN 2,308,836,372 was transferred to retained earnings.

The dividend amounts to PLN 1.83 per share. The AGSM of the Bank set the dividend date (date of vesting rights to dividend) at 4 August 2022, and the dividend payment date at 23 August 2022. Dividend is payable on all 1,250 million shares.

At the same time, the AGSM of the Bank passed a resolution on retaining the retained earnings of PKO Bank Polski S.A. from previous years of PLN 5,500,000,000.

The aforementioned resolutions are consistent with the individual recommendation of the Polish Financial Supervision Authority dated 23 February 2022, in which the PFSA recommended that the Bank should mitigate the risk of its operations by:

- refraining from payment of a dividend in excess of 50% of the profit generated in 2021;
- refraining from any other actions taken without consultation with the supervisory authority, in particular not included in the scope of the current business and operating activities, which could result in a decrease in own funds, including any payment of dividend from retained earnings or buyback of own shares.

At the same time, the PFSA confirmed that the Bank met the requirements for payment of dividend at a level of up to 50% of the net profit for 2021, as defined in December 2021 in the PFSA position on dividend policies of supervised institutions for 2022.

#### DIVIDEND POLICY

The intention of the Dividend Policy of PKO Bank Polski S.A. and the PKO Bank Polski S.A. Group is to ensure that the Bank pays out dividend in the long term, taking into account the principle of prudent management of the Bank and the Group, in compliance with the law and the PFSA position on the assumptions of the dividend policy of commercial banks. The objective of the dividend policy is to optimally shape the Bank's and the Group's capital structure, taking into account the return on capital employed and its cost, and capital requirements related to development, accompanied by the need to ensure an appropriate level of the capital adequacy ratios. Buyback and redemption of own shares is an additional capital redistribution tool; however, share buyback is possible on the condition that the book value of the shares exceeds their present market value, after obtaining a required PFSA approval.

### 12.2. AMENDMENT TO THE BANK'S ARTICLES OF ASSOCIATION

On 12 May 2022, the Annual General Shareholders' Meeting of PKO Bank Polski S.A. passed a resolution on amending the Articles of Association of Powszechna Kasa Oszczędności Bank Polski (the Articles). The amendments concerned § 30 and § 34a of the Articles.

§ 30 (1) of the Articles shall now read as follows: "In addition to the supplementary capital, the Bank creates the reserves for the purposes of offsetting potential balance sheet losses or for other purposes, including in particular the payment of dividend or interim dividend or the purchase of the Bank's own shares in accordance with § 7(4).

The third sentence of § 34a of the Articles shall now read as follows: "Interim dividend may not exceed half of the Bank's profit earned since the end of the previous financial year and recognized in the audited financial statements, increased by the reserves created for interim dividend payment and reduced by accumulated losses and own shares."

The changes presented above require the consent of the PFSA and registration in the National Court Register.

### 12.3. CORPORATE GOVERNANCE PRINCIPLES FOR INSTITUTIONS SUPERVISED BY THE PFSA

On 1 January 2022, PKO Bank Polski S.A. implemented Recommendation Z concerning corporate governance principles for banks, issued by the Polish Financial Supervision Authority based on Article 137 (1) (5) of the Banking Law of 29 August 1997, which comprises a set of good practices. Recommendation Z supplements, clarifies and develops the issues regulated in the Corporate Governance Principles for Supervised Institutions. Whenever the Recommendation overlaps with the Corporate Governance Principles for Supervised Institutions, the Recommendation has priority. In matters not Regulated in Recommendation Z, the Corporate Governance Principles for Supervised Institutions apply.

Recommendation Z has also been implemented in PKO Bank Hipoteczny S.A.

### 12.4. SHAREHOLDERS HOLDING DIRECTLY OR INDIRECTLY THROUGH SUBSIDIARIES AT LEAST 5% OF THE TOTAL NUMBER OF VOTES AT THE GENERAL SHAREHOLDERS' MEETING

According to PKO Bank Polski S.A.'s best knowledge, as at the date of this report three shareholders held directly or indirectly significant blocks of shares (at least 5%): the State Treasury, Nationale-Nederlanden Otwarty Fundusz Emerytalny and Aviva Otwarty Fundusz Emerytalny (the complete shareholding structure is presented in the Financial statements of the Bank's Group for the first half of 2022, in the note "Shareholding structure of the Bank").

In the first half of 2022, PKO Bank Polski S.A. did not purchase or sell any own shares on its own account.

### 12.5. SHARES OF PKO BANK POLSKI S.A. HELD BY MEMBERS OF THE BANK'S AUTHORITIES

As at the date of publication of the financial reports for the periods ended 30 June 2022, 31 March 2022 and 31 December 2021, none of the members of the Bank's Supervisory Board held any shares or any rights to the shares of PKO Bank Polski S.A.

Holdings of the PKO Bank Polski S.A. shares by members of the Management Board of the Bank as at the dates of publication of the aforementioned reports are shown in the table below. The nominal value of each share is PLN 1. The members of the Bank's Management Board did not hold any rights to the shares in the reported period.

Table 8. Holdings of the PKO Bank Polski S.A. shares by members of the Management Board of the Bank

No.	Name and surname	Number of shares as at the date of publication of the financial report for the period ended:		
		30.06.2022	31.03.2022	31.12.2021
1.	Paweł Gruza, Vice-President of the Management Board*	0	-	-
2.	Maciej Brzozowski, Vice-President of the Management Board**	0	0	-
3.	Bartosz Drabikowski, Vice-President of the Management Board	0	0	0
4.	Marcin Eckert, Vice-President of the Management Board	0	0	0
5.	Wojciech Iwanicki, Vice-President of the Management Board	0	0	0
6.	Maks Kraczkowski, Vice-President of the Management Board	0	0	0
7.	Mieczysław Król, Vice-President of the Management Board	6,000	6,000	6,000
8.	Artur Kurcweil, Vice-President of the Management Board	0	0	0
9.	Piotr Mazur, Vice-President of the Management Board	8,000	8,000	8,000

\* Mr Paweł Gruza was appointed to the Bank's Management Board from 10 August 2022

\*\*Mr Maciej Brzozowski was appointed to the Bank's Management Board from 25 March 2022.

Ms Iwona Duda in 2022 while sitting on the Management Board of the Bank, did not have any shares or rights to shares in PKO Bank Polski S.A.

### 12.6. RATINGS

The Bank's activities have caused an improvement in its ESG ratings. As at the end of July 2022, the ratings were as follows: 3.7 (FTSE Russell), A (MSCI – change from BBB to A in April 2022), 20.7 (Sustainalytics – change from 20.8 to 20.7 in January 2022) and 46 (V.E. – change from 47 to 46 in July 2022).

The Bank made its third disclosure in CDP Disclosure Insight Action. The disclosure concerns the area of climate change in the Bank's Group.



## 13. OTHER INFORMATION

### DISCLOSURE ON NON-FINANCIAL INFORMATION

The PKO Bank Polski S.A. Group prepared the Statement on non-financial information, which constituted a separate part of the Directors' Report of the PKO Bank Polski S.A. Group for the year 2021, and published it on the website of PKO Bank Polski S.A. The Statement was prepared in accordance with the provisions of the Accounting Act and it contains all elements required by law. The Statement includes information concerning employment, social and environmental issues. In table 45, the total emissions (Scope 1+2+3) of the Group in 2021 should be 54,228 MgCO<sub>2e</sub> instead of 41,637 MgCO<sub>2e</sub>.

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

PKO Bank Polski S.A. did not publish forecasts of financial results for 2022.

On 15 July 2022 the Bank published a current report No. 16/2022, containing information on significant events affecting the results of the Group for the 2nd quarter and 2nd half of the year 2022. In the report the Bank presented the estimated cost of adjustment of PLN mortgage loans to the carrying amount (resulting from "loan holidays") and the additional payments to the Borrowers Support Fund, as well as the value of the increase in the cost of legal risk associated with mortgage loans denominated in and indexed to CHF and the amount of payment to the protection system aid fund. This information is provided in the chapters "Factors which will affect the financial results of the Group in the second half of the year" and "The most important events, including unusual ones".

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

PKO Bank Polski S.A. is obliged to inform in the current reports about all agreements meeting the definition of confidential information provided in Regulation (EU) No. 596/2014 of the European Parliament and of the Council on market abuse. The Bank did not sign any agreements meeting the definition of confidential information in the period from January to June 2022, and therefore it did not publish any information on new agreements of this kind.

In the reported period, the Bank only informed about signing an annex to a loan agreement meeting the definition of confidential information, which was disclosed in report No. 14/2017 of 30 May 2017. The annex extended the loan repayment deadline by 24 months (report No. 14/2022 of 30 May 2022).

In March 2022, PKO Bank Polski S.A. signed an agreement with the National Bank of Poland on the purchase of hryvnias in the Bank's branches and their resale to the NBP at the rate determined by the National Bank of Ukraine. PKO Bank Polski S.A. commenced the performance of this agreement on 25 March 2022. The agreement with the NBP shall remain in force until 10 September 2022.

In the first half of 2022, Bank subsidiaries did not conclude any material agreements with the Central Bank or with the supervisory authorities.

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

In the first half of 2022 neither PKO Bank Polski S.A. nor its subsidiaries drew any loans or advances or received any guarantees or pledges which were not related to operating activities.

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

In the first half of 2022 PKO Bank Polski S.A. provided services to its related (subordinated) entities within the scope of maintaining bank accounts, accepting deposits, granting loans and advances, issuing debt securities, granting guarantees and concluding spot exchange transactions and offering participation units and certificates of investment funds, lease products, factoring products and insurance products of the Bank's Group companies, and services offered by the Bank's Brokerage Office.

The Bank provided services to PKO Bank Hipoteczny S.A. within the scope of intermediation in the sales of housing loans for individuals, providing post-transaction services in respect of such loans and performing support tasks under the outsourcing agreement. The Bank offered its infrastructure and information and communications



technology services and rented office space to selected Group companies. The Bank, together with Centrum Elektronicznych Usług Płatniczych eService sp. z o.o., provided transaction clearing services.

The aforementioned services were provided on terms and conditions which did not deviate significantly from the arm's length basis.

In the first half of 2022, the subsidiaries of PKO Bank Polski S.A. did not conclude any material transactions with related parties on conditions other than arm's length.

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

In the first half of 2022, the Bank granted another guarantee of loan repayment by its subsidiary PKO Leasing S.A. The total original value of the loans received by the PKO Leasing S.A. Group, which had been covered by the Bank's fully paid guarantee and were active as at 30 June 2022, was PLN 500 million and EUR 399.5 million. The guarantees were granted for a maximum period until the end of the year 2029.

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

Taking into account the value and growing number of the proceedings, the Bank considered the court proceedings relating to mortgage loans in convertible currencies to be material. As at 30 June 2022, 15,870 court proceedings concerning mortgage loans granted in previous years in foreign currencies were pending against the Bank (as at 31 December 2021: 12,349), including one class action. Their combined value was PLN 5,533 million (as at 31 December 2021: PLN 3,855 million). The Bank's customers most frequently bring claims for declaring an agreement or a part thereof invalid or for reimbursement of an allegedly undue payment in connection with the abusive nature of foreign currency clauses. None of the clauses used by the Bank in the agreements has been entered in the register of abusive clauses.

A description of the most significant disputes, including those relating to foreign currency mortgage loans, is presented in the Financial statements of the Bank's Group for the first half of 2022 (Notes "Disputes" and "Corporate income tax").

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

On 26 April 2022, the Bank's Management Board approved the issue of 10-year subordinated bonds with an option of early redemption:

- total nominal value of the bonds: not lower than PLN 1.7 billion and not higher than PLN 2 billion;
- interest rate: at a market level, accrued semi-annually;
- the proceeds from the issue will be used for: increasing the Bank's Tier II capital and replacing the proceeds from early redemption of series OP0827 subordinated bonds (after obtaining the necessary PFSA consents).

#### **EVENTS THAT OCCURRED AFTER THE DATE ON WHICH THE FINANCIAL STATEMENTS WERE PREPARED**

- On 14 July 2022, the President of the Republic of Poland signed the Act on crowdfunding for business ventures and aid for borrowers, which contains a support package for mortgage borrowers, including loan repayment suspension ("loan holiday"), subsidies from the Borrowers Support Fund and a declaration of using another index in the place of WIBOR. The information on the effect of the Act on the results of the Group is provided in the chapter "Factors which will affect the financial results of the Group in the second half of the year".
- On 1 August 2022, the Management Board of PKO Bank Polski S.A. decided that the Bank will not issue 10-year subordinated bonds and will resign from early redemption of the OP0827 series subordinated bonds issued by the Bank on 28 August 2017. The decision was taken in response to the market conditions, which are unfavourable for such issues.
- On 8 August 2022, the Management Board of PKO Bank Polski S.A. adopted a resolution on the establishment of the eurobonds issuance programme by the Bank as the issuer (Euro Medium Term Notes programme - the "EMTN Programme").
  - the EMTN Programme amount: maximum EUR 4,000,000,000,
  - under the EMTN Programme it will be possible to issue unsecured eurobonds in any currency, including such, the liabilities of which may be included in the Bank's eligible liabilities or in the Bank's own funds,

- the EMTN Programme format: Regulation S,
- the Bank may apply for admission of individual series of eurobonds to trading on a regulated market operated by the Luxembourg Stock Exchange, the Warsaw Stock Exchange or another market selected by the Bank (excluding USA),
- the eurobonds will be registered in the International Central Securities Depository (ICSD) operated by Euroclear Bank SA/NV or Clearstream Banking société anonyme,
- the Bank shall apply to the Commission de Surveillance du Secteur Financier (CSSF) in Luxembourg for approval of the prospectus for the EMTN Programme,
- the Bank will apply for a rating to be given to the EMTN Programme by the Moody's credit rating agency.

The Bank also decided to close the EMTN Programme, established in 2017.

- On 9 August 2022 Ms Iwona Duda resigned from the function of the President of the Bank's Management Board as well as from the composition of the Bank's Management Board with the effect at the end of 9 August 2022.

On 9 August 2022 the Bank's Supervisory Board has appointed Mr. Paweł Gruza from 10 August 2022 to perform the function of the Vice -President of the Management Board for the current joint term of office of the Bank's Management Board, which started as of 3 July 2020, and subject to approval of the Polish Financial Supervision Authority and as of the date of this approval being granted for the position of the President of the Management Board. Until such approval by the Polish Financial Supervision Authority, the Supervisory Board has entrusted Mr. Paweł Gruza with directing the work of the Management Board.

## 14. GLOSSARY

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

**CPI (Consumer Price Index)** - consumer price index;

**Customer deposits** - amounts due to customers;

**Financing granted to customers** - loans and advances granted to customers (including finance lease receivables) and municipal and corporate bonds (excluding the bonds of international financial organizations) presented in securities, other than securities held for trading;

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

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

**Operating expenses** - operating 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 organizations;

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

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

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

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

**C/I ratio (costs to income ratio)** - 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 impairment write-downs on loans and advances to customers for the last 12 months to the average gross amounts due to customers at the beginning and end of the reporting period and interim quarterly periods;

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

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

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

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

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

**Net operating result** – the result on business activities under the management reporting approach, operating expenses and tax on certain financial institutions;

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

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

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

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

## 15. STATEMENT OF THE MANAGEMENT BOARD

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

- the condensed interim financial statements of PKO Bank Polski S.A. for the six months period ended 30 June 2022 and comparative data have been prepared in accordance with the applicable accounting principles, and give a true, fair and clear view of the economic and financial position of PKO Bank Polski S.A. and of its financial result;
- the condensed interim consolidated financial statements of the PKO Bank Polski S.A. Group for the six months period ended 30 June 2022 and comparative data have been prepared in accordance with the applicable accounting principles, and give a true, fair and clear view of the economic and financial position of the PKO Bank Polski S.A. Group and of its financial result;
- this Directors' Report of the PKO Bank Polski S.A. Group for the first half of 2022 includes an accurate description of the development and achievements, as well as the situation of PKO Bank Polski S.A. and the PKO Bank Polski S.A. Group, including a description of the main risks and threats.

The Management Board of PKO Bank Polski S.A. declares that the entity authorized to audit financial statements, carrying out the review of the aforementioned financial statements, has been selected in accordance with legal regulations, and that this entity and the statutory auditors carrying out the reviews satisfied the conditions to issue unbiased and independent review reports, in keeping with the binding regulations and professional standards.

This Directors' Report of the PKO Bank Polski S.A. Group for the first half of 2022 comprises 47 sequentially numbered pages.

### SIGNATURES OF ALL MEMBERS OF THE BANK'S MANAGEMENT BOARD

17.08.2022	PAWEŁ GRUZA	VICE-PRESIDENT OF THE MANAGEMENT BOARD MANAGING THE WORK OF THE MANAGEMENT BOARD
17.08.2022	MACIEJ BRZozowski	VICE-PRESIDENT OF THE MANAGEMENT BOARD
17.08.2022	BARTOSZ DRABIKOWSKI	VICE-PRESIDENT OF THE MANAGEMENT BOARD
17.08.2022	MARCIN ECKERT	VICE-PRESIDENT OF THE MANAGEMENT BOARD
17.08.2022	WOJCIECH IWANICKI	VICE-PRESIDENT OF THE MANAGEMENT BOARD
17.08.2022	MAKS KRACZKOWSKI	VICE-PRESIDENT OF THE MANAGEMENT BOARD
17.08.2022	MIECZYSLAW KRÓL	VICE-PRESIDENT OF THE MANAGEMENT BOARD
17.08.2022	ARTUR KURCWEIL	VICE-PRESIDENT OF THE MANAGEMENT BOARD
17.08.2022	PIOTR MAZUR	VICE-PRESIDENT OF THE MANAGEMENT BOARD