

Report on the activities of Bank Pekao S.A. Group for the first half of 2023



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Warsaw, August 2023

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1. Highlights of Bank Pekao S.A. Group

	1 HALF 2023	1 HALF 2022	2022	2021
INCOME STATEMENT – SELECTED ITEMS (in PLN million)				
Operating income	7,399	5,912	10,761	8,522
Operating costs	(2,322)	(2,064)	(4,083)	(3,739)
Profit before income tax	4,056	2,004	2,883	3,002
Net profit for the period attributable to equity holders of the Bank	3,140	1,375	1,718	2,175
PROFITABILITY RATIOS				
Return on average equity (ROE) - nominally	25.3%	11.9%	7.6%	8.7%
Return on assets (ROA)	2.2%	1.0%	0.6%	0.9%
Net interest margin	4.2%	3.8%	3.3%	2.4%
Cost / income (including to contributions to the BFG cost and fee paid for the Protection Schemes)	34.0%	47.8%	44.9%	47.3%
Costs of risk	0.45%	0.74%	1.12%	0.45%
STATEMENT OF FINANCIAL POSITION – SELECTED ITEMS (in PLN million)				
Total assets	287,921	277,568	281,139	250,567
Customers' financing ^(*)	165,825	172,308	167,510	169,073
Amounts due to customers ^(**)	220,189	200,939	209,596	194,804
Debt securities issued and subordinated liabilities	10,952	10,182	13,127	8,117
Equity	25,966	21,517	22,775	23,863
STATEMENT OF FINANCIAL POSITION STRUCTURE RATIOS				
Customers' financing ^(*) / total assets	57.6%	62.1%	59.6%	67.5%
Securities / total assets	28.7%	19.6%	25.3%	22.9%
Deposits ^(***) / total assets	80.3%	76.1%	79.2%	81.0%
Customers' financing ^(*) / deposits ^(***)	71.7%	81.6%	75.2%	83.3%
Equity / total assets	9.0%	7.8%	8.1%	9.5%
Total capital ratio ^(****)	17.1%	17.0%	17.4%	17.7%
EMPLOYEES AND NETWORK				
Total number of employees ^(****)	14,918	14,708	14,642	14,702
Number of outlets	581	624	597	650
Number of ATMs	1,312	1,414	1,328	1,475

^(*) Including net investments in financial leases to customers, non-treasury debt securities and excluding reverse repo transactions.

^(**) Excluding repo transactions and lease liabilities.

^(***) Deposits include amounts due to customers, debt securities issued and subordinated liabilities.

^(****) data for June 30, 2022 have been recalculated taking into account the retrospective recognition of part of the profit for the first half of 2022 (confirmation of the financial results by the General Shareholders Meeting), in accordance with the EBA position expressed in Q&A 2018_3822 and Q&A 2018_4085.

Note: Income statement data included in the table above and other notes to the Report on activities were presented according to income statement in a presentation form, which differs from the long form of the income statement presented in the Financial statements of the Group. Reconciliation of income statement in the presentation form and the long form is in the point 8.6 of the Report on activities.

2. Highlights of Bank Pekao S.A.

	1 HALF 2023	1 HALF 2022	2022	2021
INCOME STATEMENT – SELECTED ITEMS <i>(in PLN million)</i>				
Operating income	7,242	5,757	10,417	8,084
Operating costs	(2,136)	(1,912)	(3,756)	(3,438)
Profit before income tax	4,119	2,052	3,012	2,995
Net profit	3,235	1,461	1,898	2,237
PROFITABILITY RATIOS				
Return on average equity (ROE) - nominally	26.7%	13.0%	8.7%	9.2%
Return on assets (ROA)	2.3%	1.2%	0.7%	0.9%
Net interest margin	4.3%	3.8%	3.3%	2.4%
Cost / income (including to contributions to the BFG cost and fee paid for the Protection Schemes)	32.1%	46.4%	43.2%	46.1%
Costs of risk	0.44%	0.73%	1.12%	0.41%
STATEMENT OF FINANCIAL POSITION – SELECTED ITEMS <i>(in PLN million)</i>				
Total assets	276,608	268,659	271,705	241,275
Customers' financing ^(*)	152,744	161,106	155,477	157,783
Amounts due to customers ^(**)	220,526	201,240	209,802	195,064
Debt securities issued and subordinated liabilities	3,970	5,517	8,683	2,940
Equity	25,467	20,838	22,190	23,100
STATEMENT OF FINANCIAL POSITION STRUCTURE RATIOS				
Customers' financing ^(*) / total assets	55.2%	60.0%	57.2%	65.4%
Securities / total assets	30.1%	20.7%	26.8%	24.2%
Deposits ^(**) / total assets	81.2%	77.0%	80.4%	82.1%
Customers' financing ^(*) / deposits ^(**)	68.0%	77.9%	71.2%	79.7%
Equity / total assets	9.2%	7.8%	8.2%	9.6%
Total capital ratio	19.5%	18.4%	19.5%	19.6%
EMPLOYEES AND NETWORK				
Total number of employees ^(***)	12,607	12,605	12,435	12,661
Number of outlets	581	624	597	650
Number of ATMs	1,312	1,414	1,328	1,475

^(*) Including non-treasury debt securities and excluding reverse repo transactions.

^(**) Excluding repo transactions and lease liabilities.

^(***) Deposits include amounts due to customers, debt securities issued and subordinated liabilities.

3. Summary of Performance

Main P&L items

In the first half of 2023, we generated a net profit of the Bank Pekao S.A. Group, attributable to the Bank's shareholders in the amount of PLN 3,139.7 million. This result is higher by PLN 1,764.6 million than the result achieved in the first half of 2022, mainly due to higher income, lower BFG contributions and lower provisions for legal risk related to foreign currency mortgage loans, despite the inflationary increase in operating costs.

The ROE ratio was at the level of 25.3%.

The Group's operating income in the first half of 2023 amounted to PLN 7,399.2 million and was 25.2% higher than the income achieved in the first half of 2022, mainly due to net interest income and net trading income.

- Net interest income in first half of 2023, amounted to PLN 5,766.1 million and was higher by PLN 1,130.5 million, i.e. 24.4% in comparison with first half of 2022.
- The Group's net fee and commission income in the first half of 2023 amounted to PLN 1,399.3 million and was lower by PLN 21.6 million, i.e. 1.5% compared to the result achieved in the first half of 2022, mainly due to the adjustment of the offer to market conditions and due to the high margin on FX transactions with customers last year as a result of increased customer activity on the FX market after the outbreak of the war.
- Trading result achieved in the first half of 2023 amounted to PLN 316.3 million and was higher by PLN 311.6 million compared to the first half of 2022, due to higher foreign exchange result and higher valuation of derivatives.
- Net other operating income and expenses achieved in the first half of 2023 amounted to (minus) PLN 111.1 million and were PLN 64.9 million higher than those achieved in the first half of 2022, mainly due to the revaluation of real estate carried out in 2022.

Operating cost in the first half of 2023 amounted to PLN 2,322.1 million and were higher by PLN 258.5 million, i.e. 12.5% compared to the first half of 2022, mainly due to the inflation indexation of salaries and higher property maintenance costs, due to the increase in energy prices and the minimum wage. Growth of total costs at the level of inflation.

Net allowances for expected credit losses amounted to PLN 396.2 million in the first half of 2023 and was lower by PLN 286.8 million i.e. 40.4% as compared to the first half of 2022, mainly due to lower provisions for legal risk related to CHF mortgage loans.

In the first half of 2023 the Contributions to the Bank Guarantee Fund amounted to PLN 190.4 million and were lower by PLN 133.9 million compared to the first half of 2022.

Tax on certain financial institutions in the first half of 2023 amounted to PLN 437.0 million and was higher by PLN 20.9 million i.e. 5.0% as compared to the first half of 2022, due to an increase in Group's assets.

Volumes

As at the end of June 2023, loans and advances at nominal value amounted to PLN 174,027.9 million an decrease of PLN 5,559.0 million, i.e. 3.1% in comparison to the end of June 2022. As at the end of June 2023, the volume of retail loans amounted to PLN 75,609.3 million an decrease of PLN 5,191.6 million, i.e. 6.4% in comparison to the end of June 2022. As at the end of June 2023 corporate loans and non-treasury debt securities amounted to PLN 98,418.6 million an increase of PLN 367.4 million, i.e. 0.4% in comparison to the end of June 2022.

As at the end of June 2023 amounts due to the Group's customers and debt securities issued amounted to PLN 231,141.0 million an increase of PLN 20,020.7 million, i.e. 9.5% in comparison to the end of June 2022.

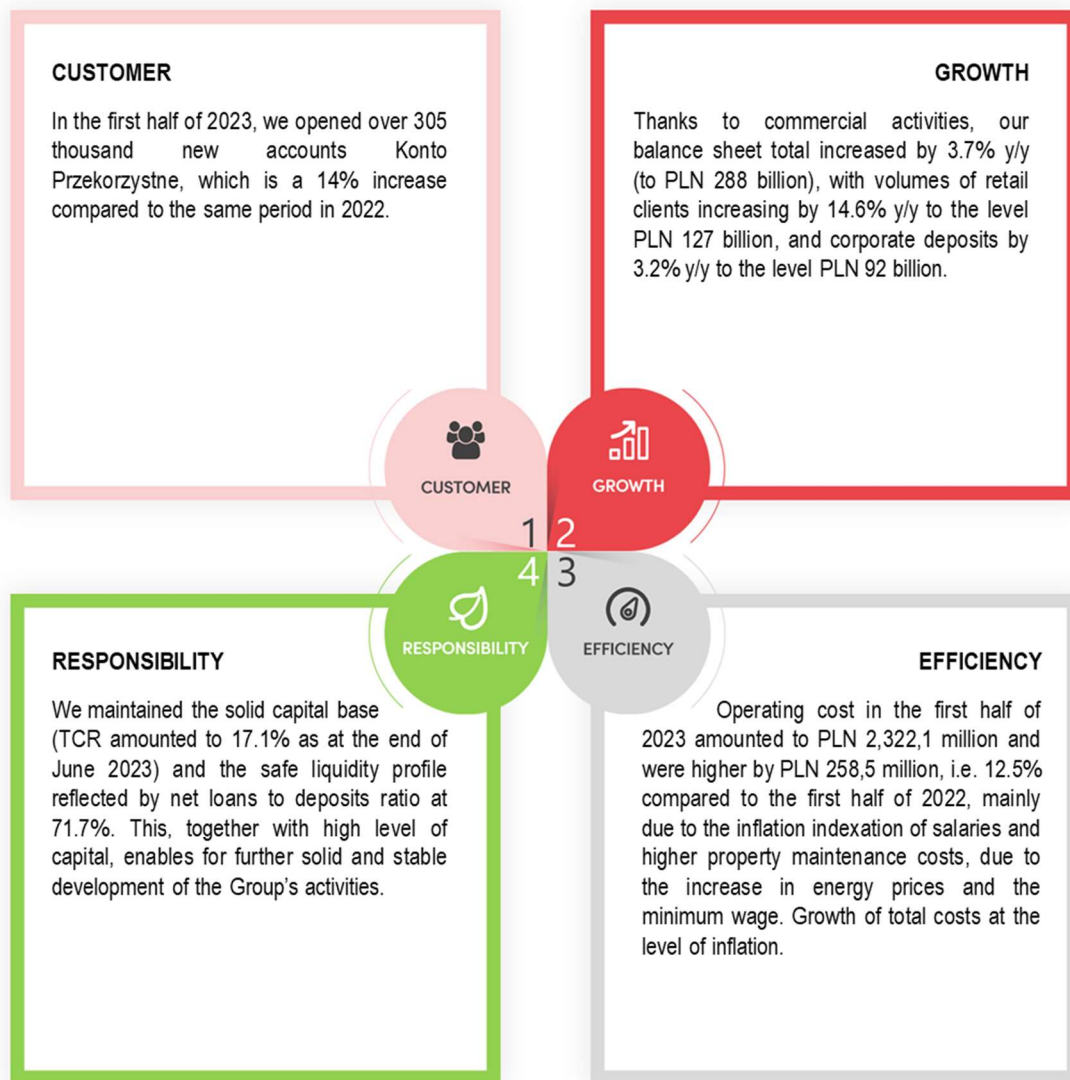
The value of net assets of investment funds managed by Pekao TFI S.A. amounted to PLN 21,426.0 million as at the end of June 2023 an increase of PLN 3,995.4 million, i.e. 22.9% in comparison to the end of June 2022.

In the first half of 2023, we increased our commercial activity, actively supported clients in maintaining financial liquidity, continued the digitization and automation of processes and the implementation of advanced digital solutions.

We have opened over 305 thousand Kont Przekorzystntch, which is a 14% increase compared to the same period in 2022. The number of active mobile banking customers increased to 3.0 million and is 15% higher than a year ago.

We have made available to individual clients a wide range of deposits, e.g. interest rate of 7.0% per annum on savings accounts, a deposit with a fund at 8.0% per annum for a period of 12 months, deposits with "Zubr" in PeoPay with an interest rate of up to 6.0% per annum. We have extended a special offer for individual and corporate customers from Ukraine.

We focused our activities in the following key strategic areas (in accordance with the adopted Strategy for 2021-2024).



Strategy and key financial indicators

„Responsible Bank. Modern banking” is th strategy for the years 2021-2024, announced in March 2021.

According to the strategic plan, we:

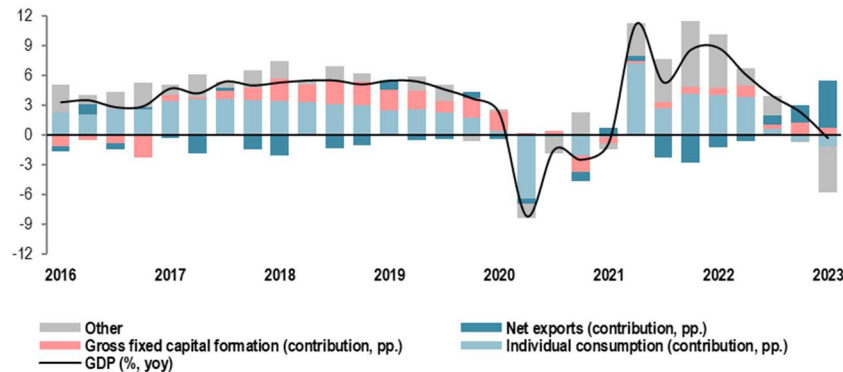
- we are a universal bank, we want to be the bank of first choice for our clients,
- we develop a remote distribution and customer service model,
- we focus on cost and process efficiency,
- we are growing in the most profitable market segments.

Our ambition is a strong position among the most profitable and effective banks in Poland, including increasing the return on equity (ROE), reducing the cost-to-income ratio and increasing the number of active mobile banking customers.

4. External Activity Conditions

Economic growth

The first quarter of 2023 brought a decrease in GDP by 0.3% y/y compared to an increase of 2.3% in the previous quarter. The structure of growth indicated a significant and strongest contraction in consumption since the pandemic crisis by 2% y/y. On the other hand, the solid investment result (+5.5% y/y) and the contribution of net exports (+4.3 p.p.) contributed to GDP growth. Contrary to earlier expectations, the first quarter was most likely not the bottom of the current economic cycle. Current data suggest that in the second quarter the domestic economy slowed down even harder - in our opinion, GDP deepened its decline to -0.6% y/y. As a result, 2023 will prove to be a time of economic stagnation, with GDP growth slowing to 0.4% from 5.1% in 2022. This is largely the result of a cooling down in consumption due to the monetary policy tightening and weak foreign demand. However, the last quarter will most likely bring a rebound, which will continue in 2024.

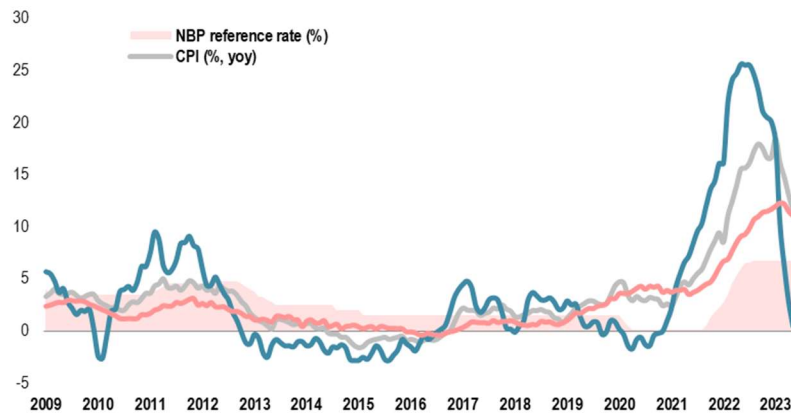


Inflation and monetary policy

Consumer inflation (CPI) in Poland continued its disinflationary trend in the second quarter, falling to 11.5% y/y in June. To some extent, it was still a consequence of the high reference base which was created as a result of the war outbreak in Ukraine at the end of February last year and then very dynamic increase in prices of food, energy and fuel. Nevertheless, also current readings showed signs of easing inflationary pressure. The average level of consumer prices remained unchanged in both May and June.

Food prices fell in June for the first time in almost 2 years (not counting introduction of the Anti-Inflation Shield in February 2022). Disinflationary movements are observed in prices of more and more agri-food commodities, although they came with a delay compared to price decreases in global markets. On the other hand, current severe weather conditions may be a certain upward risk, specifically drought, occurring not only in Poland. In the second quarter, prices of fuel and energy continued to fall as well.

Disinflation is no longer related only to expiring external shocks (including energy and broken supply chain shocks) or a high reference base, but to an increasing extent also due to the weakening impact of domestic inflationary factors. According to the forecasts of the Bank's economists, inflation in the second half of 2023 will continue to decline, especially due to non-core factors (food, energy, fuel). Core inflation will also fall, but at a more moderate pace. CPI inflation will definitely enter the single-digit territory in September, although there is a good chance that it will happen already in August. At the end of 2023, inflation may even go down to 7% y/y. The pace of disinflation will slow down in 2024.

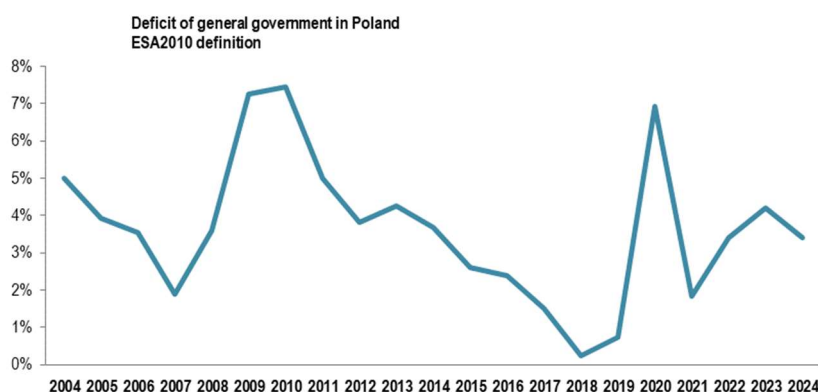


Subsequent MPC meetings failed to bring any changes to NBP rates and the NBP reference rate stood at 6.75% throughout the entire quarter. However, in Q2 there was a major shift in the MPC's rhetoric as multiple MPC members began to signal their increased willingness to cut rates later this year. According to those members (and the NBP governor himself), if inflation continued to decline in H2 and forecasts continued to show this trend extending into 2024, the Council would consider cutting rates. This culminated in the July meeting which turned this into de facto commitment to start an easing cycle in the Autumn. The aforementioned conditions for rate cuts will be met in September already and the new cycle will start. According to the Bank, interest rates will be cut by a total of 100 bps this year.

Fiscal policy

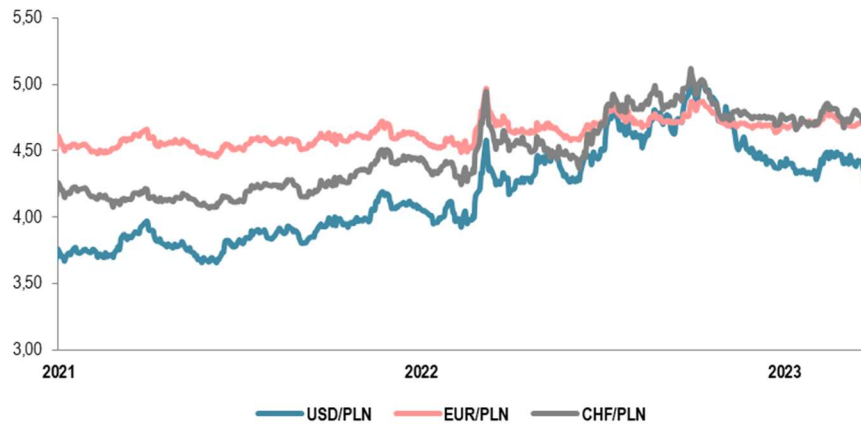
The condition of public finances in the first half of 2023 deteriorated steadily. Tax revenues from January to June turned out to be nearly 3% higher than in the same period last year, despite the fact that nominal GDP grew by as much as 18% during this period and tax revenue growth would normally have been of a similar magnitude. This did not happen mainly due to the delayed effects of the PIT tax cut in 2022. At that time, the tax-free income threshold was raised to PLN 30,000 a year and the first tax threshold to PLN 120,000. And the base tax rate was reduced from 18 to 12%. As a result, in the first quarter of 2023, the Finance Ministry had to make unexpectedly large refunds of overpaid PIT. At the same time, through the weaker financial performance of companies, CIT revenues were slowing down, and the VAT revenues were burdened by the zero VAT rate on food, which will remain in force as an anti-inflationary measure until at least the end of 2023.

The erosion of tax revenues has been accompanied by a rapid increase in public spending, which in the first six months of 2023 was as much as 20% higher than a year earlier - largely due to the cost of freezing electricity and gas prices for vulnerable consumers. As a result, at the end of June, the state budget recorded a deficit of PLN 13 billion - compared to a surplus of PLN 28 billion in the first half of 2022. In the second half of the year, the situation of public finances should begin to improve, due to the expiration of the negative effects of the PIT cut and a gradual improvement in the economy. We think that the deficit of general government for the whole of 2023 will be around 4.2% of GDP, compared to 3.7% of GDP in 2022.



Exchange rate

Second quarter was marked by a clear trend: markets were returning to valuations prevalent prior to the outbreak of the mini-crisis in the US banking sector at the beginning of March. This was facilitated by relatively strong data from major economies and, most importantly, by major central banks' unwaveringly hawkish stance. As a result, major central banks delivered more rate hikes than it was expected after the outbreak of the crisis and a similar amount to what had been expected prior to it. For markets and central banks the baseline scenario is one of soft landing, i.e. inflation returning to target without a recession.



In the second quarter of 2023, the Polish zloty strengthened significantly, over the course of 3 months the EUR/PLN exchange rate fell from 4.68 to 4.44, USD/PLN fell from 4.30 to 4.08 and CHF/PLN from 4.70 to 4.55. Due to the stability in the euro and the dollar's exchange rates, the PLN's appreciation is clearly a move driven by EUR/PLN. This had more than one cause and among the relevant factors one should single out: the improvement in the Polish economy's fundamentals (CA surplus and a major decline in import costs), FDI inflow, exchanging hard currency borrowed by the Finance Ministry and BGK into PLN and capital flows into emerging markets. Two factors are limiting the PLN's appreciation: impact on export competitiveness and the upcoming rate cuts which are bound to reduce the return foreign investors are earning from holding PLN assets relative to foreign assets. As a result the Bank is judging that the PLN will not appreciate further.

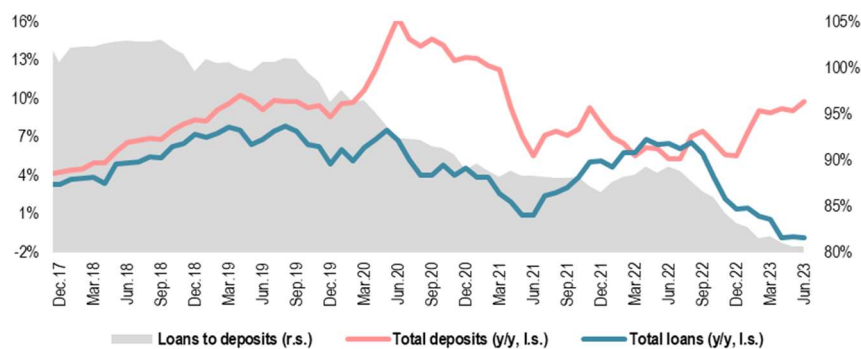
Banking sector

According to the Financial Supervision Authority (KNF) data, as of May 2023 the cumulative net profit of the banking sector amounted to PLN 17 billion, rising by 32% compared to the same period of 2022. Total net operating income of banks increased by 19% year on year, including above all rise of net interest income by 31% y/y (effect of a series of interest rate hikes) and net fees and commission income was flat. Banks' operating costs were 19% y/y higher, mainly because of higher personnel costs (+19% y/y). On the other hand, costs of risk continued to grow (rising by 17% y/y). However, one has to remember that costs of risk in the first half of the year are typically small compared to full-year outturns.

At the end of June 2023 total assets of the banking sector amounted to PLN 2.98 trillion and increased by 7.0% compared to June 2022. Total receivables from the non-financial sector decreased by 1.1% y/y, while total deposits from this sector rose by 7.4% year on year. Thus, the increase in the assets of the banking sector was driven by debt securities of monetary financial institutions (+44%) and foreign assets (+45%).

According to the National Bank of Poland (NBP), at the end of June 2023 the nominal volume of households' loans dropped by 4.9% compared to year before. In case of enterprises, growth of 0.8% y/y was recorded. The former is unprecedented – never before have household loans contracted so fast and PLN mortgage loans have never contracted before. This is the result of monetary tightening – new production of mortgage loans cratered in 2022 and repayments surged. Corporate loans have, on the other hand, normalized after the buoyant 2022 and growth rates in all major categories were very similar to each other. Deposit growth returned to historical average – for households this means 11% y/y growth in June 2023 and for corporates – an increase of 13.4% y/y over the same period.

Total loans and deposits



5. Important Events and Achievements

5.1 Description of the Group

The composition of Bank Pekao S.A. Group is presented in the Notes to the Condensed Interim Consolidated Financial Statements of Bank Pekao S.A. Group for the first half of 2023.

5.2 Changes in the Group's structure

In the first half of 2023, there were no changes in the Capital Group.

5.3 Changes in the Statutory Bodies of the Bank

Supervisory Board

The composition of the Supervisory Board of Bank Pekao S.A. has as follows:

AS AT THE DATE OF SUBMITTING THE REPORT FOR THE FIRST HALF OF 2023	30 JUNE, 2023	AS AT THE DATE OF SUBMITTING THE REPORT FOR THE FIRST QUARTER OF 2023
Beata Kozłowska-Chyla Chairman of the Supervisory Board	Beata Kozłowska-Chyla Chairman of the Supervisory Board	Beata Kozłowska-Chyla Chairman of the Supervisory Board
Joanna Dynysiuk Deputy Chairman of the Supervisory Board	Joanna Dynysiuk Deputy Chairman of the Supervisory Board	Joanna Dynysiuk Deputy Chairman of the Supervisory Board
Małgorzata Sadurska Deputy Chairman of the Supervisory Board	Małgorzata Sadurska Deputy Chairman of the Supervisory Board	Małgorzata Sadurska Deputy Chairman of the Supervisory Board
Stanisław Ryszard Kaczoruk Secretary of the Supervisory Board	Stanisław Ryszard Kaczoruk Secretary of the Supervisory Board	Stanisław Ryszard Kaczoruk Secretary of the Supervisory Board
Sabina Bigos-Jaworowska Member of the Supervisory Board	Sabina Bigos-Jaworowska Member of the Supervisory Board	Sabina Bigos-Jaworowska Member of the Supervisory Board
Justyna Głębiłkowska-Michalak Member of the Supervisory Board	Justyna Głębiłkowska-Michalak Member of the Supervisory Board	Justyna Głębiłkowska-Michalak Member of the Supervisory Board
Michał Kaszyński Member of the Supervisory Board	Michał Kaszyński Member of the Supervisory Board	Michał Kaszyński Member of the Supervisory Board
Marian Majcher Member of the Supervisory Board	Marian Majcher Member of the Supervisory Board	Marian Majcher Member of the Supervisory Board
Marcin Izdebski Member of the Supervisory Board	Marcin Izdebski Member of the Supervisory Board	Marcin Izdebski Member of the Supervisory Board

Management Board of the Bank

The composition of the Management Board of Bank Pekao S.A. has as follows:

AS AT THE DATE OF SUBMITTING THE REPORT FOR THE FIRST HALF OF 2023	30 JUNE, 2023	AS AT THE DATE OF SUBMITTING THE REPORT FOR THE FIRST QUARTER OF 2023
Leszek Skiba President of the Management Board	Leszek Skiba President of the Management Board	Leszek Skiba President of the Management Board
Jarosław Fuchs Vice President of the Management Board	Jarosław Fuchs Vice President of the Management Board	Jarosław Fuchs Vice President of the Management Board
Marcin Gadomski Vice President of the Management Board	Marcin Gadomski Vice President of the Management Board	Marcin Gadomski Vice President of the Management Board
Jerzy Kwieciński Vice President of the Management Board	Jerzy Kwieciński Vice President of the Management Board	Jerzy Kwieciński Vice President of the Management Board
Paweł Strączyński Vice President of the Management Board	Paweł Strączyński Vice President of the Management Board	Paweł Strączyński Vice President of the Management Board
Błażej Szczecki Vice President of the Management Board	Błażej Szczecki Vice President of the Management Board	Błażej Szczecki Vice President of the Management Board
Wojciech Werochowski Vice President of the Management Board	Wojciech Werochowski Vice President of the Management Board	Wojciech Werochowski Vice President of the Management Board
Piotr Zborowski Vice President of The Management Board	Piotr Zborowski Vice President of The Management Board	Piotr Zborowski Vice President of The Management Board
Magdalena Zmitrowicz Vice President of the Management Board	Magdalena Zmitrowicz Vice President of the Management Board	Magdalena Zmitrowicz Vice President of the Management Board

5.4 The Bank's share capital and share ownership structure

As at 30 June, 2023, the share capital of Bank Pekao S.A. amounted to PLN 262,470,034 and remained unchanged until the date of submitting the report. The Bank's share capital was divided into 262,470,034 shares in the following series:

- 137,650,000 Series A bearer shares with a par value of PLN 1.00 per share,
- 7,690,000 Series B bearer shares with a par value of PLN 1.00 per share,
- 10,630,632 Series C bearer shares with a par value of PLN 1.00 per share,
- 9,777,571 Series D bearer shares with a par value of PLN 1.00 per share,
- 373,644 Series E bearer shares with a par value of PLN 1.00 per share,
- 621,411 Series F bearer shares with a par value of PLN 1.00 per share,
- 603,377 Series G bearer shares with a par value of PLN 1.00 per share,
- 359,840 Series H bearer shares with a par value of PLN 1.00 per share,
- 94,763,559 Series I bearer shares with a par value of PLN 1.00 per share.

All the existing shares are ordinary bearer shares. There are no special preferences or limitations connected with the shares, or differences in the rights attached to them. The rights and obligations related to the shares are defined by the provisions of the Polish Commercial Companies Code and other applicable law.

Shareholders of Bank Pekao S.A., holding directly or indirectly, through subsidiaries, at least 5% of the total number of votes at the General Meeting of the Bank, are as follows:

SHAREHOLDER'S NAME	NUMBER OF SHARES AND VOTES AT THE GENERAL MEETING	SHARE IN SHARE CAPITAL AND TOTAL NUMBER OF VOTES		NUMBER OF SHARES AND VOTES AT THE GENERAL MEETING	SHARE IN SHARE CAPITAL AND TOTAL NUMBER OF VOTES	
		AT THE GENERAL MEETING			AT THE GENERAL MEETING	
		AS AT THE DATE OF SUBMITTING THE REPORT FOR THE FIRST HALF OF 2023			AS AT THE DATE OF SUBMITTING THE REPORT FOR THE FIRST QUARTER OF 2023	
Powszechny Zakład Ubezpieczeń S.A.	52,494,007	20.00%		52,494,007	20.00%	
Polski Fundusz Rozwoju S.A.	33,596,166	12.80%		33,596,166	12.80%	
Funds managed by Nationale-Nederlanden Powszechnie Towarzystwo Emerytalne S.A.	16,800,000	6.40%		16,800,000	6.40%	
Funds managed by Powszechnie Towarzystwo Emerytalne Allianz Polska S.A.	15,500,051	5.91%		15,500,051	5.91%	
Subsidiaries managed by BlackRock, Inc	13,231,421	5.04%		13,231,421	5.04%	
Other shareholders (below 5%)	130,848,389	49.85%		130,848,389	49.85%	
Total	262,470,034	100.00%		262,470,034	100.00%	

Until the date of submitting the report the Bank has not received any other notifications regarding changes in the ownership structure in accordance with par. 69 of the Act of July 29, 2005 on Public Offerings and Conditions Governing the Introduction of Financial Instruments to an Organized System of Trading, and on Public Companies.

5.5 Financial credibility ratings

Bank Pekao S.A. financial credibility ratings

Bank Pekao S.A. co-operates with three leading credit rating agencies: Fitch Ratings (the Fitch), S&P Global Ratings (S&P), and Moody's Investors Service. In the case of the first two agencies, the ratings are provided on a solicited basis under relevant agreements and with respect to Moody's Investors Service the ratings are unsolicited and they are based on publicly available information and review meetings.

As of 30 June 2023, Bank Pekao S.A. had assigned following financial credibility ratings:

Long-Term Default rating (IDR)	BBB	A-
Short-Term Default Rating	F2	F1
Viability Rating	bbb	-
Government Support Rating	No support	-
Outlook	Stable	Stable
National Long-Term Rating	AA-(pol) (stable outlook)	-
National Short-Term Rating	F1+(pol)	-
S&P GLOBAL RATINGS	BANK PEKAO S.A.	POLAND
Long-term rating in foreign currencies	BBB+	A-
Long-term rating in domestic currency	BBB+	A
Short-term rating in foreign currencies	A-2	A-2
Short-term rating in domestic currency	A-2	A-1
Stand-alone credit profile	bbb+	-
Outlook	Stable	Stable
Long-term issue rating for series SP1 SP bonds	BBB+	-
S&P GLOBAL RATINGS (RESOLUTION COUNTERPARTY RATING)	BANK PEKAO S.A.	POLAND
Long - term RCR in foreign currencies	A-	-
Short - term RCR in foreign currencies	A-2	-
Long - term RCR in domestic currency	A-	-
Short - term RCR in domestic currency	A-2	-
MOODY'S INVESTORS SERVICE (UNSOLICITED RATING)	BANK PEKAO S.A.	POLAND
Long-term foreign-currency deposit rating	A2	A2
Short-term deposit rating	Prime-1	Prime-1
Baseline Credit Assessment	baa2	-
Long-term counterparty risk assessment	A2(cr)	-
Short-term counterparty risk assessment	Prime-1(cr)	-
Outlook	Stable	Stable
Long-term Counterparty Risk Rating (CRR)	A2	-
Short-term Counterparty Risk Rating (CRR)	Prime-1	-

On 27 June 2023 rating agency S&P Global Ratings informed the bank about maintaining the ratings of the bank at the current level with the stable outlook and assigning long-term rating of BBB+ for the issue of "Senior Preferred" series SP1 bonds.

According to S&P, the bank's ratings assessments reflect the Bank's limited exposure to legacy CHF-denominated loans, which puts the bank in a comfortable position regarding this legal risk. Also, considering its strong capitalization, Pekao might actually benefit from competitors' capital constraints and gain market share in the domestic corporate and retail business should loan demand pick up in the future. In addition, S&P considers that Pekao's strong capital and robust profitability provide comfortable buffers to absorb costs from potentially adverse scenarios. Its affiliation with its largest single investor, state-owned insurance company PZU, benefits its franchise in the domestic corporate banking business and also supports the placement of MREL instruments with domestic investors.

Pekao Bank Hipoteczny S.A. financial credibility ratings

Pekao Bank Hipoteczny S.A. cooperates with the international rating agency Fitch Ratings.

Fitch emphasizes that the rating of Pekao Bank Hipoteczny S.A. is related to the rating of Bank Pekao S.A., which holds 100% of the Bank's shares. According to Fitch, the rating of Pekao Bank Hipoteczny S.A. is affected by the level of integration with the parent company and the scale of operations as well as the Bank's capital.

At the end of June 2023, the long-term rating of Pekao Bank Hipoteczny S.A., assigned by the Fitch rating agency, was BBB with a "Stable" outlook. Mortgage bonds issued by Pekao Bank Hipoteczny S.A. had a "BBB+" rating. The high rating of the letters means that Pekao Bank Hipoteczny S.A. has the ability to issue securities with a high level of security and to obtain long-term funds for lending activities.

6. Activity of Bank Pekao S.A. Group

6.1 Achievements of Bank Pekao S.A.

Bank Pekao S.A. is a universal commercial bank offering all financial services available in Poland for individual and institutional clients. A wide range of products, innovative solutions and individual approach ensure comprehensive financial support for clients and an integrated customer service model is a guarantee of the highest quality of services and optimal adjustment to changing customer needs. Since 2017, Bank Pekao S.A. is part of the PZU S.A. capital group, the largest financial institution in Central and Eastern Europe.

A wide product offer, innovative solutions and individual approach provide comprehensive financial service to clients and the integrated customer service model provides the highest quality of services and their optimal adaptation to changing needs. The Bank has measurable advantages that allow it to compete effectively on the market and strengthen its market position in the strategic areas of the Bank's operations. The Bank offers competitive products and services on the Polish market, and high level of customer service and a well-developed distribution network.

BUSINESS MODEL

The Bank's business model is based on customer segmentation with the following groups of customers:

- **RETAIL BANKING AND PRIVATE BANKING** – serving individual clients, including affluent private banking clients and micro enterprises. Private banking clients are offered investment advisory through private banking centers and remote channels, while all individual clients and micro-enterprises are served through a wide network of branches and partner outlets supported by market-leading remote service channels, including digital channels,
- **ENTERPRISE BANKING** – providing financial services to clients from small and medium-sized enterprises sector that are served by relationship managers with the support of product specialists. The service is carried out in specialized Business Customer Centers, Corporate Centers and universal retail branches. Customers are offered with products and services tailored to their individual needs based on solutions proven in corporate banking and adapted to the needs of the enterprise segment,
- **CORPORATE AND INVESTMENT BANKING** – providing financial services to large enterprises (segmentation by revenues of companies), public sector entities, financial institutions and entities from the commercial real estate financing sector. Corporate and investment banking clients are served by relationship managers with the support of product specialists.

Distribution channels

The Bank offers to its clients a broad distribution network with ATMs and outlets conveniently located throughout Poland as well as a professional call center and a competitive online and mobile banking platform for individual, corporate and micro-enterprises.

	30.06.2023	30.06.2022
Total number of outlets	581	624
own outlets	506	539
partner branches	75	85
Total number of own ATMs	1,312	1,414

The number of accounts

At the end of June 2023, the Bank maintained 7,729.6 thousand PLN denominated current accounts, 362.1 thousand mortgage loan accounts and 583.8 thousand "Pożyczka Ekspresowa" (Express Loan) accounts.

(in thousand)

	30.06.2023	30.06.2022
Total number of PLN current accounts (*)	7,729.6	7,144.2
of which packages	5,514.9	5,110.6
Number of mortgage loans accounts (**)	362.1	388.5
of which PLN mortgage loans accounts	337.8	362.8
Number of Pożyczka Ekspresowa loan accounts (***)	583.8	604.4

(*) Number of accounts including accounts of prepaid cards.

(**) Retail customers accounts.

(***) Pożyczka Ekspresowa. Pożyczka Ekspresowa Biznes.

The data presented according to the business model based on the managerial model in which the main criterion for dividing the Group's reporting is the classification of the client depending on his profile and service model.

RETAIL BANKING AND PRIVATE BANKING

Strategy - The „Customer” pillar

We are intensively developing digital channels as well as quick and convenient service processes. We seek to enable retail clients to handle almost any matter online. **The digitization rate of nearly 100% is one of the key strategic aspirations.**

The PeoPay mobile application becomes the main channel of contact with the client. We plan to make even greater use of advanced data analytics and modern sales support tools in order to personalize the offer, improve service quality and increase the tendency to recommend our services. The key measure of success that we strive for is a leap advance in customer satisfaction rankings.

10th birthday of the PeoPay Application

The PeoPay application is a quick and safe access to your personal and company account, cards and savings from your smartphone.

This is one of the first mobile banking applications on the Polish market. Over 3.4 million PeoPay applications are already installed on our customers' phones.

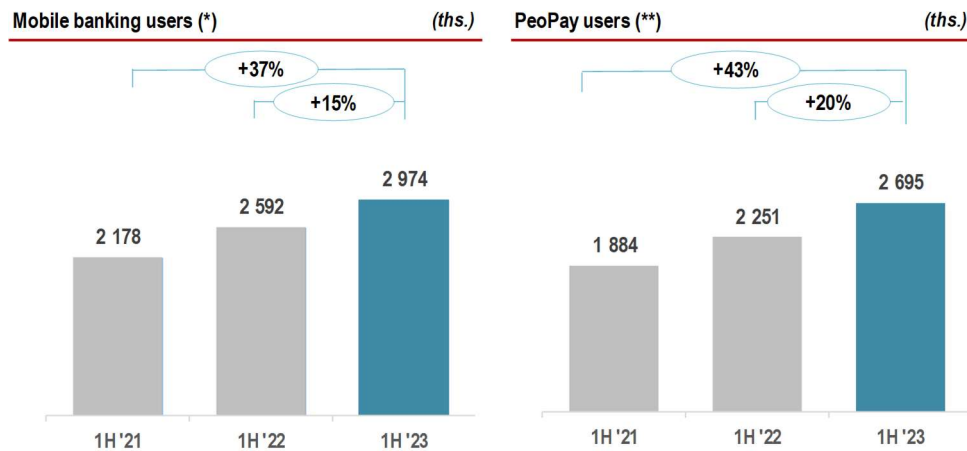
The PeoPay application is a bank branch in the phone, because it offers a wide range of services used by 2.7 million active users. The most popular are mobile contactless payments, purchases of transport tickets and motorway tolls. The ability to personalize PeoPay makes it even more unique.

PeoPay is appreciated on the market by both experts and the Bank's customers. It was awarded in the "Institution of the Year 2023" ranking organized by Moje Bankowanie in the categories "Best Mobile Application", "Best Internet Banking" and "Best Remote Account Opening Process". The PeoPay application also took second place in the ranking of banking applications in Poland. PeoPay is one of the best-rated financial applications available in Google Play and AppStore.



Development of electronic and mobile banking

In the first half of 2023, the number of active mobile banking customers increased by 218 thousand to 3.0 million and was +15% higher than a year ago and +37% higher than two years ago. The number of active mobile customers using the PeoPay application increased by 255 thousand to 2.7 million and was +20% higher than a year ago and +43% higher than two years ago.



(*) Unique user actively using electronic banking is a user who logged in to the system and the mobile service m.pekao24.pl. at least once during the last quarter. (in case of using different mobile channels, the client is counted only once).

(**) Unique user PeoPay application, who logged in to the system PeoPay at least once during the last quarter.

In the first half of 2023, the number of corporate clients actively using electronic banking increased by 23 thousand up to 241 thousand. The number of active corporate mobile banking customers increased by 50 thousand to the level of 137 thousand.

In the first half of 2023, we introduced new solutions and possibilities in electronic banking to the PeoPay application:

- personalizing PeoPay - adding an avatar,
- integration of Pekao24 with the Accounting with Żubr service,
- execution of the Sorbnet instant transfer,
- implementation of a split payment with a future date - open and hidden split payment,
- notifications for corporate clients,
- notifications about unexecuted direct debit / Pekao Order, automatic credit card repayment,
- registration and withdrawal of marketing objection,
- update of data: permanent residence card, expiry date and country of issue,
- information about blocking the account in Pekao24 and PeoPay,
- device counter allowing PeoPay to be installed on up to three devices,
- a new self-service process "I don't remember my Pin" on the PeoPay login screen, thanks to which the customer can regain access to the application himself in the event of,
- the ability to remember the customer number in Pekao24 on trusted devices,
- new Pekao24 authorization footer, using the PeoPay application, without having to pay SMS fees,
- the possibility of changing the image of the credit card in the ordering process after the reservation,
- transfer between own accounts of a natural person and a sole proprietorship,
- confirming the identity of the employee and the client using PeoPay and Pekao24 - counteracting spoofing,
- push and web push in the customer service process in the branch and on the hotline - the Bank's employee will be able to redirect the customer to the appropriate place in the electronic channel and shorten the purchasing process,
- application for an auxiliary account in PLN and foreign currencies for JDG corporate clients,
- application for a debit card for companies,
- educational module (educational game) in the PeoPay KIDS application.

Strategy - The „Growth” pillar

We strive for business growth in the most profitable market segments product groups and areas of untapped potential, which will result in improved profitability. i.e. consumer finance and in the micro-enterprises segment. Over the next four years, Pekao wants to acquire over 400 thousand individual customers every year and increase its market share in cash loans. Moreover we will seek to rejuvenate the demographic structure of the retail customer base. The goal is to acquire over 600 thousand customers under 26 years of age by 2024.

We also focus on digital growth in investment products. We are also strengthening business synergies with the PZU Group, which will result in an **increase in sales of insurance products** and a twofold increase in the gross written premium by 2024.

Number of clients and accounts

In the first half of 2023, we opened over 305 thousand account (an increase of +14% compared to the same period of 2022). The record-breaking acquisition results were driven by: the Internet and radio campaign of Konto Przekorzystne, combined with an attractive interest rate on Konto Oszczędnościowe for new customers, opening accounts for young people supported by activities aimed at parents, and Internet activities supporting the sale of selfie accounts.

For the third year in a row Konto Przekorzystne won the first place in the ranking of the Golden Banker in the category of the best account. The offer for the youngest customers aged 6-12 and 13-17 was also appreciated.

From June 2023, we have prepared a very attractive offer Konto Przekorzystne for new customers. Account maintenance, debit card service, currency conversion and cash withdrawals in Poland and abroad are for PLN 0. Customers do not pay for access to the PeoPay mobile application, which is part of the electronic banking service.

In cooperation with the Żabka stores and the Visa payment service provider, we launched the "Profitable with Visa card" promotion, under which customers receive a PLN 250 bonus for setting up and actively using an account, including a PLN 50 voucher for Żabka stores.

The popularity of the account for young people is also the result of the Bank's involvement in pro-family programmes, e.g. accepting applications for the 500+ child benefit and Dobry Start and encouraging parents to set up accounts for children and transfer pocket money to the account bank.

We continue the special offer for citizens of Ukraine, under which the account management, account card service and cash withdrawals from all ATMs in Poland and abroad (including Ukraine) are free of charge for a period of 24 months. In addition, outgoing transfers to banks in Ukraine and incoming from banks in Ukraine are free until the end of 2023. We promote our products on one of the largest portals in Poland - ukrainianinpoland.pl

Payment cards

In the first half of 2023, we introduced a new, very advantageous special offer for new holders of the Żubr Credit Card, thanks to which customers could gain as much as PLN 64 thousand points in the Mastercard Priceless Moments Program worth PLN 800. In this period, we achieved the best credit card sales result compared to previous years. Sales increased nearly 2 times y/y. Since the introduction of these cards to the offer in April 2022, we have issued nearly 100 thousand Credit Cards with Żubr.

We have launched a new credit card sales process for business segment customers. The card is available as part of the multi-limit, without unnecessary formalities, based on the prepared pre-limit. This resulted in an increase in sales of business credit cards in the first half of 2023 over 7 times compared to the first half of 2022.

We have made available to new customers an attractive offer of a gold debit card. The card provides free cash withdrawals from all ATMs in Poland and abroad. Payments with the Bank's debit cards abroad are converted at the Mastercard or Visa exchange rate. The bank does not charge any commissions for currency conversion. Thanks to this, the customer is guaranteed low exchange rates.

Lending products

In the first half of 2023, the sale of net cash loans increased to PLN 2.5 billion, i.e. +10% y/y, while in the second quarter of 2023 it increased to PLN 1.4 billion, i.e. +21% y/y compared to the first quarter of 2023.

In the first half of 2023, the sales volume of cash loans in remote channels increased by +34% compared to the first half of 2022. In the second quarter of 2023, we achieved a record remote sales volume of PLN 972 million. The share of loans granted electronically on Pekao24 services, in the PeoPay mobile application and via the Bank's hotline in the first half of 2023 was 82%.

The sale of loans in the account increased by +26% y/y, customers used both remote "click" processes and services in branches.

In addition, we have concluded a cooperation agreement with Comperia S.A. the owner of the Comfino brand, which runs a payment gateway offering installment loans for e-commerce.

Mortgage loans

The offer of housing loans is adapted to changing market conditions. In the first half of 2023, the offer was extended to include a housing mortgage loan and a construction and mortgage loan with a BGK guarantee, enabling customers to finance up to 100% of the real estate value, and a new, attractively priced life insurance offer.

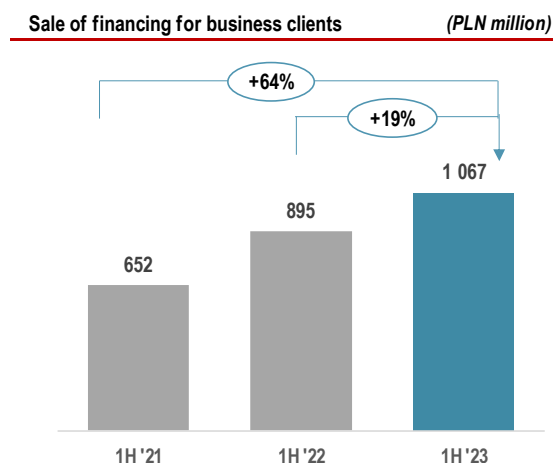
As one of the first Banks, at the beginning of July 2023, we introduced a 2% Credit Loan as part of the government program. The program is very popular among customers, which creates the potential for a further increase in sales of housing loans in the coming months.

In the first half of 2023, the sale of mortgage loans reached PLN 2.0 billion. In the second quarter of 2023, sales volumes increased by +91% compared to the first quarter of 2023 and +27% compared to the second quarter of 2022.

Higher sales dynamics translated into an increase in market share to 12% in sales volume and 13% in the number of signed contracts.

Business clients loans

In the first half of 2023, new sales of financing for business customers totaled nearly PLN 1.1 billion and were higher by +19% y/y. The dynamic growth of new sales of bank loans in the business segment by +42% y/y to PLN 560 million was supported by the implementation of a full risk assessment path, which allows for quick calculation of the available limit and quick disbursement of a loan or revolving limit, as well as marketing activities supporting the development of customer relations.

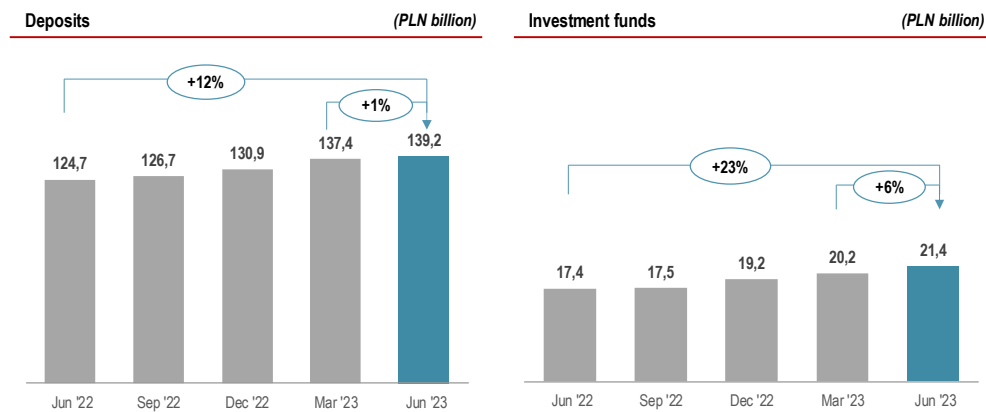


Development in the area of insurance products

In the first half of 2023, as part of cooperation with PZU in the field of assurbanking, the number of clients acquired was +28% higher than in the corresponding period of 2022.

In the first half of 2023, the share of cash loans sold with insurance reached 40% (+4 p.p. compared to 2022), which is the highest level since the implementation of this product, while the share of mortgage loans sold with insurance remains at a stable, high level 91%.

As part of motor insurance, we introduced fully omnichannel sales and conducted comprehensive promotional activities, thanks to which the sales of MOTO insurance in the second quarter of 2023 were higher than in the first quarter of 2023 by over 300%.

Deposit, brokering activity and sale of investment products


At the end of June 2023, the total value of deposits held by individual clients (including Private Banking clients) and business clients amounted to PLN 139.2 billion, an increase of PLN +1.8 billion (+1.3%) compared to the end of June 2023. March 2023 and PLN +14.5 billion (+11.6%) compared to June 2022.

In the first half of 2023, promotions on savings accounts and Moje Skarb accounts were the most popular among individual customers. Total sales amounted to almost 180 thousand new accounts, which is an increase in sales by over 100% compared to the first half of 2022. The Investing Deposit, implemented this year, was also very popular.

In the first half of 2023, we introduced the following investment products to our offer for individual clients:

- Structured product with full capital protection on redemption date in PLN: Certificate with Capital Protection Linked to Shares of BMW AG and Volkswagen AG for 1 year and 6 months in PLN issued by Goldman, Sachs & Co. Wertpapier GmbH,
- Structured products with full capital protection on redemption date in EUR/USD: Two-Year Bond with 100% Worst Of Capital Protection Linked to Carrefour SA and TotalEnergies SE Shares in EUR/USD, issued by SG Issuer,
- Structured product with full capital protection on redemption date in PLN: Certificate with Capital Protection Linked to Shares of Walmart Inc. and Siemens AG for 1 year and 6 months in PLN, issued by Goldman, Sachs & Co. Wertpapier GmbH,
- Two-year Certificate with 100% Capital Protection Only on the Worst Of Maturity Date Linked to NESTLE SA and HEINEKEN NV "European HIT" Shares,
- Two-Year Worst Of Certificates Linked to L'Oreal SA and Roche Holding AG Shares with Capital Protection Maturity Only in EUR/USD,
- Capital Protection Certificate Linked to Shares of BMW AG and Volkswagen AG for 1 year and 3 months in PLN, issued by Goldman Sachs International.

We have prepared preferential price conditions for clients purchasing investment products via Internet applications and actively encouraged clients to use remote channels for their ongoing service.

ENTERPRISE BANKING

Enterprise Banking consists of two segments: Small and Medium Enterprises (SME) and Medium Enterprises (MID) segments.

In the first half of 2023 we focused on the automation and digitization of the credit process and the development of electronic banking functionalities enabling customer self-service.

Strategy - The „Customer” pillar

We put the customer and his needs at the center of our activities. intensively develop digital channels and fast and convenient service processes. To an even greater extent, we will use advanced data analytics and modern CRM tools to support sales, which will allow us to better adjust the offer improve the quality of service and increase the tendency to recommend our services.

Lending activities and customer financing

The first half of 2023 was another period in which we recorded an increase in the number of loan transactions.

In the first half of 2023, we recorded a high dynamics of the loan portfolio of +10% y/y - an increase in value by PLN +3.1 billion. The growth dynamics in the segments amounted to:

- small and medium-sized enterprises: +18% y/y, + PLN 1.5 billion,
- medium-sized corporations: +7% y/y, PLN +1.6 billion.

The dynamic growth in value is visible in both bank loans and leasing.

In the first half of 2023, the value of SME loans sold reached PLN 3.5 billion of new loans (without renewals), maintaining the high level from previous quarters and achieving an increase of +11% y/y.

Customer acquisition

We maintained a high level of new customer acquisition, we acquired nearly 700 new customers in the SME segment and nearly 200 new customers in the MID segment.

Transactional and product activity

In the first quarter of 2023, we introduced new solutions and possibilities in the PekaoBiznes24 electronic banking: we improved the message module facilitating the bank's ongoing communication with clients, we introduced the possibility of importing securities transaction settlement instructions and we provided an electronic application for microfactoring for SME clients, enabling clients to take advantage of the Pekao Faktoring offer.

In the first half of 2023, we introduced new solutions and possibilities in the PekaoBiznes24 electronic banking: we improved the message module, facilitating the Bank's ongoing communication with clients, we introduced the possibility of importing securities transaction settlement instructions and we provided an electronic application for microfactoring for SME clients, enabling clients to take advantage of Pekao Faktoring's offer.

In the Self-Service Zone at PekaoBiznes24, we have made it possible for customers to submit an application for opening a new settlement account. The application is processed fully automatically and allows you to open an account within a few minutes.

Since June 2023, we have enabled clients to open and maintain accounts for the Family Foundation. A family foundation is a new entity in Polish law, created for family businesses and is intended to provide effective protection of family assets and business continuity in a situation where the entrepreneur's descendants do not want or cannot manage it directly.

We were the first on the market to enable our clients to open an Auxiliary Account based on WIRON, which is used to invest financial surpluses, with a variable interest rate of 50% of the current value of the ratio, regardless of the account balance.

We have also added a current account loan for WIRON 1M Stopa Folded to our customers' disposal, which, in parallel with the previously offered WIBOR-based loans, can be made available either as new financing or as a continuation of the current financing.

Further products based on the WIRON reference index will be made available to clients in accordance with the adopted schedule developed by the Steering Committee of the National Working Group.

CORPORATE AND INVESTMENT BANKING

The Corporate Banking includes corporate segments, significant capital groups (the so-called large corporations), public sector clients, financial institutions as well as commercial real estate and specialized financing. The Pekao Group is a leader in these segments. It has a competitive advantage resulting from experience, unique staff, specialized knowledge and processes and the potential to co-finance large projects based on a very strong liquidity and capital position. The Bank provides both the comprehensive services of a universal bank and the services in such areas as leasing, factoring, investment advisory services, advisory in M&A as well as highly advanced treasury, capital market products and custody services. A wide range of products and services, innovative solutions, customised approach and the comprehensive financial services for the largest enterprises, institutions and public sector units are appreciated by clients and decide about the strength of corporate banking of Bank Pekao S.A.

CLIENTS

In the first half of 2023, we serviced 6.6 thousand clients. We cooperate with the largest companies, we provide support in the field of substantive, operational and financial development of our clients both in everyday business and large strategic projects.

Strategy

Since 2021, we have been implementing a strategy providing for effective volume growth. using competitive advantages such as: in-depth sector expertise, specialist financing knowledge as well as the growing digitalization of processes. According to this Strategy, we want to maintain our leadership position and a high market share in revenues.

Plans and ambitions of Corporate Banking rest on 4 pillars:

Growth:

- increase of x-sell.
- high market share in the segment of large corporations.

Effectiveness:

- digitalisation and automation of processes.
- promotion of self-service in digital channels.

Clients:

- specialist, customised service of complex transactions.
- support in financing public sector projects.

Responsibility:

- responsible capital management.
- support of sustainable economic development.

An integral part of our business strategy is the adopted ESG strategy. Pursuing this strategy we want to engage in financing sustainable projects. support the energy transformation of our clients and their transition to a low-carbon economy. We want to achieve these goals. among other things. by financing the development of renewable energy sources (RES), entities operating in the sectors of new technologies, as well as by actively participating in the government and EU programs aimed at reconstruction and climate transformation. The development and modernization of the Polish economy, supporting the service and use of state and EU programs.

Our approach to growth is focused on development of modern, digital tools supporting the work of our relationship managers. We pursue this aim by automating their work and providing them with market data, which increases their advisory competences and facilitates establishing long-term business relationships. We are significantly involved in projects related to a responsible approach to running business. We are also developing international banking and we actively support foreign expansion of our clients.

Strengthening the bank's effectiveness, we focus on increasing the level of robotization and automation of both internal processes and the solutions available to clients. We are continuously expanding the scope of self-service operations in digital channels and the number of products available for online purchase.

We are invariably building a customer-centric culture and we want to be the first choice bank for our clients. Therefore, we try to quickly and accurately recognize their needs. We provide advise based on our knowledge of client's profile, industry and segment. We try to increase the level of satisfaction of clients with their interaction with the Bank.

Supporting sustainable economic development, we actively support the government and EU programs for economic recovery and climate transformation. We support and finance the energy transformation of our clients and the evolution towards green solutions. An important area of our activity is also the cooperation with public sector entities, where, in addition to green investments, we are involved in financing socially responsible projects.

In addition, we manage our capital in a responsible way by selecting better clients, products and transactions. We rely on sector expertise, flexible and specialized product offer and competences in structured finance. Our capabilities are additionally strengthened by a high level of competence in performing operations on the Polish and foreign financial markets.

Cooperation with financial institutions and custody services

The Bank holds a leadership position in servicing domestic financial institutions, focusing on providing the highest quality services to insurance companies, investment funds, brokerage houses, financial sector infrastructure entities, cooperative banks as well as savings and credit unions. The range of services includes modern transactional banking products, clearing products, treasury products, custody services and services of depository bank, as well as the access to the comprehensive offer of the Pekao Group entities addressed to this segment of clients.

Under the corresponding banking, as at 30 June 2023, the Bank maintained 63 nostro accounts with 40 banks in 23 countries; it ran 209 loro accounts for 189 foreign clients (banks and other financial institutions) from 46 countries and 45 current accounts for 39 foreign financial institutions. The Bank also intermediated in the execution of transactions for clients of other domestic banks, running 37 loro accounts for 13 Polish banks and maintaining 5 nostro accounts with 1 Polish bank.

Transactional banking

In the first half of 2023:

- we recorded an increased volume of transactions processed under Pekao Collect service by +25%, as compared to the data for the first half of 2022 (we processed more than 71 mln transactions with a total volume of over PLN 136 billion),
- we recorded an increased number of outgoing foreign transfers by +11% and an increased number of incoming transfers by 5%,
- we processed more than 2,5 million direct debit transactions in the total amount of PLN 884 million (increase by 8%),
- we recorded an increased number of Elixir domestic transfers by 13% and the number of ExpressElixir instant transfers sent from PekaoBiznes24 rose by 73% as compared to the data for the first half of 2022 (we maintain about 19,5% market share for domestic payments)
- we introduced new functionalities in the PekaoBinzes24 system that allow our clients to independently cancel foreign and domestic payments.

We were the first bank on the market to enable our clients to open an Auxiliary Account based on WIRON. The account is used to deposit financial surpluses, with a variable interest rate at the level of 50% of the current value of the WIRON reference index, regardless of the amount of the account balance.

Trade Finance

In the first half of 2023, the guarantees and sureties granted by the Bank showed the biggest growth dynamics among trade finance products - the amount of new transactions increased by 31% as compared to the same period in 2022.

The Bank financed invoices under the Open Financing Platform (OFP) in the total amount of nearly PLN 1,2 billion, while the number of bought out invoices increased by 13%.

Cooperation with international clients

The Bank granted loans and prepared comprehensive offers for short and long-term financing and the offers for hedging risk of international transactions, supporting the expansion of Polish enterprises on both European markets and in developing countries. The Bank's clients can take advantage of the package of the most beneficial financial solutions adjusted to the model of the conducted business activity.

We signed an agreement with the National Chamber of Commerce which is aimed at facilitating the international economic expansion of Polish entrepreneurs and supporting the development of Polish exports. In accordance with this agreement we have started a number of joint activities that will translate into access of entrepreneurs to the coordinated substantive care, expertise, as well as financial and non-financial solutions supporting the expansion into foreign markets.

Investment finance, structured finance and commercial real estate

We offer our clients the services in the field of investment banking, structured finance and financing of commercial real estate projects, including financing of the construction of warehouses.

The key projects financed by the Bank in the first half of 2023 include:

- granting a loan for building a logistic centre in eastern Poland. The financing amounted to EUR 43 million,
- increasing the amount of working capital financing up to PLN 1 billion, for an entity from the automotive industry,
- increasing the amount of overdraft facility up to PLN 1 billion for one of the top companies from the energy sector,
- financing granted under a consortium agreement for a total amount of PLN 2.5 billion related to sustainable development for a company from the energy sector,
- working capital financing in the amount of PLN 80 million for an entity from the biofuels sector,
- participation in a syndicated loan linked to sustainable development goals of one of the largest group operating in the media and telecommunications industry. The amount of financing totalled more than PLN 10 billion,
- providing financing for the project of apartments for rent. The amount of financing was PLN 133 million. The Bank is consistent in supporting this segment of commercial real estate market,
- investment financing in the amount of PLN 95 million granted for building a wind farm. The project is being implemented with a leading company from the energy industry,
- financing granted for modernisation and development of fiber optic network. The syndicated loan in the amount of PLN 5,1 billion,
- participation in a consortium of financial institutions and granting a loan for the total amount of PLN 1,65 billion related to sustainable development of the borrower,
- granting a loan in project finance formula for building a gas and steam block for total amount of PLN 2,64 billion,
- increasing the line for guarantees from PLN 550 to 700 million for the key entity from the construction industry.

Issuance of debt securities

In the first half of 2023, the Bank participated in issuance of non-treasury debt securities (of corporate entities, banks and municipal units) for the total amount of more than PLN 23,1 billion, of which the following transactions deserve special attention

- the issue of 10 series of bonds in PLN and EUR for a company from the Bank's Capital Group operating in the leasing industry for the total amount of about PLN 3,4 billion and the issue of 20 series of bonds denominated in PLN and EUR for a company from the Group operating in the factoring sector for the total amount being equivalent of about PLN 10,8 billion. The Bank performed the role of sole arranger and dealer in these transactions,
- the issue of 7-year sustainability-linked bonds for the amount of PLN 2,7 billion for the largest provider of integrated media and telecommunications services in Poland. The Bank acted as co-arranger of the issue and bookrunner. The bonds will finance the implementation of the issuer's group development strategy, including the construction of assets producing clean energy and green hydrogen, and they are based on the sustainable development goals
- the issue of 5-year Eurobonds for the amount of EUR 375 million for an international group from the retail sale industry in which the Bank was passive bookrunner,
- the issue of the Bank's own 3-year (3NC2) senior non-privileged bonds for the amount of PLN 750 million which the Bank arranged on its own,
- the issue of 1-year bonds for the amount of PLN 640 million for a company belonging to an international automotive concern. The Bank performer the role of sole arranger and dealer,
- the issue of Eurobonds for an international financial institution for the amount of PLN 600 million with maturity date in September 2025 in which the Bank was the sole arranger,
- the issue of Climate Awareness Bonds maturing in September 2025 for a multilateral financial institution for the amount of PLN 400 million in which the Bank acted as the sole arranger. The proceeds obtained from the issue are to be used for the issuer's lending activity which significantly contributes to limiting climate change in terms of eliminating or reducing greenhouse gas emissions
- the issue of 3-year bonds for the amount of PLN 220 million for a company from developer industry. The Bank was a co-arranger and dealer,

- the issue of short-term bonds for a mortgage bank from the Group for the amount of PLN 200 million. The Bank was the sole arranger and dealer in this transaction,
- the issue of green bonds for a company belonging to an international developer group for the amount of PLN 180 million and maturity date in September 2026 in which the Bank was the co-arranger and dealer. The proceeds from the issue will be used exclusively for environmentally friendly investments, including energy-neutral buildings or renewable energy sources, such as solar and wind farms implemented for the purposes of these projects,
- the issue of 6-year bonds for the top company from the Polish asset recovery sector for the total amount of PLN 120 million in which the Bank was the dealer of the consortium,
- the issue of short-term bonds for a leasing company belonging to an international financial group for the amount of PLN 100 million in which the Bank acted as the sole arranger and dealer.

Comprehensive service of public sector finances

One of the elements of our strategy is to finance public sector and municipal projects. We render our services and we provide financing to self-government units, municipal companies, institutions of higher education as well as entities established as part of public-private partnership. We are actively involved in activities related to building and developing Polish infrastructure, including the support for sustainable development of the economy and environmental protection.

We cooperate with 11 out of 12 Polish metropolises (92% market share) and we provide ongoing budget support for five of them. We cooperate with every fourth municipality in Poland (25% market share). We maintain business relationships with 92% of towns with county rights and we provide ongoing services to every fifth of them (21%). We also cooperate with every third county (37%) and with almost all provinces (94%). We are a major bank for state universities – 60 of them use our services.

In the first half of 2023, we joined an international consortium that will finance the construction of a tram line in Cracow in the public-private partnership formula. The European Investment Bank, the European Bank for Reconstruction and Development and the Polish Development Fund also participate in this financing. Our participation in financing exceeds PLN 0,5 billion and it is the largest project implemented in this formula in the area of public urban transport. The project is of strategic importance to the city of Cracow in terms of development of the fast and low-emission urban transport.

We provided funding to support the development of local government units, e.g. for: the city of Łódź in the amount of PLN 339,6 million, Lublin in the amount of PLN 100 million, Zabrze in the amount of PLN 50 million, Siemianowice Śląskie in the amount of PLN 28 million and Sanok in the amount of PLN 20 million. As part of the public sector, we provided financing for municipal companies, including: for MPO Kraków (PLN 60 million) - working capital financing or Gdańskie Autobusy i Tramwaje (PLN 50 million).

We won the tender for servicing the Łódź Province and Górnośląskie Przedsiębiorstwo Wodociągów SA.

6.2 Achievements of subsidiaries

Bank Pekao S.A. is one of the leading providers of banking services and groups together a number of financial institutions active in the asset management, pension funds, brokerage services, transactional advisory, leasing and factoring markets. Below are described the areas of operations of the Group's key companies from the financial sector.

Banking activity

Pekao Bank Hipoteczny S.A. – Pekao Bank Hipoteczny

[Pekao Bank Hipoteczny \(pekaobh.pl\)](https://pekaobh.pl)

Pekao Bank Hipoteczny is a specialist bank, focusing on granting mortgage loans and issuing covered bonds. As part of the Group's cooperation, portfolios of mortgage loans previously granted by Bank Pekao S.A. are successively transferred to Pekao Bank Hipoteczny, and may constitute collateral for the issued covered bonds.

In the first half of 2023, Pekao Bank Hipoteczny concluded transactions of purchase and transfer of mortgage receivables from Bank Pekao S.A. for the total amount of PLN 69.6 million. The transferred portfolio of mortgage receivables included loans granted in PLN, which were intended to finance the housing needs of natural persons.

In order to build a safe portfolio of assets, in the first half of 2023, transfers of bonds of local government units from Bank Pekao were initiated. In accordance with the schedule of local government bond transfers, in the first half of 2023, 4 tranches of bonds with a total value of PLN 245.5 million were purchased and transferred.

The net value of the loan portfolio (including the local government bond portfolio) at the end of June 2023 amounted to PLN 3,012.0 million and was lower by PLN 376.0 million (i.e. 11.1%) compared to the end of the first half of 2022, which was mainly due to prepayments made in the loan portfolio. Loans granted to individual clients accounted for 70.5% of the portfolio, while loans granted to enterprises and local government units (LGUs) accounted for 14.7% and 14.8% of the loan portfolio, respectively.

In the first half of 2023, Pekao Bank Hipoteczny did not carry out any new issues of covered bonds. The total value of liabilities under covered bonds as at June 30, 2023 amounted to PLN 2,007.1 million (including EUR 50 million). As part of the diversification of funding sources, Pekao Bank Hipoteczny issued bonds. The value of bond liabilities as at June 30, 2023 amounted to PLN 194.0 million.

Assets management

Pekao Investment Management S.A. – Pekao IM

[Pekao Investment Management S.A. - Pekao TFI](https://pekao.tfi.pl)

Pekao IM, in which Bank Pekao S.A. holds a 100% share, is an owner of Pekao Towarzystwo Funduszy Inwestycyjnych S.A. (Pekao TFI).

Pekao TFI is the oldest investment fund in Poland providing customers with modern financial products and opportunity to invest on the Polish and the largest global capital markets. For many years, it creates savings programs, including programs offering additional savings for retirement under the third pillar, voluntary pension pillar. The Pekao TFI offer includes also a portfolio management service and Employee Capital Plans (PPK). The company has been entered into the PPK register, and its offer is available on the portal www.mojepk.pl.

As at June 30, 2023, the value of net asset of Pekao TFI investment funds (including PPK) amounted to PLN 21.4 billion and was higher by PLN 4.0 billion, i.e. 22.9% compared to the end of June 2022. The higher value of assets was influenced by the favorable situation on the capital markets.

Leasing activity

Pekao Leasing Sp. z o.o. – Pekao Leasing

[Pekao Leasing - Pekao Leasing Sp. z o.o](https://pekao-leasing.pl)

Pekao Leasing provides financial services supporting purchases and sale of fixed assets, i.e. vehicles, plant and equipment, and office space, both in the form of operating and finance leases.

In the first half of 2023, the Company concluded 9.0 thousand new contracts. The value of leased assets was 35.5% higher than in the first half of 2022 and amounted to PLN 3.4 billion, including: 58.5% means of transport, 39.6% - plant and equipment, 0.7% - real estate, 1.2% - other. The company cooperates with the Bank in the sale of leasing to clients who are also the Bank's clients.

Factoring activity

Pekao Faktoring Sp. z o.o. - Pekao Faktoring

[Pekao Faktoring Sp. z o.o.](#)

The Company, besides the full range of factoring services (recourse and non-recourse factoring), offers additional services, such as collecting information on debtors' standing, payments collection, debt recovery, settlements accounting and monitoring of payments on an ongoing basis. Additionally, the Company offers settlement of mass transactions, financial advisory and consulting services regarding selection of business financing methods, as well as extending factoring-related loans. The company cooperates with the Bank in the activation and development of new sales channels.

The company participates in the factoring limits repayment program with the support of Bank Gospodarstwa Krajowego. Repayment guarantees were granted under the public aid of the Liquidity Guarantee Fund, intended for financing non-recourse factoring and reverse factoring. The Company is ranked the 1st on the Polish factoring market, with 19.7% of market share.

Transactional advisory

Pekao Investment Banking S.A. – Pekao IB

[Pekao Investment Banking S.A. \(pekaoib.pl\)](#)

Pekao IB specializes in high-quality advisory and brokerage services for large and medium-sized enterprises and financial institutions. The scope of services provided by Pekao IB includes, in particular, accepting and transferring orders to buy or sell financial instruments, offering financial instruments, as well as consulting for enterprises in the field of capital structure, enterprise strategy and other services in the field of mergers, divisions and acquisitions of enterprises.

In the first half of 2023, Pekao IB provided services related to the offering of shares in one company listed on the Warsaw Stock Exchange and services related to the call for sale of another company listed on the Warsaw Stock Exchange, as well as bond issue services for eight entities. The company conducted many transactions on the private and public capital markets, successfully completing a comprehensive M&A advisory project. Pekao IB supported clients in obtaining debt financing, one of which was completed in the first half of 2023, and the implementation of others is planned in the coming quarters.

Other financial services

Centrum Kart S.A. - CK S.A.

[Centrum Kart S.A. - O nas](#)

The company provides comprehensive services related to, among others with support for payment card management systems, transaction authorization and card personalization. The company mainly provides services to Bank Pekao S.A. and in cooperation with the Bank implements projects aimed at expanding the Bank's product offer.

In the first half of 2023, the company implemented further functionalities for cards (including the cashback function for KIDS cards) and made improvements in the areas of authorization and processing of card transactions.

Krajowy Integrator Płatności S.A.– KIP

[Szybkie przelewy i płatności online | Tpay](#)

The Bank owns shares constituting 38.33% of shares in Krajowy Integrator Płatności S.A., the owner of the fast online payment system Tpay (formerly Transferuj.pl).

The company has the status of a national payment institution and is supervised by the Polish Financial Supervision Authority. KIP's activity is to mediate in the transfer of payments between the payer and the recipient. In 2022, the Company continued the process of increasing the scale of its operations in the area of online payments, service websites and looked for new areas to expand the possibilities of services provided by KIP, including in cooperation with Bank Pekao S.A.

Pekao Direct Sp. z o.o. – Pekao Direct

[Strona główna - Pekao Direct](#)

Pekao Direct provides financial intermediation services, as well as comprehensive services through alternative communication channels for clients of the non-banking sector.

The company serves the Bank as the main customer in the field of internet banking, cards and product hotlines. Pekao Direct provides services to customers through alternative communication channels, including primarily telephone, e-mail and in the form of chats. Phone calls are the main communication channel. In the first half of 2023, Pekao Direct handled 7.9 million calls, 27.4% more than in the corresponding period of 2022. Pekao Direct participates in the process of setting up selfie accounts and verified 70.4 thousand accounts opened for selfies, i.e. 102.2% more compared to the same period in 2022. The number of chat services and video calls (within the PeoPay application) was similar to the same period in 2022.

Pekao Financial Services Sp. o.o. – PFS

<https://www.pekao-fs.com.pl>

PFS provides outsourcing services for financial institutions in the field of operational and technological solutions, in servicing fund participants, as well as in the independent distribution of fund units. The company offers its clients services of the highest quality and safety. PFS specializes in keeping accounts of participants in investment funds, pension funds and PPK.

Among the clients served by the PFS there are companies with established market position. The company is the only entity that supports OFE funds using the services of an external transfer agent.

PeUF Sp. z o. o. – PEUF

PeUF is a company 100% owned by Pekao Leasing Sp. z o. o. and acts as an insurance agent, providing insurance distribution services.

From 1 March 2022, PeUF took over the service of Pekao Leasing's portfolio in the field of newly concluded insurance contracts. PeUF's activities include agency services regarding insurance services for newly concluded leasing transactions, as well as servicing policy renewals. In addition to agency services, the activities concern: monitoring of policies, handling claims settlements, as well as insurance terminations. In the first half of 2023, PeUF provided intermediation services for five Insurance Companies, and the value of commissions from policies sold amounted to PLN 18,5 million.

6.3 Awards and distinctions

The activities of Bank Pekao S.A. gained wide recognition by clients, industry specialists, the market and the media, as evidenced by numerous awards and distinctions granted by Polish and foreign institutions. Measures aimed at providing customers with the highest quality products and services, innovation of the proposed solutions have been appreciated.

The most important awards and distinctions received in the first half of 2023.

Vice President of the Management Board of Bank Pekao S.A. awarded for activities for the benefit of SMEs

Magdalena Zmitrowicz, Vice-President of the Management Board of Bank Pekao S.A., supervising the Corporate Banking Division, was awarded the Nicolaus Copernicus Medal from the Polish Bank Association for her merits in the development of banking financing of the SME sector. The Vice-President also received a statuette from Bank Gospodarstwa Krajowego for Bank Pekao S.A., summing up the 10-year partnership in the distribution of products with de minimis guarantees.

The Nicolaus Copernicus medals were presented during the Banking Forum, an annual event organized by the Polish Bank Association. The award was given to representatives of banks and institutions who contributed to its development in Poland with their commitment, professionalism and active actions as well as openness to cooperation with the banking community.

The best loans for companies in the Marka Godna Zaufania ranking

In the eighth edition of the Trustworthy Brand survey - an initiative of the publisher of the "My Company Polska" monthly in cooperation with the Kantar Polska Research Institute, we became the winner of the **Marka Godna Zaufania** ranking in the "Financial injection, i.e. a bank that offers the best loans for companies" category.

Bank Pekao's investor relations are the best among banks in Poland according to the Institutional Investor Research Group

Investor relations of Bank Pekao S.A. were recognized as the best among banks in Poland in the survey of the quality of investor relations carried out by the Institutional Investor Research Group. Pekao was in the top 10 among the assessed domestic companies, according to the PL IR Society.

The Bank was among the top ten distinguished companies, with the best score among banks. 271 analysts and managers representing 183 financial institutions took part in the survey, which was the basis for the preparation of the ranking. They spontaneously indicated companies which, in their opinion, represented the highest level of investor relations.

Bank Pekao has been awarded many times in the Institution of the Year ranking

In this year's Institution of the Year ranking organized by Moje Bankowanie, Bank Pekao took the first place in two categories, and was in the lead in the next five. 25 bank outlets received individual distinctions for the quality of service.

The best online banking and the best mobile application turned out to be number one on the market. Bank Pekao received the highest ratio of available functionalities in both channels and the highest ratings from users of the mobile application.

We were ranked 3rd in the category of Best Service in a Facility. Throughout the year, banking outlets competed for individual awards. As many as 25 branches of Bank Pekao received individual awards and the title of the Best Banking Branch in Poland.

We have also received awards, including in the Best Remote Account Opening Process (2nd place), Best Personal Banking (2nd place), Best Private Banking (3rd place) and Best Business Bank (4th place).

Złoty Laur Konsumenta 2023 for banking services

Customers once again appreciated the possibilities of remote service in electronic banking on the Pekao24 Internet service and the PeoPay application, which enable the use of an online bank without leaving home.

Awards in the Złoty Bankier competition

We received a prestigious award in two categories - for the best personal account - Konto Przekorzystne, and an account for children. Accounts have been appreciated, among others for an attractive price offer, services related to accounts, convenient and comprehensive electronic banking and novelties implemented over the last year.

The best bank in the Commercial Bank category

For the fourth time in a row, we were awarded the title of the Best Bank in the Commercial Bank category in the plebiscite organized by Gazeta Bankowa. The competition selected the best banks based on financial and non-financial data, such as ESG, customer experience or marketing. We also received a distinction in TechnoBiznes 2023 in the Banking category for Omnibank CRM - the first real-time banking marketing in the cloud.

Bank Pekao S.A. recognized as the best investment bank for the seventh time

For the seventh time, it won the title of the best investment bank in Poland "The Best Investment Bank in Poland for 2023" awarded by the renowned Global Finance magazine.

Bank Pekao awarded again by Global Finance

The Bank was again awarded by the prestigious Global Finance magazine in the Treasury and Cash Management Provider category.

In order to select the best providers of treasury and cash management services, the following criteria were taken into account: efficiency, market share, quality of customer service, competitive prices, product innovation and the extent to which service providers have effectively distinguished themselves from your competitors.

Bank Pekao - Bank of the Year 2023 on the commercial real estate market in Central and Eastern Europe

Bank Pekao SA was the winner of the CEE Retail Real Estate Award competition in the "Bank of the Year" category.

The CEE Retail Real Estate Awards competition is organized every year by EuropaProperty to emphasize the importance of the commercial real estate market in the countries of Central and Eastern Europe. The awards are given for achievements in the commercial real estate sector.

Bank Pekao S.A. for the fifth time received the prestigious award "The Best Trade Finance Provider in Poland"

For the fifth time, the Bank received a distinction from the Global Finance magazine. Our knowledge of local economic conditions, customer needs and innovation in products and services were appreciated.

Euromoney magazine awards in the categories Market Leader in Poland and Best Services in Poland

For the second year in a row, the Bank was awarded twice for trade finance services in a competition organized by the renowned international magazine Euromoney. In this year's Best Trade Finance Survey ranking, Bank Pekao was recognized as the market leader in Poland, winning the title of Market Leader in Poland 2023 and ahead of the competition in the Best Services in Poland 2023 category.

The best bank in Poland in terms of sustainable financing and a leader in Central and Eastern Europe in financing sustainable infrastructure

We were recognized as the best bank in Poland in terms of sustainable finance and received the "Best Bank for Sustainable Finance" award. For the first time, we received the title of leader in the region of Central and Eastern Europe in financing sustainable infrastructure under the "Outstanding Leadership in Sustainable Infrastructure Finance". The award was granted by the renowned magazine Global Finance. Our activities in financing initiatives and bond issue programs aimed at the country's energy transformation, mitigation of the negative effects of climate change, support for local communities and the development of sustainable infrastructure projects were appreciated.

Bank Pekao S.A. the best trust bank in Poland

For the eleventh time in history and for the sixth time in a row, we received the "Best Sub-custodian Bank in Poland for 2022" award from the Global Finance magazine. Since 2012, Bank has been a leader in custody services on the Polish market. The quality of relations with foreign institutional clients and the level of their service, knowledge of the market, price offer, IT systems and operational activity in the field of securities transaction settlements were appreciated.

We are one of the leaders of custody services on the Polish market - we are ranked second in terms of the value of stored assets and first in the category of clearing agent for foreign investment companies operating on the Warsaw Stock Exchange with a 40% market share.

2023 EU-Wide Stress Test Results

Bank was subject to the 2023 EU-wide stress test conducted by the European Banking Authority (EBA), in cooperation with the Polish Financial Supervision Authority, the European Central Bank (ECB), and the European Systemic Risk Board (ESRB). The Bank notes the announcements made on 28 July 2023 by the EBA on the EU-wide stress test and fully acknowledges the outcomes of this exercise.

The 2023 EU-wide stress test does not contain a pass fail threshold and instead is designed to be used as an important source of information for the purposes of the supervisory review and evaluation process (SREP). The results will assist competent authorities in assessing Bank's ability to meet applicable prudential requirements under stressed scenarios.

The adverse stress test scenario was set by the ECB/ESRB and covers a three-year time horizon (2023-2025). The stress test has been carried out applying a static balance sheet assumption as of December 2022, and therefore does not take into account future business strategies and management actions. It is not a forecast of Bank profits.

Based on the results of the exercise and under the supervisor's control, the Bank will take possible management actions for mitigating the impact under the adverse scenario; assess the impact of the results on Bank's forward looking capital plans and its capacity to meet applicable prudential requirements; and determine whether any additional measures or changes to the Bank's capital plan are needed.

According to the EU-wide stress test results, the consolidated Common Equity Tier 1 (CET1) ratio of Bank would be in 2025 at the level of 18.56% under the baseline scenario and at 15.37% under the adverse scenario.

Pekao TFI honored with the prestigious "Bulls and Bears" award in the "TFI of the Year" category awarded by the Stock Exchange and Investors Gazeta "Parkiet"

The main selection criterion for the best TFI were the high rates of return of funds managed by Pekao TFI, which were ranked at the top in individual categories.

Alfa Awards 2022 for the best mutual funds

Pekao TFI funds were among the best in two categories:

- the best fund of Polish long-term debt securities - Pekao Obligacji - Dynamiczna Aloka FIO,
- the best stable growth fund - Pekao Stable Growth.

Pearl of Polish Leasing

Pekao Leasing received a distinction in the Pearls of Polish Leasing 2023 plebiscite for an individual approach to customer needs and skilful use of the latest technologies that translate into effective service.

Pekao Leasing receives the "Teraz Polska" emblem

Pekao Leasing was awarded for leasing services and modern solutions guaranteeing the highest quality of customer after-sales service.

6.4 Factors which will affect the results of the Group

The activity of Bank Pekao S.A. and the Group's companies is in majority conducted on the Polish territory, hence the Group's performance will be mainly affected by economic situation in the country and international events that have influence on domestic economy.

The year 2022 was a time of economic uncertainty, but at the same time the continuation of post-pandemic rebound. Polish GDP eventually grew by 4.9% y/y, reflecting the strong economic activity at the beginning of the year, but later in 2022, economic sentiment deteriorated due to rapidly rising prices and simultaneous tightening of monetary policy. The beginning of 2023 turned out to be a time of economic slowdown, which should end after second quarter. For 2023, we forecast a significant deceleration in GDP growth to 0.4% y/y due to the slowdown in the global economy and the consequences of cooling demand through the monetary policy channel. The reasons for the slowdown should be sought in weaker private consumption (due to the decreasing, but still high price growth and effects of interest rate hikes), a significant decrease in inventories and further uncertainty related to the geopolitical situation.

The outlook for future economic development will have an impact on demand for banking products and possible further changes in the cost of risk as a result of updated assumptions about the economic situation.

Monetary policy remains a relevant factor influencing the results of banks. The economic situation and very high inflation prompted the Monetary Policy Council to continue the cycle of interest rate increases initiated in October 2021. Since then, the reference rate has been raised from 0.10% to 6.75% and, according to the Bank, it will remain at this level until to the third quarter 2023. The environment of historically high interest rates is a favorable situation for banks, which will translate into an improvement in their net interest income, which is a major part of the sector's operating income. Nevertheless, the second half of 2023 will bring the first interest rate cuts (in our opinion, four 25 b.p.), which may negatively affect the results of the banking sector.

Independently from the economic situation, tax and regulatory environment invariably plays major role for banks. In particular, this includes tax on certain financial institutions, high capital requirements, contributions to Bank Guarantee Fund (BFG), costs of further adjustment to a number of regulatory solutions (MIFID II, RODO/GDPR, PSD II, MREL, among others), as well as introduction in Poland of cap on asset management fees. In general, the tax and regulatory environment of the sector remains very restrictive, which, combined with the unprecedented economic situation, may constrain certain banks' credit expansion and impact their financial results. Nevertheless, a factor having a positive impact on the banking sector's result will be the lack of BFG contribution in 2023 - banks will only be charged a contribution to the bank resolution fund and it can be expected that it will be lower than in the previous year. In 2024, contributions to the BFG will increase again due to the increase in the value of guaranteed funds (as a result of higher than assumed growth rate of deposits).

The issue of foreign currency mortgages continues to be one of the most important factors in the institutional environment. Considering no systemic solution in this matter, the banking system will be most affected by court decisions in individual cases. A number of events (i.a. the rulings of CJEU) has led towards higher number of borrowers seeking judicial resolution. In particular, the judgment of the CJEU of June 2023 stating that banks cannot demand interest from the client for the use of capital in the event of annulment of the loan agreement, while the client has the right to additional claims. This will have a strong negative impact on the performance of banks, especially those with a large portfolio of such loans. So far, the reserves established by banks due to the expected legal risk have been the main channel of influence. According to most estimates, the total costs for the sector may reach several dozen billion PLN, but they are difficult to estimate and will be spread over time. Much will depend on, among others, the actual number of lawsuits (how many borrowers will decide to take legal action), the interpretation of national courts in individual cases, the reactions of national supervisory institutions or the actions of the banks themselves. Moreover, it cannot be ruled out that the issue of CHF loans will find a final solution by way of legislation.

Bank Pekao S.A. will monitor the direction of decisions made by Polish courts, as well as market practice and borrowers' behaviour, and will assess on an ongoing basis the probability of cash outflow with respect to the mortgage loans in question. However, the impact may be indirect in case of potential financial problems of some smaller institutions with a particularly large exposure to the discussed risk.

A relevant factor affecting the results of the banking sector in 2023 and 2024 will be the so-called credit holidays and a 2% credit loan. From the beginning of the credit holiday program until the end of May 2023, this solution covered 1.1 million bank loans, and the total value of these was PLN 281 billion. In its current form, the program will last until the end of 2023. The risk that it will be extended (albeit with the income criterion) should be assessed as significant. However, the details of the program are not known at the moment. Moreover, a 2% loan is a solution offered to people up to 45 years of age who do not have and have not had an apartment, house or a cooperative right to a flat or a house. The maximum value of such a loan is up to PLN 500 thousand for one person and 600 thousand in the case of a married couple or couple with a child. For 10 years of loan repayment, the government will cover the difference between the actual interest rate and 2%. The program was launched at the beginning of July, and by July 13, 4.5 thousand applications were submitted for such loan. At the same time, according to the Credit Bureau data, in June the value of housing loan inquiries increased by 27% y/y. For comparison, in May it was 4%, and in April -16.2%. This solution, as well as any interventions in the real estate market, will be given special attention. The programme, just like all interventions aimed at supporting the housing market, will be scrutinized closely.

6.5 Description of major sources of risk and threats relating to the remaining months of 2023

Risk management

Effective risk management is a prerequisite for maintaining a high level of security of the funds entrusted to the Group, and for achieving a sustainable and balanced profit growth within the Group's risk appetite.

The key risks material for the Group include credit risk, liquidity, market risks and operational risk. Moreover, the Group identifies the following risks as material in its business activity: business, macroeconomic, reputation, compliance, excessive leverage, bancassurance, real estate, financial investment, and model risks. The Group also identifies ESG risk defined as risk arising from environmental, social and governance factors that may have negative impact (directly or indirectly) on the Group. ESG risk is managed within the types of risk identified in the Group's activity that are affected by ESG risk factors (mainly credit risk). The ESG Council supports the Management Board in decision making process concerning ESG issues.

The Group has adopted a comprehensive and consolidated approach to risk management. It extends to all units of the Bank and subsidiaries. Risks are monitored and managed taking into account business profitability and the capital required to cover the losses resulting from these risks.

The Management Board of the Bank is responsible for achieving the strategic risk management goals, while the Supervisory Board, supported by the Risk Committee, oversees whether the Group's policy of taking various risks is compliant with the overall strategy and financial plan. The Credit Committee plays an important role in the credit risk management, the Asset, Liability and Risk Committee and Liquidity and Market Risk Committee in market and liquidity risk management, the Operational Risk Committee in the management of the operational risk and the Model Risk Committee in model risk management.

The rules of managing each of the risks are defined by internal procedures and the guidelines set up by the credit risk policy, investment strategy, investment and market risk policy and the operational risk strategy and policy accepted annually by the Management Board and approved by the Supervisory Board.

Detailed reports on credit, liquidity, market, operational and model risks are presented to the Management Board and the Supervisory Board on a regular basis.

The rules and instruments of managing each of the risks and information on the risk exposure are included in Note 34 to the Condensed Interim Consolidated Financial Statements of Bank Pekao S.A. Group for the first half of 2023 and in the document "Information in respect to capital adequacy of Bank Pekao S.A Group as at 30 June 2023" published on the Bank's website.

Risks related to the remaining months of 2023

In the second half of 2022, the Bank will continue its strategy focused on keeping credit risk at adequate and safe level through prudent policy of credit portfolio development. Prudent standards in credit risk management in Bank Pekao S.A. will be based on the Credit Risk Policy taking into account among the others measures limiting the threats coming from macroeconomic factors related to the armed conflict in Ukraine and their impact on the quality of credit portfolio. The same approach is applied to the performance of the Bank's subsidiaries. Regardless of the measures taken, the credit risk of the entire sector depends on the development of the macroeconomic situation.

In the case of liquidity and market risks the main challenges are related to the volatile interest rates and regulatory changes such as the extension of credit holidays or the abandoning of WIBOR. Relatively high interest rates encourage clients to manage deposits actively, which translates into changes in the Bank's funding structure. Risks associated with the portfolio of mortgages based on temporary fixed interest rates come into play, in particular the early repayment risk.

Nevertheless in the area of liquidity risk Bank is characterized by a well-diversified, stable deposits base with low concentration and manages a substantial liquidity buffer of eligible and marketable government securities. The cautious liquidity risk management policy enables to expect stable liquidity situation and safe liquidity level in the second half of 2023. As to market risk, the Bank is to keep the level of its exposure strictly under control.

The Bank does not identify any new significant factors implying change of operational risk profile, which could occur in the second half of 2023.

7. Human Resources Management

Human Capital as a key asset

The principles of the Bank's policy in the area of Human Resources (HR) development are set by its mission and values considered as the key for the Bank sustainable growth.

The Bank invests in training, professional development, cares for the well-being of employees, and creation of a friendly work environment and it conducts questionnaire surveys on employees opinion and engagement as well as satisfaction. Significant area of the Bank's HR policy is outstanding talents spotting within the organization and investing in development of their skills.

Training and professional development

The Bank creates learning opportunities and provides access to various forms of training for its employees. Educational activities focus on realization of in-class training programs, remote training, hybrid training, on-the-job learning, coaching and Virtual Class system allowing for distance learning in form of Webinars.

In the first half of 2023, the main training priorities of the Bank were as follow:

- training for managerial staff
- professional knowledge development of the Bank's employees,
- implementation of cybersecurity trainings,
- realization of mandatory training required under internal and external regulations.

We continued the implementation of training projects related to the implementation of the adopted business strategies. We conducted training dedicated to employees with high potential and introductory training for new employees.

In the first half of 2023, the following training projects were continued at the Bank:

- Leadership Academy - Shift Leader and Retail Manager Academy - key training and development programs for the managerial staff, which covered approximately 800 employees,
- Banking School of Sales - a program whose aim is to support effective sales behavior, improve competences in the area of up-selling, reaching new customers, conducting meetings and dealing with difficult situations,
- "Innovation Laboratory", the aim of which is to actively build a culture of innovation at the Bank and support digital transformation,
- "Robotic Academy" - a proprietary training program developed by our practitioners in cooperation with an external company. The program allows you to develop digital competences and use automation on a daily basis, thanks to the acquired competences you can independently build robots that will perform the most repetitive tasks,
- Forge of Agility - a program thanks to which each employee has the opportunity to gain specialist knowledge in the field of agile methodologies (Agile path) and process optimization (Lean path).

In the first half of 2023, the Bank delivered in form of class room above 28 thousand of training hours (class room and virtual sessions), in which attended above 8,5 thousand of employees confirming the Bank's determination in efficient implementation of required regulations and customer care.

E-learning courses have been delivered at the level of over 114 thousand hours, including projects related to granting power of attorney rules, code of conduct, confidential information management rules, mortgage directive.

Development programs and initiatives

In the first half of 2023, are consistently implemented development programs and initiatives were provided for the Bank employees, aimed at providing support in the development of managerial and interpersonal skills.

The Bank also offers the development initiatives focused on supporting the employees in their professional career development and improvement of their skills, knowledge, and competencies as well as a number of initiatives strengthening the employees' engagement. The priority of development programs in the Bank is identification, review, verification and development of current and future leaders of the Bank.

The Bank performs the following processes related to this issue:

- Succession Plans, which have fundamental importance in ensuring continuous employment on strategic positions, continuity of long-term projects and minimizing operational risk,

- Annual Employee Appraisal System – process of evaluation of the Bank's employees which comprises appraisal of competencies, potential, personal development planning and business goals appraisal. In the first half of 2023, almost 8.5 thousand of employees took part in the process,
- Assessment Centre/Development Centre session – a diagnostic tool designed to identify employee's potential, used in recruitment, promotion and employee development processes. Bank implemented a permanent process of the Assessment Center for selected positions.

As part of development activities in the first half of 2023:

- we started the implementation of a new development tool CliftonStrengths®, under which we carry out individual coaching and team workshops,
- we continued the process of implementing team coaching to support teams in building effective relationships and achieving business goals,
- we continued activities related to the Insights Discovery tool, systematically held group workshops and individual development meetings based on the results of ID.

Pro-Wellness activities

On the website "Take your health by the horns!" we support and educate employees in 4 areas: healthy eating, physical activity, mental health and prevention.

In the first half of 2023, we implemented the following programmes:

- "How to sleep to get enough sleep" - talking about the importance of quality sleep in our lives,
- "100 questions to...", during which talks with doctors of various specializations on health were conducted,
- "ABC of mental well-being", which was devoted to the ability to rest effectively, strengthen willpower or deal with things we have no influence on. Employees had the opportunity to consult a psychologist.

Apprenticeship programs

Our goal is to attract a certain number of students and graduates from the best universities in Poland and abroad, and to offer them professional development within our organization.

In 2023, Bank Pekao S.A. launched recruitment for three programs:

- Banking Champions a four-month internship program and at the same time an opportunity to learn the secrets of working in corporate and investment banking from the inside.
- IT Champions offers internships in the area of technology (IT and security).
- Żubr Academy - a wide range of offers from many departments as part of the 2-month summer internship program, which will allow for a better understanding of the bank's operation, getting to know its specific areas and mutual exchange of experiences.

Compensation policy

The compensation strategy was developed in line with the business standards and values underlying the Bank's mission and reflected in the internal regulations as well as it constitutes the basis for enhancing and protecting the Bank's reputation and creating long term value for all the stakeholders. The key regulation in this area is the *Remuneration Policy of Bank Polska Kasa Opieki Spółka Akcyjna*, the last update of which entered into force by the Ordinance of January 5, 2023 and the Remuneration Policy for Members of the Management Board and Members of the Supervisory Board, the last update of which entered into force by the Order of January 11, 2023. Remuneration Policy reflects the mission and values in the Bank's approach to remuneration systems. The main changes in the Remuneration Policy concern in particular the introduction of provisions emphasizing the gender-neutral nature of the policy as well as detailing the provisions regarding the part of variable remuneration in terms of deferral periods, by extending them.

Incentive systems

In the Bank, there are three main incentive systems: an Executive Variable Compensation System, a System based on Management by Objectives (MBO), and a System based on provisions of Corporate Collective Labour Agreement, which is based on quarterly bonuses and incentive reward.

The Variable Remuneration System for the Management Staff is dedicated to persons holding managerial positions who have a significant impact on the Bank's risk profile. The purpose of the system is to support the implementation of the Bank's strategy and to limit excessive risk and conflicts of interest. Under the system, the participant may receive variable remuneration based on the bonus pool concept. The system provides a comprehensive measurement of the achievement of results at the individual level, organizational unit level and the results of the entire Bank, taking into account the assessment of the participant's compliance with the law, risk assessment and standards adopted by the Bank.

MBO system covers employees employed under the management contract and refers in particular to the positions in the front-office sales and to the managerial positions, which play a significant role in achieving the Bank's commercial goals. The employees covered by the MBO system receive individual goals resulting from the strategy and activity directions of the Bank approved for a particular year, the annual bonus value is conditioned by completion level of those tasks. Starting from 2018, the possibility of settling bonuses on a quarterly basis and the advance payment of bonuses for the achievement of individual annual goals was introduced, which it was restarted after a period determined by the epidemic situation affecting the way of setting and accounting for individual goals.

According to the provisions of the Corporate Collective Labour Agreement the basis of the system is a quarterly bonus which is discretionary and depends on evaluation of employee's performance, the level of commitment and the results achieved by the Bank in a given year, as well as the incentive bonus, which is granted for outstanding work achievements. Sales function employees receive an individual settlement of the objectives, including monitoring of the compliance and the quality of sales activities undertaken. As a result of negotiations with trade unions, a new bonus system for retailers was implemented from January 2023. The system addresses business needs, introduces transparent criteria for acquiring bonuses, supports the motivation and commitment of employees to take actions aimed at increasing sales, and promotes high standards of work quality and customer service.

Additional benefits for employees

As part of non-wage benefits the Bank provides its employees with medical care in domestic network of private medical clinics. The Bank's employees have the opportunity to take advantage of a renovation or housing loan on preferential terms, as well as co-financing for holidays, cultural, educational, sports or recreation activities.

Selections and Suitability Assessment Policy

The Bank has a *Policy of selecting candidates for the position of a member of the Management Board and the key function as well as assessing the suitability of proposed and appointed members of the Management Board, Supervisory Board and persons holding key functions at Bank*. In the first half of 2023, a secondary suitability assessment of Members of the Bank's Management Board and a collective assessment of the Bank's Management Board were carried out. The suitability assessment included an assessment of individual professional qualifications, reputation and additional management criteria in line with the aforementioned policy. The General Meeting assessed suitability by approving the presented self-assessments of the Members of the Supervisory Board as part of the secondary suitability assessment together with the collective self-assessment of the Supervisory Board.

Management Position Identification Policy

The policy of identifying managerial positions was announced in the Bank by the Ordinance of January 11 2022.

The purpose this Policy is to communicate the tasks performed by individual units and Bank authorities in the identification process, the course of the process and the procedure for updating the list of identified positions, as well as to indicate the criteria used by the Bank in the process of determining which positions have a significant impact on the Bank's risk profile. The Bank's Management Board approved the list of management positions for 2023.

Gender equality and Diversity policy

The Bank has a *Gender equality and diversity policy with regard to members of the Supervisory Board, members of the Management Board and persons holding Key Functions at Bank Polska Kasa Opieki Spółka Akcyjna*, which defines the strategy in the scope of managing diversity of the Bank's employees, including diversity with regard to the appointment of members of the Supervisory Board, members of the Management Board and persons performing Key Functions at the Bank. The gender equality and diversity policy defines guidelines aimed at ensuring that the Bank's employees can manage their careers, achieve success and evaluate their work on the basis of individual achievements, regardless of gender.

Culture and Corporate values

Organizational culture of the Bank is shaped by the values defined by the words "SIMPLY", "TOGETHER", "BRAVE and RESPONSIBLE". They set the standard of conduct for the Bank's employees, at the same time building their commitment around common goals in everyday activities.

In the first half of 2023, we launched an initiative at the Bank entitled "Tournament of Four Values" aimed at promoting attitudes and behaviors resulting from our values, which was attended by over 1.3 thousand bank employees. We also carried out the "Pulse of Engagement" survey, which allowed us to assess whether the actions taken at the bank to build a friendly working environment meet the expectations of our employees and contribute to increasing their job satisfaction and level of commitment at the bank. The overall engagement rate at the bank was 54% and was 11% higher than the average engagement rate of employees of financial companies in Poland.

Relations with Trade Union Organizations

The cooperation between the Bank and trade unions in the range of consultation, negotiations and other agreements were led pursuant to the rules defined in the labour law, with respect for both sides' interests and social dialog rules. In the first half of the year 2023, 12 meetings took place including 11 in hybrid mode.

The discussions and agreements between the parties mainly concerned salary increases for the Bank's employees, incentive awards for special achievements in professional work in 2022, and remote work at Bank Pekao S.A.. As a result of the talks, three agreements were concluded in the first half of 2023. On March 30th, 2023, the Bank and six trade union organizations concluded an "Agreement on the Principles of Remote Work," On April 19, 2023, the Bank and five trade union organizations concluded an "Agreement on Agreeing on the Amount of Funds for Repositioning the Bank's Employees Covered by the Company Collective Labour Agreement in 2023," and on May 31st, 2023, the Bank and seven trade union organizations concluded an "Agreement on the Distribution of the Incentive Award Fund for 2022, referred to in Section 19 of the Company Collective Labour Agreement."

In the first half of 2023 there were three collective disputes in the Bank, initiated successively in 2016, 2019 and 2021 by one of the trade union operating in the Bank.

Trade union organizations can place on the Bank's intranet sides their newsletters and information concerning critical employees' matters, including the status of dialogue conducted with employer.

The Bank in the mutual relations with Trade Unions followed the principle of good will to work the best solutions in the range of collective labour law for both Employees and for the Bank.

Relations with the Works Council

The Works Council is a representative of the workforce, authorized to get information and carry out consultation with the employees on matters defined by the Worker Information and Consultation Act of April 7th 2006. Discussed with the Works Council were issues covered by the relevant legal regulations and the Co-operation with the Works Council progressed with respect to the mutual rights of the parties involved. Information from meetings of the Works Council with the employer is posted in the form of messages on intranet sites and is available to all employees of the Bank.

Workforce in number

As at the end of June 2023 the Group employed 14,918 employees (in the Bank and the companies consolidated under full consolidation method) as compared to 14,642 employees as at the end of 2022. As at the end of June 2023, the Bank employed 12,607 employees as compared to 12,435 employees as at the end of 2022. The average age of the employees was 45.7 years, 75.8 % of the employees are university graduates, women represent 68.8 % of the total workforce.

8. Statement of Financial Position and Financial Results

Consolidated income statement containing cumulated items for the period from 1 January to 30 June, 2023 and 2022 respectively is presented in Interim Condensed Separate Financial Statements of Bank Pekao S.A. for the first half of 2023.

The Report on activities of Bank Pekao S.A. Group for the first half of 2023, includes statement of financial position in a short form and income statement in a presentation form as well as the key, selected items from these statements are discussed.

8.1 The consolidated income statement – presentation form

In the first half of 2023, we generated a net profit of the Bank Pekao S.A. Group, attributable to the Bank's shareholders in the amount of PLN 3,139.7 million. This result is higher by PLN 1,764.6 million than the result achieved in the first half of 2022, mainly due to higher income, lower BFG contributions and lower provisions for legal risk related to foreign currency mortgage loans, despite the inflationary increase in operating costs.

	(in PLN million)		
	1 HALF OF 2023	1 HALF OF 2022	CHANGE
Net interest income	5,766.1	4,635.6	24.4%
Net fee and commission income	1,399.3	1,420.9	(1.5%)
Dividend, income	28.6	26.3	8.7%
Trading result	316.3	4.7	> 100%
Net other operating income and expenses	(111.1)	(176.0)	(36.9%)
including: legal risk regarding foreign currency mortgage loans	(132.1)	(110.6)	19.4%
Net non-interest income	1,633.1	1,275.9	28.0%
Operating income	7,399.2	5,911.5	25.2%
Operating costs	(2,322.1)	(2,063.6)	12.5%
Gross operating profit	5,077.1	3,847.9	31.9%
Net allowances for expected credit losses	(396.2)	(665.0)	(40.4%)
including: legal risk regarding foreign currency mortgage loans	(40.5)	(308.7)	(86.9%)
Net operating profit	4,680.9	3,182.9	47.1%
Contributions to the Bank Guarantee Fund	(190.4)	(324.3)	(41.3%)
Fee paid for the Protection Schemes	-	(440.3)	x
Contributions to the Borrowers Support Fund	-	-	x
Tax on certain financial institutions	(437.0)	(416.1)	5.0%
Gains on associates and disposal of subsidiaries	2.6	1.7	52.9%
Profit before tax	4,056.1	2,003.9	> 100%
Income tax expense	(915.4)	(627.3)	45.9%
Net profit	3,140.8	1,376.6	>100%
Attributable to equity holders of the Bank	3,139.7	1,375.1	> 100%
Attributable to non-controlling interest	1.0	1.5	(33.3%)

Operating income

The Group's operating income in the first half of 2023 amounted to PLN 7,399.2 million and was 25.2% higher than the income achieved in the first half of 2022, mainly due to net interest income and net trading income.

Total net interest income

	(in PLN million)		
	1 HALF OF 2023	1 HALF OF 2022	CHANGE
Interest income	8,828.8	5,312.6	66.2%
Interest expense	(3,062.7)	(677.0)	> 100%
Net interest income	5,766.1	4,635.6	24.4%

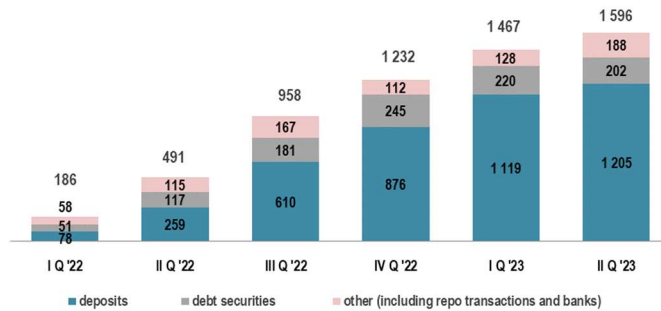
Net interest income in first half of 2023, amounted to PLN 5,766.1 million and was higher by PLN 1,130.5 million, i.e. 24.4% in comparison with first half of 2022.

Interest income



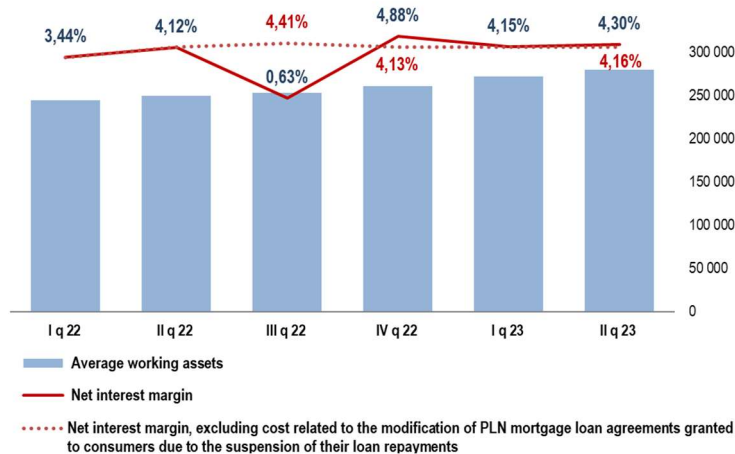
Interest income in the first half of 2023 amounted to PLN 8,828.8 million and was higher by PLN 3,516.2 million y/y, mainly due to the increase in market interest rates in 2022. In the fourth quarter of 2022 and in the second quarter of 2023, a one-off income was recognized in the amounts of PLN 470.3 million and PLN 80.3 million, respectively, in connection with the revaluation of the provision related to the modification of PLN mortgage loan agreements granted to consumers due to the suspension of loan repayments (credit holidays).

Interest expense



In the first half of 2023, interest expense amounted to PLN 3,062.7 million and was higher by PLN 2,385.8 million y/y, due to the adjustment of the Bank's product offer to market conditions and customer expectations

Interest margin



The interest margin achieved in the first half of 2023, was 4.23% and was higher by 0.44 p.p. than the margin achieved in comparison with first half of 2022. The interest margin, excluding credit holidays, in the second quarter of 2023 was close to the level obtained in the first quarter of 2023.

Net non-interest income

(in PLN million)

	1 HALF OF 2023	1 HALF OF 2022	CHANGE
Fee and commission income	1,741.2	1,703.2	2.2%
Fee and commission expense	(341.9)	(282.3)	21.1%
Net fee and commission income	1,399.3	1,420.9	(1.5%)
Dividend income	28.6	26.3	8.7%
Trading result	316.3	4.7	> 100%
Net other operating income and expense	(111.1)	(176.0)	(36.9%)
including: legal risk regarding foreign currency mortgage loans	(132.1)	(110.6)	19.4%
Net non-interest income	1,633.1	1,275.9	28.0%

Net non-interest income achieved in the first half of 2023 amounted to PLN 1,633.1 and was higher by PLN 357.2 million, i.e. 28.0% compared to the result achieved last year, thanks to a higher result on trading activities, in particular the result on foreign exchange and the result on derivatives.

The Group's net fee and commission income in the first half of 2023 amounted to PLN 1,399.3 million and was lower by PLN 21.6 million, i.e. 1.5% compared to the result achieved in the first half of 2022, mainly due to the adjustment of the offer to market conditions and due to the high margin on FX transactions with customers last year as a result of increased customer activity on the FX market after the outbreak of the war.

The table below presents the Group's net fee and commission income divided according to the main areas of the activity.

(in PLN million)

	1 HALF OF 2023	1 HALF OF 2022	CHANGE
Net fee and commission income	1,399.3	1,420.9	(1.5%)
on loans	301.7	272.4	10.8%
on cards	157.5	145.1	8.5%
on mutual funds	168.2	151.1	11.3%
on brokerage activate	74.7	66.2	12.8%
on margins on foreign exchange transactions with clients	361.1	372.5	(3.1%)
other	336.1	413.6	(18.7%)

Operating costs

Operating cost in the first half of 2023 amounted to PLN 2,322.1 million and were higher by PLN 258.5 million, i.e. 12.5% compared to the first half of 2022, mainly due to the inflation indexation of salaries and higher property maintenance costs, due to the increase in energy prices and the minimum wage. Growth of total costs at the level of inflation.

(in PLN million)

	1 HALF OF 2023	1 HALF OF 2022	CHANGE
Personnel expenses	(1,338.9)	(1,139.4)	17.5%
General administrative expenses and depreciation	(983.2)	(924.2)	6.4%
Operating costs	(2,322.1)	(2,063.6)	12.5%

In the first half of 2023 cost / income ratio amounted to 31.4% and was lower by 3.5 p.p. y/y.

As of 30 June 2023 the Group employed 14,918 employees (in the Bank and the companies consolidated under full consolidation method) as compared to 14,708 employees as at the end of June 2022.

Contributions to the Bank Guarantee Fund

In the first half of 2023 the Contributions to the Bank Guarantee Fund amounted to PLN 190.4 million and were lower by PLN 133.9 million compared to the first half of 2022.

Tax on certain financial institutions

Tax on certain financial institutions in the first half of 2023 amounted to PLN 437.0 million and was higher by PLN 20.9 million i.e. 5.0% as compared to the first half of 2022, due to an increase in Group's assets.

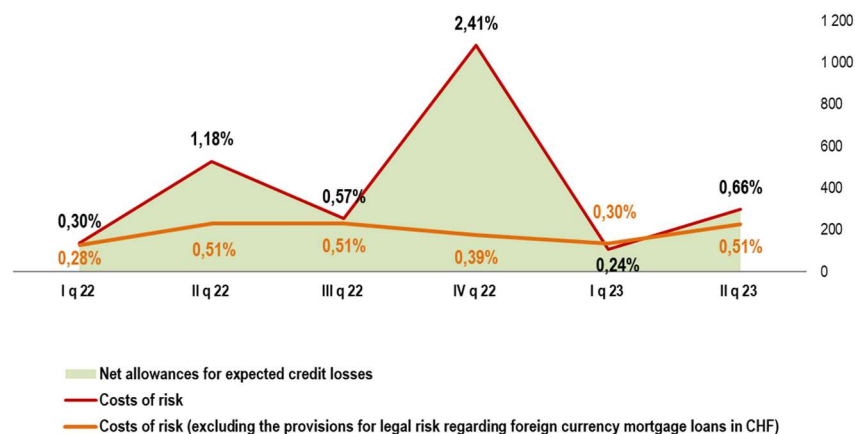
8.2 Net allowances for expected credit losses

(in PLN million)

	GROUP		BANK PEKAO S.A.	
	1 HALF OF 2023	1 HALF OF 2022	1 HALF OF 2023	1 HALF OF 2022
financial assets measured at amortized cost excluding provisions for legal risk regarding foreign currency mortgage loans in CHF	(294.6)	(345.7)	(281.1)	(325.3)
financial assets measured at fair value through other comprehensive income	8.4	2.1	15.0	9.9
financial liabilities measured at amortized cost	(69.5)	(12.8)	(62.4)	8.2
Net allowances for expected credit losses excluding provisions for legal risk regarding foreign currency mortgage loans in CHF	(355.7)	(356.3)	(328.5)	(307.1)
financial assets measured at amortized cost - provisions for legal risk regarding foreign currency mortgage loans in CHF	(40.5)	(308.7)	(34.6)	(308.0)
Net allowances for expected credit losses	(396.2)	(665.0)	(363.1)	(615.1)

Net allowances for expected credit losses amounted to PLN 396.2 million in the first half of 2023 and was lower by PLN 286.8 million i.e.40.4% as compared to the first half of 2022 mainly due to lower provisions for legal risk related to CHF mortgage loans.

Costs of risk



The Group's cost of risk excluding provision for legal risk related to foreign currency mortgage loans in the first half of 2023 amounted to 0.40% and was at the same level as last year. The increase in the cost of risk in the second quarter of 2023 compared to the first quarter results from the recognition of one-off events in both quarters and the update of model parameters, which resulted in the reversal of provisions in the first quarter.

8.3 The structure of the net profit

(in PLN million)

	1 HALF OF 2023	1 HALF OF 2022	CHANGE
Net profit of Bank Pekao S.A.	3,235.0	1,460.5	> 100%
Entities consolidated under full method			
Pekao Leasing Sp. z o.o.	55.0	62.5	(12.0%)
Pekao Investment Management S.A.	46.2	29.4	57.1%
Pekao Faktoring Sp. z o.o.	23.5	19.2	22.4%
PEUF Sp. z o.o.	3.5	0.2	> 100%
Pekao Direct Sp. z o.o.	3.2	1.4	> 100%
Pekao Financial Services Sp. z o.o.	3.2	4.6	(30.4%)
Pekao Investment Banking S.A.	3.1	4.1	(24.4%)
Centrum Kart S.A.	3.0	3.9	(23.1%)
Pekao Fundusz Kapitałowy Sp. z o.o. w likwidacji	1.0	0.0	x
Pekao Property S.A. w likwidacji	0.4	(0.2)	x
FPB "MEDIA" Sp. z o.o. w upadłości	-	-	x
Pekao Bank Hipoteczny S.A.	(12.4)	(7.6)	63.2%
Entities valued under the equity method			
Krajowy Integrator Płatności S.A.	2.6	1.7	52.9%
<i>Exclusions and consolidation adjustments ^(*)</i>	<i>(227.6)</i>	<i>(204.6)</i>	11.2%
Net profit of the Group attributable to equity holders of the Bank	3,139.7	1,375.1	> 100%

^(*) Includes, among others transactions within the Group (including dividends from subsidiaries for the previous years), and net profit attributable to non-controlling interest.

Results of the Bank's major related entities**Pekao Leasing Sp. z o.o. - Pekao Leasing**

In the first half of 2023, Pekao Leasing generated a net profit of **PLN 55.0 million**, compared to a profit of PLN 62.5 million in the first half of 2022. The result of Pekao Leasing in 2023 is burdened with a higher cost of financing and an increase in the level of operating costs, with higher cost of risk due to the revaluation of provisions for customers dependent on the increase in energy prices.

Pekao Investment Management S.A. - Pekao IM

Consolidated net profit of Pekao IM in the first half of 2023, amounted to **PLN 46.2 million**, compared to PLN 29.4 million in the first half of 2022. The result was influenced by the improving situation on the capital market, which translated into an increase in the value of Pekao TFI assets.

Pekao Faktoring Sp. z o.o. - Pekao Faktoring

In the first half of 2023, Pekao Faktoring generated a net profit of **PLN 23.5 million** compared to a profit of PLN 19.2 million in the first half of 2022. The higher result of Pekao Faktoring is the result of further business development (an increase in the level of income by 5.7% y/y) and a lower level of credit risk. Pekao Faktoring ranks first in turnover on the Polish factoring market.

PeUF Sp. z o.o. – PEUF

In the first half of 2023, PeUF generated a net profit of **PLN 3.5 million**. The company started its business operations in the first half of 2022.

Pekao Direct Sp. z o.o. - Pekao Direct

In the first half of 2023, Pekao Direct reported a net profit of **PLN 3.2 million**, compared to PLN 1.4 million profit generated in the first half of 2022.

Pekao Investment Banking S.A. - Pekao IB

In the first half of 2023, Pekao IB generated a net profit of **PLN 3.1 million**, compared to PLN 4.1 million in the first half of 2022. The result was affected by a smaller number and value of finalized transactions in the area of advisory services on the private and public capital market compared to the previous year.

Centrum Kart S.A. – Centrum Kart

In the first half of 2023, Centrum Kart generated a net profit of **PLN 3.0 million** compared to PLN 3.9 million generated last year.

Krajowy Integrator Płatności S.A.- KIP

In the first half of 2023, KIP generated a net profit of PLN 6.7 million (including the Bank's share of **PLN 2.6 million**), compared to a profit of PLN 3.5 million achieved in the first half of 2022. The results are the effect of the continuous development of KIP's activities in the area of online payment services, service websites, a wider range of services provided by KIP, including as part of cooperation with the Bank.

Pekao Financial Services Sp. z o.o. - PFS

In the first half of 2023, PFS generated a net profit of PLN 3.2 million (including the Bank's share of **PLN 2.1 million**), compared to a profit of PLN 4.6 million in the first half of 2022. The net result was lower due to the growing operating costs, including those related to the start of servicing a new client, despite the increase in revenues.

Pekao Bank Hipoteczny S.A. - Pekao Bank Hipoteczny

In the first half of 2023, Pekao Bank Hipoteczny reported a net loss of **PLN 12.4 million**, compared to a loss of PLN 7.6 million in the first half of 2022. The result for the current period was influenced by an increase in the provision for legal risk related to the portfolio of mortgage loans denominated in CHF.

The results of Bank Pekao S.A.

The main items from the Bank's income statement in presentation form are as follows:

(in PLN million)

	1 HALF OF 2023	1 HALF OF 2022	CHANGE
Net interest income	5,601.3	4,470.8	25.3%
including: legal risk regarding foreign currency mortgage loans	(118.6)	(108.0)	9.8%
Net non-interest income	1,641.2	1,286.1	27.6%
Operating income	7,242.4	5,756.8	25.8%
Operating costs	(2,135.6)	(1,911.8)	11.7%
Gross operating profit	5,106.9	3,845.0	32.8%
Net allowances for expected credit losses	(363.1)	(615.1)	(41.0%)
including: legal risk regarding foreign currency mortgage loans	(34.6)	(308.0)	(88.8%)
Net operating profit	4,743.7	3,229.9	46.9%
Contributions to the Bank Guarantee Fund	(188.2)	(321.7)	(41.5%)
Fee paid for the Protection Schemes	-	(440.3)	x
Contributions to the Borrowers Support Fund	-	-	x
Tax on certain financial institutions	(437.0)	(416.1)	5.0%
Profit before tax	4,118.5	2,051.8	> 100%
Net profit	3,235.0	1,460.5	> 100%

Net profit of Bank Pekao S.A. in the first half of 2023 amounted to PLN 3,235.0 million and was higher by PLN 1,774.5 million compared to the first half of 2022, mainly due to higher income, lower BFG contributions and lower provisions for legal risk related to foreign exchange mortgage loans, despite the inflationary increase in operating costs.

The main Bank's financial information are as follows:

	30.06.2023	30.06.2022	CHANGE
STATEMENT OF FINANCIAL POSITION – SELECTED ITEMS			
(in PLN million)			
Loans and advances at nominal value ^(*)	160,538.0	168,003.4	(4.4%)
Amounts due to customers	220,525.7	201,239.6	9.6%
Structured Certificates of Deposit	401.4	726.7	(44.8%)
Certificates of Deposit	-	2,000.0	x
Senior bonds	750.0	-	x
Subordinated bonds	2,750.0	2,750.0	0.0%
Repo transactions	1,091.7	1,936.5	(43.6%)
Total assets	276,607.7	268,658.7	3.0%
Investment funds distributed through the Bank's network	17,817.7	15,849.2	12.4%
Total capital ratio in %	19.5%	18.4%	1.1.p.p.

^(*) Including loans and non-treasury debt securities.

Loans and advances at nominal value at the end of June 2023 amounted to PLN 160,538.0 million and were lower by PLN 7,465.4 million, i.e. 4.4% than at the end of June 2022. At the end of June 2023, retail loans amounted to PLN 73,365.9 million, and corporate loans - PLN 76,606.8 million.

Amounts due to customers, Structured Certificates of Deposit, Certificates of Deposit, Senior bonds and Subordinated Bonds at the end of June 2023 amounted to PLN 224,427.1 million and were higher by PLN 17,710.8 million, i.e. 8.6% compared to the end of June 2022.

Net assets of investment funds managed by Pekao TFI S.A. distributed by the Bank's network at the end of June 2023 amounted to PLN 17,817.7 million and was higher by PLN 1,968.5 million, i.e. 12.4% compared to the end of June 2022.

8.4 Structure of the consolidated statement of financial position – short form

The balance sheet of Bank Pekao S.A. determines the amount of total assets in balance sheet and the structure of the assets and liabilities of the Group. As at the end of June 2023, the total assets of Bank Pekao S.A. constitutes 96.1% of the total assets of the whole Group.

ASSETS	30.06.2023		30.06.2022		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Cash and due from Central Bank	9,912.2	3.4%	12,865.8	4.6%	(23.0%)
Loans and advances to banks ^(*)	6,772.9	2.4%	10,100.5	3.6%	(32.9%)
Loans and advances to customers ^(**)	165,825.1	57.6%	172,308.2	62.1%	(3.8%)
Reverse repo transactions	3,344.4	1.2%	1,332.6	0.5%	> 100%
Securities ^(***)	82,732.0	28.7%	54,501.6	19.6%	51.8%
Investments in associates	50.2	0.0%	45.1	0.0%	11.3%
Property, plant and equipment and intangible assets	4,040.7	1.4%	3,757.0	1.4%	7.6%
Other assets	15,243.8	5.3%	22,657.2	8.2%	(32.7%)
Total assets	287,921.3	100.0%	277,568.0	100.0%	3.7%

(*) Including net investments in financial leases to banks.

(**) Including net investments in financial leases to customers and non-treasury debt securities.

(***) Including financial assets held for trading, other financial instruments at fair value through profit and loss and excluding non-treasury debt securities.

EQUITY AND LIABILITIES	30.06.2023		30.06.2022		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Amounts due to Central Bank	-	-	-	-	x
Amounts due to other banks	7,793.9	2.7%	12,520.5	4.5%	(37.8%)
Amounts due to customers	220,189.0	76.5%	200,938.5	72.4%	9.6%
Debt securities issued	8,165.7	2.8%	7,399.2	2.7%	10.4%
Subordinated liabilities	2,786.3	1.0%	2,782.5	1.0%	0.1%
Repo transactions	1,091.7	0.4%	1,936.5	0.7%	(43.6%)
Lease liabilities	479.9	0.2%	339.1	0.1%	41.5%
Other liabilities	21,449.1	7.4%	30,134.6	10.9%	(28.8%)
Total equity including	25,965.7	9.0%	21,517.1	7.8%	20.7%
non-controlling interests	11.3	0.0%	11.7	0.0%	(3.4%)
Total equity and liabilities	287,921.3	100.0%	277,568.0	100.0%	3.7%

Customer structure of loans and advances

(in PLN million)

	30.06.2023	30.06.2022	CHANGE
Loans and advances at nominal value ^(*)	174,027.9	179,586.9	(3.1%)
Loans and investments in financial leases	164,457.0	169,172.5	(2.8%)
Retail	75,609.3	80,800.9	(6.4%)
Corporate	88,847.7	88,371.6	0.5%
Non-treasury debt securities	9,570.9	10,414.4	(8.1%)
Other ^(**)	1,932.8	1,513.8	27.7%
Impairment allowances	(10,135.6)	(8,792.5)	15.3%
Total net receivables	165,825.1	172,308.2	(3.8%)
Reverse repo transactions	3,342.5	1,330.7	>100%
Total Customers' financing ^(***)	177,370.4	180,917.6	(2.0%)

(*) Excluding reverse repo transactions.

(**) Including interest and receivables in transit.

(***) Total customers' financing includes loans and advances at nominal value, securities issued by non-monetary entities and reverse repo transactions.

As at the end of June 2023, loans and advances at nominal value amounted to PLN 174,027.9 million an decrease of PLN 5,559.0 million, i.e. 3.1% in comparison to the end of June 2022.

As at the end of June 2023, the volume of retail loans amounted to PLN 75,609.3 million an decrease of PLN 5,191.6 million, i.e 6.4% in comparison to the end of June 2022.

As at the end of June 2023 corporate loans and non-treasury debt securities amounted to PLN 98,418.6 million an increase of PLN 367.4 million, i.e. 0.4% in comparison to the end of June 2022.

Receivables and impairment losses ^(*)

	(in PLN million)		
	30.06.2023	30.06.2022	CHANGE
Gross receivables	175,960.7	181,100.7	(2.8%)
Stage 1	147,665.1	148,814.8	(0.8%)
Stage 2	16,766.1	22,125.2	(24.2%)
Stage 3	11,529.5	10,160.7	13.5%
Impairment allowances	(10,135.6)	(8,792.5)	15.3%
Stage 1	(855.7)	(706.4)	21.1%
Stage 2	(1,131.3)	(1,396.3)	(19.0%)
Stage 3	(8,148.6)	(6,689.8)	21.8%
Total net receivables	165,825.1	172,308.2	(3.8%)

^(*) Including net investments in financial leases to customers. non-treasury debt securities. interest and receivables in transit and excluding reverse repo transactions.

As at the end of June 2023 the ratio of impaired receivables (stage 3) to the gross receivables amounted to 6.5%.

Loans and advances to customers by currency ^(*)

	30.06.2023		30.06.2022		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Denominated in PLN	140,109.6	79.6%	147,043.1	81.2%	(4.7%)
Denominated in foreign currencies ^(**)	35,851.1	20.4%	34,057.6	18.8%	5.3%
Total	175,960.7	100.0%	181,100.7	100.0%	(2.8%)
Impairment allowances	(10,135.6)	x	(8,792.5)	x	15.3%
Total net	165,825.1	x	172,308.2	x	(3.8%)

^(*) Including net investments in financial leases to customers. non-treasury debt securities. interest and receivables in transit and excluding reverse repo transactions.

^(**) Including indexed loans.

The currency structure of loans and advances to customers is dominated by amounts expressed in the Polish zloty, as at the end of June 2023 their share was 79.6%. The largest portion of foreign currency loans and advances to customers were represented by those denominated in EUR (86.7%), CHF (6.4%) and USD (5.4%).

Loans and advances to customers by contractual maturities ^(*)

	30.06.2023		30.06.2022		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Current and up to 1 month	23,649.5	13.4%	22,003.9	12.2%	7.5%
1 to 3 months	6,627.7	3.8%	8,522.2	4.7%	(22.2%)
3 months to 1 year	19,209.9	10.9%	17,774.2	9.8%	8.1%
1 to 5 years	53,528.7	30.4%	58,191.4	32.1%	(8.0%)
Over 5 years	66,347.1	37.7%	68,051.2	37.6%	(2.5%)
Past due	4,665.0	2.6%	5,043.9	2.8%	(7.6%)
Other	1,932.8	1.1%	1,513.9	0.8%	27.7%
Total	175,960.7	100.0%	181,100.7	100.0%	(2.8%)
Impairment allowances	(10,135.6)	x	(8,792.5)	x	15.3%
Total net	165,825.1	x	172,308.2	x	(3.8%)

^(*) Including net investments in financial leases to customers. non-treasury debt securities. interest and receivables in transit and excluding reverse repo transactions.

As at the end of June 2023 loans and advances with maturity over 5 years represents 37.7% of total loans and advances (mainly attributed to mortgage loans, investment loans and non-treasury debt securities).

Information on loan concentration is included in the Note to the Condensed Interim Consolidated Financial Statements of Bank Pekao S.A. Group for the first half of 2023.

External sources of financing

(in PLN million)

	30.06.2023	30.06.2022	CHANGE
Amounts due to Central Bank	-	-	x
Amounts due to other banks	7,793.9	12,520.5	(37.8%)
Amounts due to customers	220,189.0	200,938.5	9.6%
Debt securities issued	8,165.7	7,399.2	10.4%
Subordinated liabilities	2,786.3	2,782.5	0.1%
Repo transactions	1,091.7	1,936.5	(43.6%)
Total external sources of financing	240,026.6	225,577.2	6.4%

The deposit base is widely diversified and is sourced from retail and corporate customers. In addition, the Group uses also funds borrowed on the interbank market. The Group is not dependent on any single customer nor group of customers.

Amounts due to customers and debt securities issued

(in PLN million)

	30.06.2023	30.06.2022	CHANGE
Corporate deposits	92,324.5	89,472.4	3.2%
Non-financial entities	74,334.3	63,331.6	17.4%
Non-banking financial entities	5,665.9	6,073.9	(6.7%)
Budget entities	12,324.3	20,067.0	(38.6%)
Retail deposits	126,836.1	110,655.7	14.6%
Other (*)	1,028.4	810.4	26.9%
Amounts due to customers(**)	220,189.0	200,938.5	9.6%
Debt securities issued of which	10,952.0	10,181.8	7.6%
Structured Certificates of Deposit (SCD)	401.4	726.7	(44.8%)
Certificates of Deposit	-	2,000.0	x
Senior bonds	750.0	-	x
Subordinated bonds	2,750.0	2,750.0	0.0%
Pekao Bank Hipoteczny S.A. covered bonds	895.8	935.9	(4.3%)
Pekao Bank Hipoteczny S.A. bonds	194.0	7.0	>100%
Pekao Leasing Sp. z o.o. bonds	3,219.6	1,037.1	> 100%
Pekao Faktoring Sp. z o.o. bonds	2,643.2	2,642.9	0.0%
Interest	98.0	82.2	19.2%
Amounts due to customers and debt securities issued (**)	231,141.0	211,120.3	9.5%
Lease liabilities	479.9	339.1	41.5%
Repo transactions	1,091.7	1,936.5	(43.6%)
Amounts due to customers and debt securities issued total (***)	232,712.5	213,395.9	9.1%
Investment funds of Pekao TFI S.A. (ex. Pioneer Pekao TFI)	21,426.0	17,430.6	22.9%
Bond and money market funds	14,698.7	12,681.3	15.9%
Balanced funds	3,853.2	2,418.2	59.3%
Equity funds	2,013.9	1,909.1	5.5%
PPK	860.1	422.0	>100%
including distributed through the Group's network	18,551.2	16,506.1	12.4%

(*) Other item includes interest and funds in transit.

(**) Excluding repo transactions and lease liabilities.

(***) Including repo transactions and lease liabilities.

As at the end of June 2023 amounts due to the Group's customers and debt securities issued amounted to PLN 231,141.0 million an increase of PLN 20,020.7 million, i.e. 9.5% in comparison to the end of June 2022.

The total volume of retail deposits, Structured Certificates of Deposit and other amounted to PLN 128,161.0 million as at the end of June 2023 an increase of PLN 16,010.8 million, i.e. 14.3% in comparison to the end of June 2022.

The total volume of corporate deposits, Certificates of Deposit, Senior bonds, Subordinated bonds, Pekao Bank Hipoteczny S.A. covered bonds and bonds Pekao Leasing Sp. z o.o. bonds Pekao Faktoring Sp. z o.o. bonds interest and other amounted to PLN 102,980.1 million as at the end of June 2023, an increase of PLN 4,010.0 million, i.e. 4.1% as compared to the end of June 2022.

The value of net assets of investment funds managed by Pekao TFI S.A. amounted to PLN 21,426.0 million as at the end of June 2023 an increase of PLN 3,995.4 million, i.e. 22.9% in comparison to the end of June 2022.

Amounts due to customers by currency ^(*)

	30.06.2023		30.06.2022		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Denominated in PLN	179,359.6	81.5%	162,704.9	81.0%	10.2%
Denominated in foreign currencies	40,829.5	18.5%	38,233.6	19.0%	6.8%
Total	220,189.0	100.0%	200,938.5	100.0%	9.6%

^(*) Including interest and amounts due in transit and excluding repo transactions and lease liabilities.

The bulk of the amounts due to customers are denominated in the Polish currency and its share as at the end of June 2023 amounted to 81.5%. The majority of amounts due to customers denominated in foreign currencies were in EUR (63.3%) and USD (30.5%).

Amounts due to customers by contractual maturities ^(*)

	30.06.2023		30.06.2022		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Current accounts and overnight deposits	163,538.9	74.6%	169,368.7	84.6%	(3.4%)
Term deposits	55,621.7	25.4%	30,759.4	15.4%	80.8%
Total deposits	219,160.6	100.0%	200,128.0	100.0%	9.5%
Interest accrued	714.0	x	53.9	x	>100%
Funds in transit	314.5	x	756.6	x	(58.4%)
Total	220,189.0	x	200,938.5	x	9.6%

^(*) Excluding repo transactions and lease liabilities.

8.5 Provisions, deferred tax assets and liabilities

(in PLN million)

	GROUP		BANK PEKAO S.A.	
	1 HALF OF 2023	1 HALF OF 2022	1 HALF OF 2023	1 HALF OF 2022
Total provisions	1,588.3	1,006.9	1,562.6	1,036.0
provisions for off-balance sheet commitments	461.6	377.3	506.4	437.3
provisions for liabilities to employees	354.3	288.4	345.4	279.6
other provisions	772.4	341.2	710.8	319.1
Deferred tax liabilities	21.7	23.9	-	-
Deferred tax assets	1,324.2	1,680.9	1,021.4	1,391.7

8.6 Off-balance sheet items

Bank Pekao S.A. Group - Statement of Off-balance sheet items

(in PLN million)

	30.06.2023	30.06.2022	CHANGE
Contingent liabilities granted and received	93,796.2	85,506.2	9.7%
Liabilities granted:	63,132.2	58,165.1	8.5%
financial	51,754.3	45,451.0	13.9%
guarantees	11,377.9	12,714.1	(10.5%)
Liabilities received:	30,664.0	27,341.1	12.2%
financial	690.6	736.5	(6.2%)
guarantees	29,973.4	26,604.6	12.7%
Derivative financial instruments	505,901.6	482,392.3	4.9%
interest rate transactions	399,833.2	317,197.8	26.1%
transactions in foreign currency and in gold	99,237.9	157,280.7	(36.9%)
transactions based on commodities and equity securities	6,830.6	7,913.8	(13.7%)
Total off-balance sheet items	599,697.8	567,898.5	5.6%

Information on loan concentration is included in the Notes to the Condensed Interim Consolidated Financial Statements of Bank Pekao S.A. Group for the first half of 2023.

8.7 Capital adequacy

Bank Pekao S.A. Group and Bank Pekao S.A.

Capital ratios are the basic measure applied for the measurement of capital adequacy according to Regulation of the European Parliament and of the Council (EU) No 575/2013 of June 26, 2013 on prudential requirements for credit institutions and amending Regulation (EU) No 648/2012, which entered into force since January 1, 2014 together with further amendments, as well as Commission Implementing Regulations or Delegated Regulations (EU) (CRR Regulation).

Capital ratios, capital requirements and own funds have been calculated in accordance with the above mentioned CRR Regulation using national options defined in article 171a of The Banking Act, Act of 5 August 2015 on macro-prudential supervision over financial system and crisis management in financial system (Act on macro-prudential supervision), as well as regulations of minister in charge of the finance institutions.

According to law, Bank Pekao S.A. Group and Bank Pekao S.A. are required to maintain minimal values of capital ratios resulting from Pillar I level (CRR Regulation), capital requirement of Pillar II resulting from The Banking Act and combined buffer requirement resulting from Act on macro-prudential supervision.

Minimal value of capital ratios on Pillar I level are:

- Total capital ratio (TCR) in amount of 8%,
- Tier I capital ratio (T1) in amount of 6%,
- Common Equity Tier I capital ratio (CET 1) in amount of 4.5%.

Combined buffer requirement as at 30 June 2023 consists of:

- Capital conservation buffer in amount of 2.50%,
- Countercyclical capital buffer in amount of 0.02%¹,
- Other systemically important institution buffer in amount of 1.00%,
- Systemic risk buffer in amount of 0.00%².

On Pillar II, Bank Pekao S.A. and Bank Pekao S.A. Group have no additional capital requirement (P2R).

Together, Bank Pekao S.A. Group and Bank Pekao S.A. are obliged to maintain:

- Total capital ratio (TCR) in amount of 11.52%,
- Capital ratio Tier I (T1) in amount of 9.52%,
- Common Equity Tier (CET 1) in amount of 8.02%.

The capital ratios of Bank Pekao S.A. Group and Bank Pekao S.A. were significantly above the minimum required by the law.

¹ Countercyclical capital buffer was calculated as of June 30, 2023 at the level 0,0172% for Bank Pekao S.A. and 0,0152% for Bank Pekao S.A. Group.

² According to the Regulation of the Minister of Finance, the systemic risk buffer was abolished on March 19, 2020. The buffer value applicable until that date was 3% of the total risk exposure amount for all exposures located only in the territory of the Republic of Poland.

Bank Pekao S.A. Group

As of June 30, 2023 Bank Pekao S.A. Group total capital ratio amounted to 17.1% and common equity Tier I ratio amounted to 15.4%.

The table below presents the basic information concerning Bank Pekao S.A. Group capital adequacy as of 30 June, 2023 and 30 June, 2022.

(in PLN thousand)

CAPITAL REQUIREMENT	30.06.2023	30.06.2022^(*)
Credit Risk	10,172,813	10,792,080
Market Risk	95,625	109,040
Counterparty credit risk including CVA	202,802	298,097
Operational risk	1,360,227	1,031,994
Total capital requirement	11,831,467	12,231,211
OWN FUNDS		
Common Equity Tier I Capital	22,709,961	23,230,780
Tier II Capital	2,582,968	2,750,000
Own funds for total capital ratio	25,292,929	25,980,780
Common Equity Tier I Capital ratio (%)	15.4%	15.2%
Total capital ratio TCR (%)	17.1%	17.0%

^(*) Data for June 30, 2022 have been recalculated taking into account the retrospective recognition of part of the profit for the first half of 2022 (confirmation of the financial results by the General Shareholders Meeting), in accordance with the EBA position expressed in Q&A 2018_3822 and Q&A 2018_4085.

Total Capital Ratio of Bank Pekao S.A. Group as at the end of June 2023 was higher by 0.1 p.p. compared to the end of June 2022, mainly due to decrease of total capital requirement by 3.3%. Common equity Tier I Capital Ratio of Pekao S.A. Group as at the end of June 2023 was higher by 0.2 p.p. compared to the end of June 2022.

Decrease of Tier II Capital at the end of June 2023 compared to the end of June 2022 results from amortization of subordinated bonds A series (during final 5 years of maturity of the instrument).

8.8 Reconciliation of income statement – presentation form and long form

Consolidated income statement for the first half of 2023

INCOME STATEMENT – PRESENTATION FORM'S ITEMS	LONG FORM'S ITEMS RECLASSIFIED TO PRESENTATION FORM	1 HALF 2023
Net interest income	Net interest income	5,766,113
Net fee and commission income	Net fee and commission income	1,399,257
Dividend income	Dividend income	28,632
Trading result	-	316,322
	Net result on other financial instruments at fair value through profit and loss	306,861
	Result on fair value hedge accounting	(133)
	(Gains) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	9,594
Net other operating income and expenses	Net other operating income and expenses	(111,084)
	Operating income	63,855
	Operating expenses	(174,939)
Net non-interest income	-	1,633,127
Operating income	-	7,399,240
Operating costs	-	(2,322,103)
	General administrative expenses depreciation	(2,949,466)
	less - Contributions to the Bank Guarantee Fund	190,376
	less - Fee paid for the Protection Schemes	-
	less - Contributions to the Borrowers Support Fund	-
	less – Tax on certain financial institutions	436,987
Gross operating profit	-	5,077,137
Net allowances for expected credit losses	Net allowances for expected credit losses	(396,201)
Net operating profit	-	4,680,936
Contributions to the Bank Guarantee Fund	Contributions to the Bank Guarantee Fund	(190,376)
Fee paid for the Protection Schemes	Fee paid for the Protection Schemes	-
Contributions to the Borrowers Support Fund	Contributions to the Borrowers Support Fund	-
Tax on certain financial institutions	Tax on certain financial institutions	(436,987)
Gains (losses) on associates	Gains (losses) on associates	2,570
Profit before income tax	Profit before income tax	4,056,143
Income tax expense	Income tax expense	(915,387)
Net profit for the period	Net profit for the period	3,140,756
Attributable to equity holders of the Bank	Attributable to equity holders of the Bank	3,139,722
Attributable to non-controlling interest	Attributable to non-controlling interest	1,034

Consolidated income statement for the first half of 2022

INCOME STATEMENT – PRESENTATION FORM'S ITEMS	LONG FORM'S ITEMS RECLASSIFIED TO PRESENTATION FORM	1 HALF OF 2022
Net interest income	Net interest income	<u>4,635,595</u>
Net fee and commission income	Net fee and commission income	<u>1,420,854</u>
Dividend income	Dividend income	26,350
Trading result	-	4,709
	Net result on other financial instruments at fair value through profit and loss	13,647
	Result on fair value hedge accounting	2,367
	(Gains) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	(11,305)
Net other operating income and expenses	Net other operating income and expenses	(175,985)
	Operating income	<u>52,494</u>
	Operating expenses	<u>(228,479)</u>
Net non-interest income	-	<u>1,275,928</u>
Operating income	-	<u>5,911,523</u>
Operating costs	-	<u>(2,063,593)</u>
	General administrative expenses depreciation	(3,244,287)
	less - Contributions to the Bank Guarantee Fund	324,259
	less – Tax on certain financial institutions	416,133
Gross operating profit	-	<u>3,847,930</u>
Net allowances for expected credit losses	Net allowances for expected credit losses	<u>(665,019)</u>
Net operating profit	-	<u>3,182,911</u>
Contributions to the Bank Guarantee Fund	Contributions to the Bank Guarantee Fund	(324,259)
Tax on certain financial institutions	Tax on certain financial institutions	(416,133)
Gains (losses) on associates	Gains (losses) on associates	1,657
Profit before income tax	Profit before income tax	<u>2,003,874</u>
Income tax expense	Income tax expense	<u>(627,253)</u>
Net profit for the period	Net profit for the period	<u>1,376,621</u>
Attributable to equity holders of the Bank	Attributable to equity holders of the Bank	<u>1,375,090</u>
Attributable to non-controlling interest	Attributable to non-controlling interest	1,531

9. Quarterly Income Statement

9.1 Consolidated income statement for 2023 and 2022

(in PLN thousand)

	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022
Interest income	4,587,755	4,241,029	4,442,443	1,355,719	3,057,527	2,255,114
Interest income calculated using the effective interest method	4,578,968	4,234,233	4,429,212	1,347,093	3,051,232	2,252,388
Financial assets measured at amortised cost	4,096,596	3,793,993	4,129,794	1,188,983	2,934,683	2,150,399
Financial assets measured at fair value through other comprehensive income	482,372	440,240	299,418	158,110	116,549	101,989
Other interest income related to financial assets measured at fair value through profit or loss	8,787	6,796	13,231	8,626	6,295	2,726
Interest expense	(1,595,966)	(1,466,705)	(1,232,092)	(957,828)	(491,018)	(186,028)
Net interest income	2,991,789	2,774,324	3,210,351	397,891	2,566,509	2,069,086
Fee and commission income	886,236	854,967	863,087	872,750	866,981	836,184
Fee and commission expense	(172,907)	(169,039)	(191,085)	(158,431)	(151,121)	(131,190)
Net fee and commission income	713,329	685,928	672,002	714,319	715,860	704,994
Dividend income	28,198	434	1,084	440	26,074	276
Result on financial assets and liabilities measured at fair value through profit or loss and foreign exchange result	144,811	162,050	153,057	20,509	(39,778)	53,425
Result on fair value hedge accounting	583	(716)	1,434	(404)	1,197	1,170
Result on derecognition of financial assets and liabilities not measured at fair value through profit or loss	12,526	(2,932)	6,382	1,357	(7,095)	(4,210)
Net allowances for expected credit losses	(291,003)	(105,198)	(1,091,035)	(259,850)	(530,575)	(134,444)
including: legal risk regarding foreign currency mortgage loans	(67,485)	26,975	(912,861)	(24,757)	(300,061)	(8,636)
Operating income	25,874	37,981	48,126	36,384	23,884	28,610
Operating expenses	(74,047)	(100,892)	(271,971)	(141,176)	(199,060)	(29,419)
including: legal risk regarding foreign currency mortgage loans	(59,968)	(72,172)	(222,988)	(17,966)	(104,256)	(6,306)
General administrative expenses and depreciation	(1,408,527)	(1,540,939)	(1,268,697)	(1,354,898)	(1,797,035)	(1,447,252)
Gains (losses) on associates	1,529	1,041	1,894	1,465	565	1,092
Profit / loss before income tax	2,145,062	1,911,081	1,462,627	(583,963)	760,546	1,243,328
Income tax expense	(451,086)	(464,301)	(576,653)	40,859	(291,813)	(335,440)
Net profit / loss	1,693,976	1,446,780	885,974	(543,104)	468,733	907,888
Attributable to equity holders of the Bank	1,693,372	1,446,350	886,063	(543,583)	467,925	907,165
Attributable to non-controlling interests	604	430	(89)	479	808	723

9.2 Consolidated statement of comprehensive income

(in PLN thousand)

	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022
Net profit / loss	1,693,976	1,446,780	885,974	(543,104)	468,733	907,888
Other comprehensive income						
Item that are or may be reclassified subsequently to profit or loss:						
Impact of revaluation of debt financial instruments and loan measured at fair value through other comprehensive income (net):	139,297	330,891	174,838	(61,235)	(297,356)	(454,162)
Profit or loss on fair value measurement	145,191	334,181	184,673	(57,938)	(295,037)	(449,834)
Profit or loss reclassification to income statement after derecognition	(5,894)	(3,290)	(9,835)	(3,297)	(2,319)	(4,328)
Impact of revaluation of derivative instruments hedging cash flows (net)	427,080	561,425	762,134	42,254	(987,309)	(800,343)
Items that will never be reclassified to profit or loss:						
Impact of revaluation of investments in equity instruments designated at fair value through other comprehensive income (net)	(5,004)	42,807	25,253	(5,833)	(45,946)	(21,309)
Remeasurements of the defined benefit liabilities (net)	(21,621)	-	(22,402)	-	14,251	-
Other comprehensive income (net of tax)	539,752	935,123	939,823	(24,814)	(1,316,360)	(1,275,814)
Total comprehensive income	2,233,728	2,381,903	1,825,797	(567,918)	(847,627)	(367,926)
Attributable to equity holders of the Bank	2,233,124	2,381,473	1,825,874	(568,397)	(848,435)	(368,649)
Attributable to non-controlling interests	604	430	(77)	479	808	723

9.3 Consolidated income statement – presentation form

(in PLN thousand)

	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022
Net interest income	2,991,789	2,774,324	3,210,351	397,891	2,566,509	2,069,086
Net fee and commission income	713,329	685,928	672,002	714,319	715,860	704,994
Dividend income	28,198	434	1,084	440	26,074	276
Trading result	157,920	158,402	160,873	21,462	(45,676)	50,385
Net other operating income and expenses	(48,173)	(62,911)	(223,845)	(104,792)	(175,176)	(809)
including: legal risk regarding foreign currency mortgage loans	(59,968)	(72,172)	(222,988)	(17,966)	(104,256)	(6,306)
Net non-interest income	851,274	781,853	610,114	631,429	521,082	754,846
Operating income	3,843,063	3,556,177	3,820,465	1,029,320	3,087,591	2,823,932
Operating costs	(1,192,202)	(1,129,901)	(1,037,472)	(981,886)	(1,085,318)	(978,275)
Gross operating profit	2,650,861	2,426,276	2,782,993	47,434	2,002,273	1,845,657
Net allowances for expected credit losses	(291,003)	(105,198)	(1,091,035)	(259,850)	(530,575)	(134,444)
including: legal risk regarding foreign currency mortgage loans	(67,485)	26,975	(912,861)	(24,757)	(300,061)	(8,636)
Net operating profit	2,359,858	2,321,078	1,691,958	(212,416)	1,471,698	1,711,213
Contributions to the Bank Guarantee Fund	1,339	(191,715)	-	57,040	(57,040)	(267,219)
Fee paid for the Protection Schemes	-	-	-	(41,838)	(440,302)	-
Contributions to the Borrowers Support Fund	-	-	(3,547)	(165,835)	-	-
Tax on certain financial institutions	(217,664)	(219,323)	(227,678)	(222,379)	(214,375)	(201,758)
Gains (losses) on associates	1,529	1,041	1,894	1,465	565	1,092
Profit / loss before income tax	2,145,062	1,911,081	1,462,627	(583,963)	760,546	1,243,328
Income tax expense	(451,086)	(464,301)	(576,653)	40,859	(291,813)	(335,440)
Net profit / loss	1,693,976	1,446,780	885,974	(543,104)	468,733	907,888
Attributable to equity holders of the Bank	1,693,372	1,446,350	886,063	(543,583)	467,925	907,165
Attributable to non-controlling interest	604	430	(89)	479	808	723

10. Other Information

10.1 Management Board position regarding the possibility of achieving previously published forecasts

The Bank has not published the forecast of the financial results for 2023.

10.2 Seasonality or cyclical nature of the Bank's activity

The demand for the financial services offered by the Bank is stable with no material impact of seasonal changes. Due to the nature of the Bank's activity, it is not subject to seasonal or cyclical changes. Activities of other companies of the Bank Pekao S.A. Capital Group also does not show significant seasonal or cyclical characteristics.

10.3 Shares in the Bank and related entities held by the Bank's Directors

According to information available to the Bank as at the date of submitting of Report on the activities of Bank Pekao S.A. Group for the first half of 2023 and as at the date of submitting of Report on the activities of Bank Pekao S.A. Group for the first quarter of 2023 the Members of the Bank's management and supervisory bodies did not held shares of Bank Pekao S.A.

10.4 Information on dividend and appropriation of profit achieved

On 6 June 2023 the Ordinary General Meeting of the Bank adopted the resolution on the distribution of profit of the Bank for the year 2022. According to the Resolution:

The net profit of Bank for the year 2022 in the amount of PLN 1,898,320,125.62 is distributed as follows:

- the amount of PLN 475,732,541.34 is allocated to reserve capital,
- the amount of PLN 1,422,587,584.28 is allocated for dividend,

The amount of the dividend per share is PLN 5.42. The dividend date is 4 July 2023. The dividend payment date is 18 July 2023. Total number of Bank's shares entitled to dividend amounts to 262,470,034.

10.5 Pending litigations

Information on significant legal proceedings pending before courts, arbitration bodies or public administration authorities in respect of liabilities and receivables of the Bank and its subsidiaries is included in Note 31 to the Condensed Interim Consolidated Financial Statements of Bank Pekao S.A. Group for the first half of 2023.

10.6 Information on derivative financial instruments and hedge accounting

Information on derivative financial instruments and hedge accounting is included in Note 31 to the Condensed Interim Consolidated Financial Statements of Bank Pekao S.A. Group for the first half of 2023.

10.7 Related party transactions

In the first half of 2023, the Bank and its subsidiaries have not concluded any significant transactions (single or aggregate) with related entities other than those executed on arm's length.

In the first half of 2023, the Bank and its subsidiaries did not provide any sureties in respect of loans or advances or did not provide any guarantees to an entity or a subsidiary of such entity, which the total value would be significant.

Detailed information on related party transactions is included in 33 to the Condensed Interim Consolidated Financial Statements of Bank Pekao S.A. Group for the first half of 2023.

10.8 Accounting principles adopted in the preparation of the report

Accounting principles adopted in the preparation of the report are described in Note 5 to the Condensed Interim Consolidated Financial Statements of Bank Pekao S.A. Group for the first half of 2023.

10.9 Issuance, redemption and repayment of debt securities

Structured Certificates of Deposit

Structured Certificates of Deposit are investment products for the Bank's clients that form an alternative to traditional banks' deposits. The total value of the Bank's liabilities relating to these products amounted to PLN 401.4 (principal value) as at the end of June 2023. There are 4 issuance of Structured Certificates of Deposit open in PLN with the maximum maturity date on 20 December 2023.

Senior bonds

On April 3, 2023, the Bank issued senior non-preferred bonds ("SNP bonds") with a maturity of 3 years and the total nominal value amounted to PLN 0.75 billion. The SNP bonds have an option giving the Bank the right to early redemption of the bonds within 2 years from the date of issue, subject to the approval of the Bank Guarantee Fund. The SNP bonds will constitute eligible liabilities of the Bank within the meaning of Article 97a (1) pt. 2) of the Act on the Bank Guarantee Fund, Deposit Guarantee System and Forced Restructuring of 10 June 2016. The bonds will be traded on the alternative trading system Catalyst operated by the Warsaw Stock Exchange S.A.

Subordinated bonds

On 30 October 2017 the Bank issued 10 years subordinated bonds with a total nominal value of 1.25 PLN billion. The funds from the issue were designated – after receiving the approval of the Polish Financial Supervision Authority on 21 December 2017 – to increase the Bank's supplementary capital. pursuant to art. 127 para. 2 point 2 of the Banking Law and art. 63 of Regulation No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms. The bonds were introduced to trading on the ASO Catalyst market.

On 15 October 2018 the Bank issued 10 years subordinated bonds with a total nominal value of PLN 0.55 billion. The funds from the issue were designated – after receiving the approval of the Polish Financial Supervision Authority on 16 November 2018 – to increase the Bank's supplementary capital. pursuant to art. 127 para. 2 point 2 of the Banking Law and art. 63 of Regulation No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms. The bonds were introduced to trading on the ASO Catalyst market.

On 15 October 2018 the Bank issued 15 years subordinated bonds with a total nominal value of PLN 0.20 billion. The funds from the issue were designated – after receiving the approval of the Polish Financial Supervision Authority on 18 October 2018 – to increase the Bank's supplementary capital. pursuant to art. 127 para. 2 point 2 of the Banking Law and art. 63 of Regulation No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms. The bonds were introduced to trading on the ASO Catalyst market.

On 4 June 2019 the Bank issued 12 years subordinated bonds with a total nominal value of PLN 0.35 billion. The funds from the issue were designated – after receiving the approval of the Polish Financial Supervision Authority on 8 July 2019 – to increase the Bank's supplementary capital. pursuant to art. 127 para. 2 point 2 of the Banking Law and art. 63 of Regulation No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms. The bonds were introduced to trading on the ASO Catalyst market.

On 4 December 2019 the Bank issued 12 years subordinated bonds with a total nominal value of PLN 0.40 billion. The funds from the issue were designated – after receiving the approval of the Polish Financial Supervision Authority on 10 December 2019 – to increase the Bank's supplementary capital. pursuant to art. 127 para. 2 point 2 of the Banking Law and art. 63 of Regulation No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms. The bonds were introduced to trading on the ASO Catalyst market.

Pekao Bank Hipoteczny S.A. covered bonds

The total value of the company's liabilities due to covered bonds amounted to PLN 895.8 million (principal value) as at the end of June 2023. Liabilities from covered bonds with maturity up to 1 year account for 15.2%, up to 2 years account for 25.9%, up to 5 years account for 58.9%.

Pekao Bank Hipoteczny S.A. bonds

The total value of the company's liabilities under bonds amounted to PLN 194.0 million (principal value) as at the end of June 2023 with maturity date up to 6 months.

Pekao Leasing Sp. z o.o. bonds

The total value of the company's liabilities under bonds amounted to PLN 3,219.6 million (principal value) as at the end of June 2023 with maturity date up to 3 months account for 32.9%, up to 1 year account for 55.0%, and up to 2 years account for 12.1%.

Pekao Faktoring Sp. z o.o. bonds

The total value of the company's liabilities under bonds with maturity date to 3 months amounted to PLN 2,643.2 million (principal value) as at the end of June 2023.

10.10 Subsequent events

Bank's Management Board resolutions on issuance of series SN2 SNP bonds and SP1 SP bonds

In reference to the current report No. 18/2023 of June 15, 2023, after the completion of the bookbuilding process, the Management Board of the Bank adopted on June 30, 2023 resolutions on the issue on July 28, 2023:

1. series SN2 senior non-preferred bonds of the Bank (the "series SN2 SNP Bonds"). The total nominal value of series SN2 SNP bonds to be issued is PLN 350,000,000,
2. series SP1 senior preferred bonds of the Bank (the "series SP1 SP Bonds"). The total nominal value of series SP1 SP bonds to be issued is PLN 750,000,000.

At the same time, the Bank's Management Board informs that due to the significant interest of investors expressed during the book-building process, the Bank decided to increase the original amount of the issue from 1,000,000,000 PLN to 1,100,000,000 PLN.

The issue amount takes into consideration capital market conditions. The series SN2 SNP Bonds and series SP1 SP Bonds will constitute eligible liabilities of the Bank within the meaning of Article 97a (1) pt. 2) of the Act on the Bank Guarantee Fund, Deposit Guarantee System and Forced Restructuring of 10 June 2016. The series SN2 SNP Bonds and series SP1 SP Bonds will be offered in public offering on the basis of exception to prepare prospectus under Article 1 sec 4 point A of Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 on the prospectus to be published in connection with a public offering of securities or their admission to trading on a regulated market and repealing Directive 2003/71/EC (the "Prospectus Regulation") by addressing the offer to qualified investors only within the meaning of the Article 2 point e of the Prospectus Regulation.

The main conditions for the issue of the series SN2 SNP Bonds are as follows:

1. Type of bonds: bearer bonds; the bonds will be registered on the deposit maintained by the National Depository for Securities (Krajowy Depozyt Papierów Wartościowych S.A.),
2. Total number of bonds to be issued: 700,
3. The nominal value of one bond: PLN 500,000,
4. The total nominal value of bonds to be issued: PLN 350,000,000,
5. Interest rate: fixed, at 7.5% p.a. for the first 3 years and afterwards floating based on the benchmark of WIBOR for 6 months deposits (WIBOR 6M) plus a margin of 2.19% p.a.,
6. Format of issue: 4NC3, i.e. bonds with a maturity of 4 years, with an option giving the Bank the right to early redemption of the bonds within 3 years from the date of issue or in other cases indicated in the terms and conditions of the bond issue (regulatory change of bond classification, change of bond taxation), subject to the approval of the Bank Guarantee Fund, if such approval is required,
7. Issue price: nominal value,
8. Currency: Polish zloty,
9. Issue date: 28 July 2023,
10. Maturity date: 28 July 2027, subject to the possibility of their early redemption on the terms described in article 77 and 78a of 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,
11. Trading: bonds to be traded on the alternative trading system Catalyst operated by the Warsaw Stock Exchange S.A. (Giełda Papierów Wartościowych w Warszawie S.A.);
12. Purpose of the issue: the purpose of the issue, within the meaning of Article 32 Section 1 of the Act of January 15, 2015 on bonds, has not been specified.

The main conditions for the issue of the series SP1 SP Bonds are as follows:

1. Type of bonds: bearer bonds; the bonds will be registered on the deposit maintained by the National Depository for Securities (Krajowy Depozyt Papierów Wartościowych S.A.),
2. Total number of bonds to be issued: 1,500,
3. The nominal value of one bond: PLN 500,000,
4. The total nominal value of bonds to be issued: PLN 750,000,000,

5. Interest rate: floating, based on the benchmark of WIBOR for six months deposits (WIBOR 6M) plus a margin of 1.35% p.a.,
6. Format of issue: 2NC1, i.e. bonds with a maturity of 2 years, with an option giving the Bank the right to early redemption of the bonds within 1 year from the date of issue or in other cases indicated in the terms and conditions of the bond issue (regulatory change of bond classification, change of bond taxation), subject to the approval of the Bank Guarantee Fund, if such approval is required,
7. Issue price: nominal value,
8. Currency: Polish zloty,
9. Issue date: 28 July 2023,
10. Maturity date: 28 July 2025, subject to the possibility of their early redemption on the terms described in article 77 and 78a of 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,
11. Trading: bonds to be traded on the alternative trading system Catalyst operated by the Warsaw Stock Exchange S.A. (Giełda Papierów Wartościowych w Warszawie S.A.),
12. Purpose of the issue: the purpose of the issue, within the meaning of Article 32 Section 1 of the Act of 15 January 2015 on bonds, has not been specified.

Series SP1 SP Bonds were assigned 'BBB+' long-term issue rating by S&P Global Ratings.

11. Representations of the Bank's Management Board on reliability of the presented financial statements

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

- the Condensed Interim Separate Financial Statements of Bank Pekao S.A. for the first half of 2023 and Condensed Interim Consolidated Financial Statements of Bank Pekao S.A. Group for the first half of 2023 and comparative figures have been prepared in accordance with applicable accounting policies and that they reflect in a true, fair and clear manner the Bank's and the Group's financial position and their results,
- the Report on the activities of Bank Pekao S.A. Group for the first half of 2023 provides a true picture of Bank Pekao S.A. Group's development, achievements and situation, including the main threats and risks.

The Management Board of Bank Pekao S.A. declares that the registered audit company performing the review of the Condensed Interim Separate Financial Statements of Bank Pekao S.A. for the first half of 2023 and Condensed Interim Consolidated Financial Statements of Bank Pekao S.A. Group for the first half of 2023 has been selected in pursuance of applicable provisions of law. The company and the registered auditors performing the review meet the requirements indispensable for issuing an objective and independent report on the review concerning condensed interim unconsolidated financial statements and condensed interim consolidated financial statements, in accordance with applicable provisions of law and professional standards.

02.08.2023 Date	Leszek Skiba Name/Surname	President of the Management Board Position/Function	The original Polish document is signed with a qualified electronic signature Signature
02.08.2023 Date	Jarosław Fuchs Name/Surname	Vice President of the Management Board Position/Function	The original Polish document is signed with a qualified electronic signature Signature
02.08.2023 Date	Marcin Gadomski Name/Surname	Vice President of the Management Board Position/Function	The original Polish document is signed with a qualified electronic signature Signature
02.08.2023 Date	Jerzy Kwieciński Name/Surname	Vice President of the Management Board Position/Function	The original Polish document is signed with a qualified electronic signature Signature
02.08.2023 Date	Paweł Strączyński Name/Surname	Vice President of the Management Board Position/Function	The original Polish document is signed with a qualified electronic signature Signature
02.08.2023 Date	Błażej Szczecki Name/Surname	Vice President of the Management Board Position/Function	The original Polish document is signed with a qualified electronic signature Signature
02.08.2023 Date	Wojciech Werochowski Name/Surname	Vice President of the Management Board Position/Function	The original Polish document is signed with a qualified electronic signature Signature
02.08.2023 Date	Piotr Zborowski Name/Surname	Vice President of the Management Board Position/Function	The original Polish document is signed with a qualified electronic signature Signature
02.08.2023 Date	Magdalena Zmitrowicz Name/Surname	Vice President of the Management Board Position/Function	The original Polish document is signed with a qualified electronic signature Signature