

Question 1. Policy for financing of the carbon-intensive energy sector covers coal and lignite mining, mining (and other carbon-related) machinery production, electricity generation (except from renewable energy sources) and supplementary activities in the power sector (transmission, distribution, cogeneration). It anticipates a gradual change in the loan portfolio structure by reducing the share of loans and debt securities of coal-dependent customers in the bank's balance sheet total from 0.52% at the end of 2019, and excluding project financing for new coal-fired power plants. Why has the possibility of financing new coal-fired power plans been eliminated by PKO Bank Polski, but not the possibility of financing new lignite mines, such as the planned recovery of Złoczew lignite deposits or new thermal coal mines?

The policy clearly eliminates the possibility of granting any new financing to coal and lignite mining sector. The adopted credit policy towards carbon-intensive sectors is consistent and takes into account all operational aspects of these industries, without omitting any interdependencies in their value chains. The bank's involvement in energy transformation also constitutes an important element of the policy, provided that entities conducting their business operations in carbon-intensive sectors can improve upon their energy efficiency and change their energy mix (towards financing of 'green' projects – wind farms, photovoltaics) by implementing low-emission and energy-saving solutions.

Question 2. Policy for financing of the carbon-intensive energy sector does not indicate the pace or the date for a complete termination of financing this sector by PKO Bank Polski. What was the reduction path for this type of financing until 2025 assumed by the Management Board of PKO Bank Polski in 2019, at the time the policy was published? Has the planned pace of financing reduction changed as a result of the pandemic?

The pace for reducing financing to carbon-intensive energy sector depends on the existing contractual obligations, as well as the development of the national and the European climate policies. Let's recall that the Green Deal negotiations are still ongoing at the EU level. The Management Board monitors these external conditions. Any decisions regarding the future pace in financing reduction will be taken in accordance with the new guidelines.

Current assumptions of the policy provide for a reduction in the exposure in line with the contractual schedules, which are binding. However, a change in the allocation of funds towards 'green' projects – and not only a simple reduction in the carbon-intensive exposures – is equally important for the bank as it helps accelerate the energy transformation of entities whose operations are in industries characterised by high emissions.

At the same time, so far we have not identified any material impact of the pandemic on the bank's exposure reduction to the carbon-intensive sectors or on the activities undertaken as part of an internal ESG project.

Question 3. Policy for financing of the carbon-intensive energy sector does not indicate whether the Management Board of PKO Bank Polski also projects an absolute year-on-year reduction in financing granted to this sector. Could the Management Board please clarify plans for the exposure reduction to carbon-intensive industries over 2019-2025 in absolute terms?

The policy points to a reduction in the share of the carbon-intensive sectors in the bank's loan portfolio. It does not indicate a nominal reduction in the carbon-intensive exposures, although such nominal reduction is enforced when making changes to the exposures to those entities in the carbon-intensive loan portfolio.

Entities producing energy from coal or lignite also have the possibility to make investments based on other energy sources, thus transforming themselves into 'green' entities. An entity that is a carbon-intensive entity in 2020 may not be classified as such in 2025. Financing of the carbon-intensive energy sector is gradually being replaced with those financing activities that support a reduction in emissions and build renewable energy production capacities.

Question 4. Christine Lagarde – the President of the European Central Bank – brings attention to risks stemming from a high concentration of fossil fuel assets and infrastructure in credit and investment portfolios of banks, which are registered and conduct their business operations in the EU. Lagarde has previously emphasised the need of the Member States' central banks and individual banks to conduct climate stress tests. Has the Management Board of PKO Bank Polski carried out climate stress tests of the bank's loan and investment portfolio in 2019 and, if done so, what was the percentage exposure to assets in carbon-intensive sectors that are susceptible to a sharp revaluation in those two portfolios of the bank?

Based on the assessment of the sectoral economic outlook, the bank creates a list of industries subject to sectoral limits, and sets their nominal limits in the overall loan portfolio structure by industry. The bank does not have any capital exposure (shares) to entities operating in the carbon-intensive energy sector.

When granting or reviewing its financing, the bank analyzes the impact of climate change risk, as well as the related legal and regulatory changes on each entity's ability to service debt. A synthetic measure of creditworthiness is a customer's internal rating, which reflects (among others) the exposure to climate change risk.

The bank performs stress tests for deterioration of the risk profile of the entire loan portfolio subject to various types of risks. The share of the balance sheet exposure (loan and debt securities) to carbon-intensive energy sectors stands at 0.52% of the balance sheet total (compared to 0.54% in 2018).

Question 5. How did the bank's emissions under Scope 3 changed in 2019 compared to its emissions in 2018? Will the bank report on an annual basis the emissions associated with its loan and investment portfolios, including a year-on-year comparison to allow shareholders to track its progress in achieving carbon neutrality by 2050?

The bank did not conduct measurements of emissions under Scope 3. In 2019, we began to report emissions under Scope 1 and Scope 2 for all entities of the Group. As part of the bank's ESG project, there are ongoing efforts to publish Scope 3 emissions for 2020 – which at first will not include the bank's loan portfolio, but whose disclosure will gradually expand in the following years. The share of the carbon-intensive energy sector and to green industries for 2020 will be summarized in the next annual report.

Question 6. In the first half of 2019, the bank renewed a revolving loan for PGE S.A. Did the Management Board of PKO Bank Polski analyze the reputation risk for providing such lending to a company that in 2018 was Europe's largest carbon emitter, contributing to premature deaths of 1740 people? Did the Management Board consider linking the renewal of the loan with conditions preventing the entity from allocating those funds to investments in carbon power plants and mines of the PGE Group?

The bank cannot comment on specific transactions as stipulated by confidentiality requirements under the banking law.

Question 7. To what extent is the policy for financing of the carbon-intensive energy sector applicable to the bank's investment activities? Does the bank intend to limit the possibility of investing its own funds in corporate bonds and other securities depending on the emissions of their issuers?

The adopted policy for financing of the carbon-intensive energy sector covers all types of financing granted to entities operating in the carbon-intensive industries. As such, it applies to loans as well as bonds purchased by the bank as part of investment underwriting (issuance guarantees). Moreover, the bank does not have any capital exposure (shares) to entities operating in the carbon-intensive energy sector.