

## ANSWERS TO THE QUESTIONS PUT BY THE SHAREHOLDERS AT THE ANNUAL GENERAL MEETING OF THE BANK ON 7 JUNE 2021 (AS ORIGINALLY WRITTEN)

*“1) The policy for financing the carbon-intensive energy sector covers coal and lignite mining, the production of machinery for mining (and other coal-related) industries, generation of electricity (excluding renewable energy sources) and complementary activities relating to the power industry (transmission, distribution, heat and power plants), and it provides for a gradual reduction in the exposure to carbon-intensive industries, understood as a drop in the share in the value of loans to and debt securities of carbon-intensive energy sectors in the Bank’s total assets from 0.52% at the end of 2019 and the exclusion of project financing for new coal-fired power plants. The above policy or its update in 2020 do not specify the pace or the date of the complete termination of financing for that industry by PKO BP. Does the Management Board of PKO BP assume reducing the Bank’s loan portfolio for the coal sector by 2030? What pace of reduction in loans to the carbon-intensive energy sector did the Management Board of PKO BP in 2019 assumed at the time of the publication of the policy until 2025, and has the planned pace of reduction in lending changed due to the update of that policy in 2020?”*

Reducing the portfolio related to the carbon-intensive energy sector is dependent on the contractual obligations signed, which define the schedules for the repayment of loan exposures. The essence of the Bank’s activities is not only to simply reduce the funds, but also to earmark them to “green” goals and, in this way, contribute proactively to speeding up the energy transition of the entities operating in the carbon-intensive industries. The policy clearly indicates that in the case of the coal and lignite mining sector there is a rule of no new exposures.

*“2) The policy for financing the carbon-intensive energy sector does not specify whether the Management Board of PKO BP also expects to reduce the absolute values of financing for that sector from year to year. I would like to ask the Management Board of PKO BP to specify the plans for the absolute reduction in such lending to the carbon-intensive energy sector in 2020-2025? How did the absolute level of financing for the coal sector change between 2019 and 2020?”*

The carbon-intensive policy clearly indicates that in the case of the coal and lignite mining sector there is a rule of no new exposures. Furthermore, the existing portfolio is being reduced in accordance with the established schedules in force in the concluded financing agreements. In the case of industries related to mining, each time the customer’s business model is examined, and activities, where the impact of that industry is material across the entire enterprise and affects the results of operations it generates, are not accepted. Therefore, the policy, through the content defined above, leads to an absolute reduction in the amounts of exposure to that sector. In 2020, total financing for the carbon-intensive sector decreased by PLN 475 million.

*“3) Last year I asked the Management Board of PKO BP whether the Management Board of PKO BP conducted any climate stress tests on the Bank’s loan portfolio and investment portfolio in 2019, and if so, what the Bank’s exposure was (in per cent) to the risk of rapid revaluation of the assets of the carbon-intensive companies in PKO BP’s loan portfolio and investment portfolio? The Management Board replied that PKO BP was in the process of preparing for measuring the emission rate of the Bank’s loan and investment portfolios. What progress was made in 2020? Did PKO BP conduct a stress test on the Bank’s loan portfolio in 2020? What are the main conclusions from that stress test for the shareholders? Was a climate stress test conducted on PKO BP’s investment portfolio? What was the percentage of energy-intensive companies in PKO BP’s investment portfolio as at the end of 2020?”*

The Bank is closely watching the work of the European Banking Authority on mapping climate risk and the pilot programmes conducted on a sample of European banks (the results were published in May 2021). In a similar way, the Bank assesses the exposures of its portfolio to sectors which carry a high transition risk. In 2020, in-depth analyses of the product portfolio and the exposures to high-carbon sectors were conducted, taking into account loans and debt securities and the accounting equivalent of Treasury limits. The share of the exposure to carbon-intensive energy sectors dropped from 0.7% of total assets in 2019 to 0.5% in 2020. The Bank introduced elements of the ESG risk assessment to the lending process for corporate customers and made an attempt to identify the main risk factors related to climate change for the Bank. In the next step, it identified the channels for transmission of climate risks to the traditional risks, which the Bank already manages. Next, it assessed for which sectors of the economy the climate risks may be the greatest. The conclusions from those analyses will be used to work out a system for managing climate risk at the Bank.

*“4) By how much did PKO BP’s financed emissions decrease in 2020 compared with the Bank’s financed emissions in 2019? From when will the Bank report each year on the emission rate of its loan portfolio and its investment portfolio and the difference compared with the previous year to enable the Bank’s shareholders to assess progress towards achieving climate neutrality of the Bank’s financed emissions by 2050?”*

The Bank began reporting on its greenhouse gas emissions under Scope 1 and 2 for 2019, and in the report for 2020 it improved the methodology and extended the measurement to include the value of domestic business travels under Scope 3. The Bank plans to extend the scope of calculated greenhouse gas emissions systematically, to also include the emissions of its loan and investment portfolios. The pace of this process will depend primarily on the availability of data about the emissions of the Bank's customers. For the time being, only selected companies are reporting on their emissions, and the non-financial reporting requirement only contains recommendations (in the form of guidelines) rather than an obligation to disclose the value of emissions. The forthcoming revision of the non-financial directive (CSRD) along with the announcement of the introduction of a European reporting standard will certainly speed up this process.

***“5) To what extent is the policy for financing the carbon-intensive energy sector applicable to the Bank's investing activities? Is the Bank going to narrow down the possibilities of investing the Bank's own funds in corporate bonds and other securities depending on the emission rate of their issuers?”***

The policy adopted for carbon-intensive industries concerns each type of financing provided to entities in those industries. It covers both loans and bonds purchased by the Bank. The Bank does not have an equity exposure to entities in carbon-intensive industries.

***“6) No policy of PKO BP excludes the possibility of granting loans to or purchasing shares or corporate bonds of companies whose strategy is not in compliance with the international climate agreement negotiated in Paris and ratified by the European Union and Poland. Does PKO BP intend to introduce such criteria, and if so, by when?”***

The Paris Agreement of 2015 was the first universal legally binding climate agreement in history and is the basis for further regulations relating to climate and environmental protection. By implementing the rules adopted in the Policy for financing carbon-intensive energy industries, the Bank contributes to their implementation and, furthermore, it supports pro-environmental projects. An important element of the policy is also to support customers committed to energy transition so that they can improve their energy efficiency and change the energy mix (financing “green” projects – wind farms, photovoltaics) or implement low-carbon and energy-efficient solutions.

***“7) In particular, the companies which should be excluded right away from the possibility of being financed are the companies, which are planning to build new mines or coal-fired power plants. Therefore, when will PKO BP announce a policy, which will prohibit corporate loans for general purposes and the provision of any other non-obligatory financial services to companies, which have plans to build new coal or lignite mines or coal- or lignite-fired power plants in their strategies?”***

The policy for carbon-intensive industries is about not financing the coal and lignite mining sectors – there is a rule of no new exposures, which also applies to financing for the general corporate purposes. The only possibility to finance such customer is to finance a green goal, which will contribute to energy transition, a change in the energy mix or energy-efficient and low-carbon solutions.

***“8) The latest report of the International Energy Agency “Net Zero by 2050” clearly shows that in order to limit the increase in the average temperature on Earth to no more than 1.5 degree Celsius, it is necessary not only to eliminate coal-based power generation in the OECD countries by 2030 and globally by 2040, but also to discontinue investing in new oil and gas deposits by the end of 2021. How quickly does PKO BP intend to update its policy setting out the terms and conditions for lending to and investing in companies in the mining, transport and oil and gas processing sectors so as to mitigate the risk of stranded assets and reduce the risk arising from a disorderly transition for the Bank's customers and the Bank itself?”***

The Bank is very cautious about financing oil and gas activities. It should be emphasized that gas is an essential fuel in energy transition, a transitional fuel that plays an important role in balancing the production of energy from unstable renewable sources. The European Commission has not yet made a clear statement on the role of gas in energy transition (Taxonomy).

***“9) The decisions of the Vice President of the CJEU of 21/05/2021 to use temporary measures, putting the Polish government under an obligation to suspend mining at the Turów open-pit lignite mine owned by PGE, until the final judgement is delivered, clearly illustrates the risks of environmental risks not being taken into account or being underestimated by corporate customers in a carbon-intensive industry. What clauses does PKO BP use when concluding loan agreements with companies in industries that are particularly exposed to environmental and climate risks, that make it possible to demand the early repayment of loans? Can they be used when companies stop complying with the rulings of domestic or international courts?”***

In accordance with the rules of the Policy for energy-intensive industries, the Bank is not interested in financing high-carbon industries, therefore, there are no separate contractual provisions for such borrowers.