CAPITAL ADEQUACY DISCLOSURES OF THE VELOBANK S.A. GROUP

AS AT DECEMBER 31, 2024

The above is a translation of the original document prepared in Polish. In case of any discrepancy between the English and the Polish language versions, the Polish text shall prevail.

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1. INTRODUCTION

1.1 GENERAL INFORMATION

The purpose of this document is to provide information on the capital adequacy and risk management system in the VeloBank S.A. Group (the "Group") in accordance with the current legal status.

The information contained herein is supplemented by:

- the consolidated financial statements of the VeloBank S.A. Group for the period of 15 months ended December 31, 2023;
- the consolidated financial statements of the VeloBank S.A. Group for the period of 12 months ended December 31, 2024.

1.2 IDENTIFICATION OF THE BANK

VeloBank S.A. (the "Bank", "Company", "VeloBank") with its registered office at Rondo Ignacego Daszyńskiego 2C in Warsaw was registered under a decision of the District Court for the City of Warsaw in Warsaw, 13th Commercial Division of the National Court Register, on September 9, 2022, under KRS no. 0000991173. The Company was assigned statistical number (REGON) 523075467. The Articles of Association drawn up in the form of a notarial deed of September 5, 2022 (as amended) provide the legal basis for the Bank's operations.

The Bank's duration is indefinite.

1.3 LEGAL BASIS OF PREPARATION

The information provided herein has been prepared in fulfillment of the obligations set out in Regulation (EU) No. 575/2013 of the European Parliament and of the Council of June 26, 2013 (as amended) on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012, as amended, hereinafter referred to as the CRR Regulation, and the Banking Law dated August 29, 1997 (Journal of Laws *Dz.U.* of 2023, item 2488, as amended), hereinafter referred to as the Banking Law.

The disclosures also reflect the requirements under Commission Implementing Regulation (EU) No. 2021/637 laying down implementing technical standards with regard to disclosure requirements, EBA Guidelines on disclosure requirements under Part Eight of Regulation (EU) No. 575/2013 (the CRR) as well as the Recommendations of the Polish Financial Supervision Authority (KNF).

In order to disclose the required information, the Group relied on the templates contained in Commission Implementing Regulation (EU) No. 2021/637.

Unless otherwise stated, all figures are presented in PLN thousand.

The capital adequacy disclosures have been prepared on a consolidated prudential basis in conformity with the CRR Regulation, based on calculations made in accordance with the regulations in force as at December 31, 2023.

Pursuant to Article 18 of the CRR Regulation, the Bank is obliged to comply with the capital requirements on the basis of its consolidated situation. To this end, the Bank carried out a full consolidation of the financial institution that is its subsidiary (in accordance with the definitions provided in Article 4(1) of the CRR Regulation) and carried out a consolidation of the remaining equity interests in the subsidiary using the equity method (in line with Article 141f.2a of the Banking Law).

1.4 DISCLOSURE PERIOD

The presentation date of this document is December 31, 2024 (information as at December 31, 2024).

2. OBJECTIVES, PRINCIPLES AND METHODS OF MANAGING DIFFERENT TYPES OF RISKS

The VeloBank S.A. Group is exposed mainly to risks which are typical for universal banks. Credit risk, liquidity risk, market risk and operational risk management is of key importance. Compliance risk management is material in the Bank's activities.

The objective of risk management is to stabilize the Bank's financial performance in the long term and, in the short and medium term, to maintain the expected level of asset quality parameters and the desired structure of the balance sheet, as well as ensuring high quality of operating processes to achieve the assumed income to risk ratio.

In line with the applicable statutory obligations, supervisory requirements and good market practice, responsibility for risk management at the strategic level rests with the Bank's Management Board. The related objectives have been defined in the "Risk Management Strategy at the Bank", the "Risk Management Policy for Non-Retail Credit Exposures" and the "Risk Management Policy for Retail Client and Microenterprise Credit Exposures". At the operational level, risk management is assigned to committees responsible for issuing recommendations and decisions and for monitoring individual risks. These include, in particular:

- the Bank's Credit Committee;
- the Asset and Liability Management Committee;
- the Operational Risk and Process Quality Committee;
- the Credit Risk and Debt Collection Committee.

In addition to the above-mentioned risk level monitoring tasks, the committees also make decisions setting the directions of changes in the policies for individual risks on an ongoing basis, issue recommendations as to internal limits and the risk appetite framework. These tasks are performed as part of the strategies adopted by the Bank's Management Board, taking into account regulatory requirements, including supervisory restrictions.

Oversight of the assessment of the effectiveness of the risk management system is exercised by the Bank's Supervisory Board.

The "Risk Management Strategy at the Bank" differentiates between:

1) material risks – i.e. risks associated with the Bank's core business and subject to active management and monitoring; and
2) potentially material risks – i.e. risks subject to periodic assessment in terms of their materiality to the functioning of the Bank.

A risk is considered material if, due to its nature and scale, it may considerably affect the Bank's profit or the level of its capital, and such a risk is covered by the ICAAP process.

Risks that are permanently material to the Bank include:

1) credit risk (section 2.1 below);
2) operational risk (section 2.2 below);

3) liquidity risk (section 2.3 below);
4) market risk (section 2.4 below);
5) strategic and financial result risk (section 2.5 below);
6) reputational risk (section 2.6 below).

2.1. CREDIT RISK

Credit risk results from a client's potential failure to perform or untimely performance of financial obligations arising from transactions concluded, in particular credit transactions and transactions in other financial instruments.

Credit risk management at the Bank is aimed at maintaining the loan portfolio with a risk level expected by the Bank, expressed by the realized cost of risk, understood as a ratio of the net balance of allowances recognized in a given period to the average balance of the loan portfolio in the same period. To this end, in accordance with the "Risk Management Strategy for Credit Exposures at VeloBank S.A.", the Bank manages credit risk at all stages of life of credit transactions, i.e. at the stage of:

- client acquisition and loan granting;
- monitoring of credit exposures, including concentration limits and the financial standing of clients;
- monitoring of the quality of the loan portfolio in relation to the assumed risk appetite;
- forbearance and collection of credit exposures, sale of the non-performing loan portfolio.

The key credit risk management tools are policies and strategies, including industry-specific ones, acceptance rules, statistical models used in the decision-making process for transaction risk assessment and in debt collection strategies to select the optimal recovery path. Credit decisions are made in accordance with the set-up of the credit process, within decision-making competences described in detail in the Bank's procedures.

In Q3 2024, the 2-year period of resolution and the Bank's functioning as a bridge institution ended. An agreement was signed for the sale of 100% of the Bank's shares, which were purchased by a holding company being part of the American fund Cerberus Capital Management, the European Bank for Reconstruction and Development and International Finance Corporation. Thus, in the area of credit risk, a process of adapting the existing policies and strategies and the functioning of the key processes to the requirements of the new owner began. In connection with the development of the entire VeloBank Group and the acquisition of a leasing company, the process of implementing consolidated supervision as part of the credit risk management process was initiated. The credit risk area played a key role as the coordinator of the process of preparation a new recovery plan, in accordance with the guidelines and expectations of the Polish Financial Supervision Authority.

In 2024, the Bank's focus was on the accomplishment of the objectives underlying the strategy as part of strategic risk projects. New acceptance models were introduced for the unsecured retail loan segment, which were rebuilt based on machine-learning methodologies. The decision-making rules were aligned with the assumptions of the new model and the automatic credit decision criteria. A new rating model was implemented for the business loan segment, with a thoroughly rebuilt financial and behavioral module. The model made it possible to simplify the process and increase the level of automation for standard products for the business client.

Debt collection processes were strengthened through the implementation of new solutions at an early stage of debt recovery, based, among others, on the results of the Champion Challenger strategy and on the indications of dedicated statistical models predicting the probability of repayment. The Management Board and the Supervisory

Board of the Bank approved a detailed strategy for the reduction of the non-performing exposure portfolio (NPE) to below 5% over the next 2 years.

These measures have directly contributed to the strengthening of controls in the credit process as well as the monitoring of the portfolio and large exposures. In particular, the Bank focused on the quality of the loan portfolio and, in addition to numerous process changes, new reporting was implemented as part of the management information system to the Bank's Management Board and Supervisory Board.

Structure and set-up of the credit risk management process

The main participants in the Bank's credit risk management system are:

The Supervisory Board of the Bank

The role of the Supervisory Board is to approve the credit risk management strategy and the credit policy, perform periodic assessments of the Management Board's achievement of the objectives of the Bank's credit strategy and policy, oversee the control of the credit risk management system as well as assessing its adequacy and effectiveness.

The Management Board of the Bank

The Bank's Management Board is responsible for the development, implementation and revision of the strategy and procedures related to the credit risk management system as well as the credit policy, periodic reporting to the Supervisory Board on the implementation of the credit policy and on the functioning of the credit risk management system, maintaining communication with the supervisory authority as well as reporting and making available to that authority all information on credit risk, as required by legal acts. The Management Board of the Bank is also responsible for the development of the credit risk management system and for overseeing credit risk management in all areas of the activities of the Bank and its Group. The Management Board of the Bank makes credit decisions regarding exposures in accordance with the adopted levels of decision-making competences.

The Bank's Credit Committee

The Bank's Credit Committee has been appointed to support the activities of the Bank's Management Board by fulfilling consultative and advisory functions in the credit decision-making process, and making independent decisions within the scope of its powers. It is also responsible for issuing recommendations to the Bank's Management Board as to systemic solutions for setting internal limits on exposure to issuers of securities and other banks. The Bank's Credit Committee adopts recommendations regarding credit exposures which, due to their size, are reserved to the competence of the Bank's Management Board.

The Credit Risk and Debt Collection Committee

The committee is a consultative and decision-making body with respect to the development, design and implementation of the credit policy. The committee is overseen by the member of the Bank's Management Board in charge of the Risk Management Division and the President of the Bank's Management Board. In its consultative role, the committee supports the activities of the Bank's Management Board in defining and implementing credit strategies and policies as well as managing debt collection strategies. The committee makes decisions regarding changes in the key parameters of the credit policy and debt collection strategies. As part of asset quality monitoring, it analyzes detailed reports on the loan portfolio as well as the level of the key risk appetite and credit concentration indicators. Where appropriate, it recommends corrective and remedial actions to the Bank's Management Board.

The Internal Audit Function

The role of the internal audit function is to control and assess the quality of the credit risk management system and to conduct periodic reviews of the credit risk management process at the Bank. The objective of the internal audit function is to identify any issues in the fulfilment of the roles and responsibilities by the credit risk management system participants.

Credit risk management strategy and processes

The Bank conducts its lending activities in the following key areas:

- mortgage lending;
- unsecured lending to individuals – cash loans, credit cards, overdraft facilities, etc. (retail loans);
- private banking;
- vehicle purchase financing, purchase of lease receivables;
- services to small and medium-sized enterprises, homeowner associations and state budget entities;
- developer finance.

The credit strategy for all these areas is set out in various documents, primarily in the "Risk Management Strategy for Credit Exposures at VeloBank S.A.", "Risk Management Policy for Non-Retail Credit Exposures" and "Risk Management Policy for Retail Client and Microenterprise Credit Exposures", which set out the rules and guidelines for lending activities. The credit risk policy is updated on an ongoing basis, to reflect changes in the Bank's business strategy as well as in its legal and regulatory environment.

Credit risk at the Bank is managed on the basis of internal procedures concerning risk identification, measurement, monitoring and control. The risk identification and measurement models are consistent with the profile, scale and complexity of the Bank's business. The Bank consistently applies an approach based on estimating the expected loss (EL).

With a view to separating the key functions in the area of credit risk, separate units responsible for sales, assessment and acceptance of credit risk, monitoring the financial standing of clients as well as the quality and value of collateral have been established in the Bank's structure.

Dedicated employees of the Risk Management Division are responsible for assessing and accepting the risk of individual transactions and formulating recommendations for the relevant decision-making bodies. The procedure for credit decision-making that defines the credit approval authorizations is subject to approval by the Bank's Management Board. Credit approval authorizations are granted to the Bank's employees on a case-by-case basis, depending on their experience and the functions performed, taking into account supervisory guidelines. Credit decisions exceeding the authorizations granted individually are made by dedicated committees. Credit decisions concerning the largest exposures are made by the Management Board of the Bank.

Risk reporting and measurement

The Bank monitors and assesses the quality of its loan portfolio on the basis of internal procedures, which include monitoring performed by the business units as well as dedicated risk units. The results and findings of analyses are presented in periodic reports to the competent bodies of the Bank. The risk monitoring system in place at the Bank includes individual risk monitoring (related to a particular client) and overall monitoring of the Bank's individual loan portfolios in various cross-sections.

The scope of individual risk monitoring includes periodic assessments of the borrower's financial and economic standing, timeliness of payments to the Bank as well as the value and condition of accepted collateral. Both the scope and the frequency of the above reviews are in line with the requirements of external regulations and depend in particular on the type of the borrower, the amount of the credit exposure and the form of collateral.

As part of the overall monitoring of the loan portfolio, credit risk functions perform a number of analyses and activities, including, but not limited to:

- monitoring the quality of the Bank's loan portfolio, including large exposures;
- performing periodic assessments of exposure concentration risk, including industry risk (setting maximum exposure limits for particular industries), exposure concentration risk to single entities and groups of connected clients (monitoring the so-called large exposures);
- assessing the financial standing of counterparty banks, setting maximum exposure limits for individual banks;
- performing stress tests;
- analyzing changes in the macroeconomic environment in terms of their potential impact on asset quality and collateral policy;
- monitoring the quality of the statistical models used;
- providing management information in the form of periodic reports to the Bank's Management Board and Supervisory Board.

It is the Bank's objective to limit the concentration of exposures to single clients or groups of connected clients. The Bank's Management Board established a threshold for large exposures. The internal limit – the sum of large exposures may not be higher than 400% of the Bank's Tier 1 capital (the exclusions under Article 400 of the CRR Regulation and the Regulation of the Minister of Finance dated July 1, 2016 on exposures of banks excluded from large exposure limits are taken into account when calculating the limit utilization). The Bank's large exposure to a client or a group of connected clients is one whose value is equal to or exceeds 5% of the Bank's Tier 1 capital.

Risk mitigation policies

With a view to mitigating credit risk, the Bank applies a wide range of legally permitted collateral, selected based on the characteristics of products, to ensure that the type and object of collateral as well as its value are adequate to the risk associated with the client and the transaction. Detailed rules for selecting, using and pledging collateral are contained in internal regulations and product procedures of the individual commercial areas. Collateral accepted by the Bank should ensure that the Bank will satisfy its claims in the event of the borrower's default on the loan agreement. When selecting collateral, the Bank takes into account the type and amount of the loan, the loan term, the legal status and financial condition of the borrower, as well as the Bank's risk and other threats. Preference is given to collateral that guarantees full and quick recovery through debt collection.

<u>The typical forms of collateral required by the Bank are as follows:</u>

For mortgage loans, the basic collateral is a first-rank mortgage created on real property, as well as the assignment of rights from the insurance policy against fire and other random events.

In the case of loans for vehicle purchase, including purchased lease receivables, the range of collateral acceptable to the Bank includes in particular: a registered pledge on the vehicle, partial or full transfer of the ownership right to the vehicle, alienation with a condition precedent or assignment of rights under the comprehensive insurance policy to the Bank. The Bank may require additional collateral in the form of a civil-law guarantee given by third parties or alienation of movable property.

Collateral for consumer loans may include an insurance policy and a personal guarantee (e.g. a third-party guarantee in the form of a promissory note or a civil-law guarantee).

Business loans may be secured by such physical collateral as a first-rank mortgage created on real property, a registered pledge, a lien on rights, a deposit, funds blocked in a bank account, a pledge on cash deposited in an escrow account, personal guarantees such as a blank promissory note, a surety, the borrower’s declaration of submission to enforcement under Article 777 of the Civil Procedure Code or a guarantee.

Qualitative and quantitative information in accordance with Recommendation R

The tables below present qualitative and quantitative information on credit exposures in terms of the PD, LGD and EAD risk parameters, broken down into homogeneous portfolios in conformity with the requirements of recommendation 36.2 of Recommendation R issued by the Polish Financial Supervision Authority.
The figures are stated in PLN ‘000.

Information on the PD, LGD and EAD risk parameters – Stage 1

PD scale (at the date of initial recognition)	Original on-balance sheet exposures, gross	Off-balance-sheet exposures	EAD post-CRM and post-CCF	Average PD (%) – acceptable range (from 0% to 100%)	Number of exposures	Average LGD (%)	Average maturity	Expected credit loss (ECL)
Corporate loans	a	b	c	d	e	f	g	h
Exposures with low credit risk	196,918	60	196,938	0.02%	94	22.8%	6	154
Non-rating assessment system	299,283	532,610	298,978	4.50%	41	33.6%	5	2,047
from 0.00% to <0.12%	54	2,003	1,053	0.20%	4	22.4%	3	-
from 0.12% to <0.25%	10,204	11,167	15,682	0.45%	12	22.7%	4	81
from 0.25% to <0.50%	341,583	83,486	338,783	3.68%	452	17.3%	7	1,337
from 0.50% to <0.99%	31,276	51,651	56,049	1.79%	82	45.6%	5	253
from 0.99% to <1.96%	80,217	76,966	115,733	1.38%	300	19.5%	5	379
from 1.96% to <3.00%	176,039	88,063	167,146	3.08%	459	40.8%	7	1,185
from 3.00% to <5.00%	58,932	13,744	63,309	1.82%	110	19.6%	4	958
from 5.00% to <7.00%	47,196	3,802	47,990	5.76%	97	18.0%	3	450
from 7.00% to <10.00%	7,915	7,844	11,828	7.92%	232	22.7%	2	61
from 10.00% to <20.00%	94,299	67,354	127,537	20.57%	112	3.8%	2	575
from 20.00% to <56.10%	4,699	220	4,770	0.32%	32	22.7%	4	4
Total	**1,348,615**	**938,970**	**1,445,795**	**4.49%**	**2,027**	**24.4%**	**6**	**7,485**

(figures in PLN '000)

PD scale (at the date of initial recognition)	Original on-balance sheet exposures, gross	Off-balance-sheet exposures	EAD post-CRM and post-CCF	Average PD (%) – acceptable range (from 0% to 100%)	Number of exposures	Average LGD (%)	Average maturity	Expected credit loss (ECL)
Purchased receivables	a	b	c	d	e	f	g	h
Exposures with low credit risk	312	-	312	0.02%	1	22.8%	3	-
from 0.00% to <0.12%	785	-	775	0.51%	17	19.6%	2	7
from 0.12% to <0.25%	2,074	-	2,057	0.37%	38	19.9%	3	27
from 0.25% to <0.50%	6,118	-	6,041	1.07%	108	19.8%	3	71
from 0.50% to <0.99%	10,182	-	10,055	1.30%	190	19.8%	3	133
from 0.99% to <1.96%	18,933	-	18,721	1.99%	273	19.9%	3	278
from 1.96% to <3.00%	7,988	-	7,893	2.76%	142	19.5%	3	99
from 3.00% to <5.00%	5,178	-	5,119	4.49%	114	19.6%	3	69
from 5.00% to <7.00%	33,621	-	33,238	4.70%	578	19.7%	3	468
from 7.00% to <10.00%	66,120	-	65,247	6.22%	1,249	19.7%	3	884
from 10.00% to <20.00%	3,154	-	3,111	12.28%	53	19.4%	3	48
from 20.00% to <56.10%	3,670	-	3,599	35.63%	43	19.9%	3	67
from 56.00% to <100.00%	63	-	62	38.05%	1	20.2%	2	2
Total	**158,197**	**-**	**156,231**	**5.34%**	**2,807**	**19.7%**	**3**	**2,154**

PD scale (at the date of initial recognition)	Original on-balance sheet exposures, gross	Off-balance-sheet exposures	EAD post-CRM and post-CCF	Average PD (%) – acceptable range (from 0% to 100%)	Number of exposures	Average LGD (%)	Average maturity	Expected credit loss (ECL)
Retail loans	a	b	c	d	e	f	g	h
from 0.00% to <0.15%	440	-	440	0.07%	133	43.3%	-	1
from 0.15% to <0.25%	265	2,692	1,611	0.23%	391	36.2%	6	-
from 0.25% to <0.50%	10,805	57,245	39,358	0.65%	8,302	30.0%	7	36
from 0.50% to <0.75%	13,819	16,583	22,072	0.94%	3,861	37.0%	5	65
from 0.75% to <2.50%	171,824	56,654	199,777	1.71%	30,155	44.0%	6	1,530
from 2.5% to <10%	1,266,633	31,331	1,247,570	5.07%	83,412	51.7%	6	33,604
from 10% to <45%	654,802	11,097	622,431	9.72%	51,544	55.2%	6	35,423
Total	**2,118,589**	**175,602**	**2,133,259**	**5.99%**	**177,798**	**51.4%**	**6**	**70,659**

(figures in PLN ‘000)

PD scale (at the date of initial recognition)	Original on-balance sheet exposures, gross	Off-balance-sheet exposures	EAD post-CRM and post-CCF	Average PD (%) – acceptable range (from 0% to 100%)	Number of exposures	Average LGD (%)	Average maturity	Expected credit loss (ECL)
Mortgage loans	a	b	c	d	e	f	g	h
from 0.00% to <0.15%	8,040	3,963	10,022	0.13%	79	31.4%	25	6
from 0.15% to <0.25%	23,739	7,241	27,359	0.18%	107	29.1%	24	28
from 0.25% to <0.50%	2,274,976	5,568	2,274,004	0.44%	23,053	9.5%	19	5,066
from 0.50% to <0.75%	1,828,679	7,928	1,829,941	0.49%	19,365	9.4%	20	3,958
from 0.75% to <2.50%	1,694,388	5,357	1,685,937	1.00%	13,437	11.3%	20	10,095
from 2.5% to <10%	170,396	1,135	169,346	4.16%	1,250	13.1%	17	3,117
Total	**6,000,219**	**31,191**	**5,996,607**	**0.72%**	**57,291**	**10.2%**	**19**	**22,270**

PD scale (at the date of initial recognition)	Original on-balance sheet exposures, gross	Off-balance-sheet exposures	EAD post-CRM and post-CCF	Average PD (%) – acceptable range (from 0% to 100%)	Number of exposures	Average LGD (%)	Average maturity	Expected credit loss (ECL)
Car loans	a	b	c	d	e	f	g	h
from 0.00% to <0.15%	123,846	-	123,842	0.11%	1,691	20.0%	6	24
from 0.15% to <0.25%	90,051	-	90,015	0.31%	1,388	19.8%	6	50
from 0.25% to <0.50%	47,257	-	47,167	0.49%	1,255	18.6%	5	48
from 0.50% to <0.75%	12,492	-	12,474	0.49%	575	16.6%	4	10
from 0.75% to <2.50%	130,103	-	129,750	0.94%	3,240	18.6%	6	218
from 2.5% to <10%	218,856	-	217,777	2.29%	5,834	18.0%	4	865
from 10% to <45%	10,660	-	10,523	9.32%	144	19.7%	4	175
Total	**633,265**	**-**	**631,550**	**1.25%**	**14,127**	**18.8%**	**5**	**1,388**

(figures in PLN '000)

Information on the PD, LGD and EAD risk parameters – Stage 2

PD scale (at the date of initial recognition)	Original on-balance sheet exposures, gross	Off-balance-sheet exposures	EAD post-CRM and post-CCF	Average PD (%) – acceptable range (from 0% to 100%)	Number of exposures	Average LGD (%)	Average maturity	Expected credit loss (ECL)
Corporate loans	a	b	c	d	e	f	g	h
unrated	369,033	33,215	130,676	6.22%	2,894	25.5%	5	4,253
from 0.00% to <0.12%	8,546	878	8,754	10.63%	113	17.5%	5	167
from 0.12% to <0.25%	12,020	373	12,050	5.29%	57	23.0%	6	168
from 0.25% to <0.50%	30,617	2,417	17,652	3.22%	235	22.3%	9	214
from 0.50% to <0.99%	660	1,520	1,270	3.87%	9	22.4%	3	6
from 0.99% to <1.96%	7,849	937	8,247	9.30%	50	22.2%	8	191
from 1.96% to <3.00%	167,764	2,065	133,894	4.12%	182	29.6%	5	23,195
from 3.00% to <5.00%	7,217	7,759	10,336	7.68%	27	22.6%	7	139
from 5.00% to <7.00%	7,117	1,507	7,672	5.29%	17	20.7%	13	213
from 7.00% to <10.00%	52,872	1,322	50,949	8.42%	12	25.9%	2	3,067
from 10.00% to <20.00%	1	71	36	3.46%	11	7.1%	3	-
from 20.00% to <56.10%	138	-	60	3.01%	5	22.7%	1	1
Total	**663,834**	**52,062**	**381,596**	**5.79%**	**3,612**	**26.3%**	**5**	**31,614**

PD scale (at the date of initial recognition)	Original on-balance sheet exposures, gross	Off-balance-sheet exposures	EAD post-CRM and post-CCF	Average PD (%) – acceptable range (from 0% to 100%)	Number of exposures	Average LGD (%)	Average maturity	Expected credit loss (ECL)
Purchased receivables	a	b	c	d	e	f	g	h
unrated	853	-	825	7.35%	18	19.1%	2	19
from 0.00% to <0.12%	31	-	31	4.29%	4	19.6%	2	-
from 0.12% to <0.25%	345	-	323	21.18%	6	18.3%	3	10
from 0.25% to <0.50%	1,474	-	1,397	12.31%	18	20.1%	3	31
from 0.50% to <0.99%	1,741	-	1,647	21.62%	28	19.9%	2	62
from 0.99% to <1.96%	4,932	-	4,643	27.71%	75	19.8%	2	212
from 1.96% to <3.00%	2,628	-	2,494	31.32%	43	19.8%	2	118
from 3.00% to <5.00%	3,386	-	3,246	23.10%	58	19.2%	3	95
from 5.00% to <7.00%	9,234	-	8,636	29.30%	170	19.4%	3	537
from 7.00% to <10.00%	8,330	-	7,800	34.40%	145	19.5%	3	491
from 10.00% to <20.00%	2,529	-	2,319	32.10%	40	19.3%	3	181
from 20.00% to <56.10%	696	-	650	41.90%	12	19.4%	3	59
from 56.10% to <100.00%	66	-	65	78.10%	1	20.2%	3	5
Total	**36,244**	**-**	**34,076**	**28.63%**	**618**	**19.5%**	**3**	**1,819**

(figures in PLN '000)

PD scale (at the date of initial recognition)	Original on-balance sheet exposures, gross	Off-balance-sheet exposures	EAD post-CRM and post-CCF	Average PD (%) – acceptable range (from 0% to 100%)	Number of exposures	Average LGD (%)	Average maturity	Expected credit loss (ECL)
Retail loans	a	b	c	d	e	f	g	h
from 0.00% to <0.15%	39	-	38	9.06%	4	16.2%	2	1
from 0.15% to <0.25%	1	-	1	0.55%	1	27.8%	-	-
from 0.25% to <0.50%	7,891	5,211	10,208	11.75%	1,627	35.0%	8	296
from 0.50% to <0.75%	3,221	1,467	3,845	13.25%	585	37.2%	7	145
from 0.75% to <2.50%	16,805	1,227	16,669	16.63%	1,863	45.5%	5	961
from 2.5% to <10%	386,367	153	309,770	39.72%	14,739	53.3%	5	69,415
from 10% to <45%	180,561	55	124,729	66.78%	4,276	57.4%	6	54,853
Total	**594,886**	**8,114**	**465,260**	**45.32%**	**23,095**	**53.6%**	**5**	**125,670**

PD scale (at the date of initial recognition)	Original on-balance sheet exposures, gross	Off-balance-sheet exposures	EAD post-CRM and post-CCF	Average PD (%) – acceptable range (from 0% to 100%)	Number of exposures	Average LGD (%)	Average maturity	Expected credit loss (ECL)
Mortgage loans	a	b	c	d	e	f	g	h
from 0.00% to <0.15%	14,921	-	14,029	16.21%	57	17.1%	11	506
from 0.15% to <0.25%	9,639	-	8,895	10.98%	35	16.5%	12	252
from 0.25% to <0.50%	255,827	-	248,195	20.40%	2,116	12.6%	20	12,179
from 0.50% to <0.75%	200,233	-	194,612	20.22%	1,811	11.6%	20	9,271
from 0.75% to <2.50%	419,803	-	395,175	33.79%	2,561	14.8%	19	30,652
from 2.5% to <10%	240,654	-	221,941	44.77%	1,325	15.1%	16	18,989
Total	**1,141,077**	**-**	**1,082,847**	**30.12%**	**7,905**	**13.8%**	**19**	**71,849**

PD scale (at the date of initial recognition)	Original on-balance sheet exposures, gross	Off-balance-sheet exposures	EAD post-CRM and post-CCF	Average PD (%) – acceptable range (from 0% to 100%)	Number of exposures	Average LGD (%)	Average maturity	Expected credit loss (ECL)
Car loans	a	b	c	d	e	f	g	h
none	710	-	679	6.52%	9	19.8%	3	18
from 0.00% to <0.15%	2,306	-	2,299	5.30%	51	19.3%	5	18
from 0.15% to <0.25%	11,481	-	11,336	11.92%	198	19.5%	5	214
from 0.25% to <0.50%	7,777	-	7,567	14.22%	220	17.3%	4	166
from 0.50% to <0.75%	680	-	666	15.90%	30	16.4%	4	12
from 0.75% to <2.50%	12,985	-	12,368	39.76%	291	18.9%	5	800
from 2.5% to <10%	37,935	-	35,628	34.28%	669	19.2%	4	1,845
from 10% to <45%	3,169	-	2,895	38.20%	49	19.4%	4	178
Total	**77,043**	**-**	**73,437**	**28.51%**	**1,517**	**19.0%**	**5**	**3,252**

(figures in PLN '000)

Information on the PD, LGD and EAD risk parameters – Stage 3

Time in default	EAD post-CRM and post-CCF	Number of exposures	Average LGD (%)	Expected credit loss (ECL)
Corporate loans	a	b	c	d
up to 12 months	79,866	76	25.6%	36,954
from 13 to 24 months	69,696	39	19.9%	16,981
from 25 to 36 months	1,851	46	53.9%	2,219
from 37 to 48 months	3,169	81	49.2%	4,387
from 49 to 60 months	12,666	53	19.7%	7,677
from 61 to 84 months	33,843	86	41.8%	89,900
over 84 months	21,861	160	55.9%	85,960
Total	**222,952**	**541**	**29.5%**	**244,078**

Time in default	EAD post-CRM and post-CCF	Number of exposures	Average LGD (%)	Expected credit loss (ECL)
Purchased receivables	a	b	c	d
up to 12 months	2,766	89	23.2%	748
from 13 to 24 months	157	6	35.8%	89
from 25 to 36 months	19	4	47.5%	21
from 37 to 48 months	2	2	71.5%	9
over 84 months	-	6	-	445
Total	**2,942**	**107**	**24.1%**	**1,312**

Time in default	EAD post-CRM and post-CCF	Number of exposures	Average LGD (%)	Expected credit loss (ECL)
Retail loans	a	b	c	d
up to 12 months	167,596	11,423	59.4%	184,389
from 13 to 24 months	55,117	6,492	65.2%	98,076
from 25 to 36 months	33,647	5,370	71.4%	81,982
from 37 to 48 months	10,047	2,654	78.1%	47,232
from 49 to 60 months	3,308	647	86.1%	20,267
from 61 to 84 months	1,041	740	88.8%	26,829
over 84 months	607	785	68.2%	23,147
Total	**271,362**	**28,111**	**63.2%**	**481,922**

(figures in PLN '000)

Time in default	EAD post-CRM and post-CCF	Number of exposures	Average LGD (%)	Expected credit loss (ECL)
Mortgage loans	a	b	c	d
up to 12 months	111,696	746	21.1%	30,628
from 13 to 24 months	47,587	341	30.1%	22,981
from 25 to 36 months	28,680	234	34.7%	19,634
from 37 to 48 months	46,830	378	42.3%	41,872
from 49 to 60 months	29,434	265	51.2%	37,322
from 61 to 84 months	61,353	574	54.4%	103,750
over 84 months	57,827	461	69.9%	180,672
Total	**383,407**	**2,999**	**40.8%**	**436,858**

Time in default	EAD post-CRM and post-CCF	Number of exposures	Average LGD (%)	Expected credit loss (ECL)
Car loans	a	b	c	d
up to 12 months	14,320	344	26.9%	4,867
from 13 to 24 months	5,532	196	43.4%	4,011
from 25 to 36 months	3,911	192	58.1%	4,932
from 37 to 48 months	3,154	308	75.0%	9,989
from 49 to 60 months	449	100	89.3%	2,646
from 61 to 84 months	17	36	89.7%	1,057
over 84 months	13	97	82.9%	2,654
Total	**27,395**	**1,273**	**41.3%**	**30,156**

Information on the PD, LGD and EAD risk parameters – POCI

Portfolio	EAD post-CRM and post-CCF	Number of exposures	Average LGD (%)	Expected credit loss (ECL)
	a	b	c	d
Corporate loans	3,453	37	34.1%	998
Retail loans	1,039	70	58.0%	127
Mortgage loans	458	2	22.7%	-
Car loans	263	2	27.8%	-

2.2. OPERATIONAL RISK

Definition and objective of operational risk management

Operational risk denotes the risk of losses resulting from inadequate or unreliable internal procedures, human resources and systems or from external events, including but not limited to, legal risk, model risk or ICT risk, but excluding strategic risk and reputational risk.

The strategic objective of operational risk management is the optimization of the internal business and non-business processes, enabling the reduction of costs and losses and the improvement of the operational security and mitigation of reputational risk. Operational risk management is aimed at preventing threats, effective decision-making, prioritization and allocation of resources, ensuring a better understanding of potential risk and its possible adverse effects.

The primary objective of operational risk management is to strive to identify operational risk and to measure its level and assess its profile as precisely as possible. To this end, solutions concerning the model of operational risk measurement and management are being improved, taking into account Bank-specific factors and parameters of operational risk, i.e. ones closely related to the Bank’s business profile.

Structure and set-up of the operational risk management unit

The organizational units responsible for operational risk management include:

- systemic units, also referred to as subject-matter systemic units – acting as the second line of defense, responsible for systemic operational risk management, designing internal regulations and developing solutions for day-to-day operational risk management, performing also tasks relating to day-to-day operational risk management;
- operational units – acting as the first line of defense, involved in day-to-day management of operational risk inherent in their everyday activities.

In all areas and at all levels of the Bank’s organizational structure, including in related parties and third parties, the following groups of units, staff and functions responsible for operational risk management activities performed at the following three levels, are identified:

- Level 1: basic – units and staff responsible for operational risk management in their everyday activities;
- Level 2: supervisory (management) – staff holding managerial positions, performing functional control;
- Level 3: superior, functioning in a centralized form – the main operational risk management function performed by individuals carrying out the tasks of a separate operational risk management unit, functioning within the Operational Risk Management Team, which acts as the second line of defense, and the Operational Risk, Quality and Processes Committee.

The leading role in operational risk management at the Bank is performed by its governing bodies, namely the Supervisory Board and the Management Board of the Bank.

The activities of the Bank’s Management Board, at the operational level, are performed by the Operational Risk, Quality and Processes Committee. It is responsible for monitoring operational risk, issuing opinions on regulations concerning operational risk management and formulating recommendations as to risk exposure measures and standards.

The main, superior role in operational risk management at the Bank is performed by designated staff of a separate independent operational risk management unit – the Operational Risk Management Team, which is part of the Risk Management Division in the Risk Control and Validation Department.

Operational risk management strategies and processes, including the scope and type of operational risk reporting and measurement systems

Operational risk management is a process which encompasses activities involving risk identification, measurement, mitigation, monitoring and reporting. It covers all processes and systems, with a particular focus on those related to the performance of banking activities that ensure the provision of financial services to clients.

The Bank manages its operational risk in accordance with the "Operational Risk Management Strategy" developed by the Management Board and approved by the Bank's Supervisory Board:

- taking into account the prudential regulations arising from the Act as well as relevant resolutions and recommendations of the banking supervision authority;
- containing a description of the policies already in place at the Bank and those that are under development and planned for the future.

The existing operational risk reporting and measurement system is supported by an IT system that allows the Bank to record operational risk events, including the effects of their occurrence. At the same time, it is the base and environment for cross-sectional analysis of operational risk, providing the basis for risk measurement and for the operational risk reporting system, which includes reports for internal (management) and external (supervisory) purposes.

Management and supervisory reporting is based on assumptions resulting from:

- the guidelines formulated in Recommendation M of the Polish Financial Supervision Authority on operational risk management at banks;
- supervisory regulations setting out the rules and methods for publishing qualitative and quantitative information on capital adequacy by banks.

Operational risk measurement includes, among others, the calculation of:

- the own funds requirement for operational risk;
- the ratios determining the degree of the Bank's susceptibility to operational risk, also known as the Bank's sensitivity to operational risk or the Bank's exposure to operational risk;
- the aggregate volume of actual losses.

Operational risk mitigation policies

Depending on the level and profile of operational risk, appropriate corrective and preventive measures are applied, which are adequate to the diagnosed risk and ensure the selection and implementation of effective measures to modify the risk. In particular, the following methods of mitigating operational risk are used:

- development and implementation of business continuity plans (including contingency plans), ensuring uninterrupted operation of the organization at a specified level;
- insurance against the consequences of hard-to-predict errors or operational events with significant financial consequences;
- outsourcing of activities.

In addition, in order to secure any processes requiring the transfer of funds, operational risk is eliminated mainly by introducing the four-eyes principle.

The key business processes have been described in the relevant policies and procedures. The correctness of business operations is monitored on an ongoing basis, and reports are submitted directly to the Management Board.

The effectiveness of the security measures and methods used by the Bank to mitigate operational risk is monitored by continuous tracing, collection and analysis of operational events and operational risk profile observations as well as control of qualitative and quantitative changes in operational risk.

The total of the gross losses and the net losses due to operational risk, incurred by the Bank in 2024, by category of events, is presented in the table below:

No.	Event type	Event category	Gross loss* in PLN '000	Net loss in PLN '000
1.	Internal Fraud	1) Unauthorized activity	-	-
		2) Theft and fraud	-	-
		3) System security	18	18
		Total	**18**	**18**
2.	External Fraud	1) Theft and fraud	1,513	943
		2) System security	59	59
		Total	**1,572**	**1,002**
3.	Employment Practices and Workplace Safety	1) Employee relations	-	-
		2) Workplace safety	-	-
		3) Divisions and discrimination	-	-
		Total	**-**	**-**
4.	Clients, Products & Business Practices	1) Customer service, disclosure of client information, obligations to clients	2,738	2,695
		2) Improper business or market practices	1,029	1,029
		3) Defective products	12,373	12,296
		4) Client classification and exposures	-	-
		5) Advisory services	-	-
		Total	**16,140**	**16,020**
5.	Damage to Physical Assets	1) Natural disasters and other events	75	75
		Total	**75**	**75**

(figures in PLN '000)

6.	Business disruption and system failures	1) Systems	54,115	237
		Total	**54,115**	**237**
7.	Execution, Delivery & Process Management	1) Transaction recording in the system, execution, settlement and administration	889	412
		2) Monitoring and reporting	-	-
		3) Client inflow and documentation	148	141
		4) Client account management	-	-
		5) Counterparties other than the Bank's clients	1	-
		6) Sellers and suppliers	431	430
		Total	**1,469**	**983**
		Total – all categories	**73,389**	**18,335**

*Gross loss – the total of losses that were incurred as a result of loss events, excluding recoveries.

2.3. LIQUIDITY RISK

Liquidity risk is defined as the potential inability of the Bank to fulfil its current and future financial obligations. Liquidity management is an obvious, key element of risk management at the Bank. The objective of liquidity risk management at the Bank is to ensure the possibility of the fulfilment of obligations on a daily basis, the ability to maintain liquidity in the short, medium and long term both under normal conditions and in the case of crisis events (at the Bank and market level).

For effective liquidity management, the Bank adequately shapes the structure of its assets and liabilities through the deposit and credit policy, products price structure, etc. In this respect, the Bank is guided, on the one hand, by the current, short-term liquidity needs, as well as a long-term strategy aimed at building the Bank's liquidity profile based on growing, stable sources of funding, including efforts to maintain the relational model, which will ensure, among other things, an increase in permanent sources of funding in the form of deposits in current and savings accounts of retail clients and from the segment of small and medium-sized enterprises, reducing the importance of term deposits in the Bank's funding.

The Bank's approach to liquidity risk management is defined in the "Liquidity Risk Management Policy" and in each Financial Plan adopted for the given year or the strategic assumptions adopted by the Bank's Supervisory Board. These documents define, among other things, the risk tolerance level understood as the maximum risk exposure not to be exceeded.

The Bank's activities in the area of liquidity risk management are in line with the recommendations and prudential regulations of the Polish Financial Supervision Authority and of the National Bank of Poland, but also with the Regulations of the European Union. The Bank's liquidity risk management process, both at the strategic and operational level, is aligned with the requirements of Recommendation P of the Polish Financial Supervision Authority.

The Bank identifies the following groups of risk factors to which it is exposed:

- risks arising from external factors (changes in the volume of the deposit balance in the system, the macroeconomic situation);
- risks arising from internal factors (such as the ability to maintain stable sources of funding, including the ability to renew client deposits at an acceptable cost).

Maintaining current, short-, medium- and long-term liquidity amounts to the achievement of the following objectives by the Bank:

- maintaining the desired structure of the balance sheet;
- financing loans granted by the Bank with own funds and funds from stable sources;
- using unstable liabilities as a source of funding of easily marketable assets;
- securing quick and easy access to external sources of funding.

Oversight of the management of medium- and long-term liquidity, including ensuring stable funding for long-term liabilities under both normal and stressed conditions, is the responsibility of the Bank's Management Board, while the management of current and short-term liquidity is the responsibility of the Treasury Area in accordance with the scope of powers granted to it and within the applicable liquidity risk limits. Oversight of the current and short-term liquidity management process is exercised by the member of the Management Board in charge of the Treasury Area. The Asset and Liability Management Committee performs a consultative and advisory role in the process of liquidity management. The Financial Risk, Asset Valuation and Capital Requirements Department within the Risk Management Division is responsible for controlling liquidity risk management. Its major tasks include monitoring the key liquidity risk measures, developing risk measurement methods and formulating recommendations as to internal limits and prudential standards in this respect.

The Bank's regulations cover also aspects relating to the management of intraday liquidity.

The assessment of liquidity risk involves the monitoring of:

- supervisory liquidity standards, including LCR (liquidity coverage ratio) and NSFR (net stable funding ratio);
- internally determined measures of asset maturity mismatch, balance sheet structure ratios, measures of concentration and measures of stability of funding sources;
- results of stress tests taking into account crisis scenarios referring to internal factors as well as factors relating to the situation on the financial markets.

The basic measures, key liquidity measures and the level of utilization of liquidity limits (including compliance with the LCR and NSFR supervisory liquidity standards) are subject to daily monitoring and reporting to the Bank's Management Board.

Once a month, the Financial Risk, Asset Valuation and Capital Requirements Department prepares a report summarizing the Bank's liquidity situation. The report contains, among others, information about:

- the level of the key liquidity ratios (including the supervisory measures);
- the structure and level of liquid funds;
- the liquidity gap;

- the stability of the sources of funding.

On a quarterly basis, the scope of the report is extended to include the results of stress tests.

The report is submitted to the Asset and Liability Management Committee and to the Bank's Management Board.

Information on the liquidity situation together with information on the achievement of the strategic objectives (including, but not limited to, the risk tolerance) is provided at least quarterly to the Risk Committee of the Supervisory Board and to the Supervisory Board.

The process of evaluating the implementation of the liquidity risk management policy and assessing the adequacy of liquidity resources (ILAAP process) is carried out at the Bank on an annual basis. The process includes both a quantitative assessment of, among other things, the achievement of the strategic objectives for liquidity risk or the results of stress tests, and a qualitative assessment, i.e., among other things, the completeness and adequacy of the policies/strategies in place at the Bank, access to the market, the contingency plan and other elements.

To ensure the desired level of liquidity, the Bank determines the structure of its assets and liabilities in line with the adopted internal limits and the recommendations issued by the Polish Financial Supervision Authority and the National Bank of Poland; for this purpose:

- the Bank maintains liquidity reserves in safe and liquid financial market assets;
- the Bank has a possibility of using additional sources of funding such as the lombard facility or the technical facility provided by the National Bank of Poland;
- lending activity is financed mainly with own funds and a stable deposit base;
- the Bank is operationally ready to apply to the National Bank of Poland for a refinancing loan (the available loan amount is verified periodically).

The effectiveness of liquidity risk management (including its mitigation) is assessed on the basis of the level of utilization of the adopted risk exposure limits, including supervisory limits and more broadly through the ILAAP process described above.

The Bank carries out simulations of its resilience to increased cash outflows (stress tests). Such analyses are an important part of the asset and liability management process.

The process of designing and reviewing stress tests involves staff from various organizational units of the Bank, including, but not limited to, the Risk Management Division, the Finance Division or the Treasury Area. The stress tests carried out by the Bank include:

1) scenario analysis;
2) sensitivity analysis;
3) reverse stress tests;
4) intraday liquidity test;
5) liquidity gap test.

Scenario analyses are performed by the Bank using two approaches: base (taking into account historical data, excluding external events, i.e. ones which do not result from the financial situation of the Bank) and stress (taking into account all events). The analysis is conducted in 6 variants:

1) internal/sudden– a liquidity crisis inside the Bank, assuming the occurrence of very significant liquidity problems in a very short period of time (1 week);

2) internal/cumulative – a liquidity crisis inside the Bank, assuming slowly developing liquidity problems, lasting for a longer period of time (30 days);
3) systemic/sudden – a market crisis, assuming the occurrence of very significant liquidity problems in a very short period of time (1 week);
4) systemic/cumulative – a market crisis developing slowly and lasting for a longer period of time (30 days);
5) combined/sudden – a liquidity crisis inside the Bank accompanied by a market crisis, assuming the occurrence of very significant liquidity problems in a very short period of time (1 week);
6) combined/cumulative – a liquidity crisis inside the Bank accompanied by a market crisis, assuming a slowly developing crisis, lasting for a longer period of time (30 days).

As part of its analyses, the Bank verifies the availability of its excess liquidity in relation to net outflows under stresses conditions, which result, among other things, from deposit outflows, depreciation/appreciation of the domestic currency (the need to hedge derivative transactions), increased utilization of lines of credit or limited proceeds from the repayment of loan installments.

Sensitivity tests and reverse stress tests are carried out in connection with the scenario analyses.

The intraday liquidity test is designed to verify any potential liquidity shortfall during the day and is used to determine the amount of liquid funds available in the current account at the beginning of the day to cover such shortfall, if any. The potential shortfall amount is determined on the basis of historical flows from client transactions (in elixir and sorbnet payment sessions) and settlements of derivative transactions.

The liquidity gap test involves "stressing" the assumptions of the adjusted liquidity gap and is aimed at determining the level of the Bank's resilience to stressed conditions with a lower degree of severity than those used in the scenario analyses, but lasting for a longer period of time.

The Bank has adopted a procedure to be followed in situations which could lead to a significant increase in liquidity risk, i.e. the "Procedure Regarding the Liquidity Contingency Plan for Crisis Situations at VeloBank S.A.".

The contingency plan is aimed at minimizing the risk of the Bank's loss of liquidity in the event of a liquidity crisis resulting from both the Bank's and the market situation. According to the plan, with a view to mitigating liquidity risk, the Bank's organizational functions responsible for liquidity assessment and management perform analyses and ongoing monitoring of cash and non-cash flows as well as the external economic and financial situation that may affect the level of liquidity of the Bank and of the entire banking sector. The plan also sets out preparatory steps to minimize the risk of liquidity loss by the Bank and to enable the implementation of contingency actions. An important element of the plan is the Early Warning System (EWS), which specifies events/indications of deterioration of the Bank's liquidity situation as well as two thresholds, i.e. the warning and crisis state, which are intended to identify any potential threats in advance and which result in the employment of appropriate measures to prevent deterioration of the Bank's liquidity situation. The stress test results are relied upon by the Bank in setting the desired liquidity level, i.e. the risk appetite. The above-described mechanisms are designed to ensure the maintenance of an adequate level of liquidity. The contingency plan is activated when, for instance, a specific level of liquidity ratios is reached, which are set in relation to the liquidity risk appetite. Some of the events/indicators initiating the above states/situations are largely based on risk factors identified and considered in stress tests. EWS monitoring is carried out on a daily basis. In the event of a situation that poses a threat to the Bank's liquidity, the Management Board and the Asset and Liability Management Committee are informed of the occurrence of the threat.

(figures in PLN '000)

In the analyzed period, the Bank met the supervisory liquidity security requirements, including supervisory liquidity standards, such as LCR or NSFR.

The table below presents the supervisory measures of VeloBank S.A. and the VeloBank S.A. Group as at the end of 2024:

Supervisory liquidity measures		Minimum value	31-Dec-2024
LCR	Short-term liquidity measure – Bank	100%	751.44%
LCR	Short-term liquidity measure – Group	100%	755.35%
NSFR	Stable funding measure – Bank	100%	281.85%
NSFR	Stable funding measure – Group	100%	281.54%

The LCR ratio was stable in 2024. The level of the ratio was above 600% during the analyzed period.

High-quality liquid assets (HQLA), which are the numerator of the LCR ratio, comprise liquid Treasury bonds and bonds guaranteed by the State Treasury (and equivalent) as well as amounts due from the central bank (accounts, bills).

One of the main factors which determine the level of the liquidity coverage ratio is the level of client deposits (especially in the retail segment).

The derivative exposure is the amount resulting from the derivatives stress test (the maximum realized collateral flow) and the amount of potential shortfall or excess resulting from the current valuation of the instruments in relation to the current level of collateral. As at the end of 2024, outflows on derivatives, determined in accordance with the CRR Regulation, accounted for approximately 1% of the total unweighted value of outflows included in the calculation of the liquidity coverage ratio.

The Bank's liquid funds account for more than a half of the Bank's assets (ca. 60%). Net loans to amounts due to clients is approximately 30%. During the analyzed period, it remained at a stable level and did not exceed 32%.

Client deposits constitute the primary source of funding for the Bank's lending and investing activities and account for approximately 99% of the Bank's funding sources (excluding equity). Retail client deposits constitute the major part of client deposits (currently accounting for about 91% of the volume), while deposits from corporate entities and local government entities complement the Bank's sources of funding.

The Group's risk level is monitored by means of periodic risk measurements on a consolidated basis for the Group as a whole. The impact of the consolidated entities on the level of liquidity risk taken by the Group is immaterial.

The Bank is not a party to any contracts which, in the event of a decrease in its creditworthiness, would result in the need to provide additional collateral to the counterparty at a material level.

As at December 31, 2024, the total liquidity buffer (as defined in Recommendation P) amounted to PLN 30,913 million and fully covered outflows resulting from the shock scenarios (in the worst-case scenario in the "base" approach, the coverage ratio was 263%, while in the worst-case scenario in the "stress" approach", the coverage ratio was 191%). In the calculation of the liquidity buffer, the Bank applies appropriate reductions in the value of liquid securities related to the cost of liquidation (market/product liquidity).

The structure of the liquidity buffer as at December 31, 2024 is presented below.

Excess liquidity structure as at December 31, 2024	Value PLN '000
Cash	96,093
Amounts due from banks	12,527
Balances with the National Bank of Poland	1,992,416
High-quality liquid securities*	28,811,627
TOTAL	**30,912,664**

*assuming a haircut of 10% for bonds and of 1% for bills

The contractual liquidity gap as at December 31, 2024 is presented below.

Contractual gap as at December 31, 2024	Up to 1 month PLN '000	Over 1 month up to 3 months PLN '000	Over 3 months up to 1 year PLN '000	Over 1 year up to 5 years PLN '000	Over 5 years PLN '000	Unspecified maturity* PLN '000	Total PLN '000
ASSETS							
Cash and balances with the Central Bank	2,089,504	-	-	-	-	-	2,089,504
Amounts due from banks and financial institutions	776,122	-	-	-	-	(1,108)	775,014
Financial assets measured at fair value through profit or loss	-	-	-	-	-	23,640	23,640
Derivative financial instruments	1,779	362	2,599	69,124	34,139	-	108,003
Loans and advances to clients	1,576,463	364,158	1,547,926	4,864,675	7,140,759	(1,528,410)	13,965,571
Financial instruments measured at fair value through other comprehensive income	3,298,419	-	-	-	-	1,695	3,300,114
Financial instruments measured at amortized cost	36,432	639,858	2,936,436	17,463,601	12,538,744	(18,035)	33,597,036
Other financial assets	-	-	-	-	-	766,546	766,546
TOTAL ASSETS	**7,778,719**	**1,004,378**	**4,486,961**	**22,397,400**	**19,713,642**	**(755,672)**	**54,625,428**
LIABILITIES							
Amounts due to banks and financial institutions	104,017	-	-	-	-	-	104,017
Derivative financial instruments	1,121	109	2,236	74,595	70,300	-	148,361
Amounts due to clients	36,237,012	7,149,235	7,440,174	586,370	754		51,413,545
Other liabilities	-	-	-	-	-	624,811	624,811
Provisions	-	-	-	-	-	90,234	90,234
Total liabilities	**36,342,150**	**7,149,344**	**7,442,410**	**660,965**	**71,054**	**715,045**	**52,380,968**
EQUITY	**-**	**-**	**-**	**-**	**-**	**2,244,460**	**2,244,460**
TOTAL LIABILITIES AND EQUITY	**36,342,150**	**7,149,344**	**7,442,410**	**660,965**	**71,054**	**2,959,505**	**54,625,428**
Liquidity gap	**(28,563,431)**	**(6,144,966)**	**(2,955,449)**	**21,736,435**	**19,642,588**	**(3,715,177)**	**-**

*the item "*unspecified maturity*" includes impairment losses, equity instruments as well as other assets and liabilities

In addition, the Bank conducts an analysis of the adjusted liquidity gap. The analysis consists in comparing the mismatch between the maturity of receivables and the maturity of liabilities by maturity band and on a cumulative basis. On the receivables side, the Bank's liquid assets are adjusted to real terms based on their real liquidation dates and loan receivables are adjusted to real terms taking into account the timeliness of repayments, i.e. delays or overpayments. The liabilities adjusted to real terms are cash flows from client deposits (taking into account deposit withdrawal/renewal and the inflow of new funds) and off-balance sheet liabilities (e.g. lines of credit). In addition to on-balance sheet items, the analysis also includes off-balance sheet transactions and liabilities (excluding guarantees received with respect to securities guaranteed by the State Treasury and equivalent, held by the Bank), as well as future interest flows.

The adjusted liquidity gap is presented below:

Liquidity gap as at December 31, 2024 in PLN million	Based on maturities adjusted to real terms	
Maturity	Liquidity gap By band	Liquidity gap Cumulative
up to 1 month	29,920	29,920
from 1 to 3 months	(3,686)	26,234
from 3 to 6 months	(4,599)	21,635
from 6 to 12 months	(6,237)	15,398
from 1 to 5 years	(16,872)	(1,475)
from 5 to 10 years	(1,469)	(2,943)
over 10 years	1,178	(1,765)

2.4. MARKET RISK

Market risk is the possibility of the Bank suffering losses as a result of the volatility of market factors, most of all interest rates, foreign exchange rates and security prices as well as other, including derivative financial instruments. The Bank's objective is to optimize the relation of its income to the risk taken by means of the adopted asset and liability management policy as well as a system of market risk limits (including supervisory ones).

The Bank's approach to market risk management is defined in the "Risk Management Policy with Respect to Market and Interest Rate Risk in the Banking Book" and in each Financial Plan adopted for the given year or the strategic assumptions adopted by the Bank's Supervisory Board. These documents define, among other things, the risk tolerance level understood as the maximum risk exposure not to be exceeded.

The Bank's Management Board is responsible for overseeing market risk management at the overall Bank level. The Asset and Liability Management Committee performs a consultative and advisory role in the risk management process. The role of the Management Board/Committee is to design the asset and liability management policy, set the risk limits and monitor their utilization. In operational terms, the Treasury Area is responsible for market risk management by performing ongoing monitoring of risk positions and shaping their level by entering into transactions on the interbank market and defining foreign exchange rates and transfer rates for transactions with clients.

The Financial Risk, Asset Valuation and Capital Requirements Department within the Risk Management Division is responsible for controlling market risk management. Its major tasks include monitoring the key market risk measures, developing risk measurement methods and formulating recommendations as to internal limits and prudential standards in this respect. The Financial Risk, Asset Valuation and Capital Requirements Department submits information on the market risk level to the Asset and Liability Management Committee and the Bank's Management Board on a monthly basis and provides, at least quarterly, synthetic information on the risk level to the Risk Committee of the Supervisory Board and to the Supervisory Board. The Group's risk level is monitored by means of periodic risk measurements on a consolidated basis.

2.4.1 CURRENCY RISK

The Bank's currency risk arises from the adverse impact of exchange rate fluctuations on the Bank's financial results. The primary objective of currency risk management is to shape the structure of the Bank's foreign exchange position with a view to minimizing its sensitivity to exchange rate volatility. The tool serving this purpose is a system of monitoring internal limits and prudential standards arising from supervisory regulations. The Bank offers its clients primarily deposit and credit products in PLN, which do not affect the level of currency risk. The Bank also offers its clients financial instruments to hedge currency risk (FX spot, forward and option transactions). Derivative transactions and treasury transactions in the trading book are limited to hedging the risks arising from transactions concluded with clients.

The Treasury Area monitors the level of the open foreign exchange position on an ongoing basis and matches its size by means of foreign exchange transactions concluded on the interbank market. These are predominantly spot transactions. In addition, the Bank enters into derivative transactions within internal limits.

The analysis of the Bank's exposure to currency risk is performed using standard market methods based on estimation of the impact of volatility on profit or loss and on the utilization of internal limits reducing the foreign exchange position. The key methods in this respect include:

- measurement of the Value of Risk (VaR);
- stress tests;
- analysis of the size of the foreign exchange position and calculation of the capital requirement for currency risk.

The Bank's exposure to currency risk is controlled on a daily basis and, if the exposure is too high, appropriate information is communicated to the Bank's management. The Financial Risk, Asset Valuation and Capital Requirements Department submits a full set of information on changes in currency risk to the Asset and Liability Management Committee and to the Bank's Management Board on a monthly basis. Among other things, the report contains information on the size of the Bank's foreign exchange positions in individual currencies, the size of the risk measures, the results of the stress tests and the degree of utilization of the limits on open foreign exchange positions for the prior period. Synthetic information on currency risk management, including information on the achievement of the strategic objectives (along with the risk tolerance) is provided to the Risk Committee of the Supervisory Board and to the Supervisory Board.

The process of currency risk management and measurement as well as its control and monitoring is supported by a number of IT tools whose key element is the Market and Liquidity Risk Analysis System (SARRP).

The foreign exchange positions of the Group are identical to the Bank's foreign exchange positions on a standalone basis.

The total foreign exchange position and the positions in the main currencies have been presented in the table below:

Bank/Group	31-Dec-2024 amount PLN '000	31-Dec-2024 percentage of own funds
USD	136	0.01
EUR	720	0.04
CHF	180	0.01
Total foreign exchange position*	**2,105**	**0.12**

*Total position – the sum of long positions ("+" asset surplus) or short positions ("-") for all currencies (depending on which of the absolute values is higher).

Sensitivity analysis – currency risk

VeloBank S.A. prepares an analysis of its sensitivity to currency risk on a daily basis:

VAR (1D, 99.9%)	31-Dec-2024 PLN '000
Currency risk – Bank/Group	31

This method is based on the Value at Risk (VaR) model and consists in examining, with 99.9% probability, the amount of the maximum loss that the Bank may incur on a single day from the valuation of its foreign exchange position (as a result of changes in foreign exchange rates), assuming normal market conditions. The volatility used in the model is calculated using exponentially weighted moving average (EWMA) of daily relative changes in foreign exchange rates over the past 251 business days. A time series of the same length was used to determine the matrix of correlation between particular foreign exchange rates. Obviously, the VaR measure does not express the absolute maximum loss to which the Bank is exposed. VaR is a measure that determines the level of risk at a given point in time, reflecting the positions for a specific moment, which do not have to reflect the risk of the Bank's position at another point in time, and is a tool for day-to-day management of the foreign exchange position.

The Bank does not maintain open foreign exchange positions at a level which would generate significant foreign exchange risk in any currency. In 2024, the average level of the total foreign exchange position (the higher of the sum of the net long and the sum of the net short positions in individual currencies) was PLN 2.0 million, while the maximum level in 2024 was PLN 9.3 million.

2.4.2 INTEREST RATE RISK

Interest rate risk is defined as the risk of a decrease in the expected interest income as a result of changes in the market interest rates and the risk of changes in the value of open on- and off-balance sheet positions which are sensitive to changes in market interest rates. The Bank undertakes measures aimed at mitigating the impact of the adverse changes on its financial result. Oversight of interest rate risk management is the responsibility of the Bank's Management Board, which receives and analyzes global reports concerning this risk on a monthly basis and information about the level of the exposure of the trading book to risk on a weekly basis.

The Bank's primary objective with regard to the management of interest rate risk in the banking book is to mitigate the risk of a decrease in the expected interest income as a result of changes in the market interest rates as well as maintaining the values of the open on- and off-balance sheet positions which are exposed to changes in the market interest rates within a range that does not pose a threat to the Bank's safety. To this end, the Bank sets thresholds to reduce the level of risk, i.e. risk tolerance and limits.

The Bank's primary objective with regard to the management of interest rate risk in the trading book is to generate an additional profit on the portfolio of financial instruments through the use of forecast changes in the market interest rates within the scope of the authorizations held and limits set, i.e. within a range that does not pose a threat to the Bank's safety. Derivative transactions and treasury transactions in the trading book are limited mainly to hedging risks arising from treasury transactions concluded with clients. The scale of the Bank's operations in the trading book is insignificant.

Interest rate risk management amounts to minimizing the risk of an adverse impact of a change in the market interest rates on the Bank's financial position by e.g.:

- setting and adhering to limits reducing the acceptable interest rate risk level;
- offering credit products based on floating and fixed interest rates. As far as the deposit offering is concerned, the Bank focuses on administered-rate savings and current accounts as well as fixed-rate term products;
- in order to minimize interest rate risk, the Bank carries out transactions that affect the structure of the balance sheet and reduce the Bank's exposure to interest rate risk – primarily the purchase/sale of fixed- or floating-rate debt securities, derivative transactions (e.g.: Interest Rate Swap and FRA);
- to mitigate the adverse impact of the conclusion of risk hedging transactions on its P&L, the Bank has implemented and applies hedge accounting;
- when investing excess cash, the Bank considers the interest rate risk profile.

The effectiveness of risk management (including its hedging) is assessed on the basis of the level of utilization of limits on the exposure to risk as well as supervisory thresholds.

The Bank follows the EBA guidelines on interest rate risk and credit spread risk (CSRBB) management.

Interest rate risk is monitored, among others, through:

- an analysis of assets, liabilities and equity as well as off-balance sheet items sensitive to changes in interest rates broken down by the currency, according to the interest rate repricing date. The analysis takes into account, among other things, the modeling of positions with unspecified maturity;
- an analysis of basis risk, yield curve risk and option risk;
- testing the sensitivity of profit or loss to changes in interest rates (ΔNII);
- testing the sensitivity of the economic value of equity to changes in interest rates (ΔEVE);
- an analysis of the value at risk for the Bank's portfolio related to market valuation (VaR method);
- stress tests (including supervisory and reverse stress tests), showing the susceptibility of the Bank to losses in case of unfavorable changes in market conditions or in case the key assumptions of the Bank become invalid;
- an analysis of credit spread risk (CSRBB);
- an analysis of the level of the interest margin and its impact on the Bank's profit or loss.

The process of interest rate risk management and measurement as well as its control and monitoring is supported by a number of IT tools whose key element is the Market and Liquidity Risk Analysis System (SARRP).

The Financial Risk, Asset Valuation and Capital Requirements Department monitors interest rate risk parameters and provides a full set of information on changes in interest rate risk to the Asset and Liability Management Committee and to the Bank’s Management Board. The report contains, among other things, information on the level of the risk measures and the degree of utilization of individual internal limits. On a quarterly basis, the scope of the report is extended to include the results of stress tests (including reverse stress tests), as well as an analysis of credit spread risk (CSRBB). Synthetic information on interest rate risk management, together with information on the achievement of the strategic objectives (including the risk tolerance) is provided at least quarterly to the Risk Committee of the Supervisory Board and to the Supervisory Board.

Sensitivity analysis – interest rate risk

VeloBank S.A. prepares an analysis of its sensitivity to interest rate risk in the banking book on a monthly basis:

	31-Dec-2024		31-Dec-2023	
	∆NII (+/- 25 b.p.) PLN ‘000	∆EVE (+/- 25 b.p.) PLN ‘000	∆NII (+/- 25 b.p.) PLN ‘000	∆EVE (+/- 25 b.p.) PLN ‘000
Interest rate risk – Bank	4,755	17,917	8,444	1,189
Interest rate risk – Group	4,738	17,918	8,444	1,189

In order to monitor interest rate risk in the trading book, the Bank uses the Value at Risk (VaR) measure.

1D VaR with a 99% confidence level (in PLN ‘000)	31-Dec-2024
Interest rate risk – Bank/Group	28

The ∆NII measure represents the potential change in the Bank’s net interest income (sensitivity of profit or loss) over the next 12 months if interest rates change by 25 basis points (parallel shift in the yield curve) for particular currencies (according to the exposure direction for particular currencies).

The ∆EVE measure represents a potential change in the Bank’s economic value of equity if interest rates change by 25 basis points (parallel shift in the yield curve) for particular currencies (according to the exposure direction for particular currencies).

The Value at Risk (VaR) measure is based on examining the maximum economic loss which the Bank could incur in a given period, assuming normal market conditions and a specified confidence level.

When measuring its exposure to interest rate risk, the Bank takes into account the impact of assumptions regarding deposits with unspecified maturity, i.e. current deposits and savings accounts, by estimating the stable portion held in such accounts. The maturity/repricing date of such items is modeled using models and methodologies specific to these balance sheet items, and the used time horizon for the maturity change is in line with regulatory guidelines.

The average and the longest maturities after repricing, assigned to deposits with unspecified maturity, are presented in the table below:

Product	31-Dec-2024	
	Average maturity (years)	Maximum maturity (years)
Current deposits of retail clients	4.4	10
Savings deposits of retail clients	3.6	10
Current deposits of corporate clients/local government entities	2.0	8

In order to supplement information on the Bank's potential loss due to adverse changes in interest rates, stress tests are also carried out quarterly, involving the simulation of the impact of major changes in the market interest rates as well as the structure and balances of assets, liabilities and equity as well as off-balance sheet items, on the level of interest rate risk taken by the Bank with respect to net interest income and measurement of the portfolio of receivables/liabilities sensitive to interest rate risk.

The Bank tests changes in the structure of its receivables and liabilities by taking into account the option risk (an increased level of early repayments of fixed-rate loans, together with a decrease in withdrawal of deposits, or an increased level of withdrawals of deposits, together with a decrease in loan overpayments – depending on the exposure direction) and potential changes in the Bank's income and changes in the economic value of the portfolio assuming "shock" changes in interest rates, for the changed portfolio structure. As regards assumptions concerning changes in interest rates, the Bank uses the following variants:

- parallel shifts in the yield curve;
- different nature of changes in the shape of the yield curve.

In addition, the Bank carries out quarterly supervisory stress tests as set out in the EBA/GL/2022/14 guidelines, involving six specific EBA supervisory scenarios with yield curve changes of a different nature for the EVE measure and two supervisory scenarios for the NII measure. The supervisory thresholds set out in the guidelines were not exceeded as at the end of 2024.

The shock scenarios are presented in the table below:

Shock scenarios used for supervisory purposes*– Bank	31-Dec-2024	
	∆EVE	∆NII
	PLN million	PLN million
Parallel increase in shock	(185)	(39)
Parallel decrease in shock	73	(81)
More severe shock (decrease in short-term and increase in long-term rates)	42	-
More moderate shock (increase in short-term and decrease in long-term rates)	(136)	-
Increase in shock for short-term rates	(184)	-
Decrease in shock for short-term rates	86	-

*The stress tests are presented in accordance with the EBA IRRBB guidelines

Shock scenarios used for supervisory purposes*– Group	31-Dec-2024	
	∆EVE PLN million	∆NII PLN million
Parallel increase in shock	(186)	(39)
Parallel decrease in shock	73	(82)
More severe shock (decrease in short-term and increase in long-term rates)	42	-
More moderate shock (increase in short-term and decrease in long-term rates)	(136)	-
Increase in shock for short-term rates	(184)	-
Decrease in shock for short-term rates	86	-

*The stress tests are presented in accordance with the EBA IRRBB guidelines

2.5. STRATEGIC AND FINANCIAL RESULT RISK

Strategic and financial result risk is a risk associated with unfavorable or erroneous strategic decisions, a failure to achieve or defective/incomplete achievement of the objectives defined in the adopted strategy and the budget assumptions as well as the risk that the financial result (on a standalone and consolidated basis) will be below that required for the day-to-day operations and development, mainly in order to ensure an adequate supply of capital, taking into account changes in the external environment and the institution's inappropriate response to those changes.

The objective of strategic and financial result risk management is to ensure effective implementation of the Bank's strategy and maintain the achievement of the assumptions in terms of the planned financial results by taking actions to mitigate risks (including modification of budgets and strategies) based on a system of identification, measurement, assessment, monitoring and control of the risk level as well as reporting, along with the assessment of the effectiveness of the risk mitigation measures taken.

In 2024, the main objectives with respect to the business decisions taken and the desired level of the Bank's key indicators, including in relation to its profitability, were defined in the Strategy of VeloBank S.A. for 2023–2025.

The basic measure of the level of strategic and financial result risk is the extent to which the planned level of the financial result is achieved. The Bank's failure to achieve the planned level of the financial result provides the basis for determination of internal capital to cover strategic and financial result risk under Pillar II.

Risk management involves, among other things, the Bank monitoring and reporting information on the implementation of the strategy, the level of the individual P&L line items and budget implementation, as well as periodically forecasting financial results for future periods.

Based on forecasts and simulations as well as information on the implementation of the Bank's strategy and budget, the Management Board assesses the materiality of these deviations and may take actions aimed at eliminating the impact of unfavorable trends.

In addition, the Bank has introduced periodic monitoring of and reporting on the status of the key projects, regular monitoring of the environment in which the Bank operates, sensitivity analyses, reviews of the Bank's resources, analyses of changes in the operating activities and determination of the form and strength of the Bank's response to such changes.

2.6. REPUTATIONAL RISK

Reputational risk is understood to mean the threat of the Bank suffering negative consequences as a result of its reputation being tarnished among clients, counterparties, investors, supervisory and inspection authorities and the public, as a result of non-compliance with the provisions of law, internal regulations or internally adopted standards, principles or codes of conduct in the Bank's operations.

The strategic objective of reputational risk management is:

- to build the Bank's image as an entity whose activities are in conformity with the provisions of law, adopted standards of conduct as well as ethical, honest and fair;
- to protect the Bank's reputation by preventing the occurrence of reputational losses and mitigating the adverse impact of image-related events on the Bank's reputation;
- build and maintain a positive image of the Bank among all market participants (shareholders, clients, business partners, investors, supervision authorities, regulators and the public).

The reputational risk management process includes risk identification, risk profile assessment, risk monitoring, risk control and mitigation as well as reporting on the risk.

In the process of identifying reputational risk, the Bank collects information on the existing cases of reputation loss and their causes. Reputational risk monitoring involves systematically observing and tracking changes in the reputational risk profile. The effectiveness of the reputational risk mitigation methods is also monitored. The process of controlling and mitigating reputational risk at the Bank includes the employment of measures aimed at preventing the occurrence of premises for reputation loss, elimination of identified instances of reputational risk and minimization of the effects of their occurrence. The main pillars of the process are preventive measures (consisting in the implementation of actions and solutions to eliminate potential risk, for example, staff training on the e-learning platform) and reputational risk management after potential threats have been identified (to mitigate its adverse impact).

The monitoring results, including the assessment of reputational risk level trends, are reported on a periodic basis. In particular, the reporting scope includes the results of identification and assessment of reputational risk, information on the analyzed measures for assessing the exposure to reputational risk based on updated indicators describing the Bank's image, assessment of their scale, evolution and frequency of occurrence in the reputational risk level assessment process. The above-mentioned actions and proposed changes are specifically aimed at avoiding or discontinuing activities that generate reputational risk as well as carrying out communication activities undertaken by the Bank for protective purposes.

2.7. ESG RISK

As part of the process of internal capital estimation and capital adequacy assessment (ICAAP), the Bank has defined and included ESG risk in the annual identification and assessment of the materiality of potential risks.

ESG risk is the risk of negative financial consequences driven by the impact of ESG (environmental, social or governance) factors on clients and counterparties or on the Bank's balance sheet line items. ESG risk management takes into account the perspective of double materiality, i.e. the impact of ESG factors on the Bank's operations, financial result and development, as well as the impact of the Bank's operations on the society and the environment.

In 2024, ESG risk was introduced as a separate risk category and considered material to the Bank. Additionally, the Bank has put in place an "Operational Risk Assessment Sheet for New Products", with questions identifying

ESG risk. The Bank uses the "(Net) loss (in PLN '000) for operational events related to ESG factors" risk indicator (RI). The Operational Risk Strategy and Policy include ESG definitions and provisions. The ESG provisions in relation to reputational risk have been set forth in the "Reputational Risk Management Policy". As far as credit risk is concerned, the Bank has introduced the ESG assessment into the credit decision-making, client monitoring as well as collateral valuation processes. In the 2024 stress testing process, the Bank considered an additional scenario of the impact of materialization of ESG risk on the mortgage loan portfolio by taking into account a change in the value of collateral as a result of the occurrence of the risk of a climate catastrophe. ESG risk was also reflected by the Bank in its calculation of the risk appetite.

The Bank has designed and is implementing a comprehensive ESG Policy, which, together with the Code of Ethics and a number of area-specific internal regulations in place at the Bank, provides the framework for managing its social and environmental responsibility.

ESG and sustainability issues are an important perspective for the Bank's governance. Oversight of ESG issues is the responsibility of the Bank's Management Board, supported in this respect by, among others, the ESG Committee (chaired by the President of the Management Board) and the ESG Office. At least on an annual basis, the Bank's Management Board performs a comprehensive review of the implementation of ESG activities, analyzes trends, discusses the challenges facing this area and, based on available up-to-date information, decides on the directions of further actions to be taken in this regard.

The objective of ESG risk management is to promote sustainable development and build the Bank's long-term value through integrated management of the impact of ESG factors.

The key organizational units dedicated to managing the implementation of ESG principles laid down in the Bank's ESG Policy are:

- the ESG Committee;
- the ESG Office;
- the Compliance Department and Risk Management Division units;
- the Human Resources Department;
- the ESG Acquisition and Sales Office;
- the Central Purchasing Office.

The Bank strives to ensure that all its activities not only comply with the provisions of law, internal regulations and market standards, but also respect good customs and the adopted values. To this end, the Bank:

- has implemented the Code of Ethics, which defines the Bank's values in line with the new strategy and promotes attitudes that are consistent with these values;
- has adopted market standards which apply to the principles of ethical conduct, internal governance and corporate social responsibility;
- has introduced internal regulations which ensure proper relationships with its clients;
- monitors its staff's adherence to the rules of honest conduct and ethical standards;
- encourages its clients to express their opinions on the Bank's products and services, the manner of their offering as well as the quality of service;
- provides its staff with the possibility to freely report any breaches and negligence;
- defines and manages conduct risk;

- integrates conduct risk with the organizational culture, including the risk culture, ethics, business model and strategy.

3. Governance principles

In the period covered by these Disclosures (i.e. from January 1 to December 31, 2024), Members of the Bank's Management Board did not hold any other directorships.

As at December 31, 2024, both the Bank's Supervisory Board and the Bank's Management Board were composed of six people each.

The Bank's Management Board strives to ensure the transparency and effectiveness of the governance system and conducts the Bank's affairs in conformity with the law.

Members of the Bank's Management Board are subject to the "Policy Governing the Suitability Assessment of the Key Function Holders at the Bank" as well as the "Rules for Appointing Members of the Management Board and Members of the Supervisory Board of the Bank", which regulations set out transparent and uniform rules resulting from the Banking Law, the Code of Commercial Companies and the provisions of Recommendation Z regarding the principles of internal governance at banks, the methodology of the Polish Financial Supervision Authority for assessing the suitability of members of the governing bodies of supervised entities as well as the applicable EBA guidelines on the assessment of the suitability of members of the management body and key function holders.

The "Policy Governing the Suitability Assessment of the Key Function Holders at the Bank" has been developed to guarantee an optimal and uniform process of selecting candidates for members of the Management Board as well as other key functions, so as to ensure the execution of the Bank's plans and business strategy by individuals with the necessary experience, skills and expertise as well as good reputation.

The Policy also sets out the criteria for assessing the individual and collective suitability of candidates and members of the Management Board, the Supervisory Board and the key function holders at the Bank at the stage of their appointment and during the performance of their functions, as well as the events resulting in the need to conduct a suitability assessment, the course of the assessment process and its consequences.

The assessment of qualifications includes requirements with regard to:

1) the knowledge obtained in the course of education and professional career, diplomas, certificates and professional titles held, with a proviso that the professional profile is of particular importance from the point of view of the functions overseen at the Bank;
2) the subject-matter and managerial experience gained while holding specific positions or performing specific functions, given the scale, nature and complexity of the activities.

Information which is considered to be particularly important in reputation assessment includes that on criminal and administrative proceedings, factors concerning proper conduct in economic relationships, situations related to past and present business activities and the financial condition of the assessed individual in terms of their potential impact on reputation, the effects of minor incidents which individually do not, but together may have a significant impact on reputation, and any non-banking activities engaged in that could adversely affect the reputation of the candidate/assessed individual.

The suitability assessment also includes additional criteria which are important to the functioning of the Supervisory Board and the Management Board, respectively, and the performance of the key functions at the Bank, such as any potential conflicts of interest, resulting, for instance, from carrying on non-banking activities, the possibility of allocating sufficient time to perform the function, satisfaction of the independence criterion and team management skills.

The Suitability Assessment Policy ensures that the Bank's governing bodies are properly diversified in terms of expertise, experience and based on other criteria.

The Bank's objective in the selection of candidates to the Supervisory Board and the Management Board is to ensure high quality of task performance by these bodies, through the selection of competent individuals, using objective substantive criteria in the first place and taking into account the benefits of diversity.

Gender diversity and equality, in addition to the expertise, skills and professional experience criteria, ensures the best results in the functioning and work of these governing bodies. This strategy is followed in the processes of selection, suitability assessment and succession of the key function holders. In addition, it enables the Bank's staff to manage their careers, achieve success and have their performance assessed on the basis of individual achievements, regardless of gender.

4. Own funds

Composition of own funds

The VeloBank S.A. Group's own funds are composed entirely of Common Equity Tier 1 (CET1) capital.

The Group's Common Equity Tier 1 capital comprises:

- capital instruments and the related share premium accounts;
- retained earnings/losses (undistributed profit or accumulated loss);
- accumulated other comprehensive income/losses;
- other reserves;
- the Group's reviewed net profit for the current period, once the approval of its recognition as Common Equity Tier 1 capital has been granted by the Polish Financial Supervision Authority.

As at December 31, 2024, the Group did not identify any other components of own funds, i.e. additional Tier 1 capital (AT1) or Tier 2 capital.

The information on the composition of own funds required under Article 437 of Regulation (EU) 2019/876 of the European Parliament and of the Council is presented in the table below. The presentation scope and form are in line with the guidelines contained in Commission Implementing Regulation (EU) 2021/637.

For the sake of clarity and legibility of the document, the scope of the disclosures has been limited to non-zero items, while maintaining the numbering set out in Annex VII to the above-mentioned Regulation. The figures are stated in PLN '000.

(figures in PLN '000)

Table EU CC1 – Composition of regulatory own funds

		a) Amounts	b) Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
Common Equity Tier 1 (CET1) capital: instruments and reserves			
1	Capital instruments and the related share premium accounts	711,734	Table EU CC2; Shareholders' Equity, row 1, column b)
2	Retained earnings/(losses)	1,927	Table EU CC2; Shareholders' Equity, row 2, column b)
3	Accumulated other comprehensive income (and other reserves)	1,050,273	Table EU CC2; Shareholders' Equity, row 3, column b)
EU-5a	Independently reviewed interim profits net of any foreseeable charge or dividend	248,544	Table EU CC2; Shareholders' Equity, row 4, column b)
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**2,012,478**	**-**
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
7	Additional value adjustments (negative amount)	(3,422)	-
8	Intangible assets (net of related tax liability) (negative amount)	(190,008)	Table EU CC2; Assets, row 14, column b)
27a	Other regulatory adjustments	(6,885)	-
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**(200,315)**	-
29	**Common Equity Tier 1 (CET1) capital**	**1,812,163**	-
Additional Tier 1 (AT1) capital: instruments			
30	Capital instruments and the related share premium accounts	-	-
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	**-**	-
Additional Tier 1 (AT1) capital: regulatory adjustments			
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	**-**	-
44	**Additional Tier 1 (AT1) capital**	**-**	-
45	**Tier 1 capital (T1 = CET1 + AT1)**	**1,812,163**	-
Tier 2 (T2) capital: instruments			
46	Capital instruments and the related share premium accounts	-	-
51	**Tier 2 (T2) capital before regulatory adjustments**	**-**	**-**
Tier 2 (T2) capital: regulatory adjustments			
57	**Total regulatory adjustments to Tier 2 (T2) capital**	**-**	-
58	**Tier 2 (T2) capital**	**-**	-
59	**Total capital (TC = T1 + T2)**	**1,812,163**	-
60	**Total Risk exposure amount**	**12,569,150**	**-**
Capital ratios and requirements including buffers			
61	Common Equity Tier 1 capital	14.42%	-
62	Tier 1 capital	14.42%	-
63	Total capital	14.42%	-
64	Institution CET1 overall capital requirements	7.00%	-
65	of which: capital conservation buffer requirement	2.50%	-
66	of which: countercyclical capital buffer requirement	0.00%	-
67	of which: systemic risk buffer requirement	0.00%	-
EU-67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer requirement	0.00%	-
EU-67b	of which: additional own funds requirements to address the risks other than the risk of excessive leverage	-	-
68	**Common Equity Tier 1 capital (as a percentage of risk exposure amount) available after meeting the minimum capital requirements**	9.92%	-

Reconciliation of own funds to balance sheet in the audited financial statements

Equity comprises capitals and funds created in accordance with the applicable laws, appropriate legal acts and the articles of association. It consists of the share capital, retained earnings and other components of equity.

Share capital

The share capital is presented at nominal value, in accordance with the articles of association and the entry in the National Court Register.

Other components of equity

a) Supplementary capital

The share premium (excess of the issue price over the nominal value of the shares) less direct costs incurred in connection with the issue and created from appropriations of profit.

b) Revaluation reserve

The revaluation reserve relating to debt and equity financial instruments measured at fair value through other comprehensive income, the revaluation reserve relating to cash flow hedges, actuarial gains/losses and deferred tax on items that constitute temporary differences recognized in the revaluation reserve.

c) Reserve capital

The reserve capital created from appropriations of profit and other sources to cover special losses and expenses.

d) Retained earnings/(losses) (undistributed profit or accumulated loss)

The retained earnings include appropriations of profit for the current and prior periods which have not been allocated to other components of equity or distributed to the shareholders.

Own funds include net profit for the current period, less any foreseeable charge or dividend, up to an amount not higher than the amount reviewed by the statutory auditor.

As at December 31, 2024, the VeloBank S.A. Group recognized the audited, prudentially consolidated net profit for the period ended September 30, 2024 in the full amount of PLN 248,544 thousand as Common Equity Tier 1 capital.

Regulatory adjustments to Common Equity Tier 1 (CET1):

- additional prudent valuation adjustments are made for all assets measured at fair value in accordance with Article 34 of the CRR Regulation;
- intangible assets measured at carrying amount, net of the related deferred tax liability and adjusted for prudently measured software assets the value of which is not materially affected by the resolution of the institution or its insolvency or liquidation;
- other adjustments including insufficient coverage due to non-performing exposures in accordance with Article 47c of the CRR Regulation.

Reconciliation of balance sheet items included in the audited financial statements of the VeloBank S.A. Group, which were used in the calculation of own funds in accordance with the methodology set out in Annex VIII to Commission Implementing Regulation (EU) No. 2021/637, is presented in the table below.

(figures in PLN '000)

Table EU CC2 – Reconciliation of regulatory own funds to balance sheet in the audited financial statements

		a	b	c
		Balance sheet as in published financial statements	**Under regulatory scope of consolidation**	**Reference**
		As at period end	**As at period end**	
Assets – *Breakdown by asset classes according to the balance sheet in the published financial statements*				
1	Cash and balances with the Central Bank	2,089,504	2,089,504	-
2	Amounts due from banks and financial institutions	775,014	775,014	-
3	Financial assets held for trading	-	-	-
4	Financial assets measured at fair value through profit or loss	23,640	23,640	-
5	Derivative financial instruments	108,003	108,003	-
6	Loans and advances to clients	13,965,565	13,965,570	-
7	measured at amortized cost	13,873,435	13,873,440	-
8	measured at fair value through profit or loss	92,130	92,130	-
9	Other financial instruments, including:	36,897,150	36,897,150	-
10	measured at fair value through other comprehensive income	3,300,114	3,300,114	-
11	measured at amortized cost	33,597,036	33,597,036	-
12	Investments in subsidiaries	-	7,966	-
13	Investments in associates	-	-	-
14	Intangible assets	428,770	425,263	Table EU CC1, row 8, column a)
15	Property, plant and equipment	136,259	136,144	-
16	Investment property	-	-	-
17	Foreclosure assets	46,418	46,418	-
18	Non-current assets held for sale	129	129	-
19	Current tax assets	27,876	27,876	-
20	Deferred tax assets	7,436	7,277	-
21	Other assets	120,750	115,473	-
xxx	**Total assets**	**54,626,514**	**54,625,427**	-
Liabilities – *Breakdown by liability classes according to the balance sheet in the published financial statements*				
1	Amounts due to banks and financial institutions	104,017	104,017	-
2	Derivative financial instruments	148,361	148,361	-
3	Amounts due to clients	51,412,509	51,413,545	-
4	Issues of debt securities	-	-	-
5	Other liabilities	494,847	492,659	-
6	Deferred tax liability	132,087	132,153	-
7	Provisions	90,341	90,233	-
xxx	**Total liabilities**	**52,382,062**	**52,380,968**	-
Shareholders' Equity				
1	Share capital	711,734	711,734	Table EU CC1, row 1, column a)
2	Retained earnings/(losses)	1,920	1,927	Table EU CC1, row 2, column a)
3	Other components of equity	1,150,643	1,150,643	Table EU CC1, row 3, column a)
4	Current year profit/loss	380,155	380,155	Table EU CC1, row EU-5a, column a)
xxx	**Total shareholders' equity**	**2,244,452**	**2,244,459**	-

5. OWN FUNDS REQUIREMENTS AND RISK WEIGHTED EXPOSURES

The Bank's capital requirements were calculated in accordance with the CRR Regulation.

The VeloBank S.A. Group reports capital requirements using the following approaches:

- the capital requirement for credit risk – the standardized approach;
- the capital requirement for counterparty credit risk – the standardized approach;
- the capital requirement for general risk of debt instruments – the maturity ladder approach;
- the capital requirements for other risks (including operational risk, specific risk of debt instruments, specific and general risk of equity instruments, currency risk) – the standardized approach;
- the capital requirement for credit valuation adjustment risk (CVA) – the standardized method in accordance with Article 384 of the CRR Regulation;
- the capital requirement for exposures to a qualifying and non-qualifying CCP – the Group calculates the requirement in accordance with the rules laid down in Part Three, Title II, Chapter 6, Section 9 of the CRR Regulation.

As at December 31, 2024, the overall capital requirement of the VeloBank S.A. Group was PLN 1,005,532 thousand, of which:

- PLN 784,350 thousand for credit risk, counterparty credit risk, credit valuation adjustment (CVA) risk and CCP risk;
- PLN 250 thousand for market risk;
- PLN 220,932 thousand for operational risk.

The total risk exposure amounts and the total own funds requirements as at December 31, 2024 are presented in Table EU OV1 below.

Table EU OV1 – Overview of total risk exposure amounts in PLN '000

		Total risk exposure amounts (TREA)		Total own funds requirements
		a	b	c
		31-Dec-2024	31-Dec-2023*	31-Dec-2024
1	Credit risk (excluding CCR)	9,750,429	8,773,688	780,034
2	Of which the standardized approach	9,750,429	8,773,688	780,034
3	Of which the Foundation IRB (F-IRB) approach	-	-	-
4	Of which slotting approach	-	-	-
EU-4a	Of which equities under the simple riskweighted approach	-	-	-
5	Of which the Advanced IRB (A-IRB) approach	-	-	-
6	Counterparty credit risk – CCR	24,650	12,160	1,972
7	Of which the standardized approach	12,060	7,004	965
8	Of which internal model method (IMM)	-	-	-
EU-8a	Of which exposures to a CCP	9,957	3,086	796
EU-8b	Of which credit valuation adjustment – CVA	2,633	2,070	211
9	Of which other CCR	-	-	-
15	Settlement risk	-	-	-
16	Securitization exposures in the non-trading book (after the cap)	29,300	34,562	2,344
17	Of which SEC-IRBA approach	-	-	-
18	Of which SEC-ERBA (including IAA)	-	-	-
19	Of which SEC-SA approach	29,300	34,562	2,344
EU-19a	Of which 1,250% / deduction	-	-	-
20	Position, foreign exchange and commodities risks (Market risk)	3,125	3,032	250
21	Of which the standardized approach	3,125	3,032	250
22	Of which IMA	-	-	-
EU-22a	Large exposures	-	-	-
23	Operational risk	2,761,646	2,717,240	220,932
EU-23a	Of which basic indicator approach	-	-	-
EU-23b	Of which standardized approach	2,761,646	2,717,240	220,932
EU-23c	Of which advanced measurement approach	-	-	-
24	Amounts below the thresholds for deduction (subject to 250% risk weight)	-	-	-
29	**Total**	**12,569,150**	**11,540,682**	**1,005,532**

(*) figures for December 31, 2023 were recalculated with retrospective recognition of a part of the profit for 2023 in accordance with EBA's position expressed in Q&A 2018_3822 and Q&A 2018_4085.

6. Information on key metrics

The key metrics of the VeloBank S.A. Group as at December 31, 2024 have been presented below in accordance with Article 447(a)-(g) of the CRR Regulation and Commission Implementing Regulation (EU) 2021/637 of March 15, 2021.

(figures in PLN '000)

Table EU KM1 – Key metrics

		a	e
		31-Dec-2024	31-Dec-2023*
	Available own funds (amounts)		
1	Common Equity Tier 1 (CET1) capital	1,812,163	953,576
2	Tier 1 capital	1,812,163	953,576
3	Total capital	1,812,163	953,576
	Risk-weighted exposure amounts		
4	Total risk exposure amount	12,569,150	11,540,682
	Capital ratios (as a percentage of risk-weighted exposure amount)		
5	Common Equity Tier 1 ratio (%)	14.42%	8.26%
6	Tier 1 ratio (%)	14.42%	8.26%
7	Total capital ratio (%)	14.42%	8.26%
	Additional own funds requirements to address risks other than the risk of excessive leverage (as a percentage of risk-weighted exposure amount)		
EU-7a	Additional own funds requirements to address risks other than the risk of excessive leverage (%)	-	-
EU-7b	of which: to be made up of CET1 capital (percentage points)	-	-
EU-7c	of which: to be made up of Tier 1 capital (percentage points)	-	-
EU-7d	Total SREP own funds requirements (%)	8.00%	8.00%
	Combined buffer and overall capital requirement (as a percentage of risk-weighted exposure amount)		
8	Capital conservation buffer (%)	2.50%	2.50%
EU-8a	Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)	0.00%	0.00%
9	Institution specific countercyclical capital buffer (%)	0.00%	0.00%
EU-9a	Systemic risk buffer (%)	0.00%	0.00%
10	Global Systemically Important Institution buffer (%)	0.00%	0.00%
EU-10a	Other Systemically Important Institution buffer (%)	0.00%	0.00%
11	Combined buffer requirement (%)	2.50%	2.50%
EU-11a	Overall capital requirements (%)	10.50%	10.50%
12	CET1 available after meeting the total SREP own funds requirements (%)	7.42%	1.26%
	Leverage ratio		
13	Total exposure measure	55,734,345	49,177,528
14	Leverage ratio (%)	3.25%	1.94%
	Additional own funds requirements to address the risk of excessive leverage (as a percentage of total exposure measure)		
EU-14a	Additional own funds requirements to address the risk of excessive leverage (%)	-	-
EU-14b	of which: to be made up of CET1 capital (percentage points)	-	-
EU-14c	Total SREP leverage ratio requirements (%)	3.00%	3.00%
	Leverage ratio buffer and overall leverage ratio requirement (as a percentage of total exposure measure)		
EU-14d	Leverage ratio buffer requirement (%)	-	-
EU-14e	Overall leverage ratio requirement (%)	3.00%	3.00%
	Liquidity Coverage Ratio		
15	Total high-quality liquid assets (HQLA) (Weighted value – average)	30,114,262	21,753,809
EU-16a	Cash outflows – Total weighted value	4,665,891	3,519,682
EU-16b	Cash inflows – Total weighted value	394,945	472,734
16	Total net cash outflows (adjusted value)	4,270,946	3,046,948
17	Liquidity coverage ratio (%)	705.10%	713.95%
	Net Stable Funding Ratio		
18	Total available stable funding	46,910,104	41,797,740
19	Total required stable funding	16,662,173	17,679,968
20	NSFR ratio (%)	281.54%	236.41%

(*) figures for December 31, 2023 were recalculated with retrospective recognition of a part of the profit for 2023 in accordance with EBA's position expressed in Q&A 2018_3822 and Q&A 2018_4085.

7. Remuneration policy

The VeloBank S.A. Group presents the following information pursuant to Article 450(1)(a)–(d), (h)–(k) of the CRR Regulation and the Banking Law, as amended, having regard to the provisions of Commission Implementing Regulation (EU) 2021/637 of March 15, 2021, in particular Annex XXXIII and Annex XXXIV thereto.

7.1. Information concerning the decision-making process used for determining the remuneration policy, as well as the number of meetings held by the main body overseeing remuneration during the financial year, including, if applicable, information about the composition and the mandate of a remuneration committee, the external consultant whose services have been used for the determination of the remuneration policy and the role of the relevant stakeholders

The decision-making process used for determining the remuneration policy for staff whose professional activities have a material impact on the Bank's risk profile ("Risk Takers") has been described below.

The "Variable Remuneration Policy for Holders of Management Functions and Other Functions with a Material Impact on Risks at VeloBank S.A." (hereinafter referred to as the Policy), which was in force in 2024, constitutes an appendix to the "Remuneration Policy of VeloBank S.A.", which was adopted by Resolution No. 78/2024 of the Bank's Management Board dated February 20, 2024 and approved by Resolution No. 30/2024 of the Supervisory Board of VeloBank S.A. dated February 27, 2024.

The adoption of the amended Remuneration Policy, in line with the legislative path in place at VeloBank, was preceded by the following steps:

- updating the list of staff with a material impact on the risk profile (Appendix No. 1 to the Policy) and the content of the Methodology for Identification of Holders of Management Functions and Other Functions with an Impact on the Risk Profile (Appendix No. 3 to the Policy), by bringing them into line with the current organizational structure and scopes of responsibilities;
- making editorial and technical changes to the document, resulting from organizational changes at the Bank;
- a positive opinion of the Remuneration and Nominations Committee of the Supervisory Board.

The above-mentioned updates and proposals were prepared by a team of employees representing:

- the Human Resources Department – as the unit responsible for the development of the personnel policy;
- the Legal Department – with regard to issuing an opinion on the rules and their compliance with the applicable external regulations;
- the Compliance Department – with regard to issuing an opinion on the rules and their compliance with the applicable internal regulations;
- the Corporate Governance and Restructuring Area – with regard to internal review.

The changes and corrections made to the Policy were of a formal nature and did not directly relate to either the method of remuneration management or its value.

During the reporting period, the Policy was amended under Resolution No. 371/2024 of the Bank's Management Board dated July 31, 2024, approved by Resolution No. 82/2024 of the Supervisory Board of VeloBank S.A. dated August 6, 2024. The amendment consisted in clarification of the definition of Instruments, extension of the Retention

Period in the case of Instruments other than phantom shares, a reduction of the Particularly Large Amount and an increase in the value of the non-deferred portion of variable remuneration.

Information relating to the bodies that oversee remuneration

The "Remuneration Policy of VeloBank S.A." with the "Variable Remuneration Policy for Holders of Management Functions and Other Functions with a Material Impact on Risks at VeloBank S.A." appendix is overseen by the Bank's Supervisory Board. The Supervisory Board's decisions regarding reviews and updates of the above-referenced regulations are preceded by the issuance of recommendations by the Remuneration and Nominations Committee of the Supervisory Board.

In fulfillment of its responsibilities related to the oversight of the Bank's governance system as well as assessment of its adequacy and effectiveness, the Supervisory Board approves, upon the motion of the Bank's Management Board, decisions concerning the content and scope of the Remuneration Policy, after obtaining a recommendation of the Remuneration and Nominations Committee. The Supervisory Board is also responsible for the assessment of the functioning of the Remuneration Policy at the Bank in accordance with the "Principles of Corporate Governance for Supervised Institutions".

As at December 31, 2024, the composition of the Supervisory Board of VeloBank S.A. was as follows:

The Supervisory Board of VeloBank S.A.	
Chairperson of the Supervisory Board	Jakub Papierski
Members of the Supervisory Board	Lidia Jabłonowska-Luba
	Sarah Clark
	Roberto Nicastro
	William Newton
	Roeland Brokking

In the period from January 1 to December 31, 2024, twenty-six (26) meetings of the Bank's Supervisory Board were held. The Remuneration and Nominations Committee of the Supervisory Board issues opinions and recommendations on the remuneration of the key function holders at the Bank, including in particular:

- reviewing and designing the rules for remunerating Members of the Management Board and other staff with a material impact on the risk profile of VeloBank S.A., as well as issuing opinions on the variable remuneration policy;
- assessing the individuals to be appointed as Members of the Bank's Management Board, including the rules of succession, evaluating the qualifications of candidates, as well as conducting an ongoing assessment of those holding the function of a Member of the Bank's Management Board and of the Management Board of the Bank, in accordance with the "Policy Governing the Suitability Assessment of the Key Function Holders at the Bank";
- reviewing and monitoring the provisions of the Remuneration Policy and its components;
- supporting the Bank's bodies in the development and implementation of the Remuneration Policy.

As at December 31, 2024, the composition of the Remuneration and Nominations Committee was as follows:

The Remuneration and Nominations Committee	
Committee Chairperson	Roberto Nicastro
Committee Members	Sarah Clark
	Jakub Papierski

In the period from January 1 to December 31, 2024, six (6) meetings of the Remuneration and Nominations Committee were held.

VeloBank S.A. did not use the support of external consultants in updating the provisions of the Remuneration Policy applicable in 2024. The Remuneration Policy was the subject of a legal opinion.

Information relating to the design and structure of the remuneration system for identified staff

The "Variable Remuneration Policy for Holders of Management Functions and Other Functions with a Material Impact on Risks at VeloBank S.A." is maintained and applied for the following purposes:

- prudent and sound management of the Bank's risk, capital and liquidity as well as special care for the Bank's interests in the long term;
- execution of the Bank's governance strategy and the risk management strategy, in addition to reducing potential conflicts of interest;
- ensuring transparent rules for determining and paying remuneration;
- ensuring compliance with the supervisory authorities' guidelines regarding the definition and development of the rules applicable to the functioning of the Bank's risk management system and internal control system as well as the Bank's adoption of a remuneration policy for the individual categories of staff whose professional activities have a material impact on the Bank's risk profile.

With respect to staff whose professional activities have a material impact on the risk profile, the Policy is superior to any other documents adopted by the Bank, which govern the same matter, and it specifically sets out:

- the criteria for determining fixed remuneration and variable remuneration of persons holding the functions covered by the Policy;
- the rules for determining the basis (conditions) for the award and payment of variable remuneration to persons holding the functions covered by the Policy;
- the rules for the award and payment as well as determination of the components of variable remuneration of persons holding the functions covered by the Policy;
- the roles of the Bank's competent bodies in the process of implementing and pursuing the Policy etc., as well as awarding variable remuneration, and the responsibilities of the Committee referred to in Article 9cb.1(1) of the Banking Law;
- the procedure for conducting periodic reviews of the Policy and the rules for the Bank's fulfillment of the reporting requirements with regard to the Policy.

The Policy applies to all staff identified in accordance with the applicable legislation, regardless of the division into business lines.

In accordance with the "Principles of Corporate Governance, Risk Management, Internal Control and Reporting in the VeloBank S.A. Group", the Bank periodically verifies the list of its subsidiaries obliged to apply the Policy, considering the individual companies' business profile and their share in the Group's profit. In the case of those subsidiaries which, due to the legal regulations that they are directly subject to in the above-mentioned scope, are obliged to follow such regulations, the provisions of the Policy apply within the scope which is not governed by such regulations, but allows to maintain consistency within the Group.

The Bank verifies the list of staff with a material impact on its risk profile at least on an annual basis. The verification takes into account the current structure, the scope of responsibilities assigned to the respective functions as well as the division of competence, composition and powers of the committees established at the Bank. The methodology for identification the above-referenced functions forms an integral part of the Policy and is subject to revision in relation to the applicable regulations. The criteria defined in Article 9ca.1a of the Banking Law and Commission Delegated Regulation (EU) No. 2021/923 of March 25, 2021 supplementing Directive 2013/36/EU of the European Parliament and of the Council with regard to regulatory technical standards setting out the qualitative criteria and the relevant quantitative criteria for identifying categories of staff whose professional activities have a material impact on the institution's risk profile, were used as the basis for identification of the functions with a material impact on the Bank's risk profile in 2024.

The process takes into account all personnel changes made in the identified functions during the year, including changes in the structure and composition of the committees. Besides Members of the Bank's Supervisory Board and Management Board, the identified functions include mostly unit heads who report directly to Members of the Management Board as well as a few lower-grade positions that were identified due to their special role in risk management, including through membership in committees. The group of staff covered by the Policy is responsible for managing material risks. In the period from January 1 to December 31, 2024, the identified functions were held by a total of 71 people, of whom 20 ceased and 22 began to hold the identified functions during that period.

The independence of variable remuneration of staff holding functions related to internal control is ensured at the stage of setting the annual shared and individual goals. In the goal setting and assessment process, the above-mentioned independence is verified at each decision-making level.

The Policy provides for the possibility of awarding guaranteed variable remuneration and severance payments. No guaranteed variable remuneration was awarded in the reporting period.

7.2. INFORMATION ON LINK BETWEEN PAY AND PERFORMANCE AND THE MOST IMPORTANT DESIGN CHARACTERISTICS OF THE REMUNERATION SYSTEM, INCLUDING INFORMATION ON THE CRITERIA USED FOR PERFORMANCE MEASUREMENT AND RISK ADJUSTMENT, DEFERRAL POLICY AND VESTING CRITERIA

Description of the ways in which current and future risks are taken into account in the remuneration processes

Different risks are taken into account both at the stage of bonus goal setting and assessment.

The amount of variable remuneration for staff whose professional activities have a material impact on the Bank's risk profile is determined based on an assessment covering a period of at least three years, which focuses on:

- the individual performance of staff covered by the Policy;
- the performance of the organizational units managed by that staff;
- the performance of the Bank, taking into account the Bank's cost of risk, cost of capital and liquidity risk in the long-term perspective.

Individual performance is assessed based on the criteria expressed in the bonus goals of each staff member covered by the Policy. The criteria are linked to the Bank's performance and are of a financial and non-financial nature. The bonus goals can be quantitative or qualitative, absolute or relative:

- quantitative goals are sales, revenue, effectiveness and other goals directly linked to performance. The metrics for this group of goals are directly related to the specific nature of the work in a given position or team. They are measured by independent units/staff of the Bank;
- qualitative goals are ones that enable an assessment of the degree of performance achievement as well as ones related to the level of internal and external customer service or compliance with regulations and policies.

The goals set for staff responsible for the individual business areas refer to the risk indicators achieved by the Bank.

A risk adjustment is possible at the stage of bonus goal assessment through an adjustment made to the Bank's performance if the risk parameters are exceeded.

An ex-post adjustment to calculated variable remuneration in the event of a breach of the risk indicators is calculated through the application of a multiplier adjusting the remuneration, the value of which may range from 0 to 100%, depending on the assessment.

The vesting of variable remuneration components is in each case conditional, among other things, on a positive result of the individual assessment of each staff member covered by the Policy. The assessment is performed on the basis of criteria related to the guarantee of sound performance of duties, or indications of the occurrence of irregularities or losses, if any.

Description of the ways in which the institution seeks to adjust remuneration to take account of long-term performance

The goals and their weights, taking into account the cost of risk, are set annually by direct superiors and approved by the Bank's decision-making bodies.

Variable remuneration awarded for a given year is paid as follows:

- 50% of the remuneration awarded for a given financial year is paid in cash;
- 50% is converted into financial instruments.

Regardless of the amount of remuneration awarded:

- 20% of the variable remuneration awarded for a given financial year is paid in cash;
- 20% of the variable remuneration awarded for a given financial year is paid in financial instruments;
- 30% of the remuneration awarded for a given financial year is deferred and paid in cash in installments over 4 or 5 consecutive years;
- 30% of the variable remuneration awarded for a given financial year is deferred and paid in financial instruments, in installments over 4 or 5 consecutive years.

The portion of the remuneration paid in financial instruments is in each case subject to a retention period of 12 months in the case of phantom shares or of 3 years in the case of other instruments.

In accordance with the Policy, variable remuneration (including the deferred portion) is conditional and is paid on the basis of decisions made by the competent bodies, considering the opinion of the Remuneration and Nominations Committee.

Such decisions may provide for a reduction of the amount of variable remuneration, suspension of its payment, refusal to pay it or not granting the remuneration at all, depending on the Bank's financial position and the impact of prior years on current performance, including, but not limited to, material breaches, if any, committed in the period for which the remuneration is awarded.

The vesting of deferred variable remuneration is conditional and takes place subject to the following rules:

- it may take place no earlier than within 4 years, and in the case of senior management – not earlier than within 5 years, in equal annual installments;
- the vesting of the first deferred portion takes place no earlier than 12 months after the start of the deferral period;
- the vesting of each of the 4 or 5 deferred installments is considered separately;
- it takes place no more than once a year, so that a proper risk assessment can be conducted before ex-post adjustments are made.

Members of the Bank's Supervisory Board are not paid any variable remuneration components.
The Policy applicable in 2024 does not provide for refunds of any bonuses paid before.
The Bank does not apply the requirement to hold shares in the Bank to the holders of the functions covered by the Policy.

7.3. The ratios between fixed and variable remuneration set in accordance with Article 94(1)(g) of Directive 36/2013

The maximum value of variable remuneration of a holder of a function covered by the Policy may not exceed 100% of the total fixed remuneration. The Bank does not use the option to increase the above-mentioned limit to 200%, as described in the Policy, taking into account the conditions set out in the Regulation of the Minister of Finance, Funds and Regional Policy dated June 8, 2021 regarding the risk management system, internal control system and remuneration policies at banks (Journal of Laws *Dz.U.* of 2021, item 1045).

7.4. Information on the performance criteria on which the entitlement to shares, options or variable components of remuneration is based

The Policy does not specify the type of financial instruments for the payment of a portion of variable remuneration to the holders of functions that have a material impact on the Bank's risk profile. Decisions in this matter may be taken by the Supervisory Board.

The grounds for the award and payment of variable remuneration are verified at several levels:

- assessment of the individual goals of each staff member covered by the Policy;
- assessment of the shared goals linked to the Bank's performance;

- individual assessment of the effects and impact of actions and decisions taken by the Risk Takers on risk, in accordance with the questionnaire contained in the Policy;
- verification of the results of performance and goal assessment in relation to the Bank's performance and capital ratios.

In the first three steps from the above-mentioned list, an adjustment (from 0 to 100%) to variable remuneration is made on the basis of the parameters adopted in the goal assessment methodology. In the last step, the decision of the Bank's bodies, with the support of the Remuneration and Nominations Committee, depends on the applicable mandatory laws as well as the provisions of the Policy.

7.5. THE MAIN PARAMETERS AND RATIONALE FOR ANY VARIABLE COMPONENT SCHEME AND ANY OTHER NON-CASH BENEFITS

A bonus is a variable remuneration component used by the Bank which is directly linked to performance. The bonus ratio is set individually and it represents a specific percentage of the basic salary, but in no case may it exceed 100% of the basic salary amount. The risk indicators and performance indicators adjusting the maximum amount that can be received in a given year result directly from the goals set for the staff member concerned. They may be conditional on the Bank's performance, the risk profile defined for the unit, depending on the type of risk assigned to it, or the performance of a specific business line. The Bank does not use diversified financial instruments.

7.6. INFORMATION ON WHETHER THE INSTITUTION BENEFITS FROM A DEROGATION LAID DOWN IN ARTICLE 94(3) OF DIRECTIVE 2013/36/EC

In the period covered by this document, VeloBank S.A. benefited from Article 94(3) of Directive (EU) 013/36/EU of the European Parliament and of the Council of June 26, 2013, in accordance with Article 450(1)(k) of the CRR Regulation, and applied the Policy within a limited scope.

7.7. AGGREGATE QUANTITATIVE INFORMATION ON REMUNERATION, BROKEN DOWN BY SENIOR MANAGEMENT AND MEMBERS OF STAFF WHOSE ACTIONS HAVE A MATERIAL IMPACT ON THE RISK PROFILE OF THE INSTITUTION

Quantitative information on remuneration in accordance with the requirements of Article 450 of Regulation (EU) No. 2019/876 of the European Parliament and of the Council and of Commission Implementing Regulation (EU) 2021/637 of March 15, 2021, is presented below.

The information is presented in tables based on templates EU REM1, EU REM2 and EU REM5, as set out in Annex XXXIII to Commission Implementing Regulation (EU) 2021/637 of March 15, 2021, and in accordance with the instructions contained in Annex XXXIV to the Regulation:

- EU REM1 – Remuneration awarded for the financial year;
- EU REM2 – Special payments to staff whose professional activities have a material impact on institutions' risk profile (identified staff);
- EU REM5 – Information on remuneration of staff whose professional activities have a material impact on institutions' risk profile (identified staff).

The disclosure report does not include a table consistent with the "EU REM3 – Deferred remuneration" template, as no deferred remuneration (in any form whatsoever) was awarded or paid in the period from January 1 to December 31, 2024.

The Group does not present a table consistent with the "EU REM4 – Remuneration of 1 million EUR or more per year" template, as none of the persons employed in the VeloBank S.A. Group received remuneration in excess of EUR 1 million in the period from January 1 to December 31, 2024.

The amounts presented do not include any charges on remuneration. The figures are stated in PLN '000.

(figures in PLN '000)

Table EU REM1 – Remuneration paid in the period from January 1, 2024 to December 31, 2024

			a	b	c	d
			MB Supervisory function	MB Management function	Other senior management	Other identified staff
1	Fixed remuneration	Number of identified staff	14	7	36	14
2		Total fixed remuneration	29,731			
3		Of which: cash-based	29,154			
4		(Not applicable in the EU)				
EU-4a		Of which: shares or equivalent ownership interests	-	-	-	-
5		Of which: share-linked instruments or equivalent non-cash instruments	-	-	-	-
EU-5x		Of which: other instruments	-	-	-	-
6		(Not applicable in the EU)				
7		Of which: other forms	577			
8		(Not applicable in the EU)				
9	Variable remuneration	Number of identified staff	-	-	22	8
10		Total variable remuneration	1,890			
11		Of which: cash-based	1,890			
12		Of which: deferred	-	-	-	-
EU-13a		Of which: shares or equivalent ownership interests	-	-	-	-
EU-14a		Of which: deferred	-	-	-	-
EU-13b		Of which: share-linked instruments or equivalent non-cash instruments	-	-	-	-
EU-14b		Of which: deferred	-	-	-	-
EU-14x		Of which: other instruments	-	-	-	-
EU-14y		Of which: deferred	-	-	-	-
15		Of which: other forms	-	-	-	-
16		Of which: deferred	-	-	-	-
17	Total remuneration (2 + 10)		31,621			

Fixed remuneration in non-cash form (EU REM 1, row 7) includes medical care, car allowance and the employer's contributions to the Employee Capital Plans (PPK).

Table EU REM2 – Special payments to staff whose professional activities have a material impact on institutions' risk profile (identified staff)

		a	b	c	d
		MB Supervisory function	MB Management function	Other senior management	Other identified staff
	Guaranteed variable remuneration awards				
1	Guaranteed variable remuneration awards – Number of identified staff	-	-	-	-
2	Guaranteed variable remuneration awards – Total amount	-	-	-	-
3	Of which guaranteed variable remuneration awards paid during the financial year, that are not taken into account in the bonus cap	-	-	-	-
	Severance payments awarded in previous periods, that have been paid out during the financial year				
4	Severance payments awarded in previous periods, that have been paid out during the financial year – Number of identified staff	-	-	-	-
5	Severance payments awarded in previous periods, that have been paid out during the financial year – Total amount	-	-	-	-
	Severance payments awarded during the financial year				
6	Severance payments awarded during the financial year – Number of identified staff	-	-	-	-
7	Severance payments awarded during the financial year – Total amount	-	-	-	-
8	Of which paid during the financial year	-	-	-	-
9	Of which deferred	-	-	-	-
10	Of which severance payments paid during the financial year, that are not taken into account in the bonus cap	-	-	-	-
11	Of which highest payment that has been awarded to a single person	-	-	-	-
12	Termination and non-competition benefits – number of identified staff	-	1	5	1
13	Termination and non-competition benefits paid during the financial year	912			

7.8. Aggregate quantitative information on remuneration, broken down by business area

The information is presented in a table consistent with template EU REM5, as set out in Annex XXXIII to Commission Implementing Regulation (EU) 2021/637 of March 15, 2021, and in accordance with the instructions contained in Annex XXXIV to the Regulation.

The amounts presented do not include any charges on remuneration.

The figures are stated in PLN '000.

		a	b	c	d	e	f	g	h	i	j
		Management body remuneration			Business areas						-
		MB Supervisory function	MB Management function	Total MB	Investment banking	Retail banking	Asset management	Corporate functions	Independent internal control functions	All other	Total
1	Total number of identified staff										71
2	Of which: members of the MB	14	7	21							
3	Of which: other senior management				1	8	-	15	12	-	
4	Of which: other identified staff				2	3	-	3	6	-	
5	Total remuneration of identified staff	31,621									
6	Of which: variable remuneration	1,890									
7	Of which: fixed remuneration	29,731									

8. Management Board's Declaration

The Management Board of VeloBank S.A. declares that, to the best of their knowledge, the risk management arrangements described hereinabove are adequate to the facts, the risk management systems put in place are adequate with regard to the Bank's profile and strategy, and the disclosed information is consistent with the internal procedures, systems and controls.

The Management Board of the Bank approves these "Capital Adequacy Disclosures of the VeloBank S.A. Group as at December 31, 2024", which contain information on risk, describe the overall risk profile of the Bank and the VeloBank S.A. Group associated with the business strategy and present the key ratios and figures providing external stakeholders with a comprehensive view of the VeloBank S.A. Group's management of risk.

Signatures of Members of the Management Board of VeloBank S.A.:

Adam Marciniak	***President of the Management Board***	**Signed with a qualified electronic signature**
Adrian Adamowicz	***Member of the Management Board***	**Signed with a qualified electronic signature**
Przemysław Koch	***Member of the Management Board***	**Signed with a qualified electronic signature**
Tomasz Kubiak	***Member of the Management Board***	**Signed with a qualified electronic signature**
Paweł Pach	***Member of the Management Board***	**Signed with a qualified electronic signature**
Paulina Strugała	***Member of the Management Board***	**Signed with a qualified electronic signature**